

Report No. 19592-BU

# Burundi

## An Interim Strategy 1999-2001

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Macroeconomics Unit 3  
Africa Region



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### CURRENCY EQUIVALENTS

Currency Unit	FBu (Burundi Franc, average)
1990: US\$1 =	FBu 171.3
1993: US\$1 =	FBu 242.8
1995: US\$1 =	FBu 249.8
1997: US\$1 =	FBu 352.4
1998: US\$1 =	FBu 435.2
1999: US\$1 =	FBu 521.9

### WEIGHTS AND MEASURES

Metric System

### FISCAL YEAR

January 1-December 31

### ABBREVIATIONS AND ACRONYMS

ABURTIP	Agence burundaise des travaux d'intérêt publics
AGETIP	Agence d'exécution des travaux d'intérêt publics
APL	Adaptable Program Loan
AFD	Agence française de développement
AfDB	African Development Bank
AIDS	Acquired Immunodeficiency Syndrome
BURSAP	Burundi - Social Action Program
CAS	Country Assistance Strategy
COMESA	Common Market for Eastern and Southern Africa
CRP	Community Rehabilitation Project
DRC	Democratic Republic of the Congo
EERC	Emergency Economic Recovery Credit
EU	European Union
HIV	Human Immunodeficiency Virus
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
NGO	Non-governmental organization
PCF	Post-conflict Fund
SME	Small and medium enterprises
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNDP	United Nations Development Program

Vice President	:	Callisto Madavo
Country Director	:	Emmanuel Mbi
• Sector Manager	:	Luca Barbone
Acting Resident Representative	:	Pamphile Kantabaze
Economists	:	Eric Nelson
	:	Stefano Paternostro

**REPUBLIC OF BURUNDI**  
**INTERIM STRATEGY, 1999-2001**

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## SUMMARY

1. The people of Burundi are making progress on peace and reconciliation. From a long history of conflict, the political, regional and ethnic groups party to the conflict and those affected by it are negotiating peace. A transition constitution has been promulgated, and a transition Government established. The National Assembly has been expanded to include small political parties and representatives of civil society. There is an internal peace dialogue, while external negotiations involving some 20 groups are proceeding at Arusha, Tanzania.
2. Sanctions imposed by regional states on Burundi after the 1996 *coup d'état* lasted through 1999. Official aid virtually halted. The Bank processed no new operations and the position of Resident Representative was not filled. Ongoing programs were maintained; some were restructured to respond to the context and fluid situation, so the portfolio, albeit winding down, is currently doing well thanks to these measures. Data gathering was greatly reduced during this period, and although modest efforts have been made to increase our knowledge as the situation began to stabilize, we know too little to design a Country Assistance Strategy.
3. The situation on the ground has severely deteriorated. Years of turmoil and the sanctions have resulted in growing poverty and malnutrition. In the few years following 1993, child immunization coverage declined from 83 percent to 54 percent, infant mortality increased from 110 per thousand live births to 136, malnutrition increased from 6 percent of children under five to 20 percent, and reported cases of major endemic diseases increased by over 200 percent; HIV prevalence is rapidly rising. Many schools and health clinics have been destroyed or damaged, qualified personnel withdrawn to urban areas, and non-salary expenses stopped. Falling foreign exchange reserves threaten the government's ability to meet its future international obligations.
4. The Bank has begun rapidly to increase its activities in face of the above problems and in light of progress on the ground. It has been active in meetings of the international community in Ottawa in August 1998, in Paris in October, and at the United Nations in January 1999. It was invited to make a presentation before Commission IV on Reconstruction and Development at the Arusha negotiations in May 1999, and to the plenary session in July.
5. The proposed interim strategy for Burundi, designed to cover the next 18-24 months, attempts to prevent further worsening of poverty and to stabilize the economy as the peace process evolves. The strategy recognizes the need to support the peace process and to tackle the worst manifestations of poverty through early development assistance; care is to be taken not to contribute to possible sources of conflict. The Interim Strategy will be superseded by a regular Country Assistance Strategy as Burundian society can shift its debate to its own long-term objective and the role of donor support and as the economy stabilizes.
6. This interim strategy draws on the Bank's experience in dealing with conflict and post-conflict situations. It rests upon three legs: (1) promoting governance and "ownership" through participation in rehabilitation and reconciliation, (2) creating productive employment and rural purchasing power, and (3) restoring key imports to support private sector activity and restoring minimum levels of essential social services. The *first leg*, promoting governance and popular ownership of the peace process, would support a participatory approach to rehabilitating village-

level economic and social infrastructure damaged or destroyed by the conflict. The *second leg*, creating labor-intensive employment to rehabilitate infrastructure and to restart private sector activity, would boost purchasing power and give a broad segment of the population an economic stake in reconciliation. It would also provide a vehicle for the reintegration of demobilized members of militias and the army. The *third leg*, restoring key imports and essential social services, would facilitate private sector recovery and provide strictly monitored and controlled resources for poverty alleviation through operating funds for the rehabilitated infrastructure in health, education, agriculture and resettlement. This proposed strategy has been discussed with the factions negotiating at Arusha, where it was well received, and with several donors and groups concerned with conflict resolution in Burundi.

7. Operationally, the strategy supports the following assistance:

- The *first leg*: (1) A *Social Action Project* (BURSAP II) to support a participatory approach to the rehabilitation and provision of social and economic infrastructure, with co-financing by French AFD, to be implemented by NGOs; and (2) a *Post-Conflict Fund* grant in partnership with the UNHCR through the financing of a *Community Reintegration Project* for resettlement of displaced persons. These activities will support *poverty monitoring* at the household level.
- The *second leg*: (1) a labor-intensive small-enterprise public works program (*ABURTIP*) and (2) an *Infrastructure (roads) Rehabilitation Program* (labor-intensive employment projects). The AfDB is considering a new assistance project in micro-finance, and plans a vocational training program which will support this leg; AFD will support micro- and small credit programs to strengthen the private sector. The planned regional (3) *Leveraged Insurance Facility for Trade* (LIFT) can support private sector resources for trade and investment.
- The *third leg* will, through an *Emergency Economic Recovery Credit* (EERC), finance a pre-agreed list of additional critical expenditures in primary education, health, agriculture and resettlement. The foreign exchange will be auctioned to the private sector. A *public expenditure review* will help increase transparency and provide a basis for future assistance. The IMF is also considering Emergency Post-Conflict Assistance. The EU and AfDB are considering support linked to the EERC. AfDB has authorized a project for hospital rehabilitation, and plans support for the Ministry of Public Health. AFD's support to BURSAP will also co-finance essential public expenditures.

8. Other programs, in the outer period of the interim strategy, are in agricultural rehabilitation, education and training, private sector development and public sector reform. To solidify the analytical underpinnings for such operations, the interim strategy includes initiated work on a private sector strategy, an agricultural and rural rehabilitation strategy, and in education and training. During the next 18 months, as economic indicators normalize and analytical techniques become meaningful, work will be initiated on a post-transition CAS with the participation of Government and civil society, and in collaboration with other donors.

9. The peace negotiations in Arusha continue to address the need for a formula to ensure security for all and equitable representation in politics, the armed forces, the civil service and the judiciary. This interim strategy will support such a process.

# An Interim Strategy for Burundi 1999-2001

## I. INTRODUCTION

1. Poverty is widespread in Burundi and has worsened in the past few years. As the country emerges from an episode of violent conflict, the destruction of physical assets, the disruption of trade links, the loss of human capital and the flight of investment capital are devastating, but they are only part of the problem. The conflict has also left a large displaced population, worsening poverty and malnutrition, and weakened institutional capacity. It risks leaving a permanently militarized and divided society.

2. Burundi is a small, mountainous, landlocked country in Central Africa. Its population of 6.4 million (1997) is growing at 1.9 percent per year, exacerbating population pressure in a country with population density of 215 persons per square kilometer, which is second highest in Africa, and GDP per capita of about US\$140 (1996 est.) which is among the lowest. Hutus represent around 85 percent of the population, Tutsis nearly 15 percent. The country has known repeated ethnic violence since independence in 1962, with massacres occurring in 1965, 1972, 1988, 1991 and 1993. Social tensions based on ethnicity, regional disparities and political affiliation – including groups espousing violence – remain strong. National security is also affected by cross-border effects of the collapse of State authority in neighboring Democratic Republic of Congo (DRC).

3. The 1993 internal conflict degenerated into genocide which killed over 150,000 persons and displaced more than 600,000. In 1993 democratically elected President Ndadaye was assassinated, and in 1994 President Ntaryamira died when the plane carrying him and the president of Rwanda was shot down. Beginning in 1994, a “convention” government negotiated under UN and OAU auspices administered the country under a democratically-elected Parliament. This government was unable to provide internal security against Hutu militias, and was overthrown in a Tutsi-led coup d'état in 1996. In response to this coup, regional leaders imposed economic sanctions covering trade and transportation, with dramatic effect on growth, poverty, and social indicators. Many bilateral donors observed these regional sanctions, and aid levels fell from around US \$300 million per year to \$27 million. Following calls by the international community that sanctions were worsening poverty and malnutrition, economic sanctions were suspended in January 1999, but full development assistance has not yet resumed due to concerns about assistance preceding a formal peace accord.

4. Progress is being made in political inclusion, reconciliation and physical security. Internally, a transition constitution has been promulgated. Under it, a coalition transition government which includes several political parties has been established and the National Assembly has been broadened to 121 members to include fringe political parties and representatives of civil society. Externally, negotiations involving some 20 groups are proceeding in Arusha, Tanzania. However, sporadic militia massacres (mostly coinciding with sessions of the Arusha negotiations) and military reprisals have led to continuing accusations of human rights violations. Complicating the peace process, some of these militias are operating across borders from Tanzania and the DRC. This has two effects: the Burundian army has been known to operate in Eastern DRC, and the Tanzanian leadership of the Arusha negotiations is accused of bad faith or conflict of interest by some participants, complicating his role. The

military imposes a significant fiscal cost, absorbing nearly half the government budget (including special levies imposed on salaried workers to finance internal security operations). The military is also considered a party to the ethnic conflict.

