

**FOR
AGENDA**

EBD/09/2

January 9, 2009

To: Members of the Executive Board

From: The Secretary

Subject: **Burundi—Poverty Reduction Strategy Paper—Joint Staff Advisory Note**

Attached for consideration by the Executive Directors is the advisory note, prepared jointly by the staffs of the Fund and the International Development Association, on Burundi's poverty reduction strategy paper (EBD/09/1, 1/9/09). This paper, together with the paper on the first review under the three-year arrangement under the Poverty Reduction and Growth Facility for Burundi (EBS/09/3, 1/9/09), and the paper on the completion point document under the enhanced Initiative for Heavily Indebted Poor Countries and Multilateral Debt Relief Initiative (EBS/09/4, 1/9/09), are tentatively scheduled for discussion on **Wednesday, January 28, 2009**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Burundi indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Akitoby (ext. 36646), Mr. Ioannou (ext. 37851), and Mr. Thomas (ext. 39007) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Wednesday, January 21, 2009; and to the African Development Bank, the European Commission, the Food and Agriculture Organization, and the United Nations Development Programme, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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BURUNDI

**Joint Staff Advisory Note on the Poverty Reduction Strategy Paper
First Annual Progress Report**

Prepared by the Staffs of the International Monetary Fund (IMF) and
International Development Association (IDA)

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I. INTRODUCTION

1. **The government of Burundi approved its first Poverty Reduction Strategy Paper (PRSP) in September 2006.** The document was discussed by the Boards of the Bank and the IMF in March 2007. Prepared on the basis of a participatory process, the PRSP has four priorities: (i) improved governance and security; (ii) equitable and sustainable growth; (iii) development of human capital through improved social services; and (iv) the fight against HIV/AIDS. The first Annual Progress Report, which was prepared on the basis of the same broad participatory process as the 2006 PRSP, was received by the Bank and the IMF on November 6, 2008.

2. **The report's assessment of the country's economic performance is broadly in line with recent staff evaluations.** Slow implementation of structural reforms, a sharp decline in coffee production and the unstable security situation are largely responsible for lower than expected economic growth, particularly in 2007. Poor weather conditions and rising international petroleum and food prices are the main factors behind the faster-than-expected increase in domestic consumer prices.

3. **Government expenditure increased over the past few years, reflecting the expansion of education and other social sector expenditures, as well as the rapid growth of the wage bill.** The share of poverty reducing expenditures increased in 2007, due to the availability of HIPC resources and higher government revenue. The government also revised its classification of pro-poor expenditures to improve the monitoring of the poverty reduction impact of planned and actual public spending. A major increase in primary school

enrollments and higher rates of utilization of health facilities were made possible by increased allocations to these sectors and the government's decision to abolish primary school fees and health care fees for women in delivery and children under five. The growth of the wage bill reflects to a large extent the expansion of the social sectors in an effort to attain these objectives, as well as the effects of the unsettled security situation, which has delayed the demobilization process and the associated contraction of the government's payroll.

4. **The report does not discuss in detail the reasons for the slower than expected progress in the area of structural reform, particularly in the coffee sector.** Ageing plantations and the lack of investment in infrastructure and processing facilities are the main causes behind the recent decline and the strong cyclical fluctuations in coffee production, but the slow progress in implementing an effective restructuring strategy was also largely responsible for the poor performance of the sector. The government has now adopted a comprehensive action plan for the reform of the coffee sector.

5. The following paragraphs discuss in more detail the country's macroeconomic performance and the progress towards achieving the main objectives of the PRSP.

II. MACROECONOMIC PERFORMANCE AND MEDIUM-TERM FRAMEWORK

6. **Burundi made progress in implementing the macroeconomic policies set out in its PRSP and supported by the last Poverty Reduction and Growth Facility (PRGF) arrangement (2004-08) and by a number of Bank-financed Development Policy Operations (DPOs), notably the Economic Reform Support Grant (ERSG) (2006-07).** Based on such progress and the government's commitment to the continued strengthening of the macroeconomic framework, the IMF approved in July 2008 a new PRGF arrangement for 2008-11 and the Bank approved the Second Economic Reform Support Grant (ERSG 2) in August 2008. It should be noted, however, that the country faced major obstacles to the effective implementation of its economic and poverty reduction policies—including an unstable external environment, governance problems, limited implementation capacity, and an unsettled security situation—which at times resulted in uneven progress towards macroeconomic stability and the main objectives of Burundi's PRSP. The first Annual Progress Report (APR) makes reference to the overall macroeconomic framework and identifies many of these difficulties.

