

International Monetary Fund

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January 28, 2009

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

January 8, 2009

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BURUNDI—LETTER OF INTENT

Bujumbura, January 8, 2009

Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C., 20431

Dear Mr. Strauss-Kahn:

1. The Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement for Burundi on July 7, 2008, under the Poverty Reduction and Growth Facility (PRGF). This arrangement supports the medium-term program (from April 1, 2008 to March 31, 2011) aimed at continuing the process of macroeconomic stabilization, reducing poverty, promoting structural reforms, and enhancing governance. In accordance with this arrangement, the government of Burundi carried out the first review of the program together with a mission from the IMF. This review focused on implementation of the program during the period from April 1, 2008 to September 30, 2008, as well as the prospects and economic and financial measures to be implemented in 2009.
2. On the political front, the government of Burundi continues to make every effort to consolidate the peace process by implementing the agreements signed between Burundi and the warring parties.
3. On the economic and social front, the government of Burundi is pleased to report that implementation of the program has been satisfactory during the first six months of its application, despite the difficult international situation caused largely by the substantial increase in world food and oil prices. In particular, all the quantitative and structural performance criteria have been met as of September 2008.
4. The government of Burundi hopes that its strong desire and determination to implement its program rigorously with the support of the PRGF will open the way for Burundi to move toward the HIPC Initiative completion point, which we expect to reach no later than end-January 2009.
5. The government is resolved to continue implementing the policies and measures described in the Poverty Reduction Strategy Paper (PRSP) published in September 2006 and the findings of the final report sent to the IMF and the World Bank in November 2008. The Memorandum on Economic and Financial Policies (MEFP) attached to this letter completes the memorandum dated June 24, 2008.
6. The government believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose.

Burundi will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

7. The government of Burundi will provide the IMF with such information as it may request in connection with monitoring the progress made in economic and financial policy implementation. Burundi will also carry out reviews of the PRGF-supported program with the IMF every six months. The second review conducted with the IMF should be completed no later than July 2009 and the third review no later than January 2010.

8. In view of the considerable progress achieved in implementing the program supported by the PRGF, the government is requesting completion of the first review and the second disbursement of SDR 6.6 million under the PRGF.

9. As in the past, the Burundi authorities wish to make this letter available to the public, along with the attached MEFP and technical memorandum of understanding (TMU), as well as the IMF staff reports on the first PRGF review and the HIPC Initiative completion point. We, therefore, authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the official websites of the Burundi government.

Sincerely yours,

_____/s/_____

Clotilde NIZIGAMA
 Minister of Economy, Finance, and
 Cooperation for Development
 Republic of Burundi

_____/s/_____

Gaspard SINDAYIGAYA
 Governor, Bank of the
 Republic of Burundi

_____/s/_____

Gabriel NTISEZERANA
 Second Vice-President, Republic of Burundi

Attachments: Memorandum on Economic and Financial Policies
 Technical Memorandum of Understanding

Memorandum on Economic and Financial Policies

I. Introduction

1. This Memorandum on Economic and Financial Policies (MEFP) completes the memorandum dated June 24, 2008. It provides an update on the medium-term prospects of government action, reports on program implementation in 2008, and presents the economic and financial policy that will be implemented in 2009 within the framework of the program covering the period from April 1, 2008 to March 31, 2011. The measures and objectives contained in this MEFP are compatible with the Poverty Reduction Strategy Paper (PRSP) published in September 2006 and the findings of the final report sent to the IMF and the World Bank in November 2008.

2. Economic policy will continue to be guided by the following objectives: (1) return to single-digit inflation; (2) improve the composition of public spending to the benefit of priority sectors while preserving budget sustainability; (3) strengthen fiscal management (FM) and good governance; and (4) strengthen the internal control systems of the central bank.

3. Provided that public security continues to improve, the macroeconomic objectives are as follows for the period of the PRGF-supported program: (1) GDP growth should average 5 percent over the medium term, compared to the 2004–07 level of 3.6 percent; (2) inflation should slow to about 6 percent in 2011; and (3) gross official reserves should stabilize at coverage of about three months of imports.

