

# AFRICAN DEVELOPMENT FUND



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## REPUBLIC OF BURUNDI

### ECONOMIC REFORM SUPPORT PROGRAMME PHASE I (ERSP)

## COMPLETION REPORT

GOVERNANCE, ECONOMIC AND FINANCIAL  
REFORMS DEPARTMENT

OCTOBER 2008

## TABLE OF CONTENTS

Currency Equivalents, Acronyms and Abbreviations	i-xii
Programme Basic Data Sheet	
Executive Summary	
ERSP I: Logical Framework Matrix	
<b>I. INTRODUCTION</b>	<b>1</b>
<b>II. PROGRAMME OBJECTIVES AND FORMULATION</b>	<b>1</b>
2.1. Programme Objectives and Description	1
2.2. Programme Origin and Formulation	2
2.3. Preparation, Appraisal, Negotiation and Approval	2
<b>III. PROGRAMME IMPLEMENTATION</b>	<b>2</b>
3.1. Effectiveness and Release of the Single Tranche	2
3.2. Matrix of Programme Measures	3
3.3. Programme Reporting	5
3.4. Procurement of Goods and Services	6
3.5. Sources of Finance and Release of the Single Grant Tranche	6
<b>IV. PROGRAMME PERFORMANCE AND OUTCOMES</b>	<b>7</b>
4.1. Institutional Performance	7
4.2. Economic Performance	7
<b>V. PROGRAMME IMPACTS</b>	<b>8</b>
5.1. Economic Impact	8
5.2. Social Impact	8
5.3. Gender Impact	9
5.4. Environmental Impact	9
5.5. Impact on Regional Integration	9
5.6. Impact on Governance	9
5.7. Programme Risk Assessment	10
<b>VI. PROGRAMME SUSTAINABILITY</b>	<b>10</b>
<b>VII. PERFORMANCE OF THE BANK, THE BORROWER AND THE CO-FINANCIERS</b>	<b>10</b>
7.1. Performance of the Bank	10
7.2. Performance of the Borrower	10
7.3. Performance of the Co-financiers	11
<b>VIII. OVERALL PERFORMANCE AND RATING</b>	<b>12</b>
8.1. Relevance	12
8.2. Institutional Development	12
8.3. Sustainability	13
8.4. Overall Programme Performance	13
<b>IX. CONCLUSIONS, LESSONS LEARNT AND RECOMMENDATIONS</b>	<b>13</b>
9.1. Conclusions	13
9.2. Lessons to be Learnt from the Programme	14
9.3. Recommendations	14
<b>List of Annexes</b>	<b><u>Nbre de pages</u></b>
Annex 1: Matrix of Measures	8 pages
Annex 2: Performance of the Borrower	1 page
Annex 3: Performance of the Bank	1 page
Annex 4: Overall Performance of the Programme	1 page
Annex 5: Recommendations and Follow-up Matrix	1 page
Annex 6: List of Documents Consulted	1 page

This report was written by Mr. M. I. BOUABDALLI, Principal Economist and a Consultant, following their mission to BUJUMBURA from 8 to 24 March 2008. Mr. M. MALLBERG, Economist, OSGE and Mr. M. KHOALI finalized the report following a mission to Bujumbura from 22 August – 1 September 2008. Questions on this report should be referred to Mr. G. NEGATU, Director OSGE (Ext. 2077) and Mrs. M. KANGA, Division Manager, OSGE.2 (Ext. 2251)

## CURRENCY EQUIVALENTS

At appraisal (August 2006)

At disbursement (December 2006)

UA 1 =	USD 1.45486	UA 1 =	USD 1.50773
UA 1 =	BIF 1538.82	UA 1 =	BIF 1569.73

## FISCAL YEAR

1 January – 31 December

## ACRONYMS AND ABBREVIATIONS

ADB	:	African Development Bank
ADF	:	African Development Fund
BIF	:	Burundi Franc
BRB	:	Banque de la République du Burundi (Central Bank of Burundi)
CNDD	:	National Council for the Defense of Democracy
CNRS	:	National Commission for the Rehabilitation of Victims
COMESA	:	Common Market for Eastern and Southern Africa
COTEBU	:	Complexe textile du Burundi (Burundi Textile Company)
CSP	:	Country Strategy Paper
DGDP	:	Directorate-General of Public Expenditure
EMSP	:	Economic Management Support Project
ERGSP	:	Economic Reform and Governance Support Programme
ERL	:	Economic Recovery Loan
ERSG	:	Economic Reform Support Grant
ERSP	:	Economic Reform Support Programme
EU	:	European Union
GDP	:	Gross Domestic Product
HIPC	:	Heavily Indebted Poor Countries
ICBP	:	Institutional Capacity Building Project
IDA	:	International Development Association
IGE	:	State Inspectorate General
IGF	:	General Inspectorate of Finance
IMF	:	International Monetary Fund
OCIBU	:	Burundi Coffee Board
PASG	:	Governance Structures Support Project
PBCE	:	Government Chart of Accounts and Budget
PIPC	:	Interim Post-Conflict Programme
PRGF	:	Poverty Reduction and Growth Facility
PRSP	:	Poverty Reduction Strategy Paper
SCEP	:	Public Enterprises Control Service
SDR	:	Special Drawing Rights
SIGEFI	:	Interim Public Financial Management System
SODECO	:	Société de déparchage et de conditionnement (Hulling and Packaging Company)
SOGESTAL	:	Coffee Washing Stations Management Company
SOSUMO	:	Mos Sugar Company
SP-REFES	:	Permanent Secretary for Economic and Social Reforms
TMC	:	Technical Monitoring Committee
UA	:	Unit of Account of the African Development Bank
UNDP	:	United Nations Development Programme
US	:	United States
VAT	:	Value-added Tax
WB	:	World Bank
WTO	:	World Trade Organization

## BASIC PROJECT DATA

### 1. Name of Programme: Economic Reform Support Programme

1. Number of Grant Agreement	2100150008894
2. Donee	Republic of Burundi
3. Beneficiary	Republic of Burundi
4. Executing Agency :	Ministry of Finance

### 2. Grant Data

	Estimated	Actual
1. Amount	UA7.30 million	UA7.30 million
2. Appraisal Date	July 2006	21 July-5 Aug. 2006
3. Negotiation Date	November 2006	30-31 October 2006
4. Approval Date	November 2006	7 November 2006
5. Signature Date	November 2006	23 November 2006
6. Effectiveness Date	November 2006	23 November 2006
7. Date of Supervision Mission	N.I	4- 20 December 2007
8. Date of Mid-term	June 2007	Not performed
9. Audit Mission	October 2007	Not performed
10. Government's Completion Report	December 2007	24-06-2008
11. Date of ADB Completion Missions	February 2008	8 – 24 March 2008 and 21 Aug.– 01 September 2008
12. Start-up Date	December 2006	December 2006
13. Closing Date	31 December 2007	31 December 2007

### 3. Sources of Finance

Sources of Finance	Estimated		Actual	
	Million UA	%	Million UA <sup>1</sup>	%
IMF	25.40	29.70	21.80	23.40
World Bank	41.20	48.10	40.60	43.60
ADF	7.30	8.50	7.30	7.80
EU	11.70	13.70	23.50	25.20
<b>Total</b>	<b>85.60</b>	<b>100.00</b>	<b>93.20</b>	<b>100.00</b>

### 4. Disbursement of ADB Grant

Disbursement	Estimated		Actual		Difference Million UA
	Date	Million UA	Date	Million UA	
Effectiveness	Nov.2006		16 Nov.2006		
Single Tranche	Dec. 2006	7.3	31 Dec. 2006	7.30	0.00
Total		7.3		7.30	0.00

<sup>1</sup> Differences between estimated and actual amounts are due to exchange fluctuations, except in the case of the EU, which increased the amount of its budgetary support.

## 5. Performance Indicators

1- Balance as %	0
<b>2- Time Underrun/Overrun</b>	
Slippage on effectiveness	0
Slippage on completion date	0
Slippage on last disbursement	0
Programme implementation status	Unsatisfactory
4- Completion indicator	Unsatisfactory
5- Institutional Performance	Unsatisfactory
6- Completion report	Available (24-06-2008)
7- Audit report	Available (24-06-2008)

## 6. Information on the Missions

Missions	Dates	Number of Missions	Number of Persons	Composition	Staff/ Weeks
1 Identification/ Preparation	24 May to 10 June 2005	1	2	1 Public finance Economist 1 Economist	2* 2.2 *
2 Appraisal	21 July to 5 Aug. 2006	1	3	1 Public Finance Economist 1 Programme Officer 1 Consultant Macro- Economist	2.0 2.0 2.0
3 Supervision				1 Public Finance Economist 1 Consultant Macro- economist	1.0 2.0
4 Mid-Term review	Nil				
5 Audit	Nil				
6 PCR		2	2	1 Public Finance Economist 1 Consultant	3.0 3.0

\*Identification and preparation were conducted as part of the preparation mission for the 2005-2007 CSP

## 7. Statement of Disbursements

Disbursements	Estimates at Appraisal	Actual
1 Total disbursements	UA 7.3Million	UA 7.3Million

## **EXECUTIVE SUMMARY**

### **INTRODUCTION**

1. Burundi, a country just emerging from conflict, has been implementing a package of reform programmes with support from its development partners. The Economic Reform Programme (ERSP) was prepared as a logical follow-up to the Economic Reform and Governance Support Programme (ERGSP 2004-2005). The ERSP was also in line with the ongoing dialogue with the International Monetary Fund, the World Bank and the European Union. This report reviews the execution of ERSP, draws conclusions about its implementation, and makes recommendations for improving the effectiveness of any future programmes. It was prepared on the basis of data collected at the Bank Headquarters in Tunis and in the Republic of Burundi during missions to Bujumbura from 8 to 24 March 2008 and from 21 August – 01 September 2008. The structure of the report is in conformity with the usual format.

### **PROJECT OBJECTIVES AND DESCRIPTION**

2. The aim of the Economic Reform Support Programme (ERSP I) was to reduce the macroeconomic imbalances and continue the financial and structural reforms that were necessary to stimulate sustainable growth of the economy. The programme's specific objectives were the following: i) real GDP growth of 6% in 2007 ; ii) inflation contained at 4% as from 2007 ; iii) budget deficit (excluding grants) of 22.8% of GDP in 2006 and 21.9% of GDP in 2007 ; and iv) current deficit (excluding grants) stabilized at 37.8% of GDP on average for 2006-2007. For these objectives to be met required implementation of several measures grouped around the components described in the Government's Policy Letter as follows: i) strengthening of public finance management ii) prudent application of monetary and exchange rate policy ; iii) State withdrawal from economic sectors and the development of the private sector ; and iv) promotion of employment to reduce poverty.

### **SOURCES OF FINANCE AND RELEASE OF GRANT TRANCHES**

3. Estimated financing for the programme was UA 85.6 million, or USD124.6 million. The amount effectively disbursed for the programme was USD 93.2 million. The ADF grant, backstopped with balance of payments support, was disbursed in a single tranche of UA7.3 million (USD10.6 million). The total amounts of funding effectively contributed by the other development partners stood at UA85.9 million, including UA40.6 million by the World Bank, UA23.5 million by the European Union (EU) and UA21.8 million by the International Monetary Fund (IMF).

