

International Monetary Fund

[Burundi](#) and the IMF

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

Press Release:
[IMF Executive Board
Completes First
Review Under the
Extended Credit
Facility Arrangement
for Burundi and
Approves US\\$6
Million Disbursement](#)
July 27, 2012

July 9, 2012

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Letter of Intent

Bujumbura, July 9, 2012

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

Dear Madame Lagarde:

1. On January 27, 2012, the Executive Board of the International Monetary Fund (IMF) approved a new three-year arrangement under the Extended Credit Facility (ECF) in favor of the Republic of Burundi. This arrangement is intended to support our medium-term program and to strengthen macroeconomic stability, expedite growth, and reduce poverty. Under this arrangement, the Burundi government recently discussed the first program review with an IMF mission. This review focused on program implementation from December 1, 2011 to March 31, 2012, as well as on the outlook and the economic and financial measures to be implemented in 2012.
2. Since the beginning of the year, Burundi has been confronted with an unfavorable international economic environment, characterized by declining budgetary assistance and rising food and oil prices. Our forecasts suggest that these trends will have adverse effects on economic growth, balance of payments, and budget execution in 2012. To mitigate the impact of this crisis on the cost of living for vulnerable population groups, the government has implemented tax relief measures on food and petroleum products whose fiscal effects will be partly offset by higher taxes on alcoholic beverages, telephone communications, second-hand cars, along with a substantial reduction in domestically funded expenditures. These measures were incorporated into a supplementary budget that was submitted to parliament.
3. These shocks notwithstanding, program implementation at end-March 2012 was satisfactory overall. All performance criteria and indicative targets were observed. In addition, the government intends to press ahead with the program in pursuit of the objectives of fiscal and debt sustainability, and to strengthen the economic growth outlook for Burundi in the medium term. In particular, the government intends to tighten short-term fiscal and monetary policies in an effort to curb inflationary pressures, while safeguarding pro-poor expenditure. The government also stands ready to adopt any additional measures that may be required for this purpose. The government 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.

4. With regard to the structural reforms, in spite of being delayed in the implementation of reforms, the Government is determined to adopt the decree of budget governance and to recruit an international auditor to reinforce the safeguards at the central bank and the ministry of finance by mid-July 2012. Because of this delay, the audit report will be made available at the end of September 2012.

5. The PRSP-II aims to achieve strong and sustained growth based on transformation of the economy financed through the mobilization of domestic resources and grants. In the event that grants are lower than expected, the government will undertake appropriate measures to realign the macroeconomic framework with available resources.

6. The government will provide the IMF with such information as it may request to ensure implementation of the program. That information as well as 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.

7. In light of the appreciable progress in implementing the program supported by the ECF arrangement, the government is requesting the modification of PCs for end-September 2012 and completion of the first review as well as the second disbursement of SDR 4 million under the ECF.

The Burundi authorities wish to make this letter available to the public, along with the attached MEFP and Technical Memorandum of Understanding (TMU), as well as the IMF staff report on the first review. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the official websites of the Burundian government.

Sincerely yours,

/s/

Tabu Abdalla MANIRAKIZA
Minister of Finance and Economic Planning

/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 ON ECONOMIC AND FINANCIAL POLICIES, 2011–14

I. INTRODUCTION

1 Burundi's economic and financial program, supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF), aims to consolidate economic and political gains, promote inclusive economic growth, contain inflation, and strengthen policies designed to combat endemic poverty in rural and urban areas. This Memorandum supplements the December 2011 version. It reports on quantitative implementation at end-March 2012, structural benchmarks through end-June 2012 and defines the economic policies and reforms the government intends to implement in 2012 to achieve the objectives of its economic and financial program. The program measures and objectives are consistent with the Poverty Reduction and Growth Strategy Paper (PRSP-II).

2 Despite remarkable progress, Burundi remains a fragile state. It still needs technical and financial support from the U.N. and other bilateral agencies to complete the transformation of its economy and strengthen its political institutions. In the interest of creating a calm social and political environment, dialogue is the government's preferred method of managing conflicts. It was in this context that the government, acceding to civil society's demand to eliminate taxes on food, forestalled a strike protesting the high cost of living.

