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

December 17, 2007

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.

Burundi: Letter of Intent

Bujumbura, December 17, 2007

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C., 20431

Dear Mr. Strauss-Kahn,

1. On behalf of the authorities of the Republic of Burundi, we hereby transmit the attached memorandum of economic and financial policies (MEFP) for 2007 and 2008, within the program supported by the arrangement concluded between Burundi and the IMF in January 2004 under the Poverty Reduction and Growth Facility (PRGF). The attached technical memorandum of understanding (TMU) sets forth the terms and conditions for implementing the program, as well as the definitions and calculations of the criteria and objectives.

2. The quantitative performance criteria at end-December 2006 were observed (Table 1), except for a temporary accumulation of external payment arrears, for which we request a waiver. We also request a waiver for the nonobservance of the structural performance criterion on the establishment of a unified data file for computerized payroll management at the Ministry of Finance (end-June 2007) on the basis of corrective actions being undertaken as specified in the MEFP, ¶¶ 7 and 12 (Table 2). The census of all government employees (structural benchmark for end-June 2007) was launched on December 10, 2007. This postponement was due to significant delays in recruiting a consulting firm to conduct the work.

3. In support of the macroeconomic and financial objectives set for 2007-08, we hereby request completion of the sixth review under the PRGF and disbursement of SDR 7.15 million (9.3 percent of quota).

4. The economic and financial policies set forth in the MEFP should ensure that the objectives of the 2007 and 2008 program are met. However, the authorities are ready to take any further measures that may be necessary for the sound implementation of the program. Burundi will consult with the Managing Director on the adoption of such measures in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

5. The quarterly quantitative performance criteria and indicative targets for 2006, 2007 and 2008 are shown in Tables 1, 3 and 4, respectively. The prior actions for the sixth review as well as the structural performance criterion and indicative benchmarks for 2007 are shown in Table 2.

6. We stand ready to provide the IMF Managing Director with all the necessary information he may request to monitor program implementation and achieve program objectives on schedule.

7. The Burundi authorities wish to make this letter, the attached MEFP, the TMU, as well as the staff report on the sixth review of the program 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.

Sincerely yours,

/ s /

Clotilde Nizigama
Minister of Finance, Economy, and
Development Cooperation

/ s /

Gaspard Sindayigaya
Governor, Bank of the Republic of Burundi

/ s /

Gabriel Ntisezerana
Second Vice-President, Republic of Burundi

Attachment: Memorandum of Economic and Financial Policies (MEFP) for end 2007 and 2008
Technical Memorandum of Understanding (TMU)

Burundi: Memorandum of Economic and Financial Policies for End–2007 and 2008

I. Introduction

1. This memorandum summarizes the government's progress in implementing the economic program for 2006 and 2007, to September. It also sets out the authorities' economic and financial policies for end-2007 and 2008. On the basis of the progress achieved and these policies, the authorities request Fund support through the completion of the sixth review under the Poverty Reduction and Growth Facility (PRGF) arrangement. The measures and objectives of the program are consistent with the Poverty Reduction Strategy Paper (PRSP) published in September 2006.

II. Recent Economic Developments and Performance Under the Program in 2006 and the First Nine Months of 2007

Performance in 2006

2. **The program remained on track in 2006, despite a generalized delay in implementing structural reforms.** Almost all the quantitative targets for December 2006, after adjustment, were observed (Table 1). The only exception was an accumulation of external payment arrears, which were cleared up in January 2007. Economic growth was satisfactory (5.1 percent) despite climatic vagaries. Coffee production rebounded sharply, to about 30,000 metric tons, and contributed greatly to the strong growth. However, agricultural food crops, excluding coffee, suffered from drought in the northern part of the country, and this was followed by flooding at the end of the year. The drought also depressed energy production (down 6.9 percent in 2006).

3. **Fiscal performance in 2006 was consistent with program objectives.** Faced with delays in the disbursement of external budgetary support, the government cut spending by nearly 3.5 percent of GDP. Consequently, the primary deficit (excluding grants) was well below the program limit (5.6 percent of GDP versus 8.9 percent). The overall budget deficit, on a commitment basis, including grants, exceeded the program objective (1.8 percent of GDP versus 0.4 percent). Revenues were in line with the program target (19.0 percent of GDP). A portion of domestic arrears prior to 2004 was cleared in cash (Fbu 4.7 billion). Bank credit to government remained well below the program's adjusted limit.

4. **Monetary policy was prudent, which allowed inflation to be contained in 2006.** The monetary aggregates rose by 16.4 percent for M2 and by 18.3 percent for M3. These results are roughly in line with program projections. Thanks to prudent management, inflation (measured by the consumer price index) was contained at 9.3 percent by the end of

the year, slightly higher than the 8.7 percent target. Credit to the economy continued to recover, rising by around 25 percent during 2006, driven by bank financing of the coffee crop and of business development. Interest rates continued on a gradual declining trend, assisted by the elimination of the 7 percent tax on bank transactions and lower benchmark rates set by the Bank of the Republic of Burundi (BRB).

5. **Burundi's external position remained consistent with program objectives, although the concentration of external aid disbursements toward the end of the year introduced some volatility.** The Burundian economy maintained its competitiveness during 2006, with a 2.9 percent depreciation of the effective real exchange rate. Imports rose sharply (by 17 percent), primarily because of the demand for capital goods and intermediate goods. Exports rose only slightly (2.6 percent), and coffee exports, despite high production, stagnated because power outages slowed coffee milling severely. Foreign aid flows, which were concentrated in the last two months of the year, sparked a rapid appreciation in the exchange rate against the US dollar at the end of the year, after depreciating during the year. The Fbu/US\$ exchange rate ended the year very close to its end-2005 value.

The first nine months of 2007

6. **Overall, economic performance showed a modest deterioration during the first nine months of 2007.** Inflation, which had declined to 2.2 percent at the end of June as a result of prudent monetary policy, rebounded to 11 percent at the end of September, primarily reflecting higher taxes and price adjustments. Economic growth slowed, following a drop in coffee production (to 7,000 metric tons). Fiscal policy was generally consistent with program objectives, except for a budgetary incident in April/May. Highly controversial payments totaling Fbu 17.3 billion were made to a Burundian oil company. These payments destabilized the budget, undermined the macroeconomic program, exposed public financial management (PFM) problems, and delayed disbursement of external budgetary support. To dampen the impact of rising world oil prices, the authorities reduced petroleum product taxes from 20 percent to 10 percent.

7. **The schedule for implementing the structural reforms was delayed, in particular with respect to the coffee sector.** Delays in the provision of technical assistance led to a delay in launching the census of all government employees, so that the end-June structural benchmark was missed. As a result the structural performance criterion at end June on the unified computerized payroll management data file, which was one of the key outputs of the census was also missed. Nevertheless, some reforms were implemented at the end of the period, in particular on public financial management. Work units were created in May to reform accounting, treasury management, and computerization of the Integrated Financial Management Information System (IFMIS). The HIPC expenditure monitoring committee was reestablished. Several treasury accounts, including off-budget accounts, were closed.

8. **The anti-money laundering law, prepared with IMF technical assistance, was approved by the government and submitted to Parliament, and the new statistics law was promulgated on September 25, 2007.** The accompanying regulatory texts to this law, incorporating a new institutional framework for the ISTEERU and its employee statutes, were approved in November 2007. The National Statistics Development Strategy (SNDS) is now being finalized.

