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AFRICAN DEVELOPMENT FUND**



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ACRONYMS AND ABBREVIATIONS

ABEDA	Arab Bank for Economic Development in Africa
ADB	African Development Bank
ADF	African Development Fund
BRB	Banque de la république du Burundi
BWI	Bretton Woods Institutions
DRC	Democratic Republic of the Congo
EDF	European Development Fund
EIB	European Investment Bank
ERC	Economic Recovery Credit
ESP	Emergency social programme
EU	European Union
FBU	Franc burundais
FDD	Forces de défense de la démocratie (Democracy Defence Forces)
FDM	Trust Fund for multilateral debt (<i>Fonds pour la dette multilatérale</i>)
FNL	Forces nationales de libération (National Liberation Forces)
GDP	Gross Domestic Product
HDI	Human Development Index
HIPC	Highly Indebted Poor Country
IMF	International Monetary Fund
IPCP	Interim Post Conflict Programme
I-PRGSP	Interim Poverty Reduction and Growth Strategy Paper
MIAB	African Mission for Burundi (Mission africaine pour le Burundi)
OPEC	Organisation of Petroleum Exporting Countries
PCCI	Post-conflict Country Initiative (<i>Initiative pays post conflit</i>)
PRGF	Poverty Reduction and Growth Facility
SDR	Special Drawing Rights
UNDP	United Nations Development Programme
UNO	United Nations Organization

SUMMARY

1. In considering the 2003-2004 Dialogue Paper on the Republic of Burundi in October 2003, the Boards recommended that the Bank strengthen dialogue with the country to find a solution to the arrears problem. The Boards also recommended the preparation of an interim country strategy paper (CSP), after the clearing of the arrears, to serve as a comprehensive framework for the Bank's sectoral loans and credits. Burundi has repaid some of the outstanding arrears and continues to meet its current obligations. Donors and the Bank have made firm commitments to pay off the outstanding arrears under the post-conflict countries initiative. In this perspective, this document is a response to the Boards recommendations.
2. In accordance with the Arusha Accords signed in August 2000, the Government, with support from its development partners, implemented an interim post-conflict programme (*IPCP*) during the 2002-2003 period to address the challenges facing the country; these challenges include: consolidating peace; building national capacities to enhance good governance; and rehabilitating the productive base of the economy. The *IPCP* was replaced by an emergency poverty reduction programme that the Government presented to development partners at the Forum of Partners for Development in Burundi, held in Brussels in January 2004. The ultimate objective of the programme is to develop a plan for a sustainable future to achieve peace, reconciliation, and the development of the population through a strategy that promotes equitable allocation and rational management of resources. The emergency programme is in line with the objectives of the Interim Poverty Reduction Strategy Paper (I-PRSP), finalized in March 2003. This strategy draws on the three-year economic and structural reform programme (2004-2006) and is supported by a Poverty Reduction and Growth Facility (PRGF), approved by the IMF Board in January 2004.
3. The Bank intends to support the Government's national reconstruction measures and its efforts to consolidate economic reforms. In the short term, based on its strategic Vision on good governance and poverty reduction, the Bank's interim strategy will focus on the social and infrastructure sectors. These two sectors were chosen in response to the need to rehabilitate basic social infrastructure with a view to reducing poverty and improving the precarious living conditions of the population. In this regard, the Bank will finance a multi-sector job-creation and reconstruction project. In addition, it will support institutional capacity building efforts as well as the Government's economic reform programmes.
4. The interim strategy was developed in collaboration with other donors, and focuses on co-financing priority actions identified by the Government. The Bank's medium-term strategy is to pursue dialogue with the authorities and other partners to identify areas for Bank action under ADF X (2005-2007); this will be the focus of a full Country Strategy Paper aimed at supporting institutional capacity building, economic and structural reforms, the development of production sectors and poverty reduction.

I. INTRODUCTION

1.1 In October 2003, the Boards of Directors approved the 2003-2004 Dialogue Paper on the Republic of Burundi, which seeks to find ways to settle all arrears, thus allowing the Bank to fully resume cooperation with Burundi. Burundi now makes regular payments on its current obligations and has agreed to a plan that will enable it to totally pay off its outstanding arrears before the HIPC decision point, expected in 2005. Based on this assumption, the Boards had recommended that the Bank prepare an interim Country Strategy Paper (I-CSP) for Burundi, which would serve as a framework for the Bank's sectoral loans and credits. An arrears clearance plan was drawn up in the context of the Poverty Reduction and Growth Facility (PRGF), approved by the IMF Board in January 2004. This plan envisages the payment of (i) current obligations, (ii) 20% of the outstanding arrears to be settled in 2004, from the first tranche of the PRGF, and (iii) the balance, 80 % of the outstanding arrears, before decision point, to be reached in 2005. The Bank has intensified dialogue with the Government, which has made significant efforts by honouring the due payments of 2003 and 2004. In accordance with the plan, it also made a partial payment of the arrears in March 2004, for a total amount of 6.24 million dollars.

1.2 As a result of these efforts, Burundi will benefit from the arrears settlement mechanism set up by the Bank under the Initiative for Post-conflict Countries and approved by the Boards of Directors in July 2004. In this context, an arrears clearance plan to pay off the country's arrears will be presented to the Boards in October 2004. This plan is based on firm commitments from donors, including the European Commission, France and the Bank, to pay off the balance of Burundi's arrears owed to the Bank, a total of UA 16.04 million, and which would result in the resumption of operations with Burundi. Therefore, this document was prepared in response to the Boards' recommendations. Its objective is to: (i) inform the Boards of recent developments in Burundi and of the assistance provided by donors to support the efforts undertaken by the authorities; and (ii) request that the Boards approve the Bank's interim assistance strategy for Burundi.

Box 1. Basic Country Information

The Republic of Burundi is a mountainous land-locked country located in the heart of the Great Lakes region. It has a total area of 27,834 km², of which 2,300 km² are lakes; it borders with Rwanda to the north, Tanzania to the east and south and the Democratic Republic of Congo to the west. The average altitude is 1,400 m and the climate consists of 2 dry seasons and 2 rainy seasons. These multiple seasons, combined with a very dense hydrographic network, allow the cultivation of several types of crops. Through Lake Tanganyika, which covers an area of 34,000 km², Burundi has lacustrine links with the DRC, Zambia and Tanzania.

Burundi's population is estimated at 7.1 million inhabitants. The natural rate of population growth is estimated at 2.9 % per year. The population is relatively young, with a proportion of 46.3% under 15. Burundi faces demographic pressures, which are all the more troubling because of the small size of the country. The structure of the GDP shows the predominance of the agricultural sector, which accounts for more than 52% of GDP and employs over 90% of the active population. With a few exceptions, agriculture and livestock production are practiced by small owners in 1.1 million family farms with an estimated size of 0.5 hectares each. The average size was 0.7 hectares per family in 1989. Because of the reduction of farming area per family, farmers have resorted to degraded farmlands unsuitable for agriculture, and to protected areas. The succession system also puts pressure on the land by forcing parents to hand over part of their farm to their adult or married children, thus aggravating the parcelling of land. This situation creates numerous litigation and conflicts, and imposes numerous constraints, including, (i) strong pressures on natural resources (intensive deforestation, concentration of population in low fertility areas, overexploitation of land, land fragmentation, decrease in fertility, etc; (ii)

extensive deforestation and destruction of protected areas and natural reserves; (iii) serious erosion resulting in scarcity and accelerated degradation of potential agricultural land; (iv) absence of water management to meet irrigation and livestock watering needs; (v) very low use of intensification inputs; (vi) land insecurity; (vii) poor access to credit and lack of rural infrastructure.

II. RECENT DEVELOPMENTS

2.1 Political Situation

2.1.1 Since independence in 1966, Burundi has faced recurrent socio-political crises, which have resulted in widespread destruction of production facilities and enormous loss of human lives (see Box 2). In 1993, the assassination of the first elected President of the country led to another new cycle of crises, aggravated by the 1994 genocide in Rwanda, a neighbouring country. Despite the continuation of hostilities, peace efforts undertaken by the international community in 1995 led to a compromise in June 1998 under the aegis of Heads of State of East African countries and involved 19 parties representing all ethnic and political groups in the country. These negotiations resulted in the signing of a Peace and National Reconciliation Accord on August 28, 2000, based on power sharing between the main factions. The implementation of this Accord led to the creation of transitional institutions such as: (i) the Constitution, in October 2001; (ii) the National Unity Government, in November 2001; and (iii) the Parliament, in January 2002. During the negotiations, held after the signing of the Peace Accord, it was concluded that the transition period would last 3 years, divided into two 18-month periods. In accordance with the power sharing principle, at the end of the first phase, on April 30, 2003, the former President handed over power to the Vice-President.

2.1.2 In March 2003, the African Union sent observers and a peacekeeping mission to Burundi (*African Mission in Burundi -AMIB*), with a mandate to: (i) establish and maintain relations between the factions and supervise implementation of the ceasefire agreement; (ii) supervise the disarmament and demobilization of rebels and their reintegration into the national army; and; (iii) facilitate the provision of humanitarian assistance to refugees and displaced persons. In this context, the AMIB has helped instil confidence in the peace process, install the first demobilization centre, as well as facilitate the demobilization of child soldiers. The African Mission has also created conditions to facilitate deployment of a United Nations peacekeeping mission, which took place in early June 2004.

2.1.3 Significant progress was achieved with respect to national political dialogue and in the Arusha negotiations which led to the signing, on November 16, 2003, of another ceasefire agreement with the National Council for the Defence of Democracy/Forces for the Defence of Democracy (*Conseil national de défense de la démocratie – Force de défense de la démocratie - CNDD-FDD*); the implementation of this agreement resulted in the integration of ex-rebels into transition institutions. The Accord provides for the organization of general elections in October 2004 and the end of the transition period on November 1 of the same year. However, fighters of the National Liberation Forces (*Forces nationales de libération - FNL*) refused to sign the ceasefire agreement, demanding reform of the national army as a prerequisite. Nevertheless, ongoing dialogue between the transition Government and the FNL offers some hope for the strengthening of the peace process. As well, it should be noted that armed confrontations which occurred in early June 2004 in the Kivu province in eastern DRC are a threat to transition in Burundi and to the stability of the sub-region, given the massive influx of refugees into Burundi and Rwanda.

Box 2. Economic and Social Impact of the Conflict in Burundi

The recurrent political crises that have marked the history of Burundi since 1993 have had serious economic and social consequences, including serious deterioration of the country's institutional capacity as a result of enormous human and material losses. The massive destruction of production facilities and the permanent climate of insecurity that prevailed for more than a decade have constrained the country's economic performance. The crisis has resulted in significant loss of experienced and competent managers, as well as of archiving capacities and equipment. It has maintained insecurity and caused distrust among the different components of the population, thus delaying the process of resettling and reintegrating displaced persons and refugees both from within and from outside the country. The conflict has caused heavy losses from the humanitarian perspective. Indeed, out of a population of seven million, it is estimated that more than 300,000 people were killed, 400,000 displaced within the country, and about 750,000 sought refuge in Tanzanian camps. This situation was exacerbated by political instability in the Great Lakes sub-region, particularly in the Democratic Republic of Congo and Rwanda.