II. ECONOMIC DEVELOPMENTS AND IMPLEMENTATION OF THE ECONOMIC AND FINANCIAL PROGRAM IN 2011/EARLY 2012

A. Recent Economic Developments and Outlook for End-2011 and March 2012

3. **Economic activity improved slightly to 4.2 percent in 2011**, falling a little short of the initial projections. This growth reflected the expansion of services and major foreign investments in the secondary sector. Agricultural output, however, was much weaker than expected owing to the cyclical decline in coffee production and a decrease in food production caused by bad weather. Inflationary pressures mounted, with the rate of inflation rising to 25 percent at end-March 2012, compared to 15 percent at end-December 2011. Prices rose sharply in response to the relatively high prices of foodstuffs on the international market and a drop in agricultural output of approximately 30 percent in the first quarter of 2012. The government's decision to raise electricity and water rates also stoked inflation.

4. The current account (including transfers) widened further to 12.3 percent of GDP in 2011. Terms of trade deterioration and delays in budgetary assistance disbursements largely explain this unfavorable development. Gross official reserves contracted sharply, to a level equivalent to 4 months of imports in 2012.

5. The monetary survey at end-December 2011 reveals a sharp decrease in net foreign assets of roughly 12.3 percent of the beginning period money supply, a substantial increase in credit to the economy, and money supply growth of 6.1 percent. The decrease in net foreign

assets is attributable to delays in the disbursement of budgetary assistance and the decision of the monetary authorities to stabilize the Burundian franc by selling larger amounts of foreign exchange on the exchange market. Rising oil and food prices also contributed to the decline in net foreign assets. Overall in 2012, credit to the economy will remain moderate at 23 percent owing to the tightening of monetary policy to curb inflationary pressures. Furthermore, with a view to mitigating the effects of external shocks on domestic production, the country's foreign exchange policy has become more flexible. The daily reference exchange rate is now determined using the weighted average of the rates applied by commercial banks to the previous day's purchases and sales of foreign exchange. Foreign exchange auctions are held twice a week, with foreign exchange allocated at the rates proposed by banks.

6. On the fiscal front, the mobilization of domestic funds improved, as projected, and expenditure was kept within the program envelope. The overall deficit, however, was larger than anticipated owing to the delay in budgetary assistance disbursements in 2011. At end-December 2011, the overall budget deficit (cash basis, non-HIPC grants included) was approximately 4 percent of GDP, well above the target of 2.5 percent. Domestic revenue amounted to 15.4 percent of GDP thanks to the revenue mobilization efforts of the Burundi Revenue Authority (BRA). Total spending fell short of projections by about 0.4 percentage points of GDP as a result of a decrease of FBu 5 billion in transfer expenditures. However, pro-poor spending of roughly FBu 372.6 billion was broadly in line with the budgetary objectives and helped mitigate the negative effects of energy and food crisis on vulnerable populations.

7. At 8.7 percent of GDP in 2011, the wage bill exceeded projections by nearly FBu 1.6 billion, or 0.05 percent of GDP, owing to the hiring of more personnel in the health and education sectors than planned. The reason for this overage is that careers and payroll are managed by the Ministry of the Civil Service, although they could be brought under control if payroll management responsibilities were transferred to the Ministry of Finance and Economic Development Planning.

8. At end-May 2012, revenues were lower than expected owing to the granting of exemptions and lower collections on excise taxes (by about 0.5 percent of GDP). To counter the high cost of living, the government provided tax relief by eliminating customs duties, VAT, and administrative charges on 13 food products. This tax exemption applies to both local and imported products. For 2012, the amount of forgone revenue associated with this decision is estimated at FBu 10 billion, or 0.3 percent of GDP. Similarly, because of rising international oil prices, the government waived excise taxes on oil products to offset soaring retail prices and their effect on inflation. At end-December 2012, the loss of revenue caused by this subsidy is projected at FBu 23 billion. Nevertheless, corrective measures are envisaged to address the slippages.

9. Program implementation is satisfactory overall. The indicative targets for end-December 2011 were met but for that on pro-poor spending that was missed by a small margin. At end-March 2012, the quantitative performance criteria were met, as well as all the indicative criteria.

III. IMPLEMENTATION OF STRUCTURAL MEASURES

10. Regarding public financial management (PFM), the government recently concluded the implementation of an initial public financial management strategy (PFMS-1), as well as a 2009-11 action plan. Early assessments indicate that substantial progress has been made on several aspects of PFM, particularly modernization of the legal and institutional framework of PFM and budget programming and preparation. As a result, significant gains were achieved in the areas of budget credibility, supervision, cash management, and government accounting. Building on this progress, a new strategy for 2012-14, aimed at consolidating gains, will be developed in collaboration with our technical and financial partners. With regard to revenue collection, the government is continuing its efforts to have a lasting impact on revenue. In addition to its campaign to raise taxpayer awareness, the government has simplified customs clearance procedures and created a one stop border post with Tanzania to facilitate the movement of goods across that border, which is the point of entry for a large portion of our foreign trade.

