PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC13928

Project Name	Strenghtening Institutional Capacity for Service Delivery Project (P149176)
Region	AFRICA
Country	Burundi
Sector(s)	Central government administration (70%), Public administration- Information and communications (10%), Public administration- Other s ocial services (10%), Public administration- Energy and mining (10%)
Theme(s)	Economic statistics, modeling and forecasting (30%), Macroeconomic management (20%), Public expenditure, financial management and pr ocurement (20%), Tax policy and administration (30%)
Lending Instrument	Investment Project Financing
Project ID	P149176
Borrower(s)	Government of Burundi
Implementing Agency	MINISTRY OF FINANCE
Environmental Category	C-Not Required
Date PID Prepared/ Updated	14-Nov-2014
Date PID Approved/ Disclosed	14-Nov-2014
Estimated Date of Appraisal Completion	
Estimated Date of Board Approval	01-Apr-2015
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Since the 2000 Arusha Peace Agreement, Burundi has made progress toward restoring peace and stability. The Arusha Peace Agreement marked the end of more than 13 years of conflict and helped launch the democratic election processes. From 2000 to 2005, Burundi made a transition to a multiparty system of government with a power-sharing agreement between the country’s two main ethnic groups (Hutu and Tutsi). In addition, peace agreements have been signed with all the rebel movements, paving the way for their inclusion in the political arena. In February 2005, the country approved, by referendum, a new Constitution emphasizing power sharing and the protection of minority rights. The process of political decentralization was also launched with the first communal elections in June 2005. However, local elections in May 2010 were marked by electoral irregularities. As a result, most opposition parties boycotted the presidential and parliamentary polls, leaving the incumbent president unopposed.

Tensions between rival political parties continue to persist as the country prepares for the 2015 general elections, with the risk of undermining the existing power-sharing agreement. In preparation for the 2015 elections, the National Assembly and Senate approved a new electoral commission in December 2012, but an alliance of 10 opposition parties rejected the panel. In March 2013, the ruling party and opposition met during an UN-backed electoral workshop and agreed on a roadmap for the 2015 polls as well as the adoption of an electoral code. However, restrictions on the press (including a widely criticized media law), instances of intimidation and persecution of opposition leaders, the recent crisis with the main opposition party (UPPRONA), and the proposed amendments to the Constitution to change the two-term limit for the incumbent president all contribute to limit political space and undermine stability.

Burundi’s economy expanded gradually in the post-conflict period, but its growth rate remained lower than neighboring countries in the EAC community and in the SSA region. A small, predominantly rural and landlocked country, Burundi has a population of about 10.9 million with about 314 people per square kilometer, which is the second highest density in Sub-Saharan Africa. Burundi’s urbanization rate is very low compared to regional average (37 percent), with about 90 percent of the population living in rural areas who depend on agriculture for their livelihoods. Over the past decade, Burundi has mostly enjoyed uninterrupted GDP growth, but the country remains vulnerable to political turmoil and external shocks. The Government has managed to stabilize the country's economy in a fragile environment, and output growth averaged 4.2 percent in 2004-2013 with only one brief episode of decrease in per capita GDP in 2005. The breakthrough in the peace process and the associated reduction of violence triggered a rebound in economic performance, accompanied by sound macroeconomic management. However, economic growth remains insufficient to generate a sustained improvement of the living conditions for most of the population. When the population growth is taken into account, per capita income increased only slightly over the past decade. Since 2009, a succession of shocks slowed down economic growth from 5.1 percent in 2006-2008 to 3.9 percent in 2009-2012, marginally above the population growth rate, before accelerating to above 4.5 percent in 2013.

Burundi’s modest economic performance reflects the legacy of the conflict and limited fiscal space. The decade-long conflict resulted in the destruction of key economic and social infrastructure, weakening the country’s institutions and limiting the government’s capability to address its urgent development challenges. Lower than expected growth has resulted in no significant changes in poverty patterns, and Burundi is unlikely to meet most of the Millennium Development Goals (MDGs) by 2015. Per capita gross national income more than doubled between 2005 (US$130) and 2013 (US$280), but is still below the GDP per capita of $286 before the crisis in 1993, and the country remains at the bottom of the world ranking. Burundi’s medium term macroeconomic outlook reflects the need to balance fiscal sustainability and growth. Real GDP growth is projected to reach 4.7 percent up from 4.5 percent 2013 and 4.0 percent in 2012. However, the country’s ability to sustain significant increases in per capita GDP will largely depend on its capacity to expand the available room for fiscal maneuvering, to diversify its economy, and to stimulate productivity.

