BURUNDI: SECOND ECONOMIC REFORM SUPPORT PROGRAMME
(ERSP-II)

“APPRAISAL REPORT”

* Questions on this document should be referred to:

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<tr>
<th>Name</th>
<th>Position</th>
<th>Office</th>
<th>Extension</th>
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</thead>
<tbody>
<tr>
<td>Mr. G. NEGATU</td>
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<td>OSGE</td>
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October 2008
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CURRENCY EQUIVALENTS

October 2008

UA (Unit of Account) 1 = FBU (Burundian franc) 1927.35
UA 1 = USD 1.57
UA 1 = Euro 1.07

FISCAL YEAR

1 January - 31 December

WEIGHTS AND MEASURES

1 tonne = 2204 Pounds (lbs)
1 kilogram (kg) = 2.200 lbs
1 metre (m) = 3.28 feet (ft)
1 millimetre (mm) = 0.03937 inch ("")
1 kilometre (km) = 0.62 mile
1 hectare (ha) = 2.471 acres

ACRONYMS AND ABBREVIATIONS

ADB/ADF : African Development Bank/Fund
ARMP : Public Procurement Regulatory Authority
CC : Cours des Comptes (Audit Bench of Supreme Court)
CFAA : Country Financial Accountability Assessment
CGPM : Public Procurement Management Unit
CNCA : National Aid Coordination Committee
COMESA : Common Market for Eastern and Southern Africa
CPI : Country Procurement Issue Paper
CSM : Higher Judicial Council
DAF : Department of Administration and Finance
DBSL : Development Budget Support Loan
DCF : Financial Audit Department
DGD : Directorate General of Customs
DGMP : Directorate General of Public Procurement
DNB : National Directorate of the Budget
DNMP : National Public Procurement Control Directorate
DNP : National Directorate of Planning
DNSI : National Directorate of Statistics and Information Technology
EAC : East African Community
EMSP : Economic Management Support Project
ERGSP : Economic Reform and Governance Support Programme
ERSG : Economic Reform Support Grant
ERSP : Economic Reform Support Project
EU/EC : European Union/European Commission
FABRP : Poverty Reduction Budget Support Facility
FNL-PALIPEHUTU : National Liberation Forces –Hutu People Liberation Party
FSF : Fragile States Facility
GDP : Goss Domestic Product
GFFT : Government Flow of Funds Table
GPRSFS : Growth and Poverty Reduction Strategic Framework
HIPC-I : Heavily Indebted Poor Countries Initiative
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>IGE</td>
<td>General State Inspectorate</td>
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<tr>
<td>IGE</td>
<td>General State Inspectorate</td>
</tr>
<tr>
<td>IGF</td>
<td>General Finance Inspectorate</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>LOFP</td>
<td>Public Finance Framework Law</td>
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<tr>
<td>MDG</td>
<td>Millennium Development Goal</td>
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<td>MDRI</td>
<td>Multilateral Debt Relief Initiative</td>
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<tr>
<td>MEFCD</td>
<td>Ministry of the Economy, Finance and Development Cooperation</td>
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<td>MTEF</td>
<td>Medium-Term Expenditure Framework</td>
</tr>
<tr>
<td>NIF</td>
<td>Numéro d’identifiant fiscal (Tax Identification Number)</td>
</tr>
<tr>
<td>OTBU</td>
<td>Treasurer-Authorizing Office of Burundi</td>
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<tr>
<td>PAGAM/GFP</td>
<td>Government Action Programme for Improvement and Modernization of Public Finance Management</td>
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<td>PAP</td>
<td>Priority Action Programme</td>
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<tr>
<td>PBCE</td>
<td>Government Chart of Accounts and Budget</td>
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<tr>
<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
</tr>
<tr>
<td>PEMFAR</td>
<td>Public Expenditure Management and Financial Accountability Review</td>
</tr>
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<td>PRGF</td>
<td>Poverty Reduction and Growth Facility</td>
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<td>PRSF</td>
<td>Poverty Reduction Strategic Framework</td>
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<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
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<tr>
<td>RBCSP</td>
<td>Results-Based Country Strategy Paper</td>
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<tr>
<td>REFES</td>
<td>Economic and Social Reforms</td>
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<tr>
<td>RONC</td>
<td>Report on the Observation of Standards and Codes</td>
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<tr>
<td>SDR</td>
<td>Special Drawing Rights</td>
</tr>
<tr>
<td>SEP</td>
<td>Poverty Monitoring-Evaluation System</td>
</tr>
<tr>
<td>SGFI</td>
<td>Integrated Monitoring-Evaluation System</td>
</tr>
<tr>
<td>SICI</td>
<td>Operational Inspection and Internal Control Service</td>
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<tr>
<td>SIGFIP</td>
<td>Integrated Public Financial Management System</td>
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<tr>
<td>SYGADE</td>
<td>Debt Management System</td>
</tr>
<tr>
<td>TFP</td>
<td>Technical and Financial Partners</td>
</tr>
<tr>
<td>UA</td>
<td>Unit of Account</td>
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<tr>
<td>USD</td>
<td>United States Dollar</td>
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<td>VAT</td>
<td>Value Added Tax</td>
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<td>WAEMU</td>
<td>West African Economic and Monetary Union</td>
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GRANT INFORMATION

Country : Republic of Burundi
Sector : Economic and Financial Governance
Executing Agency : Ministry of the Economy, Finance and Development Cooperation
Coordinator: Reform Implementation Support Unit
Grant Amount : UA 14 million
Grant Conditions : - ADF grant of UA 12 million from “Fragile States Facility” resources.
- ADB grant of UA 2 million under the “Bank’s Response to the Food Crisis”
Number of tranches : Two tranches to be disbursed after fulfilment by the donee of conditions specific to each tranche.

Provisional Financing Plan

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount in 2008</th>
<th>Equivalent in UA million</th>
<th>Amount in 2009</th>
<th>Equivalent in UA million</th>
<th>Financing Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB/ADF</td>
<td>UA 9 million</td>
<td>09.00</td>
<td>UA 5 million</td>
<td>05.00</td>
<td>Budget support grant (ERSG-II)</td>
</tr>
<tr>
<td>World Bank</td>
<td>USD 30 million</td>
<td>19.11</td>
<td>USD 25 million</td>
<td>15.92</td>
<td>Economic reform support grant (ERSG-II)</td>
</tr>
<tr>
<td>European Union</td>
<td>Euro 15 million</td>
<td>14.02</td>
<td>Euro 15 million</td>
<td>14.02</td>
<td>Grant</td>
</tr>
<tr>
<td>Netherlands</td>
<td>USD 20 million</td>
<td>12.74</td>
<td>USD 13 million</td>
<td>08.28</td>
<td>Economic reform support grant (ERSG-II)</td>
</tr>
<tr>
<td>Norway</td>
<td>USD 20 million</td>
<td>12.74</td>
<td>USD 13 million</td>
<td>08.28</td>
<td>Economic reform support grant (ERSG-II)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>67.61</td>
<td></td>
<td>51.5</td>
<td>Grants</td>
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</table>

PROVISIONAL PROGRAMME IMPLEMENTATION SCHEDULE

Approval of Concept Note : August 2008
Programme Appraisal : August-September 2008
Programme Approval : November 2008
Effectiveness : November 2008
Programme Monitoring-Supervision : December 2008-December 2009
Completion : December 2009
EXECUTIVE SUMMARY

1.1 The Second Economic Reform Support Programme (ERSP-II), which covers the 2008-2009 period, is a follow-up to the previous support operations by the Bank (PAREG and ERSP-I). This Programme falls within the Growth and Poverty Reduction Strategic Framework (GPRSF) as well as the Bank’s intervention strategy in Burundi for the 2008-2011 period. It takes into account the Bank’s strategic orientations on governance, its fragile States initiative and the interventions of other donors. The programme was designed and will be implemented in close collaboration with donors within the Budget Support Partnership Framework.

1.2 The Bank’s contribution to the financing of ERSP-II is a grant of UA 14 million, in the form of budget support, comprising an ADF grant of UA 12 million from the resources of the “Fragile States Facility” (FSF) and an ADB grant of UA 2 million within the framework of the “Bank’s Response to the Food Crisis”.

1.3 The expected major outcomes of the Programme concern essentially the following points: (i) continued stability of the macroeconomic environment, and in particular price stability, which will contribute positively to mitigating the impact of the food crisis, (ii) coherence between macroeconomic and budgetary forecasts, as well as external financing; (iii) better alignment of strategies, priorities and budgetary programming, particularly at the level of detailed sector action and financing plans, which will translate notably into an increase in priority expenditures aimed at poverty reduction; (iv) more effective and efficient management of public resources; and (v) creation of an enabling environment for private sector development through greater macroeconomic stability, better quality of institutions and increased efficiency of procurements, especially through reform of public finance management and the public procurement system.

1.4 Macroeconomic framework for the 2008-2009 period projects a gross financing requirement of about USD 1,954.3 million and available financing of USD 1,916 million, including financing through budget support, which shows a residual financing gap of nearly USD 38.3 million.

1.5 The proposed budget support for Burundi meets the relevant prerequisites, and is a timely and effective instrument which will help to provide assistance that is more aligned and harmonized with other donors, in accordance with the Paris Declaration on Aid Effectiveness that was recently reaffirmed by the Accra Agenda for Action. It is also an instrument which supports the implementation of the country’s reform programme, particularly in the area of public finance, while substituting national procedures with the multiplicity of donor procedures. Regarding macroeconomic stability, the last PRGF review, conducted by the IMF in July 2008, concluded that the macroeconomic situation and the progress made in structural reforms were generally satisfactory, thereby enabling the country to benefit from a new PRGF in July 2008. Lastly, the budget support is designed to generate synergies between the Bank’s institutional support and that of other donors.

1.6 The implementation of the Programme will enhance the administration’s effectiveness and efficiency in the design, formulation, implementation and monitoring-evaluation of socioeconomic development programmes. It will also contribute to strengthening good public finance governance and reinforcing the institutions, which is essential for getting the country out of its situation of fragility on a sustainable basis.
### Hierarchy of Objectives

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<thead>
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<th>I - Goal/Overall Objective</th>
<th>Expected Outcomes</th>
<th>Scope</th>
<th>Performance Indicators</th>
<th>Indicative Targets, Timeline</th>
<th>Assumptions/Risks</th>
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<tbody>
<tr>
<td><strong>I</strong>-Goal/Overall objective</td>
<td><strong>Impact</strong></td>
<td><strong>Beneficiaries</strong></td>
<td><strong>Impact Indicators</strong></td>
<td><strong>Anticipated progress</strong></td>
<td><strong>Assumptions</strong></td>
</tr>
<tr>
<td><strong>Support the implementation of the 2007-2011 priority action programme for the implementation of the Poverty Reduction Strategy Framework through more effective and efficient management of public finance</strong></td>
<td>1.1.1 Economic growth improved sustainably and equitably</td>
<td>Population of Burundi</td>
<td>- Growth rate and inflation rate</td>
<td>- Achieve an average annual growth of 4.75% in 2008 and 2009 and a decline in inflation from 19.1% (annual average) in 2008 to 9.4% (annual average) in 2009</td>
<td>- Fragility of the country’s socio-political stability</td>
</tr>
<tr>
<td></td>
<td>1.1.2 the living conditions of the population and their access to basic services are improved</td>
<td>Population of Burundi</td>
<td>- Poverty rate</td>
<td>- Reduce the incidence of poverty from 68% in 2007 to 60% in 2009</td>
<td>- Weaknesses of the country’s institutional capacities;</td>
</tr>
<tr>
<td></td>
<td>1.1.3 Public finance management is more effective and efficient</td>
<td>Burundi administration</td>
<td>- Share of pro-poor expenditure in the budget</td>
<td>- Increase expenditure earmarked for poverty reduction from 6.8% of GDP in 2005 to about 8.7% in 2006 and 9.2% in 2007 and 10% in 2008 and 2009. Share of pro-poor expenditure in the budget increases from 35.5% in 2007 to 38.4% in 2008 and 2009</td>
<td>- Vulnerability of Burundi’s economy to external shocks and to climatic conditions, especially the main commodities (coffee, tea and cotton)</td>
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</table>

### Programme Goal

<table>
<thead>
<tr>
<th>II-Programme Goal</th>
<th>Impacts</th>
<th>Beneficiaries</th>
<th>Impact Indicators</th>
<th>Expected Progress</th>
<th>Assumptions</th>
</tr>
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<tr>
<td>II-1. Strengthen the management of public resources</td>
<td>II-1.1 The budget is exhaustive, and the budget preparation process is streamlined</td>
<td>Ministry of Finance</td>
<td>- The macroeconomic framework letter is systematically prepared</td>
<td>- The macroeconomic framework letter is prepared as from the 2nd quarter of 2009 for the preparation of the 2010 budget</td>
<td>- Stability and commitment of the Government in pursuing the implementation of the State’s Financial Management within the timelines</td>
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<tr>
<td>HIERARCHY OF OBJECTIVES</td>
<td>EXPECTED OUTCOMES</td>
<td>SCOPE</td>
<td>PERFORMANCE INDICATORS</td>
<td>INDICATIVE TARGETS, TIMELINE</td>
<td>ASSUMPTIONS/RISKS</td>
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<tr>
<td>II-1.2 The public procurement system is operational and functions in a more efficient and transport manner</td>
<td>- Economic operators submit bids and are awarded public contracts; the administration</td>
<td>- Implementing texts adopted</td>
<td>- Average timeline for review and endorsement of public contracts by DBCF decreases from 6 days in 2007 to 4 days in 2008, and 3 days in 2009</td>
<td>- From 2009, SIGEFI must generate automatically the budget implementation status necessary for tracking</td>
<td></td>
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<tr>
<td></td>
<td>- Ministry of Finance</td>
<td>- I. 1.2. (a) Average timeline for endorsement and execution of contracts</td>
<td>- The number of public contracts audited rises from 25% in 2007 to 50% at end 2009</td>
<td>- At least 5 cadres of the administration empowered to generate budget data in 2009 and 8 in 2010.</td>
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<tr>
<td></td>
<td>- Social Ministries and the Ministry of Agriculture</td>
<td>- I. 1.2. (b) Number of contracts audited</td>
<td>The number of complaints considered by the independent appeal body increases from 7 in 2009 to 14 in 2010.</td>
<td>- As from 2009, a procedures manual describing the four phases of the expenditure chain is available and used by the budget manager</td>
<td></td>
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<td></td>
<td>- Social sectors</td>
<td>- I. 1.2. (c) Number of negotiated contracts</td>
<td></td>
<td>- As from end 2009, gradual introduction of MTEFs in priority Ministries: Ministries in charge of</td>
<td></td>
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<td>- Vulnerable segments of the population</td>
<td>- I. 1.2. (d) Number of complaints from bidders considered</td>
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<td></td>
<td>- Social Sectors: health and education</td>
<td>Source: National statistics, reports of internal and external audit institutions; reports of the Chamber of Commerce, Industry and Agriculture; reports on the review of the programme by the Bretton Woods institutions</td>
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<td>II-1.3 Budget implementation is computerized</td>
<td>- Separation of powers and efficiency in action</td>
<td>I. 1.3. (a) Budget implementation status prepared through the SIGEFI</td>
<td></td>
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<td></td>
<td>I. 1.3. (b) Number of persons empowered and authorized to generate budget data</td>
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<td>II-1.4 The public expenditure structure henceforth reflects the Government’s priority actions for the social sectors</td>
<td></td>
<td>II. 1.3. (c) Existence of procedures manuals for the expenditure chain</td>
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<td></td>
<td>II. 1.4. (a) MTEF prepared</td>
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<td>HIERARCHY OF OBJECTIVES</td>
<td>EXPECTED OUTCOMES</td>
<td>SCOPE</td>
<td>PERFORMANCE INDICATORS</td>
<td>INDICATIVE TARGETS, TIMELINE</td>
<td>ASSUMPTIONS/RISKS</td>
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<tr>
<td>II-2. Strengthen the public finance external and internal audit system</td>
<td>II-1.5 The management of the Public Treasury is streamlined</td>
<td>- Sound management of public resources and effective control of financial and economic misappropriation</td>
<td>II. 1.5. (b) Regular publication, or publication at request, of summary statements on the execution of pro-poor expenditures, particularly expenditures financed with HIPC resources.</td>
<td>Finance, education and health</td>
<td>- Expenditures for Education and Health will be increased by 5% and 10% respectively in 2008 and 2009 in comparison to their 2007 level</td>
</tr>
<tr>
<td></td>
<td>II-1.6. The areas of intervention of each audit body and the strengthening of their respective capacities are reduced</td>
<td></td>
<td>- II. 1.5.(c) Regular generation of a GFFT</td>
<td></td>
<td>- As from 2009, generation of quarterly GFFT</td>
</tr>
<tr>
<td></td>
<td>II-2.1. Internal Inspection and Control Service is set up, and is operational (SICI)</td>
<td></td>
<td>- Number of Treasury accounts in commercial banks</td>
<td></td>
<td>- In 2008-2009, the number of Treasury accounts in commercial banks is reduced to the minimum in comparison to their excessive number in 2006 and 2007.</td>
</tr>
<tr>
<td></td>
<td>II-2.2. The powers and resources of the Audit Bench (CC) are increased</td>
<td></td>
<td>- The texts defining the powers of each audit body are adopted</td>
<td></td>
<td>- As From 2009, the various audit bodies are operational, each in its domain</td>
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<td></td>
<td></td>
<td></td>
<td>- Preparation of an annual action plan for SICI</td>
<td></td>
<td>- In 2009, the SICI is operational, with an action plan</td>
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<td></td>
<td></td>
<td></td>
<td>- The regulatory, human and material resources of the CC are strengthened</td>
<td></td>
<td>- At the end of 2009, systematic analysis and implementation of remarks made by the Audit Bench in its reports.</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>- The CC regularly produces reports in accordance with these obligations</td>
<td></td>
<td>- A from 2008, quarterly budget reports are submitted regularly to the Audit Bench and to the Finance Committee of the two Houses of Parliament</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- 2007 and 2008 audited finance laws ; 2009 and 2010 finance bills explanatory statements</td>
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<tr>
<td>HIERARCHY OF OBJECTIVES</td>
<td>EXPECTED OUTCOMES</td>
<td>SCOPE</td>
<td>PERFORMANCE INDICATORS</td>
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<td>II- Inputs and Activities</td>
<td>Outputs</td>
<td>Beneficiaries</td>
<td>Output indicators</td>
<td>Expected progress</td>
<td>Coordination, harmonization and joint commitment of TFPs.</td>
</tr>
<tr>
<td>- Signing of Grant Agreement</td>
<td>- Effective implementation of the programme in compliance with the provisional schedule</td>
<td>- Population of Burundi</td>
<td>- Number of reform measures implemented at mid-term of the Programme implementation period and at the end of implementation</td>
<td>-50% of the measures are implemented at mid-term; 80 to 90% of all the measures will be implemented at the end of the Programme</td>
<td></td>
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<tr>
<td>- Adoption of laws and regulations (Laws, Decrees, Orders, Ordinances and Circulars) Monitoring, evaluation and supervision system</td>
<td>Sources of Finance: ADF: UA 12.00 million ADB: UA 02.00 million WB: USD 55.00 million EU: Euro 30.00 million Netherlands: USD 33.00 million Norway: USD 33.00 million</td>
<td></td>
<td>Source: -Special account audit report, Programme implementation monitoring report</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Auditing of the special account</td>
<td>Outputs</td>
<td>Output indicators</td>
<td></td>
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I. THE PROPOSAL