III. Program for End-2007 and 2008

A. Macroeconomic Objectives

9. **The strategy for end-2007 and 2008 focuses on: (i) pursuing macroeconomic stabilization; (ii) strengthening public financial management; and (iii) implementing structural reforms.** Growth should remain modest in 2007, at 3.6 percent, because of a very sharp drop in coffee production and delays with the structural reforms. For 2008, economic growth should pick up to around 6 percent, with a recovery of coffee production. Monetary policy will continue to rely on controlling reserve money under a managed floating exchange rate regime. Inflation is expected to remain under control at 8.7 percent in 2007, and 5.2 percent in 2008.

B. Public Finance

10. **Budget policy for the remainder of 2007 seeks to restore balance following the INTERPETROL incident.** The incident resulted not only in the loss of resources but also a delay in budgetary support. In the absence of corrective measures, the budget balance was thus disrupted. The government immediately launched legal action to recover unjustified payments. A security deposit of FBu 6 billion was obtained from INTERPETROL. The government also accelerated measures to strengthen PFM. It launched an independent external audit of cross-debts between the petroleum sector and the government. Until the audit is completed, no payment on these arrears will be made. The 2007 budget was maintained without revision, and non-priority expenditures were reduced (about 1.5 percent of GDP). Exceptional, and temporary, financing from the BRB was obtained through the issuance of treasury bills, repayment of which will come from disbursement of budget support expected at the end of the year. Taxes on sugar and beer were raised. Despite these measures, total revenues are likely to be lower than the program target, at around 18.1 percent of GDP, following the reduction in the petroleum products tax and an overestimate of revenue in the budget. The overall balance, on a cash basis, including grants, will show a deficit of 1.3 percent of GDP. External budgetary support is projected at US\$90 million, most of which will be disbursed at the end of 2007. Domestic financing will be limited to FBu 21.6 billion (2.0 percent of GDP), of which FBu 13.7 billion (1.3 percent of GDP) is the clearance of domestic arrears. The remaining stock of domestic arrears (excluding the petroleum sector) was cleared in December through the issuance of five-year treasury bonds.

11. **The 2008 budget seeks to maintain macroeconomic stability, while pursuing the reorientation of spending in favor of the social sectors.** Revenues should reach 19.1 percent of GDP. Taxes on soft drinks and on petroleum products have been raised (by FBU 50 and to 12 percent, respectively). The government intends to restore the 20 percent tax rate on petroleum products gradually. The overall deficit on a commitment basis, including grants, will be kept at about 0.7 percent of GDP, without resort to domestic financing. The budget includes increases in civil service benefits for transportation, family allowances, and housing, and salary increases for high ranking government officials. No further salary or allowances increases for government employees will be granted in 2008 unless offset by savings obtained on the wage bill. It is essential for the budget sustainability that the census of government employees and the new phase of demobilization be completed in 2008. The 2008 budget includes some spending (including payment of the retroactive portion of the increase in allowances for civil servants) conditional upon recovery of the amounts involved in the INTERPETROL incident, and upon higher-than-projected financing resources (external budgetary support, debt relief, and receipts from privatization; see TMU, paragraph 14). Demobilization of the army and the police, achieved with MDRP project support, is essential for redirecting budgetary spending towards the social sectors.

12. **The government will pursue measures to strengthen PFM, with stepped-up technical assistance from the IMF, the World Bank, and the European Union.** It will also continue the progressive reallocation of spending from security towards poverty reduction. The government is determined to pursue the objectives set forth in its letter on demobilization, reinsertion, and reintegration (DDR) program policy sent to the World Bank in February 2004, and to reduce the size of the army and of the national police force, by implementing the DDR program. Therefore, the government has decided to launch a new phase of demobilization of the army and the police in 2007-08. Wage bill management will be further reinforced, inter alia, through the launching of an employee census, which will lead to the creation of a single wage data management file. Strengthening of the IFMIS will be pursued so that financial transactions can be accounted for in real time. Systems for treasury management, public accounting, and procurement will also be reinforced. For greater efficiency and transparency, a major step will be taken with the 2008 budget towards progressive reestablishment of a treasury single account.

13. **A medium-term project to modernize taxation has been launched with technical support from the IMF and from the World Bank.** A coherent tax reform strategy will be established by March 2008. Initially, the strategy will be based on strengthening of administrative capacity, especially by giving priority to the computerization of tax administration. Introduction of a value-added tax (VAT) is now a priority, with Burundi's recent membership in the EAC and harmonization of import duties with those of other EAC countries. The impact of the phased introduction of the EAC trade and customs regime will be assessed in early 2008. The 2008 budget does not assume any tariff or regime changes for 2008.

Measure	Timetable	Status
Reform of public financial management and fiscal policy		
<p>For gradual reestablishment of the single Treasury account:</p> <ul style="list-style-type: none"> ▪ consolidate the ordinary budget account (BO) and the extraordinary capital budget account (BEI); ▪ eliminate the HIPC sub accounts that have been opened in the name of public entities; and ▪ transfer management of the HIPC account to the Government Cashier's Office in the BRB as a sub account of the OTBU. 	December 2007	Prior action Points 2 and 3 were completed on October 11, 2007
<p>Reiterate in the 2008 Budget Law:</p> <ul style="list-style-type: none"> ▪ the obligation to obtain the prior approval of the Minister of Finance for any third-party act that would have a fiscal impact (decision, convention, contract, etc.) and to register this with the Ministry, as a condition of validity (pursuant to Decree Law 1/171 December 10, 1971 amending the Public Accounting law). ▪ the administrative, civil and criminal sanctions under the various legal codes applicable to managers of public funds,¹ for violation of the rules and procedures governing public expenditure, which will be rigorously and diligently enforced. ▪ the principles relating to expenditure procedures. ▪ authorizations to open off-budget accounts, except project accounts and accounts for regularly budgeted funds, will be suspended, pending new legislative and regulatory provisions. <p>¹The managers of public funds are the <i>ordonnateurs</i> (who authorize payments), the <i>administrateurs de crédit</i> (who control budget appropriations) and the <i>comptables</i> (who make the payments).</p>	December 2007	
<p>Ordinances of the Minister of Finance:</p> <ul style="list-style-type: none"> ▪ establishing an exhaustive list of the kinds of expenditures that may be made without a prior payment order (<i>ordonnancement</i>), and procedures for recording, regularizing and justifying them ▪ specifying the provisions of article 52 of the Public Accounting law ▪ concerning the status and prerogatives of the internal control office of the Ministry of Finance, and the duties of the office responsible for developing the IFMIS. 	December 2007	Prior action

