International Monetary Fund

Burundi and the IMF

Press Release:
IMF Executive Board Completes Second Review Under the Extended Credit Facility Arrangement for Burundi and Approves US$7.6 Million Disbursement
January 14, 2013

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

January 28, 2013

The following item is a Letter of Intent of the government of Burundi, which describes the policies that Burundi intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Burundi, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.
LETTER OF INTENT

Bujumbura, January 28, 2013

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

Dear Ms. Lagarde:

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 government of Burundi and an IMF mission recently assessed implementation of the program as part of the second review of the arrangement. This review focused on program implementation from April 1, 2012 to September 30, 2012, as well as on the outlook and the economic and financial measures to be implemented in 2013.

In 2012, Burundi continued to endure the effects of external shocks related to rising food and oil prices and the slowing global economy. These shocks led to higher living costs, declining budgetary assistance, terms of trade deterioration, and sluggish domestic demand, which adversely affected our macroeconomic policy.

These shocks notwithstanding, program implementation at end-September 2012 was satisfactory overall. All performance criteria and indicative targets were observed, with the exception of the indicative target on pro-poor expenditure, owing to spending cuts and the delay in the disbursement of budgetary assistance. Nevertheless, the government intends to press ahead with the program in pursuit of the objectives of fiscal and debt sustainability and the country’s economic recovery in the medium term. In particular, the government intends to conduct prudent fiscal and monetary policies in the short term in an effort to curb inflationary pressures and maintain a sustainable debt position, while safeguarding pro-poor expenditure.
In light of the appreciable progress in implementing the program supported by the ECF arrangement, the government is requesting completion of the second review as well as the third disbursement of SDR 5 million under the ECF arrangement.

The government is convinced that the policies defined in this MEFP are sufficient for attainment of the program objectives and are consistent with the orientations of the second-generation Poverty Reduction and Growth Strategy Paper (PRSP-II). It 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.

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. We expect the third review based on the end-March 2013 performance criteria to be completed by July 31, 2013 and the fourth review based on the end-September performance criteria to be completed by January 31, 2014.

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 this second 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,

Tabu Abdallah MANIRAKIZA
Minister of Finance and
Economic Development Planning

Jean CIZA
Governor, Bank of the Republic of Burundi

Gervais RUFYIKIRI

Attachments: Memorandum of Economic and Financial Policies (MEFP)
              Technical Memorandum of Understanding (TMU)
ATTACHMENT I. AMENDMENTS TO THE MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

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 and July 2012 MEFPs. It reports on implementation of the program’s quantitative targets and benchmarks through end-September 2012 and defines the economic policies and reforms the government intends to implement in 2013 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. Burundi faces the negative effects of commodities price shocks, which complicate the formulation and implementation of macroeconomic policies. The combined effects of these shocks and the country’s social fragility threaten to derail the significant progress made thus far. More specifically, because the country’s narrow tax base, the terms of trade deterioration and the marked decline in budgetary assistance cannot be wholly offset by the increased mobilization of domestic resources. Consequently, Burundi still needs technical and financial support from the U.N. agencies and from other bilateral partners to complete the transformation of its economy and strengthen its political institutions.

3. The Burundi development partners conference held in Geneva in October 2012 also provided a forum for the government to apprise its partners of the considerable advances Burundi has made, particularly with regard to good governance, peace consolidation, and social services. Despite this progress, the government is aware that much remains to be done in these areas. The authorities have therefore requested political support and additional resources to promote sustainable economic growth, curb unemployment, and reduce endemic poverty.

II. ECONOMIC DEVELOPMENTS AND IMPLEMENTATION OF THE ECONOMIC PROGRAM IN 2012

4. Economic performance was severely affected by external shocks. GDP growth stood at 4.0 percent, in contrast to the initial program forecast of 4.8 percent. This slump in economic activity reflects the cutback in investment spending prompted by the decline in budgetary assistance, terms of trade deterioration, and the tightening of monetary policy to contain inflation, which fell 13 percentage points in December 2012 from a high of 25 percent in March. The exemption of food products also helped slow the prices of goods and services in the household basket.
5. The external current account (including transfers) widened slightly to 16.3 percent of GDP in 2012. The combined effects of terms of trade deterioration and the decline in budgetary assistance are largely to blame for this negative development. Gross official reserves fell to the equivalent of 3.3 months of imports in 2012.

