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

June 24, 2008

BURUNDI: LETTER OF INTENT

Bujumbura, June 24, 2008

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

Dear Mr. Strauss-Kahn:

1. We are pleased to send you the attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU), on which we agreed within the framework of the new program concluded between Burundi and the International Monetary Fund under the Poverty Reduction and Growth Facility (PRGF).

2. The government of Burundi successfully implemented a PRGF-supported program from 2004 to 2007. During that period, considerable progress was made toward achieving stabilization, economic reforms, and poverty reduction.

3. In the political area, the government of Burundi continues to consolidate the peace process by pursuing implementation of the agreements signed between Burundi and all the belligerent parties.

4. To take up the major challenges facing the country, the government of Burundi hereby requests assistance from the IMF under a three-year PRGF arrangement, in amount of SDR 46.20 million, equal to 60 percent of Burundi's quota, for implementation of the government's program of macroeconomic reforms covering the period April 1, 2008, to March 31, 2011. Such assistance from the IMF will also open the way for Burundi to move toward the HIPC Initiative completion point, which we expect to reach by January 2009.

5. The attached MEFP indicates the objectives and policies that the government of Burundi plans to adopt within the framework of a medium-term program (covering April 1, 2008, to March 31, 2011) so as to pursue the process of macroeconomic stabilization, reduce poverty, promote the structural reforms, and strengthen governance. The TMU, which is also attached, specifies the procedures to be followed for the monitoring of program implementation and the information required for such monitoring, as well as the quantitative and structural criteria and benchmarks for implementation of the program.

6. The government believes that the policies described in the MEFP are adequate to achieve the objectives of the program and undertakes to adopt any further measures that may prove necessary for that purpose. During the period of implementation of the three-year arrangement, the authorities of Burundi will consult with the Managing Director of the IMF, either at their own initiative or whenever the Managing Director of the IMF requests such consultation, on the adoption of any additional measures that may be appropriate.

7. The government of Burundi will provide the IMF with such information as it may request in connection with monitoring the progress made in economic and financial policy implementation. Moreover, Burundi will carry out reviews with the IMF every six months. We expect the first such review with IMF staff to be completed by January 2009, and the second review to be completed by July 2009.

8. The Burundi authorities wish to make this letter available to the public, along with the attached MEFP and TMU as well as the IMF staff report on the request for a further PRGF arrangement. We therefore authorize their publication and posting on the IMF website subsequent to Executive Board approval. These documents will also be posted on the official websites of the Burundi government.

Sincerely yours,

/ s /	/ s /
Clotilde NIZIGAMA Minister of Economy, Finance, and Cooperation for Development	Gaspard SINDAYIGAYA Governor, Bank of the Republic of Burundi

/ s /

Gabriel NTISEZERANA

Second Vice-President, Republic of Burundi

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

BURUNDI: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. INTRODUCTION

1. This memorandum draws on the lessons of the previous Poverty Reduction and Growth Facility (PRGF) arrangement, reviews the medium-term macroeconomic framework, and presents the economic and financial policy that will be conducted in the context of the government's program covering the period from April 1, 2008, to March 31, 2011. The measures and objectives of the program are consistent with the Poverty Reduction and Strategy Paper (PRSP) published in September 2006 and with the findings of the preliminary report that will be available in late May 2008.

2. Macroeconomic developments remained broadly in line with the program through end-2007, even though inflation was higher than expected. Growth slowed to 3.6 percent in 2007, as anticipated, because the coffee harvest was deficient, mainly as a result of natural cyclical changes that were exacerbated by a lack of investment in the sector. The adjustment of administered prices late in 2007, the recent hikes in food prices, and the disorganization in the supply of imports attributable to Kenya's post-election problems compounded the increase in consumer prices, which reached 14.7 percent, year-on-year, at end-2007, compared with a single-digit inflation target. The average inflation rate at end-December 2007 was 8.3 percent.

3. Despite lengthy delays in the disbursement of budgetary assistance by donors, fiscal management in 2007 was generally satisfactory. The bulk of the assistance from donors and lenders was disbursed at year-end as a result of the delay, caused by governance issues, in completing the sixth review of the PRGF arrangement. Bridging finance provided by the central bank (BRB) in the fourth quarter of 2007, combined with strict budgetary discipline and efficient government cash flow management, prevented fiscal deterioration.

4. Burundi's external position remained consistent with the program objectives in 2007. Although exports declined because of the poor coffee harvest and imports climbed—mainly attributable to the increased demand for intermediate and capital goods—, inflows of foreign assistance helped maintain the external balance in the expected range.