### **PROGRAMME IMPLEMENTATION**

4. The Grant Agreement was signed on 23 November 2006. The grant became effective the same day as the five (05) specific conditions and general conditions for the disbursement of the single tranche of UA7.3 million had been met.

5. On the whole, the implementation of the programme was unsatisfactory. The matrix of measures shows that, out of the forty measures envisaged in the programme, fourteen were completed fully, fourteen are currently being implemented and fifteen were

unimplemented. The measures currently under implementation have reached an advanced stage and so can be counted among those that have been completed. The two categories taken together give an overall implementation rate of 62.5 %. Under Component A: ‘Strengthening Public Finance Management’, eight measures are ongoing while eight others have remained unimplemented. Under Component B: ‘Support to Private Sector Development’, three of the envisaged measures were completed, ten are being implemented and seven were unimplemented. The implementation by component and sub-component is detailed in Annex1.

## OVERALL PERFORMANCE

6. Despite the fact that the implementation of the programme was unsatisfactory, there was an improvement in the average level of macroeconomic indicators in 2006-2007 over the two previous years. These commendable macroeconomic results were due, in part, to the programmes implemented by other donors, including the IMF and the World Bank, and the favourable economic conditions. This underlines how crucial it is to strengthen coordination among donors in terms of the way they provide and implement their support programmes. That said, however, we need to recognize that the results obtained are still fragile as can be seen from the poor performance recorded in 2007. The Government must take continuous action, on a massive scale, to pursue its reform programme. Finally, based on the ratings received for the selected criteria the overall performance of the programme is deemed to be unsatisfactory for several reasons: i) the large number of measures (40) planned for a single year; ii) the measures varied in terms of the degree of complexity and the type of challenges posed to their implementation; iii) some of the measures as formulated, lacked clarity; iv) the pre-conditions for the implementation of some of the measures were not taken into account; v) the country’s institutional weaknesses; vi) political instability in the country in 2007 (cabinet reshuffles and parliamentary stalemate); vii) poor Bank monitoring; viii) programme monitoring was difficult because of the large number of performance indicators which did not take account of the country’s weak statistical system and the fact that certain indicators did not come with benchmarks; ix) lack of coordination within the national structures monitoring the programme; and x) poor coordination with the other development partners. The final rating for overall performance is 1.4<sup>2</sup>.

## CONCLUSIONS

7. Even though, in macroeconomic terms, the implementation of ERSP I was generally satisfactory in 2006 and 2007, this performance falls short of the objectives of the Poverty Reduction Strategy (PRS) and the implementation of the programme, overall, is unsatisfactory. Apart from political instability in the country in 2007, the weakness of human capacities is a major handicap to the implementation of all the programme-related measures. As a result, the economy continues to show weaknesses and it is doubtful that it can generate sustained growth that will help achieve the MDGs and reduce poverty significantly. For this reason, and in order to consolidate the gains from the reforms applied so far and heighten their impact on the incidence of poverty, the Government of Burundi should make sure that it forges ahead with public finance reform and measures to develop the private sector. To obtain better results, the new reform programme must be better targeted, the related measures should be better defined, with due account taken of their degree of complexity and the conditions that would need to be fulfilled before they could be implemented. Similarly, the country’s institutional weaknesses must be taken into consideration and the Bank should ensure better programme monitoring.

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<sup>2</sup> The ratings used are: 1) Highly Unsatisfactory; 2) Unsatisfactory; 3) Satisfactory; 4) Highly Satisfactory

## LESSONS LEARNT

8. From the design and implementation of this programme, five main lessons were learnt: i) in a post-conflict situation, it is better to opt for a multi-year and multi-tranche financing approach; ii) reform programmes and measures must be well-targeted and designed together with other donors and with the Government; iii) measures should be chosen with due consideration to their degree of complexity and the country's institutional capacities; iv) reform programmes must be accompanied by appropriate institutional support and targeted technical assistance; and v) the Bank must carry out regular monitoring of programme implementation.

## RECOMMENDATIONS

### 9. For the Bank, it is recommended to:

- i) continue to support economic reforms in Burundi, especially those that aim to reduce poverty and improve governance, and improve coordination with other donors, particularly by joining the Partnership Framework and drawing up multi-year and multi-tranche programmes;
- ii) be more visible on the ground when the next structural reform programmes are being implemented. In particular, the Bank's Field Office in Rwanda should play a more active role in programme monitoring and in the review meetings of the Partnership Framework;
- iii) prepare a more targeted reform programme, formulate the measures with greater care, and take more account of their complexity and the preconditions for their implementation; also, be more mindful of institutional weaknesses and identify appropriate synthetic indicators that will enable proper monitoring of the programme outcomes and evaluation of its performance; and
- iv) provide technical and financial assistance to the Government to implement a new reform programme backstopped by specific financing for institutional capacity building and suitable technical assistance.

### 10. For the Borrower:

- i) consolidate macroeconomic stabilization and continue with ongoing reforms, particularly those meant to improve public finance management and promote the private sector;
- ii) strengthen coordination of the implementation of reforms within the Government;
- ii) establish a hierarchy of objectives; concentrate on reforms and key measures and continue with the medium-term programming strategy, in particular, by introducing a three-year rolling programme of priority actions;
- iv) establish an institutional framework for monitoring and evaluating reforms.

**ECONOMIC REFORM SUPPORT PROGRAMME (ERSP)**  
**RESULTS-BASED LOGICAL FRAMEWORK**

Country : Republic of Burundi  
Date of Recap : August 2006  
Design Team : Mr. A.A. BA, Country Economist ORWB and a Consultant Macroeconomist

Hierarchy of Objectives	Expected Results by Component and Related Themes	Reach	Performance Indicator Source and Method	Indicative Timeframe for Achievement of Objectives	Assumptions/Risks	Trend of Indicators from 2004 to 2007
Sector Goal/Theme	Sector/Theme Long-term Outcomes	Beneficiaries	Indicators Long-term Outcomes	Target Indicators and Time Frame		
Support conditions for sustainable growth as set out in the PRSP	<ul style="list-style-type: none"> <li>- Decrease in the incidence of poor economic and financial management</li> <li>-The private sector contributes more to GDP</li> </ul>	Burundi's population	<ul style="list-style-type: none"> <li>i) Achieve minimum 6% growth in 2007</li> <li>ii) A modern, updated framework for the private-sector is put into place (Investment Codes, Code of Commerce, bankruptcy law)</li> </ul> <p><u>Source</u> : Country statistics, reports of internal and external control institutions ; reports of the</p>	<ul style="list-style-type: none"> <li>i.i) Improved economic and financial management by 2007</li> <li>i.ii) By end-2007, public spending has a greater impact on growth and poverty reduction</li> <li>ii) Increased inflow of private foreign direct investment to the country and greater development of the country's private sector as from end-2007</li> </ul>	<ul style="list-style-type: none"> <li>- A tenuous socio-political stability in the country</li> <li>- The country's institutional capacities are weak ;</li> <li>- Burundi's economy is vulnerable to external shocks and climate conditions that particularly threaten its main crops (coffee, tea and cotton)</li> </ul>	<ul style="list-style-type: none"> <li>i.i) Real GDP growth : 6.1% in 2006 ; 3.6 % in 2007; Budgetary balance excluding grants: -19.4 % of GDP in 2006 and -22. 7% of GDP in 2007 against a target of 22.4% of GDP for the period; External current deficit excluding official transfers: 35.6% of GDP in 2006 and 37.5% of GDP in 2007 compared to a target of 37.8% of GDP.</li> <li>i.ii) Limited impact due to dip in GDP growth in 2007 ; 68 % of the population living below the poverty line in 2006 (HDI)</li> <li>ii) Foreign direct investment: 15 million USD in 2006 and 11.6 million USD in 2007 – Private investment: 8% of GDP in 2006 and 8. 9% of GDP in 2007</li> </ul>

Hierarchy of Objectives	Expected Results by Component and Related Themes	Reach	Performance Indicator Source and Method	Indicative Timeframe for Achievement of Objectives	Assumptions/Risks	Trend of Indicators from 2004 to 2007
			Chamber of Commerce, Industry and Agriculture, Programme review reports by the Bretton Woods Institutions			
1. Increase transparency and budgetary discipline	<p>1.1 Budgetary management is computerized at every one of the four stages of the expenditure chain (commitment, validation, authorization and payment)</p> <p>1.2 The independence of the control organs is strengthened</p> <p>1.3 The Medium</p>	<p>- People of Burundi</p> <p>- Finance Committee of the two Houses of Parliament and the Court of Audit, as well as IGF/IGE</p> <p>- The social ministries</p>	<p>1. i) The expenditure chain is reduced by at least half.</p> <p>1.ii) he uniform system of State is restored</p> <p>1.iii)The performance of Ministries that adopted the Medium Term Expenditure Framework, measured by the performance evaluations by the Court of Audit</p> <p><b>Source :</b> Report of the Reforms Monitoring Committee at the Ministry of Finance, Programme review reports and audit reports by Court of Audit</p> <p>v) Reduction in the time it takes to prepare and process public</p>	<p>1.i) The number of commitments and authorizations per week increased by 15% in 2006 and 25% in 2007</p> <p>1. ii) By 2007, the number of Treasury accounts in commercial banks is reduced to a minimum.</p> <p>.iii) As from 2006, quarterly budgetary reports are transmitted regularly to the Court of Audit and the Finance Committee as well as the two Houses of Parliament</p> <p>1.iv) A review of public finance management jointly conducted by Government /development partners was performed before end-2007</p>		<p>1.i) Not available</p> <p>1.ii) 128 accounts were closed in 2006-2007</p> <p>1.iii) Reports were prepared and forwarded regularly</p> <p>1.iv) Not conducted</p> <p>1.v) Not available</p>