1.1 This Report concerning the proposal for a grant from de FSF of UA 12 million and an ADB grant of UA 2 million, in the form of a budget support, to finance the Second Economic Reform Support Programme (ERSP-II) for Burundi for the 2008-2009 period is submitted to the Boards of Directors for consideration. The proposal is in response to the request of the Government of Burundi and is consistent with the 2008-2011 Results-Based Country Strategy Paper (RBCSP).

1.2 This second programme intends to consolidate the outcomes of ERSP-1, and seeks to create conditions for sustainable and equitable growth so as to strengthen social cohesion mainly through improvement of public finance management. Indeed, the recent studies and assessments of public finance management in Burundi, as well as the ERSP-1 completion report, highlighted the persistent weaknesses of the implementation of reforms initiated by the Government as part of State financial management and for which measures should be taken and/or pursued to: (i) improve the management of public resources; and (ii) strengthen the internal and external auditing of public finance management.

1.3 The expected major outcomes of the programme essentially concern the following points: (i) continued stability of the macroeconomic environment, and in particular price stability, which will contribute positively to mitigating the impact of the food crisis (growth of 4.75% on average over the 2008-2009 period and an average decline in inflation from 19.1% in 2008 to 9.4% in 2009); (ii) coherence between macroeconomic and budgetary forecasts, as well as external financing; (iii) better alignment of strategies, priorities and budgetary programming, particularly at the level of detailed sector action and financing plans, which will translate notably into an increase in priority expenditures aimed at poverty reduction; (iv) more effective and efficient management of public resources; and (v) creation of an enabling environment for private sector development through greater macroeconomic stability, better quality of institutions and increased efficiency of procurements, especially through reform of public finance management and the procurement system. The Bank’s budget support will be provided in the form of a UA 14 million grant (an ADF grant of UA 12 million from the resources of the “Fragile States Facility” and an ADB grant of UA 2 million within the framework of the “Bank’s Response to the Food Crisis”).

II. NATIONAL CONTEXT AND PROGRAMME CONTEXT

2.1 Government’s Overall Development Strategy and Medium-Term Reform Priorities

2.1.1 The Government has adopted the new generation Poverty Reduction Strategic Framework (PRSFSF) (2006-2009 period), known as the “Full-Fledged PRSF”, as its national development strategy. This strategy, which was formulated in a participatory manner, seeks to ensure transition from a post-conflict economy to a situation of economic growth and development. More specifically, the PRSF aims at strengthening political stability, consolidating peace and reducing poverty through acceleration of sustainable and equitable economic growth.

2.1.2 The key strategic thrusts of the PRSF are: (i) promotion of accelerated growth in equity; (ii) improvement of good governance and security; (iii) enhancement of the quality and accessibility to basic social services, (iv) diversification of employment and income
generating opportunities in rural areas; (v) enhanced support for the socioeconomic rehabilitation of vulnerable groups; (vi) development of human capital; and (vii) HIV/AIDS prevention and control. The strategy, which is well-designed, ambitious but realistic, is operational through a priority action programme that pursues and deepens the reforms already undertaken.

2.2 Recent Socioeconomic Developments, Outlook, Constraints and Challenges

2.2.1 Since independence in 1962, Burundi has been confronted with a series of cyclical crises leading to waves of ethnic violence. The most serious of the crises broke out in 1993 and lasted more than ten years. It caused a lot of damage at the material and human levels, seriously affecting the economic and social fabric of the country. The crises disorganized the productive system and led to low production and incomes, low international aid and investment, and persistently put strong pressure on the State treasury. The crises also weakened the capacities of the Government and the public sector to manage public resources, which dwindled considerably.

2.2.2 After more than a decade of economic turmoil, economic activity now records encouraging performance and progress in the conduct of macroeconomic reforms backed by the World Bank, the International Monetary Fund (IMF) and development partners, which have enabled the country to reach the decision point of the HIPC Initiative.

2.2.3 However, the macroeconomic results for the 2006-2007 period were mixed, and reflect the fragility of Burundi’s economy. Indeed, growth which stood at 5% in 2006, dropped to 3.6% in 2007 because of the decline in production and export of coffee, as well as delays in the implementation of structural reforms. The level of gross reserves, in months of imports, stood at 3.9 months in 2007 compared to 3.3 months in 2006, due to the late disbursement of budget support. The real effective exchange rate fell by 8.6% in 2007.

2.2.4 Inflation at the end of the period, which was 9.3% in 2006, went up to 14.7%, as a result of the rising world commodity prices and the depreciation of the exchange rate. In the first four months of 2008, domestic fuel and commodity prices increased by 23% on average, pushing the overall inflation rate to 11.7% during the period. Excluding food products and fuel, the inflation rate would be 3.5%.

2.2.5 Public finance continued to show a structural deficit with an overall balance (commitment basis, excluding grants) that represented 20.0% of GDP on average over the 2006-2007 period. The 2007 budget performance was below expectations. The budget deficit (excluding grants) rose to 22.4% of GDP in 2007 (compared to 19.4% of GDP in 2006), following an increase in public spending from 38.4% of GDP in 2006 to 40.5% in 2007. The breaking off of peace talks with the last rebel group (FNL-Palipuhutu) slowed down the demobilization process, leading to a higher than planned payroll/GDP ratio. In view of budget financing requirements, the Government took compensatory measures, such as increase in some taxes, reduction of certain non-priority expenses, and postponement of the increase of civil service salaries to 2008.

2.2.6 Lastly, the external current account balance, which stood at about 10.5% of GDP in 2005, showed a large deficit of up to 15% of GDP on average over the 2006-2007 period, with the persistent upsurge of the prices of oil products on the world market. However, Burundi’s external position remained compatible with the objectives of the IMF programme.
in 2007. Although exports slumped (14%) due to the stagnation of coffee exports, and imports grew very rapidly (20%, due mainly to the increase in demand for intermediate and capital goods), external aid flows helped to maintain the external balance within the expected limits.

2.2.7 Furthermore, the authorities have made progress in the achievement of the triggers of the completion point of the HIPC Initiative, but efforts still need to be made. The social indicators of the education sector have improved significantly, especially since the introduction of free primary education in 2005. However, the implementation of the demobilization and rehabilitation programme is behind schedule, and the privatization strategy as well as the corresponding legal and regulatory framework have not yet been formulated. Efforts need to be sustained to fulfil the conditions of the trigger criteria of the completion point of the HIPC Initiative by end 2008 to early 2009. If the country attains the completion point, the primary deficit will improve and the overall deficit (commitment basis, including grants) will be maintained at 1% of GDP without resorting to domestic financing. Expenditures in the social sectors will continue to increase to 10.1% of GDP in 2008.

2.2.8 Burundi is hard hit by the soaring world oil and food prices. The authorities have taken measures to mitigate the impact of the crisis on the population. For example, customs duties on gas-oil have been reduced from 12% to 9% and certain social programmes (food security programme and school food programme) have been put in place. The budget impact of the crisis is estimated at about 1.5% of GDP in 2008. The ADB grant of UA 2 million will contribute to financing the budget impact of the crisis and to mitigating the rise in consumer prices.

2.2.9 On the whole, Burundi’s medium-term economic outlook, according to the PRGF analysis, are favourable: (i) GDP growth should reach 4.75% on average over the 2008-2009 period compared to the average of 3.6% for the 2004-2007 period; (ii) the inflation rate is on the decline, from 19.1% annual average in 2009 to 9.4% annual average in 2009; (iii) gross official reserves are expected to stabilize at a level equivalent to about three months of imports; (iv) the overall budget deficit (excluding grants) will decline from 22.8% in 2007 to 21.9% of GDP in 2009; (v) the external account deficit (excluding grants) will stabilize at an average of 37.8% of GDP in 2008-2009, and (vi) the incidence of poverty will drop from 68% in 2007 to 60% in 2009.

2.2.10 However, these macroeconomic projections depend on the following factors: (i) pursuance of the elimination of the main economic distortions through implementation of structural reforms, particularly in the coffee sector, which will stimulate the overall productivity of factors; (ii) continued enhancement of public finance and institutional capacities; (iii) continued implementation of a prudent monetary policy; (iv) substantial increase in investment, driven by international aid and consisting principally in the renovation of infrastructures, which will help to mitigate the major bottlenecks; (v) more progress in trade liberalization as the country becomes a member of the EAC, which will contribute to diversifying the economy, stimulating competition and attracting more investments; and (vi) stabilization of the international macroeconomic framework and, in particular, the increase in international oil prices.
2.3 Status of Bank Group Portfolio

The Bank has an active portfolio in Burundi amounting to UA 56.6 million (see Annex VI of the Technical Annexes for more detailed presentation of the portfolio). Infrastructures account for 76.3% of the portfolio, while the social sector and governance account for 17.3% and 6.4% respectively of the portfolio. In general, the quality of the portfolio is quite satisfactory. Indeed, the average rate of disbursement of the portfolio is currently 30.9% for an average project age of 2.5 years. In addition, only one project is potentially problematic. Despite this performance, the quality of portfolio implementation should be improved through enhancement of the supervision of projects, especially as there is no Bank Office in the country.

2.4 Analysis of Burundi’s Solvency/Debt Sustainability

The results of the debt sustainability analysis conducted by the World Bank (see also Annex 1 of the technical annexes) show that, at the end of 2007, the public finance balance was not enough to ensure the debt sustainability and solvency of Burundi. If the country did not receive grants and had to borrow at the market rate, an adjustment equivalent to 32.6% of GDP would have been necessary to ensure the solvency of the public sector. Such an adjustment is difficult, and Burundi would need about 11 years for its financial situation to become sustainable and for the country to become creditworthy. It is neither possible nor desirable for Burundi to bear the burden of adjustment to such an extent through reduction of its spending and/or an increase of its revenue. Consequently, for the future, the country will depend on concessional financing in the form of grants and/or very concessional loans. With the attainment of the completion point, the situation will improve, but Burundi will remain vulnerable to subsequent shocks which could slow down economic growth and the development of exports.

III. PROGRAMME JUSTIFICATION, KEY DESIGN ELEMENTS AND SUSTAINABILITY

3.1 Link with the RBCSP and Underlying Analytical Factors

3.1.1 ERSP-II is a budget support to back the PRSF (2006-2009) which remains the basis of the economic and social policy of the Government. It is in keeping with the Bank’s 2008-2011 RBCSP, which focuses on the following areas: (i) support for an efficient Government through reinforcement of economic governance and the functioning of key public institutions; and (ii) increase in job opportunities through development of infrastructures and targeted interventions in the agricultural sector. The 2008 RBCSP also justifies Burundi’s access to the Fragile States Facility and the use of budget support as an intervention instrument (see Annex VI).

