



1. Project Data:		Date Posted : 01/27/2009	
PROJ ID : P091475		Appraisal	Actual
Project Name : Economic Reform Support Grant (ERSG)	Project Costs (US\$M):	US\$93 mil	US\$ 94.7 mil
Country: Burundi	Loan/Credit (US\$M):	US\$ 60 mil	US\$ 61.7 mil
Sector Board : EP	Cofinancing (US\$M):	US\$ 33 mil	US\$ 33.0 mil
Sector(s): Central government administration (65%) Crops (30%) General industry and trade sector (5%)			
Theme(s): Public expenditure financial management and procurement (33% - P) Rural policies and institutions (17% - S) Regulation and competition policy (17% - S) State enterprise/bank restructuring and privatization (17% - S) Poverty strategy analysis and monitoring (16% - S)			
L/C Number: CH249			
	Board Approval Date :		08/01/2006
Partners involved : Netherlands, Norway	Closing Date :	06/30/2007	03/31/2008
Evaluator :	Panel Reviewer :	Group Manager :	Group:
Ashok Khanna	Ismail Arslan	James Sackey	IEGCR

2. Project Objectives and Components:

a. Objectives:

The Economic Reform Support Grant (ERSG) was an integral part of the Bank's Interim Strategy Note (ISN) to support Burundi's interim Poverty Reduction Strategy Paper (I-PRSP) in implementing its reform program during 2006. In addition, ERSG sought to consolidate reforms initiated under earlier Bank operations [Emergency Economic Recovery Credit (EERC) and Economic Recovery Credit (ERC)] for the overall objective of building a base for economic diversification and sustained growth to reduce poverty. ERSG's specific development objectives were to:

- Improve public expenditure management and its impact on the poor; and
- Accelerate economic growth

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

Parallel to the objectives, ERSG had two components .

I. Improve Public Expenditure Management and its Impact on the Poor :

- **(a) Budget Management Framework** : Pass the Budget Framework Law defining public finance management; introduce streamlined budget preparation and execution procedures, including a computerized financial management information system, to produce timely audited government accounts that are available to the public; and revise the procurement code and establish the stipulated institutions; and
- **(b) Increase the Level and Impact of Public Spending on the Poor** : Increase the budgetary share of poverty alleviating expenditures and improve monitoring to ensure that resources reach the intended beneficiaries by launching a tracking survey .

II. Accelerate Economic Growth :

(a) Revive Agricultural Exports :

- **Coffee**: Prepare studies aimed at defining a legal, regulatory and institutional framework for a larger private sector role; provide key services (financing, extension, research, inputs, quality control, road maintenance); establish an information management system; privatize washing stations and two mills; and other measures including a safety net for poor coffee farmers .
- **Tea**: Conduct a technical and financial audit to review the tea processing monopoly's operations to serve as a basis for restructuring the sector .
- **Cotton**: Update the technical and financial audit of the organization responsible for collecting and ginning seed cotton and revising the contract for selling the entire output to the national weaving company, a monopsony buyer .

(b) Revive the Private Sector and Reform Public Enterprise Management and Privatization :

- **Settle Arrears to the Private Sector** : Define a strategy and settle all government arrears to the private sector to catalyze economic activity .
- **Business Environment** : Conduct an evaluation of the business climate with the World Bank .
- **Public Enterprise Management** : Strengthen the agency responsible for supervising public enterprises and develop a framework to prepare, manage and monitor reforms .
- **Privatization** : Revise the privatization law, adopt a road map for privatization and re-launch the sale of enterprises not in the coffee sector including Societe Hoteliere Nouvelle du Burundi .

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

Two governance issues delayed the project's approval and execution . ERSG was ready for Board presentation by early 2006, but the unusual circumstances of the sale of the presidential plane necessitated an audit, which delayed the grant's effectiveness until November 2006 when the first tranche of US\$35 million was released. Second tranche release of US\$25 million was also delayed until December 2007 because a condition requiring the publication of the audit and approval of an action plan was eventually met . Moreover, the Bank and other donors also required satisfactory clarification of questions related to improper government payments to Interpetrol . The project was extended by nine months to accommodate these delays . The Netherlands contributed US\$ 10 million for disbursement with the first tranche and US\$ 13 million with the second tranche . Norway contributed US\$ 10 million for disbursement with the second tranche .

3. Relevance of Objectives & Design:

ERSG's objectives are completely compatible with Burundi's I-PRSP, discussed with the Bank and Fund Boards in January 2004, and the Bank's ISN discussed with the Bank's Board in May 2005. The reform program was also closely coordinated with the IMF's three-year PRGF program. Moreover, Burundi was in dire need of budget support to restore its infrastructure and productive base that had been devastated by a long civil war . Thus, the project's objectives were relevant at the time of appraisal and remain so now .

