Burundi

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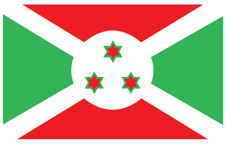


KEY FIGURES

Main urban centres	Gitega, Ruyigi,Muyinga, Ngozi, Bubanza
Exchange rate: 1 US$ = [a] 1 July 2019 1 PPP$ = [b]	1 846.14 Burundi Franc (BFI) 661.09 Burundi Franc (BFI)
Inflation 2018 [c] | Inflation 2019 [c]	1.2 | 7.3
Population [b]	11 175 378
Population growth rate [b] | Urbanisation rate [b]	3.1% | 5.7%
Percentage of the total population below National Poverty Line (2017) [d]	40.1%
Unemployment rate (% of total labour force, national estimate) (2017) [d]	1.6%
Proportion of the adult population that borrowed formally (2017) [b]	n/a
GDP (Current US$) (2018) [b]	US$3 078 million
GDP growth rate annual [b]	1.6%
GDP per capita (Current US$) (2018) [b]	US$275
Gini co-efficient (2017) [b]	n/a
HDI global ranking (2017)[d] | HD country index score (2017) [d]	185 | 0.417
Lending interest rate (2017) [b]	14,8%
Yield on 2-year government bonds	n/a
Number of mortgages outstanding	n/a
Value of residential mortgages outstanding (US$)	US$76.8 million
Number of mortgage providers [f] | Prevailing mortgage rate	5 | n/a
Average mortgage term in years | Downpayment	10 | 30%
Ratio of mortgages to GDP	2.6%
What form is the deeds registry? [e]	Paper
Total number of residential properties with a title deed	n/a
Number of houses completed	n/a
Number of formal private developers/contractors	n/a
Number of formal estate agents	n/a
Cost of a standard 50kg bag of cement	27 000 BFI (US$14.56)
Price of the cheapest, newly built house by a formal developer or contractor in an urban area (local currency units)	57 505 000 BFI
Size of cheapest, newly built house by a formal developer or contractor in an urban area	80m²
Average rental price for this unit in an urban area (local currency units)	350 000 BFI
Number of microfinance loans outstanding	n/a
Number of microfinance providers [f]	2
Number of housing construction loans outstanding	6 200
Number of providers of construction finance [f]	5
World Bank Ease of Doing Business Rank [e]	168
Number of procedures to register property [e]	5
Time (in days) from application to completion for residential units in the main urban city	270

NB: Figures are for 2019 unless stated otherwise.

[a] Coinmill
[b] World Bank World Development Indicators
[c] IMF World Economic Outlook Database
[d] UNDP: Human Development Reports
[e] World Bank Doing Business 2018
[f] Central Bank of Burundi

Overview

Burundi's economy has begun the journey to recovery after two years of recession, following the 2015 civil strife that resulted from disputed elections. This culminated in a drop in the gross domestic product (GDP) growth rate to -3.9 percent in 2015 and -0.6 percent in 2016. Thereafter, signs of political stability created an impetus for a positive investment environment, resulting in improvements in GDP growth rates to 0.5 percent in 2017 and 1.6 percent in 2018.[1]

In 2019, the economy is expected to grow at a modest rate of 1.8 percent, on account of a relatively fragile political system and lack of adequate budgetary resources to support investments in public infrastructure.[2] In addition, the economy suffers from persistent foreign exchange shortages as a result of significant declines in export earnings. This has significantly affected the country's international reserves. Furthermore, there has been a deterioration of the current account deficit to 19.2 percent of GDP in 2018 from 11.3 percent in 2017.[3] The low levels of foreign currency available for imports has seen the central bank intervene with several measures aimed at stabilising the local currency. These interventions include imposing restrictions on foreign exchange transactions and liquidity injections aimed at minimising domestic currency depreciation.