5. While the transition Government is considered by some political groups to be illegitimate, its administration, its stewardship of the State and its restoration of basic internal security have been acknowledged as effective even by those who seek to govern. The government and people of Burundi are exceptional in actively pursuing reconciliation at the level of society as well as military demobilization. Good hopes exist that a peace agreement may be reached by November 1999. Regionally, despite the slow and erratic peace process in DRC, the July 1999 Lusaka peace accords established a precedent when Burundi was treated not as a belligerent but a concerned nation with a right to a voice in regional peace-keeping and security. This precedent represents a small but important step toward a possible regional peace.

6. Development assistance has been slow to resume. In a meeting held in Ottawa in August 1998 the international community expressed concern about the impact of the conflict and economic sanctions, including degradation in health and education services, and on the environment which will have a long-term impact if not reversed; UNDP and the Bank proposed forms of development assistance which would complement and extend ongoing and planned humanitarian assistance. At a conference at the United Nations in January 1999 the Bank continued to develop possible approaches for more intensive assistance according to progress in the peace process. The Bank works in close contact with major domestic and international actors to assist in a manner that encourages that process. UNDP attempts to assure donor coordination, but donors are focusing on humanitarian assistance with new development programs only in the conceptual stage.

7. The European Union is preparing a major (Euro 50 million) assistance package to be implemented in parallel with planned Bank assistance. France is rebuilding its aid program and is supporting the second Social Action Project (BURSAP II) as well as planned Bank private sector activities under this interim strategy. The leadership of Arusha Commission IV on Reconstruction and Development plans a donor meeting in Vienna tentatively scheduled for September 1999 to prepare donors for resuming development assistance. Independently, the UNDP and government are preparing a Round Table for the last quarter of 1999 that will be based in part on the results produced by local task forces and on the components of this interim strategy.

## II. ECONOMIC AND SOCIAL DEVELOPMENTS

8. Burundi has limited natural resources except for its good agricultural land; about 94 percent of the population live in rural areas and the economy depends on agriculture. Land fertility was declining but the causes (related to population pressure, Box 1) were understood and being addressed. Until the recent conflict, Burundi was self-sufficient in food and could export within the region. Coffee provides around 80-95 percent of export revenue, and the sector is both a source of growth and – because of the restricting control of processing of smallholder production – a source of inequality and conflict. Burundi is heavily aid-dependent: before 1993, official development assistance provided nearly twice as much foreign exchange as exports and more than a fifth of government revenue.

*Box 1 - Population issues*

The issue of population growth is central to the development of Burundi. Population growth dictates the speed at which agricultural productivity must grow, and technologies change in order to maintain food supplies and rural incomes. It also sets the pace at which employment opportunities must increase to accommodate the swelling labor force; and educational, health, and other public services must expand to improve human resources and the living standards of the population. While the recent conflict has undoubtedly affected population dynamics and structure, the main demographic features of the Burundian population continue to be a predominantly young age structure (about 42 percent of the population is under 15 years of age), declining mortality rates and no offsetting reductions in fertility. Population growth will hinder the Government's ability to sustain long term economic growth, raise standards of living, and improve the quality of human capital. Furthermore, as noted in the text, the current crisis has resulted in a sharp deterioration of social indicators. Endemic diseases have increased sharply as well as the prevalence of HIV/AIDS.

9. Regional economic sanctions imposed in August 1996 were suspended in January 1999. Sanctions imposed an economic cost as they were intended to do (see Box 2 for a discussion of main economic indicators). But they created hardship for the poor, despite being lifted for a variety of essential goods, and despite being widely violated. They fostered rationing which so reduced the transparency of the foreign exchange market that it is difficult to judge whether the military were deprived or instead profited from special access to subsidized foreign exchange. While the private sector was at the end of the queue for favorable exchange rates, how or why the beneficiaries were chosen is opaque. Finally, "sanctions-busting" was profitable only for goods consumed by the wealthier members of society who could afford a high markup covering the risks, costs and profit margins of smugglers; imported goods consumed by the poor or used by agricultural producers in competitive markets became unavailable.

10. As a result of the humanitarian crisis and the effect of the sanctions, poverty has worsened rapidly since 1993. While recent data are scarce, the incidence of rural poverty is estimated to have increased by 80 percent since 1993, with a doubling of urban poverty incidence. Poverty depth is estimated to be among the greatest in sub-Saharan Africa. Over 14 percent of the population was displaced during 1997.

11. Social indicators deteriorated sharply, after a steady improvement in the years preceding the crisis. Children's immunization coverage declined from 83 percent in 1993 to 54 percent in 1996. Infant mortality increased from 110 per thousand live births in 1992 to 136 in 1997, while the average for sub-Saharan Africa is 105. Malnutrition, measured by wasting among children under five, is estimated to have increased from 6 percent to 20 percent since 1993. Approximately 50,000 people are treated daily in nutrition centers. Of these 36,000 suffer of chronic malnutrition, of whom 90 percent are children under five. Reported cases of major endemic diseases have increased by over 200 percent, and HIV prevalence is rapidly rising. There are already an estimated 40,000 orphans from HIV alone. Primary school enrollment has plummeted since 1993, from 70 to 44 percent overall, with four provinces falling below 30 percent in 1996-97 and a nadir of 9 percent in one of the most violence-stricken areas.

12. The conflict and the embargo have affected agriculture through looting and destruction of household goods and livestock, displacement of populations and collapse of distribution channels for agricultural inputs. The price of non-food goods in rural areas has risen. In urban areas, many unskilled workers have been laid off from formal private sector enterprises, in response to a drop in industrial GDP of almost 60 percent since 1992. The urban informal sector has also suffered, as enterprises have closed and laid off workers due to difficulties in the supply of materials from

abroad and from the interior of the country, and a drop in demand for services from formal sector and expatriate workers. Rapidly rising urban prices following the embargo have further eroded the real incomes of the urban poor.

*Box 2 - Recent Economic developments*

Burundi's real GDP growth was estimated at 4.5% in 1998 with the main gains in subsistence agricultural production and with more modest improvements in manufacturing output. According to data released by the *Banque de la République du Burundi* (BRB) in October, industrial production was up 9% year on year and the trend is likely to have continued in November and December.

Average inflation in 1998 was 13%, down from 31% in 1997. The fiscal position in Burundi has become increasingly unsustainable, although the lifting of sanctions should help revenue considerably through income taxes and trade levies. Government revenue fell from 15.6% of GDP in 1996 to an estimated 14.0% in 1998. Foreign grants accounted for only 2.6% of GDP in 1998. Government expenditure as a proportion of GDP has fallen substantially from 28% in 1996 to 22.2% in 1997 to an estimated 19.3% in 1998. This compression has reduced the overall fiscal deficit, including grants, from 10.1% in 1996 to 5.5% in 1998. The financing of this deficit is largely met through domestic bank borrowing and the accumulation of domestic and external payments arrears. The deficit size in commitment terms is FBu 18bn (\$35m) and could be eliminated by post-sanctions balance-of-payments support.

Although the government continues to finance its deficit through borrowing from domestic banks, the rate of expansion of bank credit to government slowed considerably in the latter half of 1998 as government compressed its expenditures. Credit to the private sector in the 12 months to December 1998 increased by about 20% over December 1997 figures. The BRB appears to have done little to contain the increase, raising interest rates only 2% in two years to 12% in 1998, which has ensured that real interest rates remain negative. Import levels in 1998 remained low, and were estimated to have been \$103m, only 59% of the 1994 level. However, exports were projected to have been worth only \$49.3m in 1998, sharply down from an estimated \$87.3m in 1997. This was mainly because of a decline in the value of coffee exports from \$76.6m to \$38.6m, caused by a combination of a reduced crop and a 37% decline in world prices. The resultant trade deficit in 1998 was therefore \$53.2m, considerably worse than the \$10.6m of 1997. Burundi increased its external arrears by November, reserves were below \$70m, which is the lowest figure for ten years.

The balance-of-payments difficulties have forced the authorities into a succession of devaluations. The Burundi franc began 1998 trading at FBu 408:\$1, but was trading officially at an average of FBu 504:\$1 in December, representing a devaluation of nearly 24%. The parallel exchange rate was roughly FBu 1000:\$1 at the end of June, which represents a 98% differential between the two rates.

*Source: BRB, EIU, IMF.*

13. In addition to widespread food insecurity, declining monetary incomes and rising health problems, the provision of public services has been drastically reduced. Many schools and health clinics have been destroyed or damaged; health and educational personnel have withdrawn to urban areas; and agricultural projects funded by donors have closed. Over one third of local water supplies have been destroyed or ceased to function due to lack of maintenance.

14. Collapse in financing for health and education is another major factor in declining access to, and quality of, social services. Government revenue has fallen as a result of the contraction of the tax base, from 20 percent to 12.6 percent of GDP since 1992. The withdrawal of donor assistance (from \$300 million per annum in 1990-92 to \$39 million in 1997) has drastically reduced the funds available for reconstruction and social investment.

### III. ELEMENTS OF AN INTERIM STRATEGY

15. There are three main reasons for developing an interim strategy now. First, we must address soon the poverty, malnutrition and disease exacerbated by the conflict and its aftermath,

and prepare to stabilize the economy. Second, as the people of Burundi make progress in peace and reconciliation, the returning stability provides an environment favorable to increasing the level of Bank activities but the still somewhat fluid situation requires that these actions be designed within a flexible and responsive overall strategy. Third, the conditions are not yet conducive to design a broader-based longer-term strategy which would require wide interactive participation; although the country is making great strides in moving from conflict to a post-conflict political and socio-economic environment, it is not yet possible for all groups to fully participate in the preparation of a strategy. Further, the economy remains unstable and indicators unreliable due to the effect of the sanctions and the rise in unrecorded trade and transfers in response to the sanctions.

16. Delay in assistance to these antipoverty measures has a human cost. However, there is a concern that budget support too soon might reduce incentives for incumbents in the transition government to negotiate for power on an equal playing field. To address this concern, the strategy would rely on programs implemented in the immediate future outside government, with any complementary public resources restricted to under-funded antipoverty and stabilization activities in a way that will not free up government resources for other purposes. Delay also raises the strong risk that Burundi will fall into arrears to the Bank, the AfDB or IFAD, complicating the difficulty of resuming aid later. Lack of engagement now would raise the level of suffering and lower the ability of Burundi to help itself.

