

Country Study

Prepared for the project

***Southern Perspectives on
Reform of the International
Development Architecture***

Burundi

**Dismas Baransaka
Astère Girukwigomba**

November 2007

This paper was written by:
Dismas Baransaka (disbaransaka@yahoo.fr)
Astère Girukwigomba (agirukwigomba@yahoo.fr)

This paper was prepared for the project ***Southern Perspectives
on Reform of the International Development Architecture***
coordinated by The North-South Institute.

The North-South Institute would like to thank the following for their
valuable support for the program:
Department for International Development (DFID), UK
Ministry for Foreign Affairs, Sweden
Ministry of Foreign Affairs, Norway
Canadian International Development Agency (CIDA)



The North-South Institute
L'Institut Nord-Sud

Table of contents

	Page
Acronyms and abbreviations	4
Summary and recommendations	6
I. Introduction	11
II. Political context	11
III. Economic environment	12
IV. The current international development architecture	17
V. Relative importance, influence and comparative advantage of the international development architecture	25
VI. International and regional factors	29
VII. Leadership and policy ownership	31
VIII. Policy on aid to Rwanda: a good example of ownership	35
IX. Recommendations	39
Explanatory notes	42
Documents consulted	44

List of acronyms and abbreviations

ABUTIP	Agence Burundaise pour les Travaux d'Intérêt Public [Burundian agency for public works]
ACP	Africa, Caribbean, Pacific
ADB	African Development Bank
ADF	African Development Fund
AIDS	Acquired immune deficiency syndrome
BRB	Banque de la République de Burundi [Bank of the Republic of Burundi]
Capital exp.	Capital expenditure
CCI	Centre de Commerce International [International Trade Centre]
CNDD - FDD	Conseil National pour la Défense de la Démocratie - Forces de Défense de la Démocratie [National council for the defence of democracy – Forces for the defence of democracy]
COMESA	Common Market of Eastern and Southern African States
Current exp.	Current expenditure
EAC	East African Community
EC	European Communities
EDF	European Development Fund
FBU or BIF	Burundian franc
FDI	Foreign Direct Investment
FNL-Palipehutu	Front National de Libération, Parti pour la Libération du Peuple Hutu [National liberation front – Hutu people's liberation party]
GDP	Gross domestic product
HIPC	Heavily Indebted Poor Countries
HIV	Human immunodeficiency virus
IDA	International Development Association
IDEC	Institut de Développement Économique [Economic development Institute]
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
NGO	Non-governmental organization
Non-budget exp.	Non-budget expenditure
NSI	North-South Institute, Ottawa, Canada
OIF	Association Internationale pour la Francophonie [International association for La Francophonie]
OLUCOME	Organisation de Lutte contre la Corruption et les Malversations Économiques [Organization to combat corruption and economic misappropriation]
PRSP	Poverty Reduction Strategy Papers
SCEP	Service Chargé des Entreprises Publiques [Public corporation agency]
SOSUMO	Société Sucrière du MOSO [MOSO sugar corporation]
UNAIDS	Joint United Nations Program on HIV/AIDS
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations International Children's Emergency Fund

UNIDO	United Nations International Development Organization
UNO	United Nations Organization
US\$	United States dollar
WB	World Bank
WTO	World Trade Organization

Summary and recommendations

1. This study was initiated by Canada's North-South Institute in order to seek contributions from the developing countries designed to influence the proposed reform of the international development architecture.

The "international development architecture" is defined as "the world's agencies, institutions and systems for managing the transfer of resources (finance and expertise) to, and development relationships with, low-income countries".

2. Burundi was selected with four other southern countries — Nigeria, Bolivia, Sri Lanka and Vietnam — as the subject of a case study.
3. The study was conducted in two stages. First, Chapters I to IV were written using data collected from various reports and documents describing the economy of Burundi and donors' activities in that country. The second part — Chapters V to VIII — was based on interviews conducted with a questionnaire. The structure of the study is as follows: Chapter I is an introduction. Chapters II and III describe the political and economic environments respectively. Chapter IV outlines the current international architecture of Burundi. Chapter V describes the relative importance, influence and comparative advantage of the international development architecture. Chapter VI discusses international and regional factors. Chapter VII addresses policy ownership and leadership. Chapter VIII presents recommendations.

4. Main findings and conclusions

Politically Burundi is firmly committed to a return to peace and stability. The signing of the peace and reconciliation agreements, and the holding of democratic elections, provide confirmation of the peace dynamic. As a result, security has generally prevailed under authority derived from the ballot box. However, also to be noted are a retreat from law and order and the alarming rise of corruption.

5. Economically the sharp contraction resulting from the combined effects of the war and the embargo has broadened and deepened poverty in Burundi. The poverty threshold rose from 35 per cent in 1992 to 68 per cent in 2002.
6. Despite the return of significant donor funding, in seeking to achieve a high growth rate and a significant and rapid reduction in poverty, Burundi faces the challenges described below.
 - 6.1. Peace and stability are essential prerequisites for any development undertaking. The civil war that ravaged Burundi was a tragic reminder that no lasting improvement is possible without stability. The current situation could be described as stable but fragile, both locally and regionally.
 - 6.2. Another major challenge is the acquisition of a shared vision for development. The current weakness of the country's institutions prevents progress in building a consensus among society's leaders on this central issue.
 - 6.3. There are other economic challenges facing Burundi: the development and

maintenance of a stable macroeconomic environment to encourage investment; withdrawal of the government from production activities and promotion of the private sector; promotion of non-traditional exports; debt reduction; development of human capital; measures to combat AIDS; and reduction of the population growth rate.

7. Positive and negative economic and social change is largely attributable to the availability, or otherwise, of donor resources, which generally take the form of loans or grants. The fate of Burundi's economy also depends, of course, on the country's ability to mobilize its own resources.
 - 7.1. Burundi's external debt is essentially multilateral and low-cost. It represented 150 per cent of GDP in 2005, with a debt service to exports ratio of 88 per cent. Without debt reduction measures under the Heavily Indebted Poor Countries (HIPC) initiative, the current level of debt is not sustainable. More importantly, even when the debt has been erased, it will be vital to increase exports significantly if Burundi is to hope to continue to obtain new loans, even at favourable rates.
 - 7.2. Subsidies from the European Union and bilateral assistance normally represent almost 70 per cent of total aid to Burundi.
 - 7.3. Domestic mobilization of local funding varies annually between 14 and 20 per cent of GDP. This rate is considered fairly high in relation to comparable economies, but in the final analysis, it represents only 40 to 50 per cent of Burundi's annual budget requirements.
8. Given the important contribution of outside resources to Burundi's economy, the influence of donors — particularly the Bretton Woods institutions — is huge, and extends to both the economic and the political sector. Thus, the shaping of economic policy, progress towards democracy, human rights, and the reduction of corruption are all areas in which donors wield considerable influence. The multilateral institutions do not differ significantly from the bilateral agencies, at least in the sense that Western donors and the African Development Bank both fall short in terms of economic strategy.
9. Policy ownership is generally weak, largely because of the extreme dependence on outside funding, but also because of the severe institutional weakness. Policies and strategies thus remain heavily influenced by donors. There are a few marginal instances in which Burundi has resisted conditions, with donor assent. Overall, however, major initiatives have been the sole preserve of donors, both during the adjustment period and during the current HIPC phase. Nevertheless, the example of Rwanda demonstrates that, under similar conditions of dependence on outside aid, it is possible for local opinion to be reflected in economic orientations. It is essentially a matter of leadership.

10. **Recommendations**

The following recommendations are addressed both to Burundi and to donors.

- 10.1. Burundi must assume responsibility for its own economic destiny. To do so, the government must acquire a shared vision for development reflecting a broad

consensus of opinion leaders: political parties, civil society, the media, researchers, the private sector and so on. A search for consensus did take place when adjustment policies began to increase social problems.

More recently still, but at the political level in this case, the political protagonists in Burundi have negotiated shared rules to define political competition. The government should assume the lead role in this operation and involve all interested parties. Donors could fund this initiative. In these circumstances, consultations on the Poverty Reduction Strategy Papers (PRSP) would be greatly facilitated.

- 10.2. Capacity building is urgently needed. Capacities already exist, but are not always adequate. However, available capacity must be used, and those employed elsewhere must be encouraged to return. In addition and above all, large-scale training programs are required.

The major problem that encourages the few skilled resources that do exist to leave the country is related to pay. This can be increased substantially by making partial use of the government's budget, but also by using technical assistance resources. The long-term cost of having Burundian doctors and teachers stay away is much higher than the cost of increasing their pay.

- 10.3. There is a need to generate more significant national resources to fund development. This offers the strongest basis for policy ownership.

To that end, three avenues are worth exploring.

- Private saving should be vigorously encouraged. Recent experiments by private insurance companies to promote pension savings products are significant. The response has been very good, particularly among low-wage earners, and this is very encouraging. With appropriate tax incentives and more participation by employers, private saving can be significantly improved. It is estimated that it could reach three per cent of GDP (2005).
- Free education and health benefits should be restricted to segments of the population below defined income thresholds, beyond which a contribution should be mandatory.
- Lastly, a relatively large tax base is significantly undertaxed because of the informal nature of the economy. With a more innovative and effective tax and customs administration, it is possible to improve tax proceeds and thus reduce the level of external dependence. Some estimates suggest there is a potential for improvement of budget revenue (2005 base) by 30 to 40 per cent. The increase would come mainly from broadening of the tax base to include the informal economy.

- 10.4. Innovation is needed in the area of regional cooperation. In the case of Burundi, the right of settlement, with appropriate precautions, appears to be a better response to the challenges posed by current developments in its economy.

The export of agricultural labour to neighbouring countries that are underpopulated can be a win-win operation, as long as it constitutes the use of resources that are currently “unoccupied” — land lying fallow on the one hand, and landless human resources on the other. This is therefore an avenue worth exploring in the interests of all concerned.

In the recent past, these operations were carried out in sugar cane plantations (Uganda), in sisal (Tanzania) and in mining (Katanga, DRC). With a little political will, the obstacles can be overcome.

- 10.5. In the dialogue with donors, some aid conditions seem to generate positive effects — efforts to eliminate corruption, for example — and should be systematically incorporated.

Reducing corruption should be a concrete program, incorporating periodic evaluation. Laws and institutions should be strengthened. An independent audit should be carried out periodically to assess the level of corruption. Beyond a certain threshold, external resources should be brought to bear through institutions independent of the government, the private sector and the NGOs. In this connection, it is also useful to consider public funding of political parties, which could reduce the temptations of major corruption.

- 10.6. In Burundi’s current circumstances, specifically with its weak institutional capacity, the “enclave project” approach should be adopted for reasons of efficiency. This would make it possible to recruit and motivate experienced managers.

In this way, it is easy to achieve the objectives of the project and thereby provide the public with its associated benefits. It could even be termed imperative, given the new procedures for the implementation of EU programs.

Currently, unused resources are lost at the end of the programming period. This represents a huge penalty that should be avoided.