11. On the monetary front, following the technical training provided to pilot commercial banks, the central bank launched repo operations (April 2011), the development of which was impeded by the decrease in bank liquidity in the last six months. As part of the financial sector reform, the central bank plans to strengthen the financial infrastructure by computerizing its activities and modernizing its payment system (RTGS and electronic clearing). Competitive bidding for modernization of the computing room has ended; the three firms selected have already submitted their proposals, which are being analyzed. Preparations for the implementation of a modern payment system are under way and the Draft Law Establishing the National Payment System has been completed and forwarded to the Council of Ministers for adoption. The strategic and conceptual study on electronic money has been completed and the legal frameworks for e-money and mobile banking are being prepared. Studies on the establishment of a complete clearing and settlement infrastructure have also been concluded and the respective systems will be put in place before a unit responsible for payment systems operation and oversight is established. The financial market development plan was finalized in March 2012 and submitted for review by the Council of Ministers.

12. In the field of banking supervision, business continuity directives have been issued to the banking sector and a detailed manual and a draft circular on risk-based supervision will be prepared with Central AFRITAC technical assistance. In addition, the banking supervision service was restructured to include the function of financial stability assessment. The central bank strengthened its internal control and risk management system with the establishment of an Audit Committee and a revised audit charter conforming to international standards. A risk-based approach was also adopted. To ensure that the regulatory framework favors the development of microfinance institutions, a revised draft decree regulating the microfinance sector is nearing completion and is currently being analyzed by the Bank's management. With regard to banking supervision, a new draft banking law was prepared with IMF technical assistance and the commercial banks will migrate to the IFRS (International Financial Reporting Standards) by end-2013. A new commercial bank, Kenya Commercial Bank, has opened a branch in Burundi.

13. In the coffee sector, the government successfully resumed its washing stations privatization program, with 28 stations sold to Burundian private investors, and made certain that coffee growers received their reserved share in keeping with the government's commitment (25 percent of the capital). A new invitation to bid will be issued for the remaining 76 washing stations no later than end-2012. The government recognizes the preponderant role that the private sector should play in the coffee sector, as part of its strategy to boost production and minimize the cyclical effects of coffee production.

14. With respect to governance, the government has made substantial progress in implementing the national good governance and anti-corruption strategy. The outcome in the INTERPETROL case was a Supreme Court ruling in INTERPETROL's favor. The first review of implementation of the good governance strategy revealed that effective implementation would require the establishment of a technical secretariat.

15. The government has made strides in improving the business climate to attract investment. The reforms carried out had a direct impact on four indicators: (i) business start-ups; (ii) the issuance of building permits; (iii) property transfers; and (iv) the protection of investors. These reforms helped improve Burundi's ranking, making it one of the ten best reforming countries in the world.

IV. ECONOMIC OUTLOOK AND POLICIES FOR 2012

16. The economic and financial program for 2012 is consistent with the three-year ECF-supported economic program. It aims to consolidate gains, particularly with respect to macroeconomic stability and strong, sustained economic growth. However, because of persistent oil and food price shocks and the decline in donor support, which add to the uncertainty of the short- and medium-term economic outlook, the macroeconomic framework for 2012 has been revised as follows: (i) economic growth is expected to level off at 4.2 percent, which is below our initial forecasts; (ii) inflation at end-2012 is estimated at 14.7 percent thanks to a more restrictive monetary policy, increased food production, and a decrease in international oil and food prices; and (iii) official reserves are expected to stabilize at 3.8 months of imports. Moreover, in response to the impact of external shocks on the budget, the government will continue its fiscal consolidation efforts and take steps to expand the tax base and implement a fiscal policy designed to control expenditure.

17. Since the start of the year, the national and international economic context has profoundly affected execution of the 2012 budget. Because of the persistence of relatively high food and oil prices, the government implemented tax relief measures aimed at easing social tensions. The elimination of taxes on food led to a drop in revenue estimated at FBu 10 billion. Moreover, oil-related revenues are expected to shrink by approximately FBu 23 billion, owing to the reduction of excise taxes on oil products in conjunction with the rise in international oil prices and partial pass through to domestic fuel prices. Expenditure projections point to an overrun of about FBu 18 billion, essentially reflecting the increase in the wage bill, attributable to the lack of control over hiring and the payment of wage arrears and other outlays in the health sector.