17. The Interim Strategy is necessarily tentative and adaptive in the absence of data required for a meaningful macroeconomic assessment or for quantification of the economic impact effects of returning refugees (mostly Hutus) and displaced persons (both Hutus and Tutsis). However, the Bank already has some important indications, based on the most recent *Country Assistance Strategy* (May 1995), an *Economic Update* (June 1998), a *Poverty Note* (February 1999) and recent preliminary sector work carried out in agriculture and rural development, private sector development and privatization, education and training and social sector analysis. The strategy is also benefiting from lessons from recently closed projects in the Bank's portfolio (e.g. the energy and private sector development projects) as well as restructured ongoing projects in health and population and water supply. The strategy also relies on recent research by the Bank's Post-Conflict Unit on approaches which have worked, or have failed, elsewhere.

18. ***Role of the Strategy in Addressing Conflict.*** This interim strategy is constructed on an integrated framework for the Bank and other donors to address poverty and malnutrition, but also the underlying factors and proximate causes of conflict in Burundi, and the triggers leading to repeated violence. It also proposes a path to prepare for economic stabilization which would be in line with and support progress in the peace process. To reduce the likelihood of future violence, it begins with the physician's maxim *primum, non nocere*: first, do no harm. This requires that possible negative social impact can be detected early and programs adjusted.

19. Two ***underlying factors*** of conflict stand out: the general scarcity of resources, and in Burundi, exclusion of certain groups (both ethnic and regional) from access to those resources by means that are perceived as inequitable. The ***proximate causes*** of the conflict in Burundi include the failure to adapt such rules for ownership and transfer of property and land to make the mechanism more inclusive, and an opposition that attempted to use force to change the mechanism for access. The ***triggers*** that transform peaceful conflict into violence include the poverty of the excluded, and their willingness to follow charismatic leaders who espouse violence to remedy the origins and causes of conflict.

20. The internal and external dialogues suggest that there now exists a broad consensus among Burundian society that peaceful methods of change must replace violence. The international community supports this through activities that promote governance and “ownership” of the peace process: reforming the civil service to represent a broader cross-section of society, fostering a transparent and enabling environment for economic and social activity, and improving both the system of justice and perceptions of that system. Decentralized, participatory methods of allocating and exploiting common resources would address the needs of all ethnic and regional groups and women, as would the establishment of rights to own and transfer in a transparent and equitable manner.

21. In most societies, charismatic leaders espousing violence can be contained by social sanction. In Burundi, stigmatization by ethnicity and regionalism has polarized society and reduced the effectiveness of social sanction or the willingness of society to apply sanctions to such behavior. Further, incentives (such as alternative sources of income) are too weak to *discourage* following this path. To address such triggers the strategy promotes employment and “ownership” of the productive process, through rehabilitating and improving the economic and social infrastructure the people themselves value most highly, improving the possibilities for youth employment, and jump-starting the economy through jobs, agricultural rehabilitation, and increased rural purchasing power to support economic activity.

### 1. The Three Legs of the Strategy

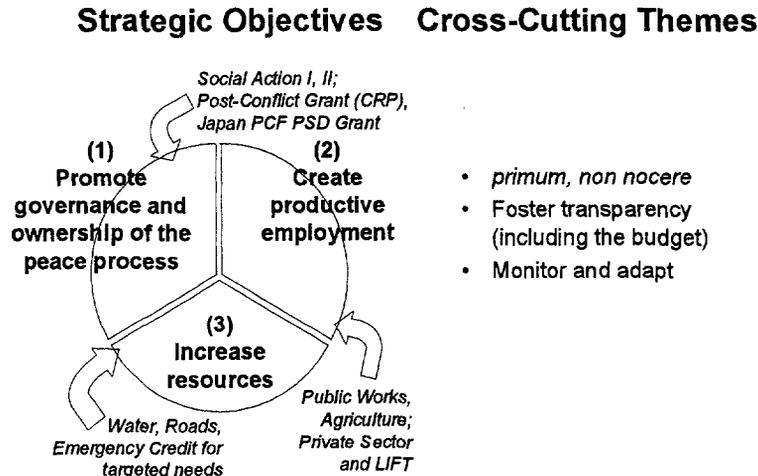
22. Three legs support the strategy stool: **promotion of governance and “ownership” of the stakes in peace** through participation in rehabilitation and reconciliation, **creation of productive employment** and rural purchasing power, and **restoration of key imports and essential social services**. All three legs are required to have the necessary impact on poverty and malnutrition and to prepare for stabilization of the economy. The *first leg* of the strategy is to promote legitimate governance and ownership of the stakes in peace. This will be done by supporting a participatory approach to rehabilitating village-level economic and social infrastructure damaged or destroyed by the conflict and thereby developing ownership of the peace process among the people. These activities aim to bolster governance and inclusiveness. Given the slow pace and management-intensive nature of this process, and the low absorptive capacity of civil society and the NGO community compared to the scale of the need, the economic impact of such assistance is going to be limited, and insufficient to jump-start the rural labor market or the economy. Thus, a *second leg* of the interim strategy is to help create productive labor-intensive employment, through rehabilitating infrastructure and the national patrimony and restarting private sector economic activity. The agricultural sector will be a priority, given that agriculture remains the primary source of employment in rural areas. The first two legs together will also address the socioeconomic pressures expected when youth militia members are demobilized under the peace process.

23. In the absence of additional resources to the private and public sectors to finance additional construction, operation and maintenance activities, the second leg too is insufficient to jump-start the economy. Thus, a the *third leg* of the strategy is to increase the resource envelope by providing foreign exchange for private sector imports, and to address poverty alleviation through expenditures in health, education, agriculture, public asset management and resettlement. This too is necessary but not sufficient to lay the basis for re-launching growth; the

*three legs* together would be the minimum necessary to help stabilize the economy, promote recovery and begin to lay the basis for growth.

24. The proposed strategy is based on development needs to combat poverty and malnutrition

## Interim Strategy



and to lay the basis for stabilization, although some of the activities straddle a fine line between humanitarian aid and development. Also, projects and programs have been and will be designed to promote the incentives for the government or its constituent factions to continue to negotiate on an equal footing with the other groups. Resources will be provided under strict controls to assure that funds do not go to any use which exacerbates social tensions, including particularly the military. This is a crosscutting concern in the proposed strategy, reflected in all components.

### ***a) Promote Governance and Ownership of Peace and Reconstruction***

25. The first leg of the strategy, promoting ownership and governance, is necessary to address both the underlying factors and the proximate causes of conflict. If the people can identify and implement their own priorities, this not only restores schools, clinics and other social infrastructure required to arrest the decline in social indicators, but the process builds ownership of peace at the local level.

26. Many proposals for reducing conflict call for decentralization of the government administration to improve governance and accountability. Delegating governance to the local level may also make the voice of women, on their own behalf or on behalf of their children, more often heard in decision-making. This requires care in implementation if self-determination is to foster partnership between the local population and the local administration. NGOs vary in their approaches to participation: some exclude the local administration (usually dominated by Tutsis or outsiders from a privileged region) from the process in favor of the local Hutu majority population, others accept the administration.

27. Demobilized militia members pose a particular threat to stability. Bank experience has shown that job-creation programs available at demobilization can reduce the incentives for *brigandry* as a career choice. Demobilized youths involved in local reconstruction pose lower risks to security and their reinsertion increases the chances for enduring reconciliation. Despite

serious obstacles to involving them effectively, the alternative (little or no reintegration) will certainly harm security.

28. A judiciary perceived by the public to be professional and unbiased is essential for building ownership. While this is a long-term endeavor, a quick start will demonstrate the government's recognition of the inadequacy of the system and its commitment to reform. Other non-State conflict-resolution mechanisms merit attention, building on traditional society or on a private arbitration system backed by the authority of the State.

***b) Create Productive Employment***

29. A second leg of the strategy is to create productive employment to jump-start the rural economy. Employment for large numbers of people would restore a livelihood to formerly displaced people, demobilized youth and the local landless who never fled. It would provide the household income and purchasing power required to reverse the impoverishment that has been worsening over the past years. Rehabilitation of rural and other road infrastructure (including regional links), revival and privatization of seed production and multiplication, and revival and improvement of rural finance would support the primary source of employment in rural areas. Statistics on the scale of this unemployment or the number of militia members who will be entering the civilian economy are unreliable, so the strategy has to be adaptive, and early efforts should be closely watched and adjusted according to feedback from the population.

30. After several years of impoverishment and growing malnutrition, additional resources are required to address the causes of conflict. Activities planned to implement the first leg will rehabilitate village socio-economic infrastructure that must then be operated; much of this is a public obligation. Implementing the second leg will generate increased demand for goods and services, which must be met by a private sector that currently lacks access to foreign exchange and is squeezed by the heavy arrears, owed it by its largest customer, the government.

***c) Restore Key Imports and Essential Social Services***

31. The third leg of the strategy is to restore key imports and essential social services that support and complement the first two legs; in a carefully targeted manner so as to do no harm. To attack the resource scarcity that is at the origin of conflict, beyond the early steps for speeding reconstruction it would be helpful for donors to prepare measures for reconstruction and to lay the basis for growth. This requires both purchasing power to re-launch the private sector (both new finance and clearing the government's arrears to its suppliers), and meeting operation costs of the rehabilitated public infrastructure: education, health, agriculture, public assets and the costs of reinstallation of returning populations.

32. The three legs together support a complete strategy. While any projections for Burundi would be subject to conjecture, international experience (Collier and others, 1999) suggests that in countries following a long period of conflict, output has the potential to grow at 6 percent per year over the trend value for the first five years. This depends on the degree to which businesses and households have maintained their buildings, equipment and inventory during the war and that to which they reinvest once peace returns, which depend on confidence. The first two years should set the preconditions for equitable growth. Strategies need to be developed for the private sector and for agriculture, the primary motors of growth, so that they address the origins, causes and triggers of conflict.

33. France, Belgium, the EU, AfDB and UNDP support the first leg, through co-financing of planned Bank activities; other donors plan or are implementing smaller activities. Support to the second leg is planned by AfDB and French AFD, both in micro- and small enterprise finance. Resources for the third leg are under consideration by the IMF, the EU and the AfDB; KfW is cofinancing hospital rehabilitation with the Bank.

## 2. Foster a Transparent Enabling Environment, and Monitor and Adapt

34. Implementing the strategy requires adherence to three cross-cutting themes: *primum, no nocere*, creating a **transparent enabling environment**; and effective and efficient means for **monitoring and adapting**, to be sure that the strategy reaches all elements of society, contributes to peace, and does no harm.