- 10.7. The privatization approach should be revisited. All the successful public enterprises should be turned over to the private sector, and the resulting revenues used to promote other productive activities, particularly for export purposes. The government should take part.

Admittedly the Burundian private sector has limited financial capacity, but it can help to buy back the public stake in some enterprises, thereby releasing savings that can be reinvested in other sectors. These resources should be earmarked, and perhaps even reserved exclusively, for export sectors.

There is still a potential for development in the tea sector. Flowers, fruits and vegetables could also be promoted with the help of these savings, now being “misused”. Since these sectors require both significant resources and know-how that are often costly for the private sector, the government should assist and lead the way for the private sector to follow.

- 10.8. To allow better development planning, financial aid should be more "predictable". The example set by the European Union in its relations with the Africa, Caribbean, Pacific (ACP) countries should be followed both bilaterally and by the other multilateral agencies.
- 10.9. The dominance of funding of the social sectors over that of the productive sectors raises the problem of the *sustainability* of the activities thus funded. Some infrastructure — schools, health centres, roads — is subsequently rehabilitated by new external aid resources after a few years of use. This is true not only of damage to the economy due to war, but is also an historic and repetitive reality through all the years of external cooperation in Burundi.

This seems to indicate fundamentally that resource allocation priorities are not oriented towards expansion of the productive base. The current processes designed to reduce poverty levels do not seem to be correcting this major flaw in any way.

- 10.10. Except where security conditions hardly allow it, the cutting of financial assistance to countries in conflict is a harsh penalty for their populations. Sometimes outside agencies have a mind to penalize governments, but often end up penalizing populations. Financial assistance should continue through non-governmental organizations and the private sector.
- 10.11. The African Development Bank (ADB) should allocate major resources to the establishment of a centre for research and analysis of African economies that would constitute genuine value added in relation to the contributions from other institutions, like the World Bank. The ADB should also have more resources for project funding, an area in which it has shown some ability to act independently.

I Introduction

11. This study was initiated by Canada's North-South Institute in order to seek contributions from the developing countries designed to influence the proposed reform of the international development architecture.

The "international development architecture" is defined as "the world's agencies, institutions and systems for managing the transfer of resources (finance and expertise) to, and development relationships with, low-income countries".

12. Burundi was selected with four other Southern countries — Nigeria, Bolivia, Sri Lanka and Vietnam — as the subject of a case study.
13. After a brief survey of the political context in Burundi, the study describes the economic environment and the major challenges that mark the road to high, sustainable growth and a significant reduction in poverty.

The third chapter is an analysis of the current international development architecture of Burundi. The fourth addresses the institutions of the aid architecture, and the types of funding. The fifth chapter examines the relative importance, influence and comparative advantage of the international development architecture. The sixth is an analysis of international and regional factors. The seventh describes the country's leadership and ownership of policy and reforms. The eighth is an account of the Rwandan experience. Lastly, the ninth explores a few recommendations related to the study.

II Political context

14. Burundi recently emerged from more than 10 years of civil war. Nearly 300,000 died and about one million were displaced within Burundi or fled to other countries as refugees. Emergence from the crisis took the form of the signing of the Peace and Reconciliation Agreement by some 20 parties and armed movements.

Under the agreement, a transitional government was put in place whose key tasks were to end the hostilities, reform the security forces and hold elections.

15. Elections were held from May to July 2005, and were won by the Conseil National pour la Défense de la Démocratie-Forces de Défense de la Démocratie (CNDD-FDD), the main armed branch of the rebellion. Pierre Nkurunziza was elected President of the Republic and sworn in on August 26, 2005. Burundi and the international community hailed its emergence from the crisis as a success.
16. The new CNDD-FDD power largely dominated the country's institutions: the National Assembly, the Senate, the government and the judiciary. In general the country's new leaders had little experience in political and economic management. Appointments attached more importance to political loyalty than to competence or merit, which is not likely to strengthen the institutions.
17. Security largely prevails in Burundi, despite the fact that an armed movement, the Front National de Libération, Parti pour la Libération du Peuple Hutu (FNL Palipehutu), still has not begun to implement the content of a ceasefire agreement signed in September

2006 in Dar es Salaam. People travel and go about their business fairly peaceably. The integration of former rebels into the army is proceeding satisfactorily, as is the demobilization of those who were not selected for integration. However, reintegration of the latter into civilian life may ultimately cause problems, given the shortage of job opportunities.

18. Under the CNDD-FDD regime, the rule of law generally lost ground. Human rights were flouted. Reports by credible independent agencies, and even the UN, told of extrajudicial killings in Muyinga and Kinama. Members of civil society and the media were imprisoned for political offences.

Opposition officials elected at the *commune* or district level were improperly removed from office and replaced by prominent members of the party in power. Torture remained a common practice with the police services. Much more seriously, the former president, Domitien Ndayizeye, who had passed the torch to the current President and his Vice-President, A.M. Kadege, and five co-accused were imprisoned in August 2006, allegedly for attempting a coup.¹

19. The opinion shared by informed analysts in Burundi was that these jailings were a thinly veiled attempt by the authorities to silence all dissidents. The objective of the party in power was apparently to prevent the emergence of political opposition in the media or civil society.
20. Corruption reached alarming proportions. Corruption cases were reported by the Organisation de Lutte contre la Corruption et les Malversations Économiques (OLUCOME), an organization set up to combat corruption and economic misappropriation. Among the sectors most affected were public contracts. Two senior officials of the party in power accused each other of corruption and influence peddling.

The World Bank made release of a portion of funding subject to an audit of the sale of a presidential aircraft to a bidder who had offered US\$2 million less than another bidder. The audit was conducted by an independent firm that found that the sale was in violation of the public contracting rules, and that the sale price was at least US\$3 million less than the estimate by experts retained to assess the value of the aircraft.

Distribution of sugar was reserved almost exclusively to merchants with connections to the party in power. The result was poor distribution and price increases.²

III Economic environment

21. The economy of Burundi is fragile both because of the effects of the prolonged civil war and because of deep-seated structural factors.
22. The war and the embargo combined to shrink Burundi's economy by 35 per cent. Per capita income collapsed, from US\$210 in 1992 to less than US\$100 in 2005. The level of investment fell from 15 per cent of GDP in 1992 to less than six per cent in 2000. Official aid fell sharply, from US\$320 million a year in 1992 to less than US\$100 million in 2000. The internal and external deficits led to accelerated inflation and an abrupt and massive loss of value for the Burundian franc, its rate against the dollar falling by almost 500 per cent over the 12 years from 1992 to 2004.

For the first time in its history, Burundi accumulated arrears of payments to its external creditors totalling US\$178 million in 2004.

23. Against a backdrop of this serious deterioration in the economy, poverty grew worse and became more widespread. The population living below the poverty line almost doubled to 68 per cent between 1992 and 2002. Life expectancy fell from 51 in 1992 to 42 in 2005. Gross school attendance fell from 67.6 per cent in 1992 to 42 per cent in 1996, rebounding to almost 70 per cent in 2005. The vaccination coverage rate of 80 per cent in 1992 fell back to 55.3 per cent in 1997 before recovering to 78.6 per cent in 2004. Access to drinking water deteriorated, while HIV/AIDS spread in both urban and rural communities.
24. If the country is to have any hope of high growth and a rapid and significant reduction in poverty, the main challenges it faces are the securing of lasting peace and security, the development of stable institutions committed to development, the development and maintenance of a macroeconomic environment favourable to investment, disengagement of the state from the production sector and promotion of the private sector, the promotion of non-traditional exports, reduced indebtedness, the development of human capital, the battle against AIDS, and reduction of the rate of population increase.
25. Peace and security are prerequisites for any development venture. The civil war that ravaged Burundi led to major setbacks both in production and in terms of economic reform. This tragic period reminds us that lasting improvement is not possible without stability. An important step towards stability was taken with the successful holding of elections, but much remains to be done. First, the armed faction known as the FNL-Palipehutu persists, having not yet made peace. It is essential that this movement accede to the peace agreements and take part in the reconstruction process. The incorporation into the army of previously rebellious elements, and demobilization, are delicate processes that will take time to consolidate. The existence of numerous demobilized fighters without stable employment is a potential source of insecurity if the political management of power leads to excesses and a perception grows that the rule of law is not being respected. This is a threat that needs to be monitored, particularly as disarmament has yet to begin in any serious way. In addition, the social and economic reintegration of refugees, who are returning in large numbers, and displaced persons remains a necessary condition for the re-establishment of a lasting peace.

Lastly, it should be said that stability in Burundi also depends on security developments in the Democratic Republic of Congo, Burundi's large neighbour. It is comforting to note that there is a positive trend, but matters remain fragile.

26. Another major challenge is to forge a *shared* vision of development. It is the job of the institutions that run the country to build consensus among the main leaders in society about this vision. Government, parliamentarians, the opposition, civil society, the media and the unions must take part in this analysis and share the fundamental orientations. While slow to develop, it represents a critical step towards development and acceptance of its requirements. It is an important condition for avoiding the challenges that can lead to excesses and missed opportunities. The economic reforms Burundi has undertaken since the mid-1980s have liberalized the economy considerably, improving its competitiveness and putting in place a business framework more conducive to private

sector growth.

Springing from a concern for a vision shared with the numerous political, economic and social stakeholders, an economic development charter was discussed and adopted. The charter addressed both the major challenges of the economy, and the main orientations for dealing with them. When the crisis struck, the charter was forgotten, and progress towards reform suffered significant setbacks. There is thus a need to start over.

What is clear today is that, if the vision exists, it is not yet shared. Admittedly, at the behest of donors and in connection with poverty reduction programs, fairly broad consultations have been carried out. This strategic framework for growth and poverty reduction has been defined. Nevertheless, the dominant impression remains that it is first and foremost because the program provides access to significant resources that the authorities support it, rather than out of a basic conviction that the program itself can offer solutions to critical development problems.

Moreover, the most important measures to be credited to the new government were taken outside the framework of, and sometimes in opposition to, its orientation. Thus, free primary education, perinatal care and care for children under five, and measures designed to accelerate the achievement of the Millennium Development Goals (MDGs), were introduced before adequate funding had been found. At the same time, substantial tax cuts were put in place that worked against the tax measures approved by Parliament in the budget.

The vision should lead to a consensus on the major orientations to be adopted, particularly the analysis of long-term challenges, the role of the government and the private sector, the need for good governance, the need to protect private property, entrepreneurial freedom and, in general, promotion of the rule of law. If such a consensus is formed, the government will be able to move ahead with its development programs, and convince donors to support them.

27. A stable macroeconomic environment favourable to private investment is a precondition for economic growth. The crisis eliminated the results of reform efforts made in the pre-war period. Public deficits, double-digit inflation, a parallel market in currency and a command economy made their reappearance — obvious indications of serious economic dysfunction.

The reforms begun under the HIPC initiative are mainly designed to restore financial stability, reduce indebtedness and restart growth. It is imperative, for example, that interest rates — now at 16 to 18 per cent — return to a level compatible with the investment requirements of the productive sector.

