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

February 28, 2011

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.
LETTER OF INTENT
Bujumbura, February 28, 2011

Mr. 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 under the Extended Credit Facility (ECF) for the Republic of Burundi on July 7, 2008. This arrangement supports the medium-term program (April 1, 2008 to March 31, 2011) aimed at continuing the process of macroeconomic stabilization, reducing poverty, promoting structural reforms, and improving governance. In accordance with the terms of this arrangement, the government of Burundi discussed program implementation for the fifth review under the arrangement with a mission from the IMF. The discussions focused on implementation of the program between April 1, 2010, and September 30, 2010, as well as the outlook, economic and financial measures to be implemented in 2011.

2. On the political front, the government of Burundi continues to make every effort to consolidate the peace process. Successful and peaceful national elections were held between May 24 and September 8, 2010, putting an end to the transition period.

3. On the economic and social front, the government of Burundi is pleased to report that implementation of the program has been satisfactory, despite the difficult international situation resulting from the global crisis and risks posed by the electoral cycle covering four months. In particular, all the quantitative performance criteria for end-September 2010 have been met. However, the continuous structural benchmark on Interpetrol was breached because Interpetrol property deeds which were to remain under seal, were released without a court ruling on the case. The government is committed to bringing back the case before a court. In the meantime, the Fbu 6 billion, belonging to Interpetrol and taken as security, will remain under seal.

4. The government is resolved to continue implementing the policies and measures described in the Poverty Reduction Strategy Paper (PRSP). The Memorandum on Economic and Financial Policies (MEFP) attached to this letter completes the previous memoranda dated since June 24, 2008.

5. The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program. It will take any further measures that may become appropriate for this purpose. The Burundian authorities will consult with the IMF on the
adoption of such measures and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultations.

6. The government of Burundi will provide the IMF with such information as it may request to monitor progress made in economic and financial policy implementation. Burundi will also carry out the sixth review of the ECF-supported program with the IMF. To ensure that there will be adequate time to complete the sixth review, the government requests an extension of the ECF arrangement to August 31, 2011. It is expected that the sixth review will be completed by August 15, 2011.

7. In view of the considerable progress made in implementing the program supported by the ECF arrangement, the government is requesting completion of the fifth review and the sixth ECF disbursement under the ECF arrangement of an amount equivalent to SDR 6.6 million.

8. As in the past, the Burundian 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 report on the fifth ECF review. 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 Burundian government.

Sincerely yours,

/s/
Clotilde NIZIGAMA
Minister of Finance

/s/
Gaspard SINDAYIGAYA
Governor, Bank of the Republic of Burundi

/s/
Gervais RUFYIKIRI
Second Vice President, Republic of Burundi

Attachments: Memorandum on Economic and Financial Policies
Technical Memorandum of Understanding
ATTACHMENT I. MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES
Bujumbura, February 28, 2011

I. INTRODUCTION

1. This Memorandum of Economic and Financial Policies (MEFP) supplements the MEFPs that have preceded it since June 24, 2008. It reviews program implementation and updates the medium-term outlook and economic and financial policies that will be implemented in 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 report on progress made during the past three years of PRSP implementation, which was sent to the IMF and the World Bank in November 2010.

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

3. With the continued improvement in the security situation, the macroeconomic objectives for the medium term are as follows: (1) GDP growth should average approximately 5.0 percent over the medium term, compared to the 2008-2010 annual average of 4 percent; (2) average inflation will remain in single digit; and (3) gross official reserves should stabilize at about 5.5 months of imports by 2013.

II. PROGRAM IMPLEMENTATION

4. The year 2010 was characterized by a slight uptick in economic activity after the slowdown in 2009 owing to the impact of the international crisis on private transfers and direct investment. The Burundian economy should therefore experience economic growth of 3.9 percent in 2010, as compared to 3.5 percent in 2009. This slight increase is the result mainly of the rise in coffee production during the 2010/2011 crop year. Because of falling nonfood prices, headline inflation (end of period) fell to 4.1 percent in 2010, from 4.6 percent in 2009. The external current account deficit is estimated to decline to around 12 percent of GDP, because of higher exports and official transfers. Gross official reserves stood at about 5 months of imports in 2010.

