Burundi and the IMF

Press Release:
IMF Executive Board Completes Third and Fourth Reviews Under Burundi's PRGF Arrangement and Approves US$21.1 Disbursement
July 14, 2006

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

June 26, 2006

Bujumbura, June 26, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato,

1. On behalf of the authorities of the Republic of Burundi, we hereby transmit the attached memorandum on economic and financial policies (MEFP) that sets out the objectives and policies under the program that the authorities intend to implement in 2006. The attached technical memorandum of understanding (TMU) defines the terms and conditions of the implementation of the program.

2. Burundi continues to make progress with reforms aimed at sustaining the economic recovery. In support of these efforts, Burundi benefits from the Fund's advice and financial support under the Poverty Reduction and Growth Facility (PRGF), approved by the IMF Executive Board in January 2004.

3. The program's quantitative performance criteria (PCs) for end-June 2005 for the third program review were observed, as were the indicative quantitative targets at end-September 2005 (Table 1). We request a waiver for the nonobservance of the structural PC (end-October 2005) regarding the installation of a computerized financial management information system (IFMIS) of moderate size in the Ministry of Finance (Table 2). The IFMIS became operational on January 1, 2006. Three structural benchmarks were not observed or were observed with a delay. The publication of the Audit Court's report on the 2004 government accounts (end-September 2005) was observed with a delay on December 6, 2005 and the audit of the inventory of the government's domestic arrears (end-June 2005) was completed behind schedule on February 20, 2006. The adoption of an action plan defining the new roles of the coffee sector institutions (end-November 2005) was not observed and was re-phased.

4. The quantitative PCs for end-December 2005 for the fourth review, to be completed by end-June 2006, were observed except for the nonaccumulation of external arrears, which were incurred in October and December 2005. The external arrears were cleared in March 2006. We therefore request a waiver for the nonobservance of this criterion.

5. In support of the macroeconomic and financial objectives set for 2006, we hereby request approval of the third and fourth reviews under the PRGF and disbursement of SDR 14.30 million (18.6 percent of quota). We request the disbursement of additional interim HIPC assistance in the amount of SDR 86,500, which will be sufficient to cover 50.5 percent of PRGF Trust Interest obligations falling due between July 28, 2006 and December 31, 2006, and 57.4 percent between January 1, 2007 and July 27, 2007.

6. The objectives and measures in the MEFP for 2006 remain consistent with Burundi's Interim Poverty Reduction Strategy Paper (I-PRSP—*Cadre stratégique intérimaire de croissance économique et de lutte contre la pauvreté*) and the forthcoming full PRSP.

7. The economic and financial policies set forth in the MEFP should ensure that the objectives of the 2006 program are met. If needed, the authorities will take any further measures that may be necessary. Burundi will consult with the Managing Director on the adoption of these measures in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

8. The quarterly quantitative PCs and indicative targets for 2006 are shown in Table 3. We request a modification of the PC on banking system credit to government, reflecting the programmed issuance of tradable treasury securities, which would be set on domestic financing of the budget. The prior actions for the third and fourth reviews, as well as the structural PC and benchmarks for 2006, are shown in Table 4. The fifth review of the three-year PRGF arrangement with the Fund will be based on meeting the targets for end-June 2006.

9. In order to conclude the sixth review of the program we request an extension of the three-year PRGF arrangement by nine months until end-September 2007.

10. The Burundi authorities are keen to make this letter, the attached MEFP, the TMU, as well as the staff report on the 2006 third and fourth reviews under the PRGF arrangement, available to the public. We hereby authorize their publication and posting on the Fund's website subsequent to Executive Board approval. We will do the same on the official websites of the Burundi government.

11. The authorities will provide the IMF Managing Director with all the information he may request as necessary to monitor program implementation and achieve program objectives on schedule.

Sincerely yours,

/ s /

Dieudonné Ngowembona
Minister of Finance

/ s /

Gabriel Ntisezerana
Governor, Bank of the Republic of Burundi

/ s /

Alice Nzomukunda
Second Vice-President, Republic of Burundi

Attachments: Memorandum of Economic and Financial Policies for 2006
Technical Memorandum of Understanding

Republic of Burundi
Memorandum of Economic and Financial Policies for 2006

I. INTRODUCTION

1. This memorandum summarizes progress under the program during 2005 and sets out the authorities' economic and financial policies for 2006. On the basis of these policies, the authorities request Fund support in the form of fourth and fifth disbursements under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The policies and objectives of the new program are consistent with the Interim Poverty Reduction Strategy Paper (I-PRSP), as well as the full PRSP which is being finalized.

II. BACKGROUND

A. Political Transition Completed

2. Burundi crossed a historical threshold in August 2005 with the election of a new parliament, the investiture of a new President of the Republic, and the formation of a government, all as a result of democratic elections. The security situation in the country has significantly improved. The disarmament, demobilization, and reintegration (DDR) of former combatants and the armed forces was well under way in 2005, with the support of the World Bank-led Multi-Country Demobilization and Reinsertion Program (MDRP). At end-2005, the number of demobilized persons was some 20,000. The United Nations Operation in Burundi (ONUB) and bilateral donors are also supporting the associated security sector reform (SSR) involving the training and equipping of the new national police force.

B. Recent Economic Developments

3. Macroeconomic performance in 2005 has been mixed. Real GDP growth was about 1 percent, reflecting a sharp decline in the coffee harvest compared with 2004 (7,000 as against 38,000 metric tons). The problems in the agricultural sector resulting from the drought in the northern part of the country (food production fell by 1 percent) were nonetheless partly offset by a strong rebound in the secondary and tertiary sectors. Consumer price index (CPI) inflation remained high during the first half of the year, reflecting the effect of the drought in the north and the pressure on prices from the large presence of the international community. Since mid-2005, the Burundi franc (FBu) has appreciated against the U.S. dollar (10 percent) and together with a tighter monetary policy contributed to a marked slowdown in inflation to 1 percent at end-December.

4. Preliminary data suggest that the external current account deficit, after grants, was larger than expected under the program, at about 10.5 percent of GDP, as a result of a drop in coffee exports and, in particular, a strong increase in project-financed imports. In real effective terms the Burundi franc appreciated 9.2 percent in 2005. The differential between the parallel and the official exchange rates stabilized at about 3 percent.

C. Performance Under the Program

5. **Performance in 2005 was broadly in line with program targets**. All end-June 2005 quantitative performance criteria, after adjustments, were observed, as were the indicative targets for end-September (Table 1). The criteria for end-December 2005 were also observed, except for an accumulation of external arrears to the OPEC Fund in late 2005, which have since been cleared. Program implementation was somewhat delayed in the third quarter due to the political transition. The installation of a computerized financial management information system (IFMIS) of moderate size in the Ministry of Finance (structural performance criterion for end-October 2005) was not observed (Table 2), and the IFMIS became operational on January 1, 2006. Three structural benchmarks in 2005 were not observed or were implemented with a delay.

6. **Fiscal performance** in 2005 was satisfactory and in line with program targets. Revenues (FBu 172.1 billion, or 20 percent of GDP) were much higher than the program target. Current expenditures were consistent with the program, while domestically financed project spending was considerably lower than programmed. Total spending was therefore weaker than expected at about 36.8 percent of GDP. Domestic arrears on 2004 expenditures were cleared and the primary deficit was limited to 1.7 percent of GDP, or about half the program target. On a commitments basis, the overall deficit, after grants, was 6.3 percent of GDP compared with the target of 0.2 percent of GDP, as program grants were delayed.