II. PROGRAM IMPLEMENTATION IN 2008

4. Macroeconomic developments have been generally in line with the program, even if inflation was slightly higher than anticipated. For 2008, real GDP growth is projected to remain at 4.5 percent, owing to a good coffee harvest. Inflation is expected to be 22 percent compared to the targeted 14 percent as a result of the increase in world food and oil prices. The overall budget deficit should be at the programmed level, and Burundi's external position will also be in line with program objectives.

5. All the quantitative performance criteria as of end-September 2008 have largely been met. On the other hand, the target for cumulative internal arrears was not met because of the delay in disbursements of budget support. Moreover, the payroll ceiling was exceeded as a result of higher-than-expected payrolls in the priority sectors.

6. The government has made significant progress in structural reforms. With respect to fiscal management, the parliament adopted a new budget Organic Law that takes into account modern principles of fiscal management and transparency and specifies the concepts, principles, and responsibilities applicable to staff of the public revenue department. The action plan aimed at replacing the transaction tax with the value-added tax

was approved by the Council of Ministers. The elimination of all exemptions in the indirect tax system is to be incorporated into the new tax code, which is expected to be adopted in 2009. The government also completed the census of government civil servants. The report indicates that the civil servant status of 1,801 agents remains to be verified. The census of police and armed forces personnel has been started.

7. In the economic and financial area, the new investment law promulgated in September 2008 is consistent with best international practices and is aimed at improving the business climate. The parliament also adopted a new law concerning the central bank that reinforces its independence and good governance, in accordance with best international practices. Moreover, the central bank has implemented important measures to strengthen its system of internal controls and risk management, following the recommendations of the recent safeguards assessment report prepared by IMF staff.

8. To deal with the increase in world food prices that has dealt a hard blow to our country, the government has taken a number of measures aimed at helping the vulnerable groups of society while encouraging local production. Temporary and targeted tariff reductions have been carried out on food and oil imports consumed by the poor. In order to reduce the social impact of the food crisis, the government has reinforced the social safety nets, particularly for programs involving food security, school cafeterias, transfers to farmers, rural agricultural micro credits, and assistance to refugees displaced by the war. Finally, to increase agricultural production, the government has provided citizens with seeds and fertilizer and launched programs to rehabilitate the irrigation system in the Imbo plain and basic infrastructure. The government would like to thank all the donors that have financially supported these initiatives, particularly the World Bank, the Netherlands, Norway, the European Union, and the African Development Bank.

III. ECONOMIC PROSPECTS AND POLICIES FOR 2009

A. Budget Policy

9. The macroeconomic framework for the 2009 budget is as follows: (1) GDP growth should remain at 4.5 percent; (2) end-of-period inflation should fall to 9 percent; and (3) gross official reserves should stabilize at coverage of about 3½ months of imports.

10. It is crucial to mobilize sufficient inland revenue to ensure the viability of the budget and increase expenditure for poverty reduction. The government will maintain the tax burden at about 19 percent of GDP, the level projected for 2008. Although introduction of the VAT and adoption of the common external tariff (CET) of the East African Community (EAC) could have a positive impact on revenue over the medium term, studies show that they could result in a loss of revenue amounting to about 0.4 percent of GDP in 2009. The government has asked the IMF for the assistance of a resident expert to help facilitate the introduction of this major fiscal reform.

11. To ensure that the revenue target is met, important measures involving fiscal and administrative policy will be taken. In particular, the government will gradually eliminate in

2009 the temporary suspension of tax levies on oil products, while taking into account the social impact on the poor. The general tax base will also be expanded by (i) reducing exemptions; (ii) continuing the census of all taxpayers, including the informal sector; and (iii) collecting tax on the remuneration of the local personnel of international agencies. Other measures, such as the renewal of auto license plates and recovery of arrears, will also help achieve the revenue target. The creation in January 2009 of the Revenue Office is a major reform that will help increase government revenue in the medium term.

