

Burundi: Poverty Reduction Strategy Paper—Joint Staff Advisory Note

The attached Joint Staff Advisory Note (JSAN) of the Poverty Reduction Strategy Paper for Burundi, prepared jointly by the staffs of the World Bank and the IMF, was distributed with the member country's Poverty Reduction Strategy Paper to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

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INTERNATIONAL MONETARY FUND AND
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REPUBLIC OF BURUNDI

Joint Staff Advisory Note on the Poverty Reduction Strategy Paper

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and the International Monetary Fund (IMF)

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I. OVERVIEW

1. **The Government of Burundi published its first Poverty Reduction Strategy Paper (PRSP) in September 2006.** This Joint Staff Advisory Note provides comments and advice on the PRSP, plans for its implementation, and priorities for strengthening it, including through annual progress reports (APRs).
2. **The PRSP builds on the Interim PRSP (I-PRSP) completed in November 2003 and discussed by the Boards of IDA and the IMF in January 2004.**¹ Set in the context of a country emerging from a protracted civil conflict, the PRSP aims to strengthen political stability, consolidate peace, and reduce poverty through accelerated, sustainable, and equitable growth. The need is great: the civil conflict that began in the early 1990s led to a sharp decline in living conditions and caused deep-seated damage to the economy. It is estimated that more than 250,000 people were killed and 1.2 million displaced. Income per capita fell by 44 percent, from US\$149 in 1994 to US\$83 in 2004. The prevalence of undernourishment (the share of the population living below the minimum level of dietary energy consumption) reached 68 percent in 2002.
3. **The signing of a comprehensive peace agreement in Arusha, Tanzania, in August 2000 was a political turning point.** After a transitional government was established in 2002, a new constitution that incorporates appropriate ethnic checks and balances was approved in February 2005. Parliamentary elections were held in July 2005 and a democratically elected government took office in August. In September 2006, a cease-fire accord was reached with the last rebel movement, the FNL-PALIPEHUTU. The peace

¹ “Republic of Burundi: Interim Strategic Framework for Accelerating Economic Growth and Reducing Poverty (Interim PRSP)”, November 2003, (IMF Country Report 04/14 and IDA Report No. 27569) and “Burundi—Interim Poverty Reduction Strategy Paper—Joint Staff Assessment, (IMF Country Report 04/36 and IDA Country Report No. 27569).

process has attracted considerable attention; Burundi is one of the pilot countries for the recently created UN Peace Building Commission.

4. **Staff concurs with the strategic priorities, which emerged from a participatory consultation process.** These priorities reflect the post conflict political and socioeconomic situation of Burundi. The priorities are:

- Improve governance and security;
- Achieve equitable and sustainable growth;
- Develop human capital by improving the quality of social services; and
- Reinforce the fight against HIV/AIDS.

5. **Staff welcomes the initiative to address gender as a crosscutting issue,** with the aim to increase the participation of women in, and their contribution to, Burundi's socioeconomic development. To achieve this objective, women's participation in productive activities and access to basic services needs to be developed at both the macro and sectoral levels.

6. **The PRSP is correct in its analysis that Burundi's weak institutional capacity must be strengthened if the poverty reduction strategy and growth programs are to succeed.** There is particular need for improved public financial management and better implementation of socioeconomic policies and reforms over the medium term. The effectiveness of actions undertaken by local communities will hinge on their capacity to manage programs to enhance growth and reduce poverty.

II. PARTICIPATION AND POVERTY DIAGNOSTICS

A. The Participatory Process

7. **The PRSP was prepared through a broad based participatory process.** While the participatory process for the Interim-PRSP was at times obstructed by the lack of security, for the PRSP, efforts were made to ensure comprehensive participation across all 17 provinces (146 communes) and sectors. Under the leadership of the Permanent Secretariat for Monitoring Economic and Social Reforms, with the support of international partners and local nongovernmental organizations (NGOs), quantitative and qualitative surveys were undertaken in all the provinces, and more than 145 grassroots civil society groups were consulted. At the local level the process was supported by Provincial Development and Poverty Reduction (CPDPL) and Communal Development and Poverty Reduction (CCDLP) Committees. The consultative process was also directed at putting in place a comprehensive system for monitoring and evaluating the PRSP, based on the Millennium Development Goals (MDGs) and Burundi's Development Vision 2025.