7. The **2006 Budget** was promulgated on December 31, 2005. The later included revenues equivalent to 18.9 percent of GDP and overall spending of 40.8 percent of GDP, with a primary deficit of 6.2 percent of GDP. The 2006 Budget incorporated an important package of reforms, including:

- the consolidation of extra budgetary funds, except for the road fund and the national solidarity fund;
- the budgetization of the revenues of the national solidarity fund and introduction of ceilings on its spending;
- provision for the regularization of civil servants' salaries;
- the elimination of the 7 percent transactions tax on banking transactions;
- the deductibility of the transactions tax paid on investment goods for corporate tax purposes;
- the revision of the customs tariff schedule to reduce tariffs on primary products, and raise those at 0 percent to 5 percent;
- the elimination of the service tax on imports (6 percent);
- the introduction of an administrative fee for customs of 0.5 percent of the c.i.f. value of imports; and

- the elimination of exemptions on indirect taxes, except for diplomats, government, and NGOs;
- the strengthening of efforts to apply the income tax to all local employees of international agencies.

8. **In addition, on January 24, 2006, a new regulation on import procedures was introduced.** On February 7, a revision to the contract with SGS (the pre-import inspection company) was signed giving it management of import declarations (DI) beginning April 3, 2006, as well as delinking the inspection of imports from the exchange control system. At the beginning of January 2006, the transactions tax on petroleum products, which had been suspended in September 2005, was re-introduced. In December 2005, the authorities created a national commission for aid coordination (CNCA) with the aim of improving dialogue and coordination with donors, and in February 2006, a permanent secretariat of the CNCA was created to assure effective aid management.

9. **In early 2006, the prices of beer, sugar, and soft drinks were significantly reduced, resulting in a large net revenue loss, primarily for the national solidarity fund (which financed the war effort) of FBu 9 billion for 2006.** Strong pressures on expenditures to address the drought and famine in the north of the country, for the reintegration of refugees, and for the large increase in primary school pupils (following the abolition of primary school fees in September 2005) led the authorities to hold a Partners' Conference for Burundi on February 28, 2006. At the conference, donors made pledges of new financing amounting to about US$70 millions. Therefore a supplementary budget for 2006 will be needed.

10. **Regarding monetary policy,** the introduction of weekly liquidity auctions since mid-April 2005, enabled the Bank of the Republic of Burundi (BRB) to partially sterilize the impact of the accumulation of foreign exchange reserves on the growth of the money supply (M3). Nevertheless, M3 expanded by 19.7 percent, outpacing nominal GDP growth (17.6 percent), representing a monetization of the economy. International reserves rose by US$46 million in 2005 to reach US$113 million (the equivalent of 3 months of 2006 imports). Credit to the economy declined by 9 percent, reflecting the political transition, security conditions, and outstanding budget arrears. In December 2005, the BRB raised the required reserve ratio on domestic currency deposits from 5 percent to 7 percent, and in January 2006, the BRB introduced a required reserve ratio (7 percent) for foreign currency deposits held by commercial banks. Since late 2005, and especially in early 2006, interest rates fell significantly, in part as a result of the elimination of the 7 percent tax on banking transactions. The BRB also reinforced its contract with its external auditor for the audit of the 2005 accounts, following the recommendations of the IMF's safeguards assessment report. The independent audit committee (of the Board of Directors) was made operational. The **liberalization of the exchange system** continued with the raising, and conversion to indicative limits, of the ceilings for invisibles in June 2005.

11. The implementation of **structural reforms** advanced more slowly than expected in 2005, reflecting a lull in the third quarter as a result of the political transition. The **Audit**

Court reviewed the government's accounts for 2004 and published its report on December 6, 2005. It also conducted specific audits of the defense and civil service ministries, as well as more in-depth investigations into specific cases. The new bankruptcy and liquidation laws were approved by parliament in November 2005, and were promulgated on March 15, 2006.

12. The reform of the **coffee sector** continued with a call for bids for two washing stations, but without success. Entry into the sector and commerce at all levels of the coffee sector were liberalized in January 2005. The sector generated an operating surplus of FBu 19 billion in the 2004/05 crop year, for the first time since 1998/99. The surplus was used to pay a premium to coffee producers (FBu 30/kg., equivalent to FBu 6.1 billion) to purchase phytosanitary products, distributed free to producers, fertilizers, and other inputs (FBu 3.5 billion) for sale to producers; and to finance the 2005/06 crop (FBu 8.8 billion). The government guarantee for bank credit to the coffee sector was abolished.

III. THE 2006 PROGRAM

A. Macroeconomic Objectives

13. The authorities' strategy for 2006 is based on the reduction of macroeconomic and financial imbalances, notably inflation, and the pursuit of financial and structural reforms needed for durable economic recovery. The economic program targets a recovery of real economic growth of 6 percent, reflecting a rebound in coffee production, and an inflation rate of about 3 percent (period average). The external current account deficit, after grants, would rise to about 17.5 percent of GDP, resulting from a sharp increase in imports of humanitarian aid.

B. Fiscal Policy

14. **Fiscal policy for 2006** envisages an increase in social and poverty-reduction spending, improved revenue mobilization, a strengthening in public finance management, and the clearing of the government's domestic arrears. Fiscal policy also seeks to support the inflation target by limiting its recourse to financing from the banking system. A revised budget for 2006 will be promulgated before end-June to take into account important changes that have emerged since the approval of the initial budget on December 31, 2005. Total revenue would decline to 19 percent of GDP, owing to the abolition of the levies earmarked to the national solidarity fund to finance the war effort, and of excise duties on sugar. The increase in expenditure to FBu 400 billion (41.8 percent of GDP) is due mainly to the large increase in spending on education and that linked to the emergency program for 2006, and was in part made possible by the budgetary savings from external debt relief under the HIPC Initiative. The revised 2006 budget contains contingent spending of 1.2 percent of GDP.

15. **Current expenditures** will increase to about 26.4 percent of GDP while project spending will rise further to 13.5 percent of GDP, financed mostly by grants, and will give priority to the rehabilitation and reconstruction of social and economic infrastructure, particularly for the education sector. A wage rise for government employees will be limited

to a 15 percent increase in base pay with effect from July 1, 2006. The **share of security outlays** will be trimmed from 34.8 percent of current expenditure in 2005 to 32.0 percent in 2006. The overall deficit, on a commitment basis, after grants, is expected to decline to about 0.5 percent of GDP, partly as a result of the greater share of grants in external financial support. Poverty-related expenditure (as defined in the I-PRSP) is set to increase substantially from about 33.6 percent of primary expenditure in 2005 to about 35.5 percent in 2006. The supplementary budget will set **new ceilings for domestic debt** sufficient to allow for the issuance of new treasury securities related to the settlement of the government's domestic arrears.

16. **The revised 2006 budget includes two expenditure contingencies** totaling FBu 11.5 billion (1.2 percent of GDP) dependant on specific aid disbursements and the recovery of the assets of the failed BCD bank in liquidation. The first contingency involves the urgent need to distribute food aid to those affected by the drought. Expenditures for emergency food aid will be financed by reallocating resources from domestically financed project expenditure. Domestically financed project expenditure will be raised back (up to a maximum of FBU 10 billion) to its original level, subject to disbursement from donors of funds to compensate for the food aid distribution. The second contingency concerns additional spending on goods and services contingent on asset recovery from BCD. Additional spending will be committed from the proceeds of the BCD liquidation once, and only once, recovery for the budget reaches FBu 1 billion, up to a maximum new spending of FBu 1.5 billion.

17. The authorities are committed to further improving **transparency and public finance management.** Building on the new system of accounts, an interim computerized financial management system (IFMIS) for expenditures from the commitment to payment stage, with a direct link to the central bank, was put in place in the Ministry of Finance with effect from January 1, 2006. This system is designed to reinforce the monitoring of budget execution, including of social outlays, and to produce real-time financial operations reports. The authorities will reinforce the management of the civil service in 2006, with the support of the World Bank (ERSP project), through (i) the putting in place of a central data file and a single identification number for all government employees (teachers, civil service, army, and police); (ii) the physical census of employees; and (iii) the issuance of personal identity cards with photo and signature.

