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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A

PROPOSED GRANT

IN THE AMOUNT OF SDR 40.4 MILLION

(US\$60 MILLION EQUIVALENT)

TO THE

REPUBLIC OF BURUNDI

FOR AN

ECONOMIC REFORM SUPPORT GRANT

July 6, 2006

**Poverty Reduction and Economic Management 3
Country Department 09
Africa Region**

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CURRENCY EQUIVALENTS

(Exchange Rate Effective May 31, 2006)

Currency Unit = Burundi Franc (FBu)

US\$1 = FBu 1,100

SDR1 = US\$1.48703

WEIGHTS AND MEASURES

Metric System

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

ALCOVIT	<i>Aliments Composés Vitaminés</i> (Mixed Vitaminized Food)
APB	<i>Abattoirs Publics de Bujumbura</i> (Slaughterhouses of Bujumbura)
APMs	Armed Political Parties and Movements
AU	African Union
BCB	<i>Banque de Crédit de Bujumbura</i> (Credit Bank of Bujumbura)
BCC	Burundi Coffee Company
BRB	<i>Banque de la République du Burundi</i> (Central Bank of Burundi)
CAS	Country Assistance Strategy
CET	Common External Tariff
CFAA	Country Financial Accountability Assessment
CIP	<i>Comité Interministériel de Privatisation</i> (Inter-Ministerial Committee of Privatization)
CNCA	<i>Comité National de Coordination des Aides</i> (National Aid Coordination Committee)
CNDD-FDD	<i>Comité National de Défense de la Démocratie - Forces pour la Défense de la Démocratie</i> (National Council for the Defense of Democracy - Forces for the Defense of Democracy)
CNE	<i>Commission Nationale de l'Environnement</i> (National Commission for Environment)
COGERCO	<i>Compagnie de Gérance du Coton</i> (Cotton Management Company)
COMESA	Common Market for Eastern and Southern Africa
COTEBU	<i>Complexe Textile de Bujumbura</i> (Textile Complex of Bujumbura)
CPI	Consumer Price Index
CPIP	Country Procurement Issue Paper
CWIQ	Core Welfare Indicators Questionnaire
DAF	<i>Direction Administrative et Financière</i> (Administrative and Financial Directorate)
DDR	Demobilization, Disarmament, and Reintegration
EERC	Emergency Economic Recovery Credit
EMSP	Economic Management Support Project (Projet d'Appui à la Gestion Economique, PAGE)
EPB	<i>Etablissement du Port de Bujumbura</i> (Port of Bujumbura)
ERC	Economic Rehabilitation Credit
ERSG	Economic Reform Support Grant

EU	European Union
FAB	<i>Forces Armées Burundaises</i> (Burundian Armed Forces)
FADs	Administrative and Financial Directorates
FBu	Burundi Franc
FIRST	Financial Sector Reform and Strengthening Initiative (<i>Initiative pour la Réforme et la Consolidation du Secteur Financier</i>)
FNL-PALIPHEUTU	<i>Forces Nationales de Libération-Parti pour la Libération du Peuple Hutu</i> (National Liberation Forces-Party for the Liberation of the Hutu People)
GDP	Gross Domestic Product
GNP	Gross National Product
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/ Acquired Immunodeficiency Syndrome
ICR	Implementation Completion Report
IDA	International Development Association
IF	Integrated Framework
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IGE	<i>Inspection Générale de l'Etat</i> (State General Inspection)
ILO	International Labor Organization
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
ISN	Interim Strategy Note
ISTEEBU	<i>Institut de Statistique et des Etudes Economiques du Burundi</i> (Institute of Statistics and Economic Studies of Burundi)
LDP	Letter of Development Policy
MDGs	Millennium Development Goals
MDRP	Multi-Country Demobilization and Reinsertion Program
MFIs	Microfinance Institutions
MICS	Multisectoral Indicators Cluster Survey
MINEDUC	Ministry of National Education and Culture
MOF	Ministry of Finance
MTEF	Medium-Term Expenditure Framework
NGO	Non-Governmental Organization
OCIBU	<i>Office de Café du Burundi</i> (Coffee Board of Burundi)
ONAPHA	<i>Office National Pharmaceutique</i> (National Pharmaceutical Board)
ONUB	United Nations Operation in Burundi
OPHAVET	<i>Office Pharmaceutique Vétérinaire</i> (Veterinary Pharmaceutical Office)
OTB	<i>Office du Thé du Burundi</i> (Tea Board of Burundi)
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PFM	Public Finance Management
PRAP	Procurement Reform Action Plan
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SCPE	<i>Service Chargé des Entreprises Publiques</i> (Office in charge of Public Enterprises)

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SIVCA	<i>Société Industrielle de Valorisation du Café</i> (Industrial Company for Coffee Valorization)
SOCABU	<i>Société d'Assurance du Burundi</i> (Burundi Insurance Company)
SODECO	<i>Société de Déparchage et de Conditionnement</i> (Coffee Curing and Packing Company)
SOGESTALs	<i>Société de Gestion des Stations de Lavage de Café</i> (Coffee Washing Stations Management Company)
SONICOFF	Source of Nile coffee
UNDP	United Nations Development Program
USAID	United States Agency for International development
VAT	Valued Added Tax
WB	World Bank
WHO	World Health Organization

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REPUBLIC OF BURUNDI
Economic Reform Support Grant (ERSG)
Program Document

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REPUBLIC OF BURUNDI
Economic Reform Support Grant
FINANCING AND PROGRAM SUMMARY

- Recipient:** Republic of Burundi
- Beneficiaries:** Population of Burundi
- Amount:** SDR 40.4 million (US\$ 60 million equivalent)
- Terms:** Standard for an IDA Grant
- Description:** The proposed Grant is designed to help implement the Government's economic reform program during 2006 and Burundi's Interim Poverty Reduction Strategy Paper (I-PRSP) by supporting key policy measures aimed at: (i) improving public expenditure management and their impact on the poor; and (ii) accelerating growth.
- Benefits:** The proposed operation is expected to help the implementation of the Government's poverty reduction program by making more resources available to achieve the Government's poverty reduction objectives through improvement in the management of scarce public resources. In particular, the operation is expected to translate into: (i) improved services for the poor and greater well being of the population; and (ii) increased income-generating activities; employment opportunities through private sector development and State disengagement; and increased producer income through coffee, tea and cotton sector reform.
- Risks:** Six main risks could influence the expected outcomes of the proposed operation: (i) ***internal and/or regional instability and disruption of the peace process***. The peace process in Burundi remains to be consolidated, in particular with regard to the FNL-PALIPEHUTU which continues to threaten the population and hinders the reform of the security sector. However, we should keep in mind that, the FNL-PALIPEHUTU has neither the force nor the popular support to fight the newly elected Government. It would be beneficial, in the interest of peace, for the Government and the FNL-PALIPEHUTU to reach a negotiated settlement in the ongoing ceasefire discussions. Furthermore, the Great Lakes region remains unstable. It will take a long time for the security problems to be settled on the east border of Burundi and these will remain a risk for the Burundi peace process. However, preparations are underway to call an international conference on the Great Lakes Region; needless to say that Burundi, DRC, Rwanda, and Uganda are all on a good path to achieving stability; (ii) ***external factors*** such as further collapse of coffee prices or adverse climatic conditions could jeopardize

Burundi's foreign exchange position making it difficult to service external debt even after HIPC relief, and eventually putting the recovery efforts at risk; (iii) *policy reversals and/or slippages in key reforms* could affect the Government's ability to maintain a stable macroeconomic environment and focus expenditure on poverty reducing priorities identified in the I-PRSP; (iv) *weak administrative and absorptive capacity* (human, institutional, and managerial) could slow down the pace of improvements in economic and public expenditure management; (v) *fiduciary risks* with regard to the use of public funds remain as internal and external control mechanisms remain weak and capacity of the Audit Court is limited; and (vi) *shortfall in donor support and/or difficulty to translate donor support into action and results* could have a deterring impact on growth, reduce government resources and affect the Government's ability to conduct its reform program.

Estimated Disbursement:

To be released in two tranches of SDR 23.55 million (or US\$ 35 million) and SDR 16.85 million (or US\$ 25 million) each in 2006 with the first tranche to be released upon effectiveness and the second one following completion of agreed measures.

Implementing Agency:

The Ministry of Finance.

Project ID Number: P091475

**International Development Association
Program Document for an
Economic Reform Support Grant (ERSG)
To the Republic of Burundi**

I. INTRODUCTION

1. Burundi is emerging from recurrent episodes of civil war that have torn the country since the mid-1960s. During the latest episode of civil war which started in 1993, it is estimated that more than 250,000 people were killed and 1.2 million displaced. The international community sponsored a framework for national reconciliation and lasting peace among Burundians, under former presidents Nyerere of Tanzania, and Mandela of South Africa. Negotiations towards a comprehensive peace agreement were concluded in Arusha, Tanzania in August 2000. By the end of 2003, the transitional Government had signed new peace and cease-fire agreements with all armed political parties and movements that did not sign the Arusha Agreement, with the exception of a fringe FNL-PALIPEHUTU faction. Since December 2003, major fighting has halted in all but one province, Bujumbura Rural, where sporadic FNL activity still remains.

2. The political transition has been well managed and successful, widening the window of opportunity for peace and stability opened by the Arusha Agreement. A referendum for the adoption of the new post transition constitution was held peacefully on February 28, 2005. Communal and parliamentary elections were held in June and July 2005. The transition came to a successful end when Mr. Pierre Nkurunziza (CNDD-FDD), elected President by the Parliament on August 19, 2005, was sworn in on August 26, 2005. The post transition Government took office on September 1, 2005. Appointments in the Legislative and Executive bodies have been held in full compliance with the new post transition constitution, in terms of gender and ethnic representations.

3. The last decade of civil war has had a devastating effect on Burundi's economy. GDP per capita (constant 2000 US\$) has fallen by almost 18 percent, from US\$ 127 in 1994 to US\$ 105 in 2004. The percentage of people living with less than a dollar a day has nearly doubled, from 35 percent overall to 68 percent in 2002.

4. Within a difficult political environment, and given 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, which will reduce debt by over 90 percent in NPV terms, and scheduled debt service by some US\$ 30-40 million per year for the next thirty years. But Burundi will continue to require significant external support, as domestic savings, even augmented by those resulting from the HIPC initiative will be far below the level needed to help Burundi make substantial progress with regard to accelerating growth, raising living standards, reducing poverty and making progress towards the MDGs.

5. The Interim Poverty Reduction Strategy Paper (I-PRSP) was completed in November 2003 and discussed by the Boards of the World Bank and the IMF in January 2004. It reflects the Government's priority to address the challenges of transition from conflict to peace as stated in the preamble of the Arusha peace agreement. The Government's priorities in the economic area are rural development, infrastructure, disengaging the State from the production sector, and reviving the private sector. Preparation of the full PRSP is well advanced with broad and inclusive consultations being completed. Sectoral consultations were held in November 2005. A first draft is being finalized and the full PRSP is expected to be approved by the Government during the second semester of 2006.

6. The proposed Economic Reform Support Grant (ERSG) builds on the Emergency Economic Recovery Credit (EERC, 2000) and the Economic Rehabilitation Credit (ERC, 2002) the last tranche of which was disbursed in January 2005. As outlined in the 2005 Bank Interim Strategy Note (FY06/07), the ERSG aims at supporting the Government in implementing the interim PRSP in four areas: (i) improving public expenditure management and the impact on the poor; (ii) reforming cash crop sectors (coffee, tea, and cotton); (iii) reviving the private sector; and (iv) reforming public enterprises through State divestiture and private/public partnerships.

7. 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 reforms 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).

8. The reform program was also designed with the view to help the Government in securing sustained financial resources through: (i) economic growth; (ii) external financial assistance; and (iii) debt relief. It therefore focuses on helping Burundi reach the HIPC completion point by early 2007.

9. The Grant would be disbursed in two tranches, of which the first (US\$ 35 million equivalent) would be released upon effectiveness and the second (US\$ 25 million equivalent), following the satisfactory fulfillment of a limited number of specific conditionalities and providing that macroeconomic performance continues to be satisfactory. Both tranches would be released in the second half of 2006 and support the 2006 budget. The proposed ERSG would bridge the period between now and the preparation of the next Country Assistance Strategy to support the full PRSP which is expected to be completed in 2006. In addition, a number of milestones for end 2006-mid 2007 are proposed, which could be used as indicators of progress for a follow-up Development Policy Operation that could be included in the next Country Assistance Strategy.

10. Thus, at the conclusion of the proposed operation, one would expect to see tangible progress with respect to each component of the proposed reform program including: (i) measurable improvement in public expenditure management; (ii) an increase in pro-poor spending; (iii) progress in the execution of the reform pertaining to coffee; (iv) measurable improvements in the environment for private sector; and (v) the establishment of a credible program for State disengagement from productive sectors.

II. BURUNDI'S ECONOMY

A. POLITICAL AND SOCIAL CONTEXT

11. **Burundi is emerging from recurrent episodes of civil war that have torn the country since the mid-1960s.** Since the first outbreak in 1965, the country has experienced four more episodes of civil war in 1972, 1988, 1991, and 1993. The recurrence of civil war seems to suggest that the political leadership of Burundi has been unsuccessful in creating institutions that can promote and sustain peace. The tensions between the two dominant ethnic groups, the Hutus (over 80 percent of the population) and the Tutsis (around 15 percent) which have fueled political instability and civil conflict for several years, took a heavy toll on human lives and on the country's economic and social fabric. Since the beginning of the latest wave of the conflict in 1993, over 300,000 people have lost their lives. By 2003, about 1.2 million (16 percent of the population) have been internally displaced and became refugees. The war has had a devastating impact on Burundi's economy that was compounded by an economic embargo by neighboring countries, and several episodes of drought. As a result, GDP per capita has fallen by almost 40 percent, from US\$ 180 in 1993 to US\$ 110 in 2003.

12. **A widening window of opportunity for peace and stability through the Arusha Agreement.** The international community sponsored a framework for national reconciliation and lasting peace among Burundians, under former presidents Nyerere of Tanzania, and Mandela of South Africa. Negotiations towards a comprehensive peace agreement were concluded in Arusha, Tanzania in August 2000. Signatories of this Arusha Agreement included seventeen political organizations. However, several rebel groups, including the CNDD-FDD, the largest rebel group, and the FNL-PALIPEHUTU did not participate in these talks. In this context, a transitional constitution was adopted in October 2001; a thirty-six-month Transitional Government (TG) was appointed in November 2001, based on the principle of power-sharing among the country's two main ethnic groups. A transition Parliament was installed in January 2002. President Buyoya, a Tutsi, led the first eighteen months of the Transitional Government, with Mr Ndayizeye, a Hutu as Vice-president. In May 2003, a smooth handover was observed, and Ndayizeye was appointed to lead the second half of the Transitional Government along with a Tutsi as Vice-president. By the end of 2003, the Transitional Government had signed new peace and cease-fire agreements with all armed political parties and movements that did not sign the Arusha Agreement, with the exception of a fringe FNL-PALIPEHUTU faction. Since December 2003, major fighting has halted in all but one province, Bujumbura Rural, where sporadic FNL-PALIPEHUTU activity still remains. These peace agreements resulted in a larger Transitional Government wherein leaders of the new signatories were appointed. The thrust of these new agreements has been to allocate power positions in the army, the central, provincial, and district Governments roughly in accordance with the relative political weight of the respective groups.

13. **Prospects are good for the integration of all armed factions into new security and defense forces, and demobilization and reintegration of former combatants that will not be enlisted in these forces.** The TG launched in January 2003 the preparation of a

national Demobilization, Reinsertion and Reintegration program (DRR), with support from the Bank and in the context of the regional framework of the Multi-country Demobilization and Reintegration Program for the greater Great Lakes (MDRP). In May 2004, UN Security Council resolution 1545 transformed the African Union interposition force -AMIB- into a UN peacekeeping operation (UNOB) to monitor cease-fire agreements and to support the consolidation of the peace process. By mid 2004, UNOB had deployed its mandated strength of about 5,000 peacekeepers. This development played a major role in facilitating the implementation of the DRR and the accompanying security sector reform program.

14. **Implementation of the demobilization of soldiers and ex-combatants has been satisfactory.** Demobilization activities started in December 2004 and by December 2005, about 20,000 ex-combatants have been demobilized, including 3,015 child-soldiers and 482 female ex-combatants. Until recently, significant delays in finalizing the implementation strategy for reintegration activities have hindered progress in this area. A new management team has been recently appointed, and related activities are all underway. Financing of the DRR program has been secured through an IDA grant (US\$ 33 million) and the Multi-Donor Trust Fund -MDTF- (US\$ 41.8 million) of the MDRP. The MDTF also finances a special project (US\$ 3.5 million) for the demobilization, reintegration and recruitment prevention of child soldiers in Burundi.

15. **The political transition has been well managed and successful.** As per the Arusha Agreement, national elections were scheduled to be held by end-October 2004. However, the Transitional Government has not been able to adhere to this timeline for political and logistical reasons. Burundian political leaders have chosen, to their credit, to bring to the forefront and to debate openly the sensitive issue of the ethnic divide. This made the transition process more challenging and much slower than initially envisaged, but may have made much contribution to the success of the electoral process. Thus, agreement to, and adoption of a post transition constitution have proven to be thornier than anticipated. The issue of power sharing between the two main ethnic groups--in the executive, legislative, and military institutions-- has been a major source of dissent for a few Burundian politicians. The minority Tutsi-dominated political parties held the position that power sharing should also be allocated across political party lines, a position not endorsed by the Transitional Government. But thanks to the strong leadership and resolve of the president of the Transitional Government and the constructive attitude of an increasing number of Burundian leaders, a referendum for the adoption of the new post transition constitution was held peacefully on February 28, 2005. Communal and parliamentary elections were held in June and July 2005. The transition came to a successful end when Mr. Pierre Nkurunziza (CNDD-FDD), elected President by the Parliament on August 19, 2005, was sworn in on August 26, 2005. The post-transition Government took office on September 1, 2005. Appointments in the Legislative and Executive bodies have been held in full compliance with the new post transition constitution, in terms of gender and ethnic representations.

16. **Fear and skepticism still abound, although most of the country is currently at peace, with sufficient security for economic activities to resume both at a local level and on a country-wide scale.** A window of opportunity has opened, after eleven years of conflict. Both research and experience in other countries suggest that exceptional levels of support are needed rapidly to take advantage of this opportunity. Reconciliation efforts need to be consolidated, displaced persons need to be reintegrated into their communities, and thousands of ex-combatants need to be demobilized and reintegrated. Furthermore, concerns

are high among a large part of the population about lack of economic opportunities to follow on the wake of an expected lasting peace. During consultations with stakeholders in the context of the preparation of the recent Bank's Interim Strategy, several participants indicated that a key obstacle to the peace process is the people's fear of peace, as the conflict has been used to rationalize the deep state of poverty. Thus, a strong signal from the international community to support economic recovery would have an important positive impact on peace prospects.

17. Peace prospects in Burundi remain intrinsically linked to regional stabilization.

The Gatumba massacre of over 160 Congolese refugees of Tutsi origin in August 2004 in Burundi provided a somber reminder of the inter-linkages between the conflicts of Burundi, Rwanda and the Democratic Republic of Congo (DRC). A continued instability and lack of law and order in the eastern DRC would provide a vacuum all too easily exploited by Burundian rebel groups such as the FNL-PALIPEHUTU. It is hoped that the recent strengthening of the UN peacekeeping presence in the eastern DRC (MONUC) will help minimize future security threats emanating from that country. Peace has now returned to the majority of the country but one armed group, the FNL-PALIPEHUTU, continues to oppose Government forces in the provinces of Bujumbura Rural and Bubanza. Calls for cease-fire and reconciliation with the FNL-PALIPEHUTU have been made by the new Government, so far without success, partly because of lack of consistent views among members of the FNL-PALIPEHUTU leadership on the way forward. The FNL-PALIPEHUTU appears increasingly isolated in the regional and international communities. However, as long as it remains a security threat, it might be difficult for the Government to implement fully its security sector reforms. So far, the Government is on track in implementing its letter of demobilization policy, including the reduction of the size of the army to 25,000 by end of 2006.

18. Social developments. The decade of recurring conflicts has had a devastating effect on Burundi's economy. Following the sharp deterioration of social indicators over the past decade, Burundi seems to have made some slight progress since the return to peace although Burundi's social indicators remain among the weakest of sub-Saharan Africa. According to the 2004 United Nations Development Program (UNDP)-Human Development Index, Burundi is ranked as the fourth least developed country in the world. Child malnutrition increased from 37.5 percent in 1987 to 45 percent in 2000 while the population below the minimum level of dietary energy consumption rose from 49 percent in 1990 to 70 percent in 2001. Immunization coverage¹ in 2001 had risen to its pre-crisis level of 1990 (75 percent) from an all time low level of 40 percent in the 1994, and seems to continue on a positive trend. Under-five and infant mortality rates went up from 152.5 per 1,000 and 73.7 per 1,000 live births respectively in 1984-1987 to 231 and 156 per 1,000 in 2000². Displaced persons (some 200,000 internally and in refugee camps, down from one million at the peak of the fighting) suffer from deprivation, malnutrition, and lack of sanitation, health and education services. HIV/AIDS prevalence is rising, particularly in the refugee camps. The prevalence was estimated in 2002 at 9.4 in urban areas, 10.5 in peri-urban areas and 2.5 in rural areas. Global sero-prevalence is estimated at 3.2 and seems to be stable in urban areas, while rapidly rising in rural areas.

¹ This is the immunization of children 0 to 1 year of age against measles

² Results from a new Multisectoral Indicators Cluster Survey (MICS) will be available in May 2006, which would permit to evaluate whether there has been a slight improvement on child mortality.

19. Improvement in access to and quality of education is a priority in the new Government strategy as part of the nation's recovery strategy. In line with this, the Ministry of National Education and Culture (MINEDUC) has prepared a strategic policy plan, "Options and Priorities for Education and Training" which aims to reach the goals of Education for All (EFA). In accordance to the EFA strategy, the first and most important policy measure taken by the new Government was the elimination of school fees in September 2005. The main objectives of this policy are: a) expanding access at primary level and diversification of the services offered at secondary level (technical and vocational education); b) improving quality through reforming pre-service teacher training, enhancing in-service training, implementing a new curricula and institutional strengthening. The Government will further develop this strategy, which will be supported by the Bank and other donors in a joint operation during 2006.

20. The decision to eliminate "school fees" in September 2005 has resulted in a huge increase in first grade enrollment. As a result, the primary school enrollment rate has significantly surpassed the pre-crisis, long-term level, with a gross enrollment of 80 percent in 2003/04 and close to 100 percent in 2005/06 (due to the elimination of school fees). However, still only 47 percent of those children that start first grade finish the primary cycle and, as a result, education reaches only a limited fraction of the population: only 43 percent of adults are literate (53 percent males versus 32 percent for females). To address the huge surge in first grade enrollment, the Government already recruited 3,500 additional teachers in 2005 and an additional 1,800 will be recruited in 2006. However, the infrastructure needs will take several years to cover all students at a reasonable student/teacher rate. At the secondary level, the gross enrollment ratio of 12 percent is below the average for sub-Saharan Africa (25 percent). Disparities in education's outcomes among gender and regions are huge: a) females comprise 45 percent of the students at primary level, 41 percent at secondary level, and 25 percent at university level and; b) gross enrollment rate goes from 130 percent in the city of Bujumbura to 50 percent in the provinces of Ngozi and Muyinga. The quality of education had also deteriorated severely due to the conflict and insecurity. To bring in more pupils, a double-shift system was put in place in 1982, but it led to a 20 percent reduction in teaching time per pupil, thereby affecting the quality of education in the primary. Repetition rates are more alarming: 28 percent for years 1-4 of primary, 37 percent for year 5, and 44 percent for year 6.

21. In addition to some signs of recovery/improvement in health and education indicators, access to safe water experienced a notable improvement after the sharp deterioration in mid-late 1990s. Access to improved water source increased from 69 percent of the population in 1990 to 78 percent in 2001 while access to improved sanitation at 88 percent in 2001 was back to its 1990 pre-crisis level (87 percent). The Government's immediate priority is to restore at least pre-crisis levels of these social services recognizing that meeting the Millennium Development Goals (MDGs) will be a challenge (see Annex 1).

B. RECENT MACROECONOMIC AND FISCAL PERFORMANCE, 2000-2005

22. **Burundi has made good progress in implementing its macroeconomic policy agenda despite a complex political environment, a full legislative agenda, and exogenous shocks.** Within a difficult political environment, and starting from dire economic and social conditions, the Government has made good initial progress in terms of macroeconomic

stabilization, implementation of financial and structural reforms, and restoration of social services. Many challenges are still ahead, including among others the weight of the State in the economy, the low economic diversification and high dependency on coffee, the low level of integration of the economy with the rest of the world, a shallow financial sector, and the pressure on the Government to deliver rapidly improved services.

23. Since 2000, the Government has maintained generally prudent policies and implemented structural reforms conducive to the establishment of the conditions necessary to boost economic growth. After a slowdown in 2003 mainly due to unfavorable climatic conditions and historically low coffee production, real GDP growth has rebounded in 2004 (4.8 percent), but declined again in 2005 to about 0.9 percent reflecting the country high dependency on coffee and the high vulnerability to adverse climatic conditions. These structural factors which accounted for the economic growth fluctuations were aggravated in 2005 by the decline of gross investment to GDP ratio, the increase in trade deficit, and sluggish subsistence agriculture. Inflation which declined in 2004 rose in 2005 to about 13.4 percent, owing to the impact on food prices of unfavorable climatic conditions (e.g., drought in the north), the surge in the prices of imported petroleum, and the pressure on nontradables of an increasing international presence in Bujumbura. In addition, the rapid money growth in the first half of 2005 (26.5 percent) from 16.7 percent in 2004 contributed to the increase in inflation. The international reserve position of Burundi has strengthened, while financial support from international community has been mobilized (Table 1). Moreover, real per capita income growth has deteriorated as a result of the past strife and poor harvests in Burundi. GNI per capita is among the lowest in the region at US\$ 100 in 2005 compared to a regional average of US\$ 600 in the sub-Saharan Africa. Burundi has also been plagued with low domestic savings and low private sector investment, also reflected in the indicators.

Table 1: Economic Trends, 2000-05

	1999-2000	2001-03	2004	2005
Population (million)	6.7	7.1	7.3	7.5
Population growth (percent)	1.9	1.9	1.9	1.9
GDP (US\$, billion)	0.8	0.6	0.7	0.8
GNI per capita (Atlas method, US\$)	115	93	90	100
Real GDP growth (percent)	-0.9	1.8	4.8	0.9
Real GNI per capita growth (percent)	-0.6	-1.4	0.2	-2.6
Inflation (CPI, average, percent)	13.8	6.2	8.0	13.4
Real Effective Exchange Rate (percent change)	4.1	-13.0	-2.8	9.2
Terms of Trade (percent change)	-10.8	-6.6	28.1	11.0
Gross investment (percent of GDP)	6.2	7.2	13.3	10.8
Gross private investment (percent of GDP)	1.1	1.8	3.0	4.2
Gross national savings (percent of GDP)	-1.8	1.9	5.2	0.3
Fiscal balance (primary balance, percent of GDP)	0.7	0.2	-3.5	-1.7
Current account balance (percent of GDP)	-8.0	-5.3	-8.1	-10.5
Overall balance of payments (percent of GDP)	-3.8	-3.9	1.7	2.8
Gross international reserves (months of imports)	4.7	3.9	2.2	2.9
Export growth (volume, percent)	-5.2	5.6	-10.9	-1.6
Share of coffee in exports (percent of exports)	72.8	55.4	61.4	70.8
Debt service to export ratio (percent)	84.4	106.7	109.2	47.1

Source: Burundi authorities and IMF estimates.

24. **Monetary policy has focused on the liberalization of the exchange system:** The Central Bank (*Banque de la République du Burundi*, BRB) has made good progress in strengthening its monetary policy capacity and in liberalizing the foreign exchange regime. Most restrictions on exchange rate holdings and transactions were eliminated and exchange rate bureaus were licensed. Following the unification of the foreign exchange market in July 2000, the BRB has continued to liberalize the exchange regime and progress has been achieved in reducing money growth and inflation, which, although have increased in 2005, are expected to be sustained at a reasonable level in the following years. In April 2005, liquidity auctions were introduced and the Central Bank's specific credit ceiling system was abolished. Regular sales of foreign exchange on the auction market have contributed in reducing the parallel market premium. The differential between the official and parallel market exchange rates had narrowed to around 3 percent in March 2005.

25. **The external current account deficit increased with the gradual surge of imports and reached 10.5 percent of GDP in 2005.** Since 2003, exports have gradually increased after the deterioration experienced in the early 2000s. Meanwhile, imports rose rapidly and significantly increased in 2005 compared to 2004, owing to the reconstruction effort and to humanitarian assistance. Consequently, current account deficit increased from about 5 percent of GDP in 2003 to 10.5 percent of GDP. With the resumption of external financial assistance, the overall balance of payments moved from a deficit of about 4 percent of GDP in 2000 to a small surplus of 2.8 percent in 2005.

26. **The present value of external debt-to-exports ratio (after full use of traditional debt relief mechanisms) far exceeded the HIPC threshold for debt relief.** During 2003 and 2004 the authorities made substantial efforts in repaying external arrears and in servicing external debt in full. By the end of 2004, Burundi reached agreements to cancel or reschedule

all arrears owed to multilateral creditors and obtained debt relief on concessional (Naples) terms in March 2004 from Paris Club creditors. Discussions are ongoing to secure at least comparable treatment from non-Paris Club creditors. Burundi remains current on its nonreschedulable external debt obligations and debt service payments after traditional debt relief remained very high in 2004, equivalent to 60 percent of exports of goods and services. The HIPC decision point was reached by Burundi in August 2005 upon World Bank and IMF Board approval thus paving the way for immediate access to interim debt relief of about US\$ 30 to 40 million per year. The African Development Bank approved Burundi's request for HIPC relief in November 2005.

27. **The Government maintained a prudent fiscal policy since 2000.** Fiscal revenues, excluding grants, remained at above 20 percent of GDP, thanks to a marked improvement in tax administration. However, the primary fiscal balance deteriorated as a result of: (i) increased outlays to secure the peace process and current social expenditure; (ii) higher domestic counterpart outlays for project spending; and (iii) repayment of guaranteed coffee sector credit losses, and domestic and external arrears. With the increase in government expenditure, the primary fiscal balance moved from a small surplus in 2000 to a deficit of 1.7 percent of GDP in 2005.

C. LONG-TERM MACROECONOMIC CHALLENGES

28. 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 challenges would require major structural reforms.

29. The long-run scenario underlying the Debt Sustainability Analysis conducted in the context of the HIPC decision point (mid-2005) is based on an average annual growth rate of five percent of GDP over the next twenty years (2003-24). Over the whole period, net exports would show a deficit gradually lowering to about 11 percent of GDP and the current account deficit would also progressively decrease to 4.4 percent of GDP after 2015. Gross domestic investment would rise to about 13 percent with the public investment increasing to about 4 percent of GDP and private investment rising to 9 percent. Annual per capita income would rise from US\$ 87 in 2003 to US\$ 270 in 2024 or 62 cents per day which is less than 45 cents per day in 2003 dollars assuming an average inflation of 2.5 percent per year. In short, over the next twenty years, Burundi would remain aid dependent on account of its external current deficit and still be extremely poor at the end of the period with an average per capita GDP of less than 50 cents per day in 2024. It would seem clear that poverty reduction requires sustained higher growth rates, which in turn require higher rate of both public and private investment. To make this happen, and in addition to maintaining a sustainable macroeconomic environment conducive to economic growth, major structural reforms are likely to be needed as regards both the public sector per se, the environment for private sector investment, and the development of exports.

- Increase public investment. In order to increase public investment, it will be necessary either to increase the level of fiscal revenues (which are already a respectable 18-20 percent of GDP) or foreign financing or, ceteris paribus, to constrain domestically financed recurrent expenditures. In that connection, the

government wage bill (civilian and military) which has risen to about 9 percent of GDP in 2006 budget is on the high side compared to other African countries, with services and transfers/subsidies representing another 10 percent or so. Since increasing the tax ratio above its existing level is likely to be neither easy nor perhaps even desirable on economic grounds, increasing public investment will continue to be constrained by the availability of foreign savings unless current expenditures are constrained and their efficiency increased. Thus, public sector structural reform appears likely to be a subject of considerable importance in Burundi for the foreseeable future.

- Increase private investment. Similarly increasing private investment will be constrained by the level of private national savings, which has been very low and sometimes even negative over the last few years, and foreign savings. Under these conditions, it will be of vital importance to improve the climate for private investment in general and foreign investment in particular. This will require attention not only to: (i) the traditional questions of the reform and modernization of the legal and regulatory framework for private sector, and access to finance; (ii) the disengagement of State from productive activities and the liberalization of critical sectors such as coffee; but also, just as important; (iii) an improvement in the overall security situation, broadly defined.
- Develop exports. With respect to export development, the primary areas of concern will be: (i) an appropriate macroeconomic policy and exchange rate stance; (ii) particular attention to the development of exports to regional markets; and (iii) lower transport and logistics costs through trade facilitation (see Burundi Diagnostic Trade Integration Study, September 2004).

D. MEDIUM-TERM MACROECONOMIC FRAMEWORK AND FINANCING REQUIREMENTS, 2006-2008

30. **The Macroeconomic Framework for 2006-08.** The Government's macroeconomic framework and the structural reform agenda are consistent with the objectives of accelerating growth and reducing poverty. Growth is expected to improve from 2.5 percent on average over 2001-04 to 6.6 percent on average in 2006-08 (see Table 2). Growth in the primary sector is expected to recover during 2006-08 after the drop in both food and coffee production in 2005. Secondary sector's growth would be strong over 2006-08 after a slight decline in 2005 as a result of a drop in manufacturing production with respect to the coffee processed. GDP growth would be driven by the tertiary sector (above 6 percent in 2006-08). A 7-8 percent pick-up in services, in particular in commerce and transportation, is expected to underpin growth in the tertiary sector.

31. To sustain the overall GDP growth rate, the investment-to-GDP ratio is expected to rise from 5.5 percent in 2001-02 to 18.3 percent in 2006-08, as Government's finances are strengthened and domestic investment opportunities improve. Public investment in infrastructure and social sectors would increase in line with the GDP. Private investment would increase slightly from 2 percent of GDP during the period 2001-03 to 8 percent in 2006-08. However, higher investment would depend also on the implementation of policies

leading to higher domestic savings. Increases in investment will result in a higher level of imports and an increase in the external deficit including grants.

Table 2: Medium-Term Macro-Economic Framework, 2006-08

	2002	2003	2004	2005	2006-08 <i>Projections</i>
<u>Growth, Investment, and Savings</u>					
Real GDP growth (<i>percent</i>)	4.4	-1.2	4.8	0.9	6.6
Real GDP per capita growth (<i>percent</i>)	2.5	-3.1	2.9	-1.0	4.7
GNI per capita (<i>Atlas method, US\$</i>)	90	90	90	100	
Gross investment (<i>percent of GDP</i>)	5.2	10.4	13.3	10.8	18.3
Government investment (<i>percent of GDP</i>)	3.6	8.3	10.3	6.5	10.3
National savings (<i>percent of GDP</i>)	0.0	5.5	5.2	0.3	2.9
<u>Public Finance</u>					
Government revenue (<i>percent of GDP</i>)	20.3	21.1	20.1	20.0	19.7
Government expenditure (<i>percent of GDP</i>)	25.9	34.9	39.8	36.8	41.6
Primary balance (<i>percent of GDP</i>)	2.2	-0.8	-3.5	-1.7	-7.1
Overall balance including grants (<i>percent of GDP</i>)	-1.4	-6.2	-4.9	-5.1	-0.5
<u>Balance of Payments</u>					
Terms of trade (<i>percent</i>)	0.9	0.4	28.1	11.0	-2.0
Exports (<i>GNFS; percent of GDP</i>)	6.2	9.3	9.6	-33.9	-36.7
Current account balance (<i>percent of GDP</i>)	-3.5	-4.6	-8.1	11.4	12.8
Current account balance excluding official transfers (<i>percent of GDP</i>)	-19.1	-21.3	-25.5	-10.5	-15.4
Gross International reserves (<i>months of following year's imports</i>)	5.8	3.6	2.2	-34.3	-37.3
<u>External debt</u>					
Debt service to GDP ratio (<i>percent</i>)	11.7	8.6	10.5	5.4	5.0
Debt service to export ratio (<i>after debt relief, percent</i>)	134.1	101.8	109.2	30.5	14.7

Source: Burundi authorities and IMF estimates and projections

32. The fiscal framework for 2006-08 targets a primary deficit (excluding grants) of 7.1 percent of GDP since government revenue as a share of GDP is expected to decrease by nearly 1 percentage point from 20.4 percent of GDP in 2005 to 19.7 percent in 2006-2008, while government spending as a share of GDP is projected to rise by 5 percentage points from 37 percent of GDP in 2005 to 42 percent in 2006-08. This increase in government expenditures reflects mainly an expected rise in HIPC-financed expenditures. Recurrent expenditure as a share of GDP is expected to increase from 23 percent of GDP in 2005 to 25 percent by 2008. Meanwhile, capital expenditure estimated at 9.6 percent of GDP in 2005 is expected to increase significantly to 15.1 percent by 2008 (see Annex 2).

33. **External Financing Requirements.** The external financing needs estimated at US\$ 307 million in 2006, would be entirely covered by project disbursements (US\$ 136 million), HIPC relief (US\$ 36 million), IMF disbursement (US\$ 32 million under the PRGF) and program financing (US\$ 103) (see Table 3). Projected program financing of main donors include IDA (US\$ 60 million of the proposed grant), AfDB (US\$ 16 million), EU (US\$ 17

million of FED program) and bilaterals (US\$ 15 million of which Belgium (US\$ 2 million), France (US\$ 3 million), and Netherlands (US\$ 10 million).

Table 3: External Financing Requirements and Sources, 2002-08
(In millions of U.S. dollars)

	2002	2003	2004	2005	2006	2007	2008
I. Current account (excl. program grants)	-44.7	-42.8	-109.2	-122.0	-264.7	-246.2	-279.4
Exports, fob	31.0	37.5	47.9	57.2	70.0	83.9	94.4
Imports, fob	-107.2	-125.9	-148.9	-239.0	-309.8	-364.9	-390.3
Net services and incomes	-49.3	-45.6	-78.8	-109.9	-135.4	-137.3	-146.2
Private transfers	5.5	7.0	10.5	17.3	19.2	21.2	23.7
Official transfers (excl. program grants)	75.4	84.2	60.2	152.4	91.4	150.9	138.9
II. Capital account	-15.7	-76.2	-51.7	5.8	-8.5	16.9	8.8
Scheduled amortization	-37.7	-39.9	-31.0	-31.6	-39.9	-38.0	-38.3
IMF repayments	-2.5	0.0	-28.5	0.0	0.0	0.0	0.0
Other capital (net)	24.5	-36.3	7.9	37.4	31.3	54.9	47.2
III. Debt relief obtained 1/	0.0	27.1	80.1	31.1	4.5	0.0	0.0
IV. Change in official reserves (increase -)	-36.3	-8.6	0.1	-45.5	-32.3	-14.0	-15.4
V. Change in arrears (decrease -)	23.4	-1.9	-106.1	-22.2	-5.6	0.0	0.0
VI. External financing requirements	-73.2	-102.3	-186.7	-152.8	-306.6	-243.2	-286.0
VII. Expected disbursements	73.2	102.3	186.7	152.8	306.6	157.4	196.5
a. Project financing (excl. HIPC relief)	28.7	54.0	90.6	61.9	135.8	114.5	125.4
b. Program financing	32.1	34.9	55.2	64.2	103.4	0.0	30.0
Program Grants	12.1	14.0	55.2	37.9	103.4	0.0	30.0
Concessional loans	20.0	20.9	0.0	26.2	0.0	0.0	0.0
of which IDA							
c. HIPC relief	0.0	0.0	0.0	7.4	35.7	32.4	41.1
d. IMF	12.5	13.5	40.9	19.3	31.7	10.6	0.0
VIII. Financing gap (e)	0.0	0.0	0.0	0.0	0.0	85.8	89.5
Total Program financing req. incl. IMF (b+d+e)	44.5	48.4	96.1	83.5	135.0	96.4	119.5

Source: IMF

1/ Before MDRI and Paris Club debt reduction on Cologne terms. Includes the March 2004 Paris Club rescheduling on Naples terms, and assuming rescheduling of current debt service and arrears to non-Paris Club creditors at comparable terms.

III. BURUNDI MEDIUM TERM REFORM PROGRAM 2006-2008

34. The Interim Poverty Reduction Strategy Paper (I-PRSP) was completed in November 2003. The Government's I-PRSP is based on broad consultations except for some provinces where the consultations were limited due to security reasons. The I-PRSP proposes a long-term vision based on six strategic themes for promoting sustainable and equitable economic growth deemed essential for poverty alleviation: (i) peace and democratic governance; (ii) reintegration of conflict victims and disadvantaged groups into the economy; (iii) private sector development; (iv) human capital development; (v) fighting HIV/AIDS; and (vi) advancing the role of women in development.

35. The I-PRSP reflects the Government priority to address the challenges of transition from conflict to peace as stated in the preamble of the Arusha peace agreement: "the reestablishment in Burundi of a legal, institutional and social environment based on good governance, the rule of law and the efficiency of public management, justice for all, the search of social consensus and participation by civil society in the definition and implementation of national policies, constitutes an essential element of the strategy for reconstruction and reconciliation". The Government's priorities in the economic area are rural development, infrastructure, disengaging the state from the production sector, reviving the private sector, and promoting the mining sector.

36. Burundi's I-PRSP was discussed by the Boards of the World Bank and the IMF in January 2004. It is expected that the full PRSP under preparation will elaborate on a number of weaknesses and gaps identified in the I-PRSP: (i) the analytical underpinnings in various areas including growth (in the context of Burundi's specific challenges as a small open land-locked economy vulnerable to fluctuations in international coffee prices, and a post-conflict country); (ii) the development of more detailed sector strategies and programs likely to have a significant impact on poverty; (iii) the prioritization, costing, and financing of policies and strategies; and (iv) more specific targets, indicators and monitoring mechanisms.

37. The formulation of the full PRSP was launched in May 2004 under the leadership of the Head of State. With the support of the Bank and other donors, the full PRSP is expected to be completed in the second half of 2006. Community participatory and inclusive consultations have been completed and provincial reports are available as well as the synthesis of the overall consultations. Sectoral and thematic consultations were completed in November 2005. These consultations focused on: (i) developing sectoral policies and strategies; (ii) identifying priority sectoral activities; (iii) identifying performance indicators as regard to the Millennium Development Goals (MDGs) as they relate to the long term development vision of Burundi; (iv) costing sector activities in line with the medium term expenditure framework and priority pro-poor expenditure programs; and (v) preparing a sustainable macroeconomic framework. In May 2006, a workshop aimed at strengthening the conflict resolution aspect of the PRSP, to which attended the SP/REFES, and other development stakeholders, was organized in Bujumbura. The conclusions/recommendations of the workshop are expected to be included in the final draft of the PRSP. A first PRSP draft which addresses the issues of good governance and security reforms, to be finalized in its full version shortly, will be discussed with all stakeholders at national, provincial and communal levels in order to take into account their comments and recommendations.

IV. THE PROPOSED OPERATION

A. BACKGROUND AND RATIONALE FOR THE GRANT

38. Burundi has been traditionally beset by periods of civil strife and conflict, most recently beginning in 1993. However, peace and security have been gradually restored since the Arusha agreement of August 2000. On the economic front, a solid and ambitious economic program (supported by the Bretton Woods Institutions) has been satisfactorily implemented since the inception of the Transitional Government in November 2001. This has culminated in Burundi gaining access to debt relief under the enhanced HIPC initiative in August 2005.

39. However, on the social front, the crisis remains acute. Social services delivery has been largely weakened and poverty has increased during the conflict. Thus, while the achievements to date, in particular on the political and economic fronts, are important steps forward, they are only the beginning of a long process and need to be consolidated. Long term financial assistance from the international financial community will be essential because domestic revenues and savings are not high enough to finance the recurrent and capital expenditures needed to have a significant impact on growth, poverty reduction, living standards, and making progress towards the MDGs.

40. In this context, IDA's Interim Strategy Note (ISN) for the next two years (FY06/07), approved by Executive Directors in May 2005, is fully aligned with the priorities set forth in the interim PRSP to be mainstreamed in the full PRSP currently under preparation. It aims at consolidating achievements of the past transition period, and at setting the stage for sustainable peace and economic growth. The strategic elements of the ISN are three-fold: (i) promotion of security, social stability, and improved delivery of social services; (ii) debt relief, economic growth and diversification; and (iii) strengthening public sector governance and institutions.

41. The first step has been the granting of access to debt relief under the enhanced HIPC initiative in August 2005, which will reduce debt by over 90 percent in NPV terms, and scheduled debt service by some US\$ 30-40 million per year for the next thirty years.

42. The proposed operation is part of the long term international effort to provide assistance to Burundi and would focus on the key themes of the ISN, namely: (i) consolidating the social and economic gains achieved from implementing the I-PRSP in 2004-05; (ii) improving public expenditure management and increasing the level of pro-poor expenditure and services; and (iii) reviving the private sector including disengagement of the State from productive activities in the agricultural, industrial and financial sectors.

B. LINKS TO AND LESSONS LEARNED FROM PREVIOUS CREDITS

43. The proposed operation follows up and builds upon the Emergency Economic Recovery Credit (EERC) and the Economic Rehabilitation Credit (ERC) approved by the Board in 2000 and 2002 respectively.

44. The objectives of the EERC were: (i) to support the stabilization and recovery of the private sector and (ii) finance public expenditures for rehabilitation in critical sectors (health, education, and infrastructure) and reinsertion of households stricken by the conflict. In parallel with the implementation of the Credit, the Government undertook a Public Expenditure Review in order to identify measures to improve the transparency sought by other donors as a precondition for resuming significant levels of development assistance. The ICR of EERC concluded that the operation attained its objectives and maintained them after the closing date, and rated the operation as satisfactory, a judgment which OED confirmed.

45. The ERC had broader scope. Its objectives were to: (i) improve the legal environment of private sector through revisions and updating of commercial law including the labor code, the insolvency law, and arrangements for the settlement of commercial disputes; (ii) support the implementation of the privatization program; (iii) support ongoing efforts to liberalize prices and marketing arrangements in the agricultural sector, especially as regards coffee, tea, cotton and the distribution of agricultural inputs (fertilizer, seeds, etc); (iv) further improve public expenditure management; and (v) reduce gender disparities by: (a) the adoption of a law allowing women to inherit land and other priorities, (b) the preparation of a gender action plan to eliminate all gender discriminations, and (c) monitoring the implementation of the 30 percent plan that requires that female participation in public offices be at least 30 percent.

46. The operation had three tranches, all of which have been released. The first tranche was released upon effectiveness (October 2002), while the second was released in April 2003 following: (i) the preparation of a strategic privatization program; (ii) the production of a report assessing weaknesses in public financial management and the adoption of an action plan to improve it; (iii) 2003 budget allocations for priority expenditure programs identified in the interim PRSP and the adoption of a system for monitoring the execution of such programs; and (iv) the production of a report on the audit of the Treasury and an action plan to improve its operations. The third tranche was released (January 2005) following: (i) the adoption of a comprehensive strategy to revive the coffee and tea sub-sectors; (ii) the adoption of an action plan for the reform of the public procurement administration; (iii) the submission to the National Assembly of draft legislation for the creation of an Audit Court (*Cour des Comptes*); and (iv) the adoption of a gender action plan.

47. Progress with respect to public finance reform has been the most significant. The Government has steadfastly continued to improve public expenditure management systems and an Audit Court has been created. It has made assiduous efforts to improve the structure of expenditure in favor of pro-poor sectors. Regarding coffee and tea sectors, it took about a year longer than expected for the Government to prepare and adopt the reform strategy (done in late 2004). Recently, the coffee sector reform has begun to be implemented with: (i) the adoption of key liberalization decrees (first half of 2005); (ii) the launching of a first round of privatization of coffee washing stations; (iii) the announcement that key coffee sector institutions will be reformed; and (iv) the setting-up of the national commission in charge of the coffee sector reforms, including various partners of the sector (March 30, 2006). However, the Government remains cautious about the possibly adverse effects of the reforms on producers. The tea reform has yet to begin, but it is expected to start by the end of 2006 and beginning of 2007. Progress with respect to the implementation of the privatization program has been much slower than planned, with essentially no progress.

48. The first post-transition Government remains committed to these reforms, which it sees as essential to furthering its development agenda. The important lessons from these operations are that: (i) in post-conflict countries, the structural reform agenda, the pace of reforms and their sequencing need to take into account specific constraints related to the security, political, and institutional transition that affect the Government leadership and capacity to manage sensitive and complex structural reforms; and (ii) sustainable reforms require support over a protracted period of time for any country but even more in a post-conflict environment. The proposed operation would thus aim at consolidating and deepening those reforms that are geared to address the long-term macroeconomic challenges identified in section II.C and where good progress has been made, particularly in the area of public finance management, while strengthening those where progress has been slower or where they are just getting off the ground (coffee, tea, private sector development), or have yet really to begin (privatization, public sector disengagement).

C. THE PROPOSED REFORM PROGRAM

49. 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 2006 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 EERC and the ERC, 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;
- Reviving agriculture export sectors (coffee, tea and cotton) and ensure better revenue distribution sectors among actors; and
- Reviving the private sector by improving the investment climate, accelerating State divestiture; and settling the government domestic arrears to the private sector.

50. The 2006 program supported by the proposed ERSG was designed following a pragmatic approach, considering efforts already underway and what more needs to be done, looking to both the medium/long-term development challenges and actions that can achieve quick results. One of the objectives is to gradually, as the government institutional capacity improves, move away from ad-hoc short-term actions to a more structured reform agenda. The program is based on a three-fold approach: (i) addressing short-term shortcomings and rehabilitating basic State functions; (ii) furthering reforms undertaken under previous operations; and (iii) conducting analytical work through technical assistance to define and refine reform programs where needed.

51. For each component of the proposed program, this section provides: (i) the background and key issues; (ii) the medium term reform agenda; (iii) progress to date; and (iv) the main actions expected to be taken under 2006 proposed ERSG program. The full program of actions to be supported by the proposed operation is set-out in the Policy Matrix (Annex 3). Moreover, as described in the Policy Matrix, technical assistance and capacity building activities necessary to help the Government in implementing the reform program

supported by the proposed ERSG is being financed under IDA Economic Management Support Project (2003).

1. Improving Public Expenditure Management and their Impact on the Poor

52. The overall goal of this component of the reform program is to: (i) deepen the reform of public finance management, as regards expenditures; and (ii) increase the volume of high quality pro-poor spending. The latter is particularly important following Burundi reaching the decision point under the enhanced HIPC initiative which will provide some US\$ 30-40 million per year in debt relief for the next 30 years. Donors are particularly keen on seeing that these resources are used for the intended purpose of poverty reduction, and that they reach intended beneficiaries, and have the intended impact. Also, these resources should be managed in a way that controls for fiduciary risk. Moreover, it should be possible to track the use of funds using a functional budget classification.

53. With the resumption of financial assistance from donors and the HIPC initiative, Burundi's public expenditure management has been under close scrutiny. Detailed diagnostic work has been conducted by various donors and technical as well as financial assistance have been provided to the Government in this area (see Box 1). Given the dire state of public finance management after a decade of civil war, the priority has been given to restore the fiscal base and rehabilitate budget management by fixing the fundamentals at every step of the budget process. Indeed, as summarized in Annex 4 and described in the section below, since 2004 Country Financial Accountability Assessment (CFAA) and Country Procurement Issue Paper (CPIP), significant progress has been made in improving public financial management and reducing fiduciary risk.

Box 1: Public Finance Management: Diagnostic and Technical Assistance

Public Expenditure Review. Following the suspension of economic embargo in January 1999, the Bank's Interim Strategy (1999-2001) for Burundi was designed as an integrated framework for supporting the re-engagement of donors in Burundi after almost a decade of civil strife. Donors conditioned the resumption of aid on: (i) the achievement of a Peace Accord and (ii) the initiation of a Bank-supervised Public Expenditure Review (PER), with the primary objective of improving budget transparency. The PER was conceived as Technical Assistance and was financed using a PPF advance under the Emergency Economic Recovery Credit (EERC) in 2000. Further work was undertaken in the context of the 2002 Economic Rehabilitation Credit (ERC), of which US\$ 1 million was allocated to the PER Unit within the Ministry of Finance. This unit was charged with carrying out diagnostic work pertaining in particular to: (i) budget preparation; (ii) budget execution; and (iii) the national accounting system. As an outcome of the PER work, a reform strategy was validated during a workshop in August 2003.

HIPC expenditure tracking. In that context, the Government initiated a diagnostic assessment of public finance management issues using the 15 HIPC tracking benchmarks related to budget processes with the view to improve management and increase the poverty reduction impact of resources from the HIPC relief, in preparation for Burundi's qualification for the enhanced HIPC initiative. A report was completed in March 2003 that includes a program to restructure and modernize the management of public finance and civil service (condition for ERC second tranche release).

Country Financial Accountability Assessment. In addition, in 2003/04 the Bank undertook a CFAA, which systematically reviewed public finance management procedures and confirmed the previous diagnosis. The CFAA action plan proposed as an overall objective, to improve public finance management (PFM) by specifically: (i) streamlining and modernizing revenue mobilization internally and at customs; and (ii) providing the government with a framework aimed at strengthening transparency and accountability in budget formulation and execution for poverty reduction.

Country Procurement Issue Paper. Similarly, in 2004, a Country Procurement Issue Paper (CPIP) was prepared together with the authorities.

Technical assistance. IDA provides technical assistance through the Economic Management Support Project (EMSP). Technical assistance missions have also been undertaken in the area of public finance management by DFID, EU, and the IMF (public expenditure management missions and public accounting system).

a. Deepening the Reforms in Public Expenditure Management

54. The objective under the ERSg is to continue efforts to strengthen the programming, management, and control of public expenditure so as to reduce the fiduciary risk and improve efficiency through budget alignment on development and poverty-reducing objectives.

55. The 2006 ERSg program in the area of public expenditure management has three aspects: (i) continue reform efforts which are underway; (ii) address critical weaknesses; and (iii) prepare a medium-term consolidated reform action plan. Over the last five years, a large number of reform action plans have been developed to address shortcomings in various aspects of public expenditure management. However, these action plans are not well coordinated at the level of the Ministry of Finance and their implementation is not systematically monitored except for conditionality measures under donor supported programs. As a result, there is a lack of vision, strategy and of realism regarding institutional capacities. In addition, there has been a proliferation of fragmented short-term actions, the abandon of critical measures (for instance some critical reforms envisaged under 2003 Public Expenditure Review action plan have not been followed-through), and a lack of appropriation by the units in charge; all weaknesses that are not conducive to progress and successful implementation of the reforms. Moreover, this fragmented approach does not take into account the necessary links among reform measures. For instance it will be difficult to significantly improve public procurement without addressing the issue of long payment lags (estimated at 60 days in 2004 CFAA). But at the moment, public procurement reform is managed as a stand-alone reform and payment lag issues are not being addressed.