35. *Foster a Transparent Enabling Environment.* Some regulation in Burundi has in the past been perceived to favor one social group or region. Government fiscal activities are not sufficiently transparent to meet the demands of the public, the National Assembly, or potential donors; this will be addressed by a Public Expenditure Review which would be conducted in FY 00-01 with early outputs to provide a framework for aid coordination. The regulatory and judicial systems are not perceived to be transparent or even-handed even though many of the requisite laws are on the books; this is being addressed by some small bilateral programs. Transparency needs to be established or improved early and then applied consistently until the public develops confidence in the stability and equity of the system. Finally, budget transparency is a prerequisite for donors to ensure that their activities have an equitable impact on the provision of services to all elements of society.

36. *Monitor and Adapt.* Beyond the monitoring required for its implementation plan, an interim strategy must be capable of reacting and adapting rapidly. Thus, monitoring is a strategic element. Funds cannot support military expenses. Beyond this, we must be able to verify that the ethnic and regional distribution of benefits is equitable, to avoid contributing to the seeds to violence, and to permit the program to adapt quickly if it is off-track due to errors in its assumptions or difficulties in implementation. Finally, it is not enough to calculate additionality in the operations budget of (for example) the health *ministry*. Incremental impact requires a commensurate quantitative change in *village* level output, and ultimately a perception by *households* of all social strata and all ethnic groups that they are indeed better off. The strategy must include an inexpensive, rapid-response system to poll the potential beneficiaries who are also potential belligerents. Household surveys required for poverty monitoring would track both access to essential social services and use of these services.

#### IV. A PROGRAM TO IMPLEMENT THE INTERIM STRATEGY

37. This section discusses the specific role the Bank can play in a transition period, the status of the donor resumption of assistance, and the evolution of donor coordination. Since the donor community is only now developing development assistance to phase in with or after humanitarian aid, there is not yet donor coordination or leadership by particular donors in particular sectors. It is expected that, as part of the Vienna meetings and Round Table, other donors may choose to adopt or contribute to particular activities drawing on this proposed strategy as a core.

##### 1. Promote Governance and Ownership of Peace and Reconstruction

38. A social structure that excludes arbitrarily from access to resources lies at the origins of conflict and facilitates those who trigger conflict. Program elements to implement the strategy therefore must not just replenish resources to combat poverty, ill health and malnutrition, but also channel them to the grassroots, build participation, decentralize, and develop or reinforce property rights. Interventions under the *first leg* of the Strategy include Social Action Projects (an ongoing *BURSAP I*, restructured to build participatory processes, and *BURSAP II* recently negotiated) and an approved Post-Conflict Fund (PCF) grant to support a *Community Rehabilitation Project (CRP)*. An ongoing *Water Supply Project* is helping to protect springs and rehabilitate village water systems and in the process reduce the workload of women.

39. *BURSAP II*, to be implemented by the NGO Twitezimbere will assist communities in poor regions to rehabilitate damaged or destroyed socio-economic infrastructure including health centers, schools, water systems, and village access roads, and to obtain agricultural inputs. Early child development activities will have a high impact on the quality of life for young children. Village men and women are directly involved in project selection, implementation, monitoring, and in management to give the people ownership of the process of rehabilitation and reconstruction. France will co-finance *BURSAP II*. The *PCF grant for the CRP*, a pilot collaboration between the Bank and UNHCR, will experiment with extending the *BURSAP II* concept to returning refugees and internally displaced persons, to develop a participatory approach appropriate to a fragile community environment. *BURSAP II* will provide the poverty assessments required to track both poverty and the impact of activities at the household level of all programmatic interventions.

40. Good governance and ownership require the creation of a transparent enabling environment. The Bank and Government intend to perform a *public expenditure review* in late 1999, in parallel with the EERC discussed below, to improve transparency in the fiscal system and to lay the groundwork for civil service reform.

##### 2. Create Productive Employment

41. A recently completed roads rehabilitation project provided significant employment while contributing to access to markets, addressing the origins of conflict. The planned *ABURTIP* is based on the *AGETIP* model for labor-intensive private-sector public works projects. *ABURTIP* would provide wage-labor-intensive SME activities including, among others, farm-to-market road rehabilitation, brick and roof tile fabrication and distribution (to complement the *BURSAP*

and PCF activities). It will provide purchasing power for landless laborers. SME ownership, among all groups of the population, reduces the alienation that triggers conflict.

42. France has recently provided and plans further assistance to the *Banque Nationale de Développement Economique* (BNDE) in small enterprise credit, and plans to rehabilitate the cooperative micro-finance network. These projects complement the Bank's planned activities under both ABURTIP and the EERC by re-launching a strong and diverse micro- and small enterprise sector in all regions of the country and providing local employment opportunities. A planned *Japan Post-Conflict Fund Grant* would also enable the Bank to work with Burundi to address the needs in reform of the business and enterprise regulatory system and commercial law in the private sector strategy that will be implemented in later years.

### 3. Restore Key Imports and Essential Social Services

43. The private sector, village agriculture and the maintenance and operation of the rehabilitated public infrastructure all require temporary assistance. The *EERC* provides such support directly. The *EERC* would provide foreign exchange to the private sector to finance key imports, at exchange rates determined by open auction. It would permit a re-launch of economic activity following the lifting of sanctions. A preset portion of the local currency proceeds permits government to clear some of its arrears, restoring working capital to the private sector. The local currency proceeds of the sale of the foreign exchange by the Central Bank would be deposited in a Special Account at the Central Bank. These funds could then only be used for activities included in an agreed positive list of incremental expenditures in the social sectors. These include activities which have not been financed in the previous few years' budget and thus which are demonstrably highly additional, reducing possibilities for fungibility. Disbursements would be closely monitored by auditors at the level of the budget (to assure they are spent according to jointly agreed criteria) and by household survey at the level of the final user, to measure both access and use by all elements of society.

44. In addition to the *EERC*, a proposed *Leveraged Investment Facility for Trade* (*LIFT*) would help raise additional resources from the private sector for trade and investment. The *LIFT* is a regional facility involving nine COMESA countries to guarantee foreign investments against sovereign – but not exchange rate – risk. It mitigates risk perceived by traders and investors concerning a post-conflict economy, which, according to experience elsewhere, otherwise attracts opportunists who seek to exploit temporary post-conflict *disequilibria* rather than invest in creating permanent jobs. Such a facility has been effective in countries in and after conflict (e.g. Bosnia). It will encourage higher levels of trade and investment and hence employment.

45. The French Development Agency (AFD) will provide assistance in rehabilitating and refinancing existing micro- and small enterprise credit activities. AfDB is planning a credit line for small and medium enterprises and is considering finance to the broader aspects of the *EERC* program when its resources allow. The EU plans a support program that would complement programs by the Bretton Woods institutions, including direct support to activities under the first leg and a possible STABEX support for coffee revenues.

46. It is wasteful to restore village health centers and schools without assuring the operating expenses (whether self-, private-, public- or donor-financed) for their services to reach all elements of society and be used by all. The existing *Health/Population II Project* for capital investments (co-financed by *Kreditanstalt für Wiederaufbau*) and the AfDB's recently-approved

health project address the origins of conflict. Their operating expenses fall upon the government which has no funds for these additional activities. The pre-agreed menu of operating expenses of rehabilitated infrastructure to be financed under the planned EERC will address these expenses.

47. *Agriculture* faces three linked structural problems contributing to the origins of conflict: high population density, scarce land, and declining soil fertility. The Bank will consider expanding a recent Food and Agriculture Organization (FAO) pilot program in swampland improvement, working with local people and returning refugees. Our preliminary thinking is to investigate a longer term agriculture program as the cornerstone of a sector strategy designed to reverse fertility decline and soil erosion. This program would combine institutional reform of the agricultural research and extension services with direct targeted investments at the community level. Any work will be undertaken in close collaboration with the FAO and AfDB.

#### **4. Address the Wider Dimensions of Post-Conflict Recovery**

48. This proposed strategy is not a work-plan for the World Bank in isolation. The current document contains no donor coordination matrix because resource gaps are unknown and because donors' plans for development assistance as a follow-on to current humanitarian aid which are still evolving will become clearer through the process of the Vienna Donors' meeting and the Round Table in the last quarter of 1999. The Bank will coordinate with other donors along general guiding principles to avoid both imbalance and exceeding absorptive capacity. The Bank will also work with the government, the people, the NGOs and civil society to assure that all steps support reconciliation and the contribution to the process for a lasting peace, taking the time to expand its knowledge base in several key areas such as land tenure and local governance, and learning from the pilot activities of others. The Bank's Field Office would assist with a participatory process conducted within government and civil society over a period of around six months. This would contribute to a 12-18 month process leading to a Country Assistance Strategy. The Public Expenditure Review that would accompany the EERC provides the transparency in fiscal affairs which is required for a CAS as well as for governance. Looking beyond the poverty alleviation measures of the next 18 months, the current strategy seeks to lay the foundation for stabilization and to begin addressing socially sustainable, equitable growth.

#### **5. Close the Knowledge Gap**

49. Over the past few years the Bank continued to monitor economic conditions and poverty. As Burundi emerges from sanctions and the "underground" economy becomes formal again, the Bank can devote resources to closing the knowledge gap which, in part, stands in the way of a three-year CAS. The knowledge strategy calls for developing our quantitative indicators in areas where they are weak, and deepening our analytical underpinnings of a country assistance strategy in preparation for exiting the "interim." An Economic Update (1998) has given information on the changing economy, and a Poverty Note (1999) analyzed the causes and remedies of the deepening poverty during the post-conflict period affected by sanctions. In addition, an economist is being hired for the Bujumbura Field Office of the Bank.

50. Looking forward, the PER will examine ways to improve the transparency of government budget implementation, to improve fiscal efficiency and the ability of the National Assembly to govern, and to help set the basis for future donor assistance. A private sector strategy (initiated in FY99) will include privatization in the context of equitable access to resources by all households within society. Sector surveys will update our information on education and training (initiated in

FY99), agriculture and the environment, infrastructure, and later (FY02) telecommunications. UNDP is financing local research on various aspects of development in preparation for the Round Table.

