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Burundi: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

February 21, 2007

The following item is a Letter of Intent of the government of Burundi, which describes the policies that Burundi intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Burundi, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

Bujumbura, February 21, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato,

1. On behalf of the authorities of the Republic of Burundi, we hereby transmit the attached memorandum of economic and financial policies (MEFP) for 2007 for the program supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF) approved in January 2004. The attached technical memorandum of understanding (TMU) sets forth the terms and conditions of the implementation of the program, as well as the definitions and calculations of the criteria and objectives.
2. The indicative quantitative targets at end-June and end-September 2006 were observed (Table 1), except for a temporary accumulation of external payment arrears. We request a waiver for the nonobservance of the structural performance criterion (end-September 2006) regarding the tendering of negotiable treasury securities. This measure was implemented on December 29, 2006 (Table 2). The structural benchmarks were not observed or were observed with delay. The launching of the coffee sector privatization program by issuing tenders for sale of the washing stations and shelling factories (structural benchmark for end-October 2006) did not take place, and has been reprogrammed following consultations with the World Bank.
3. In support of the macroeconomic and financial objectives set for 2007, we hereby request approval of the fifth review under the PRGF and disbursement of SDR 7.15 million (9.3 percent of quota).
4. The objectives and measures in the MEFP for 2007 are consistent with the Poverty Reduction Strategy Paper (PRSP) approved by the government and published in September 2006.
5. The economic and financial policies set forth in the MEFP should ensure that the objectives of the 2007 program are met. If needed, the authorities will take any further measures that may be necessary. Burundi will consult with the Managing Director on the adoption of such measures in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.
6. The quarterly quantitative performance criteria and indicative targets for 2006 and 2007 are shown in Tables 1 and 3, respectively. The prior actions for the fifth review as well as the structural performance criterion and benchmarks for 2007 are shown in Table 4. The sixth review of the PRGF arrangement with the Fund will be based on meeting the

quantitative performance criteria for end-December 2006 and the structural performance criterion at end-June 2007

7. The Burundi authorities wish to make this letter, the attached MEFP, the TMU, as well as the staff report on the fifth review of the program under the PRGF arrangement, available to the public. We hereby authorize their publication and posting on the Fund's website subsequent to Executive Board approval. We will do the same on the official websites of the Burundi government.

8. The authorities will provide the IMF Managing Director with all the information he may request as necessary to monitor program implementation and achieve program objectives on schedule.

Sincerely yours,

/ s /

Denise Sinankwa
Minister of Finance

/ s /

Dr. Isaac Bizimana
Governor, Bank of the Republic of Burundi

/ s /

Gabriel Ntisezerana
Second Vice-President, Republic of Burundi

Attachments: Memorandum of Economic and Financial Policies for 2006-07
Technical Memorandum of Understanding

REPUBLIC OF BURUNDI
MEMORANDUM OF ECONOMICS AND FINANCIAL POLICIES FOR 2007

I. INTRODUCTION

1. This memorandum summarizes progress under the program implemented by the government through end-September 2006 and sets out the authorities' economic and financial policies for 2007. On the basis of these policies, the authorities request Fund support through approval of the fifth review under the Poverty Reduction and Growth Facility (PRGF) arrangement. The policies and objectives of the program are consistent with the Poverty Reduction Strategy Paper (PRSP) published in September 2006.

2. Public safety has further improved, in particular with the cease-fire agreement signed on September 7, 2006 with the FNL, the last rebel group. Implementation of the disarmament, demobilization, and reintegration (DDR) program for former combatants and the armed forces has progressed well, with the support of the World Bank-led Multi-Country Demobilization and Reinsertion Program (MDRP). The full PRSP was presented to Parliament on August 28, 2006 and was sent to the IMF and World Bank in mid-September. On November 30, 2006, Burundi and Rwanda were admitted to the East African Community (EAC).

II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

3. **Macroeconomic performance through end-September 2006 was positive.** Drought continued to negatively affect agricultural production of food crops (excluding coffee) in the northern part of the territory, while industrial production also remained weak (2.2 percent through end-September 2006). Coffee production rebounded strongly to 31,000 metric tons. Drought also had a negative impact on water levels in dams, further constraining energy production (down 13 percent through September). Inflation over the past 12 months, as measured by the consumer price index (CPI), was limited to 3.4 percent at end-September 2006. The Bank of the Republic of Burundi (BRB) has maintained an active monetary policy. The monetary aggregates increased slightly, by 8.5 percent (M2) and 12.6 percent (M3) over the twelve months through end-September, well below program projections, mostly because of the decline in net foreign assets.

4. Data at end-September 2006 indicate that **the external position weakened considerably in 2006 over the first nine months.** Major delays in foreign aid disbursements led to a significant reduction in the level of gross official reserves, from US\$112.7 million at end-December 2005 to US\$76.3 million at end-September 2006, the equivalent of 1.8 months of 2007 imports. Imports sharply increased (mostly equipment and intermediate goods) while coffee exports stagnated, despite very strong production, as electricity outages slowed considerably the production of coffee milling operations. The

nominal exchange rate depreciated (by 5.9 percent against the U.S. dollar from the start of the year to end-September 2006), and the real effective exchange rate remained stable.

5. **The program remained broadly on track in 2006**, with the exception of a generalized delay in implementing structural reforms. All of the quantitative targets for end-June and end-September 2006, after adjustment, were observed (Table 1), except for a temporary accumulation of external payment arrears. However, the structural performance criterion and structural benchmarks were not. The measures relating to the structural performance criterion and three of the structural benchmarks were observed with delays, and three others deferred to the first quarter of 2007 (Table 2). That on coffee sector privatization was intended to begin before end-October 2006, and has been rephased for 2007–08 in agreement with the World Bank.

6. **Fiscal performance in 2006, as of end-September, was better than expected.** Tax receipts were in line with projections while nontax revenue exceeded them, in particular owing to the payment of central bank dividends. A revised budget law for 2006, consistent with program understandings, was promulgated in late June. A 15 percent wage increase for government employees, excluding bonuses and allowances, was granted with effect from July 1, 2006, consistent with program understandings. However, in the context of the integration and harmonization of pay grades, the pay scales of the army and the national police were revised upwards by about 45 percent on average. Following significant delays in the disbursement of external budgetary support (US\$68 million or 7 percent of GDP), spending was cut (by about 3½ percent of GDP) and domestic budgetary arrears were accumulated (1.3 percent of GDP). The clearing of domestic arrears from previous fiscal years (representing 2.7 percent of GDP) had to be postponed to the fourth quarter. On a commitments basis, the overall deficit, including grants, amounted to FBu 5.5 billion (as compared to the objective of FBu 18.4 billion).

7. **The partnership framework between the donors providing budgetary aid and the Ministry of Finance was reactivated in October.** This strengthened both the dialogue with donors and the monitoring of public finance reforms.

8. **Monetary policy played a key role in maintaining macroeconomic stability despite the delays in foreign aid disbursements.** The program targets have been adjusted to reflect these delays. The BRB continued its sales on the foreign exchange market. Credit to government was contained and remained well below the adjusted ceiling under the program. The monetary aggregates grew much less than expected, reflecting the sharp decline in net foreign assets and the limited growth in net domestic assets. Credit to the economy recovered modestly, expanding by about 10 percent (on a 12-month basis), excluding coffee (30.4 percent, including coffee credit). Interest rates dropped slightly following the elimination of the 7 percent tax on banking transactions. The BRB strengthened banking supervision, in particular by approving recovery plans for four small banks and then closing one of them.

