

Burundi: Joint Staff Advisory Note of the Poverty Reduction Strategy Paper (PRSP II)

The attached Joint Staff Advisory Note (JSAN) of the Poverty Reduction Strategy Paper (PRSP II) 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 (PRSP II) 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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BURUNDI

**Joint Staff Advisory Note on the Second Poverty Reduction Strategy Paper (PRSP-II)
(2012-2015)**

Prepared by the Staffs of the International Monetary Fund
and the International Development Association

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I. OVERVIEW

1. **The second Poverty Reduction Strategy Paper (PRSP-II) articulates Burundi's development priorities from 2012-15.** With the objective to address the country's main development challenges, and learning from the PRSP-I, the Government has built its new strategy on four strategic axes: (i) strengthening the rule of law, consolidating good governance, and promoting gender equality; (ii) transforming Burundi's economy to achieve sustainable and job-creating growth; (iii) improving access to and quality of basic services and strengthening social protection; and (iv) promoting environmental and land management to ensure the preservation of the country's natural assets. Staffs believe successful implementation of the PRSP-II will contribute to the realization of Burundi's Vision 2025.

2. **The sources of growth identified in the PRSP-II reflect the mix of Burundi's natural endowment and new economic realities.** The focus is rightly put on modernizing agriculture through value chains (i.e., key staple foods, milk and meat) since this sector accounts for about 90 percent of current employment. Expanding and diversifying exports beyond coffee and tea is also a key objective to reduce the country's external vulnerability and promote job creation. The PRSP-II also aims at unleashing growth potential in the mining and tourism sectors. Lastly, regional integration within East African Community (EAC) is viewed as an important channel for enhancing local private activities thanks to connective infrastructures and sustained business environment improvements. Staffs recognize ongoing reform will have stronger impact by implementing the action plan of the updated Diagnostic Trade Integration Study.

3. **The PRSP-II seeks to address a series of challenges that are expected to bring quick wins to the population in a still fragile economic and social environment.** Although significant improvements have been achieved on the political front over the past few years, the peace dividend needs to be solidified further to unlock the benefits of

economic growth. Welfare enhancing quick wins, notably improved access to health, education, and water and sanitation, will foster support for the reforms and facilitate the ongoing nation building process. The PRSP-II identifies six development and growth challenges: (i) the strong demographic pressure; (ii) the need to intensify agricultural productivity to sustain food security; (iii) the need to increase the efficiency of public spending; (iv) the acceleration of the private sector development; (v) energy supply; and (vi) the strengthening of institutional capacity.

4. **Although the PRSP-II offers a comprehensive strategy for sustainable job-creating growth, the next step for the Government would be to provide more details on the priority reforms and actions, as well as realistic costing.** Such a line of actions appears important for private sector development, including in rural areas, since existing firms are facing many and diverse constraints. Firms' creation and expansion will be critical to absorb the large number of young workers that come out on the labor market every year. The Government has achieved some progress in terms of access to education and health services, but it needs to address inequality across regions and income quintiles, as well as the quality of education. Lastly, the PRSP-II might want to give more attention to women economic empowerment which suffers from inexistent legislative texts on inheritance, matrimonial regimes, and gifts.

5. **The PRSP-II results framework needs also to be improved so that it can track results properly over time.** The costing of the PRSP-II interventions was not finalized and reflected in the Medium-Term Expenditure Framework (MTEF), partly because of the lack of public administration capacity. The authorities expect to finalize the (Priority Action Plan) PAP-MTEF by late 2012 as it is expected to help increase the Government's accountability. Then public finance reforms should aim at improving the living conditions of the most vulnerable groups (i.e., refugees, internally displaced persons, the Batwa, orphans living with HIV/AIDS, landless persons, street children, etc.). The Government is encouraged to promote universal access to social and basic services, safety nets for vulnerable groups, and support households affected by disasters and climate changes. To track results, it requires enough resources to implement the 2010 National Strategy for Statistical Development (NSSD).

6. **The Government expects the PRSP-II to be the reference framework for donor coordination and resource mobilization.** During the preparation of the document, the authorities consulted with all development partners to get reliable information on their financial and technical assistance planned for Burundi over the PRSP-II. Staffs agree that improved coordination and alignment of donors' financial and technical assistance would help reduce transaction costs, while ensuring more efficient implementation of the strategy and more aid predictability.