Despite these challenges, there is potential to create fiscal space in Burundi, helping the country to overcome its current fragility. As highlighted in the 2013 PER, tax to GDP ratio is low in Burundi (12 percent in 2013). Although the government is expected to limit current expenditure growth in real terms, unless additional revenue measures are introduced to offset the falling grants, it will struggle to reduce its deficit. Although the structure of the economy (mainly rural and informal) plays an important role, weaknesses in tax policy and tax administration and a lack of coordination between them limit the efforts to mobilize domestic revenue. In addition, a number of tax exemptions have been granted - counting for as much as 3 percent of GDP and about 20 % of collected tax revenue - but there is little evidence of their impacts. On the expenditure side, more rigorous planning and execution could improve efficiency and effectiveness. At the same time, important transfers and subsidies are provided to SOEs present in the country, without clear impact on their financial situation and the sustainability of their activities. Finally, if properly managed natural resources – especially mining – can potentially become an important driver of growth in Burundi, broadening the fiscal space and strengthening resilience to external shocks. In this context, strengthening the country's statistical system is critical to promote transparent and informed decision making process, guiding government policies.

Sectoral and Institutional Context

The lack of progress on several dimensions of governance has constrained the Government of Burundi (GoB) from effectively reducing poverty and improving human development. The 2012 World Governance Indicators provide a quick snapshot of the challenges confrontingBurundi. The country lags well behind the Sub-Saharan Africa regional average on most dimensions of governance. In particular, Burundi ranks in the lowest tenth percentile on government effectiveness, the rule of law, regulatory quality, and control of corruption. While political stability has substantially improved, concerns over security remain. The country, however, performs relatively well on Voice and Accountability, in itself a major achievement in a fragile post-conflict setting. These challenges are well reflected in the governance cluster of the 2013 CPIA ratings: despite the fact that Burundi scores better than the average fragile states in the region (CPIA score 3.2 against an average of 2.7), the country remains still below the average IDA-eligible country in terms of overall institutional capacity. This is largely explained by the weak performance in areas of transparency/accountability (2.0) as well as the quality of the public administration (2.5).

To tackle the governance challenges, the Government has recently put in place a number of corrective measures, notably the creation of the Anticorruption Brigade, the Audit Court, and the Office of the Inspector General, charging them with the responsibility to fight corruption. Important achievements have also been made in economic governance reforms, including: (i) the effective operation of the Burundi Revenue Authority (Office Burundais des Recettes); (ii) the introduction of VAT; (iii) the revision of the customs code; (iv) a decree on the rules and regulations of the management of the budget and control, a key element of the implementation of the budget framework law (Loi Organique); and (v) the creation of a single treasury account and the strengthening of controls and audits. In 2011, the Government adopted the National Strategy for Good Governance and Anti-corruption (SNBGLC 2011-2015) and a related action plan, which provides a solid framework for donor engagement. According to the latest progress report, 54 % of the planned tasks under the action plan of SNBGLC have been completed by the end of 2013, reflecting government's commitment to move the governance agenda forward.

Revenue Policy and Administration

Burundi's revenue collection has improved significantly since the creation of the Office Burundais des Recettes (OBR) in 2009. The creation of the autonomous OBR marked a turning point and demonstrated the Government's resolve to move in the direction of mobilizing a stronger contribution of domestic revenues for containing the fiscal deficit and delivering on its ambitious development goals. Despite this initial progress, frequent changes in tax policy combined with weaknesses in tax administration contributed to significant revenue drop, with subsequent increased fiscal gap. The Government's tax policy and administration continues to be challenged by competing objectives of medium term growth through tax incentives and revenue mobilization. At the sub-national level, revenue sources barely cover the existing responsibilities of communes. The 2014 PER on fiscal decentralization estimated that local revenues represent only 2.7 percent of total government revenues and remain largely concentrated in Bujumbura (25 percent of total local revenues).

