

International Monetary Fund

[Burundi](#) and the IMF

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

Press Release:

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Under the Extended
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Million Disbursement](#)
January 13, 2012

December 19, 2011

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LETTER OF INTENT

Bujumbura, December 19, 2011

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Madame Lagarde:

1. The government of Burundi welcomes the support of the International Monetary Fund in alleviating the adverse effects on the Burundi economy resulting from the exogenous shocks related to the recent rise in food and energy prices. This additional support made it possible to mitigate the impact of those shocks on government finances, the country's external position, and the most vulnerable groups. The government is also pleased that the IMF Executive Board modified the nonconcessional external debt limit to accommodate a US\$80 million line of credit contracted by the government of Burundi with the Export Import Bank of India to finance the Kabu 16 hydroelectric plant.
2. The government has just completed implementation of the second three-year arrangement (2008–11) supported by the Extended Credit Facility, in an unfavorable external environment characterized in particular by the global economic crisis and rising food and energy prices. However, significant progress has been achieved as a result of the fiscal, monetary, and structural reforms that have made it possible to consolidate the gains achieved, in particular with respect to macroeconomic stability.
3. The uncertainty in the global economy, mainly as a result of the sovereign debt crisis in the euro zone, poses serious risks for Burundi's economic outlook. In order to build on the results achieved and to keep Burundi on track for sustainable growth, the government has prepared a new medium-term economic program for the period 2012–14 in collaboration with IMF staff. The new economic and financial program (2012–14) aims at: (1) further improving fiscal revenue collection; (2) strengthening fiscal management and developing a debt management policy; and (3) allowing greater exchange rate flexibility. This program will also help to improve the business climate and strengthen structural reforms in the medium term in order to increase the competitiveness of the economy. Those priorities are consistent with the guidelines of the new second-generation Poverty Reduction and Growth Strategy Paper (PRSP-II).
4. In view of the considerable progress made in implementing the program supported by the ECF arrangement, the government is: (i) requesting completion of the seventh review and the eighth and final ECF disbursement of an amount equivalent to SDR 5.0 million. In order to

support the economic and financial policies of this medium-term program (2012–14), the government of Burundi is requesting IMF financial support under the Extended Credit Facility for an amount of SDR 30 million, equivalent to 39 percent of its quota, with a first disbursement of SDR 1 million on approval of the program by the IMF Executive Board.

5. The government is of the view that the policies set forth in the attached Memorandum on Economic and Financial Policies are adequate to achieve the objectives of its program. Nevertheless, it is prepared to take any additional measures necessary for this purpose. It will consult with the IMF in advance of the adoption of such measures and/or 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 ensure implementation of the program. That information as well as the arrangements for monitoring implementation of the program and the performance criteria, quantitative targets, and structural benchmarks are detailed in the Technical Memorandum of Understanding, which is also attached to this letter. Burundi will carry out reviews with the IMF every six months. We expect the first review to be completed by July 31, 2012 and the second review to be completed by January 31, 2013.

7. 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 request for a successor 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 RUFYIKIRI
Second Vice President, Republic of Burundi

Attachments:

Memorandum on Economic and Financial Policies (MEFP)
Technical Memorandum of Understanding (TMU)

ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Bujumbura, December 19, 2011

I. INTRODUCTION

1. Burundi is emerging from a lengthy period of conflict thanks to the efforts of the United Nations agencies and other bilateral and multilateral partners, considerable progress has been achieved in the reconstruction of public infrastructure, the disarming of the civilian population, the demobilization and reintegration of ex-combatants, the repatriation of refugees, good governance, the strengthening of justice, and the promotion of human rights. Moreover, the government recognizes the importance of dialogue as a method of conflict management. Nevertheless, considerable challenges remain in the security area, in particular in rural areas where the presence of poorest and vulnerable demobilized combatants is a potential flashpoint.

2. The economic and financial program and the structural reforms under the Extended Credit Facility (ECF) were implemented in a difficult environment characterized by rising food and oil prices and by electricity shortages causing untimely selective power cuts which led to a downturn in industrial production. In spite of those constraints, the government has resolutely pursued the implementation of sound economic policies and economic reforms, thereby preparing the ground for strong, inclusive economic growth.

3. In order to consolidate the gains made and to keep Burundi on the path sustainable growth, the government has prepared a new medium-term economic program for the period 2012-14 in collaboration with IMF staff. This Memorandum presents the economic and financial policies that the government will implement under the new program, which draws on lessons from an ex-post assessment of longer-term program engagement, and analyzes the medium-term macroeconomic framework for government action. The objectives of the program are consistent with the priorities set in the second-generation Poverty Reduction and Growth Strategy Paper (PRSP-II), namely: (i) to promote economic growth and preserve macroeconomic stability, (ii) to mobilize domestic resources, and (iii) to strengthen public financial management and debt management. The program will also help to improve the business climate and strengthen medium-term structural reforms.