6. Reflecting the decline in budgetary assistance, the terms of trade deterioration, and the increased need for public and private sector imports, the monetary situation at end-September 2012 was characterized by a contraction in net foreign assets of approximately -6.5 percent of the money supply at the start of 2012. The growth of credit to the economy slowed to 15 percent, compared to 40 percent at end-2011. The money supply, however, remained stable. To mitigate the effects of external shocks on domestic production, the country’s foreign exchange policy became more flexible. The daily reference exchange rate is now determined by the weighted average of foreign exchange buying and selling rates set the preceding day by the commercial banks. Foreign exchange auctions are held twice weekly and foreign exchange is allocated at the rates offered by the banks. To protect international reserves, the BRB recently reduced the amounts of its interventions. Facing a banking sector liquidity crisis, the central bank received technical assistance from the IMF Money and Capital Markets Department, the conclusions and recommendations of which will enable the monetary authorities to improve the monetary and exchange policy framework.

7. On the fiscal front, domestic resource mobilization improved significantly but is below forecasts, and expenditures were cut to remain within the envelope of available resources. As a result, the overall deficit was in line with projections, despite the decline in budgetary assistance in 2012. At end-December 2012, the overall budget deficit (cash basis, non-HIPC grants included) is estimated at 1.7 percent of GDP. The tax burden eased and now stands at 14.8 percent of GDP, owing to the elimination of oil excises, the exemption of foodstuffs, and the slowing of economic activity. Total expenditure exceeds projections by approximately 1.0 percent point of GDP, due in large measure to the increase in current spending, particularly other externally financed expenditure (Global Fund). Pro-poor spending remains below the fiscal targets owing to the low level of budgetary assistance disbursements.

8. Improvement of the public financial management system led to the identification of extrabudgetary commitments covering the 2003-11 period. The outstanding amount of these commitments, estimated at FBu 90 billion, results from extrabudgetary spending on cartage, goods and services for the army, education, and health. The government will audit these commitments in 2013 in order to develop a payment plan (new structural benchmark). To avoid the accumulation of new arrears, the new Public Financial Management Strategy (PFMS-II) calls for the appointment of expenditure commitment auditors in all ministries by end-June 2013, following reconfiguration of the SIGEFI system to take account of the decentralization of the expenditure chain. The cash flow committee will be strengthened to ensure consistency between commitment plans and available cash (new structural benchmark).
9. The downward trend of the wage bill as a percentage of GDP continued. It was 8.0 percent of GDP in 2012, a decrease of 0.7 percent from 2011. The roll-out of payroll software led to the elimination of ghost workers from the payroll.

10. At end-September 2012, revenue grew more slowly than projected (about 0.6 percent of GDP) despite measures to eliminate the additional deficit created by exemptions to counter the high cost of living. The amount of forgone revenue, estimated at FBu 20 billion, was larger than expected. The taxes on alcoholic beverages, beer, and telephone communications adopted in the context of revising the 2012 Budget Law yielded mixed results, with FBu 22 billion collected instead of the initially projected FBu 27 billion.

11. Program implementation is broadly satisfactory. By end-September 2012, the quantitative performance criteria had been met. All the indicative targets were met, except the target on pro-poor spending. Significant progress was also made in implementing structural measures.