12. The primary objective of the 2009 expenditure policy is to improve significantly the composition of public spending in favor of priority sectors in order to accelerate progress toward achieving the Millennium Goals. Priority expenditures are projected to increase by about 1 percent of GDP, despite the decrease in budget support in 2009. In the health sector, the necessary funds have been budgeted to provide free health care to children under 5 and to women at the time of childbirth. Plans also include recruiting 609 health care workers, including 50 physicians. In order to improve health care coverage in Burundi, a policy will be adopted to construct 10 new health centers in the most underprivileged regions.

13. In the area of education, increased funds will be dedicated to the infrastructure of schools, recruiting of teachers, and teaching materials, in order to respond to the needs of the school system stimulated by providing free primary education. The government also plans to build 1,183 classrooms at the primary level and 289 classrooms at the secondary level. The government plans to recruit 3,667 teachers, including 2,567 at the primary level, which will help lower the teacher-student ratio.

14. In the agricultural sector, efforts will be made to intensify food production in order to ensure food security. The savings from debt relief within the framework of the Multilateral Debt Relief Initiative (MDRI) will be dedicated to improving the hydraulic infrastructure, in particular the rehabilitation and extension of the irrigation system in the Imbo plain. A large-scale program for planting fruit trees will be continued, in view of the spectacular results obtained to date. In addition to its direct impact on the environment, this program will have positive effects on poverty by generating substantial revenue in rural zones and helping to reintegrate ex-combatants into society.

15. With respect to the government payroll, the target remains bringing the ratio of payroll to GDP to under 10 percent near the end of the program in 2011. To control wages, the government will continue to draw on the findings of the Public Expenditure Management and Financial Accountability Review (PEMFAR) prepared jointly by the World Bank and the government of Burundi. In particular, with the completion of the census of civil servants, the government will take measures to eliminate any ghost employees if it is ascertained that they exist. The government will continue to take the following measures in 2009: (1) freeze partially the recruitment of civil servants, except in the sectors of health, education, agriculture, and justice; (2) only partially replace retirees with new wage earners; (3) centralize recruitment by strengthening the powers of the recruitment commission; and (4) complete the census of staff in the police and armed forces in the first half of 2009. In addition, the finance ministry should assume responsibility for payroll management by taking

over the corresponding database not later than end-March 2009 (end-March 2009 structural performance criterion).

16. In order to establish a coherent framework for wage increases that takes budget resources into account, the government will conduct an audit to evaluate the budgetary impact of its past commitments for salary adjustments that have not yet been applied. Based on this audit, the government will seek an agreement with the social partners for commitments already made, while taking into account the budgetary framework. Salaries have eroded in real terms over the past years, and today the average monthly salary of a civil servant is less than \$75.

17. With respect to demobilization and reintegration policies, the government will continue to cooperate with the World Bank and other donors to ensure that this policy is carried out in a manner that effectively reintegrates ex-combatants into society and improves security conditions. With a return to peace, the reduction in military and security spending will leave a little more room for budget flexibility, as needed to increase poverty reduction expenditure without endangering budget sustainability.

18. In view of the food crisis that continues to affect the poor and most vulnerable sectors of society, the government will request donors to continue the budget support granted in 2008 to help adjust to this shock and reduce its impact on the poor. Urgent expenditure for social safety nets, amounting to about US\$9 million (about 0.6 percent of GDP) will be possible if additional budget support is obtained. This amount will make it possible to maintain the social safety nets and targeted assistance for the most vulnerable and farmers. The contributions of donors will also be necessary for school cafeteria programs in the most vulnerable areas and for the distribution of agricultural inputs to small farmers. In order to increase agricultural production, the government is working with donors (particularly the World Bank and FAO) to develop rural infrastructure, diversify agricultural production, and enhance agricultural productivity through research programs and irrigation systems.

