Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: PAD1255

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 15.7 MILLION
(US$22 MILLION EQUIVALENT)

TO THE

REPUBLIC OF BURUNDI

FOR A

STRENGTHENING INSTITUTIONAL CAPACITY FOR GOVERNMENT EFFECTIVENESS PROJECT

April 1, 2015

Governance Global Practice
Africa Region

Currency Equivalents
Exchange Rate Effective as of January 31, 2015

Currency Unit	=	US$
FBu 1,566	=	US$1
SDR1	=	US$ 1.4013

Government Fiscal Year
January 1–December 31

ABBREVIATIONS AND ACRONYMS

ADP	Accelerated Data Program
AfDB	African Development Bank
AFRISTAT	*Observatoire Économique et Statistique d'Afrique Subsaharienne* (Economic and Statistics Observatory for Sub-Saharan Africa)
ASM	Artisanal and Small-Scale Miners
BGR	*Bundesanstalt für Geowissenschaften und Rohstoffe* (Federal Institute for Geosciences and Natural Resources).
BRB	*Banque de la République du Burundi* (Central Bank of Burundi)
CAS	Country Assistance Strategy
CCI	Construction Cost Index
CdC	*Cour des Comptes* (Court of Auditors)
CEM	Country Economic Memorandum
CGE	Computable General Equilibrium
CPI	Consumer Price Index
DA	Designated Account
DPF/DTP)	*Département de la Politique Fiscale* (Departemtn of Tax Policy)
EAC	East African Community
ENSEA	*École Nationale Supérieure de Statistique et d'Economie Appliquée* (National Advanced School of Statistics and Applied Economics)
EITI	Extractive Industries Transparency Initiative
EIVC	Extractive Industries Value Chain
EMSP/PAGE	Economic Management Support Project (*Projet d'Appui à la Gestion Économique*)
EOI	Expressions of Interest
EPI	Export Price Index
ESW	Economic and Sector Work
FBu	Burundi Franc
GDP	Gross Domestic Product
GDDS	General Data Dissemination System
GIZ	*Gesellschaft für Internationale Zusammenarbeit* (German Federal Entreprise for International Cooperation)
GoB	Government of Burundi
HIES	Household Income Expenditure Survey
HRM	Human Resources Management

ICB	International Competitive Bidding
ICR	Implementation Completion and Results Report
ICGLR	International Conference on the Great Lakes Region
ICT	Information and Communications Technology
IDA	International Development Association
IDEC	*Institut de développement Economique du Burundi* (Economic Development Institute of Burundi)
IFAC	International Federation of Accountants
IEG	Independent Evaluation Group
IES	International Standards of Education
IFC/T&C	International Finance Cooperation/ Trade & Competitiveness Practice
IFMIS	Integrated Financial Management Information System
IFR	Interim Financial Reports
IGE	*Inspection Générale de l'Etat* (State Inspectorate General)
IGF	*Inspection Générale des Finances* (Finance Inspectorate General)
ILO	International Labor Organization
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPF	Investment Project Financing
IPI	Import Price Index
IPPI	Industrial Production Price Index
IRR	Internal Rate of Return
ISTEEBU	*Institut de Statistiques et d'Etudes Economiques du Burundi* (Burundi Institute of Statistics and Economic Studies)
ISSAI	International Standards on Auditing
IT	Information Technology
ITAS	Integrated Tax Administration System
LC	Letter of Credit
LOFP	*Loi Organique sur les Finances Publiques* (Public Finance Organic Law)
M&E	Monitoring and Evaluation
MACMOD-BI	Macro-economic Modeling Burundi
MDGs	Millennium Development Goals
MGI	Ministerial General Inspectorate
MDTF	Multi Donor Trust Fund
MEM	*Ministère de l'Energie et des Mines* (Ministry of Energy and Minerals)
MFPDE	*Ministère des Finances et de la Planification du Développement Economique* (Ministry of Finance, Planning, and Economic Development)
MFP	*Ministère de la Fonction Publique* (Ministry of Public Service)
MTEF	Medium-Term Expenditure Framework
NADA	National Data Archive
NCB	National Competitive Bidding
NGO	Non-Governmental Organization
NPV	Net Present Value
NQDAF	National Quality Data Assurance Framework
NSDS	National Strategy for the Development of Statistics
NSS	National Statistical System
OBR	*Office Burundais des Recettes* (Burundi Revenue Authority)

OHADA	*Organisation pour l'Harmonisation en Afrique du Droit des Affaires* (Organization for the Harmonization of Business Law in Africa)
OPC	*Ordre Professionnel des Comptables* (National Accountancy Body)
PB	Program-based Budget
PDO	Project Development Objectives
PEFA	Public Expenditure Financial Accountability Assessment
PEMFAR	Public Expenditure Management and Financial Accountability Report
PER	Public Expenditure Review
PFM	Public Finance Management
PFRIU	Public finance Reform Implementation Unit
PFS	Project Financial Statements
PIM	Project Implementation Manual
PLR	Performance Learning Review
PPF	Project Preparation Facility
PPI	Producer Price Index
PRAMS	Procurement Assessment & Management System
PRECA	*Programme de Renforcement des Capacités de l'Administration* (National Administration Capacity Building Program)
PRSP	Poverty Reduction Strategy Paper
QCBS	Quality and Cost Based Selection
ROSC A&A	Report on Observance of Standards and Codes – Accounting and Auditing
SAM	Social Accounting Matrix
SBD	Standard Bidding Documents
SIGEFI	*Système de Gestion des Finances Publiques* (Integrated Financial Management Information System)
SNBGLC	*Stratégie Nationale de la Bonne Gouvernance et de la Lutte contre la Corruption (*National Strategy for Good Governance and Anti-Corruption)
SDR	Special Drawing Rights
SOE	State Own Enterprises
SRFP	Standard Request for Proposals
TA	Technical Assistance
TMEA	Trade Mark East Africa
TSC	Technical Steering Committee
UNDB	United Nations Development Business
UNDP	United Nations Development Program
UoB	University of Burundi
USAID	United States Agency for International Development
VAT	Valued Added Tax
WDR	World Development Report

Regional Vice President :	Makhtar Diop
Country Director :	Philippe Dongier
Senior Global Practice Director :	Mario Marcel Cullell
Practice Manager :	Guenter Heidenhof
Task Team Leader :	Marco Larizza
Co-Task Team Leader :	Mamadou Ndione

Republic of Burundi

Strengthening Institutional Capacity for Government Effectiveness Project (P149176)

TABLE OF CONTENTS

List of Figures

List of Tables

List of Boxes

PAD DATA SHEET

Republic of Burundi

Strengthening Institutional Capacity for Government Effectiveness Project (P149176)

PROJECT APPRAISAL DOCUMENT

Africa Region

Report No.: PAD1255

Basic Information			
Project ID	EA Category	Team Leader	
P149176	C - Not Required	Marco Larizza	
Lending Instrument	Fragile and/or Capacity Constraints [X]		
Investment Project Financing	- Fragile States	- Post-Conflict	
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date	Project Implementation End Date		
April 22, 2015	June 30, 2020		
Expected Effectiveness Date	Expected Closing Date		
June 30, 2015	December 31, 2020		
Joint IFC			
No			
Practice Manager/Manager	Senior Global Practice Director	Country Director	Regional Vice President
Guenter Heidenhof	Mario Marcel Cullell	Philippe Dongier	Makhtar Diop

Borrower: Government of Burundi	
Responsible Agency: Ministry of Finance, Planning and Economic Development	
Contact:	Title:
Telephone No.:	Email:

Project Financing Data(in USD Million)					
[ ]	Loan	[X]	IDA Grant	[ ]	Guarantee
[ ]	Credit	[ ]	Grant	[ ]	Other

Total Project Cost:	27.20	Total Bank Financing:	22.00
Financing Gap:	0.00		

Financing Source	**Amount**
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	22.00
BELGIUM, Government of	5.20
Total	27.20

Expected Disbursements (in USD Million)

Fiscal Year	2015	2016	2017	2018	2019	2020
Annual	0.00	5.00	7.00	5.00	3.50	1.50
Cumulative	0.00	5.00	12.00	17.00	20.50	22.00

Institutional Data

Practice Area / Cross Cutting Solution Area

Governance

Cross Cutting Areas

[ ] Climate Change

[X] Fragile, Conflict & Violence

[ ] Gender

[ ] Jobs

[ ] Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %

Public Administration, Law, and Justice	Central Government administration	70		
Public Administration, Law, and Justice	Public administration-Energy and mining	10		
Public Administration, Law, and Justice	Public administration-Information and communications	10		
Public Administration, Law, and Justice	Public administration-Other social services	10		
Total		100		

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Economic management	Economic statistics, modeling and forecasting	20
Economic management	Macroeconomic management	20
Public sector governance	Public expenditure, financial management and procurement	20
Public sector governance	Tax policy and administration	40
Total		100

Project Development Objective(s)

The Project Development Objective (PDO) is to strengthen Government institutional capacity to improve fiscal management.

Components

Component Name	**Cost (IDA USD Millions)**
1: Modernizing revenue policy and administration	6.20
2: Strengthening public expenditure management and control; Project Management	8.90
3: Improving ISTEEBU institutional capacity	3.30
4: Improving mining regulatory capacity and practices	3.60

Total	22.00

Systematic Operations Risk- Rating Tool (SORT)	
Risk Category	**Rating**
1. Political and Governance	Substantial
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Moderate
OVERALL	Substantial

Compliance	
Policy	
Does the project depart from the CAS in content or in other significant respects?	Yes [ ] No [X]
Does the project require any waivers of Bank policies?	Yes [ ] No [X]
Have these been approved by Bank management?	Yes [ ] No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ] No [ ]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X] No [ ]

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		X
Natural Habitats OP/BP 4.04		X
Forests OP/BP 4.36		X
Pest Management OP 4.09		X
Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10		X
Involuntary Resettlement OP/BP 4.12		X

Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X

Legal Covenants

Name	Recurrent	Due Date	Frequency
update, within the Project Financial Management Implementation Unit (PFRIU), a computerized financial and accounting system	No	December 31, 2015	N/A

Description of Covenant

In furtherance of the provisions of the Financing Agreement, the Recipient shall, no later than six (6) months after the Effective Date (a) update, within the PFRIU, a computerized financial and accounting system satisfactory to the Association, and successfully train relevant staff in the use thereof and (b) train all fiduciary staff of the PFRIU on the Association's fiduciary procedures.

Source: Section II.B.5 of Schedule 2 of the Financing Agreement.

Name	Recurrent	Due Date	Frequency
Recruitment of an external auditor	No	September 30, 2015	N/A

Description of Covenant

No later than three (3) months after the Effective Date, the Recipient shall recruit, in accordance with the provisions of Section III of this Schedule 2, an external financial auditor, with qualifications, experience, and terms of reference satisfactory to the Association, for purposes of the audit referred to in Section II.B.3 of this Schedule.

Source: Section II.B.4 of Schedule 2 of the Financing Agreement.

Conditions

Source Of Fund	Name	Type
IDAT	Project Technical Steering Committee	Effectiveness

Description of Condition

The Recipient has established the Project Technical Steering Committee in accordance with the provisions of the Financing Agreement.

Source: Article 5.01 of the Financing Agreement.

Source Of Fund	Name	Type

IDAT	Project Management Unit	Effectiveness
Description of Condition The Recipient has recruited to the PFRIU a project manager, a national procurement specialist, a financial management specialist, an accountant, a treasurer, a monitoring and evaluations specialist, and assistant to the project manager with qualifications, experience, and terms of reference satisfactory to the Association, in accordance with the provisions of the Financing Agreement. *Source*: Article 5.01 of the Financing Agreement.		
Source Of Fund	**Name**	**Type**
IDAT	Project Implementation Manual	Effectiveness
Description of Condition The Recipient has adopted the Project Implementation Manual in accordance with the provisions of the Financing Agreement. *Source*: Article 5.01 of the Financing Agreement.		
Source Of Fund	**Name**	**Type**
GBEL	Component 1	Disbursement
Description of Condition No disbursement will be made for activities under Component 1, unless the Co-financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals thereunder (other than the effectiveness of this Agreement) have been fulfilled. *Source*: Section IV.B.1 of Schedule 2 of the Financing Agreement.		
Source Of Fund	**Name**	**Type**
IDAT	Component 1.4	Disbursement
Description of Condition No disbursement will be made for activities under Component 1.4, unless the Recipient has established the Inter-Ministerial Working Group in accordance with the provisions of the Financing Agreement *Source*: Section IV.B.1 of Schedule 2 of the Financing Agreement.		

I. STRATEGIC CONTEXT

A. Country context

1. **Since 2004, Burundi has made good progress in establishing a relatively stable macroeconomic environment, rebuilding institutions, and consolidating peace and security**. Burundi has recovered from the decade long conflict, which resulted in widespread destruction of economic and social infrastructure. Over the past decade, the Government's development programs aimed to consolidate economic and political gains, promote inclusive economic growth, contain inflation, and strengthen policies designed to combat endemic poverty in rural and urban areas. Two rounds of elections took place in 2005 and 2010, respectively, with the third round scheduled for May 2015.

2. **Over the past decade, economic growth has been stable and moderately positive, but poverty remains prevalent**. The Government has managed to stabilize the country's economy in a fragile environment, with output growth averaging 4.4 percent between 2006 and 2014. This performance led to a 1.4 percent yearly increase in real GDP. However, economic growth has remained insufficient to generate a sustained improvement in the living conditions of most Burundians. The share of the population deprived of basic food needs declined by 6 percentage points between 2006 and 2012, but at 60 percent remains one of the highest in the world. Moreover, inequalities between the capital and the rest of the country are still high as the share of the population with consumption below the basic needs stood at 61.5 percent in rural areas versus 41 percent in Bujumbura. Burundi's score on the UNDP's Human Development Index improved by 2.7 percent per year between 2005 and 2013 thanks to improved education and health outcomes, but Burundi still ranked 180th out of 187 countries in 2013.

3. **Burundi's modest economic performance reflects the legacy of the conflict and limited fiscal space**. The decade-long conflict undermined the country's institutions, limiting the Government's ability to address its urgent development challenges. In addition to weak public institutions, narrow fiscal space makes the country vulnerable to shocks. The limited fiscal space is the result of multiple factors, including: (i) the low level of fiscal revenue and recent setbacks in tax revenue mobilization; (ii) the very narrow export base which puts the country at a high risk of debt distress; (iii) the relative scarcity of external financing as grants continue to decrease; (iv) the very small domestic banking sector, with an almost nonexistent domestic financial market; and finally (v) the dominant share of the non-discretionary spending absorbing almost all domestic revenue, with salaries representing 60 percent of the tax revenues.

4. **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 in 2013 and 4.0 percent in 2012. This slight acceleration is driven by the rebound in coffee production together with the boom in the construction and tertiary sectors. 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 with public investments. To this end, Burundi can benefit from its huge natural resource endowment, including minerals (gold, nickel, coltan, cassiterite, wolframite, copper, platinum, iron, etc.) in the eastern part of the country, and a rich agricultural zone in the central highland.

5. Sustainable economic growth and shared prosperity will heavily depend on improvements in Government effectiveness. Following the progress made in stabilizing the country's economy, the Government needs to move on a path of faster and more inclusive growth to deliver its ambitious development agenda as outlined in the second Poverty Reduction Strategy Paper (PRSP). Further efforts are also needed to reduce the risk of renewed fragility, by building trust between the state and its citizens. Strengthening public sector governance and promoting a modern public administration better able to deliver services and effectively implement public policies is an essential pre-condition for sustained progress toward these goals.

B. Sectoral and Institutional Context

6. 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 confronting Burundi, showing that the country lags 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. The country, however, performs relatively well on voice and accountability, in itself a major achievement in a fragile post-conflict setting. Political stability has also improved over time.

7. The Government has recently adopted a number of corrective measures, and established new institutions, notably the creation of the Anticorruption Brigade, the Court of Auditors, and the Office of the Inspector General, to curb 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 - OBR*); (ii) the introduction of Value Added Tax (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 reflecting the Government's commitment to move the governance agenda forward.

8. Despite these achievements, Burundi faces a number of challenges in creating the additional fiscal space required to promote growth and overcome the current fragility of its economy. Tax to GDP ratio remains low at 12 percent in 2014. Although the Government reduced current expenditures from 24.4 percent of GDP in 2011 to 18.2 percent in 2014, additional revenue measures are needed to offset the falling grants. 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 percent of collected tax revenue in 2013 - but there is little evidence of their impact. On the expenditure side, more rigorous planning and execution could improve efficiency and effectiveness. Finally, if properly managed, natural resources – especially mining – can potentially become an important driver of growth in Burundi, broadening fiscal space and strengthening resilience to external shocks. In this context, strengthening the country's statistical system is critical to guide Government policies by promoting transparent and informed decision making processes.

Lack of Tax Policy Capacity Combined with Weaknesses in Tax Administration Undermines Revenue Mobilization

9. The establishment of the Burundi Revenue Authority (OBR) in 2009 has contributed to substantial improvements in tax administration and revenue mobilization, but trends are deteriorating. Although encouraging progress has been achieved since the creation of OBR in establishing new tax and customs administration, the changes introduced in 2013 in the income tax and VAT laws – due to weak coordination between tax policy and tax administration – as well as the provision of generous tax exemptions, have resulted in serious revenue slippages, leading to a decrease in the tax to GDP ratio from 14.3 percent in 2011 to 12.0 percent in 2014.

10. Addressing pending weaknesses in tax policy is critical to increase fiscal space. In Burundi, tax policy suffers from three major weaknesses. First, the Government lacks a medium- to long-term tax policy strategy that defines the country's overall fiscal policy direction and relates it with the existing administrative capacity and intended objectives, including the level of tax revenue, its efficiency, and fairness. Consequently, the Government continues to struggle between several tax policy objectives without a clear framework to balance them. Second, the Government lacks macroeconomic and statistical tools as well as adequate expertise to carry out ex-ante impact evaluation and cost/benefit analysis of tax policy measures, including the provision of tax exemptions to promote private investments. As a result, frequent legislative changes and sudden corrections of tax policy provisions have generated instability in the regulatory environment, and resulted in severe revenue slippages. Third, while in principle the Tax Policy Department (DTP) at the Ministry of Finance, Planning, and Economic Development (MFPDE) has the mandate to ensure regular monitoring of the Government tax policy, in practice this function is not performed.

11. The Government has taken important measures to increase revenues, but better coordination between tax policy (MFPDE) and tax administration (OBR) is urgently needed to sustain progress. In an effort to improve fiscal transparency, in 2014 the Government disclosed the full itemized list of tax exemptions granted in the previous year. Moreover, VAT exemptions on imported products and tax credits have been eliminated in the context of the revised 2014 budget. While the implementation of these measures has been critical to deal with revenue shortfalls, 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 senior management and the Department of Fiscal Policy at the MFPDE. Additional challenges include (i) the absence of a modern and Integrated Tax Administration System (ITAS); (ii) the lack of effective intelligence, risk management, and investigation functions in the Tax and Customs Departments at the OBR; and (iii) the urgent need to streamline the Tax Department's organizational structure by strengthening human resources and functions of the regional offices.

Strengthening Management of Public Finances Remains a Priority

12. 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*). 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 and most of the existing extra-budgetary accounts have been closed or integrated into standard budget documents. The level of unreported extra-budgetary expenditures does not exceed 5 percent of total expenditures. Budget execution rates improved significantly, rising from 81.4 percent in 2006 to 97.6 percent in 2013. Capital spending shows the largest improvement, increasing from 45.9 percent in 2006 to 85.4 percent in 2013. As a result, the gap between the initial budget (*Loi de Finance Initiale*) and the budget execution law (*Loi de Règlement*) decreased from 47 percent in 2009 to less than 10 percent in 2012. Budget monitoring and internal control systems have improved since the introduction of the Integrated Financial Management Information System (IFMIS) in 2006, but still shows signs of inefficiencies and delays. Expenditure commitments have been better aligned with projected cash flows with the setting up of commitment ceilings for each line ministry on a quarterly basis. Internal budgetary controls have been further improved with the appointment of controllers of committed expenditures in three pilot ministries (health, education, and agriculture) in 2012. These improvements have been reflected in the latest (2012) Public Expenditure Financial Accountability Assessment (PEFA) report, where out of 26 PEFA indicators only eight were rated D+, nine were rated C or C+, and two indicators were not rated.

13. The gradual introduction of Medium-Term Expenditure Framework (MTEF) mechanisms over the past few years improved the alignment of the PRSP priorities to the budget. A central MTEF determines budgetary envelops for ministries and other national institutions, respectively. Since 2011, central MTEFs consistent with the macroeconomic framework are used in the preparation of the budget. Forecasts of fiscal aggregates are done for three years on a rolling annual basis through the central MTEF and Medium Term Budgetary Framework (MTBF). Other important measures that have contributed to strengthen the direct links between development priorities and budgets include: (i) improvement of reliability of macroeconomic and revenue projections in order to set credible spending caps; (ii) validation by the Council of Ministers of multi-year inter-sector allocations reflecting the objectives of the second PRSP; and (iii) empowerment of line ministries in proposing intra-sector allocations based on their own strategies and priorities. As a result of these initiatives, the composition of public expenditure has significantly improved toward priority sectors, including education, health, and agriculture. Recognizing these achievements, the PEFA indicator on the budget preparation process (PI-11) was improved from B- in 2009 to A in 2012.

14. The Government remains strongly committed to continue the Public Financial Management (PFM) reform agenda and progressively shift to program-based budget. Building on recent analytical work, including the World Bank programmatic Public Expenditure Reviews (PER) and the 2012 PEFA report[1], the PFM reform strategy (PFMS-II)[2] seeks to: (i) improve budget formulation by strengthening the linkage between policies and budgets; and (ii) improve budget execution by generalizing planning, programming, and budgeting around key sectors, strengthening cash management through IFMIS, and overhauling treasury operations. An update of the current strategy is expected by October 2015, building on the completion of the 2014-2015 PEFA assessment. The Government is also intensifying efforts to begin a systematic dialogue on performance and develop results indicators for key sector ministries (education, health, and agriculture), with the aim of progressively introducing program budgeting.

[1] A PEFA mission took place in December 2014 to prepare the next PEFA report. The draft report is being finalized and the final PEFA assessment is expected to be released by June 2015. The findings are intended to inform the finalization of the PFMS-III, expected to be approved by the Cabinet by the end of 2015.
[2] A new PFM strategy (PFM-III 2015-2017) is currently under preparation.

15. Several challenges remain especially in the area of cash-management, public accounting, and external budget control. A Treasury Single Account (*Compte Unique de L'Etat*) was introduced starting from 2010. However, the process of effectively integrating all relevant accounts and of creating safeguards against the (re-)creation of new separate accounts is still incomplete with limitations on short-term cash management. As a result, weaknesses persist in the execution and control of the expenditure chain, with significant accumulation of arrears. This is reflected by the low PEFA scores on the stock and monitoring of expenditure arrears (C or D). By the end of 2013, the stock of extra-budgetary arrears due to the private sector reached 6 percent of the total expenditure or 2 percent of GDP. A consolidated Government statement is prepared annually, with information on revenue and expenditure; however, the public accounting information remains weak with account balances often incomplete. The Audit Court (*Cour des Comptes)* has begun to play a more active role in auditing executed budgets and reviewing critical public finance issues. The court audits the Government's yearly accounts on time, and reports are available online for public access. However, other public entities, including Government agencies and SOEs, do not regularly submit their accounts to the Court. In 2013, only 13 public entities out of 144 had submitted their accounts to the Court. Also, the quality of the reports remains weak, and there is little evidence of any follow-up on audit findings. Finally, the framework of accounting and auditing has improved but falls short of International Federation of Accountants (IFAC) standards, and additional efforts are needed to improve national accounting standards and auditing practices.

16. The effective roll-out of the new IFMIS modules requires sustained capacity-building efforts and strengthening the IT functions at the MFPDE. Previous diagnostics (including PEFA 2012 and Burundi PER 2013) have highlighted several dysfunctions in the current IFMIS system, including the fact that the latest legal texts and procedures are not yet properly implemented in the IFMIS. These shortcomings – combined with the absence of interfacing with other PFM databases and systems (including tax administration, debt management, customs, and the payroll) – make it difficult to reconcile the expenditures and undermine Government capacity to undertake regular reviews of public expenditures. To address these weaknesses, a new IFMIS system is expected to be rolled-out in 2015. Capacity building efforts are critical to adequately manage the transition to the new system, and a comprehensive IT strategy needs to be developed to ensure interfacing with parallel PFM systems modernization activities (including ITAS).

Failure to Produce Timely and Reliable Statistics Undermines the Effectiveness of the Government's Decision-Making Process

17. The Statistics Law defines the fundamental principles and regulatory framework governing the activities and services of organizations charged with production and dissemination of statistic data. It addresses the general way the National Statistics System (NSS) 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.

18. On average, statistical production does not always comply with international standards, revealing structural weaknesses in the human resource management system. Despite the strategic goals set in the National Statistical Development Strategy (2010-2014) the NSS produces limited data on an irregular basis and standard surveys are not conducted at regular intervals, substantially deviating from General Data Dissemination System (GDDS) guidelines. Statistics data produced by the National Institute of Statistics and Economic Studies (ISTEEBU) do not always follow standard statistical methodologies, compromising the quality of the final output. Analytical capacity in data analysis is also weak, reflecting the lack of technical skills and the failure of current Human Resources Management (HRM) policy to attract and retain qualified and high skilled statisticians.

19. **Timely dissemination of national statistics poses an additional challenge**. ISTEEBU outputs are not clearly defined and their dissemination schedule is not determined and publicly announced, as per international practices. As a result, the finalization of statistical products is significantly delayed after the data collection phase, to the point that makes it difficult to predict when most ISTEEBU publications will be disseminated. This ambiguity reduces predictability and undermines the credibility of the institution. As users are unaware of when statistics will be published, they commonly resort to sources other than ISTEEBU, undermining the demand for (and utilization of) national official statistics. This in turn reduces opportunities for citizens and civil society organizations to monitor the impact of Government policies.

20. **Recent reform initiatives confirm the Government's commitment to statistics development, opening-up opportunities to strengthen ISTEEBU performance.** A National Data Quality Assurance Framework (CNAQD) was adopted by the Government in October 2014. The framework defines clear timelines and establishes maximum turnaround times between data collection and publication date. Moreover, in 2012 the Government approved the establishment of an independent HRM system for statisticians, governed by the staff regulation of the institute and independent from the Government HRM system. Finally, the recent change made to grant to the Board of ISTEEBU the authority to set the remuneration policy is expected to open up the opportunity to link staff pay to performance. To capture the potential benefits of these reforms, sustained efforts are needed to improve ISTEEBU's HRM system and promote corporate performance vis-à-vis producers and users of statistics.

Strengthening Institutional Reforms is Critical to Unlocking Mining Sector Development and Generating Additional Fiscal Space

21. **Burundi's mining sector consists of over 80 registered artisanal mining operations and a few semi-industrial and industrial exploitation permits are about to come on-stream.** Burundi possesses large mineral deposits, such as nickel (5 percent of international known reserves), and coltan (the fifth largest world reserve). In addition Burundi has considerable gold deposits and base metals such as cassiterite and wolframite. Despite its large potential, Burundi's mineral exports are at present exploited in an artisanal fashion. According to the World Bank (2014), this sub-sector of the mining economy generates an estimated 20,000 direct jobs, primarily in the Northern provinces. Future semi-industrial and industrial projects may create upwards of 750 jobs in the coming 10 years, as mines move from construction and development phases to exploitation. The next few years will require a development and diversification strategy to better manage current operations' resources (gold, cassiterite, tantalum, and tungsten) and prepare the ground for semi-industrial operations (rare lands) and industrial (nickel) operations.

22. **Recent upward trends in mineral export earnings suggest that mining can provide much-needed additional fiscal space.** At present the sector contributes to less than 1 percent of total GDP, mainly due to gold, cassiterite, woframite, and tantalum. In fact, Burundi's highest

export earnings currently come from gold (estimated at about US$120 million in 2013), but this contribution can be even more substantial if gold export activity was better organized. For example, it is estimated that total declared gold exports in 2013 (2.8 tons) represents only one third of total gold production. Should attention be given to formalization of the sector, gold could make a more significant fiscal contribution, by way of export earnings and royalties. Furthermore, 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). This is consistent with a recent feasibility study for rare earth resources, which projects a total contribution of US$24 million in taxes over the next 10 years.

23. The Government is implementing critical reforms to improve the sector's legislative and regulatory framework, providing momentum to build on effective dialogue and reform the institutional governance of the sector. Since the adoption of the revised mining code in October 2013, the Government has pursued further important reforms: (i) drafting of a comprehensive set of mining regulations to mainstream implementation of the new mining code; (ii) amending the existing Ministry of Energy and Minerals (MEM) structure to align it with the revised roles and responsibilities envisaged as laid out in the revised mining code; (iii) drafting of a national mining policy (hitherto non-existent); and (iv) the Government's decision to complete its Extractive Industries Transparency Initiative (EITI) candidacy in 2015. Altogether, these reforms constitute best practice in mineral development.

24. Moving forward, addressing pending institutional gaps in the mining sector is critical to successfully implement the new policy and regulatory framework. Specifically, the relatively low tax collection requires urgent attention to mining revenue policy and administration, to better formalize the predominantly Artisanal and Small Miners (ASM) economy. At the same, several technical areas require commensurate systems and human resources to be strengthened in the Ministry, namely revenue collection and management as well as mineral inspections and audits. Finally, efforts are needed to establish safeguards and best practices concerning local benefits and environmental management, while focusing on the institutional needs required for regulating industrial projects, such as Musongati, coming on stream in the next 5-10 years.