56. To overcome these weaknesses, the Government will prepare a consolidated medium-term action plan for the public expenditure management reform based on all existing reform plans. This consolidated reform action plan will carefully review sequencing issues and schedule among other things the following reforms: (i) the progressive introduction of a Medium-Term Expenditure Program (MTEF) including basic elements of program budgeting (link budget request to results); (ii) a comprehensive budget including consolidated current and capital expenditure programs; (iii) the simplification of public expenditure procedures and the rationalization of ex ante controls; (iv) the delegation to sectoral ministries of the responsibility to manage expenditure commitments; (v) the strengthening of ex post internal control and audit ; (vi) the transfer of wage bill management from the Ministry of Civil Service to the Ministry of Finance; and (vii) the upgrade of the interim Financial Management Information System (i-FMIS) into a full Integrated Financial Management Information System (IFMIS).

57. A workshop will be organized jointly with active donors in this area, in particular those providing budget support to Burundi, to launch the preparation of the consolidated/integrated reform action plan. It will focus on: (i) stocktaking of existing diagnostic work; (ii) stocktaking of existing fragmented reform action plans; (iii) brainstorming on priorities, sequencing, targets, and outputs; (iv) discussing technical assistance needs in developing the consolidated reform action plan; and (v) launching a joint PEFA review/rating providing both the Government and donors with: (a) a common reference on which to define reform priorities, adjust the sequencing (building blocs) and

base reform targets with a medium-long term perspective; and (b) a common baseline on which to assess future progress.

58. To support this approach, the Ministry of Finance set up a Public Finance Reform Committee under the direction of the Cabinet of the Ministry of Finance at the end of 2005. The Committee is in charge of developing, implementing, and monitoring the consolidated reform action plan. In addition, the Ministry of Finance has set-up a technical reform support team which will be coordinating, managing and monitoring the reforms on a day to day basis. The ongoing IDA-financed EMSP operation provides technical assistance to this team as needed.

59. The section below describes the main issues to be addressed over the medium-term and progress in implementing reform action plans as well as the measures expected to be taken under the ERSF-supported program.

Legal framework

60. **Background and key issues.** According to the CFAA, the legal framework governing public finance management needs to be completely overhauled. Even though the 1964 Law enshrines most commonly accepted principles, there are a number of important exceptions. In particular: (i) not all receipts have to be deposited in the Treasury's consolidated account; (ii) there are extra-budgetary accounts which are not included in the Finance Law; (iii) the budget is not unified; and (iv) there is no obligation to produce end of year government accounts. In addition, the *Ordonnateur Trésorier du Burundi*, OTB, is also the principal accountant, which contradicts a basic principle of the separation of the two roles: that of government accountant and of issuing payment orders. This is an example of the inconsistencies and/or contradictions in the current legal framework that have led to a lack of clarity of roles and responsibilities, resulting in undesirable management practices. The control function of the Audit Court could also be weakened since there is no legal obligation on the Government to produce end-of-year financial statements (*loi de règlement*). This deprives the Parliament of information that would be vital for them in fulfilling their mandate to control public expenditure management, and in particular, to verify whether the budget in any year is executed in line with Parliamentary authorizations.

61. **Reform agenda.** The Government intends to revamp and update its legal and regulatory framework for financial management. A draft budget framework law (*Loi Organique des Finances*) whose preparation has been launched will address the existing weaknesses and strengthen the management of public financing by clearly defining the principles for the management of public resources in Burundi. It will also provide for budget management procedures that are streamlined and effective. It will provide for the government obligation to produce government accounts in a timely manner, to submit them for audit to the National Audit Court (*Cour des Comptes*), and to report to the Parliament on budget law execution (budget reporting law). In addition, the draft budget framework law will provide for further integration of investment and recurrent budgets, the adoption of budgets that respect MTEF ceilings, and sector allocations in line with the priorities of the PRSP (see below budget formulation weaknesses).

62. **Progress to date.** The Government has undertaken a revision and update of the legal and regulatory framework of the budget process.

63. **2006 ERSG program.** The Government expects to finalize the revision and updating of the Budget Framework Law, adopt it and submit it to Parliament before the end of 2006.

Budget formulation and presentation

64. **Background and key issues.** A program budgeting approach was initiated in the early 1990s but abandoned following the outbreak of hostilities in 1993/94. The main weaknesses include: (i) weak administrative arrangements for budget preparation both at the Ministry of Finance and sector ministries; (ii) the budget preparation process is fragmented and disconnected from macroeconomic forecasts and budget constraints; (iii) the budget is not comprehensive, in particular it does not always include current expenditure related to capital expenditure and, investment projects are presented separately; and (iv) the budget law does not read easily. It is mostly a list of budget lines that does not show clearly Government priorities. More importantly, it does not allow for input from sectoral ministries and the debate on competing demands from these ministries.

65. **Reform agenda.** To improve both budget preparation and presentation, the Government plans, over the medium-term, to: (i) restructure the Ministry of Finance, in particular, reinforce the administrative arrangements for coordinating the preparation of the budget at the Ministry of Finance and in sector Ministries; (ii) initiate the preparation of the budget earlier in the year and link it with the country macroeconomic framework; (iii) ensure that the budget provides a comprehensive picture of central government revenue, expenditure, and the deficit; (iv) resume the preparation of program budgets starting with selected ministries (see section b. below for expected measures in 2006); and (v) improve the presentation of the budget law including adding summary documents and explanations.

66. **Progress to date.** The budget preparation process now involves greater upstream involvement by line ministries and, sector strategies have been developed for a number of ministries to support budget preparation and align the budget to the Government's strategic priorities. The 2006 budget is specifically linked to the priorities identified in the context of the PRSP under preparation and recent progress in developing sector development policies, particularly in health, education, agriculture, and justice. Moreover, pro-poor expenditures including those financed under HIPC resources have been identified and are integral part of the budget law (prior action - see more details in section b).

Budget execution

67. **Background and key issues.** Centralization and complexity characterize budget implementation procedures in Burundi, yet without adequate controls pertaining to the mitigation of fiduciary risks. Authority to spend has been concentrated exclusively in the Ministry of Finance. Representatives from the Ministry of Finance (financial controllers) perform ex-ante controls in almost every phase of the procedure (commitments, verification of service rendered). The multiplicity of the stages at which ex-ante verification is carried out renders the process cumbersome and conducive to delays (the payment lags, defined as the average time between the payment request by the beneficiary and the actual transfer of funds was estimated at 60 days in 2004 CFAA), inefficiencies and mistakes; in addition, it dilutes responsibility and accountability. Moreover, it encourages the recourse to irregular practices in order to facilitate/accelerate the processing of bills. The issuance of payment orders is

centralized in the Ministry of Finance, while payments are the exclusive responsibility of the Central Bank (*Banque de la République du Burundi*, BRB).

68. The management of the payroll³ by the Ministry of Civil Service is not satisfactory: (i) computerization is limited and thus payroll processing involves a number of manual interventions that may be the source of errors or gaps in controls; (ii) the Ministry of Finance, which is in charge of issuing payment orders related to the payroll, is not satisfactorily equipped to execute the required controls; and (iii) the civil service roster is not regularly updated. A civil service census conducted in 2004 identified 4,000 “ghosts” on a total of 43,500 representing about FBu 2.4 billion in wages. Externally financed projects⁴ are executed from special accounts opened either at the Central Bank or in commercial banks. The Ministry of Finance has limited information on these expenditures.

69. **Reform agenda.** The Government has initiated some actions pertaining to the in-depth public finance reform envisaged following 2003 Public Expenditure Review and supported by the IDA-financed EMSP. This reform agenda is aimed at facilitating, securing, and accelerating budget execution transactions in a transparent and comprehensive manner. Ultimately, all public expenditures would be executed through an integrated computerized expenditure management system (Integrated Financial Management Information System, IFMIS) that covers all expenditures including civil service payroll and externally financed project expenditure from commitment to payment and support government accounting. This reform entails: (i) revising and simplifying, procedures and streamlining ex-ante controls; (ii) restructuring the financial administration including the Ministry of Finance to align it with the new public finance management system and creating Directorates of administration and finance (*Direction Administrative et Financière*, DAF) in sector ministries; (iii) delegating the capacity to issue payment orders from the Ministry of Finance to the DAFs in sector Ministries; (iv) strengthening the role of financial controllers in the sector ministries and, partly, to help build capacity for better internal control in the spending agencies, partly to make controls more efficient and less time consuming; (v) transferring the civil service payroll management from the Ministry of Civil Service to the Ministry of Finance; and (vi) computerizing the new system.

70. The DAFs to be created in sector ministries would be in charge of: (i) coordinating the preparation of sector budget proposals; (ii) making commitments and issuing payment orders once the service has been provided or the goods delivered; (iii) providing adequate information to update civil service records at the Ministry of Civil Service and the payroll database at the Ministry of Finance as well as perform sector related administrative staff management tasks.

71. Ultimately, the new system would coincide with the adoption of an IFMIS which would strengthen expenditure controls and make timely monitoring and reporting possible. The integrated computerized public finance system would link all agents who intervene in public finance management at the Ministry of Finance, the DAFs, and the BRB. It would enable the automatic generation of budget execution reports, Treasury balances and Government accounts (*Compte Administratif* and *Compte de Gestion*). It would also provide

³ Payroll expenses constitute 40 percent of total current expenditure.

⁴ 30 percent of total public expenditure in 2005, a proportion that is expected to increase over the coming years.

data to regularly produce the Government Financial Operations Table, which is the basis on which development partners monitor the execution of the Government financial program.

72. **Progress to date.** An interim Financial Management Information System (i-FMIS) covering public expenditure at every step of the budget execution (budget allocations, commitments, liquidations, payments orders, payments) was introduced in early 2006, which has dramatically improved the tracking of public resources through the budget execution chain and transparency of budget execution. Moreover, the launching of the preparation of procedures manuals for budget execution has been initiated.

73. **2006 ERSG program.** The implementation of the IFMIS is a medium/long-term endeavor supported by the IDA-financed EMSP. In the meantime, the Government is putting in place an interim financial management information system (i-FMIS) covering all the administrative and accounting steps of budget execution, including its extension to wage management and a computerized link with the Central Bank (prior action). The interim system which is based on the new budget classification can generate standard budget execution reports and reports on poverty-reducing expenditure and/or HIPC expenditure execution. It will also be necessary to produce a budget execution manual to support the operationalization of i-FMIS. The manual is expected to be completed and formally issued in the form of an appropriate legal instrument in 2006. Also, ERSG supports the production on a quarterly basis of central government financial operations tables as well as quarterly budget execution reports based on i-FMIS statements. To strengthen the management of the civil service, the ERSG also proposes the following measures: (i) establishment of a central file and a single identification number for all sectors (education, civil service, army, police); (ii) physical census; and (iii) attribution of a personalized identification card.

Procurement

74. **Background and Key Issues.** The procurement reform is on the Government's agenda since March 2001 when the Government organized the first workshop on this theme. In June 2003, the Government established a steering committee including representatives from the public and private sectors and the civil society. The steering committee was aimed at carrying out an assessment of the national procurement system in order to propose a procurement reform action plan. In 2004 the Bank conducted a Country Procurement Issue Paper (CPIP) issued, in June of the same year. The Government and Bank assessments concluded that Burundi procurement system shows a significant number of deficiencies: (i) the legal and institutional framework is outdated; (ii) the environment is not conducive to effective procurement as it is plagued by political interference; and (iii) there is a lack of accountability, as well as non-compliance with the existing procedures, either because the rules and regulations are not widely known and/or due to the absence of the capacity to handle procurement in an efficient manner.

75. In June 2005, the steering committee reviewed and updated the Government action plan and merged it with the CPIP action plan. The integrated Procurement Reform Action Plan (PRAP) is built on five components namely: (i) the revision of the institutional and legal framework with a view to separating the execution function from the regulatory function; (ii) the modernization of procurement procedures; (iii) the strengthening of procurement capacity; (iv) the setting up of an independent ex-post control system; and (v) the enforcement of adequate measures against corruption.

76. **Reform agenda.** The PRAP as adopted by the Government (Council of Ministers) is reflected in the ERSG policy matrix. For the implementation of the PRAP, it is expected that the Government will do the following:

- ***Improving the Legal and Institutional Framework:*** Establish a modern legal procurement framework acceptable by international standards. To this end, the Government will submit a draft revised procurement Code by July 30, 2006 to the National Assembly for adoption. As recommended in the reform action plan adopted by the Government, the new law will: (i) create a policy and oversight entity independent of execution; (ii) set up functional and competent procurement units in Ministries and public enterprises.
- ***Modernizing Procurement Procedures:*** Develop tools such as guidelines, manuals, standard bidding documents, model of contracts, and data bases for technical specifications to be operational in 2007.
- ***Strengthening Procurement Capacity:*** Develop and implement a capacity building strategy. To that end, the Government will prepare, in 2006, a capacity assessment and develop an action plan to strengthen capacity in public procurement.

77. In addition to the above measures, the Government has defined an emergency action plan including a set of measures to be implemented within six months aimed at reinforcing the competitiveness and the transparency of the procurement process. Under the emergency action plan, all the procuring entities will sign a transparency pact committing themselves to: (i) make publicly available their annual procurement plans; (ii) post on the procurement website to be created the bidding documents and all the information the bidders are entitled to know ; (iii) disclose all information on award of contract; and (iv) make publicly available the amount, the name of the parties to the contract, the scope of the contract for all contracts awarded through direct contracting and the reason of the direct contracting. The adoption of this emergency plan is a prior action.

78. **Progress to date.** An emergency Procurement Reform Action Plan designed to improve competitiveness and transparency in the bidding process has now been adopted by the Government.

Financial Management and Reporting

79. **Background and key issues.** The lack of harmonization between the nomenclature of public accounting system and the Budget constitutes a major weakness in Burundi's expenditure management system, and so does the absence of a computerized link between the accounting departments in the Ministry of Finance and the Central Bank. Movements on Government accounts are registered manually although some specific accounts are computerized (customs and debt). All manual accounts records are centralized and computerized by the accounting service to produce a monthly report. There are inadequate records maintained relating to the administrative phase of budget execution, and the Ministry of Finance relies on BRB for information on effective payments to update its own records. However, even this interchange of information is weakened by the absence of the computerized link, and this is one of the factors that impede the preparation of Government accounts. Furthermore, weakened treasury controls have led to the proliferation of

Government accounts, particularly those opened for extra-budgetary expenditures, projects, or autonomous administrations. This situation prevents the Government to properly manage its treasury resources.

80. **Reform agenda.** Starting with the 2006 budget, it is expected that (i) the management system of Treasury accounts will be computerized with the aim of producing accurate balances for these accounts; (ii) a consolidated administrative Government account (*Compte Administratif*); and (iii) a consolidated public accounts balance (*Compte de Gestion*) will be produced regularly and in a timely manner. In addition, special public accounts will be integrated into the Government accounting system. The Ministry of Finance will develop a cash management plan aligned with budget execution. This cash management plan will be computerized under the full IFMIS. Annual audit of Government accounts by the Audit Court will be made available to the public.

81. **Progress to date.** A unified functional and economic classification of public expenditure and a double-entry accounting system were adopted in 2004 and are implemented with the 2005 budget. Based on the new functional classification of public expenditure, an identification system has been put in place to track pro-poor spending and HIPC expenditures. The Government has now submitted the 2005 budget execution report to the Audit Court for audit. Also, the Government has taken steps to tighten the rules for the opening and maintenance of bank accounts, in addition to the closure of most Treasury accounts that are redundant.

82. **2006 ERSG program.** Given that the Grant is under the responsibility of the Minister of Finance who signed the financial agreement although ERSG supports a multisectoral program, the Minister of Finance will report to IDA based on PRSP Secretariat (SP/REFES) assessments/reports of the entire program supported by the Grant. More specifically, the Minister of Finance will submit to IDA on a quarterly basis, and no later than one month after the end of the quarter, a report of activities describing/including: (i) the progress report of the implementation of the reform program as described in the Matrix of Policies; (ii) the implementation of the macroeconomic policy; (iii) the quarterly Government's Financial Operations Table (TOFE); (iv) a report of quarterly budget execution based on i-FMIS statements indicating pro-poor and HIPC expenditures; and (v) any information on recent developments which could have an impact on the objectives of the reform program supported by the Grant.

Internal control and audit

83. **Background and key issues.** Government arrangements for internal oversight and control were reviewed during the 2004 CFAA. At the moment, the General Inspectorate of Finance (*Inspection Générale des Finances, IGF*) has a government-wide mandate to perform inspection functions in Government entities. It operates under the authority of the Ministry of Good Governance where it was transferred from the Ministry of Finance. The IGF capacity is weak for several reasons: (i) it does not control its auditing program; (ii) its autonomy is also limited by a lack of budgetary resources; (iii) its reports are not public and there is no follow-up on their recommendations; and (iv) its expertise in auditing techniques is in need of strengthening. The recent relocation of IGF services appears to have created a gap by depriving the Ministry of Finance of a service to perform government internal audit functions. The Government has announced its intention to reorganize the Ministry of Finance

and create a department of internal audit. This, and the envisaged creation of a General State Inspectorate (*Inspection Générale de l'Etat, IGE*) under the Ministry of Good Governance exacerbates existing weaknesses in particular, the lack of competent human resources and the lack of clarity of roles and responsibilities. In the medium term, with the strengthening of public finance management, the need for ex-ante control should decrease while efficient ex-post financial control and audit functions should be developed.

84. **Reform agenda.** In the short run, the Government will commission a study to design a strategy for government-wide internal audit and control. The strategy is expected to lead to the clarification of the roles and responsibilities of the various institutions, and provide for the operational independence and the strengthening of the capacities of these institutions. The strategy will consider the Government's options in: (i) retransferring the IGF under the Ministry of Finance, and (ii) creating Directorates of Internal Verification and Inspection in key ministries. The Government will also: (i) prepare a comprehensive program of institution and capacity building designed to overhaul its internal control and auditing system to be supported by IDA EMSP; and (ii) ensure the broad diffusion of IGF reports and implement and monitor audit report recommendations.

External oversight

85. **Background and key issues.** The creation of a National Audit Court (*Cour des Comptes*) in 2004 was an important step towards the strengthening of jurisdictional control over public finance management. In order to ensure an efficient control, it will be critical to ensure the continued independence of this institution and its judges through transparency and professionalism in recruitment policy and through membership of international organizations. Other Government Public Finance Management (PFM) reforms will enable the availability of information necessary for the Audit Court to fulfill its mandate.

86. **Reform agenda.** It is expected that the Ministry of Finance will produce and submit financial statements for audit to the Audit Court for the year ending 31 December 2005. The Audit Court will then produce its audit report in 2006. The Government intends to develop a strategy to assist in the continued strengthening of the Audit Court to enable it to fulfill its mandate. The strategy will seek to develop a concrete program of training for magistrates and staff. The Government will also take measures to facilitate the membership of the Audit Court in the International Organization of Supreme Audit Institutions (INTOSAI) as a mean of enabling it to benefit from interaction and knowledge sharing with other similar institutions of Government external audit. To reinforce the country's capacity for monitoring and auditing, the Government will seek support from reputable international audit organizations to assist the Audit Court in the auditing of the national budget beginning with the budget ending on December 31, 2006.

87. Progress in this area will be an important consideration in subsequent Bank assistance. The computerization of the Audit Court is also supported under the ERSF.

88. **Progress to date.** The Audit Court officially received the 2004 Government budget execution report in April 2005, and has initiated its audit resulting in the publication of its first budget execution audit (for 2004 budget). The launch of the recruitment of 17 magistrates has been initiated. Also, a law providing for a renewable six-year tenure for magistrates has now been enacted. Under the framework of providing professional training

for judges, the IDA-financed EMSP recently funded the visit of Audit Court judges to countries such as France and Senegal, to familiarize themselves with operational procedures of the audit courts of those countries.

b. Increasing the Level and Impact of Public Spending on the Poor in Priority Areas

89. **Background and key issues.** Over the recent years, given the budget and capacity constraints, the Government and donors have put emphasis on controlling the Government deficit and re-establishing basic rules and procedures of public finance management. With the full PRSP under preparation, progress made in macroeconomic stabilization and strengthening public finance management, the resumption of external aid, and the provision of interim HIPC assistance, it is critical to strengthen the Government capacity to implement and monitor a shift in the composition of expenditure toward poverty-reducing objectives and to improve service delivery in key sectors. As described above, the budget preparation process remains an extremely formal exercise with little integration with the macroeconomic framework and sector development strategies, while it is expected that the full PRSP to be completed in the second half of 2006, will present a set of prioritized, sequenced, and well costed poverty reducing programs. Moreover, the country's budgetary situation leaves little room for increasing pro-poor spending in the short-run without proceeding with trade-offs over time.

90. **Reform agenda.** It is proposed to introduce gradually, but as soon as 2006, basic program budgeting in the context of a Medium-Term Expenditure Framework, starting with: (i) medium-term fiscal forecasts consistent with macroeconomic projections; (ii) medium-term sector indicative envelopes reflecting the Government sector priorities as defined in the PRSP; and (iii) basic budget programs in key ministries where sector development strategies are available (education, health, water and sanitation, agriculture and possibly justice). Pilot ministries should aim at developing sector strategies that can be translated into a logical framework, linking requested inputs to activities, outputs, and specific and sector objectives. Program budgets should cover both capital and recurrent expenditures whether they are financed domestically or externally. In the context of the preparation of the full PRSP, a medium-term macro-budget framework is being developed as well as sector strategies that will be translated into costed priority sector programs. The Government shall submit a draft 2007 budget law to the Parliament reflecting an increase of the share of pro-poor expenditure in total expenditure compared to 2006 budget.

91. **Progress to date.** Pro-poor expenditure programs including HIPC expenditure to be reflected in 2006 Budget law have been identified and tracked under the Government budget and accounts classification system. Also, the Government submitted a draft revised budget law for 2006 to the Parliament reflecting an increase in the share of pro-poor expenditure in total expenditure compared to the 2005 budget.

92. **2006 ERSG Program.** The Government has informed IDA staff that the proceeds of the grant will be used for poverty reduction priorities as defined in the I-PRSP and the PRSP, and monitored by a special committee. It was agreed that in anticipation of the consolidated reform action plan expected to be prepared in 2006 and which will provide for the institutionalization of a medium-term expenditure framework and basic program budgeting in

priority sectors, measures would be taken in 2006 to improve the preparation of 2007 budget. In particular, the Ministry of Finance will:

- Advance the launching of budget preparation to June;
- Base budget forecasts on a medium-term macroeconomic framework and clear sector objectives and result indicators where sector development strategies are available;
- Provide sector ministries with indicative sector envelopes including current and capital expenditures consistent with macro-budget constraints as identified in the macroeconomic framework;
- Strengthen with the support of the EMSP, the capacity of the Budget Directorate and sector ministries to prepare the budget;
- Set up a budget preparation committee in sector ministries (given that the setting-up of Financial Administration Directorates (DAFs) in sector ministries will take time);
- Request from sector ministries to prepare sector expenditure programs consistent with the PRSP priorities and the indicative sector envelopes.

c. Improving Monitoring and Evaluation

93. **Background and key issues.** The I-PRSP proposes an ambitious and comprehensive system to monitor the poverty reduction strategy, based on three components: (i) poverty monitoring per se; (ii) monitoring of the implementation of poverty reduction policies/programs; and (iii) the PRS and policy impact evaluation; and monitoring PRSP overall objectives. Although studies and surveys have been conducted recently with the support of donors including the Bank, to date, given severe capacity constraints, this system is not operational. It is expected that the full PRSP will propose a comprehensive plan to improve data collection and analysis, and establish a comprehensive and sustainable Poverty Reduction Information System.

94. Improve poverty data. Studies and surveys, as well as other socio-economic research conducted in the past, have provided much useful information on poverty in Burundi, but that information is neither comprehensive nor continuous.

95. Strengthen the monitoring of PRS implementation. The full PRSP is also expected to contain a more precise monitoring and evaluation plan, including new periodic surveys.

- Ensure the regular production of key statistics and performance indicators: In the context of the preparation of the PRSP, work is being conducted to identify PRSP monitoring indicators and data sources gaps (surveys and/or administrative data). It is expected that in addition to the list of monitoring indicators and targets, the PRSP will present a plan to fill these gaps. In particular, most ministries have a Directorate of Studies and Planning which includes a division of Statistics. These units need to be strengthened (work program, human resources, equipment, computerization, methodologies and tools) in order to resume regular production of statistics useful for decision making. This is particularly urgent for Education,

Health, Agriculture, and population (at Ministry of Interior). See next section on statistics.

- Tracking poverty-reducing expenditure: Existing expenditure tracking mechanisms are, by the Government's own admission, insufficient to effectively keep track of pro-poor expenditures. With the i-FMIS, operational since the beginning of 2006, it is technically possible to track pro-poor spending and HIPC expenditure that have been identified under the budget classification. Based on the unified budget functional and economic classification of expenditure, pro-poor spending that include HIPC expenditure have been identified both in 2005 budget and in 2006 budget. Identified pro-poor spending have been codified into the budget classification so they can be easily tracked and periodic execution reports will be prepared. The Minister of Finance has recently set up an Independent Oversight Committee to monitor expenditures financed by enhanced HIPC initiative as agreed at the HIPC decision point. This committee will intervene ex-ante and ex-post but will not interfere with normal budget execution procedures. Moreover, the committee can order audits of the dedicated account to make sure that HIPC resources have been used for their intended purposes as specified in the budget law, as well as other types of audits.
- Monitoring progress in delivery of services in key sectors. As a trigger of the HIPC completion point, the Government is committed to complete for education, health, and justice sectors: (i) a public expenditure tracking exercise; (ii) an evaluation by users of the quality of services provided; (iii) an evaluation by providers of constraints to effective delivery of services; and (iv) the preparation of an action plan to address problems identified. A technical team comprising concerned line ministries, the Ministry of Finance and the National Institute of Statistics has been set-up under the leadership of the PRSP Secretariat (SP/REFES) which is also in charge of coordinating the action plan to reach the HIPC completion point. An action plan, budget and timetable have been prepared by the PRSP Secretariat. The work is expected to be completed by September 2006. The Bank is providing technical assistance and financing is expected from a Belgium Trust Fund which is also assisting Burundi in preparing the full PRSP.

96. Evaluating the impact on poverty of PRS policies, reforms, and programs. With the adoption of the coffee sector reform strategy in 2004, Burundi has engaged in a long and risky process. As developed below, Burundi is liberalizing its coffee sector by restructuring and privatizing all enterprises intervening in the sector including the coffee parastatal, OCIBU, and by promoting strong producer organizations. A key objective of the reforms is to improve farmers' income. Such a reform is raising a lot of concerns from various stakeholders that can impede the pace of implementation and undermine its effectiveness. To address these concerns and fine tune the reform program, and following preliminary work completed for the Burundi poverty report and presented in March 2005 in the country (see Annex 5), the Government will initiate a poverty and social impact analysis to examine the likely impact of the reforms on different groups and to get a sense of the welfare impact on farmers. Moreover, the study will propose permanent monitoring and evaluation mechanisms. Technical assistance financed under the EMSP and a Belgium Trust Fund will be made available.

97. Developing statistics and strengthening monitoring institutions. The weaknesses of Burundi's statistical apparatus have been well identified and there is a consensus among donors on the priorities (AFRISTAT, 2001⁵; UNDP⁶, 2004; IMF Data Dissemination Standards GDDS; 2004). Main weaknesses concern the legal framework, the institutional capacity and statistic production of the National Institute of Statistics (ISTEEBU) and sectoral statistics as monitored under the IMF GDDS initiative which are the core sectors to monitor IMF programs. While it is critical to restore the National Institute of Statistics capacity to produce key statistics, conduct survey work, and coordinate the overall statistical system, it is necessary to progressively strengthen the rest of the statistical apparatus.

- ***Incomplete and outdated statistical legal framework:*** The development of statistics is hampered by: (i) the lack of a modern statistical law; and (ii) the lack of an effective coordination framework for statistical programs (38 services under 12 ministries). A draft statistical law and related implementation decrees⁷ were transmitted to the Council of Ministers for approval. The Government will shortly discuss these draft documents with the view to get the law and the Statute for the staff of ISTEEBU submitted to the Parliament in early 2006.
- ***Critical gaps in statistical production:*** There are a number of fundamental gaps that undermine the Government's ability to design, implement and monitor appropriate policies and programs. These include the General Population Census and an agriculture survey combined with a budget-consumption survey. The General Population Census is due every ten years and the latest was carried out in 1990. Conducting a General Population Census is essential to update the surveys sampling base. An agriculture survey combined with a budget-consumption survey is also indispensable to resume the production of national accounts which were discontinued in 1998. The next general population census is scheduled for 2008. Moreover, the National Institute of statistics institute will update the emergency program proposed by AFRISTAT in 2001. This emergency plan covering 2006-08 will provide for : (i) the resumption of national accounts; (ii) the preparation of agriculture surveys as a basis for producing reliable national accounts; (iii) the conduct of the general population census; and (iv) the preparation of a five-year statistical development plan based on identified priorities of statistics demand, in particular the rehabilitation of basic statistical infrastructure, the monitoring of Government policies and programs, the PRSP indicators, and the MDGs. The five-year statistical development plan will include an institutional development plan and a capacity building program based on the proposed statistical production program. The 2006-08 emergency program is expected to be adopted in July 2006 in order to be reflected in the full PRSP. The adoption of this emergency program is a prerequisite for IDA EMSP to provide assistance to the National Institute of Statistics.

⁵ « Rapport d'évaluation du système statistique du Burundi et proposition d'un mécanisme d'élaboration d'un programme de développement statistique, Martin Balépa ».

⁶ « Mission de consultation pour l'élaboration de la loi statistique et des textes d'application y relatifs dans le cadre du renforcement institutionnel du système statistique au Burundi », report discussed at the National validation workshop on December 3, 2004, Bujumbura.

⁷ One decree regarding the role, composition, and organization of the National Committee for Statistical Information (CNIS), and a decree restructuring the national statistical institute.

- ***ISTEEBU is not able to play its role*** because of weak material and human resources and dependency to donor financing (work program contingent to donor financing). As a result, data collection is characterized by overlapping and gaps, and lack of continuity. This assessment was made in 2001 AFRISTAT report and concrete proposal were made to remedy this situation in the short and longer run. So far, very few actions have been taken. A five-year action plan (2004-08) to strengthen its capacity has been prepared and adopted by the Steering Committee for statistics system enhancement. This action plan is to be financed by donors including the World Bank, UNDP, France, etc. Unfortunately, this action plan focuses on capacity building with little consideration with statistical production. In particular, it does not finance fundamental statistical activities such as national accounts, general population census etc. These issues will be addressed both in the context of the emergency program and the five-year statistical development plan.
- ***Strengthen priority sector statistics:*** Preliminary evaluation of the statistical units in priority ministries (education, health, interior (population, registry), and agriculture) indicates that the availability, quality, and reliability of basic statistics are hampered by: (i) the lack of professionals; (ii) the deficiencies of data collection systems; (iii) the lack of computerization; (iv) the dependency to external technical assistance and financing; and (v) weak methodologies/tools. In line with the approach taken for the National Institute of Statistics, the Government will prepare for each of the priority sectors, an emergency plan for 2006-08 that will provide for: (i) a minimal production program; (ii) immediate capacity building measures to ensure sector statistical units are able to implement the minimal production program; (iii) a plan to prepare a five-year statistical development plan based on effective demand for sector statistics. The EMSP and a Belgium Trust Fund can provide assistance to prepare the emergency plans that will need to be reflected in the full PRSP.

98. **Reform agenda.** To fill the statistical information gap mentioned in paragraph 97, Burundi is introducing a permanent system of poverty information. This system would provide welfare monitoring indicators for the population at large as well as specific welfare indicators of poor households. The interim PRSP contains fairly up-to-date data on prevalence and characteristics of poverty in Burundi. The combination of household survey data and extensive consultations enabled the collection of information on key social indicators and poverty including regional poverty incidence. It is expected that the full PRSP would contain a more detailed analysis of the data and a better assessment of key determinants of poverty.

99. On improving poverty data, the Government will prepare and adopt a comprehensive plan under the full PRSP to improve data collection and analysis, and establish a comprehensive Poverty Reduction Information System. With respect to improving statistics, the Government will (i) submit to the Parliament the draft legal framework for statistical activities; (ii) adopt and start implementing a 2006-08 emergency plan for the National Institute of Statistics to be reflected in the first PRSP; (iii) launch the preparation of a five-year statistical development plan as part of the emergency plan for the National Institute of Statistics; and (iv) prepare and adopt a 2006-08 emergency plan for sector statistics

(education, health, agriculture, and population). On monitoring the impact on poverty of policies and reforms, the Government is expected to establish a monitoring and evaluation system of the social and environmental impact of coffee sector reforms including an ex-ante evaluation of the impact of the reform measures identified in the detailed reform action plan once it has been adopted. On monitoring the implementation of poverty reduction policies and reforms, Government will (i) prepare and adopt an action plan to improve data collection and analysis for monitoring the implementation of the PRSP; (ii) prepare a report on the execution of pro-poor expenditure programs and HIPC expenditure and submit it to the HIPC Expenditure Oversight Committee; and (iii) implement the action plan related for the HIPC completion point trigger related to monitoring progress in delivery of services in education, health and justice sectors.

100. **Progress to date.** The institutional framework for coordination, monitoring and evaluation of the reform program has been established. In fact, the inter-ministerial committee chaired by the Vice-President in charge of social and economic reforms and the PRSP Secretariat (SP-REFES) have been reactivated by the decree of June 6, 2006. Moreover, the first meeting of the committee was organized on May 22, 2006. Relevant Ministers, member of the committee, have been asked by the Vice-President to designate their representatives in the Technical Committee which will serve as counterpart to the PRSP Secretariat. A household survey on poverty perceptions was carried out in 2004 as well as a Core Welfare Indicators Questionnaire (CWIQ) in 2002. The 2005/06 edition of the CWIQ is underway and first results are expected early in the third quarter of 2006. Also, the Multisectoral Indicators Cluster Survey (MICS) is ongoing with detailed results expected in 2006. An action plan to improve data collection and analysis for monitoring the implementation of the PRSP is described in the first PRSP. In April 2006, an FBu 100 million line was included in the revised 2006 Budget as a provision to ensure that ISTEEDU starts producing at least national accounts data while other sources of funding become available. Also, the membership of Burundi to AFRISTAT is underway.

101. **2006 ERSB Program.** In order to ensure that budgetary resources (including the Grant) reach the final beneficiaries, the Government will undertake, with the help of the World Bank, a Public Expenditure Tracking Survey (PETS) for 2006 in the education, health, and justice sectors. This survey could be financed under IDA Economic Management Support Project (EMSP) and through a Belgian Trust Fund. As mentioned in paragraph 95, this is a trigger for the HIPC completion point.

2. Accelerating Growth

a. Reforming the Coffee, Tea, and Cotton sectors

102. **Overall Background.** Agricultural exports (coffee, cotton and tea) will remain the mainstay of the Burundian economy in the near future although there is a considerable potential for growth in other sectors including non-agricultural exports⁸. However, several internal and external factors have hampered their adequate development. Since 1992, the Burundian Government has embarked on structural reforms in the export sector, with a

⁸ The Diagnostic Trade Integration Study conducted in Burundi in 2003 provides a general reform program to harness this potential (see a summary of the DTIS in Annex 8). Also, the Bank will conduct a growth study in agriculture sector in FY07.

particular emphasis on coffee sector which provides 60-80 percent of the country export revenue, contributes to 50 percent of its GDP and supports about 800,000 families (see Annex 5). The political crisis in 1993 and the following economic collapse brought the reform program, in particular the Government disengagement process, to a halt.

103. The first post-transition Government has renewed its commitment to promote agricultural exports as a way to ensure sustainable rural development as well as overall economic growth and poverty reduction. To this end, coffee, tea and cotton sector reforms are at the top of its rural development agenda which aims to increase farmers' revenues through improved sector competitiveness in terms of price and quality. Reform programs include: (i) liberalizing all activities in the sectors including price setting and marketing; (ii) setting-up an adequate legal, regulatory and institutional framework conducive to private investment; (iii) privatizing Government's assets in the coffee, tea and cotton sectors with growers being able to fully participate as shareholders; (iv) providing adequate services (feeder roads, information management systems, extension/research, access to inputs and fertilizers, etc.) to secure increased production levels and improved quality; and (v) providing the needed accompanying measures (social safety nets, setting up of price fluctuation protection and risk management instruments, and capacity strengthening for institutions in the sector).

Coffee sector

104. **Background and key issues.** The coffee sector is in crisis and the principal cash crop for most Burundian farmers is failing to deliver them an adequate income – indeed, their income is currently so low that over half of them cannot afford the basic essential services of primary education for all of their children or simple health care for their families. Performance has been low and in decline due to structural issues that have been aggravated by a decade of insecurity and conflict, poor management and governance, and a sharp decline in international price of coffee. The coffee sector suffers from low and declining coffee production and yields (coffee yields are down to an estimated 200/250 grams per tree which is extremely low and less than half those that Kenya is enjoying or 450-500 grams/tree). Quality is also declining. Burundian coffee, which formerly commanded a premium on world markets, has been sold in recent years at a discount. The sector is also characterized by high intermediary costs that result in low share of producers in border price compared to regional standards (over the 1999-2004 period, the producer share of fully washed coffee varied between 55 percent of the Kenya FOB market price to 72 percent) and huge financial deficits (the sector has been in financial deficit since 1997) that has been up to recently a drain on public finance (the current sector debt is estimated at US\$ 12 million).

105. The sector performance is hampered by: (i) tight State control and monopoly in ownership, management, pricing, processing and marketing; (ii) weak participation of growers in decision making; (iii) production problems and years of neglect of industrial equipment and research facilities aggravated by a decade of civil war; and (iv) high cost of financing; all this in a context of unprecedented low world coffee prices.

- Tight State control and monopoly in ownership, management, pricing, processing and marketing resulting in low competition and distorted price incentives: Until 1992 reforms which opened timidly the sector to private investment, and 2005 measures to liberalize the sector, the coffee sector has been under the control of the State at every

stage including the production (see Box 2). The absence of competition and a highly administrated sector plagued with mismanagement and low capacity have led to high intermediary costs, low share of producers in the border price compared to regional standards, and lack of incentives to improve performance at all stages.

- Production problems and years of neglect of industrial equipment and research facilities aggravated by a decade of civil war: Low productivity is explained by a number of factors, including: (i) the fact that growing conditions are not optimal in much of the country and nearly a quarter of trees would have been planted on unsuitable land where yields are particularly low; (ii) security problems, lack of funding, weak capacity, and lack of incentives have had a dramatic impact on the effectiveness of extension services; (iii) diseases have become more severe in the past few years and chemical control is extremely expensive and not always effective; (iv) many trees are not well tended or need replacing but budgetary problems have literally brought coffee research to a halt. Research and extension services have failed to introduce new varieties over the past 30 years, with the result that the two most common varieties of coffee are those that were being planted in colonial times; and (v) farm-gate prices are so low that farmers are not willing to invest more in their coffee, reducing diseases and improving yields. On the processing side, the State has been unable to finance the maintenance and the replacement/upgrading of equipment. Processing has been further hampered by power shortage. Milling factories operate much under their capacity given average production levels (e.g., SODECO: 42,000 tons; SONICOFF: 12,400 tons; and SIVCA: 8,200 tons) generating high fixed costs. Moreover, the SODECO processing systems prevent access to coffee specialty markets as they involve mixing all qualities.
- Poor management and governance: Despite its statute change from a governmental agency to a mixed enterprise with share capital of 65 percent privately subscribed, OCIBU's managers were appointed by the Government and retained substantial effective control over the coffee sector. Poor management and governance on the marketing front have been particularly detrimental to the sector development. Although green coffee was owned by SOGESTALS and to some extent SONICOFF and SIVCA, export decisions (through auctions) were made by OCIBU which considers itself as holding the sole mandate to bring the harvest to market by conducting the auctions itself. In fact, the auction committee membership was restricted to OCIBU management staff whose wrong market decision led to a considerable increase in financing and storage costs at the expense of the owners. This was especially the case in 2002/03 harvest (unusually high at 37,000 tons) where slow initial sales led to the accumulation of stocks in a falling market and quality deterioration. An apparent failure to meet market price offered at auction led to the withdrawal of many unsold parcels to be reoffered later with huge losses. Moreover, retribution of the different actors in the sector has not always been made in transparent manner. In fact, while the sector was regularly affected by huge deficits these past years, dividends were regularly paid to SOGESTALS memberships at the expense of the sector, the State, and the economy (for instance, about US\$ 12 million of dividend over 2004/05 campaign were distributed to the SOGESTALS when large sector debt is not served).
- Unsustainable high cost of financing: Up to and including the 2003/2004 harvest, the collection, processing and export of coffee have been financed by a consortium of

local banks. The State guaranteed any shortfall between the official producer price and the net sales value and provided refinancing through the Central Bank at subsidized rates. OCIBU has been unable to repay loans received from commercial banks, which have not received the shortfall due to them under the guarantee extended to them by the State. Instead they have received Treasury bonds (FBu 10.5 billion), on which the Government has also accumulated arrears. Arrears on payments of both principal and interest have accumulated, creating serious concerns in the banking sector.

- Sharp decline in coffee international price: The collapse of world coffee prices following the end of the last International Coffee Agreement in 1989 has been well documented, and its devastating impact on the economies of producer countries is well known. The value of Burundi's coffee exports, for example, was around US\$ 20 million in 2001/2002. However, at 1980s prices, the same coffee would have earned the country US\$ 48 million. The loss of US\$ 28 million in income as a result of the fall in world prices represents a sum equal to nearly one-fifth of the total budget of the State, far more than the amount spent annually on health care and education. These figures understate the position: higher export prices would have raised the level at which investment in coffee is economic, so that volumes and quality would have been higher too. Nonetheless, Burundian coffee has consistently been traded at discount prices, i.e. at prices below the international price for the same grades of coffee – a gap increasing from 10 percent to 30 percent over the last decade. There are three related problems. First, the low price of coffee worldwide means buyers can choose where to place their orders. Second, Burundian coffee is of poorer quality than Kenyan or other competitors' coffee, so the price is lower. Third, the auctions are poorly managed (see above). Moreover, the whole structure of the sector, whose losses have always been underwritten by the State, is not conducive to entrepreneurial initiative. The SOGESTALs are not allowed to look for their own markets, and have little incentive to do so anyway. As a result, most coffee importers have little reason to take an interest in the Burundi coffee, unless they know there are bargains available.

Box 2: Burundi-Coffee Sector- Production, Processing and Marketing

Coffee berries in the fully washed line are bought by a washing-station company – either directly from the farmer or via a middleman trader (the system of traders was initiated by the washing stations in early 2002). The washing stations are owned by the State, but are managed by regional companies which until recently had a monopoly on all the washing stations in their area. There are five such regional companies, called SOGESTAL (*Société de Gestion des Stations de Lavages*), and until recently they too were state-owned. There has been limited privatization of these companies, which jealously guard their monopolies, but three out of five of them are still more than half-owned by the State. There is also one private company – SONICOFF (1998) – now allowed to run washing stations.

The coffee beans, once bought by the local SOGESTAL, remain its property until it sells them at auction. Parchment coffee is cured, which involves removal of the parchment, graded and bagged by one of two factories owned by the State and managed by SODECO, a state company with an almost total monopoly on curing fully washed coffee. SODECO is paid a set percentage of the sale price of the coffee, decided each year by the Government. The washed coffee, processed by farmers is cured by one of three companies allowed to cure it – SODECO, SONICOFF or, in northern Burundi, SIVCA (1995). The resultant beans are known as green coffee.

Once the green coffee is bagged, it is stored until it is sold at auction. Auctions are arranged by OCIBU, the state coffee authority, and nobody was allowed until recently to export their coffee except via an OCIBU auction. These are held every week in the capital Bujumbura, and any of the licensed exporters, members of ABEC (the Burundian Association of Coffee Exporters), may attend. OCIBU decides which coffee it wants to sell, and will ask coffee owners (SOGESTALS or one of the private companies) to supply a certain quantity of coffee of a given quality. The exporters send samples of the green coffee beans to the importers with whom they are associated with in Europe, America or Japan. If the reserve price set by OCIBU is reached, then the coffee is sold to the highest bidder. If the reserve price is not reached, OCIBU will withdraw the coffee and will try and sell it again at another auction.

The money received at auction is then divided up between all the stakeholders, according to a formulae laid down by the Government. Certain percentages go to OCIBU for managing the country's coffee sector as a whole; to SODECO for curing the coffee; to the Ministry of the Interior for the tax levied for commune administration; and to the Ministry of Finance to repay investments in the infrastructure of the washing stations. The balance left over is in theory for the owner of the beans – one of the five SOGESTALS or SONICOFF. In practice, though, for most of the past years there has not been a balance but a deficit, caused mainly by losses on washed coffee. The State has covered losses by issuing treasury bonds to repay the banks for loans made to finance the purchase of coffee from farmers and traders. The "private" companies function, in a sense, less as entrepreneurial businesses than as service providers for the State, being paid a set amount regardless of the value of their coffee – in a not dissimilar fashion to SODECO. The guarantor of everyone in the coffee sector is the Central Bank BRB (*Banque de la République du Burundi*) – in other words, the State.

106. **Reform agenda.** The early reform program during the 1990s succeeded to replace the State's export monopoly with an open auction system. The State Coffee Agency, *Office de Café du Burundi* (OCIBU) was restructured and charged with the development and co-ordination of the overall sector strategy, including marketing. Operational responsibility for the 133 government-owned coffee washing stations was transferred to five regional management companies: *Sociétés de Gestion des Stations de Lavage* (SOGESTALS).⁹ Another company, *Société de Déparcharge et de Conditionnement* (SODECO) was created to operate the two coffee mills. However, a lack of political will compounded by the 1993 conflict brought this reform to a halt.

107. **The objectives and the focus of the reforms.** The main assumption under the current debate over the need for reforms is that, in the short to medium term at least, coffee will remain essential for the Burundian economy. Moreover, the crisis in the sector is such

⁹ These play a central role in the campaign, being responsible for maintenance of rural tracks, providing inputs to farmers and paying them.

that all are convinced that some reform is needed. It is also generally acknowledged, however, that the vested interests of individual actors can mean that reforms are subverted, blocked or at least delayed. The overall objective of the reform is to reverse current trends that are detrimental to the Burundian economy. With the reform, the ultimate goal pursued by the Government is to increase farmers revenues through an adequate share of the international price paid for the Burundian coffee, thereby contributing to its poverty alleviation agenda in the rural areas.

108. In order to make coffee more profitable to Burundi, reforms would focus on three main lines:

- ***Liberalizing the sector and reducing the role of the State*** through: (i) freeing prices at all levels including producer prices and export prices, and removing State guarantees; (ii) freeing entry into the sector from production to export, opening the sector to private investment; (iii) ensuring free and fair competition at all levels (farm-gate purchasing, washing station operation, coffee milling, and export); (iv) removing all unnecessary bureaucratic controls including at the production level; and (v) selling of the State assets to the private sector;
- ***Improving productivity of coffee orchards***: implies that bold actions are taken to rejuvenate the Burundian coffee orchard. In this perspective, it is important for Burundi to re-establish its research capacity and closely link it to an efficient extension service which could provide services and disseminate the basic technology and the adequate information to farmers and other stakeholders in a timely manner. This would imply an overhaul of the institution framework with the redefinition of the role of different actors, in particular the role of the State, the private sector and farmers and their organizations without neglecting the establishment of effective public-private partnerships;
- ***Improving quality to attract premium prices in niche markets***: in a liberalized coffee industry, private washing station operators will have direct access to the market. This would enable them to establish relationships with importers and roasters, to tailor coffee characteristics to the requirements of such buyers, and to enter into longer-term supply contracts. Such contracts would in turn enable them to offer growers attractive and guaranteed prices to ensure production sustainability and quality improvement. It is expected that Burundian coffee would be able to penetrate, on the long-run, the market for specialty coffee on the world market.

109. **While these first steps are decisive, the success of the reform will require not only liberalization of marketing and pricing as already put in place by the January and June 2005 decrees, but additional measures.** To achieve the ultimate objectives of the reforms, it would be necessary and important to clarify the following: (i) the regulatory framework within which a liberalized and privatized sector would operate (essentially what will be the rules of conduct in a liberalized sector) (ii) the institutions responsible for enforcing agreed on rules; (iii) the role of different actors, private sector, farmer organizations, and Government; and (iv) the management and funding of the critical functions and services necessary for running the sector and support an improvement of production levels, yields, and quality (extension, input supply, research, quality control, road maintenance, etc.). Moreover, while adopting this reform strategy, the Government expressed

concerns relative to the crop financing following the suppression of Government guarantee to banks operating in the sector and the possible negative impact on farmers in a case of continuing price fall on the world market. The success of the reforms will require addressing sector financing issues and setting appropriate risk management instruments. In effect, the removal of State guarantee changes the way that commercial banks appraise credit worthiness of individual operators. The banks will demand sound balance sheets and adequate collateral to secure advances, often lacking in the past. Burundi legislation deals with collateral (but not bankruptcy) but does not adequately cover the security requirements of banks financing trade in commodities. This could impede access to reasonably priced credit and so, indirectly, impact on farm gate prices. Moreover, a liberalized market also exposes the industry to price risk, presently assumed by the State. In a liberalized environment, coffee processors and exporters will, in the future, need to protect themselves against price risk, not only because of price volatility but also because without cover against price risk reasonably priced credit may, again, not be available. Additionally, if price risk cannot be covered, then processors and exporters will have to increase margins instead, impacting still further on farm gate prices. Presently risk management instruments are not available in Burundi nor do foreign exchange regulations make provision for such transactions. The International Risk Management Group, under the auspices of the World Bank, could develop capacity with the Burundi financial system by carrying out the necessary familiarities and training activities in light of what has been successfully done and achieved in the Tanzania coffee sector.

110. **Progress to date.** Under IDA EERC, the Transition Government committed itself to liberalize and to gradually withdraw from the sector including the sale of State assets such as washing stations and coffee mills. Assisted by EU and IDA, the Government prepared a coffee sector reform strategy and action plans, which were adopted by the transition Government in October 2004. This strategy called for: (i) immediate liberalization of entry into the sector at all stages, in particular primary marketing, processing and exporting; (ii) liberalization of primary marketing and producer prices as of the 2005-06 crop season; (iii) abolition, as of 2005, of government guarantees to commercial banks extending crop financing to OCIBU and SOGESTALs; (iv) the privatization of individual coffee washing stations, the SOGESTALs and SODECO; and (v) reform of the key public sector institutions operating in the sector.

111. In order to implement swiftly the reform strategy, the Transition Government took in 2005 a number of critical measures to liberalize the sector, alleviate the burden on public finance, and initiate the disengagement of the State from the sector. These measures include:

- Hold a national workshop in March 2005 with all stakeholders to validate the coffee sector reform strategy;
- Adopted a Presidential Ordinance liberalizing entry at all levels of the sector (January 14, 2005);
- Adopted a Ministerial Ordinance, which (i) liberalized prices throughout the sector; and (ii) authorized direct sales, i.e. bypassing OCIBU (on June 16, 2005);
- Adopted a ministerial Ordinance stipulating that OCIBU will become a coordinating and regulatory agency (June 8, 2005);

- Abolished, as of 2005, Government guarantee to banks extending crop financing to OCIBU;
- Launched the bidding process for the sale of two washing stations in August 2005. The latter was unsuccessful as there were no offers.

112. Moreover, the Transition Government took a number of measures that had an immediate positive impact on producer's income and in order to facilitate the financing of 2005-06 crop season in the absence of State guarantee to the banks extending crop loans. A supplementary payment was made to farmers of FBu 30 per kg for the 2004-05 crop year, given that the sector had an operating surplus of FBu 15.6 billion for the first time since 1998/99. The remainder of the surplus was to be used to finance the 2005-06 crop (FBu 6.7 billion) and the purchasing of phyto-sanitary products and fertilizers for sale to producers (FBu 2.7 billion). The Government also eliminated a para-fiscal levy on producers without any counterpart service (*taxe verger*).

113. **2006 ERSG Program.** Under the ERSG, concrete actions will be initiated by the Government with the support of the Bank and other donors. They will focus on the enabling and regulatory environment and the disengagement of Government from the industrial and commercial activities of the sector. These actions are part of an agreed roadmap (see Annex 6) which sets out all the steps that need to be taken to implement the reform strategy and manage its multiple effects. Under this road map the Government has agreed on the following:

- The setting up of **an appropriate legal, regulatory and institutional framework** consistent with a liberalized and privatized environment. This will include the definition and/or the redefinition of the roles of the many actors, public and private alike, which will be required to support higher levels of production and an improvement in quality. Furthermore, quality enhancement will certainly also require new investments in the industrial sector. It will therefore be important to ensure that the overall legal and regulatory framework defines clear rules of conduct for all concerned and does not discriminate against new private sector investment in the coffee sector. The first step will be to conduct an assessment of existing institutions, especially OCIBU and other public sector agencies, and to redefine their roles if necessary so that they can function in a liberalized environment and effectively contribute to improving quality and increased production. The rules and new institutional structure should be in place as soon as possible and operational no later than the beginning of the 2007/08 crop season. This process needs to begin as quickly as possible.
- The *provision and financing mechanisms for key services* (extension, research, maintenance of roads, access to fertilizers, quality control etc.) to support an increase in production and improved quality.
- The setting-up of *an efficient information management system* should be in place to make public, decrees and ordinances recently taken to foster competition. Stakeholders, particularly farmers and their associations should have easy access through local mass media to up to date information regarding domestic as well as international prices for cherries and parched coffee.

- *Accompanying measures* will be needed including: (i) social safety nets to help the poorest producers to adjust to the new environment; (ii) the setting-up of modern financial risk management techniques both by exporters and banks to enable them to hedge against price fluctuations in the international market; and (iii) capacity building for producers organizations and new institutions.
- *Other related reforms in the areas of private sector legal environment, financial sector, and fiscal regimes* would be needed to maximize the potential positive impact of the coffee sector reform. In particular, the modernization of the private sector legal environment is needed so that banks are better able to function in a world in which they no longer benefit from a government guarantee on crop financing, which in fact has been less than fully effective. The key reforms to be undertaken in this regard would enable banks to be better able to set up and execute liens on coffee stocks, and this requires a number of legal reforms pertaining to the law of credit recovery, insolvency etc. (see the section below on private sector environment).
- On the *privatization* front, ensuring a successful transfer of Government's assets to the private sector and avoiding the constitution of private monopolies that would impede competition in the sector, requires a sound financial/economic analysis of possible scenarios to guide the Government's decisions in privatizing washing stations, the SOGESTALs and the mills managed by SODECO. This would help Burundi to implement, in a timely manner, the HIPC-completion point trigger related to putting at least 50 percent of washing stations for sale. However, under mutual agreement with the European Union (EU) the Government will undertake the rehabilitation of washing stations before the privatization process starts. The Government has agreed to discuss the issue with EU shortly in order to avoid any further delay.