9. **The implementation of structural reform lost its initial momentum during the summer of 2006.** However, some progress was made, especially in strengthening the monitoring of reforms and financial management in the coffee sector. OCIBU introduced weekly cash flow management and began to recover outstanding financing balances from the previous crop year and the arrears of the SOGESTALs. For the first time, bank loans were obtained without the government's guarantee in order to finance the 2006/07 coffee crop. A number of measures were taken to minimize the costs of, and delays in, marketing coffee. Lots not sold at the weekly auctions were sold at the New York benchmark price. Stakeholders in the coffee sector reached agreement on ways of dealing with the frequent electricity outages. Preparations for a strategy on the privatization of the washing stations and coffee factories and the introduction of a new legal and regulatory structure were delayed.
10. **The preparation of the privatization program was reactivated by the Public Enterprise Unit (SCEP),** supported by technical assistance on the financial appraisal of the enterprises (in July) and the evaluation of offers to buy (in October).
11. **The quality of statistics is being improved.** With technical assistance from the IMF, a priority action plan for the development of statistics was prepared and a summary of these actions was included in the PRSP published in September 2006. The National Statistical Development Strategy (SNDS) is currently being finalized. It defines a strategy for improving statistics and includes an evaluation of implementation costs. The return to regular production of national statistics is well under way, as is the expansion of CPI coverage. A draft law organizing statistical activities was approved by the Council of Ministers on September 15, 2006 and sent to Parliament in December. The implementing provisions for the new law, which will incorporate a new institutional framework for the National Statistical Institute (ISTEEBU) as well as personnel regulations, are expected to be completed in the first quarter of 2007.
12. **Macroeconomic and structural policy in the fourth quarter of 2006 aimed to make up the delays in implementing the structural reforms and to restore balance in the budget following the disbursement of three-fourths of the external budgetary support expected for the year.** Macroeconomic performance for 2006 remains overall in line with the objectives of the program, and the performance criteria for end-December 2006 are expected to be observed. Real GDP growth on the order of 5 percent and an inflation rate of 9.2 percent (CPI on a 12-month basis) are anticipated.
13. **The primary deficit would be well below the program objective (6.1 percent of GDP as against the targeted 8.9 percent) following the cut in budgeted spending.** The overall budget deficit on a commitments basis, including grants, should be slightly higher than the program objective, or about 2.2 percent of GDP (as compared with a projected 0.4 percent). The domestic payments arrears accumulated during 2006 were fully repaid before the end of the year, and the clearing of the balance of domestic arrears from prior fiscal years will be completed. Domestic financing of the budget will be limited to FBU

35.7 billion, including FBu 18 billion from Treasury securities issued in the context of clearing earlier arrears. The second tranche of the Economic Reform Support Grant (ERSG) from the World Bank (US\$25 million) and a variable tranche from the EU will be pushed forward to the fiscal year 2007.

III. PROGRAM FOR 2007

A. MACROECONOMIC OBJECTIVES

14. **The authorities' strategy for 2007 is to continue macroeconomic stabilization, overcome the delays in implementing some structural reforms, and continue the strengthening of public finance management and the reorientation of expenditure.** Structural reforms are focused on improving the business climate, relaunching the privatization process, and reinforcing good governance. The economic program targets continued real economic growth on the order of 5-5½ percent in 2007, principally reflecting the positive impact of the structural reforms, while containing inflation. Monetary policy will continue to be based on a managed floating exchange rate regime, with reserve money as the nominal anchor. The external current account deficit, including grants, is expected to increase slightly from 13.6 percent of GDP in 2006 to 15.3 percent in 2007.

B. Fiscal Policy

15. **The 2007 budget will continue to reorient expenditure toward poverty reduction while containing the primary deficit at 6.6 percent of GDP.** Total revenue is expected to increase to about 20 percent of GDP, in part reflecting the effect that the clearing of domestic arrears will have on profits and, in consequence, on income tax collections and the strengthening of revenue administration. Burundi's accession to the EAC and the adoption of the common external tariff will take place over three years and is not expected to have any direct effect on revenue in 2007. To support the inflation target and allow space for bank credit to the private sector, the state will refrain from any net bank financing in 2007. In view of the unpredictability of such external financing, the 2007 budget calls for a prioritization of expenditure and for making nonpriority expenditure (FBu 4.7 billion) contingent on the disbursement of external budgetary aid. A UNDP-sponsored donors' roundtable is planned for the first quarter of 2007 to identify the external financing available to support the objectives of the PRSP.

16. **Control of the wage bill, which will amount to close to 12 percent of GDP in 2007, is a priority.** This will depend in large measure on strengthened management of the wage bill, buttressed by continued demobilization. The strengthened management of the wage bill will include a census of all employees, with support from the World Bank (ERSP project), and the transfer of payroll administration to the Ministry of Finance from the Civil Service Ministry. Integration of the payroll into the Integrated Financial Management Information System (IFMIS), a structural benchmark for end-December 2006, has been replaced by the structural benchmark on the establishment of a unified data file for

computerized payroll management at the Ministry of Finance during the first half of 2007. The authorities have eliminated and will avoid granting any compensation in kind, including the provision of electricity or water.

17. The DDR and security sector reform (SSR) programs continue to be essential, not only for public security but also for reorienting expenditure toward the social and poverty-reduction sectors. The government is committed to achieving the objectives set out in its demobilization, reinsertion, and reintegration policy letter to the World Bank of February 2004, and to reducing the size of the army and national police force by implementing the DDR program. The authorities intend to complete a census of security forces by end-June 2007 with technical assistance from the World Bank.

18. In 2007, the government will completely revamp the general tax code and unify the local and national revenue administrations. Following Burundi's accession to the EAC, tax policy will be reviewed, with technical support from the IMF, in order to bring it into harmony with the policies of the other countries in the zone. With technical support from the World Bank (ERSP project), a study will be launched to evaluate the revenue impact of Burundi having joined the EAC. The action plans relating to customs and taxes have been updated and strengthened on the basis of an IMF technical assistance mission in September 2006. All these measures will make it possible to improve the clarity and efficiency of the tax system.

19. The authorities are committed to further improving transparency and public finance management and have requested the assignment of an IMF resident expert to oversee the public finance reforms. The Ministry of Finance has created a unit, attached to the office of the minister, that is responsible for the monitoring and coordination of the public finance reform. The IFMIS will be extended and strengthened, with further technical support from the World Bank. This system is designed to reinforce the monitoring of budget implementation, including of social outlays, and to produce real-time financial operations reports. The cash flow, government accounting, and procurement systems will also be strengthened. The joint structures of the Ministry of Finance and the BRB for cash flow management and liquidity forecasting will be further strengthened.

Measure	Timetable	Status
Reform of tax system		
<ul style="list-style-type: none"> Strengthened management of exemptions, with specific procedures established in the 2007 budget law. 	2007 budget	Completed. Budget Law 1/38, December 30, 2006
<ul style="list-style-type: none"> Unification of local and national revenue administrations and adoption of an automatic revenue allocation key. 	2007	
<ul style="list-style-type: none"> Harmonization of tax system with those of EAC countries. 	2007	
<ul style="list-style-type: none"> Eliminate all exemptions from indirect taxes and maintain time limits on tax exemptions in the investment code. 	2007	

Measure	Timetable	Status
<ul style="list-style-type: none"> Eliminate the 7 percent transaction tax on real property transfers and update and simplification of the valuation scale effective January 1, 2007. 	2007 Budget Law	Completed. Budget Law 1/38, December 30, 2006
<ul style="list-style-type: none"> Initiation, with World Bank support, of work to revamp the legislative provisions on taxation. 	October 2006	In process
<ul style="list-style-type: none"> Prepare simulations of the impact of entry into the EAC: (a) of the implementation of the common external tariff; (b) of eliminating transport costs within the Union and air freight from the taxable base; and (c) of complete trade liberalization within the zone (ERSP project). 	March 2007	
<ul style="list-style-type: none"> Develop a tax policy on the exploitation of natural resources, with technical support from the IMF and the World Bank. 	2007	
Reform of customs		
<ul style="list-style-type: none"> Updating and implementation of the action plan for strengthening customs, based on the IMF technical assistance report of September 2006, in particular by: <ul style="list-style-type: none"> Strengthened monitoring and control of the SGS component in order to improve its effectiveness and yield. 	Beginning in November 2006	In progress
<ul style="list-style-type: none"> Use the risk evaluation system (PROFILER) in order to clear through the green channel at least: <ul style="list-style-type: none"> - 30 percent of import operations - 50 percent. 	Second half of 2006 2007	In progress
<ul style="list-style-type: none"> Set up and utilize a system for selecting import consignments to be examined, using criteria determined by the import inspection system. 	2006-07	In progress
<ul style="list-style-type: none"> Operationalize an enhanced ex post monitoring system. 	2006-07	In progress
Taxes		
<ul style="list-style-type: none"> Updating and implementation of the action plan on strengthening tax administration on the basis of the IMF technical assistance report of September 2006, with the technical and material support of donors, in particular by: <ul style="list-style-type: none"> Improve the efficiency of tax collection by replacing the tax current account by a computer application that permits the secure monitoring of collection. 	Beginning in November 2006	
<ul style="list-style-type: none"> Introduce a modern computer system at the DGE and the DPME. 	2007	
Expenditure		
<ul style="list-style-type: none"> Limit recruitment to 3,000 teachers in primary education and 1,200 in secondary education. 	2007	
<ul style="list-style-type: none"> Continue the demobilization program. 	2006-07	In progress
<ul style="list-style-type: none"> Ban any compensation or indemnification in kind of government employees. 	2006-07	In progress