II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION

A. Recent Economic Development

4. Economic recovery has been weaker than expected. Economic growth is projected to be 4.2 percent in 2011—a rate slightly below the initial forecast. This performance is essentially due to a slowdown in domestic demand resulting from higher food and oil prices as well as persistent selective power cuts that have affected industrial production. Coffee production was markedly lower than forecast owing to the cyclical nature of production. As

regards to prices, the growth in the overall index of consumer prices is estimated at 13.3 percent at end-October, and could reach 14.3 percent at year-end as a result of external shocks stemming from higher food and oil prices.

5. Monetary policy has remained prudent and somewhat restrictive during 2011. The monetary situation has been characterized by much weaker broad money growth due to the sharp fall in net foreign assets, which more than offset the expansion of credit to the economy. Moreover, to limit the effects on inflation resulting from rising food and oil prices, the Central Bank has raised the interest rate on the marginal lending facility to curtail private sector demand for credit and stands ready to further tighten the stance of monetary policy should inflationary pressures persist

6. The quality of public financial management is satisfactory overall, despite the delay in disbursement of budget support. Fiscal revenue collected at end-September 2011 grew by around 34 percent at end-October (compared with the results for the same period in 2010) owing to the improved administrative capacities of the Burundi Revenue Authority (BRA) and greater centralization of government revenue, in particular nontax receipts. Moreover, expenditure was contained within the budgetary ceiling, in spite of the adverse effects of the oil and food price shocks on budget execution. The level of current expenditure is in line with program forecasts, with a wage bill that should stand at BIF 278.6 billion compared with a budget forecast of BIF 272.8 billion, including the repayment of salary arrears. Domestically funded capital expenditure is below initial projections, standing at BIF 97 billion, i.e. 76 percent of the rate of execution, owing to weak execution capacity and late disbursement of budget support.

7. The external situation has deteriorated considerably. This development is due to the deterioration in the trade balance as a result of lower coffee exports following poor harvests and higher food and oil prices. Late disbursement of external aid flows has also contributed to the deterioration in the current account balance, estimated at 12.5 percent of GDP, and to the 3.8 percent depreciation of the Burundian franc since the start of the year. Official reserves have also fallen to 4.4 months of imports.

B. Results of the implementation of the program at end-2011

8. Overall, implementation of the program has been satisfactory. All the quantitative performance criteria at end-September (Table I.1) were met: in particular the government (i) has not contracted or guaranteed long-term external debt on nonconcessional terms¹; nor

¹ The Burundian authorities obtained modification of the zero cap on nonconcessional external debt so that it could ratify the loan from EXIM Bank of India (US\$80 million) to finance the construction of the Kabu 16 hydroelectric plant. The loan has a grant element of 31.6 percent, which is below the 50 percent level required for a loan to be considered concessional under the ECF.

(ii) contracted or guaranteed short-term external debt. Quantitative targets have also been met. All the programmed structural benchmarks were achieved (Table I.3).

9. In the area of public financial management, reforms are continuing at a satisfactory pace. The draft Decree on the General Regulation on Public Budget Management has been signed by the President of the Republic. The decree will make it possible to define the rules for executing, recording, and auditing the revenue and expenditure in the budgets of subnational government entities, as well as for 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 penalties applicable to them. Moreover, the budget guidelines for the 2012 Budget Law were prepared in line with a medium-term expenditure framework (MTEF) over three years; finally, a donor-financed basket fund (BF) was created in the education sector. Regarding revenue collection, steps have been taken with a view to improving customs revenues over the long-term. For example, the authorities have conducted an awareness-raising campaign among taxpayers, simplified customs clearance procedures, and introduced petroleum product import controls at entry and departure points from the Petroleum Product Storage Company (SEP) and INTERPETROL. 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).

10. In the area of the business climate, appreciable progress has been achieved. As a result of the steering committee chaired by the second Vice-President, with a view to improving the "*Doing Business*" indicators, reforms have been carried out in relation to (i) property transfer; (ii) protection of investments; and (iii) payment of taxes. Those reforms helped Burundi to improve its ranking from 177th to 169th place according to "*Doing Business 2011*" and "*Doing Business 2012*" respectively, a gain of 8 positions over the period.