Compliance with the general and technical pre-conditions

3.1.2 As summarized in the table below, Burundi has the key characteristics required for a budget support operation, namely compliance with the general and technical pre-conditions in line with the Bank’s budget support policy as well as the Bank’s Fragile States policy. Annex V presents a detailed analysis of the fulfilment of the preconditions.
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<tr>
<th>General and technical preconditions for budget support in line with Bank budget support and Fragile States policies</th>
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<tbody>
<tr>
<td>Political stability</td>
<td>On the whole, the political situation is stable. Elections are organized regularly. The next elections will be held in 2010.</td>
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<tr>
<td>Economic stability</td>
<td>The country enjoys relative economic stability, backed by a PRGF approved by the IMF in July 2008. However, macroeconomic results for the 2006-2007 period are mixed and reflect the fragility of Burundi’s economy (See section 2.2)</td>
</tr>
<tr>
<td>Government’s commitment and support of technical and financial partners</td>
<td>The Government has shown strong commitment to the implementation of the PRSF, and particularly its public finance reform programme. Donors have been lending increased support since the end of the conflict, particularly through budget support. Norway and the Netherlands have each increased their budget support in 2008 from USD 13 million to USD 20 million.</td>
</tr>
<tr>
<td>Existence of a well designed PRSP with an implementation mechanism</td>
<td>A well-designed PRSP. It was appraised jointly by the IMF and World Bank in March 2007. An implementation mechanism exists.</td>
</tr>
<tr>
<td>Existence of a solid partnership between the RMCs and donors and between the donors</td>
<td>A partnership framework was signed by the Bank in September 2008, and constitutes the basis for solid partnership between Burundi and the donors and between the donors. There is also a Partners Advisory Group whose Secretariat is the National Aid Coordination Committee.</td>
</tr>
<tr>
<td>Satisfactory fiduciary review</td>
<td>Since 2004, several studies have been conducted on public finance including: the Country Financial Accountability Assessment (CFAA) in 2004; the Country Procurement Issue Paper (CPI) in 2004; and Public Expenditure Management and Financial Accountability Review (PEMFAR) in 2008. These studies indicate that, with the significant improvements made in recent years, the fiduciary framework is generally satisfactory, even though there are still gaps and weaknesses which are addressed in the public finance reform programme under implementation and backed by donors.</td>
</tr>
<tr>
<td>The country must fulfill the criteria of two screenings for eligibility for the FSF</td>
<td>The criteria of the two screenings for eligibility for the FSF are fulfilled (see Annex VI)</td>
</tr>
<tr>
<td>There must be consensus between the Government and donors on the development priorities to be supported by the DBSLs</td>
<td>There is strong consensus between the Government and donors on the development priorities to be supported by DBSL, as demonstrated by the signing of the partnership framework.</td>
</tr>
<tr>
<td>The country must be in the process of implementation of a credible institutional capacity building programme</td>
<td>A credible institutional capacity building programme is under implementation.</td>
</tr>
<tr>
<td>The justification of the operation must be provided in the programming document, as well as in the appraisal report and must include measures to mitigate fragility risks.</td>
<td>The justification for the operation lies is in the RBCSP and in this report (see Annex VI). Measures for mitigation fragility risks have been taken into account.</td>
</tr>
<tr>
<td>The operation will not be audited by a public audit body, but by an auditing firm, at least once a year, during implementation of the operation</td>
<td>The operation will be audited each year by the Audit Bench considering its relatively acceptable work (see section 4.2.13). Thus, a copy of the audited budget sent to Parliament by the Audit Bench will be sent to the Bank for each year of the operation. If the Bank deems it necessary, it may request an audit of the budgetary implementation of the resources of this support by an audit firm.</td>
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<tr>
<td>Where the institutional capacity is considered to be weak, the Bank Group, through the FSF, is expected to have recruited the professionals assigned to the public bodies concerned to strengthen the institutional capacity for it to be able to support the operation.</td>
<td>The Bank is financing two institutional support operations for capacity building, which includes technical assistance. Other donors are also backing the country with institutional support and technical assistance.</td>
</tr>
<tr>
<td>The Bank will always make efforts to involve other donors, although it can play a key role in the coordination of activities and disbursement of resources.</td>
<td>The support is implemented in close collaboration with donors under a partnership.</td>
</tr>
<tr>
<td>The disbursement will be made in several tranches</td>
<td>The disbursement will be made in two tranches.</td>
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3.1.3 The availability of external support has been instrumental in stabilizing and reconstructing the economy of Burundi after the conflicts. The country is in a situation of political transition, and is gradually implementing a reform programme aimed at consolidating the benefits of peace and achieving sustainable pro-poor growth. The recent PEMFAR showed that reinforcement of the State and in particular public finance, is a key factor in improving the country’s performance, mobilizing more resources, accelerating sustainable growth, and reducing poverty.

3.1.4 The budget support proposed for Burundi meets the relevant preconditions, and is a timely and effective instrument which will help to provide assistance that is more aligned with the priorities of the country and harmonized with other donors, in accordance with the Paris Declaration on Aid Effectiveness that was recently reaffirmed by the Accra Agenda for Action. It is also an instrument which supports the implementation of a reform programme in the area of public finance, while substituting national procedures with the multiple donor procedures. This instrument will contribute to building institutional capacities, and is a key instrument for sustainably helping the country to come out of the post-conflict situation. Lastly, the budget support is designed to generate synergies between the Bank’s institutional support operations and those of other donors including the World Bank, European Commission, Norway and the Netherlands – donors who have all fully or partially disbursed their budget support for 2008. The European Commission has disbursed a fixed tranche of Euro 6.5 million, and is currently examining the conditions for disbursement of a variable tranche ranging from Euro 6 million to Euro 8 million.

3.1.5 Furthermore, there is strong consensus between the Government and donors on the development priorities to be supported under the full-fledged PRSF and the Government’s priority action programme. The country is implementing a comprehensive and credible institution building programme backed by the majority of donors, including the World Bank, European Union, IMF, France, Netherlands, Belgium and Germany. The ADB is also financing two institutional support projects for capacity building.

3.1.6 Concerning macroeconomic stability, the last PRGF review, conducted by the IMF in July 2008, concluded that the macroeconomic situation and the structural reform measures implemented were generally satisfactory, thereby enabling the country to benefit from a new PRGF in July 2008. The satisfactory review of the PRGF is a condition precedent to the disbursement of the two tranches of the grant under this operation.

3.2 Collaboration and Coordination with Other Donors

The budget support is coordinated with the other donors under the Partnership Framework signed by the Bank in September 2008. Meetings of the Framework are held regularly to monitor the implementation of reforms and budget support. There is also a partners’ consultative group, the secretarial services of which are provided by the National Aid Coordination Committee that coordinates development aid in Burundi. Collaboration and coordination between donors is good. Several studies, including PEFA and the assessment of fiduciary risks, will be conducted with close collaboration between donors (also see Annex V).
3.3 Outcomes of Similar Completed or Ongoing Operations and Lessons Learnt

Despite notable outcomes, the implementation of ERSP-1 over the 2006-2007 period was, on the whole, unsatisfactory according to the ERSP-1 Completion Report prepared in 2008. The key lessons learnt from ERSP-1 implementation are as follows: (i) in a fragile State, it is more suitable to opt for a multi-annual and multi-tranche programme than for a single-tranche operation; (ii) reform programmes and the selected measures should be well-targeted and formulated in partnership with other donors and the Government; (iii) the measures should take into consideration their complexities and the conditions for their implementation, as well as the institutional capacities of the country; (iv) reform programmes should be backed by complementary institutional support, as well as by targeted technical assistance; and (v) the Bank should monitor the implementation of programmes on a regular basis. The lessons learnt from ERSP-1 implementation were all taken into account during ERSP-II appraisal, which should help to improve ERSP-II performance in comparison to that of ERSP-I.

3.4 Link with the other Bank Operations

Two institutional support projects financed by the Bank, namely the Institutional Capacity Building Project and the Governance Structures Support Project, are under implementation. Both projects help to build the country’s capacities in the key areas of budget preparation, as well as external and internal auditing.

3.5 Application of Principles of Optimal Conditionality Practices

The principles of optimal conditionality practices were applied (see Annex XIII of the Technical Annexes)

3.6 Application of Bank Group Non-concessional Loan Policy

The “Bank Group Policy on the Accumulation of Non-concessional Debt” was taken into account. Information available to date indicates that there is no accumulation of non-concessional debt.

IV. PROPOSED PROGRAMME AND EXPECTED OUTCOMES

4.1 Programme Goal and Objectives

The goal of the programme is to support the implementation of the 2007-2011 priority action programme derived from the Poverty Reduction Strategic Framework, through more effective and efficient public finance management. The support will be implemented essentially through two main reform areas, namely: (i) strengthening of public resource management; and (ii) strengthening of the public finance external and internal control system.

4.2 Programme Pillars, Operational Objectives and Expected Outcomes

Programme pillars and operational objectives

Component A: Strengthening of Public Resource Management
4.2.1 Strengthening of the legal and regulatory budget framework: The new Constitution of 2005 defines the respective responsibilities of the Executive and the Legislature regarding the budget: Parliament passes, after consideration, the finance law submitted by the Government. The law on the settlement of public accounts of 19 March 1964 and Ministerial Ordinance No. 030/89 of 23 June 1969 on measures for the implementation of the said law are the basic texts that define the roles and organization of budget preparation and execution. The 1988 and 1989 executive orders define the legal framework of customized administrative services and public establishments. A State Budget and Accounting Plan have been prepared, and its implementation started since 2005. Although the legal framework in place defines the internationally accepted basic principles of budget law, the State budget preparation and execution mechanism is old, incomplete and ill-defined. It did not include the organic law on public finance.

4.2.2 To adapt the legal framework to modern public finance management, which advocates more elaborate financial management methods, the Government plans, by end 2008, to approve and implement a new organic law on public finance (LOFP) instituting rigour in the preparation, approval, execution, monitoring and control of the budget. A bill has been approved by the Cabinet Meeting, and is currently pending adoption by Parliament.

4.2.3 Strengthening of the public procurement system: A new Public Procurement Code was enacted in February 2008, and is expected to enter into force in October 2008 with appropriate implementing texts. Consequently, the different organs [Public Procurement Regulatory Authority (ARMP), National Public Procurement Control Directorate (DNMP) and the Public Procurement Management Units (CGPM)] provided for by the implementing texts should be operational as soon as the new Code enters into force (fifth condition for disbursement of the first tranche of the grant). To further strengthen the public procurement system, it is necessary to carry out a comprehensive diagnosis and formulate an action plan for the consolidation and pursuance of the reform. This action plan, prepared in consultation with stakeholders including the private sector, should reflect the actions to be undertaken in accordance with the four basic pillars of a procurement system, namely: (i) the legislative and regulatory framework; (ii) the institutional framework and management capacities; (iii) procurement operations and private sector practices; and (iv) ethics promotion and anti-corruption measures.

4.2.4 Strengthening of the budget preparation process: The LOFP defines a schedule for the start of the budget preparation which should be in April every year. Without waiting for the adoption of the organic law on finance laws, a mechanism to facilitate budget preparation in terms of timeline requirements, particularly the timeline for submission of the draft budget to Parliament, and to ensure better quality of information, has been established. Consequently, the finance bill for 2009 has been prepared on the basis of a Presidential Decree that defines the different stages of preparation and an economic planning letter that helps to prevent slippages and diversion in the implementation of State financial operations.

4.2.5 Apart from setting a rigorous schedule and timelines for the preparation of finance bills and execution of finance laws, there is urgent need to strengthen budget preparation and execution through: (i) the establishment of a macroeconomic framework forecasting the major macroeconomic aggregates characteristic of the state of the economy; (ii) fixing of Government spending ceilings for the fiscal year concerned and projections of domestic revenues, external financing, State expenditures and the projected budget balance; (iii)
establishment of an accounting mechanism for tracking priority expenditures for poverty reduction; (iv) reform of accounting procedures under general public accounting regulations and regular production of accounting reports; (v) institutionalization of public expenditure review; (vi) automation of State financial operations; (vii) establishment of a mechanism for the production of standardized accounts, and preparation of budget and accounting procedures manuals; and (viii) finalization, in cooperation with the Audit Bench, of a nomenclature applicable to supporting documents of budget and treasury operations.

4.2.6 Control of the public debt: Furthermore, the State/Oil Sector swap debt is a heavy burden on public finance; it is necessary to clear it. To that end, an audit should be conducted to better define the various aspects of the debt, including the relevant recommendations. An action plan for clearing this debt, adopted in Cabinet Meeting, will then be put in place.

4.2.7 Computerization of budget execution: The establishment of the Integrated Financial Management System (SIGEFI) is aimed at computerizing budget execution. A number of problems have been encountered in this process: (i) the absence of an appropriate framework clearly defining the needs of users, the operational processes and coverage of the system; (ii) the absence of a team with the required expertise and experience in the design and implementation of public finance management systems; and (iii) the lack of a management system for the project which would have created a conducive environment for the gradual extension of its implementation.

4.2.8 There are studies and recommendations on the basis of which some measures were taken to strengthen the management of the system and its security measures. It is also necessary to highlight the proposed improvements for 2008 based on the work done by the Accounting Quality Unit with the assistance of the IMF. The review of classifications – particularly class 4/third party accounts – and accounting entry procedures will allow for significant improvement of financial management, cash flow and monitoring of payment bodies.

4.2.9 Nevertheless, the system has shortcomings which the programme will help to remedy through the following measures:

- Acceleration of SIGEFI registration of operations relating to the payment of State employees, while awaiting the development and establishment of a specific salary management module;

- A study for inclusion of a specific internal debt module in the State Debt Management System (SYGADE), and a study on the possibilities of SYGADE and SIGEFI interconnection;

- Separation of the budget parts (which is the responsibility of the authorizing officer) and accounting parts (which is the responsibility of public accountants) of the system. It is regrettable that the modularity of SIGEFI is limited and the system does not define the responsibilities of key persons involved in the expenditure chain. However, these aspects could be easily corrected. The current system activates the different financial accounts as soon as the expenditure liquidation is registered; hence before payment authorization and before verification by the accountant. It is possible to correct this inconsistency by introducing a stage involving validation by the accountant of entries generated during liquidation.
Component B: Strengthening of the public finance internal and external control system

4.2.10 **Strengthening of internal control:** Internal controls are carried out essentially by three types of structures: the General State Inspectorate (IGE), the Control Unit of MEFDC which replaces the General Inspectorate of Finance (IGF), and the control units of technical Ministries. IGE missions are broader than those of the General Inspectorate of Finance. The IGE’s role is to inspect and audit the management and operations of public services, State institutions and private enterprises or associations controlled by the State. IGE investigations cover all aspects of management, including control of compliance with laws and regulations, auditing of accounts and the control of management. Henceforth, the functions of the new MEFDC control unit will be focused on the inspection and audit of financial services.

4.2.11 The efficiency of the IGE will depend on a priority measure: define the terms and conditions of effective cooperation between the IGE and the MEFDC control unit, on the one hand, and the control units of technical Ministries, on the other hand. The internal controls will be effective only if the recommendations and sanctions proposed are implemented and if the activities of the various control units are coordinated. The control units of technical Ministries are of the opinion that sanctions – particularly regulatory sanctions – should be more systematic. Internal control institutions also lack resources to successfully perform their missions and, consequently, need capacity building.

4.2.12 The measures to be implemented over the 2008-2009 period to improve the internal control system are as follows: (i) clarify the respective roles of the IGE and internal control units (particularly within the MEFDC), by clearly separating audit from investigation functions. Explore the possibility of specializing the IGE in investigations of corruption cases, while strengthening the audit capacities of the other units. An alternative solution would be to separate audit from investigation functions within the inspectorates and to define rules justifying the intervention of the IGE in the areas of action of the other inspectorates; (ii) ensure that audit and investigation functions are performed appropriately – in accordance with international standards – through the quality of recruitments and training, quality controls, internal review systems and certification and by ensuring that the inspectorates have enough resources and means to carry out their missions; (iii) define appropriate procedures for monitoring audits and investigations; (iv) assess the compliance of managers with the recommendations of auditors, at the time of publication of the final report (percentage of recommendations they approve), so as to increase probabilities of implementation of the recommendations.

4.2.13 **Strengthening of external control:** External control is carried out by the Audit Bench set up by Article 178 of the Constitution of Burundi, which specifies that the Audit Bench is responsible for reviewing and certifying the accounts of all public services. In addition, it assists Parliament in the control of the implementation of the Finance Law. It presents to Parliament a report on the compliance of State accounts with the laws and regulations in force, and indicates whether public funds were used in accordance with the existing procedures and the budget approved by Parliament. The Audit Bench forwards its report to the Government. The report of the Audit Bench is a public document made available to the press and civil society.
4.2.14 In accordance with the Law of 19 March 1964 defining the regulatory framework of State accounts (Section 31), the Minister of Finance is required to submit to the Audit Bench the general accounts of the State and the Audited Budget which will be submitted to Parliament no later than three months following the end of the fiscal year. Similarly, Law No. 1/002 of 31 March 2004 setting up the Audit Bench and defining its mission, organization and functioning provides that the accounts of the Central Bank, cashier of the State, the operations of the OTBU and the audited accounts of public services, with all support documents, should be transmitted to the Audit Bench no later than 31 March of the following fiscal year (Section 69). These documents and accounts of the State serve as the basis for the preparation of the report of the Audit Bench on compliance of accounts with the budget laws and regulations.

4.2.15 The Audit Bench submitted the Audited Budget of the 2006 and 2007 fiscal years within 12 months following the closure of the budget. It also produces ad-hoc reports and makes comments that are included in the finance bill. Given the importance of the audited budget in ensuring good financial governance, the MEFCD will submit to the Audit Bench the draft audited budget law of the 2008 fiscal year during the second quarter of 2009.