II. PARTICIPATION AND POVERTY DIAGNOSIS

7. **The authorities consulted extensively with stakeholders to ensure the largest ownership and buy-in of the PRSP-II.** Consultations were held at the commune and sector levels, which were complemented by specific consultations targeted to private sector and civil society. There were also thematic fora to discuss cross-cutting issues (i.e., capacity building, gender, demography, environment, and youth). Key institutions were consulted, including the parliament, economic and social council, central government staff, local officials, local development committees, civil society, private sector, academia and think tanks, media, trade unions, vulnerable groups, and donors. The consultation and write-up process of the PRSP-II were advised monthly by the Monitoring and Evaluation Group of the Partners' Coordination Group (GCP). It ensured effective communication between all stakeholders, including the population. Such a monitoring process could be useful to establish the results-based management approach that will evaluate the implementation of PRSP-II over time.

8. **Poverty indicators have not been updated since 2006, making it difficult to consistently assess the extent of poverty reduction over the past few years.** The current poverty rate is estimated at 67 percent, with the poverty gap revolving around 23 percent.¹ Recent empirical evidence suggests that poor households are more employed in the agricultural sector and more likely to be underemployed. On average, households in the poorest quintile work 4 months less than those in the wealthiest quintile.

9. **Since 2007, economic growth has been only marginally higher than population growth (3.9 percent² versus 3.0 percent), and has taken place mainly in low-labor intensive activities such as energy and mining at the exception of construction.** Agriculture production, as measured by yearly staple food production per capita, was not sufficient to feed the existing population (it averaged 120 kg in cereal equivalent, while average annual requirement is 190 kg to meet with the daily 2100 kcal)³. Food aid dependency has increased, but uncovered food needs are getting increasingly higher. Lately, the high inflation rate (around 20 percent since November 2011) has reduced the purchasing power of the population⁴, with disproportionate impact on poorest households that have less alternative strategies available, leading the Government to reduce periodically taxes of staple food.

¹ To calculate the headcount poverty index, two different poverty lines are used: one for rural areas (524 Burundian Francs or 0.51US\$ per head and per day) and one for urban areas (677 Burundian Francs or 0.66US\$ per head and per day).

² Average calculated over 2007-2010.

³ Food represents 67 percent of total expenditure in Burundi that has 90 percent of its population in rural areas.

⁴ By impacting on transport costs, fuel price increases affect staple food and other basic products (i.e., oil and fats, soap, etc.) consumed in rural areas. As net food buyers, the proceeds from agriculture trade are very limited.

10. **The effective implementation of the PRSP-II is expected to help convergence toward Millennium Development Goals (MDGs), but very few of them are likely to be met by 2015.** Poverty, extreme poverty, and hunger are unlikely to be halved within the next 4 years (compared to their initial levels in 1990). With free primary school fees, net primary enrollment rate could reach 100 percent before 2015, with gender parity, but drop-outs are expected to remain high. Similarly, none of the MDGs regarding health and social protection are expected to be reached even though progress has been witnessed in specific areas (such as HIV/AIDS prevalence). To speed up progress toward MDGs, social expenditure (i.e., health, population, and education) and basic infrastructure expenditures (i.e., water, sanitation, and housing) might need further protection against lower than expected financial resources.

11. **The Government is advised to strengthen its capacity to monitor poverty trends, and understand better their underlying causes.** As a starting point, the results of the 2012-2013 agrarian survey can provide further indications in the next annual progress report in 2013. It is also desirable that the Government implements the end-2012 integrated household health and consumption survey as planned. With a sense of urgency, it is desirable that the 2010 NSSD Action Plan is updated as planned this end-2012 to include two light monitoring surveys (respectively in 2013 and 2014) and a new household survey (2015) that will help update the country's poverty profile over time.