ERSG sought to consolidate reforms initiated under EERC and ERC to build a base for economic diversification and sustained growth to reduce poverty . Its design was based on considerable additional analytical work by the Bank and other agencies that remains relevant to achieving its objectives . In addition, ERSG's implementation was supported by the Bank's on-going Economic Management Support Project (EMSP).

The monitoring and evaluation framework had clearly stated objectives and outcomes and was time -bound. It was, however, complex . It included about eighty outcomes/outputs, but they were overwhelmingly actions, studies, plans with only a handful of specific targets . Although the Ministry of Finance was responsible for monitoring implementation, two additional committees supervised its work .

4. Achievement of Objectives (Efficacy):

The conditions for grant effectiveness and second tranche release were met. The PAD listed an additional ten measures in which progress was expected during implementation. Of these, six were fully implemented.

I. Improving Public Expenditure Management and its Impact on the Poor : Substantial

(a) Budget Management Framework : The transparency of public expenditure management improved appreciably : a budget framework law was adopted; a reliable financial management information system was implemented; procurement procedures and practices were improved; internal controls were enhanced; and external audits completed. Moreover, the government took strong remedial measures to resolve corruption scandals .

(b) Increase the Level and Impact of Public Spending on the Poor : Expenditures on health, education, agriculture and infrastructure were increased to meet targets and an interim public expenditure tracking survey for several sectors was distributed for review. Efforts are underway to improve poverty tracking data .

II. Accelerating Economic Growth : Modest

GDP growth in 2007 was 3.6 percent, not achieving the expected growth rate of 5 percent, but growth averaged 4.8 percent for 2006-07. The incidence of poverty and coffee production and exports (provides income to 800,000 households in poor regions) remained virtually unchanged, indicating no economic diversification or reduction in poverty.

(a) Reviving Agricultural Exports :

A coffee sector reform committee was created and a three year restructuring action plan was adopted, but with modest progress in implementation. After missteps, coffee marketing was liberalized and preparation for disengaging the state from the coffee sector is underway, but no transaction has occurred. A reform committee for the tea sector was created, and diagnostic studies and audits completed, but an action plan has not been agreed. A reform committee for the cotton sector was also established and diagnostic studies and financial audits completed, but an action plan has not been agreed. A textile manufacturing company was liquidated.

(b) Developing the Private Sector and Reforming or Privatizing Public Enterprises :

A strategy to settle government arrears to the private sector was successfully implemented. An assessment of the investment climate is nearing completion and an assessment of the financial sector is expected to start soon. A presidential decree established a public/private sector consultation framework with a secretariat and several laws to facilitate business operations, including an investment code, have been approved or are in process. IFC is assisting the development of the small enterprise sector. Nevertheless, and despite an increase in private investment, the investment climate has not yet changed significantly mainly because of continuing political and security tensions.

A data base and a study on capacity needs of public enterprises were completed and some small public enterprises were liquidated. A privatization committee was created and a new privatization law is being prepared. The bidding process for Societe Hoteliere was resumed, but did not receive attractive investment proposals. The bidding process for a few more small enterprises was launched, but partly because the investment climate remains substantially unchanged, privatization has been slow.

5. Efficiency (not applicable to DPLs):

Economic and financial rates of return do not apply to DPLs.

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal		%	%
ICR estimate		%	%

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

The overall objective of sustained growth, economic diversification and reduction in poverty levels was only modestly achieved despite an increase in budgetary expenditure directed at the poor. However, substantial progress was made in improving public expenditure management and resolving the governance issues. Public expenditure management became more transparent with a budget framework law, a reliable financial management

Information system, enhanced internal controls and external audits . Procurement procedures and practices were also improved and actions taken to settle corruption scandals . Negligible progress was made in reforming the critical cash crops that account for most of Burundi's exports and a substantial amount of employment . The government initiated improvements in the investment climate, most notably clearing arrears to the private sector, and took steps to reform public enterprise management and liquidated a few enterprises, but privatization was slow .

