

## International Monetary Fund

[Burundi](#) and the IMF

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[IMF Executive Board  
Completes Sixth  
Review Under the  
ECF arrangement for  
Burundi and  
Approves US\\$10.5  
Million Disbursement](#)  
July 13, 2011

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

June 27, 2011

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## LETTER OF INTENT

Bujumbura, June 27, 2011

Mr. John Lipsky  
Acting Managing Director  
International Monetary Fund  
Washington, D.C., 20431

Dear Mr. Lipsky:

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 August 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 sixth review under the arrangement together with a mission from the IMF. The discussions focused on implementation of the program between October 1, 2010 and March 31, 2011, as well as the outlook and economic and financial measures to be implemented in 2011.
2. The economy of Burundi is currently beset by two severe shocks: the price increases for energy products and for foodstuffs. These two shocks have had a severe impact on the country's external position, the public finances, and the living conditions of the people. They have been reflected in: (i) the increase in the oil bill and the cost of imported food products; (ii) lower-than-anticipated economic growth; and (iii) an increase in expenditure, an especially in pro-poor expenditure. The preliminary estimates of the fiscal cost of this crisis are approximately Fbu 22 billion (1 percent of GDP).
3. Despite this unfavorable external environment, the government is pleased by the satisfactory implementation of the program. In particular, all the quantitative performance criteria for end-March 2011 have been met, as have the structural benchmarks for end-March 2011, although with a slight delay. However, the indicative target for base money was not observed.
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 supplements the previous memoranda dated since June 24, 2008.
5. On the political and security front, the government is continuing to make every effort to consolidate the peace process and strengthen security throughout the country. The government is also convinced that the policies set forth in the MEFP are adequate to achieve the objectives of the program. It will take any further measures that may prove necessary 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. In view of the considerable progress made in implementing the program supported by the ECF arrangement, the government is requesting: (i) disbursement of SDR 6.6 million on completion of the sixth review and (ii) modification of the availability date from August 15, 2011 to July 13, 2011 for the seventh disbursement to be close to the review date. Moreover, given the increased requirements for budgetary financing following the two exogenous shocks referred to above, the government, while exploring the possibilities for mobilizing additional resources from among Burundi's other development partners, requests that the IMF extend to it additional resources through enlarged access under the PRGT in the amount of SDR 5 million (6.5 percent of quota) made available in a single disbursement upon completion of the seventh review. We request extension of the ECF arrangement to January 31, 2012 to allow sufficient time to reflect on the findings of the Ex-Post Assessment (EPA) of Fund's engagement in Burundi and to galvanize donor support for a new arrangement.

7. In late May 2011, the government of Burundi signed a nonconcessional energy-sector loan for US \$80 million (31.6 percent grant element), but has not yet submitted the agreement to Parliament for ratification. The government will not seek ratification of the loan unless the terms of the loan are changed to meet the requirement that external borrowing has a minimum grant element of 50 percent.

8. 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. In addition, it will carry out the seventh and final review of the EFC-supported program with the IMF, which should be completed by January 15, 2012.

9. 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 sixth review under the ECF arrangement. 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.

Yours sincerely,

/s/

Clotilde NIZIGAMA  
Minister of Finance

/s/

Gaspard SINDAYIGAYA  
Governor, Bank of the Republic of Burundi

/s/

Gervais RUFYIKIRE  
Second Vice President

**ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES**

Bujumbura, June 27, 2011

**I. INTRODUCTION**

1. This Memorandum on Economic and Financial Policies (MEFP) supplements the MEFPs that have preceded it since June 24, 2008. It reviews program implementation and recent economic developments and also updates the medium-term outlook and economic and financial policies that will be implemented in 2011 under the program covering the period after April 1, 2011. The measures and objectives contained in this MEFP are compatible with the Poverty Reduction Strategy Paper (PRSP) published in September 2006 and with the findings of the annual progress report on 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 amount to 4.7 percent, compared to the 2008-2010 annual average of around 4 percent; (2) inflation (y-o-y) will decline from current levels to around 7.0 percent in 2014; and (3) gross official reserves should remain around 5.0 months' imports in the medium term.