III. SECTOR POLICIES AND REFORM PRIORITIES

A. Macroeconomic and Fiscal Frameworks

12. **The PRSP-II is grounded in an appropriate but optimistic macroeconomic framework.** The baseline growth scenario, which averages 6.9 percent growth over 2012-15, is significantly more optimistic than the projection under the Fund's 2012-15 ECF-supported program.⁵ The main difference lies in the availability of external financing and the outlook of the international environment. Since Burundi remains extremely vulnerable to aid inflows and external shocks, staffs encourage the authorities to develop an alternative scenario and propose contingent plans in the event of lower external financing and/or external shocks. Such an approach is even more justified in light of the lower than anticipated economic growth in the base year 2012, owing to the persistence of food and fuel shocks and to the decline in donor support.

13. **The PRSP-II is aligned with the IMF program regarding revenue mobilization, public financial and debt management (PFM), and fiscal transparency.** In terms of revenue mobilization, the authorities will continue their efforts, which have already helped create the Burundi Revenue Authority (OBR) in 2009, that have contributed to the sharp

⁵ The ECF supported program approved on January 2012 initially forecasted average growth at 5.1 percent over the period 2012-15, but it was revised down to 4.2 percent in June 2012.

increase in revenue collection over the past few years. Additional reforms are necessary, including the approval and implementation of the income and excise tax laws, the streamlining of the legal framework governing tax exemptions, the adoption of the mining legal framework, as well as the support to tax administration capacity. These reforms will not only help broaden the tax base, but they will also promote long term investment in productive sectors.

14. **Given Burundi's ambitious development program, the authorities want to create fiscal space for priority investment expenditures.** The optimal balance needs to be found between the allocation of public resources toward recurrent and capital expenditures. The Government is encouraged to improve its capacity not only to select and implement public investment projects but also to provide sufficient outlays for operations and maintenance. While the reduction in the armed forces remain a priority for the Government, in agreement with its previous commitment, the pace of the demobilization process might need to be evaluated in light of the prevailing security situation and the private sector's capacity to absorb demobilized workers. This legacy of the conflict imposes structural rigidities in the wage bill but represents the part of the cost of securing the peace in a post-conflict setting.

15. **Burundi is classified at high risk of debt distress, underscoring the need for prudent fiscal policy and careful debt management.** The authorities have reaffirmed their commitment to rely on grants or highly concessional loans. They have also improved their public financial management as recognized by two recent assessments (IMF 2011 ex-post assessment and the March 2012 PEFA). Ongoing reforms include the development of a new PFM strategy, which is likely to improve the Government's ability to prepare, plan and spend budget resources within a medium-term framework more effectively. The PRSP-II also underlines the need to extend the programmatic approach and the professional use of MTEFs to a greater number of priority sectors, which is likely to help the authorities' better translate budgetary priorities into sector developmental outcomes.

16. **The PRSP-II emphasizes the Government's commitment to improve the transparency of public tendering.** This is expected to help improve governance and transparency in the use of public resources. Together with more open communication with beneficiaries whose demand for good governance should be encouraged, the increase in overall transparency and accountability of Burundi's public sector is expected to strengthen the authorities' ability to maintain public and donor support in the delivery of the PRSP-II development outcomes.

B. Building the Foundation for Stable and Inclusive Growth

17. **Sustained and job-creating growth requires economic transformation toward sectors with high growth potentials.** The PRSP-II proposes a comprehensive program to promote private sector development through the combination of better infrastructure, improvements in the business climate, skills developments, and financial inclusion. The

emphasis is given to the agricultural sector. Such objectives are welcomed in an economy dominated by a rain-fed subsistence agriculture sector and featured by an extremely narrow export base (coffee and tea).

18. **Electricity access is one major impediment to business growth.** It limits growth prospects in all potential sectors (i.e., mines and quarries, tourism, etc.) and contributes to the lack of progress in the living conditions of the vast majority of the population. Only 5 percent of households have access to electricity. Many enterprises rely on their own generators. In recent years, public investments have been growing to reduce electricity deficit but demand is still twice as large than supply⁶. Staffs welcome the Government plans to double electricity supply by 2016 through Private Public Partnerships (PPPs), but call for caution due to the country's fragile debt situation that requires new loans to be contracted at very concessional levels.⁷ Staffs also encourage the continuation of the reform aimed at redressing the financial situation of the National Electricity and Water Company through sustainable cost-recovery mechanisms. Greater regional integration will also help maximize the benefits derived from regional interconnections. To foster private incentives to invest in the energy sector, the Government is encouraged to adapt the legal framework governing electricity and water production and consider the feasibility of a divestiture strategy.

