

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC73404

<b>Project Name</b>	Local Development for Jobs (P155060)
<b>Region</b>	AFRICA
<b>Country</b>	Burundi
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P155060
<b>Borrower(s)</b>	Ministry of Finance and Economic Development Planning
<b>Implementing Agency</b>	Ministry of Finance and Economic Development Planning
<b>Environmental Category</b>	B-Partial Assessment
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<b>Concept Review Decision</b>	Track II - The review did authorize the preparation to continue

## I. Introduction and Context

### Country Context

Burundi is a small landlocked country marred by chronic fragility and poverty. With a total area of 27,830 square kilometers, it is densely populated with approximately 10.6 million inhabitants. A decade of conflict (1993-2005) devastated much of the country's physical, social and human capital and chronic fragility has undermined sustainable and pro-poor growth. Though Burundi's GDP growth has been moderately positive over the past decade of relative peace, with an average growth of 4.1 percent (2005-2014), it has been insufficient to achieve significant poverty reduction. Since April 2015, the political crisis has reversed some of these previous gains and triggered an economic crisis. The economy contracted by 2.5 percent in 2015 and prospects for recovery remain uncertain.

Burundi has experienced rapid urbanization in the last decade, at rates of over 5 percent per annum, much higher than the average for Sub-Saharan Africa but the share of the urban population (11 percent) remains one of the lowest in the world. Bujumbura and urban areas had shown themselves to be a bastion of growth, access to services and equality, compared to the rest of the country. The number of Burundians living under the poverty line is 64.6 percent of the population and 12.5

percent are extreme poor. Subsistence agriculture employs some 85 percent of the population, but growth in the agriculture and rural sectors has been very slow. Growth has been geographically concentrated over the last decade (2006-2012) with Bujumbura and secondary cities seeing decreases in poverty of 11 percent and 16 percent respectively. This was accompanied by improvement in living standards, improvements that also managed to extend to migrants coming to the city.

The non-agriculture sector (mainly urban) has been the main driver of the economic growth, particularly in services and small industry. Although most economic activities remain tied to the primary sector, there have been bright spots - the service sector expanded by 7.1 percent annually and small-scale industry grew by 5.7 percent annually from 2006 to 2014, although most employment (more than 90 percent) remains informal. On average, the value added in the SME sector increased by 6.2 percent annually. However, Bujumbura has also borne the brunt of the crisis, with commercial activities coming to a standstill in April-May 2015, and the ensuing instability holding the economy on a low equilibrium.

The 2015 political crisis and the ensuing instability has halted the recovery and poverty reduction efforts of the past decade. Bujumbura has been the flash point of the crisis. Burundi's urban centers, especially Bujumbura, have become a magnet for rural poor people in search of economic opportunities. Many settled in poorer neighborhoods and put further pressure on basic services. 54 percent of the country's unemployed labor force lives in Bujumbura, leading to frustration that can turn into violence, or channeled against state actors. There has been a gradual polarization between various neighborhoods of Bujumbura, as particular ethnicities feel unfairly targeted by riots and crackdowns. The 2015 crisis has led key donors to suspend aid which can further hamper macroeconomic stability and poverty reduction efforts.

### **Sectoral and Institutional Context**

Burundi's political crisis is pushing the country to the brink of economic collapse. Real GDP contracted for the first time since the end of the civil war, by 2.5 percent. Interruption in activities brought the economy to a standstill in April-May, and recovery after the elections has been subdued because of weak domestic demand and growing insecurity. Industrial production declined by 8.5 percent in 2015, with output contracting across the manufacturing sector. Overall, the service sector contracted by 5 percent, with trade, tourism, and transport sectors hit particularly hard. 46.2 percent of firms interviewed by a WBG study conducted between April and June 2016 reported having firing employees since the beginning of the crisis. Regional trade and investments have decreased. Donors' decisions to cut back budgetary support, which constituted up to 50% of the budget and two-thirds of foreign reserves, meant that several basic services cannot be delivered anymore.