To address these challenges, the Government is pushing forward Phase II of OBR reform strategy (2014-2017), committing national funds to cover OBR operational costs. The reform focuses on four strategic objectives, including: i) tax policy and legislation modernization; ii) Burundian Revenue Authority (OBR) governance reinforcement and capacity building; iii) tax administration modernization; and iv) customs administration modernization. However, planned investments during Phase II (US$ 36 million) exceed donor's current commitments (US$ 22 million), leaving a funding gap of US$14 million. Additional assistance will be required to support priority investments and capacity-building efforts.

To ensure successful implementation of the planned reform, better coordination between tax policy and tax administration is urgently needed. As recommended by a recent diagnostic, efforts to modernize the tax and customs administrations will require a better integration of OBR in Burundi's institutions—beginning with a closer relationship and more effective coordination between OBR Management and the Ministry of Finance— and successful implementation of a well-articulated revenue policy and administration modernization strategy. This in turn calls for an appropriate reform project oversight and management structure at the level of the Ministry of Finance (TMEA/ OBR report, 2014).

Public Financial Management

Since 2008, Burundi has made significant progress in modernizing the expenditure management system. A new organic budget law was adopted in 2008 (LOFP – Loi Organique sur les Finances Publiques), which foresees a gradual move towards the adoption of program budgeting. Rules on commitments have been tightened and exceptional public spending procedures (Paiements sans ordonnancements préalables), which were widely used in the past, have been brought under control. Finally, most of the existing extra-budgetary accounts have been closed or integrated into standard budget documents.

Despite some progress, several challenges remain in the area of public expenditure management. Budget preparation is still done without realistic forward projections of both revenues and expenditures, and this creates problems for the predictability of budget execution. Moreover, the computerization of the expenditure chain and the simplified transitional procedure has not led to the expected results in terms of speed of processing expenditures and recordkeeping. A Treasury Single Account (Compte Unique de L'Etat) was introduced from 2010; however, the process of truly integrating all relevant accounts and of creating safeguards against the (re-)creation of new separate accounts is still incomplete. As a result, weaknesses persist in the effectiveness and control of the expenditure chain – with significant backlog of external audits of the national accounts. This is reflected the low PEFA scores on the stock and monitoring of expenditure arrears (C or D).

To address these challenges, the Government is committed to continue PFM reform by adopting a new PFM strategy (PFM-III 2015-2017), currently under preparation. Building on recent analytical work, including the World Bank programmatic PERs and the 2012 PEFA report, the new strategy is expected to focus on: (i) promoting efficiency in the budget forecasting, preparation, and planning; (ii) strengthening revenue mobilization; (iii) enhancing transparency in budget execution, financial control and monitoring; (iv) implementing an integrated financial management information system; and (v) enhancing the implementation capacity of the Ministry of Finance and Planning.

Corporate Governance of SOEs

The performance of SOEs remains weak, despite their potential to act as key players in the economic and social development of Burundi. The State possesses 100% of the shares or is the main shareholder of a long list of companies in Burundi, including among others, REGIDESO, ONATEL, OTB, SUSUMO, AIR BURUNDI, SRDI, SODECO. Well-managed state owned enterprises can help to deliver essential services, create value for the state, and develop strategic sector expertise. At the moment, however, the Government lacks a clear strategy for effectively managing the SOEs, and very little information is collected and used in a systematic manner to assess these entities' financial status or service delivery performance.

Most SOEs face significant financial problems with little external controls. According to the latest SCEP report, the financial situation of most SOEs is disastrous with high short-term levels of debt, operational losses, payment arrears, and social obligations imposed upon them by the State. The situation has significantly impacted economic activity and rendered productive capital obsolete, due to cumulated deficits in investment and maintenance. The SCEP, through which the state exercises its interests as an owner, does not have the necessary technical capacities or the political power to monitor and oversee these entities and hold them accountable for their performance. Furthermore, the process for selecting members to the boards of SOEs is unclear, and there is no regular assessment of board performance. Despite a commitment to sign performance agreements with the state, few such agreements have been signed and little information exists on progress. The result is a poorly governed sector which represents significant fiscal risks and liabilities to the GoB and whose quality of service remains uneven.

To address SOEs financial challenges, the Government has initiated a process of privatization, but little progress has been achieved. After 2-years of discussion in Parliament, a law was finally approved and promulgated by the Presidency on September 2003, determining a list of 10 SOEs to be privatized over the next three years. These public enterprises include ONATEL, SODECO, SHTB, AIR BURUNDI, ALM, SRDI, VERRUNDI, RPP, Silos & Sechoirs de Buterere, and LNBTP. However, financial constraints and vested economic interests have undermined any progress on this agenda. As a result, none of these enterprises (or others not included in the list) has so far been privatized.