II. LESSONS LEARNED FROM THE PREVIOUS PRGF ARRANGEMENT AND CHALLENGES TO BE MET

A. Lessons Learned From the Previous PRGF Arrangement

5. In a difficult post-conflict environment, the implementation of the previous PRGF arrangement (2004–08) was generally satisfactory. Good progress was achieved in most of the monetary and budgetary reforms launched under that arrangement, and the government

was therefore able to implement policies that kept the economy relatively stable. Burundi also abolished certain trade and foreign exchange restrictions and joined the East African Community (EAC).

6. The government took action to consolidate macroeconomic stability by improving economic management, even though inflation has recently worsened. The package of prudent, flexible measures adopted by the authorities over the past three years enabled Burundi to make great progress toward macroeconomic stability.

7. Budgetary support from development partners played a key role in favor of the government's objectives, but the nonstaggering of disbursements created severe cash flow management problems. These problems were exacerbated in 2006 and 2007 by program implementation difficulties that led to a delay in the disbursement of budgetary support. The government will do everything possible to prevent economic policy and governance slippages likely to delay the disbursement of budgetary support by donors, while at the same time negotiating with the latter about the possibility of staggering their assistance more broadly over the entire year.

8. Structural reforms were implemented more slowly than expected over the past three years. Therefore, Burundi could not benefit fully from the reforms with respect to growth and development. Important lessons are to be learned in this regard. First, the inadequacy of the country's institutional capacity—which needs to be strengthened—and the resistance of special-interest groups (in particular in the coffee sector) to some of the proposed measures contributed to the delay in implementing reforms. Second, the delay in implementing structural reforms can be explained partly by the delay in the provision of technical assistance and in the disbursement of external support from donors and lenders. Third, the country needs to assume ownership of the design of the structural reforms, which should be tailored to the political, social, and institutional circumstances of the country. The authorities are aware that Burundi needs to show more resolve about having these reforms implemented successfully.

9. Burundi has received considerable technical assistance, but its institutional capacity needs to be built up. The donors, particularly the IMF, have provided it with intensive technical assistance in numerous areas over the past few years. That support has played a key role in a post-conflict situation where Burundi very much needs to strengthen its institutional capacity. The country also draws a number of lessons for improving technical assistance. First, it is important to match the supply of technical assistance to the real needs of the country. It is, therefore, necessary to identify technical assistance needs correctly and to establish an action plan for capacity building in each sector. That will also help Burundi to take ownership of the technical assistance it receives and to coordinate it better. Second, for greater effectiveness, the government should participate fully in the evaluation of the assistance it receives. Third, technical assistance should lead to a transfer of know-how, so as

to reduce in the medium term dependence on foreign technical assistance. Hence, emphasis needs to be placed on training and the integration of local capacity.

B. Challenges to be Met

10. Burundi is facing major political, social, and economic challenges. In the political area, it has to consolidate the peace process and stability. To eradicate definitively the consequences of a conflict that lasted for about 15 years and to lay a sound groundwork for sustainable, harmonious development, the government has created frameworks for dialogue and cooperation involving all sociopolitical partners. This approach enabled the country to return to a serene environment conducive to the restoration of confidence among political stakeholders, in particular through the establishment of a government of national unity in November 2007. This step forward in the political area was somewhat disrupted by the reappearance of a few cases of insecurity following the sudden withdrawal of the PALIPEHUTU-FNL from the Joint Verification and Monitoring Mechanism (MCVS).

11. Since April 2008, however, the Regional Initiative and the Political Directorate, whose main task was to strengthen mediation between the government and the one remaining rebel movement, PALIPEHUTU-FNL, have succeeded in persuading the latter to resume and continue honoring the cease-fire agreement. The government is convinced that as the process of definitive cessation of hostilities has begun, security can be restored throughout the country, and economic activity and measures to reduce poverty can now be effectively resumed.

12. With regard to economic and social matters, the objective is to achieve strong, sustainable growth with a view to reducing poverty and making progress toward achieving the Millennium Development Goals (MDGs). Burundi is one of the least developed countries in the world, and poverty remains widespread. The incidence of HIV/AIDS is high, and the social infrastructure is embryonic. The government will have to make every effort to

- Ensure budget sustainability so as to reduce the heavy debt burden;

- Return to single-digit inflation. Considerable progress has been made with regard to macroeconomic stabilization, but much remains to be done to control inflation, especially in an international context characterized by high food and oil prices;

- Build institutional capacity and improve governance. Structural reforms remain key to increasing growth and reducing poverty. Institutional capacity building and improved governance will be essential in this regard; and

- Make progress in moving toward regional integration. Membership in the EAC will open up to Burundi the benefits of a larger economic market. However, much remains to be done for the country to develop an overall strategy, implement essential institutional reforms, and negotiate with the EAC Secretariat on procedures for complying with the conditions set by the Community. For this purpose, technical and financial assistance from donors is indispensable and urgent.