C. Higher Level Objectives to which the Project Contributes

25. By supporting Government's effort to increase fiscal space, this project directly contributes to the World Bank Group's strategic goals of eliminating extreme poverty and promoting shared prosperity. The project will support the Government in strengthening revenue policy and administration, which will increase the effectiveness of tax and non-tax revenue mobilization, (including from mining), thereby creating additional fiscal space to fight poverty through delivery of critical public services. The project will also contribute to enhancements in the quality of public service delivery through a more strategic planning and budgeting process that effectively allocates resources to priority sectors, together with a better functional financial management system. Similarly, the project will promote accountability by supporting more robust oversight of public finances. Improved production of high-quality and timely statistics will also foster accountability by enabling evidence-based decision making processes and facilitating citizens' monitoring of public policies. Finally, the project's support to strengthen transparency in strategic economic sectors such as mining will contribute to improve the business environment and reduce the risk of state capture (see Annex 2 for an overview of the theory of change underlying the project).

26. The proposed operation is a key component of the Burundi CAS FY13-16 (endorsed by the Board on October 23, 2012), and is fully aligned with the Government's PRSP-II. Its design also reflects the findings of the 2015 Performance Learning Review (PLR). The CAS is framed around two strategic objectives: (i) *improving competitiveness* by establishing an enabling environment for inclusive growth and poverty reduction; 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. By strengthening institutional capacity in core ministries and public sector agencies, the project is also fully aligned with the PRSP-II strategic objective of 'developing institutions to improve governance and the quality of public services'. In addition, the project design has been directly informed by the recommendations of the 2015 PLR and its strategic effort to gradually shift from single-sector interventions to multi-sector approaches, aiming to strengthen the Government's delivery systems and build capacity in a more comprehensive and sustainable manner.

27. The project will act as a catalytic instrument to sustain progress on policy reforms supported by the Bank and other donors, thereby promoting development effectiveness. By targeting technical assistance to selected policy areas that are likely to be covered under the next Development Policy Operation series (See box 1, Annex 2), this project is expected to promote synergies and consolidation of the Bank portfolio. Moreover, during project preparation efforts have been made to encourage co-financing of the proposed operation, in line with the Burundi CAS strategic goal of leveraging Bank interventions and promoting aid effectiveness. The Government of Belgium has committed a contribution of 6 million Euros through a MDTF, and dialogue is ongoing with other donors interested to join the MDTF in the near future.

II. PROJECT DEVELOPMENT OBJECTIVES

A. Project Development Objective(s)

28. The Project Development Objective (PDO) is: To strengthen Government institutional capacity to improve fiscal management.

29. This objective will be achieved by supporting Government efforts to mobilize domestic revenue, improve public expenditure management and controls, produce timely statistics for policy making, and improve mining sector regulatory capacity and practices.

B. Project Beneficiaries

30. The direct beneficiaries of the project are members of the public service in the targeted ministries and public agencies, as well as representatives of the business community. Front-line service delivery units are also expected to benefit from better upstream management of public financial and human resources. In addition, the project will benefit the business community and more generally taxpayers, who will take advantage of a more predictable tax policy, lower tax compliance costs and a fairer tax system with concentration of enforcement measures on high-risk cases.

31. The ultimate beneficiaries of the project will be the citizens of Burundi who stand to gain improvements in both the quantity and the quality of public services delivered. As the project proceeds, improvements in revenue mobilization - including from mining - are expected to translate into greater availability of funds for financing the provision of basic social services, while improvements in expenditure management and control will promote greater effectiveness across the public administration. Likewise, improved access to statistical data will support more strategic decision-making processes and help better target the poor and other vulnerable groups with social safety net programs.

C. PDO Level Results Indicators

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

(i) Improved predictability of tax policy
(measured by the actual aggregate revenue out-turn compared to original approved budget)

(ii) Program-based budgets attached to the Finance Law and defended by sector ministries in the Parliament
(measured by the number of program-based budgets attached to the Finance Law and defended by the sector ministries before Parliament)

(iii) Improved production of timely and reliable statistics
(measured by the increased frequency of ISTEEBU yearly publications, their compliance with international standards, and timely availability to users)

(iv) Improved management and regulatory framework in the mining sector
(measured by the achievement of key milestones, including, among others: regulations for Artisanal and Small-Scale Mining developed; functional reviews of selected department of MEM completed, and institutional reform plan implemented; MEM website established and operational).

III. PROJECT DESCRIPTION

33. The proposed operation covers selected areas deemed critical to achieve its development objectives, and its design has been informed by solid analytical work (see Annex 2). Accordingly, the project is organized in four components, including: (i) Modernizing Revenue Policy and Administration; (ii) Strengthening Public Expenditure Management and control; Project Management; (iii) Improving ISTEEBU's Institutional Capacity; and (iv) Improving Mining Regulatory Capacity and Practices.

A. Project Components

Component 1: Modernizing Revenue Policy and Administration (US$11.4 million equivalent of which US$6.2 million IDA)

Subcomponent 1.1: Strengthening Tax Policy Functions at the MFPDE (US$700,000)

34. To address weaknesses in tax policy, this sub-component will help strengthen the institutional structure and capacity of the Department in charge of Tax Policy (DTP) at the MFPDE. The main objectives of this component include: (i) stabilize tax policy by promoting a medium term tax policy strategy consistent with the Government development objectives set in the PRSP; (ii) build capacity to assess *ex-ante* the impact of tax policies; and (iii) build monitoring capacity and improve communication on tax policy measures with other key stakeholders, in particular the private sector. The implementation of the activities will be closely coordinated with the IMF and other donors to avoid overlaps and ensure complementarity with other ongoing initiatives, including a technical advisor to support the DTP (to be hired in late 2015 by the Belgium Technical Cooperation).

35. This sub-component will finance the following activities:

i. Elaboration of a medium term tax policy strategy able to accompany the Government growth and poverty reduction strategy (US$250,000);
ii. Development of a new tax code to collect and harmonize all existing tax laws into one tax document (US$200,000);
iii. Technical support to the DTP for the elaboration and implementation of a communication strategy (US$150,000); and
iv. Preparation of a functional and institutional review of the Department of Fiscal Policy (US$100,000).

Subcomponent 1.2: Support to Macroeconomic Modelling (US$800,000)

36. This sub-component will help build Government capacity to conduct cost and benefit analysis and evaluate the distributional impact of tax policies (including tax expenditure). The overall objectives of this sub-component are to improve Government capacity on: (i) tax revenue forecasting for the preparation and monitoring of the implementation of finance law, building on the existing macroeconomic model (MACMOD-BI) and adding a tax policy module, a natural resources module, and a debt management module; and (ii) macro and micro simulations of tax policy measures using a Computable General Equilibrium Model (CGEM). The effective use of these tools is expected to inform Government decision making and improve the quality of the debate and reporting on tax policy. The strengthening of the statistical system supported by the proposed operation is also expected to facilitate the updating of these tools.

37. This sub-component will finance the following activities:

i. Elaboration of a tax forecasting module in MADMOC-BI to provide detailed tax revenue forecasts (US$300,000); and
ii. Elaboration of a Computable General Equilibrium Model for macro and micro simulation of economic policy (US$500,000).

Subcomponent 1.3: Modernization of the Tax Administration via an Integrated Tax Administration System and Risk-Based Audit Management System (US$9 million)

38. Design and implementation of an Integrated Tax Administration System (ITAS) is critical to enhance the modernization of tax operations. The OBR has successfully established the ASYCUDA system in mid-2013, allowing for better customs revenue management. However, there is currently no equivalent system for domestic tax management (a similar system, SIGTAS, was procured several years ago but its implementation almost entirely failed due to the service provider going bankrupt) and the employees continue to use a manual file management system.

39. This sub-component will finance the following activities:

i. Validation of the ICT readiness diagnostic elaborated by the IT advisor (US$10,000);
ii. Technical Assistance to the Domestic Tax Department to update its modernization strategy and skills-development for the ITAS project management team (US$200,000);
iii. Purchase of the ITAS solution, in line with OBRs business requirements, including TA to the ITAS Project Committee for the development of customized bidding documents and support for IT infrastructure (US$7.8 million); and
iv. Training modules to provide OBR staff with ITAS environment skills including change management process and activities (US$500,000).

40. Tax audit capacity building for OBR staff is imperative to conduct the different audit types (best practices) adopted in line with the profession's Code of Conduct. Accordingly, this sub-component will also support the development of a risk-based audit management system, which will feed into the design and implementation of the new ITAS. This is expected to strengthen revenue mobilization as well as improve the business environment, since audits/controls significantly affect taxpayers in terms of time and resources.

41. This sub-component will finance the following activity:

v. TA to develop a risk-based audit system (US$200,000);

42. Strengthening OBR's tax administration functions implies deployment of additional human resources outside the capital. The OBR Strategy sets the target to double the number of national taxpayers over the 2015-2020 period from 20,000 to 40,000. Four tax offices (*Ressorts*) have been established in the regions (North, Centre-East, South, and West), but less than 2000 taxpayers are effectively being monitored by the Tax Department. To address this challenge, OBR plans to streamline the Tax Department's organizational structure in the regions. Strengthening the human resources and functions of regional offices is also expected to improve tax compliance with the new mining regulations, given the concentration of mining activities in the provinces. However, a diagnostic survey undertaken during project preparation (see Annex 8 has shown that such a move might generate resistance by communes, and be perceived as central Government intrusion over their (autonomous) fiscal space. To mitigate this risk, this sub-component will link TA to reinforce OBR presence outside Bujumbura to training and outreach initiatives toward communes, to promote collaboration and information sharing on tax administration issues.

43. This sub-component will finance the following activities:

vi. Technical assistance to strengthen human resources in regional offices, providing small equipment and training for selected OBR staff (US$190,000); and

vii. Support to communication campaigns and information sharing initiatives to promote synergies and collaboration between OBR and communes on local tax administration issues (US$100,000).

Subcomponent 1.4: Improve Revenue Collection Practices from the Mining Sector (US$900,000)

44. Sources of revenue from productive sectors, like mining, need to be better integrated into the tax administration system, in line with the updated mining policy. A diagnostic study for the implementation of the EITI in Burundi identified weaknesses in tax administration of mining revenues. As a consequence, mining exports are under-reported and their values underestimated, with significant revenue losses to the Government. To address this challenge, corrective measures will be implemented following the recommendations of the tax audit of the value chain, including establishment of mining tax nomenclature to guide OBR in its collection strategy with mining operators, enhanced communication as well as information-sharing between the Ministry of Energy and Minerals (MEM) and OBR on data relevant to collection (registered operators and monthly production statistics).

45. This sub-component will finance the following activities:

i. TA to conduct a tax audit of the mining value chain (US$100,000);
ii. Improvement of institutional and administrative capacity of the OBR and MEM based on the findings of the audit (US$550,000);
iii. Training for OBR and MEM officers in the principles of mining taxation and accounting principles (US$100,000); and
iv. Revision of the mineral tax policies and regulations as well as design and dissemination of a revised guide on the Mining Code, Mining Regulations and associated Mining Tax Policies (US$150,000).

Component 2: Strengthening Public Expenditure Management and Control; Project Management (US$8.9 million equivalent)

Sub-component 2.1: Strengthening Capacity to Plan, Coordinate, and Build Consensus on the Implementation of the Government's Public Finance Reforms (US$5.2 million)

46. This subcomponent aims to provide strategic and technical support to the Public Finance Reform Implementation Unit (*Cellul`e d'Appui Chargée de Réformes)* to implement the priority public finance reforms. The Cellule is a permanent structure within the MFPDE in charge of technical coordination as well as effective monitoring and oversight of all activities related to the public finance reform process, as defined in the Government's PFM strategy.

47. Resources under this component will be used to hire international experts that will support national staff of the Cellule and facilitate the PFM implementation as well as enhance donor coordination. In Burundi there is a well-established tradition of donor support to PFM reform. In particular, tax policy and tax administration are supported by the IMF, USAID, and TMEA (the latter focusing on customs administration); budget preparation and execution is supported by EU, IMF, AfDB and the Netherlands; and UNDP and the Belgium Technical Cooperation (CTB) cover budget control and procurement areas, respectively (Annex 7 provides a detailed mapping of current donor support). To monitor progress on PFM reform and improve donor coordination, a monitoring and evaluation expert will be hired and is expected to enhance both quality and timelines of the quarterly progress reports produced by the MFPDE on the PFM strategy implementation process. An expert on program-based budgeting will also be hired to build strong consensus around the advantages of the reform and the critical milestones required for its successful implementation. A small team of national experts will also be established under the Cellule to manage the implementation of the project activities, including a national project manager (*gestionnaire de projet),* an accountant, a procurement specialist, a treasurer, a financial and administration specialist, and one administrative assistant. The Project Implementation Unit will be supervised by the Project Manager, and staff costs will be financed by the project (Annex 3 provides additional details on implementation arrangements).

48. This sub-component will also support access to (and management of) a demand-driven facility to finance diagnostics and analytical works that might become warranted to inform and guide the reform agenda. The purpose of the facility is twofold: (i) to give the project the flexibility needed to adapt to unforeseen changes in circumstances or Government needs; (ii) to make sure that the project truly meets the needs of its ultimate beneficiaries, fostering effective participation by all implementing agencies involved. To prevent abuses, access to the demand-driven funds will be strictly limited to interventions that are fully aligned with the project's development objectives and results, as well as instrumental to move forward the policy dialogue, focusing on reform areas that will be supported under the next Development Policy Operation series.

49. This sub-component will finance the following activities:

i. The provision of national and international experts to strengthen human resources of the Cellule, as well as the operating costs of the Project Implementation Unit (US$2.2 million); and
ii. Support the Cellule to promote access to (and management of) a series of demand-driven studies (US$3 million).

Sub-component 2.2: Enhanced Functionality and Use of the New Integrated Public Financial Management Systems (US$1.2 million)

50. This sub-component will support the roll-out of the new IFMIS software with targeted training, linked to measurable results. Starting from 2015, the Government of Burundi will introduce a new, five-module IFMIS software, which includes: (i) a budget management module; (ii) a payment management and monitoring module; (iii) a public procurement management module; (iv) a public expenditure management and monitoring module; and (v) an asset management and monitoring module. The software will be interfaced with all remaining systems such as the treasury, tax administration, customs, and the integrated HR system. At the moment, the interconnection of all these systems has not been completed and their functionalities are still to be tested and further developed. Human resources also need to be strengthened as there is still little familiarity with the new IFMIS.

51. This sub-component will finance the following activities:

i. Undertake an IT and functional audit of the new Integrated Financial Management Information System (IFMIS) (US$100,000);
ii. Provide end-user training for selected Government departments for the roll-out of IFMIS five core modules (US$700,000); and

iii. Strengthening human resources of the IT Department at MFPDE (US$400,000*).*

Sub-component 2.3: Establishing the Building Blocks for the Implementation of a Program-based Budget (US$1 million)

52. Program-based Budget (PB) implementation is a long-term endeavor: The adoption of PB requires implementation of structural reforms in public finances, affecting, namely, the institutional, organizational, and administrative plan of sector ministries, as well as the function and role of Ministry of Finance itself. Accordingly, this sub-component will support an incremental and programmatic approach that will focus on creating an adequate 'enabling environment' and pilot the reform in three selected ministries.

53. This sub-component will support the following activities:

i. Technical assistance to carry out a diagnostic study on the general institutional and technical framework for a Program-based Budget (US$100,000);
ii. Technical support to MFPDE and selected line ministries to adopt program-based budgeting and ensure its adequate implementation and monitoring (US$700,000); and
iii. Technical assistance to MFPDE Public Finance Implementation Unit (Cellule) to build a communications strategy targeting sector ministries as well as oversight institutions to raise awareness on Program-based Budget implementation requirements (US$200,000).

Sub-component 2.4: Strengthening External Audit and Control Functions (US$1.5 million)

54. The main objective of this sub-component is to strengthen the capacity of the Court of Auditors ***(Cour des Comptes - CdC)*** to enable it to conduct regular financial audits, monitor performance and compliance, and optimize resources in line with international auditing standards.

55. This sub-component will finance the following activities:

i. Strengthen the institutional framework of the court through conducting an organizational audit to improve the legal and regulatory framework, and gain admission into INTOSAI (US$100,000);
ii. Develop and implement a training plan for the controllers and support staff, in accordance with International Standards on Auditing (ISSAI) (US$500,000);
iii. Strengthen archiving systems and website to broadcast regular audit missions reports in order to reach a wider audience (US$80,000);
iv. Acquisition of equipment and tools necessary for the functioning of the CdC (US$300,000); and
v. Strengthen coordination between the CdC and the Parliament (National Assembly and Senate) by improving communication and outreach (US$20,000).

56. A second objective of this sub-component is to support the National Accountancy Body (OPC) to enhance the quality of financial information (accounting and audit) across both the public and the private sector. This sub-component will finance the implementation of the Action Plan Report on Observance of Standards and Codes - Accounting and Auditing (ROSC A&A) prepared jointly by the Government and the World Bank in 2013. The implementation of this Action Plan will ensure the quality of accounting education, accreditation of qualified professionals, the quality of professional practice, and compliance with accounting and auditing standards as defined by international standards.

57. This sub-component will finance the following activities:

i. Development of a national qualification curriculum with international recognition to increase the number of required professional accountants and auditors in the country (US$200,000);
ii. Development and implementation of a continuous professional development plan, which will be made mandatory for all members of the profession in line with international standards (US$200,000); and
iii. Establishment of a control system to ensure the quality of professional practices (accounting and audit) (US$100,000).

Component 3: Improving ISTEEBU's Institutional Capacity (US$3.3 million equivalent)

Subcomponent 3.1: Promote a Results-Based Management System to Strengthen ISTEEBU's performance (US$500,000)

58. The objective of this sub-component is two-fold: (i) establish a robust framework and action plan for statistical capacity building by supporting the design of the new NSDS strategy (2015-2020) in collaboration with other partners such as the Partnership in Statistics for Development in the 21st Century (PARIS21); and (ii) provide technical assistance to develop, implement, and monitor a business plan of annual activities. Specifically, the project will support ISTEEBU to strengthen the capacity of the department in charge of this exercise, as well as its monitoring and evaluation. It is expected that this programming and will help ISTEEBU to improve corporate performance and make a stronger case to justify the request of additional financing for the production and dissemination of statistics (currently 80 percent of ISTEEBU's budget covers salaries).

59. This sub-component will finance the following activities:

i. Training modules on result-based performance management targeting senior and middle management (US$150,000);
ii. Support the design of the second National Strategy for the Development of Statistics (US$100,000); and
iii. Support the design, implementation, and monitoring of annual work plans (US$250,000).

Sub-component 3.2: Strengthen ISTEEBU's Human Resource Management System (US$1 million)

60. This sub-component aims to support ISTEEBU in designing and implementing an effective human resources management system, including performance appraisal mechanisms and a system of non-monetary incentives to motivate staff. The focus on better career planning and employee compensation based on performance appears particularly relevant in the context of the new mandate of ISTEEBU to recruit and train new statisticians, who will be deployed in all national departments and agencies producing statistics.

61. This sub-component will finance the following activities:

i. Undertake a functional and organizational review to address the structural HRM problem (US$100,000);
ii. Introduction of a performance appraisal system and incentive mechanisms for individual staff (US$400,000); and
iii. Training modules to promote career development of Statisticians (US$500,000).

Sub-component 3.3: Improve the Quality of Statistics and Support the Production of Timely Data (US$1.3 million)

62. This sub-component aims to provide targeted technical assistance to improve the quality and timeliness of core socio-economic statistics produced by ISTEEBU. The support from the project to carry out those activities is expected to decrease over the years, following higher contributions from the Government budget based on monitorable results. Subsidies from the Government are expected to fill the increasing gap created by the diminishing resources from the project.

63. This sub-component will finance the following activities:

i. Production of timely and quality national accounts statistics (US$700,000);
ii. Production of price statistics (US$300,000); and
iii. Production of external trade statistics (US$300,000).

Sub-component 3.4: Improve Data Access and Dissemination of National Statistics and Micro Data (US$500,000)

64. The objective of this component is to increase the access to (and use of) statistical data and promote user satisfaction vis-à-vis ISTEEBU as statistics producer. Accordingly, this subcomponent will support efforts to disseminate all official statistics (data and metadata) produced by ISTEEBU as well as by other members of the national statistical system. Moreover, an open data portal for the diffusion of anonymized micro data from surveys and a platform for users to provide feedback on the quality of the national statistical system products will be created. This will be achieved in collaboration with the World Bank "Open Data Initiative" as well as with PARIS21.

65. This sub-component will finance the following activities:

i. Revamp the ISTEEBU website and support IT connectivity (US$150,000)
ii. Roll out the Accelerated Data Program initiative, including TA for the creation and maintenance of web-based National Data Archive (US$100,000)
iii. Support the operating costs of a small-scale printing unit (US$100,000);
iv. Undertake a nation-wide user satisfaction survey (US$50,000); and
v. Regular and timely production of yearbooks and statistical bulletins (US$50,000)
vi. Organization of "open days" for statistics and support to the celebration of the African Day for Statistics (US$50,000).

Component 4: Improving Mining Regulatory Capacity and Practices (US$3.6 million equivalent)

Sub-component 4.1: Support Organizational Reforms at the Ministry of Energy and Mining (US$1.5 million)

66. **This sub-component will support a functional review and re-organization of MEM's selected departments** (Department of Mines and the Department of Geology, plus a third one based on the Ministry's revised organogram) to better align its institutional structure to the new regulatory framework and policies defined in the 2013 Mining Code. Following the functional review, the project will focus on selected activities identified under the Action Plan, most likely where other donors are not currently engaged, particularly in the functioning of the *Direction de Géologie et des Mines*, with emphasis on the *Départment des Mines et Carrières*, due to its central role played in mine regulation. The ability of the MEM to effectively communicate to both internal and external audiences the state of the mining sector is also critical to ensure future investment and revenues. This sub-component will therefore support the design and the implementation of a communications strategy.

67. **This sub-component will finance the following activities:**

i. Undertake functional reviews and provide limited equipment for selected Departments in the MEM concerned with mining (US$400,000)
ii. Strengthen human resources of the "Direction de Géologie et des Mines" with targeted training programs (US$400,000);
iii. Provide IT connectivity and minor refurbishment of MEM offices (US$400,000);
iv. Design and implement a communication strategy and maintain Ministry website (US$200,000); and
v. Support to the negotiation of mining conventions and contracts (US$100,000).

Sub-component 4.2: Establishing Regulatory Guidelines for ASM Operations and Ensuring their Enforcement (US$1 million)

68. **The new Mining Code and Mining Regulations gives overall responsibility for mining inspections to the *Départment des Mines et Carrières*.** This sub-component intends to build the mine inspection capacity of the ministry by supporting the development of a mines inspection manual, aligned to international best practice on ASM, with accompanying enforcement protocols. This sub-component will also support design of standard protocols to ensure that when infractions in mine standards are found, appropriate remedial measures are taken by operators.

69. **This sub-component will finance the following activities:**

i. Develop/update specific ASM regulations, mining cooperative guidelines, gender guidelines, and protocols for inspection by the ministry of mines (US$400,000);
ii. Provide training on ASM best practices, including through the organization of regional workshops and study tours (US$350,000); and
iii. Provide necessary equipment for inspections for MEM deconcentrated offices (US$250,000).

Sub-component 4.3: Improving Mining Data Transparency (US$1.1 million)

70. The Project will fund the *Départment des Mines et Carrières* to gather, verify and communicate necessary data on the sector. Specifically, the Project will fund the development of a mining sector database—a requirement of EITI as well as of other regional and international norms on transparency in extractives—that will provide production and mine site data alongside revenues and fees generated from the sector. The purpose is to maintain an accurate understanding of the scope of the sector for policy planning purposes, and to communicate the sector's potential with relevant Ministries and agencies, such as OBR. This component will also support South-South knowledge exchanges and study tours to expose the Ministry to new technologies and mining practices, while also promoting the sector to private investment companies.

71. This sub-component will finance the following activities:

i. Support to mineral traceability systems (US$600,000);
ii. Establish and maintain mineral database (US$400,000); and
iii. Support South-South exchanges and study tours (US$100,000).

B. Project Financing

72. The total cost of the proposed project is US$27.2 million financed by an Investment Project Financing (IPF) of US$22 million equivalent IDA Grant and US$5.2 million equivalent Multi-Donor Trust Fund (MDTF) from the Government of Belgium.

Table 1: Project funding and allocations by component (US$ million)

Component	Total Project Cost (US$ millions)	IDA Financing	MDTF[3] Financing	%
1. Modernizing Revenue Policy and Administration	11.4	6.2	5.2	100%
2. Strengthening Public Expenditure Management and Control; Project Management	8.9	8.9	0	100%
3. Improving ISTEEBU Institutional Capacity	3.3	3.3	0	100%
4. Improving Mining Regulatory Capacity and Practices	3.6	3.6	0	100%
Total baseline Costs	27.2	22	5.2	100%
Price and physical contingencies	0	0	0	
Total Project Costs	27.2	22	5.2	100%
Total financing required	**27.2**	**22**	**5.2**	**100 %**

[3] The MDTF includes a 6 million Euros contribution by the Government of Belgium, which is currently the only Co-Financier of the project for Component 1. The Administration Agreement is expected to be signed soon. The total Belgium contribution includes both Recipient-Executed (RE) activities and Bank-Executed (BE) activities. Specifically, a Grant agreement for 4.9 million Euros will soon be signed with the Government of Burundi to co-finance activities under component 1 of the project. (This is equivalent to approximately US$5.2 million, using the Euro/Dollar exchange rate as of March 15, 2015). Complementary technical assistance will also be provided by the Bank by executing activities, studies and advisory services for 800,000 Euros (equivalent to approximately US$840,000). Dialogue is ongoing with other donors (including EU and the Netherlands) that might consider joining the MDTF in the future.

C. Lessons Learned and Reflected in the Project Design

73. In a low-capacity and fragile environment, project implementation arrangements and organizational structures are critical and should be kept as simple as possible. As highlighted in the 2015 PLR, multi-sectoral intervention may involve complex levels of organizational management[4] and can lead to confusion in the lines of authority if there is lack of clarity and coordination, affecting the overall performance of the project. Drawing on this lesson, the proposed project will be anchored in the Ministry of Finance and Economic Development Planning, and the *Cellule* will be in charge of project management. The Ministry is the main contact point for most donors, including the World Bank, and has extensive experience with managing development projects. "Focal points" from each implementing agency will further strengthen the project oversight structure, contributing to timely implementation of project activities.

74. Ensure complementarity and division of labor with Development Partners is critical to maximize impact and avoid duplication of efforts. Previous experience from fragile states has also shown that close donor coordination and alignment to Government development objectives is extremely important for the success of reforms, as cohesion among donors helps to maintain focus and resources on reforms. Drawing on this lesson, ongoing support provided by other partners has been taken into account and reflected in the project design, to maximize synergies and complementarities of development objectives.

75. Sustained Government commitment and multi-stakeholder engagement is essential to ensure successful implementation of reforms. Experience shows that the design of reforms by the Government itself contributes to a high degree of ownership and helps accelerate implementation of these reforms. For this reason, the activities supported under the project are fully aligned with the priorities identified by Government strategies, including: the PFM strategy, the OBR Phase-II reform program, the NSDS strategy, and the draft strategy prepared by the Ministry of Energies and Mines. Moreover, lessons from the 2011 WDR on fragile states show that reforms have more probability of success when space for understanding and acceptance is created. Taking advantage of this lesson, the project has made provisions for a communication specialist to support the Government efforts to build understanding and broad consensus on the advantages of the reform initiatives supported by the project.

76. Flexibility in project formulation does not diminish the need for rigor in design, to maximize selectivity and overall internal coherence. As indicated in the 2012 IEG review, economic governance and PSR projects prepared in post-conflict and fragile environments tend to be constructed with emphasis on providing a flexible vehicle to address a variety of sectoral and institutional needs. However, experience shows that this legitimate orientation to maximize the number of feasible interventions needs to be balanced by a realistic assessment of existing capacity, avoiding over-ambitious design, which can compromise internal coherence. Drawing on this lesson, the design of the proposed operation has adopted a problem driven approach that

[4] For example, in the case of the EMSP/PAGE project, the quality of implementation was affected by the choice to assign broad management responsibilities at the level of the inter-Ministerial Project Steering Committee (PSC). Eventually, the PSC did not hold any meetings until the time the Mid-term Review mission took place. These circumstances not only caused significant delays at implementation, but also seriously undermined the overall coherence of the project activities and made it difficult to take any corrective actions before restructuring (as the ultimate responsibility for this was assigned precisely to the PSC).

focuses on key institutional and technical issues that are aligned with Government priorities and expected to support the next Development Policy Operation series.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

77. The Ministry of Finance and Economic Development Planning (MFPDE) will have the overall technical responsibility for the project via the Public Finance Reform Implementation Unit (*Cellule d'Appui au Suivi des Réformes*) created by ministerial decree (*Ordonnance Ministérielle Nº 540/793 du 15 Juin 2009*) and reconfirmed by presidential decree (*Décret Présidentiel N. 100/223 du 22 Aout 2012*). For the purposes of this IDA-financed operation, the Cellule will ensure technical coordination and effective oversight of all activities related to the Public finance reform progress and will evaluate progress on the reforms supported under this project (Annex 3 provides details on the implementation arrangements and Cellule responsibilities).

