

AFRICAN DEVELOPMENT BANK

AFRICAN DEVELOPMENT FUND



## FOURTH ECONOMIC REFORM SUPPORT PROGRAMME

### (PARE-IV)

## REPUBLIC OF BURUNDI

### APPRAISAL REPORT

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OSGE  
MAY 2011

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**CURRENCY EQUIVALENTS  
(February 2011)**

UA 1	=	FBU 1915.51
UA 1	=	EUR 1.14
UA 1	=	USD 1.56

**FISCAL YEAR**

1 January – 31 December

**PROGRAMME SCHEDULE – MAIN STAGES**

<b>Stages</b>	<b>Schedule</b>
Approval of Concept Note by Opscom	February 2011
Programme Approval by the Board	May 2011
Effective date of the Programme	June 2011
Disbursement of the First Tranche	July 2011
Disbursement of the Second Tranche	October 2011
Programme Completion	June 2012

## ACRONYMS AND ABBREVIATIONS

AB	:	Audited Budget (Loi de Règlement)
ABG	:	General Budget Support
ADB	:	African Development Bank
ADF	:	African Development Fund
ARMP	:	Public Procurement Regulatory Authority
BRB	:	Bank of the Republic of Burundi
CdC	:	Cour de Comptes (Audit Bench of Supreme Court)
CNCA	:	National Aid Coordination Committee
CNMP	:	<i>Commission Nationale des Marchés Publics</i> (National Public Procurement Board)
CPIA	:	Country Policy and Institutional Assessment
CPPR	:	Country Portfolio Performance Review
CSP	:	Country Strategy Paper
DNCMP	:	National Directorate for Public Procurement Control
EAC	:	East African Community
EC	:	European Commission
ECF	:	Extended Credit Facility
EU	:	European Union
FA	:	Finance Act
FSF	:	Fragile States Facility
GDP	:	Gross Domestic Product
HIV	:	Human Immuno-deficiency Virus
IGE	:	General State Inspectorate
IMF	:	International Monetary Fund
LOLF	:	Organic Law on Finance Acts
MDGs	:	Millennium Development Goals
MoF	:	Ministry of Finance
OBR	:	Burundi Revenue Office
PABG	:	General Budget Support Programme
PARE	:	Economic Reform Support Programme
PEFA	:	Public Expenditure and Financial Accountability
PEMFAR	:	Public Expenditure Management and Fiduciary Accountability Review
PER	:	Public Expenditure Review
PF	:	Partnership Framework
PFM	:	Public Finance Management
PIU	:	Project Implementation Unit
PPP	:	Purchasing Power Parity
PRSF	:	Poverty Reduction Strategy Framework
PRSP	:	Poverty Reduction Strategy Paper
RCs	:	Risky commitments
RGGBP	:	General Public Budget Management Regulations
RP	:	Risk Projects
SICI	:	Inspection and Internal Control Service
SIGEFI	:	Integrated Financial Management System
SYGADE	:	Debt Management and Analysis System
TFPs	:	Technical and Financial Partners
UA	:	Unit of Account
UNDP	:	United Nations Development Program
WB	:	World Bank
WHO	:	World Health Organisation

**GRANT INFORMATION SHEET**

<b>BENEFICIARY INFORMATION</b>	
<b>Donee</b>	Republic of Burundi
<b>Executing Agency</b>	Ministry of Finance Partnership Framework Support Unit
<b>Programme Title</b>	Fourth Economic Reform Support Programme (PARE-IV)
<b>GRANT CONDITIONS</b>	
<b>Modalities</b>	ADF Grant from Fragile States Facility resources
<b>Amount</b>	UA 7 million
<b>Number of Tranches</b>	2 (two) tranches of 4 and 3 million after fulfillment by the Donee of preliminary conditions specific to each tranche
<b>PARALLEL FINANCING OF THE PROGRAMME</b>	
<b>World Bank (2011):</b>	USD 25 million
<b>Norway (2011)</b>	USD 10 million
<b>European Commission (2011):</b>	EUR 9 million as a fixed tranche EUR 6 million as a variable tranche

## EXECUTIVE SUMMARY

<b>Context</b>	<p>Burundi went through a long period of civil war that destroyed a significant part of its productive apparatus. Since 2004, a peace-building process has been in progress and in 2010 several elections (municipal, presidential and legislative) were organised, which international observers deemed relatively satisfactory. Burundi's economic growth remains modest (3.9% in 2010) especially because of its high population growth rate.</p> <p>However, the country has embarked on a vast reform process aimed at modernising its economy and administration in order to enhance performance and competitiveness. Furthermore, it has engaged in a regional integration process within the East African Community.</p>
<b>General Overview of the Programme</b>	<p>The general objective of the programme is to support the country to put in place the conditions necessary for attainment of Burundi Vision 2025 goals, aimed at achieving double-digit growth and 50% poverty reduction. The specific objectives of the programme are: (i) improvement of budget transparency and efficiency; and (ii) consolidation of internal, external and public procurement control systems. The expected outcomes of the programme during the implementation period are: (i) improvement of the country's economic management; and (ii) improvement of public sector and institutional management.</p>
<b>Programme Beneficiaries</b>	<p>The end beneficiaries of the programme are the Burundian population as a whole and the poorest people in particular, since the improved quality of public spending will increase the supply of, and access to, basic social services. The other beneficiaries are government services (Ministry of Finance and partner structures) whose technical and operational capacity will be developed through implementation of the reforms.</p>
<b>Needs Assessment</b>	<p>This programme addresses a Burundian government need for public finance stabilisation. By financing part of the budget deficit, the programme will enable the State to provide basic services, thus alleviating social tension and contributing to the country's stability. As with the three previous operations, the programme will continue to support the country in its transition phase by helping it to put its reform programme in place, thanks to which Burundi would achieve stronger and more sustainable growth. The benefits of such growth would also be shared more equitably.</p>
<b>Bank's Value-added</b>	<p>The Bank has acquired experience in budget support from the first three programmes implemented in the country, as well as similar operations executed in other fragile States. Since 2009, the Bank has adopted a pragmatic approach to budget support which suits the type of reform policies pursued by the country.</p>
<b>Institutional Development and Knowledge Building</b>	<p>This programme will further consolidate Bank operations to help the Burundian administration build capacity. The analytical work as well as the various draft texts used for programme design will all contribute to knowledge building.</p>
<b>Recommendations</b>	<p>Management recommends that the Bank Group Board of Directors approve the UA 7 million Budget Support Programme, broken down into two tranches of UA 4 and 3 million, in favour of Burundi for 2011, in line with the conditions set out in this report.</p>

TABLE 1: Results-based Logical Framework

**PROGRAMME NAME :** Fourth Economic Reform Support Programme (PARE-IV)

**SECTOR OBJECTIVE:** Support the country in implementing conditions necessary for achieving Burundi Vision 2025 goals by enhancing public finance management efficiency and effectiveness

RESULTS CHAIN		PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/ MITIGATIVE MEASURES
		Indicator (including ISCs)	Baseline Situation	Target		
IMPACT	Improve the efficiency and effectiveness of public finance management	Implementation rate of pro-poor investments financed with own resources;	60% in 2010	70% in 2011	Budget execution report and the IMF's ECF review report	
		Share of public social spending in GDP	18.6% in 2010	19% in 2011		
EFFECTS	1. Improvement of budget transparency and efficiency	1.1 PEFA Indicator PI-7*: Extent of unreported government operations	PI-7 = D+ in 2008 With the following ratings per component (i) = C; (ii) = D	PI-7 = C+ in 2011 With the following ratings per component (i) = C; (ii) = B	Another PEFA will be conducted in the 2 <sup>nd</sup> half of 2011 and the completion team will conduct further analysis to assess any additional progress.	<p><b>Risk(s):</b> Political instability leading to lack of policy ownership and sustainability. <b>Mitigative measure(s):</b> Joining of the EAC and provision of budget support to stabilise public finance.</p> <p><b>Risk(s):</b> Land disputes <b>Mitigative measure(s):</b> Ongoing land reform and FAO's relief programme.</p>
		1.1 PEFA Indicator PI-24: Quality and timeliness of in-year budget reports	PI-24 = D+ in 2008 With the following ratings per component (i) = C; (ii) = D; (iii) = D	PI-24 = C+ in 2011 With the following ratings per component (i) = C; (ii) = B; (iii) = C		
	2. Improvement of internal, external and procurement control systems	2.1 PEFA Indicator PI-21: Effectiveness of internal audit	PI-21 = D+ in 2008 With the following ratings per component (i) = C; (ii) = C; (iii) = D	PI-21 = C+ at the end of 2011 (i) = B; (ii) = C; (iii) = C	A new PEFA survey will be conducted in the second half of 2011	
		2.2 PEFA Indicator PI-26: Scope, nature and follow-up of external audit	PI-26 = D+ in 2008 (i) = C; (ii) = C; (iii) = D	PI-26 = C+ at the end of 2011 (i) = C; (ii) = B; (iii) = C		
		2.3 PEFA Indicator PI-19: Competition, value for money and controls in procurement	PI-19 = D+ in 2008 With the following ratings per component (i) = D; (ii) = C; (iii) = C	PI-19 = C+ at the end of 2011 (i) = C; (ii) = B; (iii) = B		

\* The meaning of the PEFA indicator scores is provided in Annex 9.

	RESULTS CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/ MITIGATIVE MEASURES
		Indicator (including ISCs)	Baseline Situation	Target		
OUTCOMES	1.1 Complete listing of grants and loans, including an analysis of the inclusion of aid in the FA	Share of grants and loans received by Burundi registered in FA2011	FA2011 includes grants from most donors	An exhaustive list is compiled and FA2012 includes aid from all donors	Half-yearly progress report of CNCA	
	1.2 Tabling of finance bill (FB) 2012 before Parliament with: (i) the macroeconomic assumptions used in preparing FB2012; (ii) budget deficit according to GFS norms; (iii) deficit financing; (iv) budget implementation status for FY2010; (v) debt stock; (vi) budget for FY2011; and (vii) financial statements for the beginning of the current year.	Number of effectively fulfilled required criteria relating to data that should accompany the budget tabled before Parliament	Fulfilment of only 5 of the 9 required criteria relating to data that should accompany FB2011 tabled before Parliament	At least 7 of the 9 required criteria relating to data that should accompany the budget tabled before Parliament are fulfilled	FB2012 transmitted to Parliament	<p><b>Risks:</b> Waning of the Government's political will to implement reforms.</p> <p><b>Mitigative measures:</b> Regular monitoring of PFM performance by partners of the Partnership Framework</p>
	1.3 Transmission, to the Ministry of Finance, of quarterly budget execution reports for the first two quarters of 2011, containing expenditure execution data relating to the payments stage.	Quarterly budget execution reports for the first half-year.	There are no quarterly budget execution reports; only a half-yearly report	Two quarterly budget execution reports are available on payments for the first half-year	Quarterly budget execution reports	<p><b>Risks:</b> Fragile context of the country which slows down reform implementation</p> <p><b>Mitigative measures:</b> All the technical assistance provided by partners of the partnership framework</p>
	1.4 Approval of the 5 <sup>th</sup> ECF review by the IMF Executive Board	Status of the 5 <sup>th</sup> review of the Extended Credit Facility Programme	The 4th ECF review was approved in 2010	The 5 <sup>th</sup> ECF review is approved by the IMF Executive Board	IMF press release	
	1.5 Adoption of the General Public Budget Management Regulations (RGGBP) by the Council of Ministers	General Public Budget Management Regulations	The text has been finalized and should be submitted to the Council of Ministers for adoption	The text is adopted	Minutes of the Council of Ministers meeting which adopted the RGGBP	
	1.6 Validation of the recommendations of the study on simplification and rationalization of the expenditure chain	Recommendations of the study on simplification and rationalization of the expenditure chain	The study on the expenditure chain started recently and seeks to make recommendation on its rationalisation	The recommendations are made and validated by the MoF for implementation	MoF circular indicating validation of the recommendations	<p><b>Risks:</b> No balancing of the budget or even risk of deterioration</p>

RESULTS CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/ MITIGATIVE MEASURES
	Indicator (including ISCs)	Baseline Situation	Target		
1.7 Transmission of the audited budget and the 2010 management account to the CdC not later than 6 months after the end of the fiscal year	Date of transmission of the audited budget and the 2010 management account to the CdC	Transmission of documents by the MoF to the CdC is sometimes delayed by a few weeks	Documents are transmitted not later than 6 months after the end of the fiscal year to allow for in-depth analysis	MoF circular accompanying the documents transmitted to the CdC	<b>Mitigative measures:</b> Country's commitment with the IMF  <b>Risk(s):</b> Dependence of the economy on external assistance <b>Mitigative measure(s):</b> Establishment of the OBR to reform the fiscal system in order to increase domestic revenue collection
1.8 Inclusion in FA2012 of deadlines for submission to the CdC of: - management accounts; - the audited budget;	Deadlines for submission to the CdC of: - management accounts; - the audited budget;	The deadlines are not specified in FA2011	Transmission deadlines are included in FA2012	FB2012	
2.1 Preparation and transmission, by SICI, of its capacity-building needs plan and budget to the Ministry of Finance	SICI's capacity-building needs plan and budget	SICI's capacity is low compared to its mission and it does not have a capacity-building plan	SICI has a capacity-building plan which could be supported by donor institutional support	Circular transmitting the SICI plan to the Minister of Finance	
2.2 Finalisation and transmission by the IGE of the diagnostic report of sector inspectorates under the Ministry of Good Governance and Privatisation and preparation of a capacity-building plan for such inspectorates	Diagnostic report of sector inspectorates	Surveys were conducted in each ministry to take stock of existing inspectorates and capacity-building needs	The surveys conducted were summed up in a diagnostic report which also proposes a capacity-building plan	Circular transmitting the IGE report to the Ministry of Good Governance.	
2.3 Adoption by presidential decree of the list of new Audit Bench members approved by the National Assembly and Senate, thereby raising the staffing to the optimal level.	CdC staff	The CdC does not have enough staff to carry out its mission in full and the terms of office of CdC magistrates expired in June 2010	The CdC has sufficient staff to carry out its mission (new magistrates are recruited and those in office are either replaced or given service extension)	Presidential decree adopting the list of new Audit Bench members	
2.4 Submission by the CdC of its recommendations on the FA and budget execution report to Parliament for consideration no later than 8 months after the end of the fiscal year	Date of transmission of the audited budget 2010 to Parliament	Audited budget 2010 and the budget execution report were submitted to Parliament in September 2010	Audited budget 2010 and the budget execution report are submitted to Parliament not later than 31 August 2011	Legislative instrument on transmission of audited budget 2010 to Parliament by the Audit Bench (CdC)	

RESULTS CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/ MITIGATIVE MEASURES
	Indicator (including ISCs)	Baseline Situation	Target		
2.5 Conduct of an assessment on the use of the public procurement code	Assessment of the use of the public procurement code	The new public procurement code was adopted in 2008, but its implementation has not yet been evaluated	Evaluation of the use of the public procurement code is conducted and recommendations made	Evaluation report on the use of the public procurement code	
2.6 Conduct of ex poste control by the National Directorate of Public Procurement Control for contracts below the <i>ex ante</i> control threshold signed in 2009 and transmission of the recommendations to ARMP.	Percentage of contracts below the <i>ex ante</i> control threshold signed in 2009 that were audited	Contracts below the <i>ex ante</i> control threshold have not yet been audited	25% of contracts below the <i>ex ante</i> control threshold signed in 2009 are audited	DNCMP report on auditing of contracts below the <i>ex ante</i> control threshold that were signed in 2009	
2.7 Inclusion in FB2012 of the ARMP on the list of annex budgets with the obligation to consolidate the sub-account balance with the general Treasury account balance	Annex budget for the ARMP	No budget line is specifically allocated to the ARMP in FA2011	The ARMP features in the annex budgets of FA2012	FA2012	
<b>KEY ACTIVITIES</b>	<b>Financing:</b> <b>ADB/ADF:</b> UA 7 million in 2011 <b>World Bank:</b> USD 25 million for 2011 <b>Norway:</b> USD 10 million in 2011 <b>European Commission:</b> EUR 15 million in 2011, comprising 9 million as a fixed tranche, 6 million as a variable tranche and EUR 42 million for the 2012-2014 period <b>IMF/ECF:</b> SDR 15.4 million from 2008-2011				

## I. PROPOSAL

1.1. This proposal submitted to the Board of Directors for approval concerns the award of a grant of UA 7 million under the Fragile States Facility (FSF) to the Republic of Burundi, to finance the fourth Economic Reform Support Programme (PARE-IV). Burundi meets the FSF eligibility conditions in terms of its fragility, and is thus considered by the Bank to be a fragile State.<sup>2</sup> PARE-IV entails budget support which will be implemented from July 2011 to June 2012. The programme was appraised in February 2011 following a Government request made during the joint budget support review conducted in Bujumbura in September 2010. It is fully in line with the Poverty Reduction Strategy Framework (PRSF) adopted in 2006 (the second phase of which is under preparation), the CSP for 2008-2011 adopted by the Board in November 2008, and the long-term Burundi Vision 2025. The programme's design took into consideration the principles of good practice with respect to FSF conditionalities and operational guidelines.

1.2. This programme is the Bank's fourth budget support operation in Burundi since it re-engaged with the country in 2004. It closes a cycle of assistance aimed at restoring the fundamentals of the public finance management system in order to evolve gradually towards results-based management.

1.3. The objective of the programme is to help the country to institute the conditions necessary for attainment of Burundi Vision 2025 goals, aimed at achieving double-digit growth and 50% poverty reduction. Its operational objectives are to: (i) enhance the transparency and efficiency of public resource management; and (ii) improve the efficiency of public finance management control systems (internal, external and public procurement controls). The expected outcomes of the programme are an improvement in PFM, especially in terms of transparency, accountability and quality of internal, external and procurement control systems, in order to build Government's credibility and ensure a stable political, social and economic situation.

## II. COUNTRY AND PROGRAMME CONTEXT

### 2.1. Government's Overall Development Strategy and Medium-term Reform Priorities

2.1.1. *Current national development strategy.* Burundi Vision 2025 was adopted by Parliament in October 2010 and stems from a participatory process initiated in 2006, which seeks to rally all segments of Burundian society. The objectives of this long-term vision are: acceleration of economic growth to an annual rate of 10%, containment of population growth to an annual rate of 2% and reduction of the poverty rate to 50%. To attain these objectives, Vision 2025 is organized into eight pillars: (i) good governance and State capacity-building; (ii) human capacity building; (iii) economic growth and poverty control; (iv) regional integration; (v) population growth; (vi) social cohesion; (vii) territorial development and town planning; and (viii) partnership. This long-term planning instrument is accompanied by a medium-term development strategy, the PRSF, whose first generation was implemented in 2007-2010 and the second generation is being finalized in tandem with efforts to achieve the MDGs. The improvement of governance was already the first strategic pillar of PRSF-I and will remain at the core of the PRSF-II. Indeed, governance has emerged as a major concern of the communities consulted during PRSF-I evaluation and is considered a prerequisite to the achievement of Burundi Vision 2025 goals and the consolidation of peace.

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<sup>2</sup> See Burundi's fragility assessment according to FSF eligibility criteria in Annex 12.

2.1.2. The promotion of governance in Burundi Vision 2025 comprises three components: (i) the promotion of political governance through reinforcement of the democratic culture; (ii) the promotion of administrative governance through public service reform to increase the efficiency of administrative structures; and (iii) the promotion of economic governance through the creation of an institutional and regulatory environment favourable to transparent management, corruption control and judicious allocation of resources.

2.1.3. **Medium-term economic framework.** Burundi currently benefits from an active Extended Credit Facility (ECF) programme for 2008-2011, whose fifth review ended with a favourable conclusion. Medium-term prospects point towards the consolidation of growth, the stabilization of inflation and improved revenue collection as a result of the reforms implemented, especially when the country joined the East African Community (see Annex 4: relations with the IMF).