18. The authorities are conscious of **the importance of full pass through for domestic petroleum products**, which should reflect movements on international markets. The authorities are convinced of the advantages of an automatic retail price adjustment mechanism, which will be put in place by June 2006. This will also protect tax receipts. Action plans in the areas of customs, income tax, the treasury, public accounting, and procurement will be implemented in 2006 to improve revenue and expenditure management. Genuine treasury securities (standardized, tradable, and managed by the BRB) will be introduced in 2006 in support of the clearance strategy for government arrears.

Measure	Deadline
Fiscal policy	
• Abolish the mortgage registration fee of 3 percent.	May 2006; Done
• Agreement between the Ministry of Finance and the BRB on the creation of a genuine treasury securities, standardized, tradable, and managed by the BRB on the account of the government.	May 2006; Done
• Production of quarterly summary fiscal tables based on the IFMIS beginning with the end-June 2006 outcome with World Bank technical assistance.	September 2006
Reform of the customs administration	
• Approval by the Minister of Finance of the action plan to strengthen and reform the customs administration.	March 2006; Done
• Creation of a pilot committee in the Ministry of Finance and a working group in the Customs Directorate to adopt, apply, and monitor the action plans.	March 2006; Done
• Approval of a memorandum of understanding to strengthen cooperation between the tax and customs directorates.	April 2006; Done
• Submission to parliament of the new customs code, reflecting the IMF's comments, with the aim of putting it into effect by end-June.	May 2006; Done
• Set up a unit for submission of detailed customs declarations and manifests by remote data entry.	March 2006; Done
• Activate a green channel for customs clearance without physical inspection.	June 2006; Done
• Clear at least 50 percent of import operations through the green channel in the second half of 2006.	Second half of 2006
• Set up and begin using a sophisticated system for selecting import consignments to be examined, using criteria determined by the import inspection system.	April 2006
• Operationalize an enhanced ex post monitoring system.	April 2006
• Establish a working group combining the exemptions unit and the ASYCUDA team.	April 2006
Reform of indirect taxes and tax exemptions	
• Eliminate all exemptions from indirect taxes and maintain time limits on income tax exemptions in the investment code.	June 2006
• Introduce automatic adjustment mechanism for retail petroleum product prices.	June 2006
Taxes	
• Approval by the Minister of Finance of an action plan to strengthen the tax administration and to prepare for the introduction of the VAT.	April 2006; Done
• Conduct joint Tax/Customs inspections.	April 2006
Expenditure	
• Limit recruitment, other than 3,300 teachers.	2006
• Pursue the demobilization program.	2006

Measure	Deadline
• Implement the recommendations of the commission on civil service staffing.	June 2006; Done
• Regularization of civil servants' salaries.	2006
• Return payroll management to the Ministry of Finance.	January 2007
Reforms of public finance management	
• Implement action plans for the accounting department of the Ministry of Finance with the aim to: • use the new government chart of accounts and budget (PBCE); • introduce and use in real time the interim IFMIS for expenditures; • rationalize government accounts; • prepare summary fiscal tables; • introduce a cash flow management plan.	2006
• Complete the accounting of expenditure payment authorizations for 2005 on the new PBCE.	February 2006 Done
• Begin closing dormant accounts and analyze the multiplicity of government accounts with a view to closing the majority of them and moving toward a single treasury account system.	April 2006
• Strengthen the financial control of public enterprises by the Ministry of Finance, in particular by implementing action plans aimed at strengthening the management of administrative and portfolio revenue department at the Ministry of Finance and the establishment of clear directives for government representatives on public enterprise boards.	2006
• Create an internal audit and inspection unit in the Ministry of Finance.	February 2006; Done
• Submission to parliament of a revised public procurement code.	July 2006
• Reinforce the management of the civil service in 2006, with the support of the World Bank (ERSP project) through: • the putting in place of a central data file and a single identification number for all government employees (teachers, civil service, army and police); • the physical census of employees; and • the issuance of personal identity cards with photo and signature.	Second half of 2006
• Integrate the civil service payroll into the IFMIS.	December 2006
Clearance of government's domestic arrears	
• Adoption by the council of ministers of a strategy for clearing audited arrears (FBu 25.8 billion), in consultation with IMF staff, consistent with the 2006 supplementary budget. The strategy will be implemented beginning in June 2006, and will include settlement in part by cash and in part by certificates eligible in the treasury bond (2–5 years maturity) auctions and the privatization program.	May 2006; Done

19. The **DDR and SSR programs** continue to be essential, not only for public security, but also for reducing security outlays so as to boost social and poverty reduction spending. In this respect, the government is committed to achieving the objectives defined in its Policy Letter to the World Bank of February 2004, on Demobilization, Reinsertion and Reintegration, and to reducing the size of the army and the national police through the DDR program. The authorities will seek volunteers in the national police force for demobilization. The authorities intend to conduct a census of the security forces by end-June 2006, with the support of international technical assistance. They also intend to seek technical assistance from the international community in 2006 to assess the appropriate size and composition of the new police force, taking into account budget constraints and security imperatives.

20. External debt-service relief under the **enhanced HIPC Initiative** will allow an increase in pro-poor budgetary spending. The additional expenditures were identified in the 2006 budget in consultation with World Bank and IMF staff and are in line with the priorities identified in the forthcoming full PRSP. The main sectors covered are health, education, infrastructure, agriculture, refugee and displaced person resettlement, economic reintegration of victims of conflict, and judicial reform. The implementation of the IFMIS expenditure management system will assure the monitoring of these expenditures.

C. Monetary and Exchange Policies

21. **Monetary policy** is based on a medium-term strategy to further liberalize the exchange regime and to effect a sustained reduction in inflation. For 2006, the BRB will focus on slowing monetary growth by containing banking system credit to the government and by strengthening liquidity management (introduction of reserve requirements for foreign exchange deposits and negotiable treasury securities). The BRB will introduce and manage on behalf of the government, a new series of standardized and negotiable treasury securities. In parallel, a set of structural reforms will enhance the efficiency of the financial system (reinforced banking supervision and restructuring weaker banks). These measures will make it possible to revive credit to the private sector, which should increase by about 24 percent in 2006. Broad money (M3) growth would be reduced to about 18 percent (on the assumption of a further monetization of the economy). Gross international reserves of the BRB would increase further to US$145 million by end-2006, or about 3.3 months of 2007 imports.

22. **The BRB will continue to enhance the effectiveness of liquidity management**. To that end, the Ministry of Finance and the BRB have strengthened their cooperation, particularly on budget cash flow forecasting which will be updated monthly. The BRB also intends to strengthen its foreign reserves management, internal audit and control procedures, and to computerize its accounting system. These efforts will be complemented with measures to enhance transparency and improve governance. The results of the external audit of the BRB's accounts and all monetary and exchange policy decisions will be posted on its website. The liberalization of the **exchange regime** and control systems will be continued, with the objective of achieving full convertibility of international current transactions in 2006. The BRB recognizes the need to publicize widely these changes. The BRB will limit its interventions in the exchange market to those necessary to achieve its foreign asset targets

and limit short-term volatility of the exchange rate. All these measures will, in time, enable the BRB to focus on an inflation objective and gain the necessary credibility for a flexible exchange regime.