Measure	Timetable	Status
Reform of public finance management and fiscal policy		
<ul style="list-style-type: none"> Establishment in the Ministry of Finance of a public finance reform unit in the minister's office, which will be responsible for the programming, coordination, and monitoring of public finance reforms. 	November 2006	Completed in November 28, 2006.
<ul style="list-style-type: none"> Return payroll management to the Ministry of Finance (Presidential Decree). 	Beginning January 1, 2007	Completed in January 2007.
<ul style="list-style-type: none"> On a priority basis, strengthen the management of the civil service in 2007, with support from the World Bank's ERSP project, through: <ul style="list-style-type: none"> Introduction of a central data file and single identification number for all government employees (teachers, civil servants, army and police); A physical census of all employees; and The issuance of personal identity cards with photos and signatures. 	First half of 2007	
<ul style="list-style-type: none"> Streamlining of public accounts, moving toward a unified Treasury account. 	2006-07	80 accounts eliminated in 2006. The remaining accounts will be eliminated following the promulgation of the organic budget law, scheduled for the first quarter of 2007.
<ul style="list-style-type: none"> Strengthen the financial control of public enterprises by the Ministry of Finance, in particular by implementing action plans aimed at strengthening the Administrative and Portfolio Revenue Directorate in the Ministry of Finance and by establishing clear guidelines for the government's representatives on public enterprise boards. 	March 2007	
<ul style="list-style-type: none"> Submission to Parliament of a revised public procurement code. 	February 2007	Submitted to Council of ministers in November 2006.
<ul style="list-style-type: none"> Integrate the payroll into the IFMIS. 	December 2006	Completed
<ul style="list-style-type: none"> Establish a unified data file for computerized payroll management at the Ministry of Finance. 	June 2007	
<ul style="list-style-type: none"> Prepare monthly reports on external public debt, including projections of debt service for the next three months. 	March 2007	
<ul style="list-style-type: none"> Prepare a report on the cross-debts of the budget and the oil sector, including a settlement plan proposal. 	January 2007	
<ul style="list-style-type: none"> Produce quarterly tables of government finance operations (TOFEs) based on the IFMIS starting with the outturns at end-June 2006, with technical assistance from the World Bank. 	September 2006	Completed

C. Monetary and Exchange Policies

20. **Monetary policy is based on a medium-term strategy aimed at strengthening the market orientation of policy and containing inflation.** The growth of broad money is expected to be 12.4 percent (M2) and 14.0 percent (M3) in 2007, significantly above nominal GDP growth (10.1 percent), reflecting the monetization of the economy. Domestic financing of the budget will henceforth be provided principally through the issuance of new Treasury securities (bonds and bills) rather than by recourse to central bank advances. The measures to develop financial instruments should contribute to a revival of credit to the private sector in 2007. A prudent and proactive management of foreign exchange reserves will allow continued sales of foreign exchange throughout the year. Gross international reserves of the BRB are expected to increase to US\$159.5 million at end-2007, or about 3.6 months of 2008 imports.

21. **Monetary policy instruments will be based progressively more on market mechanisms.** The BRB will continue the evolution toward an interbank foreign exchange market with technical assistance from the IMF. New unified exchange regulations published on December 12, 2006, allow the unrestricted convertibility of the currency for current transactions. The BRB continues to limit its intervention in the foreign exchange market to those needed to achieve its international reserves objectives and to avoid excessive exchange rate volatility.

22. **The BRB will continue to strengthen its governance.** The results of the external audit of the BRB's accounts and all monetary and exchange policy decisions are posted on its website. A preliminary draft BRB charter has been provided to the IMF and will be submitted to the Council of Ministers in the first quarter of 2007. A project to computerize BRB operations will be initiated in 2007 with assistance from the FIRST Initiative. The IFRS accounting standards will be used by the BRB in 2007, after it has received technical assistance. These standards will be extended to the banking system in the context of a new bank chart of accounts in 2007.

23. **The BRB will continue to strengthen banking supervision.** The BRB is committed to enforcing prudential regulations scrupulously, and will impose sanctions on banks which fail to do so. These measures will enable the banks to better play their part in financing growth.

Measure	Timetable	Status
Monetary policy		
<ul style="list-style-type: none"> Launch auctions of new negotiable Treasury securities by the BRB on the account of the government, with IMF technical assistance. 	September 2006	Completed on December 29, 2006
<ul style="list-style-type: none"> Weekly updating of foreign exchange cash flow forecasts, in collaboration with the support unit in the Ministry of Finance. 	Starting in December 2006	In progress
<ul style="list-style-type: none"> Preparation by the monetary policy committee of a monetary intervention policy that is consistent with the 	March 2007	

Measure	Timetable	Status
international reserves management policy.		
<ul style="list-style-type: none"> • Creation of a joint BRB-Banker's Association working group for the development of money and financial markets. 	November 2006	Completed on November 29, 2006
<ul style="list-style-type: none"> • Adoption of an action plan for developing the money and financial markets. 	March 2007	
<ul style="list-style-type: none"> • Adoption of a BRB policy on communication with the financial markets. 	December 2006	In progress
<ul style="list-style-type: none"> • Update regularly the liquidity forecasting framework. 	First quarter of 2007	
<ul style="list-style-type: none"> • Preparation of a framework for short- and medium-term forecasting of inflation, the exchange rate, and monetary aggregates. 	First quarter of 2007	
Good governance		
<ul style="list-style-type: none"> • Reactivation of the audit committee. 	January 2007	
<ul style="list-style-type: none"> • BRB to continue implementing the reforms recommended by the auditor and to put in place procedures to monitor the reforms. 	2006-07	In progress
<ul style="list-style-type: none"> • Continued implementation of the recommendations of the safeguards assessment. 	2006-07	In progress
<ul style="list-style-type: none"> • Adoption of a risk-based audit methodology. 	January 2007	In progress
<ul style="list-style-type: none"> • Implementation of a first annual internal audit plan following its approval by an independent audit committee. 	September 2006	March 2007
<ul style="list-style-type: none"> • Launch of the first risk-based internal audit. 	March 2007	
<ul style="list-style-type: none"> • Submission to the Council of Ministers of the revised BRB charter in order to strengthen its independence and legal base, consistent with IMF recommendations. 	September 2006	First quarter of 2007
<ul style="list-style-type: none"> • Establishment of the national Financial Intelligence Unit to support the application of legal provisions for combating money laundering, with technical support from the IMF. 	June 2007	
Exchange regime		
<ul style="list-style-type: none"> • Adopt and publish a single exchange system regulation. 	June 2006	Completed on December 12, 2006
<ul style="list-style-type: none"> • Move toward an interbank exchange market, with IMF technical assistance. 	2007	

Measure	Timetable	Status
Financial sector		
<ul style="list-style-type: none"> • Strengthened banking supervision and prudential regulations: <ul style="list-style-type: none"> - Gradual increase in the minimum capital of banks from FBu 1 billion to <ul style="list-style-type: none"> - FBu 2.5 billion - FBu 3.5 billion - Strengthened policy to sanction the failure to observe prudential standards, including through the preparation of a matrix of infractions and fines. Communication of this matrix to the banks; - Revision of the banking law; - Preparation of a new bank chart of accounts consistent with IFRS accounting standards. 	<p>January 1, 2008 January 1, 2009</p> <p>March 2007</p> <p>December 2007 December 2007</p>	
<ul style="list-style-type: none"> • Creation of a financial training structure in the Bankers' Association, with support from the BRB. 	2007	

D. Structural Reforms

24. The authorities are committed to **strengthening the implementation of the structural reforms** needed for economic recovery. Key steps for 2007 include, in particular, the launching of the privatization of state assets in the financial and coffee sectors, and further progress in governance and transparency. The reforms will also include a component aimed at improving the performance of the sugar and petroleum products sectors.

