PROJECT PAPER
ON A
PROPOSED ADDITIONAL FINANCING GRANT
IN THE AMOUNT OF
SDR 21.1 MILLION (US$30.6 MILLION EQUIVALENT)
TO THE
REPUBLIC OF BURUNDI
FOR A
PUBLIC WORKS AND EMPLOYMENT CREATION PROJECT

December 6, 2005
CURRENCY EQUIVALENTS
(Exchange Rate Effective November 1, 2005)
Currency Unit = Burundian Francs
1,000 BIF = US$1
US$ 1 = 1,000 BIF
SDR 1 = US$1.45

WEIGHTS AND MEASURES
Metric System

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABUTIP</td>
<td>Agence Burundaise pour la Réalisation des Travaux d'Intérêt Public / Burundi Agency for the Execution of Public Works</td>
</tr>
<tr>
<td>ESMF</td>
<td>Environmental and Social Management Framework</td>
</tr>
<tr>
<td>GOB</td>
<td>Government of Burundi</td>
</tr>
<tr>
<td>ICR</td>
<td>Implementation Completion Report</td>
</tr>
<tr>
<td>ISN</td>
<td>Interim Strategy Note</td>
</tr>
<tr>
<td>MAP</td>
<td>Multi-country HIV/AIDS Program</td>
</tr>
<tr>
<td>MPWE</td>
<td>Ministry of Public Works and Equipment</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>SOE</td>
<td>Statement of Expenses</td>
</tr>
<tr>
<td>TS</td>
<td>Technical Secretariat</td>
</tr>
</tbody>
</table>

Vice-President : Gobind T. Nankani
Country Director : Pedro Alba
Sector Manager : Eustache Ouayoro
Task Team Leader : Déo-Marcel Niyungeko
REPUBLIC OF BURUNDI
Public Works and Employment Generation Project
Additional Financing

PROJECT PAPER DATA SHEET

<table>
<thead>
<tr>
<th>Date: December 6, 2005</th>
<th>Team Leader: Deo-Marcel Niyungeko</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country: Republic of Burundi</td>
<td>Sector Manager: Eustache Ouayoro</td>
</tr>
<tr>
<td>Project Name: Burundi Public Works and Employment Creation Project</td>
<td>Country Director: Pedro Alba</td>
</tr>
<tr>
<td>Project ID: P095024</td>
<td>Environmental Category: B</td>
</tr>
</tbody>
</table>

Borrower: Government of Burundi
Responsible agency: Ministry of Public Works and Equipment

Revised estimated disbursements (Bank FY/US$m)

<table>
<thead>
<tr>
<th>FY</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual</td>
<td>12.0</td>
<td>15.0</td>
<td>3.6</td>
</tr>
<tr>
<td>Cumulative</td>
<td>12.0</td>
<td>27.0</td>
<td>30.6</td>
</tr>
</tbody>
</table>

Current closing date: December 31, 2006
Revised closing date: December 31, 2007

Does the restructured or scaled-up project require any exceptions from Bank policies? No
Have these been approved by Bank management? N/A
Is approval for any policy exception sought from the Board? No

Revised project development objectives/outcomes: The development objectives of the project have not been revised

Does the scaled-up or restructured project trigger any new safeguard policies? No

For Additional Financing

[ ] Loan [ ] Credit [x] Grant

For Loans/Credits/Grants:
Total Bank financing (US$m): 30.6
Proposed terms: N/A.

<table>
<thead>
<tr>
<th>Financing Plan (US$m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source</td>
</tr>
<tr>
<td>LOCAL GOVTS. (PROV., DISTRICT, CITY) OF BORROWING COUNTRY</td>
</tr>
<tr>
<td>IBRD/IDA</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
A. INTRODUCTION

This Project Paper seeks the approval of the Executive Directors to provide an additional grant in an amount of SDR 21.1 million (US$30.6 million equivalent) to the Republic of Burundi, for the Public Works and Employment Creation Project (P095024). The proposed additional grant would help finance the costs associated with additional activities, namely 61 sub-projects identified as a result of the strong demand of municipalities and communities for project activities. No changes to the objectives or general design and implementation modalities of the project are being proposed.

The additional financing will be used to scale up the IDA-financed project and its impact and development effectiveness. The additional financing will therefore address the third situation described in the guidance notes to staff on additional financing, dated May 2005. Additional activities will scale up the project's impact articulated in the Memorandum to the President and the technical annex presented to the Board in January 2001. The IDA-financed project is properly implemented and the proposed additional financing will finance priority activities which are still not financed.

B. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING

Country context. Burundi is emerging from more than twelve years of instability and civil conflict that took a heavy toll on human lives and on the country's economic and social fabric. The country is currently at peace, with sufficient security for economic activities to resume both at the local level and on countrywide scale. Fair and transparent elections were held during the course of this year. The country's electoral calendar began in February 2005 with a referendum on the post-transition constitution, which was approved by an overwhelming majority. This was followed by elections of the local councils and of the legislative and senatorial bodies. The process culminated on August 26, 2005 with the inauguration of a former rebel leader, Pierre Nkurunziza as president. A window of opportunity has opened and research and experience in other countries suggest that exceptional levels of support are needed rapidly to take advantage of this opportunity.

Original project. The original Development Credit Agreement in the amount of SDR 31.3 million (about US$40.0 million equivalent) was approved on January 23, 2001. It became effective on June 29, 2001, and the closing date is December 31, 2006. As of November 30, 2005, more than 91 percent of the Credit has been disbursed. Disbursement projections indicate that the total credit amount will be fully disbursed by December 2005, a year ahead of the expected closing date.

Scope and design. The project is countrywide and focuses on medium-scale infrastructure and services in urban areas. In order to ensure swift physical implementation, contract management is delegated to a semi-private agency (Agence burundaise pour la réalisation des travaux d'intérêt public, ABUTIP), whereas a lean Technical Secretariat set up at the Ministry of Public Works assists municipalities in setting priorities and developing capacities.
Objectives. The original project development objectives were to: (i) generate productive employment through labor-intensive public works; (ii) carry out cost-effective and economically and socially useful public works projects by small and medium enterprises; and (iii) enhance the institutional capacities of municipalities to identify, prioritize, operate and maintain sub-projects.

Components. The project comprises four components: (i) sub-projects implementation and capacity building for employment creation, which finances the rehabilitation and construction of basic infrastructure at the request of municipalities (in consultation with their communities); (ii) institutional building, which focuses on municipalities; (iii) support for the prevention of HIV/AIDS; and (iv) project monitoring.

Project performance. Implementation performance is satisfactory and the project is likely to achieve or exceed all its objectives with no significant shortcomings. Results of the project’s activities outperformed most appraisal targets, both in terms of physical infrastructure and job creation (see Appendix B). Compliance with fiduciary, environmental, social and other safeguards has been satisfactory. As part of project preparation and design, an Environmental and Social Management Framework (ESMF) was prepared following Bank’s environmental and social safeguard procedures, to guide the execution of sub-projects identified during implementation. Furthermore, contracts’ clauses and specifications for civil works ensured compliance with national applicable regulations on environmental and social protection. There have been allegations of child labor at the project’s work sites; a thorough facts finding assessment has been immediately conducted by independent consultants. The consultants’ final report concluded, to the Bank’s satisfaction, that these allegations were baseless.

The Government and municipalities are committed to the project and complied with the covenants specified in the Development credit Agreement. The performance of the implementing agencies, ABUTIP and the Technical Secretariat has been highly satisfactory.

As of September 30, 2005, the status of the various components is as follows:

- **Subprojects.** Eighty-six sub-projects covering the entire country have been completed. These include 47 kilometers of cobble stone-paved urban roads, 11 kilometers gravel urban roads, 21 new markets, one rehabilitated market, two slaughterhouses, a 7-hectare new residential site development, 23 primary schools, three health centers, three urban drainage systems and five gravity water supply systems totaling 96 kilometers, which directly and indirectly benefit more than 2.5 million people. The Project has generated an average annual turnover of US$10 million for the Burundian consulting and construction industries, and has provided a much needed boost to a struggling local private sector.

- **Institutional building.** Municipalities have developed capacity for programming and maintaining urban infrastructure, as the project helped to develop a systematic approach to operation and maintenance arrangements. As a result, all the 116 communes have earmarked resources in their budgets for operation and
maintenance. They have developed arrangements to operate and maintain built facilities, and 48 municipalities entered into management contracts with private operators, previously an uncommon feature. All facilities built under the project are functional.

- **HIV/AIDS.** The project helped (i) to develop sensitization, prevention and counseling programs among construction workers and communities, which reached more than 52,000 people; and (ii) to develop communication programs and tools that are mainstreamed with NGOs, specialized institutions and the MAP.