5. At end-September, fiscal results were overall satisfactory. Total revenues were in line with forecasts as taxes on income and on goods and services rose owing to the introduction of the VAT and the generalized use of the Tax Identification Number (NIF) and tax clearance certificate, which made up for the decline in customs revenues. Expenditures were kept within the program limits owing to the ceilings placed on quarterly commitments in the
context of the preparation of a realistic cash flow plan. Moreover, externally financed expenditure was below the projected amounts. Pro-poor spending totaled FBU 231 billion, in line with forecasts. The wage bill should be below the limits set in the program since the implementation of the new law on the wages of the defense and security forces was postponed to 2011.

6. For 2010 as a whole, revenue is estimated at 19.1 percent of GDP, 0.8 percent of GDP higher than programmed due to improved collection of VAT and better enforcement stemming from the creation of the Burundi Revenue Authority (BRA). Total expenditures were also higher than programmed because of better than projected externally financed programs.

7. The program is on track overall (Tables I.1, I.3). Notably, all September quantitative performance criteria have been met. However, the continuous structural benchmark on Interpetrol was breached because Interpetrol property deeds which were to remain under seal, were released without a court ruling on the case. The government is committed to bring back the case before a court. In the meantime, the FBU 6 billion, belonging to Interpetrol and taken as security, will remain under seal.

8. The government is resolutely pursuing its structural reforms in close collaboration with its development partners, notably the promotion of transparency and good fiscal management, reform of the financial sector, coffee sector reform, and improvement of the business environment. In addition to the achievements described in the preceding memoranda, significant progress has been achieved in 2010 in all of these areas.

9. Substantial progress has been made in the PFM area since the adoption of the Organic Budget Law and the implementation of the Public Finance Management Strategy along with a three-year action plan (2009–2011). In accordance with the new Organic Budget Law, a new agreement has been signed between the government and the central bank and a draft decree establishing General Regulations on Public Budget Management has been sent to cabinet for adoption. The government has also made significant progress in managing the government's cash flow by preparing weekly and monthly cash flow plans that are coordinated with the commitment plans. Streamlining of the government accounts is ongoing. In all, 243 accounts with the BRB have been closed so far while 17 were converted into subaccounts of the government general account. The BRA is fully operational as the recruitment process has been completed. Significant advances have been made in computerizing the customs and tax departments. In the tax department, temporary software has been installed to manage the VAT pending the purchase of the integrated taxation software (SIGTAS). Use of this temporary software since June 2010 has improved VAT performance by rapidly identifying delinquent taxpayers and has made it possible to enter all VAT returns from the Large Taxpayer Unit. At Customs, the ASYCYDA++ computer
The system has been expanded to other customs posts, and installation of the RADDEEx system will allow for better accounting of customs revenues at the EAC level. In application of the Anti-Money Laundering Law, a Financial Intelligence Unit has been set up and is already operational. The government will seek TA from the US Treasury to strengthen this Unit.

10. In the financial sector, the National Strategy Development Committee created during the second quarter of 2010 has prepared a draft Financial Sector Reform Strategy (FSRS) along with an action plan. This draft was validated in November 2010 and adoption by cabinet is expected in the first quarter of 2011. A plan to develop the financial market in Burundi is also being prepared.

11. In the area of monetary policy, the central bank is preparing to introduce repo operations as a monetary policy instrument. The associated regulatory texts (Master Agreement on Repo Operations, Code of Conduct, and Operations Guide) have been drafted and discussed with the banks. In the area of foreign exchange, the central bank continues to benefit from Fund TA to improve the auction system.

12. To improve safeguards at the central bank and the Treasury, the central bank recruited an international auditor who performed special audits of the controls on large disbursements and domestic transfers to the government or its creditors during the first half of 2010. The conclusions of the audit are that (1) the recommendations of the previous special audits have been broadly implemented, (2) there have been few additional anomalies noted, and (3) further improvements in controls are still needed. An action plan is under preparation.

13. In the area of banking supervision, efforts to conduct on-site inspections according to risk-based supervision procedures continue. Supervision of banks and microfinance institutions has benefited from capacity-building in the auditing of prudential and financial statements prepared in accordance with International Financial Reporting Standards (IFRS). However, a detailed supervisory handbook remains to be prepared to better guide the supervisors. All banks and financial institutions respect the minimum capital requirements of FBu 5 billion and FBu 4 billion, respectively. Moreover, the banking sector has made progress in mobilizing funds in order to increase capital to FBu 10 billion by end-December 2010.