25. **Burundi joined the EAC on November 30, 2006, which will promote the development of trade and investment.** The harmonization of Burundi's legal and regulatory framework with that of the EAC will help bring about liberalization in a number of sectors, notably in sugar and petroleum. Economic integration will stimulate competition and economic efficiency.

26. **In the context of the investment promotion efforts,** an investment and export promotion agency is to be established in 2007. The agency will include a one-stop shop for obtaining business licenses. Exemptions from indirect taxation will be avoided and tax advantages strictly controlled.

27. **The privatization program will be relaunched with a transparent procedure for public tenders, with the goal of a progressive withdrawal of the government from involvement in the productive and financial sectors of the economy.** To facilitate the privatization process, the government first intends to consolidate its various assets and to dismantle the cross-shareholdings in the public sector. A law on privatization establishing effective and transparent procedures will be promulgated in the first quarter of 2007.

28. Implementation of the **coffee sector reform strategy**, with the support of the World Bank, remains vital for poverty reduction in Burundi, and in particular for the approximately 800,000 small producers. The reforms aim to establish competition at all levels in the coffee sector and to private the sector in order to enable producers to operate freely and to attract private investors. An action plan setting forth a precise timetable for implementation of the reform strategy was adopted by the government in November 2006. It is expected that tenders for the sale of some of the washing stations will be launched in 2007. The authorities will ensure that the regulatory powers of OCIBU do not impede private investment and that the risks to the objectives of the reform which emerge during the transition to a privatized sector are carefully contained. OCIBU will make every effort, in collaboration with its partners in the sector, to minimize marketing costs and recover payments arrears from the SOGESTALS.

29. **As regards other sectoral reforms**, the authorities have requested support from the World Bank to conduct a study on the development of the sugar sector by end-April 2007. They will also request technical assistance from the World Bank to conduct a study on the petroleum sector by end-June 2007.

30. The government recognizes the importance of a rational and sustainable management of its **natural resources** within a legal framework that ensures transparency and respect for the environment. The authorities will be requesting technical assistance from the IMF and World Bank on formulating a legal and tax framework that is consistent with international best practices.

Measure	Timetable	Status
Privatization		
<ul style="list-style-type: none"> Dismantling by SCEP of cross-shareholdings in the public sector and consolidation of public shares in government's hands 	First half of 2007	
<ul style="list-style-type: none"> Strengthen the capacity of the state privatization agency (SCEP), with World Bank technical assistance, in particular to: <ul style="list-style-type: none"> Carry out financial appraisals of enterprises; Reform, restructure, and privatize companies with public equity interests; and Provide training in the evaluation of offers to buy. 	Beginning in June 2006	In progress.
<ul style="list-style-type: none"> Launch tenders for the sale of OCIBU assets not directly related to coffee marketing, namely the former CEDUCA, ICB, and UNICAFE factories. 	January 2007	In progress
<ul style="list-style-type: none"> Privatization of APB, OPHAVET, and COTEBU, and of management of the Source du Nil hotel. 	First half of 2007	
<ul style="list-style-type: none"> Launch tenders for the sale of Bujumbura Port Enterprises (EPB), BCC, and SIP, following the consolidation of public sector shares with the government. 	First half of 2007	
<ul style="list-style-type: none"> Promulgation of the privatization law, with effective and transparent procedures. 	Early 2007	
<ul style="list-style-type: none"> SCEP will implement the privatization of state assets in the banking sector, in close consultation with the BRB to avoid 	2007	

further concentration in the sector. The authorities will seek IFC support in this area.		
Coffee sector reform strategy		
<ul style="list-style-type: none"> Pursuit and reinforcement of the management of coffee marketing by the coffee reform monitoring committee in order to minimize delays, costs, financing requirements, and financial risks both for producers and for the government. 	2006-08	In progress
<ul style="list-style-type: none"> Weekly cash flow management, including that of the OCIBU Stabilization Fund, of the crop financing. 	2006-08	In progress
<ul style="list-style-type: none"> Collection of payments arrears for prior crop years from SOGESTALS and factories. 	2006-08	In progress
<ul style="list-style-type: none"> Prohibition on the SOGESTALS to declare or distribute dividends until their arrears have been cleared and debts repaid. 	2006-08	In progress
<ul style="list-style-type: none"> Financial audit of the coffee sector's 2005/06 crop year, with the support of the World Bank. 	February 2007	Terms of reference in preparation
<ul style="list-style-type: none"> Preparation of a strategy for the privatization of the 133 washing stations and the shelling factories. 	March 2007	
<ul style="list-style-type: none"> Prohibition on the building of new washing stations by SOGESTALS. 	2006-08	In progress
<ul style="list-style-type: none"> Adoption by the government, with the assistance of the World Bank, of the recommendations of the study on the legal, regulatory, and institutional framework of the coffee sector. 	March 2007	
Other structural reforms		
<ul style="list-style-type: none"> Study on the sugar sector, with support from the ERSP project (World Bank). 	First half of 2007	
<ul style="list-style-type: none"> Study on the oil sector, with support from the ERSP project, with the aim of liberalization. 	First half of 2007	
<ul style="list-style-type: none"> Develop a legal and fiscal framework for the exploitation of natural resources in keeping with international best practices, with technical support from the World Bank and the IMF. 	2007	

E. Transparency, Good Governance, and National Statistics

31. In an effort to enhance **transparency** and allow the public to better understand and follow the economic reforms, the government and the BRB publish decrees, laws, decisions, as well as economic reform strategies and, in particular, the Memorandum on Economic and Financial Policies addressed to the IMF Managing Director, on the government, BRB, and REFES websites, which are kept up to date. The budget and operations of the *Bulletin officiel du Burundi (BOB)* will be strengthened. The **Audit Court** will continue to strengthen its activities. The government is convinced of the importance of protecting the independence of the magistrates of the Audit Court.

32. An **Anti-Money Laundering (AML)** law, prepared with IMF technical assistance, was approved by the council of ministers in February 2007 and is expected to be promulgated in the first half of 2007.

33. The authorities are committed to continue their efforts to improve the quality of **national statistics** and, with support from AFRISTAT, intend to resume the regular production of the national accounts and improve the reliability and coverage of the consumer price index. Support for the development of national statistics will be sought at the next UNDP-sponsored donors' roundtable.

Measure	Timetable	Status
Transparency and good governance		
• Audit of government accounts by the Audit Court.	2006-08	In progress
• Publication on official websites of decisions, ordinances, decrees, laws, and reform strategies, including the Memorandum on Economic and Financial Policies, once it is approved by the IMF Executive Board.	2006-08	In progress
• Creation (with support from the ERSP project) of a website that brings together all laws, regulations, ordinances, and implementing provisions, at the legislation unit of the Ministry of Justice.	2007	
Legal framework		
• Submit a draft anti-money laundering law to the government.	December 2006	Completed, February 2007
• Publish the Investment Climate Assessment produced with the support of the World Bank.	April 2007	
• Prepare an action plan for improving the business climate.	June 2007	
Statistics		
• Approval of the National Statistical Development Strategy (SNDS) and implementation of the roadmap.	March 2007	
• Implement the measures from the statistics action plan that can be achieved with identified available resources.	2007	
• Promulgation of the accession treaty for AFRISTAT.	First quarter of 2007	Awaiting Parliamentary ratification

Measure	Timetable	Status
<ul style="list-style-type: none"> Promulgation of the statistics law. 	First quarter of 2007	A draft law was submitted to Parliament on December 21, 2006
<ul style="list-style-type: none"> Adoption of the implementing provisions of the statistics law, which establish a new institutional framework for ISTEERU and a new code for ISTEERU employees. 	March 2007	
<ul style="list-style-type: none"> Resume the regular production of national accounts and publish a series based on the methodology of the <i>System of National Accounts 1993 (SNA93)</i> for 1999-2005. 	2007	
<ul style="list-style-type: none"> Update the metadata for participation in the IMF's GDDS initiative. 	March 2007	
<ul style="list-style-type: none"> Expand the coverage of the CPI: <ul style="list-style-type: none"> Expand the coverage of the new index to include the provinces for which regular data collection already exists; Conduct a survey on household consumption budgets; and Update the weights of the items included in the CPI consumption basket, following the survey on household consumption budgets. 	March 2007 June 2007 2007	

F. Program Financing and External Sector Policies

34. The external financing of the program, excluding projects, is estimated at US\$148 million, and includes disbursements from the IMF under the existing PRGF arrangement; the World Bank (US\$25 million; under the second tranche of the ERSG); the European Union (US\$2 million from the last variable tranche of the ninth FED and US\$20 million in new support); bilateral donors (US\$36 million), and traditional debt relief on current maturities (US\$3 million) and under the HIPC Initiative (US\$39.4 million). The residual financing gap of US\$ 6.5 million could be covered by a possible new PRGF arrangement (in line with access norms).