The mix of persisting political instability and the deteriorating macroeconomic situation have negatively affected living standards of the population. The lack of high frequency reliable data on living conditions means that quantitative empirical evidence of the impact that the current political crisis has had on the welfare of households will not be available in the short run. However, evidence of the impact of previous crises on the Burundian population suggest the potential impact of the continuing unrest on both consumption levels of the population and access to services to be considerable and long lasting. Of particular concern is the fact that the immediate impact is likely to be felt in those urban areas that have already seen increases in poverty over recent years and where social and political tension is the highest. Lack of employment opportunities in urban centers, especially for youth and women, threatens to fuel further instability and violence.

The crisis has hit Bujumbura as the economic and administrative center of the country

The political crisis has had a negative impact on the provision of basic services in both rural and urban areas with detrimental effects on the population, including the immediate exodus of large groups of the population. The impact of the crisis has exacerbated existing deficiencies in the economy and in the provision of services related to (i) urbanization and increased concentration of activities in urban areas in particular cities, (ii) deterioration of existing services in certain areas, (iii) increased vulnerability of already vulnerable groups and households. Burundi's development strategy was anchored around leveraging urbanization as a key strategy for development and for consolidation of population in more dense areas. Aiming at increasing the urbanization rate from 11 percent to 40 percent by 2025, Burundi's Vision 2025 aims to promote urbanization via rural-urban migration, freeing arable land, providing nonagricultural urban employment opportunities, and in turn, reducing the risks for social conflict and economic fragility. Government had initiated the preparation of an ambitious master plan for Bujumbura 2045 and had taken steps to increase investments in core urban centers.

However, the impact of the crisis on the provision of basic services combined with social fragility and increased unemployment have made urban areas, in particular Bujumbura, the center of social discontent and violence. With the reduction in economic activities, investments, and reduction in donor support, Bujumbura has suffered a fall in economic opportunities and access to services, which has exacerbated existing inequalities between neighborhoods in the city. The youth bear the brunt of lack of employment; about 3 out of every 5 unemployed people are young people. The youth also account for a large part of the population and the total dependency ratio is high. These factors risk perpetuating the political crisis, in that the civil and armed opposition is composed of many young people who feel helpless. At the same time, the combination of exodus from some zones of the city (to neighboring countries) combined with continuous influx from rural zones have also continued to sustain pressure on services and land in the city. Vulnerable groups (female headed households, children, persons with disability) that were already facing challenges in the pre-crisis context are now under further stress. These challenges risk increasing the intensity of the conflict and exacerbating the crisis.

Given the historical legacy of conflict, strengthening both national and subnational institutions has emerged as a national priority, with increased interaction between state and citizens as a clear policy objective. Throughout the crisis, the Government has continued its emphasis on a potentially transformative process of decentralization, with the aim of strengthening social cohesion, improving local governance, and promoting access to basic infrastructure and service delivery. Government continues to emphasize the importance of this agenda.

The private sector has been hit severely by the crisis

Structural constraints faced by the private sector have been significantly exacerbated by the political crisis, affecting mostly SMEs, often in selected sectors. Major structural constraints identified by enterprises in Burundi include the lack of equipment, followed by access to finance (in terms of high collateral and down payment requirements, high interest rates and short terms for loans), and the limited market size and access to energy. The lack of skilled workforce was also reported as a constraint in specific sectors (e.g., construction and agribusiness). Underlying these issues is the inability of sectors to organize among themselves in order to identify and address constraints,

including working with the public sector. These structural shortcomings have been compounded by the economic downturn triggered by the political crisis. Although the lingering impact vary across sectors and types of firms, the private sector as a whole has been hit severely by the ongoing political crisis. 61.5 percent of companies interviewed in June 2016 are facing a decline in demand, and 47 percent reported a loss of more than a quarter of their sales. SMEs seem to be hit the hardest, with formal SMEs' turnover decreasing by 44.6 percent between 2014 and 2015, while large firms' turnover fell by 9.1 percent and is already recovering. Some the sectors suffering the most are (i) hotels and restaurants as both leisure and business tourism have decreased dramatically, and (ii) the construction sector.