7. **The assessment of GDP growth during the period reviewed in this annual report underlines many of the most relevant factors.** Nevertheless, it would have been useful to link the somewhat disappointing growth performance in 2007 to the slow progress of structural reform. In particular, it would have been useful if the APR had addressed in a more in-depth fashion the reasons for the disappointing performance of the coffee sector and what has become a clear bi-annual cycle of boom and bust in coffee production.

8. **Staffs concur with the description of the medium-term macroeconomic outlook provided in the APR.** This is very useful for assessing the findings of the APR from a medium-term perspective. On the strength of current policies, staffs agree that growth rates will rise moderately in the medium term and that inflation will steadily fall. Nonetheless, the

APR would have benefited from an analysis of the relationship between the demand for resources needed to achieve the objectives of the PRSP and the expected availability of foreign financing. The authorities are strongly encouraged to carry out this analysis as part of the monitoring of the PRSP, and to include a detailed review of available and needed resources within the framework of a medium-term macroeconomic framework. In light of the global economic slowdown, staffs will continue to work with the authorities in monitoring external developments and their likely impact on Burundi's economy.

9. **The APR offers a thorough discussion of fiscal policy, but does not provide an in-depth analysis of challenges and opportunities related to donor-financed budget support.** By financing about one quarter of the government's budget, donor budget support is a key component of Burundi's strategy to achieve the objectives of the PRSP. Staffs recommend that future APRs include an assessment of the challenging issue of the lack of predictability and the lumpy nature of donor-financed budget support.

10. **The government has undertaken extensive reforms in the areas of public financial management (PFM) and tax administration, in line with PSRP objectives.** To improve budget execution, the government has approved the new budget organic law; implemented measures to consolidate and unify government accounts; improved the government's accounting systems and payroll operations; and enhanced the management of HIPC funds. In support of these efforts, the government requested the posting of a full-time technical assistance expert in the PFM area, with the support of bilateral donors and the Fund. In the area of tax policy, the government has started the process leading to the introduction of a value-added Tax, the adoption of the common external tariff of the East African Community (EAC), and the phasing out of the distortionary transactions tax, while at the same time taking action to enhance tax and customs administration.

11. **The discussion of monetary policy is very useful and the APR is right in calling attention to the importance of ensuring the independence of the central bank.** The Parliament has approved a new central bank charter that guarantees the independence of the central bank. Respecting and reinforcing that independence along the lines of the new central bank law will be critical to the success of monetary policy and for ensuring financial stability. It should be noted, however, that the APR could have discussed in some more detail the overall policy objectives of monetary policy and the degree to which they are being met.

12. **The APR discusses the issue of regional economic integration, which—under the umbrella of the EAC—is one of the elements that will shape medium-term economic developments in Burundi.** However, the discussion in the APR is very general regarding the steps that still need to be taken by the authorities. As a new member of the EAC, Burundi will have to adopt a number of policy reforms. It would be useful to address the actions required for successful adoption of these reforms, and to assess the way in which they may help achieve the objectives of the PRSP. The APR should also review mitigating measures that may become necessary to face short-term adjustment costs. It would be very useful if the next APR would include a more focused evaluation of the regional integration process.

13. **The APR addresses the issue of structural reform and its links to the achievement of the PRSP's objectives.** However, the report presents a somewhat optimistic

view of results obtained so far, including the reform of the export crop sector. In future reports, the government may wish to provide a more detailed assessment of the ongoing structural reform process with a view to identifying clearly the most critical next steps for reaching the objectives of faster growth, lower poverty and a more diversified economy.

III. GOVERNANCE AND SECURITY

14. **The report mentions two important positive developments in this area: (i) the resumption of negotiations between the government and the FNL-PALIPEHUTU; and (ii) the formation of a unity government that includes representatives of all the main political parties and ethnic groups.** However, it would be useful to recognize the negative impact of: (i) the continued insecurity in several parts of the country, which was largely responsible for sluggish economic activity in rural areas; and (ii) the long internal struggle between the government and the Parliament, which—before the formation of a unity government—blocked the adoption of important laws and other measures and slowed down the overall reform process for most of 2007.