19. To support the budget policy, the government will prepare and implement a sliding quarterly cash-flow plan (structural benchmark end-June 2009). All budget spending will require the prior authorization of the finance minister and will be executed strictly on the basis of revenue availability. A monthly budget allocation for each ministry should be defined with strict expenditure prioritization. To protect priority spending, the government will identify in advance nonpriority expenditure that will be cut in the event of a decline in revenue or financing.

B. Monetary and Foreign Exchange Policy

20. The government plans to pursue a prudent monetary policy, which is necessary to limit inflationary expectations. Until the objective of single-digit inflation is attained, the central bank will set the broad money growth rate below the nominal GDP growth rate. Such prudent monetary policy will help prevent the second-round price effect of commodity prices and other supply shocks.

21. The overall financing provided by the central bank to the government will be zero in 2009. With respect to advances from previous years (2006 and 2007), the finance minister and the central bank will negotiate a new agreement on reimbursement of these advances.

22. Better budget and monetary policy coordination will be essential, especially during this period of increasing inflationary pressures. In this regard, the computerized system for exchanging data between the finance ministry and the central bank will be put into operation.

23. Proactive management of foreign exchange reserves and sterilization of foreign exchange operations will continue within a managed floating exchange rate regime, with a view to achieving the inflation target. With technical assistance from the IMF, the central bank will continue to implement the recommendations of the IMF experts for improving the function of the foreign exchange market.

C. Structural Reforms

24. In close collaboration with development partners, the government will continue pursuing ongoing structural reforms: promotion of transparency and good governance, financial sector reform, regional integration; coffee sector reform, and oil sector reform.

Fiscal management

25. On the basis of various technical assistance reports (including the PEMFAR), the government will implement a strategy and action plan for fiscal management reforms. By end-September 2009, the Council of Ministers will adopt the fiscal management strategy and action plan, and the relevant ministries will authorize establishment of the entities responsible for their implementation.

26. In order to facilitate the gradual implementation of the single Treasury account, the government's bank accounts are being rationalized. In this context, the government has merged the ordinary budget with the investment budget and has closed more than 90 ministerial accounts. Drawing lessons from this experience, the government is committed to continuing the task of rationalizing its accounts without compromising the functions of the departments concerned. This operation should also provide the finance minister with a certain degree of flexibility. To this end, the off-budget accounts mentioned in the finance minister's letter no. 540/4904/2008 of November 12, 2008, will gradually be closed and transformed into subaccounts for special allocation from the general treasury account, no later than September 30, 2009 (end-September 2009 structural performance criterion). The government will also continue rationalizing ministerial and other accounts by closing the accounts mentioned in the finance minister's letter no. 540/4768/2008 of October 31, 2008 (end-September 2009 structural performance criterion).

27. With the promulgation of the new budget organic law in 2009, the government will make efforts to implement it gradually. In this context, the new general regulations on fiscal affairs will complete the renovation of the legislative and regulatory framework. In order to

optimize budget execution procedures, the finance minister will prepare the budget procedures manual and implement a revised list of supporting documents. In order to enhance the reform of budget and general government accounting, a new accounting procedures manual will be prepared and the accounts classification will be aligned with the budget classification.

Promoting good governance

28. The fiscal management and central bank reforms mentioned will be decisive. In addition, to accelerate the resolution of pending cases involving the embezzlement of public funds, the government will dedicate more resources (financial, material, and human) to the justice and anticorruption agencies (the State General Inspectorate, the special anticorruption team, the public prosecutor's office at the anticorruption court, and the anticorruption court). Given the immensity of the task to be accomplished by these agencies, the government is launching an appeal to development partners to provide financial and technical support to these new entities. Based on the results of the survey on corruption in Burundi conducted by the World Bank, the government will adopt a detailed anticorruption strategy in 2009.

29. With respect to the governance issues related to INTERPETROL, the authorities are committed to pursuing the legal procedures related to this case. In accordance with the laws of Burundi, the Fbu 6 billion and the deeds for 25 properties belonging to INTERPETROL that have been placed under seal will remain in place until a court decision has been reached on the case (continuous performance criterion). With respect to the tax arrears of the oil sector, the government will accelerate their collection by all legal means, based on the report on the audit of the cross-debts between the government and the oil sector.