- Improve infrastructure to promote productive investment. A top priority should be given to food production to first ensure food security and then export any food surplus. The government will seek financial resources from donors to build infrastructure for greater access to water, in particular extension of the irrigation system in the plain of Imbo.

III. Policy Framework and Objectives of the New PRGF-supported Program

A. Objectives of the New PRGF-supported Program

13. The purpose of the new PRGF arrangement will be to consolidate macroeconomic stability, further reduce the heavy debt burden, and help the government of Burundi pursue implementation of the PRSP. It will also support the government's efforts to obtain debt relief under the enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI).

14. The objectives of the new three-year PRGF-supported program will therefore be to

- Return to single-digit inflation. An independent central bank with price stability as its principal mission will be essential for this purpose. Better budget and monetary policy coordination will also be essential, especially during this period of increasing inflationary pressures;

- Improve the composition of public spending to the benefit of the priority sectors, while preserving budget sustainability. To that end, the wage bill must be controlled. The authorities will also have to avoid contracting loans on nonconcessional terms, the requirement under the new PRGF arrangement being conformity with the concessionality threshold of a grant component of at least 50 percent;

- Strengthen public financial management (PFM). No further major PFM initiatives are envisaged under the new arrangement, as the commitments undertaken within the framework of the previous PRGF arrangement still have to be fully implemented. The program will therefore seek to stabilize the existing PFM system, with particular attention to two ongoing initiatives: (1) the passing and gradual implementation of the new organic budget law; and (2) consolidation of a single Treasury account and an effective cash flow management plan; and

- Strengthen the internal control systems of the central bank. Emphasis will be placed on parliamentary passing of the draft central bank law, as recommended by the IMF, and on implementation of a number of financial safeguard measures identified by the recently completed safeguards report as necessary for strengthening internal controls and risk management systems.

15. Provided that the public security situation continues to improve, the macroeconomic objectives are as follows for the period of the PRGF-supported program: (1) GDP growth should average 5 percent over the medium term, up from the average of 3.6 percent in 2004–07; (2) inflation would slow to about 6 percent in 2011; and (3) gross official reserves would stabilize at about 3 months of imports.

16. The projected growth rates are similar to those observed in other post-conflict countries and are based on three major factors: (1) continued elimination of large economic distortions, especially in agriculture, which will stimulate total factor productivity; (2) a substantial increase in investment, supported largely by international assistance and geared primarily toward renewal of the country's infrastructure, which will help ease the supply bottlenecks; and (3) further progress in trade liberalization and integration, which will help diversify the economy, stimulate competition, and finally increase investment.

B. Budget Policy

17. Budget sustainability will be the essential anchor for medium-term fiscal consolidation. It will therefore be important to maintain prudent budget policy, especially using grants and highly concessional loans in order to avoid unsustainable external and domestic debt dynamics. At the same time, the government will continue to mobilize domestic resources with the objective of gradually increasing revenue to about 19.2 percent of GDP by 2011, based on reform of revenue administration and of tax policy.

18. Budget policy will be supported by the rigorous establishment of monthly cash flow plans. In this context, all budget spending will be dependent on the prior authorization of the Minister of Finance and executed strictly on the basis of revenue availability. Firm instructions will have to be given to commercial banks to deposit receipts taken on behalf of the government to the Treasury's account at the central bank within 48–72 hours, or face penalties. A monthly budget allocation for each ministry should be defined as of June 2008, with strict expenditure prioritization. To protect priority spending, the government will in advance identify nonpriority expenditures that will be cut in the event of a decline in revenue or financing.

19. A key budget policy objective is to improve the composition of expenditure to the benefit of the social sectors and economic growth. At 10.8 percent of GDP in 2007, the government wage bill is below the average of 12.1 percent for small sub-Saharan African countries. This high level of the overall wage bill is strongly influenced by the share of wage bills for the priority sectors—education, health, agriculture, and justice—which is about 50 percent. Given the importance of these sectors for poverty reduction, further cuts in the wages of workers in these sectors would be inadvisable. Currently, the average monthly per

capita wage in the civil service is less than US$75. Considering the decline in wages in real terms over the past few years, the government will seek agreement with social partners for a gradual return to appropriate wage levels that would be sustainable in the budgetary context. The government will make every effort to avoid unbudgeted wage increases such as those that recently disrupted the conduct of budget policy.

20. To control wages, the government will draw on the findings of the Public Expenditure Management and Financial Accountability Review (PEMFAR—prepared jointly by the World Bank and the government of Burundi) to take the following measures: (1) freeze recruitment of civil servants, except in the sectors of health, education, agriculture, and justice; (2) establish a coherent wage increase framework that takes account of the budgetary resources of the government; (3) only partially replace retirees with new wage earners; (4) centralize recruitment by strengthening the powers of the recruitment commission; (5) complete the census of all government civil employees (end-September 2008 structural performance criterion); and (6) start the census of the police and army (end-October 2008 structural benchmark) and complete it. The census will: (1) facilitate payroll computerization, (2) eliminate fictional employees; and (3) improve wage bill management. In addition, the Ministry of Finance should assume responsibility for payroll management for government employees by taking charge of the payroll database by end-March 2009 (end-March 2009 structural performance criterion). Strict enforcement of these measures, combined with sustained economic growth, is expected to help reduce the ratio of wages to GDP to well below 10 percent toward the end of the program.