A. Implementation of structural measures

12. In the area of public financial management (PFM), the government adopted a new strategy for 2012-14, developed in collaboration with Burundi’s technical and financial partners to consolidate the gains achieved through implementation of the first Public Financial Management Strategy (PFMS-1). Indeed, early assessments indicate substantial progress in many aspects of PFM, particularly the modernization of the legal and institutional framework of PFM and budget programming and preparation. The implementing texts of the decree establishing the general regulation on budget management – such as the decree on fiscal governance and the order concerning the appointment of commitment controllers in three ministries – have been adopted, but implementation of the measure was delayed by the pending reconfiguration of the SIGEFI system to take account of the decentralization of the expenditure chain. The new organizational chart of the Ministry of Finance and Economic Development Planning (MFPDE) has also been adopted. The government is continuing its efforts to make a lasting impact on revenue. In addition to the taxpayer awareness campaign, the government simplified the customs clearance procedures and are creating three one-stop border posts on the borders with Tanzania and Rwanda to facilitate the flow of goods across those borders and promote foreign trade (new structural benchmark).

13. Efforts to improve debt management continue. A World Bank debt management performance assessment (DEMPA) mission was carried out in April and a final assessment report was submitted to the authorities. A second mission visited Bujumbura in August to help the Burundi authorities prepare an action plan for the implementation of debt management reforms based on the results of the DEMP A. The final action plan is expected from the World Bank at end-December 2012. The reorganization of the MFPDE included the establishment of a modern debt management unit.
14. To improve the monetary policy framework, the central bank (BRB) introduced repo operations, the development of which was impeded by the contraction of banking system liquidity observed in 2012. As part of the financial system reform, the BRB continues to implement the project designed to strengthen the financial infrastructure and modernize the payment systems (RTGS and electronic clearing). The contract for the modernization of the computing room was signed with the winning bidder on October 3, 2012. Implementation of the project began on October 4, 2012, with the work scheduled to be completed by end-February 2013. The task of wiring the BRB buildings began on October 1, 2012 and is expected to be completed by end-June 2013. In addition, the bidding documents for the establishment of the clearing and settlement infrastructure and the e-money system were forwarded to the World Bank to obtain its non-objection. However, because the September 2012 competitive bidding procedure for the provision and installation of an automated banking system was unsuccessful, the BRB is waiting for the World Bank’s non-objection to reissue the international call for bids. The financial sector development plan was adopted by the government.

15. In the field of banking supervision, business continuity planning was adopted by the banking sector, and the banking supervision department was reorganized to include the function of financial stability assessment. However, preparation of the methodology and of the detailed risk-based supervision manual and the relevant draft circular was delayed. The final migration to IFRS reporting is also behind schedule as it requires banks to incorporate the sectoral chart of accounts into their IT systems and purchase the necessary software. To date, only one bank (ECOBANK) and one financial institution (BNDE) have done so. The revision of the banking law is nearing completion. To ensure consistency in financial sector regulation, it will take into account the legal framework governing mobile banking and microfinance institutions. The draft regulations on the role of e-money, payment services, and commercial agents in Bank operations and payment services are being finalized to expand the legal framework of mobile banking and e-money. They will be published following promulgation of the revised banking law, from which they derive. A draft revision of the decree governing microfinance institutions was reviewed and will be finalized following validation of the draft revised banking law by the Bank’s management, to avoid contradictions in the two texts, especially with regard to payment services (including mobile banking). Two new banks from Kenya and Tanzania opened branches in Burundi, thus strengthening financial integration in the EAC (East African Community).

16. In line with the safeguards recommendations, the BRB hired an international audit firm to (i) conduct a special audit of large disbursements on behalf of the government processed by the BRB during June 30, 2011–March 31, 2012, (ii) evaluate the implementation of the new decree on public expenditures management, and (iii) ascertain the status of implementation of earlier special audit recommendations contained in the 2011 report of the audit firm, Deloitte GPO. Although some progress has been made, especially in the area of central bank internal controls, the audit findings continue to indicate ongoing control weaknesses that need to be addressed, including the lack of supporting documents for certain transactions and the partial implementation of the decree establishing the General Regulation on Government Budget Management. The final audit report has
been forwarded to the General Council, the Audit Committee, and the Minister of Finance. In keeping with the safeguards recommendations, the central bank will submit quarterly reports on reserve operations to its General Council.