14. In the coffee sector, a new institutional framework in line with the liberalization policy has been adopted. The creation of the Coffee Sector Regulatory Authority (ARFIC) as well as the Coffee Intertrade Organization (INTERCAFE) has strengthened the role of the private sector, especially in the area of coffee marketing. Coffee roasters are now focusing on direct sales and can thus negotiate prices with their customers, while plant owners are encouraged to produce specialty coffees. INTERCAFE’s missions are to (1) act as the first level of recourse for the amicable settlement of disputes between operators in the coffee sector; (2) identify and make proposals to the regulator regarding coffee grades based on the
quality specifications for Burundi coffee; and (3) determine the percentages or amounts to be levied each year on all sales of green coffee beans to finance the activities undertaken by the intertrade organization. The missions assigned to ARFIC are to (1) contribute to the formulation of policies and strategies for the industry in the areas of production, processing, marketing, research, and training; (2) grant operating licenses for participants in the coffee sector; (3) issue certificates of origin and quality for exports; and (4) provide quality control assurances and defend the Burundi origin. The Interministerial Committee on Privatization has authorized the resumption of the sale of the remaining 104 coffee washing stations.

15. As part of the efforts to improve the business climate, new measures have been adopted to consolidate the existing regulatory framework. The establishment of the Investment Promotion Agency (API) has made it possible to speed up approval procedures for new investments, reducing the processing time from 330 days to 52 days. Since its creation in July 2010, the API has licensed 61 new operations. Two important laws have been enacted: the Law on Competition (March 2010) and the law establishing the Commercial Code (April 2010). The law on public and private enterprises is before parliament. In connection with Burundi’s Doing Business ranking, the government has set up three structures tasked with rapidly proposing all necessary reforms to correct the major obstacles identified in the report, which are hampering private sector development.

16. The fight against the misuse of public funds has strengthened owing to the improvement in the effectiveness of the anticorruption units. The government’s General Inspection Office has stepped up its activities to oversee the management of government funds, goods, and services, which has made it possible to increase the number of inspection missions. The Anticorruption Board has also increased its anticorruption public awareness, dissuasion, and prosecution campaigns. Also, the National Good Governance Strategy is close to completion; it will serve as a basis for financial and technical support from our partners to achieve the objective of zero tolerance in the management of public affairs.

III. ECONOMIC AND POLITICAL OUTLOOK FOR 2011

A. Fiscal Policy

17. The macroeconomic framework for the 2011 budget is as follows: (1) GDP growth should strengthen to 4.5 percent; (2) end-of-period inflation should increase to 9 percent, and (3) gross official reserves should stay at about five months of imports of goods and services.

18. The mobilization of domestic resources is essential to ensure the fiscal viability of expenditure and poverty reduction. The government is thus aiming to achieve tax revenues of 19.3 percent of GDP in 2011, significantly higher than the average level of 18 percent of GDP for fragile states.
19. To meet this objective, the government is planning to implement important tax and administrative measures. It will take steps to expand the tax base by (1) computerizing all of the BRA’s revenue collection procedures and services; (2) capturing the informal sector by continuing the census of all taxpayers and their registration for the NIF; (3) combating tax avoidance and evasion by (i) making more widespread use of the NIF and the tax and customs clearance certificate for public procurement bidding and customs clearance; (ii) escorting goods from border-crossing points to customs clearance offices; and (iii) promoting close collaboration between customs and the import verification firm to combat under-valuations.

20. A study of the oil sector has been conducted in cooperation with the World Bank. In response, an automatic adjustment mechanism for oil product prices is in effect with monthly adjustments of the price structure. The government will ask the IMF for technical assistance to better master all aspects of price formation for petroleum products.

21. Redirecting expenditure to the socio-economic sectors in order to accelerate progress toward the Millennium Development Goals will remain a priority in the 2011 budget. The government will continue its effort to improve expenditure efficiency and will increase pro-poor spending. It considers that progress made with fiscal management reforms and improvements in governance and accountability for the use of public resources should be consolidated.