114. **From a road map to a detailed reform implementation plan.** In order to translate the road map for the reform into a detailed implementation action plan, the Government will prepare studies in 2006 with technical assistance from IDA EMSP to define: (i) the legal, regulatory and institutional framework consistent with a liberalized and privatized environment; (ii) the provision and financing mechanisms for key services in liberalized and privatized environment; (iii) the strategies for privatizing washing stations, the SOGESTALs and the mills managed by SODECO; and (iv) the accompanying measures. These studies will be reviewed by the Reform Steering Committee (with stakeholders represented) that was recently put in place and help to generate full consensus as to the best strategies to adopt.

115. **Managing the transition to a fully liberalized and privatized sector.** While the Government should position itself in dealing with the medium term issues, the transitional phase before the washing stations are effectively privatized and adequate mechanisms are in place to facilitate the financing of the primary marketing, should be carefully managed. During this transition, the SOGESTALs will remain in charge of managing the primary marketing and OCIBU will continue, de facto, to handle auctions of the final product with the support of the commercialization committee (even though exports have been liberalized in principle).

116. Given that the expected production for 2006/07 is much higher than in 2005/06 (30,000-35,000 tons against 6,000), financing the crop season without credit from the banking sector will be very challenging. In the absence of State guarantee, the financing arrangements for 2004/05 crop season will be renewed. OCIBU is preparing a financing plan for 2006/07 that includes: (i) mobilizing the surplus of 2004/05 and 2005/06 crop seasons as auto-financing (OCIBU would provide loans to the SOGESTALs); (ii) mobilizing a guarantee for bank financing through a regional mechanism; and (iii) reducing delays in the management of the crop season, in particular the delivery to washing stations and the launching of auctions (May rather than July) so as to reduce the overall financing needed.

117. The reform is technically and politically complex, and is likely to take several years to complete, so the strategy and the related action plan are likely to require several iterations and strong leadership is needed. The Reform Steering Committee representing all stakeholders will prepare in 2006, in agreement with IDA, a well sequenced three-year rolling implementation action plan (2006-08) based on the existing provisional road map (see Annex 6). The Government will: (i) launch the studies listed above; (ii) make decisions on new legal, regulatory, and institutional framework, arrangements for the provision and financing of key services and accompanying measures; (iii) finalize the detailed implementation action plan; and (iv) set up the new institutions and/or restructure existing ones and launch the privatization of the washing stations before the beginning of next crop year. Taking stock and update of the implementation action plan will be required at least on an annual basis, but in any case, prior to the opening of the crop season. It is proposed that the timely adoption and implementation of the rolling three-year implementation action plan for the 2006-07 crop season constitute a second tranche conditionality and for the 2007-08 crop season an area where progress is expected as a basis for a possible follow-up Development Policy Operation.

Tea sector

118. **Background and key issues.** The Burundian tea sector presents a high development potential which needs to be seriously explored. Tea exports of good quality have increased regularly in recent years, in contrast to other export sectors. Like the coffee sector, the tea sector has also been dominated by a parastatal, the *Office du Thé du Burundi* (OTB) which has a monopoly on processing of green leaf into dry tea in its five factories. OTB is also responsible for supplying tea planters with seeds, inputs (fertilizers and herbicides) on credit.

119. However, OTB is in dire financial state, an expansion of production as well as an increase in quality will require a complete reorganization of the sector, including opening up to private sector investment. To this end, in October 2004, the Government adopted a reform strategy tentative calendar for the disengagement of the State from the sector, based on studies prepared with the assistance of the European Union, SCEP, and specialized consultants.

120. **Reform Agenda.** The Government will update and adopt the sector reform strategy as well as a road map providing for all the steps and the main components of the reform strategy. Also, the setting-up of a steering committee with representatives of all stakeholders to coordinate, manage and monitor the sector reform is required under ERSG. Moreover, the Government will translate the 2004 reform strategy into a three-year implementation action plan detailing all steps necessary to achieve the reform objectives, including: (i) a timetable

for liberalizing all activities including price setting and marketing; (ii) setting up an adequate legal, regulatory and institutional framework conducive to private investment; (iii) privatizing Government's assets with producers being able to fully participate as shareholders; (iv) providing adequate services to secure increased production levels and improved quality; and (v) providing the needed accompanying measures.

121. **2006 ERSG Program.** Given the rapid deterioration of OTB financial performance, a technical and financial audit will be conducted in 2006 and a restructuring plan will be designed to address swiftly the situation in particular to make sure that arrears to producers are settled. The adoption of a satisfactory implementation plan by end of 2006 would be a trigger for a possible follow up Development Policy Operation.

Cotton sector

122. **Background and key issues.** Cotton was once the third export product after coffee and tea. However, since 1996 virtually no cotton has been exported, and all production has been sold on the domestic market. Production has been particularly negatively affected by poor security and adverse weather, particularly the droughts of 1998 and 2001. From 1993 to 1999, the planted area declined almost continuously, with plantations being abandoned as a result of population displacement. Production declined from 8,500 tons in 1993 to 2,900 in 2001, before increasing to 3,500 tons in 2003, with further increases planned for the future.

123. The cotton sector is under State control. COGERCO, a state-owned company is responsible for primary marketing of seed cotton, while COTEBU, a state-owned weaving company sells gray and colored fabrics. The key structural issues confronting the sector are: (i) declining raw cotton production from 1993-2001; (ii) COGERCO's monopsony on the purchase of raw cotton production; (iii) the obligation on COGERCO to sell all of its production to COTEBU. Both companies are in a disastrous financial situation and COTEBU is unable to purchase all of COGERCO's production. However, COGERCO is not allowed to export the surplus, hence there has been accumulation of unsold stocks while COGERCO was accumulating arrears to producers. In addition, low capacity utilization at both COGERCO and COTEBU has increased the share of fixed costs which the companies offset by lowering producer prices and increasing sale prices to domestic garment factories.

124. **Reform agenda.** As for coffee and tea, the Government has undertaken a review of the sector and concluded that complete restructuring is needed. The key elements of this strategy would include: (i) a comprehensive reform of the legal and regulatory framework; (ii) liberalizing the sector in particular abolishing COTEBU's monopsony with respect to the purchase of ginned cotton from COGERCO; and (iii) opening up the sector to private capital. In the medium term, the sector should be, liberalized, in particular exports of ginned cotton, and COGERCO should be substantially restructured, with a view to partial or total privatization. The same stands for COTEBU. Moreover, the COGERCO equipment needs to be rehabilitated for the company to continue to operate. As immediate measures, COGERCO will sell the rest of the stock (1,300 tons) which should provide about US\$ 2.5 million to pay producers and buy inputs for the next campaign.

125. **Progress to date.** To address the current sector distress, the authorities have granted permission to COGERCO to export all of its existing stock of cotton (about 2,800 tons from the 2004/05 campaign) since COTEBU is unable to purchase it. To date, all the stock of

ginned cotton has been sold abroad but this was not enough to alleviate the company's cash flow needs in a sustainable manner (about US\$ 2.5 million for the current crop season).

126. **2006 ERSG program.** The authorities will finalize the strategy and prepare a road map indicating all the steps to be taken to implement the strategy. The Government will request the update of the technical and financial audit of GOCERGO (to be completed in 2006) and revise the contract between COGERCO and COTEBU to, in particular, abrogate definitively the obligation for COGERCO to supply 900 tons of ginned cotton to COTEBU. Adoption of a strategy and road map would be a trigger for a possible follow up Development Policy Operation.

b. Improving Private Sector Environment

127. **Background and key issues.** The private sector in Burundi is underdeveloped and dominated by informal activities and like the public sector, it has suffered from recurrent internal conflicts which destroyed its meager human resource base, economic and social infrastructure. The industrial sector is small and contributes about 5 percent of GDP. Moreover, Burundi is highly dependent on coffee exports for its foreign earnings. This high dependence on mono-cropping has become a threat to Burundi although there have been no change of policy towards diversification from dependence on coffee and tea as main cash crops. There are other crops like cotton, sugar, palm oil and tobacco that need to be boosted and become important economic activities. Private sector development is hampered by: (i) a State monopoly in almost all sectors of the economy; (ii) an obsolete and incomplete legal framework; (iii) the absence of regulatory frameworks in most sectors which will become necessary once State disengagement and economic liberalization become effective; (iv) a non conducive business environment; (v) low level of credit to the economy; and (vi) government arrears that undermine its capacity to borrow money for investment.

128. **Reform agenda.** The Government recognizes the need to elaborate a comprehensive reform program geared towards developing the private sector and creating an enabling environment for economic prosperity and growth. In this regard, one of the objectives of the ERSG is to assist in creating a conducive business environment in Burundi to promote the growth, opportunities for entrepreneurship and enterprise development in order to generate employment. This is essential not only to promote private sector development per se, but to advance the privatization program.

129. Specifically, the Government plans to: (i) complete the work underway to strengthen the legal and regulatory framework for private sector operations; (ii) conduct an evaluation of the investment climate that would serve as a basis to design more comprehensive reform program to build a conducive business environment; (iii) strengthen the financial sector and to increase the access to financing for the private sector; (iv) clear all government arrears to the private sector; and (vi) reduce State domination in most productive sectors.

2006 ERSG program.

130. Strengthen the legal and regulating framework of the businesses. It is imperative to review, update and modernize the commercial and business laws to ensure that they promote the development of the private sector. It is also critical to strengthen the capacities of the institutions of the legal system, like the Magistrate Courts where most of the commercial

cases are held, to ensure that businesses are not constrained by administrative procedures and processes. In this regard, under the ERSB, the Government will: (i) enact the insolvency law that was adopted recently by the Parliament; (ii) complete the revision and modernization of the Companies and Trade Act (which was last revised in 1996 and 1993); (iii) adopt the investment code which was revised in 2004 and awaits Cabinet's approval; and (iv) strengthen arbitration centers.

131. Building a conducive businesses environment. The Government has expressed the need to carry out an evaluation of the investment climate (Investment Climate Assessment, ICA) with the support of the World Bank. The evaluation of the investment climate in Burundi will provide decision makers and investors with the analysis and information necessary to identify areas for improvement and build consensus and support among the public and private sectors on the priorities for action and reform. The ICA is expected to be conducted in 2006 with first results available in the last quarter.

132. Strengthen the financial sector and increase the level of credit to the economy. Burundi's financial sector is shallow and undiversified, and access to financial services, particularly credit, is limited. The sector is dominated by State-owned commercial banks. The civil conflict over the last decade has negatively impacted the health of the banking sector, which has suffered in recent years from poor liquidity, high levels of non-performing loans, and low capitalization. The effectiveness and financial sustainability of these organizations needs to be assessed.

- *Limited financing available for private sector investment.* Limited access and high cost of finance is an obstacle to development of the private sector. The limited credit available in Burundi goes primarily to the public sector or to short-term trade finance, and 75 percent of credit is short-term. Constraints to development of the financial sector and increasing access to financial services include the following: (i) the recent history of political and macroeconomic instability, which has restricted both the supply and demand for credit and has resulted in high loan losses, which in turn have increased the cost of credit; (ii) deficiencies in the legal framework, and in the creation, registration and enforcement of property rights and collateral; and (iii) the predominance of the informal sector, lack of reliable financial information, and lack of credit information on potential borrowers. With the support of the Bank and the Fund, the Government will conduct a more thorough assessment of the financial sector in order to identify issues and design a program of reforms to enable the financial sector to contribute to shared growth and private sector development. The launching of a Financial Sector Assessment Paper (FSAP) expected before the end of 2006 would be a trigger for a subsequent development policy operation. In addition, a banking sector review (forward looking privatization strategy) is needed.
- *Limited access to financing for small businesses and in rural areas.* The microfinance sector in Burundi which aims at providing financial services to low income populations especially in rural areas, micro and small enterprises remains relatively young and not well developed. However, microfinance in Burundi has been rapidly expanding and reached 214,000 clients at the end of 2002 with about 10 specialized microfinance institutions (MFIs) including financial cooperatives

or COOPEC, NGOs, several government funds, as well as development banks. Prospects for developing a vibrant microfinance sector that contributes meaningfully to growth and economic development are good as long as the proper actions are taken and the necessary support is provided to the sector. The main obstacles that are preventing the microfinance sector from providing better access to financing and other financial services include weak capacity of the institutions, poor awareness and application of international standards, as well as an absence of a proper legal and regulatory framework. The challenges for microfinance in Burundi today are numerous.

133. Proper development of microfinance in Burundi would thus require technical assistance to strengthen the capacity of institutions to provide primarily savings and loan services with training of staff and adoption of adequate MIS and good governance rules. An orderly expansion of microfinance in Burundi would also require putting in place a conducive environment including a legal and regulatory framework that is in harmony with international standards. In addition to the cooperative law, a legal text for microfinance regulation is being drafted that will apply to all institutions, cooperatives and non-cooperatives alike. The implementation of the microfinance regulation will, undoubtedly pose several challenges to the regulatory and supervisory authority. To ensure proper supervision of microfinance and the soundness of the microfinance sector, steps are already being taken to strengthen the capacity of the supervisory authority to be created within the Central Bank thanks to a UNDP/ILO project. Draft of the legal text for microfinance regulation has been prepared and is being reviewed by donors. The draft law is expected to be submitted to the Parliament by October 2006.

134. Settling the Government domestic arrears to the private sector. As a way forward to promote the private sector and support the economic activity, the Government conducted a census of domestic arrears as of end 2004¹⁰, the results of which have been audited¹¹ by a reputable and independently selected firm. The Government is committed to normalizing its financial relations with suppliers after establishing the nature and extent of its domestic arrears, which indeed, weigh heavily on the embryonic private sector and the banking system. On that basis, the Government will define in 2006, a settlement strategy consistent with the budgeted amount provided in the draft 2006 budget law and settle all arrears to the private sectors including banks. Satisfactory progress in implementing the settlement strategy is a condition for second tranche release. IDA EMSP will provide assistance to the Government for the preparation of a strategy.

c. Reforming Public Enterprises through Privatization and Private/Public Partnerships

135. **Background and Key Issues.** Burundi's economy is dominated by the State which is in most sectors in a monopoly or quasi monopoly situation (see above for instance the case of coffee which is the main sector of the economy). Like in most developing countries where privatization has been advocated, the main reasons for privatizing are that public enterprises:

¹⁰ "Ordonnance Ministérielle No 540/2198 du 24/12/2004 – Ministre des Finances.

¹¹ Conclusions of the independent audit are expected by mid-December 2005. The provisional amount estimated by the Committee which conducted the inventory is about FBu 41 billion (around US\$ 40.2 million).

(i) have been providing poor services; (ii) are constantly in loss-making mode; (iii) are undercapitalized and in need of additional capital which should come from private sector involvement. There is broad consensus that: (i) State ownership in Burundi is too large; (ii) the private sector needs to be much more involved in the economy either through privatization and/or public/private partnerships; and (iii) State disengagement should be conducted in a way that is conducive to increased competition, in particular avoiding replacing State monopolies by private ones.

136. However, in the context of a very poor post-conflict country such as Burundi, successful implementation of a privatization program presents significant specific challenges in the short run: (i) although the security has much improved and peace is taking hold since the Arusha agreement was signed in 2000 and cease-fires have been enforced with the majority of armed rebels, security and peace are still fragile and the country remains a high political risk environment; (ii) since the independence, the State and the economy have been dominated by a minority Tutsi elite who has the financial resources to invest and participate in a privatization process while the majority could be de facto excluded for lack of resources in the short run. The post-transition Government which represents the majority is concerned by this risk; (iii) the economy remains extremely fragile and dependent on coffee while the market size is very limited, which reduces considerably its attractiveness for potential private investors; (iv) after a decade of civil war, the capacity to design, implement and monitor Government policies and complex structural reforms is limited both at the level of the leadership and the administration. Moreover, in the case of Burundi privatization program, the Government is concerned by a number of associated governance issues such as fairness, equity, and transparency, and is worried that the administration in charge of the privatization program is not equipped to address effectively these issues.

137. **Reform Agenda and Progress to date.** In effect, due to the recent conflict in Burundi, implementing privatization programs has not been a top priority. Forty two enterprises in total were privatized as of 1997 of which 25 state-owned companies had been privatized before 1994. No privatization transactions have been recorded since 1998. In 2003, in the context of IDA ERC, a privatization program was prepared but it was never implemented due to the difficult political environment and remaining security issues. In 2005, some privatization transactions were launched but most either failed to attract bidders (sale of two coffee washing stations), or were temporary interrupted by the new post-transition Government who was willing to reconsider the evaluation of assets and in some case, the privatization strategy (sale of OCIBU's shares in the banking sector). Moreover, the 2005-08 privatization program adopted by the transition Government is under review by the actual post transition Government. As the new Government reiterated its commitment to implement its strategy to disengage from productive sectors and given the specific challenges listed above, it was agreed to follow a **differentiated approach to privatization** which involves: (i) proceeding with simple privatization transactions that don't require extensive preparatory work, and (ii) assisting the Government in conducting the preparatory work for more complex ones, in particular for public utilities.

138. In addition, the success of a privatization program requires a clear institutional framework for implementation of the program. In Burundi, the *Service Chargé des Entreprises Publiques* (SCEP) at the Ministry of Good Governance and General State Inspectorate is the agency that supervises the Government's 57 Public Enterprises. The Privatization Law was enacted in 1996. In 2002, several laws related to Privatization and

Public enterprises were reviewed, revised and adopted. The *Comité Inter-ministériel de Privatisation (CIP)* has the overall responsibility to oversee and make decisions on the program. CIP is comprised of Ministers of Finance, Commerce and Industry, Planning and Public Enterprises' management. Line ministries are also part of the CIP when public enterprises in their sector are being privatized. SCEP provides technical and secretariat services to the CIP. However, the existing institutional framework for the privatization program does not work well due to cumbersome processes. In particular, the SCEP needs to refer to the CIP approval at every technical step of the privatization process when arranging inter-ministerial meetings is very difficult. In this regard, there is a need to streamline the institutional framework to make it is clear and simple. The SCEP needs to be strengthened and provided with technical assistance in order to perform its duties, in particular to prepare clearly laid down policy and well prepared transactions where same opportunities are provided to all the investors. An effective communication program to accompany the privatization program is also critical to the success of the program because it helps to build consensus and to attenuate the negative perceptions about the impact of privatization.

139. **2006 ERSG program.** The focus under the ERSG supported program in 2006 is to: (i) help the Government put in place an adequate framework to prepare, manage and monitor the reform properly; and (ii) proceed with simple privatization transactions as agreed under the differentiated approach.

140. Under the first objective, the Government is expected to :

- Clarify and streamline the institutional framework and privatization processes while strengthening them to improve fairness, equity, and transparency;
- Strengthen the SCEP capacity to monitor and supervise public enterprise including setting-up a database of public enterprise (technical, economical and financial data);
- Build SCEP capacity to conduct the preparatory work and the transactions through technical assistance and capacity building activities e.g. training;
- Develop an effective communication strategy;
- Revise the Privatization Law and align it with recommendations from studies conducted by E.U., SCEP, and specialized consultants.

141. Under the second objective, the Government is expected to:

- Update and adopt a three-year rolling privatization program;
- Prepare, adopt and start implementing a detailed road map providing for all the preparatory work needed to successfully implement its privatization program including sectoral studies and privatization strategies for each envisaged transaction;
- Proceed with agreed privatization transactions. This includes re-launching the sale of: (i) assets of OCIBU in non-coffee sector; and (ii) all OCIBU's shares in *Société Hôtelière Nouvelle du Burundi* (New Hotelier Company of Burundi) (condition for the second tranche release) and launching the bidding process for the sale of State shares in ALCOVIT (Mixed Vitaminized Food) and ONAPHA. Additionally, the Government is expected to undertake the bidding process for

the sale of the State shares in EPB, BCC, APB, OPHAVET and an insurance company UCAR (areas where progress will be monitored for future bank support).

- Transfer OCIBU's shares in banks, SOCABU (insurance company), EPB and the BCC to the State.

142. IDA EMSP will provide in 2006 short and long-term assistance to the SCEP in the following areas: (i) preparing disengagement strategies for each envisaged transaction including sector studies in particular for public utilities; (ii) setting-up a database of public enterprise (technical, economical and financial data) as a basis for evaluating the impact of the privatization program; and (iii) develop an effective communication strategy.

V. GRANT FEATURES

A. EXPECTED POVERTY IMPACT

143. The ERSG is expected to have in the medium to long run the following benefits on poverty:

- In the long run, the structural economic reforms supported by the ERSG aim at accelerating growth and more specifically increasing income-generating activities and employment opportunities (private sector development and State disengagement) and producers' income (coffee, tea, and cotton sector reforms). These are expected to translate into poverty reduction and improved well-being for the population concerned.
- Improvement in the management of scarce public resources as proposed under the ERSG is expected to make more resources available to finance PRSP priorities and achieve the Government's poverty reduction objectives.
- Improve financing for service delivery to the poor. By supporting a shift in the structure of public expenditure in favor of poverty-reducing expenditures and social sectors and providing new resources, the ERSG would provide resources to finance PRSP priorities, which should translate into improved services for the poor. Specifically, the ERSG will help support better schools through teacher hiring and training, educational material, and classroom improvements via grants to school to compensate for the suppression of school fees, promoting health services (by equipping and rehabilitating health centers in poor areas and better distribution of health personnel).
- Improved well being of the population. Better service delivery should translate into improved outcomes overtime, such as higher primary enrollment rates, higher school attainments, better health status, and increased public satisfaction with services.

144. These objectives will need sustained efforts and attention on the part of Government, donors and stakeholders over several years in order to produce sustainable improvement. In the meantime, progress can be monitored through intermediate indicators as proposed under the interim PRSP. It is therefore important to set up monitoring and evaluation capacity over the medium term as proposed above. In the short term, Government and donors will continue to rely on existing capacity and provide external assistance to fill critical gaps.

B. LINKAGES WITH THE INTERIM STRATEGY NOTE

145. The ISN is fully aligned with the priorities set forth in the I-PRSP. Its objective is two-fold: first, to ensure that communities and populations have access to basic social services and income generating activities and thus, are supportive of the peace process and the economic reform agenda; second, to help restore the foundations on which growth and poverty alleviation efforts can be undertaken in a sustainable manner, including the preparation of a participatory and inclusive full PRSP. The ERSG is the Bank's only budget

support instrument to support the implementation of the ISN over FY06/07. Apart from contributing to fiscal and macroeconomic stability, which is critical in facilitating robust and sustained growth over the medium- to long-term, the financing will contribute to the realization of the ISN objectives by: (i) improving budget management, which is instrumental for promoting good governance; (ii) increasing pro-poor public expenditure; (iii) identifying ways to increase the impact of public spending on the poor; (iv) promoting private sector led-growth; and (v) rehabilitating the cash crop sectors which contribute to 80 percent of total export earnings and constitute a major source of income in rural areas.

C. ENVIRONMENTAL ASPECTS

146. The proposed development policy grant supports mostly economic governance reforms that are unlikely to have any additional significant environmental effects. The potential environmental and social effects associated with the proposed ERSG are mainly related to the coffee, tea, and cotton sector reforms and the privatization program. In particular, under the 2006 ERSG-supported program, facilities already considered as polluting, such as coffee washing stations, SODECO curing factories, and a slaughterhouse, are scheduled for privatization. Moreover, specific policies related to these reform programs to be initiated under the 2006 ERSG program are part of broader programs whose activities span over the medium term and may also be supported by IDA follow-up DPLs. Therefore, a two-fold approach has been adopted, one dealing with reform actions that are expected to be initiated and/or completed under 2006 ERSG-supported program and the other with the medium-term reform programs.

1. Sector reform program and environmental aspects

Coffee sector reform

147. The coffee sector reform aims at increasing the share of producers in the border price and increasing both the production and quality of coffee through liberalization, privatization, and revamping of services. The increase of production is expected to result from an improvement in the currently extremely low productivity and more efficient use of land not through clearing of forest, nor extending cropping into marginal lands and commons. In effect, it is generally estimated that coffee yields could more than double if unproductive trees were replaced, newer disease-resistant varieties were introduced and husbandry practices (e.g. timely mulching, pruning, and field sanitation) were improved. The implementation plan for improving productivity in the coffee sector (as well as in the tea and cotton sectors described below) will include advice to growers on integrated pest management. Moreover, over the medium- to long-term, the reform is expected to help Burundi access the specialty coffee market where quality label associated with organic certification would warrant a better price for Burundian coffee and provide the incentives for maintaining environment-friendly and sustainable coffee cultivation practices.

148. Regarding possible environmental and social risks associated with privatization of washing stations and coffee processing factories (degradation of water quality), please refer to the section below on privatization.

149. It was agreed that the monitoring and evaluation system to be put in place by the Committee in charge of coordinating and monitoring the coffee sector reform program will cover environmental aspects and assess ex-ante and on a regular basis the potential effect of sector specific policies supported by the medium-term reform program.

Tea sector reform

150. The tea sector reform is less advanced than the coffee sector reform. Under the ERSG, Burundi is expected to prepare a detailed implementation plan based on the reform strategy adopted in late 2004. The objectives are similar to the coffee sector reform. Expanding tea production can be detrimental for environment, as tea-growing areas are extremely prone to soil erosion. Although no action is expected to be taken under the 2006 ERSG-supported program, the country has agreed to: (i) conducting a sectoral environmental assessment (2006); (ii) based on the result of this assessment, preparing a plan addressing environmental aspects of the reform program if needed (2006); (iii) implementing the plan (2007); and (iv) monitoring its implementation throughout the implementation of the reform plan (2007-onward).

Cotton sector reform

151. Cotton sector reform is even less advanced than the previous two, as there has not been any agreement yet on the reform strategy. It is however, expected that similar objectives as in coffee and tea will be achieved through liberalization, restructuring, liquidation and/or privatization. The approach to address possible environmental and social negative impact of the reform will be the same as for the two other sectors. Once a reform strategy has been adopted, the road map to implement it will provide for the preparation of a sectoral environmental assessment, the development of a plan to address any potential negative environmental effect if any, and monitoring while the implementation action plan will detail all the steps to be taken.

152. The Bank is already providing institutional capacity building to the environmental sector in Burundi to deal with land management and degradation issues through the Agricultural Rehabilitation and Sustainable Land Management project jointly with the GEF Agricultural Rehabilitation and Support. The Environment Directorate will ensure that these efforts are well coordinated and there is not duplication.

Privatization program

153. Industrial facilities to be privatized under the Government privatization program include facilities which have to be reviewed for potential environmental, social, health and safety issues. In advance of the transactions, enterprises to be privatized will be reviewed for any environmental, social, health and safety issues and/or past environmental damage or liability. This will be done through environmental audits to be ordered by the SCEP which is in charge of implementing the Government privatization program and conducted by the concerned sector Ministry with support of the Bank and/or other donors involved in the area. Based on the audits, a plan to address any identified environmental issue and that identify responsibilities for remedial action, management plans and procedures, will be prepared.

154. For each privatization transaction agreed in the Government privatization plan, when retrenchment is involved, the SCEP will assess in the preparatory studies the likely negative social impact of the transaction and prepare a realistic social plan.

155. Among the transactions scheduled to be launched under 2006 ERSG-supported program, coffee industrial facilities (washing stations, les usines SODECO, and 2 mills managed by SODECO) and a slaughterhouse are concerned. These facilities are believed to be polluting, but so far the Government has been unable to ensure compliance with national environmental safeguard policies. The studies to define the privatization strategy that will be conducted under the ERSG-supported program with the assistance from IDA EMSP will assess the extent of actual environmental liabilities and identify which actions are needed to address these issues and who will be responsible for implementing them. These transactions will therefore have a positive effect on the environment.

2. Recipient's Systems for addressing Environmental Issues

156. **Regulatory and Institutional Framework.** Institutions for environmental management have developed slowly in Burundi since the creation of the Ministry of Land Management, Environment, and Tourism in 1988. This ministry is in charge of planning, coordinating, implementing and monitoring all activities and actions related to environment. In order to improve coordination of all public interventions related to environment, the ministry set up a National Commission for Environment (*Commission Nationale de l'Environnement, CNE*). This Commission includes representatives of line ministries which intervene in environmental areas. The country adopted an environmental law (*Code de l'Environnement*) in 2000 that places environmental impact assessment (EIA) at the core of the Government efforts towards achieving the goals of the sustainable development. The Code provides for the preparation of implementation decrees mandatory as well as national guidelines to conduct EIAs. The Environment Directorate at the Ministry of Land Management, Environment, and Tourism is responsible for reviewing all EIAs.

157. **Environmental Policy Implementation.** In addition, the country prepared and adopted in 1996 a National Environment Strategy under difficult transitional circumstances. This strategy needs to be regularly updated to take into account ongoing changes. It highlights the main objectives of the country in the area of environmental management. The Environment Directorate is responsible for implementing the Ministry's mandate in area of environmental management. As regards the control of the country's major environmental threats, the Environment Directorate focuses on deepening the regulatory framework and developing environmental compliance and enforcement tools.

158. The institutional and technical capacity of the Environment Directorate is limited both to assess environmental issues and to enforce compliance with national environmental safeguards. The Environment Directorate will assess the need to strengthen the national capacity to comply with national environmental regulations as well as to monitor and effectively enforce compliance with environmental regulations. After consultation with the Bank and other donors who intervene in the environment sector, an action plan will be prepared and adopted.

D. RISKS AND RISK MITIGATION

159. The Commitment of the Government, especially at the highest level, remains unambiguously strong. At the same time however, weak technical capacity and sub-optimal institutional and organizational arrangements constitute a challenge that one would expect from a newly appointed Government. Six main risks (listed below) could influence the expected outcomes of the proposed operation. These risks are mitigated to a large extent by several factors, including: (i) the design of the proposed operation; (ii) the strength of the Government's ownership and commitment, affirmed at the highest level, to implement the proposed measures and the Government's resolve to advance its reform agenda; (iii) an active policy dialogue between the Bank and the Government; and (iv) a close collaboration between donors to provide technical assistance and ensure full financing of the reform program.

160. The six main risks are the following:

- The **first** risk is the internal and/or regional instability and disruption of the peace process. Though much progress has been achieved, the peace process remains to be consolidated within Burundi, in particular with regards to the FNL-PALIPEHUTU. However, we should keep in mind that, the FNL-PALIPEHUTU has neither the force nor the popular support to fight the newly elected Government. It would be beneficial, in the interest of peace, for the Government and the FNL-PALIPEHUTU to reach a negotiated settlement in the ongoing ceasefire discussions. The greater challenge is to address the peace situation from a regional perspective, including the Democratic Republic of Congo (DRC) in particular, whose eastern border has a strong bearing on Burundi's peace process. Recent developments in the DRC are encouraging. National elections are scheduled for the second half of 2006, and the country is engaged in a vast program of Disarmament, Demobilization and Reintegration (DDR). Moreover, preparations are underway to call an international conference on the Great Lakes Region; needless to say that Burundi, DRC, Rwanda, and Uganda are all on a good path to achieving stability.
- The **second** risk is that external factors such as further collapse of coffee prices or adverse climatic conditions could jeopardize Burundi's foreign exchange position making it difficult to service external debt even after HIPC relief, and eventually putting the recovery efforts at risk. While this risk can only be reduced through economic diversification over the long-run, it appears limited over the proposed operation period. Climatic conditions have been so far favorable to coffee production which is expected to peak at above 30,000 tons in 2006. Also, international coffee prices are currently expected to decrease only mildly from the recovery peak in 2005 (113.7 cents per lbs in 2006 on average against 117.6 in 2005 and 60.4 in 2002);
- The **third** risk is that policy reversals and/or slippages in key reforms could affect the Government's ability to maintain a stable macroeconomic environment and focus expenditure on poverty reducing priorities identified in the I-PRSP. This risk appears limited over the ERSG implementation period as: (i) the new post-

transition Government has reiterated its commitment to the policies and reforms defined in the Arusha Agreement and the I-PRSP; (ii) the authorities have maintained sound macroeconomic policies including strict implementation of the budget law in 2005, a challenging year considering general post-conflict elections; and (iii) the 2006 draft budget law provides for a significant increase in poverty reducing expenditures while remaining consistent with macro-budget constraints and external assistance availability;

- The **fourth** risk is that weak administrative and absorptive capacity (human, institutional, and managerial) could slow down the pace of improvements in economic and public expenditure management. For this reason, the preparation and implementation of the ERSG will maintain a strong hands-on support to Burundian authorities. In addition, the implementation of the proposed ERSG program will be supported by IDA Economic Management Support Project (EMSP) in all its three components: (i) strengthening public expenditure management; (ii) reforms in the coffee, tea, and cotton sectors; and (iii) reviving the private sector;
- The **fifth** risk is that fiduciary risks with regard to the use of public funds remain as internal and external control mechanisms remain weak and capacity of the Audit Court is still limited. The capacity of the Audit Court will be strengthened with the support of IDA EMSP, it is expected that the introduction of the interim FMIS for 2006 budget (prior action) will significantly improve transparency in public expenditure management and deter misuse of public funds. Moreover, the ERSG program provides for the preparation of a strategy to strengthen the internal ex-post control function government-wide, a first step to further reduce fiduciary risks. Finally, as set in Annex 4, the Government has made significant progress on improving financial management systems and will continue to do so over the life of this program with strong technical support from its partners;
- The **sixth** risk is that shortfall in donor support and/or difficulty in translating donor support into action and results could have a deterring impact on growth, reduce government resources and affect its ability to conduct its reform program. Following the successful political transition, donor community mobilization is high. Since the new Government has taken office, a number of donors have announced new commitments to assist Burundi's economic and social recovery. Several donors are currently preparing new assistance strategies which will be based on the full PRSP expected in early 2006. Finally, as indicated in section E below, initiatives are being taken to improve donor coordination and provide the Government with more predictability of external assistance.

E. COLLABORATION WITH OTHER DONORS

161. The programs financed by the Bank and the Fund have been closely coordinated since financial assistance to Burundi resumed in 2000. A macroeconomic program agreed with the IMF under a 3-year Poverty Reduction and Growth Facility arrangement has been implemented since January 2004. The first review was endorsed by the IMF Board on January 19, 2005, and the second on July 27, 2005. The mission to conduct discussions on

the third review took place from November 1 to 16, 2005. Overall performance under the program has been broadly satisfactory and all the quantitative performance targets for June and September 2005 were met. However, the mission could not conclude the third review. An action plan was agreed upon to make up by end-2005 for the structural performance criteria and benchmarks that were missed and finalize the medium-term macroeconomic framework and program for 2006. Discussions for the third and fourth PRGF reviews (end-June and December 2005, respectively) were combined with those for the 2006 Article IV consultation in Bujumbura in March 2006, and in Washington in April 2006, and understandings were reached, ad referendum, on an economic program for 2006. IMF staff is in the process of preparing the necessary documentation in support of Burundi's request to complete the third and fourth reviews under the PRGF arrangements and the 2006 Article IV consultation. The IMF Board consideration is expected to take place on July 14, 2006.

162. The macroeconomic framework and financing requirement are jointly assessed and agreed on by the Bank, the Fund and the Government. The content of the reform program to be supported by the ERSG is closely coordinated with the IMF three-year PRGF program and the two instruments complement each other. The reform program underpinning the proposed financing is consistent with the macroeconomic program supported by the PRGF. The interim PRSP was discussed by the Bank and Fund Boards in January 2004. The HIPC decision point Document was jointly prepared by the Bank and Fund staff and approved by the Boards of the two institutions in August 2005.

163. The Bank is the second largest financier in Burundi, following the E.U., and has been involved in a broad range of sectors. In order to maximize the impact of the Bank's relatively limited resources, the synergy between Bank-supported activities and other donors' programs was discussed with key partners during the consultations of stakeholders under the ISN. Selectivity criteria have been agreed upon with Burundians and other donors. These include: (i) activities that promise to have the largest pay-off with regard to supporting the recovery and reconciliation; (ii) areas in which the Bank has a comparative advantage vis-à-vis other donors currently involved in Burundi including areas where the Bank is already active; and (iii) areas that are complementary to other activities planned or underway – to be supported by other donors or local stakeholders.

164. The new Government puts donor coordination high on its agenda, and issued in December 2005 a decree that establishes a National Aid Coordination Committee (*Comité National de Coordination des Aides*, CNCA). This committee is headed by the second Vice-President who is in charge of coordinating economic and social policies, and includes as permanent members the Minister of External Relations, the Minister of Planning, the Minister of Finance, and the Minister of Interior. Donors and other members of Government may be invited at the committee meetings when needed. The mandate of the committee is to provide a framework for consultation between the Government and donors, to assess funding opportunities and priorities, and disbursements timetables. Funding for, and implementation of the PRSP is considered a major agenda item for the committee. The CNCA provides a great opportunity to organize donor coordination in a more formal way and to develop an explicit and written medium-term cooperation framework.

165. In addition, several initiatives to improve donor collaboration are underway or planned, namely along thematic lines. Donor coordination of budget support operations was formalized in a memorandum of understanding signed in May 2005 between the Minister of

Finance of Burundi and Belgium, France, AfDB, EU, IDA, and UNDP. The IMF is associated and DFID is expected to join shortly. The memorandum of understanding defines a coordination framework regarding: (i) the macroeconomic framework; (ii) the PRSP monitoring; and (iii) public finance including the update of the public finance reform program and the monitoring of public finance. In this memorandum of understanding, donors commit to: (i) align the processing of their operations with the Government budget cycle; (ii) rely as much as possible on Government monitoring and evaluation systems; (iii) provide the Government with timely information on their contributions to the financing gap; and (iv) contribute to capacity building through coordinated and complementary institutional support projects. Recently, the Netherlands agreed to join the effort by providing US\$ 10 million (grant) to the budget support operation.

166. On DRR, donor collaboration has clearly been a best practice approach, involving UNOB, the Bank, Belgium, France, DFID, and the E.U. Regular consultations and exchanges of information have been held, along with periodic joint implementation support missions. In the reforms of key agricultural sub-sectors including coffee and tea, the Bank and the E.U. have jointly played a leading role in supporting the Government reform agenda. In the education sector, a joint effort coordinated by UNICEF and involving the Bank, DFID, Belgium, and France is underway that will provide funding and technical assistance needed to address new Government policy to promote universal primary education. On community development and decentralization, the UNDP is leading a coordination effort for the preparation of a national program, involving the Bank, DFID, the E.U. and Belgium. On health and HIV/AIDS, excellent collaboration has been maintained between the Bank and WHO. In recent months, collaboration with all the sectors donors, UNICEF, UNAIDS, USAID, UNFPA, Belgium Cooperation, UNDP, and the EU has been established. The Burundi Multisectoral HIV/AIDS Control and Orphans Project is among the best performing Multisectoral HIV/AIDS programs in Africa.. Finally, on the PRSP, the Bank and UNDP have developed close collaboration in the provision of technical assistance and hands-on support.

F. FINANCING AMOUNT, DISBURSEMENT PROCEDURES, AND FIDUCIARY ARRANGEMENTS

167. **Financing Amount.** The proposed financing amounting to SDR 40.4 million (equivalent to US\$ 60 million) would be disbursed in two tranches to support 2006 budget; one tranche of SDR 23.55 million (equivalent to US\$ 35 million) and a second tranche of SDR 16.85 million (equivalent to US\$ 25 million). The entire financing amount would be provided as a grant. The first tranche would be released upon effectiveness. The second tranche would be released upon fulfillment of the conditions for the tranche. It is expected that both tranches would be released in the second half of 2006. The ERSG also includes indications of areas where progress is expected as a basis for a possible follow-up DPL operation.

168. **Safeguard assessment of the foreign exchange system.** The IMF's Finance Department initiated a safeguard assessment of Central Bank of Burundi (BRB). The results of these assessments have been published in the reports of the reviews done within the framework of the PRGF. The first stage of the assessment was completed in June 2004. This involved an evaluation of the areas considered critical to preventing the possibility of

misreporting and safeguarding Fund resources, notably, the BRB's external audit mechanism, financial reporting framework, and the system of internal controls. The second review in September 2005 noted that the BRB had made good progress since late 2004 in strengthening its monetary policy capacity and in liberalizing the foreign exchange regime. As part of the BRB's efforts to improve its governance, the first external audit of its operations was completed in June 2005. This development represents significant progress toward bringing its operations in line with international best practices. The audit was carried out by an International firm of accountants, Ernst & Young and it is expected to be carried out on an annual basis. They made recommendations on the adoption of International Financial Reporting Standards (IFRS) and improvements in BRB operations and internal controls, particularly in respect of accounting, internal audit, and management systems. The BRB has developed an action plan to implement these recommendations. The second stage of the assessment will evaluate BRB's legal framework and internal audit mechanism.

169. **Disbursement.** Disbursement arrangements will follow OP 8.60. The first tranche will be made available upon effectiveness. The second tranche would be released upon fulfillment of the conditions for the tranche. Grant proceeds will be disbursed against satisfactory implementation of the development policy program. Once the Grant is approved by the Board and becomes effective, the proceeds of the Grant will be deposited at the request of the Recipient by IDA in a Foreign Currency Deposit Account (FCDA) designated by the Recipient and acceptable to the World Bank at the Central Bank (Banque de la Republique du Burundi, BRB). The Recipient will ensure that upon the deposit of the Grant into said account, an equivalent amount in local currency is credited in a Local Currency Deposit Account (LCDA), in a manner acceptable to the Bank. The Recipient will report to the Bank on the amounts deposited in the foreign currency account and credited in local currency to the LCDA. If the proceeds of the Grant are used for ineligible purposes (i.e. to finance goods or services on the standard negative list), as defined in the Development Policy Financing Agreement, IDA will require the Recipient to promptly, upon notice from IDA, refund an amount equal to the amount of said payment to IDA. Amounts refunded to IDA upon such request will be cancelled. The administration of this Grant will be the responsibility of the Ministry of Finance. The Government will have the foreign currency and local currency deposit accounts audited annually by a reputable, external, and independent auditor. Moreover, the Recipient will furnish to the Association as soon as available, but in any case not later than four months after the end of the Recipient's fiscal year: (i) a certified copy of the report of such audit, of such scope and in such detail as the Association will reasonably request; and (ii) such other information concerning the Deposit Accounts and their audit as the Association will reasonably request.

170. **Budget resources management.** Despite the above fiduciary measures, diagnostic studies of the public financial management arrangements in Burundi carried out previously indicated that given the current political context, the fiduciary risks related to the use of public resources in Burundi remain high. The list of these studies is summarized in Box 1. This is primarily due to the destruction of relevant institutions and the human resource base during the years of conflict. To mitigate these risks, the Government has adopted a plan of actions through which it aims to reinforce its financial management system. The plan includes actions that are already being implemented with the support of IDA EMSP. Some significant successes have already been achieved, such as the establishment of the Audit Court, and the continuing installation of the i-FMIS. Other actions are presented in the matrix of policies (Annex 3) to be supported by the ERSG.

G. CONDITIONALITY

171. The full program of actions to be supported by the proposed operation is set out in the Policy Matrix (Annex 3). The prior actions listed in the next paragraph have already been undertaken and the conditions for second tranche release are also presented below. Actions to be taken under the 2006 ERSG program by end-2006 or beginning of 2007 have been identified as triggers for a subsequent operation. The maintenance of a satisfactory macroeconomic framework as described in the Letter of Development Policy (LDP) included in this document would be necessary to release the ERSG. In addition, recruitment of an internationally reputable firm acceptable to IDA to conduct an audit of the June 2006 government sale of the presidential aircraft 1982 Falcon 50 S/N 66, on the basis of terms of reference acceptable to IDA, is a condition of effectiveness of the legal agreement for the Grant.

Prior actions already completed by the Government:

- *To enhance public expenditure management*
 - Establish an interim computerized financial management information system for expenditures and execute 2006 budget on the basis of such system;
 - Identify pro-poor expenditure programs including HIPC expenditure to be reflected in 2006 Budget Law and tracked under the Government's budget classification;
 - Submit a draft budget law for 2006 to the Parliament reflecting an increase of pro-poor expenditure compared to 2005 budget law;
 - Adopt an emergency action plan to improve competition and transparency in public procurement.
- *To reform the coffee, tea, and cotton sectors*
 - Issue decree related to the liberalization of the coffee sector, in particular the producer price setting and the marketing.
- *To improve the private sector environment*
 - Enact the new insolvency law that was approved by the Parliament.
- *To reform public enterprises*
 - Bring to the point of sale: (i) State shares in ALCOVIT (Mixed Vitaminized Food), and (ii) 70 percent of State's shares in ONAPHA.

Conditions for second tranche release:

- *To enhance public expenditure management*
 - Produce quarterly budget execution reports based on the i-FMIS (budget allocations, commitments, liquidations, payment orders, and payments) starting with end March 2006;
 - Submit the revised public procurement law to the Parliament.
 - Complete and publish the audit of the June 2006 Government sale of the presidential aircraft 1982 Falcon 50 S/N 66 and adopt an action plan acceptable to IDA based on the findings and recommendations of said audit.
- *To reform the coffee, tea, and cotton sectors*
 - Adopt a 2006 - 08 detailed implementation action plan to reform the coffee sector, including: (i) the restructuring of the sector debt; (ii) the setting up of legal, a

regulatory and institutional framework consistent with the liberalization and privatization of the sector; (iii) arrangements for managing and financing services; (iv) strategies to privatize State's assets (washing stations and factories managed by SODECO); and (v) accompanying measures, notably a social plan in the event of layoffs, institutional support and capacity building.

- *To improve the private sector environment*
 - Achieve satisfactory progress in implementing the Government strategy for settling all domestic arrears to the private sector as certified by the independent external audit and in consistency with the 2006 budget allocation.
- *To reform public enterprises*
 - Re-launch the bidding process for the sale of: (i) OCIBU's assets in sectors other than coffee; and (ii) all OCIBU's shares in *Société Hôtelière Nouvelle du Burundi* (*New Hotelier Company of Burundi*).

Areas where progress will be monitored for future Bank follow-up operations:

172. As indicated above, the ERSG is supporting medium to long-term reform objectives, that would require sustained efforts over a long period of time to achieve the objectives and get results. Also continued support of development partners in general and of IDA in particular is considered essential to both help design the programs and sustain the momentum for reform. Without prejudging any decision on the design and timing of a subsequent operation, the Government would be expected to achieve certain milestones in its program, to justify continued financial support from IDA. Drawing on the Government's Letter of Development Policy, milestones for continuing such assistance would focus broadly on the areas covered by the proposed operation. The prior actions for a subsequent operation will be determined during pre-appraisal and appraisal missions for that operation. In the specific areas covered by the ERSG-supported program for which medium-term plans have been agreed with the Government, the following measures are expected to be completed by end 2006 or early 2007:

- *To enhance public expenditure management*
 - Adopt a budget law for 2007 reflecting a shift in public expenditure toward pro-poor expenditure programs;
 - Prepare a comprehensive budget execution report for 2006 Budget;
 - Set up the institutions provided for in the revised public procurement Code.
- *To reinforce the capacity of the Cour des Comptes*
 - To seek support from reputable international audits institutions in order to reinforce the country's capacity for monitoring and auditing national budgets
- *To reform the coffee, tea, and cotton sectors*
 - Satisfactorily implement the rolling three-year implementation action plan and adopt an updated action plan for 2007-09 in a timely manner;

- Adopt a satisfactory three-year action plan to implement the 2004 tea sector reform strategy (liberalization, privatization, institutional reforms);
- Adopt a satisfactory strategy and road map for reforming the cotton sector including the State disengagement from the sector and the privatization of COGERCO.
- *To improve the private sector environment*
 - Make significant progress on the ongoing Investment Climate Assessment;
 - Begin a Financial Sector Assessment Paper (FSAP).
- *To reform public enterprises*
 - Launch the bidding process for the sale of the State's shares in EPB (management of Port facility), BCC (coffee export company), APB (Slaughterhouse), OPHAVET (veterinary pharmaceutical Office), and UCAR (insurance company).

H. INSTITUTIONAL ARRANGEMENTS AND PROGRAM MONITORING

173. The ERSG supported program will be coordinated and monitored by the same institutions that are overseeing the IMF PRGF and other donor budget support operations. The Ministry of Finance is responsible for coordinating the overall program supported by the proposed ERSG working with a Technical Implementation Committee (TIC). The Ministries of Finance, Plan, Good Governance, Agriculture and Commerce, the BRB and the PRSP Secretariat (SP/REFES) are represented in this Committee. The TIC is overseen by a Steering/Policy Committee headed by the Vice President in charge of coordinating economic and social reforms and comprising the Minister of Finance and the Ministers of Plan, Good Governance, Agriculture and Commerce. The Steering/Policy Committee provides guidance on implementation of the reform program. The Minister of Finance will provide quarterly written progress reports on ERSG program implementation and a monthly report on budget outcomes. Implementation will be closely monitored by the World Bank Country Office and supervision missions, including joint missions with the IMF and other donors providing budget support to Burundi. These arrangements are aligned with PRSP coordinating and monitoring mechanisms.

Annex 1: Progress towards the MDGs - Key Goals, Targets, and Indicators related to the MDGs

Objective	Goal	Indicator	Early 1990	Latest data
1. Eradicate extreme poverty and hunger	Halve, between 1990 and 2015, the proportion of people whose income is below the poverty line	Proportion of the population living below the poverty line (percent)	35 (1990)	58.4 (Priority Survey 1998)
	Halve, between 1990 and 2015, the proportion of people who suffer from hunger.	Percentage of children less than 5 years old who are undernourished (stunting)		45,1 (MICS 2000)
2. Achieve universal primary education	Provide all children the means to complete primary education	Youth literacy rate (15-24 years) (percent)	51.6 (1990)	66.1 (2002)
		Net primary enrollment ratio (percent of relevant age group) (percent)	52.0 (1990)	53.4 (2001)
		Percentage of cohort reaching grade 5	61.8 (1990)	64.0 (2001)
3. Promote gender equality and empower women	Eliminate gender disparities in primary education by 2005 and at all levels of education by 2015	Ratio of girls to boys in primary and secondary education (percent)	82.0 (1990)	79.4 (2001)
4. Reduce child Mortality	66 percent reduction in child mortality rate between 1990 and 2015	Share of children dying before 5 years of age (per 1000)	184 (1990)	208 (2002)
5. Improve maternal Health	75 percent reduction in maternal mortality between 1990 and 2015	Maternal mortality rate (per 100,000 live births)		1000 (2001)
6. Fight HIV/AIDS and other major diseases	Stop the spread of HIV/AIDS and reverse the current trend	Prevalence rate of HIV/AIDS (among ages 15-24) (percent)		11 (MICS 2000)
	Manage the spread of malaria and reverse the current trend	Malaria related mortality rate		
	Integrate the principles of sustainable development in the national development policy	Percentage of land devoted to forests	9,4 (1990)	3,7 (2001)
7. Ensure environmental sustainability	50 percent reduction of proportion of the population without access to safe drinking water by 2015	Proportion of the population having access to safe drinking water (percent)	69 (1990)	78 (2001)
	Improve access, for as many people as possible, to decent and affordable housing	Proportion of the population having access to a better drainage system (percent)	87 (1990)	88 (2001)
		Proportion of the population having access to decent housing		
8. Build a global partnership for development	Viability of debt	Debt service/export ratio (percent)	44 (1990)	83 (2003)

Source: Compiled from Government, UNICEF, UNDP and World Bank estimates.