78. A program coordinator (*Coordonnateur de la Cellule*) who is a senior expert in macro-fiscal and public finance reforms is responsible for the overall work program of the Cellule. The program coordinator reports to the Permanent Secretary of the MFPDE. Additional national staff will be recruited on a competitive basis and will join the cellule, working full-time on the Bank project, including: (i) a project manager (*gestionnaire de projet*); (ii) a procurement specialist; (iii) a financial and administration specialist; (iv) a treasurer; (v) an accountant; (vi) a monitoring and evaluation specialist; and (vii) an administrative assistant. In addition, the project will finance a "task force" composed of high-level national and/or international experts to support the Cellule at the strategic level on a need-basis, including a Monitoring and Evaluation expert and an expert on program-based budget.

79. A Technical Steering Committee will be established to provide strategic oversight of all the project activities. The Steering Committee will be chaired by the Permanent Secretary of the MFPED with the technical support of the Cellule, and will consist of the respective technical leadership of all the implementing agencies in charge of executing the project's activities, namely: the Commissioner General of the OBR; the Director of the Department of Fiscal Policy and the Director of Programming and Budget at MFPED; the General Director of ISTEEBU, the Permanent Secretary of the Ministry of Energy and Mines; and the President of the Court of Auditors. The Technical Committee will be supported by "focal points" designated by their respective institutions. The focal points will be directly involved in the project activities and will facilitate their day-to-day management and monitoring by establishing regular channels of communications and exchanges between the Cellule and the beneficiaries. All focal points have already been officially designated, and are currently supporting implementation of project activities under the Project Preparation Facility (PPF).

80. The Project Implementation Manual (PIM) will define the roles and responsibilities of each stakeholder in the project including the relationship between institutions, rules, and procedures, as well as processing times to react to specific requests from the Bank or the Government. The PIM is currently under preparation and will be finalized by the Cellule, in close collaboration with the beneficiaries, before project effectiveness. A national consultant will be hired to finalize the draft PIM in consultation with the project's implementing agencies, as well as facilitate its validation by promoting full ownership of its content by all the stakeholders involved.

B. Results Monitoring and Evaluation

81. The Cellule will also include an M&E Specialist responsible for monitoring and reporting on project results, including the method, data source, and frequency of reporting for each project indicator. The project monitoring system will use administrative data from the responsible entities to be provided with support from the focal points that have been identified within each of the targeted entities. In this way, the project will help reinforce monitoring capacity within each of the targeted departments and agencies.

82. For accountability purposes, the Cellule is committed to provide regular reports to the Government of Burundi as well as the World Bank. The World Bank will undertake regular supervision missions and ensure that key findings resulting from such visits are fully implemented to improve the overall project performance. A mid-term review will be carried out and the findings and recommendations will be used to improve project performance, effectiveness, and efficiency. The M&E expert will also produce semi-annual reports that will be posted on a dedicated project webpage, hosted on the MFPDE website, with the latest data for each indicator made available to the project's beneficiaries and relevant stakeholders.

C. Sustainability

83. Sustainability is a key concern of this project, and is related to the medium-term impact of improvements in IT systems and investments in human capital made through the project intervention. Accordingly, three factors that can enhance sustainability have been reflected in project design:

a. First, through targeted support for – and partnership with – local training centers, structures are in place to put capacity-building initiatives and skills acquisition on a sustainable footing.

b. Second, the project is also investing in enhancing the capacity of Government staff to administer and monitor reform programs supported by Bank and other donors, rather than looking to use external consultants and project implementation units as a quick short-term fix for gaps in implementation capacity. The support to the Cellule within the MFPDE illustrates this strategic approach.

c. Third, to ensure that investments in equipment and IT infrastructure are sustainable, the Government will also need to provide sufficient resources for the operation and maintenance of equipment. The Government recognizes this challenge, and is confident that with the expected improvements in fiscal management supported by the project, such costs will be manageable and will be provided for through normal budgetary operations. With regard to semi-autonomous agencies (i.e. ISTEEBU, OBR) and external bodies (Court of Auditors), the Ministry of Finance has welcomed the proposal to link increased budget allocations to results shown under the lifecycle of the project.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

Risk Categories	
1. Political and Governance	Substantial
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Moderate
Overall	**Substantial**

84. The main risks to the proposed operation are related to its multi-sectoral design and its scope, with several implementing agencies involved. While a multi-sectoral capacity-building project can act as a flexible pool of funding to support a broader reform process, this can undermine the project's internal cohesion, ultimately affecting the quality of the implementation. Moreover, the scope might be over-ambitious given the limited capacity and the resources available. To mitigate these risks, the design of the project has been carefully streamlined, with only two ministries involved (MFPDE and MEM, respectively). Moreover, implementing agencies have been strategically selected, which are either under the *tutelle* of the Ministry of Finance (i.e. OBR, ISTEBU) or are instrumental to achieve the project objectives (Court of Auditors). In addition, the project will establish an efficient strategic oversight structure (anchoring the Project implementation Unit within the Cellule at MFPDE) and will complement it with a Technical Steering Committee and "focal points" designated by all beneficiaries to improve overall coordination. Project preparation activities have been used to promote these institutional arrangements. Direct support will also be provided by the Bank through project components, supervision activities and the establishment of clear reporting and accountability mechanisms.

85. At the country level, risks of political instability are re-surfacing as 2015 elections approach, but dialogue with the opposition remains open and changes to reform priorities are unlikely. The ruling party and opposition agreed on a roadmap for the elections scheduled in mid-2015 and adopted a revised electoral code (Law No. 1/20 of June 3, 2014) to prevent fraud and ensure the integrity of the election process. Dialogue with the opposition parties is ongoing and chances for social unrest are relatively low, as long as the election process is perceived as free and fair. Moreover, the project targets reform areas, which reflect broad consensus among national policy-makers (irrespective of political affiliation), and deemed to be crucial for the country's development objectives. Therefore, a change of Government is unlikely to generate new priorities and detract attention from the proposed operation. Finally, the availability of PPF financing will continue to help the Government to advance key activities, mitigating the impact of potential delays in project effectiveness due to the election period.

86. At the project level, delays in the adoption of critical laws and enacting decrees/regulations combined with the lack of absorptive capacity at the level of implementing agencies might undermine progress at implementation stage. This is the case, for example, of mining regulations (expected to be approved by June 2015), whose adoption is critical to allow implementation of several activities under the mining component. Likewise, delays in the adoption of the new legal framework for the Court of Auditors might affect the scope of activities targeting this institution, and delays in the approval of the law on commune finances (*loi de finances communales*) might undermine the opportunities to establish better collaboration and synergies between OBR and communes on local tax administration. These risks are mitigated by sequencing the project activities (focusing on activities that can be fully implemented under the existing framework) and linking the project to the policy reform areas to be supported under the next DPO series, as a way to maximize Bank leverage. To mitigate the risk of absorptive capacity, efforts have been made to select most urgent TA requirements and properly sequence a limited number of activities under each sub-component.

87. The procurement of a new ITAS for OBR presents technical challenges, which if not addressed could lead to the inadequacy of the procured system. Given the highly technical and complex nature of an ITAS – as well as the large size of the procurement (US$7.5 million), neither the Cellule nor the beneficiary agency (OBR) have the technical capacity to prepare complex bidding documentation (TORs, user requirements, etc.) and – consequently - assess the technical adequacy of the bids, which can produce major implementation delays. To mitigate these risks, the project will hire an international consultant with both revenue administration and ICT expertise to assist OBR with the drafting of bidding documentation and with the technical review of bids submitted for the ITAS procurement. The beneficiary agency (OBR) retains the leading technical role in defining bidding documentation and assessing bids submitted in coordination with the *Cellule*.

88. Overall, this remains a challenging intervention with substantial risks. The structural weaknesses in the governance of public sector institutions are largely exogenous to this operation and unlikely to change in the short-term. Accordingly, this is an additional reason to limit the scope of the project to a small number of selected ministries (namely, MFPDE and MEM) and implementing agencies (ISTEEBU, OBR, Court of Auditors) as well as to monitor progress through close engagement and supervision.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

Expected Benefits and Costs of the Project

89. The centrality of improved fiscal management to sustain the Government's ambitious development objectives means the potential benefits of the project are substantial and diverse. At the most direct level, they include greater fiscal space and more sustainable public finances, more efficient management of funds, and improved allocation of those funds that is more aligned to the strategic priorities of the Government. There are other benefits that are less easy to measure and to attribute, but are nonetheless significant. These include increased accountability of Government to taxpayers, more efficient allocation of resources to priority sectors, reduced risk of future aid dependency, and a more transparent and effective system for managing revenues from the mining sector.

90. Given that about 40 percent of the project funding will be allocated to improve Tax Policy and Administration, the financial analysis focuses on this component. The results of the analysis (see Annex 9) show that strengthening tax policy and administration will act as a catalyst to generate significant fiscal space for the Government of Burundi. This increase in revenue collection is estimated at a total value of US$148 million over a 10 year period. The Internal Rate of Return (IRR) for this component alone, in real terms, is 76 percent and the financial real Net Present Value (NPV) at a 6 percent discount rate reaches US$83 million. Even with more conservative estimates, and a higher discount rate, the returns significantly exceed the cost of the initial investment.

91. In addition to generating financial benefits for the Government, the project will also create a number of economic benefits that will make the society as a whole better off. While direct attribution of economic benefits is difficult, potential benefits include: (i) improved business environment through increased stability and predictability of tax policy; (ii) greater efficiency in revenue mobilization (lower costs to the tax authorities); (iii) reduction in compliance costs for the taxpayer (mainly existing and large tax payers); (iv) improved efficiency in the management of public spending through more strategic allocation of resources; and (v) decreased leakages as a result of improvements to external audit and oversight functions.

92. While some of the above benefits are difficult to measure, assumptions can be made to allow an estimation of their respective impact. Based on these assumptions, the results of the economic analysis (See Annex 9) indicate that the project is economically desirable with an estimated IRR of 17 percent and a NPV of US$11.6 million over a 10 year period.

Rationale for Public Sector Provision/Financing

93. Enhancing the quality of public sector governance and strengthening its capacity to mobilize revenues and effectively manage and allocate public resources is an essential condition to unlock the growth potential of Burundi, attract private investments, and ensure that natural resource endowments can successfully be translated into sustainable growth. The Government of Burundi is making efforts to put in place targeted social programs to reduce poverty and improve service delivery outcomes. Yet the delivery of these programs depends on a public sector which can plan, budget, execute, and account for public resources in an effective manner. In particular, support to strengthen tax policy and administration functions will generate resources needed to finance public expenditure programs that promote economic growth and target poverty reduction. Likewise, the effort to strengthen the national statistics system will provide the evidence required to promote effective pro-poor policies. This in turn is expected to contribute to the Bank's twin goals to boost shared prosperity and reduce extreme poverty.

Value Added of Bank's Support

94. The technical capacity and convening power of the Bank are key reasons for it to play a central role in supporting the Government. Given the direct alignment with the future Development Policy Operation series, this intervention offers the opportunity for the Bank to strengthen and sustain a policy dialogue on critical public sector management reform issues that could significantly improve the capability and performance of the Government. Meanwhile, the scope of Bank interventions will be selective and limited to strengthening key agencies and ministries to improve fiscal management. Hence, this operation should not be seen in isolation but as a firm commitment of the Bank to support Government reform efforts in a gradual and incremental manner, by ensuring results that might be scaled up to other agencies and ministries in the future. Moreover, the Bank is supporting institutional reforms in other sectors, including among others, energy, health, coffee, and agriculture. The proposed operation will therefore offer the opportunity for the Government of Burundi to have a more comprehensive engagement with the Bank on building state effectiveness and promoting economic governance reforms.

B. Technical

95. The design of the project carefully builds on lessons learned from previous capacity-building operations in Burundi, as well as findings from a rich set of diagnostics and analytical works undertaken by the Bank in collaboration with the Government and development partners (Table A2-1). Building on this advisory work, the design of this project has been informed by an intense process of policy dialogue around key aspects of public sector reforms, and detailed consultations have taken place with the counterparts on each of the constituent components of the project. The project also includes an allocation for a demand-driven facility to finance the design and implementation of strategic studies required to support the policy dialogue in a flexible manner.

96. The design of the project reflects ongoing efforts to develop multi-sectoral interventions that can effectively mobilize global expertise, and provide more integrated solutions to the client. Key lessons from the 2015 PLR suggest the need for more ambitious Bank engagement in Burundi, through support for transformational reform programs and more integrated, multi-sectoral interventions. Drawing on these lessons, the design of this project reflects close collaboration across five Global Practices[5], in the effort to mainstream and embed sectoral perspectives into a technically sound and operationally coherent approach to sustain the Government's ambitious reform agenda.

97. The selected areas covered under the project are expected to inform and support the design of a new series of programmatic Development Policy Operations. A 2014 IEG report suggests that regular and predictable budget support is most effective when the reforms have been complemented by related investment lending and technical assistance. While it is premature to define the program to be supported by future DPOs, discussions with the authorities have been initiated on possible areas of reforms. A focus on efficiency and transparency in public finance management is among the most likely areas of support for the new series.

98. Ongoing support provided by other partners has been taken into account to maximize synergies and complementarities of development objectives. In addition to the contribution of the Government of Belgium to co-finance the Tax Policy and Tax Administration component, close coordination has been developed with the IMF and TMEA to finalize the design of this component, and avoid overlapping with their respective interventions. Activities on the PFM component have been designed in light of existing donor support on PFM. The statistics

[5] Specifically, this operation is jointly managed by the Governance (GGODR) and Macro-Fiscal Management (GFMDR) Global Practices, with technical support from the Poverty (GPVDR), Trade and Competitiveness (GTCDR), and Energy & Extractives (GEEDR) Global Practices.

component complements ongoing support for specific surveys, such as AfDB support to conduct a national survey on household consumption and technical assistance on the methodology of the quarterly surveys on economic outlook from the Economic and Statistics Observatory for Sub-Saharan Africa (AFRISTAT). Finally, the design of the mining sector component also benefited from close partnership and coordination with other development partners (e.g. GIZ, UNDP), and efforts have been made to selectively focus on activities that fill critical gaps (See Annex 7 for details on existing donor support in PFM and mining sector reform).

C. Financial Management

99. As part of the Project preparation, a financial management assessment of the Cellule was carried out. The objective of the assessment was to determine whether: (i) this unit has adequate financial management arrangements to ensure that project funds will be used for purposes intended in an efficient and economical way; (ii) project financial reports will be prepared in an accurate, reliable, and timely manner; and (iii) the project's assets will be safeguarded. The financial management (FM) assessment was carried out in accordance with the Financial Management Practices Manual issued by the Financial Management Sector Board on November 3, 2005, revised in March 2010. In this regard, a review of the FM existing system (budgeting, staffing, financial accounting, financial reporting, funds flow and disbursements, and internal and external audit arrangements) at the Cellule has been completed.

100. The conclusion of the assessment was that the Cellule has limited experience in implementing IDA financed projects. This unit is currently implementing an institutional capacity building project (namely, PRECA), financed by AfDB. The financial team is composed of one Chief Accountant and one assistant accountant. The Chief Accountant has over 26 years of experience in finance and accounting of which 10 years was spent with the AfDB projects. Likewise, the Assistant Accountant has over 18 years of experience in finance and accounting of which eight years was with the IDA-PRADECS project. The unit maintains proper books of accounts which include a cash book, ledgers, journal vouchers, and a contract register through the suitable Project software "TOMPRO". They prepare the necessary records and books of accounts which adequately identify, in accordance with accepted international accounting standards and practices, the goods and services financed out of the proceeds of the AfDB Grant. It is expected that this accounting software will also be used for the implementation of this new project.

101. The assessment concluded that, the overall residual FM risk is Substantial due to the overall weak capacity context. For the purpose of this project, the current FM team will be supported by an additional qualified and experienced financial expert who will be recruited through a competitive process. The accounting, finance and administrative procedures are documented in a Project Implementation Manual (PIM), which is being prepared and will be ready by project effectiveness. It is expected that the existing software will be adapted to accommodate this new project. Training on the use of the PIM and project's software will also be organized.

D. Procurement

102. Procurement under the project will be carried out in accordance with the following World Bank guidelines: (i) *Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers* dated January 2011, revised July 2014; (ii) *Guidelines: Selection and Employment of Consultants under IBRD*

Loans and IDA Credits & Grants by World Bank Borrowers dated January 2011, revised July 2014; (iii) *Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants* dated October 15, 2006, revised January 2011; and (iv) the provisions stipulated in the Legal Agreement**.**

103. A procurement risk assessment, particularly of the project unit implementing an AfDB-funded project on similar institutional reforms, was conducted in September 2014 (and has been updated during project appraisal, in February 2015) using the Bank tool "Procurement Risk Assessment & Management System" (PRAMS).The assessment reviewed the organizational structure and functions, past experience, staff skills, procurement cycle management, quality and adequacy of supporting, and control systems and record keeping. The assessment found that even though the project implementation unit is gradually gaining experience in handling procurement from international donors like AfDB, it still has limited capacity with regard to WB procurement procedures and complex contracts like IT Systems intended to be procured in this financing.

104. The risk for procurement is rated High and would be downscaled to Substantial after implementation of the identified mitigation measures. The key procurement risks and their mitigation measures are summarized in annex 3 which details the implementation arrangements.

105. The draft procurement plan for at least the first 18 months of the project was agreed with the Borrower at appraisal and discussed prior to negotiations. During implementation, the procurement plan will be updated in agreement with the project team as required - at least annually - to reflect actual project implementation needs and improvements in institutional capacity. It will be available in the project's database and a summary will be disclosed on the Bank's external website once the project is approved by the IDA's Board of Directors.

E. Social (including Safeguards)

106. A key social impact of the proposed operation is its contribution to generating additional revenues, which can help to finance social expenditure programs that target poverty reduction. As mentioned above, tax policy has been used in the past as a tool to ensure social stability through income tax reductions as well as temporary exemptions of taxes on food products. However, these reductions and exemptions have significantly impacted domestic revenues and the Government has had to borrow from the domestic banking system to finance these expenditures. By supporting measures to increase domestic revenues, the proposed project aims to create greater fiscal space for the Government, and hence, to increase the resources available to social sectors. At the same time, by supporting solid budget planning and execution process as well as internal and external audit functions, the project simultaneously aims to improve budget allocation and prioritization toward key service delivery and social sectors.

107. Another area of significant social impact is the project's focus on ensuring that increased resources translate into inclusive development outcomes across social and income groups. Key to achieving this is strengthening the national statistics system, which will help the Government to systematically capture and track socio-economic statistics across income groups. By effectively collecting and disaggregating data, the Government will be better able to make evidence-based decisions which can inform the future development of pro-poor policies. In addition, efforts to improve the regulations and practices of the mining sector will primarily benefit artisanal and small mining operators, which can provide employment opportunities for vulnerable groups, including women and young members of rural communities.

F. Environment (including Safeguards)

108. Since the project will primarily focus on building institutional capacity and providing advisory services, environmental impact assessments are not required. The project is therefore classified under Environmental Category "C". Minor works might include the refurbishment of office space for selected implementing agencies to install adequate equipment. Such refurbishment will be done according to national and local laws and regulations. The scope of intervention in the mining sector is also limited to upstream reform and advisory services, thereby not likely to have any significant effects on the country's environment. Moreover, the new mining code includes stringent environmental regulations and safeguards, and the mining regulation under preparation will include clear provisions for environmental safeguards. Finally, results from the climate change risk assessment diagnostic undertaken during project preparation indicate that the proposed operation presents a low risk with respect to climate change or geological hazards.

G. Other safeguard policies triggered

109. No additional safeguard policies are triggered by this operation.

H. World Bank Grievance Redress

110. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the WB's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the WB's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the WB Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

STRENGTHENING INSTITUTIONAL CAPACITY FOR GOVERNMENT EFFECTIVENESS PROJECT (P149176)

Project development objective (PDO) is: To strengthen Government institutional capacity to improve fiscal management.

PDO indicators*	Core	Unit of measure	Baseline	Cumulative target values**					Frequency	Data source/ methodology	Responsibility	Description (definition, etc.)
				YR 1	YR 2	YR 3	YR 4	YR 5				
1. Improved predictability of tax policy.	☒	%	93.4% (2013)	93.4%	94%	>95%	>95%	>95 %	Annual	Budget	MFPDE Budget Department/ Department of Fiscal Policy	This indicator measures the actual aggregate revenue out-turn compared to the original approved budget, as a proxy for predictability of tax policy. This is an annual indicator, linked to the PEFA indicator PI-3.
2. Program-based budgets attached to the Finance Law and defended by sector ministries in the Parliament	☒	Number	0	0	0	1	2	3	Annual	SIGEFI/ Financial Statement	MFPDE Budget Department	This indicator measures the progress of the Burundian public financial management system toward program-based budgets for selected pilot ministries.
3. Improved production of timely and reliable statistics		Number	5	8	11	14	17	20	Annual	ISTEEBU Annual activity review reports	ISTEEBU DG office and Department in charge of Statistical Coordination	This indicator measures the number of statistical products released by ISTEEBU that meet international standards and are available to users in a timely fashion. ("Timeliness" is measured with reference to the publication deadlines defined in the ISTEEBU business program).
4. Improved management and regulatory framework in the mining sector		Qualitative	NO (no milestone achieved)	NO (Functional reviews of selected department completed)	NO (MEM website operational)	YES (Institutional reform plan implemented)	YES (Revised mining tax admin. framework in use)	YES	Annual	OBR annual report	OBR/Joint Technical Committee	This indicator measures improved governance in the mining sector through a series of institutional reform milestones: (i) adoption and use of the manual on the administration of mining tax; (ii) National data bank for mines; (iii) Establishment of a system to classify inspection

												reports of mining framework, edit the framework for mining tax collection and administration; (iv) development of regulations for artisanal and small scale (ASM); (v) creation and implementation of the Inter-Ministerial Technical Committee; (vi) establishment of the Ministry's website to be updated quarterly.
Intermediate Results Component 1: Modernizing Revenue Policy and Administration												
1.1 Tax policy measures backed by ex-ante impact analysis		%	0	0	10	20	35	50	Annual	DPF reports	DPF/ MFPDE	This indicator measures the percentage of tax policy measures adopted in a given fiscal year, following ex-ante analysis of their fiscal implications and impact on the economy (out of all measures adopted in a given fiscal year)
1.2 New tax policy measures implemented after a minimum of six months from the date of announcement to taxpayers		%	0	0	10	20	35	50	Annual	DPF reports	DPF	This indicator measures the improved stability of tax policy and its enhanced transparency and accountability vis-à-vis taxpayers
1.3 Increased taxpayer compliance	☒	%	99 % (LTO) 83 % (MTO) 60 % (SMO)	99 84% 62%	99% 85% 62%	99.5% 88% 65%	99.5% 90% 70%	99.5% 90% 70%	Annual	OBR reports	OBR	This indicator measures the share of taxpayers filing taxes on time compared to total taxpayers on the register, by taxpayer category (LTO = Large Tax Operators; MTO = Medium Tax Operators; SMO = Small Tax Operators) (Baseline: 2014)
1.4 Domestic tax revenue collected outside Bujumbura urban, out of the total domestic revenue collected in a given year	☒	%	0.80% (2014 DATA)	1	1.2	1.4	1.6	1.8	Annual	OBR reports	DPF/MF PDE	This indicator measures the strengthening of the revenue mobilization effort, while also capturing increased OBR regional presence (Domestic tax revenue to GDP ratio)

1.5 Audit Completion Ratio		%	46	48	50	55	60	65	Annual	OBR reports	OBR	This indicator measures the total number of audits completed divided by target total number of audits planned, as a proxy for improved audit efficiency as a result of implementing risk based methodologies
Intermediate Results Component 2: Strengthening Public Expenditure Management and Control; Project Management												
2.1 Reduction in the time reported to process budget requests at each stage of the expenditure chains (quarterly average)	☒	Number of Days	27 (BC) 27 (LC) 15 (VF) 12 (AT) 12 (PA) 05 (DE) (year 2014)	20 (BC) 20 (LC) 10 (VF) 10 (AT) 11 (PA) 04 DE	15 (EB) 15 (EJ) 07 (LI) 07 (OR) 10 (PA) 04 (DE)	05 (BC) 05 (LC) 04 (VF) 07 (AT) 09 (PA) 03 (DE)	03 (BC) 03 (LC) 03 (VF) 02 (AT) 09 (PA) 03 (DE)	02 (BC) 02 (LC) 02 (VF) 01 (AT) 08 (PA) 02 (DE)	Quarterly	SIGEFI expenditure Statements (module for editing processing time)	MFPDE Budget Department / IT Director	This indicator measures improvement in cash management and increased predictability in budget execution, by tracking reduction in delays for processing budget requests at each stage of the expenditure chain, as follows: (Budgetary commitment (BC), Legal commitment (LC), Verification (VF), Authorization (AT), Payment (PA) and Disbursement (DE). This indicator is the quarterly average of the daily reported processing time.
2.2 Number of beneficiaries of training courses on budget program, of which at least 80 % pass the final test/get the certificate.		Number %	0 0	0 0	20 16	40 32	60 48	80 64	annual	HRM Records on the Training needs assessment and certificates of ‘pass’ for the final written text	MFPDE Line ministries Internal/external audits agencies / Parliament	This indicator measures progress in building the skills needed for the implementation of the Budget Program .Internal written texts will need to be taken at the end of the training and passed to get training certificate.
2.3 Number of audit reports produced by the Court of Auditors conforming to *International Standards of Supreme Audit Institutions (ISSAI)*		Number	0	15	20	40	70	125	Annual	Court of Auditor annual reports	OPC in collaboration with Foreign COA	This indicator measures the increased quality of audit reports produced by the CdC.

Intermediate Results Component 3: Improving ISTEEBU Institutional Capacity												
3.1. National statistics published as per the original targets set in the annual ISTEEBU corporate program		%	0	0	50	60	75	85	Annual	ISTEEBU Corporate Program	ISTEEBU Department in charge of Statistics coordination	This indicator measures the achievements against the annual targets set by ISTEEBU's corporate program (i.e. execution rate of the ISTEBU business program). Baseline is set to "0" since no business program currently exists
3.2 Performance appraisal system and evaluation mechanisms developed and implemented for all technical employees at ISTEEBU		Qualitative	No	No	Yes	Yes	Yes	Yes	Annual	Approval note and the first HR evaluation report	Director General's office/Board	This indicator measures the adoption and implementation of a performance appraisal system and its evaluation mechanisms, as approved by the ISTEEBU's HRM Committee
3.3 Number of ISTEEBU staff trained and evaluated with satisfaction in design and analysis of statistics products, of which at least 25 % should be women	⊠	Number %	0 (25)	24 (25)	56 (25)	80 (25)	96 (25)	120 (25)	Quarterly	Report from seminars and workshops	ISTEEBU Administrative and Financial Department	This indicator measures the total number of ISTEEBU staff trained and evaluated to the satisfaction by the trainer, allowing for double-counting if staff participate in multiple workshops or training sessions. (The gender component of this indicator is a core WB indicator)
3.4 Statistics products publicly available to users through Accelerated Data Program and ISTEEBU website,		%	25	35	45	60	75	80	Annual	ISTEEBU's Website	ISTEEBU Department in charge of publications	This indicator measures data access as percentage of statistics products (Data and meta-data) posted on the ISTEEBU website (out of total statistics products published by ISTEEBU and other members of the NSS in a given year).

3.5 Beneficiaries satisfied with quality of services provided by ISTEEBU		%	22.7	30	40	50	55	60	Semi-Annual	User satisfaction surveys	Department in charge of statistics coordination at ISTEEBU	This indicator measures the % of respondents to the user satisfaction surveys who reported being satisfied with the quality of services provided by ISTEEBU, including quality of statistical production, access to data, and responsiveness to user needs
Intermediate Results Component 4: Improve Mining Regulatory Capacity and Practices												
4.1 Percentage of total (registered) ASM mines inspected on a quarterly basis according to mining regulations and mine inspection files		%	40	45	50	60	70	80	Quarterly (after Year1)	Quarterly mine inspection reports filed by Department of Mines field agents to Director of Department of Mines.	Department of Mines and Geology (MEM)	This indicator measures the percentage of registered artisanal and small-scale mines (ASM) that have been inspected on a quarterly basis.
4.2 Percentage of total remedial actions taken within 6 months from inspection reports deemed satisfactorily addressed		%	5	10	20	30	40	50	Yearly	Annual reports filed by Department of Mines field agents to Director of Department of Mines	Department of Mines and Geology (MEM)	This indicator measures the percentage of remedial actions taken by a mining operator to address health, safety or other issues found to be in contradiction of key principles in mining law and regulations.
4.3 Mineral production and taxation revenues database monthly updates completed and made available to the public.		Number (0-12)	1	1	6	10	10	12	monthly	Monthly reports submitted by operators to the Department of Mines; monthly reports from *comptoirs* submitted to Department of Mines; iTSCi datasheets	Department of Mines and Geology (MEM)	This indicator measures database updates carried out by the Department of Mines and Geology. It relies on the ITRI Ltd project on mineral traceability in the 3Ts (cassiterite, wolframite, and columbo-tantalite).

Annex 2: Detailed Project Description

1. The Project Development Objective (PDO) is to strengthen Government institutional capacity to improve fiscal management. This objective will be achieved by supporting Government efforts to mobilize domestic revenue, improve public expenditure management and controls, produce timely statistics for policy making, and improve mining sector regulatory capacity and practices.

2. The proposed operation covers selected areas deemed critical to achieve its development objectives, and its design has been informed by solid analytical work (see Table A2-1). The project is organized into four components, namely: (i) Modernizing Revenue Policy and Administration; (ii) Strengthening Public Expenditure Management and control; Project Management; (iii) Improving ISTEEBU Institutional Capacity; and (iv) Improving Mining Regulatory Capacity and Practices.