22. In the health sector, the government will continue its policy of free health care for all children under 5 and care for women in childbirth. To respond to the resulting increase in health services, there are plans to construct 10 health centers and a modern hospital in rural areas and to recruit 600 health workers, including 44 doctors.

23. In the area of education, the government intends to respond to the growing demand for school enrollment resulting from the abolition of school fees at the primary level by allocating sufficient resources to the sector. A new basic education reform has just been initiated. The government plans to construct 1500 primary school classrooms and 40 community colleges at the secondary level. It also plans to hire 3,500 teachers at the primary level and 1,500 at the secondary level to reduce the pupil-teacher ratio.

24. In agriculture, the emphasis will remain on food crops with a view to ensuring food security. To achieve this objective, the government is setting aside substantial resources for irrigation of the plains, purchase of agricultural inputs, rehabilitation of the livestock sector, and increase and rapid distribution of healthy cassava, banana, potato, rice, and palm oil seeds to farmers.
25. In the energy sector, to deal with the energy deficit and increase the potential for private investment, the government plans to construct a 10.4 megawatt hydroelectric plant in 2011. There are also plans to construct other hydroelectric plants with foreign financing.

26. Controlling the wage bill is an important medium-term priority. The government will undertake to bring the wage bill down from the 11.7 percent of GDP forecast for 2011 to below 11 percent in the medium term. The measures planned to reduce the wage bill are primarily a freeze on civil service recruitments, except in the education, health and justice sectors; the systematic retirement of all civil servants who reach the legal retirement age; and rigorous management of performance ratings of civil servants, which are the basis for the annual merit increases. Achieving the medium-term objective, while continuing to recruit in priority sectors, will critically hinge on reducing the size of the defense and security forces. However, given the still fragile political and security situation, rightsizing the defense and security forces should be implemented gradually, taking into account the political and social implications.

27. Reform of the government’s vehicle fleet, which began in 2009, will continue. Out of a total of 800 central government vehicles to be withdrawn, 250 have already been transferred to the committee tasked with managing the sale of government assets. Beginning in 2011, the process will be expanded to cover the vehicles of semi-public enterprises and companies.

28. Debt sustainability will anchor the budget in the medium term. Aware of the country’s continuing risk of debt distress, the government is committed to borrowing only on highly concessional terms. The government also plans to create a high-level public debt monitoring committee to ensure coordination between public debt management and the country’s macroeconomic objectives. A national public debt strategy covering the period 2011-30 is being drafted as part of the Fiscal Reform Strategy (SGFP). It will define the sectoral priorities for public borrowing and will set annual debt ceilings. Participation in the Medium-Term Debt Strategy (MTDS) of the IMF and IDA is planned for 2013.

29. The government is continuing its efforts to align its domestic borrowing policy with its cash flow management, while at the same time improving coordination with monetary policy. The reforms undertaken to develop the treasury bill market will expand the government’s short-term financing capacity and could lower the cost of such financing. This work, which will be continued in the context of the future Financial Sector Development Strategy, will also lay the foundations for development of the financial market, which is essential for the expansion of the private sector and acceleration of growth.

30. The government is committed to improving the dissemination of information on public debt and undertakes to publish public debt statistics on its website monthly. An 18-month debt management capacity-building project will be launched in early 2011. The
The objective of this project is to install the new DMFAS 6.0 software in the department responsible for debt and to train its staff in the new functionalities of this software. Workshops on debt statistics and debt portfolio analysis will enable the government to progress toward proactive, modern public debt management.

**B. Monetary and Exchange Policy**

31. Monetary policy remains focused on price stability. In this context, the central bank is maintaining a prudent monetary policy to confront inflationary pressures. To maintain the target of single-digit inflation, the central bank plans to keep broad money within limits compatible with nominal GDP growth.

32. Better coordination of fiscal and monetary policies remains essential, and the Ministry of Finance and central bank will continue to hold monthly meetings in this connection. Also, the cash flow management committee has been given new authority and it has been asked to prepare fiscal and monetary policy recommendations to present to the central bank and Ministry of Finance.

33. Building on recent progress in launching symmetrical foreign exchange auctions, the central bank will continue the reforms of the foreign exchange auctions system, with MCM TA assistance. The medium-term objective is to move to an interbank foreign exchange market.