Annex 2: Key Economic Indicators

Indicator	Actual				Estimate	Projected		
	2001	2002	2003	2004	2005	2006	2007	2008
National accounts (as percent of GDP)								
Gross domestic product ^a	100	100	100	100	100	100	100	100
Agriculture	39.5	40.5	40.1	40.1	35.0	36.0	35.6	35.3
Industry	19.0	18.6	18.9	18.9	20.1	20.5	21.2	22.0
Services	41.4	40.9	41.0	41.0	44.9	43.5	43.2	42.7
Total Consumption	109.0	111.4	108.2	111.0	123.1	120.6	118.7	115.9
Gross domestic fixed investment	6.2	5.5	11.3	13.0	10.5	16.1	18.6	20.2
Government investment	4.0	3.6	8.3	10.3	6.5	9.6	10.6	10.7
Private investment	2.2	1.9	3.0	2.7	4.0	6.5	8.0	9.5
Exports (GNFS) ^b	6.9	6.2	9.3	9.6	11.4	11.9	13.0	13.4
Imports (GNFS)	22.1	24.0	28.8	33.9	45.3	48.6	50.4	49.5
Gross domestic savings	-9	-11	-8	-11	-23	-21	-19	-16
Gross national savings ^c	0	1	6	5	0	-1	-5	-2
<i>Memorandum items</i>								
Gross domestic product (US\$ million at current prices)	662	628	595	664	801	957	1045	1143
GNI per capita (US\$, Atlas method)	100	90	90	90	100	..	..	..
Real annual growth rates (percent, calculated from 1980 prices)								
Gross domestic product at market prices	2.1	4.4	-1.2	4.8	0.9	6.1	6.6	7.1
Real annual per capita growth rates (percent, calculated from 1980 prices)								
Gross domestic product at market prices	-4.4	2.5	-3.1	2.9	-1.0	4.7	3.9	5.6
Total consumption	-8.3	7.3	-12.0	5.4	7.5	5.4	3.6	3.6
Private consumption	-11.5	9.3	-17.7	5.0	9.2	2.6	4.6	3.5
Balance of Payments (US\$ millions)								
Exports (GNFS) ^b	45	39	55	64	91	114	136	153
Merchandise FOB	39	31	38	48	57	70	84	94
Imports (GNFS) ^b	146	151	171	225	363	464	527	566
Merchandise FOB	108	107	126	149	239	310	365	390
Resource balance	-101	-112	-116	-162	-271	-350	-391	-413
Net current transfers	75	93	105	126	214	240	213	251
Current account balance	-39	-33	-29	-54	-84	-161	-246	-249
Net private foreign direct investment	0	0	0	10	15	8	20	23
Long-term loans (net)	-13	-3	2	11	38	1	-3	-8
Official	1	31	31	8	..	..	..	..
Private	-15	-34	-29	3	..	..	..	..
Other capital (net, incl. errors & omissions)		41	36	18	62	156	221	245
Change in reserves	13	-6	-9	15	-31	-4	8	-11
<i>Memorandum items</i>								
Resource balance (percent of GDP)	-15.2	-17.8	-19.5	-24.3	-33.9	-36.7	-37.4	-36.1
Real annual growth rates (YR80 prices)								
Merchandise exports (FOB)	3.8	-18.9	28.8	-10.9	-1.6	22.0	16.9	15.5
Merchandise imports (CIF)	4.3	0.2	25.6	3.9	46.7	24.8	15.7	6.1

(Continued)

Burundi - Key Economic Indicators								
(Continued)								
Indicator	Actual				Estimate	Projected		
	2001	2002	2003	2004	2005	2006	2007	2008
Public finance (as percent of GDP at market prices)^e								
Current revenues	21.0	22.3	23.5	29.9	29.4	36.7	25.2	25.1
Current expenditures	21.6	20.5	22.0	22.3	23.3	26.4	25.2	24.8
Current account surplus (+) or deficit (-)		1.8	1.5	7.6	6.1	10.3	0.1	0.3
Capital expenditure	5.7	5.5	12.9	16.0	9.6	13.3	18.8	15.1
Foreign financing	2.0	9.3	5.9	5.9	6.9	4.8	7.3	7.6
Monetary indicators								
M2/GDP	20.2	24.1	27.0	27.7	29.8	36.2	36.6	36.6
Growth of M2 (percent)	16.1	27.2	23.1	16.7	26.5	20.5	11.5	11.8
Price indices(YR80 =100)								
Merchandise export price index	50.8	50.4	47.4	67.8	82.4	82.6	84.7	82.5
Merchandise import price index	94.6	94.1	87.7	99.8	109.2	113.4	115.5	116.4
Merchandise terms of trade index	53.7	53.6	54.0	68.0	75.5	72.8	73.4	70.9
Real exchange rate (US\$/LCU) ^f	66.9	56.8	46.2	44.9	49.1	..	..	..
Consumer price index (percent change)	9.3	-1.3	10.7	8.0	13.4	2.5	3.3	4.0
GDP deflator (percent change)	5.5	1.8	11.6	8.3	16.6	4.8	3.6	4.3

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Annex 3: Policy Reform Matrix

**Policy Matrix: Government's Reform Strategies (Objectives and Actions)
and Progress Indicators (Outcome and Outputs)¹²**

SUB-OBJECTIVES/ ACTION AREAS	ACTIONS AND OUTPUT TARGETS		TECHNICAL ASSISTANCE/ DIAGNOSTIC WORK	OUTCOMES/OUTPUTS
	2005/06 ¹³	2006/07		
OVERALL ERSG OBJECTIVE: To support the implementation of Burundi's 1- PRSP and strengthen the Government's capacity to carry out its own development and poverty reduction programs.				Overall outcome (verification): 1. Increase economic growth to at least 5 percent in 2007. 2. Reduce incidence of income poverty.
COMPONENT I: IMPROVE PUBLIC EXPENDITURE MANAGEMENT AND THEIR IMPACT ON THE POOR				
I. Deepen Public Expenditure Management Reforms				Overall outcome (verification): 1. Improve impact of public expenditure on growth, development, and poverty reduction. 2. Improve transparency in public expenditure management.
A. Modernize and Strengthen the Budget Law Framework		Submit a Budget Framework Law to the Parliament modernizing and updating the 1964 law on the general regulations for public accounting.	Consultant financed under IDA EMSP.	Modern, comprehensive and up-to-date budget framework law that addresses 2004 CFAA weaknesses.
B. Improve budget execution	Established an interim computerized Financial Management Information System (i-FMIS) for expenditure and	Prepare, adopt, and deploy a manual on actual budget execution procedures.	Consultant financed under IDA EMSP.	A manual on budget execution procedures provide adequate reference for

¹² Actions and outputs in bold are prior actions already completed and conditions for the second tranche release that are included in the Financing Agreement; other actions and outputs are indicative. Areas where progress is expected for possible subsequent operation are marked-up with an asterisk (*).

¹³ Concerns all the measures taken before the negotiations i.e. through June 2006.

SUB-OBJECTIVES/ ACTION AREAS	ACTIONS AND OUTPUT TARGETS				OUTCOMES/OUTPUTS
	2005/06 ¹³	2006/07	TECHNICAL ASSISTANCE/ DIAGNOSTIC WORK		
	<p>execute 2006 budget on the basis of such system.</p> <p>Set-up at the Ministry of Finance of a Public Finance Reform Committee in charge of coordinating, managing, and monitoring the public finance management reforms.</p>	<p>Prepare a comprehensive budget execution report for 2006 Budget.*</p> <p>Extend the i-FMIS to wage expenditure.</p> <p>Strengthen civil service management through: (i) establishment of a central file and a single identification number for all sectors (education, civil service, army, police); (ii) physical census; and (iii) attribution of a personalized identification card.</p>	Consultant financed under IDA EMSP.	<p>executing the budget through the i-FMIS.</p> <p>The i-FMIS covers all public expenditure financed under the national budget.</p>	
		<p>Secure the i-FMIS and ensure its adequate maintenance, in particular: (i) set up a team of computer professionals in charge of maintaining, developing the system, providing assistance to users, and managing the security system; (ii) install a security system; (iii) complete the user manual and regularly train users.</p>	Consultant financed under IDA EMSP to develop and install a security system.		<p>The i-FMIS is secured and adequately maintained.</p>
		<p>Prepare and adopt a three year consolidated reform action plan 2006-08 covering all the budget and accounting reforms, providing in particular for: (i) the progressive introduction of a Medium-Term Expenditure Program (MTEF) including basic elements of program budgeting (link budget request to results); (ii) a comprehensive budget including both current and capital expenditure; (iii) the simplification of public expenditure procedures and</p>	Consultant financed under IDA EMSP to help developing the consolidated reform action plan.		<p>A three-year rolling consolidated reform action plan is adopted, implemented and provide a good basis for donor support in particular those who signed the 2005 Memorandum of Understanding on budget support.</p>

SUB-OBJECTIVES/ ACTION AREAS	ACTIONS AND OUTPUT TARGETS			TECHNICAL ASSISTANCE/ DIAGNOSTIC WORK	OUTCOMES/OUTPUTS
	2005/06 ¹³	2006/07			
		the rationalization and computerization of ex ante controls; (iv) the delegation to line ministries of the responsibility to manage expenditure commitments; (v) the strengthening of ex post internal control and audit ; (vi) the transfer of wage bill management from the Ministry of Civil Service to the Ministry of Finance; (vii) the upgrade of the i-FMIS into a full IFMIS; and (viii) the restructuring of the financial administration in line with the reform objectives.* Organize a launching workshop to update the diagnosis and survey all existing reform actions plans. Prepare jointly with active donors a Public Expenditure and Financial Accountability Review.	Logistical support financed under IDA EMSP.	A joint assessment of public expenditure management is available as a baseline to assess further progress and set realistic objectives for the consolidated reform action plan. Monitoring indicators to track performance in terms of competition and transparency have been adopted and a M&E system is in place.	
C. Procurement	Adopt an emergency action plan to improve competition and transparency in public procurement.	Satisfactory implementation of the emergency action plan.	Consultant financed under an IDF to define performance monitoring indicators and establish baseline value and targets.	A modern legal procurement framework acceptable by international standards is in place.	
	Adopted an integrated reform action plan.	Submit the revised procurement law to the Parliament.	Consultant financed under an IDF.		

SUB-OBJECTIVES/ ACTION AREAS	ACTIONS AND OUTPUT TARGETS			OUTCOMES/OUTPUTS
	2005/06 ¹³	2006/07	TECHNICAL ASSISTANCE/ DIAGNOSTIC WORK	
D. Financial Management and Reporting		Conduct a capacity assessment and develop an action plan to strengthen it.	Consultant financed under IDA EMSP.	An action plan to strengthen capacity based on a thorough assessment is available and can be implemented starting with 2007 fiscal year.
		Set up the new entities providing for in the revised procurement Code.*	Technical assistance financed under an IDF and IDA EMSP.	New entities providing for in the revised procurement Code are in place.
		Develop modern tools to be deployed in 2007.	Consultant financed under IDA EMSP.	Modern tools (guidelines, manuals, standard bidding documents, model of contracts, and data bases for technical specifications) are operational for 2007 fiscal year.
	Submitted 2004 government general and extra budgetary accounts for audit to the Audit Court.	Submit 2005 government general and extra budgetary accounts for audit to the Audit Court. Produce quarterly budget execution reports based on the i-FMIS (budget allocations, commitments, liquidations, payment orders, and payments) starting with end March 2006. Prepare a quarterly central government financial operations table.	Consultant financed under IDA EMSP.	Timely government account reporting. A comprehensive quarterly budget execution report including pro-poor and HIPC expenditure is available. A quarterly central government financial operations table is available to monitor the implementation of the government financial program.

SUB-OBJECTIVES/ ACTION AREAS	ACTIONS AND OUTPUT TARGETS			
	2005/06 ¹³	2006/07	TECHNICAL ASSISTANCE/ DIAGNOSTIC WORK	OUTCOMES/OUTPUTS
E. Internal control and audit		Prepare and implement a cash management plan aligned with budget execution and updated at least on a monthly basis.	IMF FAD technical assistance.	Cash management has improved.
	Adopt a training program for IGF staff.	Commission a study to design a strategy for government-wide internal control and ex-post audit.	Consultant financed under IDA EMSP.	
		Adopt a strategy for government government-wide internal control and ex-post audit that clarify the responsibilities and the mandate of each internal control and audit institution.	Consultant financed under IDA EMSP.	A strategy for government-wide internal control and ex-post audit is available to be implemented in 2007.
		Prepare a feasibility study to implement the adopted strategy including an assessment of capacity and prepare a comprehensive program of capacity building to strengthen the internal control and auditing system.		A comprehensive program of capacity building to strengthen the internal control and auditing institutions is available to be implemented in 2007.
F. External oversight		Present in the annual report by the Ministry of Good governance of the status of implementation of IGF recommendations.		Follow-up by the Presidency of IGF recommendations.
	Audit by the Audit Court of 2004 government accounts.	Audit by the Audit Court of 2005 government accounts.		An annual audit report of government accounts by the Audit court is submitted to the Parliament and made public.
	Enacted a law providing for a renewable six-year tenure for magistrates.	Launch the recruitment of 17		The Statute of Magistrates guarantees their irremovability. Staffing of the Audit Court is

SUB-OBJECTIVES/ ACTION AREAS	ACTIONS AND OUTPUT TARGETS			OUTCOMES/OUTPUTS
	2005/06 ¹³	2006/07	TECHNICAL ASSISTANCE/ DIAGNOSTIC WORK	
		<p>magistrates.</p> <p>Prepare and deploy methodological guidelines and a manual on internal procedures.</p> <p>Facilitate the membership of the Court of Accounts into the International Organization of Supreme Audit institutions (INTOSAI).</p> <p>Adopt and implement a medium-term training program for magistrates and staff of the Audit Court.</p> <p>To reinforce the country's capacity for monitoring and auditing, support will be sought from reputable international audit organizations to assist the Audit Court in the auditing of the national budget beginning with the budget ending on December 31, 2006.*</p> <p>Computerization of the Audit court.</p>	<p>Assistance by the Belgium Audit Court and Belgium technical Cooperation.</p> <p>Assistance financed under IDA EMSP.</p> <p>Financed under IDA EMSP.</p>	<p>strengthened.</p> <p>Methodological guidelines and a manual on internal procedures provide adequate reference for auditors to perform their duty.</p> <p>Membership of the Audit court into the INTOSAI give access to capacity building programs in external control and audit.</p> <p>Magistrates and staff of the Audit Court benefit from a training program.</p> <p>The auditing and monitoring capacity of the Audit Court is reinforced.</p>
II. Increase the level and impact of public spending on the poor in priority areas				<p>Overall outcome (verification):</p> <p>1. Improve impact of public expenditure on growth and development.</p> <p>2. Improve transparency in public expenditure. Management.</p>

SUB-OBJECTIVES/ ACTION AREAS	ACTIONS AND OUTPUT TARGETS			TECHNICAL ASSISTANCE/ DIAGNOSTIC WORK	OUTCOMES/OUTPUTS
	2005/06 ¹³	2006/07			
A. Strengthen and rationalize budget preparation		Adopt and implement a plan to improve the preparation of 2007 budget including: (i) Advance the launching of budget preparation to June; (ii) Base budget forecasts on a medium-term macroeconomic framework and clear sector objectives and result indicators; (iii) Provide sector ministries with indicative sector envelopes including current and capital expenditures that are consistent with macro-budget constraints as identified in the macroeconomic framework; (iv) Strengthen the capacity of the Budget Directorate and sector ministries to prepare the budget; (v) Set-up a budget preparation committee in sector ministries; and (vi) Request from sector ministries to prepare sector expenditure programs consistent with the PRSP priorities and the indicative sector envelopes (start with priority sectors). *	Technical assistance financed under IDA EMSP.	Improved budget alignment on the PRSP priorities and sector development strategies. 2007 budget is aligned to PRSP priorities and sector development strategies.	
B. Strengthen the poverty focus of the budget	Identified pro-poor expenditure programs including HIPC expenditure to be reflected in 2006 Budget law and tracked under the government budget and accounts classification system. Submitted a draft budget law for 2006 to the Parliament reflecting an increase of the share of pro-poor	Submit a draft 2007 budget law to the Parliament reflecting an increase of the share of pro-poor expenditure in total expenditure compared to 2006 budget.*		Increase of the share of pro-poor expenditure in total expenditure from 33.6 percent in 2005 budget to 35.5 percent in 2006 (revised budget) and to the PRSP target in 2007.	

SUB-OBJECTIVES/ ACTION AREAS	ACTIONS AND OUTPUT TARGETS			OUTCOMES/OUTPUTS
	2005/06 ¹³	2006/07	TECHNICAL ASSISTANCE/ DIAGNOSTIC WORK	
	expenditure in totals expenditure compared to 2005 budget.			
III. Strengthen Poverty Reduction Strategy Monitoring and Evaluation				
A. Improve poverty data	Conduct surveys on households living conditions: MICS (2000), ESDSR (2002), CWIQ (2002) and a survey on the perceptions of the poor (2004).	Prepare and adopt a comprehensive plan under the full PRSP to improve data collection and analysis, and establish a comprehensive Poverty Reduction Information System.	Belgian Trust Fund.	Overall outcome (verification): 1. Improve knowledge of poverty. 2. Improve poverty reduction targeting. A comprehensive plan under the full PRSP to improve data collection and analysis, and establish a comprehensive Poverty Reduction Information System is adopted and reflected in the first PRSP.
B. Monitor the implementation of poverty reduction policies and reforms	Open a government account at the Central Bank to deposit HIPC resources and pay budgeted HIPC expenditure. Set-up an Independent HIPC Expenditure Oversight Committee coordinated with the PRSP National Committee to be put in place. Adopt a monitoring system for HIPC expenditure based on government budget and account classification	Prepare and adopt an action plan to improve data collection and analysis for monitoring the implementation of the PRSP. Prepare a report on the execution of pro-poor expenditure programs and HIPC expenditure and submit it to the HIPC Expenditure Oversight Committee.	Technical assistance from AFRISTAT (financed by UNDP) and a Belgium Trust Fund.	An action plan to improve data collection and analysis for monitoring the implementation of the PRSP is adopted and described in the first PRSP. HIPC expenditure are executed according to national budget execution procedures, paid from the special HIPC account, tracked through the i-FMIS, and can be audited by the Audit court as part of the annual audit of government accounts and monitored through the HIPC Expenditure Oversight.

SUB-OBJECTIVES/ ACTION AREAS	ACTIONS AND OUTPUT TARGETS			OUTCOMES/OUTPUTS
	2005/06 ¹³	2006/07	TECHNICAL ASSISTANCE/ DIAGNOSTIC WORK	
	Prepare and adopt an action plan, budget and timetable by the PRSP Secretariat to meet the HIPC completion point trigger related to monitoring progress in delivery of services in education, health and justice.	Implement the action plan related for the HIPC completion point trigger related to monitoring progress in delivery of services in education, health and justice. A public expenditure tracking survey (PETS) is conducted in education, health, and justice sectors.	Technical assistance and financing from IDA EMSP and a Belgian Trust Fund.	Committee. For education, health, and justice, the results of: (i) a public expenditure tracking by exercise; (ii) an evaluation of users of the quality of services provided; (iii) an evaluation by providers of constraints to effective delivery of services, are available; and have been used as a basis to prepare an action plan to improve services.
C. Monitor the impact on poverty of policies and reforms		Establish a monitoring and evaluation system of the social and environmental impact of coffee sector reforms including an ex-ante evaluation of the impact of the reform measures identified in the detailed reform action plan once it has been adopted.	Technical assistance and financing from IDA EMSP and a Belgian Trust Fund.	A program is in place to ensure that the likely impact of the agreed reforms is analyzed ex-ante, and during implementation.
D. Improve statistics		Submit to the Parliament the draft legal framework for statistical activities. Adopt and start implementing a 2006-08 emergency plan for the National Institute of Statistics to be reflected in the first PRSP. Launch the preparation of a five-year statistical development plan as part of the emergency plan for the National Institute of Statistics. Prepare and adopt a 2006-08	Technical assistance from AFRISTAT, the IMF and IDA EMSP (financial assistance). Technical assistance from AFRISTAT, Trust Fund for Statistical Capacity Building, and IDA EMSP (interim assistance). Technical assistance from	A 2006-08 emergency plan for the National Institute of Statistics is being implemented. A five-year statistical development plan is being developed. A 2006-08 emergency plan

SUB-OBJECTIVES/ ACTION AREAS	ACTIONS AND OUTPUT TARGETS			OUTCOMES/OUTPUTS
	2005/06 ¹³	2006/07	TECHNICAL ASSISTANCE/ DIAGNOSTIC WORK	
		emergency plan for sector statistics (education, health, agriculture, and population) to be reflected in the first PRSP.	AFRISTAT, IDA EMSP, and Belgian TF.	for sector statistics (education, health, agriculture, and population) is being implemented.
COMPONENT II: ACCELERATE SUSTAINABLE ECONOMIC GROWTH				
I. Reform the Coffee, Tea, and Cotton sectors				
A. Reform the Coffee Sector	Adopt a coffee sector reform strategy and action plan (2004).	Adopt a financing plan for the 2006/07 crop season.		Overall outcome (verification): 1. Accelerate sector growth (national accounts). 2. Increase sector contribution to poverty reduction (PSIA).
	Liberalize entry at all levels of the profession. Eliminate "taxe verger", a parafiscal levy on producers.	Conduct an audit by an external independent audit firm of the 2004/05 and 2005/06 crop seasons.	Consulting firm financed under IDA EMSP.	The 2006/07 crop season is financed without the guarantee of the State to the commercial banks. Financial flows and revenue distribution among sector actors are audited for the last two crop seasons.
	Liberalize the coffee sector, in particular the producer price setting and the marketing. Abolish the government guarantee to banks extending crop financing. Set-up a steering committee with representatives of all stakeholders to coordinate, manage and monitor the reform. Prepare and adopt a road map providing for all the steps needed to	Adopt a 2006-08 detailed implementation action plan to reform the coffee sector, including: (i) the restructuring of the sector debt; (ii) the setting-up of legal, a regulatory and institutional framework consistent with the liberalization and privatization of the sector; (iii) arrangements for managing and financing services; (iv) strategies to privatize State's assets (washing stations and factories managed by SODECO); and (iv) accompanying measures,	Studies financed under IDA EMSP to define: (i) the legal, regulatory and institutional framework consistent with a liberalized and privatized environment; (ii) the provision and financing mechanisms for key services in liberalized and privatized environment; (iii) the strategies for privatizing washing stations, and factories managed by SODECO; and (iv)	A three-year rolling implementation action plan (2006-08) providing for (i) the setting-up of a legal, regulatory and institutional framework consistent with a liberalized and privatized environment; (ii) the provision and financing mechanisms for key services in liberalized and privatized environment; (iii) the privatization of washing stations, and factories

SUB-OBJECTIVES/ ACTION AREAS	ACTIONS AND OUTPUT TARGETS			
	2005/06 ¹³	2006/07	TECHNICAL ASSISTANCE/ DIAGNOSTIC WORK	OUTCOMES/OUTPUTS
B. Reforming the Tea Sector	implement 2004 reform strategy, including : (i) the restructuring of the sector debt; (ii) the setting-up of legal, a regulatory and institutional framework consistent with the liberalization and privatization of the sector; (iii) arrangements for managing and financing services; (iv) a strategy to privatize washing stations, and factories managed by SODECO; and (iv) accompanying measures.	notably a social plan in the event of layoffs, institutional support and capacity building.* Launch the bidding process for the sale of State's assets (washing stations and factories managed by SODECO) to the private sector. Satisfactorily implement the rolling three-year implementation action plan and adopt an updated action plan for 2007-09 in a timely manner.*	accompanying measures.	managed by SODECO; and (iv) the implementation of accompanying measures, has been adopted, is being implemented and monitored by the Coffee sector reform Steering Committee. New institutions consistent with a liberalized and privately-run sector are in place. The bidding process for the sale of State State's assets (washing stations and factories managed by SODECO) to the private sector has been launched. The three-year reform action plan is updated regularly to take reflect actual progress in implementing the reform.
	Prepare a sector reform strategy (2004).	Set-up a steering committee with representatives of all stakeholders to coordinate, manage and monitor the sector reform. Update and adopt the sector reform strategy as well as a road map providing for all the steps and the main components of the reform strategy (liberalization, opening to private sector, State disengagement, institutional reforms, services,	Consultation over the strategy with sector national partners by IDA EMSP.	A sector reform strategy as well as a road map providing for all the steps and the main components of the reform strategy (liberalization, opening to private sector, State disengagement,

SUB-OBJECTIVES/ ACTION AREAS	ACTIONS AND OUTPUT TARGETS			OUTCOMES/OUTPUTS
	2005/06 ¹³	2006/07	TECHNICAL ASSISTANCE/ DIAGNOSTIC WORK	
C. Reforming the Cotton Sector		<p>reviving the sector).*</p> <p>Adopt a satisfactory three-year action plan to implement the 2004 tea sector reform strategy (liberalization, privatization, institutional reforms).*</p> <p>Conduct a technical and financial audit of OTP for 2005 year and adopt a restructuring plan consistent with the adopted sector reform strategy and providing for the clearance of any arrears to producers.</p>	<p>Consultant financed under IDA EMSP.</p>	<p>institutional reforms, services, reviving the sector) have been adopted.</p> <p>A three-year action plan (2007-09) is adopted and being implemented.</p> <p>A restructuring plan based on the results of a financial and technical audit and consistent with the sector reform strategy is being implemented.</p> <p>All arrears to producers have been cleared and producers are paid within normal delays.</p>
	<p>Prepare a sector reform strategy (2004).</p> <p>Export by COGERCO of all existing stocks of ginned cotton.</p> <p>Clear all outstanding arrears to producers on crop seasons prior to 2006.</p> <p>Implement an action plan providing for COGERCO purchasing all of cotton production for 2006 campaign.</p>	<p>Set-up a steering committee with representatives of all stakeholders to coordinate, manage and monitor the sector reform.</p> <p>Update and adopt the sector reform strategy as well as a road map providing for all the steps and the main components of the reform strategy (liberalization, opening to private sector, State disengagement, institutional reforms, services, reviving the sector).*</p> <p>Conduct a technical and financial audit of the COGERCO for 2005</p>	<p>Mobilize the technical and financial assistance to update the sector reform strategy.</p>	<p>A sector reform strategy as well as a road map providing for all the steps and the main components of the reform strategy (liberalization, opening to private sector, State disengagement, institutional reforms, services, reviving the sector) has been adopted.</p> <p>COGERCO performance are improving.</p>

SUB-OBJECTIVES/ ACTION AREAS	ACTIONS AND OUTPUT TARGETS			OUTCOMES/OUTPUTS
	2005/06 ¹³	2006/07	TECHNICAL ASSISTANCE/ DIAGNOSTIC WORK	
		<p>year and adopt a restructuring plan consistent with the adopted sector reform strategy.</p> <p>Abolish the agreement obliging the COGERCO to sell ginned cotton to the COTEBU.*</p> <p>Adopt an emergency transition restructuring plan for the COTEBU pending a more definitive solution in the context of the sector overall reform strategy.</p>		<p>All arrears to producers have been cleared and they are paid within normal delays.</p> <p>COTEBU performance are improving.</p>
II. Improve private sector environment: Promote private sector development, increase competitiveness, and increase the country's attractiveness for national and foreign investment.				Overall outcome (verification): 1. Increase in private sector investment to GDP ratio by ½ percentage point per year. 2. Increase in non-coffee export to GDP ratio.
A. Strengthen the legal and regulating framework for businesses	Enact the new insolvency bill.	<p>Assess the public/private sector consultation framework.</p> <p>Based on the result of the assessment, establish a single public/private sector consultation framework.</p> <p>Submit revised Investment Code to Parliament.</p> <p>Establish a one stop window on investment promotion.</p> <p>Adopt the implementation ordinance for the Code of Commerce.</p>	Support under IDA EMSP.	<p>A single inclusive public/private sector consultation framework is in place.</p> <p>A modern and updated legal and regulatory framework for private sector operations is in place (Insolvency law, Investment Code, Code of Commerce, Companies Act) and disseminated.</p>

SUB-OBJECTIVES/ ACTION AREAS	ACTIONS AND OUTPUT TARGETS			OUTCOMES/OUTPUTS
	2005/06 ¹³	2006/07	TECHNICAL ASSISTANCE/ DIAGNOSTIC WORK	
		Assess and based on the results update the Companies Act. Disseminate all legal documents and regulations related to the private sector. Strengthen the arbitration center.	Support under IDA EMSP.	Institutions to facilitate settlement of business disputes are in place and strengthened.
B. Build a conducive businesses environment	Set-up an arbitration center.	Complete an Investment Climate Assessment with the assistance of the World Bank* and prepare an action plan to strengthen: (a) the legal and regulatory framework; (b) enterprise taxation; (c) competitiveness; and (d) trade facilitation, especially of exports.*	World Bank expertise and technical assistance.	The report of the Investment Climate Assessment is available as a basis to prepare an action plan addressing: (a) the legal and regulatory framework; (b) enterprise taxation; (c) competitiveness; and (d) trade facilitation, especially of exports.
C. Strengthen the financial sector		Conduct a banking sector review. Based on the banking sector review, prepare and adopt a restructuring and strengthening sector strategy consistent with the ongoing revision of the banking sector law.* Prepare a Financial sector Assessment jointly with the IMF and the World Bank.*	Mobilize the TF FIRST or IDA EMSP. IMF and the World Bank expertise.	A review of the banking sector is available and a strategy to restructure and strengthen the sector has been adopted to be implemented in 2007. A Financial sector Assessment is available as basis to prepare a financial sector restructuring plan.
D. Increase access to financing for small business and in rural areas		Submit to Parliament new regulations governing micro-finance institutions and operations meeting international best practice standards.	UNDP project support.	New regulations governing micro-finance institutions and operations meeting international best practice

SUB-OBJECTIVES/ ACTION AREAS	ACTIONS AND OUTPUT TARGETS			TECHNICAL ASSISTANCE/ DIAGNOSTIC WORK	OUTCOMES/OUTPUTS
	2005/06 ¹³	2006/07			
		Set-up a supervisory authority within the Central Bank. Adopt an action plan to strengthen the capacity of the supervisory authority.		UNDP project support.	standards have been adopted and are enforced.
E. Settle government arrears to the private sector	Complete the external audit of government arrears to the private sector.	Prepare a strategy for settling all government arrears to the private sector certified by the external audit. Satisfactory progress in implementing the Government's strategy for settling all domestic arrears to the private sector.		Legal advice services financed under IDA EMSP.	The strategy for settling government all domestic arrears to the private sector including banks has been adopted and implemented in line with 2006 revised budget constraints.
III. Reform public enterprise through privatization and private/public partnerships					Overall outcome (verification): 1. Reduce the role of the State in the productive sector and utilities. 2. Improve competitiveness and efficiency of utilities. The database (technical, economical and financial information) of public enterprises is comprehensive, up-to-date and accessible.
A. Improve the management and supervision of public enterprises		Strengthen the monitoring and supervision of public enterprises. Complete the profiling of all public enterprises.		Technical assistance provided to the SCEP under IDA EMSP.	A clear, simple and facilitating institutional framework for privatization that promote competition, fairness and transparency is in place.
B. Set-up a sound institutional framework for privatization		Streamline the institutional framework and processes for privatization while ensuring transparency and equal treatment. Strengthen the SCEP capacity to conduct the preparatory work and privatization transactions.		Technical assistance and capacity building activities provided to the SCEP under	Improved capacity of the SCEP to prepare and conduct privatization transactions.

SUB-OBJECTIVES/ ACTION AREAS	ACTIONS AND OUTPUT TARGETS			TECHNICAL ASSISTANCE/ DIAGNOSTIC WORK IDA EMSP.	OUTCOMES/OUTPUTS
	2005/06 ¹³	2006/07			
C. Prepare a sound privatization program	Adopt a strategic privatization plan including the establishment of a unit to implement the privatization, identification of enterprises to be privatized, and adopt a strategy and plan for privatization of each (2003).	Government to adopt and start implementing a three-year rolling State disengagement program (2007-09) from production, commercial and banking sectors.			A three-year rolling State disengagement program (2007-09) from production, commercial and banking sectors and a road map have been adopted. The bidding process for the sale of all OCIBU's assets in sectors other than coffee and of all of its shares in Société Hôtelière Nouvelle du Burundi (New Hotelier Company of Burundi) has been re-launched. OCIBU has transferred its shares in banks, SOCABU (insurance company), EPB and the BCC to the State before the State launch of the privatization of these enterprises. The bidding processes for the sale of State's shares in APB, EPB, UCAR, BCC, and OPHAVET have been launched.
	Adopt a State disengagement program for 2006. Brought to the point of sale of: (i) the State's shares in ALCOVIT; and (ii) 70 percent of State's shares in ONAPHA.	Prepare and adopt a road map providing for all the steps necessary for satisfactory implementation of the State disengagement program, including sector privatization strategies for each scheduled transaction. Re-launch the bidding process for the sale of all OCIBU's assets in sectors other than coffee and of all of its shares in Société Hôtelière Nouvelle du Burundi (New Hotelier Company of Burundi).			
			Transfer OCIBU's shares in banks, SOCABU (insurance company), EPB and the BCC to the State. Launch the bidding process for the sales of the State's shares in APB, EPB, UCAR, BCC, and OPHAVET.*		

Annex 4: Key issues identified in the 2004 CFAA, reforms already launched, and priorities supported under the operation

Weaknesses identified in CFAA	Resulting risk	Reforms so far undertaken	Priorities supported under the operation
<i>Inadequate and outdated legal framework.</i>	Inconsistencies in the allocation of key public finance management responsibilities.	Launch of the revision and update of the legal and regulatory framework.	Submission to Parliament (by the end of 2006) of a law that will define the principles and responsibilities for management of public resources, including requiring the Government to produce its accounts in a timely manner and submit it for audit to the Court of Accounts.
<i>Lack of adequate guidance and procedures for budget preparation.</i>	<ul style="list-style-type: none"> - Weak linkages between priorities and budget allocations; - Weak long term horizon of public expenditure. 	<ul style="list-style-type: none"> - Greater upstream involvement by line ministries in 2006 budget; - Development of sector strategies, in particular in health, education, agriculture, and justice, to support budget preparation and align the budget to the Government's strategic priorities; - Linkage of 2006 budget to priorities identified in the context of the PRSP under preparation; - Identification of pro-poor expenditures including those financed under HIPC resources that are integral part of the budget law. 	<ul style="list-style-type: none"> - Improvements in budget preparation process (for 2007). Enhanced consistency with the PRSP macro framework, and sector policies; - Integration of current and investment expenditure; - Elaboration of a roadmap towards the adoption of medium expenditures framework (MTEF); - Adoption of budgets that respect MTEF ceilings.

Weaknesses identified in CFAA	Resulting risk	Reforms so far undertaken	Priorities supported under the operation
<i>Lack of adequate guidance and procedures for budget execution.</i>		Launch of preparation of manuals of procedures for budget execution.	Deployment of manuals of procedures for budget execution.
<i>Lack of reliable reporting systems for budget execution.</i>	Weak capacity for monitoring budget execution.	Introduction of an interim Financial Management Information System (FMIS) covering public expenditure at every step of the budget execution with 2006 budget.	<ul style="list-style-type: none"> - Production of quarterly budget execution reports based on the i-FMIS statements; - Preparation of a quarterly central government financial operations table.
<i>Weak public accounting capacity.</i>	Inability to prepare accounts and provide information that is necessary for decision making and monitoring of public expenditure.	<ul style="list-style-type: none"> - Implementation of a unified functional and economic classification for public expenditure with the 2005 budget; - Implementation of a double-entry accounting system with the 2005 budget. 	Preparation of: (i) Treasury balance of accounts; (ii) a consolidated administrative Government account (<i>Compte administratif</i>); and (iii) a consolidated public accounts balance (<i>Compte de Gestion</i>)
<i>Proliferation of bank accounts and lack of a cash management and planning system</i>	<ul style="list-style-type: none"> - Weak government control over, and management of treasury resources; - Weak implementation of government programs due to inadequately planned treasury flows. 	<p>Tightened rules for the opening and maintenance of bank accounts.</p> <p>Closure of redundant most treasury accounts.</p>	Preparation and implementation of a cash management plan aligned with budget execution and regularly updated.
<i>Lack of clarity of the roles of institutions of internal control</i>	<ul style="list-style-type: none"> - Inefficient use of scarce resources - Lack of impact of government internal audit 		Elaboration and implementation of a strategy to clearly allocate responsibilities and determine the organizational structure for internal controls and audit functions.

Weaknesses identified in CFAA	Resulting risk	Reforms so far undertaken	Priorities supported under the operation
<i>Lack of government audited accounts and weaknesses in the external audit arrangements.</i>	Weak oversight of the use and management of public finance.	<ul style="list-style-type: none"> - Creation and operationalization of the Audit Court (<i>Cour des Comptes</i>); - Publication of the first budget execution audit (for 2004 budget). 	<ul style="list-style-type: none"> - Further strengthening of the Audit Court through development of its audit methodology and procedures; training; and affiliation to the international Organization of Supreme Audit Institutions (INTOSAI); - Audit by the Audit Court of 2005 government accounts.
<i>Weak coordination of public finance management reforms.</i>	<ul style="list-style-type: none"> - Lack of impact and adequate progress of reform program 	<ul style="list-style-type: none"> - Establishment of a Public Finance Reform Committee at the Ministry of Finance to coordinate and supervise implementation of the reforms. 	<ul style="list-style-type: none"> - Preparation and adoption of a three year integrated reform action plan 2006-08 covering all public finance reforms.
<i>Diluted management of civil service salaries</i>	Weakened control and management of this class of expenditures.	<ul style="list-style-type: none"> - Decentralized financial controllers from the Ministry of Finance to the Ministry of Civil Service, to control ex-ante wage bill commitments 	<ul style="list-style-type: none"> - Extension of the i-FMIS to wage expenditure; - Strengthened civil service management through: (i) establishment of a central file and a single identification number for all sectors (education, civil service, army, police); (ii) physical census; and (iii) attribution of a personalized identification card.

Annex 5: Coffee Sector Reforms: The Point of View of Producers¹⁴

While the coffee sector remains at the core of Burundi's economy, there has been a decline during most of the 1990s as well as in recent years in both the quality and quantity of coffee produced. This decline can be attributed to a number of factors. One key factor is the civil war which, among others, forced many growers to stay away from their farm for fear of being attacked, and led to a lack of maintenance of the roads needed for the transportation of crops to coffee washing stations. Another important factor that has contributed to the decline in production and quality is the persistent decrease (in real terms) in the prices paid to coffee farmers since the 1980s. While nominal producer prices increased in the 1990s, inflation rates were still higher, leading to a decline in real prices. These low prices combined with the impact of the conflict and a lack of incentives in the pricing structure to encourage farmers to improve the quality of their product contributed to the drop in both the quantity produced and quality observed since the early 1990s. These adverse effects on both quality and yields of the conflict and the low prices paid to farmers (as well as of the lack of sufficient differentiation in prices paid to farmers according to the quality of their crop) have been further exacerbated by production problems such as aging of trees, delays in the application of treatment (insecticides) against disease and poor maintenance of farms. Insufficient inputs, soil degradation, and Coffee Berry Disease have also been factors affecting the quantity and quality of production. Technical problems emanating from years of neglect of industrial equipment and research facilities are also believed to have affected the processing of parchment coffee.

On the financial side, the drop in production and quality, as well as a market decline in the efficiency of the marketing chain, led to large deficits in the sector which had to be financed by the state because of guarantees provided by the Government to the financial intermediaries involved in the sector. After a short recovery in early 2003, coffee prices plummeted in 2004 to the lowest level in almost ten years, but then recovered somewhat in 2005. Still, the cumulative deficit of past campaigns has placed pressure on the ability of the Government to fund much needed reintegration and reconstruction efforts as well as public services in the areas of education, health, and access to basic infrastructure services. In order to understand the point of view of producers regarding past and future reforms of the sector, a survey-based analysis of the perceptions of producers was implemented in 2004, and presented in a workshop in Burundi in March 2005. The objective of this annex is to present key results from this survey. But before doing so, it is useful to explain selected issues around the need to improve performance through reforms.

Selected issues in the sector and need for reforms.

Recommendations for liberalization of the coffee industry essentially call for the implementation of the following measures: removal of price guarantees by the state; the ability of each participant in the industry to individually negotiate with banks for credit; the exposure of all participants in the industry to market forces; free entry of prospective investors at all stages of the sector including direct export and their ability to compete fairly in the market; and the removal of unnecessary regulatory controls in the market. One key issue is that the removal of government guarantees would expose participants in the market to a greater level of risk. Considering that coffee is the mainstay of the economy, the concern of

¹⁴ This annex is based on background work prepared for the Burundi poverty report at the World Bank.

the Government is the fact that destabilization of the industry, caused by external factors, could reverberate throughout the economy with serious adverse consequences to other sectors. As much as donors sympathize with this concern, it is argued, however, that maintaining the status quo could result in even greater economic and social costs to the country.

Under the current proposals, the two coffee mills managed by SODECO would eventually be disposed of. In the meantime, the Government would facilitate the entry of more privately-owned coffee mills into the industry. The infusion of private capital into coffee mills would lead to the introduction of modern and more productive mills designed to enhance the quality of coffee produced. Indeed, even though Burundi had washing stations which should help meet the increasing world demand for good quality coffee, it has been unable to do so because the two large industrial type coffee mills were not designed to preserve the quality of coffee sent from coffee washing stations. In recognition of these problems the Government has lifted the limitations placed on the ownership and operation of privately owned coffee mills.

In addition to allowing private investors to establish coffee mills and washing stations, the reform proposals call on the Government to put in place a policy that specifically allows coffee washing station operators to be in charge of their own marketing decisions. This means that they would have direct access to the market where they can establish relationships with specialty importers and roasters, adapt their coffees to the requirements of such buyers, and enter into longer-term supply contracts with such buyers. In addition to enabling operators to offer growers more attractive and possibly more stable prices, such contracts could also imply that auctions will gradually become an alternative sales channel, whereas OCIBU's current price setting role will change to a monitoring role. Freedom to compete at the farm gate would also motivate operators to make sure that they attract sufficient cherry supplies. Together with the potential benefits of being able to market better quality coffee, this would lead to better interaction with and support for the grower.

The Government's commitment to reform the coffee sector would require legal and regulatory reforms which address the concerns of financial institutions with respect to the exposure to risk from financing coffee purchases. Financial institutions play a major role in financing the purchasing, processing and export of coffee. Under the current system, the Government guarantees the repayment of loans taken to finance coffee purchases and processing for export. The new policy recommendations, however, call for freeing up of producer prices and removing state guarantees. Part of the rationale for removing government guarantees stems from the fact that currently, most of the interest costs are incurred by OCIBU, which has large unsold stocks of coffee on hand, also leading to quality degradation and hence lower prices. Removing state guarantees, as agreed by the authorities in January 2005, would help provide incentives for speeding up the marketing of coffee. The removal of state guarantees would however have two other implications. First, commercial banks would be forced to take additional steps to ensure that loan applicants are following proper business practices and have adequate collateral to secure advances. Second, without state guarantees, coffee processors and exporters would have to protect themselves against price risk, stemming from the volatility of coffee prices. Inadequate coverage against price risk would mean that processors and exporters would not be eligible for reasonably priced credit which may force them to increase their margins, with adverse effects on farmgate prices. To

minimize the undesirable consequences of the removal of state guarantees, it is recommended that the Government establish a legal and regulatory framework that address the legitimate security concerns of the banking sector and facilitates access to risk management instruments and affordable (international) credit.

The liberalization will also mean that exports of coffee will now be permitted, thereby solving the issue of the “smuggling” of coffee into neighboring countries. This would not be smuggling anymore, but would instead be legal, and it could even help to set adequate reference prices in the domestic market, so that farmers get the full benefit of their production. As mentioned above, one problem that affected the quantity of coffee officially produced in Burundi in the past was the illegal smuggling of coffee by farmers and other intermediaries to neighboring countries in search of higher prices. When taxes were levied on coffee exports, such illegal exports could imply a significant drain on the sources of revenue of the Government. But these taxes have been eliminated. Free exports could in fact help to increase producer prices to competitive levels in comparison to prices offered in neighboring countries (coffee growers might get 55 percent to 60 percent of the world market price). Finally, the liberalization of the coffee sector would serve as a prelude to the disposal of coffee washing stations managed by the SOGESTALs, and the coffee mills operated by SODECO. While the Government is in principle committed to implementing the various reforms described above, it is also important that specific steps be taken to ensure that by the end of the target date, the transition from a publicly-owned to a privately-run and managed coffee industry would have occurred with a minimum risk of financial upheaval. A number of measures could help to ensure a smooth transition.

Producer perceptions about the sector and reform proposals

This annex provides an analysis of a perceptions survey implemented in July 2004 with funding from the Belgian Poverty Reduction Partnership in order to inform the preparation of Burundi’s Poverty Reduction Strategy Paper. The survey data shed some light on the importance of agriculture, as a source of income in the Burundian economy. At the national level, income from agricultural activities is the principal source of revenue for more than half of the individuals or population. Some 53 percent of the population mentioned various agricultural products as their main source of revenue compared to wage income, which is the main source of revenue for only 19 percent of the population. Among agricultural products, foodstuffs serve as the main source of revenue for the highest percentage (30 percent) of individuals. This is followed by coffee, which constitutes the main source of revenue for 14 percent of the population.

At the national level, 35 percent of the population identified itself as engaged in coffee production. Most coffee producers live in rural areas and within the consumption quintiles, the number of people who are involved in coffee farming decreases as wealth increases. Also, most coffee producers are small scale growers. At the national level, two thirds of coffee growers produced less than 300kgs of coffee during the last season. When farmers are asked how their revenue from coffee has evolved over the last 5 years, about 70 percent say that they have experienced a decrease in revenue during that period. A higher percentage of those whose incomes fell over that period are women and rural dwellers. These results are not surprising given the impact of the ongoing conflict, the drop in world coffee prices, and past losses in quality and quantity of coffee produced in Burundi.

Opinions are mixed regarding the way coffee is currently marketed in the country. When people were asked to compare the level of difficulty of the current system of marketing for their crop versus the system that existed five years ago, 40 percent state that the current system is easier than the previous system, but 45 percent feel that the current system is more difficult, with the rest stating that the current system is not really different from the previous one. Still, the fact that close to half of the respondents are not satisfied with the current system suggests that reforms for the sector are needed.

For those who feel that the current system makes it more difficult to sell their crop, the weaknesses of the current system are related to the reduction in producer prices and a lack of transparency. In urban areas, most people feel that the current system is in fact responsible for the reduction in producer prices, and a decrease in the number of collection points for crops. In rural areas, the main issue with the new system is also the reduction in producer prices, plus the lack of transparency. Poorer farmers tend to be more concerned with the reduction in producer prices, the decrease in the number of collection points after harvest, mismanagement and corruption within the agencies, and the lack of transparency. In the wealthiest quintile, the main problems are mismanagement and corruption within the agencies, the limited number of collection points and the lack of transparency. Thus, the responses suggest dissatisfaction with, and a lack of confidence in the reforms of the early 1990s which were intended to serve as incentives for farmers to improve the quantity and quality of the coffee produced.

The opinion survey also asked about the perceptions of farmers regarding the potential for positive and negative consequences from the creation of the SOGESTALs in the management of the coffee production system. When asked if they have had any negative experiences with the SOGESTALs and the two privately-owned coffee mills (SIVCA, SONICOFF), most respondents said that there were no negative consequences. But among those who had issues with these institutions (30 percent of respondents at the national level), the three main problems in rural areas were delays in the reimbursement of expenses, decreases in the producer price of coffee, and decreases in the quantity of coffee produced. The three main problems in urban areas were delays in the payment for coffee purchases, decreases in the quantity of coffee produced, and decreases in the producer price of coffee. Within quintiles, the likelihood of raising issues was higher in the lowest quintiles, i.e. the share of respondents stating that there were no negative consequences decreases as wealth increases. This suggests that perhaps these institutions have not sufficiently catered to the concerns of coffee growers who belong to the poorest quintiles.

Positive experiences with the SOGESTALs include improvements in the process of weighing the coffee (this is a sensitive issue for farmers since the income they receive depends on the weight of their crop), prompt payment for coffee purchased, and the establishment of coffee washing stations and centers where cherries can be manually processed. In rural areas, most people were impressed with the decline in discrepancies at the weighing stations, prompt payment for the harvested coffee, and the establishment of washing stations. In addition to these factors, urban respondents were pleased with the sense of responsibility given to them by these institutions. Across quintiles, respondents were also pleased with the substantial decline in discrepancies in weighing coffee, the convenient location of washing stations and other processing centers, and the prompt payment by the institutions for the coffee purchased. It is not surprising that these factors were repeatedly

cited by respondents since taken together, they often determine how much and how rapidly farmers get paid for their crop. It is also notable that unlike the previous question where a significant number of respondents said that there were no negative consequences associated with the creation of these institutions, only a few respondents said there were no positive outcomes from the creation of the washing station management companies and coffee mills.

As for the overall assessment of the washing station management companies and coffee mills, the results indicate that a very large majority (78 percent) of respondents at the national level had a positive view of these institutions. In rural areas where more residents rely on the services of these institutions, the support was lower than in the urban areas. Yet at the same time, support was slightly higher in the lowest quintiles. The survey also suggests that most of coffee farmers are either not well-informed on the credit making functions of commercial banks. Among those who are informed, many farmers do not even try to apply for loans from banks because of collateral requirements which they cannot satisfy. The data show that over the previous three years, only 5 percent of respondents said they contacted a bank, albeit often unsuccessfully, to obtain credit for farming purposes. Many of those who applied for credit to buy coffee trees, the main reason for rejection by the bank was that they did not sell their coffee to the authorities (this may relate to farmers who sell their coffee to merchants or travel to neighboring countries to take advantage of higher prices or favorable rates of exchange.) Another 23 percent needed funds to buy fertilizers and pesticides, but could not provide good collaterals. Some 14 percent needed the banks to help for the purchase of equipment, but interest rates were too high. Finally 17 percent needed funds for general purpose loans for their coffee farms, and these said that they were unsuccessful because they could not provide a collateral acceptable to the bank. It is worth noting that among those who could not get loans because the interest rate was too high, women outnumber men by at least 10 percentage points.

The fact that credit is so difficult to get is in part due to non-payment of loans by farmers. The survey indicates that 50 percent of respondents believe that the main reason for the non-payment of debts is the lack of the means to pay back the loans, whereas 32 percent feel that when someone fails to payback a loan, it is usually because the person had no intention to pay it back to start with. The fact that one out of every three respondents believe that loans are defaulted on purpose suggests significant issues with the credit market, and help explain why private financial institutions which could be a good source of credit may be discouraged from participating in the credit market or may require strong guarantees that then disqualify most credit seekers, especially the poor and economically vulnerable. Most of the people interviewed seem to be aware of the wider implications of loan defaults by a few farmers in any given community. When they were asked to suggest possible solutions for the potentially high rate of defaults, respondents mentioned higher requirements as collaterals (29 percent) and rigorous credit checks for loan applicants (22 percent).

Most respondents (85 percent) at the national level are not aware of suggestions by the Burundian Government and donors to privatize the Coffee Marketing Board (OCIBU) and sell its shares in the Management of the Coffee Washing Stations (SOGESTALs) and the company managing the coffee mills (SODECO). The share of respondents aware of the Government's intention to disengage from the sector was higher for richer households. Because the amount of coffee produced decreases with the wealth of households, coffee producers who also tend to be poorer households are the least informed about privatization

issues. Respondents have concerns about what might happen under privatization. Among potential negative consequences, the three most cited are a reduction in producer prices (31 percent), a more complicated system of marketing harvested coffee (27 percent), and concerns that small scale producers will be at a disadvantage (27 percent). Some respondents also see some potentially positive effects, namely an increase in producer prices (19 percent), and better management practices (17 percent). Yet the number of respondents concerned about negative consequences outnumbers those who expect a positive outcome from privatization.

At the same time, most respondents would support attempts by their respective cooperatives to purchase shares in the SOGESTALs regardless of any adverse consequences. At the national level, 58 percent of respondents said that they would be in favor of buying shares in the SOGESTALs. In response to a question asking those in favor of such investments to provide reasons why they would financially support their cooperatives in their bid to purchase ownership shares in the SOGESTALs, over 76 percent of respondents cited the beneficial effects of the potential growth in revenue as the key motivating factor in supporting this decision. The reason is especially important among female respondents and residents of rural areas. These responses suggest a strong desire to participate in the decision-making process of these institutions, as well as in some respects a vote of confidence in the management of these institutions, as only 14 percent of respondents saw their potential investment as a means of gaining access and influencing the decision-making process of the SOGESTALs. The data also suggests that 62 percent of those who would support such investments would be willing, if necessary, to make financial contributions to their cooperatives to facilitate the purchase of shares. The willingness to make these financial contributions is higher with women than men and, as expected, increases with the well-being of the household. In fact, three out of four people in the highest quintile expressed their interest in making these contributions.

It is also worth noting that there were some respondents who were not in favor of their cooperatives purchasing shares in the SOGESTALs for two main reasons. First, there were concerns over the distance of the cooperatives from the SOGESTALs. Second, these respondents did not think that the degree of representation that the SOGESTALs were likely to offer to the cooperatives would be good enough to enable them to influence the decisions made by those institutions. At the national level, about 35 percent of respondents who did not support the purchase of shares in the SOGESTALs had concerns about how much representation the cooperatives would get in the management of the SOGESTALs. For 24 percent of respondents against the purchase of shares, the distance of the cooperatives from the SOGESTALs was the main reason for not supporting the buying of shares. The issue of distance is of greater concern to respondents in rural than in urban areas. Indeed, it makes sense that for the cooperatives to actively participate or monitor the activities of coffee washing stations, proximity to these institutions is required.

Annex 6: Road Map for the Coffee Sector Reform

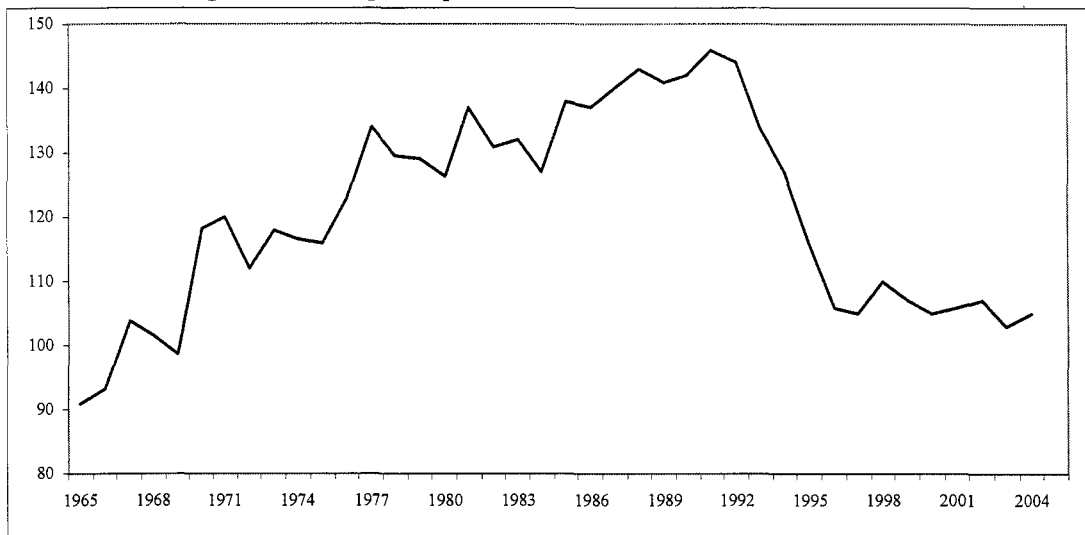
	Responsibility	Deadline	Observations
A. Safeguard measures for the 2005/2006 and 2006/2007 crop seasons <ul style="list-style-type: none"> Financing the 2006/2007 crop season <ol style="list-style-type: none"> Financial flow analysis of the 2004/2005 and 2005/2006 Negotiations for crop financing 	OCIBU OCIBU	Dec. 2005 Jan.2006	The Regional Trade Facilitation Project base in Nairobi may be a source to guarantee the financing
B. Establishing of an adequate legal, regulatory and institutional framework in a liberalized context. <ul style="list-style-type: none"> Decisions already made/activities implemented <ol style="list-style-type: none"> Freedom of establishment along the coffee supply chain New commercialization committee Establishment of OCIBU restructuring committee Authorization of direct sale OCIBU restructuring committee's report Decisions to be made/Activities to be implemented <ol style="list-style-type: none"> Establishing a steering committee for coffee reform Study for the legal, regulatory and institutional framework Implementation of legal regulatory/Institutional measures Promulgation of bankruptcy law Creation of professional association/Interprofession Establishing a price system mechanism et price information 	Ministries of Governance/Agricul. Ministry of Agricul. Ministry of Good Governance Ministry Finance 2 nd Vice-Presidency 2 nd Vice Presidency SCEP/EMSP 2 nd Vice-Presidency Presidency OCIBU/Prof,Associat. Interprofession/OCIBU OCIBU/Interprof.	Jan. 14.2005 Jan.19. 2005 June 8 2005 June 16 2005 Oct. 2005 Feb.2006 May 2006 July 2006 Dec. 2006 June 2006 March 2006	Implemented Implemented Implemented Implemented Implemented
C. Financial stabilization of the sector <ul style="list-style-type: none"> Reinforcing the surveillance and control of OCIBU financial status Sector debt management 	Ministry of Finance Ministry of Finance	Feb. 2006 Feb. 2006	
D. Transfer of State's assets to the private sector <ul style="list-style-type: none"> Preliminary measures <ol style="list-style-type: none"> Study on the transfer of the washing stations and SODECO Privatization of state assets in companies and sell of state properties Rehabilitation of washing stations Transfer of washing stations and SODECO <ol style="list-style-type: none"> Transfer of 2 washing stations Transfer of washing stations Transfer of SODECO 	SCEP/EMSP CIP STABEX CIP CIP CIP	May 2006 May 2006 Sept. 2006 March 2006 Jan. 2007 Jan.2007	
E. Accompanying measures <ul style="list-style-type: none"> Social Plan Establishment of price risk management mechanism 	2 nd Vice-Presidency OCIBU/Interprof./Banks	Jan. 2007 Jan. 2007	

Annex 7: Poverty and Priorities of the Poor in Burundi

1. This Annex provides new estimates of poverty in Burundi, as well as an analysis of the perceptions of poverty and the priorities of the population. The annex is based on the poverty report prepared by the World Bank. The poverty estimates were prepared in collaboration with Afristat and the UNDP, with funding from the Belgian Poverty Reduction Partnership.