Hierarchy of Objectives	Expected Results by Component and Related Themes	Reach	Performance Indicator Source and Method	Indicative Timeframe for Achievement of Objectives	Assumptions/Risks	Trend of Indicators from 2004 to 2007
<p>2. Improving the quality of public expenditure</p>	<p>Term Expenditure Framework is operational in the social ministries and the Agriculture Ministry</p> <p>1.4 Greater transparency of public procurement</p> <p>2.1 The structure of public expenditure reflects the priority actions being taken by the Government to combat poverty</p>	<p>(Education, Health) and the Agriculture Ministry</p> <p>- economic operators - bidders and winners of public contracts</p> <p>- Vulnerable social groups (women and children)</p> <p>- The private-sector</p> <p>idem</p>	<p>procurements tender documents</p> <p>v) Increase in the number of public procurement audits, which were, hitherto, virtually non-existent.</p> <p>2. i) Pro-poor spending in relation to total budgetary expenditure increases in 2006 and 2007 compared to 2005 and 2006 respectively.</p> <p><b>Source:</b> Performance evaluation report of the Court of Audit, Report of the ad hoc HIPC Committee and the programme review report.</p> <p>3.i) The new Investment Code, Commerce Code, Labour Code and the Private and Public Enterprises Code are available and can be consulted</p> <p><b>Source :</b> Ministry of Finance, Ministry of Trade and Industry, Chamber of Commerce and Industry of Burundi</p>	<p>1.v) 40% reduction in bad management practices as from 2007</p> <p>1.vi) Average time it takes Budget-Financial Control to process and approve public procurements is shortened from 6 days in 2005 to 4 days by 2006, 3 days by 2007</p> <p>1.vii) Public procurement audits increase 25% by 2007 and 50% in 2008</p> <p>2. i) By 2006 increase of 10% and 5% in expenditure on Education and Health respectively.</p> <p>2.ii) The share of pro-poor expenditure in the Budget rises from 33.6% in 2005 to 35.5% in 2006 and 2007</p> <p>3.i) By end-2007, the number of new enterprises per year has increased</p>		<p>1.vi) Not available</p> <p>1/vii) Not available</p> <p>2.i) Not available</p> <p>2.ii) Done: 36% in 2006 and 38% in 2007</p> <p>3. i) Not available (Difficult to know the enterprises that were effectively established without seeing the files from the Tax Office and those from the Trade Registry).</p> <p>3.ii) Not available</p>
<p>3. Promoting the development of</p>	<p>2.2 From now on, the impact of public spending on</p>					

Hierarchy of Objectives	Expected Results by Component and Related Themes	Reach	Performance Indicator Source and Method	Indicative Timeframe for Achievement of Objectives	Assumptions/Risks	Trend of Indicators from 2004 to 2007
private small and medium enterprises , source of employment creation	<p>vulnerable groups in the society is one of the criteria for allocation of public funds</p> <p>3.1 The Investment Code has been revised, and the Labour Code and the Code of Commerce were prepared</p> <p>3.2 The Investment and Export Promotion Agency is in place and comprises a single window for economic operators</p> <p>3.3 The Private and Public Enterprises Code has been updated.</p> <p>3.4 The Centre</p>	<p>idem</p> <p>idem</p> <p>idem</p> <p>Burundians of working age</p>	<p>3.ii) The law on the national employment policy is adopted</p> <p><b>Source</b> : The National Gazette of the Republic of Burundi</p>	<p>3.ii) Gross investment rate in the private sector increases from 4.2% in 2005 to 6.5% in 2006 and 8.0% in 2007</p> <p>3.iii) Starting from 2007, at least 30% of trade disputes are settled by the Centre for Arbitration</p> <p>3.iv) By 2007, the Government has adopted the regulations for the law on the national employment policy</p> <p>3. v) By 2007/2008 the provisions of the law on employment policy are being applied in all sectors of the economy.</p>		<p>3.iii) Not available</p> <p>3.iv) Not done</p> <p>3.v) Not done</p>

Hierarchy of Objectives	Expected Results by Component and Related Themes	Reach	Performance Indicator Source and Method	Indicative Timeframe for Achievement of Objectives	Assumptions/Risks	Trend of Indicators from 2004 to 2007	
	<p>for Arbitration is strengthened</p> <p>3.5 There has been a strengthening of the trade tribunal</p> <p>3.6 Work has begun on the study on the investment climate</p> <p>3.7 The legal framework for the labour market is modernized and more attractive</p>						
Activities/Resources	Short term results	Beneficiaries	Indicators Short term results	Target indicators and timeframe			
<ul style="list-style-type: none"> <li>- Signing of the Grant Agreement</li> <li>- Adoption of legislative and regulatory texts (Laws, Decrees, Orders, Ordinances, and Circulars)</li> </ul>	<ul style="list-style-type: none"> <li>- Programme implementation is effective and is in compliance with the provisional schedule and Bank rules and procedures</li> </ul> <p><b>Source of Finance : UA</b></p>	-The people of Burundi	<ul style="list-style-type: none"> <li>- Number of reform measures being implemented at mid-term review and at the end of programme implementation.</li> </ul> <p><b>Source :</b> -Audit report on the special account, Programme implementation monitoring report</p>	<ul style="list-style-type: none"> <li>- 50% of the measures are being applied by mid-term review</li> <li>- 90 to 95% of measures are being applied by the end of the programme</li> </ul>		<p>Not available (No mid-term mission)</p> <p>62.5% completed or in the process of implementation.</p>	<p><b>Source of Finance: UA million</b></p>

Hierarchy of Objectives	Expected Results by Component and Related Themes	Reach	Performance Indicator Source and Method	Indicative Timeframe for Achievement of Objectives	Assumptions/Risks	Trend of Indicators from 2004 to 2007	
Monitoring, evaluation and supervision - Audit of the special account	<b>million</b> ADF : 7.3 WB : 41.2 IMF : 25.4 EU 11.7 <hr/> Total 85.6					ADF 7.3 WB 40.6 IMF 21.8 EU 23.5 <hr/> Total 93.2	

## **I. INTRODUCTION**

1.1 Social and political unrest in Burundi for almost a decade led to a general deterioration, with a widespread deterioration of the country's economy. There was a sharp decline in many of the macroeconomic indicators, such as GDP per capita, the overall investment rate and external aid in relation to GDP between 1993 and 2001 while the country's external debt increased during the same period. The socio-political situation started to improve as from 2001 when the institutions needed for the transition, especially the Government and Parliament, were put into place and several economic programmes, supported by the main development partners, were prepared and carried out over the 2001-2007 period.

1.2 It was against this background, and after a long period of suspension of its operations in Burundi, that the Bank during the 2004-2007 period, financed the Economic Reform and Governance Support Programme (ERGSP 2004-2005) and the Economic Reform Support Programme (ERSP I 2006-2007). These operations were intended to support efforts being made by the Government in the context of the 2004-2006 Economic Reform Programme<sup>6</sup> and the 2006-2008 Government Economic Programme (PEG).

1.3 The present report reviews the implementation of ERSP I, draws conclusions regarding the manner of its implementation, and makes recommendations for improving the effectiveness of future programmes. It is based on data available at the Bank's headquarters in Tunis and information gathered in the Republic of Burundi during missions to Bujumbura from 8 to 24 March 2008 and from 21 August to 1 September 2008. The report structure is in conformity with the standard format.

## **II PROGRAMME OBJECTIVES AND FORMULATION**

### **2.1 Programme Objectives and Description**

2.1.1 In keeping with the orientations of the full-fledged Poverty Reduction Strategy Paper (PRSP) adopted by the Government in 2006, the Economic Reform Programme (ERSP I) sought to reduce macroeconomic imbalances and continue with the financial and structural reforms needed for sustainable economic growth recovery. Underpinning the attainment of this goal were the following specific objectives: i) improving economic growth to achieve real GDP growth rate of 6 % in 2007 ; ii) bringing inflation down to 4% as from 2007 ; (iii) reducing the overall budget deficit (excluding grants) from 22.8 % of GDP in 2006 to 21.9 % of GDP in 2007; and (iv) maintaining the current deficit (excluding grants) at 37.8 % of GDP on average in 2006-2007. For these objectives to be achieved, several measures needed to be undertaken under the components described in the Government's Policy Letter: i) strengthening public finance management; ii) prudent application of monetary and exchange rate policy ; iii) State disengagement from economic sectors and development of the private sector ; and iv) the promotion of employment to reduce poverty.

2.1.2 The Bank is providing support towards the implementation of measures under the following components : A) Strengthening Public Finance Management, which has four sub-components : (i) modernization of the legal and institutional framework ; (ii) reform of procedures for preparation of the National Budget ; (iii) improvement of the impact of budgetary and expenditure management on poverty reduction ; and iv) strengthening internal

and external control of public finance management ; and B) support to private-sector development, and its four sub-components : (i) strengthening of the legal and regulatory framework for business; improvement of the investment climate; (ii) State disengagement from the productive sectors; and (iii) the establishment of an institutional framework that promotes employment creation.

## **2.2. Programme Origin and Formulation**

2.2.1 Following on from the Economic Reform and Governance Support Programme (ERGSP), ERSP I constituted a second stage in the Bank's commitment to Burundi after several years of suspension of its cooperation with the country. It was initiated at a time when the newly elected authorities, with the support of the international community, established the ideal conditions for peace building and economic growth recovery. It was part of this general resumption of operations by the development partners that the Bank, together with the Government and donors, in particular the Bretton Woods institutions and the European Union, targeted its support and drew up its programme.

## **2.3 Preparation, Appraisal, Negotiation and Approval**

2.3.1 Identification of ERSP I took place during the dialogue mission in connection with the 2005-2007 CSP. The preparation mission lasted from 24 May to 10 June 2005. The programme was appraised from 21 July to 5 August 2006 by a team of three experts that included a country Economist. Negotiations on the Grant Agreement were held at the Temporary Relocation Agency in Tunis from 30-31 October 2006, and focused mainly on the procedures for procurement of goods and services, disbursements and the Grant conditions. The grant of UA7.3 million was approved on 7 November 2006 by the Board of Directors of the African Development Fund on 7 November 2006.

# **III PROGRAMME IMPLEMENTATION**

## **3.1 Effectiveness and Release of the Single Tranche**

3.1.1 The Grant Agreement was signed on 23 November 2006, and the grant became effective the same day after fulfilment of the five specific conditions for the release of the single tranche of UA7.3 million as well as the general conditions. The specific conditions were the following: (i) evidence of the opening of a special foreign exchange account with the Bank of the Republic of Burundi, intended to receive exclusively the resources of the ERSP Grant; (ii) submission to the Fund of the budget implementation reports for the first two quarters of 2006 based on the statements of SIGEFI operations (credits opened, commitments, validations, authorizations and payments); (iii) provide evidence of the adoption of the draft revised Public Procurement Code by the Council of Ministers; (iv) submit to the Fund the detailed 2006-2008 plan adopted by the Government, for the implementation of reform of the coffee sector, with special emphasis on the treatment of sector debt and the establishment of an appropriate regulatory and institutional framework for the liberalized and privatized sector ; and (v) furnish the Fund with evidence that the Government has commenced payment of its arrears owed to the private sector, (as confirmed by the independent audit), within the limits of the budgetary allocation for 2006 and consistent with the strategy agreed with the IMF. Clearly, these were quite easy conditions and facilitated the release of the entire amount of the grant.

## 3.2 Matrix of Measures

3.2.1 The matrix comprised twenty (20) measures under its Component A: ‘Strengthening Public Finance Management’ and twenty (20) under Component B: ‘Support to Private-Sector Development’. The implementation of the programme measures is unsatisfactory. Indeed, out of the forty (40) measures, eleven (11) were fully implemented, fourteen (14) are ongoing and fifteen (15) were unimplemented. The ongoing measures are at an advanced stage and so are, to all intents and purposes, completed. Taking these two categories together gives a global programme implementation rate of 62.5 %. Under Component A: ‘Strengthening Public Finance Management’ eight (08) measures were completed, four (04) are being implemented and eight (08) were unimplemented. Three of the measures under Component B: ‘Support to Private-Sector Development’, have been fully completed, ten (10) are being implemented and seven (07) were unimplemented. Implementation by component and sub-component is detailed in Annex 1 and summarized in the following paragraphs.