## 2.2. Recent Socio-economic Developments, Prospects, Constraints and Challenges

2.2.1. **Recent macroeconomic trends<sup>3</sup> and main characteristics of the investment climate.** Burundi's economy remains barely diversified and heavily agrarian, with the primary sector representing 46% of total GDP. The international financial crisis slightly contributed in slowing down activities in the country by reducing coffee prices, world demand for non-coffee exports and transfers; however, it also curbed inflation significantly, mainly by cutting the world prices of petroleum and food products. The growth rate fell from 4.5% in 2008 to 3.9% in 2010; over the same period, the annual inflation rate plummeted from 24.4% to 7%, according to IMF estimates of October 2010. Public revenue, net of grants, remained at about 18% of GDP due to a high tax rate (17%). However, after falling between 2008 to 2009<sup>4</sup>, public spending spiralled to 49.5% in 2010, partly because of additional spending on elections. Such a gap between revenue and expenditure makes the country highly dependent on foreign aid which stood at 28% of GDP in 2010, compared to 25% in 2008. Although the trade balance deteriorated between 2008 and 2010 mainly because imports grew faster than exports, the current account balance should improve over the same period since transfers have rallied. Indeed, 2009 was the year of attainment of the completion point and part of the aid went for debt cancellation. This cancellation notwithstanding, the country remains exposed to the risk of a high debt overload according to IMF and World Bank debt sustainability analysis. With respect to the business environment, Burundi is ranked 181<sup>st</sup> out of 183 in the Doing Business Index, but significant progress has been made especially in the tax payment system. However, the cost and duration of procedures are above the Sub-Saharan African average, especially with regard to cross-border trade and the granting of building permits. Burundi's membership in the EAC should prompt it to speed up its reforms, as evident in its recent replacement of the business tax with the VAT, and enable it to improve its business environment.

2.2.2. **Recent governance trends.** Although all the other sub-indicators are negative, the World Bank governance indicator (*Worldwide Governance Indicator*) shows that there has been some progress since 2004 in the areas of voice and accountability, political stability and regulatory quality. Only the rule of law and corruption control deteriorated from 2004 to 2009 (see Annex). Such deterioration is further confirmed by other governance indicators such as the Transparency International index.

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<sup>3</sup> Data on the under-mentioned economic indicators comes from Report of the 4th Review of the IMF's ECF in October 2010.

<sup>4</sup> The reduction of total expenditure in 2009 stems from a decline in external aid, excluding debt relief. Indeed, 2009 was the year of attainment of the completion point. Consequently, part of the external aid was redirected from regular projects to debt relief.

2.2.3. **Recent trends in the poverty profile.** According to the UN Human Development Report 2010, Burundi is one of the poorest countries in the world with a per capita GNP of USD 160 and is ranked 166<sup>th</sup> (out of 169 countries) under the Human Development Index. Its population is heavily rural (90% live in rural areas) and the poverty rate is 67%. However, **Burundi has recorded an improvement in human development and made progress in certain social sectors such as education and health.**<sup>5</sup> In health, the Government has subsidized maternity and under-five care. Consequently, vaccination coverage has exceeded 80%, and the delivery rate in health structures has jumped from 22% in 2005 to 41.3% in 2009. As regards HIV prevalence, the number of persons living with HIV within the 15-49 age bracket declined from 5% in 2001 to 3.3% in 2009<sup>6</sup>. Similarly, owing to widespread distribution of mosquito nets, malaria incidence was slashed from 46.5% in 2000 to 24.6% in 2008. Lastly, tuberculosis control remains the country's major public health challenge and performance in this area is below WHO standards in terms of detection (45% compared to 70%) and therapeutic success (79% compared to 85%). Burundian Government policy **in the area of education** (free primary education for all) has improved access to education. Although the gross enrolment ratio rose from 123.5% in 2007 to 130.4% in 2009<sup>7</sup>, the completion rate for this cycle remains low (46%) because of early drop-outs from the system. Lastly, the literacy rate among 15-24 year olds also rose from 53% in 1990 to 78% in 2007.

2.2.4. **Prospects, main constraints and major medium-term challenges.** Burundi's economy is plagued by several structural constraints which handicap its development:

- **High dependence on external trade:** In recent years, grants have represented over 50% of total public revenue, since domestic revenue is not enough to cover current public spending. Despite the recent cancellation of part of its debt, the country's risk of debt overload remains high. However, reforms have been gradually implemented to reduce this dependence in the medium term: a public finance organic law was adopted in 2008 and, in parallel, reforms are underway in the areas of tax policy, revenue administration, expenditure policy, and debt and cash-flow management.
- **Vulnerability to exogenous shocks:** Apart from its dependence on external aid flows which are volatile, the economy is heavily agrarian, and its growth depends very much on climatic conditions. Furthermore, the country is a net importer of food and petroleum products. This exposes it to international market price variations. The emerging new upward trend in food and petroleum product prices could once again expose the country.
- **Poor diversification of the economy:** The economy is dominated by the coffee sector, whose exports represent 60 to 70% of total exports. PRSF-II intends to focus on diversification of the economy and development of growth sectors. However, to achieve this, the conditions for developing an efficient private sector should be put in place. The country has already embarked on coffee sector reform with a view to privatization.
- **Unfavourable business environment:** Structural factors greatly undermine the competitiveness of the country, which is ranked 137<sup>th</sup> out of 139 countries

<sup>5</sup> Data on the under-mentioned social indicators comes from the UNDP report on MDGs, Burundi 2010.

<sup>6</sup> Source: UNAIDS, 2010 Global Report.

<sup>7</sup> The gross enrolment ratio measures the ratio of the children effectively in school within the cycle to those who have attained the official schooling age. Since the institution of free education and the return to peace have enabled older children to enrol in school, the gross enrolment ratio exceeds 100%.

according to the Global Competitiveness Index.<sup>8</sup> The main obstacles identified in the business environment are access to financing, corruption, public policy instability, tax regulation, limited infrastructure and an inefficient public administration. However, financial sector reform is underway under the aegis of the IMF, with the main objective of broadening access to financing.

2.2.5. Medium-term prospects are favourable so long as the country's security situation continues to improve. Regional integration within the EAC could have a multiplier effect on growth if the necessary structural reforms are accelerated. This requires a reduction of the administrative obstacles to trade, greater investment in essential infrastructure – with the aid of donors – and in-depth financial sector reform.

### **2.3. Status of Bank Group Portfolio**

2.3.1. Burundi's portfolio has 7 ongoing operations totalling UA 45.1 million, broken down as follows: 32% in agriculture, 27% in water and sanitation, 22% in the social sector, 16% in energy and 3% in the economic and financial governance sector. The portfolio's overall disbursement rate is 53%. In addition to these, there are 3 regional operations with specific components, amounting to UA 39.6 million in the transport sector.

2.3.2. *Operations at risk.* According to the 2010 Portfolio Review<sup>9</sup>, the overall portfolio performance was deemed satisfactory with score of 2.3 in 2010 (on a scale of 0 to 3, with 3 being very satisfactory), compared to a score of 2.1 in 2008. As at 28 February 2011, projects at risk (PARs) and commitments at risk (CARs) respectively represent 18.2% and 17.95% of the portfolio, whereas the Bank's average is 45% and 39%, in that order. None of the economic and financial sector projects are considered to be at risk.

## **III. KEY PROGRAMME DESIGN ELEMENTS AND SUSTAINABILITY**

### **3.1. Linkages with the CSP, Assessment of Country Preparedness and Underlying Analytical Elements**

3.1.1. *Linkages with the CSP.* This programme is in line with the first pillar of the Country Strategy Paper (CSP) for 2008-2011: "Support efficient government while improving economic governance and the functioning of major public sector institutions". Budget support is considered to be the instrument for achieving the expected results of Pillar I, namely more judicious and transparent public finance management, better liquidity management, reinforcement of internal and external budget execution control and improvement of procurement practices through implementation of a procurement action plan.

3.1.2. *Conformity with preliminary general and technical conditions.* As indicated in the table below, Burundi has the main characteristics required for a budget support operation. The preliminary general and technical conditions according to the Bank's budget support policy as well as the Bank's policy on fragile States have been fulfilled.

<sup>8</sup> The Global Competitiveness Report 2010-2011, The World Economic Forum.

<sup>9</sup> African Development Bank: Mid-Term Review of the 2008-2011 Country Strategy Paper and Country Portfolio Review, ADF/BD/WP/2010/151/Rev.1

**TABLE 2**  
**General and Technical Conditions for Budget Support According to the Bank's Budget Support and Fragile States Policies**

Prerequisite Conditions		Key Points
<b>Prerequisite conditions under the PABG</b>		
General conditions	Political stability	A power-sharing agreement was signed in 2008 with the last group of rebels. The organisation of municipal, presidential and legislative elections in 2010 was deemed satisfactory by independent observers. Although tensions emerged as a result of the elections, the authorities have kept the political situation under control.
	Economic stability and Government commitment	The Government has shown strong commitment to the economic development of the country. The 4 <sup>th</sup> ECF review by the IMF ended favourably in July 2010.
Technical conditions	Existence of a well-designed PRSP with an implementation mechanism	The country has a long-term vision called "Burundi 2025". PRSF-I adopted in 2006 is being completed and the preparation process for a new strategy was launched in November 2010. This strategy, PRSF-II, should be presented in July 2011. The implementation mechanism is under the Ministry of Planning and regular monitoring is conducted by the Interministerial Technical Monitoring Committee. Furthermore, the CNCA ensures the mobilization of resources.
	Viable macro-economic framework and financial sector in the medium-term	According to the 4 <sup>th</sup> ECF review by the IMF, Burundi's macroeconomic prospects remain favorable in the medium-term if the country's security situation continues to improve.
	Existence of a strong partnership between the country and donors	There is a partnership framework with donors which brings together the MoF and donors involved in public finance management reform. This PF organized its first joint annual review in September 2010.
	Existence of strong partnership among donors	There is close partnership among donors, especially the WB, EC and ADB, which are the three leading donors providing budget support to Burundi. Joint studies have been conducted and coordination effort has been made to organize joint supervision missions.
	Satisfactory fiduciary review of the public finance management system	Major fiduciary risks were identified through the various studies conducted recently (PEMFAR in 2008, PEFA in 2009, PER in 2010, etc.) in the areas of budgeting, budget execution control, financial accounting and information, and internal and external control. There is a permanent process of seeking and preparing measures to mitigate the fiduciary risks identified by these studies through the implementation of public finance management reforms in the short and medium term (see Annex 7).
<b>Conditions for utilization of budget support instruments (PABG) in Fragile States</b>		
Prerequisite conditions	The country must have fulfilled the two stage criteria for eligibility to the FSF	Burundi fulfilled the FSF eligibility criteria (see Annex 12) and the ADF Board should reconfirm this in May 2011.
	There must be consensus between the Government and donors on the development priorities that can be supported by the PABG	Development priorities supported by the PABGs are discussed within the partnership framework and a consensus is reached on them between the Government and donors.
	The country must be in the process of implementing a credible institutional capacity-building programme	Several capacity-building programmes are underway. With respect to PFM in particular, the MoF accompanies the reform implementation action plan with a capacity-building needs plan in a bid to spread out donor support.
	There should be a national programming document, such as: a national development plan, a post-conflict needs assessment (PCNA), an interim poverty reduction strategy	The country has a long-term vision, Burundi 2025, outlined into medium-term strategies (PRSF), the first of which is being completed. The second will be presented in July 2011.
d m	The rationale for the operation must be provided in the programming document	The rationale for the operation is outlined in CSP 2008-2011 and its mid-term review was done in 2010. It is in Section III of this

Prerequisite Conditions	Key Points
(country-paper, CSPs, or CSP reviews) and in the appraisal report, and should include measures for mitigating fragility risks	appraisal report and mitigative measures for fragility risks are proposed in Section VII.
The operation will be audited, not by a public audit body, but by an audit firm at least once a year during the execution phase	The Audit Bench (CdC) of Burundi regularly conducts ad hoc quality audits and transmits the audited budget to Parliament. The CdC also submits its observations to Parliament on all Finance Acts tabled. Hence, it is considered that the CdC can audit the resources of the operation. However, the Bank reserves the right to request for an independent audit, if necessary.
Where the institutional capacity is deemed to be low, the Bank Group, through the FSF, is expected to recruit professionals and post them to the relevant public bodies to build their institutional capacity to a level which enables them to support the operation.	Institutional support is underway, financed by the FSF and ADF.
The Bank will always endeavour to involve other donors, although it can play a catalytic role in coordinating activities and disbursing resources.	Other donors also intervene by providing budget support, especially the EU and WB. The Bank's programme is coordinated with these two operations.
Disbursements will be made in several tranches	Disbursements will be made in two tranches.

3.1.3. **Ongoing and future studies.** A study on rationalization of the expenditure chain, funded by the EU, is underway. Several studies have been planned for 2011: (i) an EU-funded study on internal and external control to obtain an exhaustive overview of the public finance management control system and the respective roles of various control bodies; (ii) a PEFA survey jointly financed by the EU and the Bank to assess progress made in PFM and highlight the remaining constraints; (iii) an organisational audit of the MoF conducted by the IMF; and (iv) an appraisal of the public procurement code to assess its implementation two years after its entry into force. The recommendations of all these studies will be used to consolidate the Bank's future institutional support operations.

## 3.2. Collaboration and Coordination with Other Donors

3.2.1. **The coordination of budget support** with other donors is organized within the PF which the Bank signed in September 2008. Meetings of the PF are held regularly to monitor the implementation of reforms and budget support. There is also a consultative group of partners whose secretarial services are provided by the National Aid Coordination Committee (CNCA) which has a mandate to coordinate development aid in Burundi. Collaboration and coordination among donors is relatively satisfactory. The first joint review of budget support and implementation of the PFM reform strategy was conducted in September 2010 as part of PARE-III implementation. Furthermore, the preparation meeting for this programme was also conducted jointly with an EU mission and the IMF's 5<sup>th</sup> ECF review mission. However, there is still room for closer collaboration. That is why fiscal partners agreed to work, in 2011, on a common performance measurement framework that could ultimately lead to the preparation of a common matrix of measures through which donors would share out focus sub-sectors and monitor them.

3.2.2. As concerns coordination in the conduct of studies, it should be noted that the *Country Economic Memorandum* (CEM) was jointly prepared by the World Bank and the Bank. A PEFA assessment will also be conducted jointly by the Bank and the EU at the end of 2011. Furthermore, the Bank and the EU jointly prepared the terms of reference for the study on the internal and external control systems funded by the EU.

3.2.3. With respect to implementation of the Paris Declaration, other significant efforts were also made by donors to communicate financial data on their projects and by the Government to record a greater share of external aid in the Finance Act. Nevertheless, progress remains to be made in terms of aid predictability and the use of national procedures. Apart from budget aid which, by its very nature, presupposes the use of national systems, Belgium is the only donor using the Burundian procurement system for its operations. In the first half of the year, the Bank's Procurement Department will assess the conformity of the national system with the Bank's rules and procedures. Recommendations will be made to upgrade the national system and thus enable its use for Bank projects.

### 3.3. Results and Lessons from Similar Completed or Ongoing Operations

3.3.1. **Recently completed or ongoing operations.** The Bank has financed three budget support operations since 2004 (PARE-I, PARE-II and PARE-III). While PARE-I implementation was less satisfactory, PARE-II and III were better executed and their results are satisfactory. The three preceding operations showed that, given the country's fragile context, multi-tranche disbursement was preferable to a single tranche operation; that the choice of measures had to be made in close collaboration with other donors, taking into account their implied complexity and prerequisite conditions; that programmes have to be better targeted and the number of measures reduced; that dialogue with the country had to be reinforced to ensure greater national ownership of the programme; that the choice of measures had to tally more with the national reform strategy; and lastly, that it is important to consolidate reforms aimed at establishing a solid foundation before moving on to more ambitious reforms. The application of past lessons reinforced coordination with other donors operating through budget support, in order to ensure better sharing of intervention areas.

3.3.2. **Progress made through the Bank's previous support.** Previous Bank operations supported the implementation of the national public finance strategy and its action plan. Hence, they contributed to the attainment of a number of results mentioned in the national PFM reform strategy:

- *Goal 1 of the strategy, "reform of the legislative and regulatory framework":* PARE-I, II and III contributed to the adoption and implementation of the new organic law on public finance (LOLF), preparation of the General Public Budget Management Regulations (RGGBP), the establishment and operationalisation of structures created under the new public procurement code (namely the ARMP, DNCMP and CNMP) and the adoption of a public procurement action plan.
- *Goal 2, "improved mobilisation of internal and external resources":* The Bank's operations supported the preparation and implementation of a rolling quarterly cash-flow plan and the gradual establishment of a single Treasury account.
- *Goal 3, "more efficient and transparent management of public resources":* The Bank's operations supported the production of the macroeconomic framework and budget priorities within the deadlines set out in the LOLF, the identification of

poverty reduction expenditures within the budget, the conduct of a State personnel census and use of the census results in budget preparation, more exhaustive collection of external financing, improvement of the budget documentation accompanying the finance bill and preparation of a circular setting the time limits for expenditure initiation, scheduling and payments.

- *Goal 4, "improvement of control systems":* The Bank's operations supported capacity-building for control institutions, especially the General State Inspectorate (IGE) and the Audit Bench (CdC), the establishment of the Inspection and Internal Control Service at the MoF (SICI), the gradual establishment of a system for monitoring CdC recommendations as well as the transmission of the audited budget (AB) by the MoF to the CdC and submission of CdC recommendations on the AB to Parliament within the time-limits set out in the LOLF.

3.3.3. PARE-IV is aimed at consolidating the reforms initiated by the three previous operations and thus complete a cycle devoted solely to PFM reform. The next budget support operation should be able to broaden the scope of action to include other sectors, especially private sector support, in order to significantly boost the competitiveness of Burundi's economy (ranked 137<sup>th</sup> out of 139 countries according to the *Global Competitiveness Index*) and the business environment (ranked 181<sup>st</sup> out of 183 countries according to *Doing Business*).

#### **3.4. Linkages with Ongoing Bank Operations**

3.4.1. The Bank finances institutional capacity building support operations that target the CdC and IGE. Hence, the two institutions are provided with a long-term technical assistance staff as well as training, equipment and operational support. Technical support for the Ministry of Planning, which is responsible for preparing the macroeconomic framework necessary for preparation of the State budget, was also provided with financing from FSF Window III. The Bank also finances the preparation of PRSF-II with a grant from a Japanese bilateral fund. Lastly, under ADF-12, the Bank will finance new institutional support aimed at building MoF capacity. In addition, strengthening the capacity of the public finance management system (which is the goal of the current operation) will contribute to facilitating the execution of other Bank operations.

#### **3.5. Bank's Comparative Advantages**

3.5.1. The Bank has acquired budget support experience after the first three programmes implemented in the country. The results obtained through the implementation of these programmes are significant (see Paragraph 3.3.2) and equally show the need for the Bank to continue consolidating the progress made. This experience is supplemented by other experiences acquired in implementing institutional support projects, as well as similar operations executed in other fragile States. Since 2009, the Bank has adopted a pragmatic approach to budget support that suits the type of reform policies pursued by the country. Lastly, during preparation of this operation, the Bank continued to reinforce its dialogue with Burundi. The Bank undoubtedly has a comparative advantage in terms of partnership with the country and is perceived as a privileged partner in reinforcing dialogue between Burundi and all partners.

#### **3.6. Application of Principles of Good Practices in Conditionalities**

3.6.1. Best principles of good practices in conditionalities, especially those related to ownership, the coordinated accountability framework, adaptation of this framework to the context, choice of results-based disbursement conditions and consideration of the

predictability of financial support, prevailed in the design and formulation of PARE-IV. The Bank reinforces its collaboration and coordination with the other development partners engaged in providing the country with budget support in order to create synergy and consistency among respective operations (also see Section 3.2).