National Statistical System

In Burundi, the regulatory framework governing statistics information collection, production, and distribution is clearly defined. The Statistics Law clearly defines the fundamental principles and institutional framework governing the activities of services and organizations charged with public statistic data dissemination. It addresses the general way the National Statistics System (SSN) operates and its coordination. Official statistics fundamental principles are recognized by the law, and include: data confidentiality, obligation to answer questionnaires, transparency, duties related to the frequency and dissemination schedules of statistics, as well as their alignment with international methods and concepts. The adoption of the National Statistical Development Strategy (2010-2014) marked another important milestone for statistics development. The goal of the NSDS was to develop a coherent statistical system, well organized, with the capacity to produce and disseminate reliable information and better able to meet the growing needs of all public users. However, the lack of a leading donor and relatively small allocation of domestic and external financial resources have limited the results of the NSSD priority action plan.

Lack of timely reporting of reliable economic and social statistics continues to undermine the effectiveness of government's decision-making process. In general, statistical information is not readily available. The National Statistics System (SSN) produces limited data on an irregular basis, standard surveys are not conducted at regular intervals, and analytical capacity is weak making it difficult to discern major trends and their policy implications [Table 5, Annex 3 provides a snapshot of NSS current practices vis-à-vis General Data Dissemination System "(GDDS) guidelines]. On average, the finalization of statistical products is significantly delayed after the data collection phase, and does not often follow the required statistical methodologies, to the point that is difficult to predict when most ISTEEBU publications will be disseminated. As a result, the demand for and utilization of statistics are greatly inhibited, preventing more robust involvement of citizens, service users, and civil society organizations on monitoring the impact of government policies.

Recent initiatives confirm government commitment to foster statistics development. A national quality data assurance framework has been drafted by the government and is expected to be adopted soon by the Cabinet. The framework defines a clear deadline and calendar in which each statistical product has to be released. Moreover, the government has recently approved the establishment of a centralized statistical human resources management (HRM) system by the ISTEEBU. This implies that all the statisticians working within the state entities will be managed by ISTEEBU and will be governed by the staff regulations of the institute. This presents the opportunity to provide ISTEEBU with an effective tool to coordinate the statistical system and will ensure the presence of qualified statisticians in sectoral ministries.

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Mining Sector Development

The mining sector can contribute to further economic diversification and rural development in Burundi. Slow but steady increases in gold exports since 2010 has led to an important export earnings contribution, reaching US$ 120M in 2013. Burundi possesses large mineral deposits, such as nickel (5 percent of international known reserves), and coltan (the 5th largest world reserve). A recent study has evaluated the value of the Musongati nickel deposit at more than US$100 billion (40 times the country's GDP). The 2011 Country Economic Memorandum (CEM) projected that government annual revenue from mining could exceed US$200 million (8 percent of GDP) in the case of one large scale nickel mining project, and an estimated price of nickel at up to US$7.3 per pound (depending on market conditions). However, at present, the mineral economy consists predominantly of artisanal and small-scale operations. Recent analysis confirms that as of early 2014 20,000 workers were directly employed by mining activities. This has a direct impact on revenue mobilization, and explains in part the small contribution made by mining to GDP (less than 1% of total GDP, and similar to Rwanda). Should attention be given to the formalization of the sector, it could make a more significant fiscal contribution, by way of export earnings and royalties. The challenge for the Government is therefore to effectively manage a transition towards more diversified mining activities where small-scale operators and large-scale operators can co-exist.

The government has implemented critical reforms to clarify the sector's legislative and regulatory framework, and there is a now a momentum to build on effective dialogue and further improve mineral governance. Government commitment to promote mining sector development is evidenced by: (i) the adoption of a new mining code in October 2013; (ii) the first draft under review and public consultation of a comprehensive set of mining regulations to mainstream implementation of the new mining code (expected to be completed by mid-2015); (iii) the first draft under discussion of a national mining policy, hitherto non-existent; and (iv) the submission to Cabinet by the Ministry of Energy and Minerals (MEM) of the official request for government pursuit of EITI candidacy. An action plan comprising all the steps to be completed prior to Burundi's candidature has been completed as part of the EITI scoping study supported by the Bank. Finally, the Ministry of Energy and Mines has recently drafted a new strategy for the development of the sector.

