

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB2317

Operation Name	BI-Economic Reform Support Grant (ERSG)
Region	AFRICA
Sector	General Public Administration Sector (75%); Economic policy (25%)
Project ID	P091475
Borrower(s)	BURUNDI MINISTRY OF FINANCE
Implementing Agency	MINISTRY OF FINANCE
Date PID Prepared	December 14, 2005
Estimated Date of Appraisal Authorization	April 14, 2006
Estimated Date of Board Approval	June 15, 2006

1. Key development issues and rationale for Bank involvement

Burundi has emerged from a cycle of politico-ethnic conflicts in August 2000 with the signature by most of the parties involved in the conflict of the Arusha peace agreement. The political transition as disposed in the Arusha agreement has now been completed. A post-transition constitution has been overwhelmingly approved by a national referendum in February 2005. Communal and parliamentary elections were held in June and July. The President was elected by the Parliament on August 19, 2005. The post-transition Government took office on September 1, 2005.

Within a difficult political environment, and starting from dire economic and social conditions, Burundi has made good initial progress in stabilizing the economy, implementing financial and structural reforms, and beginning to restore social services. Based on sound macroeconomic policies and progress in reforming the economy, external financial aid has resumed and culminated with Burundi being granted access to debt relief under the enhanced HIPC initiative in August 2005.

Notwithstanding the encouraging recent progress in stabilizing the macroeconomic environment, Burundi faces significant challenges in igniting sustained high broad-based economic growth that can achieve poverty reduction. Addressing such challenge would require major structural reforms as regards the public sector per se, the development of exports, and the environment for private sector investment.

2. Proposed objective(s)

The Economic Reform Support Grant (ERSG), an integral part of the Bank's Interim Strategy (ISN), is to support the transition to economic recovery and the implementation of the Government's reform program over the 2005-06 period. In addition to supporting ongoing Government's efforts for economic and social recovery, the proposed ERSG will support a number of policy and institutional reforms to consolidate the progress made under the previous Bank's operations, build the base for economic diversification, sustained growth and poverty reduction. The proposed ERSG would focus on the following long-term development objectives:

- Improving public expenditure management and their impact on the poor;
- Reforming agricultural export sectors (coffee, tea and cotton); and
- Reviving the private sector by improving the investment climate, accelerating State divestiture; and settling the government domestic arrears to the private sector.

The proposed operation is expected to help the implementation of the Government's poverty reduction program by: (i) making more resource available to finance the PRSP priorities and achieve the Government's poverty reduction objectives through improvement in the management of scarce public resources. In particular, it is expected to translate into improved services for the poor and into improved well being of the population; (ii) increasing income-generating activities and employment opportunities

(private sector development and State disengagement) and producers' income (coffee, tea, and cotton sector reforms) that are also expected to translate into poverty reduction and improved well-being for the population concerned

3. Preliminary description

The reform program to be supported by the ERSG focuses on assisting Burundi in: (i) addressing short-term weaknesses in particular in the area of public expenditure management and (ii) deepening and extending its economic structural reform agenda in a credible and sustainable manner. It proposes to: (i) consolidate reforms already underway (measures to accompany the 2005 liberalization of coffee sector; revise the legal and regulatory framework for private sector); (ii) deepen reforms (public expenditure management); (iii) refine the implementation action plans for reform strategies already adopted by the Government (tea and cotton sector reforms); and (iv) move to the implementation phase (public financial management reform agenda as agreed under the 2004 CFAA action plan). In addition, it also aims at reviving the reform agenda which were not given priority during the political transition (public enterprise reform and State divestiture) and initiate diagnostic work in areas where action is needed but knowledge is too limited to design a meaningful reform program (financial sector and investment climate).

4. Environment Aspects

The proposed development policy grant supports mostly economic governance reforms that are unlikely to have a significant direct environmental impact. The potential adverse environmental and social effects associated with the proposed ERSG are mainly related to the coffee, tea, and cotton sector reforms and the privatization program. Such effects are expected to be modest and reversible through appropriate mitigation actions. Moreover, activities related to these reforms to be undertaken under the 2006 ERSG program are part of broader programs whose activities span over the medium-term and may be also supported by IDA follow-up DPLs.

Although Burundi has developed and put in place an adequate institutional and regulatory framework for environment management, technical and institutional capacity would quite significant strengthening to support the implementation of the measures needed to ensure compliance with its own Environment Code.

5. Tentative Financing

The grant would be disbursed in two tranches, of which the first (\$35 million equivalent) would be released upon effectiveness (first half of 2006) and the second (\$25 million equivalent), in the second half of 2006, following the satisfactory fulfillment of a limited number of specific conditionality set at end of June 2006 and providing that macroeconomic performance continues to be satisfactory. Both tranches would support the 2006 budget.

Source:	(\$m.)
BORROWER/RECIPIENT	0
IDA Grant	60
Total	60

6. Contact point

Contact: Claude Leroy-Themeze
Title: Sr Country Economist
Tel: 202-458-5726
Fax: 202-473-8466
Email: cleroy@worldbank.org