51. A CWIQ survey under BURSAP and EERC will measure the impact of fiscal and policy changes on households from all strata of society, and particularly women-headed households and the poor. Participatory forums among the population and civil society will provide input for the future CAS and a framework for monitoring the CAS, and in collaboration with other donors.

## V. RISKS AND CONCLUDING REMARKS

52. The 1995 Country Assistance Strategy noted risks of political instability and ethnic explosion. It stated "while a solution to Burundi's crisis lies within the country itself, actions by the Bank and the donor community could help relieve economic and social difficulties and thus contribute to alleviate ethnic and social tensions, promote orderly transition, and thereby reduce the risks of further upheaval." Donor and financier assistance must also support the internal and external peace process through measures contributing to a durable peace; and avoid measures which serve (or are perceived as serving) particular interest groups in the domestic conflict.

53. Some risks are very specific. Budget support, if without the appropriate controls, might be misused for military purposes, or may weaken incentives for incumbents within the government to negotiate with others on an equal basis. Assistance via the private sector may confer economic benefits on an elite. Participatory processes may compete for power with the administration, lead to tyranny of the majority in local governance or threaten acceptance of more general participatory governance mechanisms by the government, exacerbating conflict. Evolution from an authoritarian regime to an "intermediate democracy" has been observed worldwide to be associated with a higher (not lower) risk of breakdown, but to bypass this directly to pure democracy at the local level is untested, may conflict with traditional authority, or accentuate ethnic division. Finally, extremists on either side may pursue a spoiler's strategy of intimidation of all involved, including the local population and the international community; the peace process is by no means a linear process with assured results.

54. There is a high risk that absorptive capacity for direct assistance to the afflicted communities will be inadequate. Several donors are developing participatory processes at the *colline* or commune level to identify priorities for rehabilitating economic infrastructure.

55. The controls planned for budget support have already been mentioned: auction of foreign exchange to the private sector; a special account; a positive list of activities which were not previously being undertaken from which funding cannot presumably be diverted to be replaced by IDA funds, audits of funds and impact surveys of household beneficiaries, and tranching of payments to permit a cutoff if the peace process goes off track. The social action activities will also be monitored closely for possible failure of the participatory process to develop ownership of the local social infrastructure.

56. In recognition of this low absorptive capacity for a participatory approach, the Bank seeks a coordinating effort among all parties and among donors to support the first leg of the strategy. Additionally, the second and third legs of the strategy provide direct resources at the small enterprise, formal private and public sectors, which are capable of absorbing this scale of funding. The work to develop the post-conflict private sector will investigate strategies for assistance to the coffee and tea sub-sectors and for privatization which do not favor any

particular elite and are perceived as equitable. Finally, the Field Office will be strengthened to permit closer monitoring of the impact of our activities on social inclusiveness or exclusion, and will assure coordination with other donors.

57. To control these risks at the macroeconomic level, BURSAP and other Bank projects would provide imported inputs, not free foreign exchange, while the foreign exchange provided by the EERC is available to the private sector rather than government, and its counterpart uses strictly addressed to incremental social sector expenditures, as discussed above.

58. Knowledge gathering is the final element of risk reduction. Our understanding of the relation between governance issues and peace is incomplete. The process of resource allocation among ethnic groups at the village, commune or *colline* level is poorly understood. Experience elsewhere suggests the passage of time will not eliminate this risk, so donors must be eternally vigilant. Third, as extremists may continue to use violence to destabilize society for ideological reasons, society and its systems of justice should be strengthened to cope with such conflict (and, as noted above, donors must not permit useful programs to be held hostage to spoilers). Finally, Burundi cannot escape the problems that lie across its borders. In a violent region it would have difficulty attracting long-term capital and will be faced with flight of both financial and human capital. Conflict needs to be reduced on a regional scale, and the international community must support measures to eliminate the triggers which transform conflict into violence.

59. In conclusion, perhaps this last risk also represents an opportunity. Recognizing that the peace process in Burundi has been nurtured and supported by African initiatives, Nelson Mandela encouraged African states to assume responsibility for fostering peace, prosperity and democracy on the continent. "While Burundi is itself destabilized by the turbulence of the region, the reverse is also true. A sustainable settlement in Burundi can give a lead to the other states in the region." (March 4, 1999). The challenge to donors is to support the sustainability of the settlement while arresting the slide into poverty and restoring equitable growth.

James D. Wolfensohn  
President  
By Shengman Zhang

Washington, D.C.  
July 30, 1999

Attachments

## Bank Portfolio Implementation Experience

1. Portfolio implementation in Burundi has been characterized by both pro-activity and adaptability over the last four years. The 1995 CAS remained a reference for action in a difficult environment, fraught with a long lasting political crisis. The portfolio shrunk gradually and lending remained constrained.

2. Burundi's current portfolio is comprised of four projects, of which two projects in the social sectors (Social Action, Health and Population Project) and two in infrastructure (Rural Water Supply, and Transport Sector Project), down from 17 projects in FY95. The total commitment is US\$107.6 million of which \$30.9 million have been cancelled, and the undisbursed balance is US\$20.9 million as of June, 1999.

### Portfolio Composition and Performance as of June 1999

Project	Commitment (US\$ M)	Percent	Cancellations (US \$ M)	Rating	Undisb. Balance (US \$ M)	Closing Date
Transport Sector	43.2	40.1	6.6	S	1.6	6/30/99
Health and Population II	21.3	19.8		S	14.0	6/30/01
Water Supply	32.7	30.4	24.3	S	2.5	6/30/00
Social Action	10.4	9.7		S	2.9	12/31/99
<b>Total</b>	<b>107.6</b>	<b>100</b>	<b>30.9</b>		<b>20.9</b>	

3. Since the last 1995 CAS, the instability of the economic and political environment in Burundi has limited the development of an active lending program and constrained the management and the performance of the Bank-financed portfolio. Although the Bank operated under the CAS social-core scenario, only one new project (Health and Population) from the then proposed lending program was presented to the Board, together with the CAS, since May 1995. As risk factors remained consistently important, it became impossible to prepare new lending operations, and the effort was deployed to get the best of the existing portfolio instead.

4. In view of this difficult environment, the Bank restructured and simplified the portfolio to better respond to country conditions. IDA's exposure remained limited while putting the focus on the delivery of services at the community level and providing employment in the implementation of the existing portfolio.

5. In FY 97, the Burundi portfolio was active for only a few months. In the aftermath of the military coup that took place in July 1996, Burundi's neighboring countries decided to impose a trade embargo. Since satisfactory implementation of projects was not possible without the availability of imported goods, international expertise and supervision by Headquarters Bank

staff, the decision to suspend the disbursements to Burundi was taken in October 1996 on the grounds of country situation. However, the Bank continued to monitor closely the evolution of the situation. Following the easing of the trade embargo on April 16, 1997, the Bank agreed with the Government that the suspension of disbursements would be lifted, and by October 1997 all the portfolio had been reactivated.

6. At the time of the resumption of disbursements, the entire portfolio was rated unsatisfactory. Despite the difficulties stemming from the uncertainties in the political environment and deteriorated overall country economic conditions, the overall performance of the Burundi portfolio has improved greatly over the last two years, reflecting the increased country team and Government efforts to focus on much more realistic objectives in the context of project retrofitting. In addition to HQ supervision missions, the Resident Mission and the Government held quarterly portfolio performance review meetings during which all pending issues were discussed and an action plan agreed upon. As a result, all four projects in the portfolio are rated satisfactory.

7. The country team was proactive in taking measures to address problems identified in the course of project implementation. Action was taken to close projects in the portfolio with a poor performance as they reached their respective closing dates. This was recently the case of both the Private Sector Development project and the Energy Sector Rehabilitation project. The Health and Population project which also had a history of problems was recently restructured to better address the unmet needs of the sector. Action taken in the context of each project is described below.

8. The Social Action project was restructured in 1997 to increase execution through NGOs so that the project could benefit from their capacity and be executed more quickly. Since then the project has improved substantially and has accelerated its construction of social infrastructure. A technical audit of the civil works was completed and its results were satisfactory. The project has also been successful in supporting incomes of the population while broadening the geographic coverage of its operations. Further, the poverty monitoring component of the project has been re-launched. The staff of the national statistical institute (ISTEEBU), whose expertise has been strengthened through tailored training in the context of the project, conducted a household expenditure survey which will serve as a basis for poverty monitoring. Disbursements have therefore also accelerated. The project was further retrofitted in late 1998 to pilot greater participation by beneficiaries in the selection and implementation of community infrastructure sub-projects. Finally, Government contributions of counterpart funds are now sufficient because the Bank has raised the average reimbursement rate for project expenditures.

9. The Health and Population project has suffered from prolonged period of lack of a full fledged manager of the implementation unit, as the previous one moved to a position in the international civil service. This situation delayed the restructuring process and some procurement processes. A new project coordinator has now been recruited. New invitations to bid have been issued for most procurement actions that were delayed, and a study on the management autonomy of hospitals has been carried out with the assistance from an international firm. The construction and rehabilitation of three hospitals have been launched and the resources of the Provincial Health Bureau at the Ministry of Health have been strengthened. The project has also provided strong financial support to the training program for medical personnel.

10. The continuous political turmoil since 1993, significantly delayed the activities of the Water Supply project which was restructured in 1995. A large portion of the project resources was canceled, and the project was limited to the protection of 1,500 spring sources by NGOs and two studies on the water tariffs and on the water supply master plan of Bujumbura. The project however experienced difficulties because of an inefficient project coordinator who was eventually terminated and replaced. Since two years, the project implementation performance has markedly improved. As result, the number of springs to be protected has been increased to 3,000, and the project is also providing support to the government in seeking a private operator under a lease contract for the national electricity company, REGIDESO. The project has been extended for one more year to ensure satisfactory completion of the activities.

11. The Transport Sector project was restructured in 1997 on account of the unstable climate, to limit project objectives to the setting up of a framework for reform of the Roads General Directorate and the execution of road rehabilitation works. These activities were completed satisfactorily by the scheduled closing date of the project, i.e. January 31, 1999. The project was extended for another five months however, to allow for the implementation of an improved financial management system, which had been delayed due to country circumstances, at the Roads General Directorate.