28. The role of the state in the productive sector is excessive and is the cause of a number of dysfunctions affecting the economy. The setting of prices and subsequent subsidies in the coffee sector delayed the necessary adjustments to address unfavourable trends in world prices. The exchange rate policy has also penalized the development of tea cultivation.⁴ More generally political control of the sector reduces its efficiency and impedes its long-term development, and has led to the disappearance of some marginally viable entities.

29. The private sector has atrophied. Overall investment rarely exceeds one to three per cent of GDP yearly. Yet it is imperative to support it and give it room to grow. Needless to say, without a strong and creative private sector, growth will remain a pious hope.
30. Burundi's exports are excessively dominated by coffee, which accounts for 70 per cent of export volume. On average, they cover 30 to 40 per cent of imports. The future of coffee lives under the shadow of continually falling real prices in international markets, but it is also affected by structural problems, such as the disenchantment of small producers, that considerably restrict increases in production. It is critically important, therefore, that Burundi diversify its economy and promote other export products in regional and international markets. Without strong growth in exports, it will be difficult to cope with debt service, even with the measures taken under the HIPC initiative. Similarly, GDP growth will remain limited and will not allow any early or significant reduction in poverty.
31. Burundi's debt level gives cause for concern, first because at the end of 2005 current debt stood at US\$1.2 billion, or 150 per cent of GDP. Second, the ratio of debt service to exports was 130 per cent in 2004, a marked deterioration from ratios of 21 per cent and 30 per cent respectively in 1985 and 1995. It should be said, however, that debt policies have largely emphasized loans on favourable terms from the International Development Association (IDA), the African Development Fund (ADF) and others. Given the particularly low rate of local saving, however, Burundi will continue to depend very much on external resources for investment.
32. Human resources are expanding strongly, with an annual population growth rate of 2.7 per cent. The total population of Burundi was about 8 million in 2005, with a density of 263 inhabitants per km². Those under 18 make up 65 per cent of the population, and 90 per cent of the population lives on agriculture in rural communities. Yet agriculture accounts for only 45 per cent of GDP, which emphasizes the poor productivity of the farm sector. The population level and the high growth rate, on such a small land area, pose enormous challenges for development.

For there to be any hope of doubling the income per inhabitant, an annual growth rate of six to seven per cent must be maintained for 25 years. It is imperative, therefore, to implement vigorous policies to slow the rate of population increase, in conjunction with other policies designed to stimulate economic growth and reduce poverty. In addition, it is equally imperative to upgrade the qualifications of Burundi's human capital. Development of its human capital, however, is subject to massive constraints due to poor access to basic social services, such as education and health, and the disturbing advance of HIV/AIDS.

In the field of education, school attendance has grown spectacularly, thanks to free education. Already at 81 per cent in 2003-2004, the attendance rate is now pushing 90 per cent. As a result, there is no doubt that the measure made primary education considerably more widespread. However, the transition rate from primary to secondary education is very low at 10 per cent.

With regard to health, at 42 years in 2005, life expectancy at birth for Burundians is amongst the lowest in the world. The infant mortality rate is 114 per thousand, and about 800 women per 100,000 die in childbirth. Problems of physical and financial

access to health care, and the shortage of qualified health care personnel, explain this poor performance in the health field.

33. The HIV/AIDS pandemic has aggravated the shortcomings already apparent in the health sector. In 2002 the seropositive rates were 9.4 per cent in urban areas and 2.5 per cent in rural areas. The number of persons living with HIV was 250,000. Over 70 per cent of hospital inpatients in Bujumbura are suffering from AIDS. The cost of care, the resulting reduction in available workers, and the lack of support structures restrict economic growth and poverty reduction.
34. In an effort to take up the challenges it faces, Burundi has sought and obtained significant outside help to fund its programs and projects. Except for the embargo from 1996 to 1999, Burundi regularly received financial support representing between 50 and 60 per cent of its budget from 1985 to 2005. These resources have supported economic reforms (the 1986-1993 structural adjustment), the HIPC initiative from 2003, infrastructure (energy, roads, telecommunications, ports), human resources (education, health), agriculture (coffee, tea, cotton, food crops, sugar) and improvement of conditions in rural areas (water, shelter).
35. The principal framework for development in Burundi has varied over time. Until the late 1980s the reference was the five-year plan. The plan was an instrument for projecting development over a five-year period. It included a list of projects, sector by sector, for which funding was sought on a priority basis.

With the adjustment period, there was a move towards a rolling three-year framework known as the Public Investment Program. This was an invention of the World Bank and was designed to avoid any repetition of white elephant projects.

More recently, the emphasis has been on the strategic growth and poverty reduction framework or Poverty Reduction Strategy Papers (PRSP), with the HIPC initiative. Moreover, one framework tends to be imposed on another in as much as there are still plans to make use of the Round Table, whereas the PRSP framework remains the reference for the main donors.

36. As a rule two ministries, the Ministry of Finance and the Ministry of Planning, interact with the development architecture. The former has direct responsibility for the budget, and is thus in charge of mobilizing external and internal resources to fund development.

The Ministry of Finance is responsible for all aspects of domestic and external debt. It also works with the Ministry of Planning and sectoral ministries to define priorities for capital programs. The Ministry of Cooperation has specific responsibility for bilateral aid. Since the adjustment period of the late 1980s a coordination secretariat has been set up under the supervision of the Prime Minister. The secretariat is now under the responsibility of the Second Vice-President. Project execution is the responsibility of the technical ministries or agencies under their supervision. More recently, another secretariat was established, also under the authority of the Second Vice-President. This is the National Committee for Aid Coordination (*Comité National de Coordination des aides*).

37. For all matters of currency and monetary reform, prime responsibility lies with the

central bank (*Banque de la République de Burundi*). Reforms in this area are discussed mainly with the International Monetary Fund.

38. Civil society organizations in Burundi have minimal influence on the development architecture. The recently established *Organisation de lutte contre la corruption et les malversations économiques* (OLUCOME), set up to combat corruption and economic misappropriation, has acquired growing influence in its sector. Among other actions, it played a significant role in reporting the fraudulent sale of the presidential aircraft. It also has influence with the government in the implementation of regulatory instruments to combat misappropriation of funds.

Apart from this organization, trade unions influence privatization and liberalisation policies, which are perceived as a threat to their job security.

With the implementation of the concept of participatory development with recipients, the World Bank and the International Fund for Agricultural Development (IFAD) have channelled some of their funding through local NGOs, such as Twitezimbere and the Agence Burundaise de Travaux Public (ABUTIP). In addition, the Church runs a few social and economic projects with private external funding.

IV The current international development architecture

39. The international development architecture described below includes all external loans and grants from donors, as well as national resources used to support development programs and projects in Burundi. Foreign Direct Investment (FDI), global funds and other portfolio investments are insignificant or non-existent.

External debt

40. Current external debt is shown in Table 1. At the end of 2005 Burundi's debt was mainly public, multilateral, and obtained on favourable terms. Debt is the largest source of funding for public investment. The World Bank through the International Development Association (IDA), with 60 per cent, was by far the largest creditor, followed by the African Development Bank (ADB) with 18 per cent. Total bilateral debt represented barely 20 per cent of the World Bank contribution, and private debt was insignificant — 0.2 per cent of total indebtedness.

Table 1 (a): Current external debt by source, 1990 to 1997, excluding arrears of interest, in millions

Lender	1990 in \$	1991 in \$	1992 in \$	1993 in \$	1994 in \$	1995 in \$	1996 in \$	1997 in \$
A. OFFICIAL CREDITORS	884.45	857.65	934.00	979.29	1066.23	1108.87	1101.98	1043.92
1. MULTILATERAL	664.83	698.31	769.35	814.04	905.57	944.91	943.51	894.99
IDA	406.7	434.17	482.24	515.42	565.84	599.04	599.25	573.67
ADF	111.04	125.32	140.75	162.99	196.12	204.17	208.77	198.82
ADB	41.99	37.24	33.02	29.39	28.64	26.93	22.89	18.38
BADEA	20.75	19.23	17.52	15.44	13.22	11.85	11.85	11.85
IFAD	17.52	16.91	16.85	17.12	18.71	18.89	18.95	18.46
SMI	-	-	-	-	-	-	-	-
OPEC	19.68	18.52	16.15	14.77	14.05	13.36	13.36	13.36
ARAB LEAGUE	1.13	1.00	0.87	0.73	0.6	0.53	0.53	0.53
EEC	29.71	29.93	45.10	45.82	50.19	51.95	51.11	42.31
EIB	14.87	14.25	15.40	14.91	16.77	16.75	15.36	13.61
SFI	0.44	0.44	0.44	0.44	0.44	0.44	0.44	0.00
UNDP	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
2. BILATERAL	179.53	159.33	164.65	161.85	160.67	163.96	158.47	149.73
a. Members of the Club of Paris	91.15	65.18	63.98	65.00	61.10	64.08	60.46	58.51
BELGIUM	16.07	0.00	0.00	0.00	0.00	0.00	0.00	0.00
USSR	22.93	5.85	0.02	0.03	0.00	0.00	0.00	0.00
AFD	37.06	47.64	55.68	54.13	60.62	64.95	62.45	54.89
JAPAN	17.48	21.90	26.43	30.31	33.32	32.36	29.00	25.47
AUSTRIA	4.13	5.99	6.25	5.68	8.73	12.41	12.02	13.51
b. Non-members of the Club of Paris	88.48	94.15	100.67	96.25	99.57	99.98	98.00	90.22
KOREA	0.17	0.12	0.08	0.05	0.03	0.00	0.00	0.00
NETHERLANDS	5.3	4.96	0.00	0.00	0.00	0.00	0.00	0.00
CHINA	25.07	26.35	31.20	28.93	19.01	19.31	19.45	19.53
KUWAIT FUND	27.66	24.54	21.23	19.22	17.86	15.79	15.97	15.72
ABU DHABI FUND	18.9	17.73	20.13	19.90	18.64	17.25	17.68	17.17
LIBYAN ARAB FOREIGN BANK	4.85	4.24	3.64	3.00	2.45	1.89	1.90	1.91
B. PRIVATE CREDITORS	7.93	6.65	5.74	4.56	3.97	3.08	2.11	1.73
1. FINANCIAL Institutions	6.26	5.24	4.47	3.53	2.92	2.12	1.29	1.06
MEDOCREDITO	2.33	2.18	2.00	1.82	1.68	1.47	1.26	1.06
BANK OF WORMS	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.00
BNP AMSTERDAM	3.9	3.03	2.44	1.69	1.21	0.62	0	0.00
2. NON-FINANCIAL INSTITUTIONS	1.67	1.41	1.27	1.03	1.05	0.96	0.82	0.67
SILOS SU S-O	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.00
KRUPP	1.66	1.4	1.26	1.02	1.04	0.95	0.81	0.67
AD CONSULTANTS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	852.38	864.29	939.74	983.85	1070.20	1111.95	1104.09	1045.46