8. **Sector and thematic consultations** covered the macro-economy, finance, agriculture, rural development and livestock production, environment, health, education, security and governance, reinsertion of refugees, reintegration and demobilization of

excombatants, commerce and industry, and the private sector. For each sector and theme technical committees were established to formulate policy implementation and development objectives. The committees helped develop a coherent macroeconomic framework and priority actions for the budget, which will also serve as inputs for the elaboration of a medium-term expenditure framework (MTEF). Consultations with Parliament involved diagnosis of the main challenges facing Burundi's development. Parliament reviewed the proposals submitted by local communities, and the results of the sectoral and thematic consultations, and provided feedback on the implementation of the PRSP.

9. **The participatory consultations conducted throughout the country involved all development stakeholders**, including the *Batwa*,² the disabled, and other vulnerable groups. Staff recommends that the same participatory and transparent process be used to monitor PRSP implementation, as called for by community organizations, civil society, NGOs, the private sector, and Burundi's development partners.

B. Poverty Diagnosis

10. **The PRSP acknowledges that the depth and severity of poverty poses a major risk to Burundi's economic and social recovery; overcoming it is a daunting challenge.** While notable progress has since been made in a few areas, thanks in part to political developments and economic reform, the social situation remains a grave concern: poverty is widespread, there is a large number of disaster victims, basic social services coverage falls short, and HIV/AIDS prevalence is rising rapidly. Further, the lack of reliable statistical information makes it difficult to accurately describe the magnitude and structure of poverty in Burundi. The poverty analysis is based on the 1998 Core Welfare Indicators Questionnaire (CWIQ) survey and Multisectoral Indicators Cluster Surveys (MICS) of 2002 and 2004. Though the fundamental features of poverty in Burundi have not changed significantly since 1998, prompt efforts should be made to use the results of the 2006 CWIQ survey to update the poverty profile and gain a better understanding of household sources of livelihood. Monitoring of poverty reduction should be based on the 2006 CWIQ survey.

11. **There is a striking disparity between rural and urban poverty.** In 1998 the overall poverty rate in Burundi was 81 percent—41 percent in Bujumbura and 83 percent in the rest of the country.³ The poverty gap for the rural population is wider than that of urban dwellers: the average income of the rural poor is estimated at FBu 65,014 or 49 percent below the poverty line; the average income of the urban poor, estimated at FBu 149,880, is only 17.9 percent lower than the poverty line.⁴ Disparities between regions and socioeconomic groups are equally severe. Whereas the poverty rate in Bujumbura is 41 percent, in the other provinces it ranges from 72 percent in Bururi to about 90 percent in Kirundo, Kayanza, Gitega, and Ruyigi.

² The Batwa (or Twa) ethnic group represents about 1 percent of the population.

³ These figures differ from the ones published in the Interim PRSP because a more appropriate method for estimating the poverty line was adopted.

⁴ In Bujumbura, the poverty line is estimated at FBu 182,725, compared to FBu 103,730 for the rest of the country.

III. MACROECONOMIC AND FISCAL FRAMEWORK

12. **Staff supports the thrust of the PRSP's macroeconomic policies and objectives for 2006-09, which are sound.** The PRSP recognizes the importance of macroeconomic stability to underpin growth and the need for prudent monetary and fiscal policies in the context of a flexible exchange rate regime. Annual growth is projected to be 6–7 percent, with a continuation of subdued inflation in the single digits. The macroeconomic projections, including external and fiscal financing gaps, date from mid-2006; but are broadly comparable to updated staff projections, except for fiscal revenue, where staff believes continued performance close to 20 percent of GDP is necessary and achievable. Given the post-conflict environment and because of poor statistics, macroeconomic projections for Burundi are subject to uncertainties. More grant aid, in line with that envisaged in the PRSP, and subject to absorptive capacity, is needed to address considerable social needs and progress toward the MDGs. Greater clarity on the availability of external financing for the PRSP is expected to emerge from the upcoming UNDP roundtable.

13. **The medium-term macroeconomic framework in this first PRSP is commendable, given the weakness of the statistical database and the limited capacity for economic analysis.** Future PRSPs and APRs would benefit from greater macroeconomic detail. The PRSP sets out a strategy for rehabilitating the national statistical base to guide policy implementation and monitor progress on the PRSP's goals. It is important that Burundi participate in the IMF's General Data Dissemination System. The coordinated support of the international community is needed for the resumption of national accounts production and improvements in other areas identified in the PRSP. A strengthening of the capacity for economic analysis and policy implementation is also needed.