**II. PROGRAM IMPLEMENTATION**

4. Despite an uncertain political environment owing to the timing of the elections, macroeconomic developments overall were in keeping with program forecasts. There was a slight increase in economic growth to 3.9 percent in 2010, compared to 3.5 percent in 2009, largely owing to the rise in coffee production. Moreover, reflecting the stability of petroleum product and food prices on the international market, the (end-of-period) inflation rate was lower than forecast, bordering on 4.0 percent. The external current account deficit declined from 16.1 percent of GDP in 2009 to 13.4 percent of GDP in 2010 because of higher exports volumes and favorable coffee prices. Gross official reserves remained virtually unchanged, at a level equivalent to around 5 months' imports in 2011.

5. In 2010, the overall fiscal deficit (cash basis, including non-HIPC grants) is estimated at around 4.3 percent of GDP, in line with the program target. Domestic revenue came at 19.8 percent of GDP, higher than projected earlier, because of the coming into operation of the Burundi Revenue Authority (OBR) and the collection of arrears. Total expenditure exceeded forecasts by 3.9 percentage points of GDP, partly because of an increase in programs financed by

external aid. However, pro-poor spending was in line with budgetary targets and made it possible to address the pressing needs of the most vulnerable population groups, in close collaboration with the World Food Program. The wage bill in 2010 was contained within the budgetary ceiling.

6. The monetary survey was characterized by a stable growth rate of broad money resulting from the mixed performance of its various counterparties. The strong expansion of bank credit to the private sector was partially offset by a reduction in credit to the government. Similarly, base money expanded less than projected and fell short of the indicative benchmark owing to the sharp drop in the net foreign assets of the Bank of the Republic of Burundi (BRB) and the commercial banks.

7. Implementation of the ECF-supported financial program was satisfactory overall. All the quantitative performance criteria for end-March 2011 were met. Similarly, all the indicative targets for end-March 2011 were met, with the exception of those for base money and pro-poor spending. The structural benchmarks were observed, but with some delay.

8. In the area of public financial management, the draft decree establishing the General Regulations on Public Budget Management was adopted by the Council of Ministers. This decree will make it possible to define the rules for executing, recording, and auditing the revenue and expenditure in the budgets of subnational entities, as well as managing their assets. It also defines the powers and obligations of any person involved in the management of public budgets, as well as the systems of accountability and sanctions applicable to them. The cash flow management committee is continuing to produce regular monthly and weekly cash flow plans, which are now coordinated with the commitments plan. The streamlining of the government's accounts has been completed with the final accounts being closed at end-December 2010.

9. The Burundi Revenue Authority (BRA) is operational, and the recruitment process carried out in the fourth quarter was completed successfully. Indeed, upon conclusion of the process, two directors (Information and Communication Technologies—ICT, and Internal Audit) were selected and 414 candidates for other posts (support staff, assistants, and technicians) were identified by the OBR. Among these, around 149 staff members seconded from the Ministry of Finance were selected, and the remainder, 356 employees, were redeployed to their ministry. An employee separation scheme was introduced for staff who were either downsized or eligible to take up early retirement. The male/female ratio improved, with 43 percent of staff being female, and representation by ethnic group and by region has also improved.

10. The BRA also carried out various capacity building activities:

- Six long-term technical assistance positions are in the process of being filled, and will contribute significantly to building capacities and introducing international best practices in the tax and customs administration. Short-term advisors are in place while the recruitment process for filling various other positions is in progress;
- The training program for new staff is also under way.