11. In the monetary area, in light of the satisfactory results of the technical training provided to pilot commercial banks, the central bank introduced repo operations in April 2011. Moreover, following the Council of Ministers' adoption of the financial sector reform strategy, steps are being taken to improve the legal framework. In this connection, the central bank has prepared a draft law on the payment system that ensures the finality of the regulations and the protection of compensation rights and financial guarantees. Moreover, it intends to strengthen the financial infrastructure by computerizing its activities and modernizing its payment system (RTGS and electronic clearing for the payments system). Preparation of the Financial Market Development Plan is continuing with the support of development partners.

12. In the context of the strengthening of bank supervision, the central bank is receiving technical assistance from the IMF to train inspectors in risk-based supervision procedures and to prepare the relevant manual. A draft banking law has been prepared as a result of that

technical assistance. A draft regulation on remote banking and money transfers by mobile phone has also been drawn up. Moreover, the central bank is in the process of revising the decree governing microfinance activities to modernize it and adapt it to best international practices while making it more conducive to the orderly development of microfinance activities. The revision will also allow microfinance institutions to expand their clientele and diversify their product ranges. Furthermore, commercial banks will be submitting their simulated financial statements using International Financial Reporting Standards (IFRS) as of end-December 2011, while retaining the existing system as a backup. Final migration to IFRS reporting is scheduled to take place as of June 2012. Lastly, all commercial banks and financial institutions are in compliance with the minimum capital requirement of 10 billion and 6 billion, respectively.

C. Lessons learned

13. Since the end of the conflict, the Burundian authorities have implemented satisfactorily two PRGF/ECF three-year arrangements aimed at reviving economic activity in the country, improving economic governance, consolidating peace, and reducing poverty. In this regard, significant progress has been made in the reforms embarked upon in the budgetary and monetary areas, thereby strengthening the foundations of economic growth and preserve of macroeconomic stability.

14. In spite of the external shocks linked to rising food and oil prices and the global economic crisis, policymakers have managed to maintain macroeconomic stability. Moreover, the downward trend in GDP per capita has been reversed. However, the repercussions of the external shocks for prices could not be entirely eliminated and they occasionally complicated the conduct of monetary and fiscal policy.

15. Budget support from development partners played a decisive role in the macroeconomic stabilization policy and in meeting the government's priorities in the social sectors. However, the fact that disbursements were unpredictable and not spread out over time was a source of cash-flow difficulties in the execution of the budget, which may be exacerbated by the recent decision of donor countries to modify the composition of their financial support in favor of project grants.

16. Significant progress has been made in public financial management. To improve the efficiency of expenditure and respond to the governance concerns of the development partners, priority was accorded to the planning, execution, and transparency of expenditure. At the regulatory level, the 2008 adoption of the new organic budget law introduced many reforms to improve public financial management. Implementation of the budget organic law allowed preparation and implementation of the agreement between the government and the central bank on the "government cashier" function. The Integrated Public Financial Management System was strengthened and considerable efforts were made to rationalize the expenditure cycle. The Decree on the General Regulation on Public Budget Management has just been adopted and will allow for greater transparency in budget execution. Satisfactory

progress has been achieved in management of the government's cash flow and implementation of the single treasury account. Furthermore, a new public procurement code has been adopted. In addition, annual procurement plans have been prepared to facilitate the transparency of budget execution. With regard to the 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.

17. The Burundi Revenue Agency is operational and the implementation of reforms aimed at modernizing tax and customs administrations has contributed to a sharp increase in revenue collection. On the taxation front, the tax on transactions has been replaced by VAT. Customs and taxes have been radically reformed. To broaden the tax base, measures have been taken to combat evasion, a taxpayer census program is under way, and the unique tax identification number has been brought into general use. Moreover, the computerization of BRA operations is well under way.

18. In the monetary field, the autonomy of the central bank has been strengthened from a legal point of view and monetary policy has been modernized. The reserve requirement system has been brought into line with good practices while the system of liquidity auctions has been reformed with the lifting of the ceiling on interest rates. Supervision of financial institutions has been reinforced and the minimum capital of banks has been raised in accordance with the Basel Accords. The Central Bank continues to implement major measures aimed at strengthening its financial safeguards, following the recommendations of the latest update safeguards assessment completed by IMF staff in June 2008.

D. Challenges

19. On the economic front, growth has not met expectations. With a GDP growth rate barely above 4 percent, wealth creation has been insufficient to significantly reduce the poverty rate, which is estimated to be 67 percent of the population. Moreover, the primary sector, which provides employment for more than 97 percent of the population, has experienced much more modest growth than expected. Inflationary pressures have been brought under control as a result of prudent monetary policy, but prices remain relatively high because of external shocks.