18. The government plans to boost revenue collection and to control expenditure in order to close the financing gap caused by expenditure overruns and the elimination of taxes. Consequently, the government adopted the following new tax measures in the context of revising the 2012 Budget Law: (i) replacement of the existing ad valorem tax on beer with an excise tax expressed in terms of hectoliters of beer sold (FBu 30,000/Hl); (ii) institution of a 10 percent tax on telephone communications; (iii) increase of the VAT levied on alcoholic beverages (other than beer) from 50 percent to 70 percent; (iv) implementation of a new assessment system for the tax on used vehicles (v) increase of excise taxes on tobacco products; and (vi) a 10 percent income tax rate applied to wages of high government official. These measures would generate approximately FBu 26.9 billion and boost tax revenue to FBu 501.2 billion, or 14.1 of GDP.

19. The government is also committed to taking corrective measures on expenditure. Consequently, current expenditure will decrease by 0.5 percent of GDP. Cuts will be mainly in domestically financed capital spending and the wage bill will be contained at 8.1 percent of GDP, with hiring in the health and education sectors remaining a priority. Self-financed capital expenditure is also projected to decrease by FBu 18.4 billion, or 0.5 percent of GDP.

20. These efforts will bring the projected budget deficit into line with the program objectives. The overall 2012 budget deficit (including grants) is estimated at 2.7 of GDP. The financing gap will be covered by domestic borrowing without any risk to debt sustainability. All these changes will be included in a supplementary budget.

21. The Government will continue the reinforcement of safeguards. In this respect, it will ensure that the recruitment of the international auditor takes place before mid-July 2012 to (i) supervise the full execution of all the recommendations made in the report GPO Deloitte 2011; (ii) control on a test basis significant domestic disbursements and transfers on behalf of the Government or in that of its creditors who took place during the period going from July 2011 to March 2012, and (iii) evaluate the state of execution of the new decree on the management of public expenditure, which replaces the General Payment of Public accounts (RGCP) regulation of 1964. The final audit report will be made available by end-September 2012. The delay observed in the recruitment of the auditor is partly attributable to the need for taking into account the suggestions of the March 2012 IMF safeguards assessment mission which help developing terms of reference for the audit.

V. PROMOTION OF GOOD GOVERNANCE

22. In the health sector, the government will continue the policy of providing free healthcare for children under 5 years of age and covering the costs of childbirth. Additional infrastructure investments are planned to meet the growing demand for health services. The government will continue to give priority to the hiring of medical personnel in a context of wage bill stabilization. These measures will contribute to higher quality medical care.

23. In the education sector, the government also intends to continue the program of free primary school tuition and will expand it to include higher education. It plans to build new classrooms and hire teachers in order to reduce the teacher-student ratio.

24. In the agricultural sector, the government, in close collaboration with donors, plans to combat the high cost of living and eliminate food insecurity. Accordingly, the government will implement the National Agricultural and Livestock Investment Plan, the priorities of which are as follows: (i) sustainable growth of production and food security; (ii) professionalization of producers and promotion of innovation; (iii) development of industries and agribusiness, including livestock and fishery activities; and (iv) institution building.

A. Structural reforms

25. Public financial management reform remains at the center of the government's economic reform policy. Accordingly, texts implementing the decree setting out the general regulation on government budget management will be issued in the coming months, thanks to the technical assistance provided by our development partners. For example, the decree on fiscal governance was reviewed by the Council of Ministers and will be adopted by mid July 2012 after ensuring that the observations of the Council of Ministers are reflected the final text. The assignment of expenditure commitment auditors to two pilot ministries will occur shortly thereafter. The decree on the appointment and legal status of the revenue office's receiver general was examined by the Council of Ministers. This decree defines the function of the OBR receiver general and determines the scope of his authority and his relations with the senior government accountant. The OBR commissioner-general also fulfills the functions the Office's receiver general. The implementation of a new organizational chart is also planned for the Ministry of Finance and Economic Development Planning (MFPDE), the broad outlines of which were discussed with the IMF. The purpose of the reorganization of the MFPDE is to provide the ministry with the procedures and tools necessary to successfully implement the new fiscal, financial, and accounting regulatory framework adopted in application of the organic law on government finance. In addition, to consolidate the gains achieved in the area of public financial management as a result of implementation of the first public financial management strategy (PFMS-1), as well as the 2009-11 action plan, the government intends to formulate a new public financial management strategy based on the results of the PEFA (Public Expenditure and Financial Accountability) assessment. This new strategy is aimed at increasing the effectiveness of the basic functions of public financial management, in particular by finalizing a consistent legal and institutional framework for public financial management, efficiently mobilizing domestic and external resources, and enhancing the efficiency, accuracy, and transparency of the processes of preparing and executing the government budget.