Financial sector

30. With the promulgation of the new law on the central bank charter, the central bank will develop an action plan, with deadlines, for implementing the law and will continue to take measures to strengthen its internal control and risk management systems, following the recommendations of the technical assistance on the internal audit and the recent safeguards assessment report prepared by IMF staff. The central bank will submit to the General Council, the audit committee, and the finance minister the report on the special audits of the controls on major domestic disbursements and transfers—on behalf of the government or its creditors—that took place in the first half of 2008 (prior action). The central bank is also committed to recruiting an international auditor to conduct special audits of those controls that took place in the second half of 2008 (prior action).

31. To reinforce the financial sector, the central bank will continue taking measures to restructure certain banks. In the wake of the international financial crisis, the central bank is enhancing banking supervision. In particular, measures will be taken to implement the recommendations of the technical assistance on banking supervision. The self-evaluation of compliance with the 25 Basel principles resulted in a number of recommendations that the central bank is committed to implementing as rapidly as possible. In addition, the study on

the financial sector planned for January 2009 will guide the central bank in adopting its strategy and action plan for reform of the financial sector.

Regional and commercial integration

32. Progress in the area of commercial integration is key for achieving medium-term growth objectives, and Burundi stands to benefit considerably from joining the EAC. Aware of these potential advantages, the government has already established an interministerial committee to coordinate government efforts and facilitate the decision-making process. A national strategy and action plan, prepared with the assistance of the development partners, will be adopted soon.

Coffee sector reform

33. The reforms of the coffee sector are of great macroeconomic importance. This sector is the principal source of income for nearly 800,000 Burundi households, and coffee accounts for about two-thirds of total exports. In order to reform this sector, the government has adopted new regulations on sales, opening the coffee export market to local and international actors. The implementation of these regulations has resulted in effective penetration by exporters based on the principles of competition and transparency. In collaboration with the World Bank, the government in December 2008 adopted a plan for the withdrawal of state from the coffee sector.

Oil sector reform

34. In collaboration with the World Bank, a study of the sector is currently being conducted. The government will request technical assistance from the IMF's Fiscal Affairs Department on the use of fiscal policies and public expenditure to better protect the poor, within the framework of an automatic price adjustment mechanism.

D. External Financing

35. The government will ensure that all its external obligations are settled when due. The minister of finance prepares monthly public debt position reports that give a detailed survey of obligations falling due. These reports, which will continue to be published each month (a completion point trigger for the HIPC Initiative), will thus be a factor for strengthening Burundi's debt management.

36. Burundi will seek only concessional external financing or grants. The government will not contract nonconcessional foreign debt and will ensure that all loans contracted have a grant element of at least 50 percent. To ensure that the concessionality threshold is respected, the government will ensure compliance with the provision that the minister of finance has the exclusive right to negotiate and ratify external loans.

37. The government hopes to obtain debt relief under the HIPC Initiative and the MDRI by end-January 2009 at the latest and will pursue negotiations with its non-Paris Club bilateral creditors to obtain debt relief from them on terms similar to those granted by Paris Club bilateral creditors.

E. Technical Assistance and Coordination of Development Partners

38. Burundi has vast technical assistance needs. The authorities plan to remain in close collaboration with bilateral and multilateral partners to build up the administrative capacity of the country's institutions. The maintenance of IMF technical assistance, in particular through the AFRITAC, remains key in the areas of tax policy and administration, public expenditure management, monetary and foreign exchange policy, banking supervision, and economic statistics.