The private sector has been doubly affected by the crisis by precipitous falls in demand, and by its inability to ramp up supply. For example, the fall in public spending, partly explained by a fall in international aid and budget support, has dried up demand for certain products and services, especially for those provided by the construction sector. With 60 percent of contracts for construction works coming from the public sector, the fall of government spending had a significant impact on construction firms, many of which have had to cut large numbers of jobs due to important payment delays from their clients. Facing significant short term financing, construction firms reported on average a 73 percent reduction of labor force and 30 percent fall of their turnover since the beginning of the crisis. Political uncertainty has also led to a fall in domestic private consumption and overall demand, thereby affecting firms in sectors like the agribusiness sector. On the supply side, firms relying on imported inputs to run their business have suffered owing to a continuing shortage of foreign exchange. Most firms have had to cut imports of raw materials, machinery and other goods, which has led to large falls in production despite market demand for their products (e.g., a number of flour mills have stopped running because of the impossibility to source imported wheat). Overall, 44 percent of firms involved in processing activities declared using less than 50 percent of their capacity due to the crisis

### **Relationship to CAS**

The project is in line with the existing Burundi CPS and the PLR, in particular Pillars One and Two (increasing competitiveness and increasing resilience) and is also aligned with Burundi's poverty reduction strategy - Vision 2025.

The project is also in line with the WBG's approach to improve resilience in fragile- and conflict-affected states, focusing on the creation of income-generating activities, improving service delivery at the local level, building trust between groups and supporting interventions that work alongside local institutions and collaborate with civil society to ensure the most vulnerable groups are targeted equally. According to the fragility analysis the impact of the crisis is likely to be felt in those urban areas where social and political tension is the highest, and where lack of employment, especially with regard to youth and women, adds risk. The project tackles conflict and fragility by supporting improvements in access to jobs and improved livelihoods especially in tentionous urban settings, access to services, investing in physical and human capital and building confidence and strengthening institutions.

The project builds on the key lessons from the Public Works and Urban Management Project, in particular on using labor-intensive works approaches in Burundi, especially in conjunction with support to building capacity at the commune level. It also build upon the results of the Finance and Private Sector Development project in supporting public-private dialogue using the federal and sectoral chambers of commerce as intermediaries and the Burundi Investment Climate project,

which has focused on ameliorating issues relating to the general business climate. The Project will also leverage IFC's work on developing an efficient credit reporting system and improving secured transactions and insolvency regimes, and will explore potential collaboration with IFC Advisory on capacity building support to SMEs and commercial banks. The geographical focus and the interventions complement existing projects, including the Social Safety Nets project (with the focus on poor households in marginalized regions), the Landscape Project (still under preparation but likely with focus on marginalized provinces), the Coffee Project (with a focus on upstream and production-related aspects of agribusiness) and the Emergency Project in Bujumbura (complementing the emergency project's interventions in the zones of the city that are prone to damages from flooding and erosion). As part of preparation, the opportunities for coordination and collaboration with the new UN projects for engagement with urban youth will be explored in greater detail.

## II. Proposed Development Objective(s)

### Proposed Development Objective(s) (From PCN)

The project development objective is to create income generating opportunities and improve access to basic services, with a geographical focus on Bujumbura, and selected regions in Burundi, with special emphasis on reaching vulnerable groups, through support to SMEs and public works activities.

### Key Results (From PCN)

The project is expected to achieve the PDO by means of support for public works across selected cities in Burundi and through support to small and medium enterprises. Given the fragile environment and the need for sustainability of project interventions, there will be a large focus on capacity building for public and private institutions.