2. Prior to the outbreak in hostilities in 1993, Burundi was already one of the poorest countries in the world. The conflict brought death to over 300,000 Burundi, injury to untold numbers, massive displacements and loss of property, and the destruction of much of the country's social infrastructure. The combined effect of the civil war and reduction of aid was devastating for Burundi's economy. Between 1991 and 2001, nominal GDP grew by an average of 10 percent per year. However, during the same period, inflation averaged about 15 percent, so that real GDP growth rate was negative (see Figure A1 for a trend of GDP per capita in constant US\$). In fact, over the period 1993-2002, real GDP declined by 20 percent. Together with population growth, income per capita fell to about US\$ 109 per year on average from 1994 to 2004. The investment rate was been cut in half, and exports plummeted. Foreign exchange reserves declined as well, and the country suffered from chronic financial imbalance. Burundi was also hit by a declining trend in world coffee prices and a fall in the level of production of coffee.

Figure A1: GDP per Capita in US\$ 2000 Prices, Burundi 1965-2004



Source: World Bank SIMA.

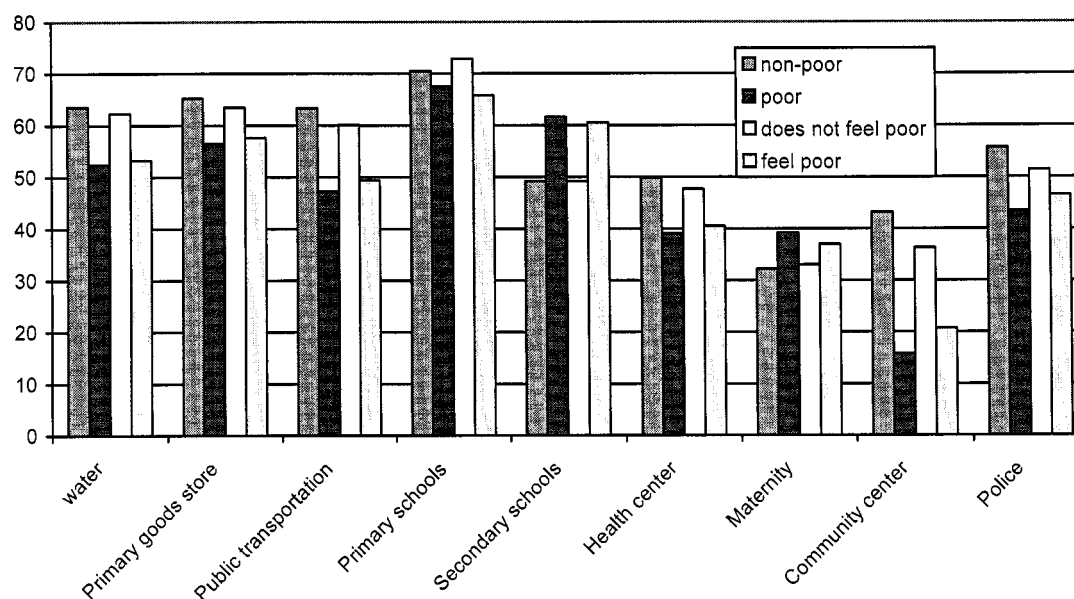
3. Today, poverty in Burundi is truly massive. Because the estimates of poverty previously used in Burundi for the I-PRSP suffered from methodological weaknesses, new estimates of poverty have been prepared by the World Bank in collaboration with Afristat, ISTEEDU and Burundi's authorities using the 1998-1999 household survey, the latest such survey with detailed consumption data. New poverty lines have been defined in terms of the estimated cost of basic food needs and non-food essentials. The estimate of the population in poverty at the national level is 81.1 percent. This level of poverty is unlikely to have changed much since 1998-1999, since as shown in Figure A.1, GDP per capita has remained

stagnant over the last few years. The results for 1998-99 also show that poverty is twice as high in the provinces as compared to the capital, and there are large differences in the probability of being poor according to household characteristics such as education, type of employment, demographic structure, and localization.

4. Beyond the profile of poverty and the analysis of its determinants, it is interesting to look at the perceptions of poverty and priorities of the poor. Data are available from an opinion survey funded by the World Bank implemented in the summer of 2004 (3,000 respondents in the whole territory.) These data are presented below according to both objective poverty (i.e., expected per capita consumption of the respondent's household below the poverty line) and self-declared subjective poverty. For this exercise, in order to put more emphasis on the very poor, some 60 percent of respondents were considered as objectively poor (those are the households with the lowest levels of consumption, i.e. who belong to the first three quintiles of the distribution of consumption) and approximately 60 percent as well subjectively poor. The key findings would not change much with different definitions of the objectively and subjectively poor.

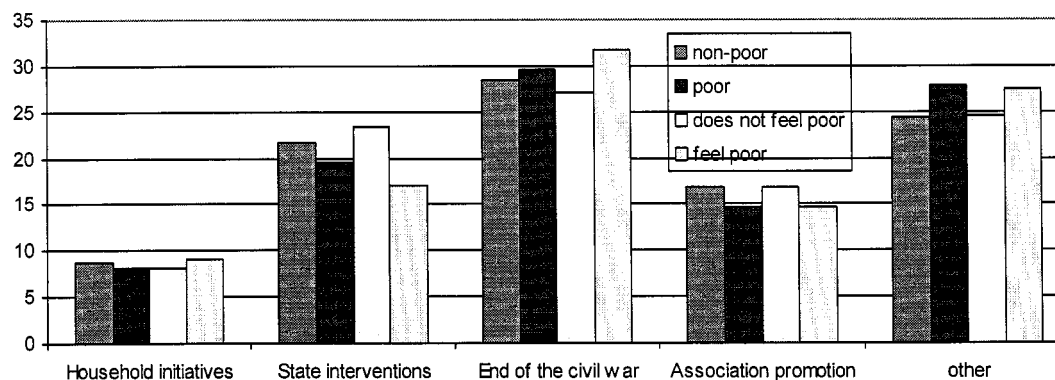
5. More than 80 percent of respondents think that poverty has either remained constant or increased over the last 5 years (i.e., between 1998-1999 and 2004), with more than 50 percent of respondents suggesting a large increase. This suggests that as in other countries, even if objectively measured poverty may not have changed dramatically between 1998-1999 and 2004 (given the fact that GDP per capita remained flat), the perceptions of the population regarding their standards of living have deteriorated further since 1998-1999. As for the future, only 40 percent of respondents believe that poverty will decrease in the next five years, with a similar share predicting a further increase in poverty. When asked "what is the main consequence of poverty?", more than half of the respondents state the inability to feed their family. Other aspects of poverty include a lack of decent housing, the inability to work and to pay for medical expenses for family members who are sick. Not owning livestock, being illiterate and lack of security are also mentioned, although less often. Importantly, satisfaction rates with the quality of public services is low, and especially so among the poor. The only public services for which users express moderately high levels of satisfaction are primary schools, basic needs retail stores, drinking water, and public transportation. Satisfaction rates are below 50 percent for maternities, health centers, and community centers. Satisfaction rates among the non-poor are systematically higher than that among the poor, suggesting that the quality of the services provided to poor households is below that of services provided to the whole population.

Figure A2: Satisfaction Rate with Public Services among Users (Percentage)



6. The end of the civil war is cited as the number one factor that could help in reducing poverty, by close to a third of the population, with the poor placing more emphasis on the end the war than the non-poor. State interventions are viewed as another avenue for poverty reduction. Other factors rank lower.

Figure A3: How can poverty be reduced? (Percentage)



7. There are some differences between the poor and the non-poor in terms of how they perceive the priorities of their communities, and also in terms of their own priorities, but these differences are smaller than those observed between the perceived priorities of the communities and what household would actually like to see. The main priorities in

communities appear to be the provision of potable water (30 percent of respondents), followed by the promotion of productive activities (20 percent), and the building of health centers and schools (close to 10 percent each). Other areas such as providing adult alphabetization, public transportation, and the preservation of the environment are not ranked high in the list of perceived priorities of communities. In terms of their own priorities, respondents place by far the highest weight on the promotion of income generating activities (25-30 percent), followed by four different types of activities at close to 10 percent: the provision of basic services, support for community organization, financial support and access to credit, and the promotion of livestock activities.

Figure A4. What are the main priorities of your community? (Percentage)

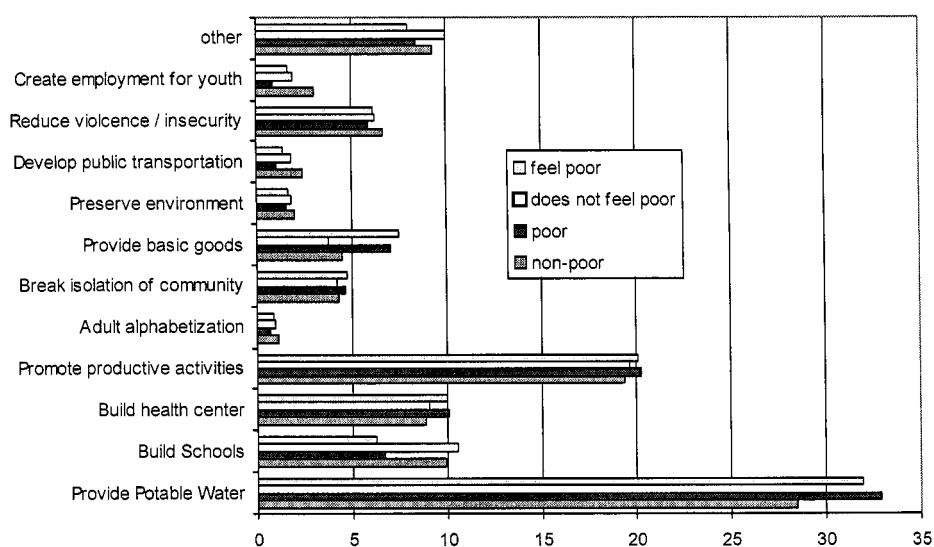
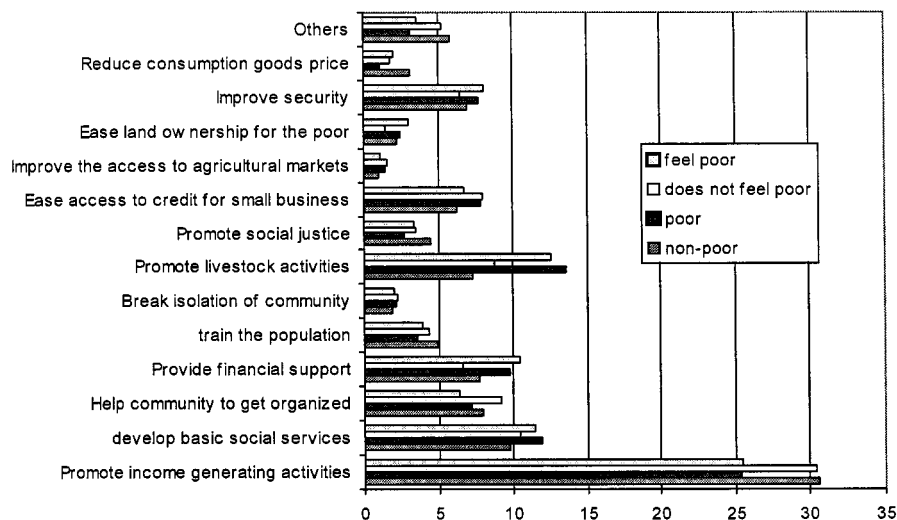
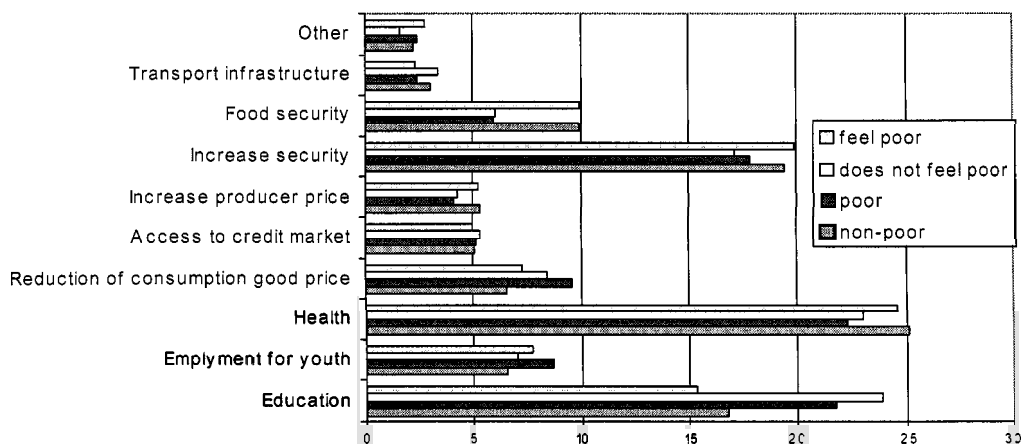


Figure A5. What should be the priorities in your community? (Percentage)



8. Different priorities emerge regarding the role of the state (as opposed to the role of the community). Health, education and security come first on list of priorities that the state ought to pursue, with poor respondents giving a higher weight to education as compared to the non-poor. Food security, price reductions for consumption goods, and youth employment are also important priorities for state action. Other areas, such as access to transport infrastructure, producer prices and credit are ranked lower.

Figure A6: What should be the priorities of the state? (Percentage)



Annex 8: Diagnostic Trade Integration Study (DTIS)

The DTIS is a product of collaboration between the Government of Burundi, the International Monetary Fund (IMF), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Program (UNDP), the World Bank, and the World Trade Organization (WTO) in the context of the so called Integrated Framework (IF). The IF has two key objectives (i) to mainstream (i.e. integrate trade) into national development plans such as the PRSP of the least developed countries; and (ii) to assist in the coordinated delivery of trade-related technical assistance in response to needs identified by individual countries.¹⁵

The Burundi report consists of nine chapters (see Box 1). Salient points are as follows.

Macroeconomic Context. Burundi is a very poor country, with income per capita (in real terms) which has halved over the last decade to about US\$ 110. It has been aid dependent for many years, with exports (dominated by coffee and tea) of 5-7 percent of GDP, as compared to 15-16 percent for imports. External debt rapidly becomes unsustainable, reaching about 1900 percent of exports at end 2003, with some accumulation of external arrears. While the debt sustainability issue should be largely resolved via the terms of Burundi's access to the enhanced HIPC initiative in 2005, there remains the underlying problem of a very small tradable sector, and a too small export sector. Growth of the tradable sector especially exports is imperative if Burundi is not to remain aid dependent for many years to come.

Poverty and trade. In 1999, the latest year for which data were available at the time of the study, over two thirds of the population was living below the poverty line. The highest incidence of poverty is observed in the plains followed by the eastern plateaus. In the city of Bujumbura – the main urban area of the country – poverty incidence was estimated to be 67 percent in 1999, as compared to about 33 percent in 1992. Sources of household income

Box 1: DTIS Table of Contents

- I. The Overall Context
- II. The Macroeconomic Environment: Recent Performance, Outlook and the Poverty Context
- III. Key Features of Foreign Trade: Recent Performance and Outlook
- IV. Analysis of Foreign Trade Policy
- V. Trade Facilitation and Export Support Constraints
- VI. Major Market Access Issues and Integration of the Burundi Economy into the Global Economy;
- VII. Business Regulatory Environment and Constraints for Operations and Growth of Enterprises;
- VIII. Review of Sectors with High Potential for Exports, Growth and Employment
- IX. International Trade and Poverty Linkages
- X. Strategy and Action Program for Mainstreaming Trade

Box 2: Incidence of Absolute Poverty, by region, 1999		
Region	Absolute poverty line in FBu	Incidence of poverty
Plains	91,947	75.0
Eastern Plateaus	91,947	72.0
Bujumbura city	410,499	67.0
Mountains and transition	91,947	66.0
Western Plateaus	91,947	65.0
Total	107,994	68.7
Source: Burundi, DTIS, Table 9.1		

percent industry and 4.5 percent in services and government.

¹⁵ The study was undertaken between December 2002 and December 2003. Preliminary conclusions and recommendations were discussed and endorsed at a National Workshop on December 18-19, 2003 in Bujumbura.

The coffee sector alone supports nearly half the farming population. In other words trade is essential, especially for the poor in Burundi, as most of the poor derive their incomes from the tradable sector and most of their cash income from coffee tea and cotton, which are the principal agricultural exports.

The primary sector is the largest employer contributing about 50 percent of GDP and 88 percent of exports. Furthermore nearly 90 percent of the poor live and are active in the rural sector. Because tradable agriculture, particularly coffee and tea, dominates economic activities of the poor, growth in agricultural exports is expected to have a disproportionately large effect on poverty.¹⁶

Under these conditions, effective poverty reduction as set forth in the I-PRSP will depend crucially on the performance of the tradable sector.

Burundi's trade potential and constraints. Traditional sectors (coffee, tea, cotton) still have the potential to grow, and there is considerable potential in non-traditional agricultural exports (fruits, vegetables, flowers, etc). However, the capacity to harness this potential is compromised by shortcomings pertaining to macroeconomic management (exchange rate, high inflation, and high interest rates), anti-export bias in the customs regimes and indirect taxes, outdated and burdensome international trade procedures, inadequate access to working capital, inadequate quality control, etc.

The report concludes by formulating a strategy and action plan of a general and sector- specific nature as follows, while emphasizing the need for capacity building and technical assistance.

General Recommendations

- Maintain a competitive macroeconomic framework, in particular a competitive exchange rate and low rates of inflation so as prevent a large spread between domestic and international nominal interest rates.
- Make regional integration a priority
- Abolish remaining export duties, if any, on non-traditional exports. Reform export related customs regimes, such as drawback and duty suspension regimes, to make them operative and to reduce anti-export bias. Idem as regards internal indirect taxes, which discriminate against exports and, can favor imports over domestic production. Over the longer run introduce a VAT.
- Rationalize import duties, reduce escalation and phase out unjustified exemptions.
- Facilitate trade through far reaching simplification and modernization of all international trade, transit and transport procedures, including through greater use of Electronic Data Interchange including the Advance Cargo Information System (ACIS). Modernize customs, adopt Asycuda ++, adopt the WTO customs valuation code, etc. Create a single trade window (one stop shop).
- Overhaul the legal framework pertaining to business transactions in general (investment code, commercial code, labor code, mining code, telecommunications code, energy code). Particular attention is drawn to the investment code which is outdated and the commercial code, whose reform -- begun in the early 1990s -- is incomplete. With regard to the latter, (i)

¹⁶ DTIS, Chapter 9, pages 83-85.

implementation decrees have yet to be prepared and promulgated, which gives undesirable scope for administrative discretion; (ii) the dispositions relative to the operations of foreign owned companies are undefined; (iii) there are no provisions for bankruptcy and reorganization; and (iv) there is a shortage of qualified personnel in private and public sectors. All of these shortcomings should be addressed in the short run. In the longer run, the commercial code would need to be harmonized with those in other COMESA countries.

- Revise and modernize legal provisions pertaining to the constitution and realization of collateral in order to facilitate better access of coffee producers and exporters to working capital financing, both national and international.
- Enact legislation on commercial arbitration.

Specific sector recommendations:

- ***Agricultural sector in general:*** facilitate improved access to equipment and inputs to increase yields and maintain soil fertility, otherwise there is a risk that the survival of arable farming may be seriously compromised within twenty years or so, given population pressures and the overexploitation that has resulted from it.
- ***Coffee sector:***
 - Liberalize prices and permit and facilitate private investment and ownership of coffee washing stations.
 - Allow individual producers to market their own products would help them establish relationships with specialty importers and roasters.
 - Create of price protection and risk management instruments in order to mitigate increased price risk faced by farmers in the absence of state guaranteed prices.
 - Give special attention to reducing transportation costs which represent about 31 percent of FOB prices compared to only 15 percent in landlocked countries in Southern Africa.
 - Reform OBICU, in particular its price setting role, and other coffee sector institutions.
 - Introduce legislation to cover bankruptcy and use of financial collateral to mitigate credit risks.
 - Strengthen quality control systems.
 - Liberalize and privatize commercialization only after (i) thorough analysis of all economic social and financial consequences; and (ii) taking stock of lessons from other countries.
 - Support the establishment of coffee growers' associations.
 - Establish and maintain effective research and extension capacity.
- ***Tea and cotton***
 - Prepare reforms similar to those proposed for the coffee sector.

Burundi at a glance

6/4/06

POVERTY and SOCIAL

2005

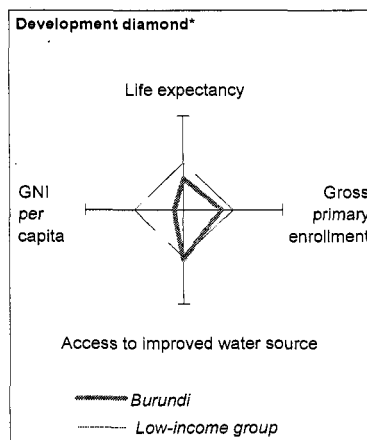
	Burundi	Sub-Saharan Africa	Low-income
Population, mid-year (millions)	7.5	726	2,343
GNI per capita (Atlas method, US\$)	100	600	510
GNI (Atlas method, US\$ billions)	0.72	437	1,188

Average annual growth, 1999-05

	Burundi	Sub-Saharan Africa	Low-income
Population (%)	1.9	2.3	1.9
Labor force (%)	3.2	2.4	2.2

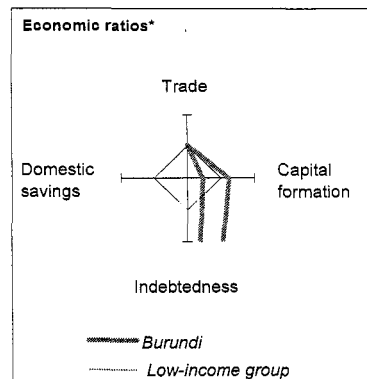
Most recent estimate (latest year available, 1999-05)

Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	10	37	31
Life expectancy at birth (years)	44	47	58
Infant mortality (per 1,000 live births)	114	101	79
Child malnutrition (% of children under 5)	45	..	43
Access to an improved water source (% of population)	79	58	75
Literacy (% of population age 15+)	..	60	61
Gross primary enrolment (% of school-age population)	80	93	100
Male	87	98	105
Female	73	87	94



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

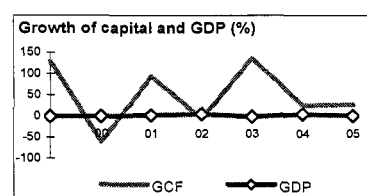
	1985	1995	2004	2005
GDP (US\$ billions)	1.1	1.0	0.66	0.80
Gross capital formation/GDP	13.9	6.4	13.3	10.8
Exports of goods and services/GDP	11.0	12.9	9.6	11.4
Gross domestic savings/GDP	4.1	-8.0	-11.0	-23.1
Gross national savings/GDP	..	3.6	5.2	0.3
Current account balance/GDP	-6.9	-2.8	-8.1	-10.5
Interest payments/GDP	0.9	1.2	2.5	..
Total debt/GDP	39.6	116.2	208.5	..
Total debt service/exports	20.4	27.7	135.2	..
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	..	..



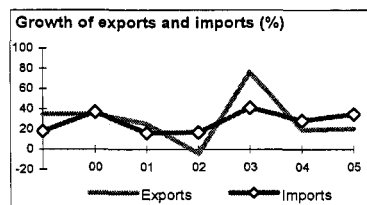
	1985-95	1995-05	2004	2005	2005-09
(average annual growth)					
GDP	1.2	0.9	4.8	0.9	6.6
GDP per capita	-1.5	-1.1	2.9	-1.0	4.6
Exports of goods and services	4.8	24.1	19.3	20.1	9.9

STRUCTURE of the ECONOMY

	1985	1995	2004	2005
(% of GDP)				
Agriculture	61.5	48.1	40.1	35.0
Industry	13.0	19.2	18.9	20.1
Manufacturing	8.1	9.5	8.5	8.9
Services	25.5	32.6	41.0	44.9
Household final consumption expenditure	88.1	88.9	84.9	96.6
General gov't final consumption expenditure	7.8	19.1	26.1	26.5
Imports of goods and services	20.8	27.3	33.9	45.3



	1985-95	1995-05	2004	2005
(average annual growth)				
Agriculture	0.3	-0.7	3.4	-6.3
Industry	-0.1	-1.2	8.2	7.4
Manufacturing	-0.1	..	..	..
Services	2.3	5.2	5.5	7.9
Household final consumption expenditure	0.8	-3.1	7.0	11.3
General gov't final consumption expenditure	2.8	9.7	8.8	3.8
Gross capital formation	0.7	19.0	26.0	27.3
Imports of goods and services	2.0	24.7	28.4	34.8

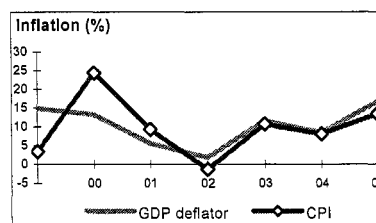


Note: 2005 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

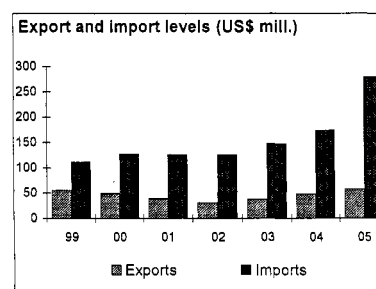
PRICES and GOVERNMENT FINANCE

	1985	1995	2004	2005
Domestic prices				
(% change)				
Consumer prices	3.8	19.4	8.0	13.4
Implicit GDP deflator	5.1	16.1	8.3	16.6
Government finance				
(% of GDP, includes current grants)				
Current revenue	13.4	18.9	29.9	29.4
Current budget balance	2.7	0.9	7.6	6.1
Overall surplus/deficit	-10.0	-4.5	-8.4	-3.5



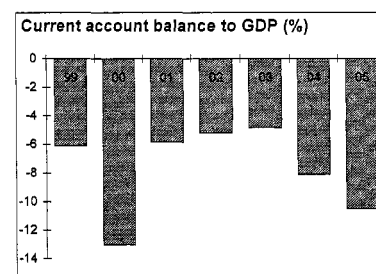
TRADE

	1985	1995	2004	2005
(US\$ millions)				
Total exports (fob)	114	113	48	57
Coffee	95	89	29	41
Tea	5	10	10	10
Manufactures	6	7	6	7
Total imports (cif)	188	206	174	279
Food	17	29	11	19
Fuel and energy	32	25	27	40
Capital goods	63	63	42	74
Export price index (2000=100)	164	173	102	121
Import price index (2000=100)	59	78	99	107
Terms of trade (2000=100)	281	221	102	113



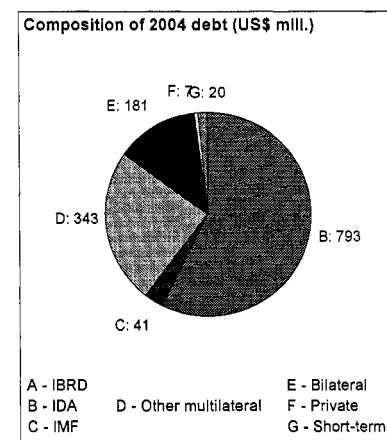
BALANCE of PAYMENTS

	1985	1995	2004	2005
(US\$ millions)				
Exports of goods and services	127	129	64	91
Imports of goods and services	237	273	225	363
Resource balance	-111	-144	-162	-271
Net income	-18	-12	-18	-20
Net current transfers	..	128	126	214
Current account balance	-80	-28	-54	-84
Financing items (net)	106	30	39	115
Changes in net reserves	-27	-2	15	-31
Memo:				
Reserves including gold (US\$ millions)	..	215	67	113
Conversion rate (DEC, local/US\$)	120.7	249.8	1,100.9	1,075.3



EXTERNAL DEBT and RESOURCE FLOWS

	1985	1995	2004	2005
(US\$ millions)				
Total debt outstanding and disbursed	455	1,162	1,385	..
IBRD	0	0	0	0
IDA	140	591	793	751
Total debt service	26	39	88	..
IBRD	0	0	0	..
IDA	3	8	20	21
Composition of net resource flows				
Official grants	43	229	..	..
Official creditors	62	28	8	..
Private creditors	-3	-1	-5	..
Foreign direct investment (net inflows)	1	2	..	..
Portfolio equity (net inflows)	0	0	..	..
World Bank program				
Commitments	55	36	77	8
Disbursements	19	27	43	50
Principal repayments	2	3	14	15
Net flows	17	24	29	35
Interest payments	1	5	6	6
Net transfers	16	20	24	29



Annex 10: Burundi Social Indicators

	Latest single year			Same region/income group	
	1975-80	1985-90	1998-2004	Sub-Saharan Africa	Low-income
POPULATION					
Total population, mid-year (millions)	4.1	5.5	7.3	719.0	2,338.1
Growth rate (percent annual average for period)	2.3	2.8	1.9	2.2	1.8
Urban population (percent of population)	4.3	6.3	10.3	36.7	30.7
Total fertility rate (births per woman)	6.8	6.8	5.7	5.2	3.6
POVERTY					
<i>(percent of population)</i>					
National headcount index	..	36.4	..	..	..
Urban headcount index	..	43.0	..	..	..
Rural headcount index	..	36.0	..	..	..
INCOME					
GNI per capita (US\$)	220	220	90	600	510
Consumer price index (1995=100)	29	60	309	..	..
Food price index (1995=100)	..	..	..	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	42.4	..	..
Lowest quintile (percent of income or consumption)	..	..	5.1	..	..
Highest quintile (percent of income or consumption)	..	..	48.0	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (percent of GDP)	..	..	0.6	2.6	1.5
Education (percent of GDP)	..	3.4	3.9	3.4	3.2
Net primary school enrollment rate					
<i>(percent of age group)</i>					
Total	..	53	57	64	78
Male	..	57	62	68	82
Female	..	49	52	60	76
Access to an improved water source					
<i>(percent of population)</i>					
Total	..	69	79	58	75
Urban	..	96	90	82	89
Rural	..	67	78	45	69
Immunization rate					
<i>(percent of children ages 12-23 months)</i>					
Measles	..	74	75	61	66
DPT	..	86	74	59	67
Child malnutrition (percent under 5 years)	..	38	45	..	44
Life expectancy at birth					
<i>(years)</i>					
Total	46	44	42	46	58
Male	44	42	41	45	57
Female	48	45	42	46	59
Mortality					
Infant (per 1,000 live births)	116	114	114	101	79
Under 5 (per 1,000 live births)	195	190	190	171	122
Adult (15-59)					
Male (per 1,000 population)	489	460	648	519	317
Female (per 1,000 population)	400	379	603	461	266
Maternal (modeled, per 100,000 live births)	..	..	1,000	24	538
Births attended by skilled health staff (percent)	..	19	25	39	38

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one

Annex 11: Letter of Development Policy

REPUBLIQUE DU BURUNDI

Bujumbura, le 21/06/2006



MINISTRE DES FINANCES
CABINET DU MINISTRE

N/Réf. : 540/ASS2/2006

A Monsieur Paul Wolfowitz
Président de la Banque Mondiale
1818 H Street, NW
Washington, DC 20433

*Objet: Lettre de Politique du Gouvernement pour
le Don d'Appui aux Réformes Economiques*

Monsieur le Président,

J'ai l'honneur de vous adresser, au nom du Gouvernement du Burundi, la Lettre de Politique de Développement relative au Don d'Appui aux Réformes Economiques (DARE) de l'Association Internationale de Développement (IDA).

La Lettre de Politique de Développement confirme les engagements de réforme pris par le Gouvernement sous le Don d'Appui aux Réformes Economiques. Plus précisément, le Gouvernement entend intensifier les efforts dans les domaines concernant : (i) l'élaboration d'un cadre stratégique de lutte contre la pauvreté (CSLP); (ii) les réformes visant l'amélioration de la gestion des finances publiques ; et enfin (iii) la mise en œuvre d'un cadre légal et réglementaire adéquat pour améliorer le climat des affaires au Burundi afin d'assurer le développement du secteur privé. Il sied par ailleurs de mentionner que la réforme dans les secteurs café, coton et thé demeure dans ce contexte une priorité essentielle pour le Gouvernement.

Aussi faudrait-il rappeler que pendant la période de transition, le Gouvernement du Burundi a enregistré des progrès en matière de réformes qui lui ont valu par exemple son éligibilité à l'Initiative des Pays Pauvres Très Endettés. De plus, le Gouvernement entend poursuivre ses récents efforts entrepris en matière de gestion financière, y compris la mise en œuvre d'un système d'information des finances publiques intérimaire (SIGEFI), ainsi que dans d'autres domaines, en vue d'accélérer la croissance économique et d'assurer l'irréversibilité des politiques déjà mises en œuvre.

Cette Lettre de Politique de Développement décrit aussi la stratégie de réforme à moyen-terme que le Gouvernement s'engage à mettre en œuvre dans le cadre du Don et au-delà, afin de matérialiser les dividendes de la paix et les impératifs de lutte contre la pauvreté, avec l'appui des autres partenaires du développement du Burundi.

Le Gouvernement reste convaincu que les politiques et mesures présentées dans la Lettre de Politique de Développement permettront d'atteindre les objectifs du programme. Aussi, il est prêt à adopter toute mesure additionnelle que l'Association Internationale de Développement jugerait nécessaire pour assurer le succès du programme. Finalement, le Gouvernement est disposé à répondre favorablement à toute demande d'information de la part de l'IDA relative à la mise en œuvre des politiques et mesures contenues dans le programme.

Espérant que la présente rencontre votre meilleur assentiment, je vous prie d'accepter, Monsieur le Président, l'expression de ma plus haute considération.



COPIE POUR INFORMATION A :

- Monsieur PEDRO Alba, Directeur des Opérations pour le Burundi, Région Afrique à la Banque Mondiale
- Monsieur Alassan Sow, Représentant Résident de la Banque Mondiale
- Monsieur Jean-Pascal Nguessa Nganou, Economiste pays pour le Burundi
- Monsieur Mathias SINAMENYE, Administrateur pour le Burundi à la Banque Mondiale
- Monsieur l'Ambassadeur du Burundi à Washington

P. a. Chef de sub.

REPUBLIQUE DU BURUNDI

**DON D'APPUI BUDGETAIRE ET DE SOUTIEN AUX
REFORMES ECONOMIQUES (DARE).**

LETTRE DE POLITIQUE DE DEVELOPPEMENT

Bujumbura, le 26 Juin 2006

INTRODUCTION GENERALE.

1. Le Gouvernement sollicite un appui de l'IDA pour soutenir son programme des réformes économiques de la période 2006-2008 qui visent l'ajustement et la stabilisation macroéconomique ainsi que la mise en œuvre des réformes structurelles pour la réduction de la pauvreté. La présente lettre de politique résume le contexte social et l'évolution récente de l'économie. Elle décrit les politiques que le Gouvernement entend poursuivre dans les domaines concernant (i) l'élaboration d'un cadre stratégique de lutte contre la pauvreté (CSLP); (ii) la mise en œuvre des politiques pour le développement du secteur privé et principalement le développement des secteurs café, coton et thé ; enfin les réformes visant l'amélioration de la gestion des dépenses publiques.
2. La mise en œuvre satisfaisante des réformes déjà engagées a permis le rétablissement des équilibres financiers qu'il convient de consolider. La récente décision des conseils d'administration de l'IDA et du FMI approuvant l'éligibilité du Burundi à l'initiative PPTE en est une preuve éclatante. Pendant la période de transition le Gouvernement a enregistré des progrès en matière de réformes qu'il entend poursuivre en vue d'accélérer la croissance et assurer l'irréversibilité des politiques déjà mise en œuvre.
3. Toutefois, ces résultats ne doivent occulter le constat que notre économie est encore confrontée à de nombreux défis et qu'il existe d'importantes opportunités que le Burundi devrait saisir en vue de l'amélioration de l'environnement économique, la modernisation de l'outil de production et son positionnement sur le marché international. Les sources de croissance actuelles sont le fait du secteur agricole, mais essentiellement les filières exportatrices telles que le Café, le Coton et le Thé. Les autorités pensent que les réformes à engager dans ces filières agricoles permettront d'assurer une expansion du secteur agricole avec (i) une contribution accrue à la croissance; (ii) des revenus importants pour les producteurs agricoles et notamment ceux du milieu rural.
4. Cette vision doit être complétée par une stratégie plus large visant l'instauration de la bonne gouvernance, le développement du secteur privé pour plus de croissance et de création d'emplois. L'exécution du programme soutenu par le Don-objet de la présente lettre de politique - aura l'avantage d'aider le pays à avancer vers la réalisation des déclencheurs pour le point d'achèvement de l'initiative PPTE, mais bien plus, ce programme permettra au Gouvernement nouvellement installé de bâtir la reconstruction du pays sur des piliers économiques solides. Pour ce faire, la lettre reprend dans les paragraphes qui suivent ; les performances économiques enregistrées au cours des dernières années, le programme à moyen terme 2006-2008 et les réformes à mettre en œuvre dans le contexte du Don en appui budgétaire sur 2006 et 2007, notamment en matière de réformes des finances publiques, de la croissance et la réduction de la pauvreté, le développement du secteur privé et la promotion des filières Café, Coton et Thé.
5. Le Burundi sollicite aussi d'autres contributions des bailleurs de fonds dans la réalisation de ce programme et aura besoin d'un cadre de référence pour une politique harmonisée des bailleurs. A cet égard, le Gouvernement souhaite obtenir une coordination plus accrue de

l'IDA et l'adhésion de l'ensemble des partenaires financiers autour du CSLP dont la version complète est à la phase de rédaction et sera disponible au mois de Juin 2006.

6. La présente lettre traduit le programme du Gouvernement en matière des réformes sur les deux prochaines années, mais elle présente aussi les indicateurs de performance qui permettront de juger de la qualité de sa mise en œuvre. Conscient des difficultés inhérentes aux réformes économiques et fort de l'expérience du passé, les autorités entendent impliquer judicieusement tous les acteurs en vue de rechercher l'adhésion nécessaire à la réussite de toute réforme ayant des implications socio-économiques.

CONTEXTE ET EVOLUTION SOCIOPOLITIQUE RECENTE

7. Le développement du Burundi a été freiné par une longue période de guerre civile déclenchée en 1993, suivi d'un embargo économique sous-régional de 1996 à 1999. La signature de l'Accord d'Arusha en août 2000 entre les partenaires politiques a permis d'engager le processus de paix géré par un Gouvernement et un parlement de transition choisis selon un dosage ethnique équilibré. Le processus de réconciliation nationale s'est poursuivi sans heurts et la paix a été progressivement rétablie suite à la signature de l'accord global de cessez le feu signé le 16 novembre 2003 à Pretoria en Afrique du Sud. La gestion apaisée de cette période transitoire s'est traduite par l'adoption d'une nouvelle constitution, laquelle a été suivie par (i) des élections des conseils communaux du 3 juin 2005, (ii) les élections des membres de l'Assemblée Nationale et du Sénat lesquelles ont eu lieu respectivement les 4 juillet 2005 et 29 Juillet 2005.
8. Le Président de la République a été élu le 19 Août 2005 et un nouveau Gouvernement inclusif qui succède au Gouvernement de transition est à pied d'œuvre. Avec la mise en place des institutions démocratiques, l'environnement sociopolitique a été renforcé. Cette situation facilitera la mise en œuvre des réformes de fonds devant permettre au Burundi de retrouver une croissance nécessaire à son développement ainsi que la création d'un environnement propice à attirer des investissements privés, en vue d'une croissance durable et la réduction de la pauvreté.
9. La réconciliation amorcée depuis 2000 a été soutenue par l'ensemble de la communauté internationale et principalement les Institutions de Bretton Woods pour faciliter la reprise économique et la remise en état du bon fonctionnement de l'Etat. A ce titre, les programmes socioéconomiques exécutés à ce jour ont permis : la démobilisation des ex-combattants impliqués dans les conflits et leur réinsertion dans la vie civile y compris la réinsertion des personnes réfugiées et/ou déplacées dont le nombre est estimé à environ un million d'individus. Dans cet environnement politique encore sensible, le défi pour les autorités consiste à renforcer les acquis de la phase transitoire en matière de paix et sécurité, promouvoir la croissance à travers le développement des filières café, coton et thé et celui du secteur privé en général pour augmenter les revenus tant publics que privés, continuer avec l'amélioration de la gestion des finances publiques en vue d'accroître les services publics de qualité aux pauvres et améliorer la gouvernance. Ces axes de réformes sont contenus dans le CSLP-Complet que le Gouvernement est entrain de finaliser avec l'appui de la Banque mondiale.

CADRE MACROECONOMIQUE ET BUDGETAIRE

10. **Performance 2000-2005** : Le défi de réduction de la pauvreté dans le contexte du Burundi est important car les besoins sont nombreux notamment pour ce qui est de procurer aux populations les conditions de vie meilleures et poursuivre le programme de reconstruction. Il faudrait dans les conditions actuelles, des taux de croissance annuelle moyens d'environ 5% pendant au moins dix années pour retrouver le niveau du PIB par tête de 1993, ce qui indique l'ampleur de la tâche à réaliser. Des progrès importants néanmoins ont été réalisés pendant la période transitoire, ce qui a permis de rétablir progressivement la paix.
11. Le Gouvernement a adopté depuis 2000 des programmes de réformes appuyés par l'IDA et depuis 2004 le Burundi a obtenu un accord de la FRPC auprès du FMI après l'exécution d'un programme de référence en 2001-2002. De même d'autres appuis auprès des autres partenaires de la communauté internationale ont contribué aux récentes performances de l'économie. La poursuite de la mise en œuvre de ces réformes se déroule jusqu'à présent de façon satisfaisante et constitue une avancée vers la stabilisation et le rétablissement du fonctionnement des services publics. A ce propos, il y a lieu de noter que la deuxième revue de la FRPC a été conclue par le Conseil d'Administration du Fonds Monétaire International le 27 juillet 2005. Par ailleurs, le Conseil a en même temps approuvé l'éligibilité du Burundi à l'initiative PPTE renforcé. Le Conseil d'Administration de la Banque mondiale a pris la même décision le 4 août 2005. Les troisièmes et quatrièmes revues du PRGF devront être conclues en juin 2006.
12. La performance macro-économique au cours de l'année 2005 a été mitigée avec un taux de croissance du PIB de l'ordre de 1% par rapport à 2004 où l'économie avait enregistré un taux de croissance de 4,8% malgré les conditions climatiques sévères. Au plan de l'exécution des finances publiques, les réformes mises en œuvre par le Gouvernement ont permis de restaurer la discipline budgétaire. La relance économique amorcée a contribué à la réalisation des recettes à hauteur de 20% du PIB en 2004 et de dégager un solde primaire de -3,5%. L'inflation a été contenue à hauteur de 11,9% en fin de période contre 1,7% en 2003 et cet accroissement a été généré par l'augmentation progressive des prix des produits de consommation et les produits pétroliers. Le Gouvernement a réussi à maintenir le déficit primaire autour de 3,5% du PIB et un déficit de la balance courante hors transfert qui a atteint 24,4% en 2004. Les résultats budgétaires enregistrés en 2005 ont été satisfaisants dans l'ensemble. Les recettes se sont élevées à 20% du PIB et les dépenses globales ont atteint 38,8% du PIB. L'inflation est demeurée élevée sous l'effet de la sécheresse qui sévit au nord du pays et la pression sur les prix exercée par la forte présence de la Communauté internationale.

Promotion de la Bonne Gouvernance

13. Le Gouvernement du Burundi a annoncé dès son entrée en fonction au début du mois de septembre 2005 que la Bonne Gouvernance constituait son cheval de Bataille. Bien plus, lors de sa première sortie internationale, en qualité de Chef de l'Etat démocratiquement élu au Burundi, Son Excellence le Président Pierre NKURUNZIZA, a présenté un discours important du haut de la tribune des Nations Unies lors du Sommet du Millénium + 5 en Septembre 2005, à New York. Le chef de l'Etat burundais s'était exprimé en disant : « Notre Gouvernement a fait du respect des droits de la personne humaine son cheval de bataille. La

primauté de l'Etat de droit, la gestion rigoureuse de la chose publique et la promotion de la Bonne Gouvernance sont les conditions préalables d'un développement durable. Elles sont au cœur de notre stratégie de développement ». Abordant l'aspect spécifique de la promotion de la Bonne Gouvernance, le Chef de l'Etat burundais avait poursuivi en disant : « S'agissant de la Bonne Gouvernance, notre Gouvernement s'est engagé dès sa mise en place à lutter contre toutes les formes de fraude, de corruption, malversations économiques et financières et autres détournements de deniers publics. Une loi anti-corruption sera bientôt votée tandis qu'une brigade anti-corruption sera bientôt opérationnelle. Dans la même optique, notre gouvernement est déterminé à assainir les dépenses publiques notamment en réduisant et en regroupant les Ministères qui sont passés de 26 à 20, en revoyant leurs missions et leur mandat et en se désengageant partiellement ou totalement de certaines entreprises publiques. Toujours dans le cadre de la Bonne Gouvernance, mon Gouvernement est décidé à promouvoir la réorganisation du secteur de la justice en vue de la promotion d'une justice impartiale, rapide et équitable et de lutte contre l'impunité ». Ainsi, la loi anti-corruption a été promulguée en avril 2006, et la brigade anti-corruption a été approuvée par le Conseil des Ministres du 27 Avril 2006.

14. Dans le cadre du suivi de la mise en œuvre des objectifs du millénaire pour le développement (OMD), le Burundi a franchi un pas important sur l'aspect concernant deux OMD à savoir le 2^{ème} et le 3^{ème} : Assurer l'éducation primaire pour tous ; et Promouvoir l'égalité des sexes et l'autonomisation des femmes. Lors de son entrée en fonction, le Président burundais a annoncé la décision de faire bénéficier de la gratuité de l'enseignement primaire à tout enfant en âge d'être scolarisé à partir de l'année scolaire 2005-2006. Cette mesure a provoqué un afflux massif de nouveaux inscrits (près de 500,000 élèves). D'autre part, les institutions qui ont été mises en place avec le nouveau pouvoir issu des élections démocratiques de 2005, accordent enfin à la femme la place qu'elle mérite. En effet, pour la première fois de l'histoire au Burundi, l'Assemblée nationale est dirigée par une femme et les deux vices Président du Sénat sont des femmes. De plus, sur les vingt départements ministériels, 7 sont dirigés par des femmes alors qu'au niveau de l'administration territoriale on y trouve plusieurs gouverneurs ou administrateurs communaux »
15. Pour accroître les chances de réussite des programmes du Gouvernement pour lesquels il sollicite des appuis, il a été nécessaire de rechercher l'adhésion des groupes d'intérêt affectés par les réformes, d'assurer une meilleure coordination avec l'ensemble des bailleurs pour permettre une meilleure harmonisation des politiques, gage de succès. Ainsi, en décembre 2005, le Gouvernement a mis en place un Comité National de Coordination des Aides (CNCA) afin de favoriser le dialogue et la coordination avec les bailleurs de fonds. Bien plus, en Février 2006, le Secrétariat Permanent du CNCA a été créé pour assurer une gestion efficace des aides de l'Etat et un cadre permanent de concertation entre le Gouvernement et les bailleurs de fonds, a été instauré au sein du CNCA.

Amélioration du système de gestion des finances publiques et exécution budgétaire.

16. Avec l'appui de la Banque mondiale à travers le projet PAGE et l'assistance technique du FMI, le Gouvernement poursuit l'amélioration de la gestion des dépenses publiques avec la mise en place du système intérimaire de gestion des finances publiques déjà opérationnel à partir de janvier 2006. Ce système intègre la nouvelle nomenclature unifiée permettant la

suivi des dépenses de pauvreté, il devrait à terme permettre de produire de façon automatique le tableau des opérations financières de l'Etat et la balance consolidée du trésor. La formation des cadres et des agents publics de l'Etat sur l'utilisation efficiente de ce système est en cours, y compris les cadres de la BRB. Le Gouvernement est en train de procéder à la saisie de toutes les opérations financières de l'exercice fiscale 2005 afin de produire un projet de loi des règlements d'ici Juin 2006.

17. La nouvelle gestion du système de change a mieux fonctionné et a permis de faire converger les taux de changes officiels avec ceux du marché parallèle. Le différentiel actuel est de l'ordre de 3% alors qu'il dépassait 10% au début du programme. Depuis le début 2005, la monnaie nationale BIF s'est appréciée contre le dollar EU (10%) ce qui a contribué au ralentissement sensible de l'inflation en Décembre.

Perspectives pour 2006 et à moyen terme.

18. L'année 2005 aura été une année charnière pour le développement du Burundi avec la mise en place des organes et institutions consacrées par la nouvelle constitution notamment les institutions communales, parlementaires et sénatoriales. Les objectifs macro-économiques à moyen terme visent à parvenir à une croissance suffisante pour réduire de façon significative la pauvreté par un accroissement de l'investissement privé et le développement de la production des biens échangeables. A moyen terme et à l'horizon 2006-2008, les autorités visent une croissance moyenne annuelle d'environ 5% et de porter l'investissement privé à hauteur de 5% du PIB en moyenne sur la même période. Dans ces conditions, l'objectif du Gouvernement est de favoriser l'initiative privée en particulier dans les domaines d'activité de l'agriculture (Café, Coton, Thé et Sucre), l'agro-industrie y compris les PME, les nouvelles technologies de l'information et de la communication et la micro finance afin d'en faire la base de la croissance économique. Par ailleurs, les autorités burundaises réitèrent à travers cette lettre de politique, leur engagement à poursuivre le processus de désengagement de l'Etat des Entreprises Publiques. Les investisseurs privés étrangers et nationaux seront encouragés à exercer dans les secteurs clés de l'économie notamment les télécommunications, l'électricité, etc.
19. Ainsi, avec l'aide de la communauté internationale, le Gouvernement entend développer les infrastructures et réduire la dépendance énergétique ainsi que les autres contraintes au développement du secteur privé, notamment celles relatives au cadre réglementaire des affaires.
20. Conscient de la nécessité d'accroître l'accès des plus pauvres aux services publics essentiels, le Gouvernement veillera à accroître le financement des ressources dans les secteurs sociaux et plus spécifiquement en zone rurale. Les dépenses sociales (Education Santé, Travaux publics) vont progresser pour varier de 28 % à environ 34 % en moyenne sur la période 2006-2008.

REFORMES APPUYEES PAR LE DON DE L'IDA

21. Le Gouvernement sollicite l'appui de l'IDA à travers le Don d'Appui aux Réformes Economiques et Budgétaires (DARE) pour faciliter la mise en œuvre de sa politique de lutte contre la pauvreté et l'accélération de la croissance. Le Gouvernement souhaite que le DARE soutienne: (i) la finalisation et la mise en œuvre du CSLP; (ii) la promotion de la croissance à travers : (a) le développement du secteur privé, (b) le désengagement de l'Etat des activités commerciales et industrielles et (c) la mise en œuvre des réformes dans les filières de café, thé et coton conformément aux engagements déjà pris lors de l'exécution du Crédit de Relance Economique approuvé par l'IDA (CRE), ainsi que , (iii) l'amélioration de la gestion des finances publiques et l'extension des services publics de qualité aux populations, notamment les populations pauvres.
22. Le Gouvernement est convaincu que ces réformes constituent la base pour un développement durable. En effet, les indicateurs montrent qu'environ 49% de la production est agricole dont 10,1% pour le café, et plus de 90% de la population vivent en zone rurale¹⁷ avec un taux de pauvreté supérieur à 80%, ce qui implique aussi que les perspectives de croissance et de création d'emplois en vue de réduire la pauvreté dépendent essentiellement du secteur agricole dominant et plus spécifiquement des filières café, thé et coton.
23. L'Etat intervient dans tous les secteurs économiques, et son intervention limite la concurrence et handicape le développement des exportations et celui du secteur privé en général. Jusqu'en 2003, le crédit intérieur était essentiellement effectué au profit du secteur public y compris les entreprises publiques de moins en moins performantes. Le secteur privé, contraint sur le marché du crédit rétréci n'a pas pu accroître ses investissements qui sont nécessaires à la croissance. En conformité avec le programme économique appuyé par le DARE, les autorités vont entreprendre une réforme du secteur public associée au désengagement de l'Etat des secteurs productifs, la libéralisation des prix, la facilitation du commerce pour éliminer les freins contre le développement des exportations. Pour ce faire, les réformes viseront à promouvoir les activités économiques privées génératrices d'emplois et de revenus et contribuant à éliminer la pauvreté et l'exclusion.

STRATEGIE DE REDUCTION DE LA PAUVRETE

L'objectif et les résultats anticipés au terme du Don

24. S'agissant de la lutte contre la pauvreté, les principaux objectifs recherchés au terme du programme financé par le DARE sont (i) la production du CSLP complet et (ii) son exécution satisfaisante pendant une année. La mise en œuvre de ces deux actions constitue un repère-clé pour atteindre le point d'achèvement de l'initiative PPTE renforcé.

¹⁷ Plus de 92% de la population vivent en zone rurale et 93% de la population totale active est occupée dans l'agriculture

Les actions déjà entreprises

25. Au terme d'une dizaine d'années de conflit, la population burundaise s'est davantage appauvrie : le PIB a baissé de 25% sur les quatre premières années de conflit en même temps que le taux de pauvreté passait de 35% en 1992 à 81% à la fin de la décennie. Ces constats objectifs sont confirmés par un sentiment de pauvreté relativement répandu dans la société. L'enquête Perception réalisée en 2004, montre que huit burundais sur dix estiment que la pauvreté n'a pas régressé sur les cinq dernières années. Au vu de ces résultats, la stratégie de réduction de la pauvreté au Burundi doit viser à la fois la croissance de la production et une redistribution équitable, notamment en faveur des plus pauvres. Le suivi et l'évaluation des politiques de développement s'inscrivent également dans le cadre des stratégies de réduction de la pauvreté dans la mesure où ils permettent de responsabiliser les acteurs dans la mise en œuvre et le devoir de rendre compte de l'utilisation des ressources publiques notamment en ce qui concerne la gestion des finances publiques.
26. Le Gouvernement a élaboré avec la participation de la société civile et de tous les autres acteurs un CSLP-Intérimaire bâti autour de 6 grands axes qui sous-tendent la politique des autorités dans lutte contre la pauvreté, et notamment : (i) la promotion de la paix et de la bonne gouvernance, (ii) la réinsertion des victimes du conflit et des groupes défavorisés, (iii) la promotion du secteur privé, (iv) le développement du capital humain, (v) la lutte contre le VIH/SIDA, et (vi) la promotion du rôle de la femme dans le développement. Le CSLP-Intérimaire a été conçu et élaboré autour d'un consensus participatif recherché par le Gouvernement dès 2000 et le document a été ensuite présenté au conseil de l'IDA et du FMI en janvier 2004. Depuis lors, le gouvernement s'attelle à la mise en oeuvre du CSLP-Intérimaire et la finalisation du CSLP-Complet l'élaboration du CSLP final.