34. The central bank is committed to further reinforcing safeguards. In this regard, it will recruit an international auditor to (1) monitor the full implementation of all the recommendations formulated in Deloitte's 2010 special audit reports (consistent with the 2010 agreed-upon action plan between Burundi's central bank and the Ministry of Finance); and (2) verify on a test basis the controls on significant domestic disbursements and transfers executed by the central bank on behalf of the government or its creditors during the first half of 2011. In addition, it will submit to the General Council, the audit committee, and the Minister of Finance the report on 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 2011.

**C. Structural Reforms**

35. In the coffee sector, the government will capitalize on experience gained from the previous sale of coffee washing stations to accelerate the sale of the remaining 104 stations. To ensure the success of this operation, the government will take steps to allow coffee growers to purchase the reserved shares, as provided in the government’s divestment strategy, estimated at 25 percent of the capital.
36. Aware of the role of the private sector in the regional integration process, the government will take advantage of the improved business climate. In particular, the establishment of the “one-stop shop” and the activation of the Permanent Secretariat of the Public Sector-Private Sector Dialogue Framework will make business relations easier in Burundi.

37. In the area of good governance, the government plans to strengthen existing structures by adopting the national good governance strategy and implementing its action plan. To that end, the entities responsible for oversight of the use of public funds will be provided with sufficient resources, and their staffs will receive appropriate training. The adoption and implementation of the national good governance strategy is a priority for combating the misuse of public funds in a better coordinated and more rational way through (1) widespread ownership of the strategy; (2) public information and awareness-raising campaigns at all levels; (3) regular assessment of results; and (4) identification of appropriate corrective measures.

38. New reforms will be implemented in the central government to better manage the requirements of Burundi’s membership in the East African Community (EAC) and ensure effective follow-up of the government’s commitments. To this end, the position of Permanent Secretary will be created in all ministries, and the ministries will also be required to create a unit to handle EAC matters.

39. A National Regional Integration Strategy is being prepared and will be adopted in the first quarter of 2011. It will include an action plan specifying the structural measures to be adopted for successful implementation of all agreements signed between the government and the EAC. Also, the upcoming revision of the Diagnostic Trade Integration Study (DTIS) for Burundi will assess the success of the trade policy reforms implemented in the context of the DTIS-1 to identify new priorities that will allow Burundi to improve its trade competitiveness.

40. In its fiscal management, the government will continue to implement the Public Finance Management Strategy and its action plan for 2011. Specifically, it will adopt the General Regulations for Public Budget Management (RGGBP) during the first quarter of 2011. These regulations will permit effective application of the Organic Budget Law (LOFP). Also, with the support of the technical and financial partners, including the IMF, the organization of the Ministry of Finance will be reviewed and a fiscal governance decree will be signed to ensure more efficient management of public finances.

41. The Financial Sector Strategy will guide the reforms in the financial sector. The reforms that will be undertaken or continued include (1) revision of the banking law, which needs to be better aligned to international and EAC standards; (2) better prevention and management of systemic crises, in the context of which an emergency intervention plan in
case of a systemic banking crisis will be prepared jointly by the BRB and the Ministry of Finance; and (3) strengthening of on-site bank inspections. With technical assistance from the IMF, a detailed risk-based supervision manual will be prepared to better guide supervisors.

IV. PROGRAM MONITORING

42. Program implementation will continue to be subject to performance criteria, performance indicators, and structural benchmarks as specified in Tables I.2 and I.4. The information to be reported to the IMF and the definitions of the pertinent variables can be found in the attached Technical Memorandum of Understanding (TMU). Program implementation, achievement of the related targets, and attainment of the performance criteria will be examined during the sixth review. The government is also ready to adopt any new financial or structural measures necessary for the program’s success, in consultation with IMF staff.
Table I.1. Burundi: Performance Criteria and Indicative Targets for 2010
(BIF billion, unless otherwise indicated)