Table 1 (b):**Current external debt by source, 1998 to 2005, excluding arrears of interest, in millions of \$**

Lender	1998 in \$	1999 in \$	2000 in \$	2001 in \$	2002 in \$	2003 in \$	2004 in \$	2005 in \$
A. OFFICIAL CREDITORS	1100.73	1076.07	1050.94	1019.87	1063.95	1264.24	1399.19	1209.9
1. MULTILATERAL	944.15	926.03	900.49	890.77	948.44	961.44	1226.75	1065.08
IDA	609.23	606.22	602.56	595.70	642.09	734.1	838.79	714.63
ADF	211.38	210.15	197.35	193.51	201.73	221.4	235.65	205.18
ADB	14.66	11.78	11.08	10.86	9.66	12.49	10.75	5.07
BADEA	11.85	11.85	11.43	11.43	9.74	11.27	11.77	10.88
IFAD	19.71	19.91	18.37	19.81	17.56	28.99	33.6	30.75
SMI	-	-	-	-	13	26	26	47.3
OPEC	13.51	11.01	11.18	10.71	9.13	9.43	9.14	7.39
ARAB LEAGUE	0.53	0.53	0.53	0.53	0.45	0.53	0.56	0.5
EEC	47.88	41.21	36.14	36.31	34.01	49.71	46.07	33.22
EIB	14.39	12.38	10.86	10.91	10.22	14.94	16.38	10.22
SFI	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
UNDP	1.00	1.00	1.00	1.00	0.85	1.00	1.04	0.94
2. BILATERAL	156.58	150.03	150.45	129.11	115.51	154.39	169.21	144.85
a. Members of the Club of Paris	62.39	64.32	71.35	50.64	45.22	59.29	65.65	55.54
BELGIUM	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
USSR	0.00	0.00	0.00	0.00	0.00	0.00	2.31	2.09
AFD	58.11	50.02	43.63	43.64	40.72	59.21	66.26	54.60
JAPAN	28.1	32.15	29.47	26.10	23.65	30.58	32.69	26.35
AUSTRIA	14.38	12.43	10.90	10.95	10.26	14.99	16.55	13.75
b. Non-members of the Club of Paris	94.19	85.71	79.10	78.47	70.29	95.10	103.55	89.31
KOREA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NETHERLANDS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CHINA	1'19.90	19.74	30.99	13.59	11.32	13.74	14.10	13.34
KUWAIT FUND	16.08	15.85	15.63	15.40	13.20	16.22	16.66	16.66
ABU DHABI FUND	18.06	17.91	17.91	17.55	14.78	17.75	18.67	16.25
LIBYAN ARAB FOREIGN BANK	1.94	1.93	1.93	1.89	1.59	1.91	1.96	1.81
B. PRIVATE CREDITORS	1.50	1.15	0.90	5.73	3.29	11.38	6.96	2.20
1. FINANCIAL INSTITUTIONS	0.87	0.67	0.47	0.28	0.4	0.16	0.00	0.00
MEDOCREDITO	0.87	0.67	0.47	0.28	0.4	0.16	0.00	0.00
BANK OF WORMS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BNP AMSTERDAM	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. NON-FINANCIAL INSTITUTIONS	0.64	0.48	0.42	5.45	2.89	11.22	6.96	2.20
SILOS SU S-O	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
KRUPP	0.64	0.48	0.42	0.43	0.15	0.58	0.65	0.54
AD CONSULTANTS	0.00	0.00	0.00	5.02	2.74	10.64	6.32	1.66
TOTAL	1102.84	1077.56	1062.84	1029.61	1070.65	1279.62	1410.09	1215.92

41. For some 90 per cent of current debt, terms are highly favourable, with maturities of 30 to 40 years, a 10-year grace period and interest rates varying from one per cent to three per cent (IDA/FAD standards). Table 2 shows loan terms by lender.

Table 2: Loan terms by lender

Lender	Currency	Commission (%)	Interest rates (%)	Grace period (years)	Repayment period (years)
1. IDA	US\$ & DTS	0.75	1 - 3	10	30 - 40
2. ADF	CU ADF	0.75	1 - 3	10	40
3. NTF (ADB)	CU ADB	0.75	4	5	15 - 20
4. ADB	CU ADB	0.75	7 - 9.5	4 - 8	12 - 16
5. BADEA	US\$	0.5	2 - 6	1 - 6	10 - 20
6. OPED	US\$	0.5 - 2	1 - 2	3 - 5	20
7. AFD	EURO	-	1.5 - 5	5 - 10	10 - 20
8. CHINA	YUAN	-	-	10 - 13	10
9. KUWAIT	KD	0.5	1.5 - 2.5	5 - 6	15 - 20
10. SAUDI	SR	-	2	5 - 10	15 - 20
11. JAPAN	YEN	-	1.25	10	20
12. AUSTRIA	EURO	-	-	16 - 17	23 - 35
13. IFAD	DTS	0.5 - 0.75	1	10	30 - 40
14. EIB	EURO	-	2	5 - 7	10 - 20
15. EEC	EURO	-	0.5 - 1	10	30

Source: Treasury Branch, Ministry of Finance

42. Despite a prudent policy on indebtedness, the current levels are not sustainable. Current debt represented 150 per cent of GDP in 2005. From 130 per cent in 2004, the ratio of debt service to exports fell in 2005 to 80 per cent. In July 2005 Burundi reached the decision point for the HIPC initiative. Assistance under the initiative made possible a significant reduction in debt service to 21 per cent of exports, after the use of traditional debt relief mechanisms.

What is more, after the implementation of the facilities provided under the Multilateral Debt Relief Initiative (MDRI), debt service will continue to fall in the years ahead. From 2014 to 2023, debt service will represent 7.9 per cent of exports. In absolute terms, the reduction in debt service resulting from the MDRI should reach an average of close to US\$27 million in 2005, and about US\$40 million a year.

43. However, because of the low level of domestic private savings (one to three per cent of GDP), Burundi will remain critically dependent on external savings for its investment. It will thus be essential to put incentives in place to attract foreign private capital and stimulate local private savings. It will be equally important to promote exports if Burundi hopes to continue benefiting from outside resources, even on favourable terms.
44. In this respect, the effort devoted to traditional export products (coffee, tea, cotton) should be realigned in favour of the development of non-traditional farm exports as well as manufactured products for export. Analysis of the economic data on Burundi unquestionably indicates urgent action in this direction.
45. The reductions in indebtedness obtained under the HIPC initiative, as soon as Burundi meets the conditions to reach the completion point, should be helpful both in the education and health sectors, but at the same time just as critically useful in supporting an ambitious program to promote non-traditional exports.

Not only will efforts devoted to rehabilitation of traditional export sectors be limited in their effect on the improvement of export revenues, given the depressed outlook for world coffee prices, but additionally and more importantly, we are beginning to see disinvestments by small producers in the areas traditionally devoted to these crops.

46. Efforts in the past were focused mainly on the macroeconomic and regulatory aspects. Very little was done sectorally to support or encourage specific initiatives to develop non-traditional products. There is a need to develop very long-term promotion over 20 to 25 years, supported by efficient, motivated institutions. A consensus on a program should emerge between the Burundian authorities and donors for this priority activity.

Appropriate resources, such as one-third of the debt reduction funding with a corresponding amount of new annual funding, should make it possible to encourage the national and foreign private sector to invest in this area.

Internal funding

47. From 1990 to 2005, the tax burden on the economy represented between 14 and 20 per cent of GDP. Over the last five years, the tax to GDP ratio has averaged 20 per cent. Given the structure of the economy, part of which is informal, this level is generally considered high compared to that of African countries with comparable economies.

48. However, from 2001 to 2005 these levies covered some 50 per cent of public spending, apart from debt repayment. This emphasizes the dependence on outside contributions for public investment in Burundi. Table 3 below shows the trend in certain budget items from 1990 to 2005.

Table 3. Trend in certain budget items (in millions of BIF)

Year	Receipts	Grants	Current exp.	Capital exp.	Non-budget exp.
1990	31 698	-	-	-	-
1991	36 839	-	27 680	6 074	-
1992	39 963	-	30 461	7 031	-
1993	40 291	-	34 758	7 809	-
1994	45 231	1 338	35 687	4 428	-
1995	44 489	453	36 163	5 929	-
1996	44 097	9 332	45 266	21 559	7 056
1997	48 879	10 270	54 582	16 221	7 793
1998	75 165	10 474	62 172	25 848	15 038
1999	87 788	11 354	69 671	23 155	24 478
2000	98 536	15 874	82 428	40 547	7 226
2001	118 953	43 158	93 041	49 278	16 477
2002	122 952	63 015	158 966	65 770	11 502
2003	135 223	65 283	153 310	99 405	12 826
2004	147 508	108 400	163 100	119 900	14 515
2005	172 238	103 000	200 892	77 868	20 375

Source: BRB annual reports, 1990 to 2005.

In the table above, the Receipts column includes all fiscal inflows — taxes, duties — as well as non-fiscal inflows: dividends from public enterprises, and other charges. The Grants column includes all financial assistance that does not create indebtedness. The Current expenditure column reflects all government operating expenses, other than capital spending (see Capital exp. column). Lastly, the Non-budget exp. column includes all non-budget expenditure, which thus does not appear in the budget legislation.

Grants

49. Grants account for a significant portion of the international financial assistance provided to Burundi. Until recently financial assistance from the World Bank, the African Development Bank and the International Fund for Agricultural Development was almost exclusively in the form of loans. From 2005 assistance from the World Bank and the ADB to Burundi were in the form more of grants than of loans.

Apart from loans, the main sources of grants are the European Union, followed by bilateral aid. Table 4 indicates grants and loans by source and value.

Table 4. Grants and loans to Burundi by donor and period (in millions of US\$)

Country/Organization	1990-1995	1996-2000	2001-2005
1. Germany	161	8.1	46.22
2. Austria	2.2	-	21.80
3. Belgium	208	40.3	44.62
4. Canada	12	4.3	2.00
5. Denmark	136	1.2	8.35
6. France	-	7.8	25.50
7. Finland	-	-	1.50
8. Italy	-	-	8.16
9. Japan	33	0.5	1.00
10. Netherlands	-	-	7.96
11. Norway	-	1.4	10.90
12. United Kingdom	-	1.3	8.00
13. Sweden	-	20	21.81
14. Switzerland	-	-	5.29
15. Ireland	4	35	3.82
16. USA	197	28.2	150
17. European Union	124	65	229
18. IDA	188.55	105.22	156.35
19. IFAD	3.13	3.25	17.50
20. ADB	76.90	35.44	10
18. UNFPA	-	-	3.60
19. UNDP	-	26	11.00
20. UNICEF	36	17	7.50
21. WHO	21	5	6.00
22. UNAIDS	10	-	0.44
23. UNIDO	-	-	0.40
24. OIF	-	-	1.50

Source: UNDP (Burundi), Estimates by the administration and the consultant

European Union

50. Through its partnership arrangements with the ACP countries, the European Union makes a substantial contribution to development programs in Burundi. From 1990 to 2006 the various programs through European Development Fund (EDF) 7, 8 and 9 have constituted an envelope of €310 million, making the EU Burundi's biggest donor.
51. Assistance is provided mainly in such sectors as agriculture, roads, education, health, governance and economic reforms. There is also a humanitarian relief funding component, when needed.
52. Cooperation with the EU is distinguished from other types of cooperation by its multi-year programming and its predictability. Since Lomé IV political conditions have been written into cooperation agreements: promotion of democracy, respect for human rights and, more generally, the rule of law. These conditions have been applied to certain countries, including Burundi from 1996 to 1999.
53. Performance criteria have also been included in the negotiations from the 10th EDF. While before each country envelope was reserved and carried over if unused, a portion of the envelope could thenceforth be paid back to donors in the event of shortcomings in project execution in any country.