- **Project monitoring.** A comprehensive monitoring and results-oriented data collection system is functional. The project is in a position to document its detailed outcome and impact on employment, promotion of small and medium enterprises and its processing performance. ABUTIP has for instance signed 154 civil works contracts with 52 local contractors, totaling US$30 million, and 169 contracts with 48 local consulting firms, amounting to US$4 million. The average invoice payment time is five days, a remarkable achievement, even by international standards. Within Burundi’s central government, the average turnaround payment time is around 90 days.

_**Rationale and reasons for requesting the new credit.**_ The Government has requested additional financing of US$ 30.6 million equivalent in view of the very strong demand of municipalities for sub-projects, which largely exceeds the original funding envelope. Municipalities already mobilized about 602 million Burundian Francs (US$0.6 million equivalent) in local contributions to support their additional requests for sub-projects; they are eager to see these requests implemented as soon as possible. Implementation delays would undermine the current momentum and may also promote distrust between the population and the Government, an unwelcome development at a time when the country is attempting to consolidate its national unity towards a lasting peace. The Government is therefore anxious to maintain the momentum generated by the project’s participatory approach and its highly satisfactory outcome. At the same time, additional project activities will help to maintain a critical flow of business, which will consolidate the emerging small and medium enterprises and ensure the continuation of employment.

For the time being, other donors lack the implementation experience of the World Bank in developing urban infrastructure through contract delegated management arrangements. It is also highly unlikely that they will be able to provide the needed resources on time to catch up with the growing demand to be addressed in the short term. Therefore, the additional financing will enable the Government to meet the demand of municipalities and the construction sector until other sources of financing become effective.
C. PROPOSED CHANGES

The proposed additional financing would support the original development objectives of the Public Works and Employment Creation Project, and will be implemented using the same framework and arrangements as for the original project. The additional funds would help finance 61 unfunded sub-projects that have already been identified and appraised, and for which alternative sources of finance have not been found. All new activities are expected to be implemented by the end of June 2007. Therefore the original Development Credit Agreement will be amended to reflect a new closing date of December 31, 2007 and the funds of the original credit should be reallocated to allow for the continuation of the financing of the incremental operating costs of the TS and of expenses for strengthening the municipalities.

The costs and financing plan for the additional financing are presented in the table below. The beneficiary contribution is estimated at US$0.92 million equivalent, which amounts to three percent of the total project cost.

<table>
<thead>
<tr>
<th>Cost and Financing Plan for the Additional Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost by Component and by Financier (Amount in US$ million, including contingencies)</td>
</tr>
<tr>
<td>Sub-projects</td>
</tr>
<tr>
<td>Total costs</td>
</tr>
</tbody>
</table>

D. CONSISTENCY WITH THE INTERIM STRATEGY NOTE

The proposed Additional Grant for the Public Works and Employment Creation Project is a key component of the current Bank Interim Strategy Note -ISN- for Burundi (FY 06-07) that was approved by the Board on May 3, 2005. One of the objectives of the ISN is to ensure that communities and populations have access to basic social services and income-generating activities and thus, are supportive of the peace process and the economic reform agenda. Proposed instruments include: a nation-wide community development operation and the scaling up (through additional financing) of the ongoing Public Works and Employment Creation Project. The activities to be supported with the additional financing are fully consistent with the Interim Strategy Note.

E. APPRAISAL OF ADDITIONAL ACTIVITIES

Although additional activities have been included, the project remains as originally designed and appraised. The economic, financial, technical, institutional, fiduciary, environmental and social aspects of the activities to be undertaken with the additional financing remain the same as in the original project.

The additional financing would help implement 61 unfunded sub-projects that have already been identified and evaluated based on their socio-economic viability and their beneficial environmental impact. These include 11 new markets, 19 primary
schools, four health centers, 62 km of stone paved roads, a 5-hectare new residential site development, a 180 km gravity-fed water scheme and 6 river flood protection facilities. A cost-effectiveness analysis was used to screen the sub-projects that will not have an easily quantifiable revenue stream. In addition, due to the fact that benefits will be measured in non-monetary units such as number of beneficiaries, the analysis used a maximum unit cost per beneficiary criteria, labor content, community contribution and the operation and maintenance capacity of the beneficiary. A cost-benefit analysis was also carried out for those sub-projects with market price outputs relatively easy to assess (income-generating sub-projects such as markets and slaughtering houses).

The new activities do not raise the environmental category of the project, which is a B, nor trigger any new safeguard policies. The procedures laid out in the ESMF will carry on for the execution of sub-projects funded through the requested Grant. For these reasons, the environmental and safeguards category for the requested Grant is B as it was under the original IDA credit, and no further safeguards study is needed.

The additional activities do not involve any exceptions to Bank policies.