In addition to large-scale destruction of basic social infrastructure (see §3.3.2), the conflict has facilitated the spread of the HIV/AIDS pandemic, which has reached alarming proportions. The prevalence rate in 2002 was 10.5% in urban areas compared to 2.5% in rural areas. Among the countries most affected by the disease, Burundi is ranked second in Central Africa and thirteenth in sub-Saharan Africa. From the demographic perspective, it is estimated that life expectancy at birth could fall to 39 years because of the HIV/AIDS pandemic, if the current trend persists. On the economic front, the cost of the pandemic could reach 2.9 to 3.9% of GDP in 2005. Finally, on the social front, the effects of the disease include the destruction of family units, increase in the number of orphans and single parent families, spread of poverty and a reduction of the labour force.

2.2 Recent Economic Developments and Poverty

2.2.1 GDP Trends. Burundi's economic structure is characterized by a narrow production base; it is clearly dominated by the primary sector and consists essentially of agriculture, livestock production, and fishing. During the 2000-2003 period, this sector accounted for more than 52% of GDP compared to 10% and 30% for the secondary and tertiary sectors, respectively. Despite the significant potential of the primary sector, which employs over 90% of the population, its contribution to GDP growth remains modest due in particular to the extent of subsistence farming, which is characterized by low productivity because of the high population density in low fertility areas, the fragmentation of farmland and over-dependence on weather conditions. The modest growth rates in subsistence farming, livestock production and fishing, averaging 0.2%, -1%, and 1.3%, respectively, during the period, also result from persistent insecurity and continuing population displacement. This explains the poor performance reflected in GDP growth rates, which increased from -0.9% in 2000 to 2.1% and 4.5%, in 2001 and 2002, respectively, owing both to good weather conditions in 2002 and to the signs of social truce resulting from the peace process, which boosted recovery in the services sector. However, in 2003, the growth rate fell sharply to -1% because of poor weather conditions and caused a drop in agricultural production. Furthermore, gross national savings, which accounted for only 0.85% of GDP on a yearly average over the 2000-2003 period, owing essentially to low incomes and inadequate micro-finance structures, constitute a major constraint to the country's economic development. Consequently, the level of investments has remained weak at 8.15% of GDP in the period.

2.2.2 Public Finance. 80% of Burundi's budget resources come from tax revenues, mainly taxes on goods and services and on foreign trade, accounting for 45.8% and 25.6%, respectively. Despite a difficult political context, measures taken to improve tax collection rates, fight fraud,

corruption and tax evasion have had a positive impact on fiscal revenue (including grants), which increased on average at 15.45% per year during the 2000-2003 period. However, in spite of this performance, the income level remains low. With regard to expenditure, efforts to control current spending (excluding interest) have not been successful; indeed, current spending grew by 13.25% during the same period. The war effort and difficulty in controlling the wage bill are some of the main reasons for the high level of budgetary spending. During the period, military spending (excluding services) and the wage bill, which accounted for over 42% of current spending, increased by 15.5% and 17.4% on average, respectively. Public finance has thus remained in a structural deficit, with a fiscal balance (on a commitment basis, excluding grants) that deteriorated from -4.9% of GDP in 2000 to -5.7% and -9.9% of GDP in 2002 and 2003, respectively. Without sufficient external financing, the budget deficit was financed mainly with advances from the central bank (*Banque de la République du Burundi — BRB*) and with the accumulation of arrears on foreign and domestic debt, which accounted for 5.3% and 17.5% of GDP on average, respectively, in 2002-2003.

2.2.3 Banking, Money, and Inflation. Burundi's financial sector comprises 8 commercial banks (one of which is being liquidated), two development banks and specialized institutions (insurance companies, credit unions, private sector investment support funds, etc.). Most of the main banks and financial institutions are publicly owned. The monetization rate of the economy is still very low. Current supply of credit and financial services, especially for productive investments, is both insufficient and inadequate due to the level of risk, the absence of guarantees, and the high cost of credit management. Domestic savings is also minimal and poorly mobilized by the financial sector whose institutions are concentrated in the capital. Similarly, micro-finance services have hardly been developed but are in full expansion, with over 10 specialized institutions serving a population estimated in 2002 at about 214,000 clients. In order to support the banking and financial sector, the government has initiated reforms to support rational demand management, improve resource allocation, boost savings and adapt liquidity management instruments to a liberal economic environment. Thus, borrowing rates and lending rates have been liberalized, and financial institutions' reliance on central bank refinancing has been abolished and new instruments such as treasury certificates and reserve requirements have been established to stimulate a true financial market and ease administrative control over resource allocation.

2.2.4 During the 2000-2003 period, a 17.7% domestic credit expansion translated into a 16.05% increase in money supply. This increase essentially results from a strong increase in credit to the economy, which grew on average by 19.55% over the period, compared to a slight decrease in credit to the government (-1.1%). The consolidation of peace and the continuation of national dialogue helped jumpstart economic activities, which explains the increase in credit to the economy. With respect to the exchange-rate policy, the gradual liberalization of the exchange-rate system, started in 2000 with the adoption of a regulation authorizing the free operation of exchange offices and the creation of a foreign exchange auction system, made it possible to limit depreciation of the Burundi Franc versus the US dollar to about 8.4% on average over the 2000-2003 period. The inflation rate measured by consumer prices fell from 24.3% in 2000 to 9.3% in 2001, and then increased to 10.3% in 2003. The high level of inflation basically results from the printing of money to finance the fiscal deficit, disturbances in agricultural production, and difficulties in supplying the market with foodstuffs because of security problems in rural areas. The restrictive measures taken by the Bank of Burundi as part of the IMF programme with respect to setting credit ceilings and increasing the central bank's base rate should help control inflation to around 6.4% in 2004.

2.2.5 Balance of Payments. Between 2000 and 2003, the average 11.3% continuous decline in export earnings from coffee, Burundi's main export, representing over 80 % percent of total exports, weakened the country's external position. These difficulties were exacerbated by an increase in imports, especially oil products and services, by about 3.85% and 12.2% on average,

respectively, over the period. This caused a deterioration in the current account balance (excluding official transfers), from -14.6% of GDP in 2000 to -18.6% and -23.5% of GDP in 2002 and 2003, respectively. The deterioration in the external current account balance is worsened by a decrease in export-oriented agricultural production in the order of 20% in 2001-2002 due to poor rainfall and unfavourable coffee price developments in the international market. As a result, gross official reserves showed a mixed performance, declining from 2.9 months of imports in 2000 to 1.6 months in 2001, before rising to 2.2 and 2.9 months in 2002 and 2003.

2.2.6 Foreign Debt. By the end of June 2004, outstanding debt amounted to 1.26 billion US dollars or 175% of GDP and 219% of exports. The share of multilateral debt is about 79.3% of total foreign debt. The main creditors are IDA (53.2%), the Bank Group (17.2%), the EIB (4.5%), and the IFAD (2.3%). Guaranteed debt or swaps represent 19% of total outstanding debt, compared to 81% for direct debt, whereas concessional debt represents about 82% of the total. In March 2004, Paris Club creditors signed an agreement with the government of Burundi to reschedule the country's foreign public debt following the approval of an arrangement under the Poverty Reduction and Growth Facility (PRGF) by the International Monetary Fund's Board of Directors, in January 2004. This agreement rescheduled some 81 million US dollars and immediately cancelled 4.40 million US dollars. This amount comprises arrears (including late payment interests) due by December 31, 2003, as well as the payments due between January 1, 2004 and December 31, 2006. Paris Club creditors agreed to raise the reduction rate to 90% (Cologne terms) when Burundi reaches the decision point of the Enhanced Highly Indebted Poor Countries Initiative. The government has committed to request similar treatment from private creditors.

2.2.7 Bank Arrears. Starting September 1, 1999, Burundi accumulated arrears to the Bank Group to the amount of UA 16.04 million or 23.56 million dollars as at June 30, 2004. In accordance with the arrears settlement plan that had been agreed in the PRSP, approved by the IMF Board in January 2004, the government has made a partial payment of outstanding arrears in the amount of \$6.24 million and continues to make payments on its current obligations. As a result, Burundi will benefit from the arrears settlement mechanism of the post-conflict countries initiative which was approved by the Boards of Directors in July 2004. An arrears settlement plan in favour of Burundi will be presented to the Board of Directors in October 2004 and will be based on the following: (i) continued settlement of the country's due payments; and (ii) payment of the remaining outstanding arrears by donors, including the European Commission, France and the Bank. In this regard, a trust fund has been created and is managed by the World Bank with a view to mobilizing donor contributions for the payment of current arrears to multilateral creditors (see Chapter V). With respect to the second issue, firm commitments have been made by the European Commission and France to help pay Burundi's outstanding arrears.

2.2.8 Governance and National Capacities. Because of the socio-political crisis, the issue of political and economic governance is crucial. On the political front, the situation remains volatile because of the precarious nature of the agreements between the warring parties, which slows down the peace and democratic development process. On the economic front, corruption and embezzlement in the public service have tended to spread with the crisis. After the Arusha negotiations, the various political actors agreed that the crisis situation facing the country mainly results from a lack of governance, especially in the political and economic areas. Strengthening institutional capacity—weak capacity is a serious impediment to the formulation of economic development strategies for the country—is a major challenge that the government will have to tackle. During its consultations with development partners, the government formulated a programme to strengthen good governance, linking the issue of national capacity building to that of political and economic governance. The government's goal, which is in line with the objectives of the Interim Poverty Reduction and Growth Strategy Paper, seeks to create an institutional and regulatory environment conducive to restoring social dialogue and the economic management

capacities. Otherwise, there is a need to promote transparency in the use of fiscal resources, equity in public expenditure and strengthen the capacity of decision makers with a view to creating conditions for sustained growth and lasting poverty reduction.

2.2.9 Domestic Debt. At 30 April 2003, outstanding domestic debt amounted to 121.32 billion Burundi francs, or about 115 million US dollars, representing 9% of total outstanding debt and 18% of GDP. The structure of domestic debt shows the predominance of commercial bank credit in the form of Central Bank advances to the Treasury, representing 68.05% of the total, followed by treasury certificates (26.7%), as well as "other debt", including salary arrears in the order of 2.5%. Domestic debt control and payment largely depends on the government not printing money to finance fiscal deficits and on the efforts that authorities will make to gradually control deficits.