Bilateral aid

54. Burundi's main bilateral donors are Germany, Belgium, France and the United States. China and Japan also provide assistance, but on a smaller scale. Bilateral contributions are mainly grants. The sectors in which assistance is provided are budget support, infrastructure, education, health, agriculture and humanitarian aid.

In normal times bilateral aid represents 40 to 50 per cent of financial assistance to Burundi. It is very sensitive to political crises — a sharp reduction was apparent from 1995 to 2000.

Foreign Direct Investment (FDI)

55. Apart from external and internal public sources of development funding, private sources are practically non-existent. There are no traces of foreign portfolio investments. As the table below shows, foreign direct investment is insignificant.

On average, during the review period 1990 to 2005, FDI represented 600 million BIF a year, or about 0.7 per cent of GDP in 2005. The reality is that, without the investment of 8,419.8 million BIF in 2000, the average would fall to 120 million BIF a year, or 0.14 per cent of GDP in 2005.

Table 5. Foreign Direct Investment (millions BIF) 1990 - 2005

Year	Amount	Year	Amount
1990	214	1998	-
1991	157	1999	-
1992	125	2000	8,419.8 ₅
1993	82	2001	- 1.9
1994	- 25	2002	-
1995	340	2003	- 7.8
1996	-	2004	49.203
1997	-	2005	123.261

Source: BRB reports

V. Relative importance, influence and comparative advantage of the international development architecture

56. Relative importance

While from the early 1990s until 1996 multilateral assistance was more or less at the same level as bilateral assistance, the late 1990s and early 2000s brought a more noticeable relative increase in multilateral aid. We should nevertheless mention the spectacular drop in aid to Burundi during the period of serious civil conflict, particularly the years during which the country was under an embargo, 1996 to 1999.

The European Union and the World Bank are the two biggest multilateral donors, followed by the ADB, IFAD, UNICEF and others.

Belgium, Germany, the United States, France, the People's Republic of China and the Arab countries are the main bilateral donors to Burundi, with an average contribution of 90 per cent of all the assistance the country receives. More recently, Great Britain and the Netherlands announced their contributions through the PRSP.

57. In all, year in and year out, outside assistance represents about 50 to 60 per cent of Burundi's budget and 40 per cent of GDP in 2003. Burundian resources used to fund imports cover barely 30 to 40 per cent of national requirements, and the remaining 60 to 70 per cent comes from outside support for the balance of payments.

The result is that the parity of the Burundian franc is critically dependent on the level and regularity of external contributions to the country's currency reserves. For example, in 1996, when the international community decided to place Burundi under an embargo, and the flow of outside assistance accordingly dried up, the value of the Burundian franc collapsed, falling 300 per cent in less than five years.

The level of public investment fell from 15 to 16 per cent of GDP to less than five per cent in the same period. This emphasizes Burundi's extreme dependence on outside assistance.

58. Its dependence is expressed even more strongly because of Burundi's low capacity for indebtedness. Very clearly, without the facilities provided under the MDRI, Burundi

would not have been able to cope with its financial obligations to donors. However, it will not be possible to restore debt capacity without implementing an ambitious policy of export promotion.

Influence

59. Through their substantial contributions, Burundi's donors — particularly the European Union and the World Bank — exert enormous influence in the economic sphere and even in purely political matters. The economic and political history of the last two decades is replete with examples of the determinant influence of these two institutions in critical decisions affecting the economy, as well as politics.
60. Suffering serious internal and external financial imbalances in the mid-1980s, Burundi underwent a thorough restructuring of its economy through an adjustment program initiated and funded by the Bretton Woods institutions. The shift in economic orientation was apparent to all. Previously Burundi's economy was administered in a way that allowed economic agents scant freedom. The complete liberalization of the economy thus made radical changes in the rules of the economic game by introducing competition and primacy for the private sector. The essentials of the program, including its conditional elements, were initiated by the World Bank and the IMF, with the other donors contributing to the funding.
61. Poverty reduction programs under the HIPC initiative draw their inspiration from the same institutions. Burundi's say — if any — in relation to content remains modest.
62. It could fairly be said that the wind of neoliberal policy has blown across all the economies of the smaller developing countries, which means that Burundi's case is not unusual. Nevertheless, it should be said that, in the case of Burundi, its extreme dependence on outside funding has given these institutions access to areas of sovereignty.
63. In 1988 inter-ethnic violence broke out in two districts in Northern Burundi, causing some thousands of deaths and an acute political crisis for the military regime installed just a year earlier. Under pressure from donors, the World Bank launched an investigation which produced recommendations for profound political change. The government, which was Tutsi-dominated at the time, was thoroughly overhauled. A Hutu Prime Minister was appointed, together with a government in which Hutu and Tutsi were on equal terms. To our knowledge, this was the first time the World Bank had interfered so openly in an area of national sovereignty and an issue as sensitive as the sharing of power between communities.⁷
64. In 1996, when a military coup put an end to the negotiations being conducted by former president Julius Nyerere of Tanzania, an embargo was imposed and all donors suspended financial assistance to Burundi. Resources dried up and hard times began for the economy of Burundi. Payment arrears accumulated and for the first time in its history Burundi experienced negative fund transfers.
65. Throughout the negotiation process that led to the peace agreements, the funding weapon was constantly brandished, sometimes as a carrot, with promised rewards for positive results, and sometimes as a stick to suspend the flow of resources. The promises

made in Paris, Geneva and Brussels can be explained in these terms, and constitute key political steps in the process.

66. After the election process and a return to democracy and security, numerous promises were made and the taps were open once again.
67. Quite recently again, when the political climate deteriorated once more with the extrajudicial killings, the imprisonment of media and civil society representatives, and the jailing for an alleged coup of the former president of the republic and his vice-president, donors again used their influence to persuade the authorities to change their minds. Sources agree that strong pressure was exerted by bilateral donors (Belgium and the United States) and multilateral donors (the European Union and the World Bank) for the release of those imprisoned. This pressure had the desired effect, with the release in December 2006 and January 2007 of political prisoners.⁸
68. Two examples show, nevertheless, that it is possible to resist the influence of these institutions. In 1984 a major investment in the energy field was in the last stages of finalization. The funding was already in place and calls for bids had been issued. At the same time, the World Bank was expressing a preference for a regional project located in Eastern Congo, which was also to serve Burundi and Rwanda.

For reasons of energy independence, Burundi was most anxious to proceed with this national investment and thus avoid energy dependence on a country with which relations were not particularly good.⁹

Despite strong pressure from the World Bank, the project went ahead. Today it is the country's main source of energy. It should be stressed that with the wars that have affected the Great Lakes region, dependence on Congo would undoubtedly have had a negative effect on the economy of Burundi.

69. In 1989, in the midst of an adjustment program, suspecting that the sugar plant (SOSUMO) might be a white elephant, the World Bank demanded that it be dismantled and sold in separate components. After lengthy negotiations punctuated by payment postponements, the government continued the project. Today the sugar business is one of the most cost-effective around. It even exports small quantities regionally to Rwanda and Congo.¹⁰
70. These examples show that it is possible to have a dialogue with donors under certain conditions. First, political leadership must be fully committed to supporting the country's position in its dealings with donors. Next, project analysis must provide strong arguments based on economic or financial viability, or both. These two conditions were fulfilled in the two cases of Rwegura and SOSUMO. It should also be stated that these projects were already at an advanced stage in their execution and, above all, they did not challenge the basic orientations of the programs funded by the Bretton Woods institutions.

Comparative advantage

71. In general the Bretton Woods institutions, particularly the World Bank, exercise more influence both because of a fairly large assistance envelope and particularly because of

the expertise the institution has developed in its research centres.

There is no denying that the major orientation of the economic strategies adopted by Burundi over the last 20 years has been inspired by the World Bank and the International Monetary Fund. Of principal note are the structural adjustment reforms and the strategic framework for growth and poverty reduction, or PRSP.

Apart from the influence the Bank exercises over the country, it should also be noted that the other Western donors are generally aligned with the policy prescriptions issued by the Bank, and make their assistance conditional on compliance therewith.

72. Because of its proximity and its greater familiarity with the African environment, the African Development Bank should provide a more significant added value in terms of economic policy orientation. It seems, however, to align itself with the World Bank, in terms both of support for adjustment programs and of the PRSP.

On the other hand, the ADB does show independence in project funding. For example, in Burundi ADB funding was a determinant in the case of SOSUMO which, as noted above, was targeted for closure by the World Bank. Similarly, the ADB has funded the livestock sector, which few other donors were prepared to support. Its independence remains restricted, however, both by modest internal capabilities and by limited resources.

73. The European Union offers the immense advantage of predictability because of the multi-year character of its country programming. This facilitates planning. On the other hand, its cumbersome procedures lead to long delays in project execution. Moreover, political conditions compromise the certainty of disbursements. The quality of its assistance in the form of grants and the work it does make the European Union a favoured and appreciated partner.
74. In terms of economic policy the Western bilateral donors align themselves with the orientation and programs of the Bretton Woods institutions. From time to time they join those institutions in co-funding budget support operations. Their primary fields of activity remain those sectors identified decades ago, in which Belgium and France favour areas in which the technical assistance content is high, such as education, health and agriculture.

Isolated bilateral efforts are usually associated with budget support requested in the setting up of major IMF or World Bank programs. For example, Japan and Switzerland have co-funded adjustment programs. Great Britain and the Netherlands have done the same for the current PRSP program.

In contrast, the People's Republic of China is active in sectors where it is at home. For example, China has funded a textile plant (1979), the modernization of two roads and the construction of a hydroelectric dam.

75. Global funds, NGOs and direct foreign investment are limited, and their influence is minor in Burundi.

VI. International and regional factors: importance and relevance

76. The installation of a new government, after the general election in June 2005, coincided with the implementation of various measures enabling Burundi to reach the decision point with respect to the HIPC initiative. The development of a strategic framework for growth and poverty reduction (PRSP) and the implementation of other conditions (privatization, reform of budget procedures and the awarding of public contracts) were among those that brought the country to the completion point, thus opening the door to debt reduction.