Measure	Timetable	Status
<ul style="list-style-type: none"> Introduce accounting and budgetary procedures for recording, monitoring and clearing all expenditures that have been verified (<i>liquidées</i>) but for which a payment order has not been issued (<i>non-ordonnées</i>) or which have not been paid (<i>non-payées</i>). 	January 2008	
<ul style="list-style-type: none"> Finalize the government's public financial management reform strategy and action plan. 	June 2008	
<ul style="list-style-type: none"> Define the status and prepare the terms of reference for the Support Unit and equip it to guide the reform. 	March 2008	
<ul style="list-style-type: none"> Review the current draft organic law to specify the concepts, principles and responsibilities for those responsible for handling government revenues and expenditures, with technical assistance from the IMF and the World Bank. 	December 2007	
<ul style="list-style-type: none"> Approval of the organic law by the council of ministers and submission to Parliament for approval 	March 2008	
<ul style="list-style-type: none"> Prepare the budgeting and accounting procedures manuals based on the new organic law, distribute and publicize them, with ERSP technical support. 	December 2008	
<ul style="list-style-type: none"> Revise the public accounting law, in particular the articles concerning "off budget" accounts, namely articles 15 and 17 of the Law of March 19, 1964 on general public accounting regulations and Article 58 of Ministerial Ordinance 030-89 of June 23, 1969 on implementation measures. 	2008	
<ul style="list-style-type: none"> Improve the monthly treasury forecast so it can be used as a management tool. 	2008	
<ul style="list-style-type: none"> Reinforce the joint treasury management structures of the Ministry of Finance and the BRB created in 2007. 	2007-08	
<ul style="list-style-type: none"> Produce a quarterly TOFE for exhaustive and reliable tracking of government financial operations, based on the IFMIS with a one-month lag. 	December 2008	
<p>Make budget execution more transparent by producing the following statements:</p> <ul style="list-style-type: none"> monthly monitoring tables based on IFMIS (allocations - commitments- verifications- payment orders-payments); a reliable, complete and up-to-date monthly balance of the treasury accounts; the daily treasury situation. 	December 2008	
<ul style="list-style-type: none"> Improve the monitoring of poverty reduction expenditures using the functional classification, based on the PRSP, in the IFMIS reports. 	June 2008	

Measure	Timetable	Status
<p>Give priority to strengthening payroll management in 2007, with the support of the World Bank's ERSP project, through:</p> <ul style="list-style-type: none"> • a physical census of all government employees (civil servants, police, army) with the support of the World Bank (ERSP project) and other donors; • issuance of personal identity cards with photos and signatures; • put in place a central data file and single identification number for all government employees (teachers, civil servants, army and police); 	<p>2007-08</p> <p>2008</p> <p>4th quarter 2008</p>	<p>The launching of the census is a prior action.</p>
<ul style="list-style-type: none"> • Strengthen payroll monitoring in the IFMIS. 	2007-08	
<ul style="list-style-type: none"> • Prepare for assumption of payroll management by the Ministry of Finance. 	2008	
<ul style="list-style-type: none"> • Eliminate all remuneration or compensation in kind for government employees. 	2007-08	
<ul style="list-style-type: none"> • Strengthen the financial control of public enterprises, in particular by implementing action plans to strengthen the Administrative and Portfolio Revenue Directorate in the Ministry of Finance and by establishing clear guidelines for the government's representatives on public enterprise boards. 	2007-08	
<ul style="list-style-type: none"> • Revise the private and public corporations code (1996) by establishing dual technical and financial oversight of public enterprises, with ERSP support. 	2008-09	
<ul style="list-style-type: none"> • Launch an audit of cross-debts between the budget and the petroleum sector. 	December 2007	Prior action
<ul style="list-style-type: none"> • Complete the audit of cross-debts and establish a settlement plan. 	June 2008	
<ul style="list-style-type: none"> • Launch independent semi-annual financial and technical audits of the HIPC account and operations from 2005 to the end of 2007 (EU support). 	December 2007	Prior action
<ul style="list-style-type: none"> • Improve the production, reliability, and regularity of the monthly reports on external public debt, including projections of debt service for the next three months. 	2008	
<ul style="list-style-type: none"> ▪ Reduce further the number of government accounts by (1) finalizing the grouping of accounts by public entity; and by (2) eliminating accounts opened in the name of public entities and administrative offices that do not have financial autonomy. 	June 2008	
<ul style="list-style-type: none"> ▪ Return to the BRB all donor-financed project accounts, in consultation with the donors. 	2008	
Reform of customs		
<ul style="list-style-type: none"> • Implement the new customs code 	December 2007	

Measure	Timetable	Status
<p>Pursue the action plan for strengthening customs, based on the IMF technical assistance report of September 2006, in particular by:</p> <ul style="list-style-type: none"> Strengthened monitoring and control of the SGS component in order to improve its effectiveness and yield. Use the risk evaluation system (PROFILER) in order to clear through the green channel at least 50 percent of import operations. Set up and utilize a system for selecting import consignments to be examined, using criteria determined by the import inspection system. An enhanced ex post monitoring system. 	<p>As of November 2006 2007-08</p> <p>2007-08</p> <p>2007-08</p> <p>2007-08</p>	
<ul style="list-style-type: none"> Assess the revenue impact of Burundi's membership in the EAC, with technical support from the World Bank (ERSP project). 	January 2008	
Taxation		
<ul style="list-style-type: none"> Adopt a strategy for modernizing taxation and harmonizing it with EAC zone countries, with IMF technical assistance 	March 2008	
<ul style="list-style-type: none"> Modernize and harmonize taxation with EAC countries. Revise the general taxation code. 	2008-12	
<ul style="list-style-type: none"> Implement the action plan for strengthening tax administration on the basis of the IMF technical assistance report of September 2006, with the technical and material support of donors. 	2007-10	
<ul style="list-style-type: none"> Prepare for replacing the transactions tax with a VAT, with IMF technical support: <ul style="list-style-type: none"> -approve the draft law -prepare the regulations and procedures 	2008-09	
<ul style="list-style-type: none"> Computerize the tax office 	2008-09	
<ul style="list-style-type: none"> Improve the efficiency of tax collection by replacing the tax current account (CCF) by a computer application that permits the secure monitoring of collection. 	2007	
<ul style="list-style-type: none"> Enforce the income tax law for Burundian employees in the international sector. 	2007-08	
<ul style="list-style-type: none"> Develop a legal and fiscal framework for the exploitation of natural resources in keeping with international best practices, with technical support from the World Bank and the IMF in conjunction with the new draft mining code. 	2008	
<ul style="list-style-type: none"> Eliminate all exemptions from indirect taxes and maintain time limits on tax exemptions in the investment code. 	2007-08	
<ul style="list-style-type: none"> Unify local and national revenue administrations and adopt an automatic revenue sharing formula. 	2008-09	

C. Monetary and Exchange Policy

14. **The BRB will continue its prudent monetary management, with the principal objective of containing inflation.** The growth of broad money is expected to be 14.9 percent for both M2 and M3 in 2007, significantly above nominal GDP growth (13.4 percent), reflecting the continued monetization of the economy. This trend should continue in 2008, with growth in the monetary aggregates of 15.8 percent (M2) and 16.0 percent (M3), for nominal GDP growth of 12.4 percent. Prudent and proactive management of foreign exchange reserves will continue within a managed floating exchange rate regime. Gross international reserves of the BRB should reach US\$163.7 million at end-2007 (3.9 months of 2008 imports) and US\$186.6 million at end-2008 (4.2 months of 2009 imports).

15. **The BRB will continue to strengthen its internal capacities, with particular technical assistance from the IMF and the First Initiative.** The BRB will focus primarily on three issues: (i) improving governance (a new charter, further development of the internal audit function, a communications policy, adoption of International Financial Reporting Standards, IFRS); (ii) strengthening of the financial sector (strengthening banking supervision, seeking solutions for restructuring certain banks, developing the monetary, financial, and exchange markets); and (iii) pursuing an active monetary policy that will rely increasingly on market mechanisms. In order to strengthen its capacity to implement monetary policy, in December 2007 the BRB will start the process of converting advances to the government into Treasury bonds, according to the June 2006 convention between the Ministry of Finance and the BRB.