### A. Strengthening Public Finance Management

3.2.2 **Modernize the Legal and Institutional Framework.** The objective under this sub-component was to redress the weaknesses in the financial management framework, which dates back to 1964. The only measure envisaged in this connection is currently being implemented, and that is the adoption by Parliament of the draft organic law on public finance, planned for end-2006, a probable delay of over a year compared with the initial estimates.

3.2.3 **Reform the Procedures for the Preparation of the National Budget.** The aim under this component is to further rationalize the budget preparation process and make it more comprehensive. Six (06) measures were planned to help achieve this goal. Three (3) of them were implemented, namely: i) inclusion in the national budget of all Burundi’s domestic income as well as all foreign aid and associated expenditures. The measure was implemented by consolidating the ordinary budget and the investment budget in the 2008 Budget Law; ii) improving the budget preparation process by incorporating the macroeconomic framework upstream and indicating the budget being targeted with outcome indicators. This measure was, in turn, carried out through the implementation of a decree defining the contents of the Budget Framework Letter and introducing credit ceilings for sector ministries when preparing the 2009 budget ; and iii) a definitive end to the proliferation of special bank accounts, except for a few expressly agreed with the IMF ; and a single Treasury account. This measure was carried out with the closure of over 128 accounts in 2006-2007. The process is expected to be over before end-2008.

3.2.4 **Improve Budgetary Management and the Impact of Expenditure on Poverty.** The objective under this sub-component is to ensure transparency of budget management and improve the quality of spending. Six measures were planned to achieve this objective. Three (3) of them were implemented, namely: i) approval by the Ministry of Finance of the action plan for the improvement of tax administration and preparation for the introduction of VAT; ii) prepare a more pro-poor budget by ensuring the 2007 Budget submitted to Parliament includes more substantial allocations in favour of the poor in relation to the total budget compared to 2006, and in line with the PRSP objectives ; and iii) prepare and submit a new Tenders Code to Parliament. One measure is currently being implemented concerns the report on expenditure on poverty reduction and HIPC-related spending that is to be prepared

and submitted to the committee set up for that purpose. Two measures were not implemented: (i) complete the drafting of the Budgetary and Accounting Procedures Manual; implementation of this measure is subject to the adoption of the new organic law on public finance; and (ii) introduce a simplified cost accounting system in the departments responsible for public procurement. A significant fact is that among the measures that were implemented, the new Procurement Code was promulgated on 4/2/2008, one year behind schedule mainly as a result of political factors. The new code is expected to become operational in October 2008.

### 3.2.5 **Strengthen Internal and External Control of Public Finance Management.**

This sub-component sought to achieve better management of public finance and combat economic and financial misappropriation. Out of the seven (7) measures planned to help achieve this objective, two (2) were implemented during the programme: i) Submit the 2005 accounts audited by the Court of Audit to Parliament (December 2006); and ii) Submit the 2006 accounts audited by the Court of Audit to Parliament (December 2007). The measure relating to the strengthening of the operational capacities of the IGF/IGE is currently being implemented. Three measures were not undertaken: (i) introduction of internal control in the key ministries that deal with financial matters and strengthening of their capacities; (ii) formalizing coordination between all structures involved in control; and (iii) establishment of organs within both the executive and legislative arms to monitor application of recommendations in the reports of the IGF/IGE and the Court of Audit.

## **B Support to Private-Sector Development**

3.2.6 **Strengthen the Legal and Judicial Framework for Business.** The expected outcome from this sub-component was that it would promote development of small and medium enterprises. This objective came with nine (09) related measures. Out of the nine, six (06) are being implemented, including two (02) measures relating to the Commercial and Private Companies' Codes. It is expected that the texts relating to these Codes will have been finalized and forwarded to Parliament for adoption before the end of 2008. The only measure that has been fully completed is the implementation of the private-sector arrears clearance strategy. Lastly, two measures were not implemented: i) establishment of the Investment and Export Promotion Agency (APIE) that was to have had a Single Window to provide all services required by private economic operators; ii) updating of Order No. 05/VP/03 of 31/10/2003 appointing the members of the tripartite consultative committee comprising public and private sectors and consumers, and its entry into force. Among the measures implemented under this sub-component, one was of particular importance, and that was the clearance of private sector arrears, which was a condition for release of the grant. The global amount of the different payments effected is not stated. Nevertheless, all debts below BIF100 million have been paid; those higher than BIF100 million will be converted into securities and this process is already underway.

3.2.7 **Improve the Investment Climate.** The aim here was to make it more attractive to invest in, and do business in Burundi. Two (2) measures planned to this end look at the investment climate and assess the application of any recommendations from that study. Action is being taken on these measures and the provisional report is currently being considered by the Government.

**3.2.8 State Disengagement from the Economic Sectors.** The aim under this component was to reduce the relative importance of public enterprises in the economic sectors. Four (04) measures were to have been implemented but only one was carried out. Three measures were not implemented, including the sale of 50% of the coffee washing stations. This last measure would be possible only if there was a privatization strategy, and one has yet to be defined.

**3.2.9 Establish an Institutional Framework conducive to Employment Creation.** The aim under this sub-component was to promote employment creation within an appropriate judicial framework and five measures were planned towards that objective. Two (02) of them are yet to be implemented: (i) formulation of a national employment policy; and (ii) adoption and implementation of the provisions of the national employment policy. Three (03) measures are under implementation: establishing and ensuring the operation of the National Observatory of Employment and Training (ONEF), adopting the new Labour Code and building the operational capacity of the departments whose functions cover employment creation.

**3.2.10** Overall, programme implementation performance was unsatisfactory for several reasons : (i) the large number of measures (40) that were scheduled for one single year ; (ii) the measures were of varying degrees of complexity and importance; (iii) the way that some of the measures were formulated was not specific enough ; (iv) the fact that due account was not taken of the fact that some of the measures depended on the prior implementation of other measures; (v) the country's institutional weaknesses; (vi) political instability in the country in 2007 (cabinet reshuffles and parliamentary stalemate); (vii) weak Bank monitoring; (viii) the programme could not be monitored properly because there were too many performance indicators in relation to the statistical resources available and no benchmarks were fixed for some indicators making it impossible to monitor the programme properly ; (x) lack of coordination within the national structures monitoring the programme; and x) weak coordination among development partners.

**3.2.11** Budget discipline was relaxed in 2007 leading to the deterioration of some macroeconomic indicators, and showing that the performance of Burundi's economy is fragile and the reforms started must be continued. All the programme measures are complementary, which means that the programme goals cannot be achieved unless all measures are implemented. It is to be noted that some of the measures, those relating to institutional capacity building, in particular, are included in the programme but the programme has no specific financing earmarked for them. This shows how important it is for reform programmes to operate in tandem with institutional support in the country.

### **3.3 Programme Reporting**

**3.3.1** The quarterly reports and status implementation reports envisaged in the appraisal report were not prepared and forwarded to the Bank. The Bank received an audit report, which included the completion report.

**3.3.2** The Bank, on its part, produced only one supervision report at the end of the programme implementation. Lastly, looking through the programme archives, there seems to have been practically no exchange of correspondence and documents between the Bank and the development partners during the programme implementation; this is a clear sign of poor coordination, another area where programme monitoring was defective.

3.3.3 In fact, the monitoring of ERSP was poorly coordinated. Monitoring of Component A ‘Strengthening Public Finance Management’ was carried out by the ‘Partnership Support Unit’ at the Ministry of Finance and Development Cooperation while the Permanent Secretariat for Economic and Social Reform (SP-REFES) was responsible for monitoring Component B: ‘Support to Private-Sector Development’. However, SP-REFES suffered somewhat as a result of a number of weaknesses at appraisal: (i) the appraisal report did not specify clearly the practical modalities for strengthening public finance, in particular, improvements to the quality and quantity of material (equipment) or human resources; and (ii) the frequency and regularity of meetings of the Inter-Ministerial Technical Committee. These shortcomings would later be mitigated through greater technical assistance from the Bank during the different phases of the programme, in general, and during its implementation in particular.

### **3.4 Procurement of Goods and Services**

3.4.1 The ADF grant was used to finance imports of eligible goods and services. The appraisal report had envisaged three methods of procurement for goods and services: (i) all imports of goods and services by the private sector or commercial public enterprises would be governed by business standards in use in Burundi and acceptable to the Fund; (ii) procurement of public sector imports of a total value equal to or lower than UA 1 000 000 would be done through international shopping.

3.4.2 In practice, however, only the first procurement method, was used. All goods procured with ADF funds were obtained through direct negotiation by the private sector in accordance with business practices in Burundi and acceptable to the Bank. Based on the information supplied by the permanent Secretariat responsible for monitoring the programme, all imports were from the Bank member countries. Petroleum products accounted for 46 % of imports. The audit report was forwarded to the Bank.

### **3.5 Sources of Finance and Release of the Single Grant Tranche**

3.5.1 Estimated financing for the programme was UA 85.6 million, or 124.6 million US dollars. Burundi’s main development partners, in particular the World Bank, ADB and EU, were chosen to finance the programme. In total, UA93.2 million was disbursed for the programme. The ADF grant, effectively disbursed in a single tranche, amounted to UA 7.3 million or 10.6 million US dollars.

3.5.2 The effective financing provided by the other development partners (World Bank (WB), International Monetary Fund (IMF) and the European Union (EU) amounted to UA85.9 million made up of as follows :i) World Bank (35 million USD) disbursed in 2006 and 25 million US dollars in 2007 towards the Economic Reform Support Grant (ERSG), and representing a global amount of UA 40.6 million ; ii) EU, 13.1 million USD disbursed in 2006 and 16.3 million Euros in 2007, a total of UA 23.5 million; iii) IMF (21.2 million dollars disbursed in 2006 and 11 million disbursed in 2007, representing UA 21.8 million in total.

## IV PROGRAMME PERFORMANCE AND OUTCOMES

### 4.1 Institutional Performance

4.1.1 The grant became effective on 23 November 2006, 16 days after it was approved by the Board of Directors of the Bank. The very short period is due to the fact that most of the grant conditions had been met at programme appraisal. Some measures, such as the preparation of a manual of budgetary and accounting procedures, and the improvement of budget preparation with the incorporation of the macroeconomic framework upstream, are yet to be implemented and external technical assistance will be required in that regard.

4.1.2 Three hierarchized structures operating within an institutional framework established in agreement with the World Bank were responsible for setting direction and for coordinating and monitoring the reform programme. These were: (i) the Inter-Ministerial Committee, (ii) the Technical Monitoring Committee comprising the Director General of the five Ministries involved; and (iii) the Permanent Secretariat responsible for day-to-day monitoring of the programme. It had been planned to strengthen the Permanent Secretariat which monitors economic and social reforms (SP-REFES) and prepares the PRSP; enhancing the secretariat will, in the long term, ensure the right institutional framework is in place for the monitoring of the programme, in tandem with the implementation of the PRSP. The decision to have a single structure handling implementation and monitoring of the programme for the ADB and the World Bank stemmed from the need to streamline the procedures of the different partners and harmonize the effectiveness of aid in Burundi. Despite the fact that there were two technical structures, the Technical Monitoring Committee and the Permanent Secretariat for programme monitoring, performance in terms of coordination and monitoring was unsatisfactory, because of the weak capacity within the two structures.