19. **Greater involvement of the private sector in the economy requires continued improvement in the investment climate.** The authorities are committed to build on the 2011 progress in Doing Business. Among priorities, the Government aims at easing access to credit, facilitating tax compliance, and simplifying registration and trade procedures. Implementation of trade agreements (i.e., one-stop border posts) with EAC neighboring countries will reduce delays and transaction costs, and help expand regional trade. To foster agglomeration effects and improve infrastructure access (i.e., energy, information and communication technologies (ICT), logistics, etc.), the authorities consider promoting special economic zones (SEZ) whose thoughtful and successful expansion is expected to feed Burundi's growth dynamics. Staffs believe the emphasis put on private sector development is appropriate, especially in view of the proposed reforms aiming at improving the quality of labor force and access to finance.

20. **Improving the quality of labor force, in particular through better education, will contribute to overall economic productivity.** Improved supply of adequately trained technical labor will increase productivity and help transform the economy. The introduction of the new curriculum, the so-called "fundamental education" initiative, in primary school will help increase literacy rates and learning performance. Staffs believe that the Government might want to consider introducing a national assessment of learning achievement to guide

⁶ Electricity imports from neighboring countries have helped close the gap, but power outages remain very frequent.

⁷ As a country at high risk of debt distress, all Burundi's external financing are expected to be concessional at a level of at least 50 percent.

the allocation of resources, thereby improving student performance. Also, to align the provision of technical and professional education with private sector needs, the Government and private sector are encouraged to apply the recommendations of a recent study on the deficit of skills in Burundi.

21. **To promote financial access, the PRSP-II will implement the recommendations derived from the 2008 Financial Sector Assessment Program (FSAP) and the 2011 Financial Sector Development Strategy (FSDS).** The majority of micro, small, and medium scaled enterprises (MSME) lack access to credit because of poor guarantees, limited information, and weak capacity to comply with financial institutions' requirements. The financial sector is encouraged to develop innovative products to adapt to the diverse needs of private investors, including small farmers. Offering training programs to small investors is also worthwhile. More fundamentally, significant progress is expected in the establishment of clear and secure property rights (including land) that remain highly problematic due to inconsistent laws and poor application.

22. **To achieve rural development and poverty reduction, the PRSP-II recognizes the capital role of agriculture, livestock and fishery development.** Further detailed in the National Plan of Agricultural Investment (PNIA 2012-2017), structural reforms are considered to achieve higher production growth by: (i) promoting the use of techniques that restore and preserve soil fertility; (ii) encouraging efficient water management and small scaled irrigation; and (iii) increasing average farm size from 0.5 hectare to 1 hectare. The overall approach to transforming Burundi's agriculture is to promote value chains for diversified export crops, selected staple food consumed in rural areas (i.e., cassava and beans), oleaginous crops (i.e., palm oil), milk and meat, and sugarcane. The PRSP-II reaffirms the Government's commitment to reduce its role in the coffee sector. However, its plan (i.e., maintaining activity, privatization pace) in the cotton sector remain unclear both in the short and longer term, similarly for the way to increase average farm size. Staffs advise the authorities to consider making Burundi a seed multiplier and seed distribution center for EAC.

C. Population Policy and Access to Basic Social Services

23. **Staffs support the priority given by the authorities to address population growth issues in the PRSP-II.** Rapid population growth (3 percent in recent years) and high levels of fertility (6.4 children per women), among others, pose significant challenges to economic growth through land fragmentation and conflicts, food security, poverty reduction, and universal access to social services. In terms of social development and protection, Burundi ranked 185 out of 187 countries by the UNDP's Human Development Index in 2011.