4.2.16 The Audit Bench has to face many challenges, the major one being that public accounts are not reliable. The Accounting Department is making remarkable efforts to improve the quality of accounts that it prepares, but measures (see matrix of measures in Annex II) are underway to enhance the quality of accounts. Another challenge for the Audit Bench is the inadequacy of resources and capacities, which could impact on its independence and operational effectiveness.

4.2.17 The key measures to be implemented in 2008-2009 to strengthen the external control system are: (i) strengthen the Audit Bench by increasing its resources, (ii) establish a system for monitoring the recommendations of the Audit Bench; (iii) finalize, in cooperation with the services of MEFDC, a nomenclature applicable to the supporting documents of the budget and treasury operations; (iv) strengthen cooperation between the Audit Bench and IGE within the context of the respective roles of the two institutions; and (v) increase audits and desk verifications for public institutions, which are not subject to public accounting regulations.

Expected Outcomes of the Programme

4.2.18 The expected major outcomes of the programme concern essentially the following points: (i) continued stability of the macroeconomic environment, and in particular price stability, which will contribute positively to mitigating the impact of the food crisis; (ii) enhanced coherence between macroeconomic and budgetary forecasts, as well as external financing; (iii) better alignment of strategies, priorities and budgetary programming, particularly at the level of detailed sector action and financing plans, which will translate into an increase in priority expenditures aimed at poverty reduction; (iv) more effective and efficient management of public resources; and (v) creation of an enabling environment for private sector development with better quality of institutions and strengthening of the public procurement system.

4.2.19 The following measures will be implemented by the Government before presentation of ERSP-II to the Board of Directors.
1°/ Submission of the audited budget of the 2007 fiscal year to the Audit Bench by the MEFCD (§ 4.2.15).
[Letter of MEFCD submission and acknowledgement of receipt of the Registrar of the Audit Bench]

2°/ Adoption by Parliament of the new Organic Law on public finance (§ 4.2.2).
[Provide a copy of the bill adopted by Parliament and relating to the LOFP]

3°/ Adoption of decrees relating to the structures provided for by the Public Procurement Code: (1) Public Procurement Regulatory Authority (ARMP), (2) National Public Procurement Control Directorate (DNMP), and (3) Public Procurement Management Unit (CGPM) [§4.2.3].
[Provide copies of the decrees to set up: (1) Public Procurement Regulatory Authority, (2) National Public Procurement Control Directorate, (3) Public procurement Management Unit]

4°/ Adoption of a decree defining the timeline for the preparation of the budget, the responsibilities of the various players and content of the planning letter to improve the timelines and effectiveness of the budget preparation procedure (§ 4.2.5).
[Provide a copy of the decree signed by the President of the Republic defining the schedule for the preparation of the budget, the responsibilities of the various players and the planning letter to improve the timelines and effectiveness of the budget preparation procedure].

5°/ Conduct an audit of the State swap debt /oil sector (§ 4.2.6).
[Provide a copy of the audit report of the State swap debt /oil sector]

6°/ Maintaining of a benchmark programme of the International Monetary Fund as a result of the conclusion of the PRGF programme in July 2008 (§3.1.6).
[Press Release of the IMF relating to the conclusion of a PRGF programme in July 2008]

4.3 Financial Requirements and Financing Arrangements

Financing requirements

4.3.1 Gross financing requirements in external resources for the 2008-2009 programme, as shown in Technical Annex IV, are estimated at USD 1 954.3 million, and are due mainly to the primary current account deficit of USD 855.2 million (43.76%) and to the debt write-off of USD 1 058.3 million (54.15%).

Sources of Finance

4.3.2 Available financing over the programme period (2008-2009), amounting to about USD 1,916 million, covers nearly 98.55% of the gross financing requirements. The financing thus identified comprises principally: (i) USD 783.7 million corresponding to the multisector debt; and (ii) USD 1 110 million relating to HIPC and MDRI debt relief, including the contribution of the IMF. The residual financing gap is estimated at USD 38.3 million. Under ERSP-II, the Bank will lend financial support in the form of a grant to contribute to the
identified financing gap, that is a total amount of UA 14 million, or the equivalent of USD 22 million. At the bilateral and multilateral levels, the external sources as well as the financing plan are reproduced in the chapter on “Information on Grant”. It is indicated that the World Bank, Norway, Netherlands and European Union have all disbursed the full amount (World Bank, Norway and Netherlands) or almost all (European Commission which has disbursed its fixed tranche and is disbursing the variable tranche) of the their budget support in 2008.

**Contribution of ADF and ADB grant**

4.3.3 The proposed grants under ERSP-II, amounting to UA 14 million and in the form of budget support, will be disbursed in two tranches. The first tranche, amounting to UA 9 million, will be disbursed at the end of 2008, subject to fulfilment of the effectiveness conditions of the grant and the conditions precedent to the first disbursement. The second tranche, amounting to UA 5 million, will be disbursed during the 2009 fiscal year, subject to fulfilment of conditions precedent to the second disbursement. It should be noted that the programme covers the financing of the 2008 budget. Thus, all the conditions precedent to the 2008 disbursement have already been met.

4.3.4 The use of the ADB grant of UA 2 million from the ADB surplus account is in line with the utilization methods stipulated in the document “ADB Response to the Food Crisis”. The document stipulates that Burundi can benefit from a grant of UA 2 million in the form of a budget support to contribute to price stabilization.

**4.4 Programme Beneficiaries**

4.4.1 The economic reforms backed by ERSP-II are macroeconomic in nature, hence their positive impact on the entire national economy, particularly for the agricultural sector which accounts for about 48.4% of GDP. The performing agricultural sector can help to improve the living conditions of the population, in particular the rural population, through the promotion of employment in rural areas, the preservation of spatial balances, increase in tax revenues and export earnings, achievement of food self-sufficiency, and resistance to subsequent food crises. In short, the main beneficiaries of ERSP-II are the entire population of Burundi, agricultural producers, the private sector, territorial entities and the sector Ministries.

4.4.2 The implementation of the Programme will help to increase the efficiency of the administration in the design, formulation, implementation and monitoring-evaluation of socioeconomic development programmes. Public finance management arrangements will help to meet the requirements of transparency, effectiveness and rigour. At the end of the programme, the following impacts are expected in the three components, which affect the sustainability of the expected outcomes of the Programme.

**4.5 Impacts on Governance**

4.5.1 The Programme, which covers the 2008-2009 period, will contribute to: (i) promoting economic governance; (ii) enhancing transparency in public finance management; (iii) improving the Budget Preparation and Execution Process; and (iv) strengthening control in the management of public finance. Thus, the impact of ERSP-II will be positive on all governance dimensions: accountability, transparency and national management of public resources.
4.5.2 In particular, the implementation of the proposed programme will contribute to enhancing transparency, thanks to the sustainability of the participatory approach, and through the strengthening of the ownership of programmes. In general, the implementation of the Programme will contribute to modernizing and improving the functioning of public services, and increasing output and reliability of budget resources management systems, thanks to the establishment of modern and transparent institutional and regulatory frameworks.

4.6 Macroeconomic Impacts

The Programme will lay the foundations for an inclusive strategy for sustainable and shared growth. As a result of ownership of the strategic analysis and consultation on a shared and consensual vision of development, and the implementation of the principles of the Paris Declaration on Aid Effectiveness, particularly as concerns ownership on the part of beneficiaries, and alignment on the part of donors, stakeholders can therefore participate in the efficient and renovated management of an economy that generates strong growth within sustainable economic development that helps to build the roadmap for achieving the Millennium Development Goals (MDGs).

4.7 Impacts on Regional Integration

4.7.1 As regards regional integration, the Government’s policy is to ensure Burundi’s integration into the sub-regional market and to strengthen the institutional and regulatory measures so as to enable the country’s industrial units to diversify their production and stimulate the supply of exportable products. Hence, policies should take into account commitments to the EAC and COMESA, as well as their impact on Government revenues. Since 2004, Burundi has embarked on: (i) the elimination of customs duties on goods from the COMESA free trade zone; (ii) the application of COMESA common external tariffs, and (iii) the introduction of VAT, which will be effective as from July 2009.

4.7.2 Within this context, development partners, in particular the World Bank, the European Union and the African Development Bank, have demonstrated their commitment to lending financial and technical assistance to Burundi so as to facilitate its regional integration. The proposed reform measures under ERSP-II will therefore contribute to reducing disparities in industrial development and the costs of being landlocked, as well as to improving the tax system. Thus, the harmonization of texts, procedures and institutions, as recommended by the Programme, will contribute to facilitating regional integration.

4.8 Impacts on Gender and Social Impacts

4.8.1 The Programme does not include specific actions relating to gender. However, the objectives of ERSP-II, which are enhancement of the performance of economic and financial management, improvement of the impact of public spending on growth and poverty reduction, and promotion of sustainable and equitable economic growth, will improve the living conditions of the entire population. In addition, the increase in budget allocations to social sectors will have a positive impact on basic social infrastructures and therefore on the school enrolment of children and particularly girls in rural areas, as well as on the programme for family planning and control of sexually transmitted diseases, including HIV/AIDS.
4.8.2 Furthermore, because of the prominence of women in the marketing of agricultural products, they should derive benefits from the reforms to liberalize the marketing of coffee, notably by increasing their incomes. Lastly, the promotion of microcredit across the country, and particularly in local areas, offers women’s groups engaged in income-generating activities the opportunity to access credit and develop their businesses and increase their cash incomes. Thanks to the link between sector and overall strategies, better programming and budgeting of investments, and improvement of economic management in general, the PRSF objective of restoring quality social services could be achieved.

4.9 Environmental Impacts

ERSP-II, whose main objective is to improve socioeconomic governance, is classified in environmental category III and has no negative environmental impact. In view of the support that the programme will provide for the alignment of all macroeconomic and sector strategies and policies, the conditions for increased attention to the environmental aspects of development will be facilitated. Hence, the improvement of the living conditions of the population and their access to basic services will contribute to environmental conservation by rationalizing the harvesting of fuelwood and cutting of forests.

V. PROGRAMME IMPLEMENTATION, MONITORING AND EVALUATION

5.1 Implementation Arrangements

5.1.1 The institutional framework for managing, coordinating and monitoring the reform programme is the one agreed upon in the Partnership Framework. It is based on three structures: (i) an inter-Ministerial Committee under the chairmanship of the Minister in charge of Finance; (ii) the Technical Steering Committee comprising Directors-General of the Ministries concerned¹; and (iii) a support unit for the day-to-day monitoring of the Programme composed of senior staff of the MEFCD and backed by technical assistance. The coordination of the Programme reviews will also benefit from the project of the Partners’ Coordination Committee, composed of heads of mission of the donors concerned, which organized presentation meetings with the IMF review missions and other important economic and financial missions. Its meetings are chaired by the Minister of the Economy, Finance and Development Cooperation. The Coordination Committee also meets when necessary to review progress made in the implementation of the GDP reform programme, as well as projections and issues relating to budget support.

5.1.2 The choice of a single programme implementation and monitoring structure for donors of the Partnership Framework addresses the concern for harmonization of the procedures of various partners and aid effectiveness. This structure, which is charged with the implementation of public finance reforms, also works in close collaboration with the Permanent Secretariat for Monitoring Economic and Social Reforms (REFES), which is responsible for monitoring the implementation of the PRSF (see Annex V for more details).

¹ They are the Ministries of the Economy, Finance and Development Cooperation; Development Planning and Reconstruction; Trade and Industry; Good Governance and General Inspectorate of Finance; Public Service, Labour and Social Security.
5.1.3 A special foreign exchange account will be opened at the “Banque de la République du Burundi” (BRB) into which only the resources of the grant under ERSP-II will be deposited.

5.1.4 The operation will be audited annually by the Audit Bench, given its relatively acceptable work (see sections 4.2.13-4.2.17). Thus, a copy of the Audited Budget forwarded to Parliament will be sent to the Bank for each year of operation. However, if the Bank deems it necessary, it may request an audit of the budgetary execution of the resources of this support to be conducted by an auditing firm.

5.2 Monitoring and Evaluation Arrangements

Responsible Institutions

5.2.1 The Technical Steering Committee, in collaboration with the Support Unit, will be responsible for the technical monitoring and coordination of the implementation of the measures and reforms proposed in ERSP-II. The Committee will submit quarterly reports on the status of the Programme to the ADF for consideration.

Monitoring and Evaluation

5.2.2 The ADF will monitor the implementation of the Programme, as well as the use of the resources of ERSP-II through supervision missions which it will undertake to Bujumbura in collaboration with the Bretton Woods institutions, the European Union and other technical and financial partners in the Partnership Framework. The Bank’s Country Office in Rwanda (RWFA), in agreement with the Country Department, will actively participate in the supervision of the ERSP-II notably through participation in meetings of the Partnership Framework. The Bank also intends to base a resource person in Bujumbura. The supervision of ERSP-II will also benefit from these initiatives.

5.2.3 The ADF will use the reports of the IMF and World Bank on the status of the PRGF and ERSG-II. The PEFA study is also programmed during the first half of 2009, and the review of the fiduciary risk will be conducted jointly with DFID.

VI. FINANCING INSTRUMENT AND CONDITIONS

6.1 Financing Instrument

The financing instrument to be used in the programme is the grant agreement. Two grant protocols will be signed, one for resources from the ADB and the other for resources from the Fragile States Facility (FSF) of the ADF.

6.2 Conditions for Bank Intervention

6.2.1 The conditions for disbursement of the resources were discussed and accepted by the authorities of the country, who reiterated their commitment to pursuing the implementation of the reforms and actions adopted.

A Conditions precedent to effectiveness of the grant agreements
6.2.2 The effectiveness of the grant agreements shall be subject to their being signed.

B Conditions precedent to the disbursement of the two grant tranches

6.2.3 Disbursement shall, in addition to the effectiveness of the grant agreements, be subject to fulfilment by the donee of the following conditions:

1. **Conditions for disbursement of the first tranche:**

   (i) Opening of a special foreign exchange account in the “Banque de la République du Burundi” (BRB), into which only the resources of the grant for ERSP-II shall be deposited (§. 5.1.3).

   [Provide evidence of the opening of the special foreign exchange account in the Central Bank of Burundi into which only the grant resources for ERSP-II will be deposited]

2. **Conditions for disbursement of the second tranche:**

   (ii) Provide evidence of the Maintaining of the benchmark programme with the International Monetary Fund following the spring 2009 review of the PRGF programme concluded in July 2008 (§.3.1.6).

   [Press Release of the IMF following the Spring 2009 review of the PRGF programme concluded in July 2008]

   (iii) Provide evidence of the submission of the Audited Budget for the 2008 fiscal year by the MEFCD to the Audit Bench (§.4.2.15).

   [Letter of MEFCD submission and acknowledgement of receipt by the Registrar of the Audit Bench]

   (iv) Provide evidence that that the State has paid its debts to the petroleum industry as stated in the audit of the cross debt State – oil sector and adoption of a recovery plan of import duties as stated in the audit of the cross debt State-oil sector (§. 4.2.6).

   [Copy of the decree on the adoption of the action plan for the implementation of the recommendations of the audit of the State swap debt /oil sector]

   (v) Issuance of a text by the MEFCD in June 2009 reiterating timelines for commitments, liquidations, authorization and payment of budget expenditures (§.4.2.5).

   [Copy of the MEFCD circular of June 2009 latest, reiterating timelines for commitments, liquidations, authorization and payment of budget expenditures]
6.3 Compliance with Bank Policies

The Bank’s policies, directives and guidelines deemed applicable or directly relevant to the Programme are: (i) guidelines on development projects support loans, ADB (2004); (ii) rules on preparation of appraisal reports and annotated format (2008); (iii) Bank policy on non-concessional debt (2008); (iv) operational guidelines on the Fragile States Facility; and (v) Response of the African Development Bank to the Food Crisis.

This programme is consistent with all applicable Bank policies.