14. **The PRSP's priorities need to be reflected in a medium-term expenditure framework and in annual budgetary priorities.** The PRSP notes the importance of preparing a MTEF, yet to be elaborated. Public expenditure reviews should be conducted, starting with priority sectors. Cost estimates of sector programs should be included in APRs and future PRSPs to inform budget preparation and help attract and coordinate external support. Staff recognizes that, given Burundi's weak institutional capacity, the introduction of a MTEF would necessarily be gradual. To support progress in this area, the capacity of line ministries must be strengthened. These tasks will require substantial external support.

15. **Burundi is progressing toward a poverty-focused budgetary policy.** The budget classifications adopted in 2005 made it possible to identify pro-poor expenditure, the share of which the government is committed to increasing. To ensure effective use of public resources, the government will need to better allocate expenditure and shore up public financial management. It will also need to carefully manage public expectations.

16. **The ambitious government spending and investment that is planned is directed to achieving early significant gains in poverty reduction.** The PRSP acknowledges that this will depend on the availability of external budget support on highly concessional terms as well as on implementation and absorptive capacities. The PRSP correctly identifies absorptive capacity as a constraint on the development strategy, emphasizing that improving institutional capacity significantly is necessary to manage higher aid efficiently. It is also

crucial that economic policies allow aid to be used effectively, consistent with macroeconomic stability. The balance between investment and recurrent spending will need to be monitored. The uncertainty and volatility of aid inflows will need to be carefully managed. Future APRs and PRSPs could incorporate alternative macroeconomic scenarios with different levels of spending and external support.

17. **The PRSP describes Burundi's external debt and policies, drawing on reports and debt sustainability analyses by IDA and IMF staff.** The authorities need to strengthen their capacity to analyze debt sustainability and better manage debt. It is suggested that future APRs and PRSPs incorporate a debt sustainability analysis to ensure that the government's borrowing policies are consistent with financial stability. In light of Burundi's vulnerability to debt distress, external assistance should be primarily grants. The small and concentrated export base constrains Burundi's capacity to service external debt and is vulnerable to exogenous shocks. Staff concurs that the structural reform strategy in the coffee and tea sectors and measures to encourage export diversification should be a priority. Maintaining an adequate cushion of official reserves is also important.

IV. STRATEGIC PRIORITIES

18. **Staff supports the analyses and priorities set out in the PRSP.** Its linkage of the poverty diagnosis with the major pillars of the strategy is welcome. However, while the strategic priorities of the PRSP are appropriate, they are stated generally and would benefit from translation into precise measures and detailed action plans. Given the post conflict context, the government's commitment to reaching national consensus on the broad principles and objectives of the PRSP strategy was appropriate, leaving detailed elaboration of sector programs for the future. The PRSP recognizes the need for more detailed sector policies and staff believes that the government should now give priority to elaborating sector programs and action plans, and analyzing costs and trade-offs.

A. Improving Security and Governance

19. **Improving security and governance is an essential condition for restoring an environment conducive to economic recovery and national security.** Considerable progress has already been achieved on the security front: the disarmament and demobilization programs are nearing completion, and a cease-fire agreement has been reached with the last rebel group. While the situation in the Great Lakes region is improving, the security situation on Burundi's eastern border may take time to stabilize. Preparations are underway for an international conference on the Great Lakes Region. The PRSP rightly views as a priority the reintegration of excombatants, civilian disarmament, and professionalizing the defense and security forces.

20. **The governance strategy is appropriately focused on strengthening the rule of law, the judicial system, and the management of public sector resources.** Sound governance (which involves improving political, economic, administrative governance and anti-corruption activities; strengthening the rule of law; establishing land dispute resolution, and a strengthened judicial system) will help support a growth-conducive business and investment climate. The dual focus on the rule of law and the judicial system is crucial to

improve the transparency and accountability necessary to bolster the confidence of investors and to make business regulation more efficient. The PRSP also recognizes the need to strengthen Burundi's new political and democratic institutions. It is noteworthy, that a governance and anti-corruption strategy is to be derived from the first Governance and Corruption Survey to be conducted in 2007, with the assistance of the World Bank Institute. Staff recommends the adoption of policies that facilitate the sustainable utilization of natural resources, including the principles of the Extractive Industries Transparency Initiative. Many of these efforts will require the support of civil society and international partners.