15. **The report underlines the importance of the ongoing demobilization and reintegration program, which should enable the government to reduce defense and other security expenditures and, therefore, to further increase spending on high-priority economic and social sectors.** As of the end of December 2007, 20,330 soldiers or ex-combatants have already been demobilized, but the performance indicators matrix shows that only 438 soldiers and ex-combatants were demobilized in 2007. The slower than expected progress of the demobilization program in 2007 reflected several difficulties that the report could have addressed as a basis for improving the design of demobilization and reintegration activities. It is hoped that the new power-sharing agreement with the FNL will help improve the security situation and clarify the way forward for the demobilization program.

16. **The report rightly stresses the importance of: (i) better access to an efficient and equitable justice system; (ii) measures aimed at resolving complicated land ownership issues that dominate the agenda of formal and informal jurisdictions; and (iii) progress in the decentralization and community development process.** The report also emphasizes the high priority of institutional and policy measures aimed at improving public finance management and fighting corruption. The report, however, is silent about two major governance incidents that took place in 2006 and 2007 and does not discuss the corrective measures taken by the authorities in the wake of these incidents, the way in which they were implemented and the degree to which additional measures may be necessary. The next APR could be more candid about economic governance, as continued progress in this area is an essential condition for macroeconomic and fiscal performance and an enhanced relationship with donors.

IV. EQUITABLE AND SUSTAINABLE GROWTH

17. **As most of the poor live in rural areas, the report rightly emphasizes the high priority of programs aimed at stimulating the production of the primary sector, including food crops, export crops, and livestock.** It shows that food crop production

increased by 3 percent from 2006 to 2007 but remains slightly below the peak of 3.8 million tons reached in 2004. The report lists a number of ongoing/planned initiatives aimed at increasing agricultural production and productivity. A major achievement is the success of ongoing efforts to reconstitute the production capacity of the livestock sector.

18. **Staffs welcome the authorities' initiative to conduct studies on the national action plan in the area of climate change.** However, staffs recommend that the authorities effectively implement their 2007 national strategy for disaster risk reduction (DRR), in order to systematically identify, assess, mitigate and finance disaster risks for sustainable poverty reduction in Burundi.

19. **As mentioned earlier, the 2007 APR provides an optimistic perspective on the year's progress toward the reform of the export crop sector, particularly in the coffee sector.** However, the report makes no mention of the findings of a divestiture study recently undertaken, under the auspices of the authorities, which used a participatory process involving all major stakeholders of the sector. Future APRs should review the implementation of the disengagement option chosen by the government and the measures taken to encourage private investment in the sector and increase farmers' income.

20. **The report rightly underlines the importance of stimulating the development of the private sector.** The most effective contribution of the government to achieving that objective was the design and full implementation in 2006 and 2007 of a plan for the settlement of government arrears in the non-oil sectors to small and large creditors, including banks. Efforts are also being made to improve the legal and institutional framework. A revised investment code has been approved and promulgated and the government has established a new consultation mechanism to improve the ongoing dialogue between the public and the private sector.

21. **As mentioned in the report, the development of transport infrastructure and the rehabilitation of power supply facilities will also play a major role in stimulating economic growth.** Allocating more resources to road maintenance and developing a realistic rural road rehabilitation program should be an essential component of an effective poverty-reduction-oriented rural development strategy.

22. **The report underlines the importance of promoting micro-credit institutions for the benefit of the poor,** and reviews some of the factors that explain the failure of several institutions recently created in the sector. It would be useful to link actions to stimulate the development of the micro-credit sector to the reinforcement of the central bank's capacity to supervise it.

23. **The report also notes the positive influence on employment of labor-intensive techniques in public works and construction activities,** but the performance indicators matrix shows a drastic decline in the number of workers engaged in projects promoting these labor-intensive techniques. Appropriate measures should be proposed to stimulate the development of micro-credits and the use of labor-intensive techniques.

24. **A large program of technical assistance (TA) is available to Burundi.** In principle, donor-financed TA is geared to strengthening technical and institutional capacity to implement policies and programs aimed at reaching the PRSP objectives. For example, substantial TA support in tax reform, public finance management and central bank modernization has contributed to a better macroeconomic policy environment. However, the APR does not discuss possible links between the availability, timing and quality of the TA and difficulties in implementing the PRSP. This analysis could be a major input in defining Burundi's technical assistance needs and priorities.

V. DEVELOPMENT OF HUMAN CAPITAL

Education

25. **The report provides a good analysis of the education sector and the measures recently taken to improve its performance.** The report lists the key objectives of the government's education policies, including primary education for all (EFA) by 2015, improved regulation of flows to secondary and higher education, and improved quality and efficiency.