24. **The free primary education policy has resulted in a significant increase in enrollment, but shortcomings remain in terms of achievement and quality.** Only 40.5 percent of the population is literate, with significant gender disparities (35 percent for

women and 47 percent for men). The Government is committed to improved access to and quality of education to accelerate progression towards the MDGs. In 2010, it announced the introduction of a new education approach, called the “fundamental school”, which gradually shifts primary education duration from 6 years now to 9 years later on. The Government is updating accordingly the 2009-2016 Sector Development Plan for Education and Training (PSDEF), with the support of donors. Staffs recommend the use of reliable planning and costing approaches to improve the efficiency of expenditures while implementing this new primary education approach.

25. **In the health sector, the country is unlikely to meet its MDG targets, in spite of recent encouraging results.** Thanks to better immunization coverage (83-90 percent) and free health services for under-five children and pregnant women, maternal mortality (499 per 100,000 live births in 2010) and under-five mortality (96 per 1,000 live births in 2010 and 167 per 1,000 live births in 2005) have declined. The incidence of malaria rose from 26 percent in 2005 to 34 percent in 2010, but the distribution of insecticide-treated mosquito nets (now used by 44 percent of households) is expected to have positive effects. From 2005 to 2010, the rate of deliveries assisted by qualified staff increased from 34 percent to 60 percent. Yet, with the slow increase in contraceptive use (11.4 percent in 2008, 14 percent in 2009, and 18 percent in 2010), reaching universal access to reproductive health by 2015 is unlikely. Staffs concur that greater improvements in equity of health access and quality of health care require: (i) improving the functionality of existing infrastructure to provide adequate health care to the whole population; (ii) strengthening the performance-based financing (FBP) and free care policies by ensuring the financial sustainability of the system; (iii) providing better health insurance to the rural population and vulnerable groups through both community mutual associations for health and the promotion of the Health Insurance Card (CAM).

26. **Staffs support the efforts of the authorities to expand access to safe drinking water, but more needs to be done in rural areas.** In urban areas, the access rate to safe drinking water increased marginally from 80 percent in 2005 to 85 percent in 2010. Most of the water is captured from Tanganyika Lake, which is increasingly polluted and could require costly treatment and increase water tariffs. In addition to the new water tariff recently adopted, the Government plans to explore other options to improve the sector financial viability. In rural areas, access to safe drinking water amounted to 63 percent of the population in 2005 and 74 percent in 2010⁸, with over 69 percent of water points being in working conditions. Women and children spend an average of 2 hours a day on water fetching tasks, which impact negatively on school attendance and girls’ school performance.

27. **The Government is advised to give priority to poor workers and the most vulnerable groups in its newly adopted social protection strategy.** In rural Burundi, food

⁸ We are aware there are comparability issues to bear in mind while interpreting these data.

insecurity affects about 30 percent of the population in harvest periods, and up to 60 percent during lean periods. In 2008, rural households' top three shocks were water deficit, inflation, and hail. Also, the cost of health services is the top reason why sick people in Burundi do not consult health facilities when needed. A National Social Protection Policy was adopted in 2011 with sequenced actions, which are expected to be prioritized with a sector MTEF by late 2012. Staffs welcome the authorities' strategic focus on increasing access for poor and vulnerable people to appropriate health insurance schemes, while continuing targeted food and basic service assistance in coordination with partners. For cost-efficiency and transparency purposes, staffs encourage the authorities' efforts to set up an appropriate institutional framework as a first critical step and to mobilize funding, from its own and partners, to select its short and medium term priorities.

28. **Staffs support the authorities' willingness to address gender disparities in economic, political, and social arenas.** During the PRSP-I, critical progress was achieved in terms of women representation in the Government (38 percent), National Assembly (32 percent), and Senate (46 percent). In rural areas, progress has been more limited as only 17 percent of hill board members are women, and only 5 percent of the 2,615 heads of hills are women. In primary education, the girl/boy parity has been reached, but significant disparities remain in access to secondary and vocation training education. On average, female-headed households continue to be hit harder by shocks, and women have more limited access to credit, land, and formal employment. Moreover, violence against women is rising, although the 2009 Criminal Code provides harsh punishment against rape and other abuses. As reiterated in the newly updated 2011 National Gender Policy, the Government is encouraged to strengthen the legal and regulatory frameworks governing inheritance, matrimonial regimes, and gifts, among others. The Government is also encouraged to promote greater representation of women in the police and army forces, while improving their participation in transitional justice mechanisms. In coordination with the United Nations, the authorities may want also to include specific resources in the 2013 budget to ensure that each ministerial department takes into account priority actions to address gender inequalities in their programs.