#### IV. PROPOSED PROGRAMME AND EXPECTED RESULTS

##### 4.1. Programme Goal and Objectives

4.1.1. Given the country's fragile situation, its needs are enormous while its national revenue mobilization capacity, undermined by years of civil war, remains very low. While waiting for the reforms aimed at improving this capacity to bear fruit, the country needs budget aid to address basic needs which, if ignored, could help to further fragilize the political and social situation. The current programme consolidates the efforts made by the Bank in previous operations, which aimed at stabilising the country's situation by supporting public expenditure to revive economic activity. At the same time, it seeks to support the public finance reform strategy to enhance public finance management efficiency and transparency, with a view to ensuring better resource mobilization and utilization. In all, the ultimate goal is to cut the public deficit.

4.1.2. The general objective of the programme is to help the country to put in place conditions necessary for attainment of Burundi Vision 2025 goals, aimed at achieving double-digit growth and 50% poverty reduction. In the long term, through its various PFM operations, the Bank seeks to contribute to transforming the budget into a development tool by instituting the conditions necessary for results-based budgeting. The expected programme outcomes during implementation are: (i) improvement of the execution rate of pro-poor investment expenditure financed with national resources; and (ii) increasing the share of social sector spending in the GDP.

##### 4.2. Pillars, Specific Objectives and Expected Results

4.2.1. The specific objectives of the programme are: (i) improvement of budget transparency and efficiency; and (ii) consolidation of internal, external and public procurement control systems. Hence, the expected results of the programme are: (i) reduction of the number of unreported central government operations; (ii) improvement of the quality and timeliness of budget execution reports; (iii) improvement of the efficiency of the internal audit system; (iv) enhancement of the efficiency of the external audit system; and (v) better control of public procurement to ensure optimal resource mobilisation.

**TABLE 3**  
*Breakdown of Budget Support Areas Funded by the Main Donors*

	ADB	World Bank	European Union
Budget preparation deadlines			X
Distribution of budget resources		X	X
Medium-term budget programming		X	
Exhaustiveness of the budget	X		
Budget documentation	X		
Budget execution according to forecasts	X		X
Budget execution reports	X		X
Budget regulations	X		
Cash-flow management		X	
SIGEFI		X	X
Internal and external control	X	X	X
Public procurement	X		
Improvement of the private sector environment		X	

4.2.2. As regards PFM, the country adopted an organic law on public finance in 2008 and a public finance reform strategy accompanied by an action plan in 2009. The Bank has been supporting the implementation of this strategy since 2009 and the current programme was retained based on Government priorities set out in the public finance reform strategy action plan as a continuation of the preceding operation (PARE-III), in coordination with other donors.

### **Component A: Improve Budget Transparency and Efficiency**

#### *Improve budget transparency*

4.2.3. With respect to budget implementation transparency, despite the progress made in recent years, a number of constraints remain especially concerning information on the budget cycle. Indeed, although the FAs can be accessed on the MoF website, information on budget execution in the course of the year is not accessible and the MoF does not produce quarterly budget execution reports. Therefore, it is difficult for the MoF to closely monitor the budget in the course of the year. Besides, the budget documentation submitted to Parliament along with finance bills, which should provide an overview of budget estimates, proposed budgets and budget results for the preceding fiscal years (to enlighten the parliamentarians voting the bill), does not yet fully comply with the requirements set out in the LOLF (Art. 26, 27 and 28) with respect to documents appended to Finance Acts. The budget documentation accompanying the 2009 Finance Act fulfills only four of the nine information criteria. That of the 2011 Finance Act fulfills only five of the criteria. Lastly, the progress recently made in identifying external aid must be consolidated in order to maintain the most exhaustive list of external aid possible in future Finance Acts.

4.2.4. Under the current programme, the measures targeted to improve transparency in budget management are: (i) continue with efforts to identify external aid, in particular aid given in the form of grants, in order to prepare a comprehensive budget; (ii) consolidate budget documentation by including public debt management information for the greater edification of Parliament; and (iii) reinforce budget execution information by preparing quarterly budget implementation reports containing expenditure implementation data at the payments stage for publication on the MoF website, to ensure better budget execution. The expected results from implementing these measures are: (i) enhance the comprehensiveness of external financing information to improve knowledge of available financing; (ii) enable Parliament to vote the FA with full knowledge of PFM data, thus better exercising its external control prerogatives; and (iii) have better knowledge of the budget execution status in the course of the year to identify bottlenecks and increase the general implementation level. With respect to budget execution monitoring, the Bank's action is coordinated with that of the European Union which focuses on monitoring the preparation of monthly Table of Government Financial Operations (TOFE).

#### *Improvement of efficiency*

4.2.5. Although the results obtained by the country with respect to PFM reforms, especially under the ECF programme, are satisfactory overall, the pace of reforms has to be maintained in order to build capacity for domestic resource mobilization, readjust the budget in favour of pro-poor expenditure and adapt budget management to the country's debt overload risk. A detailed study of the organization and functioning of the MoF also has to be conducted to ensure that the improvement of its practices and working methods leads to greater efficiency. Hence, the preparation and adoption of the enabling instruments of the LOLF are necessary. In this regard, one of the most important texts is the General Public Budget Management Regulations (RGGBP). It was prepared to streamline practices in Government budget preparation, revenue management, expenditure and cash-flow, expenditure control, accountability and sanctions, management of donor funds and devolution. However, its adoption is not yet effective and constitutes an

obstruction to the preparation of other equally crucial texts to improve working methods and streamline budget management practices, especially the budget procedures manual as well as revision of the statutes of public accountants. Lastly, although the time limits for transmission of the audited budget and management account to the CdC have been extended, they are still too short to enable the CdC to examine the documents in detail and submit their recommendations to Parliament within the prescribed deadlines.

4.2.6. Under this programme, the following measures are aimed at improving budget management transparency: (i) maintenance of a programme with the IMF and, in particular, approval by the IMF Executive Board of the 5<sup>th</sup> ECF review will prove that the country maintains a satisfactory pace of reforms in the above areas; (ii) adoption of the RGGBP at a Council of Ministers meeting which will allow for setting PFM norms that tally with the LOLF and, subsequently, starting preparation of the budget procedures manual and revising other related texts in order to streamline MoF practices; (iii) validation of the recommendations of the study on rationalization of the expenditure chain with a view to integrating expenditure into the action plan of the public finance reform strategy; (iv) clarification in the 2012 Finance Bill of the time-limits for transmission of the 2011 management account and audited budget so as to achieve the goals set in the LOLF for 2014; and (v) effective transmission to the CdC of the 2010 management accounts and audited budget not later than the end of June 2011. The expected outcomes from these measures are: (i) a streamlined and modernized budget cycle for more efficient PFM; and (ii) improved deadlines for submission of the public accounts to the CdC by the MoF to give the CdC enough time to conduct good quality audit.

### **Component B: Reinforcement of Control Systems**

4.2.7. Institutionally, public finance control is operational through the IGE, SICI, sector inspectorates, and the Anti-corruption Brigade for internal control; the CdC and the National Assembly for external control; the National Directorate for Public Procurement Control (DNCMP) and the ARMP for public procurements. The performance of these various control institutions is somewhat unsatisfactory because of their generally limited capacity. According to PEFA data, it is based essentially on the efficiency of each internal control institution, measurable by its scope of action, the quality of its audit, the frequency and dissemination of its reports and the amount of feedback provided by the authorities on internal audit results. For external audits, the performance appraisal criteria are the scope of the audit conducted (including compliance with international norms), a detailed presentation of audit reports to Parliament and proof of compliance with the recommendations made by the auditors. A study on internal and external control systems financed by the EU is underway to formulate recommendations for enhancing the quality and efficiency of the systems.

#### *Improvement of the internal control system*

4.2.8. The internal control system essentially comprises three structures: (i) the IGE, a higher control institution set up in December 2006, which started its activities in July 2007 and is entrusted with the permanent mission of controlling the organization and management of all government services; (ii) SICI, in the MoF, set up in 2008 by ministerial order and tasked with controlling revenue and expenditure activities within the MoF; and (iii) the Anti-Corruption Brigade created in 2006 with sole jurisdiction over matters of corruption and related offences, and similar to a police department. In 2010, a new division was set up within the IGE responsible for guiding and coordinating sector inspectorates whose first mission was to conduct a diagnosis of the said sector inspectorates with a view to consolidating them. SICI has limited human and material capacity. For that reason, it is unable to conduct all its control missions. Furthermore, the sharing of responsibilities between the two institutions is not clear. Each of the two institutions reports to a different ministry without informing the other. Furthermore, there is no mechanism for monitoring recommendations.

4.2.9. Under the current programme, the measures taken to reinforce internal control are: (i) preparation by SICI of its material and human capacity-building needs assessment with the corresponding budgets; and (ii) finalization and transmission of the diagnostic reports for the sector inspectorates to the Ministry of Good Governance and Privatisation, and preparation of a capacity-building plan for the said inspectorates. The expected outcomes of these measures are the establishment of a needs assessment for internal control capacity-building within each of the ministries. In the area of internal control, the Bank's action is coordinated with that of the WB, which concentrates on the rationalisation of internal practices within the IGE.

*Improvement of the internal control system*

4.2.10. The CdC was set up in 2004 and is tasked with examining and certifying the accounts of public services. It also assists Parliament in executing the Finance Act (FA). Since its creation, the CdC has made recommendations on the finance bills debated in Parliament and commented on the audited budget. For the first time since its creation, the 2008 audited budget was voted by Parliament at its session of October 2010. However, given the decline in the number of CdC magistrates - from 22 in 2008 to 13 in 2010 – owing to the fact that their professional status is not attractive enough, the CdC has not been able to carry out its mission fully and is forced to limit the number of controls it conducts. Furthermore, following a judgment of the Constitutional Court, the CdC has lost its judicial jurisdiction and this has severely limited the scope of its controls. Consequently, consolidation of the external control system especially requires reinforcement of CdC staffing to enable it to fulfill its mission. Furthermore, the audited budget must be tabled before, and voted by, Parliament, whose Finance Commission is responsible for monitoring the recommendations of the CdC in order to hold the MoF accountable before the Legislative Branch. Lastly, reflection is necessary with regard to revising the control system in order to harmonise it with EAC procedures.

4.2.11. Under the current programme, the measures taken to reinforce external control are: (i) adoption by presidential decree of the list of new CdC members approved by the National Assembly and the Senate to reach the optimum staffing; and (ii) submission by the CdC of its recommendations on the audited budget and the budget execution report to Parliament for consideration, not later than 8 months after the end of the fiscal year. These measure are expected to reinforce the external control system by providing the CdC with the necessary human resources to carry out its mission properly. They would also ensure that the recommendations of the CdC are submitted to Parliament and provide clarifications to guide voting on the subsequent year's budget. With respect to external control, the Bank's action is coordinated with that of the WB and the EU, concentrated respectively on the regulatory framework relative to the CdC's independence and broadening the scope of its audit.

*Improvement of the procurement control system*

4.2.12. In 2001, the Government of the Republic of Burundi, with the support of technical and financial partners, embarked on procurement system reform that notably led to the adoption of a new procurements code<sup>10</sup> in February 2008 (see Annex 8). This code, which went into force in October 2008, lays down more rational rules and regulations that encourage competition and transparency, and enshrine the institution of a generally acceptable new legal and institutional framework. These achievements notwithstanding, there are still capacity limitations within the system in terms of the professionalisation of stakeholders and availability of management, planning and monitoring/evaluation tools, considering the missions entrusted to the new

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<sup>10</sup> Law N° 1/01 of 4 February 2008 and its enabling instruments.

structures (ARMP, DNCMP, procurement unit, etc.). The effective operationalisation and efficiency of the procurement units, which are *ad hoc* structures, need to be reinforced. With respect to control, ARMP has not yet conducted *ex poste* control of contracts and the DNCMP does not control contracts below the *ex ante* control threshold. In the area of transparency, there is no procurements gazette or website for wide dissemination of information on procurements.

4.2.13. Under the current programme, measures taken to reinforce procurement control are: (i) overall assessment of the procurement system using the methodology developed by OECD/DAC to make recommendations that will improve the procurement practices noticed; (ii) conduct by the DNCMP of *ex poste* control of contracts awarded in 2009 whose amount is below the *ex ante* control threshold, in a order to extend control to all public contracts; and (iii) inclusion of the ARMP on the list of annex budgets of FA2012 to further safeguard its budget allocation. The expected outcomes are: a diagnosis of the procurement system after application of the new public procurement code, reinforcement of the culture of integrity in government services in charge of procurement and reinforcement of the financial independence of the control institution.

4.2.14. Under future institutional support operations, support will be proposed for: (i) preparing the budget execution procedures manual based on the RGGPB; (ii) implementing the recommendations of the study on simplification and streamlining of the expenditure chain; (iii) capacity-building for SICI, sector inspectorates and procurement control institutions; and (iv) implementing the recommendations of the ongoing study on rationalization of the internal and external control system.

### 4.3. Financing Requirements and Arrangements

4.3.1. *Financing requirements for the fiscal year.* According to FA2011, the budget deficit, net of grants, for fiscal 2011 represents 27% of GDP as indicated in Table 4 below.

<b>TABLE 4</b>		
<b>Financing requirements for 2011</b>	<b>in BFU billion</b>	<b>(as % of GDP)</b>
<b>Total revenue, net of grants</b>	<b>458.25</b>	<b>21.8%</b>
Tax revenue	432.62	20.6%
<b>Total expenditure</b>	<b>1026.17</b>	<b>48.8%</b>
Balance	272.44	12.9%
Off-balance recurrent expenditure	300.59	14.3%
Capital expenditure and net loans	453.15	21.5%
<b>Global balance, net of grants</b>	<b>-567.92</b>	<b>-27.0%</b>
<b>Arrears variation</b>	<b>-</b>	<b>21.8%</b>
<b>(A) Deficit, cash basis (net of grants)</b>	<b>-567.92</b>	<b>-27.0%</b>
<b>Deficit including grants (except HIPC)</b>	<b>-98.85</b>	<b>-4.70%</b>

Source: Finance Act 2011

4.3.2. *Public deficit financing arrangements.* As indicated in Table 5 above, the budget deficit is financed almost exclusively with external grants, over one-third of which are provided in the form of budget aid. Bank financing under the current programme represents 2.4% of the deficit and is supplemented by budget aid from other donors, project aid, as well as debt relief under the MDRI initiative, such that the residual financing need is nil.

**TABLE 5**  
**2011 Budget Deficit Financing Arrangements**

	<i>in FBU billion</i>	<i>% of deficit</i>	<i>Comments</i>
<b>(B) Total financing</b>	<b>-567.92</b>		
<b>Net domestic financing</b>	<b>19.80</b>	3.5%	
<b>Net external financing</b>	<b>548.12</b>	96.5%	
Net external borrowing	-1.03	-0.2%	
External grants	549.15	96.7%	
Debt relief	80.05	14.1%	
<u>Budget Aid</u>	<u>186.90</u>	32.9%	
World Bank	64.30	11.3%	<i>including a disbursement delay of FBU 31.6 billion in 2010</i>
Norway	25.70	4.5%	<i>including a disbursement delay of FBU 12.6 billion in 2010</i>
Netherlands	33.60	5.9%	<i>including a disbursement delay of FBU 16.6 billion in 2010 and sector support of FBU 17 billion, of which FBU 23.1 billion was disbursed end 2010 and carried over to 2011</i>
European Commission	48.20	8.5%	
<u>ADF/FSF</u>	<u>13.70</u>	2.4%	<i>Representing UA 7M</i>
France	1.40	0.2%	<i>C2D</i>
Other grants	282.21	49.7%	
<b>Residual financing gap (B-A)</b>	<b>0</b>		

Source: Finance Act 2011

#### 4.4. Programme Beneficiaries

The end beneficiary of the programme is the population of Burundi as a whole, especially the poorest. Indeed, improvement of the quality of public spending increases the supply of, and facilitates access to, basic social services. Furthermore, by putting in the place the conditions for stronger, more sustainable and redistributive growth, the programme will also help to improve the living conditions of the people in the longer term. The other beneficiaries are government departments (Ministry of Finance and partner structures) whose technical and operational capacity to provide public services will be developed through implementation of reforms.

#### 4.5. Impact on Gender

4.5.1. The programme has no specific actions targeting women. However, improvement of the quality of public spending through more effective and efficient public resource management, will help to increase the share of pro-poor expenditure in the budget. This should, in priority, benefit the vulnerable segments of the population, namely women and children.

#### 4.6. Impact on the Environment

4.6.1. The programme is budget support which exclusively targets economic reforms. It is therefore classified under Category III and will have no impact on the physical environment. However, the programme will have a positive impact on the social environment because it will help to transform the budget into an instrument for attaining PRSF goals in the areas of poverty reduction and improvement of the living conditions of the people. It will also have a positive impact on civil society's access to public finance management information.

## V. IMPLEMENTATION, MONITORING AND EVALUATION

### 5.1. Implementation Arrangements

5.1.1. **Executing Agency:** Budget support management falls within the institutional framework of steering and coordinating the public finance management reform programme agreed upon under the PF. It is done through three structures: (i) a Steering Committee chaired by the Minister of Finance; (ii) a Technical Steering Committee bringing together the Directors-General of the ministries concerned; and (iii) a support structure for the daily management of the programme comprising senior officials from the MoF and supported by technical assistance. This unit organizes regular follow-up meetings with partners present in the field as well as an annual review of progress made in implementing the public finance reform strategy. Furthermore, it also organizes feedback meetings with IMF review missions and other important economic and financial missions. Like previous operations, this programme will fall within the framework described.

5.1.2. **Disbursement arrangements:** The financing proposed under the programme is UA 7 million from Pillar 1 of the FSF. The grant will be disbursed in two tranches of UA 4 million and UA 3 million, respectively, in the course of 2011. The disbursement in two tranches is justified by a willingness to: (i) gradually make resources available throughout the year to help address cash-flow problems and ensure better budget execution;<sup>11</sup> and (ii) target attainable objectives in the second semester. Such sequencing of disbursement also allows for a more adequate response to the country's financing needs, while making it possible to monitor relatively more ambitious reforms within a fiscal year. Furthermore, multi-tranche disbursement is a safeguard measure for budget support in fragile States. Disbursement of the tranches is contingent on fulfillment of the precedent conditions presented below. A special account was opened at the BRB for previous operations and will be used to receive the grant resources. These resources will then be transferred from the BRB to the general Treasury account. The BRB will charge no fees for this operation, in accordance with the agreement signed between the BRB and the MoF. The applicable exchange rate on the date of transfer from the BRB to the general Treasury account will apply. The MoF shall forward a written confirmation of receipt of the transfer.

5.1.3. **Procurement arrangements:** Given the nature of the operation, resources will be utilized in accordance with national public finance regulations.

5.1.4. **Financial management and audit arrangements:** Given the nature of the operation, resources will be utilized in accordance with national public finance regulations. The competent Ministry will be responsible for the administrative, financial and accounting management of the resources. The entire public expenditure chain will be used. Sound budget credibility in general and satisfactory classification of the budget are in place. Nevertheless, major fiduciary risks were identified (see Annex 7) in the budgeting process, budget execution control, accountability and financial information, internal and external controls. The IMF report of January 2011 on strengthening foreign exchange operations in Burundi was an invaluable tool for identifying and analyzing fiduciary risks related to programme fund flows and cash-flow management at the BRB. There is a permanent process of seeking and preparing measures to mitigate the fiduciary risks identified in these findings by implementing public finance management reforms in the short and medium term (see Disbursement Conditions in Section 6.2 and the Matrix of Operational Policies in Annex 2). The operation will be audited during preparation of the audited

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<sup>11</sup> The Bank is the only donor to disburse at the start of the second half of the year; the other donors only disburse at the end of the year. Consequently, this disbursement sequence allows for addressing the country's immediate cash-flow needs.

budget by the Burundian CdC<sup>12</sup> for 2011 and will be available in 2012. Given the high level of the overall fiduciary risk, the programme will be supervised in collaboration with other donors and in close consultation with the Support Unit within the Ministry's Partnership Framework.