The PRSP was developed and approved by the government following fairly broad consultations with civil society, the administration, the private sector, parliamentarians and so on. It has to be said, nevertheless, that the process took place more because it constituted a mandatory step in gaining access to resources than because it provided an opportunity to develop a consensus on the policies advocated.

According to some of the people interviewed and consulted, questions remain about the criteria used to determine priorities. They feel the process leaves a sense of frustration to the extent that the participants do not always understand why what constituted a priority for them was ultimately not chosen by the decision-makers.

To date, since the other conditions have not been met, the initial date of the completion point has been delayed, and the next review is scheduled for the second half of 2007.

77. The government has adopted the Millennium Development Goals (MDGs) and refers to them regularly in its policy statements. Achievement of one of these goals — universal schooling — received a significant boost when the President of the Republic, Pierre Nkurunziza, announced in his inaugural speech in August 2005 that primary education would be free. Donors responded as one and school attendance shot up. It is now expected that this goal will be achieved well before 2015. Similarly, the decision to make perinatal care and care for children under five free will help to achieve the Millennium Goals in that area more quickly, if sufficient funding is obtained.
78. It should be said that the emphasis in the PRSP and the MDGs on more expenditure in the social sectors of education and health pose the serious problem of sustainability, to the extent that the production sectors able to generate local resources do not receive the necessary support for strong growth.

Numerous school and health infrastructures built with external funding cannot be maintained in a proper state of operation with national resources. The same is true of roads. The result is that the repair of numerous secondary schools and hospitals depends on new external resources — grants or loans — as does the repair of paved roads. Moreover, this is hardly surprising, given that year in and year out locally generated resources cover only 50 per cent of budget expenditure. Therefore, it is necessary to reconsider priorities so that needed progress does not suffer setbacks caused by a pace that cannot be maintained in the long term.

79. Burundi subscribes to the principles of the Paris Declaration on Aid Effectiveness. It believes that promoting the articulation of policies by recipient countries constitutes an important advance in the country's ownership of its development strategy. However, at

the present stage of development of its institutions, which still lack experience and are of relatively modest quality, it seems difficult to envisage the immediate application of the declaration.

With regard to budgetary and non-budgetary support, the weakness of export revenues - 40 per cent of imports - necessitates assistance with the balance of payments, which is another way of saying budgetary support. It still seems helpful, however, to balance forms of assistance and maintain a significant proportion in projects.

80. Burundi belongs to the World Trade Organization and regularly participates in its discussions. However, given the weakness of its industry and agriculture, public sector and private sector interest in the opportunities that organization offers is relatively modest.

Such issues as the farm subsidies of the North that depress the market for products like cotton elicit few comments, in as much as the supply of agricultural products competing with those of Northern countries remains negligible, not to say non-existent.¹² We should nevertheless note that negligible amounts (around US\$600,000) were granted to impoverished exporters of flowers and essential oils through the International Trade Centre (ITC). On the whole, therefore, debate over the WTO prompts little interest in the opinion of decision-makers and analysts.

81. Burundi is a member of various regional groupings, some of which duplicate each other's efforts. For example, it belongs both to the Common Market of Eastern and Southern African States (COMESA) and to the East African Community (Kenya, Tanzania, Uganda, Rwanda and Burundi). The goal of all of these entities is to create free-trade areas, and possibly a common currency.

Given the current structure of Burundi's economy, there is little chance of benefiting from the opportunities thus created. On the contrary, if adequate compensation is not offered, short-term job and revenue losses may cause tensions among the "losers" if markets are opened up with no offsetting measures.

The transport and energy sectors are also priority areas for regional cooperation. For a landlocked country like Burundi, it is essential from the point of view of security of supply, as well as exports, to diversify communication channels. Moreover, alternative routes make it possible to generate the competition that can eventually reduce the high cost of international transactions. Similarly, with respect to energy, regional cooperation can allow the development of energy infrastructure to improve the availability of this essential development factor.

For Burundi the real issue of regional integration essentially lies in the putting in place of mechanisms to allow free circulation of agricultural workers, and the right of settlement. It should be recalled that Burundi is a densely populated country where available land is shrinking to a dangerous point. Agricultural labour is therefore present in abundance. However, various political obstacles, including perceived risks of the spread of security problems, make this still a taboo subject.

The situation is all the more serious and urgent in that the use of more intensive farming methods seems to have reached its limits.

VII. Leadership and policy ownership

82. Leadership and policy ownership have varied over time and from government to government. Some periods have been characterized by clear leadership and the country's control of its economic orientation. Others, however, have seen weak leadership and significant external control over economic development strategies. These periods can be analyzed under four headings: (1) 1976–1986, the period of control and development of the economy by the public authorities; (2) 1987–1993, the period of structural adjustment; (3) 1994–2000, the period of crisis; and (4) the post-crisis period of the HIPC initiative and the PRSP. These periods will be considered one by one.

Government control of economic development (1976–1986)

83. In 1976, as a result of political changes in government leadership that showed a firm political will to modernize the economy, combined with exceptionally high prices for coffee, Burundi embarked upon an ambitious program of economic development.

Numerous road, telecommunications and energy infrastructures were developed. With these excellent resources, a major complex of public enterprises was developed in such varied sectors as industry, business, banking and insurance, and real estate development. In all some 86 public enterprises were established with resources exceeding US\$400 million.¹³

In addition, a large network of schools and health centres was established in Burundi. The framework for the programming and execution of these investments was the five-year plan, for which funding was sought through the Round Table. Admittedly significant external resources were mobilized to carry out these programs, but the primary impulse for them and for the economic and social infrastructure was undoubtedly internal to Burundi rather than from outside.

The government had a hand in everything: control of the economy and promotion of economic activity, mainly through public investment. Donors were involved in the funding of projects but ultimately had a limited role in defining economic policy. The collapse of coffee prices, which was in part the cause of public deficits and balance of payments problems, thus pushed Burundi to seek ways of escaping from an acute and persistent financial crisis in the mid-1980s. The adjustment period was thus about to begin, and roles in the responsibility for development strategies were about to be reversed.

Structural adjustment (1987–1993)

84. In 1986, faced by an acute shortage of funds, Burundi turned to the Bretton Woods institutions. Agreement to respond to this approach was conditional on the adoption of traditional economic reform measures designed to liberalize the economy. From an economy largely controlled and dominated by the public authorities, Burundi moved to an open economy in which market forces dominated. Protection of the domestic market was eliminated, and competition from imported products destroyed the modest nascent import substitution industry. The private sector — thenceforth considered the engine of growth — struggled to grow into its role. Investment stagnated. The five-year plan, formerly the instrument for programming mid-term investment, yielded to a more

flexible framework known as the Public Investment Program (*Programme d'Investissement Public*). The framework was triennial, but was reviewed annually and attached maximum importance to a balanced budget.

All these measures were part of a series of conditions that governed access to the disbursement of resources under the program on prearranged dates. The Bretton Woods institutions dictated their conditions, defining the orientation and content of programs and, of course, providing most of the funding.

Leadership by Burundi was nowhere to be seen. The economy functioned, driven mainly by outside resources and producing in the short term a drop in the prices of imported products and in the availability of goods.

85. Fairly quickly, however, the adjustment program led to a reduction in public investment, largely halted public service recruitment and disorganized local industry. Noting the negative effects of the reforms, the government initiated a public debate on the need for them. The debate drew broad participation by civil servants, trade unions, the private sector and the general public.

The private sector's firm support for the new economic ground rules was largely offset by the resistance from the administration and the unions. Ultimately debate led to a consensus on liberalization of the economy and orthodox budget management, but expressed concern about the negative consequences of privatization on employment. In all the government took this resistance into account and decided to slow down the privatization program, while stepping up other liberalization measures.¹⁴

86. Four years after the introduction of the structural adjustment program, ownership was especially reinforced during discussions by the Economic and Social Council (*Conseil Économique et Social*), established early in 1990. The very varied composition of the council, with a mix of politicians, trade unionists, and representatives of the private sector, civil society and the Church, and the free, critical spirit of its debates, helped greatly to disseminate and compare ideas on basic issues of the future of Burundi's economy.

The council recommended the adoption of an Economic Development Charter setting out a series of major orientations, particularly affirmation of the need to continue liberalization of the economy, but also and equally the need for solidarity with its weakest members. One of the conclusions of the council's analysis referred emphatically to the basic issue of the country's responsibility for its own economic future, stating that there was no alternative: Burundians had to take charge of their own destiny and that of future generations.¹⁵

87. **Crisis and civil war (1994–2000)**

However, ownership simply disappeared with the onset of the crisis and of the civil war shortly after the assassination of the president elected in October 1993 and the violence that ensued. Not only did donors withdraw their financial support, particularly after 1996, but in addition the country was reduced to seeking a security that could not be found, and in the process using up most of the nation's resources in the war effort. Reforms lost ground and the economy was choked.¹⁶

88. **Postwar period (2001–)**

After the signing of the Peace and Reconciliation Agreement that marked the beginning of the end of hostilities, the country once again set to work to develop programs to rebuild and rehabilitate the economy. Because of an accumulation of financial problems, and a profound and sustained economic recession, the need for external aid was even more acute than before the civil war.

It was in these circumstances that Burundi renewed acquaintances with the donor community. Burundi was eligible for the HIPC debt relief program and agreed to implement the necessary reforms leading to cancellation of external debt.

To date it has already reached the decision point and, subject to certain conditions that are being met, is preparing to reach the completion point in the second half of 2007. It should also be reiterated here that leadership in the process of initiation and definition was provided more by external donors.

Implementation, of course, remains the government's responsibility, and it has been very much delayed — with postponements of the completion date, for example — because a number of conditions which, while accepted, do not have the consent of its leaders. Privatization is an example.

Moreover, having replaced the previous administration with a group of newcomers who are less experienced, the new government is having great difficulty in steering the program and keeping to the agreed schedule. Thus, ownership is still far away, although it should be said that development of the PRSP was based on broad public consultation.

89. It seems advisable, moreover, to ask questions. Given Burundi's heavy dependence on external aid, which represents up to 60 per cent of its budget, are leadership and ownership possible?

The great majority of those interviewed for this study answered that it is very difficult. They observe that in the past, in fact, major changes in economic policy were initiated — if not to say imposed — by donors. Examples are the structural adjustment programs, and the reforms initiated under the HIPC initiative. The only exception relates to the 1976-1986 period when Burundi effectively controlled the policies implemented from initiation to execution. It has to be remembered, however, that this period was characterized by generous availability of substantial national resources, reducing dependence on outside resources.

90. Two factors explain the difficulty of assuming leadership and ownership of policies.

First, heavy financial dependence creates an imbalance in bargaining power. The weight shifts unquestionably towards the donors. For example, a delay of a few months in disbursement while the currency depreciates, inflation accelerates, and investments slow down, all have negative consequences for economic growth. This happened more than once during Burundi's implementation of the structural adjustment program. The SOSUMO case led to a six-month delay in disbursement. It is thus clear that in order to resist the conditions, one has to think twice, in view of the associated costs.