Les Actions à entreprendre en 2005 et 2006

27. La synthèse des consultations communautaires et des consultations sectorielles et thématiques a été achevée en novembre 2005. La rédaction du CSLP a débuté en décembre 2005 pour inclure les résultats des consultations participatives. Il est à signaler également que les services concernés ont élaborés un cadrage macroéconomique et budgétaire pluriannuel comportant des plafonds budgétaires pour les secteurs-clé constituant les axes du CSLP. Les autorités burundaises espèrent rendre disponible l'avant projet en juillet 2006, et l'échanger avec la communauté des bailleurs des fonds après sa validation par toutes les parties prenantes.
28. Dans la perspective du suivi évaluation, diverses actions ont été entreprises : (1) la création d'une cellule des comptes nationaux à l'ISTEEBU ; (2) la réalisation d'un recensement agricole et des enquêtes auprès des ménages tel que l'enquête Perceptions sur la pauvreté (2004). D'autres études sont en cours dont : le questionnaire Unifié des Indicateurs du Bien-être (QUIBB) 2005/2006, le Multiple Indicators Cluster Survey (MICS) 2005 et l'enquête sur l'emploi et le secteur informel (Enquête 1-2-3 pour 2005/2007). L'élaboration et la mise en œuvre du système de suivi évaluation est un enjeu crucial pour le succès de l'exécution du document cadre de stratégie de réduction de la pauvreté. Il s'agira d'une part de renforcer les institutions de suivi et d'autre part de développer la production des données statistiques nécessaires. Le renforcement des institutions portera essentiellement sur : 1) le changement du statut de l'ISTEEBU et de son personnel (le projet a déjà été préparé, mais n'a pas encore

été transcrit en projet de loi ; 2)le renforcement des capacités humaines ; 3)le renforcement des outils de collecte des données administratives, en particulier aux ministères de l'Education, de la Santé, de l'Agriculture et des Finances.

29. Pour ce qui est de la production des données statistiques, un recensement général de la population est envisagé en 2007 afin de disposer des données fiables pour l'affectation des ressources dans le cadre de la décentralisation. Ce recensement servira aussi de base de sondage fiable pour les enquêtes futures auprès des ménages. De même, des enquêtes nécessaires à la production des Comptes Nationaux seront réalisées. Il s'agit en particulier de l'Enquête Agricole et de l'Enquête Budget Consommation qui seront combinées. Des études approfondies sur l'impact des politiques sociales viendront compléter ce dispositif de suivi évaluation. Il s'agit notamment de l'étude sur l'offre de services de base dans les secteurs Education, Santé et Justice, et d'une étude de l'impact de la réforme de la filière Café sur la pauvreté.

Indicateurs de progrès	
Action	Date cible
• Achèvement de la préparation des consultations sectorielles et thématiques	Novembre 2005
• Tenue, synthèse et restitution des consultations sectorielles et thématiques	Mai 2006
• Elaboration du premier draft CSLP	Mai 2006
• Elaboration du deuxième draft du CSLP y compris le cadrage macroéconomique et budgétaire complet	Juin 2006
• Document CSLP final disponible	Juillet 2006
• Rapport d'exécution de la première année de mise en oeuvre	Août 2007

L'ACCELERATION DE LA CROISSANCE (PROMOTION DES POLITIQUES GENERATRICES DE CROISSANCE)

30. Le Gouvernement a entrepris des réformes pour promouvoir le développement du secteur privé et relancer les exportations en vue de réduire la dépendance du pays vis-à-vis des financements extérieurs dont la prévisibilité est incertaine. L'analyse de la soutenabilité de la dette élaborée dans le contexte de l'initiative PPTE indique que le ratio de la valeur actualisée nette de la dette sur les exportations est de 136,3 % et la valeur actualisée nette du service sur les recettes d'exportation est de 35,9 % en 2005. Dans le contexte burundais, cette situation indique un risque élevé de crise d'endettement même après le recours aux initiatives de désendettement y compris l'initiative PPTE renforcée.
31. Pour enrayer une telle situation et améliorer les indicateurs indiqués ci-dessus, une politique de croissance soutenue par les exportations est nécessaire et vitale pour l'économie burundaise. Le Burundi s'est résolument engagé à mettre en avant le Commerce dans le processus de croissance et de lutte contre la pauvreté. Il a dans cette optique, déjà réalisé, sous la supervision de la Banque mondiale et en collaboration avec le FMI, le PNUD, l'OMC, le Centre de Commerce International et la CNUCED, « l'Etude diagnostique de l'intégration commerciale du Burundi ». L'étude et le Plan ont été validés en décembre 2003

et adoptés par le Gouvernement en 2004. Le Gouvernement sollicitera un appui auprès de ses partenaires pour la mise en application de ce Plan.

32. Les autorités s'engagent à mettre en place une politique de développement des exportations devant générer plus de devises en vue de minimiser les chocs exogènes auxquels le pays fait face. Les réformes pour promouvoir ces exportations et développer le secteur privé viseront en priorité : 1) l'amélioration de l'environnement des affaires, 2) le règlement intégral de la dette intérieure ; 3) les réformes du secteur public ; 4) le désengagement de l'Etat des Entreprises Publiques, notamment celles du secteur financier et des filières agricoles et des télécommunications)

DEVELOPPEMENT DU SECTEUR PRIVE

Objectifs et résultats anticipés

33. Le gouvernement entend promouvoir un environnement propice au développement du secteur privé compétitif pour accroître l'investissement privé tant national qu'étranger, d'amplifier la croissance et créer des emplois en vue de réduire la pauvreté. Cette stratégie exige une adaptation du cadre réglementaire des affaires et l'amélioration du climat des investissements, une adaptation de la fiscalité des entreprises, une révision du code du travail, du code des investissements et la facilitation du commerce international pour promouvoir et développer les exportations, amélioration de l'accès au crédit par l'adoption d'un règlement sur les institutions et opérations de micro-finance. Le règlement de la dette intérieure de l'Etat envers les entreprises privées constitue un autre volet qui vise à (i) redonner du souffle aux opérateurs économiques qui éprouvent de réelles difficultés à contenir leur endettement vis-à-vis des banques, (ii) reconstituer la solidité de la trésorerie des entreprises pour le financement de leurs investissements, et (iii) assurer l'adhésion des entreprises à la nouvelle politique de relance et du désengagement de l'Etat.
34. Le gouvernement conduira avec l'appui de la Banque mondiale une étude sur le Climat des Investissements au Burundi. Une révision des codes du commerce et des sociétés est envisagée. Les textes révisés portant sur ces codes seront approuvés par le Gouvernement, puis présentés au Parlement pour adoption.

Actions déjà entreprises et progrès à ce jour

35. **Environnement des affaires** : le code des investissements a été révisé et devrait être présenté bientôt au Gouvernement pour approbation. Un projet de loi portant organisation et réglementation des institutions de Microfinance est en cours d'élaboration. La nouvelle loi sur la faillite a déjà été promulguée.
36. **Dette intérieure** : Le Gouvernement a achevé le 27/07/2005 un recensement des arriérés de l'Etat sur le secteur privé ainsi que les arriérés de la dette intérieure pour les créances nées entre 07/1979 et 31/12/2004. Le recensement estime à environ 35 millions de dollars EU le

montant de ces arriérés. Ce recensement a été complété par un audit international financé par le projet PAGE. Le Rapport définitif a été disponibilisé à fin février 2006.

37. Sur base du rapport de cet audit, une commission ad hoc chargée d'élaborer la stratégie d'apurement de ces arriérés a été mise en place. Son rapport est attendu à fin avril 2006 et précisera les modalités et l'échéancier du paiement à partir de juin 2006.
38. Dans le cadre du désengagement de l'Etat des entreprises publiques pour la période 2005-2008, le Gouvernement s'est engagé à adopter un plan stratégique de privatisation des entreprises publiques¹⁸ au titre du Crédit de Réhabilitation Economique accordé par l'IDA en 2002.
39. Ce crédit devait appuyer l'amélioration du cadre institutionnel organisant les privatisations et restructurations, comprenant la préparation de la stratégie proprement dite, ainsi que la programmation des activités y afférentes avec un planning de désengagement pour chaque entreprise publique retenue. Le Gouvernement a honoré cet engagement pris dans le cadre du crédit de réhabilitation et le Ministre d'Etat chargé de la Bonne Gouvernance et de l'Inspection générale de l'Etat qui avait sous sa responsabilité le secteur de la privatisation, avait soumis au conseil des ministres du 25 mars 2005, un plan détaillé du programme de privatisation.
40. Le Gouvernement a en effet démarré la mise en œuvre du programme de privatisation. Dans le secteur du café, les appels d'offres pour la privatisation de deux stations de lavage ont été lancés le 22 juillet 2005. Cette opération pilote a servi de test et permettra d'affiner et d'adopter la stratégie de cession définitive des stations de lavage.
41. Par ailleurs, les appels d'offres pour la vente de 2 villas et 2 anciennes usines ont été lancés respectivement les 5 et 18 août 2005. Pour ce qui est du patrimoine hors secteur café, en date du 25 août 2005, l'appel d'offres a été lancé pour la cession des actions de l'OCIBU dans les banques. Les textes réglementaires pour la libéralisation du secteur café ont été signés. Aussi, le CIP a adopté la stratégie de privatisation du secteur des Télécommunications. Il a également adopté la stratégie de privatisation des Entreprises Publiques et ouvrages publics (ONATEL, COTEBU, ONAPHA, OTB, OPHAVET, Sociétés du Secteur Café, les anciennes usines à Café, etc.).
42. Pour le cas de l'Office Nationale Pharmaceutique (ONAPHA), le Gouvernement a aussi procédé à l'évaluation de ses actions. Une convention de partenariat entre l'Etat du Burundi et une société Sud Africaine de production de médicaments (SOPROME) a été signée. L'élaboration d'une note préliminaire relative au programme de désengagement de l'Etat dans les Entreprises publiques est en voie de finalisation avec le SCEP.

¹⁸ les entreprises concernées sont : EPB (Etablissements du Port de Bujumbura), APB (Abattoirs Publics de Bujumbura), UCAR (Union Commerciale d'Assurance et de Réassurance), BCC (Burundi Coffee Company), ONATEL (Office de télécommunications), Le COTEBU (Complexe textile du Burundi), la REGIDESO (l'Agence d'électricité et des eaux), L'ONAPHA (Office national pharmaceutique), L'OPHAVET (L'office pharmaceutique et Vétérinaire), SOSUMO (compagnie sucrière) ALCOVIT, y compris les actions de l'Etat dans les entreprises publiques du secteur Café incluant les SOGESTALs.

43. Les autorités vont poursuivre les efforts dans ce sens et engager un processus de sensibilisation des opérateurs économiques et tous les partenaires impliqués dans le processus (y compris les groupes d'intérêt comme les employés) pour rechercher leur adhésion à cette importante réforme.

Actions à entreprendre dans le cadre du don pour 2005-2007

44. **Révision du cadre réglementaire :** La nouvelle loi sur la faillite a déjà été promulguée. Dans le même temps, les autorités procéderont avec l'appui de la Banque mondiale, à une évaluation du Climat des affaires afin de fournir aux opérateurs économiques et autres décideurs, une analyse de l'information requise pour identifier les caractéristiques du climat national de l'investissement important pour la productivité et la croissance. Le Gouvernement a élaboré le fichier d'identifiants unique qui servira à l'ensemble des opérations de fiscalisation en liaison avec les services des impôts et des douanes. La base de données a été développée et est opérationnelle. Le NIF est opérationnel et a déjà enregistré un grand nombre d'opérateurs économiques. Il sera utilisé par les départements des Impôts et les Douanes.
45. **Fiscalité.** L'introduction de la TVA en remplacement de la Taxe de Transaction vise à dépenaliser les entreprises pour adopter une fiscalité indirecte plus neutre. Avec l'appui de la Banque mondiale et du FMI, la TVA sera opérationnelle d'ici la fin de l'exercice 2007. Les autorités prendront des dispositions nécessaires pour réduire davantage les tarifs douaniers et les aligner sur les tarifs du COMESA.
46. A moyen terme, les taux des droits de douanes seront davantage réduits pour les matières premières, les produits intermédiaires et les produits finis, avec un tarif zéro pour les matières premières et les équipements.
47. **Développement des exportations :** En plus des mesures ci-dessus concernant l'alignement des tarifs douaniers, les autorités mettront en œuvre les recommandations de l'étude diagnostique sur l'intégration commerciale (DTIS). Le Gouvernement prendra en compte les politiques commerciales dans le CSLP et mettra les actions suivantes en œuvre à compter de 2006. Il s'agit de : (i) L'application intégrale du protocole de la zone de libre-échange du COMESA et l'alignement intégral des tarifs sur le TEC du COMESA ; (ii) L'exploitation des possibilités offertes par les arrangements préférentiels proposés par l'Union européenne et l'initiative AGOA des USA ; (iii) l'application du code d'évaluation en douane et l'élimination des exonérations tarifaires sur les importations ; (iv) la simplification et la rationalisation des mécanismes de remboursement des droits de douanes éligibles ; Enfin, (v) la libéralisation des filières agricoles traditionnelles comme repris ci-dessous pour ce qui est du café, du thé et du coton.
48. **Renforcement du secteur financier :** Il y a sept banques commerciales au Burundi, qui ont été fortement impliquées dans des prêts au Gouvernement et qui financent en majeure partie les opérations des grandes entreprises lesquelles présentent des meilleures garanties.

49. Ces Banques détiennent un portefeuille compromis en raison de la crise. Le Gouvernement sollicitera l'appui des partenaires bilatéraux et multilatéraux pour assainir le secteur financier. Pour promouvoir l'accès au financement par tous les opérateurs économiques de toute taille, il est impératif de mettre en place un cadre de micro-finance au Burundi, surtout pour la petite entreprise du secteur informel. Les travaux préliminaires dans ce domaine ont été initiés avec l'appui du PNUD¹⁹ et l'adoption d'un texte juridique y relatif est une priorité. Aussi, la vente des actions de l'Etat dans le secteur financier reste une autre priorité pour le Gouvernement.
50. **Dette intérieure** : Le Gouvernement s'est fixé pour objectif d'apurer la dette intérieure et de ne plus accumuler les arriérés sur le secteur privé. La stratégie d'apurement des arriérés qui sera adoptée par le gouvernement permettra de fixer les modalités de négociation avec les créanciers et le règlement définitif de ces arriérés.
51. **Relance du programme du désengagement de l'Etat et de privatisation des entreprises publiques**: Comme avec la plupart des réformes d'envergure engagées au Burundi, un programme de privatisation entrepris en 1992 avec l'appui de l'IDA a été ralenti à cause de la crise et l'absence des moyens suffisants pour engager cet important chantier. Le Gouvernement entend relancer le processus de privatisation avec l'aide de la Banque mondiale, et d'autres bailleurs et veillera à: (i) constituer une feuille de route comprenant les études sectorielles, des entreprises considérées comme stratégiques (entreprises de service public) comme les entreprises des secteurs de l'eau, de l'électricité, les télécoms, (ii) améliorer le cadre institutionnel des privatisations, renforcer les capacités institutionnelles et humaines; (iii) élaborer le plan de communication du programme de privatisation pour assurer la concertation et l'adhésion des différents acteurs y compris de la société civile.
52. Déjà, les autorités ont entrepris de libéraliser les secteurs économiques notamment le café et les télécommunications et compléteront la liste par les secteurs du thé et du coton.
53. Dans un premier temps, le Gouvernement a adopté une liste de 15 entreprises pour lesquelles il entend solliciter la participation du secteur privé avant 2008. Un plan d'action opérationnel a été développé et transmis à l'IDA le 22 Juillet 2005. L'Etat se désengagera de la filière Café notamment des SOGESTALS et de la SODECO et poursuivra la mise en œuvre des mesures d'accompagnement pour assurer la réussite du programme de libéralisation et de désengagement de l'Etat de la filière. Avant fin Juin 2006, les autorités transmettront à l'IDA le plan d'action pour le désengagement de l'Etat de ces filières avec les stratégies afférentes.
54. Au titre des mesures d'accompagnement de cette politique de libéralisation et de privatisation, le Gouvernement soutiendra toutes les actions visant le renforcement des capacités et des activités d'Investissement dans le secteur privé. Toutefois, il veillera à assurer les fonctions d'encadrement de la production ainsi que la recherche développement.

¹⁹ Le Programme des Nations Unies pour le Développement

Indicateurs de progrès	
Action	Date cible
• Promulgation de la nouvelle loi sur la faillite	Mars 2006
• Adoption par le Gouvernement du code révisé de l'investissement	Av. Juin 2006
• Adoption par le Gouvernement du Projet de loi sur la micro finance	Av. Juin 2006
• Achèvement d'une évaluation du climat d'investissement, à entreprendre avec l'appui de la Banque Mondiale et préparation du plan d'action en résultant, concernant notamment (a) le cadre juridique ; (b) la fiscalité ; (c) la compétitivité ; et (d) la facilitation du commerce extérieur, notamment les exportations	2006
• Début d'exécution dudit plan d'action	Juillet 2006
• Démarrage du règlement effectif de la dette intérieure	Juillet 2006
• Achèvement d'une évaluation financière et organisationnelle de toutes les entreprises publiques pour l'année 2005	2006
• La réforme des entreprises publiques par voie (a) de privatisation et de partenariats publics privés (PPP) de diverses formes.	A compter de janvier 2007

DEVELOPPEMENT DES FILIERES CAFE, THE ET COTON

Contexte général, objectifs et résultats anticipés

55. Les exportations du Burundi et les cultures de rente sont dominées par les secteurs clés du café, du thé et du coton. Les trois secteurs sont largement dominées et/ou contrôlées par des structures étatiques ou mixtes : il s'agit respectivement : dans le secteur du café, de l'Office du Café du Burundi (OCIBU) ; dans le secteur du thé, de l'Office du Thé du Burundi (OTB) ; et enfin dans le secteur du coton, de la COGERCO et du COTEBU, bien que la production agricole soit généralement assurée par des petits exploitants individuels. Cependant, ceux-ci sont généralement mal rémunérés. La situation financière des secteurs en général, et des structures étatiques en particulier, est largement déficitaire. Les secteurs constituent directement ou indirectement un gouffre pour les finances publiques et le secteur bancaire.
56. L'objectif global que vise le gouvernement dans ces secteurs est de promouvoir le développement des exportations et d'assurer une croissance agricole durable afin de relancer l'économie burundaise, accroître la production globale et la rémunération des exploitants agricoles, ce qui contribuera à réduire la pauvreté en particulier en milieu rural où vit la grande majorité de la population. Les réformes visent spécifiquement à : 1) augmenter le revenu du producteur par l'amélioration de la compétitivité des filières café, thé et coton avec l'adoption de nouveaux cadres réglementaires, légaux et institutionnels propices à l'investissement privé. 2) céder les actifs de l'Etat aux investisseurs privés avec la participation des producteurs dans l'actionnariat des sociétés cédées dans un souci d'équité ;

et 3) mettre en place des mesures d'accompagnement afin de sécuriser non seulement l'offre mais également la qualité de la production.

57. Des réflexions importantes ont été menées sur ces secteurs depuis un certain temps. Une stratégie globale de réforme a été adoptée par le Gouvernement en octobre 2004, la stratégie est plus développée dans le secteur du café, suivi par le secteur thé et ensuite le secteur du coton. A ce stade, il s'agira de finaliser – si besoin était – les stratégies et les plans d'actions correspondants, et ensuite de procéder dans les meilleurs délais à leur mise en œuvre. Le processus de mise en œuvre a déjà commencé dans le secteur du café et les autorités entendent la poursuivre sur la période 2006-2007. Dans les secteurs du thé et du coton, il s'agira (i) dans l'immédiat de prendre des mesures d'urgence, surtout dans le coton, et (ii) puis finaliser les stratégies le plutôt possible en 2006, et enfin commencer leur mise en œuvre aussitôt après.
58. Afin de faciliter la prise de décision et le respect du calendrier des réformes dans les filières café, thé et coton, le Gouvernement a mis sur pied un Comité de coordination, de gestion et suivi des réformes de la filière café en date du 30/3/2006. Ce comité a pour mission de coordonner, de gérer et de suivre tout le processus de privatisation/ libéralisation dans le strict respect de l'objectif de durabilité du secteur Café. Pour les filières Thé et Coton, le Gouvernement mettra sur pied les organes ad hoc chargés de piloter les réformes. Ces organes pourront faire appel autant que de besoin à l'expertise internationale pour les appuyer sur des questions spécifiques notamment le désengagement de l'Etat des entreprises publiques. Le comité devrait élaborer une feuille de route pour chaque filière en accord avec la Banque mondiale et suivre tout le processus de réforme jusqu'à son terme.

Secteur café

59. Le contexte de la réforme, ses objectifs et les principes de base. L'analyse du secteur café met en relief une situation très difficile pour une culture qui procure au pays plus de 90 pourcent des devises à l'exportation. Le diagnostic indique (i) une forte décote du café burundais sur le marché international ; (ii) un secteur caractérisé par une présence excessive de l'Etat au niveau de la production, de la transformation et de la commercialisation ; (iii) des producteurs mal rémunérés et de plus en plus désintéressés par la culture ; (iv) un déficit important au niveau du budget et du secteur financier ; (v) un vieux verger et peu productif ; (vi) une faible production ; (vii) des intermédiaires peu performants au niveau de la commercialisation, et (viii) des acteurs rémunérés selon un système (RCA), ce qui tend à les déresponsabiliser plutôt que de les inciter ; et (ix) un système de gestion de risque mal adapté aux besoins du secteur et des opérateurs.
60. **Les objectifs spécifiques de la réforme** consistent à : (i) restaurer et développer le label de qualité dont a bénéficié le café burundais par le passé ; (ii) augmenter la production du secteur ; et (iii) augmenter le revenu des planteurs (en termes absolus et en pourcentage du cours mondial qui leur revient) tout en essayant de leur permettre de mieux se prémunir contre les fluctuations normales des cours sans intervention de l'Etat. Toutefois, eu égard à l'importance du secteur dans l'économie nationale et à sa vulnérabilité, des interventions étatiques exceptionnelles et ponctuelles en période d'effondrement des cours mondiaux (qui se produisent de temps à autres) consistant à la mise en place des mécanismes permettant le

fonctionnement ininterrompu de la filière seront nécessaires particulièrement, pour compenser les pertes subies par les producteurs qui seront négativement affectés par la réforme. A ce titre, il sera important de suivre et d'évaluer de manière régulière, l'impact de la réforme sur le plan social et sur la réduction de la pauvreté.

61. **Les principes directeurs** de cette réforme sont : (a) la libéralisation totale du droit d'exercer et des prix dans tous les maillons du secteur ; (b) l'élimination de toute taxation indue, qu'elle soit explicite ou implicite, surtout au niveau de la production agricole ; (c) le désengagement total de l'Etat des unités de première et deuxième transformation et comprenant les stations de lavage, les SOGESTALs, les usines de déparchage et de torréfaction ; (d) l'élimination des garanties étatiques en faveur des banques et autres institutions financières au niveau de leur financement ; (e) le recentrage des activités de l'OCIBU pour qu'il assure la régulation et le contrôle des activités de la filière et le suivi de l'exécution des fonctions (telles que la vulgarisation, la recherche, la maintenance des pistes rurales, la promotion, la distribution des intrants, etc.). Le gouvernement est persuadé que ces actions conduiront à l'épanouissement de tous les opérateurs dans le secteur en général, et des caféiculteurs en particulier mais aussi à l'expansion de ce secteur-clé de l'économie.

Actions déjà entreprises

62. Des actions importantes ont été déjà entreprises dont l'adoption de la note de réforme du secteur café en Octobre 2004 comprenant un plan de désengagement de cette filière, l'organisation d'un atelier de haut niveau en vue de discuter des enjeux des réformes dans la filière du café avec tous les acteurs en Mars 2005. Par ailleurs, le Gouvernement a décrété la liberté d'établissement et d'exercice dans tous les maillons de la chaîne de production, de transformation, d'exportation et de financement dans le secteur café à tout opérateur qui le souhaite²⁰ en date du 14 janvier 2005. Les autorités ont aussi :
- (i) abrogé le texte relatif à la taxe verger;
 - (ii) (ii) procédé à la libéralisation du prix aux producteurs de café en cerises et en parche washed ;
 - (iii) mis en place un comité élargi de commercialisation du Café en janvier 2005 ainsi que celui chargé de restructuration de l'OCIBU en juin 2005.
 - (iv) réaffirmé la liberté d'achat, de vente, de commercialisation et de transformation du café cerise et marchand, y compris par voie de vente directe, ouverte à tous les opérateurs économiques etc.

Actions à entreprendre dans le cadre du don pour 2005-2007

63. En urgence, le Gouvernement s'assurera que tous les décrets et ordonnances déjà pris pour améliorer la compétitivité du secteur café sont largement diffusés et effectivement appliqués en particulier celui du 16 Juin 2005. Il analysera les mécanismes et les implications des ventes à terme et annoncera, le cas échéant, que les ventes à termes sont permises pour des exportateurs qui y sont intéressés. Il s'engage également à publier régulièrement par voie des médias, les prix indicatifs du café cerise, parche washed du Burundi ainsi que les prix

²⁰ Décret No 100/012 du 14 Janvier 2005

internationaux du café vert afin que tous les acteurs de la filière en soient largement informés.

64. En vue d'opérer un choix judicieux adapté au développement de la filière café, le désengagement de l'Etat des stations de lavage et des usines de déparchage sera précédé par des études ad hoc dont les termes de référence sont déjà disponibles. Il sera ensuite proposé un cadre légal, réglementaire et institutionnel également adapté à une filière libéralisée et privatisée, favorable à son développement.
65. Le Gouvernement procédera au choix définitif du meilleur scénario de privatisation des stations de lavage et des deux usines de la SODECO (BUTERERE et SONGA). La prise de cette importante décision en toute objectivité et transparence nécessite une analyse économique et financière de différents scénarios possibles.
66. A cet effet, le Gouvernement recrutera une expertise internationale pour l'assister dans cette tâche à l'issue des études programmées et financées par l'IDA. Les procédures de recrutement d'un cabinet chargé de la réalisation de ces études sont en cours. Face à cette situation le Gouvernement estime qu'il faut attendre le résultat des études sur la stratégie définitive de vente des stations de lavage avant de relancer les DAOs.
67. Il va, par ailleurs, s'atteler à l'exécution aux dates indiquées des actions prévues dans la feuille de route/plan d'actions du secteur café en accord avec la Banque mondiale. Il s'assurera ensuite de la meilleure préparation et du bon déroulement de la campagne 2006/2007 précédant la libéralisation totale de la filière en conformité avec les engagements pris auprès des bailleurs de fonds. Dans ce contexte, un Comité de restructuration de l'OCIBU a été mis en place et son rapport présentant un plan d'action définissant les nouveaux rôles des institutions du secteur du café, y compris l'OCIBU, a été transmis à l'autorité depuis le 28 octobre 2005.
68. Le nouveau statut de l'OCIBU devra être analysé en référence avec les conclusions de l'étude sur le cadre légal, réglementaire et institutionnel avant son adoption par les autorités habilitées.
69. Un système de gestion du risque et de politique de crédit qui répond aux préoccupations des tous les acteurs de la filière y compris les producteurs sera mis en place. A cet effet, le Gouvernement entreprendra une étude sur la gestion des risques et la politique de crédit. Cette étude permettra d'identifier les contraintes de financement de la filière et de proposer des solutions appropriées. L'étude permettra également d'informer les banques sur les techniques modernes de financement des produits de base et en particulier celui du café. Le lancement de cette étude dont les termes de référence seront discutés préalablement avec l'IDA aura lieu avant la mi-Novembre 2006. A moyen terme, le Gouvernement s'assurera que la majorité des stations de lavage ont été cédées en plus des usines de la SODECO conformément aux engagements pris dans le cadre du programme PPTE.

Indicateurs de progrès Action	Date cible
• Tous les producteurs sont informés du prix de la cerise et parache et du prix international	Fin septembre 2005
• Tous les opérateurs privés ont connaissance des différentes modalités autorisées de commercialisation du café (vente aux enchères, etc.)	Fin septembre 2005
• Lancement effectif de l'appel d'offres pour le recrutement de l'expertise en charge de l'analyse économique des scénarii de cession des stations de lavage.	Mai 2006
• Création du comité de pilotage de la réforme	Mars 2006
• Adoption d'un plan d'action définissant les nouveaux rôles des institutions du secteur du café (y inclus l'OCIBU) qui devront être en place pour le début de la campagne 2006/7 (avril 2007), conformément à la stratégie de réforme de la filière du café. Le Comité de restructuration de l'OCIBU a transmis le dossier à la II ^{ème} Vice-Présidence.	Septembre 2006
• Choix du scénario de privatisation et adoption de la feuille de route sur le café	Septembre 2006
• Vente effective du patrimoine immobilier de l'OCIBU et cessions des actions dans les établissements bancaires	Septembre 2006
• Plus de 50% des stations de lavage ont été vendues	Juin 2007
• Vente effective des usines de la SODECO	Juin 2007

La Filière thé

Actions déjà entreprises

70. Le thé représente le deuxième produit agricole du pays après le café et la production brute connaît des rendements importants. La production moyenne du thé sec varie entre 7000 et 10000 tonnes²¹. La plus grande production déjà atteinte en 2001 s'élève à 9018 tonnes de thé sec mais elle semble stagner autour de 7500 tonnes de thé (c'est à dire 37500 tonnes de feuilles vertes). Près de trois-quarts de la production viennent des plantations familiales et le reste provient des plantations industrielles de L'Office du Thé du Burundi (OTB).
71. Cette société d'Etat a le monopole de la transformation des feuilles vertes en thé sec traitées dans ses cinq usines dont les équipements n'ont pas été renouvelés depuis au moins (vingt ans). Le développement du secteur est handicapé par l'absence d'un renouvellement des infrastructures et des équipements. En effet, la situation des finances publiques de l'Etat ne

²¹ Source : Tableau N° 8 Evolution de la production agricole (en milliers de tonnes) contenu dans le rapport de la première année d'exécution de la CSLP-I / Janvier 2005.

permet pas d'envisager du moins à court terme l'expansion de la transformation des feuilles vertes.

72. Pour maintenir et accroître la qualité et la quantité des exportations du Thé, il faudrait : accroître les investissements dans le secteur qui, dans le contexte actuel pourraient être assurés à travers un partenariat public et privé. Ce partenariat passe par une libéralisation du secteur. En 2004, des organes techniques de l'Etat ont préparé une stratégie de réforme du secteur en procédant à une analyse de la filière thé et la préparation d'un document qui décrit les options en matière de réforme, qui sont toutes axées sur (i) la restructuration de l'Office du Thé, qui domine actuellement la partie aval du secteur ; et (ii) La **reconnaissance** de l'autonomie de gestion aux unités de transformation.
73. Le Gouvernement a déjà souscrit à la politique de désengagement de l'Etat du secteur agro-industriel pour laisser place, à terme, aux privés intéressés et disposant des capacités techniques et financières requises, les pouvoirs publics n'interviendront plus dans ce cas, à travers l'OTB-siège actuel que pour réguler. Le Gouvernement souhaite bénéficier des conseils de l'IDA avant de se fixer sur la stratégie définitive de la réforme, qui sera adoptée dans le meilleur des cas, avant septembre 2006 et mise en œuvre aussitôt après.

Actions à entreprendre dans le cadre du don

74. Le Gouvernement s'attellera à la définition et à l'adoption d'une feuille de route pour le désengagement de l'Etat à partir de l'analyse de la filière. Il s'adjoindra aussi une expertise requise à cet effet. L'Etat mettra en place un comité de coordination, de gestion et de suivi de la réforme incluant les représentants de tous les acteurs du secteur.
75. Au cours de la période 2006/2007, le Gouvernement mettra à jour et adoptera la stratégie de réforme du secteur ainsi qu'une feuille de route décrivant les principales étapes de la réforme. Enfin, cette feuille de route sera traduite dans un plan d'action triennal de réforme 2007-2009 et, un audit technique et financier de l'OTB sera réalisé pour la période 2005 avec l'appui de l'IDA travers le projet PAGE.

Indicateurs de progrès	
Action	Date cible
• Réalisation de l'audit technique et financier de l'OTB	Septembre 2006
• Adoption de la stratégie définitive de réforme du secteur Thé ainsi que du plan d'actions et d'une feuille de route correspondante	Septembre 2006
• Désengagement de l'Etat de la filière Thé	Juillet 2007

La filière coton

Contexte et actions déjà prises

76. La production du coton a connu un déclin suite à l'abandon des plantations et aux déplacements des populations pendant les périodes troubles. La récolte cotonnière a atteint les 3600 tonnes de coton graine en 2003 pour une production potentielle estimée à douze mille tonnes environ. Le secteur est dominé par deux sociétés d'Etat. D'une part ; la COGERCO qui assure l'encadrement des planteurs de coton, collecte la production et procède à l'usinage et à la commercialisation du coton fibre et de ses dérivés. D'autre part, le COTEBU, une entreprise de tissage qui produit des tissus écrus et teints. Le COTEBU constituait un monopsonne bénéficiant des dispositions administratives obligeant la COGERCO à lui livrer en priorité le Coton fibre.
77. Les difficultés financières actuelles du COTEBU se traduisent par son incapacité à acheter à temps et au prix du marché, toute la production collectée par la COGERCO. Celle-ci à son tour, ne peut plus rémunérer les producteurs devenus otages d'une filière entièrement administrée. En conséquence, plus de 1000 tonnes de la production de la campagne 2003/2004 était longtemps stockée sous les intempéries avec le risque d'accumulation des stocks, la perte de la production, l'accumulation des dettes et des intérêts auprès du secteur financier.
78. Le Gouvernement a mis en œuvre un plan d'action permettant à la COGERCO la vente de tout le stock de coton. A cet effet, la COGERCO s'est adjoint l'expertise d'un courtier avec l'appui de la Banque Mondiale pour concevoir une stratégie rapide d'écoulement du produit actuellement en stock. La COGERCO a pu ainsi, par la suite écouler sur le marché international une partie de ses stocks de coton. Grâce au produit de cette exportation les arriérés vis-à-vis des producteurs ont été réglés.

Actions à entreprendre dans le cadre du Don pour 2005-2007

79. Compte tenu des difficultés actuelles que connaît la filière cotonnière Burundaise, le Gouvernement prendra trois mesures urgentes : (i) mettre en place un comité de coordination, de gestion et de suivi de la réforme ; ii) accorder la liberté à la COGERCO d'écouler son coton fibre sur le marché mondial et dénoncer le protocole qui lie la COGERCO au COTEBU; et (iii) mettre à jour et adopter la stratégie de réforme du secteur et une feuille de route décrivant les principales étapes de la réforme.
80. Au cours de la période 2006/2007, le Gouvernement réalisera un audit technique et financier de la COGERCO pour l'exercice 2005 avec l'appui de l'IDA à travers le projet PAGE. A terme, il faudra compléter la restructuration de ce secteur, dont les autorités estiment posséder des perspectives importantes de croissance au niveau agricole, en passant par la libéralisation et en accordant une place beaucoup plus importante à la participation du capital privé, notamment au niveau de la COGERCO et du COTEBU.
81. Toutefois, il serait nécessaire de procéder à des réformes de fond au niveau des cadres juridique, réglementaire et institutionnel tant au niveau de la production agricole que de la transformation de la commercialisation des produits semi-finis et finis. Il y a lieu de noter qu'un volet important des réformes concernera le régime foncier, dont certaines dispositions actuelles pourraient compromettre la volonté des agriculteurs d'investir dans le secteur.

Enfin, il sera demandé au Gouvernement d'annuler la convention obligeant la COGERCO à vendre le coton fibre au COTEBU.

Indicateurs de progrès	
Action	Date cible
• Notification de la lettre annonçant la liberté de vente du coton fibre à l'extérieur	Août 2006
• Stock de coton vendu	Novembre 2006
• Adoption de la stratégie et la feuille de route pour la réforme du secteur du coton	Fin Décembre 2006
• Traitement du problème foncier	1 ^{er} semestre 2007
• Lancement des réformes	janvier 2007

GESTION DES DEPENSES PUBLIQUES ET EXTENSION DES SERVICES PUBLICS DE BASE AUX POPULATIONS PAUVRES

82. Le programme de réforme en matière de dépenses publiques vise trois objectifs à savoir :

- (i) L'amélioration de la structure et la qualité des dépenses publiques surtout celles liées à la réduction de la pauvreté ;
- (ii) L'amélioration du suivi des dépenses publiques de la préparation à l'exécution.
- (iii) La Réforme du système de passation des marchés

Amélioration de la structure et la qualité des dépenses publiques surtout celles liées à la réduction de la pauvreté

83. Le souhait des autorités est de faire de la politique budgétaire et de la Loi de Finances des instruments plus efficaces de lutte contre la pauvreté. Nous entendons assurer que les allocations budgétaires sont alignées autant que possible avec nos objectifs sectoriels de développement et de réduction de la pauvreté. Ceci va entraîner, dans le Budget 2006 une modification de la structure des dépenses budgétaires dans le sens d'augmenter régulièrement le volume des ressources budgétaires destinées aux secteurs-clé tels que la santé, l'éducation, et les activités de démobilisation et de réintégration, etc. Dans ce contexte, au niveau de la structure du budget, les autorités veilleront, pendant la durée du Don, à ce que les Lois des Finances 2006 et 2007 intègrent (i) les programmes de dépenses prioritaires du CSLP tout comme (ii) les économies budgétaires générées par la remise de la dette issue de l'initiative renforcée PPTE. Par ailleurs nous entendons utiliser les fonds de contrepartie budgétaires du Don pour augmenter ces dépenses clés.

Objectifs et résultats anticipés

84. Dans le cadre de l'exécution du CSLP, le Gouvernement s'est engagé à accroître les dépenses sociales et de lutte contre la pauvreté pour améliorer les conditions de vie des populations. Comme indiqué dans la section macroéconomique ci-dessus, le Gouvernement

poursuivra sa politique de réhabilitation parallèlement avec la politique d'investissement pour améliorer l'accès des pauvres aux services publics essentiels en liaison avec les politiques définies dans le CSLP. Les indicateurs sociaux révèlent que le Burundi connaît actuellement beaucoup de retard pour l'atteinte des Objectifs du Millénaire pour le Développement. Dans le secteur éducatif par exemple, le taux brut de scolarisation²² dans le primaire est d'environ 80% pour 2004/2005 avec des taux de redoublements de 30% et un taux de 8,6% pour les abandons, ce qui indique que le pays est loin d'atteindre l'objectif de scolarisation universelle à échéance de 2015 tant que le système produira autant d'abandons et de redoublements et demeurera inefficace.

85. Les stratégies sectorielles vont chacune entreprendre chaque fois que de besoin de mesurer les efforts nécessaires pour remettre le Burundi sur le sentier normal permettant d'atteindre les objectifs du millénaire. Le Gouvernement mettra tout en œuvre pour relever les défis dans les secteurs en retard par rapport aux Objectifs du Millénaire pour le Développement (OMD) et notamment ceux de la santé et de l'éducation conformément à la stratégie déclinée dans le CSLP-I. Dans le domaine de l'éducation, le Gouvernement s'est engagé à planifier et organiser l'éducation des enfants et la formation des jeunes suivant les besoins de la population. Il s'efforcera d'installer les écoles primaires et secondaires partout où c'est nécessaire pour que tous les enfants soient scolarisés. En outre les autorités entendent poursuivre le programme de réinsertion et de réintégration des populations dans le contexte de la mise en œuvre du projet PNDRR.

Actions déjà entreprises

86. **Réinsertion et réintégration des populations :** Le Gouvernement a adhéré au programme de la démobilisation, de la réinsertion et de la réintégration (DRRP) ayant pour objectifs d'aider à consolider la paix au Burundi et la région des Grands lacs par l'exécution des articles appropriés de l'accord de paix d'Arusha et des accords suivants de cessez-le-feu. Les trois principaux objectifs du programme sont: (i) démobiliser les 55.000 ex-combattants environ des forces armées, les militants des partis et des mouvements politiques armés (APPMs), et plus tard les forces de la défense nationale (FDN), aussi bien que l'appui à leur réintégration dans la vie civile ; (ii) fournir l'aide de réinsertion à 20.000 Gardiens de la Paix et aux 10.000 militants combattants (iii) contribuer à la redistribution et/ou la réallocation des dépenses publiques de la défense en faveur des secteurs sociaux et économiques.
87. La démobilisation des mouvements armés se poursuit de manière satisfaisante. En juillet 2005, 15.780 ex-combattants ont été démobilisés (2.908 soldats y compris les enfants et 478 ex-combattants féminins). L'opération de démobilisation des Gardiens de la Paix et autres militants combattants a été lancée en juillet 2005. Le décaissement des allocations de subsistance provisoires aux ex-combattants dans leurs provinces de réintégration se poursuit aussi de manière satisfaisante.
88. **Santé :** Dans le cadre du crédit d'urgence de redressement, plus de 24 centres de santé ont été construits, 240000 moustiquaires imprégnées ont été distribués parallèlement à la

²² Le taux a été calculé sur la base des chiffres du Ministère du Plan. Ce chiffre serait de 86% si l'on considère les projections des Nations Unies.

pulvérisation intra domiciliaire dans les zones qui sont infestées de moustiques. Dans le contexte du crédit de réhabilitation (CRE), le Gouvernement a poursuivi les objectifs en conformité avec la stratégie du CSLP-I et les dépenses de santé financées sous le CRE représentent environ (4,3%) du budget d'investissement du ministère de la Santé. Un plan national de développement sanitaire a été adopté à l'issue des états généraux de la santé tenus en septembre 2004. Le Plan national de lutte contre le VIH/SIDA a été lancé parallèlement au Plan national de développement sanitaire avec trois principaux volets : la prévention, la prise en charge et le renforcement des capacités.

89. **Education** : Dans le secteur de l'éducation, le CRE-I avait permis aux autorités de continuer les actions entreprises sous le crédit de réhabilitation notamment : la remise en état des écoles y compris la construction et l'équipement, la formation appropriée des enseignants non qualifiés, ainsi que l'acquisition de manuels et matériels didactiques pour les enseignants et élèves des collèges communaux, l'acquisition des fournitures d'imprimerie pour la fabrication des manuels de classe pour les écoliers et maîtres des écoles primaires. - Par ailleurs, le nombre d'enseignants recrutés en 2004 a été plus important qu'au cours des années précédentes : 2300 dans le primaire et 2000 dans le secondaire contre un plafond respectif de 1000 et 600 préalablement fixé par les autorités.

C. Actions à entreprendre à moyen terme 2005—2007

90. **Démobilisation et Réinsertion** : Le Gouvernement va poursuivre les opérations relatives au programme de réinsertion en conformité avec les Conditions du passage au point d'achèvement de l'initiative PPTE. L'exécution de la composante de réintégration a été retardée, et son opérationnalisation rapide sera une priorité principale pour le Secrétariat Exécutif de la Commission Nationale pour la démobilisation, la réinsertion et la réintégration dans les prochains mois.
91. **Santé** : Dans ce secteur, la stratégie nationale est en cours de finalisation avec pour objectif principal d'améliorer l'accès des populations aux soins essentiels. A court et moyen terme, les autorités mettront tout en œuvre pour réhabiliter les Centres de Santé en droite ligne avec la stratégie engagée dans le cadre du CRE-I. Les actions d'offre de service de santé poursuivies par les autorités se subdivisent en trois grands domaines : le développement des infrastructures et des services, le renforcement des capacités des structures sanitaires, et enfin l'implication des populations aux efforts d'amélioration des conditions sanitaires.
92. La politique de développement équitable des infrastructures portera sur la poursuite des efforts de construction, de réhabilitation et d'équipement des structures sanitaires et des points d'eau potables, l'extension des maternités à l'ensemble du pays pour que la population puisse se faire soigner à un prix abordable et sans devoir parcourir de longues distances, mais aussi sur la mise en œuvre d'une politique dynamique d'offre de médicaments. Le Gouvernement s'est engagé à développer une politique visant l'amélioration sensible de l'accès aux soins de Santé pour tous ainsi que la poursuite de la mise en application du plan stratégique nationale de lutte contre le VIH/SIDA dont l'une des axes essentiels est le renforcement des capacités de prévention et le traitement des maladies opportunistes liées au VIH/SIDA.

93. Le renforcement des capacités des structures sanitaires concerne (i) un appui aux institutions de formation et à la formation continue, (ii) une politique de stabilisation du personnel de la santé dans les zones les plus nécessiteuses et (iii) un appui aux structures de lutte contre le VIH/SIDA.
94. L'implication de la population aux efforts d'amélioration des conditions sanitaires portera sur (i) la promotion des programmes de prévention : éducation et sensibilisation aux problèmes d'hygiène et de santé de la famille, diffusion des méthodes de prévention préconisées par l'OMS, etc ; (ii) le renforcement de la prise en charge des malades du SIDA et la promotion des mécanismes de solidarité communautaires, (iii) la promotion des mutuelles communautaires de santé, et (iv) la promotion de la gestion communautaire des sources d'eau.
95. **Education** : Dans le court terme, le Gouvernement entend poursuivre la réhabilitation, assurer la disponibilité des fournitures scolaires, procéder au redéploiement des enseignants et continuer la formation continue des enseignants. Dans le cadre de la préparation du CSLP complet, le Gouvernement vise l'amélioration de la scolarité universelle. Bien plus, lors de son entrée en fonction, le Chef de l'Etat a annoncé la décision du Gouvernement de faire bénéficier de la gratuité de l'enseignement primaire à tout enfant en âge d'être scolarisé à partir de l'année scolaire 2005-2006.
96. Le Gouvernement poursuivra avec la formation des enseignants et l'amélioration du système de progression dans leur carrière, l'amélioration de la répartition des écoles et l'accroissement de la participation des structures communautaires dans leur gestion. A moyen terme, les efforts d'offre de service d'éducation devront contribuer à une amélioration significative des indicateurs de performance dans ce secteur. A l'horizon 2007, le Gouvernement espère réhabiliter ou construire au moins une école primaire sur chaque colline de recensement. Cette action entraînera la construction d'environ 800 salles de classe en 2006, le recrutement de 5000 nouveaux enseignants. Quant à l'acquisition de matériel didactique elle sera réalisée pour un coût estimatif de 15 millions dollars EU.
97. **Energie** : Le Gouvernement estime que le développement du secteur de l'énergie constitue un préalable pour le développement du pays. En effet, actuellement le Burundi développe largement de l'énergie importée du Congo qui représente près de 50% des consommations totales.

Indicateurs de progrès Action	Date limite cible
<ul style="list-style-type: none"> • L'adoption d'une Loi de Finance pour 2006 qui incorpore les dépenses de pauvreté, conformément à la sous classification ci-dessus mentionnée (notamment ceux dans le CSLP), celles qui sont financées par le programme PPTE ainsi que celles qui seront financés par le Don ; Les dépenses pro-pauvres sont codifiées de manière à être identifiées dans la Loi de Finances 2006. La codification fonctionnelle est détaillée et concerne les 6 axes stratégiques. 	Décembre 2005
<ul style="list-style-type: none"> • L'adoption d'une Loi de Finances pour 2007 qui incorpore les dépenses de pauvreté, conformément à la sous classification ci-dessus mentionnée (notamment celles du CSLP), celles qui sont financées par le programme PPTE ainsi que celles qui seront financés par le Don. 	Décembre 2006
<ul style="list-style-type: none"> • L'Augmentation de l'éducation universelle et le taux de scolarisation brut national conformément aux objectifs et niveaux fixés dans le document du point de décision de l'initiative PPTE 	Décembre 2006
<ul style="list-style-type: none"> • L'Accroissement du taux d'immunisation national des enfants de moins d'un an selon les objectifs et les niveaux fixés dans le document du point de décision de l'initiative PPTE. 	Décembre 2006
<ul style="list-style-type: none"> • L'Accroissement des dépenses budgétaires du secteur de la Santé d'au moins 5% en 2006 	Décembre 2005
<ul style="list-style-type: none"> • L'Accroissement des dépenses budgétaires du secteur de l'Education d'au moins 10 % en 2006 	Décembre 2005

Amélioration de la gestion des dépenses publiques

Objectifs et résultats anticipés

98. La réforme de la gestion des finances publiques est au centre de la réforme du secteur public et vise en particulier à moderniser les instruments de gestion, garantir la transparence dans la passation des marchés et améliorer l'efficacité de l'action gouvernementale. Cette réforme permettra : (i) la mise en place d'un système informatisé intérimaire des dépenses publiques qui permet d'assurer un suivi et un contrôle du budget, notamment des dépenses de lutte contre la pauvreté depuis janvier 2006, (ii) l'établissement des rapports trimestriels sur l'exécution du budget au moyen de la nouvelle nomenclature budgétaire unique, (iii) la production du TOFE en cohérence avec la balance du trésor à fin septembre 2006. En outre, l'objectif visé consiste à mettre à la disposition des ministères à moyen terme, des cadres de dépenses à moyen terme cohérents avec le CSLP. Les autorités disposeront à la suite de cette réforme, des instruments appropriés de gestion et un arsenal administratif qui sera diffusé à tous les acteurs intervenant dans le cadre du suivi participatif. Parallèlement, les autorités

entreprendront la réforme de la passation des marchés en vue de mettre en place un dispositif qui assure la transparence et permet une meilleure allocation des ressources publiques.

Actions déjà entreprises

99. **Pour ce qui est de la préparation budgétaire** : Le gouvernement a revu les nomenclatures budgétaires basées notamment sur les standards internationaux, y compris la classification fonctionnelle. La classification budgétaire et comptable incorpore déjà un système d'identification (par codage) des dépenses de pauvreté (CSLP et PPTE).
100. Ces nomenclatures ont été utilisées pour élaborer le budget 2006. Le rapport annuel 2005 est en cours de production sous la nouvelle nomenclature malgré le retard enregistré dans l'application du Plan Budgétaire et Comptable de l'Etat.
101. **L'exécution et le suivi du budget** : L'articulation du Plan Budgétaire et Comptable validé en 2004 et mis en œuvre pour 2005, vise l'harmonisation des nomenclatures budgétaires et comptables, l'actualisation du plan comptable, la facilitation de la production des états de suivi budgétaire et comptable, notamment la balance du Trésor et le TOFE. L'exercice de production d'une balance du trésor a démarré depuis 2004.
102. Par ailleurs le Gouvernement a préparé depuis mars 2005 un système informatique intérimaire de gestion des finances publiques dont la finalité sera notamment (i) de pouvoir suivre les dépenses au niveau **sectoriel** surtout celles liées à la pauvreté, depuis l'engagement jusqu'au paiement ; et (ii) la production régulière des tableaux de synthèse. Les travaux ont conduit à l'élaboration d'un progiciel incorporant la saisie et la consultation des engagements, la gestion des paiements et un certain nombre d'états de suivi comptables et/ou budgétaires. Ce produit incorpore la nomenclature unifiée du PBCE.
103. **Le contrôle externe et la mise en œuvre de la cour des comptes** : La Cour des comptes a été mise en place en 2004, et un cahier des charges de l'informatisation de l'institution est disponible. Cependant, la Cour doit être renforcée pour la rendre pleinement opérationnelle. A ce titre, les capacités humaines de cette structure seront renforcées par des recrutements spéciaux et une formation appropriée sera dispensée aux cadres de la Cour des comptes pour leur permettre de faire leur travail d'audit et de contrôle externe de la gestion des ressources publiques.
104. Le Gouvernement vient de finaliser la mise en place du système informatique intérimaire de suivi de la chaîne de la dépense avec une liaison du ministère des finances et de la BRB. Ce système **est en** mesure de produire les Etats de Suivi Budgétaire sur une base trimestrielle, y compris pour les dépenses de pauvreté, à compter du 1^{er} janvier 2006. Le premier de ces rapports trimestriels a couvert le 1^{er} trimestre de 2006.

Actions à entreprendre dans le cadre du don (pour 2005-2007)

105. **Pour ce qui est de la préparation budgétaire** La classification budgétaire et comptable a été complétée par un système d'identification (par codage) des dépenses de pauvreté (CSLP et PPTE).

106. **Concernant l'Exécution budgétaire** ; Le Gouvernement devra harmoniser les règles relatives à l'exécution de la dépense publique par la production d'un manuel complet décrivant l'ensemble des procédures d'exécution de la dépense, depuis la mise en place des crédits, l'engagement et les contrôles de régularité, jusqu'à la phase comptable. Un plan de formation intense et très large devra être élaboré et mis en œuvre au profit de l'ensemble des acteurs de l'exécution de la dépense publique.
107. **Audit budgétaire.** Pour mieux renforcer les capacités du pays dans les domaines de suivi et d'audit, le Gouvernement du Burundi s'engage à demander l'appui des institutions internationales d'audit ayant une réputation établie, afin d'assister la Cour des Comptes dans l'audit de l'exécution budgétaire annuelle, à partir de 2006.
108. Par ailleurs, le Ministère des Finances mettra en place une structure d'informaticiens spécialisés en charge de l'exploitation quotidienne du circuit de la dépense, et du système de comptabilité, après identification et formation approfondie. Le système intérimaire devra comporter dès à présent l'ensemble des mesures habituelles de sécurité, notamment celles concernant la structure des bases, les accès aux données et aux locaux, la protection du réseau, la maintenance et la pérennité des équipements.
109. **Dispositif de suivi des dépenses pro-pauvres** : Par ailleurs, il y a lieu de noter les efforts que nous entreprendrons dans le contexte du programme PPTE. En effet, deux repères pour le point d'achèvement concernent directement les dépenses publiques notamment (i) la production d'au moins deux rapports trimestriels d'exécution budgétaire (Etats de Suivi Budgétaire) produits par ledit système et basés sur la nouvelle nomenclature unifiée (repère No. 4); et (ii) des exercices de suivi évaluation des dépenses publiques dans les secteurs de l'éducation, de la santé et de la justice, etc.
110. En outre, un comité de surveillance indépendant sera bientôt mis en place pour assurer le suivi des dépenses financées grâce à l'allègement obtenu au titre de l'initiative PPTE renforcée, dont le rôle est de faciliter la mise en œuvre et le suivi des dépenses PPTE tel que définies dans les paragraphes 56, 57, 58 et 59 du document du point de décision de l'initiative PPTE. Ce comité sera composé des représentants nationaux et locaux incluant la société civile, ainsi que des membres de la communauté internationale des bailleurs de fonds. Cette approche a été mise en œuvre avec succès dans d'autres pays. L'utilisation de cette aide sera soumise à des audits techniques et financiers indépendants permettant de vérifier que les ressources sont bien consacrées à la lutte contre la pauvreté, et tous ces audits seront portés à la connaissance du public.
111. Il reste important de mentionner que le Gouvernement s'engage à utiliser les ressources DARE d'une manière consistante aux objectifs du Cadre Stratégique de Lutte contre la Pauvreté (CSLP). Les dépenses faites à partir du Compte Spécial du Trésor (CST) réservé aux ressources DARE seront surveillées par un comité de suivi. En plus, l'audit externe annuel des comptes DARE sera effectué dans les meilleurs délais. Il s'agit du compte dépôt libellé en devises étrangères et le compte dépôt libellé en monnaie locale.