2.2.10 Poverty. The situation is characterized by a very low level of human development, with an index that has never topped 0.341; this makes Burundi one of the five countries in the world with the lowest human development index (HDI). The proportion of people living below the poverty line, which reached more than 65% in 2002, shows the precarious nature of living conditions in the country. The incidence of poverty in urban areas increased from 41 to 61% between 1993 and 2003, compared to 41 to 67% in rural areas over the same period. The increase in poverty results from the fall in production due to massive destruction of infrastructure, chronic lack of security, a major decline in agricultural output as a result of the displacement of rural populations, disorganized distribution channels, low levels of investment and declining foreign aid.

2.2.11 Poverty is also exacerbated by the HIV/AIDS pandemic—prevalence reached some 10.5% in urban areas and 2.5 % in rural areas in 2002. The situation is all the more disturbing because the disease affects working age populations and entails a significant increase in the number of people who die before age 40. Women's vulnerability to HIV/AIDS, combined with the impact of war, aggravates their precarious living conditions because they are poorly integrated in the country's development process and only participate marginally in the decision making process. The socio-political crisis has seriously destabilized families and has made the situation even more difficult for households, thus aggravating gender imbalances in terms of resource access and control. Serious efforts will have to be made to promote women through multi-pronged interventions not only to improve access to basic social services, training, employment and information, but also to reform the legal framework. Poverty reduction and the promotion of women are some of the government's priorities set out in the interim poverty reduction strategic framework, which was finalized in March 2002.

2.3. Sectoral Developments

2.3.1 Massive population displacements caused by the war, especially in rural areas, have resulted in major declines in the main economic sectors in Burundi such as agriculture, infrastructure, health and education. However, the country's economic structure is still characterized by: (i) the dominance of the primary sector which contributes over 50% of GDP, provides 95% of food supply and more than 90% of export earnings; (ii) a stable contribution of the tertiary sector in the order of 28% of GDP; and (iii) the low level of development in the secondary sector, which is handicapped by the narrow domestic market, contributing 9 to 11% of GDP. In its emergency reconstruction program, the government strongly emphasizes the social sector and the rehabilitation of basic infrastructure, which was badly damaged by the crisis.

2.3.2 The Agricultural Sector. This sector is the base of Burundi's economy. It employs more than 90% of the population, contributes more than 50% to the GDP, and provides 95% of food supply and over 90% of foreign exchange earnings. Moreover, it guarantees food security and

is the engine of growth in the other sectors. The agricultural sector is characterized by subsistence farming, which employs some 1.2 million low-income households, each cultivating 0.5 hectares on average. Potential agricultural land covers 2,350,000 hectares. Food crops, intended primarily for household consumption cover 90% of cultivated land, compared to 10% for cash crops, mainly coffee and tea. Coffee alone provides 80% of foreign exchange earnings. Stockbreeding is mostly extensive and represents 5% of GDP. Natural and man-made forests, which play a crucial role in the maintenance of ecological and hydrological balance, cover 205,529 hectares. Also, over 10% of the country's land mass is covered by lakes, and this contributes to the overexploitation of agricultural land, creating a serious environmental problem. The government's objective is to address the negative effects of the crisis by stimulating production to lay the groundwork for sustainable growth in the sector in the medium and long-terms. The final outcomes expected are the following: (i) ensuring food security for all in terms of availability, accessibility, stability over time and space; (ii) reducing poverty in rural and urban areas by increasing purchasing power and improving living conditions of households; and (iii) protecting the environment through rehabilitation and rational management of natural resources.

2.3.3 The Social Sector. With respect to **education**, the destruction of school infrastructure, the security situation, the closing of some schools, especially in rural areas, and teachers abandoning their posts because of lack of security are some of the factors that have undermined the development of the education system in Burundi. In addition to inadequate and deteriorating infrastructure in a context of growing need resulting from population growth, the education system is faced with inadequate curricula, lack of teaching materials, inefficient administrative, monitoring and pedagogical management systems. In this context, the gross enrolment rate in primary schools decreased from over 70% in 1992 to 42.8% in 1995, then increased to 65% in 2000 before stabilizing at 73% in 2002. The education budget, which represented some 25% of total government budget in 1995, only accounted for 15.1% and 15.2% in 2000 and 2002, respectively. In the **health** sector, the socio-political crisis also caused the destruction and pillaging of health infrastructure, the disappearance of some staff who died during the massacres or fled into exile abroad, the concentration of a great number of the remaining staff in urban centres for security reasons, and a decrease in the level of service provided by a demotivated medical staff. These factors, combined with the embargo imposed in 1996, contributed to the deterioration of most health indicators. Thus, the immunization rate for tuberculosis and measles fell from 90% and 70% in 1992 to 64% and 50% in 1996, before increasing to 73% and 61% in 2000, respectively.

2.3.4 Infrastructure. The whole infrastructure sector has seriously deteriorated in the last 10 years. In the **transportation** sector, Burundi, a landlocked country, relies on a three-mode system (road, lake, and air transport) for domestic and international trade. The development of road infrastructures is seriously handicapped by: (i) the deterioration of the network; (ii) the degradation of nearly all tarred and dirt roads that need regular maintenance; (iii) inadequate resources for the road maintenance fund in comparison to maintenance needs, which translates into lack of human and material resources. During the crisis, security programmes and the embargo caused a 73 to 89% decrease in domestic and international road traffic. In the **water** sector, Burundi, which is endowed with a major water system, faces a dual challenge; on the one hand, an ever-increasing need in different areas because of population growth, urban development and an increase in economic activities; and on the other hand, unevenly distributed water resources across the country are threatened by pollution and by the degradation of catchment areas. Furthermore, because of dysfunctioning water supply networks, the rate of access to drinking water, which was 55% in 1993, fell to 41% in 2002, a 25% decrease. In urban areas, the situation has not improved over the period, the access rate having stabilized around 92%.

2.3.5 Road Infrastructure and storm water disposal systems are underdeveloped and were seriously deteriorated by the crisis in both urban and rural areas. In cities, there is no sewage or

stormwater disposal system. Currently, there is no facility for the treatment of industrial waste water, which ends up untreated in the rivers and creeks. In the city of Bujumbura, the absence of road maintenance has completely disorganized circulation of goods and services and economic activity in highly populated neighbourhoods. Though serviced, these neighbourhoods face major constraints, including: (i) very limited accessibility for motor vehicles because of poor roads; and (ii) chronic insalubrity due to lack of sanitation. The urban road system also suffers from institutional constraints related to poor municipal planning capacities, inadequate decentralization policies and insufficient human and material resources. These constraints have accelerated the degradation of the population's sanitation and housing conditions, which have been deteriorating since the start of the crisis in 1993. The government's goal is to support rehabilitation of the sector through a process that emphasizes projects, relies on strong community participation and uses labour-intensive techniques.

III. MAJOR CHALLENGES

3.1 Consolidating Peace

The first challenge that the Burundi government must face is to consolidate peace while strengthening domestic dialogue. To achieve this, the authorities must successfully demobilize and disarm combatants, foster socio-economic integration and support for the victims of the conflict. Given the country's economic fragility, the demobilization process must be gradual, on both the economic and social fronts, to avoid aggravating security concerns resulting from the massive inflow of combatants into communities. With respect to the integration of victims, the strategy must ensure: (i) strict respect for and protection of human rights; (ii) rehabilitation of basic social services; (iii) jumpstarting the local economy, especially the agricultural sector; and (iv) a consensus on a sustainable development programme to fight poverty and offer a credible alternative to the volatility of the current transition phase. In this regard, the authorities must emphasize the strengthening of internal and external political dialogue to promote stability at the national and regional levels.

3.2 Building National Capacity for Good Governance

The second challenge is to strengthen the institutional capacity to conduct and manage economic policy, which was seriously affected by the near total disorganization of the public service as a result of recurrent conflicts. Also, the precariousness of working conditions, characterized by low levels of compensation, under equipped ministries as well as no permanent training and retraining system, weigh on the performance of government structures. This situation has caused the departure of many competent officials. Generally, the challenges facing the various government structures include: (i) lack of human resources with a critical mass of skills needed to successfully manage the economy; (ii) a weak institutional framework due to the lack of procedure manuals and of a clear definition of the mandates of various government structures; and (iii) lack of office and logistics equipment due to the inability to renew them, resulting in obsolescent and dilapidated working tools. These constraints are all the more serious because consolidating peace requires far-reaching reforms to rebuild the productive base of the economy and reinforce governance in order to create an enabling environment for strong and sustainable growth. The government must strive to improve public service by establishing an institutional framework, appropriate working instruments, methods and procedures, as well as adequate human and material resources to build the capacities for formulating and implementing macroeconomic and sectoral policies and strategies to mobilize foreign assistance

3.3 Economic Recovery and Poverty Reduction

The third challenge is to reduce poverty, which has gained ground with the protracted crisis, the disorganization of the productive system and the massive destruction of basic social infrastructure. To address this situation, the Burundi government has committed to strengthening the productive base of the economy, rehabilitating productive infrastructure to create conditions for strong growth that are also conducive to poverty reduction. Thus, in the interim poverty reduction strategy, the authorities aim to achieve the Millennium Development Goals (MDGs) by halving poverty levels by the year 2015. Achieving this ambitious goal requires strong and sustainable growth, especially in the agricultural sector, which is the main source of income in rural areas. The government's strategy in agriculture is to reinforce the role of the private sector by promoting security in rural areas and forging ahead with agrarian reform. Successful poverty reduction must also rely on the development of private sector savings and investment, an essential factor to increase productivity and diversification of the productive base of the economy.

3.4 Mobilization of Internal and External Resources

The fourth challenge is to mobilize internal and external resources. For over a decade, financial cooperation with the donor community was suspended as a result of, inter alia, the accumulation of arrears owed to bilateral and multilateral creditors. During this period, Burundi only received humanitarian assistance in very limited quantities compared to the needs of the country. Thanks to the progress achieved by the transition government on the interim post conflict programme, donors, especially international financial institutions, have started working with Burundi again. At the Forum of Partners for Development in Burundi, held in the Brussels in January 2004, the government emphasized the progress achieved on the political and economic fronts and presented its emergency programme, which was endorsed by donors, who made pledges amounting to 800 million US dollars. However, the donors emphasized the importance of coordinating foreign assistance. Support from the international community will depend on the government's commitment in implementing economic and political reforms to promote good political and economic governance. It is also important that the programme to demobilize ex-combatants and reintegrate conflict victims into the economic system be implemented in a satisfactory manner. To meet this challenge, the government must also forge ahead with tax reforms with a view to improving tax collection rates and fighting fraud. These reforms will help mobilize domestic resources for small and medium-sized enterprises, thus creating conditions for sustained economic growth.

IV. NATIONAL DEVELOPMENT STRATEGY

4.1 Key Elements of the Government's Strategy

4.1.1 The transition government's strategy seeks to meet the above mentioned challenges and is based on the observation that inadequate political and economic governance and worsening poverty are determining factors in the recurrent cycle of conflicts that the country has gone through in the last few years. Therefore, in 2002 and 2003, the government designed an interim post conflict programme supported by an economic recovery credit from the World Bank in August 2002 and by a post conflict facility from the IMF in October 2002. The goal of this programme was to restore the macro-economic framework and rehabilitate infrastructure. Its implementation was deemed satisfactory by the Bretton Woods institutions (BWI) and led to the design of a three-year reform programme (2004-2006) supported by a poverty reduction and growth facility (PRGF), approved by the IMF Board in January 2004. The PRGF is in line with the thrust of the interim strategic framework for economic growth and poverty reduction (I-PRSP).