Measure	Timetable	Status
Monetary policy		
• Prepare weekly updates of foreign exchange cash flow forecasts, in collaboration with the support unit in the Ministry of Finance.	2007-08	
• Prepare a strategy for developing economic forecasts	2008	
• Establish a training program in monetary and financial policy.	June 2008	
• Update the liquidity forecasting framework.	As of first quarter 2008	
• Vary the amount of interventions on the MED in light of reserve management and monetary policy objectives.	2007-08	
• Extend the compulsory reserves maintenance period to one month	November 2007	
• Introduce an overnight deposit facility at a suitably dissuasive rate.	As soon as the new statutes are promulgated	
• Launch an awareness and training campaign for officers of the BRB, the banks, and businesses, to pave the way for developing a secondary market for Treasury securities.	2008	
Internal reforms and governance of the BRB		
• Reshape the internal structure of the BRB, with support from the	2008	

FIRST Initiative.		
• Computerize the BRB, in line with the action plan prepared by FIRST and BRB.	2008	
• Strengthen foreign exchange reserves management by: <ul style="list-style-type: none"> • adopting a new functional organization chart for the foreign banking operations office, • finalize the directives on foreign exchange reserve management, and • activate the foreign exchange reserves management committee. 	March 2008	
• Adopt a communications policy for the BRB, targeted at financial markets.	March 2008	
• Continue implementing the reforms recommended by the external auditor and put in place procedures to monitor those reforms.	2007-08	
• Continue implementing the recommendations of the safeguards assessment.	2007-08	
• Promulgate the new charter of the BRB	March 2008	Approval by council of ministers is a prior action
• Strengthen the internal audit function and prepare a 2008 risk-based audit plan.	2007-08	
• Finalize internal audit procedures in an audit manual.	March 2008	
• Observe IFRS rules (train the units involved in applying these rules to the BRB accounts).	2007-08	
• Establish a national Financial Intelligence Unit in the Ministry of Finance to support the application of legal provisions for combating money laundering (AML), with technical support from the IMF.	2008	Passage of AML law is a prior action
• Adopt a code of ethics for all BRB employees.	June 2008	
Development of the financial and foreign exchange markets		
• Move toward an interbank exchange market, in line with IMF technical assistance recommendations. <ul style="list-style-type: none"> • Open the central bank auction (MED) to sales of forex by banks • Widen spread for surrender of forex by banks 	2008-10 June 2008 June 2008	
• Create a joint working group of the BRB and the Bankers' Association and adopt an action plan for developing the monetary and financial markets.	March 2008	
Financial sector		
• Strengthen banking supervision and prudential regulation, with IMF technical assistance	2007-08	
• Progressively raise the minimum bank capital requirement from FBu 1 billion : <ul style="list-style-type: none"> • 2.5 billion • 3.5 billion • 5.5 billion 	January 1, 2008 January 1, 2009 January 1, 2010	The first two stages have already been announced. The third will be in December 2007.
• Adopt a matrix of violations and fines.	January 2008	
• Revise the BRB circular on bank licensing.	2008	
• Revise the banking act and prepare a new bank chart of accounts consistent with IFRS accounting standards.	2008-09	
• Create a financial training structure in the Bankers' Association,	2008-09	

with support from the BRB.		
• Continue the rehabilitation or closure of banks in difficulty.	2007-08	
• Reorganize the banking supervision office.	January 2008	
• Evaluate the conformity of the BRB's supervisory mechanism with the 25 Basel principles	March 2008	
• Bring prudential regulations and norms into line with international standards and best practices.	September 2008	
• Arrange for an assessment of the financial sector by the World Bank and IMF (FSAP).	First half 2008	
• Prepare a legal framework governing payments systems	2008-09	

D. Structural Reforms

16. **The authorities have adopted a structural reform strategy based on three pillars:** (i) improving the business climate and governance; (ii) opening the economy to international trade; and (iii) privatizing public assets in the productive sectors. Taken together, these reforms will allow Burundi to take full advantage of its membership in the EAC and, more generally, its integration in the world economy.

17. **Efforts to improve the business climate are focused in particular on direct investment and trade development.** In the context of investment promotion efforts, exemptions from indirect taxation will be avoided and tax advantages strictly controlled. The Government recognizes the importance of exploiting its natural resources on a rational and sustainable basis within a legal framework that guarantees transparency and protection of the environment. The authorities will seek technical assistance from the IMF and the World Bank to prepare a legal framework (including the taxation aspects) consistent with best international practices. The authorities are determined to liberalize business within the country, in order to develop sectors with growth potential.

18. **The privatization process will be pursued transparently, with full respect for the rules of good governance.** To facilitate the process, the government will consolidate its various holdings, when necessary. Particular attention will be paid to reforming the coffee sector, because of its potential impact on growth and poverty. The intent is to provide for competition at all levels of the industry, and to privatize it, so that producers will be free to exercise their profession and to attract private investment. There have been delays in implementing the November 2006 action plan, especially in the preparation of a privatization strategy for the washing stations and shelling mills and a proposed new legal, regulatory and institutional framework.

Measure	Timetable	Status
Privatization		
<ul style="list-style-type: none"> Through SCEP, dismantle cross-shareholdings in the public sector and consolidate public-sector shares in the government's hands. 	2008	
<ul style="list-style-type: none"> Promulgate the privatization law, with effective and transparent procedures. 	March 2008	
<ul style="list-style-type: none"> Through SCEP, privatize State assets in the banking sector, in close consultation with the BRB, to avoid further concentration in this sector. 	2007-08	
Coffee sector reform strategy		
<ul style="list-style-type: none"> Reaffirm the principle of freedom of establishment and exercise (Law 100/012 ; Jan 2005) in the coffee sector, by abolishing the coffee brokering monopoly, revising the OCIBU regulations on direct sales. 	December 2007	
<ul style="list-style-type: none"> Remove all restrictions on direct coffee exports. A customs declaration will be sufficient for export. 	September 2008	
<ul style="list-style-type: none"> Confirm the exclusive role of the coffee sector reform committee in preparing reform strategies. 	December 2007	
<ul style="list-style-type: none"> Continue and reinforce the management of coffee marketing by the coffee reform monitoring committee in order to minimize delays, costs, financing requirements, and financial risks both for producers and for the government. 	2007-08	
<ul style="list-style-type: none"> Issue an international call for tenders for the 2007-08 coffee crop financing. 	December 2007	
<ul style="list-style-type: none"> Weekly monitoring of cash flow management, including that of the OCIBU Stabilization Fund for coffee crop financing. 	2007-08	
<ul style="list-style-type: none"> Collect payment arrears for prior crop years from SOGESTALs and mills. 	2007-08	
<ul style="list-style-type: none"> Prohibit the SOGESTALs from declaring or distributing dividends until their arrears have been cleared and debts repaid. 	2007-08	
<ul style="list-style-type: none"> Financial audit of the coffee sector's 2005/06 crop year, with the support of the World Bank. 	2007	
<ul style="list-style-type: none"> Prepare a strategy for privatizing the 133 washing stations and the shelling factories. 	March 2007	Delayed. The study must be redone. Expected for June 2008.
<ul style="list-style-type: none"> Prohibit the SOGESTALs from building new washing stations. 	2007-08	
<ul style="list-style-type: none"> Prepare a legal, regulatory and institutional framework for the coffee industry (with support from the ERSP project). 	March 2007	Delayed. The study must be redone. Expected for September 2008.