18. In the coffee sector, the government plans to pursue its program of privatizing washing stations, 41 of which were sold to domestic and international private investors in two bidding procedures, while at the same time ensuring the access of coffee growers to reserved shares in keeping with the government’s commitment (25 percent of the capital). A new invitation to bid will be issued in 2013 for the remaining 76 washing stations, following an assessment of their value. 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.

19. With respect to good governance, the policy of zero tolerance toward acts of corruption is beginning to produce results. The 2012 version of the Transparency International report ranks Burundi second among the EAC member countries. This achievement is attributable in particular to the actions of the anti-corruption committees established in all public institutions and, more specifically, to the involvement of the country’s highest authorities in the fight against economic malfeasance. Regarding implementation of the Good Governance and Anti-Corruption Strategy, an initial interim assessment is now available and the technical secretariat responsible for executing the relevant action plan is already functioning. To enhance effectiveness in the fight against corruption, the government is currently preparing a draft law revising the legal framework. A workshop to discuss, exchange views, and raise awareness of governance issues was held in mid-December 2012.

20. Government reforms to make the business climate more attractive to private investors continue. Substantial progress has been made in eliminating constraints related to: (i) business start-ups; (ii) the issuance of building permits; (iii) property transfers; and (iv) regional trade, which no longer pose an obstacle to entrepreneurship. Thanks to government efforts to improve the business climate, Burundi is ranked seventh among the most reform-oriented countries in the Doing Business 2013 report, rising 13 places from 172nd to 159th, respectively, in the 2012 and 2013 rankings.

III. ECONOMIC OUTLOOK AND POLICIES FOR 2013

A. Macroeconomic Framework

21. The uncertainties weighing on the global economy represent a major challenge for implementation of the program. The slowing of global economic activity, particularly in Europe, a strategic partner of Burundi, and sociopolitical tensions in the subregion (in the DRC) are downside risks that could affect the level of economic activity, the external accounts, and the public finances of Burundi.
22. Despite these risks, GDP growth is estimated to climb to 4.5 percent, compared to 4.0 percent in 2012. This recovery would be driven essentially by the secondary and tertiary sectors. Moreover, the start of construction of the hydroelectric dam (Kabu 16) in 2013 and work on the road projects financed by Japanese cooperation and the African Development Bank should support this growth. Agricultural exports, however, are expected to fall off sharply, owing to the cyclical nature of coffee production. Inflation is expected to slow to around 9 percent in 2013. The current account deficit is likely to widen (in nominal terms) as a result of the drop in coffee export receipts and the growth of imports related to petroleum products and investments in the energy sector. Official reserves are projected to increase to 3.6 months of imports, reflecting the cutback in BRB interventions on the foreign exchange market.

B. Fiscal Policies

23. The aim of fiscal policy is to support growth and improve the composition of expenditure, with a view to mitigating the effects of shocks on the most vulnerable segments of the population. Total government revenue and expenditure are estimated at 29.5 percent and 31.2 percent of GDP, respectively, thanks to expenditure controls and improved revenue collection. The overall fiscal balance deficit (cash basis, including grants) should be contained at 1.7 percent of GDP. Thus, pro-poor spending will continue to grow without jeopardizing fiscal consolidation, and the wage bill will be brought under control.

24. Fiscal revenue is expected to total FBu 615 billion, compared to FBu 527.5 billion in 2012, an increase of 0.1 percent of GDP. The administrative reforms implemented in prior years, such as expansion of the tax base, measures to combat fraud and tax evasion, and efforts to control exemptions, will drive revenue growth. Other initiatives will also boost revenue mobilization, particularly the introduction of a 10 percent tax on the remuneration of political representatives; the gradual expansion of the use of the tax identification number (TIN), including in the informal sector, and of the effects of the excise tax on beer; and the elimination or reduction of exemptions for foodstuffs and petroleum products. The income tax law that was adopted is designed to correct the existing inconsistencies between exemptions granted under the tax code and under the investment code. The creation of one-stop border posts will facilitate regional trade and, in so doing, boost customs revenue. Finally, the government will submit a draft law on the VAT to parliament, designed to expand the base of that tax and reduce the size of the informal sector. It will also request IMF technical assistance for drafting an excise code and for restructuring the system of tax exemptions to strengthen domestic revenue collection.