The Burundi franc depreciated by 2.4 percent against the US dollar at the official exchange rate over the year to December 2018. Private sector importers and exporters have, however, found it easier to access foreign currency on the parallel market at a premium of up to 50 percent above the official foreign exchange rate. For developers seeking to import construction materials for the housing sector, the foreign exchange premium directly increases the price of housing units and rental costs. From a segment-wise perspective, challenges in the foreign exchange market have had a greater impact on importation of consumer goods compared to capital goods. Whereas there was a six percent drop in consumer goods imported for the year to December 2018, importation of capital goods increased by 20 percent over the same period.[4] This rise is indicative of a positive economic outlook and higher anticipated investments across a number of sectors including housing and construction.

At a macro level, the drop in external financial support arising from the fragile 2015 political climate has exacerbated the government fiscal state, causing it to increase its dependence on domestic tax revenue for its recurrent and capital expenditure. As a result, a number of tax hikes in excise duty have been implemented to supplement government domestic borrowing through issuance of treasury securities to commercial banks. This move has, in part, negatively affected the banking sector's capacity to extend credit to the private sector, including for housing and real estate. The narrow tax base and increased borrowing has consistently increased the country's debt burden as a percentage of GDP to 50 percent in December 2018, up from 42.9 percent in 2016 and 44.2 percent in 2017.[5]

Although there was a noted improvement in yields for the bulk of Burundi's agricultural exports, including coffee and tea, the country has recorded a slump in its foreign exchange receipts in 2019.[6] This decline in export performance has caused ripple effects across a number of economic sectors given that 90 percent of the total population is dependent on the agricultural sector, which contributes 40 percent of the country's GDP.

Despite these difficulties, a bumper harvest in food production coupled with a pick-up in industrial output resulted in a stronger GDP performance for 2018. Food prices witnessed a downward trend culminating in a sharp decline in inflation to minus 2.6 percent for the period to December 2018.[7] There was, however, a marginal rise in housing, water, electricity and gas inflation by 100 basis points to 11.3 percent from 10.3 percent between December 2017 and December 2018. This could have resulted from increases in fuel prices and a rising demand for housing as economic activity started to return to normalcy after a period of low productivity.

This improvement in the general investment climate has also been reflected in key sectors of the economy including banking and finance. Credit to the private sector increased by 12 percent between March 2018 and March 2019.[8] Total credit, inclusive of government borrowing from commercial banks, increased to FBu946.5 billion (US$ 510.24 million) in March 2019, rising from FBu810.8 billion (US$ 434.07 million) in March 2018. Commercial banks' aggregated claims on government increased by 150 percent to FBu7.5 trillion (US$4 billion) in March 2019 from FBu3 trillion (US$4.62million) in March 2018 and FBu2.2 billion (US$1.19 million) in March 2017. This unprecedented rise in government borrowing impedes the banking sector's ability to extend private sector credit as the government sources domestic funding for its budget deficit. Overall, average lending interest rates reduced marginally to 15.57 percent in March 2019 from 15.97 percent in March 2018. This had little impact on improving credit affordability for most Burundians, whose income level is significantly lower that average earnings in neighbouring countries.

One driver of loan interest rates across the country has been the high level of loan impairment as a measure of loan portfolio quality. The banking industry has noted an improvement in the quality of the loan portfolio, which has improved with a significant reduction in loan impairment from 21.8 percent in April 2018 to 15.2 percent at the end of April 2019.[9] However, interest rates remained relatively high because of low prospects for the business and other sectors. The housing and construction sector's performance has been much better with the impairment rate dropping from 13.2 percent in April 2018 to 5.8 percent in April 2019.

Potential gains that would be realised through the use of credit reference have not been fully exploited. The country's credit reference bureau, established in 2012 with support from the International Finance Corporation, still suffers from low usage because of a high concentration of credit among a few large borrowers. Credit to the housing sector remains a key challenge due to the absence of large-scale projects that can be financed through the banking sector.

Access to finance

Access to financial services continues to be a key development challenge in Burundi with only about 12.5 percent of the country's adult population operating accounts in formal financial institutions. This low level of financial inclusion in the country is attributed to lower incomes, low levels of financial education, and limited coverage of financial institutions in areas outside the capital city of Bujumbura. The level of financial inclusion is likely to grow with the progress of government programmes and the goals on poverty alleviation, since most of the population (which is purely agrarian), live in rural areas.