E. Transparency, Good Governance, and National Statistics

19. 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 ministerial orders, 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 are kept up to date. The **Audit Court** will continue to strengthen its activities. The authorities are committed to continue their efforts to improve the quality of **national statistics** and, with support from AFRISTAT, intend to resume the regular production of the national accounts and improve the reliability and coverage of the consumer price index.

Measure	Timetable	Status
Transparency and good governance		
<ul style="list-style-type: none"> Audit of government accounts by the Audit Court. 	2007-08	Audit of the 2006 accounts completed
<ul style="list-style-type: none"> Publish decisions, ordinances, decrees, laws, and reform strategies at official websites, including the Memorandum on Economic and Financial Policies, once it is approved by the IMF Executive Board. 	2007-08	
<ul style="list-style-type: none"> Create (with support from the ERSP project) a website that brings together all laws, regulations, ordinances, and implementing provisions, at the legislation unit of the Ministry of Justice. 	2007	February 2008
The business climate		
<ul style="list-style-type: none"> Publish the Investment Climate Assessment produced with World Bank support. 	March 2008	
<ul style="list-style-type: none"> Prepare an action plan for improving the business climate. 	June 2008	
Statistics		
<ul style="list-style-type: none"> Approve the National Statistical Development Strategy (SNDS) and implement the roadmap. 	March 2008	
<ul style="list-style-type: none"> Promulgate the statistics law. 	First-quarter 2007	Completed, Sept 2007
<ul style="list-style-type: none"> Adopt the implementing regulations for the new statistics law, which establish a new institutional framework for ISTEERU and a new code for ISTEERU employees. 	March 2007	Prior Action
<ul style="list-style-type: none"> Resume the regular production of national accounts and publish a series based on the methodology of the <i>System of National Accounts 1993 (SNA93)</i> for 1999-2005 	2007	
<ul style="list-style-type: none"> Update the metadata for participation in the IMF's GDDS initiative. 	March 2008	
<ul style="list-style-type: none"> Expand the coverage of the CPI: <ul style="list-style-type: none"> Expand the coverage of the new index to include the provinces for which data are already collected regularly; Conduct a household consumption budget survey and a farm survey; Update the weights of the items included in the CPI consumption basket, following the household consumption budget survey and the farm survey. 	March 2007 2008 2008	Completed

F. Program Financing and Relations with Creditors

20. **The external financing of the 2007 program**, excluding projects, is estimated at US\$147 million, and includes disbursements from the IMF under the existing PRGF arrangement (US\$11 million); the World Bank (US\$25 million under the second tranche of the ERSG); the European Union (US\$2.5 million from the last variable tranche of the ninth FED and US\$20.5 million in new support); bilateral donors (US\$45 million); conventional debt relief on current maturities (US\$4 million); and debt relief under the HIPC Initiative (US\$39 million).

21. **For 2008, external financing of the program**, excluding projects, amounts to US\$141 million, and includes disbursements from the IMF under the existing PRGF arrangement (US\$11 million); the World Bank (US\$25 million); the European Union (US\$19 million in new support); the African Development Bank (US\$11 million); bilateral donors (US\$31 million), conventional debt relief as scheduled (US\$4 million) and HIPC debt relief (US\$40 million). A financing gap of US\$19 million could be covered by a new PRGF arrangement (in line with access norms).

22. **The authorities will continue their discussions with non-Paris Club creditors** with a view to benefiting from debt relief on terms similar to those granted by bilateral creditors in the Paris Club. China canceled Burundi's debt (US\$13.7 million) in 2007.

G. Monitoring the PRSP

23. The authorities are continuing with the measures needed to reach the HIPC completion point. Capacities for monitoring the PRSP are being steadily reinforced, with support from the international community. The HIPC expenditures tracking committee has been reactivated. The government has called for tenders for independent semiannual financial and technical audits of the HIPC accountant operations, from 2005 to the end of 2007. Those reports will be published. In addition, budget tracking exercises for the education, health, and justice sectors, as well as a user assessment of the quality of services provided, are planned for June 2008.

H. Technical Assistance

24. Burundi has extensive **technical assistance** needs. The authorities will continue to work closely with its bilateral and multilateral partners, in particular through the ERSF project financed by the World Bank, the European Union, and bilateral donors, to strengthen the administrative capacity of Burundi's institutions. IMF technical assistance will continue in the areas of tax policy and tax administration, public expenditure management, monetary and exchange policy, banking supervision, and economic statistics. This assistance will be reinforced through the AFRITAC center.

I. Program Monitoring

25. **The authorities have strengthened the program's monitoring through the establishment of an inter-ministerial monitoring committee at the second vice-presidency level, which will meet once a month and will be backed by a technical committee.** The quarterly quantitative benchmarks for 2006 and outcomes at end-December 2006 are shown in Table 1. The prior actions for the sixth review, as well as the structural performance criterion and benchmarks for 2007, are shown in Table 2. The indicative quarterly quantitative performance criteria for 2007 and 2008 are shown in Tables 3 and 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, and will not introduce new exchange restrictions or multiple currency practices. Nor will it conclude bilateral payments agreements inconsistent with Article VIII of the Fund's Article of Agreement, or impose restrictions for balance of payments purposes. In addition, the authorities stand ready to adopt new financial or structural measures, in consultation with Fund staff, as necessary to ensure program success.

26. **The Burundian authorities hope to begin discussion early in 2008 on a new PRGF arrangement.** The indicative quarterly quantitative performance criteria for 2007 and 2008 will serve as the basis of performance evaluation for this purpose.

Table 1. Burundi: Performance Criteria and Indicative Targets for 2006

(Fbu billions, unless otherwise indicated)