4.1.2 Designed through a participatory process, the I-PRSP reflects the long-term development vision of the Government, the main objective of which is to promote strong growth and poverty reduction. The authorities have set ambitious objectives for 2015, including a minimum growth rate of 5% in 2002-2005 and over 7% in 2006-2010. With respect to education, the government intends to achieve education for all by 2015, to reduce the illiteracy rate to 10% by 2015 and infant mortality rate to 50% by 2010. To reach these goals, the I-PRSP is based on the following pillars: (i) promoting peace and good governance; (ii) reinforcing the macro-economic framework for sound growth conducive to poverty reduction; (iii) increasing access to basic social services; (iv) resettling and reintegrating conflict victims and disadvantaged groups; (v) fighting HIV/AIDS; and (vi) promoting women's participation in development.

4.1.3 Peace and Good Governance. With respect to the promotion of good governance, the government launched a series of actions in 2002-2003, including: (i) the appointment of the Minister of State in charge of good governance; (ii) the establishment of an inter-ministerial committee to promote good governance; (iii) the creation of focal points for good governance in ministries and public enterprises; (iv) the strengthening of the Inspectorate General of Finance, which will eventually become an Inspectorate General of State with more independence to monitor the use of public funds; (v) the creation of an Audit Office, whose magistrates were appointed in June 2004; and (vi) the establishment of an independent commission of inquiry for political prisoners. In this regard, the government's strategy is to reinforce consolidation of peace through actions such as maintaining domestic dialogue to achieve a permanent ceasefire, reinforcing the democratic process by organizing general elections in October 2004, and by establishing all the political institutions required by the Constitution. The government intends to continue its efforts by emphasizing capacity building to increase efficiency and accountability in the public service, refocusing the missions of the State, reforming the public service, developing human resources, and promoting social dialogue.

4.1.4 Consolidating the Macro-economic Framework and Growth to Promote Poverty Reduction. To strengthen public finance management, the government has submitted to Parliament the corrective legislation comprising new tax and customs measures seeking to improve revenue collection. The Parliament approved a fiscal management system based on monthly public expenditure commitment ceilings to reinforce budget control and fight corruption. With respect to monetary policy, the Central Bank of Burundi (BRB) has eliminated foreign exchange restrictions on current transactions and adjusted the exchange rate of the Burundi franc to the US dollar by 20%. The official exchange rates and those of commercial banks have been unified, and independent exchange bureaus were allowed to operate in April 2003. The government intends to carry out the implementation of economic and structural reforms to better clean up the macro-economic framework. The strategy consists essentially in strengthening public finance management, improving debt management by creating an environment that can help the country benefit from debt reduction facilities. On the monetary front, the government will pursue the careful monetary policy started with the interim post conflict program. The continuation of microeconomic stabilization efforts will help create conditions for sustainable growth conducive to poverty reduction, especially through the development of the rural sector and the promotion of the private sector. The strategy to support rural production activities will be implemented by promoting agriculture and stockbreeding, and actions to develop the private sector will be based on the promotion of investment and the rehabilitation of production infrastructure.

4.1.5 Developing Access to Basic Social Services. With support from development partners, including the World Bank, Belgium, and the European Union, the government initiated, in 2003, several basic infrastructure rehabilitation studies and projects in the education and health sectors. The government's strategy seeks to increase basic services in education, health, employment, social security and housing. The goal is to promote community social services of good quality, which

take into account the purchasing power of beneficiary populations. The government also intends to quantitatively and qualitatively improve sanitation services as well as drinking water distribution. In its strategy to improve the quality and accessibility of social services, the government intends to increase budget allocations for social sectors, from 6% of total budget in 2003 to 7% and 10% in 2004 and 2006, respectively.

4.1.6 Resettling and Reintegrating Conflict Victims and Disadvantaged Groups. The efforts made by the government and development partners, combined with improvements in the security situation in 2003, have helped increase the number and frequency of displaced persons and refugees returning to their areas of origin. In April 2004, some 140,000 displaced persons returned to their home areas. It should be noted that such returns started slowly and irregularly in the second half of 2002. In this regard, the priority actions retained by the government seek to support social and economic reintegration of displaced people and conflict victims. This goal is predicated on the reconstruction and rehabilitation of socio-economic infrastructure damaged by the conflicts. In an initial 18-month phase, the government intends to take care of disadvantaged and vulnerable groups, which have been affected by the conflicts, especially the handicapped, single women, orphans, and street children.

4.1.7 Fighting HIV/AIDS. On this front, a multisectoral programme to fight HIV/AIDS and to support orphans is being implemented over the 2002-2006 period, with assistance from the World Bank, the Belgian cooperation agency and UNAIDS. The measures envisaged in the interim strategic framework for economic growth and poverty reduction emphasize prevention, assistance to infected persons, capacity building for structures engaged in the fight against HIV/AIDS and the establishment of a legal framework to protect people living with the disease.

4.1.8 Promoting Women's Participation in Development. Measures will be taken to improve productive health and women's access to factors of production such as land and micro finance. In late 2003, the government approved and submitted to Parliament draft legislation on successions and matrimonial regimes, which seeks to strengthen women's rights in this area. Women make up the majority of the population and the bulk of the agricultural workforce. The government is aware that their integration into the development process is a key element in the fight against poverty. It therefore intends to support women's access to education to give value to their activities and reinforce their participation in decision-making bodies.

4.1.9 The government has made good progress in implementing the Interim Strategic Framework for Accelerating Economic Growth and Reducing Poverty (I-PRSP). It has designed a public investment programme (PIP) for 2004-2006, in line with the thrust of the I-PRSP. The PIP, which is a summary of the sectoral policies and action plans to fight poverty, also takes into account the goals of macroeconomic and financial stability. It is worth emphasizing that in May 2004, the government officially launched the process to develop the strategic framework for growth and poverty reduction. However, pursuing the efforts undertaken means not only mobilizing considerable domestic and foreign resources, but also efficient and transparent management of these resources. That is the reason why the government emphasizes economic, political and administrative reforms to promote good governance. To address this concern, the government presented an emergency programme that is in line with the objectives of the I-PRSP, in January 2004, at the Forum of Partners for Development in Burundi, held in Brussels. This program, which is a conflict-resolution strategy, is based on four pillars: (i) *capacity building for good governance*, with the ultimate objective of promoting a society which advocates peace, reconciliation, population fulfilment through an equitable strategy of resource allocation and management; (ii) *rehabilitation of victims*, which consists in responding to the massive return of refugees to their initial environment, demobilizing combatants and reintegrating street children and the many victims of the conflicts. The target population here is about 1.2 million people; (iii)

defence and security reform, with a view to gradually demobilizing ex-combatants to avoid in the fragile economic and social context prevailing in the country, that the massive return of combatants to their communities become a source of security problems; and (iv) *budget and balance of payments support*, which emphasizes the pursuit of economic and structural reforms to consolidate the macroeconomic framework, enhance competitiveness and reinforce the productive base of the economy.

4.2 Assessing the Government's Strategy

4.2.1 The government's programme was designed taking into account the specific features and needs of a post conflict country in a difficult socio-political context and the level of resources that can be mobilized in the dialogue between the government and its partners. Thus, the programme emphasizes consolidation of peace and the promotion of governance, which are the basic elements required to restore conditions for boosting the economy. A major aspect of the programme is the economic and social reintegration of the victims while respecting human rights so as to limit the risk of marginalization and frustration, which can be sources of insecurity. As a matter of fact, the involvement of grassroots communities in developing a peace culture for national reconciliation is a precondition for the country's economic and social development. By emphasizing economic and structural reforms so as to restore macroeconomic stability, enhance transparency in public resource management, rehabilitate basic infrastructure and promote the private sector, the government's programme is coherent. It is also based on a series of strategic reforms, which are indispensable for improving the management of public resources and the quality of public services. Furthermore, the programme also reflects the concerns of grassroots communities, civil society and the private sector, which had been taken into account at the end of the participative process during which the interim strategic framework for economic growth and poverty reduction was designed.

4.2.2 Inadequate capacities for formulating, implementing, and monitoring economic policies have also been taken into account. Indeed, to avoid potential slippages in programme implementation, the government intends to strengthen human and material resources so that it can assume its role efficiently in the implementation and monitoring of the poverty reduction strategy. However, given Burundi's financial situation, which remains weak compared to the need for essential imports, arrears settlement, and domestic and foreign debt payments, successful implementation of the programme is predicated on adequate support from development partners as well as efficient allocation and management of mobilized resources. This aspect is not sufficiently taken into account in programme design. As a result, despite its internal consistency, the programme is considered ambitious in trying to achieve a growth rate in excess of 7%, with effect from 2006, as well as achieving the Millennium Development Goals by 2015, given the country's weak institutional capacities, the volatile socio-political context, and problems with foreign resource mobilization.

4.3 Risks Facing the Government's Strategy

4.3.1 The main risks facing the programme include the following: (i) some of the rebels' persistence in rejecting the Arusha Accords and recurrent tensions in the East of the DRC may constitute an obstacle to the country's political stability; (ii) political and technical difficulties could impede application of the election schedule and the organization of elections, thus threatening the peace process; (iii) inadequate institutional capacities and the lack of an appropriate structure to ensure programme implementation and monitoring could undermine the pursuit of economic and structural reforms; (iv) the high mobility of government officials towards the private sector and international organizations.

4.3.2 The first risk could be mitigated by the deployment of the United Nations mission to Burundi and by the pursuit of African mediation, especially by regional heads of state who should bring the factions together to negotiate and eventually sign a ceasefire agreement to consolidate peace and revive the economy in a sustainable manner. Turmoil in the eastern part of the DRC should also be curtailed thanks to the international community's commitment to support transition in that country. With respect to the second risk, the importance given by the Heads of State of East African countries to actual implementation of the election schedule, and the support provided by donors, including the UNDP and the European Union, with respect to the organization of elections, should help mitigate the risk. Regarding the third risk, it must be remembered that before the crisis, the country had high-calibre professionals, most of whom have left the country for security reasons or in search of better opportunities. However, this risk could be mitigated by donors' commitment to support the programme of national capacity building for good governance. Implementation of this programme in the medium term will turn out greater numbers of professionals involved in economic and social policy formulation and management. Furthermore, with the consolidation of peace, the return of exiled professionals to the country will be a major factor in building national capacities. This process will be all the more important since Burundi's development partners support the government's integration and reintegration program. Finally, as far as the fourth risk is concerned, in the context of the ongoing reform of the public service, the government intends to establish a new status for public servants geared to strategic and prospective career management and a more rewarding working environment, which will help stabilize staff. Also, initiatives put forward by the various development partners as part of the national capacity building programme will help improve human resource development in the public service, thus contributing to risk mitigation.