In view of Burundi's post-conflict and unsettled situation, its lack of administrative and technical capacity to implement a complex reform program that was not fully owned by the new government responsible for its implementation, and despite shortcomings in achieving some important objectives, the outcome for the project is rated as moderately satisfactory .

a. Outcome Rating : Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating:

Although there were delays in implementation, the government is committed to reforming public expenditure management and governance procedures and improving the business climate . Its commitment to privatization of public enterprises and reforms of the cash crop sectors is uncertain, however . Continuing security concerns and potential tensions from the forthcoming elections in 2010 may also impact reform progress . Thus the risk to development outcome is rated as significant .

a. Risk to Development Outcome Rating : Significant

8. Assessment of Bank Performance:

ERSG's design supported Burundi's I-PRSP and was relevant to its economic development needs, but the program was too broad and onerous for a post-conflict country with continuing security and political problems and limited technical and administrative capacity . Moreover, although the transition government took ownership of the program, the new government responsible for its implementation that took office in 2005, did not take ownership of all the measures partly because it was not fully aware of all the implications . In addition, the monitoring and evaluation framework, with 80 actions/outputs to track and three tiers of supervision, was inappropriate for Burundi's capabilities . Bank staff did, however, respond effectively to resolve a governance issue prior to Board approval of the project . The quality at entry is rated as moderately satisfactory .

Bank staff at Head Quarters and in Burundi, including sector specialists were heavily involved in project implementation in supervision missions, joint missions with the IMF and preparation of reports and ERSG 2. Moreover, the ongoing TA project, EMSP, was restructured to finance studies, activities and capacity building programs that helped to implement ERSG. The quality of supervision is rated as satisfactory .

Although the program design was thorough, it was too ambitious and complicated for Burundi's situation, but Bank staff's supervision helped to achieve some important objectives . For that reason, overall Bank performance is rated as satisfactory .

a. Ensuring Quality -at-Entry:Moderately Satisfactory

b. Quality of Supervision :Satisfactory

c. Overall Bank Performance :Satisfactory

9. Assessment of Borrower Performance:

Although the transition government contributed to the program's design, the new government was more focused on critical security and political issues than discussing the objectives and details of the program and remained uncommitted to cash crop reforms and privatization . Nevertheless, it implemented the prior actions and resolved a governance issue. Implementation was delayed as the security situation deteriorated and a political crisis paralyzed parliament. Subsequently, the government took bold actions to resolve another governance issue . The government's hesitance to implement important cash crop reforms can be extenuated by the Bank's incomplete consultation and preparation of that component . Given the difficult circumstances, the government's performance is rated as satisfactory .

The Ministry of Finance was responsible for implementing the program . A cell created by the minister to monitor ERSG and other donor financed budget support operations successfully coordinated other ministries in implementing the public expenditure management component of the program . The cross-ministry Technical Implementation Committee met regularly to oversee the policy aspects of the program originally ceded to a high

level Steering Committee that was given oversight over policy, but it never met . Unfortunately, the Minister of Finance and Governor of the Central Bank were involved in a corruption scandal and removed from office . Again, given the difficult political, governance and capacity circumstances, and insufficient progress in some important components, implementing agency performance is rated as moderately satisfactory .

Although the public expenditure management and some privates sector measures were implemented, because important cash crop reforms made little progress, borrower performance is rated moderately satisfactory .

a. Government Performance :Satisfactory

b. Implementing Agency Performance :Moderately Satisfactory

c. Overall Borrower Performance :Moderately Satisfactory

10. M&E Design, Implementation, & Utilization:

The monitoring and evaluation framework combined monitoring of ERSG, PRGF and other donor budget support operations. As mentioned above, ERSG alone required monitoring about 80 actions, outputs and outcomes, far too many in Burundi's low capacity circumstances . Moreover, it required oversight by two additional interministerial committees. After an understandably slow beginning, monitoring became more functional with the Ministry of Finance's cell preparing meetings and providing verbal progress reports . One oversight committee also met regularly. The ICR does not mention any written reports or how the information gathered was used . Thus, the cumbersome framework is not evaluable.

a. M&E Quality Rating : Non-evaluable

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

The ICR does not mention any safeguard or outstanding fiduciary issues . ERSG had a salutary impact on education as the impact of free primary education increased both female and total school enrollment . Implementation of ERSG, with the support of EMSP, significantly strengthened the Ministry of Finance's capacity to manage public expenditure.

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Moderately Satisfactory	Moderately Satisfactory	
Risk to Development Outcome:	Significant	Significant	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Performance :	Moderately Satisfactory	Moderately Satisfactory	
Quality of ICR :		Satisfactory	

NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate .

13. Lessons:

The ICR draws several important lessons from ERSG's experience . Of special note is the additional attention needed in preparing policy operations in post-conflict countries where tensions remain . Only critical measures compatible with available implementation capacity should be included and politically sensitive issues that could renew conflict should be avoided .

14. Assessment Recommended? Yes No

15. Comments on Quality of ICR:

The ICR is clearly and concisely written, consistent with the guidelines, analytically sound and provides all the evidence necessary for an evaluation . It draws good lessons from the project's experience . It is rated as satisfactory.

a.Quality of ICR Rating : Satisfactory