Measure	Timetable
Monetary policy	
• Establish a technical committee including representatives of the Ministry of Finance and the BRB for treasury cash flow and liquidity management.	March 2006; Done
• Launch auctions of new negotiable treasury securities by the BRB on the account of the government with IMF technical assistance.	September 2006
Exchange regime	
• Introduce a license for money-changers.	September 2006
• Abolish the DIP (Import and Payment Declaration).	April 2006; Done
• Introduction of a 2 percent cap on the divergence of bids for foreign exchange in the Central Bank auction.	May 2006; Done
• Preparation and publication of a single regulation on the exchange regime, which establishes the full convertibility of the currency for current international transactions.	June 2006
• Move toward an interbank exchange market.	2006
Financial sector	
• Strengthen bank supervision with BRB approval of rehabilitation plans for noncomplying banks.	May 2006; Done
• World Bank and IMF staff to conduct a joint study of the banking system.	2006

D. Structural Reforms

23. The authorities are committed to **strengthening the implementation of the structural reforms** needed to ensure economic recovery. Key steps for 2006 include, in particular, the launching of the privatization of state assets in the financial and coffee sectors, and further progress in governance and transparency.

24. The implementation of **the reform strategy of the coffee sector,** supported by the World Bank and the European Union (EU), remains vital to poverty reduction in Burundi, in particular for some 800,000 small rural producers. The authorities have put in place governmental structures to manage the sector reforms, to minimize the financial risks to the producers and the government during the transition, and to ensure the consistency of the STABEX-financed washing station rehabilitation project with the privatization plan for 2006. Rehabilitated stations will be offered for sale without delay. A strategy for the sale of the washing stations will be established on the basis of the technical study by the World Bank, aimed at ensuring a fully competitive market structure at all levels of the coffee sector. The reforms will be pursued to ensure that producers may operate freely with a view to ensuring competition at all levels of the coffee sector and to attract long-awaited investment and private financing. In regard to the above-mentioned measures, the authorities will make sure that the regulatory powers of OCIBU do not impede investment and that during the transition

to a private sector every effort will be made by OCIBU to minimize the costs and delays in marketing. A public information campaign of the reforms will be undertaken.

Measure	Timetable
Coffee sector reform strategy	
• Establish a committee for the coordination and monitoring of the coffee sector reform, with terms of reference, objectives, and operational modalities.	Prior action. Done March 30
• Monitoring the management of the marketing of coffee by the governmental program monitoring committee, with the aim to minimize delays, costs, financing needs, and financial risks to producers and the government.	From March 2006 Being implemented.
• Monitor weekly cash flow management, including the stabilization fund of OCIBU for financing the 2006/07 harvest.	2006
• Measures to ensure the collection of advances still not repaid (FBu 3 billion) by the SOGESTALS on the financing of the 2005/06 harvest.	2006
• After covering the operating costs of the SOGESTALS, any surplus on coffee harvest earnings will be retained by OCIBU, to clear arrears.	2006
• Prohibition of SOGESTALS from declaring or paying dividends until their debts and arrears have been paid.	2006
• Financial audit of the coffee sector with the support of the World Bank.	2006
• Reform the marketing committee of OCIBU to include representatives of all operators in the coffee sector.	March 2006 Done
• Abolition of the technical commissions of OCIBU.	March 2006; Done
• Preparation, with the assistance of the World Bank, of a privatization strategy for the 133 washing stations and the shelling mills.	July 2006
• Launching of tenders for the sale of washing stations based on the conclusions of the study on the strategy for sale of the washing stations and the shelling mills.	October 2006
• Adoption by the government, with assistance from the World Bank, of the findings of the study on the regulatory, legal, and institutional framework of the sector. It will then implement the new framework, including restructuring the OCIBU, in time for the 2007/08 harvest.	December 2006

25. The **privatization** program, delayed by the political transition and conditions of insecurity, will be relaunched in 2006 with World Bank technical assistance in accordance with a transparent procedure for public tenders. The goal is for the government to gradually and completely phase out its involvement in the productive and financial sectors of the economy. The government intends hereby to reinforce the role of the private sector as the engine of economic growth.

26. **The authorities have clarified that SOSUMO sugar wholesalers can operate freely with the ministerial order of March 2006,** and expect to liberalize the sugar price in 2006. Also, in 2006, the authorities intend to seek technical assistance to study how to liberalize the petroleum sector.

Measure	Timetable
Privatization	
• Strengthen the capacity of the State Privatization Agency (SCEP), with World Bank technical assistance: • to undertake financial valuations of enterprise; • to assess offers to buy.	 June 2006 September 2006
• Launch tenders for the sale of the assets of OCIBU not directly related to its coffee marketing activities in: • residential properties (2); • former factories CEDUCA, ICB, and UNICAFE; • coffee roasting plant.	September 2006
• Launch tenders for the sale of APB, OPHAVET, and UCAR.	September 2006
• Launch tenders for the sale of the public sector (State, BRB, and OCIBU) assets in the companies Bujumbura port (EPB), BCC, and SIP.	September 2006
• The SCEP will implement the privatization of government assets in the banking sector, in close consultation with the BRB, to avoid further concentration in the sector and to encourage mergers of small banks. The authorities will seek IFC support in this area.	2006

E. Transparency, Good Governance, and Statistics

27. In an effort to enhance **transparency** and allow the public to better understand and follow the economic reforms, the government and the BRB will publish decrees, laws, decisions, as well as economic reform strategies and, in particular, the Memorandum on Economic and Financial Policies addressed to the IMF Managing Director, on the government, BRB, and REFES websites, which will be kept up to date. The budget and operations of the Official Bulletin of Burundi (BOB) will be strengthened. The **Audit Court** will continue to strengthen its activities in 2006. The government is convinced of the wisdom and importance of protecting the independence of the magistrates of the Audit Court.

28. A draft **Anti-Money Laundering** (AML) law has been prepared. It has benefited from comments from IMF technical assistance to ensure consistency of the legal framework and with international best practices. The council of ministers intends to review the text before end-June and submit it to parliament before end-September 2006. The authorities have requested continued TA from the IMF for the application of the AML law.

29. The authorities are aware that the quality of **national statistics** has been greatly eroded, especially as regards the national accounts, price indices, and social and poverty indicators. The authorities are committed to improving national statistics, in particular, by implementing a rehabilitation plan for the statistical agency ISTEEBU so as to regain the

capacity to compile national accounts interrupted since 1998, and to improve the quality of the CPI, which is the only macroeconomic indicator still being produced by ISTEEBU.

30. **The authorities equally intend to implement the recommendations of the IMF statistics missions and to include a multi-sector plan for developing statistics in the PRSP**. In February 2005, the authorities officially communicated their intention to participate in the IMF's General Data Dissemination Standards (GDDS) initiative. An IMF Statistics mission prepared an initial set of metadata, which needs to be revised and completed by the authorities with IMF's technical assistance.

Measure	Timetable
Transparency and good governance	
• Audit of government accounts for 2005 by the Audit Court.	2006
• Publication on official websites of decisions, ordinances, decrees, laws and reform strategies, including the Memorandum on Economic and Financial Policies, once it is approved by the IMF Executive Board.	Starting March 2006
Legal framework	
• Submit to parliament the Anti-Money Laundering law.	September 2006
• Launch Investment Climate Assessment (ICA) with support of the World Bank.	July 2006
Statistics	
• Finalize, adopt, and include in the PRSP, the development plan for national statistics, including cost estimates, prepared by the IMF Statistics Mission of March 2006.	April 2006
• Publication of the development plan for national statistics on the internet sites of relevant government agencies.	May 2006
• Establish an action plan to implement the measures in the statistics development plan that can be achieved with identified available resources.	April 2006
• Approval by the council of ministers of a new institutional framework for ISTEEBU and a new code for ISTEEBU employees that will allow them henceforth to produce without interruption the principal macroeconomic indicators.	May 2006
• Restart the regular production of national accounts and publish a series based on the 1993 national accounts system methodology (SNA93) for the period 1990-2005.	May 2007
• Update the metadata for participation in the IMF's GDDS initiative.	July 2006
• Expand the coverage of the CPI:	
• Revise the list of observation points for consumer prices in Bujumbura;	September 2006
• Expand the coverage of the new index to include the provinces for which regular data collection already exists; and	March 2007
• Update the weights of the items included in the consumption basket.	June 2007

F. Program Financing and External Debt Management

31. For 2006, the external nonproject financing need is estimated at US$177 million. This external financing requirement is expected to be covered by disbursements from the IMF under the PRGF (US$32 million); the World Bank (US$60 million) under the ERSG; AfDB and ADF program grants and loans (US$11 million); the EU FED program (US$17 million); bilateral donors (US$16 million); and by traditional debt relief on current maturities (U$5 million) and under the HIPC Initiative (US$36 million).