D. Institutional Development and Governance

29. **The PRSP-II correctly highlights the importance of improving the performance of public institutions.** Their quality is undermined by excessive administrative burdens, high turnover of technical staff, and low compensation, among others. The 2012 National Administrative Reform Plan is likely to improve the performance of core public sector institutions in implementing the PRSP-II. Staffs agree that priority areas might be focused first on rationalizing the civil service, updating the census database, and managing the wage bill.

30. **The Government agrees that the PRSP-II effective implementation will relate closely to improvements in governance and anticorruption.** The Government is

committed to implementing the action plan of the 2011 National Strategy for Good Governance and Anticorruption (NSGGA). Such a commitment is expected to be a priority since Burundi still suffers from several serious weaknesses as illustrated by the deterioration of three out of the 6 World Bank Institute governance indicators (voice and accountability, rule of law, and control of corruption) between 2005 and 2010. Regulatory quality, government effectiveness, and political stability are respectively on a slow rise, up from very low levels. Recently, private businesses, anticorruption NGOs, and media reports have highlighted remaining issues in corruption and in justice courts.

31. **Consistent with the zero tolerance principle proclaimed by the President, staffs encourage demand-side governance initiatives and strengthening the justice system.** Improved governance will require greater involvement from citizens (notably women and the poor), service users, and civil society organizations. Such involvement will increase accountability and responsiveness (from the Government) vis-à-vis the results of the implementation of the NSGGA action plan. In this regard, the Government is encouraged to take advantage of existing local good governance committees. Staffs recommend the publication of the results of the implementation of the action plan to the general public, while encouraging the authorities to dialogue with beneficiary stakeholders to agree upon M&E instruments of good governance. Addressing the weaknesses of the justice system is also urgent. So, the Government intends to: (i) rehabilitate the justice system; (ii) implement the transitional justice system; (iii) promote human rights; (iv) strengthen the integrity and capacities of army forces; and (v) reintegrate socioeconomically persons affected by the conflict.

32. **The PRSP-II recognizes that transparent PFM is key to the effective use of public resources.** In parallel to enhancing budget preparation and execution, the Government might want to strengthen internal and external controls. Adequate financial resources and technical capacities need to be provided to institutions such as the Anticorruption Court and Brigade and the Court of Audit. It is also essential to clarify the role of the oversight entities and to improve their coordination.

IV. MONITORING AND EVALUATION

33. **The PRSP-II stresses the importance of collecting, collating and disseminating statistics for monitoring and evaluating (M&E) implementation over time.** The current low capacity limits the Government's ability to develop sound economic and social policies. The design of effective policies is hampered by shortcomings in the production of national accounts, difficulties in the compilation of balance of payments, and an outdated household consumption survey used to calculate the consumer price index⁹. As planned in the 2010 NSSD, the improvement of statistics will help authorities monitor progress against the PRSP-II's objectives.

⁹ It reflects only the prices prevailing in Bujumbura, the capital of Burundi.

34. **Critical components are missing for effective M&E of the PRSP-II program.** The development of a central MTEF is likely to help plan and inform budgetary allocation over the medium term. Also, sector MTEF might need to be finalized for key spending ministries by end 2012. It is also important to strengthen the capacity of the National Statistical Office, responsible for monitoring the PRSP-II implementation, and ensure a good coordination across agencies and ministries. The authorities are also encouraged to improve their capacity to measure poverty trends over time by carrying forward regular surveys of the population.

35. **The monitoring matrix contains a number of weaknesses, including lack of clear connection between outputs and outcomes.** The monitoring matrix includes a list of outcome indicators of which baseline and target values are not provided for some critical indicators related to governance, livestock, private sector development, employment and job creation, trade with EAC members, education, health, and monetary poverty. Also, no indicator has been identified that would enable monitoring progress in disaster risk reduction or climate change adaptation. Staffs encourage the authorities to complete the monitoring matrix as soon as possible, notably by incorporating information from the health and consumption surveys of end 2012. In addition, the connection between activities/inputs and outputs/outcomes (results chain) to be achieved could be made more explicit in the monitoring matrix. The clarification of the results chain will help the Government's effort to monitor the PRSP-II implementation and to adjust its priorities to results over time.