Moving forward, the Government still needs to address further institutional gaps and skills shortcomings to successfully implement the new policy and regulatory framework. Specifically, the relatively low tax collection requires urgent attention to mining revenue policy and administration, while also establishing safeguards and best practice concerning local benefits and environmental management. At the same, several technical areas require commensurate systems and skills to be built in the Ministry, namely for revenue collection and management as well as mineral inspections and audits. Finally, immediate efforts are needed to better formalize the predominantly artisanal and small miners (ASM economy), while also focusing on the institutional needs required for regulating industrial projects, such as Musongati, coming on stream in the next 5-10 years.

Relationship to CAS

The proposed operation is a key component of the Burundi CAS (FY13-16) and also contributes to the PRSP-II strategic objectives. The CAS is framed around two strategic objectives: (i) improving competitiveness by establishing an enabling environment for inclusive growth; and (ii) increasing resilience by consolidating social stability. Improving governance is the foundation and cross-cutting theme that is expected to contribute to both strategic objectives. The proposed operation directly contributes to improve governance across public sector agencies. Moreover, by fostering governance of the SOE and key economic sectors (mining), the project is expected to contribute to the CAS first strategic objective of improving competitiveness. The project is also aligned with the PRPS-I strategic objective of 'developing institutions to improve governance and the quality of services'.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The Project Development Objective (PDO) is to: create fiscal space by improving systems and procedures in the area of public expenditure management, mining, and land management, including reliable statistical data for informed decision making.

Key Results (From PCN)

At PDO level, the key results expected from this project are as follows:

(i) Increased revenue collection

(measured by revenue to GDP ratio) *Core Sector Indicator

(ii) Improved efficiency in public spending
(measured by decreased current expenditure to GDP ratio (from X% to Y%)

(iii) Improved revenue from mining
(Measured by mining revenue to GDP ratio)

(iv) Improved financial management of SOEs
(measured by 'increased revenue (fiscal and non-fiscal, including dividends) paid by SOEs', / or 'decreased transfer and subsidies to SOEs).

(v) Improved production of timely and reliable socio-economic and financial statistics
(measured by publications meeting quality standards and regularity released by the National Statistical System (% of total publications released every year).

III. Preliminary Description

Concept Description

The proposed project will be financed by a US $ 21 million Investment Project Financing (IPF), comprising US$ 15 million IDA credit and US$ 6 million Multi-Donor Trust Fund grant.

Component 1: Modernizing Revenue Policy and Administration (11 Million US $)

- Sub-component 1.1: Strengthen macro-modelling and tax policy functions at the Ministry of Finance (1 million US$)
- Sub-component 1.2: Modernize tax administration (9 million US$)
- Sub-component 1.3: Develop an effective management (and collection) of mining revenues (1 million US$)

Component 2: Strengthening Public Expenditure Management and Control (5 million US $)

- Sub-component 2.1: Enhanced Functionality and use of the new Integrated Public Financial Management Systems (2 million US$)
- Sub-component 2.2: TA to support 'budget programme'' (1 million US$)
- Sub-component 2.3: Strengthening external audit functions and processes (2 million US$)

Component 3: Improving ISTEEBU capacity to produce timely and high-quality statistics (2.5 million US $)

- Sub-component 3.1: Adopt result-based management system to strengthen ISTEEBU performance (0.5 million US$)
- Sub-component 3.2: Strengthen ISTEEBU Human Resource Management System (1 million U $)
- Sub-component 3.3: Improve the quality of statistics and support production of timely data (0.5 million US$)
- Sub-component 3.4: Improve data access and dissemination of national statistics and micro data (0.5 million US$)

Component 4. Improve Mining Sector regulatory capacity and mine practices – 2.5 million US$)

- Sub-component 4.1: Strengthening institutional capacity to establish and enforce mining regulatory guidelines (1.5 million US$)
- Sub-component 4.2: Fostering transparent management of mining sector data (1 million US $)

IV. Safeguard Policies that might apply

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

V. Financing (in USD Million)

Total Project Cost:	21.00	Total Bank Financing:	15.00
Financing Gap:	0.00		

Financing Source	Amount
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	15.00
BELGIUM, Govt. of (Except for MOFA - DGIC)	6.00
Total	21.00

VI. Contact point

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