21. Spiraling food and oil prices have derailed the 2008 budget forecasts. The immediate annual fiscal impact of these two shocks is estimated at about 1.5 percent of GDP. The current bad rainy season heralded a drought in the near feature that will negatively affect food security**.** The government is also expecting the return of a large number of Burundian refugees, following the cease-fire agreement and the cessation of hostilities.

22. To facilitate adjustment to these shocks and mitigate their impact on the poor, the government is seeking budgetary support over and above the funds initially budgeted. Identified emergency spending on targeted social safety nets of US$9 million (about 0.8 of GDP) could be executed quickly if additional budget support becomes available. The monies will be used to establish social safety nets and assistance targeting the most vulnerable segments of the population and farmers. Donor funding is also needed to provide school meals in the most vulnerable areas, and seeds and fertilizers to smallholders. To boost agricultural supply, the authorities will work with donors (e.g., World Bank and FAO) to expand rural infrastructure, diversify agricultural production, and improve yields through research programs and irrigation systems.

23. To improve expenditure forecasting, the government will implement one of the PEMFAR recommendations on assessing the budgetary impact of providing free health care

for children under 5 years old and for women during childbirth and free schooling at the primary level. Technical assistance should be considered for this assessment. The government will also review capital expenditure to ensure that priority projects with a positive impact on poverty reduction and growth are indeed covered in the budget. In the program context, capital expenditure should be based on the list of identified priority projects.

24. Well-designed demobilization and reinsertion policies are essential to achieving the objective of increased pro-poor spending. Taking into account recent security developments and the experiences of other countries, the demobilization policy should be implemented flexibly to ensure that demobilization helps improve security for the people of Burundi (especially the poor and the most vulnerable). The government will continue to cooperate closely with the World Bank and other donors and lenders to ensure that this policy is implemented efficiently and in a manner conducive to the effective social reinsertion of former combatants and the improvement of security conditions. With a return to peace, the reduction in military and security spending will leave a little more room for budget flexibility, as needed to increase poverty reduction expenditure without endangering budget sustainability.

C. Monetary and Foreign Exchange Policy

25. The government plans to pursue prudent monetary policy, which is necessary to anchor inflationary expectations, in light of the international context marked by soaring food and oil prices worldwide. Until the objective of a single-digit inflation rate is attained, the central bank will set the broad money growth rate below the nominal GDP growth rate. Such prudent monetary policy will help prevent the second-round price effect of higher commodity prices and other supply shocks.

26. The central bank reforms aimed at strengthening its independence should help it to focus on its primary mission of ensuring price stability. Burundi is not yet ready to implement a formal inflation-targeting policy, but the central bank can benefit from the announcement of an inflation target and use existing monetary and foreign exchange instruments effectively to absorb domestic and foreign currency liquidity. A proper mix of foreign exchange sales and liquidity sterilization could help achieve the inflation target while preserving external competitiveness and preventing the crowding out of private sector investment. The central bank will carry out a study to define the most appropriate instruments to be used to achieve its inflation target in the current international context. It will propose this as a topic for discussion by the financial sector study mission planned for the second half of 2008.

27. Proactive management of foreign exchange reserves and the sterilization of foreign exchange operations will continue within a managed floating exchange rate regime, with a view to achieving the inflation target. The central bank should also seek to smooth the

monetary impact of the bunching of external financing disbursements while allowing the exchange rate to appreciate if the net foreign assets target is attainable. Given the worldwide rise in food and oil prices, the central bank recognizes that an appreciation of the exchange rate could help it to contain inflation. In collaboration with IMF experts, the central bank will decide as soon as possible about the means to heighten the banks' interest in foreign exchange auctions and encourage them to propose fair prices within the framework of the new foreign exchange regulations and the current system of foreign exchange auctions.

D. Structural Reforms

28. Lessons learned from the previous PRGF arrangement should inform the design of the structural component of the new PRGF arrangement. First, it is necessary to be very selective and to streamline structural reforms, given the weakness of institutional capacity. Second, the strengthening of fiscal management and of internal controls at the central bank will contribute significantly to the improvement of governance.

29. In close collaboration with its development partners, the government is determined to pursue a number of structural reforms: promotion of transparency and good governance, financial sector reform, regional integration; coffee sector reform, and oil sector reform.