11. Regarding Customs, steps have been taken with a view to improving customs revenues over the long-term. Thus, for example, the authorities have simplified customs clearance procedures, extended working hours from 7:30 a.m. to 8:00 p.m., and introduced petroleum product import controls at entry and departure points from the Petroleum Product Storage Company (SEP). The ASYCUDA++ computer system has been expanded to other customs posts, and the installation of the RADDEX system will allow for better accounting of customs revenues at the level of the East African Community (EAC).
12. Major steps were taken to improve transparency in public financial management. In the area of government procurement, a new public procurement code was adopted and a director-general and support staff appointed to the Public Procurement Regulatory Authority. In addition, annual procurement plans have been prepared to facilitate the transparency of budget execution. With regard to budget nomenclature, a new economic classification was introduced with the 2010 budget in order to bring it into line with the new chart of accounts. In the area of control and audit, the final report of the audit office on execution of the 2009 budget has been completed.
13. In the monetary area, the central bank intensified its operations aimed at sterilizing reserve money in order to ease pressures on the exchange rate and control inflation. Technical training sessions on repurchase operations have been organized with pilot commercial banks. Once the results of the pilot phase are satisfactory, the final rollout of repurchase operations could take place by end-June 2011.
14. In the area of finance, the financial sector reform strategy was adopted by the Council of Ministers on April 7, 2011. Its implementation should make it possible to: (i) increase the transparency and stability of the financial sector; (ii) develop financial infrastructure; (iii) deepen the financial sector; and (iv) improve the legal and judicial framework. To implement this strategy, a donors' meeting was held in May 2011. Drafting of the Financial Market Development Plan is continuing with the support of financial partners.
15. In the area of foreign exchange, the exchange regulations were updated in June 2010 to bring them more into line with the requirements for integration into the EAC. In order to correct for certain omissions identified, certain articles of the exchange regulations were amended on the basis of recommendations from the IMF aimed at eliminating exchange restrictions. Plans are also in place to further expand the deregulation of foreign exchange operations and introduce innovations relating to the use of foreign-currency payment cards and instant money transfers. The central bank is continuing its cooperation with the IMF with a view to improving the operation of the symmetrical foreign exchange auctions market (MESD) with a view to enhancing the flexibility of the Burundi franc.
16. In the context of strengthening banking supervision, the central bank received technical assistance to train inspectors on risk-based supervision procedures and in drafting the related manual. The banking law is also being revised with technical assistance support. A draft regulation on remote banking and money transfers by mobile phone has been drawn up. In addition, a draft revision of the decree governing microfinance institutions is in its final stages.

Furthermore, commercial banks will be submitting their simulated financial statements using International Financial Reporting Standards (IFRS) beginning June 30, 2011, while retaining the existing system. Final migration to IFRS reporting is scheduled for February 2012. Lastly, all commercial banks and financial establishments are in compliance with the minimum capital requirement of FBU 10 billion and FBU 6 billion, respectively.

17. In keeping with its commitment to put the private sector at the center of development and economic growth, the government is determined to speed up the issuing of competitive bidding for coffee washing stations as well as the implementation of reforms aimed at improving the business climate. Given the encouraging evaluation of the first sale of washing stations, the government intends to put the other stations still held in its portfolio up for sale by end-December 2011. In addition, the decision-making committee and the technical groups have been operational since November 2010 and have drawn up action plans aimed at improving Burundi's ranking in *Doing Business*. In this connection, major reforms have been initiated and have already made it possible to reduce the time lags and number of procedures required for (i) obtaining a building permit; (ii) transferring property; and (iii) creating a business. In this context, amendments will be made to the law establishing the "Company Code" in order to better protect investors.

18. In the area of good governance, the draft National Strategy on Good Governance has been examined by development partners and is expected to be adopted by the Council of Ministers in June 2011. Implementation of the action plan will facilitate significant progress in combating corruption and the mismanagement of public funds. More particularly, emphasis will be placed on strengthening and streamlining internal and external supervisory bodies. Furthermore, the authorities have approached the constitutional court in an effort to bring the case of the oil company Interpetrol back before the courts, seeking a ruling on the governance issues involving this enterprise since 2007. In this connection, the amount of FBU 6 billion belonging to Interpetrol and held as security will continue to be sequestered at the central bank until a verdict is finalised.

### **III. ECONOMIC OUTLOOK AND POLICIES FOR 2011**

19. Because of the increase in petroleum product and food prices, the macroeconomic framework has been revised as follows: (i) GDP growth is expected to be weaker than previously forecast, at 4.2 percent; (ii) end-of-period inflation should be higher, reaching 14.0 percent; and (iii) gross external reserves are expected to decline to 4.7 months' imports. The external shocks are expected to contribute to expansion of the fiscal deficit with respect to the program, requiring additional financing. However, the government will resolutely implement all the tax, public spending, monetary and foreign exchange, and structural policies outlined below and in the MEFP of February 21, 2011.