	2005		2006								
	Dec.	Mar.	Jun. ¹			Sep. ¹			Dec. ²		
	Act.	Act.	Prog.	Prog. Adj.	Act.	Prog.	Prog. Adj.	Act.	Prog.	Prog. Adj.	Act.
Performance targets											
Net foreign assets of the BRB (floor; US\$ millions) ³	48.9	26.3	40.9	-14.8	8.5	48.0	-18.1	-14.1	55.6	19.4	42.8
Net domestic assets of the BRB (ceiling) ³	51.7	68.0	69.7	125.4	88.4	62.8	128.9	113.1	58.6	94.8	63.5
Net domestic financing of the government (ceiling) ^{3,4}	8.5	2.9	14.2	69.9	7.5	36.7	89.8	19.2	22.9	59.1	21.3
External payments arrears of the government (ceiling; US\$ millions)	0.5	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.4
Short-term external debt of the government (ceiling; US\$ millions) ⁵	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; US\$ millions) ⁶	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 deficit of the government (ceiling; cumulative from beginning of calendar year) ⁷	14.6	-6.0	32.8	...	-5.9	67.1	...	17.6	84.8	...	52.9
Government's wage bill (ceiling; cumulative from beginning of calendar year)	72.6	17.1	40.2	...	40.7	71.1	...	67.5	94.8	...	93.9
Adjustors											
External nonproject financial assistance (US\$ millions) ^{7,8}											
Cumulative from the beginning of the year	...	3.9	63.3	...	7.6	74.9	...	8.8	107.8	...	71.6
<i>Of which:</i>											
EU	...	0.0	12.5	...	0.0	12.5	...	0.0	17.0	...	13.1
World Bank	...	0.0	35.0	...	0.0	35.0	...	0.0	60.0	...	35.1
AfDB	...	0.0	0.0	...	0.0	11.0	...	0.0	11.0	...	11.0
France	...	0.0	0.0	...	0.0	0.0	...	0.0	3.0	...	3.3
Belgium	...	2.4	2.4	...	2.4	2.4	...	2.4	2.4	...	2.4
Netherlands	...	0.0	10.0	...	0.0	10.0	...	0.0	10.0	...	0.0
Debt relief (current maturities, excluding HIPC)	...	1.5	3.4	...	5.2	4.1	...	6.4	4.5	...	6.8
Net accumulation of domestic arrears during period	0.0	0.0	0.0	...	0.0	0.0	...	13.0	0.0	...	0.0
Exchange rates											
Fbu/US\$ (end-of-period)	1100	1018	1000	...	1028	1000	...	1057	1000	...	1002
Fbu/US\$ (period average)	1050	1006	1003	...	1025	1000	...	1038	1000	...	1044
US\$/Euro (end-of-period)	1.18	1.21	1.21	...	1.27	1.21	...	1.27	1.21	...	1.32
US\$/SDR (end-of-period)	1.43	1.44	1.44	...	1.48	1.44	...	1.48	1.44	...	1.49

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 a financing excess (shortfall), the floors on the net foreign assets of the central bank will be adjusted upward (downward), and the ceilings on the 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/US\$ 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 2. Burundi — Prior Actions for the Sixth Review under the PRGF, and Structural Performance Criteria and Benchmarks for 2007		
Measure	Timetable (end of month)	Status
Prior actions		
Ministerial Orders of the Minister of Finance:		
<ul style="list-style-type: none"> establishing an exhaustive list of the kinds of expenditures that may be made without a prior payment order (<i>ordonnancement</i>); clarifying the provisions of article 52 of the Public Accounting law; concerning the status and prerogatives of the internal control office of the Ministry of Finance, and the duties of the office responsible for developing the IFMIS. 		
<ul style="list-style-type: none"> Promulgate the 2008 budget law in conformity with the program discussed with the IMF. 		
<ul style="list-style-type: none"> Launch an external audit of HIPC expenditures 		Done, December 6, 2007
<ul style="list-style-type: none"> Approve the implementing regulations for the statistics law 		Done, November 27, 2007
<ul style="list-style-type: none"> Parliamentary passage of the anti-money laundering law 		
<ul style="list-style-type: none"> Launch an external audit of cross-debts between the petroleum sector and the budget. 		Done, December 10, 2007
<ul style="list-style-type: none"> Launch the census operation of all government employees 		Done, December 10, 2007
<ul style="list-style-type: none"> Approval by the council of ministers of the revised BRB charter and submit it to Parliament 		
Structural performance criterion		
<ul style="list-style-type: none"> Introduce a single computerized file for payroll management in the Ministry of Finance 	June 2007	Delayed to mid-2008. Is based on the results of the census
Structural benchmarks		
<ul style="list-style-type: none"> Begin the first risk-based audit of the BRB 	March 2007	Done, February 12, 2007
<ul style="list-style-type: none"> Conduct a census of all employees of the civil service, the police and the army. 	June 2007	Launch delayed to December 2007

Table 3. Burundi: Indicative Targets for 2007
(Fbu billions, unless otherwise indicated)

	2006		2007 ¹										
	Act.	Mar.		Jun.		Sept.			Dec.				
		Prog.	Act.	Prog.	Act.	Prog.	Prel.	Prog.	Act.	Prog.	Proj.		
		IMF Country Report No. 07/1113	Adj.	IMF Country Report No. 07/1113	Adj.	IMF Country Report No. 07/1113	Adj.	IMF Country Report No. 07/1113	Adj.	IMF Country Report No. 07/1113	Adj.	Proj.	
Performance targets													
Net foreign assets of the BRB (floor; US\$ millions) ²	42.8	24.8	20.1	30.9	44.1	1.1	18.3	24.7	-21.5	7.1	31.1	41.9	52.2
Net domestic assets of the BRB (ceiling) ²	63.5	81.8	86.7	67.4	67.6	111.9	89.5	89.5	137.1	103.2	85.2	74.1	65.2
Net domestic financing of the government (ceiling) ^{2,3}	21.3	-2.0	-1.3	-7.5	-21.1	26.4	33.7	4.5	55.3	41.7	0.1	25.0	21.6
External payments arrears of the government (ceiling; US\$ millions)	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0
Short-term external debt of the government (ceiling; US\$ millions) ⁴	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; US\$ millions) 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
Indicative targets													
Primary deficit of the government (ceiling; cumulative from beginning of calendar year) ⁶	52.9	5.7	...	6.7	26.7	...	32.8	56.3	...	44.6	68.3	...	59.5
Government's wage bill (ceiling; cumulative from beginning of calendar year)	93.9	28.3	...	25.5	59.1	...	56.7	90.4	...	85.2	121.7	...	112.2
Adjustors													
External nonproject financial assistance (US\$ millions) ^{6,7}													
Cumulative from the beginning of the year	71.6	15.7	...	11.0	57.4	...	14.4	63.2	...	17.0	86.0	...	96.8
<i>Of which:</i>													
EU	13.1	2.3	...	0.0	2.3	...	2.4	2.3	...	2.4	21.8	...	23.0
World Bank	35.1	0.0	...	0.0	25.0	...	0.0	25.0	...	0.0	25.0	...	25.0
AfDB	11.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0	0.0	...	0.0
France	3.3	2.6	...	0.0	2.6	...	0.0	2.6	...	0.0	2.6	...	2.7
Belgium	2.4	0.0	...	0.0	0.0	...	0.0	0.0	...	1.6	2.6	...	7.1
Netherlands	0.0	10.0	...	10.0	20.0	...	10.0	25.0	...	10.0	25.0	...	25.0
Norway	0.0	0.0	...	0.0	6.0	...	0.0	6.0	...	0.0	6.0	...	10.0
Debt relief (current maturities, excluding HIPC)	6.8	0.8	...	1.0	1.5	...	2.0	2.3	...	3.0	3.0	...	4.0
Net accumulation of domestic arrears during period	0.0	0.0	...	4.2	0.0	...	-3.2	0.0	...	-3.2	0.0	...	-36.0
Exchange rates													
Fbu/US\$ (end-of-period)	1002	1030	...	1043	1030	...	1089	1030	...	1112	1030	...	1050
Fbu/US\$ (period average)	1044	1025	...	1034	1030	...	1057	1030	...	1101	1030	...	1104
US\$/Euro (end-of-period)	1.32	1.30	...	1.33	1.30	...	1.35	1.30	...	1.37	1.30	...	1.37
US\$/SDR (end-of-period)	1.49	1.51	...	1.51	1.50	...	1.52	1.50	...	1.53	1.50	...	1.54

¹ Indicative targets.