F. EXPECTED OUTCOMES

The additional activities proposed will enhance the impact of the original project development objectives. The indicators to be monitored are presented in Appendix B will cover the following:

- Percentage of constructed sub-projects operational and properly maintained after completion;
- Number of person-days of employment for unskilled labor;
- Number of person-days of training provided to staff belonging to local contractors and consulting firms;
- Number of staff trained in sub-projects demand-driven approach, environmental assessment and sustainable operation and maintenance;
- Average invoice payment time.

G. BENEFITS AND RISKS

Benefits. The new activities will result in improved access to municipal infrastructure (roads, markets, drainage, health centers, schools and water) for more than two million inhabitants across the country. They will generate an estimated two million person-days of unskilled jobs and inject approximately US$5 million in wages. As noted above, these activities will provide a steady flow of business that will strengthen the emergent local construction and consulting industries. They also support (a) increasing efficiency in the execution of public works, together with greater development impact of such works; (d) strengthening private sector capacity to manage contracts; and (g) increasing the capacity of municipalities and participating NGOs in planning, monitoring, and financial accounting.
Risks. The level of risk associated with the additional financing is substantially lower than the one prevailing at the time of project approval. In addition, the implementation performance demonstrated that the risks resulting from the absorptive capacity of the actors were minimized. The current assessment of the major risks identified in the Memorandum of the President of the original project is as follows:

- There is a breakdown in the peace process: The socio-political environment for successful project implementation has steadily improved in Burundi since the original project was approved.

- Sub-projects are not implemented in a timely manner, within budget and of acceptable quality: past implementation experience shows that ABUTIP acted as a professional contract management agency. Technical audits were periodically carried out and remedial actions, such as contract cancellation, were actually taken on the few SMEs that delivered sub-standard sub-projects.

- SMEs will not have the absorptive capacity to execute sub-projects and benefit from training: the absorptive capacity of the SMEs has steadily increased, as demonstrated by the number of completed contracts, and the rapid pace of disbursement and implementation.

- There are no effective contributions from relevant sector ministries and municipalities for operations and periodic maintenance: as noted above, the project helped to develop a systematic approach to operation and maintenance arrangements and all the 116 municipalities have earmarked resources in their budgets for operation and maintenance.

H. FINANCIAL TERMS AND CONDITIONS FOR ADDITIONAL FINANCING

The additional financing will be provided as a grant. The Additional Conditions of Effectiveness consist of the following:

- The Agreement Amending the Project Agreement has been executed by the Project Implementing Entity.

- The Amendment to the Delegated Works Management Contract has been executed on behalf of the Recipient and the Project Implementing Entity.

The Additional Legal Matters consist of the following:

- The Agreement Amending the Project Agreement has been duly authorized or ratified by the Project Implementing Entity, and is legally binding upon the Project Implementing Entity in accordance with its terms.

- The Amendment to the Delegated Works Management Contract has been duly authorized or ratified by the Recipient and the Project Implementing Entity, and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.
TECHNICAL ANNEX

Detailed Description of the Additional Financing

The additional financing of US$30.6 M will finance one single sub-projects component that will include: 11 new markets, 19 primary schools, 4 health centers, 62 km of stone paved roads, a 5-hectare new residential site development and a 180-km gravity-fed water scheme and 6 river flood protection facilities.

Categories 1-A and 4-A (Goods and Operating Costs for Parts A.3, B, C and D) will have sufficient funding after the proposed reallocation of the credit funds, which will allow them to be maintained under the original credit. To be on the safe side, these two categories have also been included in the disbursement schedule under the Additional Grant with a zero allocation to allow for a further reallocation.

Implementation Arrangements

Project implementation period. As part of this request for additional financing, a concomitant extension of the closing date from December 31, 2006 to December 31, 2007 is proposed. Without such extension of the closing date, the project would close at the end of December 2006, which would make it very tight to implement the activities to be financed by the Additional Grant. Accordingly, as part of the amendment of the legal documentation for the additional financing, the Development Credit Agreement will be amended to reflect the proposed new Closing Date.

Capacity of the Government to execute the project. The proposed Additional Grant does not require additional implementation capacity beyond what is already in place. The existing implementing structures (ABUTIP and the Technical Secretariat (TS)) have performed satisfactorily and will carry out and oversee the execution of the Additional Grant. The Project Implementation Plan is being updated to reflect the new activities. The Additional Grant will be subject to the same monitoring and reporting requirements of the project.