35. The authorities have initiated discussions with non-Paris Club creditors with a view to benefiting from debt relief on terms similar to those granted by bilateral creditors in the Paris Club. The authorities intend to strengthen their external debt management capacity with technical assistance from the African Development Bank with the aim to beginning the production of monthly reports, including debt service projections for the three following months.

G. The PRSP

36. **The PRSP was finalized and published in September 2006.** It presents a medium- and long-term development vision for Burundi and sets poverty reduction targets consistent with the Millennium Development Goals (MDGs). The PRSP is built around the following principles: (i) refocusing the role of the state to favor private sector development; (ii) maintaining peace and security; (iii) capacity building; (iv) resuming

economic growth; (v) strengthening community involvement; (vi) affirming the central role of women; and (viii) promoting a new partnership with donors. The sectoral programs and macroeconomic framework are oriented around four strategic axes: the improvement of governance and security; the promotion of sustainable and equitable economic growth; the development of human capital; and combating HIV/AIDS.

37. **Following the publication of the PRSP, the authorities will implement the measures needed to reach the HIPC completion point by end-2007.** The building of PRSP monitoring capacities will be undertaken with the support of the international community. In addition, budget tracking exercises for the education, health, and justice sectors, as well as a user assessment of the quality of services provided, are planned for the first half of 2007. In support of PRSP implementation, the government is preparing a UNDP roundtable in the first quarter of 2007. In October 2006, Burundi began discussions with the United Nations Peace building Commission on multisectoral assistance.

H. Technical Assistance

38. Burundi has extensive **technical assistance** needs. The authorities will continue to work closely with multilateral partners, in particular through the World Bank's ERSP project, and bilateral partners to strengthen the administrative capacity of Burundi's institutions. IMF technical assistance will continue in the areas of tax policy and tax administration, public expenditure management, monetary and exchange policy, banking supervision, and economic statistics. This assistance will be reinforced through the creation of the new AFRITAC centre in early 2007, of which Burundi is a member.

I. Program Monitoring

39. The quarterly quantitative performance criteria and indicative targets for 2006 and outcomes at end-June and end-September 2006 are shown in Table 1. The situation with respect to structural reforms in 2006 is set out in Table 2. The indicative quarterly quantitative performance criteria for 2007 are shown in Table 3. The prior actions for the fifth review, as well as the structural performance criterion and benchmarks for 2007, are shown in Table 4. The definitions of the program's performance targets, external assistance adjustors, and underlying assumptions, as well as Burundi's reporting requirements, are described in the attached TMU. Burundi will avoid incurring overdue financial obligations to the Fund, as well as introducing new exchange restrictions, multiple currency practices, bilateral payments agreements, inconsistent with Article VIII of the Fund's Article of Agreement, and import restrictions for balance of payments purposes. In addition, the authorities stand ready to adopt any new financial or structural measures, in consultation with Fund staff, which may become necessary to ensure program success.

40. The **sixth and last review** under the current PRGF arrangement is scheduled to be completed by August 2007 and will be assessed through the observance of the quantitative performance criteria for end-December 2006 and the structural performance

criterion at end-June 2007. The sixth review will focus on progress in the privatization of state assets, the strengthening of public financial management, and the continuation of reforms at the BRB. The authorities are interested in a new successor PRGF arrangement, to the current arrangement which expires in September 2007, to avoid any interruption in Fund support.

Table 1. Burundi: Performance Criteria and Indicative Targets for 2006
(Billions of Burundi francs, unless otherwise indicated)

	2005		2006								
	Dec.	Mar.	Jun. ^{1/}			Sep. ^{1/}			Dec. ^{2/}		
	Act.	Act.	Prog.	Prog. Adj.	Act.	Prog.	Prog. Adj.	Proj.	Prog.	Prog. Adj.	Proj.
Performance targets											
Net foreign assets of the BRB (floor; millions of U.S. dollars) ^{3/}	48.9	26.3	40.9	-17.5	8.5	48.0	-22.0	-14.1	55.6	15.1	29.9
Net domestic assets of the BRB (ceiling) ^{3/}	51.7	68.0	69.7	128.1	88.4	62.8	132.8	113.1	58.6	99.1	75.0
Net domestic financing of the government (ceiling) ^{3/4/}	10.4	4.5	14.2	72.6	10.1	36.7	93.7	22.3	22.9	63.4	35.7
External payments arrears of the government (ceiling; millions of U.S. dollars)	0.5	0.0	0.0	0.0	0.2	0.0	0.0	0.6	0.0	0.0	0.4
Short-term external debt of the government (ceiling; millions of U.S. dollars) ^{5/}	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; cumulative; millions of U.S. dollars) ^{6/}	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets											
Primary balance of the government (ceiling; cumulative from beginning of calendar year) ^{7/}	-14.6	6.0	-32.8	...	5.9	-67.1	...	-17.6	-84.8	...	-56.8
Government's wage bill (ceiling; cumulative from beginning of calendar year)	72.6	17.1	40.2	...	40.7	71.1	...	67.5	94.8	...	96.6
Adjustors											
External nonproject financial assistance (millions of U.S. dollars) ^{7/8/}											
Cumulative from the beginning of the year	...	2.4	63.3	...	4.9	74.9	...	4.9	107.8	...	67.3
<i>Of which:</i>											
EU	...	0.0	12.5	...	0.0	12.5	...	0.0	17.0	...	13.1
World Bank	...	0.0	35.0	...	0.0	35.0	...	0.0	60.0	...	35.1
AfDB	...	0.0	0.0	...	0.0	11.0	...	0.0	11.0	...	11.0
France	...	0.0	0.0	...	0.0	0.0	...	0.0	3.0	...	3.3
Belgium	...	2.4	2.4	...	2.4	2.4	...	2.4	2.4	...	2.4
UK	...	0.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0
Netherlands	...	0.0	10.0	...	0.0	10.0	...	0.0	10.0	...	0.0
Other	...	0.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0
Debt relief (current maturities, excluding HIPC)	...	0.0	3.4	...	2.5	4.1	...	2.5	4.5	...	2.5
Net accumulation of fiscal arrears during period	0.0	0.0	0.0	...	0.0	0.0	...	13.0	0.0	...	0.0
Exchange rates											
Fbu/US\$ (end-of-period)	1,100.0	1,018	1,000	...	1,028	1,000	...	1,057	1,000	...	1,002
Fbu/US\$ (period average)	1,050.0	1,006	1,003	...	1,025	1,000	...	1,038	1,000	...	1,045
US\$/Euro (end-of-period)	1.18	1.21	1.21	...	1.27	1.21	...	1.27	1.21	...	1.32
US\$/SDR (end-of-period)	1.43	1.44	1.44	...	1.48	1.44	...	1.48	1.44	...	1.49

^{1/} Indicative targets.

^{2/} Performance criteria.

^{3/} The ceiling or the floor will be adjusted to accommodate 100 percent of any deviation from the projected disbursements of external nonproject financial assistance shown in the table. In case of a financing excess (shortfall), the floors on the net foreign assets of the central bank will be adjusted upward (downward), and the ceilings on the net domestic assets of the central bank and on the stock of net credit from the banking system to the government will be adjusted downward (upward). External financing will be converted to Burundi francs at the program end-period Fbu/U.S. dollar exchange rate.