20. The unpredictability of the amount of external aid remains a cause of concern for public financial management. In this connection, it is essential that in future the authorities advocate implementation of reforms to increase the effectiveness of public spending, in particular harmonization of strategic choices, the program approach, the use of the Medium Term Expenditure Framework, and the strengthening of monitoring and evaluation mechanisms.

21. Burundi's accession to the EAC offers unprecedented opportunities for economic growth, constituting a solution to the country's landlocked situation and to the small size of

its economy. Membership also gives Burundi access to a much bigger market. In recent years, accession to the EAC has served to anchor reforms such as the application of the protocol of the Customs Union in 2009, which includes application of the Common External Tariff. To benefit from membership, the government will continue the reforms in order to strengthen the credibility of its economic policy by respecting the EAC convergence criteria and improving the business climate by simplifying taxation and regulation.

III. MEDIUM-TERM MACROECONOMIC FRAMEWORK

22. In the wake of the euro zone's economic and financial crisis, Burundi is faced with a reduction in external aid that could contribute to deterioration of the external situation while weakening government finances. Consequently, the new economic and financial program (2012-14) aims at: (i) further improving fiscal revenue collection; (ii) strengthening public financial management and developing a debt management policy; (iii) permitting greater exchange rate flexibility; and (iv) improving the business climate. In this connection, actions will seek to consolidate the gains made in terms of macroeconomic stability from implementation of previous economic programs and to further assist the government to continue its poverty reduction policy in the framework of the PRSP-II, preparation of which is expected to be completed by end-2011.

23. The economic outlook is favorable, but subject to the downside risk in the short term. Economic growth is projected to reach 6.0 percent in 2014, supported by improved productivity and diversification of agricultural activity, and by increased investment in the electricity and tourism sectors. Slower inflation should bring price rises down to single figures as a result of a prudent demand policy. In the external sector, exports of coffee and other agricultural products should increase strongly and offset the expected increase in imports, in particular petroleum products. Consequently, the external current account deficit is expected to improve and stand at 9.1 percent of GDP in 2014. However, downside risks could affect future economic growth because of the security situation and the external environment characterized by high petroleum products prices, which is likely to persist, with negative consequences for inflation and budget execution. Moreover, the euro zone crisis could increase the uncertainties surrounding budget support.

24. Aware of the Burundian economy's vulnerability to external shocks in view of its heavy reliance on external aid, the disbursement of which has been unpredictable, the government intends to strengthen its capacity to mobilize domestic resources and control expenditure. Thus, tax revenues should increase from 14.4 percent of GDP in 2011 to around 15.6 percent of GDP in the medium term as a result of expansion of the tax base, reinforcement of the tax and customs authorities, control of exemptions, and anti-evasion measures. Consolidation of expenditure should be continued far more rigorously. In this connection, the budget preparation process will be strengthened to improve the effectiveness and transparency of public financial management. Thus, there are plans to contain or even reduce current expenditure in proportion to GDP in order to create the fiscal space for

improving the composition of government expenditure in favor of infrastructure and social expenditure.

25. The government plans to limit the effects of the global crisis on the Burundian economy by adopting a more flexible exchange rate policy combined with prudent fiscal and monetary policies. In close collaboration with IMF staff, the central bank will strengthen foreign exchange operations by calculating a daily reference exchange rate to guide the market by shifting from daily uniform price auctions of foreign currency—symmetrical foreign exchange auctions market (MESD)—to bi-weekly uniform price foreign exchange auctions.

26. In regard to public debt management, the government is aware of the need for a prudent borrowing policy to preserve external debt sustainability. Consequently, it intends to build its debt management capacities within the Ministry of Finance and Economic Development and Planning by calling on the technical and financial assistance of development partners. Moreover, it envisages the creation of a high level committee that will coordinate and ensure that public debt management is in line with the country's macroeconomic objectives. The government will also undertake a capacity assessment of its debt management abilities in cooperation with the World Bank (DeMPA). Following this evaluation, an action plan will be developed to improve debt management capacity of the government. The government will also ensure that the financing of its needs will be in the form of grants or external debt on highly concessional terms (a grant element of at least 50 percent) and it plans to contain the volume of debt within limits compatible with the government's repayment capacity. However, requests for special exemptions would be subject to the prior approval of the IMF with regard to external loans whose conditions would deviate slightly from the level of concessionality (grant element of 50 percent), especially for projects which have a high level of profitability. With regard to the policy of interior debt, the government will reinforce coordination between the monetary policy and fiscal policy to preserve macroeconomic stability. For this purpose, the treasury cash flow plan will be used as the main tool in the active treasury management by the authorities.