The government of Burundi signed a US$24.9 million (FBu46.19 billion) grant agreement with the International Fund for Agricultural Development (IFAD) in October 2017 to increase the availability of financial services in rural areas where demand far outstrips supply.[10] This co-financing arrangement involves the government contributing US$2.6 million (FBu4.82 billion). The IFAD programme/project, aims to provide access to financial services, and other diversified services, to foster the emergence of a wide range of income generating enterprises, with a focus on assisting the rural poor. Over the seven-year project period, 99 200 rural households across several provinces of Bubanza, Cibitoke, Gitega, Karusi, Kayanza and Muramvya will realise benefits of financial inclusion and access to affordable funding. Solidarity guarantee groups formed to eliminate the requirement for collateral will enhance access to credit for about 9 000 households as well as 60 000 small producers and members of rice cooperative groups, and 19 200 small producer members of cooperative groups. A number of stakeholders are involved in the project to ensure its smooth implementation. Burundi's central bank is at the forefront for ensuring that regulatory concerns regarding the project financing aspects are addressed, while the private banking sector is structured to manage the funds and ensure adequate refinancing for the microfinance establishments directly involved with the farmer cooperatives. With 92 percent of Burundi's workforce already in agricultural sector employment, this financial inclusion initiative will have several trickle-down benefits in consumer demand including the housing sector, among others.

Availability of data on housing finance

Information on housing financing is largely compiled and shared by Burundi's central bank under its supervisory oversight function for the banking industry. This information is collected on a quarterly basis and available online at https://www.brb.bi/en/content/money-and-credit . Such data is, however, quite general and relates to private sector credit.

The key challenges in collecting information include high levels of privacy exercised by financial institutions, making it virtually impossible to obtain data on the size of their mortgage book and key housing-related projects financed over the period. In addition, current data on new housing units constructed is scattered in several institutions (some private) and not easily accessible. The main sources of data remain government agencies mandated to collect and publish data on a regular basis as well as key private sector players, including financial institutions, property developers and international development finance institutions.

Across the banking industry, a number of commercial banks have introduced inclusive delivery channels in the financial services sector including installing Automated Teller Machines (ATMs) and agent banking. The introduction of agent banking has enabled financial institutions to penetrate the deeper peri-urban areas that accommodate most of the unbanked. By using cheaper Point of Sale (POS) telecom connected gadgets, an agent can facilitate a number of transactions including cash deposits and withdrawals, intra-bank transfers and balance enquiries. Although this initiative has been seen to work as a deposit mobilisation channel in Burundi, and across a number of countries within the East African region, the credit offering side through the agent networks has not progressed. Financial institutions have not yet developed the capacity to extend credit through their relatively cheaper agent networks, given the lack of credit risk assessment. Prospective borrowers must, therefore, approach a physical branch to access any credit facility in the country.