32. The authorities have written to non-Paris Club creditors seeking debt relief on comparable terms to that obtained from Paris Club bilaterals. The authorities are also conscious of the need to reinforce external debt management capacity and have requested further technical assistance from donors.

G. PRSP Process

33. The participatory process for the preparation of the full PRSP is almost completed. Consultations at the local level with private and public stakeholders at the local level are completed and were followed by sectoral consultations at the national level, launched in November 2005. The full PRSP is expected to be finalized in mid-2006. The cost of the priority programs identified in the full PRSP was estimated at US$535 million, for which some financing remains to be identified.

H. Safeguards and Technical Assistance

34. The BRB is committed to improving its operations consistent with the principles of good governance included in the **IMF's safeguards guidelines**. A safeguards assessment was completed in January 2006. The BRB is committed to improving financial reporting procedures and strengthening its system of internal controls. The BRB underwent its first external audit in August 2005. The external auditors made recommendations on the adoption of International Financial Reporting Standards (IFRS) and improvements in BRB operations, which the BRB is actively addressing. More fundamentally, the government is committed to supporting the revision of the BRB law to grant it independence, needed for the sound conduct of monetary policy, while making the BRB fully accountable to Parliament.

Measure	Timetable
• Transmit to the IMF the report of the internal audit of the BRB on program data, as defined in the TMU for end-June and end-December 2005.	May 2006. Done April 5
• BRB to continue implementing the reforms recommended by the auditor and put in place procedures to monitor the reforms.	2006
• Implement the recommendations of the safeguards assessment.	2006
• Adopt an internal audit methodology geared toward risk management.	May 2006
• Implement a first annual internal audit plan following its approval by the independent audit committee.	September 2006
• Submit to parliament the revised BRB charter to strengthen its independence and legal base, consistent with IMF recommendations.	September 2006

35. Burundi has extensive **technical assistance** needs, and the authorities will continue to work closely with multilateral and bilateral partners to rebuild administrative capacity in priority areas. IMF technical assistance has been provided in 2005 in the areas of tax administration, public expenditure management, monetary and exchange rate policy, banking supervision, and national economic statistics. Further IMF technical assistance is planned in these areas in 2006.

I. Program Monitoring

36. Table 1 summarizes the quantitative performance criteria for the third and fourth reviews (end-June and end-December 2005, respectively) and the actual outcomes. The structural performance criteria and benchmarks under the program for 2005 are presented in Table 2. Table 3 shows the quantitative performance criteria for 2006, and the quantitative indicators for March, June, and September 2006 for program monitoring purposes. Program monitoring has been modified to account for the introduction of tradable security instruments and the arrears clearance exercise, notably by substitution of the PC on bank credit to government with one on overall domestic financing. The prior actions for the third and fourth reviews and structural performance criteria and benchmarks for 2006 are shown in Table 4. The definitions of the program's performance targets, external assistance adjustors, and underlying assumptions, as well as Burundi's reporting requirements, are described in the attached TMU. Burundi will avoid incurring overdue financial obligations to the Fund, as well as introducing new exchange restrictions, multiple currency practices, bilateral payments agreements inconsistent with Article VIII of the Fund's Articles of Agreement, and import restrictions for balance of payments purposes. In addition, the authorities stand ready to adopt any new financial or structural measures, in consultation with Fund staff, which may become necessary to ensure program success.

37. The **fifth review** under the PRGF arrangement is scheduled to be completed by end-December 2006 and will be assessed through the observance of the indicative targets for end-June 2006 and the structural performance criterion. The fifth review will focus on the liquidation of the domestic arrears of the budget, progress in the privatization of state assets, the strengthening of public financial management, and the introduction of reforms at the BRB. The sixth review is scheduled to be completed by end-June 2007.

Table 1. Burundi: Performance Criteria and Indicative Targets for 2005

(In billions of Burundi francs, unless otherwise indicated)

	2004	2005											
	Dec.	Mar. 2/			Jun.			Sep. 2/			Dec.		
	Act.	Prog. 1/	Prog. Adj.	Act.	Prog. 1/	Prog. Adj.	Act.	Rev. prog.	Rev. prog. Adj.	Act.	Rev. prog.	Rev. prog. Adj.	Act.
Performance criteria for end-December 2004 and end-June 2005 (indicative targets otherwise)													
Net foreign assets of the BRB (floor; in millions of U.S. dollars) 3/	18.8	23.5	12.5	45.2	15.2	-22.1	29.5	18.1	-4.6	29.5	43.4	-13.6	48.8
Net domestic assets of the BRB (ceiling) 3/	53.8	43.7	55.3	40.8	57.6	96.8	55.8	56.1	80.5	56.8	27.3	90.0	51.7
Net credit from the banking system to the government (ceiling) 3/ 4/	102.2	82.2	87.0	93.5	81.3	115.2	83.7	111.4	139.3	115.0	80.8	155.7	123.0
External payments arrears of the government (ceiling; in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
Short-term external debt of the government (ceiling; in millions of U.S. dollars) 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; cumulative; in millions of U.S. dollars) 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets													
Primary balance of the government (ceiling; cumulative from beginning of calendar year) 7/	0.0	-4.2	...	1.9	-4.9	...	-0.2	-24.9	...	-6.6	-31.0	...	-14.6
Government's wage bill (ceiling; cumulative from beginning of calendar year)	58.6	16.3	...	14.7	32.6	...	31.4	56.9	...	49.7	75.5	...	72.61
Adjustors													
External nonproject financial assistance (cumulative since January 2004 in millions of U.S. dollars) 7/ 8/	65.1	106.3	...	95.2	135.3	...	97.9	130.9	...	108.2	193.4	...	136.4
Of which:													
EU	33.3	43.4	...	44.1	53.6	...	44.1	54.3	...	44.1	68.3	...	63.0
World Bank	0.0	14.8	...	16.4	14.8	...	16.4	16.4	...	16.4	51.4	...	16.4
AfDB	0.0	13.3	...	0.0	13.3	...	0.0	14.7	...	9.8	25.2	...	9.8
France	3.8	3.8	...	3.8	7.6	...	3.8	7.6	...	3.8	7.6	...	7.4
Belgium	8.3	8.3	...	8.3	10.9	...	8.3	12.1	...	8.3	12.1	...	8.3
Other (UK)	0.0	0.0	...	0.0	9.7	...	0.0	0.0	...	0.0	0.0	...	1.0
Debt relief (current maturities)	6.0	7.1	...	7.1	9.8	...	9.8	10.2	...	10.2	14.9	...	14.9
Multidonor Trust Fund disbursements (WB)	13.7	15.6	...	15.6	15.6	...	15.6	15.6	...	15.6	15.6	...	15.6
Net accumulation of fiscal arrears (cumulative from end-2003)	-9.5	-12.9	...	-6.1	-13.9	...	-8.6	-12.5	...	-16.1	-26.5	...	-38.7
Net accumulation of fiscal arrears during period	...	-1.0	...	3.4	-1.0	...	-2.5	-1.0	...	-7.5	-14.0	...	-22.7
FBu/US$ exchange rate (end-period)	1,100	1,050	...	1,145.3	1,050	...	1,090.6	1,075	...	1,037.3	1,100	...	998
FBu/US$ exchange rate (average for quarter)	1,103	1,050	...	1,139.3	...	...	1,110.5	1,070	...	1,065.9	1,050	...	1,017
U.S. dollar/euro (end-period)	...	1.30	...	1.30	1.30	...	1.21	1.30	...	1.20	1.30	...	1.18
U.S. dollar/SDR (end-period)	...	1.50	...	1.51	1.50	...	1.46	1.50	...	1.45	1.50	...	1.43

1/ As per EBS/04/179, 12/23/04.