26. Debt sustainability remains one of the top priorities of the program, given the small range of Burundi's exports and its limited repayment capacity. The Debt Management Performance Assessment (DEMPA) recently carried out by the World Bank revealed that the structure of our debt, while sustainable, remains vulnerable to exogenous shocks. The risk of over indebtedness is high. Consequently, in financing economic development, the government will only seek grants or highly concessional loans having a grant element of at least 50 percent. A World Bank (DEMPA) mission is also planned to develop an action plan aimed at (i) improving the legal framework governing the issuance of guarantees and onlending; (ii) strengthening the debt management structure; and (iii) building capacity for

the analysis of cost indicators and basic debt risks. With a view to improving debt management, a program to build debt management capacity is being carried out by UNCTAD with financing from the European Union. The program also includes the development and installation of a new version of the SYGADE software (6.0,) an update of the debt database, and the publication of a debt statistics bulletin beginning in July 2012.

27. As part of the financial sector reform, the Ministry of Finance, in collaboration with the central bank, plans to establish a unit to coordinate and monitor the reform strategy and the action plan. The responsibilities of this unit will be to: (i) monitor and assess implementation of the strategy and the action plan, by preparing, in advance, performance indicators and measures for verifying results; (ii) serve as the interface between the institutional actors in the sector and as liaison with donors; (iii) assist the authorities in seeking financing and mobilizing resources; (iv) carry out an information and awareness campaign to ensure coverage of the reforms in the media and other publications. The unit will be supervised by a steering committee, which will be responsible, inter alia, for crafting broad guidelines for the conduct of the strategy and for implementation of the payment system computerization projects.

28. To facilitate expanded access to formal financial services by the poor, a national survey on financial inclusion is under way. It will help the central bank better understand the demand for financial services, gauge the degree of satisfaction of the public, develop strategies to expand access to financial services geared to the various needs of the poor and increase the use and quality of such services.

29. In the energy sector, the government plans to pursue its policy aimed at supplying more of the country with electricity and improving the financial position of REGIDESO (public utility Company). The government intends to promote private sector participation in the power generation and distribution sector within the framework of a public-private partnership. Consequently, in the next four years, the government plans to increase power generation capacity by 157 MW with the implementation of subregional hydroelectric dam projects such as Rusumo Falls (60MW) and Ruzizi (48.3MW) and domestic investments such as Kabu 16. These hydroelectric plants will be constructed through the European Development Fund, the World Bank, and Exim Bank of India. REGIDESO's financial position was significantly improved by the raising of electricity and water rates and the collection of large consumers' bills thanks to the introduction of a prepayment system, which will be expanded with a view to solidifying the improvement in REGIDESO's finances.

VI. POVERTY REDUCTION AND GROWTH STRATEGY PAPER

30. The Poverty Reduction and Growth Strategy Paper (PRSP-II) was adopted by the government in December 2011 and forwarded to the World Bank and the International Monetary Fund following intensive participatory consultations including representatives of the government, grassroots communities, donors, civil society, the private sector, and Parliament. The strategy was officially launched by the President of the Republic on February 9, 2012. To increase awareness among its development partners, government delegations visited several capitals and headquarters of international institutions. The priority action plan for implementation of the PRSP-II is being finalized, while the government, in

concert with its development partners, is in the process of preparing a donor conference, scheduled for October 2012.

31. The PRSP-II, which is a key component of the effort to consolidate peace and kick-start economic growth, is 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 sustained, job-creating growth;
- 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 principles.

32. The PRSP-II aims to promote strong economic growth which is anchored on a transformation of the economy, for which the financing would come from internal revenue and grants. According to this scenario, growth would average 6.9 percent over 2012–15, without comprising fiscal and debt sustainability. Conversely, the government stands ready to enact measures that will tighten fiscal and monetary policies should budget support grants be lower than expected. These measures will be taken in conjunction with the IMF.

33. With a view to strengthening the ownership and accountability of all stakeholders, meetings to disseminate the contents of the PRSP-II will be held throughout the country, beginning in July. The development of a communications strategy will be an integral part of that stage, to better prepare for the involvement of all participants in the preparatory phase of the first review of PRSP-II implementation.