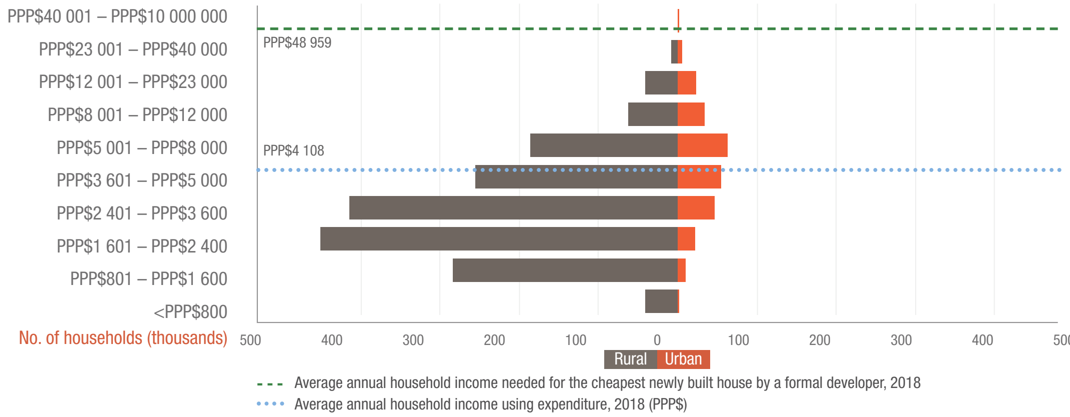
Overall, the leading mortgage lenders in the country including the Urban Housing Promotion Fund, National Bank of Economic Development Burundi, Burundi Bank of Commerce and Investment, Ecobank Burundi and KCB Bank have been instrumental in providing housing finance-related solutions. Across the sector, these lenders offer several products including home construction, home completion, home improvement and refinance mortgages for short- to medium-term borrowing up to seven years and long-term borrowing ranging between 15 to 20 years. The loan-to-value ratio is unique to institutions and ranges between 30 percent and 50 percent, depending on the nature of perceived risk of the prospective borrower and charge rates of interest ranging between 16 percent and 19 percent for most housing finance products. Existing lenders appear to be meeting the housing finance needs of middle to high income clients, however, the gap in financing affordable housing is huge and requires collaborative efforts to establish a vibrant market for micro-mortgages accessible to the majority of low-income earners.

Affordability

Burundi's poverty level has continued to rise since the 2015 political crisis reflecting a low per capita GDP growth rate, attributed to a combination of a slow rate of GDP growth, limited external budgetary funding support and a high rate of population growth fuelled by a high average fertility rate of 5.5 children per woman. Rated as one of the poorest countries in the world with a poverty rate of 71.8 percent, the country's GDP per capita declined to US$274 (FBu508 270) in 2018 from US$315.2 (FBu584 696) in 2017, according to the World Bank.[11] Even though the economy has survived the worst downturn in a decade and is recovering to its anticipated growth potential, housing affordability remains a key challenge from both the demand and supply side.

BURUNDI

Annual income profile for rural and urban households based on consumption (PPP$)



Population:	11 175 378
Urbanisation rate:	5.70%
Cost of cheapest newly built house:	57 505 000 BIF PPP$86 985
Urban households that could afford this house with finance:	0.69%
1 PPP$:	661.09 Burundi franc

Source https://www.cgidd.com/C-GIDD, 2019

On housing demand, the majority of Burundi's population are largely dependent on peasantry agriculture and have been confined to poor living conditions. Although the poverty rate based on US$1.9 (FBu3 525) reduced to 71.8 percent in 2018 from 74.7 percent in 2017, affordability of decent housing is still a challenge across the country.[12] The country's housing market, therefore, suffers low levels of effective demand for decent housing.

On the supply side, financing options for housing-related investments have remained unaffordable for both investors and prospective homeowners. Financial institutions have maintained interest rates at relatively high levels, averaging 15.98 percent, making it difficult for most citizens with modest income sources to afford credit. Whereas the benchmark Central Bank Rate[13] has consistently been declining over the past few years to 6.9 percent in 2018 from 9.1 in 2015, commercial banks have, on the contrary, consistently increased their lending rates to highs of 17.16 percent in December 2018 (for medium-term housing loans and 16.32 percent (from 15.70 in December 2017) for long-term housing loans.[14] There is therefore a need for affordable financing options to support the growing housing need of the country's population.

Housing supply

The supply of housing units in Burundi is still at a low level of development with few participants on the housing supply side. Over the recent past, the country has been relatively unsuccessful in attracting large-scale property developers due to its fragile political state, low levels of economic development and high incidences of poverty. With the recent return to political stability and renewed hope for economic development, the city of Bujumbura is beginning to increase its supply of new houses, mainly from a few individual investors.