The second factor is weak institutional capacity and human resources that are inexperienced and have little training. The result is a dialogue that is unenlightened and lacks substance. Often, it is consultants paid for by the donors who analyze the problems and draft solutions. Today the new institutions have established a new administration on the basis of criteria that are more political than technical, which makes the situation worse.

91. The use of local human resources, moreover, creates significant problems. For political reasons, experienced managers are being moved out of positions with technical responsibility. Meantime, university professors and researchers are leaving in large numbers for neighbouring countries, such as Rwanda, or for Europe because the conditions of service offer no motivation at all. A university professor earns six times as much next door in Rwanda — US\$3,000 p.a., compared with US\$500 in Burundi.¹⁷

An exception worth noting is the contribution by the Economic Development Institute (*Institut de Développement Économique-IDEC*). The Institute is helping to build capacity and conducts regular research on macroeconomic issues, which it makes available to the government. IDEC is funded by the ADB, the United Nations Development Programme (UNDP) and the World Bank, among others, and accordingly has the working conditions to motivate its researchers.

92. Because of poor institutional capacity, among other factors, dialogue with donors does not allow the emergence of distinctive national policies. Coordination of activities by donors leaves much to be desired. The PRSP process has yet to achieve a significant improvement in ownership.

However, we should point out the emergence of awareness within civil society of the policies developed by the PRSP process. On the whole, the initiative for reform lies clearly with the donor community, and the full “program” approach remains difficult to envisage today, as does application of the principles of the Paris Declaration.

93. However, it must be acknowledged that the government has had success in the past in opposing conditions imposed by donors. In 1985, for instance, the Rwegura hydroelectric plant, which the World Bank did not want, was eventually built. The World Bank had a preference for a regional project. In 1989 the World Bank wanted Burundi to close the SOSUMO sugar plant. After negotiations, the company continued its activities, and it is now prospering. More recently, the government took initiatives in the field of education and health involving significant resources, without prior consultation of donors.

When he took office President Nkurunziza decreed that basic education should be free, and free perinatal care and care for children under five followed shortly thereafter. These measures, for which no funding had been assessed or programmed at the beginning, were broadly adopted by donors, who felt obliged to reward the “new democracy”. Thus, funding has been largely assembled for the execution of these programs, which are consistent after all with the MDGs.

Yet major questions remain. Does Burundi have the means to subsidize this segment of the population on a sustained basis with its own resources? What will happen if donors terminate their support programs for any reason?

94. Good governance, particularly the fight against corruption, is increasingly a condition of donors' programs. In the case of Burundi, the government has made this an objective of its political program and is thus in perfect agreement with the donors. A ministry has been established, legislation has been passed, and an anti-corruption court has been established to deal with the problem. However, the reality is very different from the proclaimed intent. The press has reported numerous corruption scandals involving senior officials of the party in power. One of the most prominent concerns the sale of the presidential aircraft. It was sold to a bidder who did not have the highest bid, and the government lost at least US\$3 million, according to an audit report prepared at the behest of the World Bank. The Minister of Finance was dismissed for "misleading" the Council of Ministers in this matter.

Those interviewed were unanimous in their view that a condition of respecting anti-corruption measures should include the possible suspension of aid if these measures are not adhered to. In their view, it is not reasonable to support a regime or an association that diverts resources intended for a predetermined and agreed public purpose to private profit. This in fact was the only condition that all those interviewed approved in unison and without discussion.

95. While Burundi has yet to achieve ownership of reform policies, heavy dependence as the only explanation is insufficient, as shown by the example of Rwanda, which is just as dependent on external aid.

VIII. Policy on aid to Rwanda: a good example of ownership

96. This section on Rwanda was added at the suggestion of The North-South Institute. The similarities between the two countries in several areas — geography, population, not to mention politics — and the contrast in how their management has evolved raise a number of questions.

After the genocide Rwanda received massive aid from the international community. The outside assistance came in the form of emergency humanitarian relief to meet that country's immediate needs. With the devising of its development and poverty reduction strategy, the definition of its long-term vision — Vision 2020 — and its accession to the MDGs, Rwanda has made a start on the ambitious road to sustainable development. These changes were accompanied by a change in the level of conceptualization of aid. It was within this framework that Rwanda defined its vision for the improved management of aid, and drafted an External Aid Policy to enable it to improve the coordination of aid and reinforce its ownership of development.

The External Aid Policy

97. Rwanda's External Aid Policy is a master framework setting out how the Government of Rwanda (GR) sees the development of aid structures in its country. It presents the GR's preferences in terms of the type of aid it wishes to attract from abroad, and processes to be followed in managing outside assistance. It wants to be sure that external aid provided to Rwanda can contribute to the reinforcement of national ownership of development activities. By establishing clear priorities and principles, the

GR plans to ensure that all aid is used in a way that maximizes its advantages for the citizens of Rwanda.

98. This aid policy is the result of an extensive process of consultation with representatives of local and central administrations, donors, civil society and the private sector. The result of these consultations is a policy that clearly shows what action the GR must take to make aid more effective, and ensures that it is used in such a way as to have maximum impact on economic development and poverty reduction in Rwanda.

The policy also exhorts Rwanda's donors to ensure that the aid they grant is consistent with national priorities and serves to simplify procedures and reinforce local ownership of development activities.

99. After the war the Government of Rwanda had no structures and no clear directives for the mobilization and management of external aid. Rwanda signed the Paris Declaration on Aid Effectiveness in March 2005. Under this agreement, Rwanda and all donors operating in the country undertake to improve the effectiveness of aid. The External Aid Policy incorporates many elements of the Paris Declaration and sets objectives for the negotiation and management of aid that meet the country's development needs.

Rwanda is currently receiving over US\$400 million a year in foreign aid, including \$150 million in the form of budget support. The importance of this form of aid — budget support — is intrinsically a matter of great trust between the GR and its partners. In the last few years, moreover, almost all of Rwanda's external debt has been cancelled under the HIPC initiative and the MDRI. Nevertheless, this means that the GR can no longer use loans as a means of funding public investment, as it did before. Therefore, Rwanda has to mobilize more aid in the form of grants in order to guarantee adequate investment in the delivery of services to its citizens. This provision is clearly stated in the aid policy, and in the GR's Vision 2020 and its Economic Development and Poverty Reduction Strategy, which will appear shortly, within the framework of Rwanda's mid- and long-term development planning.

How does the policy work?

100. The External Aid Policy adopted by Rwanda clarifies the goal Rwanda wishes to achieve with the aid it receives, its preferences in terms of mobilization and management of aid, and the changes essential to the achievement of its goal.

A. It clarifies the position of the GR.

- i. ***Increase the effectiveness of aid.*** The GR and all its principal partners in development have signed the Paris Declaration. The declaration requires both the government and its partners in development to implement policies and strategies that improve the effectiveness of the aid supplied to Rwanda and, as such, the principles stated in the declaration constitute the basis of the government's definition of effectiveness.
- ii. ***Mobilization of increased aid.*** Admittedly the ultimate objective is to reduce the country's dependence on external aid, but it remains clear that in the mid-term merely reinforcing the effectiveness of the aid Rwanda is now receiving

will not be sufficient to enable it to achieve its development goals as stated in Vision 2020 and the MDGs.

- iii. ***Improvement of the planning process.*** In order to align the aid provided by donors with national priorities, the government has realized the need to develop strong strategic plans in all sectors. It is constantly verifying that strategic plans and sectoral policies include clear objectives and are the result of a consultation process involving all partners in development.
- iv. ***Preferences for certain types of aid.*** After budget support that is not pre-allocated, the GR's preference is for sectoral budget support, followed by independent projects which must also be designed around strategic plans and included in the budget. The pooling of donors' resources is encouraged.
- v. ***Principle of refusing some aid.*** While acknowledging that not all donors are in a position to provide assistance in the form of budget support, and that support for projects has specific advantages in certain cases, the government has adopted the principle of refusing some or all of any offer of aid if it considers the transaction costs unacceptably high, the alignment with government priorities insufficient, or the conditions excessive.
- vi. ***Assistance to decentralized entities.*** This is channelled through the national budget or the Common Development Fund (*Fonds Commun de Développement-CDF*) to ensure fairness in the distribution of aid to districts, and alignment with district development plans.
- vii. ***Sustainable external debt.*** Debt must be kept to a reasonable level. The GR is seeking more assistance in the form of grants. Only loans on highly favourable terms will be accepted.
- viii. ***Vertical funding as a cause for concern.*** These are considerable sums that do not pass through the GR's systems. Since they tend to be outside the plan and outside the budget, they are a cause for concern to the GR, which will be developing guidelines for the management of such funds.

B. It orients change within the GR.

- i. ***Acceptance of aid.*** The GR will decline aid if the costs it generates are too high, if it is insufficiently aligned with GR priorities, or if the conditions attached are excessive.
- ii. ***Clarification of the division of responsibilities between GR agencies.*** The roles of the various ministries and other entities within the GR are clearly defined, and it is understood that the technical ministries retain technical control over their development activities. A manual of procedures for the mobilization, negotiation and management of external aid has been developed, together with related tools to ensure implementation, monitoring and evaluation mechanisms that work together.
- iii. ***Development of a monitoring mechanism.*** In cooperation with its development

partners, the GR is devising a monitoring mechanism through which the performance of the GR and the donors in the implementation of the Paris Declaration and Rwanda's aid policy will be evaluated.

C. It places expectations on development partners.

- i. ***Better alignment.*** Assistance is provided so as to address priority needs identified in the GR's strategic plans, rather than the donors' plans.
- ii. ***Dialogue and coordination mechanism.*** The Development Partners Coordination Group (DPCG) is responsible for coordination. It is made up of GR and donor representatives. It provides a forum for dialogue, harmonization of partners' support, strategic planning and alignment of the resources provided by donors with GR priorities. The DPCG sees to the operation of other forums responsible for promoting the program of coordination, harmonization and alignment of aid. The GR has encouraged the development of sectoral and intersectoral groups, which are forums that bring together donors and the government agencies involved in specific fields.

This has led to the emergence of delegated cooperation within groups, whereby the authority is delegated to a donor that has a comparative advantage in a given sector, in order to consolidate the program approach.

- iii. ***Data on aid flows.*** Data are collected in a structured way, using a shared database, the Development Assistance Database, or DAD. They are shared between all GR agencies and with all donors.

101. What are the lessons for Burundi?

Despite significant similarities between the two countries, which are sometimes referred to as twin countries, there are major differences. These have to do mainly with three factors that characterize Rwanda.

First, the genocide caused extensive internal trauma, with significant and lasting repercussions both internally and externally. The international community is united in its support of the process of rehabilitation and reconstruction of Rwanda.

Second, the Front Patriotique Rwandais (FPR) won the war in Rwanda in 1994.

Third, the Rwandan leadership is undeniably strong, and decisions affecting national life show this.

In Burundi, on the other hand, power flows more from elections than from weapons. Civil society, the opposition and the media have a significant role and thus constitute a genuine countervailing authority. But, lastly and most importantly, the leadership is weak and lacks vision.