20. The year 2011 is pivotal for domestic resource mobilization policy. This is the year that the BRA will come fully on stream and begin implementing its reform mandate aimed at improving revenue collection by broadening the tax base and strengthening staff capacity through the computerization of collection units, enhancing supervision of the informal sector

through expansion of the use of the Tax Identification Number (NIF), and combating tax avoidance and evasion.

21. As at end-March, the financial situation in Burundi was generally satisfactory. The government's overall financial operations deficit was maintained within the agreed ceilings driven by revenue gains and much lower-than-expected expenditure levels. Tax revenue, excluding exemptions, amounted to FBu 101.6 billion, some 26 percent of the revenue forecasted for the year. Internal revenue mobilization has improved with the setting up of the BRA, which has facilitated the collection of income taxes, taxes on goods and services, and tax arrears. This performance is explained by the payment of provisional installments on income tax, the filing of corporate income tax declarations, and the effective implementation of the VAT. Expenditure is below forecast levels owing to the low rate of execution of investment expenditure. With regard to investment expenditure financed either through own resources, the low execution level is attributable to the extremely slow public procurement procedures and to the delays in project preparation by line ministries. In the case of externally-financed expenditures, the low level is associated primarily with the delay in establishing the team of the EDF National Authorizing Officer Support Unit (CELON), resulting in a (the) temporary stoppage (suspension) of expenditures financed by the European Development Fund (EDF). However, this situation is now being regularized.

22. The energy and food crisis has repercussions on budget execution. Given the impact of petroleum product pump price increases on the prices of other basic consumer goods, in particular transportation, rice, and bread, the government has decided to introduce a temporary subsidy on petroleum products by lowering the related excises taxes. The fiscal impact of this measure is estimated at 0.3 percent if it were to remain in effect for the entire year. The government has targeted this measure on diesel fuel and kerosene, the prices of which have an impact on transportation costs and therefore on the prices of food products. However, owing to cash flow problems, this measure will be temporary and the government has undertaken to limit the amount of this subsidy to its current level even if petroleum product prices continue to rise on the international market. Moreover, if the downward trend in petroleum product prices currently being observed should continue, the government would gradually restore the level of excise taxes on petroleum products and consider reconstituting the stabilization fund with a view to attenuating excessive fluctuations in petroleum product prices at the pump in the future. The government intends to continue its policy of strengthening the social safety net by Fbu 15 billion or 0.7 percent of GDP. Accordingly, the increase in pro-poor spending would be around 15 percent of GDP. To this end, the Burundi authorities would like to receive additional financial assistance from development partners. In order to protect priority expenditures, the government has identified nonpriority expenditures that will not be authorized in the event of a revenue or financing shortfall. Despite the difficult financial situation, the government intends to continue its efforts to considerably improve the expenditure composition in favor of priority sectors, with a view to accelerating progress toward meeting the Millennium Development Goals.

23. 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 absorb the ensuing increased demand for

health services, additional health infrastructures will be built and the quality of care improved through the contracting of healthcare personnel.

24. In the area of education, the government will capitalize on the success of the abolition of school fees at the primary level by introducing the basic education reform in 2012. The government will increase student capacity by building new classrooms and recruit more teachers to reduce the pupil-teacher ratio.

25. In agriculture, the government will take advantage of the increase in resources allocated to this sector to increase food production and thereby mitigate the adverse effects of the increase in foodstuff prices on the most vulnerable population groups. In order to reach this objective, in addition to increasing the resources allocated to the sector, the government plans to introduce modern farming techniques, including irrigation, rebuilding herd sizes, and providing high quality inputs and seeds to farmers in a timely manner.

26. In the energy sector, the government has begun the construction of a 10.4 megawatt hydroelectric plant in order to reduce the energy deficit and its negative impact on private investment. In addition, the government will submit to its technical and financial partners (TFPs), in particular the World Bank, additional plans for building hydroelectric plants in order to ensure that their financing does not undermine Burundi's medium-term debt sustainability.