However, prospective developers still face a number of challenges, unrelated to the demand side for housing units. These include a lack of appropriately priced financing products for developer support, scarcity of foreign currency for importing non-domestic construction materials, and lack of support infrastructure for housing sector developments. Extension of public utilities has been a key constraint, with less than five percent of the population having access to electricity, of which 52.1 percent are in urban areas and two percent are in rural areas. The influx of returnee refugees is also exerting pressure on the housing situation in Burundi. About 67 000 refugees are estimated to have returned out of the 400 000 Burundians who fled to neighbouring countries in 2015 according to the United Nations High Commission for Refugees (UNHCR).[15]

Property markets

The recent upsurge in economic activity has breathed renewed hope into Burundi's property market. A number of residential units will be needed to accommodate urban populations returning to productive engagement and hoping to be part of private and public ventures. The land code adopted in 2011 introduced certificate of title as an alternative way to record land rights in rural areas, where land was mainly communually owned.[16] However, the provision of communal land registration services has challenges around the pledging of such certificates as collateral for borrowing, due to vested multi-stakeholder interest. The property market has generally lacked large-scale developers in the housing segment because of insufficient demand for moderately priced housing apartments. The real estate market in Burundi has therefore been dominated by secondary transactions involving new transfers of old housing stock. Given the absence of large- scale property developers, pricing of residential housing units is mostly unstandardised and largely influenced by buyer-seller negotiations. Prices of two- and three-bedroom apartments in most places around Bujumbura range from FBu57.5 million (US$30 997) to FBu85 million (US$45 822). Although the quoted property pricing in Bujumbura is significantly out of range for most low-income earners in Burundi, the average prices are relatively cheaper than properties in Kampala, Nairobi and Kigali.

Monthly rent in 2019 for a residential 85m² furnished unit in a prime area in Bujumbura is estimated at about FBu3 million (US$1 617) a month. The more in-demand smaller 45m² furnished studio in a similar area is estimated at about FBu0.5 million (US$267). The cost of utilities (heating, electricity, and gas) for one month in a 45m2 studio is FBu100000 (US$53.9) per person. Yet, the average monthly income for a renting household is about FBu42 355 (US$ 22.83). This has resulted in a significant number of rental units remaining unoccupied for lengthy periods.

The government of Burundi has not played a significant role in delivering housing units. With the exception of providing public infrastructure across the country, government agencies have not actively participated in setting up residential apartments for the growing population.

The market landscape therefore offers opportunities in the affordable housing market segment. Although heavily dependent on the country's political state, Burundi's projected growth path over the medium term is likely to attract a few small and mid-sized investors into the real estate sector.

Policy and regulation

Burundi's housing and property transactions are governed under the 2008-established National Urban Planning and Housing Policy. The policy provides the regulatory framework for the management of water, environment, land and urban developments.

However, despite the existence of this policy, enforcement of property right and contracts remain a key challenge. According to the World Bank, property rights and rule-based government policies are among the lowest in the world with the country scoring a lowly two points out of six in the 2015 Country Policy and Institutional Assessment.[17] A 2009 study by Wagner also identifies limitations to the rule of law and lack of asset security as key constraints to growth in Burundi.[18] Indeed, the implications of a weak regulatory system were highlighted in the April 2019 Bujumbura court ruling that granted government permission to seize buildings belonging to opposition politicians. Implementation of an effective policy enforcement mechanism will therefore be crucial for mapping out the sustained development of Burundi's housing sector.[19]

Opportunities

Burundi's economic recovery over 2017 and 2018 points towards a path of firm sustained growth spurred by the return to relative political steadiness. Several sectors have already registered commendable growth rates of 7.4 percent (services sector) and 3.2 percent (manufacturing and agro-processing).[20] Further, the effective implementation of the IFAD financial inclusion project, which significantly improves the livelihood of over 99 000 households engaged in the agricultural sector will have a catalytic impact on more than 92 percent of the population and all sectors of the economy. Development of affordable housing will, therefore, remain an inviting opportunity along with initiatives to overcome financing challenges. The country's relatively low levels of household income, particularly for the informal sector, calls for innovative financing solutions in the micro-mortgage space. The rapidly growing population in urban areas in an environment of a resurgent economy offers a clear opportunity for small-scale property developers both in the medium and long term.

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