2/ Indicative targets.

3/ The ceiling or the floor will be adjusted to accommodate 100 percent of any deviation from the projected disbursements of external nonproject financial assistance shown in the memorandum item. In case of, respectively, a financing excess (shortfall), the floors on the stock of net foreign assets of the central bank will be adjusted upward (downward), and the ceilings on the stock of net domestic assets of the central bank and on the stock of net credit from the banking system to the government will be asjusted downward (upward).

4/ The ceiling on net credit to the government from the banking system will be adjusted downward for any accumulation of domestic arrears as defined in the Technical Memorandum of Understanding (TMU).

5/ Excluding short-term, import-related trade credits.

6/ With a grant element of less than 50 percent.

7/ As defined in the TMU and revised to reflect a reclassification of spending on the new police force from projects to recurrent expenditures.

8/ Nonproject assistance includes debt relief on current maturities and net cash payments to clear arrears.

Table 2. Burundi: Structural Performance Criterion and Benchmarks for 2005 for the Third Review Under the PRGF

Measure	Timetable (Month-end deadline)	Status
Structural performance criterion		
• Install a computerized financial management information system (IFMIS) of moderate size in the Ministry of Finance, with a link to the BRB, to monitor budget implementation (notably social spending), and produce summary fiscal tables.	October 2005	Not met. System launched January 1, 2006.
Structural benchmarks		
• Begin privatizing coffee sector assets by launching tenders for SOGESTALS, washing stations, and the state share in SODECO.	June 2005	Tenders for sale of two washing stations launched in July. No offers received.
• Complete audited inventory of domestic arrears.	June 2005	Inventory completed May 20, 2005. External audit completed February 20, 2006.
• Publication of the Audit Court's audit report of the 2004 government accounts.	September 2005	December 6, 2005.
• Adopt an action plan defining the new roles of the institutions in the coffee sector (including the OCIBU), which should be in place by the beginning of the 2006 crop year (April 2006), consistent with the coffee sector reform strategy.	November 2005	Not met.
• Begin privatization program (with launch of tenders) of state shares in enterprises in the financial, industrial, and other sectors.	December 2005	Tenders for sale launched but suspended before closing date. Two firms (ALCOVIT and ONAPHA) were privatized in 2005.

Table 3. Burundi: Performance Criteria and Indicative Targets for 2006
(In billions of Burundi francs, unless otherwise indicated)

	2005	2006			
	Dec.	Mar.	Jun. 1/	Sep. 1/	Dec. 2/
	Act.	Proj.	Prog.	Prog.	Prog.
Performance targets					
Net foreign assets of the BRB (floor; in millions of U.S. dollars) 3/	48.9	26.3	40.9	48.0	55.6
Net domestic assets of the BRB (ceiling) 3/	51.7	68.0	69.7	62.8	58.6
Net domestic financing of the government (ceiling) 3/ 4/	10.4	18.3	14.2	36.7	22.9
External payments arrears of the government (ceiling; in millions of U.S. dollars)	0.5	0.0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; in millions of U.S. dollars) 5/	0.0	0.0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; cumulative; in millions of U.S. dollars) 6/	0.0	0.0	0.0	0.0	0.0
Indicative targets					
Primary balance of the government (ceiling; cumulative from beginning of calendar year) 7/	-14.6	-13.4	-32.8	-67.1	-84.8
Government's wage bill (ceiling; cumulative from beginning of calendar year)	72.6	19.6	40.2	71.1	94.8
Adjustors					
External nonproject financial assistance (in millions of U.S. dollars) 7/ 8/					
Cumulative from January 2006		0.2	63.3	74.9	107.8
Of which:					
EU		0.0	12.5	12.5	17.0
World Bank		0.0	35.0	35.0	60.0
AfDB		0.0	0.0	11.0	11.0
France		0.0	0.0	0.0	3.0
Belgium		0.0	2.4	2.4	2.4
UK		0.0	0.0	0.0	0.0
Netherlands		0.0	10.0	10.0	10.0
Other		0.0	0.0	0.0	0.0
Debt relief (current maturities, excluding HIPC)		0.2	3.4	4.1	4.5
Net accumulation of fiscal arrears during period					
Exchange rates					
FBu/US$ (end-period)	1,100.0	1,018	1,000	1,000	1,000
FBu/US$ (period average)	1,050.0	1,006	1,003	1,000	1,000
US$/Euro (end period)	1.18	1.21	1.21	1.21	1.21
US$/SDR (end-period)	1.43	1.44	1.44	1.44	1.44

1/ Indicative targets.
2/ Performance criteria.
3/ The ceiling or the floor will be adjusted to accommodate 100 percent of any deviation from the projected disbursements of external nonproject financial assistance shown in the table. In case of, respectively, a financing excess (shortfall), the floors on the stock of net foreign assets of the central bank will be adjusted upward (downward), and the ceilings on the stock of net domestic assets of the central bank and on the stock of net credit from the banking system to the government will be adjusted downward (upward). External financing will be converted to Burundi francs at the program end-period FBu/U.S. dollar exchange rate.
4/ The ceiling on net domestic financing of the government will be adjusted downward for any accumulation of domestic arrears as defined in the Technical Memorandum of Understanding (TMU).
5/ Excluding short-term, import-related trade credits.
6/ With a grant element of less than 50 percent.
7/ As defined in the TMU and revised to reflect a reclassification of spending on the new police force from projects to recurrent expenditures.
8/ Nonproject assistance includes debt relief on current maturities and net cash payments to clear arrears.

Table 4. Burundi: Prior Actions for the Third and Fourth Reviews Under the PRGF and Structural Performance Criterion and Benchmarks for 2006

Measure	Timetable (Month-end deadline)	Status
Prior actions		
• Approve the 2006 supplementary budget in accordance with the macroeconomic objectives for 2006, as discussed with IMF staff.		Done; July 7, 2006
• Adoption by the council of ministers of a plan for clearing the domestic arrears of the budget, setting the amount to be cleared and the clearing modalities agreed with IMF staff.		Done; May 26, 2006
• Submit to parliament the new customs code, reflecting the comments of the IMF technical mission on customs administration.		Done; June 22, 2006
• Establish a committee for the coordination and monitoring of the coffee sector reform, with terms of reference, objectives, and operational modalities.		Done; March 30, 2006
• Abolition the technical commissions of OCIBU.		Done; 15 May 2006
• Reform the marketing committee of OCIBU to include representatives of all operators in the coffee sector.		Done; 30 March 2006
• Ministry of Commerce order abolishing the list of SOSUMO sugar wholesalers and establishing the freedom to operate for wholesalers on the basis of a set of technical criteria.		Done; March 21, 2006 by Order 750/270
• Put into effect the new regulation on import procedures of January 24, 2006.		Done; effective 3 April 2006
• Transmit to the IMF the report on the internal audit of the BRB on program data, as specified in the TMU, for end-June and end-December 2005.		Done; effective 5 April 2006
• Adopt action plans for the rehabilitation of noncomplying banks.		Done; effective 12 June 2006
Structural performance criterion		
• Commence tendering of negotiable treasury securities in standard denominations managed by the BRB for the account of the government.	September 2006	
Structural benchmarks		
• Adopt and publish the single exchange system regulation.	June 2006	
• Approval by the council of ministers of a new institutional framework for ISTEEBU and a new code for ISTEEBU employees that will allow them henceforth to produce without interruption the principal macroeconomic indicators.	June 2006	