Promotion of transparency and of good governance

Fiscal management

30. During the previous PRGF arrangement, the government implemented important measures that considerably improved fiscal management (Table 1). The government is aware that much remains to be done and is determined to improve fiscal management further. On the basis of various technical assistance reports (including the PEMFAR), the government will implement a strategy and an action plan of fiscal management reforms. The principal measures envisaged hinge upon gradual implementation of the new budget organic law, consolidation of the single Treasury account, and proper functioning of the government cash flow plan. As a prior action, the government will submit the draft budget organic law to the National Assembly. Actions taken in the area of fiscal management will be guided by a vast repository of recommendations for technical assistance actions already received by Burundi and will be centered on consolidation of the current fiscal management system. The sending of a resident fiscal management expert to Burundi, financed by donors and lenders and supervised by the IMF, will help make further progress in this area.

Tax policy

31. The landmark tax reform under the new PRGF arrangement will be the introduction of the VAT and adoption of the EAC's common external tariff (CET) on July 1, 2009. In this regard, the government will accelerate implementation of the action plan agreed with the

IMF, the World Bank, and other donors and lenders. The study on the impact of this tax reform has been completed, and the VAT law will be finalized soon, after account has been taken of the IMF's comments. Tax department computerization, which is a prerequisite to the introduction of VAT, will be completed in early 2009.

Revenue administration

32. To generate more domestic resources for allocation to poverty reduction expenditure, the government will continue to reform the customs and tax administrations. In the customs administration, the following measures have been adopted: (1) revision of the customs code to include all the standards of the revised Kyoto Protocol; (2) strengthening of the coordination between customs and taxes, through the sharing of taxpayer data; (3) establishment of a computer link with those filing returns; (4) introduction of a mechanism for ex ante control; and (5) customs department computerization.

33. At the tax administration level, two major initiatives have been taken to broaden the tax base: a census of all taxpayers, including those in the informal sector; and tax collection on the remuneration of the local personnel of international agencies.

34. The creation in January 2009 of the Revenue Office is a major reform that will help improve government revenue in the medium term. Drawing on the experience of other countries in the subregion, this office will reduce corruption and improve incentives for tax and customs officers. To this end, the government is requesting technical and financial assistance from its development partners.

The promotion of governance

35. The government is aware that the improvement of governance is essential to attract private investment and support from donors and lenders. The above-mentioned fiscal management and central bank reforms will be defining in that regard. In addition, it is crucial to resolve pending matters of embezzlement of public funds to restore public policy credibility with donors and lenders and with investors. The legal and regulatory economic environment will be improved by the adoption of the new investment code, which is in line with international practices. The government has requested the World Bank Institute to conduct a survey on corruption in Burundi that will help it formulate an anticorruption strategy.

36. The government has made progress toward resolving the governance issues related to Interpetrol. The government has directly initiated legal proceedings to recover the amounts alleged to have been improperly paid. FBu 6 billion has been taken as security. Similarly, the deeds for 25 properties belonging to Interpetrol have been placed under seal. The authorities are committed to pursuing legal proceedings in this affair. FBu 6 billion taken as security and

the deeds for 25 properties belonging to Interpetrol placed under seal, as required under the Burundi law, will remain in place in compliance with such law until a court makes a ruling on the interpetrol legal proceedings (continuous performance criterion). The government has also speeded up the strengthening of fiscal management and initiated an independent external audit of the cross-debts of the oil sector and the government. This audit was conducted with World Bank support. The audit findings reveal that the oil sector owes the Burundi government US$38 million (3.8 percent of GDP), with Interpetrol accounting for US$30 million (3.0 percent of GDP) of that sum. The findings in the audit report will be published in June 2008 (prior action), and the government will arrange for the proposal of repayment agreements with all the companies involved. Following the audit report on the use of HIPC-related funds, the government will soon prepare an action plan to address the weaknesses identified.

The financial sector

37. The main objectives of the central bank reform will be to strengthen the bank's independence and improve its governance. The government is working with Parliament toward passage of a new law establishing the Central Bank Charter that will give force to these objectives. Also, the central bank has started implementing measures to strengthen its system of internal controls and risk management, following the recommendations of the recently completed safeguards report. Last, to strengthen the financial sector the central bank will continue, as needed, to take measures to restructure certain banks and develop further the money and foreign exchange markets. Steps will also be taken to implement the technical assistance recommendations on banking supervision.

Regional and commercial integration

38. Progress in the area of commercial integration is key for achieving medium-term growth objectives, and Burundi stands to benefit considerably from joining the EAC. The challenge is, however, to guide the policies being implemented by Burundi while taking account of its commitments to the EAC and especially of their impact on government revenue. In this context, an interministerial committee will be formed to coordinate the government's efforts and ease the decision-making process. It will also be responsible for updating the national strategy and facilitating the decision-making process to enable Burundi to achieve the expected gains while keeping transition costs to a minimum. The government is pleased to note that its development partners, in particular the World Bank and the European Union, are willing to provide financial and technical assistance to Burundi to foster its regional integration.