25. Total expenditure in 2013 could rise by 4.5 percent, to FBu 1,290.9 billion. This increase, following the 3.8 percent growth expected in 2012, reflects the need to strengthen economic and social infrastructures. The wage bill is projected at FBu 300.8 billion, or 7.3 percent of GDP, in response to the human resource requirements of the key sectors of education, health, and agriculture. Overall, domestically-financed capital expenditure is expected to increase to

26. FBu 108.8 billion, or approximately 2.6 percent of GDP.
27. 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.

28. 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.

29. 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 food production and security; (ii) professionalization of producers and promotion of innovation; (iii) development of industries and agribusiness, including livestock and fishery activities; and (iv) institution building.

C. Monetary and Exchange Policies

30. Inflation reduction will remain the focus of monetary policy. Given the relatively high rate of inflation, a tight monetary policy stance will be maintained. The BRB will carefully monitor the growth of inflation and improve its capacity to forecast this macroeconomic indicator. If inflationary pressures pose no threat to economic activity, the BRB, in consultation with IMF staff, will weigh the possibility of gradually easing monetary policy to provide the economy with the resources necessary to function without rekindling inflationary pressures. The liquidity condition is expected to improve gradually, mainly as a result of the repatriation of coffee export receipts.

31. The BRB will take steps to revitalize the interbank foreign exchange market and, in order to preserve international reserves, will continue cutting back on the frequency and amounts of its interventions on the foreign exchange market.

32. The BRB will analyze the conclusions and recommendations of the IMF Monetary and Capital Markets Department mission of December 2012 with a view to promoting the health of the financial sector. It will also continue to monitor trends and will take appropriate steps to mitigate the effects of the accumulation of public sector arrears, which are siphoning off bank liquidity and weakening the financial health of primary banks.

D. Structural measures

33. The government intends to build on the progress made in the reform of public financial management. Accordingly, the decree on the appointment and legal status of the Commissioner of the Burundian Revenue Office (OBR) will be submitted for review by the Council of Ministers. This decree defines the function of the OBR Commissioner and determines the scope of his authority and
his relations with the senior government accountant (new structural benchmark). The OBR Commissioner also assumes the functions the office’s Receiver General.

34. The government is committed to maintaining a prudent debt policy to avoid overindebtedness and therefore intends to request funds in the form of grants or highly concessional loans with a grant element of at least 50 percent, sufficient to cover its financing requirements. Measures to strengthen public debt management capacity will be pursued in 2013, based essentially on the recommendations of the World Bank DEMPA mission of August 2012, with special emphasis on the preparation of a legal framework governing debt management. These measures would encompass the publication of quarterly debt reports by the Ministry of Finance (new structural benchmark). The law on debt management will be submitted to parliament by December 30, 2013 (new structural benchmark).

35. A national survey on financial inclusion was carried out, revealing the difficulties experienced by the poorest segments of the population in gaining access to formal sector financial institutions. The causes of the low rate of financial inclusion are: (i) income poverty (ii) the inadequate banking network in rural areas, (ii, sic) the large minimum deposits demanded by banks to open an account, (iii) the collateral required for borrowing, and (iv) bank products unsuited to rural needs. Based on these findings, the BRB and the financial institutions plan to develop strategies to expand access to financial services for a larger number of people.

36. Energy issues such as low power generation capacities and frequent power cuts stand in the way of the economic transformation described in the PRSP-II. The government plans to pursue its policy aimed at supplying more of the country with electricity and improving the financial position of REGIDESO. The government envisages launching a public-private partnership program to diversify energy production possibilities, with assistance from the World Bank and the African Development Bank. Power generation capacity is expected to be boosted by approximately 157 MW over the next four years, thanks to financing provided by the European Development Fund, the World Bank, and Exim Bank of India. In addition to a rate adjustment, the management of REGIDESO was strengthened with a view to more effectively combating fraud. The collection of consumer bills was also improved by greatly expanding the prepaid meter system. An organizational audit of REGIDESO is scheduled for 2013.
IV. POVERTY REDUCTION AND GROWTH STRATEGY PAPER