^{4/} The ceiling on net domestic financing of the government will be adjusted downward for any accumulation of domestic arrears as defined in the Technical Memorandum of Understanding (TMU).

^{5/} Excluding short-term, import-related trade credits.

^{6/} With a grant element of less than 50 percent.

^{7/} As defined in the TMU and revised to reflect a reclassification of spending on the new police force from projects to recurrent expenditures.

^{8/} Nonproject assistance includes debt relief on current maturities and net cash payments to clear arrears.

Table 2. Burundi—Status of Performance Criteria and Structural Benchmarks for 2006 under the Third and Fourth PRGF Reviews

Measure	Timetable (end-month)	Status
Structural performance criterion		
<ul style="list-style-type: none"> Commence tendering of negotiable Treasury securities in standard denominations, managed by the BRB for the account of the government. 	September 2006	Completed. First tender launched December 29, 2006
Structural benchmarks		
<ul style="list-style-type: none"> Adopt and publish the unified exchange system regulation. 	June 2006	Completed. Regulation issued December 12, 2006
<ul style="list-style-type: none"> Approval by the council of ministers of a new institutional framework for ISTEERU and a new code for ISTEERU employees that will allow them henceforth to produce without interruption the principal macroeconomic indicators. 	June 2006	Anticipated with the implementing provisions of the statistics law in the first quarter of 2007
<ul style="list-style-type: none"> Adopt officially, and include in the PRSP the development plan for statistics prepared by the IMF Statistics Department mission of March 2006. 	June 2006	Completed with council of ministers approval of the PRSP on August 17, 2006
<ul style="list-style-type: none"> Submit to the National Assembly the revised BRB charter establishing the independence of the central bank. 	September 2006	First quarter of 2007
<ul style="list-style-type: none"> Submit to the National Assembly the draft Anti-Money Laundering bill incorporating the comments of the IMF. 	September 2006	First quarter of 2007
<ul style="list-style-type: none"> Launch the coffee sector privatization program by issuing tenders for sale of the washing stations and shelling factories. 	October 2006	2007-08
<ul style="list-style-type: none"> Integrate the payroll into IFMIS. 	December 2006	Completed, February 20, 2007

Table 3. Burundi: Indicative Targets for 2007
(Billions of Burundi francs, unless otherwise indicated)

	2006	2007 ^{1/}			
	Proj.	Mar. Proj.	Jun. Proj.	Sept. Proj.	Dec. Proj.
Performance targets					
Net foreign assets of the BRB (floor; millions of U.S. dollars) ^{2/}	29.9	24.8	44.1	24.7	31.1
Net domestic assets of the BRB (ceiling) ^{2/}	75.0	81.8	67.6	89.5	85.2
Net domestic financing of the government (ceiling) ^{2/3/}	35.7	-2.0	-21.1	4.5	0.1
External payments arrears of the government (ceiling; millions of U.S. dollars)	0.4	0.0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; millions of U.S. dollars) ^{4/}	0.0	0.0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; cumulative; millions of U.S. dollars) ^{5/}	0.0	0.0	0.0	0.0	0.0
Indicative targets					
Primary balance of the government (ceiling; cumulative from beginning of calendar year) ^{6/}	-56.8	-5.7	-26.7	-56.3	-68.3
Government's wage bill (ceiling; cumulative from beginning of calendar year)	96.6	28.3	59.1	90.4	121.7
Adjustors					
External nonproject financial assistance (millions of U.S. dollars) ^{6/7/}					
Cumulative from the beginning of the year	67.3	15.7	57.4	63.2	86.0
<i>Of which:</i>					
EU	13.1	2.3	2.3	2.3	21.8
World Bank	35.1	0.0	25.0	25.0	25.0
AfDB	11.0	0.0	0.0	0.0	0.0
France	3.3	2.6	2.6	2.6	2.6
Belgium	2.4	0.0	0.0	0.0	2.6
Netherlands	0.0	10.0	20.0	25.0	25.0
Norway	0.0	0.0	6.0	6.0	6.0
Debt relief (current maturities, excluding HIPC)	2.5	0.8	1.5	2.3	3.0
Net accumulation of fiscal arrears during period	0.0	0.0	0.0	0.0	0.0
Exchange rates					
FBu/US\$ (end-of-period)	1,002	1,030	1,030	1,030	1,030
FBu/US\$ (period average)	1,045	1,025	1,030	1,030	1,030
US\$/Euro (end-of-period)	1.32	1.30	1.30	1.30	1.30
US\$/SDR (end-of-period)	1.49	1.51	1.50	1.50	1.50

^{1/} Indicative targets.

^{2/} The ceiling or the floor will be adjusted to accommodate 100 percent of any deviation from the projected disbursements of external nonproject financial assistance shown in the table, up to a maximum cumulative adjustment of US \$ 50 million. In case of a financing excess (shortfall), the floors on the net foreign assets of the central bank will be adjusted upward (downward), and the ceilings on the net domestic assets of the central bank and on the stock of net credit from the banking system to the government will be adjusted downward (upward). External financing will be converted to Burundi francs at the program end-period FBu/U.S. dollar exchange rate.

^{3/} The ceiling on net domestic financing of the government will be adjusted downward for any accumulation of domestic arrears as defined in the Technical Memorandum of Understanding (TMU).

^{4/} Excluding short-term, import-related trade credits.

^{5/} With a grant element of less than 50 percent.

^{6/} As defined in the TMU and revised to reflect a reclassification of spending on the new police force from projects to recurrent expenditures.

^{7/} Nonproject assistance includes debt relief on current maturities and net cash payments to clear arrears.

Table 4. Burundi: Prior Actions for the Fifth Review under the PRGF, and Structural Performance Criterion and Benchmarks for 2007

Measure	Timetable (end-month)	Status
Prior actions		
• Launch tenders for Treasury bills and bonds in standard denominations, managed by the BRB for the account of the government.		Completed. First tender launched December 29, 2006
• Adopt and publish the single exchange system regulation.		Completed. Regulation issued December 12, 2006
• Promulgate the customs code		Completed, January 11, 2007
• Approval by council of ministers of the draft anti-money laundering law in keeping with IMF staff recommendations		Completed, draft AML law approved by the council of ministers on February 14, 2007
• Creation of a unit attached to the office of the Minister of Finance, responsible for the monitoring and coordination of public finance reforms.		Completed, November 28, 2006
• Launch the process of dismantling cross-ownership and consolidation of public sector assets with the government.		Completed, January 29, 2007
• Issue decree transferring payroll management to the Ministry of Finance.		Completed, February 21, 2007
• Submission to Parliament of the draft statistics law.		Completed, December 21, 2006
• Promulgate the 2007 Budget Law in conformity with the program discussed with IMF staff.		Completed, December 30, 2006
Structural performance criterion		
• Establishment of a single data file for the computerized management of the payroll at the Ministry of Finance.	June 2007	
Structural benchmarks		
• Launch of the first risk-based internal audit of the BRB.	March 2007	
• Census of all employees in the civil service, police force, and army.	June 2007	

REPUBLIC OF BURUNDI
TECHNICAL MEMORANDUM OF UNDERSTANDING
 February 21, 2007

1. This technical memorandum of understanding sets out the definitions of program variables to monitor the implementation of the program and the reporting requirements for the government of Burundi and the Bank of the Republic of Burundi (BRB). It defines (i) the quantitative performance criteria, indicative targets, and applicable adjusters; and (ii) the key assumptions on which the economic program for 2007 set out in the memorandum of economic and financial policies (MEFP) of the government of Burundi is based, which is annexed to the letter of February 21, 2007 from the Second Vice-President, the Minister of Finance and the Governor of the BRB to the Managing Director of the International Monetary Fund.
2. The prior actions, the structural performance criteria, and the structural indicators for 2007 are listed in Table 4 of the MEFP.