Success in achieving the PDOs will be measured by the following PDO-level indicators:

- (i) Income generating activities created (number), of which female beneficiaries (percentage);
- (ii) People with improved access to services in Bujumbura and other selected areas (number)
- (iii) Increase in sales revenue for beneficiary firms (FBu)

Particular efforts will be made to track the project impact on vulnerable groups, i.e. unemployed youths, widows, female- and minor-headed households, and on particular locations (e.g. fragile- and non-fragile neighborhoods in Bujumbura, in particular).

Baseline data will be collected by the client during project preparation.

## III. Preliminary Description

### Concept Description

The overall objective of the project is to help the people of Burundi by assisting the public and private sector to mitigate the negative economic and social effects of the crisis, in particular the increase in unemployment and the deterioration of basic services, all of which pose significant risks for social cohesion. The project aims to do so by addressing the need for immediate and medium term job creation (in particular for youth and women) and growing needs for provision of services. This will be carried out through a targeted approach including (a) priority infrastructure projects using labor-intensive works, (b) strategic interventions to help the private sector weather the crisis

and (c) support for key institutions in sustaining delivery capacity through the crisis period (including local governments, chambers of commerce and business associations).

The project has an especially strong focus on women in all elements of the design, but with particular emphasis on the targeting of female beneficiaries for public works programs and with dedicated approaches to ensure inclusion of women and female headed households in decision making processes in the project, including identification of investments and selection of neighborhoods. At the same time, given that 53.7 percent of informal firms in Bujumbura (42.9 percent in other urban areas) and 17.8 percent of formal firms are headed by women, the project will ensure correspondingly high percentages of gender-balanced support for SMEs.

The project will apply a short and long term strategy with a flexible approach in view of the fragile country context. The strategy will be adapted depending on changes in the country context and needs, and project interventions and activities will be aligned accordingly. Phase I (envisaged to last 2-3 years) will target fragility: the project will be supporting the delivery of infrastructure in key provinces (including largely in Bujumbura) using high intensity labor approach, and will target the critical needs of the private sector to weather the crisis. This will be combined with capacity building to strengthen institutions (including local governments and the private sector) for durable impact. Phase II will target durability: the project will seek to gradually move towards more systemic reforms and institutional consolidation (both with regards to support for efficient and sustainable delivery of infrastructure in local areas and in addressing the structural issues faced by the private sector).

## 1. Description

### Component 1: Investments in Local Public Infrastructure (US\$ 32.5 Million)

#### Sub component 1.1 Infrastructure Support (US\$ 29.5 Million)

The objectives of this component are to improve the stock of local public infrastructure in vulnerable areas in Burundi in the context of the current crisis, and by doing so to improve access to services and to create temporary income generating opportunities for vulnerable and poor populations. The initial focus during the first stage of the project, will be on relative simple sub-projects that have already been identified and prioritized by the Government, which would allow for rapid execution and impacts ➤( an indicative amount of US\$15.5m will be allocated for this response. At the second stage of the project ➤( after 2-3 years, and if the social and economic country situation improves - a greater focus on public infrastructure that would improve the performance of the private sector development will be considered (indicative envelope approximately US\$14m) in addition to the labor intensive public works approach.

Investments in public infrastructure (or subprojects) to be implemented during the first stage of the project will be selected among the targeted local governments (LGs ➤( ) priorities already included in their investments plan (Plan Communal de Développement Communautaire, PCDC) ➤( for a total amount up to US\$ 15.5 million. In addition, the sub-projects to be financed should check a set of criteria that have been defined to mitigate the effects of the current crisis, particularly rising unemployment and the worsening social cohesion in vulnerable areas. This will allow for the

highest impacts, in terms of temporary jobs created, particularly for youth and women, improved access to services and infrastructure for youth and women in fragile and vulnerable neighborhoods, and opportunities for private sector development. The types of sub-projects include, but are not limited to (i) the construction and rehabilitation of economic infrastructure (including markets), (ii) the rehabilitation and improvement of roads and other small scale mobility infrastructure, and (iii) the rehabilitation and construction of social infrastructure (health centers, primary and secondary schools). Works contracts with the private sector will stipulate that a percentage of the contract amount (varying according to the type of infrastructure) will be allocated to salaries and with that labor-intensive works approach will be applied. The selection of low skilled laborers to execute infrastructure works will be based on specific targeting criteria to allow for a focus on socially excluded and vulnerable populations (e.g. youth, women and internally displaced populations).