### 4.2 Economic Performance

4.2.1 As is evident from the appraisal report and the Letter of Development Policy, the programme sought to reduce macroeconomic imbalances and pursue the financial and structural reforms needed for sustainable economic recovery. The quantitative objectives were the following: (i) maintain real GDP growth recovery at an annual average of 6 % in 2006 - 2007; ii) contain inflation at an annual average rate of 4 % ; and iii) maintain the external current deficit (excluding grants) at 37.8 % of GDP.

4.2.2 **Macroeconomic Results.** Economic growth effectively resumed in 2006-2007. Even though growth dipped slightly in 2007 due to problems in the coffee sector, real GDP growth averaged 4.6% as against 2 % in 2004-2005. However, this growth rate fell short of the objectives targeted by the programme. The current external deficit (excluding official transfers) accounted for 35.6% of GDP in 2006 and 37.8% of GDP in 2007. These rates are close to the target fixed but represent an increase over the 2004-2005 period, at which time the current deficit (excluding grants) accounted for only 27.2% of GDP. The overall budget balance (excluding grants) averaged -21.1% of GDP in 2006-2007, quite close to the objective of -22.4% for the same period. Calculated on the basis of the consumer index, inflation during the 2006-2007 period stood at around 5%. This figure is unsatisfactory considering that the goal for the programme is 4%; it, nevertheless, shows a clear downward trend compared to the average inflation rate of 10.7% in the previous two years.

**4.2.3 Sector Results** The second component of the programme relates to support for the private sector. Evaluation of the results here is partly affected by a number of factors: (i) there is not enough information on the private sector; (ii) most of the structural measures were not implemented; and (iii) the observation period is relatively short for the structural measures to yield any meaningful results. However, a few indicators concerning the private sector did evolve positively. Foreign direct investments increased on average from 6 million USD per year during 2004-2005 to 11.2 million dollars per annum on average during 2006-2007. Private investment accounted for 8% and 8.9% of GDP respectively during those two years. Inclement weather had a more serious effect on coffee production and coffee exports fell after increasing in 2006.

## **V. PROGRAMME IMPACTS**

### **5.1 Economic Impact**

**5.1.1** All Burundi is in a post-conflict phase but the socio-political situation is still relatively tense and fragile. This can be seen from the difficulties being encountered in passing certain laws in Parliament, a situation that is hindering the implementation of some of the programme measures. As a result, the different measures have not fully come together to exert a combined effect on the economic variables. Apart from the indicators chosen for the project objectives, which we looked at in the earlier paragraphs, the little quantitative data available suggest that other indicators experience slight, insignificant variations. For example, the tax burden represented 17.4% of GDP in 2004-2005 as in 2006-2007. In parallel, current expenditure went from 22.3% of GDP to 24% of GDP respectively during the two periods. The primary deficit (excluding grants) rose to 6.1% of GDP on average in 2006-2007 compared to 3.5 % of GDP in 2004-2005. It is to be noted that a number of negative developments affected programme performance in 2007: i) coffee production fell by 7000 tonnes (coffee plantations in Burundi are old and declining in productivity); ii) tax on petroleum products was lowered from 20% to 10% to contain the escalation in their prices on the world market; and iii) consistently lax public finance management encouraged misappropriation and budgetary excesses.

### **5.2 Social Impact**

**5.2.1** Component B ‘Support to Private Sector Development’ contained a sub-component that focused on employment creation. None of the measures are being applied. Under Component A: ‘Strengthening Public Finance Management’, one of the measures called for a change in the structure of public spending. This was done and resulted in more funds being allocated for the social sectors in the 2007 budget. Pro-poor spending rose from 33.6% in 2005 to 36% in 2006 and 38% in 2007, a much better result than had been anticipated in the appraisal report. At the same time as the demobilization of soldiers, teacher numbers increased as 1068 were recruited in secondary schools and over 3000 in primary schools. There is a need to consolidate these successes by pursuing current actions to reduce poverty and improve governance, in association with the international community, and the ADB, in particular.

**5.2.2** Without a doubt, the programme had a beneficial social impact. The situation would be even better if the measures pertaining to private sector promotion were effective. These are measures that can create job opportunities within the Burundi economy, where unemployment in Bujumbura was in the region of 13.7% in 2006-2007 (underemployment is also quite rampant).

### **5.3 Gender Impact**

5.3.1 The programme has no specific gender issues. Nevertheless, actions such as liberalizing coffee marketing, increasing budgetary allocations to the social sectors and promoting micro-credit are a boost to women's activities and will contribute to progress towards the Millennium Development Goals (MDGs). Unemployment figures for women fell during the programme implementation period from 17.8% in 2006 to 15.2% in 2007. Male unemployment rose from 10.8% to 12.8% for the two years.

### **5.4 Environmental Impact**

5.4.1 As stated in the appraisal report, ERSP was not expected to have any harmful environmental impacts and no specific environmental measure was included in the programme. Nevertheless, the following actions within the programme could have a beneficial impact on the environment: (i) implementing the actions set out in the comprehensive PRSP for more rational management of ecosystems and water conservation will ease pressure on the use of natural resources; and (ii) continuing efforts by the Government to manage the reintegration of displaced people will help to prevent uncontrolled settlements springing up in protected areas and avoid environmental damage. During 2006-2007, the Ministry of the Environment and Territorial Development launched several environmental awareness campaigns to urge people to protect the forests and plant trees. Other measures were taken, including the development of gullies and rivers in the city of Bujumbura and this will enable the Government to undertake action and works to limit landslides, intense gullying and erosion.

### **5.5 Impact on Regional Integration**

5.5.1 Burundi belongs to two sub-regional integration organizations, the Common Market for Eastern and Southern Africa (COMESA) as well as the East African Community (EAC), which it joined only in July 2007. Several of the actions associated with the ERSP are likely to create better conditions for the integration of Burundi in the sub-regional economy. One of the measures that have already been undertaken is the adoption of a new Public Procurement Code. It was promulgated on 4/2/2008 and drew on work that had been done earlier on two projects for the strengthening of public procurement, which the Bank had approved for COMESA member countries in 2001 and 2006 respectively. The fact that these decisions were taken into consideration will help increase synergy between national and multinational projects funded by the Bank Group.

### **5.6 Impact on Governance**

5.6.1 Several measures implemented under Component A: 'Strengthening Public Finance Management' will help to improve governance. Most of them were undertaken later than scheduled and so had little effect on governance in 2006-2007. However, some of the other measures that have already been applied, such as the adoption of a new Public Procurement Code and the closing of several bank accounts belonging to public companies and organizations, will have definitely have an immediate effect on governance. Similarly, the State Inspectorate General has been strengthened, and internal control introduced at the Finance Ministry and the Court of Audit, within the framework of the Bank-funded Institutional Capacity Building Project and the Governance Structures Support Project. This will help to increase the number and the quality of audits by these institutions.

## **5.7 Programme Risk Assessment**

5.7.1 The principal risks identified at appraisal were the following: (i) political risks on account of the shaky peace process, in particular the risk of serious tension between the opposition and the ruling party, a situation that would jeopardize implementation of the programme; (ii) weakness of institutional capacities; and (iii) the vulnerability of Burundi's economy due to exogenous factors, in particular climate and the price trends of oil and coffee. Despite the efforts that the international community has made, as much to strengthen institutional capacities as to restore peace, the first two factors mentioned above have continued to handicap implementation of the measures under the programme. As a result of the extremely tense internal situation in the country, there are considerable delays in passing several laws through Parliament, among them the laws pertaining to public finance, medium term expenditure programming, and the coffee sector. Implementation of the measures was also affected by the weakness of institutional capacity.

5.7.2 A number of exogenous factors also affected programme implementation, especially in 2007. Coffee production plummeted last year, partly as a result of poor rains. World oil prices also rose sharply, but the effect on domestic prices was mitigated by lowering tax on petroleum products, a step which had serious negative impacts on public finance.

## **VI PROGRAMME SUSTAINABILITY**

6.1 A number of Codes were drafted as part of the measures under the programme. The Public Procurement Code, already promulgated, will become applicable as from October 2008. The Investment Code, the Private and Public Enterprises Code and the Labour Code are being finalized and will probably be adopted by Parliament before the end of 2008. The codes will govern activities in each of these domains for several years to come and will be a long-lasting asset for economic activities.

6.2 In the area of public finance, measures such as the restructuring of public spending in favour of the social services helped to provide more teachers for primary and secondary schools. The dividends of this will not be felt immediately but they will be over the long term. Parliament will adopt the organic law on public finance in late 2008 and public finance management will be permanently improved now that the control and wage-related operations have been computerized.

## **VII PERFORMANCE OF THE BANK, THE BORROWER AND THE CO-FINANCIERS**

### **7.1 Performance of the Bank.**

7.1.1 Identification and appraisal of the programme took place as part of a preparation mission in connection with the CSP for 2005-2007. The mission, made up of three experts, was able to identify the major challenges facing Burundi's economy and ensure that there was no mismatch between the programme objectives and the Bank's strategic thrust for Burundi. In addition to the weaknesses enumerated earlier, (cf. para. 3.2.10), with regard to the projected sale of several coffee washing stations in only one year a strategy should have been drawn up as a precondition. No such strategy existed as at the time of the appraisal, and this was yet another weakness encountered during the appraisal stage.

7.1.2 By opting to disburse its intervention in a single tranche, the Bank set itself apart from the other co-financiers and it was a choice that made it more difficult for it to supervise the programme adequately. The mid-term review did not take place and the only monitoring mission was not conducted until December 2007. This inadequate monitoring by the Bank can be blamed, in part, on the fact that it had just set up a new structure and this had entailed considerable movement of staff in the first six months of 2007. The programme records do not show that the Bank made the preparation and submission of quarterly status reports mandatory. The Bank ought to have been more proactive about getting the Government to implement the programme given that there was no possibility of suspending disbursements. This was particularly true with regard to the employment promotion measures, which were being monitored solely by the Bank. This lack of Bank supervision is part of the reason why none of the planned measures was implemented. It would also be a good thing for the Bank's field office in Rwanda to be actively involved in monitoring and for the Bank to sign the Partnership Agreement Framework in Burundi and be part of joint missions. Because of the above factors, the performance of the Bank is deemed unsatisfactory.