A. QUANTITATIVE PROGRAM TARGETS

Quantitative performance criteria and indicative targets

3. Quantitative performance criteria under the program are set on the end-December 2006 stocks as set out in Table 1 of the MEFP, as follows:
 - net foreign assets of the BRB (floor);
 - net domestic assets of the BRB (ceiling);
 - net domestic financing of the government (ceiling);
 - external payments arrears of the government (ceiling);
 - the outstanding stock of short-term external debt (maturity of less than one year) of the government and the BRB (ceiling); and
 - new nonconcessional medium- and long-term external debt contracted or guaranteed by the government or the BRB (ceiling).

The quarterly targets on the above variables for 2007 are indicative.

4. Quantitative indicative targets under the program as set out in Table 3 of the MEFP, are as follows:
 - primary budget balance, excluding externally financed projects (floor); and
 - the government's wage bill (ceiling).

Definitions and measurement

5. The **net foreign assets of the BRB** are defined as the difference between (i) foreign exchange assets and gold holdings (valued at market prices); and (ii) foreign exchange liabilities to nonresident entities (including the use of Fund resources, but excluding the counterpart of SDR allocations). These amounts are valued in terms of U.S. dollars based on the end-June 2006 exchange rate. The net foreign assets of the BRB totaled FBU -13.4 billion, equivalent to US\$ -12.7 million, at end-September 2006, broken down as follows:

	In billions of Burundi francs	In millions of U.S. dollars
Net foreign assets of the BRB	-13.4	-12.7
Foreign assets	81.5	77.1
Official reserves	80.7	76.3
Foreign currency holdings	5.1	4.9
Deposits with correspondents (excluding IMF)	74.2	70.2
SDR holdings	0.2	0.2
Reserve position with the IMF	0.6	0.5
Gold holdings	0.6	0.6
Other claims	0.9	0.8
Foreign liabilities	95.0	89.9
Liabilities vis-à-vis correspondents (excluding IMF)	9.0	8.5
Counterpart of the use of IMF resources	86.0	81.4
Other liabilities	0.0	0.0

6. The **gross official reserves of the BRB** are defined as those foreign assets that are liquid and freely available to the central bank. At end-September 2006, gross official reserves stood at US\$ 76.3 million.

7. The **net domestic assets of the BRB** are defined as the difference between (i) reserve money, comprising currency in circulation, reserves of commercial banks, and other deposits held at the BRB, and (ii) net foreign assets of the BRB. Net domestic assets of the BRB totaled FBU 111.6 billion at end-September 2006, broken down as follows:

	In billions of Burundi francs
Net domestic assets of the BRB	111.6
Reserve money	98.1
Currency in circulation	68.2
Reserves of commercial banks	27.7
Other non-bank deposits	2.3
Minus: net foreign assets of the BRB	-13.4

8. **Net domestic financing of the government** is defined as the sum of the flows from (i) loans, advances, and other credit to the government from the BRB and all of Burundi's commercial banks; (ii) the change in the outstanding stock of all government securities held by the non-bank public denominated in Burundi francs, including that held by nonresidents; (iii) less government deposits held in the BRB or Burundi's commercial banks at those institutions. The coverage of government is defined as central government and any other special funds or operations that are part of the budgetary process or have a direct impact on the government's financial position. Net domestic financing of the government at end-September 2006 totaled FBu 151.4 billion, broken down as follows:

	In millions of Burundi francs
Total	151.4
Net banking credit to the government	145.3
Central government	160.0
Loans, advances and other credits	199.8
BRB	195.5
Commercial banks (including postal accounts)	4.3
Deposits	39.8
BRB	38.1
Commercial banks (including postal accounts)	1.7
Other administrations (net)	-14.7
Non-bank financial institutions	0.3
Treasury bonds and certificates	0.3
Others	5.8
Treasury certificates	5.8

9. The stock of **external payments arrears** for program monitoring purposes is defined as the end-of-period amount of external debt service due and not paid, including contractual and late interest, for which a clearance agreement is not in place or for which arrears are not reschedulable. Arrears for which a clearance framework has been agreed with the creditor or which are subject to rescheduling or restructuring are not considered arrears for program monitoring purposes. Program arrears would include any debt service due under such agreements that have not been paid. The external payments arrears at end-September 2006 are broken down as follows, showing the actual stock under the heading "technical arrears":

External payments arrears	Program definition	Technical arrears
	(In billions of Burundi francs)	
Total	0.6	53.1
Multilateral	0.6	9.7
International Development Association	0.0	0.0
AfDB Group	0.0	0.0

External payments arrears	Program definition	Technical arrears
	(In billions of Burundi francs)	
African Development Bank	0.0	0.0
African Development Fund	0.0	0.0
Nigeria Trust Fund	0.0	0.0
International Monetary Fund	0.0	0.0
European Union	0.0	0.0
International Fund for Agricultural Development (IFAD)	0.0	0.0
Arab Bank for Economic Development in Africa (BADEA)	0.6	0.6
OPEC Fund	0.0	8.4
Development Bank of the Great Lakes States (BDEGL)	0.0	0.7
Bilateral and commercial	0.0	43.4
Paris Club	0.0	0.0
French Cooperation Agency (AFD)	0.0	0.0
Japan (FCEOM)	0.0	0.0
Russia	0.0	0.0
Other official bilateral	0.0	42.9
Abu Dhabi Fund	0.0	2.5
Kuwait Fund	0.0	18.4
Saudi Arabia Fund	0.0	16.6
Libyan Bank	0.0	5.4
Commercial	0.0	0.5
AD Consultants	0.0	0.0
Kreditanstalt für Wiederaufbau AMSAR	0.0	0.5

10. The **domestic arrears of the government** amounted to FBu 35.7 billion as of end-2004, of which FBu 4.2 billion was to state enterprises. This total was identified by the Ministry of Finance and audited by an external auditor. In 2005, the budget cleared FBu 3.8 billion of these arrears. The outstanding balance (FBu 25.7 billion) will be cleared by end-June 2006, according to the strategy described as follows. An official decision by the government will establish the total amount of arrears, as well as the modalities for their settlement. All individuals and corporations holding arrears claims will receive a cash payment of FBu 100 million upon signing a note liquidating their claim on these arrears (total cash payment estimated at FBu 7.4 billion). For creditors with validated arrears greater than FBu 100 million, a certificate recognizing these debts will be issued for the nominal value of the remaining arrears (FBu 18.3 billion). These certificates will not earn interest but will be freely exchangeable for treasury bonds of about 3–5 years maturity. These bonds will be auctioned by the BRB, on behalf of the government treasury. These certificates can equally be used (100 percent of their nominal value) in the privatization program, to settle winning offers to buy. The payments arrears of public enterprises, as well as the cross-debts of the petroleum sector, are not included in this settlement process and will be dealt with separately.

11. The program includes a ceiling on **new nonconcessional external debts** contracted or guaranteed by the government and the BRB, which precludes the contracting of any such debt. This performance criterion applies to the contracting or guaranteeing by the central government, local governments, or the BRB of new nonconcessional external debt (as specified below) with an original maturity of more than one year, including commitments contracted or guaranteed for which value has not been received. The term debt shall be understood as defined in the Executive Board Decision No. 12274-(00/85) adopted August 24, 2000. Debt rescheduling and restructuring are excluded from the criterion. Included are financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on nonconcessional terms. In determining the level of concessionality of these obligations, the definition of concessional borrowing shall apply. Concessional debt is defined as having a grant element of 50 percent or more. For loans with a maturity of at least 15 years, the 10-year average commercial interest reference rates (CIRRs) published by the OECD should be used as the discount rate for assessing the level of concessionality, while the 6-month average CIRRs should be used for loans with shorter maturities. To both the 10-year and the 6-month average CIRRs, the following margins should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15-19 years; 1.15 percent for 20-29 years; and 1.25 percent for 30 years or more. The performance criterion is defined to exclude the use of Fund resources and any Burundi franc-denominated treasury securities held by nonresidents.

12. The **stock of short-term external debt**, with a maturity of up to, or equal to, one year, owed by the government is to remain at zero under the program. Normal import credits are excluded from this ceiling. Loans with an initial maturity, as recorded in the original loan agreement, of more than one year are considered medium-term or long-term loans. This performance criterion applies not only to debt, as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received (including leasing). Excluded from this performance criterion are rescheduling arrangements, borrowing from the Fund, and any Burundi franc-denominated treasury securities held by nonresidents. As of end-September 2006, the stock of short-term debt outstanding was nil, as was nonconcessional medium- and long-term debt contracted during the year.