Table A2- 1: Analytical Underpinnings of the Project

Component	Analytical Underpinning
1. Modernizing Revenue Policy and Administration	--Policy Note Series (2011-2012) --Analysis and Proposals for Reforming the Regime for --Investment Incentives (IFC 2012) --Programmatic PER series (2013, 2014) --First Burundi Economic Update --Jean-Paul Bodin (2014) Burundi: Revenue Policy and --Administration Modernization: Priorities and Strategy for the --Next Steps, Final Report (TMEA/OBR Review Mission) --Public Sector Diagnostic Study on Local Revenue Mobilization (2015) --Burundi Tax Administration Business Process Re-engineering --IFC/Apex Consulting (2014)
2. Strengthening Public Expenditure Management and Control; Project Management	--PEMFAR (2008) --Policy Note Series (2011-12) --PEFA (2009; 2012) --Programmatic PER series (2013, 2014) --ROSC and AA Action Plan (2013) --EMSP/PAGE ICR (2013) --IEG evaluation on WB engagement in FCS (2014)
3. Improving ISTEEBU Institutional Capacity	Institutional Capacity Assessment Tool: A Preliminary Assessment of ISTEEBU (2014)
4. Improving Mining Regulatory Capacity and Practices.	--Extractive Industries Transparency Initiative Scoping Study (2014) --Mineral Sector Review (2014) --Artisanal and Small-Scale Mining Scoping Study (2014) --A Baseline Study on ASM Taxation Practices (2014)

3. Figure A2-1 below depicts the theory of change underlying the design of the project, translating its inputs into outcomes, and linking them to the ultimate impact the Government is striving to achieve.

Figure A2- 1: Theory of Change

Impact	Effective and accountable public institutions able to implement policies and deliver services for the benefit of the citizens of Burundi.			
Outcome	Strengthened Government institutional capacity to improve fiscal management			
	Improved predictability of tax policy and increased revenues to fund delivery of public services and improve the business environment	Improvement in policy-based budgeting to enable more strategic and sustainable allocation of resources to priority sectors	Improved production of timely and reliable statistics to foster accountability and enable evidence-based policy making	Improved mining sector governance to promote transparency, maximize its revenue potential and foster economic development
Output	**Modernizing Revenue Policy and Administration** - Tax policy measures backed by ex-ante impact analysis - Processes revised to improve tax administration and taxpayer compliance - Increased domestic tax revenue collected outside Bujumbura	**Strengthening Public expenditure management and control** - Program-based budget approved and executed by pilot ministries - improved flow of timely and accurate financial information through increased functionality of the IFMIS. - Faster processing of payment and records - skills developed for external auditing of allocation and use of public funds	**Improve Institutional Capacity of ISTEEBU** - Performance appraisal system and evaluation mechanisms developed and implemented for all employees at ISTEEBU - National statistics published as per targets set in the annual corporate program Skills development in the design and analysis of statistics products	**Improve Mining Regulatory Capacity and Practices** - functional review and re-organization of MEM's selected departments - Increased percentage of total registered mines inspected on a quarterly basis - Establishment and maintenance of national database on mineral production and taxation revenues
Inputs	Investments in skills development, training needs, equipment and facilities; modernization of IT Infrastructure (ITAS, IFMIS); technical assistance, resources for analytical work and policy dialogue; Cellule/Project Implementation Unit formed and trained in Bank policies and procedures; supervision and implementation support.			

Component 1: Modernizing Revenue Policy and Administration[6] (US$11.4 million equivalent of which US$6.2 million IDA)

Subcomponent 1.1: Strengthening Tax Policy Functions at the MFPED (US$700,000)

4. The overall objectives of this sub-component are to: (i) stabilize the fiscal policy by anchoring it to a medium or long term strategy; and (ii) monitor its implementation and reporting. To achieve these objectives, this sub-component will finance the following activities:

- ***Activity 1.1.1: Elaboration of a medium term tax policy strategy able to accompany the Government growth and poverty reduction strategy***. This activity will include: (i) inventory and analyses of texts (laws and regulations) currently effective in Burundi and review of their implementation; (ii) the elaboration of the strategy; and (iii) the consultation for its broad adoption by all stakeholders, including the tax-payers. The Directorate in charge of fiscal policy will take the lead on this activity on behalf of the Minister of Finance, with targeted Technical Assistance from the Project **(US$250,000).**

- ***Activity 1.1.2: Development of a new tax code to collect and harmonize all existing tax laws into one tax document***. This activity will be carried out by international consultants who will provide legal advice and help the staff of the DTP to identify existing conflicts between different laws and propose reconciliation, in close collaboration with OBR **(US$200,000).**

- ***Activity 1.1.3: Technical Support to the DTP for the elaboration and implementation of a communications strategy***. This activity will include: (i) the announcement of tax policy measures, at least six months prior to their implementation to allow behavioral adjustment by businesses and households to reduce inefficiency and deadweight losses; and (ii) Technical Assistance for the preparation and dissemination of quarterly reports on the implementation of the tax policy, to reach out to key national stakeholders and improve fiscal transparency and accountability to tax-payers **(US$150,000).**

- ***Activity 1.1.4: Preparation of an institutional and functional review of the DTP***. The current responsibilities of the DTP are set up in article 18 of the decree No 100/ 233 of August 22, 2012, but its mission is not clear. The institutional review will help clarify its mission and discuss the appropriate level where it should be mapped within the Ministry of Finance, with the aim of improving coordination and strengthening the authority of the DTP **(US$100,000).**

[6] The design of this component has largely benefited from a recent diagnostic prepared in early 2014 by Trade Mark East Africa (TMEA), authored by Jean-Paul Bodin. The report identified four strategic objectives for Burundi, 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. Component 1 subscribes to these objectives, focusing however on the first three above-mentioned areas. It has not taken into account the last objective as TMEA will continue to support custom modernization with US$21 million investment over the 2014-2017 period.

Subcomponent 1.2: Support to Macroeconomic Modelling (US$800,000)

5. The strengthening of Macro and Fiscal modelling capacity of the MFPDE is a key priority to improve budget credibility. Furthermore, to improve the reliability of revenue forecasts, it is essential that the MFPDE's capacity to carry out macroeconomic modeling and fiscal policy analysis and impact be strengthened. As part of its engagement, previous Bank initiatives have assisted the MFPDE to develop a macroeconomic model (MACMOD-BI) that feeds into the macro-fiscal framework, which underpins the medium term Budget framework. Applications of MACMOD-BI inform the annual fiscal envelop. However, the country is still lacking an instrument to analyze the fiscal impact of tax policy, higher oil prices, wage subsidies, and trade liberalization. Accordingly, this sub-component aims to improve MFPDE capacity to (i) assess ex-ante the impact of tax policies; and (ii) improve the overall decision making process in terms of tax policy. This sub-component will finance the following activities:

- ***Activity 1.2.1: Elaboration of a tax forecasting module in MADMOC-BI to provide detailed tax revenue forecasts***. This activity will include: (i) training in macroeconomic forecasting (econometrics and time series analysis), including short term forecasts to setup monthly revenue targets; (ii) the elaboration of budget revenues, natural resources, and debt management modules within MACMOD-BI; and (iii) the organization of weekly monitoring meetings to assess the likelihood of the achievement of the monthly revenue target **(US$300,000).**

- ***Activity 1.2.2: Elaboration of a Computable General Equilibrium Model for macro and micro simulation of economic policy***. This activity will provide the MFPDE with a robust analytical tool to assess potential impact of public policy and inform Government decisions. Technical assistance will include: (i) training in macroeconomics and microeconomics, construction of a Social Accounting Matrix (SAM), and programming using GAMS; (ii) construction of a static and dynamic model; and (iii) preparation and dissemination of ex-ante cost and benefit analysis, ex-post impact evaluation for the tax policy measures, and tax gap estimation. To build local capacity and strengthen sustainability prospects, the training activities will be carried out in collaboration with the macroeconomic framework committee of the Economic Development Institute of Burundi (IDEC) **(US$500,000).**

Subcomponent 1.3: Modernization of the Tax Administration via an Integrated Tax Administration System and Risk-Based Audit Management System (US$9 million)

6. This sub-component will help modernize tax administration by supporting the procurement and roll-out of an integrated tax administration system (ITAS). It is expected that OBR – through ITAS implementation - will improve the efficiency of revenue mobilization, namely through improved management of the taxpayer population, better audit selection (taxpayer risk management), easier detection of irregularities (stop-filers and non-filers), and faster statement, payment, enforcement, and refund procedures. In addition, IT-generated tax data will facilitate the collection and analysis of tax statistics (type of taxes, sources of taxable income, exemptions, etc.), which in turn will improve tax policy analysis. A number of preliminary measures – detailed ICT infrastructure and readiness diagnostics to be carried out by an existing IT Advisor, and administrative streamlining – will be covered under this sub-component before the new system

can be effectively implemented, building on recent process-mapping work undertaken by the IFC. Specifically, this sub-component will finance the following activities:

- ***Activity 1.3.1: Validation of the ICT readiness diagnostic elaborated by the IT advisor***[7]. The IT diagnostic will assess: (i) the state of ICT infrastructure and potential hardware/network gaps; (ii) staff proficiency in ICT and potential knowledge/training gaps; and (iii) ICT policy environment and potential changes required to enable the roll-out of the new ITAS **(US $ 10,000).**

- ***Activity 1.3.2:Technical Assistance to the Domestic Tax Department for the update of its modernization strategy and skills-development for the ITAS project management team,*** which (i) spells out strategic directions, specific objectives, and a results framework for the ITAS project; (ii) provides a measurable action plan for the project; (iii) provides quality assurance and practical guidance for the roll-out of the ITAS solution; and (iv) capacity development for the ITAS project management team **(US$200,000).**

- ***Activity 1.3.3: Procurement and Purchase of the ITAS solution, in line with OBRs business requirements, including TA to the ITAS Project Committee for the development of customized bidding documents and support for IT infrastructure.*** The ITAS is expected to include the following functions, encompassing the entire tax administration lifecycle for all domestic taxes: (i) taxpayer registration; (ii) payments and refunds processing; (iii) returns and assessment processing; (iv) taxpayer account management; (v) taxpayer and revenue accounting; (vi) an events calendar function; (vii) an arrears and enforcement management function; (viii) a case management function; (ix) management of penalties, (x) an audit support function; (xi) a taxpayer services function, (xii) a revenue reporting and forecasting function; (xiii) an analytical function; and (xiv) interface with internal (ASYCUDA) and external (BRB, SIGEFI), systems. The ITAS will also need to have user interfaces in French, as well as include the greatest possible amount of geo localized information such as the address of the various establishments or plants of a taxpayer **(US$7.8 million).**

- ***Activity 1.3.4: Training modules to provide OBR staff with skills to manage, operate and maintain the ITAS environment, including change management process and outreach activities.*** This will include both in-country short training modules on processes, ICT skills, ITAS applications, and study-tours to neighbor countries who have successfully implemented ITAS solutions. This will also include support to OBR to manage the change process, as well as to design and implement outreach activities targeting taxpayers to enable awareness, acceptance, and adoption of new processes and system. In addition, to facilitate change the project will support strategic partnerships, creating and sustaining implementation structures for legal or policy changes needed to enable the change **(US$500,000).**

7. This sub-component will also support the development of a risk-based fiscal audit management methodology, which will feed into the design and implementation of the new ITAS. This is expected to strengthen revenue mobilization as well as improve the business environment, since audits/controls significantly affect taxpayers in terms of time and resources. Auditing

[7] The IT advisor is a TMEA-funded position. The Advisor is seconded to the OBR for the 2015-2016 period.

taxpayers based on risk profiles means that compliant taxpayers (i.e. "good citizens") are rewarded by being audited less often than poorly compliant or risky taxpayers. In addition, tax audit capacity building for OBR staff is imperative to conduct the different audit types (in line with best practices) adopted in line with the profession's Code of Conduct. Specifically, this sub-component will finance the following activities:

- ***Activity 1.3.5: Technical Assistance to develop a risk-based audit system***. This activity will aim at building the data collection and data analysis functions in OBR's audit department, develop risk modelling and key risk indicators, build staff capacity to manage taxpayers' risk and implement a new audit approach, and ensure inclusion of the approach into the ITAS. This will also include legal advice to grant OBR authority to receive third party data for use in risk-based audits **(US$200,000).**

8. Strengthening OBR's tax administration functions implies deployment of additional human resources outside the capital. Since its creation in 2009 OBR has seen its activities concentrated in Bujumbura. This was a reasonable revenue maximizing strategy given that large taxpayers such as banks are concentrated there. However, the projected increase by OBR in the number of taxpayers from 20,000 to 40,000 in the 2015-2020 period (OBR Reform Strategy-II Phase) implies strengthening human capital of the four provincial tax offices (*Ressorts*) recently established in the regions (North, Centre-East, South, and West). In addition, improving the human resources and functions of regional offices is expected to improve tax compliance with the new mining regulations, given the concentration of mining activities in the provinces. However, a recent diagnostic study on local revenue mobilization[8] (Annex 8) has shown that such a move might generate resistance by communes, and be perceived as central Government intrusion over their (autonomous) fiscal space. To mitigate this risk, this sub-component will link TA to reinforce OBR presence outside Bujumbura to training and outreach initiatives toward communes, to promote collaboration and information sharing on tax administration issues. Specifically, this sub-component will finance the following activities:

- ***Activity 1.3.6: Technical assistance to strengthen the human resources in regional offices, providing small equipment and training for selected OBR staff***. OBR will cover the cost for hiring and/or relocating additional staff to be placed in the four provincial offices. The project will cover costs of training courses as well as provide limited equipment (computers, IT Connectivity or central processing and storage capacity). Training might include a component on communal taxes – subject to the new law on local taxation in place – to be offered to both OBR and communal staff to strengthen their interactions and facilitate capacity building across levels of Government **(US$190,000).**

- ***Activity 1.3.7: Support to communication campaigns and information sharing initiatives to promote synergies and collaboration between OBR and communes on local tax administration issues***. This will include collaboration support to allow (i) the possibility that the OBR could collect local taxes; and/or (ii) the recording by the OBR of information

[8]A survey conducted in 25 communes (out of 116) in November 2014 shows that OBR is seen, on one hand as a competitor for tax revenue by communes and, on the other hand, as a potential source of tax expertise and information on tax payers that could be very useful to help communes improve local revenue collection. Thus enhancing OBR Communes cooperation is expected to increase the success of its regional expansion (See Annex 8 for additional details on the survey).

on national taxpayers (such as specific addresses of establishments).It is expected that regular exchanges of information with local tax collectors can improve their efficiency in identifying tax payers and contribute to strengthening local tax administration systems **(US$100,000).**

Sub-component 1.4: Improve Mining Revenue Collection Practices (US$900,000)

9. Sources of revenue from productive sectors, like mining, need to be better integrated into the tax administration system, in line with the updated mining policy. A diagnostic study for the implementation of the EITI in Burundi identified weaknesses in tax administration of mining revenues. As a consequence, mining exports are under-reported and their values underestimated. A recent diagnostic study identified weaknesses in the valuation and declaration procedures being followed by MEM, MFPDE, and OBR leading to significant under-declaration of exports (both by volume and by mineral mined). These under-declarations represent significant revenue losses for the Government. Accordingly, this sub-component will target several areas for improved revenue mobilization in the mining sector based on the World Bank resources guide "How to Improve the Administration and Collection of Mining Revenues". The subcomponent will commence with a tax audit of the value chain to determine, among other things, pricing and ore sales practices, declarations, domestic sales, and export organization. Corrective measures will be implemented following the recommendations of the audit, including the establishment of mineral tax nomenclature to guide OBR in its collection strategy with mining operators, enhanced communication and information-sharing between the MEM and OBR on data relevant to collection (registered operators and monthly production statistics). In addition, this sub-component will benefit from collaboration and sharing of information with experts from the International Monetary Fund (IMF).

10. Specifically, this sub-component will assist OBR, MFPDE, MEM, and other stakeholders to update their policies and practices concerning mine tax administration, including transfer pricing, international tax treaty issues, improvements to audit and monitoring protocols for transparent production, export, and mineral evaluation declarations. A Technical Working Committee will be established to bring MFPDE, OBR and the MEM together to act as a regular platform to share information and address issues related to the implementation of the mining tax policy, in line with adjustments made to fiscal provisions in the new Mining Code. The following activities will be supported under this component:

- ***Activity 1.4.1**: **Technical Assistance to undertake a tax audit of the mining value chain.*** The audit will provide the basis for improving procedures and reporting protocols made under this sub-component, guided by the findings of the EITI Scoping Study 2014 and the comprehensive study on artisanal and small-scale mines (ASM) **(US$100,000).**

- ***Activity 1.4.2: Improvement of the institutional and administrative capacity of the OBR and MEM based on the findings of the tax audit.*** The main objective is to strengthen state capacity in audit procedures in order to ensure an accurate and complete assessment of taxes due and to better register production and export's statements. This will require close collaboration between the MEM and customs authorities of the OBR, which is expected to be strengthened through the establishment of an Inter-Ministerial Technical Working Group **(US$550,000).**

- ***Activity 1.4.3**: **Training for OBR and MEM personnel in mining taxation and accounting principles.*** The mining officials in the administration and collection of mining revenues will benefit from training by international experts on the establishment of a mining tax system **(US$100,000).**

- ***Activity 1.4.4: Revision of the mineral tax policies and regulations as well as design and dissemination of a revised guide on the Mining Code, Mining Regulations and associated Mining Tax Policies.*** The guide is expected to raise awareness of the public, mining operators, and Government officials, and to disseminate best practices and principles of mining revenue collection **(US$150,000).**

Component 2: Strengthening Public Expenditure Management and Control; Project Management (US$8.9 million equivalent)

Sub-component 2.1: Strengthening Capacity to Plan, Coordinate, and Build Consensus on the Implementation of the Government's Public Finance Reforms (US$5.2 million)

11. This subcomponent aims to provide strategic and technical support to the Public Finance Reform Implementation Unit (*Cellule d'Appui Chargée de Réformes)* to implement the priority reforms. The Cellule is a permanent structure within the MFPDE in charge of technical coordination, effective monitoring and oversight over all activities related to the public finance reform process, as defined in the Government's PFM strategy. The following activities will be supported under this component:

- ***Activity 2.1.1: Provision of national and international experts to strengthen human resources of the Cellule, as well as the operating costs of the Project Implementation Unit.*** Resources under this component will be used to hire international experts that will support national staff of the Cellule and facilitate PFM reform implementation as well as enhance donor coordination (see Annex 3 for a summary table of current donor support on PFM). Specifically, a monitoring and evaluation expert will be hired to build a strong M&E system for the MFPDE, improving both quality and timelines of the quarterly progress reports produced on the PFM strategy implementation process. An expert on Program-based Budgeting will also be hired to build strong consensus around the advantages of the reform and the critical milestones required for its successful implementation.

  A small team of national experts will also be established under the Cellule to manage the implementation of the project activities, including a national project manager (*gestionnaire de projet),* an accountant, a procurement specialist, a treasurer, a financial and administration specialist, and one administrative assistant. The Project Implementation Unit will be supervised by the Project Manager, and their costs will be financed by the project (Annex 3 provides additional details on implementation arrangements) **(US$2.2 million).**

- ***Activity 2.1.2: Support the Cellule to promote access to (and management of) a series of demand-driven studies.*** This facility is expected to finance diagnostics and analytical works that might become warranted to inform and guide the reform agenda. The purpose of the facility is twofold: (i) to give the project the flexibility needed to adapt to unforeseen changes in circumstances or Government needs; and (ii) to make sure that the project truly meets the needs of its ultimate beneficiaries, fostering effective participation by all implementing agencies involved. To prevent abuses, access to the demand-driven funds will be strictly limited to interventions that are fully aligned with the project's development objectives and results, as well as instrumental to move forward policy reforms supported under the next Development Policy Operations series. To ensure efficiency and maximize impact of the studies, strict criteria will be defined for the selection of activities (see Box 1), including: (i) functional congruence; (ii) technical soundness and opportunity; and (iii) effectiveness of demand. Further details will be specified in the Project Implementation Manual (PIM). The Cellule will manage the selection process, monitor progress and be responsible for the quality of the final products **(US$3 million).**

Box 1	**Criteria for selection and funding of the demand-driven studies**

Any activity proposed for project financing must meet three sets of access criteria:

1) Functional congruence and policy relevance: Proposed activities will need to be (1) fully aligned with the relevant component's thematic area, including its core objective and results. Moreover they will have to (2) fill a significant gap that could affect reform implementation and/or be instrumental to support the Bank's policy dialogue, focusing on the areas to be covered under the future Development Policy Operation series.

2) Technical soundness and opportunity: Proposed activities will be eligible only if they have (3) clear sustainability prospects, (4) a satisfactory and costed implementation work plan, guaranteeing feasibility within project limits, (5) appropriate results indicators, and arrangements to monitor their achievement, and (6) no other donor funding or considering funding the activity.

3) Effectiveness of demand: Proposals will only be considered that (7) identify a clear champion and (8) manage to attract support from a broad stakeholders' coalition (ideally including CSOs and representatives from parliaments and other oversight agencies).

All Proposed activities that are found suitable by the Cellule will be submitted to the Bank for review and approval

Further details will be provided in the PIM.

Sub-component 2.2: Enhanced Functionality and Use of the New Integrated Public Financial Management Systems (US$1.2 million)

12. This sub-component will support the roll-out of the new IFMIS software with targeted training, linked to measurable results. The Government of Burundi is introducing a five-module IFMIS software, which includes: (i) a budget management module; (ii) a payment management and monitoring module; (iii) a public procurement management module; (iv) a public expenditure management and monitoring module, and (v) an asset management and monitoring module. The software will be interfaced with all remaining systems such as the Treasury, tax administration, customs, and the integrated HR system. At the moment, the interconnection of all these systems has not been completed and their functionalities are still to be tested and further developed.

Targeted capacity building for change management as well as for strengthening technical operational skills will be provided to efficiently operate the new software. This sub-component will support the following activities:

- ***Activity 2.2.1: Undertake an IT and functional audit of the new Integrated Financial Management Information System (IFMIS).***This is needed to assess needs and identify possible infrastructure and technical gaps that can compromise the effective roll-out of the new system **(US$100,000).**

- ***Activity 2.2.2: Provide end-user training for selected Government departments for the roll-out of IFMIS five core modules.*** A significant number of staff will need to be trained to operate and manage the new system. This needs to be properly planned so as not to seriously disrupt ongoing regular activities. To this end, efforts will be made to develop curricula in collaboration with national training institutions for sustainability purposes. A group of users will also receive dedicated training to be subsequently deployed as trainers or technical resource persons for other staff **(US$700,000).**

- ***Activity 2.2.3: Strengthening human resources of the IT Department at MFDPE***. The IFMIS is an operational financial system which will be used by all Government accounting and budgeting entities for the day-to-day performance of their functions. Therefore, any disruption in the operation of the system can cause significant disruption in the Government's financial operations. Technical training will therefore be provided for a select group of technical staff of the IT department who are responsible for the maintenance and operation of the technical aspects of the IFMIS system. Efforts will be made to develop curricula on IFMIS system implementation in collaboration with national training centers. In addition, it will be necessary to strengthen the capacity of the IT Department, based on the recommendations of the IT audit to be carried out under the PPF. Possible areas of support – subject to confirmation under the IT audit – might include support to adapt the integrated SIGEFI with the new functionalities required for the implementation of program-based budget. Such examples include: (i) establishing protocols of interfacing (based on audit IT recommendations by audit IT); (ii) defining management procedures of interest accounts (supported by an IMF expert in accounting); and (iii) preparing a study on the integration of donor financed projects **(US$400,000).**

Sub-component 2.3: Establishing the Building Blocks for the Implementation of a Program-Based Budget (US$1 million)

13. The new public finance legal framework requires the implementation of a Program-based Budget, but progress has been low. This is reflected in the Organic Law amendments to the Financial Laws No 1-35 of December 4th, 2008, namely in articles 17, 18, and 19. The legal framework for Program-Based Budgets also refers to annexed information, which should accompany initial bills, including a report on program management, as well as the Public Investment Program in article 26. The objective for introducing program-based budgeting is to improve the allocation and use of public resources to improve basic service provision. The aim is also to improve absorption by matching needs and resources to adjust programming to the yearly budget cycle. This approach will enable the allocation of scarce resources more consistent with Government priorities and a more rigorous budgetary discipline.

14. Program-based Budget implementation is a long-term endeavor: Despite the targets set in the current legal framework, the 2012 PEFA report and the 2014 Public Expenditure Review assessed that progress on national program-based budgeting remains. The adoption of PB requires implementation of structural reforms in public finances, affecting namely the institutional, organizational, and administrative plan of sector ministries, as well as the function and role of Ministry of Finance itself. Accordingly, the sub-component will support an incremental and programmatic approach that will focus on creating an adequate 'enabling environment' and pilot the reform in three selected ministries. This sub-component will support the following activities:

- ***Activity 2.3.1: Technical assistance to carry out a diagnostic study on the general institutional and technical framework for a Program-based Budget.*** The main objective is to understand the organization and functioning of the relevant institutions in terms of PB inclusion to highlight strengths and weaknesses of the current system. International experts will be hired to undertake the study. Expected outputs include:(i) recommendations and prerequisites for PB implementation; (ii) a clear roadmap indicating institutional changes and technical pre-requisites for PB; (iii) the necessary updates for the chart of accounts and the budgetary nomenclature, as well as the drafting of required texts; and (iv) the development of a general procedure manual aligned with national strategies **(US$100,000).**

- ***Activity 2.3.2: Technical support to MFPDE and selected line ministries to adopt program-based budgeting and ensure its adequate execution and monitoring***. Among other things, the support will focus on human resources within a well-articulated training plan covering the following functional areas, including: (i) the Program-based Budget conceptual framework (including budget preparation and adoption mechanisms, the definition of objectives and measure indicators, and performance evaluation); (ii) program and public procurement budgeting and operationalization, including procurement plan and budgeting techniques; (iii) indicator monitoring tables and financial scoreboards; and (iv) training for the personnel who will be involved in the implementation of budget programs. Under the training program, funds will be made available to organize study tours for senior management to visit countries in the region, which have successfully implemented and managed PB. Moreover, there will be a need for experts to support the implementation of program-based budgeting in the pilot ministries (agriculture, education, health) **(US$700,000).**

- ***Activity 2.3.3: Technical assistance to the Cellule (MFPDE) to build a communications strategy targeting sector ministries as well as oversight institutions to raise awareness on program-based budget implementation requirements.*** This activity will provide TA for the Direction of Budget at MFDPE to develop and implement a communication strategy, addressing different audiences, including: (i) ministerial cabinets; (ii) parliament committees and other oversight bodies; and (iii) citizens in order to build understanding and broad consensus on the advantages of the reform. The communication strategy will be elaborated with a communication expert. A monitoring mechanism will also be put in place, through periodic surveys to assess public perception of the reform progress. This should serve to identify communication gaps and also assess the direct and indirect impact of the PB reform **(US$200,000).**

Sub-component 2.4: Strengthening External Audit and Control Functions (US$1.5 million)

15. The main objective of this sub-component is to strengthen the capacity of the Supreme Audit Institution (*Cour des Comptes*) in order to enable *it to* conduct regular financial audits, performance, compliance and optimization of resources in line with international auditing standards. This will be accomplished through the following activities:

- ***Activity 2.4.1: Strengthen the institutional framework of the court through conducting an organizational audit to improve the legal and regulatory framework, and gain admission into INTOSAI.*** This activity will be achieved through (i) hiring of a firm / international consultant for the evaluation of the current institutional, legal and regulatory frameworks, coupled with an organizational audit in order to make recommendations; (ii) development of a roadmap, as well as implementation recommendations suggested by international institutions for the accession of the CdC to INTOSAI; and (iii) complying with international standards like any other CdC **(US$100,000).**

- ***Activity 2.4.2: Develop and implement a training plan for the controllers and support staff, in accordance with International Standards on Auditing (ISSAI).*** This activity will be achieved by: (i) the recruitment of an international consultant to develop a training program for judges, in accordance with international auditing standards, including the training of trainers to perpetuate the process; (ii) the recruitment of a consultant to develop a training plan for support staff; (iii) the organization of training sessions as part of the implementation of the developed training plans; (iv) the organization of study tours and exchange of experiences among African CdC INTOSAI members; and (v) entry and participation in international conferences and symposia organized by bodies such as INTOSAI, AFROSAI, and the AISCUF **(US$500,000).**

- ***Activity 2.4.3: Strengthening of archiving systems and websites in order to broadcast regular audit mission reports in order to reach a wider audience.*** This activity will be achieved by: (i) the acquisition and deployment of an electronic filing system and training geared towards equipment users; and (ii) the acquisition of computer equipment (server, computer equipment, etc.) **(US$80,000).**

- ***Activity 2.4.4: Acquisition of equipment and tools necessary for the functioning of the CdC.*** This activity will be achieved by (i) the acquisition of office equipment; and (ii) the acquisition of transportation equipment for external controls **(US$300,000).**

- ***Activity 2.4.5: Strengthen coordination between the CdC and the Parliament (National Assembly and Senate) by improving communication and outreach.*** This activity will cover: (i) the development and implementation of a collaboration guide between the CdC and Parliament; (ii) the establishment of a joint technical team that will be responsible for managing coordination between the two institutions; (iii) the organization of regular meetings by a mixed team; and (iv) the development of communications initiatives through the current website **(US$20,000).**

16. A second objective of this sub-component is to support the National Accountancy Body (OPC) to enhance the quality of financial information (accounting and audit) in both the public and the private sector in Burundi. This sub-component will finance the implementation of the

Action Plan Report on Observance of Standards and Codes - Accounting and Auditing (ROSC A&A) prepared jointly by the Government and the World Bank in 2013. The implementation of this Action Plan will ensure the quality of accounting education, accreditation of qualified professionals and the quality of professional practice and compliance with accounting and auditing standards as defined by international standards. This sub-component will support the following activities:

- ***Activity 2.4.6: Development of a national qualification curriculum with international recognition to increase the number of required professional accountants and auditors in the country.*** The objective of this activity is to (i) sign a partnership agreement between the OPC and an Order (or Institute) member of IFAC, ideally a member of the East African Community; and (ii) develop a training plan in partnership with the sponsoring institute, including teaching units that conform to International Standards of Education (IES), as well as a syllabus and an evaluation system to have access to the profession **(US$200,000**).