## **7.2 Performance of the Borrower**

7.2.1 The Borrower fulfilled the conditions and ensured effectiveness very quickly. However, implementation of the measures was unsatisfactory. The number of measures implemented overall is quite low. Several measures scheduled for 2007 were only carried out in late 2008. While conceding that political unrest was a major obstacle to programme implementation, the fact remains that some of the measures were not implemented simply because institutional capacities were so weak. A good example is the planned privatization of the coffee sector, which could not be done because there was no privatization strategy. The day-to-day monitoring, which the permanent secretariat should have provided by coordinating the different agencies involved, was not done properly. As a result, there is not one single, coherent synthesis document on the implementation status. The Bank received an audit report that was combined with a completion report. The Bank was not sent the report on the implementation of the PRSP, which would have been a valuable document because it would have given a concise picture of the Government's efforts and progress towards the MDGs. Because of these weaknesses, the performance of the Borrower is considered unsatisfactory.

## **7.3 Performance of the Co-Financiers**

7.3.1 During the preparation and appraisal of the programme, the Bank held several working sessions with the main donors represented in Burundi within the framework of the Budget Assistance Partnership Agreement. These meetings helped the co-financiers to reach a consensus opinion on the country's socio-economic and political situation. Also, to help the Burundi Government implement the programme effectively, the World Bank and IMF, in addition to their financial contribution (cf. § 3.5.2), provided technical assistance, firstly, through their comments and observations on the documents prepared and, also, through specific missions of experts from both the institutions working on the programme. The new organic law on public finance and the revised Investment Code are some areas of such cooperation. An expert from the IMF working within the Public Accounting Directorate was also involved in some of the measures taken to improve budget preparation. The implementation of the donors reform programme (IMF, World Bank and the European Commission) was, on the whole, satisfactory. This is due, among other things, to the fact that: i) they undertook targeted reforms; ii) they constituted an active presence on the ground; iii) they had multi-year and multi-tranche financing reform programmes; and iv) they provided appropriate technical support. The performance of the co-financiers is, therefore, deemed satisfactory.

## **VIII. OVERALL PERFORMANCE AND RATING**

### **8.1 Relevance**

8.1.1 The Bank's intervention in the programme took place in December 2006, the year that saw a resumption of economic growth in Burundi. However, we should not forget that the years before then had been marked by a sharp decline in average real income and in the levels of private and public investment, less inflow of external aid, and a worsening of the debt situation. It had been necessary to take remedial steps, most especially to raise real income levels, by strengthening the management of public spending and supporting the development of the private sector. These measures were relevant for the following reasons: (i) low domestic saving was constituting a deterrent to foreign direct investment and this needed to be remedied through the adoption of new Investment and Labour Codes as well as a Code governing public and private enterprises ; (ii) the structure of public spending needed to be amended with a shift in emphasis to expenditure for the social sectors to reflect the relatively high spending on wages and security, and the high percentage of poor people among the population; and (iii) strengthening of institutional capacities was required to improve macroeconomic and financial management (cf. §.8.2.1).

8.1.2 However, notwithstanding that these interventions and measures were indeed relevant in the reform programmes, it must be stressed that: (i) the programme had too many measures for the short duration of time that it covered; (ii) the formulation of the measures suffered from a lack of precision, most particularly the lack of reference data; (iii) the measures varied in terms of their degree of complexity. These factors served to undermine the relevance of the Bank programme. In view of the above, the programme receives a rating of 1.5.

### **8.2 Institutional Development**

Relatively serious institutional weaknesses pose a major obstacle to rational management of Burundi's economy. Several ongoing projects, in particular, the World Bank's PAGE and the ADF-funded PRCI and PASG, are seeking to remedy these weaknesses. In the specific case of ERSP, several institutional development measures were incorporated to strengthen public finance management. A number of steps are currently being taken to build the operational capacity of the IGF/IGB and the Court of Audit. However, some similarly crucial measures were not implemented, and these include (i) the introduction of structures within the executive and legislative arms to monitor application of the recommendations made in the reports of the IGF/IGE and the Court of Audit, (ii) the setting up of the Investment and Export Promotion Agency (APIE), and (iii) the establishment of a body in the Finance Ministry to be responsible solely for budget preparation. The rating under this criterion is 1.

### **8.3 Sustainability**

The Public Procurement Code and the three other codes (Investment Code, Code for Public and Private Enterprises and the Labour Code) are in the final stages of preparation. These are measures that will have a long-lasting effect and the Codes are not likely to be amended to any significant extent in the short and medium terms. Their sustainability seems to be confirmed by the fact Burundi is a member of the two sub-regional integration organizations and that these different codes are based on their guidelines. This means that these measures will also have long-lasting impact. The Government's determination to push forward with reforms following the budget excesses of late 2007 can be seen in the fact that it has adopted a budget framework letter, which sets credit ceilings for ministries, and this is another factor that suggests that the achievements of ERSP will be consolidated. On the other hand, however, institutional and political constraints will delay implementation of these measures. The rating under this criterion is 1.5.

### **8.4 Overall Programme Performance**

Although the macroeconomic indicators in 2006-2007 are an improvement over the two previous years only 62.5% of the objectives assigned to the programme was realized. This performance on the macroeconomic front was helped by other ongoing donor programmes, including those of the IMF and the World Bank, and by a good economic environment. This underlines the need to strengthen coordination with the other donors in planning the provision and implementation of support programmes. Also, good economic results can change at any time as shown by the poor performance recorded in 2007. A large number of important measures are currently being undertaken to promote the private sector but they will only be operational towards the end of 2008 (or even later). Even though private investment is increasing, there are serious gaps in sector policy, such as the absence of remedial measures in the face of a lack of investment and maintenance in the coffee sector. Half of the programme actions are yet to be implemented. Programme monitoring by both the Borrower and the Bank was also weak. The Bank's decision to adopt a single tranche grant facility for the programme was probably part of the reasons why implementation monitoring was so weak. On the basis of the criteria and the ratings (cf. Annex 4), the overall performance of the programme is considered unsatisfactory.

## **IX CONCLUSIONS, LESSONS LEARNT AND RECOMMENDATIONS**

### **9.1 Conclusions**

Even though, in macroeconomic terms, the implementation of ERSP I was generally satisfactory in 2006 and 2007, this performance falls short of the objectives of the Poverty Reduction Strategy (PRS) and the implementation of the programme, overall, is unsatisfactory. Apart from political instability in the country in 2007, the weakness of human capacities is a major handicap to the implementation of all the programme-related measures. As a result, the economy continues to show weaknesses and it is doubtful that it can generate sustained growth that will help achieve the MDGs and reduce poverty significantly. For this reason, and in order to consolidate the gains from the reforms that have been set in motion and extend their impact on poverty reduction, the Government of Burundi should forge ahead with public finance reform and measures to develop the private sector. To obtain better results, the new reform programme must be better targeted, the related measures should be

better defined, with due account taken of their degree of complexity and the conditions that would need to be fulfilled before they can be implemented. Similarly, the country's institutional weaknesses must be taken into consideration and the Bank should ensure better programme monitoring.

## **9.2 Lessons Learnt**

From the design and implementation of this programme, five main lessons were drawn: i) in a post-conflict situation, it is better to opt for a multi-year and multi-tranche approach; ii) reform programmes and measures must be well-targeted and designed together with other donors and with the Government; iii) measures should be chosen with due consideration to their degree of complexity and the country's institutional capacities; iv) reform programmes must be accompanied by appropriate institutional support and targeted technical assistance; and v) the Bank must carry out regular monitoring of programme implementation.

## **9.3 Recommendations**

### **9.3.1 For the Bank:**

#### **i) Recommendations**

### **9. For the Bank:**

- i) continue to support economic reforms in Burundi, especially those that aim to reduce poverty and improve governance, and improve its coordination with other donors, particularly by joining the Partnership framework and drawing up multi-year and multi-tranche programmes;
- ii) be more visible on the ground when the next structural reform programmes are being implemented. In particular, the Bank's Field Office in Rwanda should play a more active role in programme monitoring and in the review meetings of the Partnership Framework;
- iii) prepare a more targeted reform programme, formulate the measures with greater care, and take more account of their complexity and the preconditions for their implementation; also, be more mindful of institutional weaknesses and identify appropriate synthetic indicators that will enable proper monitoring of the programme outcomes and evaluation of its performance; and
- iv) provide technical and financial assistance to the Government to implement a new reform programme backstopped by specific financing for institutional capacity building and suitable technical assistance.

### **10. For the Borrower:**

- i) consolidate macroeconomic stabilization and continue with ongoing reforms, particularly those meant to improve public finance management and promote the private sector;

- ii) strengthen coordination of the implementation of reforms within the Government;
- iv) establish a hierarchy of objectives; concentrate on reforms and key measures and continue with the medium term programming strategy, in particular, introduce a three-year rolling programme of priority actions; and
- iv) establish an institutional framework for monitoring and evaluating reforms.

**REPUBLIC OF BURUNDI**  
**ECONOMIC REFORM SUPPORT PROGRAMME 2006-2007 (ERSP)**

**MATRIX OF MEASURES**

**Annex I**  
**Page 1/8**

AREAS	OBJECTIVES	MEASURES ALREADY TAKEN	MEASURES TO BE TAKEN	TIME-FRAME	STATUS AT PCR	PARTNERS	OBSERVATIONS
<b>Component 1 : STRENGTHEN MANAGEMENT OF PUBLIC FINANCE</b>							
<b>1.1 Modernization of the legal and institutional framework</b>	- Tackle current weaknesses in the financial management framework, which dates back to 1964		1.1.1 Complete the revision of the organic Law on Public Finance	March 2007	The draft law is currently being prepared and will soon be submitted to the Government. It is expected to be adopted by Parliament by end-2008	ADB, IMF, WB	
<b>1.2 Reform the procedure for preparation of the National Budget</b>	- Further rationalize the Budget preparation process and make it more comprehensive	- Conclude work on the preparation of budgetary and accounting nomenclature and, in particular, introduce a sub-category for ' pro-poor expenditure'	1.2.1 Update the INPLABU Model, or if preferred, adopt a new model that will be more suitable for the preparation of the macroeconomic framework	March 2007	Not done	ADB, WB	
			1.2.2 Establish a structure in the Finance Ministry to be responsible solely for budget preparation, and provide it with terms of reference and guidelines for budget preparation.	March 2007	Not done ; scheduled for 2008	ADB, IMF	With the new structure of the Ministry of the Economy, Finance and Cooperation for Development
			1.2.3 Improve budget preparation by using macroeconomic framework upstream and stating target objectives and result indicators	June 2007	Done	ADB, WB, IMF	
			1.2.4 Introduce the Medium-Term Framework in key Ministries such as Health, Education and Agriculture	July 2007	Not done	ADB, WB	The working group has already been set up, technical assistance required
			1.2.5 Include in the National Budget all income in Burundi, domestic or as external aid and also include all related expenditure	July 2007	Done	ADB, IMF, WB	
			1.2.6 Except for the few accounts agreed with the IMF, stop the proliferation of special accounts and ensure a single Treasury account	July 2007	Done: over 128 accounts were closed in 2006-2007.	ADB, IMF	The process will be completed before end-2008
		- During 2006, 81 special accounts were opened in various banks					