112. En vue de s'assurer que les ressources budgétaires, y compris le Don atteignent leurs légitimes bénéficiaires le Gouvernement s'engage à effectuer une enquête sur la traçabilité des dépenses budgétaires de 2006 dans l'éducation, la santé, et la justice avec l'aide de la Banque mondiale. Cette enquête sera financée à travers le projet PAGE de la Banque mondiale et le Fond Fiduciaire Belge.
113. Nous entendons nous focaliser sur la réalisation des repères PPTE et le fonctionnement du comité de suivi PPTE dans le contexte du programme de réformes économiques soutenues par le Don.

Indicateurs de progrès Action	Date limite cible
<ul style="list-style-type: none"> • L'achèvement des travaux relatifs à l'établissement d'une nomenclature budgétaire et comptable qui comprend notamment une sous classification « dépenses de pauvreté », et leur adoption selon la réglementation en vigueur. 	Déjà fait
<ul style="list-style-type: none"> • L'achèvement de la préparation du système intérimaire de gestion informatisée des dépenses publiques comportant un lien entre le Ministère des Finances et la BRB. 	Déjà fait et prêt à exécution dès janvier 2006
<ul style="list-style-type: none"> • Mise en place du Comité de suivi des dépenses PPTE 	Décembre 2005
<ul style="list-style-type: none"> • La production, à partir du système informatique intérimaire, d'un état de Suivi Budgétaire pour le premier trimestre de 2006. 	Fin Mars 2006
<ul style="list-style-type: none"> • La production, à partir du système informatique intérimaire, d'au moins deux Etats de Suivi Budgétaire trimestriel pour l'année 2006 	Décembre 2006
<ul style="list-style-type: none"> • L'achèvement, notamment dans les secteurs de l'éducation, de la santé et de la justice, des travaux de suivi évaluation des dépenses budgétaires visant (i) la traçabilité des dépenses budgétaires; (ii) l'évaluation par les utilisateurs des services fournis ; et (iii) l'évaluation par les prestataires des contraintes à la prestation effective des services ; et préparation d'un plan d'action pour résoudre les problèmes relevés. 	Mars 2007

Réforme de la passation des marchés

Objectifs et résultats anticipés

114. La réforme soutenue vise à doter le Burundi d'un cadre institutionnel et juridique moderne conforme aux meilleures pratiques. Le plan d'action met un accent particulier sur le renforcement des capacités, pour que le pays puisse disposer des hommes et des outils pouvant permettre un bon fonctionnement du système des marchés publics et l'atteinte des objectifs poursuivis.

115. La prévention et la lutte contre la corruption sont également des préoccupations importantes. Plus de dix ans de conflit et de crise ont conduit à un affaiblissement de l'autorité de l'Etat et à une ascension vertigineuse de la corruption. C'est ainsi que la lutte contre la corruption est une des priorités affichée par le nouveau Gouvernement.

Actions déjà entreprises

116. **Passation des marchés publics** : Le gouvernement a mis sur pied en juin 2003 un Comité de Suivi de la Réforme des Marchés Publics ayant pour mission de proposer et de coordonner les activités nécessaires à l'aboutissement de la réforme de marchés publics. Ce comité a conduit des consultations avec les différentes parties intéressées par les marchés publics au Burundi, afin de définir les contours de la réforme du secteur. Ces consultations ont abouti à un projet de plan d'action. Le plan d'action fut examiné et adopté par le Conseil des Ministres en août 2004. Le plan d'action de la réforme des marchés publics s'articulé autour de quatre axes suivants : (i) la refonte du cadre juridique et institutionnel ; (ii) le renforcement des capacités ; (iii) la promotion de la qualité et de la performance ; (iv) la mise en place des mécanismes de prévention et de lutte contre la corruption.
117. Le Gouvernement s'est engagé à mettre en œuvre un plan d'action d'urgence visant à améliorer la gestion des marchés publics dans le cadre juridique existant. Le Comité de suivi de la réforme des marchés publics est en train d'élaborer une note circulaire qui devra être diffusée au cours du 1^{er} trimestre 2006.

Actions à entreprendre dans le cadre du don (pour 2005-2007)

118. Le plan d'action de réforme des marchés publics vient d'être ajusté pour d'une part, mettre à jour le calendrier de la réalisation des réformes et d'autre part intégrer dans un même document le plan d'action issue de la note analytique de la Banque Mondiale sur les marchés publics au Burundi de juin 2004 et le plan d'action adopté par le gouvernement en août 2004. Suite à cet ajustement le calendrier de l'adoption des mesures clés pour 2006 se présente comme suit :
119. Avant la fin du second semestre 2006, les mesures suivantes auront été prises : (i) Promulgation et publication des textes législatifs et réglementaires concernant le cadre institutionnel des marchés publics et le code des marchés publics ; et (ii) promulgation des décrets instituant les nouvelles structures de gestion et de régulation des marchés publics, ainsi que l'adoption d'un plan d'action concernant la mise en place de ces nouvelles structures.

Indicateurs de progrès	
Action	Date limite cible
<ul style="list-style-type: none"> • Promulgation d'un cadre institutionnel et d'un code des marchés publics. • Adoption d'un plan d'action de renforcement des capacités portant sur l'horizon 2006-2010. • Mise en place des structures de gestion et de régulation des marchés publics. 	<p>2006</p> <p>2006</p> <p>2007</p>

COORDINATION ET GESTION DU DON

120. Le suivi du programme et des mesures de la matrice des réformes structurelles annexée à cette lettre sera assuré par le Gouvernement selon une formule appropriée et conforme au cadre institutionnel négocié entre les autorités et l'IDA.

REPUBLIC OF BURUNDI

(ENGLISH TRANSLATION)

ECONOMIC REFORM SUPPORT GRANT (ERSG)

LETTER OF DEVELOPMENT POLICY

Bujumbura, June 26, 2006

GENERAL INTRODUCTION

- 1 The Government requests IDA assistance to support its program of economic reforms for the period 2006-2008, which aim at macroeconomic adjustment and stabilization together with implementation of structural reforms designed to reduce poverty. This letter of development policy summarizes the social context and the recent development of the economy. It describes the policies that the Government intends to pursue in the fields concerning: (i) preparation of a Poverty Reduction Strategy Paper (PRSP); (ii) implementation of the policies for development of the private sector and primarily the coffee, cotton and tea subsectors; (iii) and finally, the reforms aimed at improving the management of public expenditure.
- 2 The satisfactory implementation of the reforms already underway has enabled reestablishment of the financial equilibria which now need to be consolidated. The recent decision of the IDA and IMF boards approving Burundi's eligibility for the HIPC Initiative is resounding evidence of this. During the transition period the Government has posted progress regarding reforms it intends to pursue with a view to accelerating growth and ensuring that the policies already in effect are irreversible.
- 3 However, these achievements should not be allowed to conceal the fact that our economy is still confronted with numerous challenges, while there are also some significant opportunities that Burundi ought to seize with the aim of improving the economic environment, modernizing the production apparatus and positioning itself in the international market. The present sources of growth are all in the agriculture sphere, and specifically the export products such as coffee, cotton and tea. The authorities believe that the reforms to be undertaken in these subsectors will make it possible to ensure expansion of the agriculture sector, with (i) an increased contribution to growth, and (ii) enhanced incomes for agricultural producers, especially those in rural areas.
- 4 This vision must be rounded out with a wider strategy aiming at the instituting of good governance, in conjunction with development of the private sector to bring about more growth and employment creation. The implementation of the program supported by the Grant forming the subject of this policy letter will have the benefit of helping the HIPC Initiative triggers, but what is more this program will enable the newly installed Government to base the rebuilding of the country on sound economic foundations. To this end the letter cites in the following paragraphs the economic performances posted in recent years, the medium-term program for 2006-2008 and the reforms to be implemented in the context of the budget-support Grant in 2006 and 2007, with special reference to reform of public finances, economic growth and reduction of poverty, development of the private sector and promotion of the coffee, cotton and tea subsectors.
- 5 Burundi also requests other contributions from donors in the implementation of this program and will need a frame of reference for a harmonized policy to be adopted by donors. In this connection, the Government desires enhanced coordination on the part of IDA and acceptance by all financial partners of the PRSP, the complete version of which is currently being produced and will be available in June 2006.

- 6 This letter sets out the Government's program regarding reforms over the next two years, but also presents the performance indicators that will be used for assessing the quality of its implementation. Being aware of the difficulties inherent in economic reforms and bearing past experience in mind, the authorities intend to take care to involve all players with a view to securing the commitment necessary for the success of any reform having socioeconomic implications.

Context and recent sociopolitical development

- 7 Burundi's development was hindered by a long period of civil war which broke out in 1993, followed by a subregional economic embargo from 1996 to 1999. The signing of the Arusha Peace Agreement by the political partners in August 2000 made it possible to embark on a peace process managed by a transitional Government and parliament selected on the basis of balanced ethnic representation. The process of national reconciliation proceeded without incident and peace was gradually reestablished following the signing of the global cease-fire agreement on November 16, 2003, in Pretoria, South Africa. It was during this calm transitional period that a new Constitution was adopted, followed by (i) election of commune councils on June 3, 2005, and (ii) election of the members of the National Assembly and Senate, which took place on July 4, 2005 and July 29, 2005, respectively.
- 8 The President of the Republic was elected on August 19, 2005, and a new inclusive Government was formed to succeed the transitional Government and is now in office. The sociopolitical environment has been strengthened with the establishment of democratic institutions. This situation will facilitate implementation of fundamental reforms designed to enable Burundi to resume a level of growth necessary for its development and creation of an environment favorable for attracting private investment, with a view to ensuring sustainable growth and reduction of poverty.
- 9 The reconciliation underway since 2000 has been supported by the entire international community and chiefly the Bretton Woods Institutions, in order to facilitate economic recovery and restoration of the effective functioning of the State. In this respect, the socioeconomic programs carried out to date have enabled the demobilization of the former combatants involved in the conflicts and their reabsorption into civilian life, including the reintegration of refugees and/or displaced persons numbering around a million individuals. In this political environment, which remains a sensitive matter, the challenge for the authorities consists in strengthening the advances achieved during the transitional phase as regards peace and security, promoting growth through development of the coffee, cotton and tea subsectors and that of the private sector in general, in order to boost both the public revenues and private incomes and to continue improving the management of the public finances with a view to increasing quality public services for the poor and improving governance. These reform thrusts are set out in the complete PRSP that the Government is in process of finalizing with the World Bank's assistance.

Macroeconomic and budgetary framework

- 10 **Performance in 2000-2005:** The challenge of reducing poverty in the context of Burundi is no inconsiderable one since the needs are many, especially as regards raising

the people's standard of living and pursuing the reconstruction program. Under the present conditions, average annual growth rates of around 5% would be needed for about ten years to regain the 1993 level of per-capita GDP, which indicates the scale of the task facing the Government. However, some significant progress was made during the transitional period, which has made it possible to restore peace step by step.

- 11 Since 2000 the Government has adopted reform programs assisted by IDA and with effect from 2004 Burundi has obtained a PRGF loan from the IMF following execution of a reference program in 2001-2002. Other assistance from other international-community partners has also contributed to the economy's recent performance. The implementation of these reforms has been proceeding satisfactorily up to the present and constitutes a step forward toward stabilization and restoration of the functioning of the public services. In this connection, it should be noted that the second review of the PRGF was completed by the IMF Board on July 27, 2005. Moreover, at the same time the Board approved Burundi's eligibility for the Enhanced HIPC Initiative. The World Bank's Executive Board made the same decision on August 4, 2005. The third and fourth PRGF reviews are to be completed in June 2006.
- 12 The macroeconomic performance in the course of 2005 was mixed, with a GDP growth rate of the order of 1% compared with 2004 when notwithstanding severe climatic conditions the economy posted 4.8% growth. As regards the management of the public finances, the reforms instituted by the Government made it possible to restore budgetary discipline. The economic recovery that began to take shape contributed to revenues amounting to 20% of GDP in 2004 and generation of a primary balance of -3.5%. Inflation was contained at 11.9% at the end of the period against 1.7% in 2003, this rise being due to the continuing increases in the prices of consumer goods and petroleum products. The Government succeeded in holding the primary deficit at around 3.5% of GDP while the current balance deficit excluding transfers reached 24.4% in 2004. The budget performance posted in 2005 was satisfactory on the whole. Revenues amounted to 20% of GDP and overall expenditure reached 38.8% of GDP. Inflation remained high as a result of the drought afflicting the north of the country and the upward pressure on prices occasioned by the sizable presence of the international community.

Promotion of Good Governance

- 13 The Government of Burundi announced at the time it took office at the beginning of September 2005 that Good Governance was its primary concern. What is more, on the occasion of his first international trip as democratically elected Head of State of Burundi, His Excellency President Pierre NKURUNZIZA delivered an important address at the United Nations headquarters in New York during the Millennium + 5 Summit in September 2005. In the President's words: "Our Government has made respect for human rights its key concern. The primacy of the constitutional State, rigorous management of public resources and promotion of Good Governance are prerequisites for sustainable development. They are at the heart of our development strategy." Regarding the specific question of the promotion of Good Governance, Burundi's Head of State went on to say: "With reference to Good Governance, our Government has committed itself from the moment it took office to combating all

forms of fraud, corruption, economic and financial embezzlement and other misappropriations of public funds. An anticorruption law will shortly be submitted to parliament and an anticorruption squad will soon be operational. Along the same lines, our Government is determined to hold down public spending, in particular by reducing and regrouping the ministries, which are down from 26 to 20 in number, by reviewing their missions and mandates and withdrawing partially or fully from certain public enterprises. Also within the framework of Good Governance, my Government is resolved to promote reorganization of the justice sector with the aim of fostering impartial, swift and equitable justice and eliminating impunity.” The anticorruption law was in fact promulgated in April 2006, and the anticorruption squad was approved by the Council of Ministers on April 27, 2006.

- 14 In the context of monitoring the accomplishment of the Millennium Development Goals (MDGs), Burundi has made an important step forward regarding two of these goals, namely the second and third, dealing with ensuring primary education for all, and promotion of equality of the sexes and self-determination for women. When he took office, the President of Burundi announced the decision to give free primary education to each child of school age with effect from the 2005-2006 academic year. This measure produced a large influx of newly registered students (nearly 500,000 in all). In addition, the institutions established with the new authority deriving from the 2005 democratic elections now accord women the place they deserve. In point of fact, for the first time in Burundi’s history, the National Assembly is presided over by a woman and the two vice presidents of the Senate are also women. Moreover, seven of the twenty ministries are headed by women while at the territorial administration level there are several women governors or commune administrators.
- 15 To increase the chances of success of the Government’s programs for which it is requesting assistance, it has been necessary to seek the support of the interest groups affected by the reforms, in order to ensure better coordination with the donors so as to permit fuller harmonization of policies, a prerequisite for success. Accordingly, in December 2005, the Government set up a National Assistance Coordination Committee (“CNCA”) to further dialogue and coordination with the donors. What is more, in February 2006 the Permanent Secretariat of the CNCA was established to ensure efficient management of assistance received and a permanent framework for dialogue and consensus between the Government and the donors has been set up in the CNCA.

Improvement of the System for Management of the Public Finances and Budget Execution

- 16 With support from the World Bank through IDA Economic Management Support Project (EMSP) and technical assistance from the IMF, the Government is pursuing improvement of the management of the public finances by means of the establishment of an interim system for the purpose already in operation as of January 2006. This system incorporates the new standardized nomenclature enabling monitoring of poverty-reduction expenditures; it should ultimately make it possible to automatically produce the table of State financial operations and the consolidated treasury balance sheet. Training of senior officials and government employees, and also of BRB senior staff, in the efficient utilization of this system is underway. The Government is in

process of capturing the data pertaining to all fiscal 2005 financial operations in order to produce a draft settlement law between now and June 2006.

- 17 The new management of the exchange system has functioned better and has brought about a convergence of the official exchange rates with those obtaining in the parallel market. The present differential is of the order of 3% whereas it was more than 10% at the start of the program. Since the beginning of 2005, the Burundi franc has appreciated against the US dollar by 10%, a factor which contributed to the marked slowing of inflation in December.

Prospects for 2006 and in the medium term

- 18 The year 2005 will have been a turning point for the development of Burundi with the establishment of the bodies and institutions brought into existence by the new Constitution, in particular the local, parliamentary and Senate-related institutions. The medium-term macroeconomic objectives are aimed at achieving sufficient growth to significantly reduce poverty by an increase in private investment and development of the production of tradable goods. In the medium term and by the 2006-2008 horizon, the authorities are aiming at average annual growth of about 5%, with private investment averaging 5% of GDP over the same period. Under these conditions, the Government's objective is to favor private enterprise with special emphasis on agriculture (coffee, cotton, tea and sugar), agroindustry including SMEs, the new information and communication technologies and microfinance, with a view to making these the bases of economic growth. Moreover, the Burundi authorities reiterate through this letter of development policy their commitment to pursuing the process of divestiture by the State of its interests in the public enterprises. Foreign and national private investors will be encouraged to participate in the key sectors of the economy, in particular telecommunications, electricity, etc.
- 19 Accordingly, with the support of the international community, the Government intends to develop the country's infrastructure and reduce its energy dependence together with the other constraints on development of the private sector, especially those relating to the regulatory framework for business.
- 20 Being aware of the need to increase access for the poorest of the poor to essential public services, the Government will take steps to boost resource financing in the social sectors and more specifically in rural areas. Social expenditures (Education, Health, Public Works) are slated to be increased from around 28% to some 34% on average over the period 2006-2008.

Reforms supported by the IDA grant

- 21 The Government requests IDA's assistance through the Budget and Economic Reform Grant (DARE) to implement its policy for alleviating poverty and accelerating growth. The Government would like the DARE to support: (i) the finalization and implementation of the PRSP; (ii) the promotion of growth by means of: (a) development of the private sector; (b) divestiture by the State of commercial and industrial activities; and (c) implementation of the reforms in the coffee, tea and cotton subsectors in accordance with the commitments already assumed during execution of

the Economic Recovery Credit (ERC) approved by IDA; and thirdly (iii) improvement of the management of the public finances and provision of quality public services, with special emphasis on the poorer segments of the population.

- 22 The Government is convinced that these reforms constitute the basis for sustainable development. The fact is that the indicators show that about 49% of the country's output is agricultural with 10.1% being accounted for by coffee, while over 90% of the population lives in rural areas²³ with a poverty rate in excess of 80%, which also implies that the prospects for growth and employment creation for reducing poverty depend essentially on the agriculture sector and more specifically on the coffee, tea and cotton subsectors.
- 23 The State intervenes in all sectors of the economy, and its intervention limits competition and handicaps the development of exports and that of the private sector in general. Up till 2003, domestic credit went essentially to the public sector, including the less-and-less efficient public enterprises. The private sector, which could only resort to the limited credit market, was unable to step up the investments needed for growth. In accordance with the economic program supported by the DARE, the authorities are going to undertake a reform of the public sector in conjunction with withdrawal by the State from the productive sectors, decontrolling of prices and facilitation of commerce in order to eliminate the constraints blocking development of exports. To achieve this goal, the reforms will focus on promoting private employment and income-generating economic activities that will contribute to eliminating poverty and exclusion.

POVERTY-REDUCTION STRATEGY

The objective and the results expected upon completion of the DARE-financed program

- 24 Regarding the reduction of poverty, the main results sought from the program financed by the DARE are: (i) production of the complete PRSP, and (ii) its satisfactory execution over the space of one year. Implementation of these two actions will be a key benchmark for meeting the Enhanced HIPC Initiative requirements.

The actions already taken

- 25 After a decade of conflict, Burundi's population is more impoverished than before: GDP fell by 25% over the first four years of conflict while at the same time the poverty rate rose from 35% in 1992 to 81% by the end of the decade. These objective observations are confirmed by a relatively widespread sense of poverty in Burundi society. The Perceptions survey conducted in 2004 shows that eight Burundi nationals out of ten consider that poverty has not eased over the past five years. In light of these findings, the country's poverty-reduction strategy should concentrate on both increasing production and achieving a more equitable redistribution, paying special attention to the poorest strata of society. Monitoring and evaluation of the development

²³ More than 92% of the population lives in rural areas and 93% of the total active population is engaged in agriculture.

policies are also included in the poverty-reduction strategies in that they make it possible to require the players to assume responsibility for implementation while also holding them accountable for the utilization of public resources, especially as regards management of public funds.

- 26 With the participation of civil society and of all the other players, the Government has prepared an Interim PRSP built around the six major thrusts of the authorities' poverty-reduction policy, namely: (i) promotion of peace and good governance; (ii) reintegration of the victims of the conflict and of the disadvantaged groups; (iii) promotion of the private sector; (iv) development of human capital; (v) HIV/AIDS control; and (vi) promotion of the role of women in development. The Interim PRSP was designed and prepared around a participatory consensus developed by the Government since 2000 and the document was subsequently submitted to the IDA and IMF boards in January 2004. From that point on, the Government has been working on implementation of the Interim PRSP and finalizing the Complete PRSP.

The actions to be undertaken in 2005 and 2006

- 27 The synthesis of the community consultations and of the sectoral and thematic consultations was completed in November 2005. The drafting of the PRSP was begun in December 2005 in order to include the findings of the participatory consultations. It should also be noted that the departments concerned prepared a multiyear macroeconomic and budgetary framework including budget ceilings for the key sectors for the PRSP's purposes. The Burundi authorities hope to have the draft available in July 2006, and to be able to distribute it to the donor community after validation by all the parties concerned.
- 28 With regard to monitoring and evaluation, various actions have been undertaken: (1) establishment of a National Accounts Unit in the ISTEERU; (2) conducting of an agricultural census and household surveys such as the Perceptions survey on poverty (2004). Other studies are in progress, including the Standardized Questionnaire on Welfare Indicators (QUIBB) 2005/2006, the Multiple Indicators Cluster Survey (MICS) 2005 and the survey on employment and the informal sector (1-2-3 Survey for 2005/2007). The preparation and putting into use of the monitoring and evaluation system is a crucial step for successful implementation of the framework document on poverty-reduction strategy. On the one hand, the monitoring institutions will have to be strengthened, and on the other the production of the necessary statistical information will have to be developed. The strengthening of the institutions will focus essentially on: (1) the changing of the status of the ISTEERU and of the regulations governing its personnel (the initial draft has already been prepared, but has not yet been converted into a draft law); (2) strengthening of the human resources; (3) strengthening of the tools for gathering administrative data, especially in the Ministries of Education, Health, Agriculture and Finance.
- 29 As regards the production of statistical data, a general population census is envisaged in 2007 so as to obtain reliable data for resource allocation in the context of decentralization. This census will also serve as a reliable basis for future household surveys. The surveys necessary for the production of the National Accounts will also be carried out. These include in particular the Agricultural Survey and the

Consumption Budget Survey, which will be combined. This monitoring and evaluation mechanism will be rounded out with some in-depth studies of the impact of the social policies followed, which will include the study of the supply of basic services in the Education, Health and Justice sectors, and a study of the impact of the reform of the Coffee subsector on poverty.

Progress Indicators	
Action	Target Date
• Completion of preparation of sectoral and thematic consultations	November 2005
• Holding, synthesis and restitution of the sectoral and thematic consultations	May 2006
• Preparation of first draft of the PRSP	May 2006
• Preparation of second draft of the PRSP, including the complete macroeconomic and budgetary framework	June 2006
• Final PRSP document available	July 2006
• Report on the first year of implementation	August 2007

ACCELERATION OF GROWTH (PROMOTION OF GROWTH-GENERATING POLICIES)

- 30 The Government has undertaken reforms to promote development of the private sector and revive exports with a view to reducing the country's dependence on uncertain external financing. The debt sustainability analysis prepared in the context of the HIPC Initiative indicates that the ratio of the net discounted value of the debt to exports is 136.3% and that of the net discounted value of debt service to export receipts was 35.9% in 2005. For Burundi, this situation points to a high risk of a debt crisis even after recourse to debt-relief initiatives including the Enhanced HIPC Initiative.
- 31 To eliminate such a situation and improve the above indicators, a policy of export-driven growth is necessary and indeed essential for the country's economy. Burundi has resolutely committed to putting trade in the forefront of the growth and poverty-reduction process. In this connection, and under the supervision of the World Bank and in collaboration with the IMF, UNDP, WTO, the International Trade Center and UNCTAD, it has already prepared the "Diagnostic Study of the Commercial Integration of Burundi". The study and the accompanying plan were validated in December 2003 and adopted by the Government in 2004. The Government will request assistance from its partners for putting this plan into effect.
- 32 The authorities undertake to put in place an exports-development policy designed to generate more foreign exchange so as to minimize the external shocks the country has to cope with. The reforms for promoting exports and developing the private sector will assign priority to: (1) improvement of the business environment; (2) full settlement of

the domestic debt; (3) reform of the public sector; and (4) divestiture by the State of its interests in the public enterprises, particularly those in the financial sector and in the agricultural subsectors, and in telecommunications.

Development of the private sector

Objectives and expected results

- 33 The Government intends to promote an environment favorable to development of a competitive private sector in order to increase both national and foreign investment, boost growth and create jobs with a view to reducing poverty. This strategy requires adjustment of the regulatory framework for business and improvement of the investment climate, appropriate adaptation of business taxation, revision of the labor and investment codes and facilitation of international trade to promote and develop exports, plus improvement of access to credit by means of adoption of suitable regulations governing microfinance institutions and operations. Settlement of the State's domestic debt owed to private enterprises is another step designed to: (i) give a break to economic operators who are experiencing real difficulties in containing their indebtedness to the banks; (ii) reconstitute the resources of enterprises to enable them to finance their investments; and (iii) ensure that businesses will support the Government's new policy focusing on recovery and divestiture.
- 34 With the support of the World Bank, the Government will make a study of the investment climate in Burundi. A review of the commercial and company codes is envisaged. The revised texts of these codes will first be approved by the Government and then submitted to Parliament for adoption.

Actions already taken and progress to date

- 35 **Business environment:** The Investment Code has been revised and should shortly be submitted to the Government for approval. A draft law organizing and regulating the microfinance institutions is being prepared. The new bankruptcy law has already been promulgated.
- 36 **Domestic debt:** On July 27, 2005, the Government completed a listing of the State's arrears owing to the private sector and of the domestic debt arrears deriving from claims originating between July 1979 and December 31, 2004. The amount of these arrears is put at about US\$35 million. The listing was rounded out by an international audit financed by the EMSP project. The final report was made available at the end of February 2006.
- 37 On the basis of this audit's report an ad hoc commission charged with formulating a strategy for settling these arrears was set up. Its report is expected at the end of April 2006 and will specify the arrangements and schedule for payment as of June 2006.

- 38 Within the framework of the State's divestiture of public enterprises for the period 2005-2008, the Government has undertaken to adopt a strategic privatization plan for public enterprises²⁴ under the Economic Rehabilitation Credit granted by IDA in 2002.
- 39 This credit was intended to support improvement of the institutional framework for organizing the privatizations and restructurings, comprising the preparation of the strategy proper together with the programming of the related activities with a divestiture plan for each public enterprise concerned. The Government has honored its commitment in this respect and the Minister of State with responsibility for Good Governance and the Inspectorate General of the State, who was also responsible for privatization, submitted a detailed privatization program to the Council of Ministers on March 25, 2005.
- 40 The Government has in fact launched the implementation of the privatization program. In the coffee subsector, calls for bids for privatization of two washing stations were issued on July 22, 2005. This pilot operation served as a trial run and will make it possible to refine and adopt the strategy for permanent transfer of the washing stations to private operators.
- 41 In addition, calls for bids for sale of two houses and two old processing plants were issued on August 5 and 18, 2005, respectively. As regards non-coffee subsector assets, on August 25, 2005, a call for bids was issued for sale of OCIBU stockholdings in the banks. The regulatory texts for the decontrolling of the coffee subsector were signed. Moreover, the CIP resolved to proceed with privatization of the telecommunications sector, and also adopted the strategy for privatizing public enterprises and public works (ONATEL, COTEBU, ONAPHA, OTB, OPHAVET, coffee subsector companies, the old coffee processing plants, etc.).
- 42 For the case of the Office Nationale Pharmaceutique (ONAPHA), the Government also made a valuation of its stockholding and a partnership agreement between the State of Burundi and a South African drug-producing company (SOPROME) has been signed. Preparation of a preliminary report on the State's public enterprise divestiture program is currently being finalized with the PRSP.
- 43 The authorities are going to pursue their efforts to raise awareness among the economic operators and all partners involved in the process (including interest groups such as employees) to obtain their participation in and commitment to this important reform.

Actions to be undertaken within the framework of the Grant for 2005-2007

- 44 **Revision of the regulatory framework:** The new bankruptcy law has already been promulgated. At the same time, and with World Bank support, the authorities will proceed with an assessment of the business climate in order to provide economic

²⁴ The enterprises concerned are: EPB (Etablissements du Port de Bujumbura), APB (Abattoirs Publics de Bujumbura), UCAB (Union Commerciale d'Assurance et de Réassurance), BCC (Burundi Coffee Company), ONATEL (electricity and water supply agency), ONAPHA (Office National Pharmaceutique), OPHAVET (Office Pharmaceutique et Vétérinaire), SOSUMO (sugar company) and ALCOVIT, including the State's stockholdings in the coffee subsector public enterprises including the SOGESTALS.

operators and other decisionmakers with an analysis of the information required to identify the characteristics of the national investment climate, which is an important factor for productivity and growth. The Government has prepared the single file of identifiers that will be used for all taxation purposes in conjunction with the tax and customs services. The database has been developed and is operational. The NIF is operational and has already registered a large number of economic operators; it will be used by the tax and customs services.

- 45 **Taxation:** The introduction of VAT to take the place of the Transaction Tax is designed to ease the burden on businesses by adopting a more neutral form of indirect taxation. With the support of the World Bank and the IMF, the VAT will be operational between now and the end of fiscal 2007. The authorities will take the necessary steps to further reduce the customs tariffs and to align them on the COMESA tariffs.
- 46 In the medium term, customs duties on raw materials, intermediate products and finished products will be further reduced, with a zero tariff for raw materials and equipment.
- 47 **Development of exports:** In addition to the above measures concerning customs tariff alignment, the authorities will implement the recommendations of the diagnostic study of trade integration (DTIS). The Government will take trade policies into account in the PRSP and will implement the following actions with effect from 2006, namely: (i) full application of the COMESA free-trade zone protocol and complete alignment of tariffs on the COMESA Common External Tariff (CET); (ii) utilization of the possibilities offered by the preference arrangements proposed by the European Union and the U.S. AGOA initiative; (iii) application of the customs valuation code and elimination of tariff exemptions on imports; (iv) simplification and rationalization of the mechanisms for reimbursement of eligible customs duties; and finally (v) decontrolling of the traditional agricultural subsectors as detailed below for coffee, tea and cotton.
- 48 **Strengthening of the financial sector:** There are seven commercial banks in Burundi which have been heavily involved in lending to the Government and which finance the greater part of the operations of the large enterprises that offer the best guarantees.
- 49 These banks hold a portfolio that has become impaired as a result of the crisis. The Government will request assistance from its bilateral and multilateral partners to rehabilitate the financial sector. To promote access to financing for all economic operators of whatever size, it is imperative that a microfinance system be set up in Burundi, especially for small businesses in the informal sector. Preliminary studies in this respect have been started with UNDP²⁵ assistance and adoption of a relevant legislative text is a priority. Another priority for the Government remains selling off of its interests in the financial sector.

²⁵ United Nations Development Programme.

- 50 **Domestic debt:** The Government has set itself the goal of settling its domestic debt and no longer allowing arrears to accumulate vis-à-vis the private sector. The strategy for clearing the arrears that will be adopted by the Government will make it possible to determine the modalities for negotiating with the creditors and arriving at a final settlement of these arrears.
- 51 **Revival of the State divestiture and public enterprise privatization program:** As with the majority of the large-scale reforms started in Burundi, a privatization program launched in 1992 with the support of IDA was subsequently slowed by the crisis combined with the lack of sufficient resources to move ahead with this important undertaking. The Government intends to restart the privatization process with the help of the World Bank and other donors and will make a point of: (i) drawing up a roadmap comprising sector studies covering the enterprises deemed strategic (public service enterprises) such as those in the water, electricity and telecommunications sectors; (ii) improving the institutional framework of the privatizations and strengthening the human capacities concerned, and (iii) preparing a communication plan for the privatization program so as to ensure the understanding and support of the different players, including civil society.
- 52 The authorities have already moved ahead with the liberalization of the economic sectors and subsectors, in particular telecommunications and coffee, and will shortly add tea and cotton to the list.
- 53 To begin with, the Government has adopted a list of 15 enterprises for which it intends to seek private-sector participation before 2008. An operational action plan has been developed and was transmitted to IDA on July 22, 2005. The State will move out of the coffee subsector, in particular the SOGESTALs and SODECO, and will pursue implementation of the necessary related measures in order to ensure the success of the liberalization and State divestiture program in the subsector. Before the end of June 2006 the authorities will transmit to IDA the action plan for divestiture of these subsectors with the pertinent strategies.
- 54 Regarding the measures accompanying this liberalization and privatization policy, the Government will support all actions designed to strengthen capacities and investment activities in the private sector. Nevertheless, it will see to it that the extension services for production and research and development work are maintained.

Progress Indicators	
Action	Target Date
• Promulgation of new bankruptcy law	March 2006
• Adoption by Government of revised Investment Code	Before June 2006
• Adoption by Government of Draft Law on Microfinance	Before June 2006
• Completion of an assessment of the investment climate, to be undertaken with World Bank support, and preparation of an action plan resulting therefrom, focusing primarily on: (a) the legal framework; (b) taxation, (c) competitiveness; and (d) facilitation of foreign trade, especially exports	2006
• Start of implementation of said action plan	July 2006
• Start of actual settlement of domestic debt	July 2006
• Completion of a financial and organizational assessment of all public enterprises for the year 2005	2006
• Reform of public enterprises by means of (a) privatization and (b) private, public partnerships (PPPs) of various forms	As of January 2007

Development of the Coffee, Tea and Cotton Subsectors

General context, objectives and expected results

- 55 Burundi's exports and its cash crops are dominated by the key coffee, tea and cotton subsectors. These subsectors are themselves largely dominated and/or controlled by a number of State or mixed organizations and agencies, namely: for coffee, the Office du Café du Burundi (OCIBU); for tea, the Office du Thé du Burundi (OTB); and for cotton, COGERCO and COTEBU, although the actual production is generally done by individual small growers and planters. The latter are, however, generally poorly remunerated. The financial position of these subsectors in general, and of the State organizations in particular, is mostly characterized by deficits, and directly or indirectly they constitute a bottomless pit for the public finances and the banks.
- 56 The Government's overarching objective in these subsectors is to promote development of exports and ensure sustainable growth of agriculture in order to revive the Burundi economy and increase the total output and remuneration of farmers and planters; this will help to reduce poverty in rural areas in particular, which is where the great majority of the population lives. The reforms are designed specifically to: (1) raise producer incomes by increasing the competitiveness of the coffee, tea and cotton subsectors through adoption of new regulatory, legal and institutional frameworks favorable to private investment; (2) sell off State-owned assets to private investors with the producers becoming shareholders in the corporations sold so as to foster a greater degree of equity; and (3) put in place accompanying measures that will ensure not only the quantity of output but also its quality.

- 57 Considerable thought has been devoted to these subsectors for some time now. An overall reform strategy was adopted by the Government in October 2004; this strategy is most fully developed in the case of coffee, followed by the tea subsector and with cotton coming in third. In this stage, the priority is to finalize—if need be—the strategies and the related action plans, and then to proceed to implement them as soon as possible. The implementation process has already been started for coffee and the authorities intend to pursue it over the period 2006-2007. In the tea and cotton subsectors, what will have to be done is, first, take urgently needed steps right away, especially for cotton, and then, secondly, finalize the strategies as soon as possible in 2006, and then to start implementing them as early as possible thereafter.
- 58 In order to facilitate decisionmaking and adherence to the reform schedule for coffee, tea and cotton, on March 30, 2006, the Government set up a committee for coordination, management and monitoring of the reforms in the coffee subsector. This committee is tasked with coordinating, managing and monitoring the entire privatization/liberalization process, with strict emphasis on the sustainability of the subsector. For tea and cotton, the Government will set up ad hoc bodies tasked with steering the reforms. To the extent necessary, these bodies will be able to retain international consultants to assist them in specific matters regarding in particular divestiture by the State of public enterprises. The committee would be required to prepare a roadmap for each subsector in agreement with the World Bank and to follow the entire reform process through to its conclusion.

Coffee subsector

- 59 **The context of the reform, its objectives and the basic principles.** Examination of the coffee subsector reveals a very difficult situation for a crop which brings in over 90% of the country's export foreign exchange earnings. The fact is that: (i) Burundi coffee sells at a marked discount in the international market; (ii) the subsector is characterized by an over-heavy State presence at the production, processing and marketing levels; (iii) the growers are poorly remunerated and are becoming less and less interested in the crop; (iv) there is a sizable deficit in budget terms and vis-à-vis the financial sector; (v) the plantations are old and well past their most productive years; (vi) production is low; (vii) the intermediaries do a less-than-impressive job as regards marketing; and (viii) the players are remunerated according to a system (RCA) which tends to lessen their sense of responsibility rather than motivating them; and (ix) the present risk-management system is poorly suited to the needs of the subsector and of the operators.
- 60 **The specific objectives of the reform** comprises: (i) restoring and developing the reputation for quality that Burundi coffee enjoyed in the past; (ii) stepping up production; and (iii) increasing planters' incomes (in both absolute terms and as a percentage they receive of the world price) while endeavoring to enable them to cope better with the normal fluctuations of market prices without recourse to State assistance. Nevertheless, in light of the subsector's importance in the national economy and its vulnerability, exceptional and one-shot State interventions in times when world prices collapse (as they are prone to do every so often) consisting of mechanisms to enable the subsector to continue functioning without interruption will be necessary,

especially to offset losses suffered by producers negatively impacted by the reform. In this connection, it will be important to monitor and evaluate on a regular basis the impact social of the reform and its effectiveness in reducing poverty.

- 61 **The basis principles** governing this reform are: (a) full deregulation of the right to operate and total decontrolling of prices in all links of the subsector; (b) elimination of all undue taxation, explicit or implicit, especially at the level of agricultural production; (c) full divestiture by the State of the first and second-stage processing units, including the washing stations, the SOGESTALs, and the hulling and roasting plants; (d) elimination of State guarantees and their replacement by similar guarantees by banks and other financial institutions; (e) refocusing of OCIBU's activities to have it concentrate on the subsector's activities and monitoring of the performance of functions (such as extension services, research, maintenance of rural roads, promotion, input distribution, etc.). The Government is convinced that these actions will provide a big boost to all operators in the subsector in general, and the planers in particular, but also to the expansion of this key subsector of the economy.

Actions already taken

- 62 Some important actions have already been taken, including the memorandum on reform of the coffee subsector of October 2004 detailing a plan for divestiture of the subsector, and the holding of a high-level workshop to discuss the stakes involved in reforms of the coffee subsector with all the players in March 2005. Further more, on January 14, 2005, the Government decreed freedom of establishment and operation in all links of the production, processing, export and financing chain for all operators wishing in participate in it.²⁶ The authorities have also:
- (i) repealed the legislation relating to the plantation tax;
 - (ii) decontrolled the price payable to producers for coffee in cherry form and washed unhulled;
 - (iii) set up an expanded Coffee Marketing Committee in January 2005 and another committee tasked with restructuring OCIBU in June 2005;
 - (iv) reaffirmed the freedom to buy, sell, market and process coffee in cherry and merchantable form, including by means of direct sale, open to all economic operators.

Actions to be undertaken within the framework of the Grant for 2005-2007

- 63 The Government will take immediate steps to ensure that all decree and ordinances already issued to improve the competitiveness of the coffee subsector are widely disseminated and fully enforced, in particular that of June 16, 2005. It will analyze the mechanisms for and implications of forward sales and will announce, if appropriate, that forward sales are permissible for exporters interested in such transactions. It also undertakes to publish regularly, through the media, the benchmark prices for Burundi coffee in cherry and washed unhulled form, together with the international prices for raw coffee, so that all players in the subsector will be fully informed.

²⁶ Decree No. 100/012 of January 14, 2005.

- 64 To ensure that a judicious choice is made that is consistent with development of the coffee subsector, the State's divestiture of the washing stations and hulling plants will be preceded by and hoc studies for which the terms of reference are already available. The next step will be to propose a legal, regulatory and institutional framework that is also aligned on the needs of a decontrolled and privatized subsector and favorable to its development.
- 65 The Government will make the final choice as to the best scenario for privatization of the washing stations and the two SODECO plants (Buterere and Songa). The making of this important decision in a context of total objectivity and transparency will require an economic and financial analysis of the various possible scenarios.
- 66 To this end, the Government will retain international consultants to assist in this task after the programmed studies financed by IDA. The selection of a firm to carry out these studies is underway. This being the case, the Government considers that the findings of the studies on the final strategy for sale of the washing stations will have to be awaited before the DAOs are reinstated.
- 67 The Government will moreover do its utmost to adhere to the dates laid down for the actions included in the roadmap/action plan for the coffee subsector agreed on with the World Bank. It will next work on careful preparation and smooth operation of the 2006/2007 crop year prior to the full deregulation of the subsector in accordance with the commitments made to the donors. In this context, a committee tasked with restructuring OCIBU has been formed and its report presenting an action plan defining the new roles of the coffee subsector institutions, including OCIBU, was submitted as of October 28, 2005.
- 68 The new status of OCIBU will have to be analyzed with reference to the conclusions of the study on the legal, regulatory and institution framework prior to its adoption by the competent authorities.
- 69 A risk-management and credit-policy system that meets the concerns of all the players in the subsector including the producers will be put into effect. To this end, the Government will make a study of risk management and credit policy which will make it possible to identify the subsector's financing constraints and propose appropriate solutions. The study will also make it possible to inform the banks about the modern techniques for financing commodities and coffee in particular. This study will be started before mid-November 2006; the terms of reference for it will be discussed in advance with IDA. In the medium term, the Government will ensure that the majority of the washing stations have been sold in addition to the SODECO plants in accordance with the commitments assumed in the context of the HIPC program.

Progress Indicators	
Action	Target Date
• All producers informed of the price for coffee in cherry form and unhulled and the international price.	End September 2005
• All private operators aware of the different coffee-marketing modalities authorized (sale by auction, etc.).	End September 2005
• Actual commencement of call for bids on consultancy services for economic analysis of the scenarios for divestiture of the washing stations.	May 2006
• Establishment of reform-steering committee.	March 2006
• Adoption of an action plan defining the new roles of the coffee subsector institutions (including OCIBU) that will have to be in place for the start of the 2006/7 crop year (April 2007), in accordance with the strategy for reform of the coffee subsector. The OCIBU restructuring Committee has forwarded the dossier to the Office of the Second Vice President.	September 2006
• Choice of privatization scenario and adoption of the coffee roadmap.	September 2006
• Actual sale of OCIBU fixed assets and of the shares in the banking establishments.	September 2006
• More than 50% of the washing stations sold.	June 2007
• Actual sale of SODECO plants.	June 2007

Tea subsector

Actions already taken

- 70 Tea is the country's second-largest agricultural product after coffee and brings in significant earnings. Average production of dry tea ranges between 7,000 and 10,000 m.tons.²⁷ Peak production, already attained in 2001, was 9,018 m.tons of dry tea, but production has since seemed to have stagnated at around 7,500 m.tons (i.e. 37,500 m.tons of leaf tea). More than three quarters of the production comes from family plantations and the rest is represented by the output of the industrial plantations of the Office du Thé du Burundi (OTB).
- 71 OTB is a State corporation that has a monopoly of the processing of leaf tea into dry tea in its five plants, the equipment of which has not been renewed for at least (twenty years). The subsector's development is handicapped by the lack of renewal of infrastructure and equipment. The fact is that the position of the State's public finances makes it impossible to envisage—at least in the short term—any expansion of the leaf tea processing capacity.

²⁷ Source: Table 8, Development of Agricultural Production (in thousands of m. tons) contained in the report of the first year of implementation of the PRSP-I/ January 2005.

- 72 To maintain and increase the quantity and quality of tea exports it would be necessary to increase the investments in the subsector, which in the present context could be done through a public-private partnership. Deregulation of the subsector would be a prerequisite for such a partnership. In 2004, State technical agencies prepared a reform strategy for the subsector based on an analysis of it followed by preparation of a document setting out the possible options, all of which involved: (i) restructuring of OTB, which presently dominates the downstream part of the subsector, and (ii) granting freedom of operation to the processing units.
- 73 The Government has already adopted the policy of State divestiture of the agroindustrial sector, which will ultimately allow interested private parties possessing the requisite technical and financial capacities to take over, with the public authorities only intervening through OTB for regulatory purposes. The Government desires to benefit from IDA's counsel before making a final decision on the reform strategy, which in the best of cases will be adopted before September 2006 and implemented immediately thereafter.

Actions to be taken within the framework of the Grant

- 74 The Government will endeavor to define and adopt a roadmap for divestiture on the part of the State based on the analysis of the subsector. It will also retain appropriate consultancy services for this purpose. The Government will form a committee to coordinate, manage and monitor the reform, which committee will include representatives of all players in the subsector.
- 75 During the period 2006/2007, the Government will update and adopt the reform strategy together with a roadmap setting out the main stages of the reform. This roadmap will then be converted into a reform action plan for the three-year period 2007-2009, and a technical and financial audit of OTB will be performed for 2005, with the assistance of IDA through the EMSP project.

Progress Indicators	
Action	Target Date
• Performance of technical and financial audit of OTB	September 2006
• Adoption of the definitive strategy for reform of the tea subsector and of a plan of action and a corresponding roadmap	September 2006
• Divestiture by State of the tea subsector	July 2007

Cotton subsector

Context and actions already taken

- 76 Cotton production has declined following the abandoning of the plantations and the displacements of population during the time of the troubles. The cotton harvest in 2003 amounted to 3,600 m.tons for a potential production estimated at around 12,000 m.tons. The subsector is dominated by two State corporations, namely COGERCO, which provides extension services for cotton growers, collects their crop and handles the processing and marketing of the fiber and its byproducts, and COTEBU, a weaving

enterprise that produces unbleached and dyed fabrics. COTEBU is a monopsony which benefits from administrative requirements obliging COGERCO to deliver cotton fiber to it on a priority basis.

- 77 COTEBU's present financial difficulties render it unable to purchase, in a timely fashion and at market price, all the cotton collected by COGERCO, which is then in its turn no longer able to pay the growers who thus become hostages of an entirely State-controlled subsector. As a result, more than 1,000 m.tons of the 2003/4 crop year's production was stored for a long time in the open air with the risk of stock build-up, losses, and mounting debts and interest payable to the financial sector.
- 78 The Government has put into effect an action plan that will enable COGERCO to sell the entire stock of cotton. To this end COGERCO has, with World Bank assistance, retained the services of a broker to design a strategy for quickly selling off the cotton currently in stock. In this way COGERCO has already been able to sell a part of its stocks in the international market. Thanks to the proceeds from this export transaction the arrears owed to the growers have been paid.

Actions to be taken within the framework of the Grant for 2005-2007

- 79 In view of the present difficulties of Burundi's cotton subsector, the Government will take three urgent steps: (i) establish a committee to coordinate, manage and monitor the reform; (ii) grant COGERCO freedom to sell its cotton fiber on the world market and terminate the protocol tying COGERCO to COTEBU; and (iii) update and adopt the reform strategy for the subsector and a roadmap setting out the main stages of the reform.
- 80 During the period 2006/2007 the Government will perform a technical and financial audit of COGERCO for fiscal 2005 with the support of IDA through the EMSP project. Ultimately, the restructuring of this subsector will have to be completed, since the authorities consider it possesses significant prospects for agricultural growth, after deregulation and with a much more important role being assigned to participation of private capital, especially in COGERCO and COTEBU.
- 81 However, it would be necessary to carry out fundamental reforms of the legal, regulatory and institutional frameworks at the level of agricultural production and those of processing and marketing semifinished and finished products. It should be noted that an important component of the reforms will relate to the landholding system, certain of the current provisions of which might dampen the readiness of farmers to invest in the subsector. Finally, the Government will be asked to terminate the protocol obliging COGERCO to sell the cotton fiber to COTEBU.

Progress Indicators	
Action	Target Date
• Notification of the letter announcing freedom to sell fiber cotton to other countries	August 2006
• Stock of cotton sold	November 2006
• Adoption of the strategy and roadmap for reform of the cotton subsector	End December 2006
• Resolution of the landholding problem	1 st quarter of 2007
• Commencement of the reforms	January 2007

MANAGEMENT OF PUBLIC EXPENDITURES AND EXTENSION OF BASIC PUBLIC SERVICES TO THE POOR

- 82 The reform program regarding public expenditure has three objectives, namely:
- (i) Improvement of the structure and quality of public expenditures, especially those connected with reduction of poverty;
 - (ii) Improvement of the monitoring of public expenditures, from preparation to implementation;
 - (iii) Reform of the procurement system.

Improvement of the structure and quality of public expenditures, especially those connected with poverty reduction

- 83 It is the authorities' desire to make budgetary policy and the Finance Law more effective instruments in the cause of poverty reduction. We intend to ensure that budgetary allocations are aligned as far as possible with our sector development and poverty-reduction objectives. This will entail, in the 2006 budget, a modification of the structure of budgetary expenditures in that the funding allocated to key sectors such as health, education, demobilization and reintegration activities, etc., will be increased on a regular basis. In this context, at the level of the structure of the budget, the authorities will ensure, throughout the duration of the Grant, that the 2006 and 2007 Finance Laws incorporate: (i) the PRSP priority expenditure programs, together with; (ii) the budgetary savings deriving from debt relief under the Enhanced HIPC Initiative. In addition, we also intend to use the budgetary counterpart funds for the Grant to increase these key expenditures.

Objectives and expected results

- 84 Within the framework of implementation of the PRSP, the Government is committed to increasing the social and poverty-reduction expenditures to improve the population's

living conditions. As noted in the macroeconomic section above, the Government will pursue its rehabilitation policy in parallel with the investment policy in order to improve access for the poor to the essential public services in conjunction with the policies set out in the PRSP. The social indicators show that Burundi presently has some considerable way to go to meet the Millennium Development Goals. In the education sector for example, the gross enrollment ratio²⁸ in primary education was about 80% for 2004/2005 with repetition rates of 30% and an 8.6% drop-out rate, which demonstrates that the country is far from achieving the goal of universal enrollment by 2015 if the repetition and drop-out rates continue so high and the system remains ineffective.

- 85 The sector strategies will each, as often as is necessary, seek to measure the efforts needed to put Burundi back on the normal pathway enabling it to achieve the millennium goals. The Government will do its utmost to meet the challenges in the sectors that are behind with respect to the MDGs, and particularly those in health and education as detailed in the PRSP-I. In the sphere of education, the Government is committed to planning and organizing the education of children and training of young people in accordance with the needs of the population. It will endeavor to build primary and secondary schools wherever necessary to ensure that all children are enrolled. In addition, the authorities intend to continue with the reintegration program in the context of the implementation of the DRRP project.

Actions already taken

- 86 **Reintegration program:** The Government has proceeded with the program for demobilization and reintegration (DRRP) designed to help consolidate peace in Burundi and the Great Lakes region through implementation of the appropriate articles of the Arusha peace agreement and the subsequent cease-fire agreements. The three main objectives of the program are: (i) to demobilize the approximately 55,000 ex-combatants of the armed forces, the party militias and the armed political movements (APPMs), and later the National Defense Forces, while furnishing support for their reintegration into civil life; (ii) to provide reintegration assistance for 20,000 *Gardiens de la Paix* and 10,000 combatant militants, and (iii) to contribute to the redistribution and/or reallocation of public defense expenditures in favor of the social and economic sectors.
- 87 The demobilization of the armed movements is proceeding satisfactorily. As of July 2005, 15,780 ex-combatants had been demobilized (2,908 soldiers, including children and 478 women). The demobilization of the *Gardiens de la Paix* and other combatant militants was begun in July 2005. The disbursement of temporary subsistence allowances to ex-combatants in the provinces where they have settled is also proceeding satisfactorily.
- 88 **Health:** Within the framework of the emergency recovery credit, more than 24 health centers have been built and 240,000 impregnated mosquito nets have been distributed in conjunction with in-house spraying in the mosquito-infested areas. In the context of the rehabilitation credit (CRE) the Government has pursued the objectives outlined in

²⁸ Ratio calculated on the basis of Ministry of Planning data. The figure would be 86% if one used the U.N. projections.

the PRSP-I strategy and the health expenditures financed through the CRE represent about 4.3% of the Health Ministry's capital budget. A national health development plan was adopted after the special Health Assembly (*Etats Généraux de la Santé*) held in September 2004. The national HIV/AIDS Control Plan was launched at the same time as the National Health Development Plan with three main components: prevention, management and capacity strengthening.

- 89 **Education:** The CRE-I enabled the authorities to continue the actions begun under the rehabilitation credit, in particular: the rehabilitation of the schools, including construction and equipment, appropriate training of unqualified teachers, and procurement of textbooks and teaching materials for the teachers and students of the secondary schools plus procurement of printing supplies for producing textbooks for children and teachers in the primary schools. In addition, the number of teachers hired in 2004 was larger than in preceding years: 2,300 in primary and 2,000 in secondary, as compared with the respective ceilings of 1,000 and 600 initially set by the authorities.