V. SUPPORT FROM THE DONOR COMMUNITY

In addition to the Bretton Woods Institutions, Burundi's main donors are the European Union, the UNDP, and the Belgian and French cooperation agencies. With the gradual return of peace and the lifting of the embargo in 1999, the government intensified dialogue with its partners with a view to mobilizing foreign resources and finding an urgent solution to the burden of the foreign debt service. Thus, at the Paris Roundtable in December 2000, the World Bank was mandated to create a Trust Fund for multilateral debt to help the country address the debt burden. The fund was created to receive donor contributions, which will be used, among other things, to service multilateral debt, representing 44% of this total debt service estimated at 169 million dollars at end 2003. However, it must be noted that persistent political tensions have not facilitated fiscal resource mobilization and constitutes one of the factors that explains the weakness of the government's own efforts to deal with the debt service. This situation is also responsible for the low level of resources mobilized by the Trust Fund, which stands at about \$ 15 million, an amount that is much lower than the \$35 million projected. Besides, at the Brussels forum held in January 2004, Burundi's development partners noted the extent of the needs for rebuilding and jumpstarting the country's economy. In that regard, inadequate national capacities are a major constraint in promoting good governance and consolidating peace. To help Burundi address this situation, the main development partners, including the Bank, have committed to additional measures aimed at strengthening national capacities.

5.1 Bretton Woods Institutions

Relations between the Burundi government and the Bretton Woods institutions have improved since the second half of 2002. Indeed, successful implementation of the interim post conflict programme led to a formal agreement in October 2002 with the IMF, which extended a SDR 9.625 million (\$13 million) loan to the country, disbursed in May 2003. Programme implementation, which was deemed satisfactory by the Bretton Woods institutions, and the

progress achieved in the design of the interim strategic framework for economic growth and poverty reduction, adopted in March 2002 by the Cabinet, have led the IMF to support the government's reform programme through the poverty reduction and growth facility in the amount of SDR 69.5 million, which was adopted in January 2004. The first disbursement of SDR 17.5 million was made in January 2004, and the second should be made after the first review of the programme in September 2004. The World Bank has financed various operations since 2000. In June 2000, it provided Burundi with an emergency economic support credit in the amount of US\$ 54 million, of which US\$ 40 million have been disbursed. The third tranche of \$40 million should be disbursed before December 2004. The World Bank has also financed the social project amounting to \$ 30 million in the form of community project funds as well as projects to support income-generating activities (labour-intensive projects) in the amount of \$ 40 million in 2001 and 2002, respectively. Finally, the World Bank is supporting the demobilization and disarmament programme for US\$ 33 million; in January 2004, it approved an economic management support programme amounting to US \$26 million and is cofinancing a regional poverty reduction program. The World Bank's transitional strategy (2005-2007) is being formulated and should be presented to its Board of Directors in October 2004. In this context, support has been envisaged for the government's poverty reduction strategy in the form of an economic recovery credit.

5.2 Other Donors

5.2.1 European Union assistance to Burundi addresses the post conflict situation of the country and seeks to support economic recovery and poverty reduction. Since the resumption of cooperation with the country in 2000, this assistance has reached a total of € 285 million, plus the € 115 million anticipated with the ninth European Development Fund (EDF). Total disbursements of the seventh and eighth EDF (1990-2002) will amount to € 68.6 million, or about 24% of commitments. The areas targeted by European Union assistance include the following: (i) rural development which includes, in addition to the projects providing direct support to agricultural production, technical assistance to support government withdrawal from the main agricultural sectors; (ii) rehabilitation of social infrastructure to support the reintegration program; (iii) support for good governance and the rule of law to consolidate peace; (iv) budget support to social sectors (health, education, drinking water supply). Moreover, the European Union has set up a € 9.5 million specific fund to support capacity building for civil society organizations and all non-government stakeholders with a view to promoting their participation in the country's development and direct project and programme management by grassroot communities. Finally, the European Union intends to support the organization of general elections envisaged in the November 2003 ceasefire agreement.

5.2.2 With respect to UNDP, the areas targeted for action in 2005-2006 include the following: (i) poverty reduction; (ii) promotion of good governance; and (iii) the fight against HIV/AIDS. In the past (1998-2000), the UNDP provided support for capacity building in the Ministry of planning to promote macroeconomic management, providing, in particular, technical assistance in economic forecasting. The UNDP is also providing support for the formulation of a national programme to strengthen good governance. In addition, it is providing support for the formulation of a technical and regulatory framework for statistical coordination (basic legal documents and a master plan for statistical production). It has carried out an assessment of Burundi's statistical system with an action plan to build capacities in this area, and intends to support statistical production to monitor the impact of economic policies on poverty and on the Millennium Development Goals (MDGs). Therefore, the UNDP supports the efforts of the government, which has started preparing a development and forecasting plan for the next 20 years. On the political front, the UNDP has prepared a project to help organize the elections to be held in October 2004.

5.2.3 With respect to bilateral cooperation, it must be emphasized that Belgium's involvement has been reinforced tremendously since the signing of the Arusha Peace Accord in August 2000. Thus, a total amount of € 27 million has been disbursed between 2001 and 2003. The areas targeted by Belgian cooperation are the following: (i) emergency food and humanitarian assistance and rehabilitation; (ii) labour-intensive initiatives in the social sector; (iii) direct support to grassroots communities (health, education, agriculture and food security); and (iv) support for good governance (justice, reconciliation and human rights). Belgium has also contributed more than 3 million US dollars to the Trust Fund for the payment of Burundi's multilateral debt. In 2004-2005, financial support from Belgium should reach € 35 million and will be focused on trust fund contributions, balance of payments support, good governance, and assistance to the security sector. Considering of the precarious living conditions of households and the reintegration needs of displaced persons, €11 million will be invested in humanitarian, conflict prevention and civil society consolidation programmes in 2004-2005.

5.2.4 France resumed involvement in Burundi in 1999. Its assistance has focused on conflict resolution strategies by supporting the peace process, the rule of law, infrastructure rehabilitation, and the reinforcement of financial administrations as part of the post conflict programme and the government's emergency social program. The French cooperation agency also supports implementation of the interim strategic framework for poverty reduction, especially in the areas of health and rural development, by helping peasant organizations achieve food security. In 2004, France also intends to provide a € 3 million budget assistance to Burundi and a € 2 million contribution for the payment of the country's arrears to the Bank. The total amount of French involvement in Burundi has increased consistently since 1999, from € 1 million a year to € 5 million per annum in the last three years. Over the 2004-2006 period, this amount should reach € 10 million per year.

5.3 The Bank Group

Since 1974, the beginning of its involvement in Burundi, the Bank Group has approved forty-two (42) operations, including thirty-two (32) projects and ten (10) studies for a total amount of UA 242.07 million in net commitments. Out of the 42 financed operations, 30 have been completed, one is active, one was approved in July 2004, and 10 have been subjected to cancellation procedures. However, in some of the latest operations, there are outstanding invoices for contracts implemented in whole or in part before the disbursements were suspended. Since September 1999, Burundi has been under sanctions for outstanding arrears. On December 31, 2003, these arrears amounted to UA 20.3 million, or the equivalent of \$ 31.05 million. In October 2003, the Bank approved the 2003-2004 Country Dialogue Paper for Burundi, outlining its strategy for settling all arrears. In this regard, the Bank has intensified dialogue with the government and development partners, Bretton Woods institutions and the European Union, in particular, to mobilize resources for the Trust Fund. The government has met its commitments for 2003 in the amount of 6.46 million US dollars (including 3.34 million in equity funds and 3.12 million from the Trust Fund). It has also met current obligations for 2004, as well as 20% of outstanding arrears, in line with the arrears payment plan agreed under the poverty reduction and growth facility. As a result of these efforts, Burundi has been able to benefit from the initiative for post conflict countries approved in July 2004 by the Boards, which will make it possible to clear the outstanding arrears in the amount of UA 16 million, thus allowing the resumption of cooperation with Burundi. Besides, in July 2004, the Bank approved a UA 2.13 million institutional support project to build economic management capacities in the country.

Box 3. Coordinating foreign assistance

The coordination of donor interventions is carried out by the Economic and Social Policies Monitoring Committee (*Comite de Suivi des Politiques Economiques et Sociales* - REFES), which has a permanent secretariat (SP/REFES). Created in 2001 by presidential decree, the committee comprises permanent members, including the Minister of Finance, the Minister for Planning, Development and Reconstruction, the SP/REFES, and non-permanent members. The SP/REFES, which is institutionally linked to the Vice presidency of the Republic, is responsible for coordinating economic and social policies and reforms undertaken by Burundi with a view to improving economic growth and reducing poverty. The SP/REFES is also responsible for coordinating the formulation of the PRSP and the preparation of the government's economic programmes to be submitted to foreign partners.

It must be emphasized that the SP/REFES has not really carried out aid coordination essentially because of dysfunctions within the administration. Indeed, as the institution in charge of formulating the PRSP, which is the framework document outlining the country's economic policies, the SP/REFES assumes some of the responsibilities of the Ministry of Planning. In addition, many structures are involved in the coordination function, especially in the Ministry of Finance and in the Ministry of Planning and Reconstruction. Such a situation is not without problems, given the need to ensure close coordination among different stakeholders. At the request of donors, the coordination mechanism was revised to allow the Ministry of Planning to fully play its role. Thus, following the recommendations of the forum of Burundi's partners, held in Brussels in January 2004, a monitoring committee for the emergency programme, comprising donor and government representatives, was created in February 2004. Chaired by the Minister of Planning, the committee is responsible for monitoring donor commitments during the transition phase and ensuring consultation between the government and the donors for the implementation of the emergency programme. This committee will establish a permanent consultation framework for the different partners.

VI. THE BANK GROUP'S INTERIM ASSISTANCE STRATEGY

6.1 The Bank Group's Strategy:

6.1.1 The Bank Group's interim strategy, in line with its vision, will seek to support the Government's emergency programme, which focuses on promoting good governance and reducing poverty. The programme was designed in collaboration with other development partners, and focuses on the co-financing of priority actions identified by the Government under the program. These priorities are also reflected in the objectives of the interim framework for poverty reduction, whose priority objectives are included in the Government's economic reform programme, with support from the IMF's Poverty Reduction and Growth Facility. Given the massive destruction of infrastructure and production facilities (§ 3.3.2), the Government's short-term priority is to rebuild basic infrastructure as well as institutional capacity. Based on these priorities, the Bank has identified two areas for action in its interim strategy, namely, the social and infrastructure sectors. These sectors were chosen to address the need to rehabilitate basic social infrastructure while emphasizing labour-intensive techniques to reduce poverty and improve the precarious living conditions of beneficiaries. In line with the Government's emphasis on rehabilitating basic infrastructure and increasing access to social services, the agricultural sector, which is the most important sector of the economy in terms of GDP contribution and workforce employment, is not included in the Bank's interim strategy. This section introduces the Bank's medium term strategy, which is being designed for the 2005-2007 period and which could integrate this important sector of the economy after dialogue with national authorities and the other development partners.