IV. ECONOMIC AND FINANCIAL POLICIES FOR 2012

27. During 2012, reflecting an improved business climate that will be accompanied by increased private investment, economic growth should accelerate to 4.8 percent, with a slightly declining—albeit relatively high—inflation rate. The external current account deficit may get bigger because of higher imports of petroleum products due to thermal electricity production as part of the Pivottech project. However, official reserves are expected to stabilize at around 4.5 months' imports.

28. Faced with the steep fall in budget support, the government is aware of the need to consolidate the government finance situation. For this purpose, the government plans to continue its efforts to improve revenue collection and public expenditure management. Total

revenue (excluding grants) is projected to be 16.2 of GDP in 2012, which represents an increase of 0.7 of GDP compared with 2011. This increase in revenue would result from consolidation of the administrative reforms introduced during previous years, such as anti-evasion measures, expansion of the tax base, and control of exemptions. Other initiatives will be taken to expand the tax base. Those initiatives comprise the Income Tax law, which should eliminate the inconsistencies between exemptions under the Tax Code and those under the Investment Code, stabilization of taxation on petroleum products, revision of the Excise Duties Code, and creation of a one-stop shop at the border with Tanzania to facilitate the movement of goods. The government will take all necessary measures to contain expenditure within the budgetary ceiling to ensure the sustainability of government finances. Accordingly, total expenditure will represent approximately 35.6 of GDP, or BIF 1198.1 billion. Current expenditure will be kept under control, and there are plans to cut capital expenditure sharply owing to the steep fall in budget support. As a result of the implementation of those measures, the overall deficit is projected to be 3.5 percent of GDP and budget support should be down to 2.6 percent of GDP, which is half of what was forecast in 2011.

A. Enhancing governance

29. The government is aware that improving governance is essential to safeguard donor support and to attract private investors. In this connection, on October 20, 2011, the Council of Ministers adopted the National Strategy on Good Governance and Combating Corruption, which seeks to (i) establish a culture of accountability at all levels of responsibility; (ii) improve transparency in the management of government business; (iii) strengthen the rule of law; and (iv) improve the performance of government. Implementation of this strategy would require the technical and financial support of donors. Regarding resolution of the INTERPETROL case, it has been brought before the Supreme Court, which will give a court ruling on the governance-related issues in which the company has been implicated since 2007. In this connection, the BIF 6 billion belonging to INTERPETROL, taken as security, will remain in escrow with the central bank.

30. In the health sector, the government will continue its policy of free health care for children under 5 and care for women in childbirth. To meet the growing demand for health services, additional infrastructure will be built and priority will be accorded to the recruitment of medical staff. These steps will help to improve the quality of medical care.

31. In the education sector, the government intends to continue its program of free schooling in primary education. It plans to build new classrooms and recruit teachers to reduce the pupil-to-teacher ratio.

32. In the agricultural sector, the government has defined its major priorities in the national investment plan for agriculture and livestock, adopted in 2011. The strategic guidelines are based on the following priorities: (i) sustainable increase in production and

food security; (ii) professionalization of producers and promotion of innovation; (iii) development of agri-business subsectors, including livestock and fisheries; and (iv) institution-building.

33. In view of Burundi's tourism potential, the government plans to make tourism one of the pillars of economic growth and poverty reduction in Burundi. For this purpose, the government has just adopted the National Strategy for the Sustainable Development of Tourism, aimed at promoting the tourism sector by attracting private investors and stimulating demand. In this connection, the government plans to identify and develop new tourist sites, reorganize tours by better targeting the market, promote a more active partnership with tour operators, and initiate measures that are more attractive to private investors. The privatization of Novotel Hotel and the award of the concession for the Source du Nil Hotel to a large group of hoteliers from the region could encourage other private investment in the sector.

B. Structural reforms

34. To benefit from its accession to the EAC, the government plans to improve the competitiveness of the economy by implementing structural reforms that are commensurate with the challenges it faces. The reforms will serve as the basis for sustained and shared growth. Thus, the government is embarking on the following reforms.

35. Reform of public financial management will continue. Following the Decree on the General Regulation on Public Budget Management, the government will introduce implementing regulations. For example, adoption of the Decree on fiscal governance, presentation and implementation of the 2012 Budget Law in accordance with the new budget nomenclature; the signing of an order on expenditure commitment comptrollers, and preparation of a manual of procedures for them with a view to starting the trial deployment of an expenditure commitment comptroller in two pilot ministries at end-September 2012. Moreover, to limit the effects of the reduction in budget support, the government will examine, with its development partners, the creation of basket funds in other sectors such as health and statistics.