## **5.2. Monitoring and Evaluation Arrangements**

5.2.1. *Competent institutions:* The MoF will be responsible for programme monitoring/evaluation. This ministry has already been involved in monitoring/evaluation of previous economic reform support programmes (PARE I, II and III). The MoF will take measures to provide the human resources and equipment needed for programme monitoring/evaluation.

5.2.2. *Monitoring/Evaluation:* The reform support unit within the MoF will be responsible for daily monitoring of PARE-IV. Coordination between donors operating in the area of PFM will be used as a monitoring/evaluation tool for the programme, through joint supervision of the progress made in implementing the reform programme. The logical framework presented in this document constitutes the performance evaluation framework.

## **VI. LEGAL INSTRUMENTS AND LEGAL AUTHORITY**

### **6.1. Legal Instruments**

6.1.1. The legal instrument to be signed under this programme is the Protocol Agreement. The parties to the Protocol are the African Development Bank and the Republic of Burundi.

### **6.2. Conditions Precedent to Bank Group Intervention**

6.2.1. *Conditions precedent to grant effectiveness:* Grant effectiveness is subject to signature of the Protocol Agreement between the Bank, the FSF and the Republic of Burundi.

#### **6.2.2. Conditions precedent to disbursement of the first tranche:**

- (i) Finalisation and transmission of the diagnostic report of sector inspectorates under the Ministry of Good Governance and Privatisation and preparation of a capacity-building plan for such inspectorates (paragraph 4.2.12);
- (ii) Adoption of the General Public Budget Management Regulations by the Council of Ministers (paragraph 4.2.8); and
- (iii) Maintenance of a Staff Monitored Programme with the IMF, as indicated through the approval of the 5<sup>th</sup> ECF review by the IMF Executive Board (paragraph 4.2.8).

#### **6.2.3. Conditions precedent to disbursement of the second tranche:**

- (i) Adoption, by presidential decree, of the list of new members of the Audit Bench approved by the National Assembly and Senate in order to reach the optimum staffing level (paragraph 4.2.15); and

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<sup>12</sup> Bank policy stipulates that an audit be conducted in fragile States by an audit firm. However, Burundi's Audit Bench also regularly conducts *ad hoc* audits and transmits the audited budget to Parliament. The Audit Bench also gives an opinion on all Finance Bills tabled before Parliament. Hence, it is considered that the Audit Bench could audit the resources of the operation.

- (ii) Transmission to the Ministry of Finance of quarterly budget execution reports of the first two quarters of 2011 containing expenditure execution data at the payment stage (paragraph 4.2.4);

### **6.3. Compliance with Bank Group Policies**

6.3.1. This programme is in conformity with applicable policies and guidelines, in particular: (i) Guidelines on Development Budget Support Loans (2004); (ii) Burundi's Country Strategy Paper for 2008-2011; (iii) Bank Group Strategy for Enhanced Engagement in Fragile States; and (iv) FSF Operational Guidelines.

## **VII. RISK MANAGEMENT**

7.1 ***Political instability leading to lack of policy ownership and sustainability.*** Political risk, although greatly reduced, remains high. However, regional integration within the EAC and Government commitment to implement its peace, security and economic growth consolidation programme constitute a risk mitigation measure. Furthermore, by stabilizing public finance and helping to prevent the suspension of the demobilisation programme in a delicate post-electoral context, budget support implementation constitutes, in and of itself, a risk mitigation measure.

7.2 ***Risks related to land disputes which could undermine the national reconciliation process:*** Considering the pressure exerted by rapid population growth on the country's limited surface area, land is increasingly parceled out. This already tense situation is compounded by the return of refugees who fled the civil war. The political situation is stable once again, but remains fragile; all the more so because many of the returnees are trying to recover their land, some of which was given or sold to other farmers by the authorities in control at that time. However, since land in Burundi is handed down from one generation to another according to customary law and the deeding of property is very costly, it is very difficult for the judicial system to settle land disputes. Pending the enactment of the new land law, the FAO is helping many vulnerable families by proposing agricultural alternatives and financing high-yielding seed production techniques.

7.3 ***Waning of the Government's political will to implement reforms.*** After the elections held in 2010, the ruling party now has full legislative and executive powers. Therefore, it is possible that this could result in the waning of the political will to implement reforms. However, this risk is mitigated by the regular monitoring of PFM performance by partners. Furthermore, the meticulous choice of conditions precedent to Bank disbursement and their harmonization with those of other budget partners will mitigate this risk.

7.4 ***Fragile context of the country which slows down reform implementation.*** The pace of reform implementation in Burundi is slow due to the lack of human and financial resources which is symptomatic of fragile States. However, all the technical assistance provided by PF partners will contribute to Government capacity-building.

7.5 ***No rebalancing of the budget or even risk of budget deterioration.*** Given the magnitude of the deficit, net of external aid, budgetary slippages could occur. However, the commitments made by the country under its programme with the IMF mitigate this risk. Moreover, programme implementation aims to reform public finance management and ultimately ensure greater mobilization and better resource utilisation.

7.6 *Vulnerability of the Burundian economy to external shocks.* Since the country is heavily dependent on external aid and coffee production, a reduction in one or the other is likely to destabilize its public finance. However, the setting-up of the Burundi Revenue Office whose objectives include reform of the fiscal system and the orientation of economic policies towards diversification of growth sources, could help to mitigate this risk.

## **VIII. RECOMMENDATION**

In light of the foregoing, it is recommended that the Boards of Directors approve a grant on FSF resources of UA 7 million for the Republic of Burundi to implement the programme, subject to the conditions set out in this report.

# **ANNEXES**

**Letter of Development Policy**

REPUBLIC OF BURUNDI

*Bujumbura, 16/03/2011*

[Code of Arms]

MINISTRY OF FINANCE  
CABINET OF THE MINISTER  
No. 540/562/2011

To: Mr. Donald KABERUKA  
President of the African Development Bank  
Group  
Temporary Relocation Agency  
TUNIS – TUNISIA

Subject: *Letter of Development Policy for the  
Fourth Phase of the Economic Reform  
Support Programme (PARE-IV).*

Mr. President,

We have the honour to transmit to you the attached Letter of Development Policy (LDP) agreed upon under the new Budget Support Programme between Burundi, the African Development Bank (ADB) and the African Development Fund (ADF) (hereinafter ADB refers to ADB and ADF) for financing Phase IV of the Economic Reform Support Grant (DARE-IV) with resources from Pillar I of the Fragile States Facility (FSF).

The Government of Burundi has successfully implemented the 2010 Programme supported by the third Economic Reform Support Programme (PARE III). During this period, significant results were obtained with respect to stabilization, economic reforms and poverty reduction (PRSF). Implementation of the reform measures supported by this programme was fairly satisfactory.

From the political standpoint, general democratic elections (presidential, legislative, district and local) were organized by direct universal suffrage from May to August 2010. These elections were held in a climate of safety and transparency as indicated in the report of the neutral EU and UN observers. A new Government was formed on 29 August 2010 and an Economic and Social Development Programme was announced in a speech by the Head of State.

The main priorities of the new Government programme focus essentially on peace-building; security and national reconciliation; support to the health and education sectors, with a view to achieving the Millennium Development Goals; development of basic infrastructure and the energy sector; agricultural sector development to combat

hunger, unemployment and poverty; economic and financial good governance; and regional integration. However, economic growth and poverty reduction challenges remain enormous and require a lot of resources.

That is why the Government of Burundi seeks new ADB support to facilitate the implementation of the Economic Reform Programme from 1 January to 31 December as part of PARE-IV for the sum of UA 7 million.

This programme tallies with our Burundi 2025 long-term vision, our Poverty Reduction Strategy Framework (PRSF) and our Public Finance Management Strategy adopted on 7 May 2009. It is also fully in line with programmes assisted through budget support by the World Bank – International Development Association (IDA), the European Union and Norway. For 2011, financing through grants from its donors stands at USD 25 million from the IDA, EUR 15 million from the European Commission and USD 10 million from Norway.

To address these challenges, the priorities retained under PARE-IV concern transparent and efficient public finance management as well as improvement of control institutions in order to promote the establishment of an effective and efficient administration and improve the business environment, with a view to developing a competitive private sector in the sub-region.

The attached Letter of Development Policy presents the Government's objectives and the policies it intends to apply through the grant and beyond, to reinforce poverty reduction actions with the support of all its development partners.

The policies and measures indicated in the Letter of Development Policy will help to consolidate efforts made in public finance management, improve the business environment and other areas with a view to accelerating economic growth and ensuring sustainability of the progress accomplished. Nevertheless, the Government remains ready to consider any additional measure which the ADB and ADF deem necessary to ensure the programme's success. Lastly, in a bid to facilitate monitoring of the progress made in implementing the policies and measures contained in the programme, the Government remains ready to respond favourably to any request for information emanating from the ADB and the ADF.

Burundian authorities wish that the Letter of Development Policy and the accompanying programme document be made public. Hence, they authorize their publication and posting on the website of the African Development Bank, once the approval of the Board of Directors has been obtained. The Government of Burundi will also post these documents on its official websites.

Yours sincerely

Clotilde NIRAGIRA  
Minister of Finance

**REPUBLIQUE OF BURUNDI**

**ECONOMIC REFORM SUPPORT PROGRAMME  
(PARE-IV)**

**LETTER OF DEVELOPMENT POLICY (LDP)**

**March 2011**

## I. GENERAL INTRODUCTION

1. In a bid to support its economic reform programme for 2011, the Government is seeking ADB assistance. The aim of this programme is to achieve macroeconomic adjustment and stabilization as well as the implementation of structural reforms for poverty reduction by consolidating the progress already achieved under PARE II and III. This policy letter sums up the social context and recent economic trends.

It describes the policies that the Government has undertaken to pursue in areas related to: (i) preparation of a [second generation] Poverty Reduction Strategy Framework (PRSF); (ii) implementation of private sector development policies and especially the development of the coffee sector; and (iii) reforms aimed at improving the public finance system.

2. The long-term national development policy are set out in Burundi Vision 2025 whose priority focus areas are: State capacity-building; (ii) human capital; (iii) economic growth and poverty control; (iv) regional integration; (v) population growth; (vi) social cohesion; (vii) territorial development and town planning; and (viii) partnership. This vision is broken down into medium-term strategies – PRSFs – the first of which has just been completed with encouraging results as regards: (i) improvement of governance and security; (ii) promotion of sustainable and equitable economic growth; (iii) development of human capital; and (iv) HIV/AIDS control. PRSF-II, which is under preparation, will focus on the promotion of growth sectors and private sector support.

3. The Government has made significant progress in implementing reforms that were already initiated during the transition period, and this has made it possible to restore financial balances. It undertakes to consolidate these results in order to accelerate growth and ensure the sustainability of policies which have already been implemented. In recognition of this government commitment to implement the reforms successfully, the Executive Boards of IDA and IMF approved Burundi's access to the completion point of the HIPC initiative in January 2009. The Boards of Directors of the ADB approved Burundi's access to the HIPC initiative completion point in April 2009.

4. Despite these encouraging results, the Government remains conscious of the many challenges facing Burundi's economy. However, it is confident that there are just as many opportunities which Burundi should seize to improve the economic environment, consolidate public finance management, modernize the production apparatus and bolster its position on the international market. Growth sources are still currently dominated by the agricultural sector, especially the traditional export sub-sectors such as coffee, cotton and tea. The authorities will strive to ensure that reforms initiated in these agricultural sub-sectors allow for increasing sector productivity with: (i) greater contribution to growth; and (ii) higher incomes for farmers and especially those in rural areas.

5. Burundi is also requesting other contributions from donors for implementing this programme and will need a reference framework for a harmonized donor policy.

To that end, the Government wishes to secure greater coordination from the ADB and the support of all financial partners to the PRSF, whose first appraisal report was presented to the IDA and IMF Boards in January 2009, during adoption of the HIPC completion point.

6. The Letter of Development Policy presented here reflects the Government's reform programme over the next two years, but also presents the performance indicators which measure the quality of its implementation. Aware of the difficulties inherent in economic reforms and armed with past experience, Burundian authorities will judiciously continue to involve all stakeholders in order to ensure ownership of all reforms that have socio-economic implications and thus maximize their success.

## II. RECENT ECONOMIC DEVELOPMENTS

7. The GDP growth rate reached 3.8% during the 2004-2009 period. This result is encouraging but high growth rates are needed to achieve PRSP targets and the MDGs. However, the growth rate is rising since the GDP increased by 3.9% in 2010, an average growth rate of 4.5% is expected in 2011 and 2012 and it should reach 5% in the years ahead. Recently, the Government has continued with its efforts to improve public expenditure quality by increasing the budget allocations to education, health and socioeconomic infrastructure. However, to launch the economy on the path of strong and sustainable growth and significantly reduce poverty, the government is determined to tackle the multiple challenges already identified. These include the need to improve the business climate, invest in the development of human capital and offset the deficit in production support infrastructure, increase agricultural productivity and diversify agricultural production and the structure of the economy.

8. Recent data indicates an economic structure dominated by agriculture which accounts for 46% of the GDP on average. It is followed by the services sector (with 37% of GDP in 2004-2009), and industry (17%). Hence, the role of agriculture in the economy remains preponderant because of its contribution to the GDP and export earnings (more than 60% on average over the last four years, 2006-2009) but also because of its impact on employment. It should be noted, however, that agricultural productivity and output have declined over the last few years because of climatic conditions and a long period of conflict. Meanwhile, the contribution of the services sector has been increasing steadily. Furthermore, the revival of activities in the services sector has led to an increase in the industrial sector contribution to GDP.

9. The return of security and peace-building have facilitated economic recovery. A decisive stage was crossed when the last armed movement was transformed into a political party. This significant step will have a positive impact on national reconstruction prospects and the revival of growth. Since 2011, the country has gradually recovered from a long period of negative economic growth (an average of -1.8%) from 1993 to 2003, achieved a positive economic growth rate of 4.5% in 2008 before falling to 3.9% in 2009 because of the world economic and financial crisis. Aware of this positive impact, the new Government will continue with its political, economic and social stabilization efforts in order to: (i) guarantee the smooth exercise of democracy; (ii) consolidate good governance; and (iii) promote social dialogue.

10. Burundi succeeded in maintaining single-digit inflation levels right up to mid-2007. However, after the spike in world prices of oil and food products, inflation increased in the last months of 2007 to 14.7% at the end of that same year and over 22% at the end of 2008, exceeding by far the revised government target which was about 14%. In 2009, inflation was slashed to about 9% at the end of the year and inflation estimates at the end of 2010 are 9.5% compared to an initial forecast of 7.5%. However, it should stabilize at about 7% at the end of 2011. The Government is determined to carry through its objective of maintaining a single-digit inflation level in the medium-term through application of cautious monetary and

budgetary policies, mainly by reducing recourse to bank credits to finance public expenditure. The consumer price index is calculated based on a basket of consumer goods valued at current prices in the Bujumbura central market. This inflation calculation basis has not been modified since 1991 and a household consumption survey is envisaged to update and readapt the basket used.

11. Despite an increase in 2010, the budget deficit is in conformity with the Government's macroeconomic stabilization goals. The deficit has increased as a result of recent financial crises, the transitory loss of income due to the application of certain tax reforms (VAT and CET) and election-related expenditure. In trying to contain the deficit, the authorities pursued a budget austerity policy which yielded satisfactory results in 2007 and 2008. The primary budget deficit was lower than the targeted level, owing to significant resource mobilization and the reduction of non-priority primary expenditure by about 2.6% of GDP in 2007 and 1.2% in 2008. In contrast, in conformity with PRSF objectives and the MDGs, the authorities were able to increase poverty reduction expenditure constantly from 6.3% of GDP in 2005 to about 9.3% in 2006, 11.2% in 2007, 12.1% in 2008, 12.3% in 2009 and 14.8% in 2010. Savings will be generated through the following measures: (i) freezing of recruitments except in priority social sectors (education, health and justice); (ii) staff retirement upon attainment of the legal age; (iii) replacement of departed staff only for indispensable cases; and (iv) reduction of expenditure on missions and State vehicles.

12. The 2011 budget is in conformity with the macroeconomic objectives agreed upon with the IMF under the Extended Credit Facility (ECF).

This budget increases poverty reduction expenditure by about 14.8% and leaves more room for priority socio-economic expenditure despite the reduction in budget aid.

13. After a degradation of the external position in 2007 following a deterioration of the terms of trade by 23.4%, there was a relative improvement in terms of trade in 2008 and 2009 by 3.4% and 39.8% respectively due to a significant increase in the volume of coffee exports (+34%) and a rise in the world prices of this product. However, the year 2010 was marked by further deterioration of over 20%. Official foreign exchange reserves, which have been on the increase since 2006 – from 3.6 months of import cover in 2006 to 6.5 months in 2009 – have again dipped to 6 months of import cover. Burundi's currency has remained relatively stable and, according to estimates, the real effective exchange rate (REER) depreciated by 5.7% in 2007, recovered slightly by 1.2% in 2008 and again inched down by 2% in 2009.

14. In 2010, the external position continued to improve slightly owing to an increase in current transfers and despite a deterioration in the trade balance. In the years ahead, the current external deficit should be stabilized at about 10% of GDP.

15. In a bid to address the spike in world prices of food products which has severely hit the country in recent years, the Government took a number of measures in favour the vulnerable segments of the population while encouraging domestic production. Temporary and targeted reductions were applied to imports of food and petroleum products consumed by the poor. Furthermore, the Government consolidated the social security net mainly through food security and school meal programmes, transfer of rural agricultural microcredits to farmers and assistance to refugees and war-displaced persons. Lastly, to increase agricultural production, the Government supplied seeds and fertilizer to farmers, embarked on rehabilitation of the irrigation system in Imbo Plain and the rehabilitation of basic infrastructure. The Government thanks all donors who have supported these initiatives financially, especially the African Development Bank, the Netherlands, Norway, the European Union and many others.

### **III. MAIN LESSONS LEARNT FROM REFORM PROGRAMMES AND CHALLENGES**

#### **3.1 LESSONS LEARNT FROM REFORM PROGRAMMES**

16. The Government's determination to achieve its development objectives defined in the PRSF has enabled it to initiate vast reform programmes focused on: reinforcement of macroeconomic stability, structural reforms aimed at improving the public finance management system, monetary and exchange rate policy, as well as the enhancement of productive system efficiency, especially the privatisation of public enterprises and restructuring of the coffee sector.

17. It is easy to note that donor support has indeed accelerated the Government's progress in implementing its reform programme initiated with the support of previous operations of technical and financial partners. Hence, Burundi continues to record robust economic growth despite the difficult internal post-conflict situation, the vagaries of the weather and the world economic and financial crisis. As a result of its reform efforts, Burundi reached the Enhanced HIPC Initiative completion point in January 2009. The support of the African Development Bank through PARE II and PARE III focused mainly on enhancing external and internal control, and improving public expenditure management, especially better budget preparation and public procurement reform. World Bank support through DARE II and DARE III focused mainly on increasing transparency in public finance management, improving the business environment and enhancing the efficiency of the productive system.

18. With respect to public finance management, substantial results were recorded in implementing programmed reforms. Parliament adopted a Public Finance Organic Law which takes into account the modern principles of management and transparency, and specifies the concepts, principles and responsibilities applicable to Treasury staff. Furthermore, the elimination of all indirect tax exemptions was initiated and will be incorporated into the new tax code. In a bid to ensure consistency with EAC procedures, the Burundi Revenue Office (OBR) was created and it centralizes henceforth all revenue from public services. In the area of internal control, the IGE carried on with its internal control activities and the revival of a Financial Control and Inspection Service within the Ministry of Finance contributed to the reinforcement of internal control. The Audit Bench has been operational, given its opinion on all finance bills tabled before Parliament and produced budget execution reports which were presented to Parliament. The adoption and implementation of a new public procurement code that is in conformity with international norms has contributed substantially to the improvement of budget execution efficiency. Furthermore, the Government has completed the census of State employees in the civil service, police and armed forces. Magnetic personal identity cards have been distributed and ghost workers have been eliminated from the payroll. These results should facilitate: (a) the creation of an efficient salary management system; and (b) the monitoring of future public sector reforms.