- ***Activity 2.4.7: Development and implementation of a continuous professional development plan, which will be made mandatory for all members of the profession in line with international standards.*** This activity will lead to (i) the establishment of a training program for accounting professionals member of the OPC both in the public and private sectors, in partnership with the sponsor and a training institute recognized by the IFAC; and (ii) an initial assessment of members of the courts of auditors to train, and define the content and timing of training, in partnership with the training institute **(US$200,000).**

- ***Activity 2.4.8**: **Establishment of a control system to ensure the quality of professional practices (accounting and audit).*** This activity will be achieved by (i) the establishment of a quality control mechanism with both an independent body as well as an internal quality commission to the profession, in order to support audit practitioners in the review of financial statements; and (ii) the development and adoption of auditing standards by regulation (law, decree, etc.) **(US$100,000**).

Component 3: Improving ISTEEBU Institutional Capacity (US$3.3 million equivalent)

Sub-component 3.1: Promote a Results-Based Management System to Strengthen ISTEEBU's Performance (US$500,000)

17. The adoption of the National Statistical Development Strategy (2010-2014) marked an important milestone for statistics development. The main objective of the NSDS is to develop a coherent statistical system, which is well organized and has the capacity to produce and disseminate reliable information and 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 NSDS action plan, and progress against the stated objectives has been slow.

18. Currently, outputs as well as the timeline for the production and dissemination[9]of annual business programs are not clearly determined and aligned with international practices. This

[9]A proposed Decree establishing the National Data Quality Assurance Framework (CNAQD) is being finalized by ISTEEBU. One of the Decree's articles establishes the turnaround time between the data reference point and the obligatory publication date.

ambiguity reduces production predictability and overall institutional performance. As users are unaware of when statistics will be published, they commonly resort to sources other than ISTEEBU, and this in turn undermines the national statistical system. To address this problem, this sub-component will provide technical assistance to develop, implement and monitor a business plan of annual activities, with the associated costs and timeline. Specifically, the project will support ISTEEBU to strengthen the capacity of the department in charge of this exercise, as well as its monitoring and evaluation. It is expected that this programming and costing exercise will help ISTEEBU to make a stronger case to justify the request of additional financing for production and dissemination of statistics (currently 80 percent of the ISTEEBU budget covers salaries). This sub-component will finance the following activities:

- ***Activity 3.1.1: Training modules on result-based performance management targeting ISTEEBU senior and middle management staff.*** The main objective of this activity is to strengthen the leadership and management capacity to implement the corporate business program and deliver top-quality products in a timely manner. This will include a study-tour to the central statistical agency in a neighboring country, where results-based management has been successfully implemented **(US$150,000).**

- ***Activity 3.1.2: Support the design of the second document of the National Strategy for the Development of Statistics (NSDS II).*** This activity will support ISTEEBU to elaborate the new NSDS strategy (2015-2020) in collaboration with other donors and partners (PARIS21) in order to establish a robust framework and action plan for statistical capacity building. The design of the new NSDS will provide a strong opportunity to better align ISTEEBU's business program with the data needs and priorities for the development of the national statistics system **(US$100,000).**

- ***Activity 3.1.3: Support the design, implementation and monitoring of annual work plans.*** Based on the NSDS, this activity aims at supporting ISTEEBU to annually establish its business working plan and budget aligned with the result-based management method. The process will be driven with the full participation of units within ISTEEBU. The action plan, which includes its costs, should be submitted to the ISTEEBU's Board of Directors and in the end be approved by the Minister in charge of statistics. This activity will also support the Monitoring and Evaluation unit of ISTEEBU for the production and dissemination of an annual progress report assessing the implementation of the annual work plan **(US$250,000).**

Sub-component 3.2: Strengthen ISTEEBU's Human Resource Management System (US$1 million)

19. This component will support ISTEEBU to implement an effective human resource management system. HRM practices and policies significantly affect staff incentives, productivity, and consequently delivery outcomes. Research conducted on "high performance work practices" since the 1990s has shown that there is a wide range of HRM practices that drive high levels of organizational performance and that these practices seem to work best in "bundles" (no particular practice has been proven to drive performance on its own). This evidence strongly indicates that the authorities should take a broad view to improve public service performance, using a range of HR practices. These practices might include, but are not necessarily restricted to, the following: (i) reviewing existing establishments in relation to Government priorities and targets; (ii) merit

based recruitment and promotions; (iii) performance appraisal for managers and staff; (iv) Training linked to identified performance gaps; and (v) providing adequate operating budgets (a separate but necessary element).

20. Current ISTEEBU HR practices are perceived to be inadequate to attract and retain senior staff in key positions, acting as a binding constraint to institutional performance. For example, seniority continues to be the main criteria for promotion and there are no provisions for alternative mechanisms of career progression. Likewise, while the principle of performance-based salary (through scoring and bonuses) has been established, in practice there is no link with the delivery of key statistical outputs. This has contributed to brain-drain of human resources, particularly at the senior management level (see box 2).This sub-component will finance the following activities:

- ***Activity 3.2.1: Undertake a functional and organizational review to address the structural weaknesses of current HRM policies and practices.*** The project will first support a functional review from the institutional effectiveness and efficiency perspectives. It will mainly assess the existing organizational functions and staff skills and identify any functional and skills' gap to meet the institutional targets defined in the National Quality Data Assurance Framework (NQDAF). The results will particularly serve for senior management to develop strategic organizational functions and staffing plans **(US$100,000).**

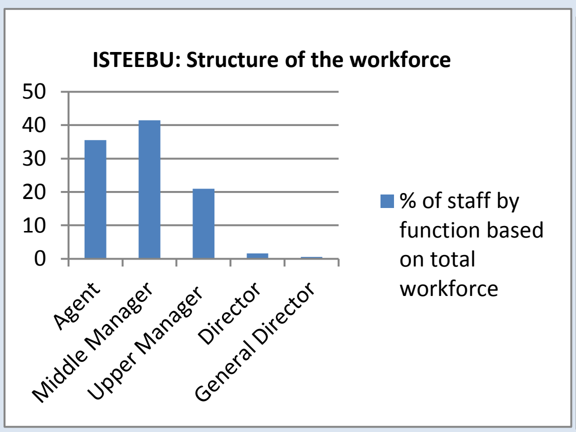
- ***Activity 3.2.2: Introduction of Performance Appraisal System and Incentive Mechanisms for Individual Staff.*** The performance appraisal tool will be used to assess both institutional and individual performance and measure whether or not the corporate targets in the CNAQD are met (i.e. timeliness, quality, and quantity of the deliverables) and the extent to which individual staff contributed to the targets. This will be complemented by TA to develop an incentive mechanism to encourage staff to better perform, particularly through non-financial incentives (public recognition of the best performers, awards, promotions, etc.) or alternatively, financial or in-kind incentives (bonuses and training programs). An award selection committee will be established to develop rewards and incentives, based on HR evaluations. Limited financial support will be made available for the financial or in-kind incentives mechanism, subject to the design of a clear budget plan to ensure gradual hand-over of financial resources from the project to ISTEEBU's own budget **(US$400,000).**

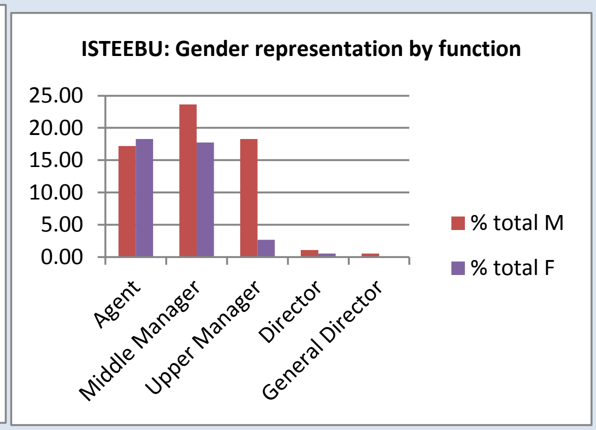
- ***Activity 3.2.3: Training Modules to Promote the Career Development of Statisticians***. Based on the capacity assessment through functional review, this activity will provide support to develop and implement the customized training modules for professionalization of junior to middle-level statisticians (representing 80% of employees at ISTEEBU) in collaboration with the University of Burundi (UoB) and the statistical school of Abidjan (ENSEA). These modules are expected to enhance the basic but professional skills in practical application of the statistical concepts. Possible seminar topics may include survey data collection, survey data quality control and analysis, national accounting tools, elaboration of price and sector statistics, and poverty analysis. It is expected that the increased capacity from this training will raise the overall quality of data production and support professional development of statisticians. Moreover, with the assistance of the European Union, Burundi is in the process of developing a training center for statisticians at the middle management level, including technical assistants, working in collaboration with the ENSEA at Abidjan. It is expected that the training center will be attached to the ISTEEBU. This sub-component will provide resources to support the center during its first few years of operation **(US$500,000).**

Box 2 **Human Capital at ISTEEBU: Structure and Composition**

Structure: ISTEEBU has a total of 186 employees whose positions are divided into six categories, eighteen grades, and 30 levels. This complex system was recently implemented to meet the needs of the Institute in career management and retention of qualified staff. This system directly influences the level of salaries and bonuses (including performance and commitment). The categorization of employees is based on academic level. In principle, the grade, the movement between grades as well as through levels is determined by the annual performance evaluation. In practice, however, career progression is driven by seniority.

Composition: The Institution has a bottom heavy structure, in which 65% of staff is concentrated in the two lowest categories, 21% represent the middle management, and 14%, the senior management. As a result, the average age is 42 years and the pyramid is inverted relative to the hierarchy. The average length of employment at ISTEEBU is 12 years (shorter for senior management). There is a large number of women staff (40%), but they are not adequately represented in decision-making positions (25%). For example, only 2% of women are employed at the "*cadre superieur*," versus 32% of men.





Source: ISTEEBU.

Sub-Component 3.3: Improve the Quality and Timeliness of Statistics (US$1.3 million).

21. The long-term goal of ISTEEBU is to deliver reliable and timely statistical information on demographic, social, economic, and environmental matters that help the Government, citizens, businesses, international organizations, and other institutions to make informed decisions. The overall aim of this sub-component is to support ISTEEBU to achieve this goal, particularly concerning economic statistics. Specifically, the project aims to improve the availability of improved-quality and timely economic statistics. The support from the project to carry out those activities is expected to decrease over the years, following higher contributions from the Government budget based on monitorable results. The subsidies from the Government are

expected to fill the increasing gap created by the diminishing resources from the project. This sub-component will finance the following activities:

- ***Activity 3.3.1*: *Production of timely and quality-enhanced national accounts statistics***. The project will support the production of the annual national accounts to reduce the existing backlog of statistical reporting. Priority will be placed on the capacity building of the staff and support on data collect and processing. The methodology of national accounts currently in use will be upgraded to ensure compliance with international standards and best practices. To ensure medium-term sustainability, technical assistance will be provided during one complete cycle of national accounts preparation, including the completion of some specific related surveys needed. The project will also support the updating of the business register which could require field operations. Support will also be given to develop and implement the national action plan toward the 2008 SNA, which will be offered in close collaboration and in consultation with IMF/AFRISTAT **(US$700,000).**

- ***Activity 3.3.2: Production of Price statistics***. The main price statistics needed by users are the consumer price index (CPI), producer price index (PPI), construction cost index (CCI), import price index (IPI), and export price index (EPI). Of these, ISTEEBU produces the CPIs as well as the international trade price index. The project will focus on the improvement of CPI quality and on the production of an Industrial Production Price Index (IPPI) and the construction cost index. On the CPI, technical assistance and equipment will be given in three areas. First, the project will bring the technical assistance needed for the use of the computerized price application CHAPO or any other IT application able to support market price data collection. Second, the project will support the change of the year base of the index. The current year base (2005) relies on data from the 2005 HIES. The availability of the new data from the 2013 HIES is an opportunity to move to new consumption weights. Finally, the project activities on the CPI will be to support the implementation of a national price index, particularly by providing, for both the headquarters and provincial agencies, trainings, and displacement means for data collect and equipment for data processing. The construction of the IPPI and CCI will be based on the new business register that will be made available through targeted TA **(US$300,000).**

- ***Activity 3.3.3: Production of external trade statistics.*** Activities on external trade statistics will include technical assistance on the application Eurotrace, the computerized application used by the ISTEEBU, and equipment for data processing, and the collection of complementary data to improve the completeness of external trade statistics **(US$300,000).**

Sub-Component 3.4: Improving Data Access and Dissemination of National Statistics and Micro-data (US$500,000)

22. The main objective of this sub-component is to support the ISTEEBU to regularly disseminate all official statistics produced and to strengthen the use of statistics**.** Activities under this component will therefore facilitate easy access to data and metadata (reports, questionnaires, publications, etc.), helping to promote the importance of statistics to the media, policy makers, students, and the general public. Specifically, the support under this sub-component covers the following activities:

- ***Activity 3.4.1: Revamp the ISTEEBU website and support IT connectivity***. The project will assist to redesign the ISTEEBU website and provide training on web development. The website will contain data and metadata from the ISTEEBU as well as all other members of the national statistical system. This activity will also enhance the internet bandwidth capacity and access to the internet. A web-based platform that allows users to provide their feedback on the quality of the national statistical system products will also be created. The ultimate goal is to increase the use of statistical data and users' satisfaction vis-à-vis ISTEEBU as a statistics producer **(US$150,000).**

- ***Activity 3.4.2: Roll-out the "Accelerated Data Program" (ADP) initiative, including TA for the creation and maintenance of the web-based National Data Archive*****.** The project will finance the training needed to continue developing the ADP initiative, in collaboration with the Partnership in Statistics for Development in the 21st Century (PARIS21) and building on the recent pilot funded by AFDB[10]. The ADP initiative is expected to help ISTEEBU to overcome some of the obstacles to better and wider use of survey data, by documenting survey micro- and meta-data in an international and readily exchangeable format. Capacity for the management and dissemination of statistical micro data will also be supported by training courses for staff of the IT unit to create and maintain a web-based National Data Archive (NADA) **(US$100,000).**

- ***Activity 3.4.3: Support the operating costs of a small scale printing unit.*** The project aims at enhancing the capacity of ISTEEBU to print the different statistical products (including statistical yearbooks and bulletins) in order to facilitate their timely release and access to users. Small equipment will be provided to enhance the capacity of the printing unit to deliver **(US$100,000).**

- ***Activity 3.4.4: Undertake a nation-wide user satisfaction survey:*** This activity will support the design and implementation of one national user satisfaction survey, aiming at strengthening the dialogue with the users of statistics (including private sector and civil society). It is expected that ISTEEBU will finance future rounds of the survey under its own budget **(US$50,000).**

- ***Activity 3.4.5: Regular and timely production of statistical yearbooks and bulletins.*** The project will provide support to ensure regular collection and processing of basic data needed for the production of statistical bulletins and yearbooks **(US$50,000).**

- ***Activity 3.4.6: Organization of "open days" for statistics and support to the celebration of the African day for Statistics.*** The objective of this activity is to support ISTEEBU's effort to raise awareness of decision-makers and ordinary citizens on the role of statistics for policy-making. The project will support the organization of these events through strategic planning, media outreach campaigns and production of outreach bulletins **(US$50,000)**.

[10] PARIS 21 website http://adp.ihsn.org/node/1521. The ADP is a "unique initiative with an aim to promote the better use and production of statistics throughout the developing world". A pilot training phase financed by the AfDB was held in Bujumbura in February 2014 on the management of microdata as well as a Metadata production workshop. Through this training, 9 members (mostly ITs) were trained in the archiving systems using the tool NADA.

Component 4: Improving Mining Regulatory Capacity and Practices (US$3.6 million equivalent)

Sub-component 4.1: Supporting Organizational Reforms at the MEM (US$1.5 million)

23. Based on the *Décret Portant Réorganisation et Fonctionnement des Services du Ministère de l'Energie et des Mines*, this sub-component will support functional reviews of MEM's selected departments (Department of Mines and the Department of Geology, plus a third one based on the Ministry's revised organogram), including review of their existing human resources, and map out a series of activities of the re-organization that can be supported. It will also ensure more regular and active monitoring of mine sites by supporting the MEM's strategy to extend presence into the key mining areas (Ngozi and Cibitoke as initial pilots).

24. Activities under this component are anticipated to take place in both Bujumbura and in the mining areas of northern Burundi, where the MEM has set up a small satellite office to more effectively monitor the vast majority of the country's mining activities underway in the Northern provinces. The Project will also provide some equipment to improve office functioning of the *Départment des Mines,* and may support minimal repair works to modernize the central office in Bujumbura, such as painting and refurbishment of offices. Communication will be improved, namely through the establishment of a Ministry website where mineral sector data (to be improved in sub-component 4.3) could be accessed by the public. This sub-component will finance the following activities:

- ***Activity 4.1.1*****:** ***Undertake functional reviews and provide limited equipment for selected departments in the MEM concerned with mining***. Functional reviews will provide an action plan for institutional reorganization of the MEM. The Action Plan will serve as a support mechanism for the coordination of technical partners, following its submission for validation by the Sectoral Mining Group[11]. Based on the recommendations of the reviews and reform priorities identified in the Action plan, some activities will be funded under this sub-component. In order to ensure a strong institutional ownership of the reform process, a Technical Working Committee will be instructed by the Minister to implement the Action Plan and will receive limited support to cover operating costs. In addition, limited equipment (computer, IT connectivity) will be provided to improve working conditions within the MEM, following the recommendations of the reviews **(US$400,000).**

- ***Activity 4.1.2: Strengthening Human Resources of the "Direction de la Géologie et des Mines" with targeted training programs.*** The Action Plan cited in activity 4.1.1 will enumerate the required staff and skills necessary to ensure effective and efficient management of the mining sector by the Ministry. This activity will employ two strategies for training: (i) short-term training in Bujumbura for departmental officials led by regional and international experts; and (ii) tertiary education in the schools of international mining for a limited part of personnel, in accordance with the needs of long-term mining experts. The first training strategy will focus on administration, international mining best practices on environmental and social levels, and international principles for the development of mines. The second training strategy will focus on university courses in mining and tax inspection **(US$400,000).**

[11]This is a coordination forum on issues of development in the mining sector chaired by the Minister of Energy and Mines. Government officials as well as representatives of Development Partners, private sector companies and civil society organizations are members of this forum.

- ***Activity 4.1.3: Provide IT connectivity and minimal refurbishment of MEM offices.*** To successfully manage the institutional reform, the project will support the consolidation of the MEM staff in a central building. This will ensure better coordination and communication among the various Departments responsible for the management of the mining sector. The departments (Geology, Mines and Careers, Communication, Central Branch) are currently scattered in several offices across Bujumbura **(US$400,000).**

- ***Activity 4.1.4: Design and implement a communications strategy and maintain the Ministry website.*** This activity is considered a pillar of good governance for the mining sector on communication. The Government, through regular and strategic communications, can strengthen relationships with various stakeholders (private sector, civil society, technical and academic partners). This activity will support the MEM in developing and implementing a communications strategy, including the publication of a newspaper twice a year on mining activities throughout the country, awareness campaigns on the Mining Code and Mining Regulations through the radio, and the creation of a website to publish key sector documents such as Codes, regulations, Orders, and mining conventions. The Website will meet the membership criteria for the EITI **(US$200,000).**

- ***Activity 4.1.5: Support the negotiation of mining conventions and contracts.*** Financial support will be made available to the MEM to hire lawyers and experts in taxation to assist on mining contracts negotiations. The MEM will engage these experts in a timely manner according to the agreement's negotiation schedule. This activity will be carried out in coordination with the Ministry of Finance (DPT/OBR) via the Inter-Ministerial Technical Working Group **(US$100,000).**

Sub-Component 4.2: Establish Regulatory Guidelines for ASM Operations and Ensure their Enforcement (US$1 million)

25. The new Mining Code and the Mining Regulations outline the broad responsibilities for mine inspections to be carried out by the *Départment des Mines*. This sub-component will finance the following activities:

- ***Activity 4.2.1: Develop/Update specific ASM regulations, mining cooperative guidelines, and provide training on protocols for mines inspection.*** An international consultant will be hired to support the development of a mines inspection manual, aligned to international best practice on ASM, with accompanying enforcement protocols. This will include revision of allowable depths that ASM operations can go (to limit health and safety incidents), to revise labor standards as per ILO regulations on ASM operations, and to enforce mercury abatement in line with the new Minimata convention. Training on the application of the new protocols and procedures will also be carried out, to ensure that when infractions in mine standards are found, appropriate remedial measures are taken by operators. These new standards for inspection will enrich current standards being implemented by the MEM, as well as develop with the BGR and the ICGLR to conform to regional protocol on the elimination of the illegal exploitation of natural resources **(US$400,000).**

- ***Activity 4.2.2: Provide training on ASM best practices including through the organization of regional workshops and study tours.*** This activity will support the exchange of experiences of good regulatory practices in ASM, mining cooperative guidelines, and other approaches to the formalization of ASM. These exchanges of experience will boost the content and approach of activity 4.2.1. Funding will be provided for field visits to neighboring countries (possibly Tanzania, Zimbabwe, DRC, Burkina Faso and Rwanda) as well as funding for the MEM to host regional workshops on the development of ASM in cooperation with the ICGLR and other interested partners **(US$350,000).**

- ***Activity 4.2.3: Provide MEM deconcentrated offices with necessary equipment for mines inspections.*** Selected staff of MEM deconcentrated offices in the Northern province will receive some equipment (e.g. motorbikes, computers, GPS units and printers) to effectively carry out mine inspections, and monitor progress in compliance **(US$250,000).**

Sub-Component 4.3: Improving Mining Data Transparency (US$1.1 million)

26. The ability of the MEM to communicate information to both internal and external audiences about the state of the mining sector is also critical to ensuring future investment and revenues. This component will therefore provide technical assistance to the *Départment des Mines et Carrières* to gather, verify, and communicate necessary data on the sector. The purpose is to maintain an accurate understanding of the scope and potentiality of the sector for policy planning purposes, and to communicate effectively with other relevant Ministries and their associated agencies, such as OBR. Specifically, this sub-component will finance the following activities:

- ***Activity 4.3.1: Support to mining traceability systems.*** Transparency of data from the mining sector needs to be supported by international requirements responsible for managing mineral exports from the Great Lakes region of Central Africa. These requirements relate to the implementation of mineral traceability system that ensures value chain from mine to point of export. Since April 2014, the Government implemented a traceability system for cassiterite ore, tantalum, and Wolframe (3TS). Through this traceability system, the MEM harvests monthly key data on mining sites: permit holders, production (in kilograms), the number of workers, traders who buy the production and transportation routes. Therefore, this activity aims to support the implementation of the traceability system (iTSCi), including the need for materials and MEM human resources to monitor the sites. This will include relocation of MEM personnel on mining sites, purchasing equipment, and support for training and awareness of mining staff in acquiring standards of traceability **(US$600,000).**

- ***Activity 4.3.2: Establish and maintain a mineral database.*** TA will be provided for the development of a mining sector database—a requirement of EITI as well as of other regional and international norms on transparency in extractives—that will collate production and mine site data alongside revenues and fees generated from the sector. The database will be based on the model used by the United States Geological Survey (USGS) and will combine data from the traceability system, among others. It will be managed by *Direction de Géologie* while day to day activity of updating information will be the responsibility of the *Direction de Géologie et la Direction de Mines et Carrieres* under the "tutelle" of the *Direction de Géologie*. This activity will benefit from additional resources from the World Bank's Trust Fund for EITI implementation, and will be implemented in synergy with the ICGLR **(US$400,000).**

- ***Activity 4.3.3: Support for South-South exchanges and study tours.*** Funding will be provided to the MEM to allow members of senior management to attend key mining conferences to communicate and promote the mining sector for investment. International fora might include Indaba in South Africa and the Prospectors and Developers Association Conference in Canada **(US$100,000).**

Annex 3: Implementation Arrangements

Project Institutional and Implementation Arrangements:

1. This project will emphasize close monitoring and supervision, as well as the need for design flexibility and adaptable implementation arrangements around a solid core of specialists within the implementation unit, which is an integral part of the Ministry of Finance and Economic Development Planning (MFPDE).

2. The MFPDE will have overall responsibility for the project via the Public Finance Reform Implementation Unit (*Cellule d'Appui Chargée des Réformes)*, created by ministerial order (*Ordonnance Ministérielle N^o 540/793 du Juin 2009*) and reconfirmed by presidential decree on the new organogram of the MFPDE (*Décret Présidentiel N. 100/223 du 22 Aout 2012*). The Cellule reports directly to the Permanent Secretary of the MFPDE and is also responsible for the implementation of this IDA-financed operation through a technical and an administrative team.

3. The Cellule will ensure technical coordination and effective oversight of all activities related to the Public Finance reform process and will evaluate progress on the reforms' actions supported under this project. The Cellule will be the Bank's main counterpart. For the purposes of this IDA-financed operation, the Cellule will be responsible, through the project management unit, for all aspects of project management. These include: (i) preparing and costing detailed annual implementation plans based on the Action Plan approved by the Cellule (which will include input from the participating entities); (ii) managing Project resources (including financial management and managing the contract with the Procurement Agent); (iii) recruiting external auditors; (iv) monitoring implementation progress and impacts; (v) compiling activity, monitoring, evaluation, financial, and audit reports, including following-up audit recommendations; (vi) coordinating with technical committees and departments of the involved entities; and (vii) ensuring coordination of Project activities with those of other international and domestic partners.

4. A Technical Steering Committee will be established to provide strategic oversight of the project activities. The committee will be chaired by the Permanent Secretary of the MFPED with the technical support of the Cellule in charge of monitoring reforms at the MFPED, and will consist of the respective technical leadership of the beneficiary institutions covered under the project, namely: the Commissioner General of the OBR, the Director of the Department of Fiscal Policy and the Director of Programming and Budget at MFPED, the General Director of ISTEEBU, the Permanent Secretary of the Ministry of Energy and Mines, and the President of the Court of Auditors.

5. The Technical Steering Committee (TSC) will be supported by "focal points" designated by their respective institutions. The focal points will be directly involved in the project activities and will facilitate their day-to-day management and monitoring by establishing a regular channel of communications and exchange between the Cellule and the beneficiaries. The focal points will also support the technical leadership in preparing all relevant documentation to be discussed at TSC meetings, which they will have the right to attend.

6. To ensure proper coordination for the implementation of mining revenue activities under sub-component 1.4, the project will support the establishment and functioning of an inter-ministerial technical working group responsible for information exchange, and monitoring of

applicable activities related to mining taxation. The working group shall be comprised of, inter alia, representatives of OBR, *Banque de la République du Burundi* (BRB), ISTEEBU, the directorate in charge of tax policy at the MFPDE and the general directorate of Geology and Mines, and is expected to meet at least once every quarter. The establishment of this group is a disbursement condition for the sub-component.

7. Likewise, given the resources allocated to the design and roll-out of the ITAS solution (estimated up to 30 percent of the overall project envelope) an OBR-based ITAS Steering and Project implementation structure has been established during the project preparation process, and will report through the designated OBR focal point to the Project Technical Steering Committee and the Cellule. The three-tiered structure (figure A3-2 below) aims to ensure (i) full ownership by the beneficiary; (ii) timely decision-making; and (iii) adequate supervision of the ITAS supplier. Tier1 (ITAS Project Implementation) will be composed of a project manager (full-time), supported by staff members deployed in various workgroups[12]. This tier is responsible for executing the day to day activities of the ITAS implementation. Tier 2 (ITAS Project Steering) will have an internal OBR management committee composed of workgroup chairs, a project manager, and heads of Domestic Taxes Divisions. This management committee is charged with the role of ensuring timely decision-making and providing overall strategic guidance. The ITA project steering committee will hold regular review meetings to monitor progress of the ITAS implementation and resolve institutional issues (including relationships with OBR/Suppliers) that cannot be resolved by implementing teams.

8. The Project Implementation Manual (PIM) will define the roles and responsibilities of each stakeholder in the project including the relationship between institutions, rules, and procedures, as well as processing times to react to specific requests from the Bank or the Government. The PIM is currently under preparation and will be finalized by the Cellule - in close collaboration with the beneficiaries - before project effectiveness. A national consultant will be hired to finalize the draft PIM in consultation with the project's implementing agencies, as well as facilitate its validation by promoting full ownership of its content by all the stakeholders involved.