VII. SUSTAINABILITY OF PROGRAMME IMPACTS AND RISK MANAGEMENT

7.1 Sustainability of Programme Impacts

7.1.1 The key factor for sustainability of ERSP-II impacts lies in the political will of the authorities of Burundi to pursue reforms. As regards public finance, a coherent legislative and regulatory framework for public finance management has been initiated, particularly with the enactment of the new procurement code, the adoption by Government of the new organic law on public finance and the new customs code, the streamlining of Government accounts towards a single Treasury Account, and the redirecting of public spending to poverty reduction.

7.1.2 It should also be noted that redirecting expenditures to social sectors addresses the problem of poverty reduction. These actions, undertaken in recent years, are mainly financed by exceptional external aid, in particular HIPC resources. Their sustainability will therefore depend on greater ownership by Burundi’s authorities, notably through the mobilization of domestic and external resources needed for development.

7.1.3 Furthermore, the political will to belong to a sub-regional economic community, in particular COMESA, requires Burundi to comply with Community rules, notably the economic convergence criteria. These rules, which have all been adopted, have allowed for sound public financial and currency management; they will continue to be applied, thereby guaranteeing sustainability. However, given the extreme sensitivity of Burundi’s economy to external factors because of the predominance of cash crops (mainly coffee), structural reforms need to be consolidated. The strong involvement of the development partners of Burundi and close coordination of their actions are also key factors for sustainability of the impacts of ERSP-II.

7.2 Risk Management

7.2.1 The programme could be exposed to five major risks likely to hamper its implementation and reduce its impact on poverty reduction, the strengthening of public finance management and improvement of the procurement system.

7.2.2 The first risk is related to the fact that Burundi is a fragile State which has come out of a conflict (civil war) that lasted more than 12 years. In this post-conflict situation, the authority of the State has weakened over time, resulting in serious dysfunctions and drastic loss of capacities. To mitigate this risk, donors are supporting the authorities of Burundi in
their stabilization and reconstruction effort through several programmes and projects in very sensitive areas that can impact on the fragile political balance. In addition, diplomatic efforts are made in the sub-region both by neighbouring States and by the international community to maintain a climate of peace in the Great Lakes region.

7.2.3 The second risk is related to the weak institutional capacities of the country, which can be a serious obstacle to the implementation of reforms. The risk is today mitigated by institutional support funded by many donors.

7.2.4 The third risk concerns staff motivation and mobility. As soon as they are trained, senior staff head for more financially attractive sectors, especially at the end of the project life, rendering the investments made unpredictable and almost useless. The risk is mitigated by the ongoing reform of the statutes of civil servants and State employees, including notably an increase in salaries. Similarly, donor interventions to support ongoing and future capacity building programmes are likely to contribute to the development of human resources within the administration, thus helping to mitigate this risk.

7.2.5 The fourth risk is related to the inadequate ownership of the new institutional mechanism. The occurrence of this risk could lead to non-adherence to the implementation deadlines, poor resource mobilization and lack of awareness of errors in management. This risk is mitigated by the enthusiasm and commitment shown by the authorities in favour of budget support. Hence, there is quite a strong demand for this type of approach to help establish consultation bodies for the promotion of a harmonized approach to reforms and bringing together the representatives of Burundian authorities, technical and financial partners, as well as the private sector and civil society.

7.2.6 The fifth risk is related to the vulnerability of the economy of Burundi to external shocks caused by fluctuations in the world prices of coffee, which the main commodity of the country, as well as the country’s dependence on the unstable weather and the rapid rise in the price of commodities on the world market. The diligent implementation of reforms in the coffee sector is likely to sustainably mitigate this risk. Similarly, the Government’s commitment to promote the private sector and diversify the sources of growth provides opportunities for strengthening the productive base which will help to mitigate the vulnerability of the economy.

VIII. CONCLUSION AND RECOMMENDATION

8.1 Conclusion

8.1.1 Within a difficult post-conflict environment, Burundi has made sustained progress, albeit uneven. Most of the monetary and budgetary reforms have made satisfactory progress. However, structural reforms have, on the whole, been slow because of limited institutional capacities and the resistance of interest groups. The Government’s commitment to giving fresh impetus to the reform policy augurs well for sustainable growth that would effectively combat poverty.

8.1.2 The economic outlook of Burundi will remain positive on condition that the security situation continues to improve. In the short term, according to projections, growth is expected to increase thanks to a bumper crop of coffee, although inflation remains high, fuelled by rising world food and energy prices. In the medium term, economic growth will be
relatively higher, driven by the improvement of the economic situation, the revitalization of private investment, and the increase in donor assistance. ERSP-II should, through its components, enable the Government to achieve these objectives.

8.2 Recommendation

In view of the conclusion of the PRGF programme with the IMF and the Government’s commitment to implementing the reforms proposed in ERSP-II, it is recommended that a total amount of UA 14 million, comprising a grant of UA 12 million from the resources of the ADF “Fragile States Facility” and a grant of UA 2 million from the ADB resources for the “Bank’s response to the food crisis”, be awarded to the Government of the Republic of Burundi in the form of a budget support to back the Second Economic Reform Support Programme (ERSP-II). It is also recommended that the grants be disbursed in two tranches, following fulfilment of the general and special conditions defined for the purpose.
Development Policy Letter

REPUBLIC OF BURUNDI

Bujumbura, 2/10/2008

MINISTRY OF THE ECONOMY, FINANCE
AND DEVELOPMENT COOPERATION

OFFICE OF THE MINISTER

Our/Ref: 540/4325/2008

INFORMATION COPY FORWARDED TO:

His Excellency the President of the Republic, with the assurances of my highest consideration;

His Excellency the First Vice-President of the Republic, with the assurances of my highest consideration;

His Excellency the Second Vice-President of the Republic, with the assurances of my highest consideration;

To Mr. DONALD KABERUKA,
President of the
African Development Bank Group
TUNIS

Subject: Development Policy Letter

Mr. President,

1. The Government of Burundi is requesting ADF assistance to support its economic reform programme for the 2008-2009 period. The reforms are aimed at adjustment and macroeconomic stabilization, as well as the implementation of structural reforms for poverty reduction, through the consolidation of progress already made within the context of public financial management reforms and promoting the business climate under ERSP-I.
This policy letter summarizes the social context and the recent trends in the country’s economy. It describes the policies that Government intends to pursue in the areas concerning:

(i) the formulation of a poverty reduction strategic framework (PRSF);

(ii) the implementation of policies for private sector development and principally the development of the coffee, cotton and tea sectors;

(iii) reforms aimed at improving public expenditure management.

2. The Government’s programme set out in the PRSF is aimed at ensuring transition from a post-conflict economy to a situation of economic growth and development. The objective of the PRSF is therefore to strengthen political stability, consolidate peace and reduce poverty through the acceleration of sustainable and equitable economic growth.

The main strategic thrusts of the PRSF are as follows:

(i) improvement of governance and security;

(ii) promotion of sustainable and equitable economic growth;

(iii) development of the human capital; and

(iv) HIV/AIDS control.

Progress was made in the four areas.

3. The satisfactory implementation of reforms already initiated helped to restore financial balances which should be consolidated. The decision of the IDA and IMF Boards in September 2005 approving Burundi’s eligibility for the HIPC Initiative is clear evidence of this performance. During the transition period, Government recorded progress in the area of reforms which it intends to pursue in order to accelerate growth and ensure the irreversibility of policies already implemented. This will enable the Government of Burundi to reach the completion point of the HIPC Initiative expected in January 2009.

4. However, these results should not conceal the fact that our economy is still facing many challenges and that there are significant opportunities Burundi should seize for improvement of the economic environment, modernization of the production machinery and its positioning on the global market. The growth is currently driven by the agricultural sector, essentially the export sectors like coffee, cotton and tea. The Government believes that the reforms to undertaken in these sectors will make it possible to expand the agricultural sector with:
(i) increased contribution to growth;
(ii) significant incomes for agricultural producers and especially those in rural areas.

5. Burundi is also requesting other contributions from donors in the implementation of this programme and will need a reference framework for a harmonized policy of the donors.

In this regard, the Government wishes to enlist the support of all financial partners around the PRSF, whose maiden evaluation report will be available in October 2008.

6. This letter reflects the Government’s reform programme for the next two years. Aware of the difficulties inherent in economic reforms and with a wealth of experience behind it, the Government intends to judiciously involve all players, to secure the support necessary for the success of any reform with socioeconomic implications.

I RECENT ECONOMIC DEVELOPMENTS

7. Over the 2001-2006 period, Burundi’s economic performance improved significantly. However, the average annual growth rate remains low (around 3.2%) due especially to the cyclical fluctuations of agricultural production. During the last six years, the Government restructured public spending, increasing the share of credits allocated to education, health and infrastructure and doubling investment expenditure. Nevertheless, in order to accelerate growth and reduce poverty, Burundi must take up many challenges:

(i) diversify agricultural production and the structure of the economy,
(ii) increase the productivity of agriculture, and
(iii) invest in human resource development and infrastructure.

8. Up to 2006, the structure of the economy was dominated by agriculture (48.4% of GDP), followed by services (35.2% of GDP) and industry (16.4% of GDP). Agriculture remains the major economic sector owing to its contribution to GDP and in terms of the number of jobs generated by the sector, despite the relative drop in its contribution to GDP due to low productivity, the effects of climatic conditions and the episode of several years of civil war. Agricultural exports, particularly coffee, account for more than 60% of export earnings. The contribution of the services sector has continued to increase in recent years. The industrial sector experienced a slight increase which could be attributed mainly to renewed activity in the area of construction.

9. Consolidation of the peace process contributed to reviving the national reconstruction process and created positive prospects for the country. Since the year 2000, the country has gradually recovered from its negative economic growth (-1.8% on average) of the decade characterized by political and economic upheavals, to a positive economic growth rate of 5.1% in 2006.

10. Economic growth is largely influenced by the high volatility of the agricultural sector. Even though in 2004 real GDP growth reached 4.8%, a severe drought in 2005 led to a real GDP growth estimated at 0.9%, before climbing back to 5.1% in 2006. According to provisional statistics, real economic growth for 2007 experienced a slight increase of 3.6%, lower than that of the previous year, despite the increase in capital expenditure mostly financed through donor support. This poor performance is due to poor agricultural crop.
11. The inflation rate, measured by the consumer price index, reached an average of 7.2% per annum from 2001 to 2006. This average conceals considerable fluctuations with a peak of 13.6% in 2004 and a minimum of 2.7% in 2006. The adjustments of administered prices carried out at the end of 2007, as well as the recent food price increase and the disorganization of imports attributable to the post-election difficulties experienced by Kenya, exacerbated the consumer price increase, which soared to 14.7% month-over-month at end 2007 as against a one-digit inflation target. The average inflation rate at end December 2007 was 8.3%. In the medium term, it is projected that the inflation rate will remain below 10%, thanks to limited recourse to bank credit for the financing of public expenditure. The consumer price index is calculated on the basis of a basket of consumer goods – based on Bujumbura central market prices – which has not been changed since 1991. A survey on household consumption has been planned; it is expected to help change the basket used for calculating the index.

12. Results at the level of fiscal policy in 2005-2006 were satisfactory. The Government’s programme for 2007 was aimed at pursuing macroeconomic stabilization, overcoming delays in the implementation of certain structural reforms, and continuing the structuring of public financial management. The 2007 finance law continued to redirect public spending to poverty reduction expenses while containing the budget deficit (excluding grants). Control of the payroll (10.6% of GDP in 2007) and demobilization continued to be among Government priorities.

13. Demobilization and security sector reforms should be pursued in order to enable the redirection of public spending from security sectors to social (pro-poor) sectors.

14. The budgetary performance of 2007 which is below expectations can be explained by the slowdown in the demobilization process. In addition, the breakdown of peace talks with the last rebel group (FNL) also contributed to slowing the demobilization process, which led the Government to take compensatory measures such as increasing certain taxes, reducing some non-priority expenditures and postponing salary increase in the civil service to 2008. Nevertheless, the budget deficit (excluding grants) was expected to reach 22.4% of the GDP in 2007 (compared to 19.4% of GDP in 2006), following the increase in public expenditure from 38.4% of GDP in 2006 to 40.5% in 2007.

15. Burundi’s external position remained compatible with IMF programme objectives in 2007. Although exports increased only slightly (2.6%) – as a result of the stagnation of coffee exports – and imports rose sharply (17% mainly because of growing demand for intermediate and capital goods), foreign aid flows contributed to maintain the external balance within the anticipated limits.

II. LESSONS LEARNT FROM THE LAST ERSP I AGREEMENT AND CHALLENGES TO BE FACED

2.1 Lessons from the last ERSP I agreement 2006-2007

16. The Government requested ADF support through the Economic Reform Support Programme in order to facilitate the implementation of its poverty reduction and growth acceleration policy.

17. The reforms, especially in the areas of macroeconomic stabilization, public financial management, monetary policy and trade as well as structural reforms like the privatization of State enterprises and the coffee sector were being undertaken.
18. Such reforms, which are the basis for development and economic growth, require donor support for their effective implementation. It is within this context that the ERSP-I was concluded between the Government of Burundi and the ADF.

19. In the area of public financial management backed by ERSP-I, significant results were obtained.

20. A coherent legislative and regulatory framework for public financial management was initiated, notably by the adoption, by Parliament, of the new public contracts code; the adoption by Government of the new organic law on public finance; the new customs code entered into force; the streamlining of State accounts into a single treasury account is being finalized and the redirection of public expenditure to poverty reduction sectors has been introduced in the State budget structure since the 2006 fiscal year.

21. Concerning the revival of the private sector, the Government made considerable efforts by settling all the debt arrears of the private sector.

22. In this connection, a Treasury bill and bond market went into effect and is operating properly.

23. In the area of privatization of public enterprises and State divestiture from economic sectors, efforts were made. The Government adopted a detailed plan of public enterprises to be privatized and the implementation of the privatization programme is underway.

24. In a difficult post-conflict environment, the last ERSP-I (2006-2007) was, on the whole, satisfactorily implemented. Most of the reforms embarked on in the area of public financial management and in the coffee sector progressed well, thus enabling the Government to implement policies which kept the economy relatively stable. Burundi also put an end to certain trade and exchange restrictions. In addition, it joined the East African Community (EAC).
25. ERSP-I was aimed at supporting the Government in the implementation of the interim PRSF in four areas:

   (i) Improvement of the management of public expenditure and its impact on the poor;

   (ii) reform of the cash crop sector (coffee, tea and cotton);

   (iii) revival of the private sector; and

   (iv) reform of public enterprises through State divestiture.

26. The Government made satisfactory progress in the implementation of its reform programme. Prerequisite actions that led to the disbursement of the single tranche of the Grant at end 2006 were completed.

   Other reform measures agreed between the Government of Burundi and the African Development Bank were either entirely implemented in 2007 or are currently under implementation in 2008. This is reflected in the report of ERSP-I audit conducted by the independent firm (Groupement MCG-CAMP) and forwarded to the Bank which accepted it.

2.2 Challenges

27. Burundi is facing considerable political, economic and social challenges. On the political front, it needs to consolidate the peace process and political stability. In order to definitely wipe out the scars of a conflict which lasted about 15 years and lay the solid foundations for a sustainable and harmonious development, the Government initiated dialogue and consultation frameworks involving all socio-political partners. This option enabled the country to regain a calm environment suitable for the return of trust among stakeholders of the national political sphere, especially by forming a national union government in November 2007. This political progress was somehow perturbed by the resurgence of a few cases of insecurity following the sudden withdrawal of the PALIPEHUTU-FNL from the Joint Verification and Monitoring Mechanism (JVMM).