Table 4. Burundi: Prior Actions for the Third and Fourth Reviews Under the PRGF and Structural Performance Criterion and Benchmarks for 2006

Measure	Timetable (Month-end deadline)	Status
• Adopt officially, and include in the PRSP, the development plan for statistics prepared by the IMF Statistics Mission in March 2006.	June 2006	
• Submit to the National Assembly the revised BRB Charter establishing the independence of the central bank.	September 2006	
• Submit to the National Assembly the draft Anti-Money Laundering bill incorporating the comments of the IMF.	September 2006	
• Launch the coffee sector privatization program by issuing tenders for sale of the washing stations and shelling factories.	October 2006	
• Integrate the payroll in IFMIS.	December 2006	

Burundi: Technical Memorandum of Understanding
June 26, 2006

1. This technical memorandum of understanding sets out the definitions of program variables to monitor the implementation of the program and the reporting requirements for the government of Burundi and the Bank of the Republic of Burundi (BRB). It defines (i) the quantitative performance criteria, indicative targets, and applicable adjusters; and (ii) the key assumptions on which the economic program for 2006 set out in the memorandum of economic and financial policies (MEFP) of the government of Burundi is based, which is annexed to the letter of June 26, 2006 from the Minister of Finance and the Governor of the BRB to the Managing Director of the International Monetary Fund.

2. The prior actions, the structural performance criteria, and the structural indicators for 2006 are listed in Table 3 of the MEFP.

A. Quantitative Program Targets

Quantitative performance criteria and indicative targets

3. Quantitative performance criteria under the program are set on the end-December 2006 stocks as set out in Table 1 of the MEFP, as follows:

- net foreign assets of the BRB (floor);
- net domestic assets of the BRB (ceiling);
- net domestic financing of the government (ceiling);
- external payments arrears of the government (ceiling);
- the outstanding stock of short-term external debt (maturity of less than one year) of the government and the BRB (ceiling); and
- new nonconcessional medium- and long-term external debt contracted or guaranteed by the government or the BRB (ceiling).

The quarterly targets on the above variables for end-June and September 2006 are indicative.

4. Quantitative indicative targets under the program as set out in Table 1 of the MEFP, are as follows:

- primary budget balance, excluding externally financed projects (floor); and
- the government’s wage bill (ceiling).

Definitions and measurement

5. The **net foreign assets of the BRB** are defined as the difference between (i) foreign exchange assets and gold holdings (valued at market prices); and (ii) foreign exchange liabilities to nonresident entities (including the use of Fund resources, but excluding the

counterpart of SDR allocations). These amounts are valued in terms of U.S. dollars based on the end-December 2005 exchange rate. The net foreign assets of the BRB totaled FBu 48.8 billion, equivalent to US$48.9 million, at end-December 2005, broken down as follows:

	In billions of Burundi francs	In millions of U.S. dollars
Net foreign assets of the BRB	48.8	48.9
Foreign assets	114.3	114.5
Official reserves	112.4	112.7
Foreign currency holdings	3.6	3.6
Deposits with correspondents (excluding IMF)	107.4	107.7
SDR holdings	0.3	0.3
Reserve position with the IMF	0.5	0.5
Gold holdings	0.5	0.5
Other claims	1.9	1.9
Foreign liabilities	65.5	65.6
Liabilities vis-à-vis correspondents (excluding IMF)	6.1	6.2
Counterpart of the use of IMF resources	58.0	58.2
Other liabilities	1.3	1.3

6. The **gross official reserves of the BRB** are defined as those foreign assets that are liquid and freely available to the central bank. At end-December 2005, gross official reserves stood at US$112.7 million.

7. 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. Net domestic assets of the BRB totaled FBu 51.7 billion at end-December 2005, broken down as follows:

	In billions of Burundi francs
Net domestic assets of the BRB	51.7
Reserve money	100.5
Currency in circulation	67.9
Reserves of commercial banks	30.9
Other nonbank deposits	1.7
Minus: net foreign assets of the BRB	48.8

8. **Net domestic financing of the government** is defined as the sum of the flows from (i) loans, advances, and other credit to the government from the BRB and all of Burundi's commercial banks; (ii) the change in the outstanding 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 Burundi's commercial banks at those institutions. 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. Net domestic financing of the government at end December 2005 totaled FBu 135.8 billion, broken down as follows:

	In millions of Burundi francs
Total	**135.8**
Net banking credit to the government	**123.0**
Central government	136.3
Loans, advances and other credits	173.6
BRB	154.4
Commercial banks	19.3
Deposits	37.4
BRB	35.6
Commercial banks	1.8
Other administrations (net)	-13.2
Nonbank financial institutions	**0.5**
Treasury bonds and certificates	0.5
Others	**12.3**
Postal accounts	2.2
Treasury certificates	10.1

9. The stock of **external payments arrears** for program monitoring purposes is defined as the end-of-period amount of external debt service due and not paid, including contractual and late interest, for which a clearance agreement is not in place or for which arrears are not reschedulable. 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. The external payments arrears at end-December 2005 are broken down as follows, showing the actual stock under the heading "technical arrears":

External payments arrears	Program definition	Technical arrears
	(In billions of Burundi francs)	
Total	0	52.5
Multilateral	0	9.1
International Development Association	0	0.0
AfDB Group	0	0.0
African Development Bank	0	0.0
African Development Fund	0	0.0
Nigeria Trust Fund	0	0.0
International Monetary Fund	0	0.0
European Union	0	0.0
International Fund for Agricultural Development (IFAD)	0	0.0
Arab Bank for Economic Development in Africa (BADEA)	0	0.0
OPEC Fund	0	8.4
Development Bank of the Great Lakes States (BDEGL)	0	0.7
Bilateral and commercial	0	43.4
Paris Club	0	0.0

External payments arrears	Program definition	Technical arrears
	(In billions of Burundi francs)	
French Cooperation Agency (AFD)	0	0.0
Japan (FCEOM)	0	0.0
Russia	0	0.0
Other official bilateral	0	42.9
Abu Dhabi Fund	0	2.5
Kuwait Fund	0	18.4
Saudi Arabia Fund	0	16.6
Libyan Bank	0	5.4
Commercial	0	0.5
AD Consultants	0	0.0
Kreditanstalt für Wiederaufbau AMSAR	0	0.5

10. The **domestic arrears of the government** amounted to FBu 35.7 billion as of end-2004, of which FBu 4.2 billion was to state enterprises. This total was identified by the Ministry of Finance and audited by an external auditor. In 2005, the budget cleared FBu 3.8 billion of these arrears. The outstanding balance (FBu 25.7 billion) will be cleared by end-June 2006, according to the strategy described as follows. An official decision by the government will establish the total amount of arrears, as well as the modalities for their settlement. All individuals and corporations holding arrears claims will receive a cash payment of FBu 100 million upon signing a note liquidating their claim on these arrears (total cash payment estimated at FBu 7.4 billion). For creditors with validates arrears greater than FBu 100 million, a certificate recognizing these debs will be issued for the nominal value of the remaining arrears (FBu 18.3 billion). These certificates will not earn interest but will be feely exchangeable for treasury bonds of about 3–5 years maturity. These bonds will be auctioned by the BRB, on behalf of the government treasury. These certificates can equally be used (100 percent of their nominal value) in the privatization program, to settle winning offers to buy. The payments arrears of public enterprises, as well as the cross-debts of the petroleum sector, are not included in this settlement process and will be dealt with separately.