<table>
<thead>
<tr>
<th>Performance criteria</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net foreign assets of the BRB (floor; US$ million)</td>
<td>96.5</td>
<td>59.6</td>
</tr>
<tr>
<td>Net domestic assets of the BRB (ceiling)</td>
<td>79.3</td>
<td>74.8</td>
</tr>
<tr>
<td>Net domestic financing of the government (ceiling)</td>
<td>68.7</td>
<td>58.0</td>
</tr>
<tr>
<td>External payments arrears of the government (ceiling; US$ million)</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>External nonproject financial assistance (US$ million; cumulative from beginning of calendar year)</td>
<td>58.8</td>
<td>11.2</td>
</tr>
<tr>
<td>Sources: Burundi authorities; and IMF staff estimates and projections.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Indicative targets.
2 The ceiling or the floor will be adjusted as indicated in the TMU.
3 Continuous performance criterion.
4 See definitions in TMU.
Table I.2. Burundi: Performance Criteria and Indicative Targets for 2011
(BIF billion, unless otherwise indicated)

<table>
<thead>
<tr>
<th>Performance criteria</th>
<th>2010</th>
<th>2011</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Est.</td>
<td>Prog.</td>
</tr>
<tr>
<td>Net foreign assets of the BRB (floor; US$ million)</td>
<td>84.2</td>
<td>58.3</td>
</tr>
<tr>
<td>Net domestic assets of the BRB (ceiling)</td>
<td>105.6</td>
<td>101.9</td>
</tr>
<tr>
<td>Net domestic financing of the government (ceiling)</td>
<td>36.3</td>
<td>36.2</td>
</tr>
<tr>
<td>External payments arrears of the government (ceiling; US$ million)</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Short-term external debt of the government (ceiling; US$ million)</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; US$ million, cumulative from beginning of calendar year)</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indicative targets</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Reserve money (ceiling)</td>
<td>209.8</td>
<td>176.9</td>
<td>195.0</td>
</tr>
<tr>
<td>Pro-poor spending (floor; cumulative from beginning of calendar year)</td>
<td>346.9</td>
<td>74.6</td>
<td>122.3</td>
</tr>
</tbody>
</table>

**Memorandum item:**

External nonproject financial assistance (US$ million; cumulative from beginning of calendar year)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>102.3</td>
<td>46.8</td>
</tr>
</tbody>
</table>

Sources: Burundi authorities; and IMF staff estimates and projections.

1 The ceiling or the floor will be adjusted as indicated in the TMU.
2 Continuous performance criterion.
3 See definitions in TMU.
Table I.3. Burundi: Structural Benchmarks for 2010

<table>
<thead>
<tr>
<th>Proposed Measures</th>
<th>Dates</th>
<th>Status</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Financial Management</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adopt a new “convention” between the Ministry of Finance and the BRB redefining the role of the central bank in public financial management, as stipulated under the new budget organic law.</td>
<td>March 31, 2010</td>
<td>Completed</td>
<td>Key to implementing the new budget organic law.</td>
</tr>
<tr>
<td>Prepare a final report on the closing of government accounts.</td>
<td>December 31, 2010</td>
<td>Completed</td>
<td>Implementation of a single treasury account is key to sound public financial management.</td>
</tr>
<tr>
<td><strong>Central Bank and Treasury Safeguard measures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recruit an international auditor to: (i) monitor the full implementation of all the recommendations formulated in Deloitte’s 2008 special audit reports (consistent with the September 2009 agreed-upon action plan between Burundi’s central bank and the Ministry of Finance); and (ii) verify on a test basis the controls on significant domestic disbursements and transfers executed by the central bank on behalf of the government or its creditors during the first half of 2010.</td>
<td>June 30, 2010</td>
<td>Completed</td>
<td>To enhance the safeguard measures in force at the central bank and the Treasury.</td>
</tr>
<tr>
<td>Submit to the General Council, the audit committee, and the Minister of Finance the report on 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 2010.</td>
<td>December 31, 2010</td>
<td>Completed</td>
<td>To enhance the safeguard measures in force at the central bank and the Treasury.</td>
</tr>
<tr>
<td><strong>Fiscal Governance</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>In accordance with the laws of Burundi, the BIF 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.</td>
<td>Structural benchmark (continuous)</td>
<td>Not met¹</td>
<td>Enhance fiscal governance to ensure the continuation of budget support.</td>
</tr>
</tbody>
</table>