² 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, up to a maximum cumulative adjustment of US\$ 50 million. In case of a financing excess (shortfall), the floors on the net foreign assets of the central bank will be adjusted upward (downward), and the ceilings on the 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/US\$ exchange rate.

³ The ceiling on net domestic financing of the government will be adjusted downward (upward) for any accumulation (payment) of net domestic arrears as defined in the Technical Memorandum of Understanding (TMU).

⁴ Excluding short-term, import-related trade credits.

⁵ With a grant element of less than 50 percent.

⁶ As defined in the TMU and revised to reflect a reclassification of spending on the new police force from projects to recurrent expenditures.

⁷ Nonproject assistance includes debt relief on current maturities and net cash payments to clear arrears.

Table 4. Burundi: Indicative Targets for 2008
(Fbu billions, unless otherwise indicated)

	2007	2008 ¹			
	Proj.	Mar. Proj.	Jun. Proj.	Sep. Proj.	Dec. Proj.
Performance targets					
Net foreign assets of the BRB (floor; US\$ millions) ²	52.2	50.5	48.8	47.1	45.4
Net domestic assets of the BRB (ceiling) ²	65.2	80.3	90.1	72.0	82.3
Net domestic financing of the government (ceiling) ^{2 3}	21.6	14.0	21.7	-4.9	0.0
External payments arrears of the government (ceiling; US\$ millions)	0.0	0.0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; US\$ millions) ⁴	0.0	0.0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; cumulative; US\$ millions) ⁵	0.0	0.0	0.0	0.0	0.0
Indicative targets					
Primary deficit of the government (ceiling; cumulative from beginning of calendar year) ⁶	59.5	7.4	35.1	54.0	63.6
Government's wage bill (ceiling; cumulative from beginning of calendar year)	112.2	31.0	63.5	95.2	125.5
Adjustors					
External nonproject financial assistance (US\$ millions) ⁶					
Cumulative from the beginning of the year	96.8	1.0	25.7	78.1	90.7
<i>Of which:</i>					
EU	23.0	0.0	19.2	19.2	19.2
World Bank	25.0	0.0	0.0	25.0	25.0
AfDB	0.0	0.0	0.0	0.0	11.5
France	2.7	0.0	0.0	2.7	2.7
Belgium	7.1	0.0	4.5	4.5	4.5
Netherlands	25.0	0.0	0.0	13.7	13.7
Norway	10.0	0.0	0.0	10.0	10.0
Debt relief (current maturities, excluding HIPC)	4.0	1.0	2.0	3.0	4.0
Net accumulation of domestic arrears during period	0.0	0.0	0.0	0.0	0.0
Exchange rates					
Fbu/US\$ (end-of-period)	1,050	1,060	1,060	1,060	1,060
Fbu/US\$ (period average)	1,104	1,058	1,060	1,060	1,060
US\$/Euro (end-of-period)	1.37	1.37	1.37	1.37	1.38
US\$/SDR (end-of-period)	1.54	1.54	1.54	1.54	1.54

¹ Indicative targets.

² 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, up to a maximum cumulative adjustment of US\$ 50 million. In case of a financing excess (shortfall), the floors on the net foreign assets of the central bank will be adjusted upward (downward), and the ceilings on the 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/US\$ exchange rate.

³ The ceiling on net domestic financing of the government will be adjusted downward (upward) for any accumulation (payment) of net domestic arrears as defined in the Technical Memorandum of Understanding (TMU).

⁴ Excluding short-term, import-related trade credits.

⁵ With a grant element of less than 50 percent.

⁶ As defined in the TMU.

Burundi: Technical Memorandum of Understanding

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) for the remainder of 2007 and for 2008. It defines (i) the quantitative performance criteria, indicative targets, and applicable adjusters; and (ii) the key assumptions underlying the economic program for 2007 and 2008.

A. Quantitative Program Targets

Quantitative performance criteria and indicative targets

2. The quantitative performance criteria under the program as shown in Tables 1, 3 and 4 of the MEFP relate to end-September 2007 stocks, 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 2007 and 2008 are indicative.

3. The quantitative indicative targets under the program, shown in Tables 3 and 4 of the MEFP, are as follows:

- Primary budget balance (ceiling).
- the Government's wage bill.

Definitions and measurement

4. The net foreign assets of the BRB are defined as the difference between (i) gross official reserves (valued at market prices) and other claims; and (ii) foreign exchange liabilities to nonresident entities (including the use of Fund resources, but excluding the counterpart of SDR allocations). 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-September 2007, gross official reserves amounted to US\$112.9 million. These amounts are valued in terms of US\$ based on the end-September 2007 exchange rate. The net foreign assets of the BRB totaled Fbu 7.6 billion, equivalent to US\$6.8 million, at end-September 2007, broken down as follows:

	Fbu billions	US\$ millions
Net foreign assets of the BRB	7.6	6.8
Foreign assets	128.5	115.6
Official reserves	125.5	112.9
Foreign currency holdings	4.0	3.6
Deposits with correspondents (excluding IMF)	119.9	107.9
SDR holdings	0.2	0.1
Reserve position with the IMF	0.6	0.6
Gold holdings	0.8	0.7
Other claims	3.1	2.8
Foreign liabilities	121.0	108.8
Liabilities vis-à-vis correspondents (excluding IMF)	11.8	10.6
Counterpart of the use of IMF resources	107.4	96.6
Other liabilities	1.8	1.6

5. The **net domestic assets of the BRB** are defined as the difference between (i) reserve money, comprising currency in circulation, reserves of commercial banks, and other deposits held at the BRB, and (ii) net foreign assets of the BRB. Net domestic assets of the BRB totaled Fbu 103.2 billion at end-September 2007, broken down as follows:

	Fbu billions
Net domestic assets of the BRB	103.2
Reserve money	110.8
Currency in circulation	78.7
Reserves of commercial banks	29.8
Other non-bank deposits	2.2
Minus: net foreign assets of the BRB	7.6

Adjuster for changes in the compulsory reserves coefficients

6. The ceiling on net domestic assets of the BRB will be adjusted symmetrically for any change in the compulsory reserves coefficient applied to deposits in the commercial banks, by the amount of the new coefficient minus that stipulated in the program, multiplied by bank deposits subject to compulsory reserves. The rate stipulated in the program is currently 3 percent.