6.1.2 Thus, a multi-sector job creation and reconstruction project has been developed to help the Government address the problems of underemployment and unemployment. In this project, job creation and training in small trades is expected to result in opportunities to create income-generating activities outside the agricultural sector. These activities will complement agriculture,

thus reducing demographic pressures on this sector. In addition, the Bank will support the national capacity building programme and the Government's efforts to implement economic reforms and promote good governance.

6.1.3 Capacity Building Support. The government's strategy in this area is part of the national programme for capacity building for good governance, comprising three components: (i) *democratic good governance* which seeks to strengthen the foundations of democracy by supporting the peace and security process, parliamentary institutions, electoral systems and decentralization; (ii) *administrative good governance*, geared towards the establishment of an efficient and responsible government by redefining the mission of Government, reforming the public service, developing human resources, promoting social dialogue and transparency in the management of public resources; and (iii) *economic good governance*, which aims to provide the country with strategic planning guidelines by strengthening institutional capacity for integrating the Millennium Development Goals into strategic planning; developing the capacity to formulate macro-economic and sectoral policies; improving tools for macro-economic management and timing of public investments. With a view to developing the private sector, this component of the programme focuses on trade and industry, job creation and the development of information and communication technologies. The Bank will provide assistance by financing the institutional capacity building project as approved by the Board of Directors in July 2004. This project was assessed in close collaboration with the main development partners involved in this area, namely the World Bank, the European Union, French development agency, Belgian development agency, and UNDP.

6.1.4 Supporting Economic Reform and Governance: The Bank's economic reform and good governance support project (*Programme d'appui aux réformes économiques et à la gouvernance — PAREG*) is part of the efforts made by the transition government since 2001 by implementing the benchmark economic management programme to restore fiscal health and lay the foundation for strong and sustainable economic growth. Despite the encouraging results achieved in the implementation of this benchmark programme and the subsequent post-conflict interim programme, Burundi's economy still faces macro-economic and structural constraints such as a weak institutional capacity, persistent fiscal deficits, increase in corrupt practices and distortions in the functioning of the economy. Consequently, the ADF will provide assistance for the Government's medium-term programme (2004-2006), with support from the IMF's Poverty Reduction and Growth Facility, to deepen the reforms undertaken and contribute to poverty reduction. Finally, given the limited resources available in the public service and the lack of governance, particularly in the administrative and economic areas, resources have been earmarked to provide institutional support to the structures responsible for developing economic and administrative good governance. The ADF grant earmarked for this goal will be used to strengthen the technical capacity of the Audit Office and the General State Inspectorate (*Inspection générale d'Etat*).

6.1.5 Supporting Job Creation and the Rebuilding of Basic Social Infrastructure: The Bank's intervention in this area is in line with the Government's priorities, which seek to support vulnerable groups by addressing the problem of unemployment and underemployment, consequences of the difficulty of the social and economic reintegration of the youngest categories of the labour force. The Bank intends to support the Government's efforts to revive economic activity by promoting employment. The Bank-financed multisectoral project, which is aligned with the economic reconstruction, will contribute to the rehabilitation of health and education infrastructure, urban roads and stormwater disposal systems. These infrastructures were seriously degraded during the crisis. The project favours the completion of works requiring a high intensity of labour in order to improve the economic situation of the population. In addition, the project seeks to mitigate the major constraints facing occupational training of small craftsmen and micro-

entrepreneurs in order to promote small business development and job creation. This objective will also help reduce youth unemployment and diversify the productive base of the economy—one of the Government's priorities. The development of small businesses will encourage workforce mobility and lessen pressure on the agricultural sector by creating complementary activities. The project will thus help create short and long-term jobs while developing the capacity of the labour force at the same time. In this context, project design and the selection of investments to implement take into account concerns relating to the level of labour intensity, the potential for job creation and direct income in the short and long terms and local resource utilization rates.

6.2 Risks Related the Bank's Strategy

6.2.1 *Fragility of the peace process both within the country and in the sub-region* is a major risk, which could hinder successful implementation of the Bank's strategy in Burundi and limit its expected impact. Indeed, the delays in the preparation of general elections, which will mark the end of the transition period in November 2004, as well as the differences that have surfaced among the different stakeholders of the Arusha Accords regarding the respect of the election schedule, could further weaken the peace process. Furthermore, persistent political tensions in the Kivu province are a threat to transition in the DRC and to political stability of the Great Lakes sub-region.

6.2.2 *Easing up on the structural reform effort* and on the effort to improve transparency in public resource management is a major risk which could hinder the implementation of reforms under the 2004-2006 programme. This easing up could stem from the fragility of the peace process and the weak institutional capacity, which are not conducive to implementing and adequately monitoring reforms. However, successful implementation of the interim post-conflict programme (2002-2003), despite the war situation and the strong social pressures, is indicative of the Government's determination to restore a sound economic base. The Government's will to consolidate peace and the proposed support from the international community should help create suitable conditions for successful implementation of the Bank's assistance strategy in Burundi.

6.2.3. *Weak institutional capacity* is another risk that could undermine the achievement of the objectives of the Bank's strategy. One of the elements that can mitigate this risk is the support provided by several development partners in the area of capacity building. This assistance fits into the national capacity-building programme for good governance and receives financial support from several donors, including the Bank, the UNDP, and the European Union, Belgian cooperation and French cooperation. The magnitude of institutional capacity weakness is one of the reasons why the Bank has chosen such areas for action. Implementation of the institutional capacity building project, approved in July 2004, should help mitigate this risk.

6.3 Financing in the Form of Loans and Grants

6.3.1 Burundi has made significant efforts by regularly paying its current obligations and part of its outstanding arrears to the Bank group. Based on this fact and taking into account the strong commitment on the part of donors to contribute to finding a lasting solution, under the post-conflict initiative, to the country's arrears vis-à-vis the Bank Group, the latter has prepared an interim strategy to guide its involvement in the country. Resources allocated to Burundi under ADX-IX amount to about UA 13.44 million, with a grant element of 3.63 million. The intervention areas targeted in the Bank's interim strategy are among the Government's priorities and were discussed with the country's other development partners. Given the significant progress made in the area of macro-economic and structural reform and the Government's determination to pursue reforms, the Bank intends to support the consolidation of these reforms. This involves reinforcing macro-economic stability, promoting good governance by helping improve transparency and efficiency in fiscal resource management. Consequently, it has been suggested that about 50% of basic

allocation, or UA 6.72 million, be earmarked for economic reforms. Grant resources amounting to UA 3.63 million will help finance the institutional capacity building component for UA 2.13 million and support good governance under the economic reform programme for UA 1.5 million.

6.3.2 To support the Government's emergency programme, it is also proposed, in conformity with the objectives of the interim Poverty Reduction and Growth Strategy Paper to fund, in the form of a loan, a reconstruction and job-creation project. This project, of a total amount of UA 9.81 million, will help rehabilitate basic infrastructure by using labour-intensive techniques and provide occupational training for small trades. This objective is in line with the Government's concerns under the emergency poverty reduction programme.

6.4. Areas Requiring Dialogue

6.4.1 The Bank will strengthen dialogue with the Government around issues that are critical for the implementation of its interim strategy, which seeks to support reconstruction and poverty reduction efforts in Burundi. During various dialogue missions, the Bank held discussions on the numerous challenges to be met, including: consolidating peace, strengthening capacity, promoting good governance, protecting the environment, land management, and pursuing reforms to revive the economy and reduce poverty. The Bank's interim strategy for the 2004-2005 period has been approved by the authorities, who highlighted the relevance of the areas targeted for the Bank's assistance. The authorities also reaffirmed their commitment to pursue economic and sectoral reforms, strengthen good governance at the political, administrative, and economic levels. The dialogue focused on the following main themes.

6.4.2 *Strengthening Cooperation with the Bank.* As it has done in the past, the Bank will continue to engage national authorities in a sustained dialogue with a view to, on the one hand, strengthening its intervention in Burundi, and, on the other hand, improving portfolio management. Through this dialogue, the Bank will also strive to closely monitor the situation to ensure that Burundi continues to honour its due payment obligations in keeping with commitments under the Post-Conflict-Country Initiative.

6.4.3 *Consolidating Peace.* The Government reaffirms its commitment to pursue the peace process, whose consolidation is an essential element of economic recovery. The signing of the ceasefire agreements in November 2003, which marked the integration of the National Council for the Defence of Democracy/Forces for the Defence of Democracy (*Conseil national de défense de la démocratie- Force de défense de la démocratie - CNDD-FDD*) into transition institutions offers some hope for a return to peace for the population, which has suffered severely from the decade-long crisis. The Government intends to pursue negotiations with a view to bringing all the stakeholders in the socio-political crisis back to the negotiating table in order to achieve definite and lasting peace (§ 4.1.3).

6.4.4 *Capacity Building and Economic Reforms.* During the I-CSP preparation mission, the Bank emphasized the importance of consolidating the progress achieved in structural reforms and macro-economic stabilization. However, such consolidation depends on the peace process and on the efforts undertaken to restore the Government's institutional capacities. The Government has reaffirmed its commitment to pursue its efforts. It reassured the mission of its determination to give priority to administrative reforms and to strengthen institutional capacities at the national level. The Government has invited the Bank to maintain dialogue in order to support its efforts in this regard. Implementation of the capacity building project, approved by the Board in July 2004, should help mitigate these difficulties.

6.4.5 *Poverty Reduction.* Based on the objectives of the Strategic framework for poverty reduction and on consultations with Burundi's development partners established in Bujumbura, the Bank has assessed the magnitude of the challenges facing the Government with respect to poverty reduction. However, the Bank is pleased with the Government's commitment to develop, as soon as possible, the full final PRSP under which the poverty reduction programmes and projects will be implemented to improve the living conditions of the population. Important macro-economic and structural reforms (consolidating the macro-economic framework, rehabilitation of the financial sector, enhancing governance, developing the private sector, improving the status of women) will be pursued and consolidated with a view to boosting economic growth and fighting poverty. The Government insisted on the need for Bank assistance in order to support the reforms envisaged under its three-year (2004-2006) programme. To support the Government's poverty reduction efforts, the Bank will strengthen dialogue with the authorities in the following areas: (i) continuing and consolidating structural reforms; (ii) land reform; (iii) managing natural resources and protecting the environment; (iv) developing catchment basins and Lake Tanganyika; (v) opening up the country; (vi) fighting underemployment and unemployment; and (vii) fighting the HIV/AIDS pandemic.