V. CONCLUSION, RISKS, AND RECOMMENDATIONS

36. **Staffs welcome the elaboration of the PRSP-II, which will guide Burundi in its efforts to promote job-creating growth and sustainable poverty reduction.** The strategy is both comprehensive and ambitious, but needs further prioritization. It aims at: (i) transforming the economy for rapid job-creating growth and food security; (ii) making growth more inclusive and sensitive to vulnerable groups; (iii) realizing the potential of the population with a thriving private sector by increasing trade with neighbors; and (iv) developing institutions to improve governance and the quality of services.

37. **Staffs commend the authorities' willingness to learn from the implementation weaknesses and successes of the PRSP-I.** This learning process relied on APRs and the final evaluation of the PRSP-I. They provided guidance on the growth and poverty reduction gaps— alongside critical development challenges—for consideration in Burundi's new development plan. Sector and provincial consultations completed the process by allowing stakeholders to take ownership of achieved results and propose programs aimed to not only maintain progress in social sectors, but also lift income gains for the population.

38. **Successful implementation of the PRSP-II will depend on the authorities' continued strengthening of good governance and rules of law.** The current social and economic situation remains fragile, with multiple individual interests, weak institutions, and the quasi-absence of checks and balances. The recent adoption of the 2011 National Strategy

for Good Governance and Anticorruption by the Government, and fully supported by the donor community, has been a step in the right direction but its rapid implementation is expected to be a priority.

39. Ensuring a broad social consensus for the envisaged poverty reduction strategy will also make it easier to mobilize donor resources, thus easing financing constraints.

At this stage, aid inflows are projected to decline over the next few years as a result of the fiscal crisis in Burundi's traditional donor countries and, perhaps, a sense of less urgency given improvement in the country's security situation. Such a trend needs to be evaluated very carefully by the authorities as it will influence their capacity to implement the PRSP-II and reach their ambitious objectives. The Government is encouraged to consider contingency plans to avoid any unexpected fiscal slippages.

40. As Burundi is classified at high risk of debt distress, the Government is encouraged to continue to adopt prudent fiscal policy and careful debt management.

The Government has reiterated its commitment to rely on grants or highly concessional loans to finance public investments, and underlined its need to extend the programmatic approach and the professional use of MTEFs in the public administration.

41. Further prioritization and an improved monitoring matrix will help the PRSP-II implementation.

Priorities need to be better identified, notably in the areas of private sector development and infrastructure. While the Government has rightly placed the private sector at the center of its strategy, it remains unclear how will it address the major bottlenecks faced by private investors both in the short and longer term. In view of the generalized deficiencies in physical infrastructure, the authorities will also need to be selective in their projects, in terms of sectors and locations, based on cost-benefit analyses. Staffs recommend that the ongoing exercise to update the monitoring matrix and MTEFs is finalized as scheduled because it will help enhance the allocation of resources as well as monitoring and evaluation of the PRSP-II program.

42. Given the importance of improving the quality of the local labor force for the overall economic productivity, staffs welcome the Government's commitment to improve education services, including technical training programs. The adoption of a national assessment of learning achievement is a priority as it will help monitor students' performance and evaluate their skills with respect to the needs of private enterprises.

43. Enhancing productivity of the agricultural sector and better targeting of subsidy schemes represent key medium-term priorities.

With agricultural activity concentrated in rural areas where poverty is most prominent, measures to improve small-scaled irrigation systems and diversify rural production are expected to yield large pro-poor dividends. There may be a need to improve and coordinate the numerous subsidy schemes managed by the Government and donors (e.g., food aid, housing materials, health care, school feeding, etc.)

so that those programs can be more cost-effective and reach the most vulnerable segments of the population.

44. In considering the JSAN and PRSP-II, Executive Directors' views are sought on whether they concur with the areas identified by staffs as key: (i) implementation risks; and (ii) priorities for strengthening the impact of the PRSP-II and its implementation.