#### Identification and Selection of Sub-projects

Local governments, with the support of the now closed Public Works and Urban Management project, have already identified 96 sub-projects that were not executed for lack of funds from the Government. These sub-projects are a priority for the country and many of the total 96 sub-projects have already collected financial contributions from beneficiary communities. The total 96 sub-projects are spread over five provinces and include primarily investments in markets, pavement of roads, and social infrastructure. However, the majority of the sub-projects are located in Bujumbura and Gitega.

The 96 sub-projects will be screened against two sets of criteria on the basis of existing national data, including location, poverty dimension, vulnerability, level of existing infrastructure, and potential economic benefits. In addition to the initial stock of sub-projects already identified by communities, and after their screening against agreed criteria, some additional sub-projects could be identified to benefit socially excluded and fragile neighborhoods in Bujumbura and Gitega. All sub-projects to be funded under the component will need to be reflected in the Local Government Community Development Plan (Plan Communal de Développement Communautaire, PCDC)

A community-based targeting mechanism will be used to reach out to and identify local low skilled laborers who will benefit from job opportunities created by the execution of contract works. The local oversight committees will oversee community-based selection of beneficiaries under close guidance from the independent agency. The component will be implemented by one or several Delegated Contract Management Agencies (Maitres d'Ouvrage, MODs) that will be supervised by technical and fiduciary experts in the Project Implementation Unit (PIU). Local governments will play an important role in the identification and oversight of sub-projects; Local oversight committees will be the interface between contractors and MODs, LGs and local communities. An independent agency (most likely an NGO with experience in community work) will be recruited by the PIU to support LGs and LOCs during implementation of activities.

#### Sub component 1.2: Institutional and capacity support (US\$ 3 Million)

This subcomponent will provide support to strengthen the capacity of targeted LGs to undertake their mandated functions and deliver local services for development. It will also help Government to develop and strengthen its capacity to provide oversight and support to Local Governments in a sustainable manner. It will be implemented by the PIU with very close collaboration with the MDC and the targeted LGs. The support to LGs will aim at strengthening the capacity of some targeted

LGs, to improve investments planning, revenue mobilization, municipal asset and infrastructure management. The support to the Government will aim at improving the institutional framework for decentralization and making it fully operational.

#### Component 2: Support to SMEs (US\$ 13.5 Million)

The objective of this component is to support the resilience and the development of SMEs in order to help them preserve and create long term income generating activities. This will be achieved through a two-pronged approach ➤ ( a) supporting private sector resilience to weather the crisis, while b) helping to tackle structural problems to enable firms to ramp up employment as the situation stabilizes and improves.

##### Sub-Component 2.1 ➤ ( Direct financial support to SMEs (US\$ 10.5 Million)

###### A. SME support for improved short-term liquidity:

The Project will set up a SME Fund managed by the National Development Bank (BNDE) to address SME ➤ ( s short term liquidity needs created by the crisis.

###### i) Short term liquidity needs during the crisis

Owing to the prolonged period of fragility experienced in Burundi, local SMEs are faced with decreasing domestic demand for their goods and services, as well as payment delays from their clients (notably from State-owned enterprises and from the Government). This in turns creates short term liquidity stress upon SMEs, which has notably led to an increase in loan defaults from SMEs and which is preventing them from retaining staff and from financing the working capital needed to operate their business. To mitigate these short term liquidity issues, the Project will propose solutions to help commercially viable SMEs.