VII CONCLUSIONS AND RECOMMENDATIONS

7.1 **Conclusions.** The transition government has achieved substantial progress on the political front by strengthening national dialogue and consolidating the peace process, thus fostering a gradual resumption of cooperation between Burundi and the international community. On the economic front, the Government intends to pursue economic and structural reforms to ensure national reconstruction and lay the foundation for sustained growth. In examining the 2003-2004 Dialogue Paper on Burundi, in October 2003, the Boards had recommended that dialogue with Burundi be intensified to find a solution to the arrears problem. The Boards also recommended the formulation of an interim CSP, which would constitute a comprehensive framework for the Bank's sectoral loans and credits, after the settlement of arrears. Burundi has settled part of its arrears and continues to meet its current loan repayment obligations. An arrears settlement plan will be presented to the Boards in October 2004 as part of the post conflict country initiative. This document therefore addresses the recommendations of the Boards. Resource allocation to Burundi under ADF-IX amounts to UA 13.44 million, with a UA 3.63 million grant component. The proposed interim strategy will allow the Bank to support the Government's priority actions of rehabilitation and economic recovery. The proposed interim strategy will allow the Bank to support the Government's priority actions for rehabilitation and economic recovery. The interim strategy focuses on the following areas: (i) building institutional capacities in economic management; (ii) supporting the programme which promotes economic reform and good governance; and (iii) supporting job-creation and reconstruction. Likewise, the Bank will pursue dialogue with the Government with a view to identifying specific areas for action as part of its medium-term strategy.

7.2 **Recommendations.** In view of the above, the Boards are invited to approve the Bank's interim strategy for Burundi covering the October 2004-October 2005 period.

BURUNDI:
MACRO-ECONOMIC AND FINANCIAL INDICATORS (2000-2006)

Annex 1
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III. Years/Aggregates	2000	2001	2002	2003	2004	2005	2006
					Proj.	Proj.	Proj.

(Annual percentage change, unless otherwise indicated)

National income and prices							
Real GDP growth	-0.9	2.1	4.5	-1.0	5.1	5.3	4.5
GDP deflator	13.2	5.5	1.7	11.3	6.7	5.4	5.2
Consumer price (period average)	24.3	9.3	-13	10.3	6.4	5.2	4.7
Consumer price (end of period)	14.1	3.9	3.5	9.0	5.5	4.8	4.5
External Sector							
Exports, f.o.b (value)	-10.7	-20.2	-20.3	49.8	-30.1	36.9	2.3
Imports, f.o.b (value)	10.8	0.5	-4.2	22.8	9.9	4.4	5.2
Exports (in volume)	5.5	4.9	-19.8	40.2	-33.8	33.0	1.0
Imports (in volume)	1.7	4.3	-3.4	11.6	9.1	4.9	4.4
Terms of trade (- = deterioration)	-22.2	-21.0	0.1	-2.9	4.8	3.4	2.4
Exchange rate (Fbu/US\$, average)	720.5	830.4	931	1074	-	-	-
Real actual rate (depreciation -)	4.0	-4.9	-15.1	-17.7	-	-	-
Central Government							
Revenue and grants	32.9	12.0	7.5	9.4	9.8	10.8	11.3
Total expenditure and net lending (b. e.)	7.5	21.3	1.2	27.4	10.3	7.6	9.3
Current expenditure (excluding interest)	12.1	22.5	0.8	17.6	3.8	5.5	9.5
Money and credit							
Net foreign assets	1.3	-17.0	9.5	17.2	-1.9	1.1	2.8
Domestic credit	15.7	39.1	21.5	-5.6	20.8	6.8	5.8
Government	-19.2	24.7	-9.9	-0.1	9.2	-2.5	-2.7
Private sector	35.8	13.2	33.2	-4.0	15.3	9.6	8.7
Money and quasi-money (M2)	1.9	16.3	30.3	15.7	18.3	11.0	9.9
Velocity of money (PIB/M2, end of period)	5.3	4.9	4.0	3.8	3.6	3.6	3.6
Central bank refinancing rate	14.0	14.0	15.5	14.5	-	-	-
Borrowing rate (12 months of deposits)	12.1	13.2	13.6 ⁴	-	-	-	-
Lending rate (medium term)	15.8	16.8	20.6 ⁴	20.7	-	-	-

(In percentage of GDP)

Central Government							
Revenue (excluding grants)	19.2	20.0	20.3	20.1	19.7	19.7	19.9
Total expenditure and net lending	24.3	27.7	25.9	30.0	29.5	28.6	28.4
Primary balance	2.2	-0.8	2.2	-0.3	0.0	0.6	0.9
Overall Budget balance (on a commitment base)							
Excluding grants	-4.9	-7.2	-5.7	-9.9	-9.8	-8.9	-8.5
Including grants	-1.8	-5.2	-1.4	-5.2	-	-	-
Gross investments	6.0	7.5	9.0	10.1	11.7	12.5	12.6
Independent public investment	6.4	5.6	7.4	8.0	8.7	9.2	9.4
Independent private investment	-0.4	1.9	1.6	2.1	3.0	3.2	3.2
Gross domestic savings	-4.0	0.7	2.5	4.2	2.4	2.2	2.5
Public	0.5	-1.5	-0.2	-2.2	-1.4	0.1	0.7
Private	-4.5	2.3	2.8	6.4	3.7	2.1	1.9

(In millions of US \$, unless otherwise indicated)

External sector							
Current account balance	-70.9	-44.9	-40.7	-35.0	-60.1	-70.9	-74.1
Overall balance of payments	-29.0	-41.3	-27.1	26.7	-57.1	-60.5	-61.6
Gross official reserves (end of period)	43.3	23.8	60.1	72.8	87.9	88.8	93.3
Gross official reserves ²	4.1	2.3	5.9	5.9	6.5	6.3	6.3
Net official reserves (months of import)	2.9	1.6	2.2	2.9	2.2	2.1	2.3
Debt service/export ratio. G&S (in %)	83.1	93.0	157.4	87.1	193.9	84.6	86.0
Debt stock	1.099	1.079	1.141	1.217	1.177	1.220	1.246
Official payment arrears	92.6	148.3	181.1	167.5	-	-	-
GDP at market price (billion Fbu)	511.0	550.0	584.6	644.2	722.5	801.6	881.2

Sources: Burundi authorities and IMF estimates, February 2004

¹ In percentage of broad money, beginning of period

² End of period, in months of imports, CIF.

GDP structure, in % (1997-2005)

	1997	1998	1999	2000	2001	2002	2003	2004	2005
								Proj.	Proj.
Primary sector	54.53	54.75	53.62	51.30	51.05	50.43	49.46	48.53	48.08
Subsistence farming	44.37	45.52	44.13	42.74	42.80	42.27	41.47	40.66	40.28
Cash crop farming	3.96	3.19	3.19	2.44	2.13	2.10	2.06	2.05	2.04
Stockbreeding	3.25	3.15	3.31	3.13	3.09	3.06	2.99	2.93	2.91
Forestry	2.87	2.82	2.90	2.94	2.90	2.87	2.82	2.76	2.74
Fisheries	0.09	0.08	0.08	0.06	0.14	0.13	0.13	0.13	0.13
Secondary Sector	9.46	9.16	9.91	10.24	10.38	10.55	10.76	11.20	11.48
Industry	2.77	2.74	2.86	2.95	2.90	2.90	2.87	2.88	2.88
Agricultural manufacturing	0.48	0.44	0.49	0.47	0.43	0.43	0.43	0.43	0.42
Agro-industry	0.38	0.40	0.41	0.44	0.44	0.44	0.43	0.43	0.43
Textile and leather industry	0.48	0.51	0.52	0.56	0.57	0.57	0.56	0.57	0.57
Other industries	1.43	1.40	1.45	1.49	1.46	1.47	1.45	1.46	1.46
Handicraft	2.29	2.21	2.40	2.54	2.56	2.56	2.53	2.54	2.54
Construction	3.73	3.59	3.99	4.09	4.15	4.33	4.62	5.05	5.33
Mines and energy	0.67	0.62	0.66	0.65	0.76	0.76	0.75	0.73	0.73
Tertiary Sector	27.99	27.38	28.47	29.63	30.07	30.42	31.01	31.41	31.67
Public services	19.68	19.16	19.83	20.48	20.67	20.95	21.35	21.64	21.84
Transportation and communication	2.29	2.28	2.35	2.49	2.54	2.56	2.60	2.64	2.66
Trade	4.58	4.58	4.91	5.20	5.30	5.35	5.44	5.52	5.57
Other services	1.43	1.36	1.39	1.47	1.57	1.58	1.61	1.61	1.59
GDP at factor prices	91.98	91.30	92.00	91.16	91.50	91.40	91.23	91.14	91.23
Indirect taxes	8.02	8.70	8.00	8.84	8.50	8.60	8.77	8.86	8.77
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Burundi authorities and IMF estimates.

GOVERNMENT'S FLOW OF FUNDS TABLE (2000-2004)

Year/Aggregates	2000	2001	2002	2003	2004
				Prog.	Proj.
(In billion FBu)					
Revenue	98.3	110.2	118.4	129.6	142.4
<i>Tax revenue</i>	93.7	103.1	104.8	115.6	128.6
Income tax	20.0	28.5	29.4	31.3	29.1
Taxes on goods and services	46.8	48.7	51.9	56.8	63.9
Taxes on international trade	22.8	21.7	23.2	27.1	35.4
Other tax revenue	3.9	4.0	0.1	0.1	0.1
Property tax	0.2	0.3	0.3	0.3	0.1
<i>Nontax revenue</i>	4.7	7.0	13.6	14.0	13.7
Expenditure and net lending	124.1	149.8	151.6	193.2	213.1
<i>Current expenditure</i>	96.5	118.6	119.7	144.0	152.2
Wages	33.9	40.1	45.9	54.9	58.4
Civil	18.0	21.6	23.6	30.9	33.1
Military	15.9	18.5	22.3	24.0	25.3
Goods and services	37.9	44.2	38.6	43.0	45.8
Civil	23.3	18.4	19.2	21.5	23.4
Military	14.6	25.7	19.5	21.6	22.4
Transfers and subsidies	9.9	15.9	16.4	20.8	19.1
Payment interest (due)	14.8	18.5	18.7	25.3	29.0
Domestic	6.9	9.6	7.7	12.7	14.3
Foreign	7.9	8.9	11.0	12.5	14.8
<i>Capital expenditure</i>	31.1	35.1	33.4	55.6	64.5
Domestic resources	8.8	18.5	6.4	15.2	21.0
External resources	22.3	16.6	27.0	36.4	41.9
<i>Net lending</i>	-3.6	-3.9	-1.4	-2.4	-2.0
Overall balance (commitment base, grants excluded) of which:	-25.7	-39.6	-33.2	-63.6	-70.7
Primary balance		-4.6	12.6	-1.9	0.1
Variations in arrears (- = decrease)	7.5	7.7	9.4	1.9	-37.3
External (interest)	4.8	4.9	6.6	0.4	-32.8
Domestic	2.7	2.8	2.8	1.5	-4.5
Overall balance (cash basis)	-2.3	-31.9	-23.8	-61.7	-108.0
Financing (identified)	2.3	31.9	23.8	61.7	-109.9
<i>External</i>	19.4	17.9	41.3	58.9	-124.9
Programme loans	22.4	5.3	21.3	22.4	0.0
Programme grants		5.4	12.0	20.7	0.0
Project loans	6.4	10.7	13.9	26.7	26.1
Project grants		5.9	13.1	9.7	15.7
Depreciation	-22.0	-27.8	-42.8	-35.7	-38.0
Variations in arrears (- = reduction)	12.7	18.5	23.7	-14.2	-128.7
Debt relief (cancellation, rescheduling).	0.0	0.0	0.0	29.3	0.0
<i>Internal</i>	-17.1	14.0	-17.5	2.8	15.0
Banking sector	-16.8	23.7	-11.0	0.3	15.0
Non-banking sector	-0.3	-9.7	-6.5	2.5	0.0
Financing gap	0.0	0.0	0.0	0.0	217.9
(In percentage of GDP, unless otherwise indicated)					
Memorandum items:					
Revenue, excluding grants	19.2	20.0	20.3	20.1	19.7
Total expenditure and net lending, of which:	24.3	27.2	25.9	30.0	29.5
current expenditure	18.9	21.6	20.5	22.4	21.1
capital expenditure	6.1	6.4	5.7	8.0	8.7
Military and security spending	6.0	8.0	7.1	7.1	6.6
Overall fiscal balance (on a commitment base) grants excluded:	-4.9	-7.2	-5.7	-9.9	-9.8
Primary balance		-0.8	2.2	-0.3	0.0
Financing (net) of which:	0.5	5.8	4.1	9.6	-15.2
External	3.8	3.3	7.1	9.1	-17.3
Domestic	-3.3	2.5	-3.0	0.4	2.1
Financing gap	0.0	30.2
GDP at market prices (in billion FBu)	511.1	550.0	584.6	644.2	722.5