28. Since April 2008, however, thanks to support from the Regional Initiative and the Political Directorate whose major duty was to reinforce mediation between the PALIPEHUTU-FNL and the Government, the last rebel movement, the PALIPEHUTU-FNL, has just resumed the implementation of the ceasefire agreement. The Government is convinced that the process to definitely put an end to hostilities started will help restore security throughout the national territory and hence the effective resumption of economic activity and poverty reduction.
29. On the economic and social front, the country has to achieve strong and sustainable growth in order to roll back poverty and progress toward achieving the Millennium Development Goals (MDGs). Burundi is one of the least developed countries in the world, with a high poverty level. The HIV/AIDS incidence is high and social infrastructure undeveloped. The Government should strive to:

(i) ensure budget viability in order to reduce the heavy debt burden;

(ii) bring down the inflation rate to one digit. Significant progress has been made at the level of macroeconomic stabilization, but much still has to be done to contain inflation especially within the international context characterized by high prices of fuel and food products;

(iii) strengthen institutional capacities and promote good governance. Structural reforms are essential to boost growth and roll back poverty. The strengthening of institutional capacities and improvement of governance will be essential in this respect;

(iv) make progress in regional integration. Membership to the East African Community (EAC) will open to Burundi expanded market outlets. However, the country still has much to do to develop a comprehensive strategy, implement the necessary institutional reforms and negotiate with EAC secretariat modalities for compliance with the conditions set by the Community. To achieve this, financial assistance from donors is indispensable and urgent.

III. THE NEW SUPPORT GRANT FOR THE ECONOMIC REFORM PROGRAMME (ERSP-II)

30. The new Support Grant for the Economic Reform Programme (ERSP-II) is aimed at helping the Government to pursue reforms in order to achieve sustainable and equitable economic growth, as well as to reduce poverty as specified in the Poverty Reduction Strategic Framework. The ERSP-II is therefore a continuation of the objectives of the first grant in the area of public financial management and private sector promotion.

31. Concerning the improvement of transparency in public financial management, priority measures were taken and consist especially in:

(i) building capacities for the preparation, management and control of public finance reforms;

(ii) continuing to strengthen the legal and regulatory framework through the entry into force of the Organic Law on public finance;

(iii) gradually establishing a single treasury account;

(iv) building capacities and streamlining the functioning of the public services audit system.

32. In the area of improvement of the business climate, the Government’s strategy is to create institutional and legal conditions aimed at promoting the private sector.
33. Within this framework, a new investment code has just been enacted. The Government also intends to speed up the finalization of the new trade and private and public enterprises codes in order to have them passed by Parliament soon.

34. Considering that the public security situation continues improving, macroeconomic prospects for the period covered by the ERSP-II are, on the whole, bright:

(i) GDP growth should stand, on average, at 5% in the medium term, instead of an average of 3.6% in 2004-2007;

(ii) inflation should drop to about 6% in 2009; and

(iii) gross official reserves should stabilize at around 3 months of imports.

35. The macroeconomic indicators thus projected are based on three major factors:

(i) continued elimination of major economic distortions, notably in agriculture, which will stimulate better productivity of factors;

(ii) a substantial increase in investment, coming for the most part from international aid and geared principally toward infrastructure renovation, which will contribute to mitigating serious supply bottlenecks; and

(iii) new progress in trade liberalization and integration, which will help to diversify the economy, stimulate competition and revive investment.

IV. PROGRAMME MONITORING

36. Monitoring of the Programme and measures of the reform matrix will be carried out by Government which, for that purpose, will rely on the institutional committee responsible for monitoring and evaluation of reforms backed by the ERSP-II. The authorities will ensure that the committee is committed to closely monitoring ongoing reforms by coordinating and supervising the work of the team.

Please accept, Mr. President, the assurances of my highest consideration.

Clotilde NIZIGAMA

MINISTER OF THE ECONOMY, FINANCE AND DEVELOPMENT COOPERATION
# COMPONENT A: STRENGTHENING OF PUBLIC RESOURCE MANAGEMENT

**Links with the PRSF and RBCSP:**
- Strengthening of economic governance and transparent management of public finances
- Restoring economic steering capacities and optimum allocation of public resources

## MATRIX OF PROGRAMME MEASURES

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Measures ERSP-II/2008</th>
<th>Measures ERSP-II/2009</th>
<th>Provisional measures for the next stages of ERSP-III from 2010</th>
<th>Monitoring indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.1 Adoption and implementation of a modern and coherent legislative and regulatory framework</td>
<td>a.1.1.1) Adoption by Parliament of the new Organic Law on public finance (LOFP)</td>
<td>a.1.2.1) Implement the LOFP</td>
<td>a.1.3.1) Pursue the implementation of LOFP</td>
<td>Entry into force and application of the Organic Law on public finance</td>
</tr>
<tr>
<td></td>
<td>a.1.1.2) Formulation of draft General Regulations on Public Accounting.</td>
<td>a.1.2.2) Formulate and adopt the draft statutes of public accountants</td>
<td>a.1.3.2) Identify prerequisites for budget programme management.</td>
<td>Application of the General Regulations on Public Accounting</td>
</tr>
<tr>
<td></td>
<td>a.1.1.3) - Adoption of decrees relating to the structures provided for by the Public Contracts Code: • Public Contracts Regulatory Authority (ARMP) • National Public Contracts Control Directorate (DNMP) • Public Contracts Management Unit (CGPM)</td>
<td>a.1.2.3) Adopt, by the Cabinet Meeting, the overall public procurement action plan, prepared in consultation with stakeholders, including the private sector, and start its implementation</td>
<td>a.1.3.4) Pursue the implementation of the overall public procurement action plan.</td>
<td>- Implementation of the decrees relating to: • ARMP • DNMP • CGPM</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Existence and implementation of the overall public procurement action plan.</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td>Operations manuals of the public procurement bodies: ARMP, DNMP, CGPM</td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
<td>Operationalization of the quarterly rolling cash flow plan</td>
</tr>
<tr>
<td>A.2 Improvement of the management of the State treasury</td>
<td>a.2.1.1 Resume preparation and implement a quarterly rolling cash flow plan.</td>
<td>a.2.2.1 Continue using the quarterly rolling cash flow plan</td>
<td>a.2.3.1 Continue using the quarterly rolling cash flow plan</td>
<td>Operationalization of the quarterly rolling cash flow plan</td>
</tr>
<tr>
<td></td>
<td>a.2.1.2 Use all the sub-accounts of the OTBU for the short-term management of the cash flow</td>
<td>a.2.2.2 Continue using all the sub-accounts of the OTBU for the short-term management of the cash flow</td>
<td>a.2.3.2 Assess the recovery system, including conventions for the opening of government accounts in commercial banks for revenue collection; adherence to the deadline set for transfer of revenue collected into the general Treasury account at the BRB</td>
<td>All the sub-accounts of the OTBU for the short-term management of the cash flow are used</td>
</tr>
</tbody>
</table>
### A.3. Putting in place of budget estimates, programming and preparation tools

<table>
<thead>
<tr>
<th>Action</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.3.1.1</td>
<td>Produce the macroeconomic plan and budget priorities, particularly poverty reduction expenditure, no later than 7 months prior to the start of each fiscal year</td>
</tr>
<tr>
<td>a.3.2.2</td>
<td>Reiterate in a text, in June of each fiscal year, the provisions contained in the finance law of the fiscal year and relating to the deadlines for commitments, liquidations, payment authorizations and payments</td>
</tr>
<tr>
<td>a.3.3.2</td>
<td>Recall in a circular, in June of each fiscal year, the provisions contained in the finance law and relating to the deadlines for commitments, liquidations, payment authorizations and payments</td>
</tr>
</tbody>
</table>

**Production of the macroeconomic plan within the set deadlines**

### A.3. Putting in place of budget estimates, programming and preparation tools

<table>
<thead>
<tr>
<th>Action</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.3.1.2</td>
<td>Carry out a census of State personnel</td>
</tr>
<tr>
<td>a.3.2.3</td>
<td>Use the results of the census of State personnel to prepare and include in the 2010 budget the table on the positions to be remunerated</td>
</tr>
<tr>
<td>a.3.3.3</td>
<td>Use the results of the census of State personnel to prepare and include in the 2010 budget the table on the positions to be remunerated</td>
</tr>
</tbody>
</table>

**Document showing the results of the census of State personnel**

### A.3. Putting in place of budget estimates, programming and preparation tools

<table>
<thead>
<tr>
<th>Action</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.3.1.3</td>
<td>Table before Parliament the draft 2009 budget, at most 60 days before the start of the 2009 fiscal year</td>
</tr>
<tr>
<td>a.3.2.4</td>
<td>Table before Parliament the draft 2010 budget at most 60 days before the start of the 2010 fiscal year</td>
</tr>
<tr>
<td>a.3.3.4</td>
<td>Table before Parliament the draft 2011 budget at most 60 days before the start of the 2011 fiscal year</td>
</tr>
</tbody>
</table>

**Letters of transmission to Parliament of the 2009 and 2010 finance bills underscoring the need to adhere to the set deadlines**

### A.4 Improving budget expenditure presentation

<table>
<thead>
<tr>
<th>Action</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.4.1.1</td>
<td>Identify, on the basis of the functional classification, poverty reduction expenditure in the budget</td>
</tr>
<tr>
<td>a.4.2.1</td>
<td>Present in the budget consolidated credits by Ministry and for all Ministries expenses financed through HIPC and put in evidence pro-poor expenditures.</td>
</tr>
<tr>
<td>a.4.3.1</td>
<td>Review the budget nomenclature to make it conform to the IMF 2001 PESM, while respecting the presentation of the budget in accordance with the LOFP (per head, sub-head, …)</td>
</tr>
</tbody>
</table>

**Identification of pro-poor expenditure in the budget - Budget nomenclature reviewed in accordance with the IMF 2001 SFP manual**

### A.5 Optimization of budget execution procedures and accounting procedures

<table>
<thead>
<tr>
<th>Action</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.5.1.2</td>
<td>The Central Bank communicates to the Accounting Department, in real time, the data on “automatic debits”</td>
</tr>
<tr>
<td>a.5.2.2</td>
<td>The Central Bank communicates to the Accounting Department, in real time, the data on “automatic debits”</td>
</tr>
</tbody>
</table>

**“Automatic debits” taken into account in real time by the Accounting Department**
<table>
<thead>
<tr>
<th>“automatic debits”</th>
<th>a.5.2.3 Finalize and adopt the budget procedures manuals</th>
<th>a.5.3.3 Continue the popularization of the various procedures manuals in place</th>
<th>Department Application of the budget procedures manual</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.5.1.3 Start the putting in place of a budget procedures manual</td>
<td>a.5.2.4 Formalize and implement an adapted nomenclature of supporting documents</td>
<td>a.5.3.4 Continue the application of the new nomenclature of supporting documents</td>
<td>- Existence of an adapted nomenclature of supporting documents</td>
</tr>
<tr>
<td>a.5.1.4 Start the putting in place of an adapted nomenclature of supporting documents</td>
<td>a.5.2.5 Disseminate the budget procedures manual and the nomenclature of supporting documents</td>
<td>a.5.3.5 Disseminate the budget procedures manual and the nomenclature of supporting documents</td>
<td>- Application of the budget procedures manual and the nomenclature of supporting documents</td>
</tr>
<tr>
<td>a.5.1.6 Set up a unit responsible for centralizing budget and financial data on expenditures financed with external resources</td>
<td>a.5.2.6 Produce on a monthly basis and within 30 days and verify the trial balance of accounts together with reconciliation reports</td>
<td>a.5.3.6 Produce on a monthly basis and within 30 days and verify the trial balance of accounts together with reconciliation reports</td>
<td>- Operationalization of the unit responsible for centralizing budget and financial data on expenditures financed with external resources - Monthly trial balance of accounts and reconciliation reports</td>
</tr>
<tr>
<td>a.5.1.7. Introduce a mechanism for the production of simplified and standardized accounts and ensure popularization of such mechanism</td>
<td>a.5.2.7 Prepare and adopt the accounting procedures manual.</td>
<td>a.5.3.7 Introduce an efficient accounting system that ensures exhaustive and reliable entry and generates outstanding payments.</td>
<td>- Operationalization of the mechanism for the production of simplified and standardized accounts - Accounting procedures manual - Accounts nomenclature in line with budget nomenclature.</td>
</tr>
<tr>
<td></td>
<td>a.5.2.8 Review the accounts nomenclature in line with the budget nomenclature.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a.5.2.9 MEFCD submits to the Audit Bench, no later than six months following the end of the fiscal year, the budget accounts of the authorizing officer and the trial balance of accounts</td>
<td>a.5.3.9 MEFCD submits to the Audit Bench, no later than six months following the end of the fiscal year, the budget accounts of the authorizing officer and the trial balance of accounts</td>
<td>Document testifying transmission to the Audit Bench within the prescribed deadlines, budget accounts of the authorizing officer, and trial balance of accounts</td>
</tr>
<tr>
<td>A.6 Computerize the expenditure chain</td>
<td>a.6.1.1 Continue the computerization and integration of the expenditure chain (SIGEFI)</td>
<td>a.6.2.1. Continue the computerization and integration of the expenditure chain (SIGEFI)</td>
<td>Integration of the expenditure chain into SIGEFI</td>
</tr>
<tr>
<td></td>
<td>a.6.1.2 Management of commitments by credit tranche; Production of OV/OP/OT by SIGEFI; Partial payment of OV/OP/OT; Integration</td>
<td>a.6.2.2 Computerized management of the transmission of documents; Management of credit reservations, upon bank transfer request; Make operational the computer link with BRB</td>
<td>- Operationalization of the computer link with the BRB</td>
</tr>
<tr>
<td></td>
<td>a.6.3.1 Continue the computerization and integration of the expenditure chain (SIGEFI)</td>
<td>a.6.3.2 Use of the tax identity number (TIN); Integrate revenue management into SIGEFI; Introduce a module for inter-service message exchange;</td>
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</table>
**Component B: Strengthening of public finance internal and external audit systems**

Links with the PRSF and RBCSP:
- Accountability and transparency in the use of public resources
- Strengthening of State budget execution internal and external audit bodies

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Measures ERSP-II/2008</th>
<th>Measures ERSP-II/2009</th>
<th>Provisional measures for the next stages of ERSP-III</th>
<th>Result indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>B.1 Rationalization and harmonization of the audit system</td>
<td>b.1.2.1 Undertake a study to clarify the respective role of the various inspection, control and audit corps and validate its recommendations</td>
<td>b.1.3.1. Align to and harmonize the control system with the methods in force in EAC countries</td>
<td>Document to establish the respective role of the various inspection, control and audit corps</td>
<td></td>
</tr>
<tr>
<td>B.2 Strengthening of internal and external audit bodies</td>
<td>b.2.1.1 Set up, within the Ministry in charge of finance, an Inspection and Internal Control Service (SICI)</td>
<td>b.2.2.1.1 Provide SICI with enough budget and logistics to perform its duties</td>
<td>b.2.3.1 Provide SICI with enough budget and logistics to perform its duties</td>
<td>Operationalization of an Inspection and Internal Control Service within MEFCD</td>
</tr>
<tr>
<td></td>
<td>b.2.1.2 Build the capacities of IGE and the Audit Bench. Prepare a capacity building programme for the Audit Bench and inspectorates</td>
<td>b.2.2.2 Build the capacities of IGE and the Audit Bench. Implement the capacity building programme for the Audit Bench and inspectorates</td>
<td>b.2.3.2 Build the capacities of inspectorates and the Audit Bench. The IGE and Audit Bench have enough resources to perform their duties and a capacity building programme is implemented</td>
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</tr>
<tr>
<td></td>
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<td></td>
<td>b.2.3.3 Prepare guides or audit procedure manuals for the audit structures</td>
<td>Guides or audit procedure manuals</td>
</tr>
<tr>
<td></td>
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<td></td>
<td>b.2.3.4 Establish a system for monitoring the recommendations of inspectorates</td>
<td>System for monitoring recommendations of inspectorates established</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>b.2.3.5 Establish a system for monitoring Audit Bench recommendations</td>
<td>System for monitoring Audit Bench recommendations</td>
</tr>
</tbody>
</table>

- Integration of the payroll into SIGEFI
- Production of OV/OP/OT by SIGEFI
<p>| | | |</p>
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<tbody>
<tr>
<td>b.2.1.3. MEFCD prepares and transmits the 2007 draft settlement law to the Audit Bench</td>
<td>b.2.2.7. MEFCD prepares and transmits the 2008 draft settlement law to the Audit Bench</td>
<td>b.2.3.7. MEFCD prepares and transmits the 2009 draft settlement law to the Audit Bench</td>
</tr>
<tr>
<td>b.2.1.4 Forwarding the 2007 Settlement Law from the Audit Bench to Parliament</td>
<td>b.2.2.8 Forwarding the 2008 Settlement Law from the Audit Bench to Parliament</td>
<td>b.2.3.8 Forwarding the 2009 Settlement Law from the Audit Bench to Parliament</td>
</tr>
<tr>
<td>b.2.1.5 The Audit Bench drafts a report on the 2009 finance bill and forwards same to Parliament</td>
<td>b.2.2.9 The Audit Bench drafts a report on the 2010 finance bill and forwards same to Parliament</td>
<td>b.2.1.9 The Audit Bench drafts a report on the 2011 finance bill and forwards same to Parliament</td>
</tr>
</tbody>
</table>

- b.2.2.6 Increase controls and auditing of public entities (Public Accountants) by the internal control unit of the MEFCD. At least 70% of accountants are audited.
- b.2.3.6 Increase controls and auditing of public entities (Public Accountants) by the internal control unit of the MEFCD. At least 70% of accountants are audited.
- At least 70% of accountants are audited.
- MEFCD transmits the settlement laws for each fiscal year and in time to the Audit Bench.
- Documents of transmission of the Settlement Laws to Parliament and acknowledgement of receipt by Parliament secretariat.
- Audit Bench reports on the 2009, 2010 and 2011 finance bills.
The IMF concludes 2008 consultations under Article IV with Burundi

On July 7, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Burundi.