12. The average age of the portfolio is 6.8 years, reflecting the prolonged disruption caused by the political instability since 1993. However, action has been taken to close down projects whose performance did not improve over time. In addition, one of the four operations (Transport Sector) in the portfolio is scheduled for closing by the end of FY99 and one more (Social Action) will close by the end of CY99.

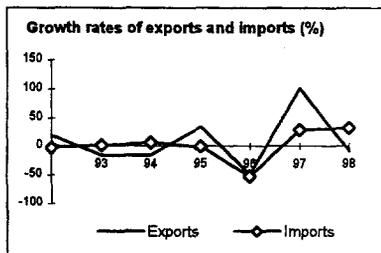
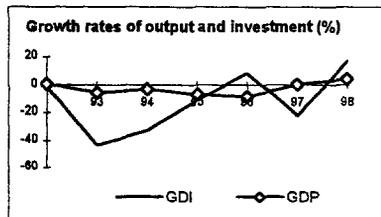
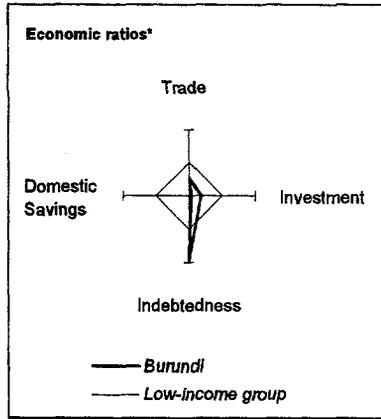
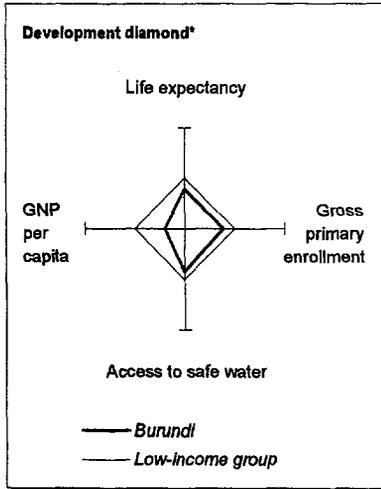
13. The financial management of Bank-financed projects in Burundi improved since the resumption to the disbursements. The government took action to strengthen the financial management of projects by selecting qualified accountants where needed (e.g. Social Action Project) and improving accounting system (e.g. Transport Sector Project). The Bank carried out regular statement of expense reviews thanks to a Resident Mission Financial Management Officer. There were no major problems regarding the use of Special Accounts during the period, and audits were timely completed despite the difficult environment.

14. The steep decline in disbursements to Burundi over the last few years while the country makes every effort to meet its IDA debt obligations in the range of US\$11-14 million per year has caused negative flows. The resumption of a lending program in the context of an interim strategy would help restore conditions for Burundi to secure resources for its reconstruction and development needs, and the implementation would benefit from valuable competencies that were strengthened in the recent past through Bank-financed projects.

## Burundi at a glance

6/30/99

POVERTY and SOCIAL	Burundi	Sub-Saharan Africa	Low-income		
<b>1997</b>					
Population, mid-year (millions)	6.6	612	2,036		
GNP per capita (Atlas method, US\$)	140	510	350		
GNP (Atlas method, US\$ billions)	0.92	311	712		
<b>Average annual growth, 1992-98</b>					
Population (%)	2.6	2.6	2.0		
Labor force (%)	2.7	2.7	2.4		
<b>Most recent estimate (latest year available, 1992-98)</b>					
Poverty (% of population below national poverty line)	..	..	..		
Urban population (% of total population)	8	32	28		
Life expectancy at birth (years)	47	51	59		
Infant mortality (per 1,000 live births)	96	91	82		
Child malnutrition (% of children under 5)	..	..	..		
Access to safe water (% of population)	58	47	69		
Illiteracy (% of population age 15+)	65	42	46		
Gross primary enrollment (% of school-age population)	72	77	93		
Male	76	84	100		
Female	63	69	82		
<b>KEY ECONOMIC RATIOS and LONG-TERM TRENDS</b>					
	<b>1977</b>	<b>1987</b>	<b>1997</b>	<b>1998</b>	
GDP (US\$ billions)	0.55	1.1	0.96	0.95	
Gross domestic investment/GDP	11.2	22.6	8.1	7.8	
Exports of goods and services/GDP	17.6	9.7	10.0	6.0	
Gross domestic savings/GDP	11.5	6.6	3.9	-1.2	
Gross national savings/GDP	10.2	11.3	7.7	3.0	
Current account balance/GDP	..	-11.3	-0.3	-4.8	
Interest payments/GDP	0.1	1.4	1.4	1.3	
Total debt/GDP	8.6	66.1	117.9	119.0	
Total debt service/exports	3.0	41.4	53.1	90.3	
Present value of debt/GDP	..	..	..	..	
Present value of debt/exports	..	..	..	..	
	<b>1977-87</b>	<b>1988-98</b>	<b>1997</b>	<b>1998</b>	<b>1999-03</b>
(average annual growth)					
GDP	3.8	-1.9	0.4	4.5	2.0
GNP per capita	1.0	-4.5	-1.6	1.5	-1.0
Exports of goods and services	5.8	1.4	102.3	-8.6	17.3
<b>STRUCTURE of the ECONOMY</b>					
	<b>1977</b>	<b>1987</b>	<b>1997</b>	<b>1998</b>	
(% of GDP, at market prices)					
Agriculture	63.8	55.1	53.3	49.4	
Industry	14.0	17.1	16.7	19.1	
Manufacturing	9.1	11.5	9.7	11.3	
Services	22.2	27.8	30.0	31.5	
Private consumption	77.3	83.7	81.6	90.1	
General government consumption	11.2	9.7	14.5	11.1	
Imports of goods and services	17.3	25.7	14.2	15.0	
	<b>1977-87</b>	<b>1988-98</b>	<b>1997</b>	<b>1998</b>	
(average annual growth)					
Agriculture	2.8	-1.5	0.6	4.9	
Industry	6.2	-5.2	-0.9	1.8	
Manufacturing	6.1	-6.5	-2.8	2.0	
Services	6.5	-1.0	0.3	2.0	
Private consumption	3.0	-0.8	-3.5	13.1	
General government consumption	-3.9	-2.2	8.4	-14.8	
Gross domestic investment	12.6	-12.7	-22.0	16.8	
Imports of goods and services	5.3	-2.9	29.1	32.1	
Gross national product	3.8	-1.9	0.8	4.6	



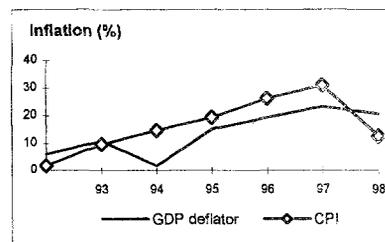
Note: 1998 data are preliminary estimates.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

## Burundi

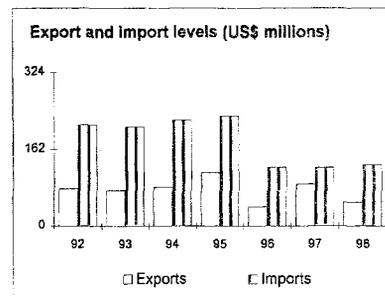
## PRICES and GOVERNMENT FINANCE

	1977	1987	1997	1998
<b>Domestic prices</b>				
<i>(% change)</i>				
Consumer prices	6.8	7.1	31.1	12.6
Implicit GDP deflator	14.3	-3.4	23.3	20.6
<b>Government finance</b>				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	14.6	15.6	14.0
Current budget balance	..	1.1	-2.6	-0.4
Overall surplus/deficit	..	-14.4	-6.6	-5.5



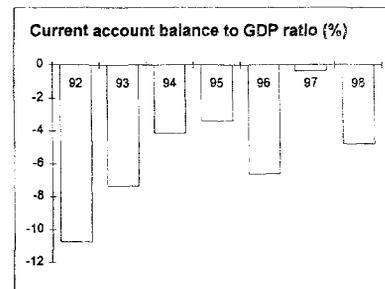
## TRADE

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Total exports (fob)	..	98	87	49
Coffee	..	70	77	39
Tea	..	5	9	9
Manufactures	..	13	1	0
Total imports (cif)	..	198	123	129
Food	..	12	11	10
Fuel and energy	..	29	14	14
Capital goods	..	73	45	49
Export price index (1995=100)	..	85	85	64
Import price index (1995=100)	..	82	95	88
Terms of trade (1995=100)	..	105	89	73



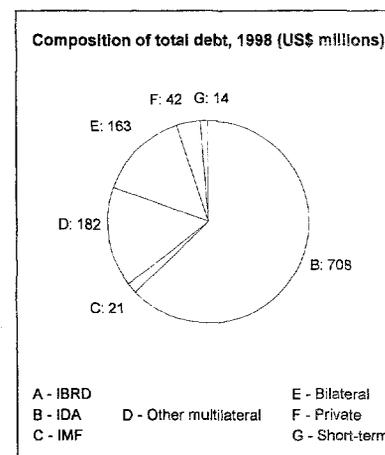
## BALANCE of PAYMENTS

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Exports of goods and services	96	110	96	57
Imports of goods and services	95	291	136	142
Resource balance	2	-181	-40	-85
Net income	-14	-28	-11	-10
Net current transfers	..	155	87	89
Current account balance	..	-128	-3	-45
Financing items (net)	..	126	-12	36
Changes in net reserves	-46	2	16	9
<b>Memo:</b>				
Reserves including gold (US\$ millions)	96	61	117	108
Conversion rate (DEC, local/US\$)	90.0	123.6	352.4	447.8



## EXTERNAL DEBT and RESOURCE FLOWS

	1977	1987	1997	1998
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	47	748	1,129	1,130
IBRD	0	0	0	0
IDA	7	252	683	708
Total debt service	3	47	53	55
IBRD	0	0	0	0
IDA	0	4	9	12
Composition of net resource flows				
Official grants	14	32	..	..
Official creditors	16	125	58	34
Private creditors	0	-8	0	42
Foreign direct investment	0	1	..	..
Portfolio equity	0	0	..	..
World Bank program				
Commitments	13	13	0	0
Disbursements	3	43	46	32
Principal repayments	0	2	4	7
Net flows	2	41	42	25
Interest payments	0	2	5	5
Net transfers	2	39	37	20