39. It is essential to coordinate relations with development partners (DPs), considering that they finance a major portion of budget expenditure. The government has intensified its efforts to set up an institutional framework for coordination of assistance in the form of the National Assistance Coordination Committee (CNCA). This initiative is supported financially by the DPs. The CNCA can help:

- Organize the work between the government and the DPs at the sectoral level, relying on a lead donor among the DPs for each sector. A major priority should be the creation of sectoral groups, as described in the CNCA organizational chart.
- Centralize coordination of assistance within a single agency, which would facilitate coordination and decision-making by the government.
- Monitor aid disbursement and project implementation, in close collaboration with the minister of finance, to ensure that all financial assistance from the DPs is included in the budget.

F. Program Monitoring

40. The government will implement the measures shown in Table 2 before completion of the first review of the PRGF arrangement.

41. Program implementation will be monitored on the basis of half-yearly reviews of performance criteria, performance indicators, and structural benchmarks, as shown in Tables 4 and 5. The information to be reported to the IMF and the definitions of the pertinent variables can be found in the attached TMU. Program implementation, achievement of related objectives, and compliance with the performance criteria will be the subject of two half-yearly reviews. The authorities also stand ready to adopt, in consultation with IMF staff, any further financial or structural measures that may prove necessary for the success of the program.

Table 1. Burundi: Performance Criteria and Structural Benchmarks for 2008

Measures	Condition Type and Date	Status	Macroeconomic Rationale
Fiscal management			
Completion of the census of all government civil employees.	Performance criterion (September 30, 2008)	Completed	To reinforce wage bill management through the creation of a single wage data management and elimination of ghost employees.
Start of the police and army census.	Structural benchmark (October 31, 2008)	Completed. The physical police census has begun and the military census has been launched.	
Revenue administration and tax policy			
Approval by the Council of Ministers of an action plan to replace the transaction tax with VAT.	Structural benchmark (July 30, 2008)	Completed with a slight delay.	To raise efficiency of tax collection, and offset potential losses on customs revenue due to the accession to EAC.
Elimination of all indirect tax exemptions and maintenance of the time limit on investment code exemptions.	Structural benchmark (September 30, 2008)	Completed with a delay of one day; the investment code has been adopted.	To improve fiscal stance by reducing tax exemptions and enhancing controls on exemptions stipulated in the investment code.
Fiscal governance			
FBu 6 billion taken as security and the deeds for 25 properties belonging to INTERPETROL placed under seal, as required under the Burundi law, to remain in place in compliance with such law until a court makes a ruling on the INTERPETROL legal proceedings.	Performance criterion (continuous)	Completed	Enhance fiscal governance to ensure the continuation of budget support.

Table 2. Burundi: Prior Actions Before the Executive Board's Consideration of the First Review of the PRGF-Supported Program

Measures	Status	Macroeconomic Rationale
Central Bank—Safeguard Measures		
Submit to the General Council, the audit committee, and the finance minister the report on the special audits of the controls on important domestic disbursements and transfers—on behalf of the government or its creditors—that took place in the first half of 2008.	Done	Enhance the safeguard measures in force at the central bank.
Recruit an international auditor to conduct special audits of the controls on important domestic disbursements and transfers—on behalf of the government or its creditors—that took place in the second half of 2008.	Done	Enhance the safeguard measures in force at the central bank.

Table 3. Burundi: Performance Criteria and Indicative Targets for 2008

(Fbu billions, unless otherwise indicated)

	2007		2008							
	Dec.	Mar.	Jun. ¹			Sep.			Dec. ¹	
	Act.	Prel. Est.	Prog.	Prog. Adj.	Act.	Prog.	Prog. Adj.	Act.	Prog.	Proj.
Performance Criteria										
Net foreign assets of the BRB (floor; US\$ millions) ²	67.5	59.3	67.4	55.7	53.1	15.9	-3.4	63.3	16.9	33.3
Net domestic assets of the BRB (ceiling) ²	49.4	48.4	51.6	65.2	71.6	124.9	146.9	71.3	117.1	113.8
Net domestic financing of the government (ceiling) ²	8.5	19.1	37.3	50.9	37.7	21.6	43.6	26.0	13.2	13.2
External payments arrears of the government (ceiling; US\$ millions) ³	0.0	0.0	0.0		0.0	0.0		0.0	0.0	0.0
Short-term external debt of the government (ceiling; US\$ millions) ³	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; US\$ millions) ³	0.0	0.0	0.0		0.0	0.0		0.0	0.0	0.0
Indicative benchmarks										
Government's wage bill (ceiling; cumulative from beginning of calendar year)	114.0	34.2	70.3		70.8	106.3		108.7	141.2	151.7
Accumulation of domestic arrears (ceiling; cumulative)	0.0	0.5	0.0		2.8	0.0		3.3	0.0	3.3

¹ Indicative targets.