On July 7, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Burundi.

Background

Burundi is emerging slowly from more than a decade of civil conflict. GDP per capita is about US$139 and only 18 percent of the population is food secure. While some progress has been made toward the Millennium Development Goals (MDGs), it will remain a significant challenge to achieve any of the targets by 2015.

Economic growth slowed down, while inflation increased in 2007. Real GDP growth decelerated to 3.6 percent, from about 5 percent in 2006, mainly because of a poor coffee harvest. About 80 percent of the population rely on agriculture for income and employment. By the end of 2007, inflation had increased to 14.7 percent (year-on-year), from 9.3 percent in 2006, owing to higher international commodity prices.

In the first four months of 2008, domestic prices of fuel and basic staples rose on average by 23 percent, pushing the consumer price index up by 11.7 percentage points over the period from January to April 2008. Excluding food and oil, the increase in the consumer price index was about 3.5 percent.

The overall fiscal balance (on a commitment basis and after grants) turned to a surplus of 1 percent of GDP from a deficit of 1.8 percent in 2006. While total revenue and expenditure changed marginally, grants disbursements increased markedly. Broad money growth decelerated to 10.1 percent in 2007, against 16.4 percent in 2006, partly reflecting an improved fiscal position.

\[^{1}\text{Public information notices (PINs) are in line with efforts made by the IMF to promote transparency of its positions and its analysis of economic trends and policies. PINs are disseminated with the consent of the countries concerned, after examination by the Executive Board of the reports on consultations under Article IV with the countries, the monitoring of economic trends at the regional level, post-programme monitoring and ex post evaluations of the situation of member countries where the IMF supported programmes over a long period. PINs are also disseminated after examination of general policy issues by the Executive Board, except as otherwise decided by the Board.}\]

\[^{3}\text{Pursuant to the provisions of Article IV of its Articles of Agreement, the IMF holds, usually each year, bilateral consultations with its members. Staff mission visits the country, collects economic and financial information, and holds talks with national officials on the country’s economic trends and policies. Upon return to the headquarters, members of the mission draft a report which is submitted for consideration by the Board. After examining the report, the Managing Director, in his capacity as Chairman of the Executive Board, summarizes the opinions of Executive Directors and the summary is communicated to the authorities of the country concerned.}\]

\[^{4}\text{According to World Food Programme, 82\% of households live on only 1400 to 1900 kcal per day, whereas the World Health Organization feels that 2100 kcal are required per day for a normal healthy life.}\]
External developments were dominated by a decline in exports and a sharp rise in grants. Total exports (in US dollar terms) declined because of a poor coffee harvest. Total grants are estimated to have risen by about 64 percent to US$163 million, fuelling higher imports.

Overall, the current account deficit (including current official transfers) widened to 16 percent from 14.5 percent in 2006. As the funds stemming from the surge in aid were not fully absorbed, gross international reserves rose to 3.9 months of imports from 3.3 months in 2006. The real effective exchange rate depreciated by 8.6 percent during 2007.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for the progress they have made in implementing Burundi’s first PRGF-supported program in a difficult post-conflict environment. While structural reforms have been slow, most monetary and fiscal reforms have progressed well. Directors were encouraged by the cease-fire agreement recently signed, and noted that, with continued improvements in the security situation, Burundi’s medium-term economic outlook is positive. They stressed that effective donor coordination and predictable disbursement of financial support, as well as timely technical assistance, will be important to support these efforts.

Directors agreed that solid policy implementation will be key to meeting Burundi’s principal economic challenges over the medium term. Ensuring fiscal sustainability in the face of a heavy debt burden will depend on broadening the revenue base and improving the composition of spending, while financing the budget through grants and highly concessional external resources. Improvements in governance, including through strengthened public financial management, will be critical for sustaining donor support. It will be important to carefully manage public expectations of a peace dividend and to fully cost all social initiatives in the budget. With support from the international community, the government should give high priority to enhancing its capacity to deliver social services.

Against the background of the recent acceleration of inflation deriving from rising international food and oil prices, Directors encouraged the monetary authorities to act to anchor inflation expectations and contain second-round effects of food and oil price shocks. They also stressed the need to use available monetary and exchange rate instruments to mop up liquidity. Directors encouraged the authorities to continue their efforts to strengthen the financial sector by improving banking supervision, addressing weaknesses in the banking system, and enhancing central bank internal controls and risk management systems.

Directors agreed that the managed-float exchange rate regime has served Burundi well, and helped to cushion exogenous shocks. They noted staff’s assessment that the exchange rate is broadly in line with its equilibrium rate.

Directors stressed that structural factors continue to be an obstacle to Burundi’s competitiveness and growth. They saw the need to accelerate structural reforms, especially in the coffee sector, and expedite adoption of the new investment code. Directors also welcomed Burundi’s membership in the East African Community, which should spur structural reforms to improve the business environment.
Directors welcomed the priority the authorities are giving to food security. A concerted emergency response strategy is needed to ensure that the poor do not suffer from the expected drought as food and oil prices soar.

Directors encouraged the authorities to improve the statistical system. High priority should be given to national accounts statistics, where the weaknesses are extensive. Directors noted that the recent promulgation of a new statistics law would help build up statistical institutions and processes.

The next Article IV consultation with Burundi will take place in accordance with the Executive Board decision on the cycle of consultations in countries applying the IMF programme.
## Burundi – Major Economic and Financial Indicators, 2005-13

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>National income and prices</strong></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Real GDP growth</td>
<td>0.9</td>
<td>5.1</td>
<td>3.6</td>
<td>4.5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>GDP deflator</td>
<td>16.6</td>
<td>4.4</td>
<td>8.2</td>
<td>18.5</td>
<td>10</td>
<td>8.7</td>
<td>6.6</td>
<td>6.1</td>
<td>5.5</td>
</tr>
<tr>
<td>Consumer price (period average)</td>
<td>13.4</td>
<td>2.8</td>
<td>8.3</td>
<td>19.1</td>
<td>9.4</td>
<td>8.2</td>
<td>6.8</td>
<td>5.8</td>
<td>5.3</td>
</tr>
<tr>
<td>Consumer price (period end)</td>
<td>1</td>
<td>9.3</td>
<td>14.7</td>
<td>14</td>
<td>9</td>
<td>7.5</td>
<td>6</td>
<td>5.5</td>
<td>5</td>
</tr>
<tr>
<td><strong>External sector</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports f.o.b. (USD)</td>
<td>19.5</td>
<td>2.6</td>
<td>-14.3</td>
<td>40.3</td>
<td>3.6</td>
<td>2.9</td>
<td>3.7</td>
<td>3.4</td>
<td>3.8</td>
</tr>
<tr>
<td>Imports, f.o.b (USD)</td>
<td>27.6</td>
<td>28.7</td>
<td>20.6</td>
<td>22.8</td>
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<td>Volume of exports</td>
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<td>Volume of imports</td>
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<td>Terms of trade (deterioration)</td>
<td>10.9</td>
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<td>5.9</td>
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<td>Real effective exchange rate (annual average; depreciation)</td>
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<td>-8.6</td>
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<td>...</td>
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<td><strong>Central Government</strong></td>
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<td></td>
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<tr>
<td>Revenue</td>
<td>17.1</td>
<td>3.9</td>
<td>10.5</td>
<td>26.4</td>
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<td>14.4</td>
<td>12.5</td>
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<td>11.4</td>
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<td>Net total expenditures and loans (commitment basis)</td>
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<td>14.1</td>
<td>13</td>
<td>36.8</td>
<td>14.9</td>
<td>15.3</td>
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<td>11.1</td>
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<td>Current expenditure excluding interest (excl. demobilization and elections)</td>
<td>5.8</td>
<td>28.4</td>
<td>26.1</td>
<td>26.1</td>
<td>23.3</td>
<td>8.6</td>
<td>17.8</td>
<td>12.4</td>
<td>10.9</td>
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<td><strong>Money and credit</strong></td>
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<td></td>
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<tr>
<td>Net external assets</td>
<td>15.9</td>
<td>1.7</td>
<td>11.5</td>
<td>-1.3</td>
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<tr>
<td>Domestic credit</td>
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<td>State</td>
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<tr>
<td>Private sector</td>
<td>-6.7</td>
<td>13.7</td>
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<tr>
<td>Money and near money (M2)</td>
<td>27.1</td>
<td>16.4</td>
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<tr>
<td>Velocity-revenue (ratio GDP/M2; at end of period)</td>
<td>3.3</td>
<td>3.2</td>
<td>3.2</td>
<td>3.5</td>
<td>...</td>
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<tr>
<td>Central money (growth rate over twelve months)</td>
<td>32.7</td>
<td>5.9</td>
<td>17.4</td>
<td>8.9</td>
<td>...</td>
<td>...</td>
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<tr>
<td><strong>Refinancing rate of Central Bank (%; at end of period)</strong></td>
<td>12</td>
<td>13</td>
<td>14</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
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<tr>
<td>Lending rate of commercial banks (compound in medium-term; period average; %)</td>
<td>19.2</td>
<td>18.4</td>
<td>19.2</td>
<td>...</td>
<td>...</td>
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*(Annual percentage change, unless otherwise indicated)*
### Republic of Burundi
#### Second Economic Reform Support Programme (ERSP-II)

**Annex IV**

**Page 2 of 2**

(As % of GDP, except otherwise indicated)

<table>
<thead>
<tr>
<th>Central Government</th>
<th>20</th>
<th>18.9</th>
<th>18.7</th>
<th>19.1</th>
<th>19.1</th>
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<th>19.2</th>
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<tr>
<td>Revenue (excl. grants)</td>
<td>36.8</td>
<td>38.2</td>
<td>38.5</td>
<td>42.6</td>
<td>42.3</td>
<td>42.8</td>
<td>41.1</td>
<td>40.9</td>
<td>40.5</td>
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<tr>
<td>Net overall expenditure and loans</td>
<td>-16.8</td>
<td>-19.3</td>
<td>-19.9</td>
<td>-23.5</td>
<td>-23.3</td>
<td>-23.7</td>
<td>-21.9</td>
<td>-21.6</td>
<td>-21.3</td>
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<tr>
<td>Overall balance (commitment basis)</td>
<td>-6.3</td>
<td>-1.8</td>
<td>0.5</td>
<td>0.5</td>
<td>74.9</td>
<td>-2.1</td>
<td>-1.3</td>
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<tr>
<td>Excl. grants</td>
<td>-1.2</td>
<td>-14.5</td>
<td>-16</td>
<td>-18.2</td>
<td>-17.5</td>
<td>-16.1</td>
<td>-16</td>
<td>-14.8</td>
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<tr>
<td>Incl. grants</td>
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<td>-16.6</td>
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<td>-14</td>
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<td>-13.8</td>
<td>-12</td>
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<tr>
<td>Savings-investment</td>
<td>-6.3</td>
<td>-1.8</td>
<td>0.5</td>
<td>0.5</td>
<td>0.8</td>
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<td>-1.3</td>
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<tr>
<td>Private</td>
<td>-.9</td>
<td>5.4</td>
<td>-6.6</td>
<td>46</td>
<td>47.6</td>
<td>10.4</td>
<td>11.1</td>
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<td>Gross official reserves (end of period)</td>
<td>112.7</td>
<td>131</td>
<td>177.3</td>
<td>155.3</td>
<td>166.1</td>
<td>162.8</td>
<td>165.7</td>
<td>166</td>
<td>188.3</td>
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<tr>
<td>Gross official reserves (in months of importation of the following year)</td>
<td>3</td>
<td>3.3</td>
<td>3.9</td>
<td>3.2</td>
<td>3.2</td>
<td>3</td>
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<tr>
<td>Debt service ratio (in % of export revenue, before HIPC/MDRI relief)</td>
<td>46.7</td>
<td>54.4</td>
<td>60.6</td>
<td>46</td>
<td>47.6</td>
<td>10.4</td>
<td>11.1</td>
<td>7.7</td>
<td>7.7</td>
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<tr>
<td>Debt service ratio (in % of export revenue, after HIPC/MDRI relief)</td>
<td>28.4</td>
<td>111</td>
<td>7.5</td>
<td>4.3</td>
<td>4.9</td>
<td>10.4</td>
<td>11.1</td>
<td>7.7</td>
<td>8</td>
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<tr>
<td>Outstanding debt</td>
<td>1,455.2</td>
<td>1,516.1</td>
<td>1,498.5</td>
<td>1,464.9</td>
<td>430</td>
<td>458.1</td>
<td>482.5</td>
<td>512.2</td>
<td>543</td>
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<tr>
<td>External payment arrears</td>
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<td>524</td>
<td>48</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>0</td>
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<tr>
<td>GDP at current market prices (in billion Fbu)</td>
<td>861</td>
<td>945</td>
<td>1,059</td>
<td>1,311</td>
<td>1,514</td>
<td>1,727</td>
<td>1,933</td>
<td>2,163</td>
<td>2,407</td>
</tr>
</tbody>
</table>

Sources: Burundian authorities; IMF staff mission estimates and projections

1 Including the cost of the 2010 general elections

2 Presupposes a completion point of the HIPC Initiative and MDRI in 2009

3 Presupposes coverage of financing requirements through grants in 2009-13
Political Stability

Burundi has just emerged from a civil war that lasted 13 years. The signing of a general peace and reconciliation agreement in Arusha (Tanzania) in August 2000 by 39 political and ethnic groups is a decisive turning point in the political evolution of the country. After forming a transitional government in 2002, a new constitution providing for appropriate power-sharing among the various ethnic groups was approved in February 2005. Presidential and legislative elections were organized in August 2005 and a new Government was commissioned in September 2005. In September 2006, a ceasefire agreement was signed with the FNL-PALIPEHUTU, the last rebel movement. Peace efforts still need to be consolidated and the Government is continuing negotiations with the FNL-PALIPEHUTU. In November 2007, the formation of a more representative Government put an end to the political deadlock which lasted many months, and Parliament was able to resume its legislative duties. However, there is still some tension within the ruling political party, as shown by the deadlock in Parliament in early 2008. The situation was resolved in June 2008. The Government and the last rebel group, the FNL-PALIPEHUTU, signed an agreement in May 2008, putting an end to hostilities and resuming negotiations to implement the 2006 ceasefire.