9. The Cellule will retain staffing resources that are appropriate for its level of operations, sufficient to maintain accounting records relating to project-financed transactions, and necessary to prepare the project's financial reports. Personnel will be recruited on a competitive and transparent basis and will include: (i) a national project manager (*gestionnaire de projet*); (ii) a national procurement specialist; (iii) a financial and administration manager; (iv) a treasurer; (v) an accountant; (vi) a monitoring and evaluation specialist; and (vii) an assistant to the project manager. The project manager, the finance and administrative manager, the procurement specialist, the treasurer, the accountant, and the assistant to the project manager will work full-time on the Bank project. The Government will provide office space and cover the cost of utilities, while the Bank will provide resources for other operational costs of the *Cellule* including IT and communications as well as a small-scale rehabilitation of the office space.

10. In addition to the above mentioned staffing resources, the project will finance a "task force" composed of high-level national and international experts to support the *Cellule* at the strategic level, including an international expert on Monitoring and Evaluation and an international

[12]Workgroups include: (i) BPR and Application implementation; (ii) Business Policy; (iii) ICT Infrastructure; (iv) Skills Development; (v) Stakeholder Engagement & Change Management; and (vi) Audit & security.

expert on Program Budgeting. Additional international experts can be hired to support the national experts on a need-basis.

11. Staff salaries will be determined on the basis of the official note from the Government that will soon be circulated, defining the standard salary grades for contract staff of a Government project funded by the World Bank. All contracts will be term contracts renewable based on performance against measurable targets and performance indicators.

12. Procurement will be handled by the *Cellule* for all components of the project. During project preparation (under PPA financing) procurement capacity has been established. The procurement specialist has been hired and is already implementing the PPA.

Figure A3- 1: Project Implementation Arrangements

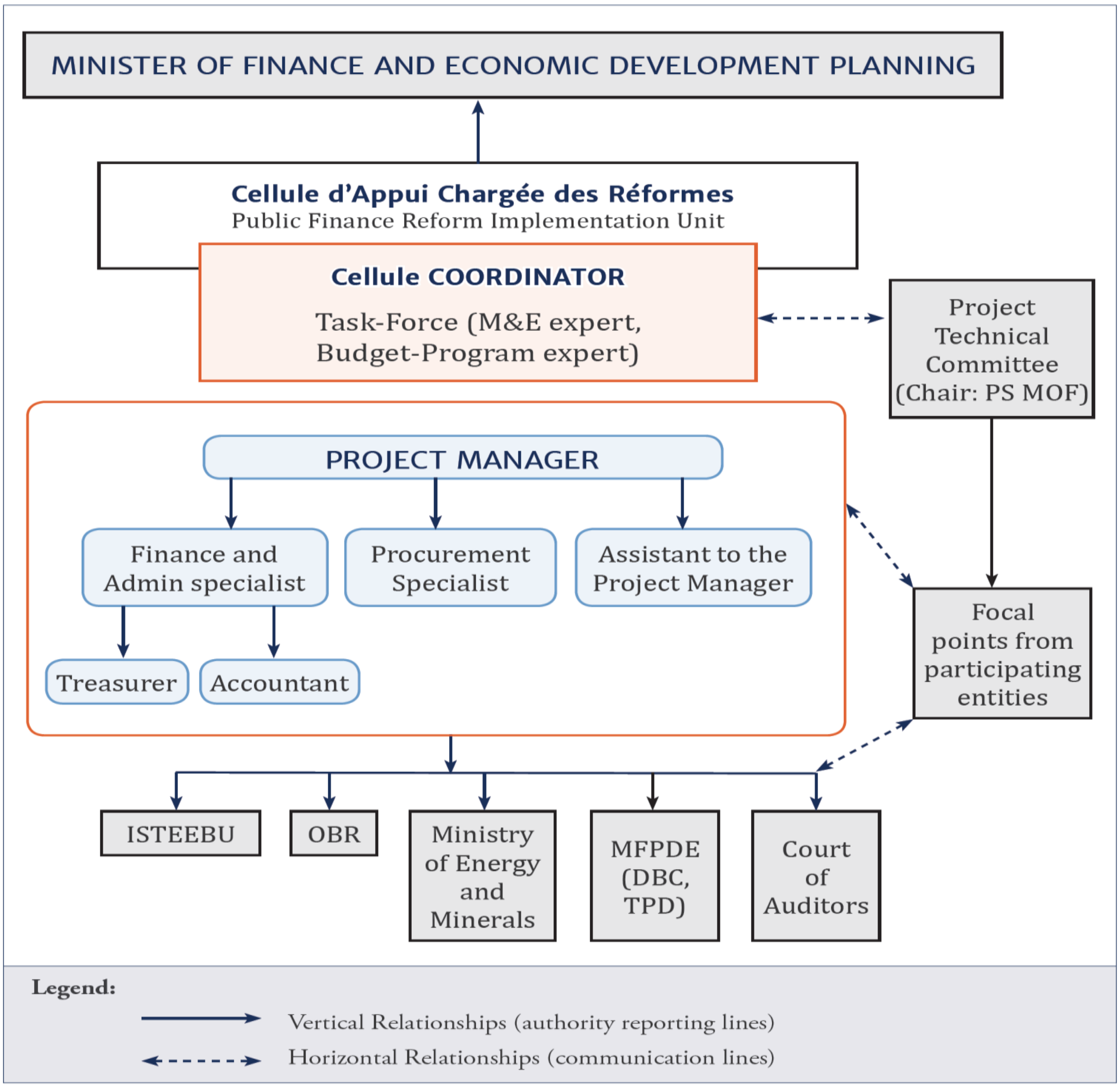
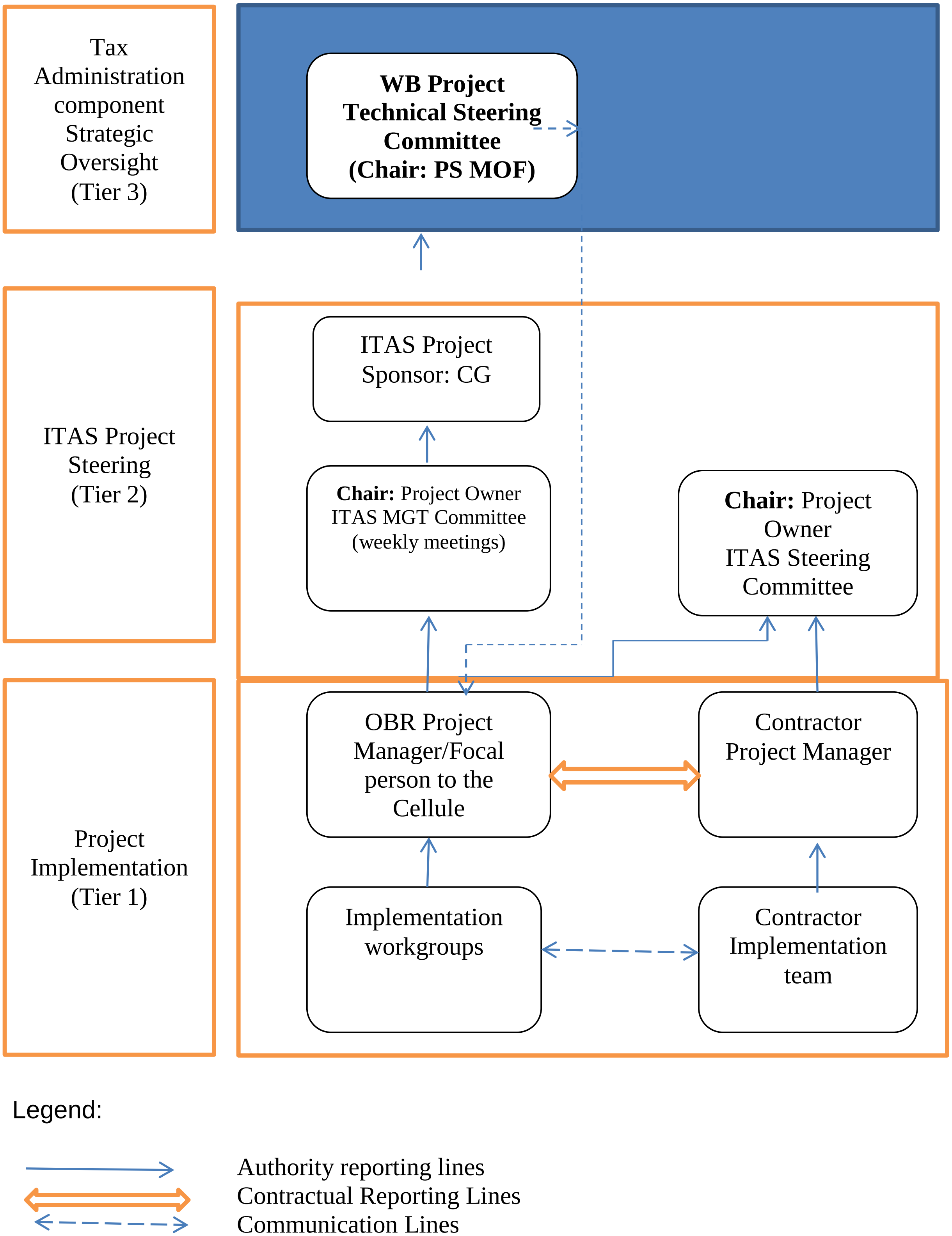


Figure A3- 2: Tax Administration Component - OBR ITAS Implementation Structures



Financial Management, Disbursements, and Procurement

Financial Management

13. As part of the Project preparation, a financial management assessment of the *Cellule d'appui chargé des réformes* was carried out. The objective of the assessment was to determine whether the unit has adequate financial management arrangements in place to ensure that (i) project funds will be used for purposes intended in an efficient and economical way; (ii) project financial reports will be prepared in an accurate, reliable, and timely manner; and (iii) the project's assets will be safeguarded. The financial management (FM) assessment was carried out in accordance with the Financial Management Practices Manual issued by the Financial Management Sector Board on November 3, 2005, as revised in March 2010. In this regard, a review of the existing FM system (budgeting, staffing, financial accounting, financial reporting, funds flow and disbursements, internal and external audit arrangements) at the Cellule has been carried out.

14. The conclusion of the assessment was that while the Cellule does not have any direct experience in implementing IDA financed lending operations; there is already capacity within the Cellule in managing donor-funded operations, which can be further strengthened at implementation stage. Specifically, a Project Management Unit has been already established since 2012 to manage and implement the AFDB-funded project to Strengthen Capacity of the Public Administration (*Programme de Renforcement des Capacités de l'Administration*, PRECA). Since December 2014, the *Cellule* – through the PRECA team – has been managing the PPF (US$1 million) for the proposed Bank operation. The financial team is composed of one Chief accountant and one assistant accountant; the Chief Accountant has an over 26 years of experience in finance and accounting of which 10 years were with the AfDB projects; he has a degree in accounting, business, and administration. The Assistant Accountant has over 18 years' experience in finance and accounting of which 8 years were with the IDA-PRADECS project; she has a degree in Finance and accounting and a Master in Gender and Society institutions. The unit maintains proper books of accounts, which include a cash book, ledgers, journal vouchers, and a contract register through the suitable Project software "TOMPRO". They prepare the necessary records and books of accounts which adequately identify, in accordance with accepted international accounting standards and practices, the goods and services financed out of the proceeds of the AfDB Grant. It is expected that this accounting software will also be used for the implementation of this new project.

15. The overall residual FM risk is substantial (see table below) due to the overall weak capacity context. For the purpose of this project, the current FM team will be supported by an additional qualified, experienced financial expert who will be recruited through a competitive process. The accounting, finance, and administrative procedures are documented in the Project Implementation Manual (PIM) which is being prepared by the *Cellule*. Training on the use of the PIM will be organized at the early stages of project implementation.

Table A3- 1: Risk Assessment and Mitigation

16. The following risk identification table summarizes the significant risks with the corresponding mitigating measures.

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Conditions for Effectiveness (Y/N)	Residual Risk
Country level: Burundi is still a high risk country from the fiduciary perspective. The PER, the PEFA 2008 and 2014, as well as the UCS reports outlined PFM weaknesses at both central and decentralized levels.	H	The Government is committed to a reform program that includes the strengthening of PFM. Ongoing IDA-financed projects are being implemented but they are unlikely to yield results quickly enough to impact the proposed project. Use of IDA FM procedures is required for this project.	N	**H**
Entity level: The assessment of some ministries during the PEFA and UCS, particularly the Ministry Finances, revealed internal control weaknesses and a weak fiduciary environment.	S	The existing financial team within the Cellule will be strengthened with a financial management specialist who has extensive experience with WB fiduciaries procedures. Adoption of a FM PIM by effectiveness will also help to mitigate internal control weaknesses.	N	M
Project level: Under the auspices of the MFPDE, the Cellule will lead the implementation of this project. Ensuring funds are used for purposes intended, as well as a fluid and efficient flow of funds might be challenging.	S	Training on fiduciary procedures will be conducted for all FM staff throughout the life of the project. Clear TORs for each responsibility will be agreed between the parties involved. Supervision missions will be conducted at least every six months. A new financial expert who is experienced in World Bank financial procedures will be recruited through a competitive process.	N	S
Control Risk	**S**			**S**
Budgeting: The Annual Work Plans and Budgets will be prepared by the Cellule and approved by the Steering Committee based on the policy guidelines. The budgeting process is fairly complex. Since inputs are required from all implementing entities, delays could affect the preparation of the budget. Additional challenges include weak capacity in the implementing entities to prepare and submit an accurate work program and budget as well as weak budgetary execution and control.	S	The FM section of the PIM will define the arrangements for budgeting, budgetary control and the requirements for budgeting revisions. Annual detailed disbursement forecasts and budget required. IFRs will provide information on budgetary control and analysis of variance between actual and budgeted expenses.	N	M
Accounting: Currently, the Cellule uses one accounting software (TOMPRO) for all World Bank financed projects in Burundi. This software will be adapted and used to accommodate financial information from other donors. Potential risks include: poor policies and procedures and delay in keeping reliable and auditable accounting records.	S	The project will adopt the OHADA accounting system. Accounting procedures will be documented in the PIM. The FM functions will be carried out by qualified consultants (one additional FM Consultant to be recruited on a competitive basis), and the existing software will be customized to take into consideration the need for this new project.	N	M
Internal Control: The existing	S	Adoption of a project financial management section	N	S

Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design	Conditions for Effectiveness (Y/N)	Residual Risk
Financial and accounting manual as well as the Regulation Rules may not be sufficient for the management of this project which may result in misuse of funds and impact the implementation of the project. In addition, the Cellule does not have an internal audit unit.		of the PIM and training on the use of the PIM will help to mitigate the risks relating to internal control		
Funds Flow: One Designated Bank account will be opened at the BRB and will be managed by the project manager and the financial officer of the Cellule in coordination with the head of the donor coordination unit. Risks include delays in disbursements of funds and delays of replenishment of the designated account.	S	Training on the new disbursement procedures particularly e-disbursement will be provided. Regular meetings between the fiduciary team at the *Cellule* and the focal persons at the BRB will work to identify possible bottlenecks.	N	S
Financial Reporting: Some fiduciary staff are not familiar with World Bank procedures, which risk inaccuracies and delays in the submission of IFRs to the WB.	S	IFRs and financial statement format and content will be discussed during project negotiations and IFR templates will be included in the FM section of the PIM. The IDA team will follow-up closely on FM reporting, including training at the outset of the project in IFRs. The Chief accountant will be trained on WB fiduciary procedures. The recruitment of the high level financial expert will also help to mitigate the risk.	N	M
Auditing: A qualified external auditor will be appointed to audit annually the World Bank financed project. Related risks include delays in the submission of audit reports or qualified opinions as well as delays in the implementation of audit report recommendations.	S	An annual audit will be carried out during the project implementation period in accordance with ISA. Follow up of audit recommendations will be monitored closely during Implementation Support Missions.	N	S
Governance and Accountability: Possibility of circumventing the internal control system with colluding practices such as bribes, and abuse of administrative positions, are potential risks. Mis-procurement in this context is also a critical issue.	M	The TOR of the external auditor will comprise a specific chapter on corruption auditing. FM procedures will be approved before project effectiveness. Robust FM arrangements, quarterly IFRs including budget execution and monitoring, and measures to improve transparency will help to mitigate these risks.	N	M
OVERALL FM RISK	H			**S**

Implementing Entity

17. The Cellule's existing FM team is composed of one chief accountant and one assistant accountant. They will be supported by one additional financial expert who will be recruited through a competitive process; the WB and Cellule will have the right to review the resume of the identified experts and meet with them before formal appointment. The overall selection should be finalized before effectiveness, but the contract should be signed only after effectiveness, and no later than three months after effectiveness. The selected candidate will be trained on the use of WB fiduciary procedure immediately after project effectiveness.

Planning and Budgeting

18. The Annual Work Plan (AWP) and budget along with the disbursement forecast will be elaborated by the Cellule's Head Management Unit in coordination with the Financial expert unit, which will be submitted to the Cellule Steering Committee for approval, and thereafter to IDA for approval no later than November 15th of the year proceeding the year the work plan should be implemented, and, for the first year of project implementation, one month after project effectiveness. The implementing entity will monitor its execution with the accounting software in accordance with the budgeting procedures specified in the PIM and in the Financial Regulations and Rules.

19. The budgeting system needs to forecast for each fiscal year the origin and use of funds under the project. Only budgeted expenditures would be committed and incurred so as to ensure that the resources are used within the agreed upon allocations and for the intended purposes. The quarterly IFRs will be used to monitor the execution of the AWP.

Information and Accounting System

20. Burundi is a member of the "*Organisation pour l'Harmonisation en Afrique du Droit des Affaires"* (OHADA), and hence adheres to its accounting standards, (Syscohada), in line with international accounting standards. Hence Syscohada accounting standards will apply to this project. An integrated financial and accounting system will be put in place and used by the fiduciary unit. The Project code and chart of accounts will be developed to meet the specific needs of the project and documented in the PIM. The unit presently uses the accounting software TOMPRO as for all other World Bank financed project in Burundi. The existing Software will be adapted and used to accommodate financial information from other donors if need be. The charter project account should be prepared according to the wording used in tables for sources and uses of funds for the accepted eligible expenditures as agreed during negotiations of the Project. These diaries and records should be maintained with the support of financial management software that should be operational no later than three months after Project effectiveness.

Internal control and financial, administrative, and accounting manual

21. The internal control system of the Project will be described in the financial management manual. Such manuals should be flexible enough to allow for improvement and changes as necessary during Project implementation. This manual should be fully aligned with the accounting aspects mentioned above as well as the modules of FM software. The Cellule already has an FM

and accounting procedures manual that was prepared and used for the previously administered AfDB projects, which will be updated and revised to take into account the specific aspects of Bank-financed projects.

Disbursement arrangements

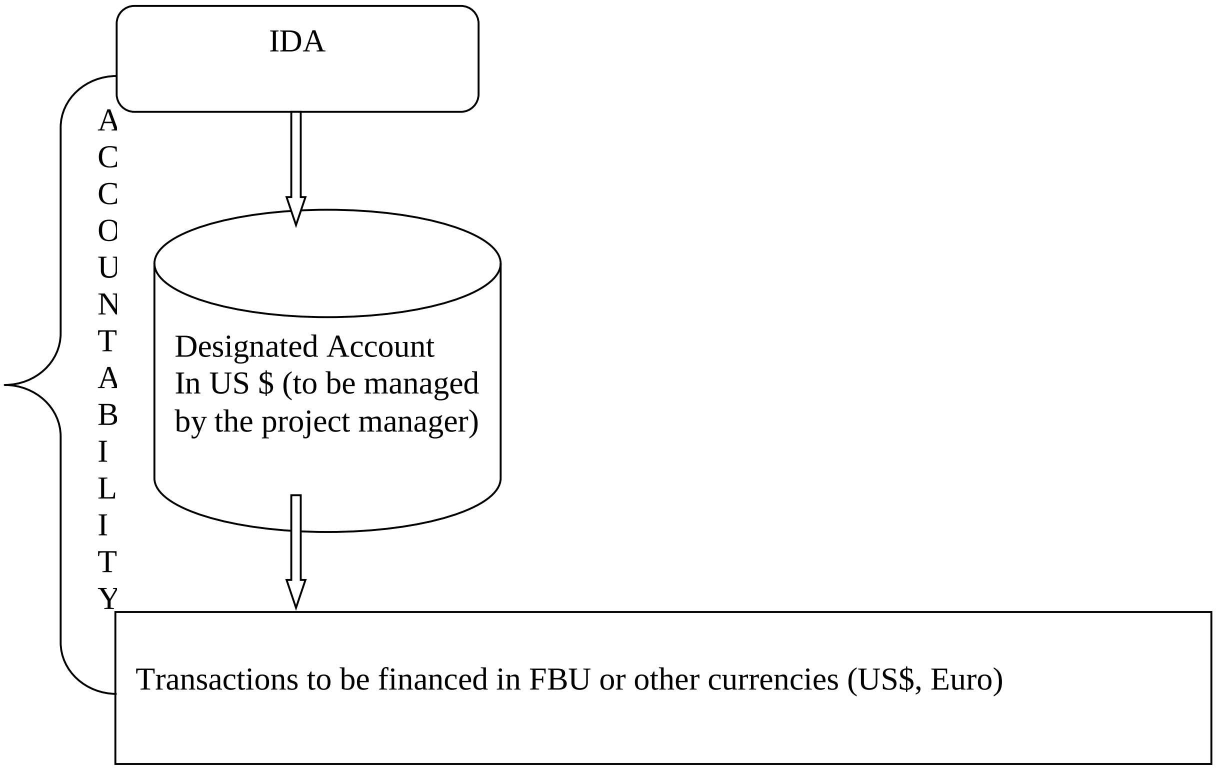
22. A Designated Account (DA) will be opened at the BRB on terms and conditions acceptable to IDA under the fiduciary responsibility of the *Cellule*. The ceiling of the Designated Account will be decided by the disbursement services of the World Bank and will become effective upon grant effectiveness. This Designated Account will be used to finance all eligible project expenditures under the different components. Payments will be made in accordance with the provisions of the Project Implementation Manual (e.g., two authorized signatures will be required for any payment); the designated account will have three signatories composed of the project manager, the project financial officer, and the head of the donors coordination unit. As for all other World Bank financed projects, the project manager and the financial officer will be the designated signatories. The head of the reform coordination unit (Coordinateur de la Cellule) will sign during the absence of one of the two designated signatories.

23. The Designated Account will be replenished against withdrawal applications supported by Statements of Expenditures and other documents evidencing eligible expenditures as specified in the Disbursement Letter. All supporting documents should be retained and readily accessible for review by periodic IDA implementation support missions and external auditors.

Disbursement methods*:*

24. Upon Grant effectiveness, transaction-based disbursements will be used during the first year of project implementation. Thereafter, the option to disburse against submission of quarterly unaudited Interim Financial Report (also known as the Report-based disbursements) could be considered subject to the quality and timeliness of the IFRs submitted to the Bank and the overall financial management performance as assessed in due course. The option of disbursing the funds through direct payments to suppliers/contractors for eligible expenditures will also be available for payments equivalent to twenty percent (20%) or more of the DA ceiling. Another acceptable method of withdrawing proceeds from the IDA grant is the special commitment method whereby IDA may pay amounts to a third party for eligible expenditures to be paid by the Recipient under an irrevocable Letter of Credit (LC).

25. The flow of funds is summarized as follows:



Reporting arrangements

26. The Cellule will record and report on project transactions and submit to the World Bank Interim Financial Monitoring Reports (IFRs) no later than 45 days after the end of each calendar quarter. At a minimum, the financial reports must include the following tables with appropriate comments; (i) Sources and Uses of Funds; (ii) Uses of Funds by Project Activity/Component and comparison between actual expenditures and budget; (iii) Special account activity statement; and (iv) Note to the IFR. At the end of each fiscal year, the project will issue the Project Financial Statements (PFS) comprising: (i) a balance sheet; (ii) a statement of sources and uses of funds; (iii) accounting policies and procedures; and (iv) notes related to significant accounting policies and accounting standards adopted by management and underlying the preparation of financial statements. These PFS will be subject to annual external audits as described below.

External auditing arrangements

27. A qualified, experienced, and independent external auditor will be recruited on approved terms of reference three months after effectiveness. The external audit will be carried out according to either International Standards on Auditing (ISAs) or Auditing Standards (ASs) and will cover all aspects of project activities implemented and include verification of expenditures eligibility and physical verification of goods and services acquired. The report will include specific controls such as compliance with procurement procedures and financial reporting requirements as well as consistency between financial statements and management reports and field visits (e.g. physical

verification). The audit period will be on an annual basis and the reports including the financial statements submitted to IDA and to the auditors six months after the end of each fiscal year.

28. The project will comply with the Bank disclosure policy of audit reports, making them publicly available, promptly after receipt of all final financial audit reports, including qualified audit reports, and provide information on its the official website within one month of the report being accepted as final by the team.

Financial Management Action Plan

29. The Financial Management Action Plan described below in Table A3-2 has been developed to mitigate the overall financial management risks.

Table A3- 2: Financial Management Action Plan

Issue	**Remedial action recommended**	**Responsible entity**	**Completion date**	**FM Conditions**
Project Staffing	Recruitment of one financial management expert based on agreed TORs.	Cellule	By project effectiveness	YES
Accounting software "TOMPRO"	Update the existing software systems "TOMPRO" to accommodate this new project.	Cellule	Three months after effectiveness	NO
Staff training	Training of fiduciary staff on the use of WB fiduciary procedures.	Bank	Six Months after effectiveness	NO
FM procedures manual	Prepare the manual of procedures for Cellule.	Bank and Cellule	By project effectiveness	YES
Reporting (IFRs)	Agree on the format and content of Unaudited Interim Financial Reporting (IFRs).	Cellule	Discussed and agreed during Negotiations	NO
External auditing	Recruitment of an external auditor based on agreed ToRs (project accounts).	Cellule	Three months after effectiveness	NO

Supervision Plan

30. Supervision will be conducted over the project's lifetime, which will use a risk-based approach. It will comprise inter alia, the review of audit reports and IFRs, as well as advice to the task team on all FM issues. Based on the current risk assessment (which is substantial) the project will be supervised at least twice a year and may be adjusted when the need arises. The ISR will include a FM rating of the project. An implementation support mission will be carried out before effectiveness to ensure the project readiness. To the extent possible, mixed on-site supervision missions will be undertaken with procurement, monitoring and evaluation, and disbursement colleagues.

31. Based on the outcome of the FM risk assessment, the following implementation support plan is proposed in Table A3-3 below.

Table A3- 3: Implementation Support Plan

FM Activity	Frequency
Desk reviews	
Interim financial reports review	Quarterly
Audit report review of the program	Annually
Review of other relevant information such as interim internal control systems reports	Continuous as they become available
On site visits	
Review of overall operation of the FM system	Semi-annually (Implementation Support Mission)
Monitoring of actions taken on issues highlighted in audit reports, auditors' management letters, internal audit, and other reports	As needed
Transaction reviews (if needed)	As needed
Capacity building support	
FM training sessions by World Bank FM team	Before Project start and thereafter as needed.

32. The objectives of the above implementation support plan are to ensure the project maintains satisfactory financial management systems throughout the project's life.

FM standard covenants

- IFRs will be prepared on a quarterly basis and, submitted to the Bank 45 days after each quarter;
- Annual detailed work program and budget, including disbursement forecasts will be prepared each year and submitted to the Bank by November 15.
- The overall FM system will be maintained operational during the project's entire life in accordance with sound accounting practices.

Conclusions of the FM Assessment:

33. The overall residual FM risk at preparation is considered Substantial. The proposed financial management arrangements for this project are considered adequate to meet the Bank's minimum fiduciary requirements under OP/BP10.00.

Procurement

34. **The Country Procurement Environment**: In 2008, Burundi enacted a public procurement law that provided a set of modern rules on standardized procurement processes, procedures, and controls, as well as their application. However, its implementation is facing, among other challenges, weak institutional capacity and significant shortcomings in procurement processes as revealed by the recent independent audit report of September 2014. In addition, the

Government has initiated a revision process for the current law, which currently allows external financing to take precedence over any contrary provisions in local regulations.

35. **Applicable Guidelines:** Procurement for the proposed project will be carried out by the Cellule in accordance with the World Bank's Guidelines:

(a) Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, dated January 2011, revised in July 2014;

(b) Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, dated January 2011, revised in July 2014;

(c) Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006, revised in January 2011; and

(d) The provisions stipulated in the Financing Agreement.

36. The items under different expenditure categories to be procured, as identified during appraisal, are indicated in the section on the scope of procurement under the project. For each contract to be financed by IDA, the client and the Bank will agree upon, and record in the Procurement Plan, the various procurement and selection methods, the need for pre-qualification, estimated costs, prior review requirements, and the time frame. The Procurement Plan will be updated annually, or as otherwise required, to reflect the actual project implementation needs and improvements in institutional capacity. The Borrower, as well as contractors, suppliers, and consultants, will observe the highest standards of ethics during procurement and execution of contracts financed under this project.

37. **Standard Bidding Documents**: Procurement will be carried out using the Bank's Standard Bidding Documents (SBD) for goods and works for International Competitive Bidding (ICB), while selection of consultants will use the Standard Request for Proposals (SRFP). In addition, the implementing agency will use Standard Bid Evaluation Form for procurement of goods and works for ICB contracts, and the Sample Form of Evaluation Report for Selection of Consultants. For National Competitive Bidding (NCB) of goods, works and non-consulting services, the Borrower will submit a sample form of bidding documents to the Bank for prior review and will use this type of document throughout the project once agreed upon. The following compliance requirements will be considered:

- In accordance with paragraph 1.16 (e) of the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Financing shall provide that (a) the bidders, suppliers, contractors and their subcontractors, agents, personnel, consultants, service providers, or suppliers shall permit the Association, at its request, to inspect all accounts, records and other documents relating to the submission of bids and contract performance, and to have said accounts and records audited by auditors appointed by the Association; and (b) the deliberate and material violation of such provision may amount to an obstructive practice as defined in paragraph 1.16 (a)(v) of the Procurement Guidelines.