36. Regarding financial sector reform, there are plans for the Ministry of Finance, in collaboration with the central bank, to set up a unit to coordinate and monitor the strategy and the action plan. The mission of this unit will be: (i) to monitor and evaluate implementation of the strategy and action plan by drawing up beforehand performance indicators and result verification measures; (ii) to serve as an interface between the sector's institutional stakeholders and as a contact point for donors; (iii) to support the authorities in finding finance and mobilizing resources; (iv) to launch an information and awareness-raising campaign to consolidate the reform through the media and other publications. Supervision of the unit will be entrusted to a steering committee, whose tasks will include setting the main guidelines for the conduct of the strategy and implementation of the action

plan. In this connection, the central bank is continuing implementation of projects to computerize and modernize the payments system.

37. To facilitate increased access to formal financial services for the poor, the central bank plans to conduct a national survey on financial inclusion. The survey will allow the central bank *inter alia* to gain a better understanding of the demand for financial services, to gauge the degree of satisfaction among the population, and to adopt strategies to expand access to financial services tailored to the different needs of the poor and to increase their uptake and quality.

38. In the coffee sector, the government plans to relaunch its washing station privatization program to attract foreign investment in the sector, while ensuring that coffee growers can purchase the reserved shares, as provided in the government's divestment strategy (25 percent of the capital). The draft call for tenders for the relaunch of the sale of the remaining 104 washing stations has just been launched. The government also plans to revive the subsector by implementing reforms designed to increase production and reduce the cyclical nature of coffee production. The private sector will play a leading role in this strategy.

39. In regard to the energy sector, the government intends to adopt a two-pronged strategy to tackle the shortage of electrical energy and the poor state of the distribution network, which constitute major obstacles to the competitiveness of the economy and to attracting private investors. Moreover, the government intends to improve the financial situation of REGIDESO by increasing electricity prices and guaranteeing transparency in the electricity pricing mechanism. To improve bill collection, the prepaid system will be extended to all 45,000 customers, including the public sector. All these reforms will be implemented with the technical and financial support of the World Bank under the performance plan program aimed at improving the governance of REGIDESO. The second component consists in increasing production capacity. For this purpose, the government plans to promote the entry of private operators into the electricity production and distribution sector as part of a private-public partnership. In this connection, the government has guaranteed a contract for REGIDESO to purchase electricity with PIVOTECH, a private company, and has raised a loan from EXIMBANK of India for the construction of a hydroelectric dam (Kabu 16), the management of which will be entrusted to REGIDESO.

40. Conscious of the risk that PIVOTECH and Kabu 16 projects might pose to fiscal stability, the Government intends to make the following provisions: With regard to PIVOTECH, in order to reduce the fiduciary risks associated with the selling of electricity by PIVOTECH to REGIDESO, the REGIDESO will regularly replenish an account dedicated to the payment of the invoices coming from PIVOTECH. The amounts paid on this account will be sufficient to cover the invoices of PIVOTECH. Concerning Kabu 16, given the macroeconomic impact of the loan for the construction of the dam, the concessionality requirement of any new debt should also be extended to the REGIDESO in order to take into

account the potential risks on the budget coming from the electricity sector. Moreover, within the framework of the program of reorganization and recapitalization of the electricity company supported by the World Bank, the implementation of the performance plan established between the government and the REGIDESO shall be continued.

41. Supplying Burundi with petroleum products is another important component of the government's energy strategy. The strategy seeks to avoid supply disruptions and/or price surges on the domestic market due to a sharp rise in oil prices on the international market. In this connection, the government has adopted an automatic pricing mechanism based on a formula agreed with all partners in the sector. Nevertheless, effective implementation of the formula is encountering difficulties owing to the volatility of world prices and the delay in updating some of the parameters of the formula. Consequently, the government plans to review all these questions with all parties concerned, including the development partners.

42. As regards improvement of the legal and regulatory framework, progress relates to: (i) promulgation of the new Code governing private and semi-public companies in May 2011; (ii) preparation of the Law on bankruptcy and bankruptcy protection for companies in distress; (iii) preparation of 10 draft implementing provisions; (iv) preparation of a decree implementing the Competition Law; (v) the setting up of an Advisory Committee with the task of updating the Law on the free trade zone to comply with EAC regulations; and (vi) the forwarding to the Senate of the draft law amending Law 1/03 of February 19, 2009 organizing the privatization of semi-public companies, services and works.

43. The government will strive to improve the business climate and raise Burundi to the level of the countries of the subregion with a view to making the private sector a key player in the revival and modernization of the national economy. Other complementary reforms have already been implemented, such as reducing procedures and the number of days needed to start a business and grant a construction permit. In the coming years, the government plans to improve its strategy for promoting the private sector by: (i) supporting entrepreneurship, in particular for young people and women; (ii) continuing its program of modernization of the legal framework and business law, in particular by harmonizing Burundian tax legislation with that of the member countries of the EAC; and (iii) launching public-private partnerships.