Coffee sector reform

39. The reforms of the coffee sector are of great macroeconomic importance. This sector is the principal source of income for nearly 800,000 Burundi households, and coffee accounts for about half of all the country's exports. The government plans to establish a strategy for the coffee sector by end-2008, in collaboration with the World Bank.

Oil sector reform

40. It is essential for the Burundi market to have adequate supplies of oil products and for an automatic mechanism to be put in place for setting oil prices, given their significant budgetary, macroeconomic, and social impact. To avoid frequent breaks in supply and sudden upsurges in oil product prices on the domestic market, the government has now started to apply price adjustments based on a formula agreed upon with the principal stakeholders. As a prerequisite to this policy, however, a sound social safety net must be in place by the time the automatic price adjustment mechanism is introduced. The World Bank is willing to finance a study in this regard. The final report on that study will be discussed by the government, its development partners, and all other players in the oil sector.

E. External Financing

41. The government will ensure that all its external obligations are settled when due. The Minister of Finance has begun to draw up monthly public debt position reports that give a detailed survey of obligations falling due. These reports, which will continue to be published each month (a completion point trigger under the HIPC Initiative), will thus be a factor for strengthening Burundi's debt management.

42. Burundi will seek only concessional external financing. The government will not contract nonconcessional foreign debt and will ensure that all loans contracted comprise a grant element of at least 50 percent. The government will make further efforts to obtain debt relief as soon as possible under the HIPC Initiative and the MDRI, and will pursue negotiations with its non-Paris Club bilateral creditors to obtain debt relief from them on terms similar to those granted by Paris Club bilateral creditors.

43. A high-level ad hoc committee chaired by the second Vice-President meets regularly to review progress made toward the various triggers and to propose appropriate measures for reaching them. At this time, most HIPC completion point triggers have been met, and the government is taking steps to ensure that the remaining ones are activated as soon as possible. In close collaboration with the World Bank and the IMF, the government is already working on redefining the coffee sector and demobilization triggers.

F. Improving Economic Statistics

44. Burundi's statistical system needs to be strengthened considerably if it is to become a reliable development tool. The government is drafting a national statistics development strategy that is expected to become effective in 2009. Burundi has joined the GDDS, and an action plan will be adopted in concert with the IMF Statistics Department for production of the necessary metadata. Good coordination of these initiatives with the World Bank-financed PAGE project's efforts will be crucial. A new national accounts framework is under study, and the comprehensive series of data for the new reference year, 2005, is already available. Work continues on improving the consumer price index—especially extending its coverage to include the provinces—and will be completed by end-2008.

G. Technical Assistance and Coordination of Development Partners

45. Burundi has vast technical assistance needs. The authorities plan to remain in close collaboration with bilateral and multilateral partners to build up the administrative capacity of the country's institutions. The maintenance of IMF technical assistance, in particular through the AFRITAC, remains key in the areas of tax policy and administration, public expenditure management, monetary and foreign exchange policy, banking supervision, and economic statistics.

46. It is essential to coordinate relations with the development partners (DPs), considering that they finance a major portion of budget expenditure. The government has intensified its efforts to set up an institutional framework for the coordination of assistance, in the form of the National Assistance Coordination Committee (CNCA). This initiative is supported financially by the DPs. The CNCA can help:

- Organize the work between the government and the DPs at the sectoral level, relying on a market leader for each sector among the DPs. A major priority should be the creation of sectoral groups, as described in the CNCA organizational chart.

- Centralize the coordination of assistance within a single agency, which would facilitate coordination and decision making by the government.

- Monitor assistance disbursement and project implementation, in close collaboration with the Minister of Finance, to ensure that all assistance from DPs is included in the budget.

H. Program Monitoring

47. The government will implement the measures shown in Table 2 before the IMF Executive Board examines Burundi's request for a three-year PRGF arrangement.

48. Program implementation during the first year of the PRGF arrangement will be monitored on the basis of semiannual reviews; quantitative performance criteria (end-September 2008 and end-March 2009); indicative targets (end-June and end-December 2008), as shown in Table 3; and structural performance criteria and benchmarks, as shown in Table 4. The information to be reported to the IMF and the definitions of the pertinent variables can be found in the attached TMU. Program implementation, achievement of the related objectives, and compliance with the performance criteria will be the subject of two half-yearly reviews. The authorities also stand ready to adopt, in consultation with IMF staff, any further financial or structural measures that may prove necessary for the success of the program.

49. To strengthen program monitoring, the government is seeking to reactivate the interministerial committee, which will be assisted by the Economic and Social Reforms Permanent Secretariat (S/P-REFES).