C. Actions to be taken in the medium term, 2005-2007

- 90 **Demobilization and Reintegration:** The Government will pursue the operations relating to the reintegration program in accordance with the requirements for meeting HIPC eligibility. Implementation of the reintegration component has been delayed, and bringing it swiftly up to speed will be a major priority for the Executive Secretariat of the National Demobilization and Reintegration Commission in the months ahead.
- 91 **Health:** In this sector, the national strategy is presently being finalized, with as its chief objective improvement of the population's access to essential care services. In the short and medium term, the authorities will devote all their energies to rehabilitating the health centers, a goal that is entirely consistent with the strategy adopted in the context of the CRE-I. The authorities' actions to expand the services offered can be subdivided into three main categories: development of infrastructure and services, capacity strengthening of the health organizations and facilities, and thirdly, involvement of the populace in the efforts to improve health conditions.
- 92 The policy on equitable development of infrastructure will concentrate on continuation of the efforts to construct, rehabilitate and equip facilities and water points, plus expanding maternity services to cover the entire country so that people can obtain care at an affordable cost without having to travel long distances, and also on putting into effect a dynamic policy on supply of drugs and medications. The Government is committed on developing a policy aimed at an appreciable improvement in access to health care for all together with pursuit of application of a national strategic HIV/AIDS control plan, one of the key thrusts of which is strengthening of capabilities for preventing and treating opportunistic infections associated with HIV/AIDS.
- 93 The strengthening of health-facility capacities comprises: (i) support for training institutions and for continuous training; (ii) a policy of stabilizing health personnel in the neediest areas, and (iii) support for HIV/AIDS control agencies and facilities.

- 94 The involvement of the populace in the efforts to improve health conditions will focus on: (i) promotion of prevention programs: education and awareness-raising regarding family hygiene and health problems, dissemination of WHO-recommended prevention methods, etc.; (ii) intensification of the care of and attention paid to AIDS patients and promotion of community solidarity mechanism; (iii) promotion of community mutual health associations, and (iv) promotion of community management of water sources.
- 95 **Education:** In the short term, the Government intends to pursue the rehabilitation work underway, ensure availability of school supplies, redeploy the present teacher corps and continue the continuing training of teachers. In the context of the preparation of the complete PRSP, the Government aims to improve enrollment levels in universal education. What is more, when the Head of State took office, he announced the Government's decision to provide free primary education for all children of schoolgoing age with effect from the 2005-2006 academic year.
- 96 The Government will continue with the training of teachers and improvement of the career-development paths for them, while also working on better distribution of schools and increased participation of community bodies in their management. In the medium term, the efforts put into expanding the supply of education facilities are expected to contribute toward a significant improvement of the sector's performance indicators. By 2007, the Government hopes to have rehabilitated or built at least one primary school in each census unit. This action will entail construction of around 800 classrooms in 2006, together with the hiring of 5,000 new teachers. Teaching materials at an estimated cost of US\$15 million will be purchased.
- 97 **Energy:** The Government considers development of the energy sector a prerequisite for the development of the country. The fact is that at the present time Burundi makes extensive use of energy sources imported from Congo, which represent nearly 50% of total consumption.

Progress Indicators	
Action	Target Date
<ul style="list-style-type: none"> • Adoption of a Finance Law for 2006 which includes the poverty-reduction expenditures, in accordance with the above-mentioned subclassification (in particular those in the PRSP), those financed by the HIPC program and those that will be funded by the Grant; the poverty-reduction expenditures will be coded in a way that enables them to be identified in the 2006 Finance Law. The functional coding is detailed and relates to the six strategic thrusts. 	December 2005
<ul style="list-style-type: none"> • Adoption of a Finance Law for 2007 which includes the poverty-reduction expenditures. In accordance with the above-mentioned subclassification (in particular those of the PRSP), those financed by the HIPC program and those that will be funded by the Grant. 	December 2006
<ul style="list-style-type: none"> • Increasing of universal education and of the gross national school enrollment rate in accordance with the objectives and levels set in the HIPC Initiative decision point document. 	December 2006
<ul style="list-style-type: none"> • Increasing of the national immunization rate for children under one year in accordance with the objectives and levels set in the HIPC Initiative decision point document. 	December 2006
<ul style="list-style-type: none"> • Increase of at least 5% in budgetary expenditures of the Health sector in 2006. 	December 2005
<ul style="list-style-type: none"> • Increase of at least 10% in budgetary expenditures of the Education sector in 2006. 	December 2005

Improvement of the management of public expenditure

Objectives and expected results

- 98 Reform of the management of public finances is central to reform of the public sector and aims in particular at modernizing the management instruments, ensuring transparency in procurement and enhancing the efficiency of governmental action. This reform will make it possible to: (i) set up an interim computerized public expenditure system which helps to ensure monitoring and control of the budget, and specifically of poverty-reduction expenditures since January 2006; (ii) establish quarterly reports on budget implementation using the new standardized budget nomenclature; and (iii) produce a table of flow of State funds (TOFE) that is consistent with the Treasury balance sheet at the end of September 2006. Another objective is to make medium-term expenditure frameworks consistent with the PRSP available to the ministries in the relatively near future. Once this reform has been completed, the authorities will have available to them appropriate management instruments and an administrative arsenal which will be disseminated to all players involved in participatory monitoring. In parallel, the authorities will also proceed with reform of procurement with a view to putting in place a mechanism that will ensure transparency and enable better allocation of public funds.

Actions already taken

- 99 **With regard to budget preparation:** The Government has reviewed the budget nomenclatures on the basis of international standards in particular, including the functional classification. The budget and accounting classification already incorporates an identification system (code-based) for poverty-reduction expenditures (PRSP and HIPC).
- 100 These nomenclatures were used to prepare the 2006 budget. The 2005 annual report is now in process of production using the new nomenclature, notwithstanding the delay in application of the State Budget and Accounting Plan (SBAP).
- 101 **Implementation and monitoring of the budget:** The application of the State Budget and Accounting Plan validated in 2004 and implemented for 2005, aims at harmonization of the budget and accounting nomenclatures, updating of the accounting plan, facilitation of production of budgetary and accounting monitoring statements, in particular the Treasury balance sheet and the TOFE. Production of a Treasury balance sheet was started in 2004.
- 102 In addition, since March 2005 the Government has prepared an interim computerized public-finances management system the purpose of which will be among other things: (i) to provide the ability to monitor expenditures **at sector level**, and especially those with are poverty related, from commitment through to disbursement; and (ii) to enable regular production of summary tables. The work done has led to the preparation of a software package incorporating the capture and checking of commitments, management of payments and a certain number of accounting and/or budget monitoring reports. This product incorporates the SBAP standardized nomenclature.
- 103 **External control and establishment of the General Accounting Office:** The General Accounting Office (Cour des Comptes) was established in 2004 and a set of specifications for computerization of the office is available. However, the GAO needs to be strengthened to make it fully operational. To this end, the office's human resources will be strengthened by means of special hirings and appropriate training will be provided for the office's senior staff to enable them to perform their audit and external control duties in respect of the management of public funds.
- 104 The Government has just finalized the establishment of an interim computerized system for monitoring the expenditure chain with a link from the Ministry of Finance and the BRB. This system is capable of producing the Budget Monitoring Reports on a quarterly basis, including for poverty-reduction expenditures, starting from January 1, 2006. The first of these quarterly reports covered the first quarter of 2006.

Actions to be taken within the framework of the Grant (for 2005-2007)

- 105 **With regard to budget preparation:** The budget and accounting classification has been completed by a code-based identification system for poverty-related expenditures (PRSP and HIPC).

- 106 **Regarding budget implementation:** The Government will need to harmonize the rules relating to effecting of public expenditure by producing a complete manual describing all the procedures involved, from establishment of the appropriations, commitment and verification of compliance with current law and regulations right through to the accounting phase. An intense and very wide-ranging training plan will have to be prepared and implemented for the benefit of all players involved in the implementing of public expenditure.
- 107 **Budget audit:** To better strengthen the country's capabilities in the monitoring and audit fields, the Government undertakes to seek the assistance of international audit firms with established reputations to assist the GAO in the auditing of annual budget implementation, with effect from 2006.
- 108 In addition, the Ministry of Finance will set up a unit of computer specialists to be responsible for the day-to-day operation of the expenditure process, and of the accounting system, after the personnel concerned have been identified and put through detailed training. The interim system will have to include from the start all the customary security measures, in particular those relating to the structure of the databases, access to data and to premises, network protection, maintenance and proper use of the equipment.
- 109 **Mechanism for monitoring poverty-reduction expenditures:** Moreover, due note should be taken of the efforts we will make in the context of the HIPC program. The fact is that two benchmarks for eligibility relate directly to public expenditure, namely: (i) production of at least two quarterly budget implementation reports (Budget Monitoring Reports) produced by the said system and based on the new standardized nomenclature (benchmark 4), and (ii) monitoring and evaluation exercises in respect of public expenditure in the education, health and justice sectors, etc.
- 110 Furthermore, an independent surveillance committee will shortly be formed to ensure the monitoring of the expenditures financed thanks to the relief obtained through the Enhanced HIPC Initiative, the purpose of which is to facilitate the implementation and monitoring of HIPC-eligible expenditures as defined in paragraphs 56, 57, 58 and 59 of the HIPC Initiative decision point document. This committee will be made up of national and local representatives including civil society, together with representatives of the international donor community. This approach has been used with success in other countries. Utilization of this assistance is subject to independent technical and financial audits that make it possible to verify that the funds have been used as intended for poverty-reduction purposes, and the findings of all these audits will be available to the public.
- 111 It is also important to mention that the Government undertakes to use the DARE funds in a manner consistent with the objectives of the Poverty Reduction Strategy Paper (PRSP). The expenditures effected from the Special Treasury Account (STA) reserved for DARE funds will be tracked by a monitoring committee. In addition, the annual outside audit of the DARE accounts will be performed as soon as possible – this audit will cover both the deposit account denominated in foreign currency and the deposit account denominated in local currency.

- 112 To ensure that the budget funds, including those provided through the Grant, reach their intended beneficiaries, the Government will make a study to verify the traceability of the 2006 budget expenditures on education, health and justice, with World Bank assistance. This study will be financed through the World Bank's EMSP project and the Belgian Trust Fund.
- 113 We intend to focus on achieving the HIPC benchmarks and the functioning of the HIPC monitoring committee in the context of the economic reform program supported by the Grant.

Progress Indicators	
Action	Target Date
<ul style="list-style-type: none"> • Completion of the work relating to establishment of a budget and accounting nomenclature including in particular a "Poverty Reduction" subheading, and its adoption in accordance with the current regulations. 	Already done
<ul style="list-style-type: none"> • Completion of the preparation of the interim computerized public expenditure management system including a link between the Ministry of Finance and the BRB. 	Already done and ready for implementation as of January 2006
<ul style="list-style-type: none"> • Establishment of the committee for monitoring HIPC expenditures. 	December 2005
<ul style="list-style-type: none"> • Production, using the interim computerized system, of a Budget Monitoring Report for the first quarter of 2006. 	End March 2006
<ul style="list-style-type: none"> • Production, using the interim computerized system, of at least two quarterly Budget Monitoring Reports for 2006. 	December 2006
<ul style="list-style-type: none"> • Completion, in particular in the education, health and justice sectors, of the monitoring and evaluation of budgetary expenditures focusing on: (i) traceability of said expenditures; (ii) user evaluation of the services provided; and (iii) evaluation by the providers of the constraints on actual provision of the services; and preparation of an action plan to resolve the problems raised. 	March 2007

Procurement reform

Objectives and expected results

- 114 The reform supported by the Grant aims at providing Burundi with a modern institutional and legal framework consistent with best practices. The action plan places special emphasis on capacity strengthening, so that the country will have the people and the tools needed for proper functioning of the public procurement system and accomplishment of the goals sought.
- 115 Prevention and elimination of corruption are also major concerns. More than ten years of conflict and crisis have brought about a weakening of the authority of the State coupled with a pronounced increase in corruption. Accordingly, the campaign to root out corruption is one of the new Government's declared priorities.

Actions already taken

- 116 **Public procurement:** In June 2003 the Government set up a Public Procurement Reform Monitoring Committee tasked with proposing and coordinating the activities necessary for reform of public procurement. This committee held consultations with the different parties involved in public procurement in Burundi, in order to define the contours of reform of the sector. These consultations led to production of a draft action plan, which was examined and adopted by the Council of Ministers in August 2004. This action plan comprises four main thrusts: (i) overhaul of the legal and institutional framework; (ii) capacity strengthening; (iii) promotion of quality and performance; and (iv) establishment of mechanisms to prevent and root out corruption.
- 117 The Government is committed to implementing an emergency action plan aimed at improving the management of public procurement within the existing legal framework. The Public Procurement Reform Monitoring Committee is presently drafting a circular that will be distributed in the first quarter of 2006.

Actions to be taken within the framework of the Grant (for 2005-2007)

- 118 The public procurement reform action plan has just been adjusted in order to: (i) update the implementation schedule of the reforms, and (ii) integrate into one document the action plan deriving from the June 2004 study of public procurement in Burundi and the action plan adopted by the Government in August 2004. Following this adjustment, the schedule for adoption of the key measures for 2006 is as follows.
- 119 Before the end of the second half of 2006 the following measures will have been carried out: (i) promulgation and publication of the legislative and regulatory texts concerning the institutional framework of public procurement and the Public Procurement Code; and (ii) promulgation of the decrees instituting the new management and regulatory arrangements for public procurement, together with adoption of an action plan for putting these new arrangements in place.

Progress Indicators	
Action	Target Date
• Promulgation of an institutional framework and of a Public Procurement Code.	2006
• Adoption of a capacity-strengthening action plan for the 2006-2010 horizon	2006
• Public procurement management and regulator bodies in place	2007

Coordination and management of the Grant

- 120 The monitoring of the program and of the measures of the structural reforms matrix annexed to this letter will be performed by the Government based on an appropriate formula and in accordance with the institutional framework negotiated by the authorities with IDA.

Annexes – Matrice de Politique – et Indicateurs de suivi

Burundi- DARE – MATRICE DE POLITIQUE

Matrice de Politique: Stratégies de Réforme du Gouvernement (Objectifs et Actions) Et Indicateurs de progrès (Résultats et Produits²⁹)

OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	ACTIONS ET RESULTATS VISES			RESULTATS
	2005/06 ³⁰	2006/07	ASSISTANCE TECHNIQUE/ RENFORCEMENT DE CAPACITE	
OBJECTIF GLOBAL Appuyer la mise en œuvre du CSLP intérimaire du Burundi et renforcer les capacités du Gouvernement à piloter son propre développement et sa stratégie de réduction de la pauvreté				Résultats attendus (vérification): 1. Atteindre une croissance économique d'au moins 5% en 2007 2. Réduire l'incidence de la pauvreté monétaire
COMPOSANTE I: AMELIORER LA GESTION DES DEPENSES PUBLIQUES ET LEUR IMPACT SUR LA REDUCTION DE LA PAUVRETE				
I. Approfondir la réforme budgétaire et comptable				
A. Moderniser et renforcer le cadre budgétaire légal				Résultats d'ensemble (vérification): 1. Améliorer l'impact des dépenses publiques sur la croissance, le développement et la réduction de la pauvreté 2. Améliorer la transparence dans la gestion des dépenses publiques
		Soumettre au Parlement une loi organique des finances modernisant et actualisant la	Consultant financé par l'IDA (projet PAGE)	Une loi organique des finances moderne est adoptée qui corrige les faiblesses

²⁹ Les actions en gras sont les mesures préalables relatives à la première tranche et les conditions de décaissement de la deuxième tranche qui sont reprises dans l'Accord de Financement; Les autres actions sont indicatives. Les indicateurs de progrès sur la base desquels l'évaluation d'une éventuelle opération suivante serait fondée sont identifiés par une Astérix (*)

³⁰ Concerne toutes les mesures prises avant les négociations i.e. la période allant jusqu'à fin mars 2006.

OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	ACTIONS ET RESULTATS VISÉS		
	2005/06 ³⁰	2006/07	ASSISTANCE TECHNIQUE/ REFORCEMENT DE CAPACITE
		loi fondamentale de 1964 portant Règlement Général de la Comptabilité Publique de l'Etat	
B. Améliorer l'exécution du budget	Mettre en place un système intermédiaire de gestion financière (SIGEFI intermédiaire) et l'utiliser pour l'exécution du budget 2006	Préparer et adopter un manuel d'exécution budgétaire (procédures actuelles en vigueur)	Consultant financé par l'IDA (projet PAGE)
	Mettre en place un cadre institutionnel unique de coordination, gestion et suivi des réformes des finances publiques au Ministère des Finances	Etendre le SIGEFI intermédiaire aux dépenses salariales	Consultant financé par l'IDA (projet PAGE)
		Sécuriser le SIGEFI intermédiaire et assurer sa maintenance, notamment : (i) mettre en place une équipe informatique chargée de la maintenance, du développement, de l'assistance aux utilisateurs, et d'assurer la sécurité du système ; (ii) sécuriser le système ; (iii) finaliser le manuel des utilisateurs et former régulièrement les utilisateurs	Consultant financé par l'IDA (projet PAGE) pour développer les sécurités du système
		Préparer et adopter un plan d'action triennal 2006-08 de réforme consolidé portant sur l'ensemble des réformes	Consultant financé par l'IDA (projet PAGE) pour appui à l'élaboration du plan d'action triennal consolidé
			Un plan d'action triennal de réforme consolidé est adopté, mis en œuvre et sert de référence pour l'appui des partenaires au développement,
			identifiées dans le CFAA 2004 ³¹
			Un manuel des procédures d'exécution du budget qui fourni une référence adéquate pour l'exécution du budget est à la disposition des responsables
			Le SIGEFI intermédiaire couvre l'ensemble des dépenses financées sur le budget national
			Le SIGEFI est sécurisé et sa maintenance assurée.

³¹ CFAA: Évaluation de la gestion des finances publiques et des pratiques comptables du secteur privé, Banque mondiale, Juin 2004.

³² PEFA: *Public Expenditure and Financial Accountability*: Dépenses Publiques et Responsabilité Financière.

OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	ACTIONS ET RESULTATS VISES			
	2005/06 ³⁰	2006/07	ASSISTANCE TECHNIQUE/ RENFORCEMENT DE CAPACITE	
		<p>budgétaire et comptable et prévoyant entre autre: (i) l'introduction d'un CDMT ; (ii) l'intégration du budget ordinaire et d'investissement ; (iii) la révision et la simplification des procédures d'exécution budgétaires et la rationalisation et l'automatisation des contrôles ex-ante ; (iv) la délégation de l'engagement du Ministre des Finances aux ministères sectoriels; (v) le renforcement du contrôle interne ex-post ; (vi) le transfert de la gestion de la solde du Ministère de la Fonction Publique au Ministère des Finances ; (vii) le passage d'un système informatisé de gestion des finances publiques intérimaire au système intégré complet; et (viii) la restructuration du Ministère des Finances pour aligner son organisation sur les réformes visées*</p> <p>Séminaire de lancement des travaux préparatoires relatifs au plan d'action de réforme permettant d'actualiser le diagnostic et de faire l'inventaire des différents plans d'action existants</p> <p>Préparer conjointement avec les partenaires au développement intéressés une revue de la performance de la</p>	<p>Consultant sur un an et appui opérationnel sur cinq ans à l'unité d'appui à la réforme des finances publiques; financés par le programme de l'Union Européenne</p> <p>Appui logistique financé par l'IDA (projet PAGE)</p>	<p>en particulier les signataires du Cadre de Partenariat entre le Gouvernement du Burundi et les Bailleurs de Fonds relatif aux Appuis Budgétaires</p>

OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	ACTIONS ET RESULTATS VISES			RESULTATS
	2005/06 ³⁰	2006/07	ASSISTANCE TECHNIQUE/ RENFORCEMENT DE CAPACITE	
C. Passation des Marchés Publics	Adopter un plan d'action de réforme intégré	gestion des finances publiques (dans le cadre du PEFA) ³²		
	Adopter un plan d'action d'urgence pour améliorer la concurrence et la transparence de la passation des marchés publics	Mise en œuvre satisfaisante du plan d'action d'urgence	Consultant financé sur un IDF pour la définition des indicateurs de suivi des performances et l'établissement des valeurs de base et cible	Les indicateurs de suivi des performances en termes de compétition et transparence ont été définis ; les valeurs de base et cible ont été établies ; un système de suivi-évaluation est en vigueur
		Soumettre le projet de Code des Marchés Publics révisé au Parlement	Consultant financé sur un IDF	Un cadre légal de passation des marchés moderne qui répond aux standards internationaux est mis en place
		Etablir un rapport d'évaluation des capacités en passation des marchés et adopter un plan de renforcement des capacités	Consultant financé par l'IDA (projet PAGE)	Un plan d'action de renforcement des capacités basé sur une évaluation est disponible et la mise en œuvre peut commencer avec l'année fiscale 2007
D. Gestion Financière et Reddition des Comptes		Mettre en place les nouvelles institutions prévues par le code révisé des marchés publics à partir de 2007	Consultant financé par l'IDA (projet PAGE et IDF)	Les nouvelles institutions prévues par le code des marchés publics révisé sont en place
		Développer des outils modernes de gestion des marchés et les rendre opérationnels pour 2007	Consultant financé par l'IDA (projet PAGE)	Les outils modernes de gestion des marchés publics (documents standards, contrats-type, base de données prix et spécifications techniques de référence, directives) sont opérationnels avec l'année fiscale 2007
	Soumettre les comptes généraux de l'Etat et les comptes extrabudgétaires	Soumettre les comptes généraux de l'Etat et les comptes extrabudgétaires		Reddition de comptes par le Gouvernement

OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	ACTIONS ET RESULTATS VISES			
	2005/06 ³⁰	2006/07	ASSISTANCE TECHNIQUE/ RENFORCEMENT DE CAPACITE	RESULTATS
	2004 à la Cour des Comptes pour audit	2005 à la Cour des Comptes pour audit Préparer un rapport d'exécution budgétaire trimestriel à partir des états d'exécution du SIGEFI (crédit ouverts, engagements, liquidations, ordonnancements et paiements) à compter de fin mars 2006		Rapport d'exécution budgétaire trimestriel complet incluant les dépenses pro- pauvres et les dépenses PPTE est disponible
		Préparer un Tableau des Opérations Financières de l'Etat trimestriel à compter de fin mars 2006	Consultant financé par l'IDA (projet PAGE)	Un TOFE trimestriel est disponible et permet de suivre l'exécution du programme financier du gouvernement
E. Contrôle et Audit Financier Interne ex- post	Adopter et mettre en œuvre un programme de formation pour le personnel de l'IGF	Mener une étude visant à définir une stratégie de contrôle et d'audit interne ex- post de l'Etat	Consultant financé par l'IDA (projet PAGE)	Une stratégie de contrôle et d'audit interne d'audit et contrôle interne ex-post de l'Etat a été adoptée et sera mise en œuvre à partir de 2007
		Adopter une stratégie de contrôle et audit interne qui clarifie les compétences et le champ d'intervention des différentes instances impliquées Etude de faisabilité de la mise en œuvre de la stratégie de contrôle et d'audit interne y compris une évaluation des capacités et sur cette base l'élaboration d'un plan d'action de renforcement de l'ensemble des institutions concernées	Consultant financé par l'IDA (projet PAGE)	Un programme complet de renforcement de capacité des services /institutions chargées du contrôle et de l'audit interne est disponible et sera mis en œuvre en 2007

OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	ACTIONS ET RESULTATS VISÉS				RESULTATS
	2005/06 ³⁰	2006/07	ASSISTANCE TECHNIQUE/ RENFORCEMENT DE CAPACITE		
F. Audit Externe		Présentation dans le rapport annuel d'activité du Ministère de la Bonne Gouvernance de l'état de mise en œuvre des recommandations de l'IGF			Suivi par la Présidence des suites données aux recommandations de l'IGF
	Audit des comptes de l'Etat 2004 par la Cour des Comptes Promulguer la loi sur le statut des magistrats de la Cour des Comptes prévoyant la nomination des magistrats pour un mandat pour six ans renouvelable	Audit des comptes de l'Etat 2005 par la Cour des Comptes Lancement du recrutement de 17 magistrats			Un rapport annuel d'audit des comptes de l'Etat par la Cour des Comptes est fait au Parlement et rendu public Le statut des magistrats garantit leur inamovibilité
				Assistance de la Cour des Comptes de Belgique et de la Coopération Technique Belge	La Cour des Comptes est renforcée en personnel
		Préparer et adopter un guide méthodologique et un manuel des procédures internes			Un guide méthodologique et un manuel des procédures internes constituant une référence adéquate pour le travail des auditeurs est disponible
	Adopter et mettre en œuvre un programme annuel de formation pour les magistrats et le personnel de la Cour des Comptes	Faciliter l'adhésion de la Cour des Comptes à l'INTOSAI			L'adhésion de la Cour des Comptes à l'INTOSAI lui permet de bénéficier des programmes de renforcement de capacité en contrôle et audit externe Les magistrats et le personnel de la Cour des Comptes bénéficient d'un programme de formation

OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	ACTIONS ET RESULTATS VISÉS			RESULTATS
	2005/06 ³⁰	2006/07	ASSISTANCE TECHNIQUE/ RENFORCEMENT DE CAPACITE	
		<p>Solliciter pour la Cour des Comptes l'appui en termes d'assistance technique des institutions internationales d'audit ayant une réputation établie pour l'audit de l'exécution budgétaire à partir de 2006.</p> <p>Informatisation de la Cour des Comptes</p>	Assistance de l'IDA (projet PAGE)	Les capacités de la Cour des Comptes en matière d'audit et de suivi du budget national sont renforcées
II. Accroître le niveau et l'impact des dépenses publiques de pauvreté				<p>Résultats attendus (vérification):</p> <p>1. Améliorer l'impact des dépenses publiques sur la croissance, le développement et la réduction de la pauvreté</p> <p>2. Améliorer la transparence dans la gestion des dépenses publiques</p>
A. Améliorer et rationaliser la préparation du budget		<p>Adopter et mettre en œuvre un plan d'amélioration de la préparation du budget 2007:</p> <p>(i) avancer le calendrier de préparation du budget à juin ;</p> <p>(ii) intégrer en amont le cadrage macro-budgétaire et définir les objectifs de politiques sectorielles avec indicateurs de résultat; (iii) annoncer dans la note circulaire de préparation du budget les enveloppes sectorielles indicatives comprenant les dépenses courantes et en capital</p>	Assistance technique financée par IDA (projet PAGE)	Le budget est aligné sur les priorités du CSLP et les stratégies de développement sectoriel

OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	ACTIONS ET RESULTATS VISES			RESULTATS
	2005/06 ⁴⁰	2006/07	ASSISTANCE TECHNIQUE/ RENFORCEMENT DE CAPACITE	
		compatibles avec le cadre macro-budgétaire défini; (iv) renforcer la capacité de préparation budgétaire de la Direction du Budget et ministères sectoriels; (v) mettre en place un comité de préparation budgétaire dans chaque ministère sectoriel; et (vi) demander aux ministères sectoriels de préparer des programmes sectoriels de dépenses cohérents avec les priorités du CSLP et ne dépassant pas les enveloppes sectorielles indicatives (commencer avec les secteurs prioritaires)*		
B. Aligner le Budget sur les priorités du CSLP	<p>Identifier les programmes de dépenses de pauvreté y compris les dépenses PPTE pour le budget 2006 et s'assurer que leur exécution peut être suivie selon la classification budgétaire et comptable en vigueur</p> <p>Soumettre au Parlement un projet de loi de Finance 2006 qui reflète un accroissement de la part des dépenses de pauvreté dans les dépenses totales par rapport au budget 2005</p>	<p>Préparer un rapport d'exécution trimestriel et annuel des dépenses de pauvreté et PPTE et le soumettre au Comité de Suivi des dépenses PPTE</p> <p>Soumettre au Parlement un projet de loi de Finance 2007 qui reflète un accroissement de la part des dépenses de pauvreté dans les dépenses totales par rapport au budget 2006</p>		<p>Accroître progressivement la part des dépenses de pauvreté dans les dépenses totales par rapport au budget 2005 de 33.6 % en 2005 à 35.5% en 2006 dans le budget révisé et à l'objectif CSLP en 2007</p>
III. Renforcer le suivi et l'évaluation du CSLP				<p>Résultats d'ensemble (vérification):</p> <p>1. Améliorer la connaissance</p>

OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	ACTIONS ET RESULTATS VISES			RESULTATS
	2005/06 ⁴⁰	2006/07	ASSISTANCE TECHNIQUE/ RENFORCEMENT DE CAPACITE	
A. Améliorer les données relatives à la pauvreté	Réaliser des enquêtes sur les conditions de vie des ménages : l'enquête MICS (2000), ESDSR (2002), QUIBB (2002) et l'enquête sur les Perceptions de la pauvreté (2004)	Préparer et adopter un plan d'action visant à : (i) améliorer la collecte et l'analyse des données relatives à la pauvreté; et (ii) institutionnaliser un Système d'Information sur la Pauvreté	Assistance technique du Fonds fiduciaire Belge	relative à la pauvreté 2. Améliorer le ciblage des politiques publiques visant la réduction de la pauvreté Un plan d'action visant à : (i) améliorer la collecte et l'analyse des données relatives à la pauvreté; et (ii) institutionnaliser un Système d'Information sur la Pauvreté, est adopté et décrit dans le CSLP complet
		Préparer et adopter un plan d'action visant à améliorer la collecte et l'analyse des données relatives au suivi de la mise en œuvre du CSLP Les ressources DARE sont utilisées de manière consistante aux objectifs du CSLP	Assistance technique d'AFRISTAT [financée par le PNUD] et du Fonds fiduciaire Belge	Un plan d'action visant à améliorer la collecte et l'analyse des données relatives au suivi de la mise en œuvre du CSLP est adopté et décrit dans le CSLP complet Les dépenses PPTE sont exécutées selon les procédures nationales normales, payées sur le compte spécial PPTE, peuvent être auditées et suivies par le Comité de Suivi des dépenses PPTE
B. Suivre la mise en œuvre des politiques et réformes inscrites au CSLP	Ouvrir un compte de l'Etat à la Banque Centrale qui sera approvisionné par les ressources PPTE pour payer les dépenses PPTE inscrites au budget de l'Etat Mettre en place un Comité de Suivi des dépenses PPTE cohérent avec les Assises Nationales du CSLP qui seront mises en place Adopter un système de suivi des dépenses PPTE Préparer et adopter un plan d'action, un budget et un calendrier visant à remplir le déclencheur du point		Assistance technique de l'IDA (projet PAGE)	Pour les services éducation, santé et justice, les résultats de : (i) un exercice de suivi des dépenses publiques ; (ii) une évaluation par les

OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	ACTIONS ET RESULTATS VISÉS			RESULTATS
	2005/06 ³⁰	2006/07	ASSISTANCE TECHNIQUE/ RENFORCEMENT DE CAPACITE	
	d'achèvement de l'initiative PPTE relatif au suivi des performances des services de l'éducation, la santé et la justice	<p>Mettre en œuvre un plan d'action, un budget et un calendrier visant à remplir le déclencheur du point d'achèvement de l'initiative PPTE relatif au suivi des performances des services de l'éducation, la santé et la justice.</p> <p>Réaliser une enquête de traçabilité des dépenses publiques dans les secteurs de l'éducation, la santé, et la justice</p>	Assistance technique de l'IDA (projet PAGE) et le fonds fiduciaire belge	utilisateurs de la qualité des services offerts ; (iii) une évaluation par les services fournisseurs des contraintes et des obstacles à l'amélioration des services sont disponibles et ont servi de base à l'élaboration d'un plan d'action pour améliorer les services
C. Suivre l'impact des politiques et réformes inscrites au CSLP		<p>Mettre en place un système de suivi et d'évaluation de l'impact en particulier social et environnemental des réformes du secteur du café comportant une évaluation ex-ante de l'impact des mesures prévues dans le plan détaillé de réforme qui sera adopté</p>	Assistance technique de l'IDA (projet PAGE) et le fonds fiduciaire belge	Un programme est mis en place pour s'assurer que l'impact éventuel des réformes convenues est analysé ex-ante et en cours de mise en œuvre
D. Améliorer la production statistique		<p>Soumettre au Parlement le projet de cadre légal de l'activité statistique</p> <p>Adopter et amorcer la mise en œuvre d'un programme (2006-07) d'urgence pour l'institut national de la statistique qui sera reflété dans le CSLP complet*</p> <p>Lancer la préparation d'un plan quinquennal de</p>	Assistance technique d'AFRISTAT et du FMI et financière de l'IDA (projet PAGE)	<p>Le cadre légal de l'activité statistique est en vigueur</p> <p>Un programme d'urgence (2006-07) pour l'institut national de la statistique est mis en œuvre</p> <p>Un plan quinquennal de développement de la</p>

OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	ACTIONS ET RESULTATS VISES			RESULTATS
	2005/06 ³⁰	2006/07	ASSISTANCE TECHNIQUE/ RENFORCEMENT DE CAPACITE	
		développement statistique Préparer et adopter un programme d'urgence 2006-07 pour le développement des statistiques sectorielles (éducation, santé, agriculture, et population) qui sera reflété dans le CSLP complet	Assistance technique d'AFRISTAT, de l'IDA à travers le projet PAGE et le Fonds fiduciaire belge	statistique est adopté Un programme d'urgence 2006-07 pour le développement des statistiques sectorielles (éducation, santé, agriculture, et population) est disponible pour mise en œuvre à partir de fin 2006
COMPOSANTE II: ACCELERATION DE LA CROISSANCE ECONOMIQUE DURABLE				
I. Réforme des secteurs café, thé et coton.				Résultats attendus (vérification): 1. Accélérer la croissance sectorielle (comptes nationaux) 2. Accroître la contribution des secteurs à la réduction de la pauvreté en augmentant le revenu des producteurs (PSIA)
A. Réforme du secteur café	Adopter la stratégie de réforme du secteur café et un plan d'action (2004) Libéraliser l'entrée à tous les niveaux du secteur Eliminer la taxe verger, taxe parafiscale sur les producteurs Libéraliser le secteur du café, en particulier le prix au producteur et la commercialisation Supprimer la garantie de l'Etat aux banques	Adopter un plan de financement de la campagne 2006/07 Réaliser un audit des campagnes 2004/05 et 2005/06 Adopter un plan d'action détaillé 2006-08 pour la mise en œuvre de la réforme qui portera notamment sur : i) le traitement de la dette du secteur ; (ii) la mise en place	Consultant financé par l'IDA (projet PAGE) Etudes financées par IDA à travers le projet PAGE pour définir : (i) le cadre légal, réglementaire et institutionnel approprié à la libéralisation et	La campagne 2006-07 est financée sans garantie de l'Etat aux banques commerciales Les flux financiers entre les différents acteurs du secteur au cours des deux dernières campagnes sont audités Un plan d'action triennal de réforme détaillé (2006-08) comprenant: (i) la mise en place d'un cadre légal, réglementaire et institutionnel approprié à la libéralisation et

OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	ACTIONS ET RESULTATS VISÉS			
	2005/06 ³⁰	2006/07	ASSISTANCE TECHNIQUE/ RENFORCEMENT DE CAPACITE	RESULTATS
	<p>commerciales qui financent les opérations de commercialisation du café</p> <p>Mettre en place un comité de coordination, gestion et suivi de la réforme incluant les représentants de tous les acteurs du secteur</p> <p>Préparer et adopter une feuille de route pour la mise en œuvre de la stratégie 2004 de réforme du secteur café incluant : (i) le traitement de la dette du secteur ; (ii) la mise en place d'un cadre légal, réglementaire et institutionnel approprié à la libéralisation et privatisation du secteur ; (iii) les modalités de gestion et de financement des fonctions critiques; (iv) une stratégie de privatisation des stations de lavage, et les usines de déparchage gérées par la SODECO ; et (v) mesures d'accompagnement</p>	<p>d'un cadre légal, réglementaire et institutionnel approprié au secteur libéralisé et privatisé ; (iii) les modalités de gestion et de financement des fonctions critiques, notamment l'approvisionnement en intrants, le contrôle qualité, la vulgarisation technique et le conseil, la recherche, la réhabilitation et l'entretien des pistes; (iv) les stratégies de cession des actifs de l'Etat (stations de lavage et usines de déparchage gérées par la SODECO) au secteur privé ; et (v) les mesures d'accompagnement, notamment plan social en cas de licenciements, appui institutionnel et renforcement de capacité</p> <p>Mettre en place les nouvelles institutions</p> <p>Lancer les appels d'offres pour la cession des actifs de l'Etat (stations de lavage et usines de déparchage gérées par la SODECO) au secteur privé</p> <p>Adopter dans les délais un plan d'action de réforme mis à jour 2007-09</p>	<p>privatisation du secteur ; (ii) les modalités de gestion et de financement des fonctions critiques ; (iii) les stratégies de cession des actifs de l'Etat (stations de lavage et usines de déparchage gérées par la SODECO) au secteur privé; et (iv) les mesures d'accompagnement a été adopté et mis en œuvre</p>	<p>Les nouvelles institutions du secteur sont mises en place</p> <p>Les appels d'offres pour la cession des actifs de l'Etat au secteur privé ont été lancés</p>
B. Réforme du secteur thé	Préparer une stratégie de réforme du secteur (2004)	Mettre en place un comité de coordination, gestion et suivi		

OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	ACTIONS ET RESULTATS VISES			RESULTATS
	2005/06 ³⁰	2006/07	ASSISTANCE TECHNIQUE/ RENFORCEMENT DE CAPACITE	
		<p>de la réforme incluant les représentants de tous les acteurs du secteur</p> <p>Mettre à jour et adopter la stratégie de réforme du secteur ainsi qu'une feuille de route décrivant les principales étapes et composantes de la réforme (libéralisation, ouverture au secteur privé, désengagement de l'Etat, réformes institutionnelles, fonctions critiques, relance du secteur)</p> <p>Traduire la feuille de route dans un plan d'action triennal de réforme 2007-09 et l'adopter*</p>	<p>Financement des consultations des partenaires nationaux par l'IDA (projet PAGE)</p> <p>Consultant financé par l'IDA (projet PAGE)</p>	<p>Une stratégie de réforme du secteur ainsi qu'une feuille de route décrivant les principales étapes et composantes de la réforme (libéralisation, ouverture au secteur privé, désengagement de l'Etat, réformes institutionnelles, fonctions critiques, relance du secteur) ont été adoptés</p> <p>Un plan d'action triennal de réforme 2007-09 est adopté pour mise en œuvre à partir de 2007</p> <p>Un plan de redressement de l'OTB basé sur les résultats d'un audit technique et financier et cohérent avec la stratégie de réforme sectorielle retenue est mis en œuvre</p> <p>Tous les arriérés vis-à-vis des producteurs ont été apurés et les producteurs sont payés dans un délai normal</p> <p>Un plan de restructuration est en vigueur</p> <p>Une stratégie de réforme du</p>
C. Réforme du secteur coton	<p>Préparer une stratégie de réforme du secteur (2004)</p> <p>Exportation par la COGERCO de tout le stock de coton fibre.</p>	<p>Mettre en place un comité de coordination, gestion et suivi de la réforme incluant les représentants de tous les acteurs du secteur</p> <p>Mettre à jour et adopter la</p>	Mobiliser l'assistance	

OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	ACTIONS ET RESULTATS VISÉS		
	2005/06 ³⁰	2006/07	ASSISTANCE TECHNIQUE/ REINFORCEMENT DE CAPACITE
	Apurement de tous les arriérés vis-à-vis des producteurs pour les campagnes antérieures à 2006 Mise en œuvre d'un plan d'action permettant à la COGERCO l'achat de toute la production de coton pour la campagne 2006	stratégie de réforme du secteur ainsi qu'une feuille de route décrivant les principales étapes et composantes de la réforme (libéralisation, ouverture au secteur privé, désengagement de l'Etat, réformes institutionnelles, fonctions critiques, relance du secteur)* Réaliser un audit technique et financier de la COGERCO pour la gestion 2005 et adopter un plan de redressement de l'entreprise cohérent avec la stratégie de réforme sectorielle retenue Annuler la convention obligeant la COGERCO à vendre le coton fibre au COTEBU Adopter et mettre en œuvre un plan d'urgence de redressement du COTEBU en attendant une solution définitive dans le cadre de la stratégie de réforme sectorielle	technique et financière pour mettre à jour la stratégie de réforme Consultant financé par l'IDA (projet PAGIE)
			RESULTATS secteur ainsi qu'une feuille de route décrivant les principales étapes et composantes de la réforme (libéralisation, ouverture au secteur privé, désengagement de l'Etat, réformes institutionnelles, fonctions critiques, relance du secteur) ont été adoptés Redressement du la COGERCO Tous les arriérés vis-à-vis des producteurs ont été apurés et les producteurs sont payés dans un délai normal Redressement du COTEBU
II. Améliorer l'environnement des affaires: Promouvoir le développement du secteur privé, accroître la compétitivité, et améliorer l'attrait du pays pour les investisseurs privés nationaux et étrangers.			Résultats attendus (vérification): 1. Accroissement du ratio de l'investissement privé par rapport au PIB d'au moins un 1/2 point de pourcentage par an 2. Accroissement du ratio

OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	ACTIONS ET RESULTATS VISÉS			RESULTATS
	2005/06 ³⁰	2006/07	ASSISTANCE TECHNIQUE/ REINFORCEMENT DE CAPACITE	
A. Renforcer le cadre légal et réglementaire des affaires	Promulguer la nouvelle loi sur les faillites	Evaluer le cadre de concertation secteur privé/secteur public	Appui de l'IDA (projet PAGE)	par rapport au PIB des exportations hors café
		Sur la base de l'évaluation, mettre en place un cadre institutionnel unique de concertation secteur privé/secteur public		
		Soumettre au Parlement le projet de code des investissements révisé	Appui de l'IDA (projet PAGE)	Un cadre moderne et actualisé du secteur privé est en place (loi sur les faillites, code des investissements, code du commerce, code des sociétés privées et publiques) et les textes sont vulgarisés
B. Améliorer l'environnement des affaires	Mettre en place un centre d'arbitrage	Mettre en place un guichet unique pour la promotion des investissements		
		Adopter les ordonnances d'application du code du commerce		
		Evaluer et en fonction des résultats de l'évaluation mettre à jour le code des sociétés privées et publiques	Appui de l'IDA (projet PAGE)	Une institution facilitant le règlement des litiges dans les affaires est en place et renforcée
		Vulgariser les textes révisés		
		Renforcer le centre d'arbitrage		
		Conduire une étude sur le climat des investissements avec l'assistance de la Banque mondiale*, et préparer un plan d'action visant à améliorer:	Expertise de la Banque Mondiale et assistance technique	Le rapport de l'Evaluation du Climat des Affaires est disponible comme base de la préparation d'un plan d'action visant à améliorer: (a) le cadre

OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	ACTIONS ET RESULTATS VISES			RESULTATS
	2005/06 ³⁰	2006/07	ASSISTANCE TECHNIQUE/ RENFORCEMENT DE CAPACITE	
		(a) le cadre légal et réglementaire, (b) la fiscalité des entreprises, (c) la compétitivité, (d) la facilitation du commerce et spécialement des exportations		légal et réglementaire ; (b) la fiscalité des entreprises ; (c) la compétitivité ; et (d) la facilitation du commerce, spécialement des exportations.
C. Renforcer le secteur financier		<p>Conduire une revue du secteur bancaire</p> <p>Sur la base de la revue du secteur bancaire, préparer et adopter une stratégie de redressement et de renforcement du secteur cohérente avec les travaux en cours de révision de la loi bancaire</p> <p>Préparer une évaluation du secteur financier conjointement avec le FMI et la Banque Mondiale</p>	<p>Mobiliser le fonds fiduciaire FIRST ou l'IDA (projet PAGE)</p> <p>Expertise du FMI et de la Banque Mondiale</p>	<p>Une évaluation du secteur bancaire est disponible</p> <p>Une stratégie de redressement et de renforcement du secteur bancaire est adoptée et mise en œuvre à partir de 2007</p> <p>Une Evaluation du Secteur Financier est disponible comme base pour la préparation d'un plan de restructuration du secteur financier</p>
D. Accroître l'accès au financement des micro et petites entreprises y compris en milieu rural		<p>Soumettre au Parlement la nouvelle législation réglementant les activités de micro finance selon les meilleures pratiques internationales</p> <p>Mettre en place un service à la Banque Centrale chargé de superviser les institutions de micro finance</p> <p>Adopter un plan d'action pour renforcer la capacité de</p>	<p>Projet appuyé par le PNUD</p> <p>Projet appuyé par le PNUD</p>	<p>Une nouvelle réglementation des institutions et des opérations de micro-finance reflétant les meilleures pratiques internationales a été adoptée et est en vigueur.</p>

ACTIONS ET RESULTATS VISES			
OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	2005/06 ³⁰	2006/07	ASSISTANCE TECHNIQUE/ RENFORCEMENT DE CAPACITE
RESULTATS			
E. Apurer les arriérés intérieurs de l'Etat au secteur privé	Finaliser l'audit externe des arriérés de l'Etat envers le secteur privé	<p>supervision de ce service</p> <p>Préparer et adopter une stratégie pour apurer tous les arriérés de l'Etat envers le secteur privé confirmés par l'audit indépendant</p> <p>Mise en œuvre satisfaisante de la stratégie d'apurement des arriérés de l'Etat vis-à-vis du secteur privé</p>	Assistance juridique financée par l'IDA (projet PAGE)
II. Réforme des entreprises publiques à travers les privatisations et le développement de partenariats public/privé			<p>La stratégie de règlement de tous les arriérés intérieurs de l'Etat envers le secteur privé y.c. les banques a été adoptée et est mise en œuvre dans les limites du budget 2006 révisé</p>
A. Améliorer la gestion des entreprises publiques		<p>Renforcer le suivi et la supervision des entreprises publiques</p> <p>Actualiser la base de données économique, financière et technique de toutes les entreprises publiques.</p>	<p>Assistance technique du SCEP financée par l'IDA (projet PAGE)</p> <p>La base de données (informations techniques, économiques et financières) est complète, actualisée et accessible</p>
B. Améliorer le cadre institutionnel des privatisations		<p>Simplifier le cadre institutionnel et les procédures de privatisation tout en assurant le respect des principes de transparence et d'équité</p> <p>Renforcer la capacité du SCEP à conduire les travaux</p>	<p>Un cadre institutionnel de privatisation clair et simple qui assure la concurrence, l'impartialité et la transparence est mis en place</p> <p>La capacité du SCEP à préparer et conduire les transactions de privatisation</p>

OBJECTIFS INTERMEDIAIRES / DOMAINES D'INTERVENTION	ACTIONS ET RESULTATS VISÉS			
	2005/06 ³⁰	2006/07	ASSISTANCE TECHNIQUE/ RENFORCEMENT DE CAPACITE	RESULTATS
C. Préparer un programme cohérent de privatisation	<p>Adopter un plan stratégique de privatisation incluant l'établissement d'une unité chargée de la mise en œuvre du programme de privatisation, l'identification des entreprises à privatiser, et l'adoption d'une stratégie et d'un plan d'action pour chaque entité à privatiser (fait en 2003, condition de décaissement de la 2ème tranche du CRE).</p> <p>Adoption d'un programme de désengagement de l'Etat pour 2006</p> <p>Amener au point de vente: (i) les actions de l'Etat dans ALCOVIT, et (ii) de 70 pour cent des actions de l'Etat dans l'ONAPHA</p>	<p>préparatoires relatifs aux opérations de privatisation</p> <p>Adopter un programme triennal 2007-09 de désengagement de l'Etat des secteurs productif, commercial et bancaire</p> <p>Préparer et adopter une feuille de route prévoyant toutes les étapes nécessaires à une mise en œuvre satisfaisante du programme de désengagement de l'Etat, notamment, l'élaboration de stratégies sectorielles et de stratégies de privatisation pour chaque transaction prévue</p> <p>Relancer la vente par appel d'offre des : (i) actifs de l'OCIBU hors du secteur café; et (ii) de toutes les actions de l'OCIBU dans la Société Hôtelière Nouvelle du Burundi.</p> <p>Transfert des actions de l'OCIBU dans les banques, la société d'assurance SOCABU, l'EPB et la BCC à l'Etat</p> <p>Lancer les appels d'offre pour la vente des actions de l'Etat dans les entreprises APB, EPB, UCAR, BCC, OPHAVET*</p>	l'IDA (projet P'AGE)	<p>est améliorée</p> <p>Un programme triennal 2007-09 de désengagement de l'Etat et une feuille de route ont été adoptés</p> <p>Les appels d'offres pour la vente des : (i) actifs de l'OCIBU hors du secteur café; et (ii) des actions de l'OCIBU dans la Société Hôtelière Nouvelle du Burundi ont été relancés</p> <p>L'OCIBU a transféré les actions qu'il détient dans les banques, la société d'assurance SOCABU, l'EPB et la BCC à l'Etat avant que celui-ci n'engage les transactions de privatisation des banques et entreprises concernées</p> <p>Les appels d'offres relatifs à la vente des actions de l'Etat dans les entreprises APB, EPB, UCAR, BCC, OPHAVET ont été lancés</p>

Annex 12: Burundi – IMF Staff's Assessment of Recent Economic Performance



INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

CABLE ADDRESS
INTERFUND

May 25, 2006

Mr. Pedro Alba
Country Director for Burundi
World Bank

Dear Mr. Alba:

This note provides an assessment by IMF staff of Burundi's recent economic performance at the request of the World Bank.

On July 27, 2005, the Executive Board of the IMF completed the second review under Burundi's PRGF arrangement that was approved in January 2004. In August 2005, Burundi reached the decision point under the enhanced HIPC Initiative. Completion of the third review under Burundi's PRGF arrangement was delayed as the newly elected government needed more time to internalize the Fund-supported program. Discussions for the third and fourth reviews (end-June and December 2005 test dates, respectively) were combined with those for the 2006 Article IV consultation in Bujumbura in March 2006, and in Washington in April 2006, and understandings were reached, ad referendum, on an economic program for 2006. IMF staff is in the process of preparing the necessary documentation in support of Burundi's request to complete the third and fourth reviews under the PRGF arrangement and the 2006 Article IV consultation. Executive Board consideration is expected to take place in late June 2006.

Macroeconomic developments in 2005 were broadly in line with the program, albeit with lower GDP growth of 1 percent, largely on account of a poor coffee harvest and drought in the north. Inflation fell markedly in late 2005 to about 1 percent at year-end, reflecting the tightening of monetary policy and the appreciation of the nominal exchange rate. The exchange rate appreciated some 10 percent in nominal terms against the U.S. dollar in the second half of 2005, and has been broadly stable since, reflecting renewed confidence in the currency following the successful political transition and increased aid inflows. In real effective terms, the Burundi franc appreciated by 9.2 percent during 2005. Fiscal performance in 2005 was better than programmed, reflecting stronger-than-expected revenue performance; the primary deficit was reduced to about half the program target. The external current account deficit (including grants) reached 10.3 percent of GDP, compared with a projected 7.1 percent deficit in the program, on both lower exports and higher imports.

The program remained on track in 2005 and so far in 2006. All the program's quantitative performance criteria at end-June and end-December 2005 were observed except for a temporary accumulation of external arrears in late 2005. On the structural side, implementation of reform measures was delayed in the second half of 2005, owing to the

political transition. The performance criterion on the installation of an interim computerized financial management information system (IFMIS) in the Ministry of Finance was missed, as were three structural benchmarks, but the measures subject to the above-mentioned performance criterion and two benchmarks were implemented at end-2005/early 2006.

The program for 2006 aims at a continuation of the improvement in the macroeconomic environment and a deepening of financial and structural reforms needed to set the economy on a sustained growth path. The program envisages GDP growth of 6 percent, reflecting a rebound in coffee production and a further deceleration of annual inflation to about 3 percent. Gross international reserves would rise modestly to about 3.3 months of following year imports.

Fiscal policy for 2006 envisages an increase in social and poverty-reduction spending, a strengthening in public finance management and the clearing of domestic arrears. The budget incorporated an important package of reforms that included the consolidation of a number of extrabudgetary funds, the reduction of import duties, and the elimination of distortionary taxes. A revised budget will be promulgated before end-June, 2006 to accommodate higher social spending, a wage increase, and the clearing of the government's domestic arrears. Total revenue would decline to 19 percent of GDP, owing largely to the abolition of solidarity fund levies to finance the war effort. Expenditures would rise to 41.8 percent of GDP, due mainly to the large increase in spending on education and that linked to the emergency program for 2006, made possible by the budgetary savings from external debt relief under the enhanced HIPC Initiative. The overall deficit, on a commitment basis, after grants, is to decline to about 0.5 percent of GDP.

The authorities are committed to further improving transparency and public financial management and considerable progress has been made since the World Bank's Country Financial Accountability Assessment report of 2004. Building on the new system of accounts, the interim IFMIS on expenditure aims to reinforce the monitoring of budget execution, including of social outlays. IMF staff is considering options on continued technical assistance on public financial management. Measures are also envisaged, with the support of the World Bank, to reinforce the management of the civil service. Action plans for reform in the areas of customs, income tax, the treasury, public accounting, and procurement will be implemented in 2006.

The primary objective of monetary policy is to see a sustained reduction in inflation, through the containment of banking system credit to the government. The central bank will use a judicious mix of monetary instruments, primarily foreign exchange sales and liquidity auctions. Monetary policy aims at further strengthening liquidity management with the introduction of treasury bills by September 2006. The program includes measures to strengthen financial sector supervision and address weaknesses in central bank internal operations. The central bank is strengthening its governance, including through its recently completed second annual external audit. A revised central bank charter, to secure its legal independence, is to be submitted to parliament in 2006. The liberalization of the exchange

regime will continue, with the objective of achieving full convertibility for current international transactions in 2006.

On the structural side, the central element of the strategy is to progressively remove government from involvement in the productive and financial sectors of the economy and foster the private sector as the engine of economic growth. Key steps for 2006 include the launching of the privatization of the coffee washing stations. On governance, the operations of the Audit Court will continue to be strengthened. An anti-money laundering law will be submitted to parliament in 2006.

Overall, in a post-conflict environment, Burundi has made commendable progress in implementing the economic reform program supported by the PRGF arrangement. The newly elected authorities are committed to strengthen the reform agenda, with a particular emphasis on good governance. The program for 2006 is fully financed, a large part of which would come from IDA's proposed Economic Reform Support Grant (ERSG) of US\$60 million in direct budget support. The ERSG also provides important support to the social and economic recovery and poverty reduction. The timely disbursement of external financial support assumed in the macroeconomic program is essential to support implementation of the budget and achievement of the programs' macroeconomic objectives. Past delays in budget support, in the context of the authorities still limited ability to manage lumpy aid flows, have impacted monetary management and worsened inflation performance.

Sincerely yours,



Abdoulaye Bio-Tchané
Director
African Department

- SELECTED CITIES AND TOWNS
 ⊙ PROVINCE CAPITALS
 ★ NATIONAL CAPITAL
 RIVERS
-  MAIN ROADS
 PROVINCE BOUNDARIES
 INTERNATIONAL BOUNDARIES