27. The reform of the government's vehicle fleet, which began in 2009, was speeded up in 2010 by the withdrawal of almost all of the central government vehicles. The government intends to expand this reform to parastatal enterprises and companies. In this connection, an interministerial committee chaired by the Second Vice President has been established to design an implementation strategy for the zero vehicle fleet policy. The mission of the committee will also include proposing associated measures as well as a timetable for policy implementation.

28. Controlling the wage bill remains an important medium-term priority of the government. It intends to continue the wage and jobs reform in order to achieve the objective of a wage bill of less than 11 percent of GDP in the medium term. To achieve this, the software modules to be used for payroll purposes have been installed and are operational, making it possible to identify and eliminate ghost workers. Moreover, the government will continue the freeze on civil service hiring except in the priority sectors (health, education, justice, etc.) and will continue its strict monitoring of the systematic retirement of all civil servants who reach the legal retirement age as well as of the civil service performance ratings used as the basis for annual merit increases.

29. With regard to borrowing policy, the government is aware that debt sustainability is the cornerstone of its macroeconomic stability policy and therefore undertakes to finance its development program using highly concessional loans and grants. Regarding the US\$80 million loan (31.6 percent grant element) to address Burundi's energy shortages, the government will not seek ratification of the loan unless the terms of the loan are changed so as to meet the concessional level of 50 percent grant element. A draft decree on the establishment of the National Debt Monitoring Committee is available and is expected to be submitted to the

government for analysis and approval so as to ensure proper coordination between debt management and macroeconomic objectives. A national public debt strategy covering the period 2011-2030 is being prepared. The strategy and related action plan are expected to be adopted this year.

30. With regard to the domestic borrowing policy, the government will strengthen coordination between monetary and fiscal policies with a view to preserving macroeconomic stability. To this end, the forecast cash flow plan is expected to serve as the primary instrument for active cash flow management. In addition, the government intends to accelerate financial sector reforms in order to expand its financing capacity and reduce financing costs by pursuing the development of the secondary securities market.

#### **A. Monetary and Exchange Policies**

31. Monetary policy remains focused on price stability. In an environment characterized by rising prices for food and petroleum products, the central bank will continue to pursue a prudent monetary policy in order 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. This would imply a restrictive monetary policy in order to reduce the risks of overheating.

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 has been asked to prepare fiscal and monetary policy recommendations for presentation to the central bank and Ministry of Finance.

33. To further improve the functioning of the symmetrical foreign exchange auctions, the central bank will continue the reforms of the foreign exchange auctions system with technical assistance from the IMF's MCM Department. The medium-term objective is to introduce an interbank foreign exchange market and increase exchange rate flexibility with a view to attenuating the effects of external shocks.

34. The central bank is committed to further reinforcing safeguards. In this regard, it will 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 the 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.

#### **B. Structural Reforms**

35. The reform of the coffee sector is still among the priorities of the government, which regards it as a key growth sector. The decision to continue the privatization policy should benefit from the experience gained with the previous sale of coffee washing stations. Hence, to guarantee the successful sale of the 104 remaining washing stations that have not yet been sold,

the government plans to intensify the public awareness campaigns with the dual goal of achieving mutual understanding of the key components to be included in the bidding materials now being prepared, and to redefine the operation to include the option open to coffee growers of purchasing the reserved shares, estimated at 25 percent of the capital. This preparatory stage will open the way for the relaunch of the bidding process for the sale of the 104 washing stations during the second half of the year. Moreover, steps will be taken to encourage INTERCAFE to make optimum use of the authorities vested in it, in particular to ensure greater regularity in the provision of inputs, while ARFIC should build its supervisory capacities in order to ensure further improvements in coffee quality.

36. In the context of promoting the private sector, the government intends to strengthen its actions through the creation of the Permanent Secretariat of the Public Sector-Private Sector Dialogue Framework and the Permanent Reformers Framework in order to perpetuate all the various reforms initiated with a view to improving the business climate. In addition, the draft revision of the privatization law will be submitted for approval by Parliament in order to make privatization procedures more operational. Moreover, simultaneously obtaining listing in the commercial registry and the Tax Identification Number (NIF) will become possible beginning May 30, 2011, and standard charters for the creation of enterprises will be drafted soon.