37. To mobilize the political support and resources necessary to finance the priority action program contained in the Poverty Reduction and Growth Strategy Paper (PRSP-II), the government organized a donor conference in Geneva in October 2012. The financial commitments of our development partners are encouraging in light of the sluggish global economy. In collaboration with its partners, Burundi will organize sectoral conferences to facilitate disbursement of the commitments made in Geneva and thus mobilize all the funds needed to ensure successful implementation of the PRSP-II.

38. 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 of the accessibility and quality of basic services and strengthening of national solidarity; and
- Management of land and the environment in keeping with sustainable development principles.

A. Improvement of Statistics

39. To ensure that reliable socioeconomic indicators are regularly available, the government is determined to strengthen its data collection units. To that end, an appropriation for hiring 12 statisticians was included in the 2013 budget and a draft decree on the establishment, organization, and composition of the central ministerial statistics services was reviewed by the National Statistical Information Board and will be submitted to the Council of Ministers in the first quarter of 2013.

40. In addition, the government plans to launch a national survey on household living conditions in the first quarter of 2013, with a view to updating the household basket and achieving national CPI coverage.

V. PROGRAM MONITORING

41. Semiannual monitoring of the program by the IMF Executive Board will continue, based on the quantitative monitoring indicators and structural benchmarks set out in Tables 1 and 3. 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 third program review will be based on the performance criteria for end-March 2013. To ensure the success of the
program, the authorities will take all the steps necessary to meet the new proposed quantitative targets and structural benchmarks on which understandings were reached with IMF staff.
### Table 1. Burundi: Performance Criteria and Indicative Targets for 2012-13

<table>
<thead>
<tr>
<th>Performance criteria</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net foreign assets of the BRB (cumulative floor; US$ million)²</td>
<td>11.1</td>
<td>Met</td>
</tr>
<tr>
<td>Net domestic assets of the BRB (cumulative ceiling)²</td>
<td>235.0</td>
<td>191.6</td>
</tr>
<tr>
<td>Net domestic financing of the government (cumulative ceiling)²</td>
<td>49.0</td>
<td>-61.0</td>
</tr>
<tr>
<td>External payments arrears of the government (ceiling; US$ million)³</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Short-term external debt of the government (ceiling; US$ million)³,⁴</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; US$ million, cumulative from beginning of calendar year)³,⁴</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

**Indicative targets**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Reserve money (ceiling)</td>
<td>250.7</td>
<td>219.8</td>
</tr>
<tr>
<td>Pro-poor spending (floor; cumulative from beginning of calendar year)</td>
<td>288.3</td>
<td>276.0</td>
</tr>
</tbody>
</table>

**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>
<thead>
<tr>
<th>Proposed measures</th>
<th>Dates</th>
<th>Status</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Financial management</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adopt a decree on fiscal governance</td>
<td>June 30, 2012</td>
<td>Completed</td>
<td>Facilitate alignment of the budget with the organic budget law.</td>
</tr>
<tr>
<td>Dispatch commitment controllers in two pilot ministries (health and agriculture)</td>
<td>September 30, 2012</td>
<td>Completed</td>
<td>Improve fiscal discipline in line ministries.</td>
</tr>
<tr>
<td>Approve the plan for reorganization of the Ministry of Finance and Economic Development Planning.</td>
<td>September 30, 2012</td>
<td>Completed</td>
<td>The current allocation of administrative resources is not well-suited for implementation of the medium-term reforms defined in the organic budget law (program budget and medium-term budget programming).</td>
</tr>
<tr>
<td><strong>Tax policy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepare a report identifying and assessing the impact of the exemptions contained in the various codes and legal texts and identify those that need to be revised.</td>
<td>September 30, 2012</td>
<td>Completed</td>
<td>Enhance coordination among the various units involved in granting exemptions and other tax concessions.</td>
</tr>
<tr>
<td><strong>Debt management</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Implement the World Bank Debt Management Performance Assessment (DEMPA) program and develop an action plan to improve debt management capacity.