19. The Government has continued with the streamlining of State accounts which has resulted in a single Treasury account, and has also consolidated the progress made in reorienting public expenditure towards priority poverty reduction sectors. It has also continued with efforts to implement the 2009-2011 action plan of its global public finance management strategy adopted in 2009, which aims at reinforcing coordination of the operations of partners and taking ownership of actions and reforms in this sector. A draft

Presidential Decree on Budget Governance is being prepared with the assistance of an IMF expert.

It should deal with issues related to the modalities for applying the principle of legality of revenue and expenditure, definition of objectives and formulation of economic and budgetary policies. It will also address the rules governing Finance Acts, especially their structure and the improvement of budget procedures at the level of the Government and of Parliament.

20. Considerable progress was also made in private sector revival. An investment code in conformity with international best practices was promulgated in September 2008 and should contribute to the improvement of the business environment. The Government has also made progress in preparing draft codes for trade and for private and public companies in accordance with international norms. The formulation process for these codes was participatory, involving not only representatives of the ministries and public institutions concerned, but also those of the private sector.

Progress has also been made in financial sector reform. Parliament adopted a new law on the status of the Central Bank, which reinforces its independence and governance. Furthermore, the central bank implemented important measures aimed at strengthening its internal control and risk management system in compliance with the recommendations of the financial safeguards assessment report prepared by IMF staff.

21. Progress has also been made in coffee sector reform. After adoption of a State divestment strategy by the Council of Ministers, a presidential decree set up the Coffee Sector Regulatory Organ (ARFIC), thereby launching the process of State divestment from the sector. Long before this happened, the Government had adopted new sales regulations which opened up coffee export activities to local and international operators.

The application of these regulations led to the effective penetration of exporters into a market which had become competitive and transparent.

22. Hence, despite the many exogenous shocks, notably the post-conflict situation, unpredictable climatic conditions, the international financial crisis and world recession, the implementation of PARE II and III attained its overall objectives. To support PRSF implementation, PARE II and III aimed at assisting the Government to implement specific measures for improving public resource management and reinforcing the internal and external control of public finance management.

23. The points below sum up the preliminary actions accomplished by the Government, which triggered the disbursement of PARE II and III:

- Transmission of the audited budget for FY2007 from MEFCD to the Audit Bench;
- Adoption of the new public finance organic law by Parliament;
- Adoption of decrees related to the structures provided for in the procurements code: (1) Public Procurement Regulatory Authority (ARMP); (2) National Directorate for Public Procurement Control (DNCMP); and (3) Public Procurement Management Unit (CGMP);
- Adoption of a decree defining the budget preparation schedule, the responsibilities of various stakeholders and the content of the guideline document to improve the timeliness and efficiency of the budget preparation procedure;
- Audit of the State/oil sector debt swaps;

- Maintenance of a Staff-monitored Programme with the International Monetary Fund following conclusion of the ECF programme for 2008 and 2009;
- Transmission by the Ministry of Finance of the audited budget for FY 2008 to the Audit Bench;
- Settlement of State debts owed to the oil sector, determined through an audit of State/oil sector debt swaps and the adoption of the text on collection of customs revenue owed by the oil sector as determined by an audit of State/oil sector debt swaps;
- Adoption by the Ministry of Finance of the text containing reminders of the time-limits for initiation, scheduling, authorization and payment of budget expenditure;
- Finalisation and transmission of the draft General Public Budget Management Rules (RGGBP) to the Council of Ministers for consideration;
- Transmission of the audited budget for 2008 to Parliament for consideration;
- Finalisation and adoption of an action plan for the implementation of public procurement reforms;
- Transmission, by the Ministry of Finance, of the 2009 management account and 2009 audited budget to the Audit Bench.

### **3.2 NEW CHALLENGES**

24. Burundi still has to address considerable political and economic challenges before achieving sustainable and balanced growth. These challenges are at the very heart of the current ongoing PRSF II preparation process.

25. The main political challenge remains the need to ensure political stability through consolidation of security and peace. The actions already implemented by Burundi in the area of political dialogue and consultation, with the support of the region and the international community have yielded convincing results and show the country's capacity to surmount the challenge of instituting a stable political system. These efforts have to be continued and consolidated. Rebuilding national unity and reconstituting a safe and peaceful nation is the very first objective of Burundi Vision 2025.

26. The major economic and social challenges entail launching the country on the path of diversified, robust and sustainable economic growth which can substantially reduce poverty and promote significant progress towards achievement of the Millennium Development Goals (MDGs). With a poverty rate exceeding 60% on average, the country's vulnerability to under-nutrition, malnutrition and endemic diseases as well as high HIV/AIDS prevalence, the Government is aware that Burundi is ranked among the least developed countries of the world. The Government is determined to reverse these unfavourable trends and will focus its strategy on the following objectives:

(i) control of population growth and assurance of food security; (ii) resolution of the crucial problem of unemployment and the increase of household income; (iii) diversification and promotion of a competitive economy; (iv) establishment of the appropriate production support infrastructure; and (v) increase of the literacy rate and training of competent experts.

#### **IV. FOURTH ECONOMIC REFORM SUPPORT PROGRAMME (PARE-IV)**

27. As in the two previous operations, the objective of PARE-IV is to support the Government in the pursuit of reforms aimed at promoting sustainable and equitable economic growth with a view to substantially reducing poverty. Therefore, PARE-IV aims at continuing support to Government to enable it to implement the priorities defined in Burundi Vision 2025 and in particular the Public Finance Management Reform Strategy. The specific objectives of PARE-IV remain the reinforcement of public resource management and consolidation of the public finance internal and external control system.

28. As concerns public finance, PARE-IV will support the Government in its implementation of priority reforms identified through PEMFAR and PEFA as set out in the Public Finance Management Reform Strategy. These reforms are indispensable to the improvement of transparency in public finance management. These priority reforms comprise reinforcement of public expenditure restructuring in favour of sectors that have a greater impact on poverty reduction, the institution of Medium-Term Expenditure Frameworks (MTEF) starting with priority sectors that regularly receive the highest budget allocations, the development and stabilization of SIGEFI; as well as building expenditure execution capacity, including the introduction of commitment plans to eliminate and/or avoid the accumulation of arrears of payment.

29. Regarding the consolidation of the control system, PARE-IV will develop the capacity of internal and external control institutions. It will also continue with ongoing procurement reforms.

30. The programme supported by PARE-IV thus comprises eighteen measures, including three conditions precedent to disbursement of the first budget support tranche and three conditions precedent to disbursement of the second budget support tranche. All the measures relate to public finance management reform.

#### **V. PROGRAMME MONITORING**

31. The Government will monitor the programme and the measures in the structural reforms matrix. To that end, it will rely on the institutional framework established to carry out monitoring/evaluation of these reforms supported by all budget support programmes financed by technical and financial partners. The authorities will ensure that the committee is committed to strict monitoring of ongoing reforms, by coordinating and supervising the activities of the inter-ministerial team and technical committees.

32. The inter-ministerial team includes focal points from the Ministries of Finance, Trade, SCEP and the committee in charge of the coffee sector. The technical committees deal with public finance, business environment and coffee sector reforms. These national teams participated actively in developing the economic programme and preparing the list of PARE-IV measures.

#### **VI. PRELIMINARY LIST OF THE MAIN AREAS WHICH COULD BE ADDRESSED THROUGH FUTURE BUDGET SUPPORT GRANTS**

33. PARE-IV is the third phase of a programme of three budget support grants which started with PARE-II. PARE-II defined the programme's areas of intervention, PARE-III was mainly aimed at consolidating and building on reforms initiated under PARE-II, while PARE-IV will seek to complete the implementation of reforms initiated under previous programmes. The ADB programme was implemented in close synergy with the budget support programmes of the other technical and financial partners.

34. Capitalising on the Government's continuously satisfactory performance, it is advisable that the ADB, in collaboration with other technical and financial partners, including the World Bank and the European Commission, launch the preparation of a new series of budget support grants from 2012, the guidelines of which will be defined after approval and institution of PARE-IV. In that case, a new diagnosis of the country's problems and priorities will likely be conducted, based mainly on the Economic Memorandum prepared jointly by the ADB and the World Bank, and on the new PRSF which will inspire the design of the future programme.

35. In any event, the future programme will likely comprise different measures in the two areas of public finance and private sector development. Consideration might also be given to the inclusion of reforms related to transparency in natural resource management and the revenue it generates since recent prospecting has revealed that the country has enormous mining potential.

## **6.1 PUBLIC FINANCE**

36. In the area of public finance, medium-term measures will continue to focus on: (i) reform of the budget process; (ii) reinforcement of control institutions; and (iii) reform of the procurement system.

37. As concerns budget process reform, the adoption of the General Public Budget Management Regulations should be followed by the preparation of a budget procedures manual as well as streamlining of the expenditure chain.

Studies to be conducted in 2011 on the control chain and the general diagnosis of PFM system performance – namely the PEFA survey – will make it possible to formulate clear recommendations which will guide future programmes.

Furthermore, the implementation of these reforms will continue to require capacity-building to train Government personnel on new budget practices.

38. As concerns the consolidation of control institutions, future operations will continue to target capacity-building for both internal and external control. With respect to internal control, future programmes could focus specifically on the institution and reinforcement of sector inspections. As regards external control, reinforcement of the independence of the Audit Bench will be a priority.

39. For procurement system reform, priority could be given to increasing transparency in public procurement management as well as the gradual update of the national system to meet international norms in order to encourage the use of the national system in development projects financed with external resources.

## **6.2 PROMOTION OF THE PRIVATE SECTOR**

40. As concerns private sector promotion, the reforms implemented under future operations could target the institution of a legislative and regulatory framework which is more favourable to investments. Potential measures relate mainly to implementation of the new investment code, the new trade code or reinforcement of the efficiency of trade tribunals and arbitration centres.

41. Reforms could also target the establishment of a consultative framework between the public and private sectors to which private enterprises attach great importance. Such reforms could specifically relate to the application of principles instituted through adoption of the presidential decree of 2008 to create a consultative framework between the public and private sectors. Reinforcement of dialogue between the Government and Burundian businesses is crucial to ensuring that the Burundian private sector benefits from the regional integration process within the EAC.

42. The private sector could also be promoted by supporting financial sector reform to enable greater access to financing for small and medium-sized enterprises.

## **VII. CONCLUSION**

43. These are therefore some of the policies that will dominate Government action in the years ahead. This programme, which was discussed with African Development Bank experts, will be rigorously monitored by the authorities.

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Matrix of Operational Policies

Objectives	Measures to be Adopted		Baseline Situation	Results/Targets	Competent Bodies
	2011	2012 (planned measures)			
<b>Component A: Improve the transparency and efficiency of public resource management</b>					
<b>A.1. Increase public resource management transparency</b>	Compile an exhaustive list of grants and loans awarded, including an analysis of aid integration in the FA	Prepare the interface between SYGADE and SIGEFI.	FA2011 includes grants from most donors	FA2012 includes all donor assistance	SP-CNCA
	Submission to Parliament of the 2010 finance bill containing at least the following information: (i) Macroeconomic assumptions used to prepare the 2012 finance bill; (ii) budget deficit according to GFS norms; (iii) deficit financing; (iv) budget implementation status for FY2010; (v) debt stock; (vi) 2011 budget presented in the same format; and (vii) status of current financial assets.		The documents transmitted along with FA2011 did not include debt information	The documents transmitted along with FA2012 include information on debt and the current status of financial assets	MoF/Budget Department
	Transmission to the Ministry of Finance of quarterly budget execution reports of the first two quarters of 2011 containing expenditure execution data relating to the payments stage		There are no quarterly budget execution reports; only a half-yearly report	Quarterly implementation reports on payments are available	MoF/Budget Department
		Create a special website for public procurements and publish on it: (i) invitations to bid; (ii) bid results.	ARMP has no website	ARMP has a website which is operational, regularly updated and publishes key information	ARMP

Objectives	Measures to be Adopted		Baseline Situation	Results/Targets	Competent Bodies
	2011	2012 (planned measures)			
<b>A.2 Increase budget efficiency</b>	<b>Maintain a staff-monitored programme with the IMF</b>	<b>Maintain a staff-monitored programme with the IMF</b>	An ECF is underway	Approval of the 5 <sup>th</sup> ECF Review by the IMF Executive Board	MoF
	<b>Adopt the RGGPB</b>		The text has been finalized and has to be submitted to the Council of Ministers for adoption	The text is adopted	MoF
	Validate the recommendations of the study on simplification and rationalization of the expenditure chain	Prepare the budget execution procedures manual based on the RGGPB and recommendations of the study on simplification and rationalization of the expenditure chain	The study on the expenditure chain started only recently and seeks to make recommendation on its rationalisation	The recommendations are made and validated by the MoF for implementation	MoF
	The MoF transmits the 2012 audited budget and management account to the CdC not later than 6 months after the end of the fiscal year	The MoF transmits the 2011 audited budget and management account to the CdC not later than 6 months after the end of the fiscal year	The transmission of documents by the MoF to the CdC is sometimes a little late. As a result, the CdC is unable to study them thoroughly	Documents are transmitted by the MoF not later than 6 months after the end of the fiscal year to enable the CdC to study them thoroughly	MoF
	Indicate in FA2012 the deadlines for submission to the CdC of: <ul style="list-style-type: none"> <li>- management accounts;</li> <li>- the audited budget;</li> </ul>		The deadlines are not indicated in FA2011, only the targeted objectives for 2014 are set out in the LOLF	Transmission deadlines are included in FA2012	MoF
<b>Component B: Improve the efficiency of the control system</b>					
<b>B.1. Improve internal control</b>	SICI prepares and transmits a capacity-building plan together with its budget to the Minister of Finance	Provide the inspection and internal control service (SICI) of MoF with adequate operational resources: training, material and software.	SICI capacity is low, compared to its mission	SICI has a capacity-building plan which could be supported by donor institutional support	MoF/SICI
	<b>Finalise and transmit the diagnostic report of sector inspectorates under</b>	Create sector inspectorates in ministries that do not have them	Surveys were conducted in each	The surveys conducted were summed up in a	IGE

Objectives	Measures to be Adopted		Baseline Situation	Results/Targets	Competent Bodies
	2011	2012 (planned measures)			
	the Ministry of Good Governance and Privatisation and prepare a capacity-building plan for such inspectorates		ministry to take stock of existing inspectorate and capacity-building needs	diagnostic report which also proposes a capacity-building plan	
B.2. Improve external control	Adoption by presidential decree of the list of new members of the Audit Bench approved by the National Assembly and Senate to reach the optimum staffing level		The CdC's staff strength does not enable it to carry out its mission in full and the terms of office of CdC magistrates expired in June 2010	The CdC has sufficient staff to carry out its mission (new magistrates are recruited and those in office are either replaced or given service extension)	CdC
	The CdC submits the audited budget and budget execution report to parliament for consideration no later than 8 months after the end of the fiscal year	The CdC submits the audited budget and budget execution report to Parliament for consideration no later than 8 months after the end of the fiscal year	SL2009 is submitted to Parliament	SL2010 is submitted to Parliament and adopted	CdC
		Implement the recommendations of the study on internal and external control conducted in 2011	Recruitment of the TA responsible for the study is underway	The study is completed and proposes recommendations, the implementation of which has started	MoF/CdC
B.3. Improve public procurement management control	Conduct an assessment of the use of the public procurement code	Revise the public procurement code according to assessment recommendations	The new public procurement code was adopted in 2008, but its implementation has not yet been assessed	An assessment of the implementation of the code is available and proposes recommendations to improve public procurement management practices	ARMP/DNCMP
	Conduct of ex poste control by the National Directorate of Public Procurement Control for contracts below the ex ante control threshold	Organise the <i>ex poste</i> control of contracts below the <i>ex poste</i> control threshold awarded in 2010 and publish the audited contracts on the website	Contracts below the ex ante control threshold have not yet been audited	Contracts below the <i>ex poste</i> control threshold are audited regularly and the	DNCMP

Objectives	Measures to be Adopted		Baseline Situation	Results/Targets	Competent Bodies
	2011	2012 (planned measures)			
	signed in 2009 and transmission of the recommendations to ARMP.			results of such audits are published	
	Inclusion in FB2012 of ARMP on the list of annex budgets with the obligation to consolidate the sub-account balance with the Treasury general account balance		No budget line is specifically allotted to ARMP in FA2011 and its allocation is paid by the MoF to which it is attached	The ARMP features in the annex budgets of FA2012	MoF
		Organise the first audit of public contracts and publish the results on the website	No audit is conducted	An audit is conducted and the results are on the ARMB website	ARMP

Programme of the Main Partners

World Bank – Burundi DARE IV – Policy matrix: Objectives, Preliminary Measures and Possible Triggers for a possible DARE V  
(2010-2010)

Medium-term objectives	POLICY MEASURES		Indicators	Benchmark situation (year)	Expected results			Competent institution
	Preliminary DARE IV measures <b>Grant effectiveness conditions</b> <i>(The preliminary measures are in bold. The effectiveness condition is underlined)</i>	Triggers and discussion areas for DARE V <i>(The triggers are in bold)</i>			2010	2011	2012	
<b>I. PUBLIC FINANCE MANAGEMENT</b>								
<i>Reinforce strategic and budgetary planning to improve the quality of public spending</i>								
1.1 Reinforce the strategic planning and preparation of the budget	<b>Development, through the ministries in charge of finance and planning, of a central MTEF deemed satisfactory by the Association for the 2011-2013 period, based on macroeconomic forecasts developed from the macroeconomic model of the Ministry of Planning.</b>	<b>The guideline document of the 2012 finance bill is prepared based on the central MTEF for 2012-2014 and the expenditure ceilings are in conformity with the central MTEF</b>	Percentage of the national budget whose preparation is based on the MTEF process	A draft central MTEF was prepared. The Ministry of Planning launched the process with the support of sector ministries but without the assistance of the Ministry of Finance. [31-1-2010]	Zero percent of the budget prepared according to the MTEF process. [31-8-2010]	50% of the budget prepared according to the MTEF process. [29-4-2011]	100% of the budget prepared according to the MTEF process. [29-4-2012]	Ministry of Finance and Ministry of Planning
Improve the quality of public expenditure (accessibility and quality of basic services)		Design and test a common system for assessment (by the Government and beneficiaries) and public services (especially in the health sector).						Ministry of Health and other priority sector ministries.
<i>Reinforce public finance transparency</i>								
1.3 An information system for reliable financial management		Introduction of a new function within SIGEFI which blocks the award of a contract to a supplier who does not						Ministry of Finance; OBR.