² The ceiling or the floor will be adjusted as indicated in the TMU.

³ Continuous performance criterion.

Table 4. Burundi: Performance Criteria and Indicative Targets for 2009
(Fbu billions, unless otherwise indicated)

	2009			
	Mar. Prog.	Jun. ¹ Prog.	Sep. Prog.	Dec. ¹ Prog.
Performance Criterion				
Net foreign assets of the BRB (floor; US\$ millions) ²	15.4	10.4	11.0	21.6
Net domestic assets of the BRB (ceiling) ²	126.7	146.8	155.4	147.2
Net domestic financing of the government (ceiling) ²	36.5	46.9	61.2	0.0
External payments arrears of the government (ceiling; US\$ millions) ³	0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; US\$ millions) ³	0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; cumulative; US\$ millions) ³	0	0.0	0.0	0.0
Indicative benchmarks				
Government's wage bill (ceiling; cumulative from beginning of calendar year)	38.9	86.7	141.7	180.4
Accumulation of domestic arrears (ceiling; cumulative)	0	0.0	0.0	0.0
Reserve money (ceiling; cumulative from beginning of calendar year)	145.0	159.2	168.4	172.3

¹ Indicative targets.

² The ceiling or the floor will be adjusted as indicated in the TMU.

³ Continuous performance criterion.

Table 5. Burundi: Performance Criteria and Structural Benchmarks for 2009

Measures	Condition type and date	Macroeconomic Rationale
Fiscal management		
Resumption of payroll management by the Ministry of Finance by taking charge of the payroll database.	Performance criterion (March 31, 2009)	To reinforce wage bill management through the creation of a single wage data management and elimination of ghost employees.
Close and transform into subaccounts for special allocation from the general treasury account the off-budget accounts mentioned in the finance minister's letter No. 540/4904/2008 of November 12, 2008.	Performance criterion (September 30, 2009)	Continue implementation of single Treasury account.
Close the accounts mentioned in the finance minister's letter No. 540/4768/2008 of October 31, 2008.	Performance criterion (September 30, 2009)	Continue implementation of single Treasury account.
Prepare and implement a sliding quarterly cash-flow plan.	Structural benchmark (June 30, 2009)	Enhance budget execution and ensure coordination of monetary and budget policies.
Revenue administration and tax policy		
Introduce VAT and the common external tariff.	Structural benchmark (July 31, 2009)	To raise efficiency of tax collection, and offset potential losses on customs revenue due to the accession to EAC.
Fiscal governance		
In accordance with the laws of Burundi, the Fbu 6 billion and the deeds for 25 properties belonging to INTERPETROL that have been placed under seal will remain in place until a court decision has been reached on the INTERPETROL case.	Performance criterion (continuous)	Enhance fiscal governance to ensure the continuation of budget support.

Technical Memorandum of Understanding

1. This technical memorandum of understanding covers the agreements on monitoring implementation of the program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement. It sets out the definitions of program variables to monitor implementation of the program and the reporting requirements for the government of Burundi and the Bank of the Republic of Burundi (BRB). It defines quantitative performance criteria, indicative targets, and applicable adjusters.

A. Quantitative Program Targets

Quantitative performance criteria and indicative targets

2. **The quantitative performance criteria under the program as shown in Table 4 of the MEFP are 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; continuous);
- stock of short-term external debt (maturity of less than one year) of the government and the BRB (ceiling; continuous); and
- new nonconcessional medium- and long-term external debt contracted or guaranteed by the government or the BRB (ceiling; continuous).