###### ii) Capacity support for sustainability

To manage the Fund and ensure its sustainability after the Project, a team of SME Loan Analysts and Loan Officers within BNDE will be trained. Given the need for a severely-needed, immediate cash-injection to SMEs, some of these capacity building activities will be kick-started during project preparation. The project will also train Loan Analysts and Loan Officers from other financial institutions on SME lending.

###### B. Matching grant program for mid to long-term productive investments:

Beyond the short term liquidity crisis, small and medium firms are also limited in their growth prospects by their inability to acquire the right technology, know-how, equipment and infrastructure. The Project will support SMEs in making productive investments in these fields through a matching grant program, which will finance the following: (i) Business Development Services, (ii) Acquisition of specialized equipment, and (iii) Shared infrastructure investment.

##### Sub-Component 2.2 Institutional Support for SME Development and Public-Private Dialogue (PPD) (US\$ 2 Million)

###### A. Support to SME development through the creation of an SME support team

A team of SME Support Specialists will be created (and their operating costs supported using a project preparation advance) under an existing and well-functioning public institution ➤ ( the



Investment Promotion Agency (API), which sits under the Ministry of Finance and Economic Development Planning. The SME Support Specialists will be in charge of engaging SMEs and other key stakeholders within selected sectors and sub-sectors of the economy (including, construction and agribusiness) so that they can work together on identifying constraints and solutions to improve competitiveness, generate investment and better connect to local and export markets.

#### B. Support to Chambers of Commerce

The Project will provide capacity building and technical assistance to the Federal Chamber of Commerce, the Agribusiness Chamber of Commerce and the Chamber of Commerce for Construction and Public Works so that they are in a position to play an active role in: (i) Organizing their respective sector, through professional colleges and interprofessions, (ii) Disseminating relevant information, and (iii) Advocating for each sector in the context of relevant PPD platforms.

#### C. Support to Sector Specific Public-Private Dialogue

The Project will help create and facilitate the operation of two sector specific public-private dialogue platforms, one for agribusiness and one for construction. These platforms will help improve the communication among key stakeholders of these two sectors, and will enable them to identify regulatory bottlenecks that could potentially be resolved under the project (see sub-component 2.3).

#### Sub-Component 2.3 Improvement of the Business Climate for SMEs, Investments and Exports (US \$ 1 Million)

The Project will work on identifying the gaps in the regulatory frameworks for SMEs (investment and export development, notably by building on the work done by the Burundi Investment Climate project and by leveraging the inputs provided by the two PPD platforms mentioned in sub-component 2.2.C. The Project will then support the Government in addressing these challenges through technical assistance for targeted reforms. A special focus will be made on the business climate as it specifically applies to the construction and agribusiness sectors.

#### Component 3: Contingency Emergency Response Component (CERC) (standardized, \$0)

This is a contingency component that can be triggered by a joint Government and Bank agreement in case of an emergency. This component was considered necessary due to the uncertainty inherent in Burundi's current socio-economic climate: unexpected flooding or erosion, an aggravation of the state of fragility or the return of large groups of displaced people could potentially shift priorities.

#### Component 4: Project Implementation Arrangements (USD 4 Million)

This component will support the costs of a Project Implementation Unit and will be comprised of a team, supplemented through external consultants, to manage the following activities, among others: overall project management, Financial Management, Social and Environmental Safeguards, Procurement, social development specialist, private sector specialist, and Monitoring & Evaluation. The PIU will be staffed well to ensure adequate oversight for the different activities under the

project, including the oversight of the Labor Intensive Works approach in Component 1 as well as the targeted interventions for private sector in Component 2.

#### IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09	x		
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

#### V. Financing (in USD Million)

Total Project Cost:	50.00	Total Bank Financing:	50.00
Financing Gap:	0.00		
<b>Financing Source</b>			<b>Amount</b>
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			50.00
Total			50.00

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