Medium-term objectives	POLICY MEASURES		Indicators	Benchmark situation (year)	Expected results			Competent institution
	Preliminary DARE IV measures Grant effectiveness conditions <i>(The preliminary measures are in bold. The effectiveness condition is underlined)</i>	Triggers and discussion areas for DARE V <i>(The triggers are in bold)</i>			2010	2011	2012	
		have a taxpayer identification number and has not fulfilled his/her tax obligations						
1.4 Better cash-flow management and reduction of domestic arrears	<b>Improvement of the quality of quarterly commitment plans: (i) by ensuring consistency between the said plans and the annual cash-flow plan; and (ii) by sharing commitments per sector ministry and especially the ministries in charge of public health, national defence, public security, primary and secondary education, and in consultation with each of these ministries.</b>	Introduction of a function within SIGEFI which automatically blocks commitments which exceed the approved ceilings.	Amount of State arrears owed to its suppliers as a percentage of total expenditure (to determine the extent to which the system prevents the accumulation of arrears thus defined: bills outstanding beyond 60 days)	Arrears owed to suppliers reached FBV 3-4 billion or 0.4-0.5% of annual expenditure in September-October 2009. However, these arrears were settled at the end of 2009, [31-10-2010]	Maximum amount of arrears due to suppliers reduced by 50% in relation to September-October 2009. [31-12-2010]	Arrears reduced to zero. [31-12-2011]	Arrears reduced to zero. [31-12-2012]	Ministry of Finance
1.5. Consolidation of control and internal and external audit institutions		The Council of Ministers adopts a draft coordination mechanism (including a work plan and schedule) of the activities of control and inspection administrative services within the General State Inspectorate.  <b>The Council of Ministers adopts and</b>	A number of annual reports from the Audit Bench on verification of the public accounts	The IGE is restored; its personnel is appointed and the institution is operational but there is no link between the IGE and the administrative organs in charge of control. [31-12-2008]		Parliament reviews the account audit reports of the last three years 75% prepared by the Audit Bench [31-12-2011]		General State Inspectorate and Audit Bench

Medium-term objectives	POLICY MEASURES		Indicators	Benchmark situation (year)	Expected results			Competent institution
	Preliminary DARE IV measures <b>Grant effectiveness conditions</b> <i>(The preliminary measures are in bold. The effectiveness condition is underlined)</i>	Triggers and discussion areas for DARE V <i>(The triggers are in bold)</i>			2010	2011	2012	
		<b>submits a bill to Parliament reinforcing the independence of the Audit Bench and ensuring compliance with its internal procedures</b>	examined by Parliament.					
<b>Improve staff expenditure management</b>								
1.6. Improve human resource planning and staff expenditure management	<b>Installation of a new salary software connected to the computerized public finance management system (SIGEFI) to ensure better salary management</b>	<b>Update of the staff rotation database completed since 2007. Validation of this data by the Council of Ministers.</b>  Build Public Service staff expenditure management capacity by creating a technical unit which will prepare human resource plans in agreement with the sector ministries, for submission to the Ministry of Finance.	Amount of civilian staff expenditure paid through the new management information system.  Staff expenditure as a percentage of GDP.	SIGEFI is operational but does not have a staff expenditure management module. [31-12-2009]  The Public Service does not have the necessary capacity to prepare detailed human resource plans. [23-4-2010]  Staff expenditure amounts to about 12.2% of GDP (Base: 2010 budget). [31-12-2010] Due to the pressure generated by the expansion of basic services, the situation will most likely degenerate before improving.	A salary management module is designed and installed. [31-12-2010]  Staff expenditure represents 11.5% of GDP. [31-12-2010]	100% of civilian staff expenditure can be generated via SIGEFI. [31-12-2011]  Staff expenditure represents 12% of GDP. [31-12-2011]	100% of civilian staff expenditure can be generated via SIGEFI. [31-12-2012]  Staff expenditure represents 11% of GDP. [31-12-2012]	Public Service; Ministry of Finance; Council of Ministers.

Medium-term objectives	POLICY MEASURES		Indicators	Benchmark situation (year)	Expected results			Competent institution
	Preliminary DARE IV measures Grant effectiveness conditions <i>(The preliminary measures are in bold. The effectiveness condition is underlined)</i>	Triggers and discussion areas for DARE V <i>(The triggers are in bold)</i>			2010	2011	2012	
				[31-1-2010]				
<b>2. PRIVATE SECTOR DEVELOPMENT</b>								
<i>Promote private sector development through reform of the legal framework and improvement of the economic infrastructure</i>								
2.1. Promote investments through improvement of business law		The Council of Ministers adopts an action plan for the reform of business law and of the procedures for creation and management of enterprises through substantial reduction (at least 10%) of the time-limits and costs of these procedures. The action plan will be based on the implementation of the recently published business codes.						Council of Ministers
2.2. Investment promotion strategy	<b>The Investment Promotion Agency functions, thanks to allocation of the necessary staff and credit resources and the definition of a work programme.</b>		Number of application files registered at API Amount of corresponding investments Average time-limit needed to process an application file	100 application files registered.  The average time needed to process one application file is 4 weeks. [31-12-2009]	The number of application files registered at API in the second quarter of 2010 exceeds the number registered in the first half-year by 30%.  On average, the processing of application files does not exceed 2 weeks.	The number of application files and amount of investments at API in 2011 exceeds the number and amounts for 2010 by 15%. On average, the processing of application files does not exceed 1	The number of application files and amount of investments at API in 2012 exceeds the number and amounts for 2010 by 20%. On average, the processing of application files does not exceed 3 days. [31-12-2011]	API

Medium-term objectives	POLICY MEASURES		Indicators	Benchmark situation (year)	Expected results			Competent institution
	Preliminary DARE IV measures <b>Grant effectiveness conditions</b> <i>(The preliminary measures are in bold. The effectiveness condition is underlined)</i>	Triggers and discussion areas for DARE V <i>(The triggers are in bold)</i>			2010	2011	2012	
					[31-12-2010]	week. [31-12-2011]		
2.3. Financial viability of REGIDESO and increased reliability of electricity supply	<b>The Water and Electricity Distribution Authority (REGIDESO), the national corporation responsible for production and distribution of water and electricity established and operational in accordance with national laws, has developed its prepaid electricity programme to cover at least 25% of its customers (including State institutions).</b>	REGIDESO is making the necessary investments to extend the prepayment system to at least 50% of customers (including public institutions).  <b>The Government embarks on a revision of rates to improve financial viability and operational performance of REGIDESO based on findings of the study on rates and poverty impact analysis.</b>	Percentage of customers participating in the prepayment system.  Number of brown-out days in Bujumbura.	The prepayment system is established. The percentage of customers participating in the system is 18.7% [31-12-2007]  12 brown-outs per month (Source: investment climate assessment, 2007)	Over 25% of customers (excluding industrial customers) participate in the prepayment system. [31-12-2010]	Over 75% of customers (excluding industrial customers) participate in the prepayment system. [31-12-2011]	100% of customers (excluding industrial customers) participate in the prepayment system. [31-12-2012]  Number of brown-outs/month reduced by 2 days compared to 2007.	REGIDESO.
2.4. A more transparent and more competitive oil market		The Council of Ministers adopts an action plan for the implementation of measures necessary for improving the investment climate and the competitiveness of the oil sector, based on the recent experience of a quasi-automatic price adjustment mechanism.						Ministry of Commerce
<b>Facilitate the restructuring or privatization of public corporations</b>								
2.5. Effective	The Council of Ministers	The Council of	Number of public	The current	The 8 audits are	The action	The	SCEP

Medium-term objectives	POLICY MEASURES		Indicators	Benchmark situation (year)	Expected results			Competent institution
	Preliminary DARE IV measures <b>Grant effectiveness conditions</b> <i>(The preliminary measures are in bold. The effectiveness condition is underlined)</i>	Triggers and discussion areas for DARE V <i>(The triggers are in bold)</i>			2010	2011	2012	
reform of public corporations	<p><u>adopts and submits to Parliament a new revision of the law on privatisation in accordance with international best practices so that privatisation decisions will be based on technical considerations according to modalities deemed satisfactory by the Beneficiary and the Association.</u></p> <p><b>TABLEAU 1. Availability to the public, on the Government website, of the technical and financial audits of the 2005, 2006 and 2007 fiscal years for the following public corporations: <i>Air Burundi, Société Régionale de Développement de l'Imbo (SRDI), Société Immobilière Publique (SIP), Hôtel Source du Nil, Agence de Location de Matériel (ALM),</i></b></p>	<p><b>Ministers: (i) adopts a draft action plan with a precise schedule for the liberalisation (privatisation/restructuring) of 8 public corporations, including Air Burundi, SRDI, SIP, Hôtel du Nil, ALM, LNBTP, ECOSAT and OTRACO, based on recently completed technical and financial audits; and (ii) launches a communication strategy for the effective restructuring of public corporations.</b></p>	<p>corporation restructurings and privatizations started.</p>	<p>privatisation law has provisions which block the progress of reforms. A new law is being prepared. [31-12-2009]</p> <p>8 public corporation audits are underway. [31-8-2009]</p>	<p>finalized and published on the SCEP website. [31-12-2010]</p>	<p>plans and audits of 8 public corporations are published and available. Restructuring/ privatization of at least 3 public corporations has started. [31-12-2011]</p>	<p>restructuring/privatization of at least 5 public corporations has started. [31-12-2012]</p>	

Medium-term objectives	POLICY MEASURES		Indicators	Benchmark situation (year)	Expected results			Competent institution
	Preliminary DARE IV measures <b>Grant effectiveness conditions</b> <i>(The preliminary measures are in bold. The effectiveness condition is underlined)</i>	Triggers and discussion areas for DARE V <i>(The triggers are in bold)</i>			2010	2011	2012	
	<i>Laboratoire National des Bâtiments et Travaux Publics (LNBTP), Encadrement des Constructions Sociales et Aménagement des Terrains (ECOSAT) and Office des Transports en Commun (OTRACO).</i>							
<b>Modernisation of the export sector</b>								
2.6. Growth driven by the private sector in the coffee, sugar and tea sectors.		<p><b>The interministerial committee on privatisation launches the bidding process for the remaining 104 washing stations of the coffee sector.</b></p> <p><b>The Council of Ministers adopts a bill on cooperatives.</b></p> <p>The Council of Ministers adopts a tea sector reform strategy (liberalization and State divestment, creation of appropriate institutions</p>	<p>Number of coffee washing stations sold.</p> <p>Number of tea factories sold.</p>	<p>13 washing stations were sold in the first bidding processes. [31-12-2009]</p> <p>Coffee farmers cooperatives have not yet been officially integrated into the legal framework. [31-12-2009]</p> <p>5 tea processing factories are State-owned. [30-6-2010]</p>		<p>At least 30 washing stations are sold to private investors. [31-12-2011]</p> <p>Bidding documents for the sale of the remaining public sector tea processing factories are published. [31-12-2011].</p>	<p>The majority of washing stations (at least 60) are sold to private investors. [31-12-2012]</p> <p>At least 2 State-owned tea processing factories are sold. [31-12-2012]</p>	Council of Ministers and Interministerial Committee on Privatisation.

Medium-term objectives	POLICY MEASURES		Indicators	Benchmark situation (year)	Expected results			Competent institution
	Preliminary DARE IV measures <b>Grant effectiveness conditions</b> <i>(The preliminary measures are in bold. The effectiveness condition is underlined)</i>	Triggers and discussion areas for DARE V <i>(The triggers are in bold)</i>			2010	2011	2012	
		and revival of the sector).  The Interministerial Committee on Privatisation prepares and publishes bidding documents for the sale of SOSUMO, a public sugar production company.						
2.7. A modern and competitive mining sector		<b>A Mining Code that is in keeping with international practices is approved by the Council of Ministers.</b>	Number of mining permits awarded under the new law.	A new mining code is being prepared with the assistance of international experts. [23-4-2010]		The Mining Code is promulgated and applied. [31-12-2011]	At least 10 mining permits are awarded to artisans through the associations and cooperatives created under the new law. [31-12-2012]	Council of Ministers and Ministry of Energy and Mines

## **Relations with the IMF**

Press Release No. 10/...  
FOR IMMEDIATE PUBLICATION  
10 December 2010

International Monetary Fund  
Washington, D.C. 20431 USA

### **Statement of an IMF staff mission to Burundi**

A mission from the International Monetary Fund (IMF), led by Mr. Bernardin Akitoby, visited Bujumbura from December 1–10, 2010 to conduct the fifth review of the government's economic and financial program supported by the IMF under the Extended Credit Facility (ECF).

The mission met with President Pierre Nkurunziza; the First Vice-President, Térence Sinunguruza; the Second Vice-President, Gervais Rufyikiri; the Minister of Finance, Clotilde Nizigama; the Minister of Planning, Pierre Mupila; the Minister in Charge of Good Governance and Privatization, Jean Baptiste Gahimbare; and the Governor of the Central Bank, Gaspard Sindayigaya. The mission had constructive discussions with members of the donor community, the private sector, and the civil society.

At the end of the mission, Mr Akitoby, IMF Mission Chief for Burundi issued the following statement:

“Performance under the ECF-supported program has been broadly satisfactory, despite risks posed by the recent electoral cycle. All quantitative performance criteria for September 2010 were observed, and structural reforms are on track. Notably, progress has been made toward the implementation of a single treasury account and staffing of the Burundi Revenue Authority is nearly complete.

“The economy is emerging slowly from the effects of the global crisis. Economic growth is expected to rise to 3.9 percent in 2010, from 3.5 percent in 2009. Because of rising food prices, headline inflation (end of period) is likely to increase to 7.5 percent in 2010, compared with 4.6 percent in 2009. The macroeconomic outlook in 2011 is generally positive with real GDP projected to rise by 4.5 percent and inflation forecast at about 8 percent. The foremost downside risk stems from the uncertain external environment.

“For 2011, policy discussions focused mainly on the 2011 budget and the need to preserve macroeconomic stability and revive growth in the face of the challenging economic environment. The mission stressed the need to pursue appropriate growth-enhancing reforms by refocusing capital spending on key infrastructure, accelerating integration within the East African Community (EAC), and advancing financial sector reform. Achieving debt sustainability should anchor medium-term fiscal policy. Given Burundi's debt burden, external financing of the budget should be limited to grants and highly concessional loans. Acknowledging the need for more spending in the priority sectors, the program incorporates a contingency plan to increase spending if additional concessional financing becomes available or revenue collections are higher than programmed.

“The mission was encouraged by the authorities’ efforts to consolidate progress on revenue collections and reallocate spending to priority sectors. It encouraged the authorities to continue reforms of wage and employment. The mission welcomed the government’s stated policy of zero tolerance for corruption. It encouraged the authorities to consolidate progress in good governance and deepen structural reforms, including in the coffee sector.

“The mission confirmed that the IMF will continue to work with Burundi to address these challenges. The discussions are expected to be concluded in the coming weeks, which would lay the basis for completion of the fifth review of the ECF by the IMF’s Executive Board in February 2011. The mission would like to thank the authorities for their warm hospitality and very close and constructive cooperation.”

Recent Trends in the Key Macroeconomic and Financial Indicators and Prospects

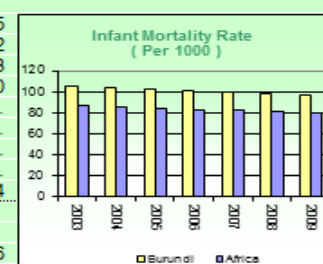
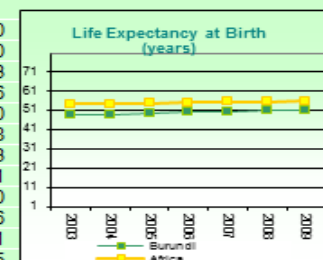
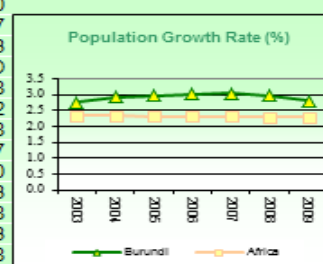
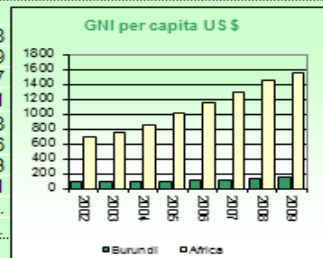
	2007	2008	2009		2010		2011	2012	2013	2014	2015
			Est.	Actual	Est.	Rev. Est.			Forecast		
(Annual variation in percentage)											
National Income and Prices											
Real GDP growth											
GDP deflator	3.6	4.5	3.2	3.5	3.9	3.9	4.5	4.8	5.0	5.0	5.0
Consumer price (period average)	8.2	25.1	20.3	14.1	8.5	8.3	9.4	8.0	6.5	5.0	5.0
Consumer price (end of period)	8.3	24.4	12.9	10.7	8.0	7.0	8.2	6.8	5.8	5.0	5.0
	14.7	25.7	9.1	4.6	7.5	9.5	7.0	6.5	5.0	5.0	5.0
External Sector											
Export, FOB (\$)											
Import, FOB (\$)	-9.7	15.1	-0.4	21.5	16.8	20.2	-0.6	12.5	4.2	14.0	5.6
Export volume	20.6	16.0	-32.3	-21.5	17.8	32.3	8.0	3.0	4.0	6.2	6.2
Import volume	-1.7	5.2	35.5	16.0	20.6	26.4	7.2	20.4	5.5	16.5	5.5
Terms of trade (deterioration = _)	6.0	4.1	6.0	4.7	8.5	8.0	6.6	5.0	5.0	5.0	5.0
	-23.4	3.4	15.0	39.8	-10.9	-22.4	-8.4	-4.7	-0.3	-3.3	-1.1
(In percentage of M2 value at the beginning of the period, except otherwise indicated)											
Money and Credit											
Net external assets											
Domestic credit	11.5	21.9	0.3	-2.9	0.5	3.0	...	...	...	...	...
State	6.6	18.8	15.7	27.8	11.9	11.3	...	...	...	...	...
Private sector	-0.2	5.8	4.9	17.1	4.1	0.7	...	...	...	...	...
Money and quasi- money (M2)	7.6	8.5	6.2	13.7	7.9	10.6	...	...	...	...	...
Monetary base (growth rate/12 months)	10.1	34.2	14.4	19.8	12.0	12.0	...	...	...	...	...
	17.4	25.1	13.5	26.6	11.5	10.6	...	...	...	...	...
(In percentage of GDP)											
Public Administration											
Revenue (excluding grants)	18.6	18.5	18.0	18.6	18.5	18.3	18.8	19.4	19.7	19.9	20.2
Expenses and net borrowing	38.5	44.1	46.1	39.3	48.3	49.5	47.0	46.8	44.4	43.1	43.0
Overall balance (commitment base)											
Excluding grants	-19.8	-25.6	-28.1	-20.7	-29.8	-31.2	-28.2	-27.4	-24.7	-23.2	-22.8
Including Grants (net of HIPC Initiative)	-3.3	-3.7	-4.1	-5.2	-4.0	-3.1	-3.1	-1.8	-1.3	-1.3	-1.3
External Sector											
Current external sector	-15.7	-12.3	-9.5	-14.5	-10.2	-9.0	-10.6	-10.5	-10.4	-10.2	-10.1
Overall balance of payments	3.1	7.4	-2.5	4.1	-1.5	-0.8	0.1	-0.1	1.3	1.1	0.4
Savings/Investment Balance	-15.7	-12.3	-9.5	-14.5	-10.2	-9.0	-10.6	-10.5	-10.4	-10.2	-10.1
Private	-12.4	-8.5	-5.4	-9.4	-6.2	-5.9	-7.6	-8.7	-9.1	-8.9	-8.8
Public	-3.3	-3.7	-4.1	-5.2	-4.0	-3.1	-3.1	-1.8	-1.3	-1.3	-1.3
(In US\$ million, except otherwise indicated)											
External Sector											
Gross official reserves											
In US\$ million	177.3	266.6	231.8	323.0	302.2	310.7	327.9	342.5	362.3	378.2	392.7
In months of import	3.8	6.5	5.5	6.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Debt service ratio/exports (%)	6.8	3.5	2.3	1.9	3.2	2.5	5.4	9.1	10.2	10.1	9.3
<b>N.B.</b>											
GDP at Current Prices (BIF billion)	1060	1386	1711	1637	1836	1841	2104	2381	2662	2936	3238