V. GROWTH AND POVERTY REDUCTION STRATEGY PAPER

44. On the basis of the encouraging results of the implementation of PRSP-I and the recommendations emerging from the consultation processes held during the first half of 2011, the government has prepared the PRSP, which dovetails with efforts to consolidate peace and revive economic growth. The challenge is to trigger a growth momentum sufficient to create new jobs and generate incomes, in particular for young people, who are most affected by unemployment and which constitutes a main sources of insecurity. The new strategy emphasizes the new development concerns and new directions expressed at the grassroots level, namely: (i) demographic pressure on resources; (ii) the inefficiency of

agricultural production systems; (iii) the need to improve the performance of public expenditure, including aid; (iv) weak level of development of the private sector; (v) persistent energy deficits; and (vi) limited capacity to steer development. To tackle those concerns, the guidelines identified by the PRSP are structured around four strategic pillars:

- Strengthening of the Rule of Law, Consolidation of Good Governance, and Promotion of Gender Equality;
- Transformation of the Burundian Economy to Achieve Growth that is Strong and Creates Jobs;
- Improvement in the Accessibility and Quality of Basic Services and Strengthening of National Solidarity; and
- Management of Land and the Environment in Harmony with Sustainable Development.

45. As part of the ongoing dialogue with development partners, the draft document has taken their comments into account. Preparations for the macroeconomic framework and the medium-term expenditure framework are well under way. The debriefing sessions in the Policy Forum and the forwarding of the document to the Bretton Woods institutions could take place before end-2011.

A. Improvement of statistics

46. The statistical system is one of the weak links in the Burundian economic development program. To eliminate the constraints and make statistics a planning tool for economic development, the government has developed a National Statistics Development Strategy covering the period 2010-2014 and has set up a national statistical data council chaired by the second Vice-President. The strategy seeks to rectify the financial and organizational problems affecting the management and organization of ISTEERU and to improve the collection and dissemination of statistical data. In this connection, the government plans to reinforce the statistical services of sectoral ministries and establish close cooperation with development partners so as to obtain the financial and technical support necessary to implement the programs of reforms and activities.

B. Program monitoring

47. The results of the program supported by the ECF will be monitored on the basis of the performance criteria, indicative targets, and structural benchmarks described in Tables I.2 and 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. Program implementation, achievement of the related targets, and attainment of the performance criteria will be examined during the first review. The government also stands ready to adopt any new financial or structural measures necessary to ensure the program's success, in consultation with IMF staff.

Table I.1 Burundi: Performance Criteria and Indicative Targets for 2011

(BIF billion, unless otherwise indicated)

	2010		2011														
	Dec.	Mar.				Jun. ¹				Sep.				Dec. ¹			
	Act.	Prog.	Adj.	Act.	Status	Rev.	Prog.	Adj.	Act.	Status	Rev.	Prog.	Adj.	Act.	Status	Rev.	Prog.
Performance criteria																	
Net foreign assets of the BRB (floor; US\$ million) ²	84.6	58.3	37.2	87.0	Met	50.0	43.5	71.4	Met	26.1	26.1	31.4	Met	70.3			
Net domestic assets of the BRB (ceiling) ²	105.6	101.9	129.1	86.4	Met	148.9	157.4	121.9	Met	190.7	190.7	167.4	Met	143.6			
Net domestic financing of the government (ceiling) ²	40.6	36.2	63.4	-8.0	Met	65.2	73.6	-15.1	Met	96.1	96.1	17.2	Met	46.6			
External payments arrears of the government (ceiling; US\$ million) ³	0.0	0.0		0.0	Met	0.0	Met	0.0	Met	0.0		0.0	Met	0.0			
Short-term external debt of the government (ceiling; US\$ million) ^{3, 4}	0.0	0.0		0.0	Met	0.0	Met	0.0	Met	0.0		0.0	Met	0.0			
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; US\$ million) ^{3, 4, 5}	0.0	0.0		0.0	Met	0.0	Met	0.0	Met	0.0		0.0	Met	80.0			
Indicative targets																	
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	0.0	0.0		0.0	Met	0.0		0.0	Met	0.0		0.0	Met	0.0			
Reserve money (ceiling)	209.8	176.9		193.9	Not Met	213.5		210.6	Met	224.9		207.4	Met	235.5			
Pro-poor spending (floor; cumulative from beginning of calendar year)	323.8	74.6		64.8	Not Met	125.7		167.3	Met	192.2		266.7	Met	372.6			
Memorandum item:																	
External nonproject financial assistance (US\$ million; cumulative from beginning of calendar year)	101.3	46.8		25.7		54.9		48.3		54.9		56.0		145.2			

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

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.