13. **Receipts from privatization** are projected to be FBu 4.2 billion in 2006, and 5.6 billion in 2007. 50 percent of receipts above the projected amount will be used to reduce the domestic borrowing requirement. Any privatization receipts over and above this amount will be used to reduce domestic debt.

14. The government's **primary fiscal balance** is defined as the difference between total government revenue, excluding grants, on the one hand, and non-interest current government expenditure and domestically financed capital expenditure (including through the use of counterpart funds), on the other hand. The primary fiscal balance for 2006 projected to FBu -56.8 billion, and the target for 2007 is FBu -68.3 billion, broken down as follows:

	2006	2007
Primary budget balance	-56.8	-68.3
Total revenue	178.4	203.0
Minus:		
Non-interest current expenditure	199.4	239.5
Domestically financed capital expenditure	37.8	33.8
Net lending	-2.0	-2.0

15. The **government's wage bill** is defined as total labor remunerations on a commitments basis for civil servants, contractual employees, police and military personnel of the government, including all allowances and bonuses. The government's wage bill is projected to be FBu 96.6 billion for 2006 and FBu 121.7 billion for 2007, broken down as follows:

	2006	2007
Government wage bill	96.6	121.7
Civilian personnel	58.5	74.9
Military personnel	23.0	27.1
National Police Force	15.1	19.7

16. As allowed by article 22 of 2007 Budget Law No. 1/38 (December 30, 2006), the Ministry of Finance, under its powers to implement the budget, will constitute a **contingency of non-priority expenditures** for FBu 4.7 billion. The Ministry of Finance will set monthly ceilings of expenditure commitments in order to contain the spending to the level of available financing. The contingency (FBu 1.9 million in goods and services and FBu 2.8 million in domestically financed capital expenditure) will be released only following confirmation of additional external financial support to the budget to that assumed in the program.

External financial assistance adjustor

17. The program provides for a asymmetrical adjustor for shortfalls or excesses in external financial assistance that is applied to quantitative targets for the net foreign assets and net domestic assets of the BRB, and for net bank credit to the government.

18. External financial assistance (measured in U.S. dollars) is defined to include the following: (i) non-project loans and grants to the budget (including payments made through the multi-donor trust fund managed by the World Bank for current debt service to multilaterals); (ii) debt relief on current maturities; minus (iii) any cash payments for external arrears clearance operations. Disbursements into blocked accounts by donors for the purpose of clearing arrears will not be included as foreign assistance for program monitoring purposes. The assumptions for 2006 and 2007 are shown below.

Burundi: External Financing Adjustors of Performance Criteria and Indicative Targets Under the 2006 – 2007 Program

(In millions of U.S. dollars)

	2006						2007			
	Jun.		Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
	Prog.	Act.	Prog.	Act.	Prog.	Prel.	Prog.	Prog.	Prog.	Prog.
External nonproject financial assistance (cumulative from the beginning of each calendar year)	63.3	4.9	74.9	4.9	107.8	67.3	15.7	57.4	63.2	86.0
<i>Of which:</i>										
EU	12.5	0.0	12.5	0.0	17.0	13.1	2.3	2.3	2.3	21.8
World Bank	35.0	0.0	35.0	0.0	60.0	35.1	0.0	25.0	25.0	25.0
AfDB	0.0	0.0	11.0	0.0	11.0	11.0	0.0	0.0	0.0	0.0
France	0.0	0.0	0.0	0.0	3.0	3.3	2.6	2.6	2.6	2.6
Belgium	2.4	2.4	2.4	2.4	2.4	2.4	0.0	0.0	0.0	2.6
Netherlands	10.0	0.0	10.0	0.0	10.0	0.0	10.0	20.0	25.0	25.0
Norway	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.0	6.0	6.0
Debt relief (current maturities, excluding HIPC)	3.4	2.5	4.1	2.5	4.5	2.5	0.8	1.5	2.3	3.0

Sources: Burundi authorities; and Fund staff estimates.

19. The ceiling or floor targets will be adjusted to accommodate 100 percent of any deviation from the projected cumulative external financial assistance. In case of a financing excess (shortfall), the floor on the stock of net foreign assets of the central bank will be adjusted upward (downward), and the ceilings on the stock of net domestic assets of the central bank and on the stock of net credit from the banking system to the government will be adjusted downward (upward). In the case of a financing shortfall the adjustment will be limited to a maximum of US\$50 million. External financial assistance will be converted to Burundi francs using the program end-period FBU/US\$ exchange rate.

Domestic payments arrears adjustor

20. The ceiling on net domestic financing of the government will also be adjusted to reflect 100 percent of any deviation from the projected net accumulation of fiscal arrears, as measured by the accumulation of non-executed payment orders older than 30 days. In case of an increase (decline) in fiscal arrears, the ceiling on the stock of net credit from the banking system to the government will be adjusted downward (upward).

B. Key Program Assumptions

21. The main program assumptions are drawn from the WEO projections of December 2006 as follows:

	2005	2006				2007			
		Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
<i>Average export prices</i>									
Coffee (cents per pound)	114.3	105.0	106.0	118.4	108.0	108.1	121.5	120.0	115.0
Tea (dollars per kg)	204.8	212.5	202.7	254.5	239.6	246.9	225.7	215.0	210.0
Oil (US dollar per barrel)	53.4	60.0	56.5	61.0	68.3	68.8	59.0	52.3	53.3
<i>End-period exchange rate</i>									
Dollar / SDR	1.43	1.44	1.48	1.48	1.50	1.51	1.50	1.50	1.50
Dollar / euro	1.18	1.21	1.27	1.27	1.32	1.30	1.30	1.30	1.30
Burundi franc / dollar	997.8	1017.5	1024.9	1038.5	1045.0	1030.0	1030.0	1030.0	1030.0

C. Provision of Information to IMF Staff

22. To facilitate the monitoring of program implementation, the Burundi government will prepare a monthly report within five weeks of the end of each month, which will be sent to IMF staff. In addition, the staff of the monitoring committee (technical bureau of the Secrétariat Permanent de Suivi des Réformes Économiques et Sociales—SP/REFES) will forward to the African Department of the IMF, by facsimile or electronic mail, the data required for program monitoring.

These data will include, in particular, on a weekly basis the following:

- a monitoring table (*tableau de bord*) containing the most recent weekly and monthly data on the main financial indicators (REFES);
- a table on the foreign exchange cash flow (BRB Foreign Banking Operations Department);
- foreign exchange auction market (MED) transactions;
- the balance sheet of the BRB (weekly statement) (BRB Research Department).

The following data are to be provided on a monthly basis:

- the monetary survey, including the breakdown of the central bank and of commercial banks (BRB Research Dept.);
- the financial position of the government vis-à-vis the banking system (BRB Research Department);
- a detailed breakdown of government revenue (Ministry of Finance);
- a detailed breakdown of government expenditure on a commitment basis (Ministry of Finance);

- a detailed breakdown of the government wage bill on a commitment basis (Ministry of Finance);
- detailed information on government social spending, in particular on the health and education sectors (Ministry of Finance);
- a detailed breakdown of the servicing of domestic and external public debt, including amounts due and paid, in interest and principal, as well as the breakdown by creditor and any accumulation of arrears on domestic or external debt (Ministry of Finance);
- a detailed breakdown of the stock of domestic payments arrears and cumulative flows from January 1, 2004; the accumulation of new arrears is defined as the difference between commitments and actual payments (on a cash basis, as reported in the cash statement summary—*Reddition des comptes*) (Ministry of Finance);
- the amount of new debts contracted or guaranteed by the government, including detailed information on the terms (such as currency denomination, interest rate, grace period, maturity) (Ministry of Finance);
- actual disbursements of non-project financial assistance, including new loans and debt relief granted by Burundi's external creditors (Plan/Ministry of Finance);
- an update on the implementation of structural measures planned under the program, as described in the MEFP (REFES).

23. SP/REFES/Ministry of Finance, BRB will also provide the African Department of the IMF with any information that is deemed necessary to ensure effective monitoring of the program.