A. Improvement of statistics

34. To lay the foundations of an effective system for monitoring socioeconomic progress in Burundi, the government will pursue efforts to improve the statistical system by strengthening the units in charge of collecting data for the regular production of high quality economic and financial data.

35. To strengthen the statistical services of the sectoral ministries, a draft decree on the creation, organization, and composition of the central ministries' statistical services will be submitted to the Council of Ministers for adoption in the latter half of 2012. To make up for the gaps in statistical data, the ISTEERBU plans shortly to begin conducting surveys on (i) the living conditions of Burundian households; (ii) the work force in Burundi; and (iii) malaria indicators in Burundi. The household survey on living conditions will also serve as the basis for redefining the CPI basket. To this end, the government will request IMF technical assistance to help strengthen its statistical capacity.

VII. PROGRAM MONITORING

36. Quarterly monitoring of the program by the IMF Executive Board will continue, based on the quantitative monitoring indicators and structural benchmarks described in Tables I.1 and I.2. These indicators are defined in the attached Technical Memorandum of Understanding (TMU). The semiannual reviews will be based on the data at end-March and end-September. The second program review will be based on the performance criteria for end-September. To ensure the success of the program, the authorities will take all steps necessary to achieve the quantitative targets and structural benchmarks agreed with IMF staff.

Table I.1. Performance Criteria and Indicative Targets for 2012

	2011				2012									
	Dec. ¹				Mar.				Jun. ¹		Sep.		Dec. ¹	
	Rev. Prog.	Prog. Adj.	Act.	Status	Prog.	Prog. Adj.	Act.	Status	Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Rev. Prog.
Performance criteria														
Net foreign assets of the BRB (cumulative floor; US\$ million) ²	70.3	16.9	19.2	Met	17.1	8.1	12.1	Met	35.3	18.5	11.1	59.3	10.1	
Net domestic assets of the BRB (cumulative ceiling) ²	206.1	213.3	185.1	Met	187.3	199.1	176.5	Met	198.7	223.9	235.0	187.2	234.8	
Net domestic financing of the government (cumulative ceiling) ²	46.6	116.3	69.8	Met	25.7	37.5	-38.0	Met	61.8	104.1	49.0	59.5	34.6	
External payments arrears of the government (ceiling; US\$ million) ³	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	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	Met	0.0	0.0	0.0	Met	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	80.0	80.0	Met	0.0	0.0	0.0	Met	0.0	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	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	
Reserve money (ceiling)	235.5		211.2	Met	209.7	0.0	193.4	Met	245.4	248.6	250.7	266.8	249.0	
Pro-poor spending (floor; cumulative from beginning of calendar year)	372.6		371.5	Not Met	42.0	0.0	70.1	Met	144.7	230.6	288.3	370.1	398.0	
Memorandum item:														
External nonproject financial assistance (US\$ million; cumulative from beginning of calendar year)	128.6		91.8		9.0	0.0	0.0		16.6	21.4	55.8	66.0	80.8	

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.2. Structural Benchmarks for 2012

Proposed Measures	Dates	Status	Rationale
Public Financial Management			
Adopt decree on budget governance.	June 30, 2012	Awaiting Presidential signature.	Will facilitate realigning current regulation with the 2008 organic budget 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) 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 ii) quantifying foregone revenue by tax exemptions in current legislation 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	Evaluation done in April 2012, Action plan being developed.	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	Delayed pending incorporation of safeguards recommendations in the TOR.	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	Delayed pending the recruitment of the international auditor.	To enhance the safeguard measures in force at the Central Bank and the Treasury.

ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING

Bujumbura, July 9, 2012

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 (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 of the government 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 rescheduable. 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.

Definition of debt

9. The program includes a ceiling on new nonconcessional external debt contracted or guaranteed by the government or the BRB. For the purpose of this program, external debt is defined as all debt contracted in a currency other than the Burundian Franc. 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.
10. For program purposes, the definition of debt is set out in Executive Board Decision No. 12274, Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)).

a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

11. 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.

12. 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.
13. 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.
14. The accumulation of domestic arrears is measured by the accumulation of non-executed payment orders older than 60 days.

External financial assistance adjustor

15. 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).
16. 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.
17. 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-June 2012 is 1408.2 and at end-September 2012 is 1416.4.

18. 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

19. 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).
20. 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).

21. 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).

22. 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.