37. In close collaboration with our development partners, we are turning to the task of revising the tax laws. This new tax legislation and the draft law on the new taxation procedure will lay down common tax administration procedures for all of Burundi's tax laws, and will be similar to the tax legislation in other countries in the East African region. The regulatory framework for revenue mobilization will be renovated by updating the law on the VAT and issuing a new Tax Code. These draft laws will be submitted to Parliament before the end of the year.

38. In the tax administration area, we are engaging in a resolute campaign to register taxpayers and collect arrears. We have also initiated an improved categorization of taxpayers. The best performers among Large Taxpayers in terms of tax compliance have been identified so as to enable them to benefit from the "Gold Card" program, facilitating customs clearance and simplifying VAT refund applications.

39. At Customs, computerization using the ASYCUDA++ system will be expanded to all customs posts and the simplification of customs procedures will be continued. In order to speed up the customs clearance of goods, working hours have been extended to 8:00 p.m., making it possible to reduce waiting times at customs, and anti-smuggling measures have been put in place. The tax base has been broadened with the reorganization and securitization of the Gitega Petroleum Products Depot and the strengthening of petroleum product control measures at the warehouse facility's entry and departure points.

40. The reforms in the area of budget programming, transparency, and execution will seek to improve the alignment of the budgetary framework with the objectives of the new generation PRSP II now being finalized. In this regard, the government will promote a participatory and inclusive approach to the budget preparation process. Budget execution will

continue to rely upon commitments plans harmonized with rolling three-month cash flow plans. In addition, the effective implementation of the recently adopted General Regulations for Public Budget Management (RGGBP) will guarantee increased transparency in budget execution, which will be further strengthened by the adoption of a decree on budget governance intended to redefine the procedures for submitting, drafting, and voting the budget as well as for budget execution and control. The adoption and promulgation of this decree is scheduled to be completed by the end of the year. Finally, the use of the new payroll software will allow for more transparent and rapid management of the wage bill.

41. In the area of good governance, the government has entered into further commitments aimed at strengthening transparency, financial accountability, and combating corruption in the public sector. In this context, it intends to: (i) adopt the National Good Governance Strategy by end-December; (ii) ensure the availability of the budget laws and quarterly budget execution reports on the government's websites; and (iii) establish Look-Up Tables (in French and Kirundi) at the communal level enabling citizens to obtain information on allocations from the sectoral budgets. The government further undertakes to improve the monitoring process for the decisions of entities for combating public financial management abuses.

42. 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, 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.

#### **IV. POVERTY REDUCTION STRATEGY PAPER**

##### **(PRSP 2011–2014)**

43. Upon completion of the implementation of the first generation PRSP in 2010, the government plans to draw up a new strategy before the end of 2011. The new strategy will capitalize on the gains made under the earlier strategy by emphasizing new development concerns and new directions expressed at the grassroots level and adopted by the government through the various sectoral strategies. To this end, the government has strengthened the participatory process through inclusive and comprehensive involvement of all stakeholders at every stage of the process. The new strategy will focus more on sectoral and local development issues and strategies which were not addressed in depth in the preceding strategy. These issues include youth and women's employment policies and social protection issues. Along the same lines, the organization of rural areas, agricultural diversification, and issues related to regional integration are highlighted.