21. **Strengthening economic and administrative governance is important to ensure that resources are used effectively to achieve the goals of the PRSP.** As the PRSP recognizes, accountability and transparency in the use of public resources must be promoted. The focus on public sector financial management and tackling corruption is welcome. With the support of IDA and the IMF, the government has already undertaken several measures in these areas, and others are underway. Since significant improvement is a multiyear process, an overall strategic plan will be necessary to ensure the coherence of the planned measures. Nevertheless, early straightforward measures on good governance and transparency are possible, such as the electronic publication of laws, decrees, and fiscal data. Staff agrees that the need for civil service reform is urgent. While recognizing that the objective of decentralization is to ensure local participation in poverty reduction and development plans, the staff would caution that implementation should be in line with strengthening of local institutions.

B. Achieving Equitable and Sustainable Growth

22. **The growth strategy is appropriately focused on the rural sector and building infrastructure (e.g., transport and energy), with efforts to be based on economic policies aimed at macroeconomic stability and the promotion of private sector activities.** Agriculture, the major component of the economy, accounts for more than 80 percent of employment. Sustained growth in the rural sector would considerably reduce income disparities and poverty levels. While the PRSP emphasizes the need to improve agricultural productivity, more discussion of the sources of growth and specific measures to raise efficiency and output would have been useful, especially for the major cash crops such as coffee and tea. Greater discussion of the key role of the private sector in achieving the growth objective, including state disengagement, would have been welcome. Given the importance of agriculture and high population density, staff agrees with the government's intention to put in place a participatory land occupancy policy, to favor a greater role for women. The attention given to environmental protection issues is also commendable.

23. **Staff agrees that strengthening transport infrastructure is necessary to improve access to markets and unlock Burundi's economic potential.** The government believes that priority should be given to building and renovating roads to connect all provinces with paved roads and expand the rural roads network. The challenge is to define an action plan that identifies which roads should be enhanced first based on economic return, poverty reduction impact, and institutional and financial capacity for maintaining roads. Staff agrees on the necessity to (i) integrate Burundi into a regional network of railroads; (ii) expand the port of Bujumbura; and (iii) make the airport of Bujumbura a transit center. It is however

difficult to comment on the feasibility of specific national and regional projects until they are subjected to specific in-depth technical, economic, social and environmental studies.

24. **The PRSP also identifies the severe shortfall in electricity supply as a major constraint on development.** Staff concurs with the need to undertake urgent actions (including the rehabilitation of existing power plants and the construction of new ones) to ensure an adequate power supply. Staff endorses government's plan to undertake a rural electrification program by extending the grid and connecting villages, as well as disseminating information on alternative energy sources affordable for low-income households. To address some of these issues, IDA is currently preparing a Multi-Sector Infrastructure Project.

25. **The PRSP recognizes that regional integration is key to enhance growth.** The authorities are committed to promoting trade within the region, as evidenced by Burundi's admission to the East African Community (EAC) in November 2006. EAC membership also may allow Burundi to benefit from improvements in regional infrastructure. In partnership with eight other development stakeholders, IDA is currently preparing a Regional Communications Infrastructure Program (RCIP). Burundi is ready to fully participate in and implement the Common Market for Eastern and Southern Africa (COMESA) free trade zone. Furthermore, Burundi intends to contribute to the revival of the Economic Community of the Great Lakes and take advantage of trade agreements with developed nations, such as the preference arrangements proposed by the U.S. AGOA⁵ and the European Union. It will be important to ensure that Burundi's overlapping commitments to different economic and trade zones are mutually consistent.

C. Developing Human Capital, Improving Social Services, and Fighting HIV/AIDS

26. **The PRSP proposes that human capital be developed in partnership with beneficiary communities.** Such a partnership has considerable potential but would need to incorporate content and feedback from final users in order to monitor its success. Tools like public expenditure tracking surveys could be used to identify issues and measure progress in delivering services to the poor. Staff concurs that addressing the problems of insufficient data and communication, which are the main obstacles to setting up an efficient strategy for the fight against HIV/AIDS, should be a priority.