Table 1. Burundi: Main Measures Taken in The Area of Public Financial Management, 2005–08

Area/measures	Date measure was taken	Impact
Legislative and regulatory framework Adoption by the council of ministers of the draft Organic Law on Public Finance	March 2008	Transparency, accountability,
Customs		
• Promulgation of the Customs Code	January 2007	Transparency of rules
• Signing of the Ministerial Decree for the application of the Code	January 2008	
• Introduction of the ASYCUDA ++ information technology system	2006	Clarity and transparency of taxpayer information
• Effective use of the tax identification number	2006	
Taxes Establishment of a reliable and computerized tax identification number system	2006	Transparency of taxpayer information
Procurement Promulgation of the procurement code	February 2008	Competition, better separation of functions (signing, control, etc.)
Classifications		
• Decree on accounting and budgeting plan (administrative classification, economic classification, functional classification, and mixing of financing code and industry code)	2005	Readability
• Progressive revision of the harmonized economic classification	2007, 2008	Veracity
Preparation and presentation of the budget		
• Decree on the content of the budget guideline letter – indicative ceiling and fiscal calendar	May 2008	Better formulation of public priorities
• Consolidated presentation of the regular budget (BO) and the special investment budget (BEI) by ministry	Budget 2008 (partially completed)	Readability
Budget execution and tracking of budget execution		
• Signing of the decree establishing the list of expenditure not requiring prior authorization	2007	Transparency, responsibility
• Establishment of an independent national monitoring committee for HIPC funds	June 2007	Programming

Table 1. Burundi: Main Measures Taken in The Area of Public Financial Management, 2005–08
(concluded)

• Introduction of an integrated public expenditure management system.	2006	Traceability
Debt management		
Installation of the SYGADE software (computerized foreign debt management system)	2007	Transparency
Cash management		
Streamlining bank accounts		
• Merging the BO account and the BEI account at the BRB	2007	Consolidation of liquid assets, limited use of advances from the BRB
• Eliminating 7 HIPC subaccounts in the ministries	October 2007	
• Transferring the management of the HIPC account to the Government Cashier	October 2007	
• Closing 80 ministry accounts and 7 others	2007	
Establishment of a “Cash Management Office”	October – December 2007	Monitoring
Presentation of a cash flow plan	2007	Regulating expenditure, controlling borrowing
Double-entry government accounting		
• Presentation of the closing balance for the accounts of the year 2006	April 2007	Assessment of financial results (outstanding payment balances)
• Presentation of the closing balance for the accounts of the year 2007, including some opening balances	May 2008	
Control and audit		
• Audit of accounts for fiscal year 2006 by the National Audit Office	2007	Transparency
• Independent audit of the use of HIPC funds for 2005–07	May 2008	Transparency
• Creation of an internal inspection and control unit in the Ministry of Finance (MoF)	2007	Effectiveness
• Creation of the Inspectorate General of State	2007	Effectiveness
• Creation of the General Accounting Office by a law of 2004	2006	Effectiveness

Table 2. Burundi: Prior Actions for the Executive Board Consideration of Request for the Three-Year PRGF Arrangement

Measures	**status**	***Macro Rationale***
Public Financial Management		
Submission to the National Assembly of the draft new budget Organic Law	Done (June 2008)	*The draft new budget organic law which includes modern principles of fiscal rules, transparency and specify concepts, principles and responsibilities of treasury officials.*
Central Bank – Safeguard Measures		
Submission to the National Assembly of the draft Law on the Charter of the BRB together with the January 2008 recommendations by Fund staff on improvement of the law.	Done (June 2008)	*To make the BRB more independent and accountable according to the best international practices.*
In accordance with the terms provided in the safeguards assessment report dated June 10, 2008 (paragraphs 38-39 of the report), receive approval by the BRB of new internal controls that:		
(a) introduce a more robust authorized signatories control over disbursements and transfers with additional signatories required as the risk and transaction value increase;	Done (June 2008)	*To improve safeguard measures at the central bank.*
and (b) contract an international auditor to conduct special audits of the controls over the significant domestic disbursements and transfers to government and its creditors."	Done (June 2008)	*To improve safeguard measures at the central bank.*
Governance		
Publication of the audit report on cross-debts between the government and the oil sector	Done (June 2008)	*To improve governance and transparency in public finances*

Table 3. Burundi: Performance Criteria and Indicative Targets for 2008–09
(Fbu billions, unless otherwise indicated)