## **V. PROGRAM MONITORING**

44. Program monitoring will be subject to performance criteria, objective indicators, and structural benchmarks as specified in Tables I.1-I.4. The information to be reported to the IMF and the definitions of the relevant 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 seventh 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)

|  | 2009  |       | 2010 |       |                   |       |       |       |       |       |                   |       |       |      |      |
|--|-------|-------|------|-------|-------------------|-------|-------|-------|-------|-------|-------------------|-------|-------|------|------|
|  | Dec.  | Mar.  |      |       | Jun. <sup>1</sup> |       |       | Sep.  |       |       | Dec. <sup>1</sup> |       |       |      |      |
|  | Act.  | Prog. | Adj. | Act.  | Rev.              | Prog. | Act.  | Rev.  | Prog. | Adj.  | Act.              | Rev.  | Prog. | Adj. | Act. |
| <b>Performance criteria</b>  |       |       |      |       |                   |       |       |       |       |       |                   |       |       |      |      |
| Net foreign assets of the BRB (floor; US\$ million) <sup>2</sup>   | 96.5  | 59.6  | 59.6 | 85.6  | 76.2              | 65.0  | 55.0  | 79.3  | 19.3  | 35.7  | 101.5             | 41.5  | 84.6  |      |      |
| Net domestic assets of the BRB (ceiling) <sup>2</sup>  | 79.3  | 74.8  | 74.8 | 49.8  | 83.3              | 97.7  | 107.7 | 91.5  | 169.7 | 140.2 | 89.2              | 168.1 | 105.6 |      |      |
| Net domestic financing of the government (ceiling) <sup>2</sup>  | 68.7  | 58.0  | 58.0 | -22.4 | 71.1              | 85.5  | 88.0  | 83.7  | 161.9 | 138.0 | 27.5              | 106.4 | 36.0  |      |      |
| External payments arrears of the government (ceiling; US\$ million) <sup>3</sup>   | 0.0   | 0.0   |      | 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\$ million) <sup>3,4</sup>  | 0.0   | 0.0   |      | 0.0   | 0.0               |       | 0.0   | 0.0   |       | 0.0   | 0.0               | 0.0   | 0.0   |      |      |
| Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; US\$ million, cumulative from beginning of calendar year) <sup>3,4</sup> | 0.0   | 0.0   |      | 0.0   | 0.0               |       | 0.0   | 0.0   |       | 0.0   | 0.0               | 0.0   | 0.0   |      |      |
| <b>Indicative targets</b>  |       |       |      |       |                   |       |       |       |       |       |                   |       |       |      |      |
| Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)   | 0.0   | 0.0   |      | 0.0   | 0.0               |       | 0.0   | 0.0   |       | 0.0   | 0.0               | 0.0   | 0.0   |      |      |
| Reserve money (ceiling)  | 198.0 | 150.9 |      | 155.1 | 178.3             |       | 175.4 | 191.6 |       | 184.1 | 219.0             |       | 209.8 |      |      |
| Pro-poor spending (floor; cumulative from beginning of calendar year)  | 274.8 | 50.1  |      | 64.5  | 105.4             |       | 152.2 | 200.7 |       | 231.4 | 342.2             |       | 323.8 |      |      |
| <b>Memorandum item:</b>  |       |       |      |       |                   |       |       |       |       |       |                   |       |       |      |      |
| External nonproject financial assistance (US\$ million; cumulative from beginning of calendar year)  | 58.8  | 11.2  |      | 35.0  | 46.2              |       | 35.0  | 107.2 |       | 45.5  | 186.0             |       | 101.3 |      |      |

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

<sup>1</sup> Indicative targets.

<sup>2</sup> The ceiling or the floor will be adjusted as indicated in the TMU.

<sup>3</sup> Continuous performance criterion.

<sup>4</sup> See definitions in TMU.

**Table I.2. Burundi: Performance Criteria and Indicative Targets for 2011**

(BIF billion, unless otherwise indicated)