September 30, 2012

Completed.

Improve the debt management capacity of the Ministry of Finance.
Central bank and Treasury safeguard measures

Recruit an international auditor to: (i) monitor implementation of the recommendations formulated in the 2011 Deloitte GPO 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 in the July 2011-March 2012 period, and (iii) assess the status of implementation of the new decree on public financial management replacing the 1964 RGCP.

March 31, 2012  Completed with delay.  Enhance 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 the special audits of controls on large domestic disbursements and transfers on behalf of the government or its creditors in the July 2011-March 2012 period.

June 30, 2012  Completed with delay.  Enhance safeguard measures in force at the central bank and the Treasury
Table 3. Structural Benchmarks for 2013

<table>
<thead>
<tr>
<th>Proposed measures</th>
<th>Dates</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public financial management</strong></td>
<td></td>
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</tr>
<tr>
<td>Adopt a decree on the appointment and legal status of the Commissioner of the Burundian Revenue Office (MEFP ¶31)</td>
<td>March 30, 2013</td>
<td>Clarify the division of responsibilities between the commissioner of the OBR and the senior government accountant (pursuant to the Organic Budget Law and Article 6 governing the OBR).</td>
</tr>
<tr>
<td>Implement a monthly cash flow plan in line with commitment plans (MEFP ¶8)</td>
<td>March 30, 2013</td>
<td>Improve budget execution management and avoid end-period arrears.</td>
</tr>
<tr>
<td>Prepare an audit of arrears on extrabudgetary expenditure (not committed and without payment order) in prior years (to be performed by an independent auditor, for example the Audit Office or IGE [State Inspectorate General]); and adopt a payment plan (MEFP ¶18)</td>
<td>June 30, 2013</td>
<td>Identify and verify the amounts actually due and disputed invoices.</td>
</tr>
<tr>
<td><strong>Tax policy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Submit a law on the VAT to parliament (MEFP ¶23).</td>
<td>June 30, 2013</td>
<td>Establish legal framework governing the collection of VAT.</td>
</tr>
<tr>
<td>Prepare an expedited customs clearance procedure and establish 3 one-stop border posts.</td>
<td>September 30, 2013</td>
<td>Reduce fraud and increase customs revenue.</td>
</tr>
</tbody>
</table>
**Debt management**

Prepare a quarterly report on domestic debt forecasting with a view to improving budget and cash management (MEFP ¶32).

Submit a new law on debt management to parliament. (MEFP ¶32)

**Central bank and Treasury safeguard measures**

Each quarter, submit a report on reserve operations to the General Council of the BRB (MEFP ¶16).

March 30, 2013

Make debt management a key element of the government’s budgetary process and of cash requirements planning in line with World Bank recommendations.

December 30, 2013

Establish a legal framework governing public debt.

March 30, 2013

Improve BRB Board of Directors supervision of reserves management.
ATTACHMENT II. AMENDMENTS TO THE TECHNICAL MEMORANDUM OF UNDERSTANDING

42. 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 adjustors.

A.  Quantitative Program Targets

Quantitative performance criteria and indicative targets

43. 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 external debt contracted or guaranteed by the government or the BRB (ceiling, continuous).

44. The quantitative indicative targets for the program, shown in the MEFP, are as follows:

- accumulation of domestic arrears (ceiling);
- reserve money (ceiling), and
- pro-poor spending (floor).

Definitions and measurement

45. 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.
46. 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.

**Adjustor for changes in the compulsory reserves coefficients**

47. 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.

48. 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.

49. 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 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.

**Definition of debt**

50. 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.
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:

52. (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);

53. (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

54. (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.

55. 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.

56. 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.

57. 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.

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

External financial assistance adjustor

59. 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).

60. 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.

61. 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-March 2013 is 1572.1.

62. 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**

63. 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).

64. 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);
BURUNDI

- 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).

65. 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).

66. 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.