Sources: Burundi authorities and IMF estimates. February 2004

BALANCE OF PAYMENTS (2000-2006)

	2000	2001	2002	2003	2004	2005	2006
				Est.	Prog.	Proj.	Proj.
(In million US \$)							
Trade balance	-58.7	-69.2	-72.7	-80.8	-107.5	-101.6	-108.3
Exports, f.o.b.	49.1	39.2	31.2	46.8	32.7	44.8	45.8
including coffee	33.9	19.7	16.7	31.9	15.3	26.2	25.5
Imports, f.o.b.	-107.8	-108.4	-103.9	-127.5	-140.2	-146.4	-154.1
including petroleum products	-18.6	-16.4	-15.9	-20.1	-21.3	-20.0	-20.1
Services (net)	-36.7	-31.0	-35.7	-52.7	-53.1	-43.2	-45.7
Credit	6.1	6.9	7.7	5.2	5.8	7.9	8.1
Debit	-42.8	-37.9	-43.3	-57.9	-58.9	-51.0	-53.7
Net income	-12.8	-12.8	-14.1	-15.1	-16.9	-14.7	-14.6
Of which: interest on public debt, including IMF	-11.0	-10.2	-12.1	-12.2	-13.8	-11.4	-11.2
Current transfers (net)	37.3	68.1	81.81	113.5	117.5	88.5	94.5
Private transfers (net)	4.6	6.5	5.5	8.0	9.0	10.0	11.0
Officials transfers (net)	32.7	61.6	76.3	105.5	108.5	78.5	83.5
Current account balance (officials transfers excluded)	-70.9	-44.9	-40.7	-35.0	-60.1	-70.9	-74.1
Capital account	22.0	13.6	26.2	28.2	14.0	16.5	18.0
Project grants	22.0	7.1	14.1	9.0	14.0	16.5	18.0
Programme grants	0.0	6.5	12.1	19.2	0.0	0.0	0.0
Debt cancellation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	22.7	-4.0	-13.8	29.7	-11.0	-6.1	-5.5
Direct investment	11.7	0.0	0.0	0.0	0.0	2.0	2.0
Public loans in the medium and long term (net)	9.4	-13.1	-12.0	12.5	-10.5	-7.5	-7.0
Disbursements	39.8	15.2	34.6	45.6	23.3	25.6	28.2
Project loans	8.9	8.8	14.6	24.7	23.3	25.6	28.2
Programme loans	30.9	6.4	20.0	20.9	0.0	0.0	0.0
Depreciation (including IMF)	-30.4	-28.3	-46.6	-33.1	-33.8	-33.2	-35.1
Rescheduling of debt and arrears	0.0	0.0	0.0	27.1	0.0	0.0	0.0
Other capital	1.5	9.1	-1.8	-10.0	-0.5	-0.5	-0.6
Errors and omissions	-2.8	-6.0	1.2	3.8	0.0	0.0	0.0
Overall balance of payments	-29.0	-41.3	-27.1	26.7	-57.1	-60.5	-61.6
Financing (- = asset increase)	29.0	41.3	27.1	-26.7	-138.9	-2.8	16.1
Change in net foreign reserves C.B. (-increase.)	4.8	13.2	-5.7	-13.3	6.2	19.5	16.1
IMF (net)	-4.5	-4.4	10.0	12.5	20.0	20.4	20.5
Other reserves (net)	9.3	17.6	-15.7	-25.7	-13.7	-0.9	-4.4
Change in arrears(+= increase)	24.2	28.2	32.7	-13.4	-145.1	-22.4	0.0
Financing gap	0.0	0.0	0.0	0.0	196.0	63.3	45.6

(In percentage of GDP, unless otherwise indicated)

Memorandum items:							
Trade balance	-8.3	-10.4	-11.6	-13.5	-16.7	-14.8	-14.7
Current account balance (excluding official transfers)	-14.6	-16.1	-18.6	-23.5	-26.1	-21.7	-21.4
Current account balance (including official transfers)	-7.0	-5.2	-5.3	-6.0	-6.5	-6.1	
Gross official reserves							
In million US \$	43.3	23.8	60.1	72.8	87.9	88.8	93.3
In months of imports, c.i.f.	4.1	2.3	5.9	5.9	6.5	6.3	6.3
Net official reserves, in month of imports	2.9	1.6	2.2	2.9	2.2	2.1	2.3
Total foreign debt	169.3	182.3	182.4		0.0	0.0	
Scheduled debt service, IMF included (% exports NFG&S)	83.1	93.0	157.4	87.1	193.9	84.6	86.0
Paid debt service, IMF included (idem)	39.2	31.9	73.2	...	571.3	127.1	86.0
Nominal GDP (in US \$)	709.1	662.2	628.1	596.7	655.0	687.3	736.0

Sources: Burundi authorities and IMF estimates. February 2004

MONETARY SURVEY (2002-2004)
(In billion FBu)

Years/Aggregates	2002	2003	2004
Net foreign assets, including:	21.1	46.8	38.3
Central bank	24.4	39.3	34.3
Deposit banks	-3.3	7.5	4.0
Net domestic assets, including:	124.0	130.2	161.7
Domestic credit	199.7	198.0	226.6
State	40.9	34.5	49.2
Central government	41.7	42.0	57.0
Other State entities	-0.8	-7.5	-7.8
Economy	158.8	163.5	177.4
State-owned enterprises	5.3	4.2	4.0
Private sector	153.5	159.3	173.4
Other assets, net (assets +)	-75.7	-67.8	-64.9
Money and quasi-money	145.1	177.0	200.0
Currency	96.3	116.5	131.7
In circulation	43.0	51.5	58.2
Demand deposits	53.3	65.0	73.5
Quasi-money	48.8	60.4	68.3

Sources: Burundi Government and IMF estimates. February 2004

FOREIGN RESOURCE NEEDS (2004-2006)
(In million dollars)

Years/Sources	2004	2005	2006	Total
A. Foreign resources identified	195.5	187.6	199.0	582.1
- Exports of goods and services	38.5	52.7	53.9	145.1
- Other private services	2.7	2.9	3.0	8.6
- Net private transfers	9.0	10.0	11.0	30.0
- Official current transfers	108.5	78.5	83.5	270.5
- Official capital transfers	14.0	16.5	18.0	48.5
- Foreign direct investment	0.0	2.0	2.0	4.0
- Public loans, medium & long term	23.3	25.6	28.2	77.1
- Other capital	-0.5	-0.5	-0.6	-1.6
B. Uses	-391.4	-199.8	-190.7	-781.9
- Imports of goods and services	-199.1	-146.4	-154.1	-499.6
- Other private services	-6.9	-6.0	-6.3	-19.2
- Debt service payments	-192.7	-66.9	-46.3	-305.9
- Reserves, including IMF (increase -)	6.2	19.5	16.1	41.8
C. Financing gap (B-A)	196.0	63.3	45.6	304.9
- Programme loans and grants	79.5	-	-	79.5
- Debt relief (current mechanism)	116.5	-	-	116.5
- Residual financing need	0.0	63.3	45.6	108.9

Source: IMF. February 2004

BURUNDI: PROJECT STATUS

A. LIST OF COMPLETED PROJECTS

1. East MPANDA rural development project
2. BURAGANE rural development project
3. KAGUNUZI hydro-electric Project
4. Study on livestock development
5. Stockage de produits vivriers
6. IMBO-NORD study on project development impact
7. MOSSO sugar project
8. RUMOGE oil palm project (phase I)
9. MPANDA multipurpose project
10. Final study — Production costs phosphates MATONGO
11. GITEGA-MUYINGA and GITEGA-NGOSI road study
12. Study — Paving urban and secondary roads in BUJUMBURA
13. Rehabilitation RN3
14. Complementary study — Urban roads in BUJUMBURA
15. BUJUMBURA Shipyard
16. Construction of the RUGOMBO-BUGRAMA (BRUNDI) road
17. BUJUMBURA water supply project
18. BUJUMBURA water supply project (Phase II)
19. Sanitation in BUJUMBURA
20. Updating implementation studies for EV EU project
21. Wastewater disposal in BUJUMBURA
22. RWEGURA hydroelectric project
23. OBK regional telecommunications project
24. Agricultural credit facility
25. Credit facility
26. Education Project I
27. Feasibility study on improving education services
28. Health sector study
29. Structural adjustment programme I
30. Structural adjustment programme II

B. LIST OF ACTIVE PROJECTS

1. BUTUTSI agro-pastoral project
2. Institutional capacity building project

C. LIST OF CANCELLED PROJECTS

1. Study — Developing aquaculture and traditional fishing
2. Construction of the MAKEBUKO-RUYIGI road
3. Rehabilitation GITEGA hospital / SMI Complex
4. Developing aquaculture and traditional fishing
5. RUMOGE palm trees (phase II)
6. Education project II
7. BUJUMBURA National Public Health Institute
8. Poverty reduction project
9. BUKIRASAZI forestry project
10. Rehabilitation and development of primary and secondary roads in BUJUMBURA