27. **Staff also supports the emphasis on expanding access to social services and improving quality.** Staff commends the government's commitment to increase expenditures on social sectors in order to meet rising demands in education and health services, notably for construction of schools and classrooms and giving the poor greater access to affordable health care. The authorities' education policy aims to improve the quality of, and expand access to, education within the framework of the Education For All (EFA) initiative. Since the "free school" policy was introduced in September 2005, primary education coverage has significantly improved from 80 percent in 2003-04 to about 100 percent in 2005-06. To support these initiatives, an education project is under preparation by IDA. The main

⁵ United States of America African Growth Opportunity Act.

objective of health policy is to reduce child and maternal mortality rates and improve access to, and the quality of, basic health services. A 2006 presidential decree eliminated fees for health care services for children under 5 and pregnant women. Although more effort is needed to make national health policy fully operational, in the past year, the government has made progress. With respect to HIV/AIDS, prevention and mitigation should be part of a comprehensive and coherent multisector program to reduce the expansion of the pandemic. In the medium term, the government should define a new strategy for the distribution of medicines and new financing mechanisms for the sector.

28. **The PRSP also envisages actions to benefit victims of the civil conflict: refugees and the displaced, homeless children, orphans, and the handicapped.** To address the needs of these victims cost-effectively, more cooperation with NGOs and local communities is needed to attain long lasting progress.

V. IMPLEMENTATION, MONITORING, AND EVALUATION

29. **The PRSP calls for participatory monitoring and evaluation,** and urges that the details of participation be spelled out clearly. The government intends to introduce such a mechanism. It has also assigned the task of monitoring and evaluation to line ministries and agencies implementing the PRSP, such as the Ministries of Finance and Planning, the National Committee for Aid Coordination, and the National Institute of Statistics, in close partnership with other donors. The PRSP describes the role of ten layers of organization, implementation, monitoring, and evaluation, from the office of the second Vice President in charge of economic and social reforms to the Technical Oversight Committee and the local committees. While the multilayer structure aims to achieve a fully participatory, comprehensive, and consistent approach, care should be taken to ensure that the process not be so cumbersome as to delay progress.

30. **Reforms planned in the area of public financial management are important to better track poverty-reducing spending and monitor progress on the PRSP's objectives.** The government needs to develop efficient reporting mechanisms and accounting procedures, implement a monthly cash-flow plan, and introduce internal and external audit procedures, in order to track expenditure at each stage of the expenditure cycle. Efforts in this area are already underway with the support of IDA and the IMF.

31. **The modalities of implementation and the roles of NGOs and civil society, called for in the PRSP, are yet to be determined.** Implementation, monitoring and evaluation plans for the poverty reduction strategy are yet to be defined in detail. Staff recommends the adoption of implementation mechanisms that spell out the details of participatory monitoring.

32. **The choice of progress indicators will be essential for evaluating implementation.** Though the progress indicators proposed in Annex 1 of the PRSP are generally measurable, they need to be streamlined and aligned with the main priority actions. Staff recommends that the work underway to establish monitoring and evaluation indicators be made a priority. This work will need to be accompanied by progress on the rehabilitation of national statistics.

33. **An action plan setting out priority actions with costing, timing, and performance indicators, and specifying the entity in charge, is of paramount importance.** This plan would serve as a reference for planning, monitoring and evaluation, and facilitate the prioritization of capacity reinforcement programs.

VI. CONCLUSION AND POINTS FOR DISCUSSION

34. **The government is to be commended for making a sound start with the poverty reduction strategy elucidated in its first PRSP.** This is an impressive achievement in the immediate aftermath of a protracted civil conflict that severely damaged the country's institutional and implementation capacity.

35. **Staff concurs with the poverty reduction priorities and the emphasis on growth as the basis for poverty reduction.** Successful implementation requires that priorities be further defined in terms of resource constraints. Also, sector action plans and evidence-based targets need to be formulated to help monitor and achieve progress.

36. **Nevertheless, there are serious challenges and risks to successful implementation of the PRSP,** among them the problems of: (i) consolidating political stability in an open and democratic environment; (ii) further improving security and governance to create an environment conducive to private sector investment; (iii) mobilizing the external financing required to achieve the social and poverty reduction targets; (iv) improving capacity to effectively coordinate donor assistance; and (v) strengthening local capacity in line with priorities and available financing.

37. **Do the Executive Directors concur with the staff's evaluation and identification of priority actions and recommendations?**