Between 2000 and 2005, Burundi achieved successful transition into a multi-party government system. Since 2005, political progress has been mixed and tensions have reappeared a few times. Meanwhile, Government’s political commitment to see through the peace process led to the resolution of the difficulties encountered. In terms of security, progress was also mixed. The Government and the last rebel group, the FNL-PALIPEHUTU, signed an agreement in May 2008, putting an end to hostilities and resuming negotiations to implement the 2006 ceasefire. The situation remains fragile, although a strong political will has maintained the country on the peace track. Hence, despite sporadic tensions, the political situation is globally stable. General elections are scheduled for 2010. (Also see 2008-2011 RBCSP)

Economic Stability

Economic development and the pursuance of the implementation of Government’s reform programme will continue in the coming years. Concerning economic stability, it is confirmed through the putting in place in July 2008 of a new International Monetary Fund (IMF) Poverty Reduction and Growth Facility (PRGF), following the positive conclusion of the previous PRGF. (See also para. 2.2. and the 2008-2011 RBCSP).

Government’s commitment and support of technical and financial partners

The Government showed a strong commitment to the implementation of key economic reforms in recent years. Strengthening of governance is a pillar of the PRSF and is considered as critical for the achievement of sustainable pro-poor development. The Government’s commitment was evidenced by the implementation of many reforms within the context of the PRGF and within the framework of budget support of technical and financial partners. Such commitment was also demonstrated through Government’s rapid reaction, including the dismissal of civil servants and prosecution of persons involved, following allegations of corruption and embezzlement of public funds. The Government has also undertaken many audits, including the audit of HIPC Initiative expenditures and the audit of the oil sector.
The adoption of the 2006-2009 full-fledged PRSF was done in a particularly conducive context, characterized by the consolidation of democracy, restoration of security and a more sustained commitment on the part of donors to further support Government efforts. The support of technical and financial partners translated into a significant increase in development aid to the country, including a significant increase in budget support. For instance, Norway and Netherlands increased their budget support respectively from US$ 13 million to US$ 20 million in 2008.

Technical Preconditions

Existence of a well-designed PRSP: The Government chose as national development strategy the new generation Poverty Reduction Strategy Framework (PRSF)\(^3\) for the period 2006-2009, referred to as “Full-fledged PRSF”. This strategy, designed in a participatory manner, is aimed at ensuring transition from a post-conflict economy to a situation of economic growth and development. The objective of the PRSF is therefore to strengthen political stability, consolidate peace and reduce poverty through accelerated sustainable and equitable economic growth. The World Bank and IMF, in their advisory notice on Burundi’s poverty reduction strategy paper (PRSP) of May 2007, pointed out that the PRSP was well designed.

The adoption of the 2006-2009 Full-fledged PRSF was done in a particularly conducive context, characterized by the consolidation of democracy, restoration of security and a more sustained commitment on the part of donors to further support Government’s efforts. However, its implementation may face difficulties which should be closely monitored in order to timely limit the negative effects. There are two major types of constraints: endogenous and exogenous constraints.

1. **Endogenous constraints:** The maintenance of peace and security is fundamental for the implementation of the PRSF and their absence may jeopardize the implementation of the PRSF. In addition, the implementation of macroeconomic reforms, the conduct of a prudent monetary policy, the putting in place of a structural reform programme and establishment of a conducive climate for private sector development are the pillars of the PRSF. Failure to adhere to the measures and provisions of the already fragile macroeconomic framework would make the implementation of the PRSF difficult.

2. **Exogenous constraints:** Burundi’s landlocked situation, the deterioration of terms of trade and the level of competitiveness of export products are serious obstacles. Non-compliance with the HIPC Initiative conditionalities is one of the risks which may jeopardize the implementation of the poverty reduction strategies and programmes. Similarly, the lack of budgetary resources and the depletion thereof may hamper the implementation of sector strategies. Delay in the disbursement of external resources to finance certain rapid impact reforms would constitute a major setback.

**PRSF implementation structure:** The Ministry of Development Planning and National Reconstruction (MPDRN) will be the hub of the entire system for the programming and monitoring of public investments implemented under the Priority Action Programme of the PRSF. Its experience and its tools for the programming and monitoring of the implementation of all development projects on the entire national territory confer on it a particular status to be the focal point for monitoring the implementation of the priority action programme of the 2007-2010 PRSF. It will rely on a set of institutions in charge of their sector action plans. Harmonization and coordination will be within the framework of the Inter-Ministerial Technical Monitoring Committee (CTS) which comprises sector and thematic Working Groups for monitoring the PRSF. The role of the CTS is to produce regularly reports on the progress made in PRSF implementation. Such reports will serve as reference for the MPDRN and the Permanent

\(^3\) Burundi’s first PRSF, referred to as Interim PRSF adopted in November 2003, covered the period 2003-2005.
Secretariat for the monitoring of social and economic reforms (REFES), for a more global appraisal of the PRSF implementation level. The committee will be backed by MPDRN through its department in charge of monitoring and evaluation of public investments, macroeconomic planning services whose mission is to analyze the short- and long-term economic flexibility, statistical services in charge of analyzing poverty-related issues as well as services in charge of supporting basic planning.

The committee will be chaired by the Director-General for Development and Reconstruction Programmes of the MPDRN. It will meet on a quarterly basis to assess the level of execution of sector action plans and make recommendations to the MPDRN. The MPDRN will work in close collaboration with the technical ministries through its focal points and planning departments. Each year, it will ensure coherence between the action plans and budget programming system during the preparation of the finance law.

For the implementation of poverty reduction projects and programmes, the technical departments of ministries, the various private sector structures and NGOs are directly responsible for the programming and monitoring of activities. Implementation modalities will vary from one project to another and depending on the specificity of each sector of activities. The Ministry of Finance, within the context of the CTS, will ensure respect for the budgetary commitments according to the action plans. The MPDRN will forward a bi-annual report to REFES and the Inter-Ministerial Committee for the Monitoring of Economic Reforms (CIMSRE). The latter will meet at least twice a year to assess the level of implementation of the Priority Action Programme of the PRSF.

The Permanent Secretariat of the National Aid Coordination Committee (SP/CNCA), in close collaboration with the MPDRN, will be responsible for ensuring the mobilization and availability of resources allocated for the implementation of the PRSF.

1. **A mechanism for collecting, processing and analyzing PRSF indicators and action programme**

   This mechanism will be steered by ISTEEBU which has the expertise and the mandate to produce and disseminate statistical information. ISTEEBU will set up a technical organization within each ministry for the organization of databases according to the selected indicators. It will be responsible for collecting, processing, analyzing and disseminating monitoring indicators as well as the surveys defined within the context of the poverty monitoring system. It will present periodic indicators and findings of the surveys to REFES and the MPDRN.

   ISTEEBU will attend all CTS meetings and will, as appropriate, participate in some survey. It may rely on sector and thematic working groups as well as provincial poverty reduction committees.

2. **PRSF evaluation and upgrading mechanism**

   The Permanent Secretariat for the Monitoring of Economic and Social Reforms (SP/REFES) which is under the Second Vice-President of the Republic, will have as main duty the monitoring of economic and social reforms. For the PRSF, its duty will consist in assessing the level of performance of sectors in the implementation of reforms and programmes that enable more efficient PRSF implementation. It will draw up reports on the implementation of the first priority action programme of the PRSF in order to carry out analyses and update some analysis related to the sector policies of the PRSF. It will attend all CTS meetings to assess the level of performance of the sector action plans.
For the coordination of external aid, the Government, within the context of the internal organization of the CNCA, will set up a Development Partners Coordination Group to ensure coordination and dialogue on sector policies and monitor the implementation of the PRSF action programme. Thematic groups will be set up to better handle certain issues raised by the sectors in the implementation of the various programmes (See simplified framework for the implementation and monitoring of the Priority Action Programme of the PRSF).

Existence of a solid partnership between the RMC and donors: A Partnership Framework was signed in May 2005 between the Government and its development partners. It provides as follows: (a) donors shall disburse their budgetary assistance on a yearly basis, in one or several instalments, taking into account the progress made in maintaining a healthy macroeconomic situation, poverty reduction (particularly in social sectors) and public financial management; (b) Government shall produce a monthly report on budgetary execution with an updated version of the State flow-of-fund table showing the possible need for residual financing; and (c) Government shall carry out annual review of its public spending reform programme to be included in the general report of the Audit Bench. To achieve these goals, the Partnership Framework is backed by a Support Unit, a Technical Committee and a Partners Coordination Committee.

- The Support Unit backed by the EU is domiciled in the MEFCD. It is responsible for preparing, controlling and updating the GDP reform programme.
- The Technical Committee is responsible for coordinating the various projects and the AT, which are part of the GFP reform programme. The Technical Committee meets regularly and comprises representatives of donors.
- The Partners Coordination Committee, comprising heads of the relevant donor missions, organizes restitution meetings with IMF review missions and others. The Committee also meets when necessary to examine the progress made in the implementation of the DGP reform programme as well as the projections and issues relating to budget support.

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6 The ADB signed the Partnership Framework in September 2008.
7 The first signatories to the Partnership Framework are Belgium, France, Netherlands, ADB, UNDP, World Bank and EU Commission. The IMF is associated as full-time member.
8 The Technical Committee comprises representatives of donors, directors of projects participating in the GDP reform (e.g.; EMSP) and members of the Support Unit.
Simplified diagram of the PRSF PAP implementation and monitoring framework

Office of the Second Vice-President
Inter-Ministerial Committee for the Monitoring of Economic Reforms (CIMSRE)

Steering and Guidance

CNCA
Mobilization and Coordination of Resources

ST/REFES
Evaluation, Impact and updating of PRSF

MPDRN
Coordination of implementation of the PRSF PAP
- Inter-Ministerial Technical Monitoring Committee (CTS): Coordination of Action Plans
- ISTEEBU: Indicator monitoring and impact assessment system

Ministry of Finance
Coherence of financial programming system
Action plans
Finance law

Level of Execution of Sectoral Action Plans

Public sector
Planning and Monitoring Departments

Private sector
Specialized bodies

Civil society
Organizations concerned
Existence of a solid partnership among donors: There is a strong partnership among donors, as shown by the Partnership Framework. In addition, Norway and Netherlands have completely linked their budget support with that of the World Bank. Donors carry out joint studies on a regular basis. The next studies are the study on fiduciary risk which will be conducted jointly between DFID and the African Development Bank and PEFA which is conducted by the European Union, with the support of all donors. It is also worth mentioning that all donors who have ongoing institutional support or who provide technical assistance collaborate closely in their implementation.

Supplemental Support Window. The proposed operational activities in Burundi are in line with the ADF XI operational priorities. Moreover, the tables below illustrate that Burundi is meeting the two-stage criteria and should, therefore, be eligible to receive supplemental support from the Fragile States Facility (FSF).

Analysis of First Stage Criteria for Burundi – Supplemental Support Window

| Commitment to Consolidate Peace and Security | i) The Arusha Peace and Reconciliation Agreement was signed in 2000 by the main political parties. However, the two most important belligerents, namely the PALIPEHUJTU-FNL and the CNDD-FDD were not included. The latter entered into government through the Pretoria Protocol signed on 3 October 2003. On 26 May 2008, the government signed a ceasefire agreement with the PALIPEHUJTU-FNL. A democratically elected government came to power in September 2005 and was last reshuffled in November 2007. The next elections are expected in 2010.  
| ii) The demobilisation process and reintegration programmes are ongoing. It is estimated that about 23,000 ex-combatants are already demobilised out of an estimated 70,000. |

Unmet Social & Economic Needs  | i) Real GDP per capita declined by 30.48% between 1990 and 2008 (IMF, 2008). Burundi ranks in the bottom quintile of the UN Human Development Index (2007/2008) with a HDI of 0.413 and a ranking of 167 out of 177 countries.  
| ii) According to the latest UN statistics, the number of AIDS orphans in Burundi doubled from 60,000 (2000) to 120,000 (2007). |

Analysis of Second Stage Criteria for Burundi – Supplemental Support Window

| Improving Macroeconomic Conditions and Pursuit of Sound Debt Policy | i) After finalising the first PRGF arrangement (2004-08), the IMF recently (July 2008) agreed to a successor PRGF (2008-11) with Burundi. Under the first PRGF, Burundi made steady though uneven progress in its reform programme. The successor PRGF will help to further consolidate macroeconomic stability.  
| ii) The government is determined to balance spending on civil and military service, plus all measures called for in the PRSP. Recent improvements in public expenditure management, increased domestic revenue and higher donor inflows are forecast to contain the fiscal deficit at 6.2% of GDP in 2008 and 5.3% in 2009. The Government of Burundi also committed to introduce value-added tax (VAT) by mid-2009.  
| iii) In 2004, Burundi benefited from arrears clearance under the Post-Conflict Country Framework of the Bank:  
| iv) Burundi reached the HIPC decision point in 2005 and the debt stock is expected to fall substantially upon reaching the HIPC completion point (expected in 2009).  
| v) The IDA and World Bank recently (December, 2007) carried out a debt sustainability assessment (DSA) for Burundi. The DSA has detailed and up to date information on Burundi’s debt situation, which builds on information provided by the Burundi authorities (MEFCD and Banque de la Republique du Burundi). |

Sound Financial Management Practices  | i) The government, supported by donors, has been undertaking key actions to improve financial management practices. In 2003, it adopted a unified functional and economic classification of budgetary expenditure, as well as a double entry accounting system. In 2006, it introduced an integrated Financial Management Information System, which allows for the monitoring of external assistance and government expenditure flows.  
| ii) Burundi has undertaken several key studies including a CFMA (2004), CPUP (2004) and PEMFAR (2008). A PEFA is planned for 2009. These have indicated significant progress in improving PFM and reducing fiduciary risk. Ongoing efforts to strengthen the PFM system include (a) reform of the legal framework for the budget, (b) strengthening budget preparation and implementation, (c) strengthening and modernising the procurement system, (d) increasing fiscal space for priority expenditures, and (e) civil service reform.  
| iii) A Special Anti-Corruption Brigade has been established recently, together with an independent observatory (OLUCOME) for the fight against corruption and economic embezzlement. |

Targeted support window. Given that Burundi is a post-conflict country with critical needs to strengthen human capacity, the country requests support from the targeted support window in three areas: (i) from the secondment programme to obtain two highly qualified professionals, with
hands-on fragile state experience, to provide assistance to the MEFCD; (ii) to support the analytical work listed in Table 4; and (iii) to provide service delivery through non-sovereigns (e.g. employ professional services to build capacity/fill the gap in projects. The Bugesera project, for example, is an integrated area development project with a number of components. The implementing unit would require the capacity to ensure that such varied tasks as power supply, extension services and irrigation are implemented effectively).

**Rationale for using FSF funds for budget support.** The Bank has been cautious up to now in providing budget support to Burundi. The timing during this CSP (2008-11) is, however, propitious to provide budget support to help Burundi further strengthen its systems. Budget support is an efficient way to support the Government’s on-going post-conflict programme, which includes PFM reforms designed to strengthen national systems, particularly procurement and financial management. These will help enhance transparency and improve Burundi’s CPIA ratings. Burundi satisfies the conditions for budget support as set out in the Bank policy on

Development Budget Support Lending (DBSL) and its policy on fragile states. The IMF’s recent review indicates that progress is being made and emphasized the need for continued budget support. The EC, World Bank, Norway and Netherlands are already supporting the PFM reforms through budget support. DFID plans to carry out a fiduciary risk assessment as a prelude to providing budget support and has agreed to partner with the Bank in carrying out the assessment. Also, budget support provides a vehicle through which to transmit the UA2m provided by the Bank for the food crisis.

Safeguard measures will be put in place to ensure that budget support is implemented successfully. These include continued dialogue and monitoring of the budget support operation through the Partnership Framework that the Bank signed with Government and other development partners in September 2008. The Bank will continue to align with the programmes funded by other donors, including the IMF’s PRGF. A condition prior to disbursement will be satisfactory progress on the IMF programme. The Bank will actively support both the PEFA assessment and scheduled Public Expenditure Reviews with others. Institutional capacity strengthening will be targeted through current Bank institutional support projects and future work (see Section 3.2.1); and through technical assistance financed by other donors (World Bank, IMF, EC, DFID, Netherlands, Belgium and France).