Source: Burundi Authorities; IMF Estimates and Forecasts Division

## Comparative Socio-economic Indicators

### Burundi COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Burundi	Africa	Developing Countries	Developed Countries
<b>Basic Indicators</b>					
Area ( '000 Km²)		28	30 323	80 976	54 658
Total Population (millions)	2010	8.5	1,031.5	5,629	1,069
Urban Population (% of Total)	2010	11.0	40.0	44.8	77.7
Population Density (per Km²)	2010	306.1	3.4	66.6	23.1
GNI per Capita (US \$)	2009	150	1 550	2 780	39 688
Labor Force Participation - Total (%)	2010	50.0	39.5	45.6	54.6
Labor Force Participation - Female (%)	2010	51.4	41.4	39.8	43.3
Gender -Related Development Index Value	2007	0.390	0.433	0.694	0.911
Human Develop. Index (Rank among 169 countries)	2010	166	n.a	n.a	n.a.
Popul. Living Below \$ 1 a Day (% of Population)	2006	81.3	42.3	25.0	...
<b>Demographic Indicators</b>					
Population Growth Rate - Total (%)	2010	2.6	2.3	1.3	0.7
Population Growth Rate - Urban (%)	2010	5.5	3.3	2.4	1.0
Population < 15 years (%)	2010	37.9	40.3	29.2	17.7
Population >= 65 years (%)	2010	3.2	3.8	6.0	15.3
Dependency Ratio (%)	2010	68.7	77.6	52.8	49.0
Sex Ratio (per 100 female)	2010	96.3	99.5	93.5	94.8
Female Population 15-49 years (% of total population)	2010	26.4	24.4	53.3	47.2
Life Expectancy at Birth - Total (years)	2010	51.4	56.0	66.9	79.8
Life Expectancy at Birth - Female (years)	2010	48.1	57.1	68.9	82.7
Crude Birth Rate (per 1,000)	2010	34.0	34.2	21.5	12.0
Crude Death Rate (per 1,000)	2010	13.4	12.6	8.2	8.3
Infant Mortality Rate (per 1,000)	2010	94.6	78.6	49.9	5.8
Child Mortality Rate (per 1,000)	2010	159.0	127.2	51.4	6.3
Total Fertility Rate (per woman)	2010	4.3	4.4	2.7	1.8
Maternal Mortality Rate (per 100,000)	2008	970.0	530.2	440.0	10.0
Women Using Contraception (%)	2005	...	...	61.0	75.0
<b>Health &amp; Nutrition Indicators</b>					
Physicians (per 100,000 people)	2005	6.5	42.9	78.0	287.0
Nurses (per 100,000 people)*	2005	75.9	116.6	98.0	782.0
Births attended by Trained Health Personnel (%)	2005	33.6	52.7	63.4	99.3
Access to Safe Water (% of Population)	2008	72.0	64.9	84.0	99.6
Access to Health Services (% of Population)	2005	...	65.4	80.0	100.0
Access to Sanitation (% of Population)	2008	46.0	41.0	54.6	99.8
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2007	2.0	4.6	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2007	367.0	315.2	161.9	14.1
Child Immunization Against Tuberculosis (%)	2009	98.0	81.8	89.0	99.0
Child Immunization Against Measles (%)	2009	91.0	81.0	81.7	92.6
Underweight Children (% of children under 5 years)	2003	68.0	30.9	27.0	0.1
Daily Calorie Supply per Capita	2007	1 685	2 462	2 675	3 285
Public Expenditure on Health (as % of GDP)	2006	0.7	2.4	4.0	6.9
<b>Education Indicators</b>					
Gross Enrolment Ratio (%)					
Primary School - Total	2009	146.6	102.8	106.8	101.5
Primary School - Female	2009	144.2	99.0	104.6	101.2
Secondary School - Total	2009	21.2	35.0	62.3	100.3
Secondary School - Female	2009	17.8	30.6	60.7	100.0
Primary School Female Teaching Staff (% of Total)	2009	52.8	38.1	...	...
Adult literacy Rate - Total (%)	2008	65.9	64.8	81.0	...
Adult literacy Rate - Male (%)	2008	72.3	74.0	86.6	...
Adult literacy Rate - Female (%)	2008	59.9	55.9	75.6	...
Percentage of GDP Spent on Education	2009	8.3	4.6	...	5.4
<b>Environmental Indicators</b>					
Land Use (Arable Land as % of Total Land Area)	2008	35.0	7.8	9.9	11.6
Annual Rate of Deforestation (%)	2005	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2005	...	10.9	...	...
Per Capita CO2 Emissions (metric tons)	2008	0.0	1.2	1.9	12.3



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators; last update : January 2011  
 UNAIDS; UNSD; WHO; UNICEF; WRI; UNDP: Country Reports.  
 Note : n.a. : Not Applicable ; ... : Data Not Available.

## Preliminary Conditions: Detailed Analysis of the Fiduciary Risk

### A. Executive Summary

PARE-IV is budget support corresponding to the Bank's fourth contribution to PRSF implementation aimed at reinforcing Public Finance Management. The Ministry of Finance will assume responsibility for the administrative, financial and accounting management of the financial resources generated. The technical services will accomplish related tasks through existing mechanisms that are at the centre of reforms resulting from diagnoses such as PEMFAR (2008) and PEFA (2009), etc.

The ministry reassures partners on the credibility of the budget in general and on budget classification. Nevertheless, major fiduciary risks were identified in the budgeting process, budget execution control, accountability and financial information, internal and external controls. This situation stems from findings made during the above-mentioned diagnostic exercises. The budget schedule has not yet been completely stabilized. The expenditure chain is still replete with control stages, some of which are redundant; its computerization has shortcomings. Timeliness and the quality of interim and annual financial statements are not satisfactory.

SICI, the ministry's audit and sector inspection organ, lacks operational resources. The Audit Bench does not have the optimum staffing. There is no clear delimitation of the fields of action of SICI, IGE and the Audit Bench in their respective work programmes. None of these three institutions uses formalised verification procedures set out in a manual or guide book. Performance audit is nascent in mentalities and the corresponding training has not yet been organized. The application and follow-up of recommendations from various audit exercises remains highly inadequate. Consideration of the Finance Acts (FAs) and audit reports by the National Assembly is also insufficient.

There is a constant process of seeking and preparing measures to mitigate the fiduciary risks identified by these studies through implementation of public finance management reforms coordinated by the Budget Support Unit of the Ministry. They include disbursement conditions and other measures that are in line with targeted PARE-IV performance indicators. The study on the simplification and rationalisation of the expenditure chain and the one on internal and external controls are also part of this process.

The IMF report of January 2011 on strengthening foreign exchange operations in Burundi states, *inter alia*, that "...due to the low level of exports, imports are mainly financed by international aid...", that "the foreign exchange market in Burundi is divided into two main segments: the banking sector and the *bureaux de change* sector..." and that "...despite a high demand for foreign exchange on the organized market, the exchange rate on the auction market remains astonishingly high...". Hence, it has led to an analysis of the fiduciary risk related to PARE-IV fund flows and the cash-flow management mechanism in BRB.

Given the high level of the global fiduciary risk, PARE-IV will be supervised in collaboration with other donors and in close consultation with the ministry's Budget Support Unit.

## **B. Assessment of the Fiduciary Risk**

Sector work on public finance management was conducted (PEMFAR 2008, PEFA 2009, PER 2010) that revealed weakness, the analyses of which led to the preparation of a Public Finance Management Strategy. A number of Technical and Financial Partners (TFPs), including the Bank, mobilised their financial resources and technical assistance to contribute to the implementation of the programme or action plan under the said strategy.

The current PARE-IV financial management assessment mission became acquainted with the public finance situation and the internal and external controls in Burundi through various sector study reports mentioned below. It held working sessions with a number of management services and control structures to obtain additional information.

Having learnt the foregoing and focusing on the targeted area of PARE-IV which is consolidation of public finance management through the two selected components, the mission noted the opportunities and analysed the fiduciary risks.

### **1. Transparency and efficiency in public resource management**

Effort is made in compiling documents that should accompany the FA. Interim budget execution reports contain information on the committed expenditures although they remain incomplete. However, the following risks exist:

- The risk of lack of transparency in the budget process is moderate because the comprehensiveness of the information contained in budget documentation is 50% satisfactory.
- The risk that the accounting management system will not be able to produce budget execution reports in the course of the year is high because of the non-existence of such reports produced on a timely basis and containing quality information.
- The same high risk applies concerning the audited budget (AB), the summary financial statements of which are incomplete and present partial data; moreover, the management accounts are not all transmitted to the Audit Bench.

### **2. Efficiency of control systems**

The public finance audit systems are institutionally in place through the existence of SICI, IGE, the sector inspectorates, the Anti-Corruption Brigade, etc. for internal control, and the Audit Bench and National Assembly for external control. The Audit Bench published the "Control report on the regularity of State budget execution" after verifying the content of the Audited budget transmitted to the National Assembly; it issued the "General declaration of conformity in the execution of the General State budget". Information on the macro-economic framework and the main guidelines on economic and budget policy are submitted to the National Assembly which, since the successive production of the General State Account from 2004 to 2007, finally examined the audited budget for 2008, which comprised the declaration of conformity from the Audit Bench. Nonetheless, the performance of the various control institutions is relatively inadequate and this generates the following risks:

- The risk of not having an effective and adequate contribution by the internal and external control systems to improving the conformity of internal financial control and accounting systems is high because of the non-dissemination of SICI reports to the IGE or Audit Bench and non-compliance with the recommendations made by control entities.
- The high risk of lack of efficiency assurance regarding the internal and external audit systems because of the limited capacity of control institutions and structures (insufficient staff, no manuals or guidebooks, no training and tools for performance audit, no delimitation of the scope of control, limited coverage of the entities to be audited, etc.).
- The risk of superficial examination of the Finance Act and external audit reports by the legislature is high because the internal organization of the National Assembly is not operational to examine the Finance Act and, hitherto, only the audited budget for 2008 has been examined; in other words, consideration of the Finance Acts and audit reports by the National Assembly is inadequate.

### **3. Foreign exchange operations**

In January 2001, the IMF published a report on Strengthening Foreign Exchange Operations in Burundi. It analyses the general features of the foreign exchange market in Burundi, exchange rate stability, the organisation and functioning of sessions of the Symmetrical Foreign Exchange Auction Market (*Marché des enchères symétriques de devises* (MESD)), management of reserves, liquidity management, attraction of foreign banks and data collection and utilisation.

This report enabled the mission to obtain information on foreign exchange operations in Burundi (cf. executive summary of the above report). During the working session with the Resident Representative of the IMF and his team, the mission expressed a few concerns about the financing of imports with international aid (use of foreign exchange) and the stability of the exchange rate despite a huge demand for foreign exchange on the organised market. These concerns could generate fiduciary risks in foreign exchange and a slowdown in financial flows between the main account opened at the Bank, the special account at the BRB and the Public Treasury account. However, the IMF office in Burundi reassured the mission, mentioning the 6 (six) months of foreign exchange reserves at the BRB which are well above the applicable IMF requirement. Hence, the mission concluded that the level of foreign exchange risk and slowness in PARE-V fund flows and in the cash-flow management mechanism at the BRB is low.

### **C. Mitigation of fiduciary risks**

The mitigative measures for all the fiduciary risks identified and analysed below are detailed in the “Matrix of Operational Policies” in Annex 2 of this report; there are measures to be taken in 2011, which include disbursement conditions and planned measures for 2012. This matrix (which is an action plan) presents the baseline situation, results or targets and the body responsible for implementing each measure.

**D. Fiduciary risk management: monitoring and evaluation**

In light of the foregoing, the overall fiduciary risk level of PARE-IV is high. Two supervision missions are necessary from loan approval right up to second disbursement to ensure that disbursement conditions are fulfilled. The budget support monitoring/evaluation mechanisms are in place. Other supervision missions will follow later at a frequency that will depend on the status of implementation of the matrix of measures entitled: "Matrix of Operational Policies".

The Budget Support Unit of the Ministry of Finance is responsible for monitoring the preliminary measures and the progress of budget support from various TFPs as part of its mission to coordinate the Public Finance Management Strategy and implement the corresponding programme. Accordingly, it prepares all the monitoring reports that will serve as working documents for the supervision missions. Every PARE-IV supervision mission has to be conducted in close consultation with this Unit.

Another mechanism remains the TFP coordination (EU, WB, IMF, etc.), which provides budget support to Burundi. Every PARE-IV supervision mission will be conducted in collaboration with these TFPs.

## Analysis of the Procurement System

February 2011

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### 1. Introduction

In 2003, the Government of the Republic of Burundi, with the support of technical and financial partners, embarked on public procurement system reform aimed at establishing a credible legal and institutional framework that guarantees the efficient and transparent execution of public contracts. The priority of this reform is the revision of the regulatory and legal framework that led to the adoption of a new procurement code on 2 February 2008.

At this stage, Burundi has no in-depth assessment of the procurement system,<sup>13</sup> and this has made it difficult to have an exhaustive appraisal of the national system. Hence, the PEFA assessment, conducted in 2008, and which refers to the old procurement code (1990) gives an overall rating of D+ to Indicator PI-19 which relates to public procurement. This assessment does not take into account the progress made after adoption and implementation of the 2008 code.

This paper seeks to sum up the key aspects that characterize the four pillars of the national procurement system in Burundi.

### 2. Current trends in the national procurement system reform

#### 2.1. *Legislative and regulatory*

The new procurement code adopted by the National Assembly (Law No. 1/01 of 4 February 2008) went into force on 4 October 2008. It lays down more rational rules and regulations, encouraging competition and transparency, and enshrines the establishment of a new legal and institutional framework. Its scope of application covers all public and private entities that receive public resources. From the institutional standpoint, the law advocates a mechanism that ensures a separation between the functions of procurement, control and regulation. To that end, it introduces a new institutional framework comprising a Public Procurement Regulatory Authority (ARMP), a National Directorate for Public Procurement Control (DNCMP) and procurement units within the various contracting authorities. The main enabling instruments of the procurement code have also been adopted as well as the basic standard documents and the ministerial order setting the various procurement and control thresholds. *The regulatory mechanism is deemed satisfactory overall, although certain inaccuracies and inconsistencies were noted in practice.*

#### 2.2. *Institutional framework and managerial capacity*

After the new code went into force, the Government focused its efforts on setting up various structures. Members of the Regulatory Council within ARMP, appointed by Decree No. 100/17 of 29 January 2009, those of the dispute settlement committee, as well as the Director General of the institution, assumed duty in 2009 and the Technical Directors were recruited. During the two years of operation, ARMP executed a number of activities related mainly to reform monitoring, awareness-raising and training of various stakeholders (647 persons trained in 2009) as well as handling of complaint cases by the dispute settlement committee (62 cases heard in 2009). However, *ex poste* control missions were not conducted because of

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<sup>13</sup> Similar to the one based on the OECD/DAC methodology.

lack of financing; to date, the Authority has not conducted any external audit of awarded contracts. For it to carry out its missions, it is important for ARMP, which also plays a key role in defining procurement policies and monitoring their implementation, to be provided with adequate human and financial resources. Given State budget constraints, such an allocation should take into account the performance and capacity of the institution. The National Directorate for Procurement Control is operational; the staff provided for in the organisation chart is in place. The DNCMP conducts systematic *ex ante* control of contract files (683 files were controlled in 2010 compared to 165 in 2009). However, it has not yet conducted any control of contracts below the *ex ante* control threshold.

Training/awareness-raising sessions on the code are organised for State and semi-public structures, as well as the provinces and districts. At the central level, such sessions targeted the procurement management units of ministries and heads of cabinet, as well as governors, economic advisers and district administrators in the provinces and districts. In all, about 647 persons were trained in 2009. There is need to continue with and systematise such training by preparing target modules on programming, contract preparation and contract management for officials responsible for procurement. Although a number of ministries prepare procurement plans, there is no real programming and monitoring mechanism or an integrated management system which makes it possible to link procurement to the budget management system. *In general, the institutional framework exists but has very limited managerial capacity. It is crucial for the system's performance to build its capacity especially through professionalization of senior staff and the institution of planning and management tools and resources, including an integrated information system, in order to make it more operational and efficient.*

### **2.3. Procurement operations and private sector capacity**

Despite a relatively satisfactory regulatory framework, the procurement system is still very fragile and bogged down with unwieldy implementation procedures, insufficient human and material capacity and the absence of management tools for monitoring contracts. The performance of ad hoc management units in charge of programming and procurement remains limited; moreover, they are not operational in all contracting authorities. Developing their capacity would make them more operational and efficient.

Private sector capacity to respond efficiently to invitations to tender is also limited because of the institutional shortcomings of local businesses, their ignorance of the rules, lack of training for their staff and difficulties of access to information. An action plan was prepared in 2010 by the Government. However, its implementation has been fragmentary, for want of means and overall vision. *It is important to carry on with the implementation of the action plan by targeting short- and medium-term priority actions especially in the area of training, including for the private sector. It is also necessary to ensure a wide dissemination of new procurement texts and manuals.*

### **2.4. Integrity and transparency of the system**

An independent complaints mechanism managed by the Disputes Settlement Committee is established within the regulatory authority and is operational. The ARMP, responsible *inter alia* for regular procurement audits has not conducted any audits due to insufficient resources. The *ex ante* control system is managed by the DNCMP, which gives an opinion on all files above the defined thresholds. However, to date, it has not been carrying out its mission of

administrative control of awarded contracts whose amounts are below the systematic control thresholds. Furthermore, there is no public procurement gazette or website for wide dissemination of procurement information, and this does not encourage transparency. Certain practices aimed at awarding large-sum contracts against the established rules persist and could encourage corruption. *It is crucial therefore to reinforce control in order to ensure that all contracts are awarded in accordance with applicable rules and promote transparency through increased access to information.*

### **3. Conclusion**

To consolidate achievements and deepen ongoing reforms, major efforts have to be made in terms of capacity-building for various stakeholders, adoption of management tools and enhancement of transparency and control. Accordingly, the programme must provide for measures which make it possible to enhance control and transparency in the short term, especially:

- the conduct of a global assessment of the procurement system using the methodology developed by OECD/DAC in order provide information on the implementation status of the new framework and develop a reference framework for measuring system performance as well as a realistic action plan.
- extension of DNCPM control to all contracts, including those below the systematic control threshold;
- sustainability of the ARMP budget by including it in the Finance Act;
- promotion of access to information and enhancement of transparency through the creation of a public procurement website;
- conduct of procurement audits by the ARMP.

PEFA Indicators (2009)

Public Finance Management Performance Indicators		Rating method	Rating by component				Overall rating
			i	ii	iii	iv	
<b>A – PUBLIC FINANCE MANAGEMENT SYSTEM OUT-TURNS: Credibility of the budget</b>							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	C				C
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	A				A
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A				A
PI-4	Stock and monitoring of expenditure payment arrears	M1	B	D			D+
<b>B – KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>							
PI-5	Classification of the budget	M1	A				A
PI-6	Comprehensiveness of information included in budget documentation	M1	C				C
PI-7	Extent of unreported government operations	M1	D	C			D+
PI-8	Transparency of inter-governmental fiscal relations	M2	A	D	D		C
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	D	D			D
PI-10	Public access to key fiscal information	M1	C				C
<b>C- BUDGET CYCLE</b>							
<b>C(i) Policy-Based Budgeting</b>							
PI-11	Orderliness and participation in the annual budget process	M2	D	C	A		C+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	B	D	D	D+
<b>C(ii) Predictability and Control in Budget Execution</b>							
PI-13	Transparency and taxpayer obligations and liabilities	M2	C	C	C		C
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	D	C	D		D+
PI-15	Effectiveness in collection of tax payments	M1	B	C	D		D+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	D	B	B		D+
PI-17	Recording and management of cash balances, debt and guarantees	M2	C	D	C		D+
PI-18	Effectiveness of payroll controls	M1	D	D	D	C	D+
PI-19	Competition, value for money and controls in procurement	M2	D	C	C		D+
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	D	C		D+
PI-21	Effectiveness of internal audit	M1	C	C	D		D+
<b>C(iii) Accounting, Recording and Reporting</b>							
PI-22	Timeliness and regularity of accounts reconciliation	M2	D	D			D
PI-23	Availability of information on resources received by service delivery units	M1	C				C
PI-24	Quality and timeliness of in-year budget reports	M1	C	D	D		D+
PI-25	Quality and timeliness of annual financial statements	M1	D	D	D		D
<b>C(iv) External Scrutiny and Audit</b>							
PI-26	Scope, nature and follow-up of external audit	M1	D	C	D		D+
PI-27	Legislative scrutiny of the annual budget law	M1	C	D	D	B	D+
PI-28	Legislative scrutiny of external audit reports	M1	D	D	D		D
<b>D – DONOR PRACTICES</b>							
D-1	Predictability of direct budget support	M1	D	D			D
D-2	Financial information provided by donors for budgeting/reporting on project/programme aid	M1	C	D			D+
D-3	Proportion of aid that is managed by use of national procedures	M1	D				D

Source: 2009 PEFA Report.