⁵ This US\$80 million is limited to the line of credit agreement between the government of Burundi and the Export Import Bank of India to finance the Kabu 16 hydro-electric plant.

Table I.2. Burundi: Performance Criteria and Indicative Targets for 2012

(BIF billion, unless otherwise indicated)

	2011	2012			
	Dec. ¹	Mar.	Jun. ¹	Sep.	Dec. ¹
	Proj.	Prog.	Prog.	Prog.	Prog.
Performance criteria					
Net foreign assets of the BRB (floor; US\$ million) ²	62.0	17.1	35.3	18.5	59.3
Net domestic assets of the BRB (ceiling) ²	158.1	187.3	198.7	223.9	187.2
Net domestic financing of the government (ceiling) ²	41.8	25.7	61.8	104.1	59.5
External payments arrears of the government (ceiling; US\$ million) ³	0.0	0.0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; US\$ million) ^{3, 4}	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) ^{3, 4}	80.0	0.0	0.0	0.0	0.0
Indicative targets					
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	0.0	0.0	0.0	0.0	0.0
Reserve money (ceiling)	238.1	209.7	245.4	248.6	266.8
Pro-poor spending (floor; cumulative from beginning of calendar year)	368.2	42.0	144.7	230.6	370.1
Memorandum item:					
External nonproject financial assistance (US\$ million; cumulative from beginning of calendar year)	128.6	9.0	16.6	21.4	66.0

Sources: Burundi authorities; IMF staff estimates and projections.

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.3. Structural **Benchmarks for 2011**

Proposed Measures	Dates	Status	Rationale
Public Financial Management			
Approval by the cabinet of the general regulation on public budget management (RGGFP).	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 RGGFP.	November 30, 2011	Met	Key to implementing the new budget organic law.
Financial Sector			
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.
Central Bank and Treasury Safeguard measures			
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	Met with delay	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	Met	To enhance the safeguard measures in force at the Central Bank and the Treasury.

Table I.4. Structural Benchmarks for 2012

Proposed Measures	Dates	Status	Rationale
Public Financial Management			
Adopt decree on budget governance	June 30, 2012		Will facilitate realigning current regulation with organic law
Deploy expenditure commitment controllers in the ministries of health and agriculture.	September 30, 2012		Improve budget discipline in line ministries.
Approve plan for reorganization of Ministry of Finance and Plan.	September 30, 2012		The current allocation of administrative resources is not well-suited for medium-term reforms included in the budget organic law (i.e. program budgeting and medium-term programming).
Tax Policy			
Prepare a report aimed at: i) quantifying foregone revenue by tax exemptions in current legislation; ii) identifying all codes and other legal texts in which tax exemptions need to be removed in the context of passing the new income tax law, consistent with Fund TA	September 30, 2012		Quantify the fiscal cost of tax exemptions in current legislation. Ensure consistency of investment incentive policy across legislation. Align tax exemptions with other EAC countries and minimize revenue losses
Debt Management			
Undertake an assessment of debt management by the World Bank and develop an action plan to improve capacity.	September 30, 2012		Improve debt management capacity of the Finance ministry
Central Bank and Treasury Safeguard measures			
Recruit an international auditor to: (i) monitor the full implementation of all the recommendations formulated in GPO Deloitte's 2011 special audit report; (ii) verify on a test basis the controls on significant domestic disbursements and transfers—on behalf of the government or its creditors—that took place in the period from July 2011 through March 2012, and (iii) evaluate the implementation of the new decree on management of public expenditures that was approved to replace the 1964 RGCP.	March 31, 2012		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 period from July 2011 through March 2012.	June 30, 2012		To enhance the safeguard measures in force at the Central Bank and the Treasury.

ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING

Bujumbura, November 23, 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 have 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, the BRB and REGIDESO 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 (including leases). 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 rescheduling arrangements, borrowings from the IMF and any Burundi franc-denominated treasury securities held by nonresidents. A ceiling of US\$ 80 million is set forth in Table I.2 which is to be used exclusively for the line of credit contracted by the government of Burundi with the Export Import Bank of India for the financing of the Kabu 16 hydroelectric plant.

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\$40 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\$40 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\$40 million. External financial assistance will be converted to Burundi francs using the program-specified BIF/US\$ exchange rate. The program exchange rate for end- December 2011 is 1307.0 and at end-March 2012 is 1311.8.

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 the following weekly data:

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

18. 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).

19. 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).

20. 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.