**REPUBLIC OF BURUNDI**  
**ECONOMIC REFORM SUPPORT PROGRAMME 2006-2007 (ERSP)**

**MATRIX OF MEASURES**

Annex I  
Page 2/8

AREAS	OBJECTIVES	MEASURES ALREADY TAKEN	MEASURES TO BE TAKEN	TIMEFRAME	STATUS AT PCR	PARTNERS	OBSERVATIONS
<b>Component 1 : STRENGTHEN PUBLIC FINANCE MANAGEMENT</b>							
<b>1.3 Improvement of the management of the Budget and its impact on poverty-reduction</b>	- Transparent management and better quality of public spending	- As from January 2006, introduce the use of a medium size integrated computerized financial management system (SIGEFI) at the Ministry of Finance. The software for this new system is designed to improve monitoring of budget implementation, including social spending on poverty reduction, and produce reports on government transactions at the time needed.	1.3.1 Complete work on the preparation of a Manual of Budgetary and Accounting Procedures	Mars 2007	Not done, the manual cannot be prepared until the new organic law on public finance is adopted.	ADB, IMF	
			1.3.2 Obtain the approval of the Finance Ministry for strengthening the administration of taxes and preparations for introduction of VAT	December 2006	Done : Approval granted via letter n° 540/1074/2006 of 10 May 2006 ; the action is under implementation	ADB IMF	
			1.3.3 Strengthen the pro-poor orientation in the Budget by ensuring that the 2007 Budget submitted to Parliament reflects an increase in the share of pro-poor expenditure in relation to total expenditure compared to 2006, in keeping with the objective of the PRSP		Implemented : 33.6% in 2005 to 36% in 2006 and 38% in 2007,	ADB, WB, IMF	Increase in the share of pro-poor spending in the total budget
			1.3.4 Prepare a report on expenditure on poverty reduction as well as HIPC-related spending and submit it to the committee set up for the purpose.	2006/2007	Ongoing	ADB, IMF	Observations on the draft report The Government has made its observations on the provisional report. the final report is being finalized.

**REPUBLIC OF BURUNDI**  
**ECONOMIC REFORM SUPPORT PROGRAMME 2006-2007 (ERSP)**

**MATRIX OF MEASURES**

Annex I  
Page 3/8

AREAS	OBJECTIVES	MEASURES ALREADY TAKEN	MEASURES TO BE TAKEN	TIMEFRAME	STATUS AT PCR	PARTNERS	OBSERVATIONS
<b>Component 1 : STRENGTHEN PUBLIC FINANCE MANAGEMENT</b>							
		- The technical conditions to enable SIGEFI operate satisfactorily at each of the four stages in the expenditure chain (commitment, validation, authorization and payment) have been established	1.3.5 Introduce simplified cost accounting in the departments that handle procurement of goods for the State	June2007	Not done	IMF, WB, ADB	
		- The Ordinance establishing a committee responsible for coordinating and managing public finance reform	1.3.6 Prepare and submit the new Public Procurement Code to Parliament.	Dec. 2006	Implemented : the new code was promulgated on 4/2/2008 ; it is expected to be put into application in October 2008	WB, ADB, IMF	Delayed by over a year
		- Budgetary and accounting nomenclature have been harmonized					
		- Establishment in December 2005 of the HIPC monitoring committee via Order N°510/649 of 11 July 2006					

**REPUBLIC OF BURUNDI**  
**ECONOMIC REFORM SUPPORT PROGRAMME 2006-2007 (ERSP)**

**MATRIX OF MEASURES**

Annex I  
Page 4/8

AREAS	OBJECTIVES	MEASURES ALREADY TAKEN	MEASURES TO BE TAKEN	TIMEFRAME	STATUS AT PCR	PARTNERS	OBSERVATIONS
<b>Component 1 : STRENGTHENING PUBLIC FINANCE MANAGEMENT</b>							
<b>1.4 Strengthen internal and external control of public finance management</b>	- Sound management of public funds and effective control of economic and financial misappropriation	<ul style="list-style-type: none"> <li>- Government accounts for 2004 and 2005 were prepared and submitted to the Court of Audit</li> <li>- An Inspectorate and Internal Audit Department was created in the Finance Ministry to replace the General Inspectorate of Finance attached to the Ministry of Good Governance and is about to be turned into the State Inspectorate General</li> <li>- The reports of the IGF, the Court of Audit and Parliament are circulated widely The law creating the Court of Audit in 2005 clearly spells out the status of its magistrates, guarantees their irremovability, the manner of their appointment as well as the functions of the Law Commissioner</li> <li>- The rules of procedure, however, contained a restriction regarding the jurisdictional competence vis-à-vis authorizing officers, control of budget management, and the Financial Discipline Board This restriction is in accordance with the directives of the Constitutional Court.</li> </ul>	1.4.1 Strengthen the operational capacities of the IGF/IGE	Dec. 2006	Ongoing	ADB, WB	The control and payment of salaries is in the process of being computerized.
			1.4.2 Establish internal control departments within the key Ministries that handle financial matters, and strengthen their capacities.	June 2007	Ongoing	ADB, IMF	
			1.4.3 Formalize coordination between all the departments responsible for control, in particular, by setting up the IGE	March 2007	Not done	ADB, IMF, WB	
			1.4.4 Introduce a Guide to Internal Procedures and define techniques of accounting certification techniques		Prepared	ADB, IMF, WB	
			1.4.5 The Court of Audit to submit the audited accounts for 2005 to Parliament		Prepared	ADB, IMF, WB	
			1.4.6 The Court of Audit to submit the audited accounts for 2006 to Parliament		Prepared	ADB, IMF, WB	
			1.4.7 Set up structures within both the executive and legislative branches to monitor application of the recommendations in the reports of the IGF/IGE and the Court of Audit		Not prepared	C	

**REPUBLIC OF BURUNDI**  
**ECONOMIC REFORM SUPPORT PROGRAMME 2006-2007 (ERSP)**

**MATRIX OF MEASURES**

**Annex I**  
**Page 5/8**

AREAS	OBJECTIVES	MEASURES ALREADY TAKEN	MEASURES TO BE TAKEN	TIMEFRAME	STATUS AT PCR	PARTNERS	OBSERVATIONS
<b>Component 2 : SUPPORT TO PRIVATE SECTOR DEVELOPMENT</b>							
<b>2.1strengthening the legal and regulatory framework for business</b>	- Encourage the development of small and medium enterprises	- The Investment Code has been revised and should be submitted to Government for adoption	2.1.1 Adoption of the revised Investment Code by the Government and by Parliament		Ongoing	ADB, IMF, WB	Texts are being finalized for adoption by the Government and by Parliament
		- A bill on the organization and regulation of microfinance institutions	2.1.2 Creation of the Investment and Export Promotion Agency (APIE) that will include a single window for all services that private economic operators may require	1 <sup>st</sup> quarter of 2007	Not prepared	ADB, IMF, WB	
		- The new law on company declaration of bankruptcy was promulgated	2.1.3 Revision and modernization of the Code of Commerce		Ongoing	ADB, IMF, WB	The text is expected to be ready by June 2008
		- The new law on company bankruptcy has been promulgated	2.1.4 Updating of the Private and Public Enterprises Code		Ongoing	ADB, IMF, WB	The text is expected to be ready by June 2008
		- On 27/07/05, the process of identifying government arrears to the private sector and arrears on domestic debt for debts incurred between July 1979 and 31 December 2004 was completed.	2.1.5 Strengthening the Arbitration and Reconciliation Centre		Ongoing	ADB, IMF, WB	
		- An ad hoc commission to draw up an arrears payment strategy was established and is expected to present its report by end-April 2006.					
		- Government has prepared the Single description codes which will be used for all taxation-related operations including the Taxes and Customs services					

**REPUBLIC OF BURUNDI**  
**ECONOMIC REFORM SUPPORT PROGRAMME 2006-2007 (ERSP)**

**MATRIX OF MEASURES**

**Annex I**  
**Page 6/8**

AREAS	OBJECTIVES	MEASURES ALREADY TAKEN	MEASURES TO BE TAKEN	TIME-FRAME	STATUS AT PCR	PARTNERS	OBSERVATIONS
<b>Component 2 : SUPPORT TO PRIVATE SECTOR DEVELOPMENT</b>							
		<ul style="list-style-type: none"> <li>- The Government has prepared a single identifier file to be used for all tax-related operations, in conjunction with the Tax and Customs Services.</li> <li>Pass the decree organizing and regulating micro-finance institutions</li> <li>- An arrears payment strategy has been adopted by the Government and Parliament</li> </ul>	<p>2.1.6 Submit the law on Money Laundering to Parliament</p> <p>2.1.7 Update Ordinance N° 05/VP/03 of 31/10/2003 appointing the members of the Tripartite Consultative Committee involving the public and private sectors and consumers, and defining its application</p> <p>2.1.8 Strengthen the financial sector, in particular, by rehabilitating the portfolios of failed banks, with support from donors and bilateral and multilateral donors</p> <p>2.1.9 Put the arrears payment strategy into operation</p>	<p>March 2007</p> <p>1<sup>st</sup> half of 2007</p> <p>October 2006</p>	<p>In progress</p> <p>Not done</p> <p>Ongoing</p> <p>Done</p>	<p>ADB, IMF, WB</p> <p>ADB, IMF, WB</p> <p>ADB, IMF, WB</p> <p>ADB, IMF, WB</p>	<p>The bill law might be tabled for discussion at the next parliamentary session</p>
<b>2.2 Improvement of the investment climate</b>	<ul style="list-style-type: none"> <li>- Make the investment and business climate in the country as attractive as possible</li> </ul>	<ul style="list-style-type: none"> <li>- An evaluation workshop on the investment climate was held in Bujumbura on 26 June 2006 as a World Bank initiative ; it was attended by 120 persons from the private sector as well as government officials.</li> </ul>	<p>2.2.1 With World Bank assistance, conduct a study on the investment climate and draw up a plan of action detailing measures to be taken concerning : the legal and regulatory framework, company tax, competitiveness and trade facilitation, especially in regard to exports</p> <p>2.2.2 Apply the recommendations of the Study on the investment climate</p>	<p>January 2007</p> <p>1st quarter of 2007</p>	<p>Ongoing</p> <p>Ongoing</p>	<p>ADB, IMF, WB</p> <p>ADB, IMF, WB</p>	<p>The provisional study is under consideration by the Government</p> <p>The Government is considering the study</p>