- Invitations to bid shall be advertised in national newspapers with wide circulation.

- The bid evaluation, qualification of bidders and contract award criteria shall be clearly indicated in the bidding documents.

- Bidders shall be given adequate response time (at least four weeks) to submit bids from the date of the invitation to bid or the date of availability of bidding documents, whichever is later.

- Eligible bidders, including foreign bidders, shall be allowed to participate.

- No domestic preference shall be given to domestic contractors and to domestically manufactured goods.

- Bids are awarded to the lowest evaluated bidder proven this bidder is qualified.

- Fees charged for the bidding documents shall be reasonable and reflect only the cost of their printing and delivery to prospective bidders, and shall not be so high as to discourage qualified bidders.

38. **Advertising:** A comprehensive General Procurement Notice will be prepared by the Borrower and published in the United Nations Development Business online (UNDB online) following Board Approval, to announce major consulting assignments and any international competitive bidding (ICB). The General Procurement Notice shall include all ICB for works, goods, and non-consulting services contracts and all large consulting contracts (i.e., those estimated to cost US$200,000 or more). In addition, a specific procurement notice is required for all works and goods to be procured under ICB in UNDB online. Requests for Expressions of Interest (EOI) for consulting services expected to cost more than US$200,000 shall be advertised in UNDB online. An EOI is required in the national gazette, a national newspaper, or an electronic portal of free access for all consulting firm services regardless of the contract amount. In the case of NCB, a specific procurement notice will be published in the national gazette, a national newspaper, or an electronic portal of free access. Contract awards will also be published in UNDB, in accordance with the Bank’s Procurement Guidelines (para. 2.60) and Consultants Guidelines (para. 2.31).

Scope of Procurement and Selection under the Project:

39. **Procurement of Works**. This category will basically include small works of office rehabilitations.

40. **Procurement of Goods and IT systems**. This procurement will include (i) motor vehicles and motorcycles; (ii) office furniture; (iii) computers; (iv) IT systems for integrated tax administration; and (v) software for statistical data management.

41. **Consulting Services**. These services will include: (i) technical assistance to PIU; (ii) study of fiscal policy strategy; (iii) technical assistance to IT procurement; (iv) technical assistance to line departments; (v) capacity building of IT human resources of the Ministry of finances; (vi)

support to national Chartered Accountants; and (vii) various technical studies and training modules designing.

42. The consulting services will, as far as possible, be awarded under Quality and Cost Based Selection (QCBS) procedures. Other methods of selection will be determined for each assignment depending on the type of assignment and the provisions of the Consultant Guidelines and will be indicated in the procurement plan.

43. Short lists of consultants for services estimated to cost less than US$200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

44. **Procurement of non-consulting services:** Non-consulting services are services that are not of intellectual or advisory nature. Procurement of non-consulting services shall follow the competitive bidding procedures acceptable to the association and as prescribed in the Procurement Manual, which will form part of the Project Implementation Manual (PIM).

45. **Record Keeping and Filing**: Besides functioning as a compliance measure, records are essential for transparency, accountability, integrity, and effective performance. Thus, the Project will document all steps in the process for each contract. These procurement documents will be filed in a manner that will facilitate retrieval in the event of audits or reviews. Procurement record-keeping will be the responsibility of the Procurement Unit.

46. **Operating Costs***:* Operating costs will cover, inter alia, the venue and materials for workshops and training; the servicing of office machines and equipment; the operation and maintenance of vehicles and IT equipment; office supplies; communication charges; bank charges; advertising costs; per diem and travel costs for staff when travelling on duty for the purpose of project implementation, but excluding the salaries or bonuses of civil servants. Operating expenditures will be financed following procedures described in PIM and verified by TTLs or FMS. They will not be subject to the procurement Guidelines or prior or post reviews.

47. **Assessment of implementation capacity for procurement:** A procurement risk assessment for the proposed PIU was conducted in September 2014 (and validated during the project appraisal of February 2015).The assessments reviewed the organizational structure and functions, past experience, staff skills, procurement cycle management, quality and adequacy of supporting and control systems and record keeping.

48. **Procurement risks**. Table A3-4 below summarizes procurement risks. The overall project risk for procurement is ***High*** and mitigation measures are proposed that would, after implementation, downscale the risk to **Substantial**.

Table A3- 4: Procurement Risk assessment and Mitigation Measures

Risk	**Mitigation measure**	**Completion Date**	**Responsible Entity**
1) Lack of clarity on who is accountable for which procurement decisions between Cellule and project	Ensure that the project organizational chart clarifies accountability for procurement decision making at all steps of the procurement process.	Completed at the end of Appraisal mission (February	Cellule

coordinator.		13, 2015)	
2) Limited experience of PIU in World Bank procurement procedures	Build capacity of the on-board procurement staff and hire a dedicated procurement specialist to support the procurement function, including capacity building to project beneficiaries	At least three months after effectiveness	Cellule
3) Existing implementation manual not informative enough on procurement aspects, particularly with regard to WB procurement procedures	Ensure procurement aspects (clarifying procurement processes, contract management, and ethical standards) are covered in the project implementation manual.	At least three months after effectiveness	Cellule
4) Inadequate record keeping & document management system	Establish a separate and strengthened procurement records and records keeping system following the WB guidance on filing and archiving procurement documents.	At effectiveness	Cellule

49. **Frequency of procurement supervision:** In addition to the prior-review supervision conducted from Bank offices, the Bank will carry out annual supervision missions to conduct post review of procurement actions and contracts below prior review thresholds on the basis of a sample of about 15 % of contracts within the review period.

50. **Prior review threshold:** The prior review thresholds are as follows:

a) Procurement of Goods and Works

Expenditure category	Procurement method	Threshold (US$)	Contracts subject to prior review
1. Works	ICB NCB Shopping Direct Contracting	≥ US$5 million < US$5 million < US$100,000 All values	All contracts None None ≥ US$100,000
2. Goods	LIB &ICB NCB Shopping Direct Contracting	≥ US$500,000 < US$500,000 < US$50,000 All values	All contracts None None ≥ US$100,000
3. Non-consultancy Services and IT systems	NCB Shopping Direct Contracting	< US$500,000 < US$50,000 All values	None None ≥ US$100,000

b) Selection of Consultants

Expenditure category	Procurement method	Contract value (Threshold) US$	Contracts subject to prior review
(a) Firms	QCBS, QBS, FBS, LCS	≥ US$200,000	All contracts
	QCBS, CQS, LCS, QBS, FBS,	< US$200,000	Selected contracts as indicated in the procurement plan
	SSS	All values	≥ US$100,000
(b) Individuals	Three CVs	< US$200,000	Selected contracts as indicated in the procurement plan
	Three CVs	≥ US$200,00	All contracts
	SSS	All values	≥ US$100,000

51. **Procurement Plan:** The Borrower, at appraisal, developed a procurement plan that project management will use during the first 18 months of project implementation. This plan was reviewed by the Bank Team on February 17, 2015 and the agreed version was included as part of negotiations package, and will subsequently be available in the Project's database and on the Bank's external website. The Procurement Plan will be updated annually, in agreement with the Project Team, or as required to reflect actual project implementation needs and improvements in institutional capacity.

52. The following tables provide the Summary of some Procurement Packages planned during the first 18 months of project implementation.

Table A3- 5: Procurement of works, goods, and non-consulting services

1	2	3	4	5	6	7	8	9
Ref. No.	Contract (Description)	Estimated Cost (US$.)	Procurement Method	Prequalification (yes/no)	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid-Opening Date	Comments
1	Works: office rehabilitation of Mines Directorate	300,000	NCB	No	No	Post	March 15, 2016	
2	IT systems for integrated taxes administration	7,800,000	ICB	No	No	Prior	January 15, 2016	
3	Vehicles	40,000	Shopping	No	No	Post	June 15, 2016	
4	Motorcycles	100,000	NCB	No	No	Post	June 15, 2016	
5	Computers and scanning machines	300,000	NCB	No	No	Post	February 15, 2016	

6	Printing equipment of ISTEEBU	150,000	NCB	No	No	Post	July 10, 2016	
7	GPS	100,000	NCB	No	No	Post	July 25, 2016	
8	Software for statistical data management	45,000	Shopping	No	No	Post	November 15, 2016	
9	Upgrading internet connectivity	45,000	Shopping	No	No	Post	October 15, 2016	

Table A3- 6: Consulting services, including core staff of the PMU

1	2	3	4	5	6	7
Ref. No.	**Description of Assignment**	**Estimated Cost (US$'000)**	**Selection Method**	**Review by Bank (Prior / Post)**	**Expected Proposals Submission Date**	**Comments**
1	Module for fiscal forecasting	300,000	QCBS	Prior	March 25, 2016	
2	Module for statisticians career development	300,000	QCBS	Prior	June 05, 2016	
3	Establishment of Micro/macro modeling of economy	200,000	QCBS	Prior	February 25, 2016	
4	Training module for competencies development of OBR	250,000	QCBS	Prior	April 15, 2016	
5	Establishment of new taxes code	180,000	QCBS	Post	September 15, 2016	
6	Capacity building for key staff of reforms monitoring	96,000	CQ	Post	December 08, 2015	
7	Financial audit	30,000	LCS	Post	September 1, 2015	Shortlist to be agreed with the Bank
8	Training to SIGEFI module	300,000	SSS	Prior	October 15, 2016	
9	Short-term fiscal strategy	60,000	IC	Post	January 25, 2016	
10	Communication strategy	60,000	IC	Post	October 25, 2016	
11	Revamping and maintenance of ISTEEBU Website	75,000	IC	Post	November 15, 2016	
12	Hiring of additional staff of the PIU	200,000	IC	Prior	April 15, 2016	Initial team of 3 key staff (financial management, procurement and monitoring/evaluation)

Annex 4: Implementation Support Plan

Strategy and Approach for Implementation Support

1. As detailed in Annex 3, The MFPDE will have overall responsibility for the project via the Public Finance Reform Implementation Unit (*Cellule d'Appui Chargée de Réformes)*. The Cellule reports directly to the Permanent Secretary of the MFPDE and is also responsible for the implementation of this IDA-financed operation through a technical and an administrative team. The Cellule will ensure technical coordination and effective oversight over all activities related to the Public Finance reform process and will evaluate progress on the reforms' actions supported under this project. The *Cellule* will be the Bank's main counterpart.

2. In advance of project approval, a Project Preparation facility was established in the amount of US$1,000,000 to fund preparatory work, which was determined by both the Bank and Government during project preparation. This included, inter alia, preparing work plans, conducting diagnostic studies and organizational audits, and procuring basic equipment and trainings in order to support the project's four components. In addition, funds were allocated for project coordination in order to develop the project implementation manual, and support the project implementation unit, including fiduciary and procurement support.

3. At project implementation, an international senior expert on tax administration will be recruited and join the Bank team, to provide additional technical advice to the Task team and support the TTL to effectively monitor progress on project activities, provide inputs on analytical and advisory work, and facilitate the policy and technical dialogue with Government and donors on areas covered under the project, with a special focus on component 1. This will be complemented by just-in-time studies and advisory services prepared by the Bank to support the technical dialogue and better identify TA needs that might be included in the current operation.

4. Dedicated technical specialists have been identified for each of the components and will be available on a need-basis for technical guidance in developing and reviewing terms of reference, and facilitating the dialogue with all implementing agencies. These specialists will be a resource for both the Bank's Team and also available to the Government to respond to specific technical queries. In addition, specialized World Bank Financial Management and Procurement staff will provide guidance to the staff responsible for financial management and procurement. Training and technical assistance is being provided to the FM and procurement units to give much needed support for day-to-day administrative management of the project. As the Financial Management (FM) risk is assessed as substantial and procurement risk is assessed as high, the financial management implementation support missions will be carried out semi-annually. FM risk will be reassessed at each mission and the level of implementation support adjusted accordingly. The implementation support mission will include reviews of the continued adequacy of the project's financial management arrangements and a review of selected transactions on an annual basis. These will be integrated technical and fiduciary missions, undertaken jointly by the World Bank and the trust fund donors.

5. A thorough mid-term review of the strategic approach of the project will also be undertaken and recommendations from the review used to implement any midterm corrections. This mid-term review will be undertaken after approximately two years after effectiveness. The mid-term review

missions will draw upon the findings of independent experts financed by the Bank. This work will be commissioned six months before the mid-term review of the project is planned.

6. Given the multi-sectoral nature of this project as well as Burundi's particular capacity challenges, it is proposed that formal dedicated two week implementation support missions take place on quarterly basis for the first three years of project implementation, followed by bi-annual supervision missions during the last two years of the project. Technical experts and advisors from the Co-Financiers will be invited to join the implementation support missions, and close collaboration and information sharing will be ensured with all other donor partners.

7. The table below highlights the main focus of implementation support in the first six months and over the first 18 months, respectively:

Time	**Focus**	**Resource Estimate**	**Partner Role**
First six months	Technical and procurement review of contracts for the ITAS solution and consultants Procurement training and supervision	Tax Administration Expert and public sector specialist (4SWs) Procurement specialist (2SWs)	NA
	FM training and supervision	FM specialist (2SWs)	
	Elaborating Macro-Economic Model processes	Economist (2SWs)	
	Reviewing TOR and supervise TA for consultancy services	Economist (4 SWs) Tax Policy Expert (4 SWs) Mining Expert (4 SWs) Statistics Expert (4 SWs) Public Sector Specialist (4 SWs)	
	Team leadership and dialogue with the client	TTL (8 SWs)	
	Technical and procurement review of contracts for consultants	Economist and public sector specialist (5SWs) Procurement specialist (2 SWs)	
6-15 months	Review M&E reports	M&E specialist (2 SWs)	NA
	Reviewing action plans from functional review of new organizational models, as well as other diagnostic assessments	Economist (4 SWs) Tax Policy Expert (4 SWs) Mining Expert (4 SWs) Statistics Expert (4 SWs) Public Sector Specialist (4 SWs)	
	Task leadership and dialogue with the client	TTL 10 SWs	
		Note: SWs = Staff-Weeks	

8. Staff skill mix required, per year, is summarized below:

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
TTL	10	3	DC based
Public Expenditure Management Specialist	5	2	Based in the region
Tax Policy Expert	5	2	DC based
Public Finance and Tax administration expert	8		Bujumbura based (to be recruited in 2015)
Tax administration expert	4	2	Nairobi based
Governance Specialist	4	2	Kinshasa based
Senior Statistician	5	2	DC based
Mining sector specialist	5	2	DC based
Legal adviser	1	1	DC based
Procurement specialist	5		Bujumbura based
FM specialist	5		Bujumbura based
M&E specialist	4	1	DC based
Consultant	5	2	DC based

Annex 5: Project Team Composition

Table A5- 1: Project Team Composition

Team composition		
Name	*Title*	*Unit*
Marco Larizza	Senior Public Sector Specialist	GGODR
Mamadou Ndione	Senior Country Economist	GFMDR
Chiara Bronchi	Lead Public Sector Specialist	GGODR
Abdoullahi Beidou	Senior Economist/Statistician	GPVDR
Aurelien Serge Beko	Economist	GPVDR
Sadia Aderonke Afolabi	Consultant /Governance	GGODR
Michael Christopher Jelenic	Consultant /Governance and Operations	GGODR
Rachel Bernice Perks	Mining Specialist	GEEDR
Laurent Oliver Corthay	Senior Private Sector Development Specialist	GTCDR
Moses Kajubi	Senior Private Sector Development Specialist	GTCDR
El Hadramy Oubeid	Public Sector Specialist	GGODR
Yemdaogo Tougma	Research Analyst	GMFDR
Bella Lelouma Diallo	Senior Financial Management Specialist	GGODR
David Bontempo	Operations Analyst	GPSOS
Yoko Kagawa	Senior Operations Officer	GPSOS
Melance Ndikumasabo	Senior Procurement Specialist	GGODR
Christian Simbananiye	Financial Management Specialist	GGODR
Shiho Nagaki	Senior Public Sector Specialist	GGODR
Denis Tshibombi Leta	Governance Specialist	GGODR
Nneoma Nwogu	Senior Counsel	LEGAM
Marie-Roger Augustin	Legal Analyst	LEGAM
Faly Diallo	Financial Controller	CTRLA
Pierre M. Lenaud	Program Assistant	GGODR
Patrice Sade	Program Assistant	GGODR
Pacifique Ndoricimpa	Team Assistant	AFMBI
Francois Vaillancourt	Consultant / Fiscal Decentralization	GGODR
Federico Andres Ortega Sosa	Consultant / Tax administration	GGODR

Annex 6: Complementary Technical Assistance provided by the Bank under the MDTF

Background

1. The Government of Belgium has committed a 6 million Euros contribution to the project, through an MDTF to co-finance activities under component 1 of the project, which focuses on Modernizing Revenue Policy and Administration. The Administration Agreement is expected to be signed soon.

2. The MDTF includes both Recipient-Executed (RE) activities and Bank-Executed (BE) activities. Specifically, a Grant agreement for 4.9 million Euros will be signed soon with the Government of Burundi to co-finance activities under component 1. Complementary technical assistance will also be provided by the Bank by executing activities, studies and advisory services for 800,000 Euros.

Rationale for the Bank TA

3. The success of the proposed operation will largely depend on the quality and frequency of the technical dialogue and engagement with the client, especially at the early stages of project implementation. The project aims to support the Government of Burundi on ambitious reforms in the area of tax administration and public financial management, which requires dedicated technical expertise on the ground, to monitor progress and address local capacity constraints in a timely and effective fashion.

4. In particular, the procurement of a new ITAS for OBR presents technical challenges, which if not addressed could lead to the inadequacy of the procured system. Given the highly technical and complex nature of an ITAS – as well as the large size of the procurement (estimated around US$7.5 million), it is critical to ensure strong technical advice and close monitoring through all the stages of the procurement process. Likewise, the significant investments in the IT systems will require targeted technical support to minimize the risk of failures. This is particularly relevant in the context of Burundi, where OBR has already tried (and failed) to procure and roll-out an ITAS solution back in 2011. Currently, the Bank team does not have such expertise in-house, and additional advisory roles are therefore needed. A senior-level tax administration expert, based in the World Bank's Bujumbura office, will support these activities for up to 3 years (2015-2018).

5. In addition, a number of preliminary diagnostics and analytical work need to take place at early stages of the project implementation to broaden the knowledge base and ensure timely progress towards the achievement of the project goals. These studies might be highly technical in nature, and/or focus on sensitive issues (including, among others, tax exemptions, mining tax regulations, and the like). Accordingly, an independent assessment - in collaboration with the Government and other development partners - will help to strengthen the analytical and empirical base to inform the policy dialogue.

6. To address all these needs, the Belgium MDTF will include complementary technical assistance in the form of activities, studies and advisory services provided by the Bank. A summary list of the Bank-Executed Activities (along with their indicative amount) is provided in table A6-1 below:

Table A6- 1: Overview of the Bank-Executed Activities

Activity / Advisory service	Planned Output(s)	Indicative Amount (Euro)
A. Recruitment of tax administration/PFM expert to (i) provide technical advice to the Bank task team for effective implementation of project activities, (ii) provide technical inputs to analytic and advisory work, and (iii) facilitate the policy and technical dialogue on Tax administration, IT systems and PFM reform, including synergies with other donors projects covering tax issues. The expert will be based in the Bank's Bujumbura's office and join the Bank team for up to three years (2015-2018).	• Strengthened technical dialogue with the client. • Improved donor coordination on tax administration and PFM reform. • Achievement of all targets as indicated in the Results Framework of the project (Annex 1)	500,000
B1. A Bank official report (ESW) to provide systematic assessment of the impact of tax exemptions in Burundi.	• Report produced and disseminated • TA needs identified, informing implementation of activities under component 1 • Action plan for priority reforms agreed with Government	150,000
B2. A Bank official report (ESW) to assess compliance with new mining tax regulation and practices.	• Report produced and disseminated • TA needs identified, informing implementation of activities under sub-component 1.4 • Action plan for priority reforms agreed with Government	150,000
Total		**800,000**

Note: The activities outlined in the above table are designed to provide complementary technical assistance to the Government of Burundi and do not represent Bank overhead costs. The indicated amounts are net of fees and overhead costs charged by the Bank for the management and administration of the MDTF (up to 5 percent of the total Contribution).

Annex 7: Development Partner Coordination and Support

Table A7- 1: Existing Donor support for the implementation of PFM reforms

Partner	Budget Preparation	Budget Execution	IFMIS	Audit and control	Building capacities / PFM coordination	Funding Committed
EU (2013-2020)	-Support to improve revenue forecasting -Capacity building for Public Debt Directorate -Training for staff in the s and Economic Planning as well as for budget management departments and other institutions	-Strengthening the mobilization and management of domestic resources -Certified training for accounting officers of the Accounting and Treasury Directorates and training on 7 validated training modules in public finance	-Support for the connection of every ministry to the payroll data center as well as the acquisition of 15 ORACLE and OPEN PRH licenses		-Strengthening capacity for PFM reform coordination and monitoring, including funding a study on the monitoring and evaluation framework as well as supporting the development of SGFPIII -PEFA III evaluation	2.1 million EUR
IMF and THE NETHERLANDS (2013-2014)	-Providing TA on Economic Planning and TA on BP in 2013 done by six experts of IMF to assist the Government in designing a comprehensive BP strategy	-Support to budget de-concentration via commitment control introduction (CED) and devolution of authorizing power (issuing of payments orders) to line ministries -Support of treasury cash management -Monetary policies		-Training of Audit Court members on referential of budget management capacity assessment audit for transition to budget program.	-Supporting the SGFP II and providing a resident advisor within the Organizing 12 short-term visits for experts in charge of providing support to Reform Unit - Developing training capacities in PFM via 7 modules on different themes, training of trainers, and promotion of arrangements for the emergence of capable	1.5 million USD

		-Fiscal regulation			national training operators - Developing an institutional framework that reinforce budget management bodies within lines ministries and other institutions (DAF)	
TMEA (2014-2017)		-Supporting Customs Administration				21 million USD
CTB		- Procurement reform				2.5 million EUR
UNDP				-Support to Oversight Structures (Audit Office, IGE, IGF)	- Training and professionalization of staff; - Development of various manuals of procedures and guidelines, - Supply of equipment	
USAID		-Revenue Collection -Taxpayer education to increase tax compliance				950,000 USD
AfDB	-Budget cycle preparation and Staff training for the and Economic Planning and other Institutions			-Internal and external control systems strengthening -Technical Assistance for methodological support to the Audit Office	-Development of a number of draft laws governing Public Finance area	1.9 Million USD

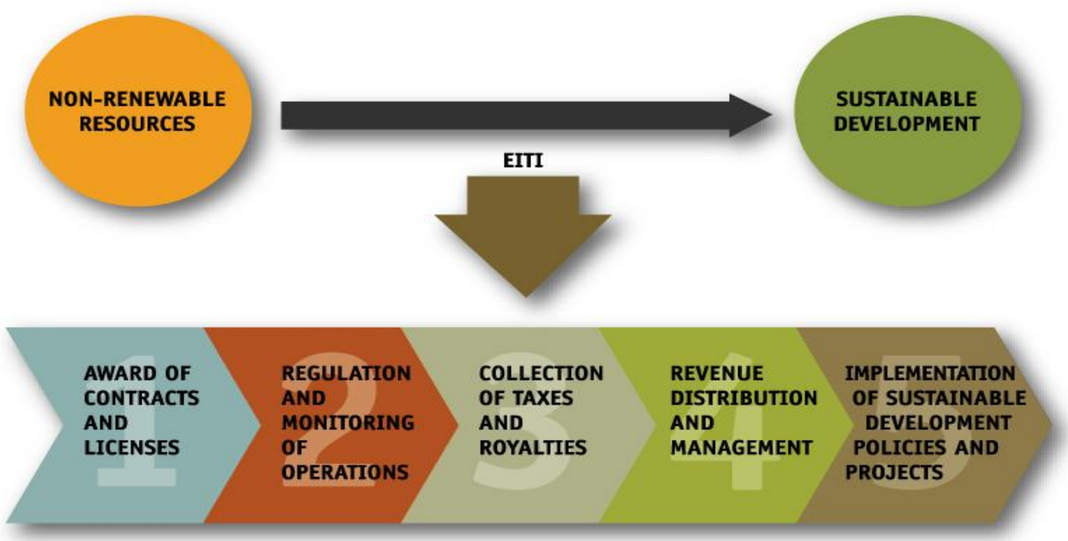
Donor Interventions in the Mining Sector and synergies with the proposed operation

1. **Existing donor support:** *The German Cooperation (GIZ and BGR)* is at present implementing a four-year extractives project that addresses the following: (i) mining policy development; (ii) first phase of cadastre establishment; (iii) compilation of Burundi's current geological data into an investor's brochure; (iv) support to EITI implementation; and (v)

development of environmental and social standards for the sector. The Belgian Cooperation has an activity to digitize Burundi's old geological information into a GIS system. The ICGLR has funds for EITI implementation in Burundi (as mandated to support its member states). The African Development Bank is most interested in supporting activities related to mine contract negotiations (in concert with the Africa Legal Support Facility). The UNDP also has a program to support the MEM which has, to date, financed and provided a technical consultant for drafting the mining regulations.

2. The proposed Bank intervention provides an added-value to complement existing partners' efforts and fill outstanding gaps in the reform agenda**.** The table below applies the *Extractive Industries Value Chain* (EIVC) framework to analyze Burundi's mining sector with respect to international best practice. It reveals gaps in the existing efforts of technical partners, and highlights how the proposed operation can effectively address them. A detailed description per EIVC Pillar is presented below. The description clarifies ongoing interventions to support mining sector reform, providing a strong justification of the reasons why certain activities which would normally be considered priorities for a World Bank intervention in a given extractive sector have been omitted in the case of the present operation. The detailed description also strengthens the rational for the selected project activities, based on the project's overall focus on revenue mobilization and management.

Figure A7- 1: Extractive Industries Value Chain (World Bank)



Pillar 1: Award of Contracts and Licenses
Description: Governments grant mineral exploration, development, and production rights in particular areas or blocks by means of concessions, leases, licenses, or contracts, depending on their legal systems. Efficient and effective award policies exhibit the following characteristics: • Transparent, competitive and non-discretional procedures for the award of exploration, development and production rights • Clear legal, regulatory, and contractual framework

- Well defined institutional responsibilities

Countries manage the process of awarding contracts through a cadastre, which can be a fully autonomous legal entity or simply an office within the appropriate mining department. More advanced countries will put in place a digitized, web-based system for awarding contracts managed by the cadastre in order to ensure transparency.

Best Practice	EIVC or EITI Standard (Y/N)	Current Support (Y/N)	By Whom ?	Potential for World Bank Complementarity
First-come, first-serve cadastre system	Y (both EIVC and EITI)	Y – first phase of cadastre	BGR	N – at this stage the activity is sufficiently covered
Data on company profiles publically available (either through the cadastre or through a Ministry website)	Y (EITI)	N	-	Y- company profiles made available through the EITI process and Ministry website established under this project
Well defined institutional responsibilities	Y (EIVC)	N	-	Y- support to institutional reform and re-organization

Pillar 2: Regulation and Monitoring of Operations

Description: A clear and comprehensive regulatory framework, coupled with the ability to enforce it, helps support the goals of transparent and efficient EI management. Two key steps for improving the efficiency and effectiveness of regulation and monitoring of EI projects are to:

- Ensure that responsibilities of the various Government entities are clearly defined and that these entities' authority, institutional capacity and available resources are commensurate with their responsibilities
- Build sufficient capacity for monitoring regulatory compliance

Best Practice	EIVC or EITI Standard (Y/N)	Current Support (Y/N)	By Whom ?	Potential for World Bank Complementarity/Activity
Mining regulations legislation incorporating internationally recognized technical, environmental, accounting and auditing standards, and publically available	Y (both EIVC and EITI)	Y (in part)- mining regulations in finalization	UNDP and GIZ	Y- support to ensuring implementation of new regulations in this project
Regular auditing and monitoring of production and export volumes, and valuation of minerals	Y (EIVC)	N	-	Y – support to establishing auditing procedures in this project
National mineral statistics data bank	Y (EIVC)	N	-	Y – support to data bank in this project
Scheduled field inspection visits to ensure operator compliance standards	Y (EIVC)	Y (in part) – iTSCi/ITRI	iTSCi/ITRI	Y – support to inspections and compliance in this project
Ministry staff with up-to-date knowledge of sector policies and practices	Y (EIVC)	Y (in part)	GIZ	Y (in part) – some training has been provided under an existing GEEDR project on contract negotiation; some specific knowledge and training is targeted under this project

Pillar 3: Collection of Taxes and Royalties				
Description: EI projects are subject to a wide range of fiscal instruments. These include taxes that apply to all other sectors of the economy, and taxes and other payments to the Government that are specific to the EI industry. Complex arrangements are often in place, which require adequate assessment and collection capabilities. Two key steps to ensure the transparent and efficient collection of EI revenue are to: • Assure the adequate administrative and audit capacity of the relevant institutions • Adhere to internationally accepted accounting and reporting standards and procedures				
Best Practice	**EIVC or EITI Standard (Y/N)**	**Current Support (Y/N)**	**By Whom ?**	**Potential for World Bank Complementarity/Activity**
Fiscal regime established that considers capacity and scope of sector	Y (EIVC)	N	-	Y- preliminary support provided under EITAF and to be expanded under this project
Company payments made to Treasury, audited regularly, and published	Y (EIVC and EITI)	N	-	Y – through the EITI Trust Fund
Mining effectively contributing to revenue stream according to established laws	Y (EIVC)	N	-	Y – support provided to mainstream mining operators into OBR collection procedures under this project

Pillar 4: Revenue Management and Allocation				
Description: The wealth arising from oil and mining operations must be distributed and managed transparently. Otherwise, it can easily end up funding corrupt practices, promoting social and economic inequalities, and generating intra-state or even inter-state conflicts. The key steps in transparent and sound revenue management and allocation, the fourth link of the value chain, are to: • Prepare appropriate macroeconomic policy responses to mitigate any negative impact from exchange rate appreciation • Make savings decisions to facilitate: (1) public expenditure smoothing in light of revenue volatility and (2) asset accumulation in light of the finite nature of oil, gas, and mineral resources • Allocate public expenditures judiciously, nested within a medium-term expenditure framework and aligned with a country development strategy that ensures adequate scrutiny and appraisal of public investment choices and provides for sound revenue sharing policies				
Best Practice	**EIVC or EITI Standard (Y/N)**	**Current Support (Y/N)**	**By Whom ?**	**Potential for World Bank Complementarity/Activity**
Decision-making around revenue use in line with macro fiscal framework and development plan	Y (EIVC)	N	-	Y – could be part of Additional Financing of this project
Revenue sharing between national and sub-national levels of Government according to law	Y (EIVC)	N	-	Y – could be part of Additional Financing of this project
Revenue sharing supported by necessary institutional capacity, particularly at sub-national level	Y (EIVC)	N	-	Y – could be part of Additional Financing of this project

Pillar 5: Implementation of Sustainable Development Policies and Projects
Description: Once the EI contracts and licenses have been awarded, exploration has been completed, construction of production facilities has taken place, operations have been well monitored and regulated, the EI income has been collected, and the revenue has been soundly distributed and managed, Governments can expect to have

excess capital at their disposal to pursue and implement sustainable development investments. The key elements of efficient and well-designed implementation of sustainable development policies are:

- Strong public financial management and procurement systems
- Clear measures for environmental management and remediation, including EI site rehabilitation and the management of environmental hazards
- Public investment decisions that adequately capture potential benefits of EI expansion and favor the country's economic diversification away from EI
- Community development and environmental protection programs in regions affected by EI activities

Considering current coverage of this Pillar by GIZ, there is no need for additional World Bank activities.