**Meaning of PEFA indicator ratings retained as impact indicators in the logical framework**

▪ **PI-7: Extent of unreported government operations.**

The D+ rating obtained in 2008 is justified by:

Component (i): a level of extra-budgetary spending that exceeds 10% of total expenditure.

Component (ii): although information on projects financed by donors through loans is included in budget reports, less than 50% of grant information is included.

The objective for 2011 is to: (i) reduce the level of extra-budgetary spending to less than 10% and include more than 50% of grant information in budget reports.

▪ **PI-19: Competition, value for money and controls in procurement**

The D+ rating obtained in 2008 is justified by:

Component (i): Data is not sufficient to conduct an assessment of the procurement procedure used

Component (ii): Justification of the use of less competitive methods is less convincing and there is no obligation to publish information on the award of negotiated contracts.

Component (iii): There is no independent body for non-judicial remedies.

The objective for 2011 is to ensure that: (i) at least 50% of public contracts are awarded through competitive bidding; (ii) recourse to less competitive methods is justified and in accordance with statutory requirements; (iii) there is an operational mechanism for handling complaints.

▪ **PI-21: Effectiveness of internal audit**

The D+ rating obtained in 2008 is justified by:

Component (i): Internal control institutions are in place and have started their activities, but do not yet operate according to international standards;

Component (ii): Internal control institutions prepare reports regularly but these reports are not disseminated.

Component (iii): The follow-up of recommendations made by internal control entities is not organized.

The objective for 2011 is as follows: (i) The functioning of control institutions is aligned on international norms; (ii) their reports are systematically transmitted to the Ministry in charge of Finances and the higher institution of control; (iii) Organisation of the follow-up of recommendations has been initiated.

▪ **PI-24: Quality and timeliness of in-year budget reports**

The D+ rating obtained in 2008 is justified by:

Component (i): Budget execution reports only focus on expenditure at the commitment stage and not at the payments stage;

Component (ii): There are no in-year budget reports which can be used to measure timeliness;

Component (iii): It is also impossible to judge their quality.

The objective for 2011 is as follows: (i) reports prepared include expenditure at the payments stage; (ii) reports are prepared every quarter; (iii) the quality of data in the reports is enough to make such reports useful.

▪ **PI-26: Scope, nature and follow-up of external audit**

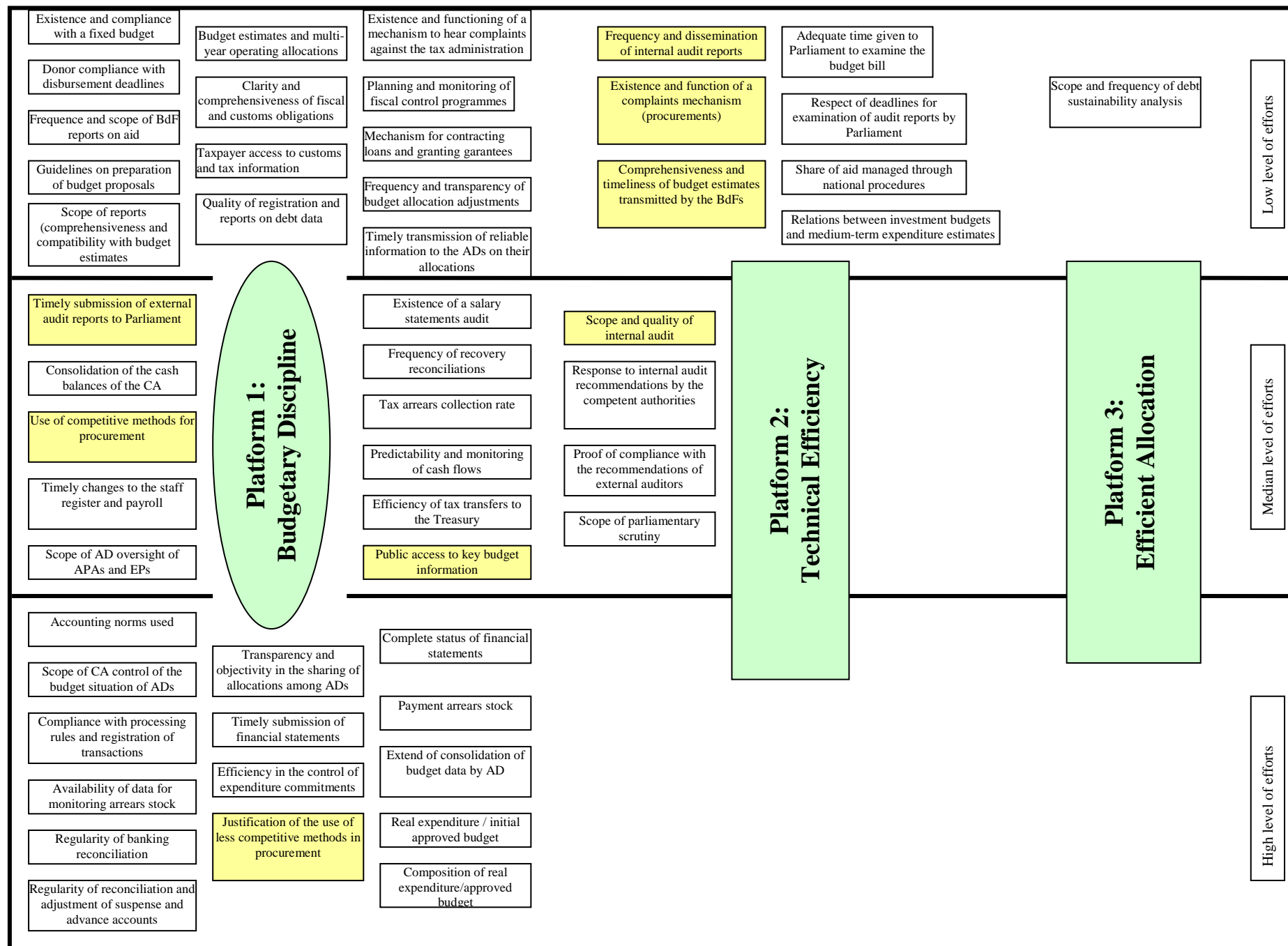
The D+ rating obtained in 2008 is justified by:

Component (i): The staff of the Audit Bench is not enough for it to audit a significant volume of expenditure;

Component (ii): The Audit Bench submits its audit reports to Parliament within 12 months following the end of the fiscal year:

Component (iii): There is no formal procedure to monitor the recommendations formulated by the Audit Bench.

The objective for 2011 is to: (i) increase the volume of expenditure audited by the Audit Bench to at least 50% of the total; (ii) submit audit reports to Parliament within 8 months after the end of the fiscal year; (iii) respond to the recommendations of the Audit Bench, even if follow-up is not very developed.



## Overview of Governance, Competitiveness and Business Environment Indicators

### Governance Indicators

Governance Indicators	Year	Rank (centile 0-100)	Governance score (-2.5 to +2.5)
Voice and accountability	2004	11.5	-1.33
	2009	28	-0.73
Political stability	2004	1.0	-2.49
	2009	10.4	-1.42
Government effectiveness	2004	6.8	-1.38
	2009	12.9	-1.11
Regulatory quality	2004	10.2	-1.20
	2009	11.4	-1.15
Rule of law	2004	4.8	-1.42
	2009	11.8	-1.55
Control of corruption	2004	14.1	-1.05
	2009	10.5	-1.12

Source: [Kaufmann D., A. Kraay, and M. Mastruzzi \(2010\), The Worldwide Governance Indicators: Methodology and Analytical Issues](#)

### Global Competitiveness Index 2010-2011 and 2009-2010

Competitiveness Indicators	GCI 2010-2011		GCI 2009-2010	
	Rank (out of 139 countries)	Score (1-7)	Rank (out of 133 countries)	Score (1-7)
<b>Global Index</b>	<b>137</b>	<b>3</b>	<b>133</b>	<b>2.6</b>
<b>Basic requirements</b>	<b>135</b>	<b>3.2</b>	<b>133</b>	<b>2.5</b>
1st pillar: Institutions	138	2.8	129	2.8
2 <sup>nd</sup> pillar: Infrastructure	132	2.2	125	2.4
3 <sup>rd</sup> pillar: Macroeconomic stability	121	3.6	132	1.0
4th pillar: Health and primary education	120	4.4	121	3.7
<b>Efficiency enhancers</b>	<b>139</b>	<b>2.5</b>	<b>133</b>	<b>2.7</b>
5th pillar: Higher education and training	139	2.0	131	2.5
6th pillar: Goods market efficiency	137	3.0	129	3.2
7th pillar: Labour market efficiency	81	4.3	101	4.1
8th pillar: Financial market sophistication	139	2.3	133	2.7
9th pillar: Technological readiness	137	2.3	129	2.3
10th pillar: Market size	137	1.3	132	1.3
<b>Innovation and sophistication factors</b>	<b>138</b>	<b>2.6</b>	<b>119</b>	<b>2.9</b>
11th pillar: Business sophistication	138	2.8	119	3.3
12th pillar: Innovation	134	2.3	116	2.6

Source: *Global Competitiveness Report 2009-10*, World Economic Forum.

Ease of Doing Business Index

Ranking by category	DB rank in 2011	DB rank in 2010	Variation
Starting a business	135	131	↓ -4
Dealing with construction permits	175	173	↓ -2
Registering property	115	118	↑ +3
Getting credit	168	167	↓ -1
Protecting investors	154	153	↓ -1
Paying taxes	141	113	↓ -28
Trading across borders	176	175	↓ -1
Enforcing contracts	171	171	0
Closing a business	183	183	0
<b>GLOBAL INDEX</b>	<b>181</b>	<b>181</b>	<b>0</b>

Source: Doing Business, [www.doingbusiness.org](http://www.doingbusiness.org).

Country Policy and Institutional Assessment (CPIA) 2007-2010

Burundi	A. Economic Management				B. Structural Policies				C. Policies for Social Inclusion and Equity					Total score (A-C)	
	1	2	3	Average	4	5	6	Average	7	8	9	10	11		Average
	Macroeconomic management	Fiscal policy	Debt policy		Regional integration and trade	Financial sector	Business regulatory environment		Gender equality	Equity of public resource use	Building human resources	Social protection and labour	Policy and institutions for environmental sustainability		
2007	4.0	4.0	3.0	3.67	3.0	3.0	3.0	3.00	3.5	3.0	3.5	3.0	3.0	3.20	3.29
2008	4.0	4.0	3.0	3.67	3.5	2.5	2.0	2.67	3.0	3.0	3.5	3.0	3.0	3.10	3.14
2009	4.0	3.5	3.0	3.50	3.5	2.5	2.0	2.67	3.0	3.0	3.5	3.0	3.0	3.10	3.09
2010	4.0	3.5	2.5	3.33	3.5	2.5	2.0	2.67	3.0	3.0	3.5	3.0	3.0	3.10	3.03

Burundi	D: Governance: Public Sector Management and Institutions					
	12	13	14	15	16	Average
Property rights and rule-based governance	Quality of budgetary and financial management	Efficiency of revenue mobilisation	Quality of public administration	Transparency, accountability and corruption in the public sector		
2007	2.5	2.5	3.0	3.0	2.5	2.70
2008	2.5	4.0	3.0	2.5	2.0	2.80
2009	2.5	4.0	3.0	2.5	2.0	2.80
2010	2.5	4.0	3.0	2.5	2.0	2.80

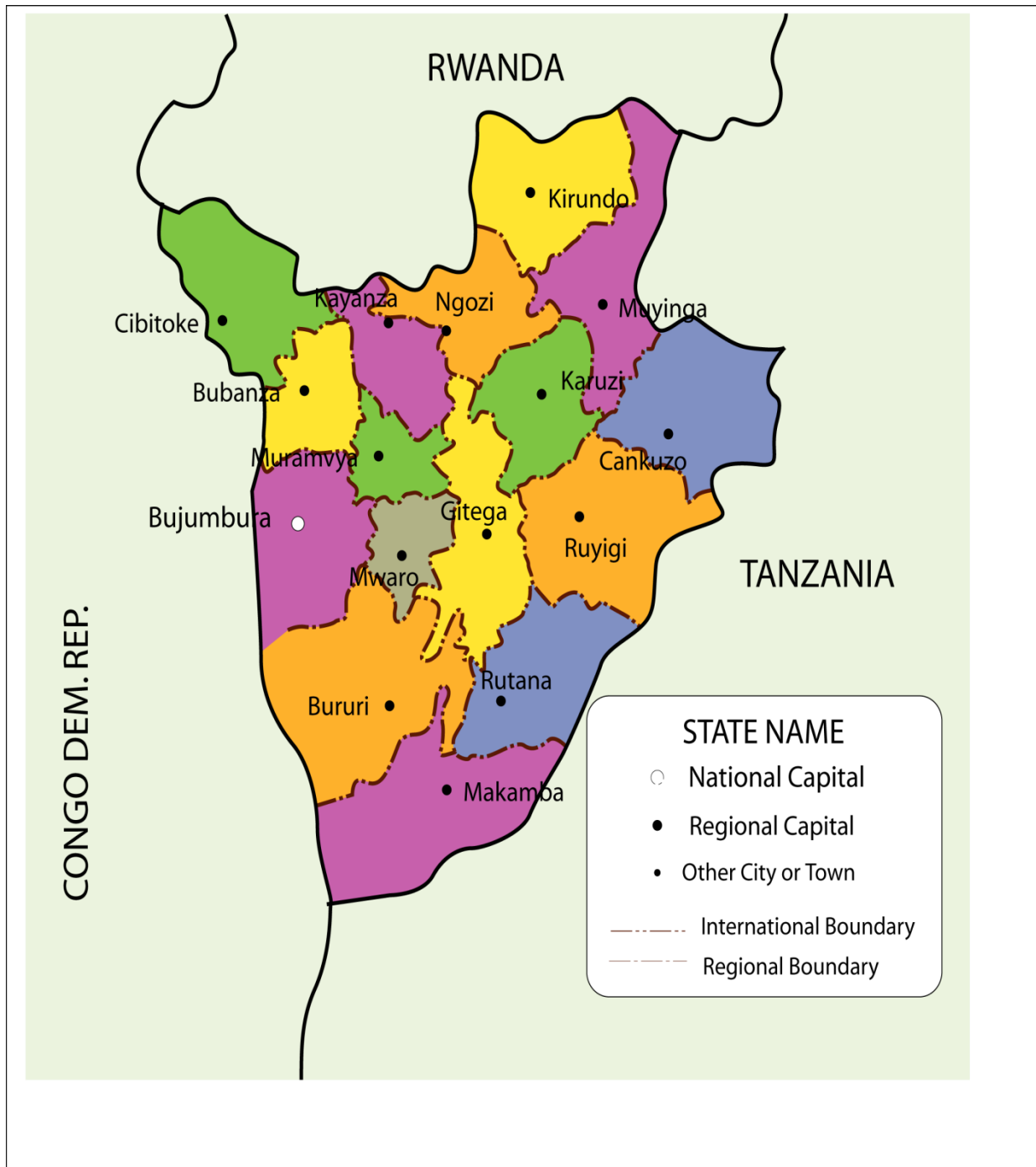
Country Fragility Assessment

FSF Supplemental support	ELIGIBILITY RE-ASSESSMENT FOR A SECOND CYCLE OF SUPPLEMENTAL SUPPORT UNDER PILLAR I OF THE FSF
<p><b>First Stage Criteria</b></p>	<p><b>(A) Commitment to the consolidation of peace and security</b></p> <ul style="list-style-type: none"> <li>• <i>Burundi obtained a CPIA score of 3.03 in 2010, which is below the 3.2 ceiling for fragile post-conflict countries.</i></li> <li>• <i>Since signing the Arusha Peace Agreement in 2000, the country has made progress in instituting political and social stability. The last group of rebels has been disarmed, but the situation remains fragile.</i></li> <li>• <i>In May 2010, municipal elections were held, followed by presidential and legislative elections in June, during which the incumbent president was re-elected. Boycott of the elections by the main opposition parties greatly contributed in weakening the country.</i></li> </ul> <p><b>B) Unmet social and economic needs</b></p> <ul style="list-style-type: none"> <li>• <i>Burundi ranks 166<sup>th</sup> out of 169 countries in the UN's 2010 Human Development Index.</i></li> <li>• <i>Poverty is widespread with an extreme poverty incidence of 67% of the total population.</i></li> <li>• <i>The country has been experiencing slow economic recovery since 2000, with an average growth rate of 3%. Hence, per capita GDP is still far below its pre-war level. Real gross national income per capita remains very low at USD 150 in 2010.</i></li> <li>• <i>Despite some progress made towards achievement of the MDGs, there is a high probability that they may not be achieved.</i></li> </ul>

<b>Second Stage Criteria</b>	<ul style="list-style-type: none"><li>▶ <b>Improvement of the macroeconomic situation and debt management:</b><ul style="list-style-type: none"><li>• <i>Article IV consultations with the IMF in May 2010 (IMF Report No. 10/313) show that the economic outlook is favourable on the whole but subject to security risks and external shocks.</i></li><li>• <i>Burundi has reached the HIPC initiative completion point and qualified for debt relief under the MDRI in 2009. In March 2010, the Paris Club agreed to cancel outstanding claims.</i></li><li>• <i>Given the country's high risk of debt overload and its limited capacity, external budget financing is limited to grants and highly concessional loans.</i></li></ul></li><li>▶ <b>Implementation of Sound Financial Management Practices</b><ul style="list-style-type: none"><li>• <i>The Public Expenditure Review (PER) shows that progress has been made in several aspects of economic and financial management, including: (i) creation of the Burundi Revenue Office, whose staff was recruited on a competitive basis; and (ii) capacity-building for the General State Inspectorate and the Anti-Corruption Brigade.</i></li><li>• <i>However, the capacities of the Ministries of Finance and Planning remain low, the staff of the Audit Bench is wholly insufficient and the recruitment of new magistrates is long awaited.</i></li></ul></li><li>▶ <b>Transparency in Public Finance Management</b><ul style="list-style-type: none"><li>• <i>Much progress has been made to arrive at a single Treasury account.</i></li><li>• <i>Important laws such as the Organic Law on Public Finance, the customs code and the public procurements code have been adopted.</i></li></ul></li></ul>
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Source : Burundi, Country Paper.

Map of the Republic of Burundi



The staff of the ADB Group have provided this map for the exclusive use of this report to which it is appended. The appellations and the demarcations on this map do not imply any judgment on the part of the ADB Group and its members concerning either the legal status of a territory or the approval or acceptance of its boundaries.

## **BURUNDI**

### **THE FOURTH ECONOMIC REFORM SUPPORT PROGRAM (ESRP-IV)**

#### **CORRIGENDUM**

#### **6.1. Conditions Precedent to Bank Group Intervention**

6.2.1. *Conditions precedent to grant effectiveness:* Grant effectiveness is subject to signature of the Protocol Agreement between the Bank, the FSF and the Republic of Burundi.

#### 6.2.2. *Conditions precedent to disbursement of the first tranche:*

- (i) Adoption of the General Public Budget Management Regulations by the Council of Ministers (paragraph 4.2.8) ;
- (ii) Adoption, by presidential decree, of the list of new members of the Audit Bench approved by the National Assembly and Senate in order to reach the optimum staffing level (paragraph 4.2.15) ; and
- (iii) Maintenance of a Staff Monitored Programme with the IMF, as indicated through the approval of the 5<sup>th</sup> ECF review by the IMF Executive Board (paragraph 4.2.8).

#### 6.2.3. *Conditions precedent to disbursement of the second tranche:*

- (i) Finalisation and transmission of the diagnostic report of sector inspectorates under the Ministry of Good Governance and Privatisation and preparation of a capacity-building plan for such inspectorates (paragraph 4.2.12) ; and
- (ii) Transmission to the Ministry of Finance of quarterly budget execution reports of the first two quarters of 2011 containing expenditure execution data at the payment stage (paragraph 4.2.4);