11. The program includes a ceiling on **new nonconcessional external debts** contracted or guaranteed by the government and the BRB, which precludes the contracting of any such debt. This performance criterion applies to the contracting or guaranteeing by the central government, local governments, or the BRB of new nonconcessional external debt (as specified below) with an original maturity of more than one year, including commitments contracted or guaranteed for which value has not been received. The term debt shall be understood as defined in the Executive Board Decision No. 12274-(00/85) adopted August 24, 2000. Debt rescheduling and restructuring are excluded from the criterion. Included are financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on nonconcessional terms. In determining the level of concessionality of these obligations, the definition of concessional borrowing shall apply.

Concessional debt is defined as having a grant element of 50 percent or more. For loans with a maturity of at least 15 years, the 10-year average commercial interest reference rates (CIRRs) published by the OECD should be used as the discount rate for assessing the level of concessionality, while the 6-month average CIRRs should be used for loans with shorter maturities. To both the 10-year and the 6-month average CIRRs, the following margins should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15-19 years; 1.15 percent for 20-29 years; and 1.25 percent for 30 years or more. The performance criterion is defined to exclude the use of Fund resources and any Burundi franc-denominated treasury securities held by nonresidents.

12. The **stock of short-term external debt,** with a maturity of up to, or equal to, one year, owed by the government is to remain at zero under the program. Normal import credits are excluded from this ceiling. Loans with an initial maturity, as recorded in the original loan agreement, of more than one year 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 leasing). Excluded from this performance criterion are rescheduling arrangements, borrowing from the Fund, and any Burundi franc-denominated treasury securities held by nonresidents. As of end-December 2005, the stock of short-term debt outstanding was nil, as was nonconcessional medium- and long-term debt contracted during the year.

13. **Receipts from privatization** during 2005 totaled FBu 0.4 billion. The 2006 program projects receipts on the order of FBu 3.6 billion, and 50 percent of receipts over and above the projected amount will be used to reduce the domestic borrowing requirement. Any privatization receipts over and above this amount will be used to reduce domestic debt.

14. The government's **primary fiscal balance** is defined as the difference between total government revenue, excluding grants, on the one hand, and noninterest current government expenditure and domestically financed capital expenditure (including through the use of counterpart funds), on the other hand. The primary fiscal balance for 2005 amounted to FBu -14.6 billion, and the target for 2006 is FBu -84.8 billion, broken down as follows:

	2005	2006
Primary budget balance	-14.6	-84.8
Total revenue	172.1	181.5
Minus:		
Noninterest current expenditure	168.6	224.6
Domestically financed capital expenditure	19.5	43.7
Net lending	-1.4	-2.0

15. The **government's wage bill** is defined as total labor remunerations on a commitments basis for civil servants, contractual employees, and military personnel of the government, including all allowances and bonuses. The government's wage bill for 2005 totaled FBu 72.6 billion, and the target for 2006 is FBu 94.8 billion, broken down as follows:

	2005	2006
Government wage bill	72.6	94.8
Civilian personnel	41.9	56.9
Military personnel	24.0	21.6
National Police Force	6.7	16.2

External financial assistance adjustor

16. The program provides for a symmetrical adjustor for shortfalls or excesses in external financial assistance that is applied to quantitative targets for the net foreign assets and net domestic assets of the BRB, and for net bank credit to the government.

17. External financial assistance (measured in U.S. dollars) 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); (ii) debt relief on current maturities; minus (iii) any cash payments for external arrears clearance operations. Disbursements into blocked accounts by donors for the purpose of clearing arrears will not be included as foreign assistance for program monitoring purposes. The assumptions for 2006 are shown below.

Burundi: External Financing Adjustors of Performance Criteria and Indicative Targets Under the 2006 Program

(In millions of U.S. dollars, cumulated)

	2006			
	Mar. Prog.	Jun. Prog.	Sep. Prog.	Dec. Prog.
External nonproject financial assistance (cumulative)	0.2	63.3	74.9	107.8
Of which:				
EU	0.0	12.5	12.5	17.0
World Bank	0.0	35.0	35.0	60.0
AfDB	0.0	0.0	11.0	11.0
France	0.0	0.0	0.0	3.0
Belgium	0.0	2.4	2.4	2.4
UK	0.0	0.0	0.0	0.0
Netherlands	0.0	10.0	10.0	10.0
Other	0.0	0.0	0.0	0.0
Debt relief (current maturities, excluding HIPC)	0.2	3.4	4.1	4.5
Multidonor Trust Fund disbursements (World Bank)	0.0	0.0	0.0	0.0

Sources: Burundi authorities; and Fund staff estimates.

18. The ceiling or floor targets will be adjusted to accommodate 100 percent of any deviation from the projected cumulative external financial assistance. In case of a financing excess (shortfall), the floor on the stock of net foreign assets of the central bank will be adjusted upward (downward), and the ceilings on the stock of net domestic assets of the

central bank and on the stock of net credit from the banking system to the government will be adjusted downward (upward). External financial assistance will be converted to Burundi francs using the program end-period FBu/US$ exchange rate.

Domestic payments arrears adjustor

19. The ceiling on net credit to the government from the banking system will also be adjusted to reflect 100 percent of any deviation from the projected net accumulation of fiscal arrears, as measured by the accumulation of nonexecuted payment orders older than 30 days. In case of an increase (decline) in fiscal arrears, the ceiling on the stock of net credit from the banking system to the government will be adjusted downward (upward).

B. Key Program Assumptions

20. The main program assumptions are drawn from the WEO projections of November 2004 as follows:

		2006			
	2005	Q1	Q2	Q3	Q4
Average export prices					
Coffee (cents per pound)	114.3	112.2	111.9	114.0	116.0
Tea (dollars per kg.)	204.8	197.3	203.2	215.2	203.8
Petroleum (US$ per barrel)	53.4	58.5	61.5	62.3	62.0
End of period					
Dollar per SDR exchange rate	1.43	1.43	1.43	1.43	1.43
Dollar per Euro exchange rate	1.18	1.18	1.18	1.18	1.18
Burundi francs per U. S. dollar exchange rate	997.8	1,000.0	1,000.0	1,000.0	1,000.0

C. Provision of Information to IMF Staff

21. To facilitate the monitoring of program implementation, the Burundi government will prepare a monthly report within five weeks of the end of each month, which will be sent to IMF staff. In addition, the staff of the monitoring committee (technical bureau of the Secrétariat Permanent de Suivi des Réformes Économiques et Sociales—SP/REFES) will forward to the African Department of the IMF, by facsimile or electronic mail, the data required for program monitoring.

These data will include, in particular, on a weekly basis the following:

- a monitoring table (*tableau de bord*) containing the most recent weekly and monthly data on the main financial indicators (REFES);
- a table on the foreign exchange cash flow (BRB Foreign Banking Operations Department);
- foreign exchange auction market (MED) transactions;

- the balance sheet of the BRB (weekly statement) (BRB Research Department).

The following data are to be provided on a monthly basis:

- the monetary survey, including the breakdown of the central bank and of commercial banks (BRB Research Dept.);
- the financial position of the government vis-à-vis the banking system (BRB Research Department);
- a detailed breakdown of government revenue (Ministry of Finance);
- a detailed breakdown of government expenditure on a commitment basis (Ministry of Finance);
- a detailed breakdown of the government wage bill on a commitment basis (Ministry of Finance);
- detailed information on government social spending, in particular on the health and education sectors (Ministry of Finance);
- a detailed breakdown of the servicing of domestic and external public debt, including amounts due and paid, in 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 payments arrears and cumulative flows from January 1, 2004; the accumulation of new arrears is defined as the difference between commitments and actual payments (on a cash basis, as reported in the cash statement summary—Reddition des comptes) (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 (Plan/Ministry of Finance);
- an update on the implementation of structural measures planned under the program, as described in the MEFP (REFES).

SP/REFES/Ministry of Finance, BRB will also provide the African Department of the IMF with any information that is deemed necessary to ensure effective monitoring of the program.