|  | 2010  |       |       | 2011  |                   |       |                   |
|--|-------|-------|-------|-------|-------------------|-------|-------------------|
|  | Dec.  | Prog. |       | Mar.  | Jun. <sup>1</sup> | Sep.  | Dec. <sup>1</sup> |
|  | Act.  | Prog. | Adj.  | Act.  | Rev. Prog.        |       |                   |
| <b>Performance criteria</b>  |       |       |       |       |                   |       |                   |
| Net foreign assets of the BRB (floor; US\$ million) <sup>2</sup>   | 84.6  | 58.3  | 37.2  | 84.9  | 50.0              | 26.1  | 70.3              |
| Net domestic assets of the BRB (ceiling) <sup>2</sup>  | 105.6 | 101.9 | 129.1 | 86.4  | 148.9             | 190.7 | 143.6             |
| Net domestic financing of the government (ceiling) <sup>2</sup>  | 36.0  | 36.2  | 63.4  | -8.7  | 65.2              | 96.1  | 46.6              |
| External payments arrears of the government (ceiling; US\$ million) <sup>3</sup>   | 0.0   | 0.0   |       | 0.0   | 0.0               | 0.0   | 0.0               |
| Short-term external debt of the government (ceiling; US\$ million) <sup>3,4</sup>  | 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; US\$ million, cumulative from beginning of calendar year) <sup>3,4</sup> | 0.0   | 0.0   |       | 0.0   | 0.0               | 0.0   | 0.0               |
| <b>Indicative targets</b>  |       |       |       |       |                   |       |                   |
| Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)   | 0.0   | 0.0   |       | 0.0   | 0.0               | 0.0   | 0.0               |
| Reserve money (ceiling)  | 209.8 | 176.9 |       | 193.9 | 213.5             | 224.9 | 235.5             |
| Pro-poor spending (floor; cumulative from beginning of calendar year)  | 323.8 | 74.6  |       | 64.8  | 125.7             | 192.2 | 372.6             |
| <b>Memorandum item:</b>  |       |       |       |       |                   |       |                   |
| External nonproject financial assistance (US\$ million; cumulative from beginning of calendar year)  | 101.3 | 46.8  |       | 25.7  | 54.9              | 54.9  | 145.2             |

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

<sup>1</sup> Indicative targets.

<sup>2</sup> The ceiling or the floor will be adjusted as indicated in the TMU.

<sup>3</sup> Continuous performance criterion.

<sup>4</sup> See definitions in TMU.

**Table I.3. Burundi: Structural Benchmarks for 2010**

| <b>Proposed Measures</b>   | <b>Dates</b>                      | <b>Status</b>        | <b>Rationale</b>   |
|--|-----------------------------------|----------------------|--|
| <b>Public Financial Management</b>   |                                   |                      |  |
| 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.   | March 31, 2010                    | Completed            | Key to implementing the new budget organic law.  |
| Prepare a final report on the closing of government accounts.  | December 31, 2010                 | Completed            | Implementation of a single treasury account is key to sound public financial management. |
| <b>Central Bank and Treasury Safeguard measures</b>  |                                   |                      |  |
| 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. | June 30, 2010                     | Completed            | To enhance the safeguard measures in force at the central bank and the Treasury.         |
| 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.  | December 31, 2010                 | Completed            | To enhance the safeguard measures in force at the central bank and the Treasury.         |
| <b>Fiscal Governance</b>   |                                   |                      |  |
| 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.  | Structural benchmark (continuous) | Not met <sup>1</sup> | Enhance fiscal governance to ensure the continuation of budget support.                  |

<sup>1</sup> 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 I.4. Structural Benchmarks for 2011

| Proposed Measures  | Dates             | Status         | Rationale  |
|--|-------------------|----------------|--|
| <b>Public Financial Management</b>   |                   |                |  |
| Approval by the cabinet of the general regulation on public budget management (RGGBP).   | March 31, 2011    | Met with delay | The new budget law is based on the modern principles of fiscal rules and transparency. |
| Prepare and adopt procedures for the expenditure commitment comptrollers (contrôleurs des engagements de dépenses) consistent with the RGGBP.  | November 30, 2011 |                | Key to implementing the new budget organic law.  |
| <b>Financial Sector</b>  |                   |                |  |
| Adoption by the cabinet of the financial sector reform strategy.   | March 31, 2011    | Met with delay | To modernize the financial system and broaden access to financial services.            |
| <b>Central Bank and Treasury Safeguard measures</b>  |                   |                |  |
| 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. | June 30, 2011     |                | To enhance the safeguard measures in force at the central bank and the Treasury.       |
| 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.  | November 30, 2011 |                | To enhance the safeguard measures in force at the central bank and the Treasury.       |

## ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING

Bujumbura, June 27, 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-September 2011 is 1300.4.

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 multi-donor 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.