7. **Net domestic financing of the government** is defined as the change in (i) outstanding loans, advances, and other credit to the government from the BRB and all of Burundi's commercial banks; (ii) the stock of all government securities held by the non-bank 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. Net domestic financing of the government at end-September 2007 totaled Fbu 182.5 billion, broken down as follows:

	Fbu billions
Net domestic financing of the government	182.5
Net banking credit to the government	171.6
Central government	183.6
Loans, advances and other credits	229.9
BRB	187.4
Commercial banks (including postal accounts)	42.5
Deposits	46.3
BRB	35.7
Commercial banks (including postal accounts)	10.6
Other administrations (net)	-12.0
Non-bank financial institutions	0.3
Treasury bonds and certificates	0.3
Others	10.6
Treasury certificates	10.6

8. 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-September 2007 are broken down as follows, showing the actual stock under the heading "technical arrears":

External payments arrears	Program definition	Technical arrears
	(US\$ millions)	
Total	0.0	45.4
Multilateral creditors	0.0	0.5
International Development Association AfDB Group	0.0	0.0
AfDB Group	0.0	0.0
African Development Bank	0.0	0.0
African Development Fund	0.0	0.0
Nigeria Trust Fund	0.0	0.0
International Monetary Fund	0.0	0.0
European Union	0.0	0.0
International Fund for Agricultural Development (IFAD)	0.0	0.0
Arab Bank for Economic Development in Africa	0.0	0.0
(BADEA)	0.0	0.5
OPEC Fund	0.0	0.0
Development Bank of the Great Lakes States (BDEGL)	0.0	44.9
Bilateral and commercial creditors	0.0	0.1
Paris Club	0.0	0.0
French Cooperation Agency (AFD)	0.0	0.0
Japan (FCEOM)	0.0	0.1
Russia	0.0	44.9
Other official bilateral	0.0	1.9
Abu Dhabi Fund	0.0	16.9
Kuwait Fund	0.0	21.1
Saudi Arabia Fund	0.0	5.0
Libyan Bank	0.0	0.0
Commercial creditors	0.0	0.0
AD Consultants	0.0	0.0
Kreditanstalt für Wiederaufbau AMSAR	0.0	0.0

9. The program includes a ceiling on new nonconcessional external debts contracted or guaranteed by the government and the BRB. 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.

10. The **stock of short-term external debt**, with a maturity of up to, or equal to, one year, owed by the central 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-September 2007, the stock of short-term debt outstanding was nil.

Budget

11. **Receipts from privatization** are projected to be FBu 4.1 billion in 2008. One-half of receipts above the projected amount will be used to reduce domestic financing (see above).

12. The government's **primary fiscal balance** is defined as the difference between total government revenue, excluding grants, on the one hand, and non-interest current government expenditure and domestically financed capital expenditure (including through the use of counterpart funds), on the other hand. The projected primary fiscal balance for 2007 is FBu -59.5 billion, and for 2008 FBu -63.6 billion, broken down as follows:

	2007	2008
Primary budget balance	-59.5	-63.6
Total revenue	192.9	229.2
Minus:		
Non-interest current expenditure	223.0	258.5
Domestically financed capital	31.4	36.3
Net lending	-2.0	-2.0

13. The **government's wage bill** is defined as total labor remunerations on a commitments basis for civil servants, contractual employees, police and military personnel of the government, including all allowances and bonuses. The government's wage bill should be FBu 112.2 billion for 2007 and is projected at FBu 125.5 billion for 2008, broken down as follows:

	2007	2008
Government wage bill	112.2	125.5
Civilian personnel	65.8	77.7
Military personnel	27.9	28.2
National Police Force	18.5	19.6

14. Article 22 of the 2008 Budget Law establishes an expenditure contingency that can be committed only to the extent that additional resources are mobilized from the following areas: 1) recovery of amounts paid unjustifiably in the Interpetrol incident; 2) external budgetary support beyond the amounts assumed; 3) 50 percent of any excess in the proceeds of privatization over the amounts forecast; and 4) additional debt relief, in particular if the HIPC completion point is reached. However, overall revenue must be consistent with projections before additional expenditure commitments are made.

External financial assistance adjustor

15. The program provides for an asymmetrical adjustment to quantitative targets for the net foreign assets and net domestic assets of the BRB, and for net bank credit to the government, in the case of shortfalls between forecast and actual levels of external financial assistance.

16. External financial assistance (measured in US\$) is defined to include the following: (i) non-project 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. Donor disbursements into blocked accounts for the purpose of clearing

arrears will not be included as foreign assistance for program monitoring purposes. The assumptions for 2007 and 2008 are shown below:

Burundi: External Financing Adjustors of Performance Criteria and Indicative Targets Under the 2006 – 2008 Program

(In millions of U.S. dollars)

	2006	2007				2008			
	Dec. Prog.	Mar. Prog.	Jun. Prog.	Sep. Prog.	Dec. Prog.	Mar. Prog.	Jun. Prog.	Sep. Prog.	Dec. Prog.
External nonproject financial assistance (cumulative from the beginning of each calendar year)	107.8	11.0	14.4	17.0	96.8	1.0	25.7	78.1	90.7
<i>Of which:</i>									
EU	17.0	0.0	2.4	2.4	23.0	0.0	19.2	19.2	19.2
World Bank	60.0	0.0	0.0	0.0	25.0	0.0	0.0	25.0	25.0
AfDB	11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.5
France	3.0	0.0	0.0	0.0	2.7	0.0	0.0	2.7	2.7
Belgium	2.4	0.0	0.0	1.6	7.1	0.0	4.5	4.5	4.5
Netherlands	10.0	10.0	10.0	10.0	25.0	0.0	0.0	13.7	13.7
Norway	0.0	0.0	0.0	0.0	10.0	0.0	0.0	10.0	10.0
Debt relief (current maturities, excluding HIPC)	4.5	1.0	2.0	3.0	4.0	1.0	2.0	3.0	4.0

Sources: Burundi authorities; and Fund staff estimates.

17. 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 domestic financing to the government will be adjusted downward (upward). In the case of a financing shortfall the adjustment will be limited to a maximum of US\$50 million. External financial assistance will be converted to Burundi francs using the program-specified FBu/US\$ exchange rate.

Domestic payments arrears adjustor

18. The ceiling on net domestic financing of the government will also be adjusted to reflect 100 percent of any deviation from the projected net accumulation of domestic arrears, as measured by the accumulation of non-executed payment orders older than 30 days. In case of an increase (decline) in domestic arrears, the ceiling on the stock of net domestic financing to the government will be adjusted downward (upward).

B. Key program assumptions

19. The main program assumptions are drawn from the WEO projections of September 2007 as follows:

	2006	2007				2008			
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
<i>Average export prices</i>									
Coffee (US\$ cents per pound)	108.0	121.1	115.3	113.0	110.6	114.0	113.0	110.0	107.0
Tea (US\$ per kg)	239.6	221.8	194.7	195.5	188.0	202.0	193.0	193.0	192.0
Oil (US\$ per barrel)	68.3	57.2	66.1	73.0	77.8	76.5	75.3	74.5	73.8
<i>End-period exchange rate</i>									
US\$ / SDR	1.50	1.51	1.52	1.53	1.54	1.54	1.54	1.54	1.54
US\$ / Euro	1.32	1.33	1.35	1.37	1.37	1.37	1.37	1.37	1.38
Fbu / US\$	1044.0	1042.6	1089.4	1111.6	1050.0	1060.0	1060.0	1060.0	1060.0

C. Provision of Information to IMF Staff

20. 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 five weeks of the end of each month, containing:

21. The following weekly data:

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

22. The following monthly data, with a maximum lag of four weeks:

- 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);
- the monetary survey, including the breakdown of the central bank 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, 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 for the current fiscal

- year (Ministry of Finance);
- the amount of new debts contracted or guaranteed by the government, including detailed information on the terms (such as currency denomination, interest rate, grace period, maturity) (Ministry of Finance);
- actual disbursements of non-project financial assistance, including new loans and debt relief granted by Burundi's external creditors (Ministry of Planning/Ministry of Finance); and
- an update on the implementation of structural measures planned under the program, as described in Table 2 of the MEFP (REFES).

23. The following quarterly data, with a maximum lag of four weeks:

- Progress reports on the BRB's internal reforms, including each unit's action plans for the coming month (Reform Monitoring Committee, BRB).

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.