## Burundi Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1992-97	Sub-Saharan Africa	Low-income
<b>POPULATION</b>					
Total population, mid-year (millions)	3.7	4.7	6.4	612.4	2,035.6
Growth rate (% annual average)	0.9	2.8	1.9	2.2	1.7
Urban population (% of population)	3.2	5.2	8.1	32.3	28.4
Total fertility rate (births per woman)	6.8	6.8	6.3	5.5	4.0
<b>POVERTY (a)</b>					
<i>(% of population)</i>					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
<b>INCOME</b>					
GNP per capita (US\$)	110	240	140	510	350
Consumer price index (1995=100)	15	44	166	118	122
Food price index (1995=100)	..	55	100	..	..
<b>INCOME/CONSUMPTION DISTRIBUTION (a)</b>					
Gini index	..	..	..	..	..
Lowest quintile (% of income or consumption)	..	..	..	..	..
Highest quintile (% of income or consumption)	..	..	..	..	..
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure</b>					
Health (% of GDP)	..	..	1.0	2.5	1.0
Education (% of GNP)	..	2.5	3.1	4.3	..
Social security and welfare (% of GDP)	0.6	..	1.4	..	..
<b>Net primary school enrollment rate</b>					
<i>(% of age group)</i>					
Total	..	41	52	..	..
Male	..	47	56	..	..
Female	..	36	48	..	..
<b>Access to safe water</b>					
<i>(% of population)</i>					
Total	..	23	58	47	69
Urban	..	33	97	74	80
Rural	..	22	55	32	66
<b>Immunization rate</b>					
<i>(% under 12 months)</i>					
Measles	..	45	50	58	74
DPT	..	27	63	53	76
Child malnutrition (% under 5 years)	..	..	38	..	..
<b>Life expectancy at birth</b>					
<i>(years)</i>					
Total	44	47	42	51	59
Male	42	45	41	49	58
Female	46	49	44	52	60
<b>Mortality</b>					
Infant (per thousand live births)	137	118	119	91	82
Under 5 (per thousand live births)	228	193	200	147	118
<b>Adult (15-59)</b>					
Male (per 1,000 population)	532	489	550	428	274
Female (per 1,000 population)	432	400	491	375	255
Maternal (per 100,000 live births)	..	..	..	..	..

1999 World Development Indicators CD-ROM, World Bank

(a) comparable income distribution data unavailable

## Burundi - Key Economic Indicators

Indicator	Actual				Estimate	
	1994	1995	1996	1997	1998	1999
<b>National accounts</b>						
<b>(as % GDP at current market prices)</b>						
Gross domestic product	100	100	100	100	100	100
Agriculture <sup>a</sup>	41	42	52	48	45	43
Industry <sup>a</sup>	20	17	14	15	17	17
Services <sup>a</sup>	27	28	27	27	29	30
Total Consumption	108	105	98	96	101	101
Gross domestic fixed investment	11	10	12	7	7	8
Government investment	9	8	10	5	5	6
Private investment	2	1	2	3	3	3
(includes increase in stocks)						
Exports (GNFS) <sup>b</sup>	10	13	6	10	6	5
Imports (GNFS)	29	27	15	14	15	15
Gross domestic savings	-8	-5	2	4	-1	-1
Gross national savings <sup>c</sup>	7	7	5	8	3	3
<b>Memorandum items</b>						
Gross domestic product (US\$ million at current prices)	923	1000	900	957	949	1060
Gross national product per capita (US\$)	160	150	140	140	140	140
<b>Real annual growth rates</b>						
<b>(%, calculated from 1980 prices)</b>						
Gross domestic product at market prices	-3.1%	-7.0%	-8.6%	0.4%	4.5%	4.7%
Gross Domestic Income	0.3%	-8.4%	-8.5%	-1.5%	3.3%	1.1%
<b>Real annual per capita growth rates (% , calculated from 1980 prices)</b>						
Gross domestic product at market prices	-5.5%	-9.3%	-11.0%	-2.0%	1.4%	1.7%
Total consumption	1.4%	-11.6%	-16.3%	-4.9%	7.5%	0.4%
Private consumption	2.5%	-11.3%	-15.9%	-5.8%	9.8%	1.1%

## Burundi - Key Economic Indicators (Continued)

Indicator	Actual				Estimate	
	1994	1995	1996	1997	1998	1999
<b>Balance of Payments</b> (US\$m)						
Exports (GNFS) <sup>b</sup>	95	129	50	96	57	55
Merchandise FOB	81	112	40	87	49	46
Imports (GNFS) <sup>b</sup>	264	273	137	136	142	156
Merchandise FOB	173	176	100	98	103	112
Resource balance	-168	-144	-87	-40	-85	-101
Net current transfers (including official current transfers)	269	240	71	87	89	92
Current account balance (after official capital grants)	-19	-5	-40	9	-33	-36
Net private foreign direct investment	0	1	0	0	0	0
Long-term loans (net)	41	29	27	15	20	29
Official	25	4	7	58	34	4
Private	16	25	20	-43	-14	25
Other capital (net, including errors and omissions)	25	-14	-46	-39	4	-8
Change in reserves <sup>d</sup>	-48	-12	58	16	9	16
<i>Memorandum items</i>						
Resource balance (% of GDP at current market prices)	-18.2%	-14.4%	-9.6%	-4.2%	-9.0%	-9.5%
Real annual growth rates (1980 prices)						
Merchandise exports (FOB)	-26.6%	32.6%	-51.9%	90.8%	-25.5%	4.6%
Primary	-24.8%	34.9%	-52.3%	111.9%	-27.1%	4.7%
Manufactures	-39.1%	19.1%	-36.3%	-87.7%	3.0%	2.2%
Merchandise imports (CIF)	4.3%	-3.6%	-48.1%	6.7%	13.5%	7.7%
<b>Public finance</b> (as % of GDP at current market prices) <sup>e</sup>						
Current revenues	18.5	18.9	15.6	15.6	14.0	14.5
Current expenditures	16.7	18.0	17.6	18.2	14.4	12.5

### Burundi - Key Economic Indicators (Continued)

Indicator	Actual				Estimate	
	1994	1995	1996	1997	1998	1999
Current account surplus (+) or deficit (-)	2	1	-2	-3	0	2
Capital expenditure	8	8	10	4	5	6
Foreign financing	7	6	5	3	3	5
<b>Monetary indicators</b>						
M2/GDP (at current market prices)	22	20	21	19	17	17
Growth of M2 (%)	35	-4	14	10	12	17
Private sector credit growth / total credit growth (%)	31	79	42	9	78	93
<b>Price indices (1980 =100)</b>						
Merchandise export price index	112	117	87	99	75	68
Merchandise import price index	113	123	125	117	108	109
Merchandise terms of trade index	98	96	70	85	70	62
Real exchange rate (US\$/LCU) <sup>f</sup>	66	71	76	66	68	70
<b>Real interest rates</b>						
Consumer price index (% growth rate)	14.8	19.3	26.4	31.1	12.6	8.0
GDP deflator (% growth rate)	1.7	15.2	19.4	23.3	20.6	12.0

- a. GDP components are estimated at factor cost.  
b. "GNFS" denotes "goods and nonfactor services."  
c. Includes net unrequited transfers excluding official capital grants.  
d. Includes use of IMF resources.  
e. Should indicate the level of the government to which the data refer.  
f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

### Burundi - Key Exposure Indicators

Indicator	Actual				Estimate	
	1994	1995	1996	1997	1998	1999
Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>	1183	1240	1198	1248	1303	1344
Net disbursements (US\$m) <sup>a</sup>	22	-5	-2	50	68	49
Total debt service (TDS) (US\$m) <sup>a</sup>	45	62	63	43	41	53
Debt and debt service indicators (%)						
TDO/XGS <sup>b</sup>	1146.4	890.1	2113.7	1249.4	2126.2	2292.1
TDO/GDP	128.1	123.9	133.1	130.4	137.2	126.7
TDS/XGS	43.7	44.4	111.0	42.8	66.9	90.3
Concessional/TDO	..	..	93.8	94.6	92.7	90.0
IBRD exposure indicators (%)						
IBRD DS/public DS	..	..	..	..	..	..
Preferred creditor DS/public DS (%) <sup>c</sup>	70.3	49.8	63.1	91.7	97.5	75.1
IBRD DS/XGS	..	..	..	..	..	..
IBRD TDO (US\$m) <sup>d</sup>	..	..	..	..	..	..
Of which present value of guarantees (US\$m)						
Share of IBRD portfolio (%)	..	..	..	..	..	..
IDA TDO (US\$m) <sup>d</sup>	556	591	641	683	708	715
IFC (US\$m)						
Loans						
Equity and quasi-equity /c						
MIGA						
MIGA guarantees (US\$m)						

- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short term capital.
- b. "XGS" denotes exports of goods and services, including workers' remittances.
- c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF Bank for International Settlements.
- d. Includes present value of guarantees.
- e. Includes equity and quasi-equity types of both loan and equity instruments.

**Burundi - Selected Indicators of  
Bank Portfolio Performance and Management**

<b>Indicator</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
<i>Portfolio Assessment</i>				
Number of Projects under implementation <sup>a</sup>	15	10	6	4
Average implementation period (years) <sup>b</sup>	5.7	5.7	6.2	6.8
Percent of problem projects <sup>a, c</sup>				
by number	40.00	70.00	50.00	0.00
by amount	30.35	75.20	48.57	0.00
Percent of projects at risk <sup>a, d</sup>				
by number	40.00	100.00	66.67	0.00
by amount	40.66	100.00	58.23	0.00
Disbursement ratio (%) <sup>e</sup>	11.37	8.76	16.00	50.70
<i>Portfolio Management</i>				
CPPR during the year (yes/no)	No	No	No	No
Supervision resources (total US\$)	675.61	347.35	395.43	287.91
Average Supervision (US\$/project)	45.04	34.73	65.90	47.98

<b>Memorandum item</b>	<b>Since FY80</b>	<b>Last five FYs</b>
Projects evaluated by OED		
by number	37	13
by amount (US\$ millions)	559.50	218.40
Percent rated U or HU		
by number	29.73	46.15
by amount	40.97	41.99

- a. As shown in the Annual Report on Portfolio Performance (except for current FY)
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: investment projects only.