Procurement and disbursement. Procurement and disbursement procedures will follow the procedures applied under the original IDA credit. The TS and ABUTIP prepared a comprehensive procurement plan, which covers all new activities. According to this plan, all activities should be completed before the end of June 2007.

Project oversight. The TS, established at the Ministry of Public Works and Equipment (MPWE) is responsible for global oversight of the project without interfering with the day-to-day management of ABUTIP, the implementation agency for the infrastructure component. The TS is staffed by a director, two civil engineers, a financial specialist, and an environment specialist. The TS is responsible for ensuring that sub-projects are demand-driven, environmentally sustainable and can be properly operated and maintained. The TS prepares annual work programs of approved sub-projects, for transmission to ABUTIP, which go through a preliminary screening based on the social
and environmental impacts assessment by international professional consultants. The TS consolidates technical progress reports and financial reports of the project.

Accounting, financial reporting and auditing arrangements

The current implementing framework has established a satisfactory accounting and reporting system for the project, including arrangements for audits, which will continue for the Additional Grant. Independent auditors acceptable to IDA will audit the use of all funds available under the Additional Grant, including the Special Account and the statements of expenditures. Audit reports will be submitted to IDA no later than six months after the end of the fiscal year. The format and the frequency of periodic reporting will be maintained as defined in the project implementation manual. An Implementation Completion Report (ICR) will be prepared within six months after Grant closing.

Environmental and Social Aspects

The proposed activities do not trigger any new safeguard policies or raise the environmental category of the project. As part of the original project preparation and design, an Environmental and Social Management Framework (ESMF) was prepared following Bank’s environmental and social safeguard procedures, to guide the execution of sub-projects identified during implementation. The ESMF has been updated. Furthermore, contracts’ clauses and specifications for civil works ensured compliance with national applicable regulations on environmental and social protection. The procedures laid out in the ESMF will carry on for the execution of sub-projects funded through the requested Grant. For these reasons, the environmental and safeguards category for the requested Grant is B as it was under the original IDA credit, and no further safeguards study is needed.

The environmental specialist of the TS has satisfactorily ensured that the safeguards requirements included in contracts for the execution are implemented on the ground by ABUTIP. He has produced annual consolidated progress reports on the implementation of social and environmental recommendations related to the sub-projects. The capacity to supervise social and environmental aspects of the sub-projects has been strong and training has been delivered to the staff of the Ministry in charge of environment and to staff belonging to the consulting and the construction industries on social and environmental issues.
### TIMETABLE OF KEY PROCESSING EVENTS

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Screening Meeting</td>
<td>July 8, 2005</td>
</tr>
<tr>
<td>Appraisal/Negotiations</td>
<td>October 6, 2005</td>
</tr>
<tr>
<td>Board Presentation</td>
<td>January 5, 2006</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>February 28, 2006</td>
</tr>
<tr>
<td>Project Completion</td>
<td>December 31, 2007</td>
</tr>
</tbody>
</table>
APPENDIX B

REPUBLIC OF BURUNDI

Public Works and Employment Creation Project

Additional Financing

Current Status of Monitoring Indicators:

<table>
<thead>
<tr>
<th>Physical Infrastructure</th>
<th>Job Creation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Appraisal Target</strong></td>
<td><strong>Actual</strong></td>
</tr>
<tr>
<td>75% of rehabilitated /constructed sub-projects are operational and properly maintained after completion.</td>
<td>100% of rehabilitated /constructed sub-projects are operational and properly maintained after completion.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capacity building of local SMEs</th>
<th>Capacity building at municipal level</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Appraisal Target</strong></td>
<td><strong>Actual</strong></td>
</tr>
<tr>
<td>2,000 person-days of training provided to staff belonging to local contractors and consulting firms by 2006.</td>
<td>4,300 person-days of training provided to staff belonging to local contractors and consulting firms by 2006.</td>
</tr>
</tbody>
</table>
### Target Outcome Indicators for Additional Activities:

<table>
<thead>
<tr>
<th>Physical Infrastructure</th>
<th>Job Creation</th>
<th>Capacity building of local SMEs</th>
<th>Capacity building at municipal level</th>
</tr>
</thead>
<tbody>
<tr>
<td>75% of constructed sub-projects are operational and properly maintained after completion.</td>
<td>2,000,000 person-days of employment for unskilled labor</td>
<td>5,000 person-days of training provided to staff belonging to local contractors and consulting firms by 2006.</td>
<td>Staff from 116 communes and 9 municipal councils has been trained in sub-projects identified on a demand-driven approach, environmental assessment and sustainable operation and maintenance.</td>
</tr>
</tbody>
</table>
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