Best Practice	**EIVC or EITI Standard (Y/N)**	**Current Support (Y/N)**	**By Whom ?**	**Potential for World Bank Complementarity/Activity**
Social investment in line with national priorities and distributive	Y (EIVC)	Y	GIZ	N – at this stage the activity is adequately covered
CSR policies of companies in line with national development priorities	Y (EIVC)	Y	GIZ	N – at this stage the activity is adequately covered
Environmental practices following best international standards	Y (EIVC)	Y	GIZ	N – at this stage the activity is adequately covered

Annex 8: OBR/Communes Collaboration on Revenue Mobilization: Diagnostic Study

Applying PS Diagnostics in Burundi

1. A Public Sector Reform (PSR) Diagnostics[13] exercise was conducted to improve the design of the Project's component 1.3 on improving tax administration and revenue mobilization in Burundi. It focused on understanding the causes behind low levels of local tax collection in communes in Burundi, and identifies the policy solutions that are most feasible and are most likely to have the highest impact on results.

2. Concretely, the PS Diagnostics exercise aimed to inform the project's design by attempting to answer the following questions: (1) What are the binding constraints to local revenue mobilization in Burundi and how do they affect the efficiency of existing processes in tax administration; (2) What are the constraints on OBR in helping improve local tax collection; and (3) What would be the most feasible operational solutions and most appropriate changes in tax policies that the project can support to increase local revenue mobilization in Burundi?

3. To answer the first question, the diagnostics started by identifying probable constraints to local revenue mobilization. From recent studies (World Bank 2014; OAG 2007; Nihangaza 2012), including the 2014 PER on Fiscal Decentralization, as well as interviews with various stakeholders, six issues were identified as likely problems that could explain communes' poor performance in local revenue mobilization: (i) low capacity of tax collectors; (ii) lack of resources for tax collection; (iii) burdensome processes for tax collection; (iv) political economy issues; (v) lack of trust in Government; and (vi) regulations and legal challenges.

4. The study then attempted to ascertain the validity of these as binding constraints combining qualitative and quantitative research. The study attempted to answer two questions: (1) Is this issue identified as crucial by key actors; and (2) Is the evidence consistent with this issue being a binding constraint?

5. The data collection strategy began with desk research as well as a mission to Burundi (October 2014) to meet with key stakeholders. The desk research included a review of Bank operations in Africa, relevant literature, as well as previous local tax reform experiences in Burundi and neighboring countries. The mission included meetings with OBR, the Ministry of the Interior, the Communes and local partners.

6. Informed by these first meetings, and with the objective of collecting broader and more standardized data, a questionnaire was designed to be administered through structured interviews in communes. The questionnaire had both open and standardized questions and all aimed to answer the questions described above. A semi-randomized sample of 26 communes (13 pairs in 13 of the 16 provinces) covering the natural regions of Burundi was selected on the basis of their overall administrative performance; the pairs were made of either the best or 2nd best performing or worst or 2nd worst performing commune in each province with the selection taking into account distances. In the end 25 structured interviews were conducted for the study in November 2014. On this basis, a list of preliminary findings and proposals was developed by early December 2014.

[13] Blum, Jurgen and Nick Manning (2011) "*Towards a "Diagnostic Protocol for the 2011-2020 PSM Approach,*" Mimeo, World Bank.

7. These findings and proposals were later validated with relevant stakeholders to ensure their appropriateness as well as Government support for them. This was done first through a meeting with representatives from the Ministry of Finance, Interior, OBR as well as International partners (Belgium, EU, GIZ, Swiss). Also, it was done through a meeting with representatives of more than 30 communes. Both meetings were held in December 2014. The report was finalized in January 2015.

Key Findings

8. Regarding the first question of constraints to local revenue mobilization in Burundi, findings from the study point to the following issues as being the most binding:

- ***Low capacity***. This issue is identified as the most important constraint by our sample of tax collectors in communes. Tax collectors report they have received little training in recent years and believe that being better prepared would improve tax collection. For example, a lack of knowledge on how to set up a tax roll is offered as a key reason why property is not taxed in most communes outside Bujumbura (it is only collected in 40/20 percent of the communes in the sample for built/unbuilt land).

- ***Lack of resources.*** This was another issue identified by tax collectors. Beyond physical resources, the most important issues identified were a lack of personnel to collect taxes and low payment for collectors. The lack of personnel, for example, appeared as an important reason for the poor collection of taxes on livestock, which require great investments in monitoring. In some communes, even the *chef the collines* (political head of sub communal units) serve in the role of collectors. The poor pay, as well as uncertainty and lateness in payments, was identified as a reason for lack of motivation and even corruption.

- ***Lack of trust in Government.*** Staff at the commune level identified a general reluctance of the population to pay taxes. Others question what services they receive for taxes paid, such as the cattle tax, when they no longer receive vaccines. Some staff noted that "when tax collectors pass, taxpayers tend to close shops and hide the goods," pointing also to problems with enforcement mechanisms.

- ***Regulations and legal challenges***. Findings from the survey suggest that tax collection is constrained by taxes and fees that were set years ago in nominal terms and have not been adjusted by inflation. Moreover, they highlight the uncertain legal environment, for tax-payers and collectors, stemming from an insufficient Ordinance of 1997 and the sometimes contradictory Tax Code. This environment gives taxpayers opportunities to interpret laws at their convenience and does not provide tax collectors a solid ground to argue differently.

- ***The so called double taxation***. Some taxpayers refuse to pay taxes to the commune, arguing that they already pay to OBR, the more senior tax agency. Moreover, tax collectors point to confusion over the tax responsibilities of communes and OBR, as well as a lack of tools for conducting their day-to-day collection in a way that avoids disputes.

9. Regarding the second question of constraints to OBR, findings from the study point to the following issues:

- ***Legal uncertainty.*** The same uncertainty affecting communes affects OBR regarding local taxation. There are doubts over exactly what role the institution can and should take in supporting local taxation and communes. There was agreement among all interviewees that any role of the OBR in communal revenue mobilization (CRM) can only occur after the adoption of a communal tax law replacing the ordinance of 1997. This results from the fact that the constitution clearly states that taxation must be set (base, rates…) by a law and not by an ordinance, which is a document issued by a department and not by the Parliament.

- ***Lack of presence outside Bujumbura.*** OBR has a small presence outside the capital city, limiting the impact they can have on local taxation. While some coordination theoretically exists, OBR-Commune cooperation is almost nonexistent in communes surveyed. Moreover this distance has led to a weak relationship with communes.

- ***Lack of knowledge of some local taxes.*** While OBR and communes jointly occupy two tax fields which are rental income- communal tax on all such income and part of business profit tax- and business activities- communal tax on all businesses and synthetic tax for small businesses, there is no cooperation between these two tax collectors. There could be benefits from more frequent interactions. There are other taxes and tax subjects from which OBR has no experience collecting from, such as property and the various local fees.

10. Finally, regarding the third question of identifying policy actions to support through the project, the analysis of the interviews and the above conclusions point to the following actions being a priority:

- ***Modify the legal framework.*** The first priority for the Government should be to clarify the legal basis of local tax collection by adopting the relevant law. Such a new legal framework should allow for an updating of tax amounts to inflation and for some freedom in tax rate setting of communes. It should allow exploring possibilities to take advantage of synergies between local and national tax collection activities that share tax bases.

- ***Expanding the presence of OBR outside Bujumbura in the 16 provinces for national tax purposes could facilitate OBR-Commune interactions.*** Clearly any effective collaboration between OBR and communes is only feasible following a strengthening of OBR outside Bujumbura. This would have the potential benefit of increasing both local tax collection and national tax collection. The project could support OBR in an effective expansion of its presence outside the capital by creating communal buy in for a larger OBR presence.

- ***Train OBR and commune staff.*** New staff for OBR in provincial directorates as well as commune staff will need to be trained in line with the new communal tax law. Training together would also be a positive entry point for OBR with communes and have the potential benefit of improving coordination, communication and information sharing in their work in communes. The project could support training activities for staff.

- ***Improve knowledge and trust of taxpayers.*** Increasing taxpayer knowledge and trust could be achieved through campaigns to communicate tax responsibilities and benefits after the new law is approved. Moreover a program to publish tax collection by commune from OBR and communal Governments would go a long way in increasing awareness and trust.

Operational Implications: inputs on the design of the activities under tax administration component

11. The tax administration component has the purpose of strengthening OBR and thus national revenue collection in particular by allowing OBR to double the number of national taxpayers over the 2015-2020 period from 20,000 to 40,000. This will be done in good part by extending/improving its operations outside Bujumbura.

12. However, such a deconcentration of activities could lead to conflicts with many communes as what they perceive (incorrectly) as their exclusive fiscal space will be entered by OBR. There are three possible responses to this potential conflict: (i) do nothing, that is have OBR and communes continue on their current path of isolated/conflictual coexistence; (ii) have OBR take over the collection of all communal revenues; or (iii) create ties between OBR ranging from OBR providing technical assistance to communes or training to their staff to OBR taking over as agent of the communes for the collection of some taxes.

13. The findings from the PS diagnostic work suggest that option (i) is not desirable, as this inaction might further exacerbate conflict between OBR-communes.

14. Option (ii) was implemented in Rwanda in early 2014. As part of the PS work, a mission was conducted in December 2014 to Rwanda (a natural comparison point for Burundi) to understand the experience of Rwanda, in having the Rwanda Revenue Authority (RRA) take over the collection of local (districts) tax revenues. Findings from the mission indicate that while centralizing local tax collection in Rwanda will probably yield higher local revenues by taking advantage of economies of scale and overcoming capacity constraints at the local level, their recent reform was also the result of many country-specific circumstances including, (a) a strong RRA with a good regional presence that can easily work in 30 (not 119 as in Burundi) local Governments (districts), and (b) an appropriate timing related to the recent central Government investment in land registry. The lack of presence of these latter circumstances in Burundi, added to the currently deficient local finance legal framework, would make it unadvisable for the country to pursue a similar reform in the short term. That said, lessons, positive and negative, from integrating the national and local tax collection in Rwanda may be of use in designing a more context-sensitive solution for Burundi. Thus, it is appropriate for Burundi authorities to familiarize themselves with these changes through a study tour to Rwanda. This is also expected to inform ongoing efforts to strengthen OBR regional presence outside Bujumbura.

15. Option (iii) appears as the most appropriate choice. Having OBR improve its collaboration with communes will reduce conflicts as this roll out could then lead to higher revenues for both OBR and communes. Thus, the design of the ITAs and the support given to provincial OBR offices should address as much as possible communal concerns.

Annex 9: Economic and Financial Analysis

1. This annex is organized in two main sections:

- Section A presents the **financial analysis** to estimate the financial gains due to the project over a 10 year period. Given that about 40 percent of the project funding will be allocated to improve Tax Policy and Administration, the financial analysis focuses on this component. The analysis shows that strengthening tax policy and administration will act as a catalyst to generate significant fiscal space for the Government of Burundi. This increase in revenue collection is estimated at a total value of **US$148 million** over the assumed 10 year economic life of the project. The Internal Rate of Return (IRR) for this component alone, in real US$ terms, is 76 percent and the financial real Net Present Value (NPV) at 6 percent discount rate reaches **US$83 million**.

- Section B presents the **economic analysis** to capture economic benefits that make society as a whole better off. Some of these benefits can be quantitatively measured, while others can be assessed in qualitative terms. Based on the assumptions described below, the results of the economic analysis (table A9-2) indicate that the project is economically desirable with an IRR of **17 percent** and a NPV of **US$11.6** million over the assumed 10 year economic life of the project.

2. For the purpose of modeling, the net financial and economic benefits will be calculated with respect to an assumed project economic life of 10 years, starting from year 0. The investment data are derived directly from the project investment costing, and is assumed to be made over four years, from year 0 to year 3. Burundi's real growth rate of GDP is assumed to be 5 percent per annum. The market exchange rate of 1549.36 Burundian francs against one US dollar, as observed on June 30, 2014, is used as a real exchange rate over the project life. It is assumed that these macroeconomic assumptions are constant over the project life.

A. Financial Analysis

3. Component 1 of the project will help to strengthen tax policy and modernize tax administration by supporting the procurement and roll-out of an integrated tax administration system (ITAS), as well as promoting more effective management and collection of mining taxation. Per the project's results framework, it is anticipated that activities supported under Component 1 will result in an increase in domestic revenue collection from 13.4 percent of GDP to 14.0 percent of GDP over the life of the project. In real terms, this increase in revenue collection as a percentage of GDP should amount to a total value of **US$148 million** over the assumed 10 year economic life of the project.

Assumptions:

i. 2013 real GDP will increase by 5 percent annually over the economic life of the project, which is estimated using a 10 year horizon.
ii. As a result of the project, tax to GDP ratio will increase from 13.4 to 14.0 percent over the last two years of the project and the one after and will remain at 14.0 for the remaining four years of the assumed economic life of the project. This assumes no improvements in

revenues or losses at the early stages of the project[14].

iii. The estimated cost of the ITAS system software will not exceed US$7.5 million while total tax related spending is US$11 million. Required spending by Government including software/hardware maintenance and related costs to maintain the gains of the project kicks in after full implementation as capital spending during implementation covers these annual fixed costs; this spending is assumed to be 10 percent of the total software cost or US $750 000 per year in real terms.

iv. The tax payer base will increase (double) from 20,000 to 40,000 in the period 2015-2020 in line with OBR targets.

v. Tax payer compliance will increase across all three tax payer categories during the economic life of the project.

Financial Pro-Forma Cash Flow of component 1 (US$11 million dollars)

4. Table A9-1 presents the pro-forma financial cash flow, which shows that the project (component 1) will be financially beneficial for the government of Burundi. The IRR, in real US$ terms, is 76% and the financial real NPV at a 6 percent discount rate reaches US$83 million. This is nearly 10 times the amount of the initial investment (US$11 million).

Table A9- 1: Financial Analysis

Project Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
INFLOWS:										
Improved revenues and reduced revenue foregone[15]	0,00	0,00	0,00	6,93	14,55	22,92	24,06	25,27	26,53	27,86
Total Inflows:	0,00	0,00	0,00	6,93	14,55	22,92	24,06	25,27	26,53	27,86
OUTFLOWS:										
Investment (IDA, Belgium, and Government) year 0-3 Operating and Maintenance Costs	2.75	2.75	2.75	2.75	0.75	0.75	0.75	0.75	0.75	0.75
Net cash flow annual	-2,75	-2,75	-2,75	4,18	13,80	22,17	23,31	24,52	25,78	27,11
Net cash flow cumulative	-2,75	-5,50	-8,25	-6,8	6,25	27,67	50,23	74,00	99	125
Annual discounted amount	-3	-3	-3	4	13	21	22	23	24	26

5. The amounts shown above are conservative estimates which do not take into account additional drivers of revenue mobilization due to the project, such as decreased leakages in spending as a result of improvements to external audit and oversight functions. As noted in the project description above, sub-component 2.4 will support the *Cour des Comptes* in conducting financial, compliance as well as value for money audits all in line with International Audit Standards on a regular basis. This should improve the likelihood that taxes are spent correctly to provide public services rather than to enrich politicians / bureaucrats and thus the confidence of the population in the fact that paying taxes is indeed appropriate.[16] As a result of these activities, it is estimated that tax payments as a share of GDP would increase from year three of the project until the 10th year. This is not accounted for explicitly in the financial analysis and can be seen as an additional safety margin for the amounts shown in table A9-1.

---

[14] Observed changes in this ratio will need to be analysed carefully to take into account exogenous factors non attributable to the project. Thus for example a shock to the terms of trade of coffee would be expected to influence the tax/GDP ratio. The impact of these factors can be computed using the CGE model of the project to better ascertain the impact of the OBR linked changes.

[15] This estimate includes the combined impact of tax policy and tax administration reform, including mining taxation.

[16] See OECD *Citizen-State Relations Improving governance through tax reform* 2010 for a discussion along those lines.

B. Economic Analysis

6. While direct attribution of benefits to a single intervention is difficult, one can get a sense of the scale of multiple potential economic impacts of a cluster of four main aspects of the project, together with the expected impact of improved mining sector regulations. The analysis is conservative on purpose, and provides an explanation of the reason why no changes are estimated in the ratio of administrative cost to revenue, and no changes in the compliance costs of taxpayers.

I. Decreased leakages in spending as a result of improvements to external audit and oversight functions.

7. This measure and its impact on tax revenue has been already discussed under the financial analysis above. However, this should also improve the efficiency of public spending and thus can lead to an increase in GDP as public investments are complementary to private economic activities.

II. Improved business environment through increased stability and predictability of tax policy.

8. As per sub-component 1.1, the project will help strengthen the institutional structure and capacity of the Department in charge of Tax Policy (DTP) at the MFPDE. The implementation of the activities under this component is expected to lead to more predictable and stable tax policy. Also, the proposed simplification of the tax legislation (codification of tax laws) may reduce administrative costs of the present tax legislation, with subsequent efficiency gains for the Government.

9. Continued macro-fiscal stability is an important input for economic growth. Improved fiscal management will also have a critical role to play in ensuring that investor interest translates into greater capital inflows. Additionally, by addressing weaknesses in tax policy and tax administration, this project will support the establishment of a tax system which is viewed as transparent and fair – a key factor in attracting and retaining both foreign and domestic investment, which can lead to an increase in GDP.

III. Improved efficiency in the management of public spending through more strategic allocation of resources.

10. Under sub-component 2.2, the project will support the roll-out of the new IFMIS software with targeted training, which should lead to considerable efficiencies in public spending. This will be amplified by consolidating revenue management, while also strengthening the link between budget and results through the progressive shift to program-based budgeting. Although, it is difficult to quantify the impact of this kind of resource reallocation, there are potential economic benefits. Over the life of the project, it is estimated that the costs of managing directly productive[17] current expenditure will drop. This is not easily measured and may result in unchanged total current expenditure to GDP ratio or a reduced one as the investment to GDP ratio increases, depending on how freed resources are spent, which could lead to higher GDP growth.

[17] By directly productive we mean spending on services that yield direct benefits to the population such as medication, road maintenance, teachers, and the like.

IV. *Economic effects of public information (statistical data).*

11. ISTEEBU produces information of general usefulness. Estimating its value is difficult[18] but recent work for the UK gives us some guidelines.[19] The total value of public information is estimated at 6.5 billion £ for 2011-2012. Using quarterly data we estimate the GDP at 387,5 billion £ for that period and thus yielding a ratio of 1,65 percent of GDP. This is for a society where a vast array of high quality information is currently produced and used. Burundi is not at the same level of development so let us assume that the current value of such information is 1/20th or 0.08 percent of GDP. The project may improve the quality of information to make this become a higher percentage of GDP from year three onwards until the 10th year. This better information would yield better economic outcomes leading to higher GDP.

12. Combined, the four measures cited above are expected to lead to an increase of 0.1% of GDP in the 4th and subsequent years of the economic analysis.

V. *Improved management of the mining sector*

13. The new regulatory framework should facilitate modernization of the sector. Such modernization should lead to a consolidation of smaller mining activities into larger more productive ones. We assume that this increases GDP by 0.1% after three years until the 10th year. This is a conservative estimate.

VI. *Overall efficiency in revenue mobilization unchanged (costs to the tax authorities)*

14. The roll-out of the ITAS solution should lead to lower administration costs per amount of revenue raised. This is most likely true for existing taxpayers since they are already in the tax net but perhaps not fully paying the amounts they should. However, since the modernization process will also entail doubling the number of tax payers, this will increase absolute spending on revenue collection particularly during the initial years as registering a new tax payer is a fixed cost for OBR. Since these new taxpayers are likely to yield less revenue than existing taxpayers as they are smaller, this could even increase the ratio of administrative costs to revenue. Therefore, we expect no increase in efficiency but more fairness as being small /located outside Bujumbura will no longer mean less OBR oversight. Should this presence outside Bujumbura lead to more communal revenues, then one may indeed observe efficiency gains in overall tax administration in Burundi.

VII. *Unchanged Compliance Cost for the Taxpayer (trade-off between existing and new tax payers)*

15. Costs to taxpayers include the cost individuals and enterprises incur in the process of preparing their tax declaration, and in entertaining queries from the tax authorities in the process of audits. Some of these costs are in house costs (equipment and staff) while others result from fees paid to tax preparers and outside advisors.

---

[18]"The Evaluation of Statistical Programs" F. Clayton G. Sayant and F Vaillancourt, *Canadian Journal of Program Evaluation* 4-2, 1989, 1-8.

[19]*Market assessment of Public Sector Information*. Deloitte 2013, Department for Business, Innovation &Skills UK.

16. Activities under component 1.3 are expected to reduce compliance costs, *at least* for existing taxpayers. Economic benefits will also be realized through the reduced time cost to firms of transactions in tax administration. The introduction of, simplified procedures for tax registration and dedicated services (e-payments) provided to large tax-payers all stand to potentially reduce the costs in terms of man hours of dealing with the Domestic Tax Department at OBR. However, the addition of 20,000 new taxpayers will increase total compliance costs and most likely increase them as a share of collected revenues since the compliance costs/revenue-size ratio increases as size decreases.[20] Thus it is unlikely that there will be an overall reduction in compliance costs and thus there is no freeing up of economic resources for firms or individuals to use for other purposes.

17. Finally the introduction of risk based-audit can reduce compliance costs since audits/controls significantly affect taxpayers in terms of their time and resources. Auditing taxpayers based on risk profiles means that compliant taxpayers (i.e. "good citizens") are rewarded by being audited less often than poorly compliant or risky taxpayers.

Assumptions

18. Assumptions are the same as above except that the total project costs are disbursed while the ongoing costs increase from US$750,000 to US$1.25 million by assumption. This implies that spending on the non-OBR (cost of training, maintenance of new IFMIS, etc.) are subject to smaller depreciation then software/hardware.

19. The results of the economic analysis (table A9-2) indicate that the project is economically desirable with an IRR of **17%** and a NPV of **US$11.6** million.

Table A9- 2: Economic Analysis

Project Year	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
INFLOWS:										
Improved business environment through better tax predictability and risk based-audit functions +Decreased leakages as a result of improvements to external audit and oversight functions + Improved business environment through increased stability and predictability of tax policy +ISTEEBU	0	0	0	3,46	3,64	3,82	4,01	4,21	4,42	4,64
Improved mining regulations	0	0	0	3,46	3,64	3,82	4,01	4,21	4,42	4,64
Administrative costs saved by Government	0	0	0	0	0	0	0	0	0	0
Compliance Costs saved by taxpayers	0	0	0	0	0	0	0	0	0	0
Total Inflows:	0	0	0	6,93	7,28	7,64	8,02	8,42	8,84	9,29
OUTFLOWS:										
Investment (IDA, MDTF, and Government)	6,75	5,75	5,75	5,75	1,25	1,25	1,25	1,25	1,25	1,25
Inflows –Outflows	-6,75	-5,75	-5,75	1,18	6,03	6,39	6,77	7,17	7,59	8,04

[20] "Tax Compliance Costs: A Review of Cost Burdens and Cost Structures'' Sebastian Eichfelder and François Vaillancourt, in *Hacienda Pública Española / Review of Public Economics*, 210-(3/2014): 111-148.

Annex 10: Key Project Documents and Bibliography

Blum, Jurgen & Manning, Nick (2011) « Towards a Diagnostic Protocol for the 2011-2020 PSM Approach », Mimeo, World Bank

European Union (2009) Evaluation des finances publiques selon la méthodologie PEFA (Public Expenditure and Financial Accountability) PEFA

European Union (2012) Evaluation des finances publiques selon la méthodologie PEFA (Public Expenditure and Financial Accountability) PEFA, Brussels

Jean-Paul Bodin (2014) Burundi: Revenue Policy and Administration Modernization: Priorities and Strategy for the Next Steps, final report (TMEA/OBR Review Mission)

Nihangaza, Charles (2012) « Etude sur la viabilité institutionnelle et financière des communes rurales du Burundi »

République du Burundi (2008) *Loi N◦1/35 relative aux finances publique«* Loi Organique sur les Finances Publiques » Bujumbura

République du Burundi (2009) *Ordonnance Ministérielle N° 540/793 du Juin 2009 portant création de la Cellule d'Appui Chargé de Réformes des finances publiques, Bujumbura*

République du Burundi (2010) Stratégie pour le développement de la Statistique Nationale (SNDS 2010-2014), Bujumbura

République du Burundi (2011) Stratégie Nationale pour la bonne gouvernance et la lutte contre la Corruption (SNBGLC 2011-2015), Bujumbura

République du Burundi (2012) *Décret Présidentiel N. 100/223 du 22 Aout 2012 portant confirmation de la Cellule d'Appui Chargé de Réformes au Ministère des Finances de la Planification du Développement Économique, Bujumbura*

République du Burundi (2012) Document de la Stratégie de Réduction de la Pauvreté II,

République du Burundi (2012) Loi de Règlement, Bujumbura

République du Burundi (2014) Stratégie de Réforme de l'Office burundais des recettes (OBR 2014-2017), Bujumbura

République du Burundi (2012) Stratégie de Réforme de la Gestion des Finances Publiques II,

World Bank (2008) Republic of Burundi Public Expenditure Management and Financial Accountability Review (PEMFAR, Washington D.C.

World Bank (2011) Burundi Country Economic Memorandum, Washington D.C.

World Bank (2011) Policy Note Series, Washington D.C.

World Bank (2011) Fiscal Challenges, Security and Growth Issues in Burundi, Burundi Policy Note Series, Washington D.C.

World Bank Group (2012) Analysis and Proposals for Reforming the Regime for Investment Incentives, International Finance Cooperation.

World Bank (2013) Economic Management and Support Project/Projet d'Appui a la Gestion Économique Implementation Completion and Results Report (ICR), Poverty Reduction and Economic Management Unit, Washington D.C.

World Bank (2013) Strengthening Fiscal Resilience to Promote Government Effectiveness, Programmatic Public Expenditure Review series, Poverty Reduction and Economic Management Unit, Washington D.C.

World Bank (2014a) Burundi Fiscal Decentralization and Local Governance: Managing Trade-offs to Promote Sustainable Reforms, Programmatic Public Expenditure Review series, Poverty Reduction and Economic Management Unit, Washington D.C.

World Bank (2014b) Extractive Industries Transparency Initiative Scoping Study, Oil, Gas and Mining Unit, Washington D.C.

World Bank (2014c) First Burundi Economic Update, Poverty Reduction and Economic Management Unit, Washington D.C.

World Bank (2014d) IEG Evaluation on Word Bank Engagement in Fragile and Conflict Situations, Independent Evaluation Group, Washington D.C.

World Bank (2014e) Institutional Capacity Assessment Tool: a preliminary assessment of ISTEEBU

World Bank (2014f) Mineral Sector Review. Internal report, Oil, Gas and Mining Unit, Washington, DC.

World Bank (Forthcoming 2015a) A Baseline Study on ASM Taxation Practices, Washington DC.

World Bank (Forthcoming 2015b) Public Sector Diagnostic Study on local revenue mobilization, Governance Global Practice, Washington D.C.

World Bank Group & Apex Consulting (2014) Burundi Tax Administration Business Process Re-engineering IFC/Apex Consulting

World Bank (2015) Burundi Country Assistance Strategy Performance Learning Review (PLR), draft report, Washington D.C.