3. **The quantitative indicative targets under the program, shown in Tables 4 of the MEFP, are as follows:**

- the government's wage bill (ceiling).
- accumulation of domestic arrears (ceiling).
- reserve money (ceiling).

Definitions and measurement

4. **The net foreign assets of the BRB** are defined as the difference between (i) gross official reserves (valued at market prices) and other claims; and (ii) foreign exchange liabilities to nonresident entities (including the use of Fund resources, but excluding the counterpart of SDR allocations). The gross official reserves of the BRB are defined as those foreign assets that are liquid and freely available to the central bank.

5. **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.

Adjuster for changes in the compulsory reserves coefficients

6. The ceiling on net domestic assets of the BRB will be adjusted symmetrically for any change in the compulsory reserves coefficient applied to deposits in the commercial banks, by the amount of the new coefficient minus that stipulated in the program, multiplied by bank deposits subject to compulsory reserves. The rate stipulated in the program is currently 3 percent.

7. **Net domestic financing of the government** is defined as the change in (i) outstanding loans, advances, and other credit to the government from the BRB and all of Burundi's commercial banks; (ii) the 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 in Burundi's commercial banks. 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.

8. 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.

9. The program includes a ceiling on **new nonconcessional external debts** contracted or guaranteed by the government and the BRB. 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 one year or more, 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. Management fees would also be taken into account when determining a loan's grant element. 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.

10. **The stock of short-term external debt** with a maturity of less than one year, owed by the central 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 one year or more 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 2007, the stock of short-term debt outstanding was nil.

11. **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.

12. **The accumulation of domestic arrears** is measured by the accumulation of non-executed payment orders older than 60 days.

External financial assistance adjustor

13. The program provides for adjusters to allow higher than expected external assistance to be spent (with a cap) and shortfall of external assistance to be financed domestically (with a cap).

14. Any financing excess up to US\$60 million will be spent on expenditure priorities defined in the PRSP. The floor on the stock of net foreign assets of the central bank will be adjusted upward, and the ceilings on the net domestic assets of the central bank and on the net domestic financing to the government will be adjusted downward to accommodate 100 percent of any financing excess above US\$60 million.

15. The floor on the stock of net foreign assets of the central bank will be adjusted downward, and the ceilings on the net domestic assets of the central bank and on the net domestic financing to the government will be adjusted upward to accommodate a financing shortfall up a maximum of US\$60 million. External financial assistance will be converted to Burundi francs using the program-specified Fbu/US\$ exchange rate.

16. External financial assistance (measured in US\$) is defined to include the following: (i) nonproject 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. Donor disbursements into blocked accounts for the purpose of clearing arrears will not be included as foreign assistance for program monitoring purposes.

B. Provision of Information to IMF Staff

17. To facilitate the monitoring of program implementation, the authorities will prepare and forward to the IMF African Department a monthly progress report on the program, within six weeks of the end of each month, containing:

18. The following weekly data:

- foreign exchange auction market (MED) transactions;
- the balance sheet of the BRB (weekly statement) (BRB Research Department).

19. The following monthly data, with a maximum lag of six weeks:

- 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);
- the monetary survey, including the breakdown of the central bank and of commercial banks (BRB Research Department);
- monthly exchange-rate data (official and parallel markets, end-of-month and monthly average) (BRB Research Department);
- a detailed breakdown of government revenue (Ministry of Finance);
- a detailed breakdown of government expenditure on a commitment basis, including pro-poor spending (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 for the current fiscal year (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 nonproject financial assistance, including new loans and debt relief granted by Burundi's external creditors (Ministry of Finance); and
- an update on the implementation of structural measures planned under the program

(REFES).

20. The following quarterly data, with a maximum lag of six weeks:

- Progress reports on the BRB's internal reforms, including each unit's action plans for the coming month (Reform Monitoring Committee, BRB).

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