¹ The benchmark was not met because Interpetrol property deeds which were to remain under seal were released without a court ruling on the case. The authorities are taking steps to bring back the case before a court. In the meantime, the Fbu 6 billion, belonging to Interpetrol and taken as security, will remain under seal.
<table>
<thead>
<tr>
<th>Proposed Measures</th>
<th>Dates</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Financial Management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approval by the cabinet of the general regulation on public budget management (MEFP, ¶40).</td>
<td>March 31, 2011</td>
<td>The new budget law is based on the modern principles of fiscal rules and transparency.</td>
</tr>
<tr>
<td><strong>Financial Sector</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adoption by the cabinet of the financial sector reform strategy (MEFP, ¶10).</td>
<td>March 31, 2011</td>
<td>To modernize the financial system and broaden access to financial services.</td>
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<td><strong>Central Bank and Treasury</strong></td>
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<td>Safeguard measures</td>
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<tr>
<td>Recruit an international auditor to: (i) monitor the full implementation of all the recommendations formulated in Deloitte's 2010 special audit reports (consistent with the 2010 agreed-upon action plan between Burundi’s central bank and the Ministry of Finance); and (ii) verify on a test basis the controls on significant domestic disbursements and transfers executed by the central bank on behalf of the government or its creditors during the first half of 2011 (MEFP, ¶34).</td>
<td>June 30, 2011</td>
<td>To enhance the safeguard measures in force at the central bank and the Treasury.</td>
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ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING
Bujumbura, February 28, 2011

1. This technical memorandum of understanding covers the agreements on monitoring implementation of the program supported by the Extended Credit Facility (ECF) 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 for the program as shown in 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 payment 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 for the program, shown in the MEFP, are as follows:

- accumulation of domestic arrears (ceiling);
- pro-poor spending (floor); and
- 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, and liabilities arising from the use of any SDR allocation). The gross official reserves of the BRB are defined as those foreign assets that are liquid and freely available to the BRB.

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 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) plus the stock of all government securities held by the nonbank 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 payment arrears** for program monitoring purposes is defined as the end-of-period amount of external debt service due and not paid within the grace period defined by a creditor, including contractual and late interest, for which a clearance agreement is not in place or for which arrears are not reschedulable. For arrears to exist, a creditor must claim payment of amounts due and not paid. Amounts in dispute are not considered arrears. 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 has not been paid.

9. The program includes a ceiling on **new nonconcessional external debt** contracted or guaranteed by the government or the BRB. This performance criterion applies to the contracting or guaranteeing by the 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 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. Debt contracted by state-owned enterprises is included in the overall ceiling, if guaranteed by the government. The term “debt” shall be understood as defined in the Executive Board Decision 6230-(79/140), as revised on August 31, 2009 (Decision No. 14416-(09/91)). 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. The grant element of debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of contracting is calculated by discounting the future stream of payments of debt service due on this debt. The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees. 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 government is to remain at zero under the program. 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. 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 leases). Excluded from this performance criterion are rescheduling arrangements, borrowing from the IMF, and any Burundi franc-denominated treasury securities held by nonresidents. As of September 2007, the stock of short-term debt outstanding was nil.

11. Consistent with the PRSP, the authorities’ definition of pro-poor spending is based on three criteria: (i) social character of spending, based on the administrative classification of spending (this includes “social services” spending and part of “general services” and “economic services” spending if it has a social character component); (ii) consistency with one of the four PRSP pillars; and (iii) pro-poor investment spending, financed by donors.

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 BRB will be adjusted upward, and the ceilings on the net domestic assets of the BRB and on 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 BRB will be adjusted downward, and the ceilings on the net domestic assets of the BRB and on net domestic financing to the government will be adjusted upward to accommodate a financing shortfall up to a maximum of US$60 million. External financial assistance will be converted to Burundi francs using the program-specified BIF/US$ exchange rate. The program exchange rate for end-March 2011 is 1287.4.

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 multidonor trust fund managed by the World Bank for current debt service to multilaterals); plus (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 considered 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 (MESD) 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 foreign exchange cash flow (BRB Foreign Banking Operations Department);
   - the monetary survey, including the breakdown of the BRB 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, on 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 payment 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 IMF African Department with any information that is deemed necessary to ensure effective monitoring of the program.