26. **The report shows that the combination of increased budget allocations, availability of HIPC funds, increased foreign assistance and the elimination of primary school fees are the main factors behind a large increase in primary school enrollments.** Recent studies indicate that the abolition of school fees benefited mainly the poor and the rural areas, thus may have contributed to reducing regional and income disparities that dominate the education system.

27. **The recent increase in primary school enrollments creates a new challenge for the government since existing facilities and available human resources are clearly insufficient to deal with the rapidly growing school population.** A large school construction and rehabilitation program, recruitment and training of teachers and provision of teaching materials will require large and growing domestic and foreign resources. Sound initiatives—Sector Development and Action Plans, initiation of the MTEF process, and creation of an Education Common Fund—will help improve the coordination of government and donor contributions. Nevertheless, the report should also propose concrete measures to deal with these issues, including appropriate adjustments in budget allocations to finance the costs associated with free primary education, as assessed in Education Sector Plans.

28. **The report rightly emphasizes the inefficiency of the system** as less than 40 percent of children admitted to primary schools will go through the entire primary education cycle. Future sector policies should therefore aim at a drastic reduction in the extremely high repetition rate, by far the main factor behind the inefficiency of the system.

Health and the Fight against HIV/AIDS

29. **As mentioned in the report, the government gives a high priority to expanding access to, and improving the quality of, health services.** Reducing maternal and child mortality indicators is a major objective. Apparently, the decision to abolish fees for women in delivery and children under 5 already had a significant positive impact on rates of

utilization of health facilities. For the future, priority should be given not only to the construction and/or rehabilitation of health facilities but also to increasing and redeploying available human resources.

30. **Donors contribute close to 72 percent of funds allocated to health services.** The government should not only continue to increase its own contribution but also improve the coordination of donor assistance. The report rightly suggests that the promotion of a sector-wide approach (SWAp) to the programming and financing of Burundi's health system would be the best way to strengthen coordination of government and donor programs.

31. **The report should have evaluated the budgetary implications of the May 2006 decision abolishing user fees for certain medical services** (children under 5 and women during delivery) in order to increase budget allocations and the share of primary health in the overall health program.

32. **The government continues to give high priority to the fight against HIV/AIDS.** Its program includes a combination of preventive and curative measures. Educating the population, particularly women, about the pandemic, how it spreads and how it can be avoided is one of the most critical components of the program.

VI. MONITORING AND EVALUATION

33. **The report is an important contribution to the effective monitoring of implementation of the PRSP.** It includes an extensive matrix of performance indicators, which will enable the government, the civil society and the donor community to analyze progress made toward achieving PRSP objectives and major obstacles that could derail the process. However, poverty reduction in a poor post-conflict country like Burundi is a very slow process. Implementation of the country's poverty reduction strategy started in 2003 with the interim PRSP. It would be useful, for comparison purposes, if the matrix could also show the situation of each main indicator at the beginning of the 2000s. Meanwhile, there are ongoing initiatives for establishing a basic poverty reduction strategy results framework in Burundi.

34. **The government is considering ways and means to further improve the institutional framework for evaluating implementation of the PRSP,** and in particular to enhance the participation of communities in the monitoring process. Reliable data on poverty and other social indicators are scarce. However, the national statistical office (ISTEEBU), with the help of the donor community, has improved the coverage and quality of its data collection and analysis activities. A 2006 Core Welfare Indicator Questionnaire (CWIQ) survey showed that the rate of poverty remains high at about 69 percent. A new household survey is planned for 2009.

VII. CONCLUSION

35. **The first Annual Progress Report is a good document that gives a generally fair assessment of progress achieved and difficulties encountered in implementing the country's poverty reduction strategy.** The report takes into account many comments made

in the Joint Staff Advisory Note on the 2006 PRSP. For instance, it provides an adequate macroeconomic analysis, including a medium-term outlook. It also presents a good description of measures taken and progress achieved in public finance management, notably to improve allocations of public resources.

36. **In future reports, the government may wish to better coordinate the discussion of macroeconomic performance and poverty reduction programs.** To that end, it may wish to better integrate the objectives of the PRSP into the budget preparation process and to provide reliable estimates of the cost of measures envisaged in priority sectors. Finally, it would be useful to include in future APRs a debt sustainability analysis to strengthen the links between priority sector programs and debt management.