**REPUBLIC OF BURUNDI**  
**ECONOMIC REFORM SUPPORT PROGRAMME 2006-2007 (ERSP)**

**MATRIX OF MEASURES**

**Annex I**  
**Page 7/8**

AREAS	OBJECTIVES	MEASURES ALREADY TAKEN	MEASURES TO BE TAKEN	TIME-FRAME	STATUS AT PCR	PARTNERS	OBSERVATIONS
<b>Component 2 : SUPPORT TO PRIVATE SECTOR DEVELOPMENT</b>							
<b>2.3 State disengagement from the economic sectors</b>		<ul style="list-style-type: none"> <li>- The Council of Ministers adopted a Comprehensive Privatization Programme in March 2005</li> <li>- Tenders for the privatization of 2 coffee washing stations were published on 22 July 2005 but the exercise was unsuccessful</li> <li>-Regulatory texts for the liberalization of the coffee sector</li> </ul>	2.3.1 Adopt a comprehensive plan for 2006-2008 for the implementation of reform in the coffee sector, which will cover treatment of debt within the sector, establishing a legal, regulatory and institutional framework for the liberalized sector, modalities for the management and financing of measures, such as the supply of inputs, research and maintenance of roads especially etc.	September 2006	Prepared	WB, ADB	The plan is under implementation
			2.3.2 Sell off the fixed assets of the OCIBU and transfer its shares to the banks	September 2006	Not done	Idem	The procurement process needs to be repeated since the first one was unsuccessful
			2.3.3 Sell off de 50% of the washing stations	June 2007	Not done	Idem	Subject to the existence of a strategy, and one has yet to be defined
			2.3.4 Sell off the SODECO factories	June 2007	Not done	Idem	
<b>2.4 Establish an institutional framework that promotes employment creation</b>	<ul style="list-style-type: none"> <li>- Promote job creation in a favourable legal framework</li> </ul>	<ul style="list-style-type: none"> <li>- Put in place a legal framework conducive to employment creation</li> </ul>	2.4.1 Adoption of the Labour Code	March 2007	Ongoing	ADB, WB, IMF	The text is currently being revised

**REPUBLIC OF BURUNDI**  
**ECONOMIC REFORM SUPPORT PROGRAMME 2006-2007 (ERSP)**

**MATRIX OF MEASURES**

Annex I  
Page 8/8

<b>AREAS</b>	<b>OBJECTIVES</b>	<b>MEASURES ALREADY TAKEN</b>	<b>MEASURES TO BE TAKEN</b>	<b>TIME-FRAME</b>	<b>STATUS</b>	<b>PARTNERS</b>	<b>OBSERVATIONS</b>
<b>Component 2 : SUPPORT TO T PRIVATE SECTOR DEVELOPMENT</b>							
		- Existence of Programmes des labour-intensive public works and employment creation	2.4.2 Formulation of a national policy on employment	July 2007	Not done	ADB	
		- ILO-sponsored decent work programme to promote poverty reduction	2.4.3 Adoption and implementation of the provisions of the national employment policy	September 2007	Not done	ADB	
			2.4.4 Build the operational capacity of the departments in charge of promoting employment	December 2006	Partially implemented		Training on computer use and statistics for the departments concerned
			2.4.5 Establishment and operation of the National Employment and Training Observatory (ONEF)	December 2006	Ongoing	ADB, NGOs, SOS International Children's Village	Draft Ordinance is currently under consideration by the Council of Ministers

**REPUBLIC OF BURUNDI  
ECONOMIC REFORM SUPPORT PROGRAMME 2006-2007 (ERSP)**

**PERFORMANCE OF THE BORROWER**

**ANNEX 2**

<b>Indicator</b>	<b>RATING (1to 4)</b>	<b>Observations</b>
1. Adherence to schedule	1	The grant conditions were met and the Grant became effective within a very short time. However, there were considerable delays in the effective implementation of the programme, several of the planned measures were not carried out.
2. Adherence to cost schedule	NA	
3. Compliance with covenants	2	The grant conditions precedent were met ; there was compliance with the approved procurement method : direct private sector negotiation in accordance with the commercial procedure acceptable to the Bank ; however, several structures that were to have been provided to improve public finance management were not put in place.
4. Adequacy of monitoring, evaluation and reporting	1.5	Programme monitoring was unsatisfactory : coordination was poor ; quarterly reports and the completion report were not prepared and forwarded to the Bank
5. Satisfactory operation	N.A	
<b>TOTAL</b>	<b>4.5</b>	
<b>Overall performance rating</b>	<b>1.5</b>	<b>Unsatisfactory</b>

**REPUBLIC OF BURUNDI**  
**ECONOMIC REFORM SUPPORT PROGRAMME 2006-2007 (ERSP)**

**PERFORMANCE OF THE BANK**

**ANNEX 3**

<b>Indicators</b>	<b>Rating (1- 4)</b>	<b>Observations</b>
1. At identification	2	Identification and preparation were done as part of a mission in connection with CSP 2004-2005. It was an ADB mission that comprised five experts. Two of them took part in the programme identification and preparation. The mission was an opportunity to identify the post-conflict problems facing the Burundian economy. This phase was satisfactory.
2. At preparation	2	Idem (cf. above) Satisfactory
3. At appraisal	1	The programme was appraised by three experts ; number of measures were reasonable but the indicators chosen did not take due account of institutional weaknesses, especially in the area of statistics ; there were no measures to accompany bank privatization, given the low level of savings ; it was not clearly stated exactly how the monitoring agency was to be strengthened whereas at least one officer was needed to be responsible solely for managing the ERSP of the ADB within the existing shared structure to take charge solely of the ERSP ; disbursement in 2 unequal tranches would have been more appropriate as the country could have been forced to implement the measures . Fairly satisfactory
4. At supervision	1	Between the disbursement of the grant in December 2006 and December 2007, only one supervision mission was conducted, from 6 – 20/12 2007. This seems insufficient considering that the grant was disbursed in one single tranche and there was no independent body managing the ADB's ERSP. Rating :Unsatisfactory
<b>Total</b>	<b>6</b>	
<b>Overall performance rating</b>	<b>1.5</b>	<b>Unsatisfactory</b>

**REPUBLIC OF BURUNDI**  
**ECONOMIC REFORM SUPPORT PROGRAMME 2006-2007 (ERSP)**

**OVERALL PERFORMANCE OF THE PROGRAMME**

**ANNEX 4**

N°	Indicators	Rating (1 to 4)	Observations
<b>1</b>	<b>Relevance and achievement of objectives</b>	<b>2.0</b>	
i)	Macroeconomic Policy	2.0	Two macroeconomic targets were achieved, namely, overall budgetary balance excluding grants and external current account excluding grants (both measured as % of GDP) by reining in expenditure until the 2007 quarter; inflation and real GDP growth targets were not met. Moderately satisfactory.
ii)	Sector Policy	1.5	No sector strategies, especially for coffee where poor yields are frequent as a result of a lack of investments and maintenance ; increase in private capital through the inflow of foreign direct investments.
iii)	Poverty Reduction	1.5	68 % of the population lives below the poverty line, which remains high-poor expenditure in the national budget amounted to : 36 % in 2006 and 38 % in 2007
iv)	Private-sector Development	1	Government commitment to promote the private sector is manifest but the process is long; key measures are in progress, notably, the legal and regulatory texts and the single window.
<b>2</b>	<b>Institutional Development</b>	<b>1.0</b>	
i)	Reform of budget implementation procedures	1	Steps are being taken to develop operational capacity at the IGF/IGE by computerizing their operations and the control and validation of wages. Other important measures were not implemented, such as the establishment within both the executive and legislative organs of institution or monitoring agencies to oversee implementation of the recommendations made in the reports of the IGF/IGE and the Court of Audit calling for the creation of a body within the Ministry of Finance to handle budget preparation exclusively etc
ii)	Financial and Management Information Systems including audit systems	1	This system could not be put in place, partly because of the failure to carry out measures planned under ERSP : i) complete work on the drafting of the Budgetary and Accounting Procedures Manual; ii) create internal control sections within the key financial ministries and build their capacity; iii) introduce an internal procedures guide and establish accounts certification techniques.
iii)	Transfer of Technology	<b>N.A</b>	
iv)	Staffing with qualified personnel (including turnover) training and counterpart staff	<b>N.A</b>	
<b>3</b>	<b>Sustainability</b>	<b>1.5</b>	
i)	Borrower commitment	2.0	Spurred on by the failure of the programme to live up to expectations in the second half of 2007, the Government of Burundi will resolutely pursue and deepen its reforms.
ii)	Institutional framework	1.0	There are a myriad of institutional weaknesses ; but there are significant delays in implementing the specific measures envisaged in the context of ERSP
iii-viii)	Other indicators	<b>N.A</b>	
	Internal rate of return	<b>N.A</b>	
	<b>TOTAL</b>	<b>11</b>	
	<b>Overall Performance Evaluation</b>	<b>1,4</b>	<b>Unsatisfactory</b>

**REPUBLIC OF BURUNDI**  
**ECONOMIC REFORM SUPPORT PROGRAMME 2006-2007 (ERSP)**

**Recommendations and Follow-up Matrix**

**ANNEX.5**

<b>Main Findings and Recommendations</b>	<b>Lessons and Recommendations</b>	<b>Follow-up Actions</b>	<b>Responsibility</b>
Programme Output	<ul style="list-style-type: none"> <li>- Several of the measures meant to build institutional capacity were not implemented.</li> <li>- There were delays in implementing several measures in particular the Labour Code, the Investment Code and the Private and Public Enterprises Code</li> </ul> <p>No privatization strategy in the coffee sector.</p>	<ul style="list-style-type: none"> <li>- Consolidate macroeconomic stabilization and deepen ongoing reforms, in particular by improving public finance management and promoting the private sector ;</li> <li>- Carry out the measures that were envisaged but were not implemented under ERSP I , with assistance from development partners;</li> <li>- Establish an institutional framework for monitoring-evaluation of ongoing reforms ;</li> <li>- Audit the special account and prepare a programme completion report</li> </ul>	<p>Government</p> <p>Government</p> <p>Government</p> <p>Government</p>
<p>Programme Design</p> <p>- Implementation/monitoring</p>	<p>Growth objectives were not achieved and the proportion of poor people remains high ; the fact that there were budgetary excesses shows that tighter public finance management is needed as well as adequate coordination of interventions by donors and development partners.</p> <p>Institutional weaknesses, especially in the area of statistics, were not adequately taken into consideration when determining the number and type of indicators for the programme.</p> <p>Need to pursue reforms started in the 2006-2007 period and strengthen governance by adequately monitoring the programme through regular missions and through ensuring the Bank plays a major role in the organization of the PIU, irrespective of the type of disbursement involved (single or phased)</p>	<p>Continue to support economic reforms in Burundi, particularly efforts to reduce poverty and improve governance ; help to ensure proper coordination among donors</p> <p>Be sufficiently aware of institutional weaknesses and identify synthetic indicators for monitoring the way the programme is implemented and its outcomes ;</p> <p>Be an active presence on the ground when the next structural reform programmes are being implemented</p> <p>Provide the Government with the technical and financial support to carry out a new programme of reforms that takes account of the measures that were uncompleted or implemented under ERSP I</p>	<p>Bank</p> <p>Bank</p> <p>Bank</p> <p>Bank</p>

**List of Documents Consulted**

1. ADB : Burundi, Economic Reform Support Programme, Appraisal Report, September 2006
2. ADB : Burundi, Economic Reform Support Programme, Supervision Report, January 2008
3. IMF : Burundi 6<sup>th</sup> Review of the FRPC Agreement, Report n° 08/27, January 2008
4. Burundi Institute of Statistics and Economic Studies: Survey 1-2-3 Dynamics of Employment and Unemployment in Bujumbura, Analysis Report, August 2007
5. Ministry of Finance (Partnership Framework Support Unit) : Matrix of Priority Public Finance Reforms, 2007-2009
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