Burundi Second and Third Economic Reform Support Grant (ERSG II & III)

The Second and Third Burundi Economic Support Grants for Public Finance Management and Private Sector Development Reforms

Overview

The Second and Third Burundi Economic Reform Support Grants (ERSG) have provided building blocks of institutional development and capacity building for enacting the regulatory and legislative framework for private-sector-led-growth. Significant progress has been achieved in: (a) Public Financial Management (PFM) (e.g., adoption of an organic law/introduction of transparency in decision-making; and (b) Public Sector Development (PSD) (e.g., introduction of companies and investment codes); and (c) leveraging complementary technical assistance for these important initiatives. These grants supported a fragile country with institutional weaknesses and thereby prevented, to some extent, a conflict reversal. In addition, the risks of these operations counter-balanced potential rewards of macroeconomic stabilization.

Challenge

Burundi emerged from a 13-year civil war after the signing of a comprehensive peace and reconciliation agreement by 39 political parties in Arusha (Tanzania) in 2000, which marked a significant turning point. However, peace is still in the process of firm consolidation—with intermittent negotiations, deadlocks, and ceasefires between the elected government and the rebel movement. Hence, the overall political situation remains fragile at best. Yet, recent economic developments have created some positive prospects: the economy is gradually recovering from the devastating shocks of political turmoil; since January 2004, the Government of Burundi (GOB) has been implementing an economic reform program supported by the International Monetary Fund (IMF) and IDA .

Nonetheless, Burundi requires grant assistance (exemplified by the ERSG series), since low domestic savings—even those augmented by flows from the Heavily Indebted Poor Countries Initiative (HIPC)—will be far below the requisite level for accelerating growth, raising living standards, reducing poverty, and making progress toward the Millennium Development Goals (MDGs).

Approach

From the outset, the ERSG grant series was understandably considered a high-risk operation. The 2008 Public Expenditure Management and Financial Accountability Review (PEMFAR) was an analytical underpinning that

More Results

100%

increase in land values

76%

of eight-year old students registered in state schools were at the expected reading level in the third year of elementary school versus 65 percent in 2007.

MORE INFORMATION

- The Second Economic Reform Support Grant (ERSG II)
- The Third Economic Reform Support Grant Program (ERSG III)
- Country Website
- Country Brief

Country Assistance Strategy
Data and Statistics

contributed to the design of the ERSG grant series. The ERSG II built upon the Emergency Economic Recovery Credit (EERC, 2000), the Economic Recovery Credit (ERC, 2002), and especially the ERSG (2006), and accompanying technical assistance with these operations. The second grant incorporated lessons from the ERSG I (a stand-alone grant), but had more-focused and less-ambitious project development objectives (PDOs). IDA relied considerably on the lessons learned from the previous operations as well as from the experience of other fragile countries. Consequently, the PDOs were kept simple and less complex under the overall umbrella of the Poverty Reduction Strategy Paper (PRSP). This grant proposed to: (a) consolidate reforms already underway (in PFM as indicated in the 2008 PEMFAR completed jointly with the authorities); and (b) re-energize the reform process in private sector development (the legal and regulatory framework for the general business environment and the coffee sub-sector).

As a follow-up, the ERSG III targeted the same issues. Additionally, as in the ERSG II, the PSD component of ERSG III had two main subcomponents: (a) improving the business environment; and (b) restructuring the export crops sector. In addition, the ERSG III attempted to address issues affecting the supply and price of petroleum products, which are critical to support activities of private enterprises

Results

- More accountable and transparent budget management process is in place with: (a) budget preparation and alignment with the PRSP; (b) budget execution; and (c) budget accounting and control [December 2009]. The implementation of the Organic Law is now picking up pace. Importantly, several off-budget items have been closed, and cash management has been streamlined. A core strategy has been developed. Institutional arrangements have been made under the direction of the Technical Committee Support Unit. The GOB has introduced program budgeting in selective ministries, which will be operational by 2014.

- Prioritization of public sector expenditures [December 2008]. There has been a considerable reduction in security expenditures. The corresponding share of security has been reduced to 26.4 percent from the baseline figure of 29.7 percent in end-2007.

- PSD Strategy [December 2009]. A new investment code has been promulgated, including a new Investment Promotion Agency (API). A public-private dialogue framework was reactivated and is expected to meet on the regular basis. Rules for business registration and taxation were also simplified through the enactment of a revised Commerce Code. The tax code was amended to make it consistent with the tax incentives planned under the new investment law.

- Coffee sector: campaign preparation and exportation [December 2009]. After years of studies and consultations with stakeholders, as well as internal political debate, the government approved and began to implement a strategic option for the reform of the coffee sector and the privatization of processing facilities. The government has adopted new measures to liberalize the commercialization of coffee by opening the coffee export market to local and international participants. The implementation of these regulations has resulted in the effective penetration by exporters based on the principles of competition and transparency.

Bank Contriubtion

The overall IDA contribution to the series to date has been US$55 million equivalent—not including ongoing preparatory work for subsequent ERSG series. The IDA allocation for ERSG II was US$30 million equivalent, whereas the allocation for ERSG III was US$25 million equivalent.

Partners

There is a strong partnership among key development partners—including the IMF, the Netherlands and Norway. These bilateral co-financiers (the Netherlands and Norway) contributed US$23.4 million to the ERSG II-III series. Moreover, the availability of accompanying technical assistance and capacity building efforts through the IDA-financed Economic Management Support Project (EMSP) and the partnership with the International Finance Corporation's (IFC) Private Enterprise Partnership (PEP)-Africa program have been instrumental to the success of the Bank's efforts.

Toward the Future

IDA is launching a new programmatic series – commencing with the ERSG IV (approved by the Board in December 2010). As the first in a new series of two Development Policy Operations (DPOs), the ERSG IV will aim to consolidate many of the reforms that started in the ERSG II and ERSG III series.