Despite these differences, steps can be taken to share a long-term vision — 2020 in Rwanda — and organize national stakeholders around that vision, with adaptations to suit the location.

IX. Recommendations

102. Burundi must assume responsibility for its own economic destiny. To do so, the government must acquire a shared vision for development reflecting a broad consensus of opinion leaders: political parties, civil society, the media, researchers, the private sector and so on. A search for consensus did take place when adjustment policies began to increase social problems.

More recently still, but at the political level in this case, the political protagonists in Burundi have negotiated shared rules to define political competition. The government should assume the lead role in this operation and involve all interested parties. Donors could fund this initiative. In the circumstances, consultations on the Poverty Reduction Strategy Papers (PRSP) would be greatly facilitated.

103. Capacity building is urgently needed. Capacities already exist, but are not always adequate. However, available capacity must be used, and those employed elsewhere must be encouraged to return. In addition and above all, large-scale training programs are required.

The major problem that encourages the few skilled resources that do exist to leave the country is related to pay. This can be increased substantially by making partial use of the government's budget, but also by using technical assistance resources. The long-term cost of having Burundian doctors and teachers stay away is much higher than the cost of increasing their pay.

104. It is necessary to generate more substantial national resources to fund development. This is the strongest basis for policy ownership. To that end, three avenues are worth exploring.

- Private saving should be vigorously encouraged. Recent experiments by private insurance companies to promote pension savings products are significant. The response has been very good, particularly among low-wage earners, and this is very encouraging. With appropriate tax incentives and more participation by employers, private saving can be significantly improved. It is estimated that it could reach three per cent of GDP (2005).
- Free education and health benefits should be restricted to segments of the population below defined income thresholds, beyond which a contribution should be mandatory.
- Lastly, a relatively large tax base is significantly undertaxed because of the informal nature of the economy. With a more innovative and effective tax and customs administration, it is possible to improve tax proceeds and thus reduce the level of external dependence. Some estimates suggest there is a potential for improvement of budget revenue (2005 base) by 30 to 40 per cent. The increase would come mainly from the broadening of the tax base to include the informal economy.

105. Innovation is needed in the area of regional cooperation. In the case of Burundi, the right of settlement, with appropriate precautions, appears to be a better response to the

challenges posed by current developments in its economy.

The export of agricultural labour to neighbouring countries that are underpopulated can be a win-win operation, as long as it constitutes the use of resources that are currently “unoccupied”. Land lying fallow on the one hand, and landless human resources on the other. This is, therefore, an avenue worth exploring in the interests of all concerned.

In the still recent past, these operations were carried out in sugar cane plantations (Uganda), in sisal (Tanzania) and in minerals (Katanga, DRC). With a little political will, the obstacles can be overcome.

106. In the dialogue with donors, some aid conditions seem to generate positive effects, and should be systematically incorporated — for example, efforts to eliminate corruption.

Reducing corruption should be a concrete program, incorporating periodic evaluation. Laws and institutions should be strengthened. An independent audit should be carried out periodically to assess the level of corruption. Beyond a certain threshold, external resources should be brought to bear through institutions independent of the government, the private sector and the NGOs. In this connection, it is also useful to consider public funding of political parties, which could reduce the temptations of major corruption.

107. In Burundi’s current circumstances, and specifically its weak institutional capacity, the “enclave project” approach should be adopted for reasons of efficiency. This would make it possible to recruit and motivate experienced managers.

In this way, it is easy to achieve the objectives of the project and thereby provide the public with its associated benefits. It could even be termed imperative, given the new procedures for the implementation of EU programs.

Currently, unused resources are lost at the end of the programming period. This represents a huge penalty that should be avoided.

108. The privatization approach should be revisited. All the successful public enterprises should be turned over to the private sector, and the resulting revenues used to promote other productive activities, particularly for export purposes. The government should take part.

Admittedly the Burundian private sector has limited financial capacity but it can help to buy back the public stake in some enterprises, thereby releasing savings that can be reinvested in other sectors. These resources should be earmarked, and perhaps even reserved exclusively for export sectors.

There is still a potential for development in the tea sector. Flowers, fruits and vegetables could also be promoted with the help of these savings, now being “misused”. Since these sectors require both significant resources and know-how that are often costly for the private sector, the government should assist and lead the way for the private sector to follow.

109. To allow better development planning, financial aid should be more "predictable". The example set by the European Union in its relations with the Africa, Caribbean, Pacific (ACP) countries should be followed both bilaterally, and by the other multilateral agencies.
110. The dominance of funding of the social sectors over that of the productive sectors raises the problem of the *sustainability* of the activities thus funded. Some infrastructure — schools, health centres, roads — is subsequently rehabilitated by new external aid resources after a few years of use. This is true not only of damage to the economy due to war, but also is an historic and repetitive reality through all the years of external cooperation in Burundi.

This seems to indicate fundamentally that resource allocation priorities are not oriented towards expansion of the productive base. The current processes designed to reduce poverty levels do not seem to be correcting this major flaw in any way.

111. Except where security conditions hardly allow it, cutting of financial assistance to countries in conflict is a harsh penalty for their populations. Sometimes outside agencies have a mind to penalize governments, but often end up penalizing populations. Financial assistance should continue through non-governmental organizations and the private sector.
112. The African Development Bank (ADB) should allocate major resources to the establishment of a centre for research and analysis of African economies that would constitute genuine value added in relation to the contributions from other institutions, like the World Bank. The ADB should also have more resources for project funding, an area in which it has shown some ability to act independently.

Explanatory notes

1. International Crisis Group, Africa Report No. 120 Burundi. Democracy and Peace at Risk, pp. 2, 4.
2. In addition to the report of the International Crisis Group, which noted a significant increase in the number of cases of corruption, the *Organisation de lutte contre la corruption et les malversations économique* (OLUCOME) has denounced its spread. OLUCOME reported the improper sale of the presidential aircraft, as well as the award of a Public Works contract to repair the Bujumbura-Rumonge road based on a commission granted to the party in power. An audit report confirmed the accuracy of the facts about the aircraft sale. The road repair contract was cancelled when the company failed to meet the contract deadlines for the work.
3. *Burundi : Étude diagnostique sur l'intégration commerciale* [Business integration diagnosis], World Bank, p. 13.
4. For a long time, exporters were required to hand over all currency earned by their external sales. Since development of tea cultivation had been promoted with the assistance of external loans, successive devaluations penalized the Burundi Tea Board (*Office du thé du Burundi* - OTB), by swelling the debt expressed in local currency.
5. This very large amount represents the construction and fitting out of the headquarters of the ZEP Bank, a multinational institution established by the member countries of the Common Market for Eastern and Southern African States (COMESA).
6. The value of the US dollar rose from an average of BIF 340 in 1996 to BIF 1,100 in 2004.
7. Following a popular uprising in two districts in Northern Burundi, Ntenga and Marangara, in August 1988, Barber B. Conable, President of the World Bank, wrote to the President of Burundi to express his concern about developments in the political situation. It was following this that an inquiry commission was set up to establish the facts, and recommend possible solutions. Jean-Louis Sarbib, an official of the World Bank, led the mission, which suggested among other things the sharing of power on an equal basis between the two main communities in Burundi, the Hutu and the Tutsi.
8. Numerous prominent people, including Louis Michel, the European Union's Commissioner responsible for Development and Humanitarian Aid, the Belgian Foreign Minister, who made a speech at the UN, and the US Deputy Assistant Secretary of State for African Affairs, Donald Yamamoto, pressed for the release of the alleged coup plotters. In addition, the ambassadors of France, the United States and Belgium personally attended the public hearings of the trial. The pressure succeeded and the accused were released in January 2007.
9. The project was the Rwegura hydroelectric station. In 1983 a mission led by Willi A. Wapenhans, Vice President of the World Bank responsible for Eastern and Southern Africa, had met with the President of Burundi, Jean-Baptiste Bagaza, to ask him to halt the project. Burundi was firmly opposed, arguing among other things of the need for energy independence. Relations with Zaïre (now the DRC) at that time were not good. The project went ahead.
10. The halting of the sugar plant project, SOSUMO, was a condition of the structural adjustment program as it applied to public corporations. After months of negotiation and numerous payment delays attributed to the government's opposition to this condition set by the World Bank, it was finally agreed to continue the project, under tight technical supervision. The project is now a success. SOSUMO exports sugar to neighbouring countries.
11. In August 2005 President Nkurunziza decreed free primary education. School

attendance immediately increased. In some areas, there were 200 students enrolled per class. This pressure led donors to respond as one, mobilizing substantial resources. Today the goal of universal school attendance is expected to be achieved well before 2015, if the volume of resources is maintained at the current level.

12. Burundi cultivates small quantities of cotton, with output at 4,000 tonnes in a good year. In some years Burundi's only textile plant, which uses 2,000 tonnes, has to import in order to make up the shortfall not covered by local output. Given its modest production of this raw material, Burundi has not been prominent in the recent negotiations seeking reductions in US cotton subsidies, unlike the countries of West Africa, for example.
13. The figures are taken from publications and estimates by the public corporations agency (*Service Chargé des Entreprises Publiques*), which is responsible for implementing the program to privatize public corporations.
14. Resistance to privatization has led to slow progress in this component of the structural adjustment program. One component of the reforms governing access to the completion point remains the privatization of public corporations. Now, as in the past, reluctance is still substantial.
15. Synopsis of the report of the *Conseil Économique et Social* , December 1990, p. 49.
16. With the continuation of the civil war, security budgets increased sharply, representing up to 40 per cent of the total.
17. Some 35 to 45 per cent of university professors have left Burundi to teach in Rwanda, where pay is six times as high: US\$3,000 compared with US\$500. Attempts at negotiations to establish conditions that would stabilize university faculty have so far proven unsuccessful.

Documents consulted

1. Program Document for an Economic Reform Support Grant. July 6, 2006
Report No. 36 723 - BI, WB Group.
2. *Burundi, Étude diagnostique sur l'Intégration Régionale* [Diagnostic study of regional integration] September 2004. Volumes 1 and 2.
3. *Coopération pour le Développement, Burundi* [Cooperation for development, Burundi]. UNDP 1993, 1996, 1997 and 2001 reports.
4. Annual reports of the central bank, the BRB, 1990-2005.
5. *Conseil Économique et Social, Burundi*
Synopsis of report: *Étude et analyse des problèmes de développement* [Study and analysis of development problems] Bujumbura, December 1990.
6. *Power Imbalances and Development Knowledge*, by Norman Girvan, 2007, NSI, (thematic paper for the “Southern Perspectives project)
http://www.nsi-ins.ca/fran/pdf/Power_Imbalances.pdf
7. ACP-EC partnership agreement, Cotonou, June 23, 2000.
8. *Cadre Stratégique de Croissance et de Lutte contre la Pauvreté* – Republic of Burundi, September 2006.
9. Paris Declaration on Aid Effectiveness.