**Burundi - Bank Group Program Summary, FY 2000-2001**  
**Proposed IBRD/IDA Base-Case Lending Program, FY 2000-2001<sup>a</sup>**

<i>FY</i>	<i>Project</i>	<i>US\$(M)</i>	<i>Strategic rewards<sup>b</sup> (H/M/L)</i>	<i>Implementation<sup>b</sup> risks (H/M/L)</i>
2000	BURSAP II	12.0	H	L
	EERC	30.0	H	M
	<b>Subtotal</b>	<b>42.0</b>		
2001	BURTIP R. EMPLOY.	30.0	H	M
	LIFT (GUARANTEE)	5.0	H	L
	<b>Subtotal</b>	<b>35.0</b>		

a. This table represents the proposed program for the next two fiscal years.

b. For each project, indicate whether the strategic rewards and implementation risks are expected to be high (H), moderate (M), or low (L).

## Burundi - Summary of Nonlending Services

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience<sup>a</sup></i>	<i>Objective<sup>b</sup></i>
<b>Recent completions</b>				
Economic Update	98		B,G,D	KG
Poverty Assessment	99		G,D,PDS,B	KG,PS,PD
<b>Planned</b>				
PSD/Privatization (Initial in FY99)	00			
Education/training (Initiated in FY99)	00			
Public Expenditure Review	01		G,D,B,PDS	KG,PS,PD
Economic Update (Post conflict Reconstruction/Dev.Issues) <i>c/</i>	01		G,D,PDS,B	KG,PS,PD
Telecoms Assessment/restructuring	02		G,B	KG,PS
Agriculture (Initiated in FY99)				

- a. Government (G), donor (D), Bank (B), public dissemination (PDS).  
 b. Knowledge generation (KG), public debate (PD), problem-solving (PS).  
 c. Assuming increase in operational budget in FY01

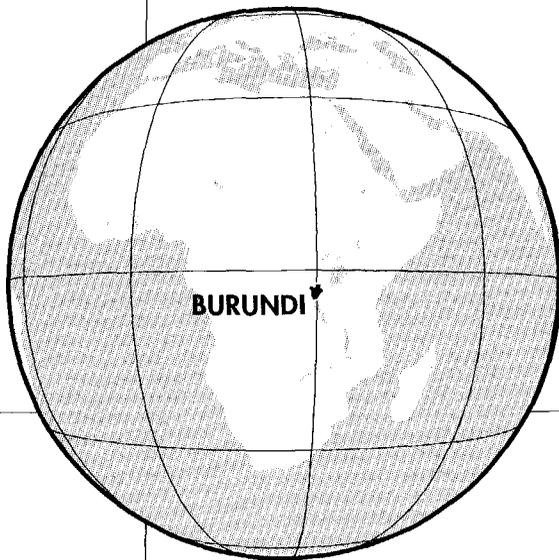
### Status of Bank Group Operations in Burundi Operations Portfolio

Project ID	Fiscal Year	Borrower	Purpose	Original Amount in US\$ Millions				Difference Between expected and actual disbursements a/		Last PSR Supervision Rating b/																													
				IBRD	IDA	Cancel.	Undisb.	Orig	Frm Rev'd	Dev Obj	Imp Prog																												
Number of Closed Projects: 43																																							
<u>Active Projects</u>																																							
BI-PE-204	1990	MINISTRY OF PUBLIC WORKS	TRANSPORT SECTOR	0.00	43.20	6.59	1.60	6.15	-1.37	S	S																												
BI-PE-217	1992	GOVERNMENT	WATER SUP SECTOR	0.00	32.70	24.32	2.49	26.65	2.34	S	S																												
BI-PE-227	1993	GOVERNMENT	SOCIAL ACTION	0.00	10.40	0.00	2.86	2.90	0.00	S	S																												
BI-PE-216	1995	GOVERNMENT	HEALTH/POPULATION II	0.00	21.30	0.00	13.99	9.27	0.00	S	S																												
Total				0.00	107.60	30.91	20.94	44.97	.97																														
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;"><u>Active Projects</u></th> <th style="text-align: center;"><u>Closed Projects</u></th> <th style="text-align: center;"><u>Total</u></th> </tr> </thead> <tbody> <tr> <td>Total Disbursed (IBRD and IDA):</td> <td style="text-align: right;">55.77</td> <td style="text-align: right;">539.97</td> <td style="text-align: right;">595.74</td> </tr> <tr> <td>  of which has been repaid:</td> <td style="text-align: right;">0.00</td> <td style="text-align: right;">36.69</td> <td style="text-align: right;">36.69</td> </tr> <tr> <td>Total now held by IBRD and IDA:</td> <td style="text-align: right;">76.69</td> <td style="text-align: right;">485.11</td> <td style="text-align: right;">561.80</td> </tr> <tr> <td>Amount sold :</td> <td style="text-align: right;">0.00</td> <td style="text-align: right;">8.46</td> <td style="text-align: right;">8.46</td> </tr> <tr> <td>  Of which repaid :</td> <td style="text-align: right;">0.00</td> <td style="text-align: right;">8.46</td> <td style="text-align: right;">8.46</td> </tr> <tr> <td>Total Undisbursed :</td> <td style="text-align: right;">20.94</td> <td style="text-align: right;">2.52</td> <td style="text-align: right;">23.46</td> </tr> </tbody> </table>													<u>Active Projects</u>	<u>Closed Projects</u>	<u>Total</u>	Total Disbursed (IBRD and IDA):	55.77	539.97	595.74	of which has been repaid:	0.00	36.69	36.69	Total now held by IBRD and IDA:	76.69	485.11	561.80	Amount sold :	0.00	8.46	8.46	Of which repaid :	0.00	8.46	8.46	Total Undisbursed :	20.94	2.52	23.46
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- a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.  
b. Following the FY94 Annual Review of Portfolio performance (ARPP), a letter based system was introduced (HS = highly Satisfactory, S = satisfactory, U = unsatisfactory, HU = highly unsatisfactory): see proposed Improvements in Project and Portfolio Performance Rating Methodology (SecM94-901), August 23, 1994.

Note:  
Disbursement data is updated at the end of the first week of the month.



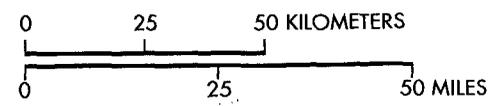
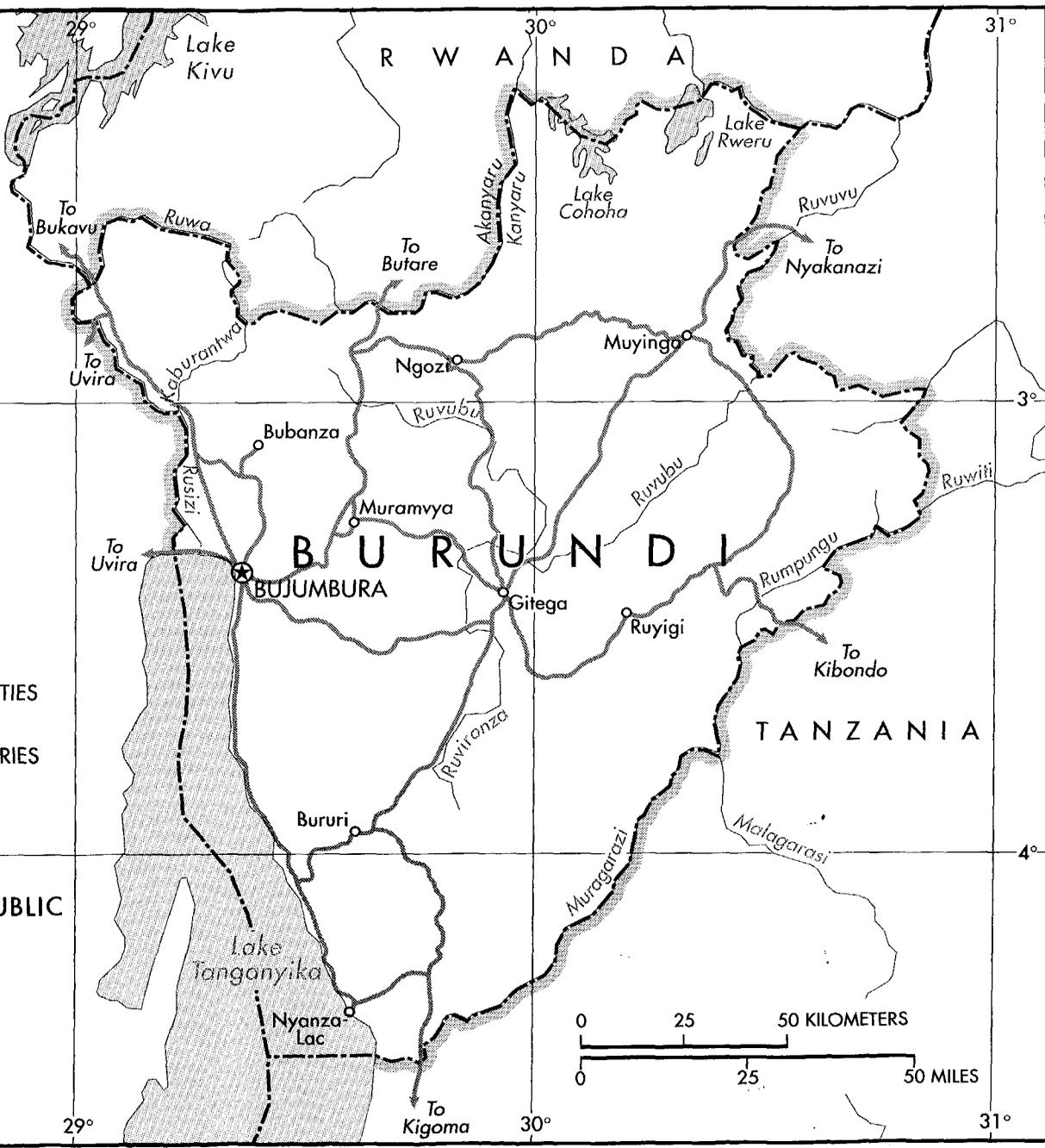
BURUNDI

# BURUNDI

- ROADS
- SELECTED TOWNS AND CITIES
- ⊗ NATIONAL CAPITAL
- - - INTERNATIONAL BOUNDARIES
- ~ RIVERS

## DEMOCRATIC REPUBLIC OF CONGO

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FEBRUARY 1999

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