	2007	2008				2009
	Prel. Act.	Mar.	Jun.[1]	Sep.	Dec.[1]	Mar.
		Prel. Est.	Prog.	Prog.	Prog.	Prog.
Performance targets						
Net foreign assets of the BRB (floor; US$ millions) [2]	67.5	57.8	67.4	15.9	16.9	15.4
Net domestic assets of the BRB (ceiling) [2]	49.4	50.2	51.6	124.9	117.1	126.7
Net domestic financing of the government (ceiling) [2]	8.5	19.3	37.3	21.6	13.2	36.5
External payments arrears of the government (ceiling; US$ millions) [3]	0.0	0.0	0.0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; US$ millions) [3]	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) [3]	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets						
Government's wage bill (ceiling; cumulative from beginning of calendar year)	114.0	34.2	70.3	106.3	141.2	38.9
Net accumulation of domestic arrears during period	0.0	0.0	0.0	0.0	0.0	0.0
Adjustors						
External nonproject financial assistance (US$ millions)						
Cumulative from the beginning of the year	88.5	2.4	13.7	84.3	105.3	8.0
Of which:						
EU	23.6	0.0	10.3	10.3	20.6	0.0
World Bank	25.0	1.4	1.4	31.4	31.4	0.0
AfDB	0.0	0.0	0.0	5.9	15.7	0.0
France	3.0	0.0	0.0	2.9	2.9	0.0
Belgium	0.0	0.0	0.0	5.9	5.9	0.0
Netherlands	23.0	0.0	0.0	13.1	13.1	0.0
Norway	10.0	0.0	0.0	11.8	11.8	8.0
Debt relief (current maturities, excluding HIPC)	4.0	1.0	2.0	3.0	4.0	0.0
Exchange rates						
Fbu/US$ (end-of-period)	1,120	1,179	1,160	1,140	1,120	1118
Fbu/US$ (period average)	1,087	1,160	1,169	1,150	1,130	1119
US$/Euro (end-of-period)	1.47	1.58	1.47	1.47	1.47	1.48
US$/SDR (end-of-period)	1.58	1.64	1.50	1.50	1.51	1.51

[1] Indicative targets.
[2] The ceiling or the floor will be adjusted as indicated in the TMU.
[3] These performance criteria will be monitored on a continuous basis.

Table 4. Burundi: Performance Criteria and Structural Benchmarks Under the PRGF Arrangement

Measures	Date	Type of condition	*Macro Rationale*
Public Financial Management			
Completion of the census of all government civil employees.	September 30, 2008	Performance criterion	*To reinforce wage bill management through the creation of a single wage data management and elimination of ghost employees.*
Start of the police and army census.	October 31, 2008	Structural benchmark	
Resumption of payroll management by the Ministry of Finance by taking charge of the payroll database.	March 31, 2009	Performance criterion	
Revenue Administration and Tax Policy			
Approval by the Council of Ministers of an action plan to replace the transaction tax with VAT.	July 30, 2008	Structural benchmark	*To raise efficiency of tax collection, and offset potential losses on customs revenue due to the accession to EAC.*
Elimination of all indirect tax exemptions and maintenance of the time limit on investment code exemptions.	September 30, 2008	Structural benchmark	*To improve fiscal stance by reducing tax exemptions and increasing controls on exemptions granted by the investment code.*
Governance			
FBu 6 billion taken as security and the deeds for 25 properties belonging to Interpetrol placed under seal, as required under the Burundi law, to remain in place in compliance with such law until a court makes a ruling on the interpetrol legal proceedings.	Continuous	Performance criterion	*To improve governance in order to secure continued budget support from donors.*

BURUNDI: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This technical memorandum of understanding covers the agreements on monitoring implementation of the program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement. It sets out the definitions of program variables to monitor implementation of the program and the reporting requirements for the Government of Burundi and the Bank of the Republic of Burundi (BRB). It defines quantitative performance criteria, indicative targets, and applicable adjusters.

A. Quantitative Program Targets

Quantitative performance criteria and indicative targets

2. The quantitative performance criteria under the program as shown in Table 3 of the MEFP are as follows:

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

The quarterly targets on the above variables for June and December 2008 are indicative.

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

- the Government’s wage bill (ceiling).
- net accumulation of domestic arrears (ceiling).

Definitions and measurement

4. The net foreign assets of the BRB are defined as the difference between (i) gross official reserves (valued at market prices) and other claims; and (ii) foreign exchange liabilities to nonresident entities (including the use of Fund resources, 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.

5. The net domestic assets of the BRB are defined as the difference between (i) reserve money, comprising currency in circulation, reserves of commercial banks, and other deposits held at the BRB, and (ii) net foreign assets of the BRB.

Adjuster for changes in the compulsory reserves coefficients

6. The ceiling on net domestic assets of the BRB will be adjusted symmetrically for any change in the compulsory reserves coefficient applied to deposits in 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.

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.

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 one year or more, 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. Management fees would also be taken into account when determining a loan's grant element. 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 less than 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 one year or more are considered medium-term or long-term loans. This performance criterion applies not only to debt, as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received (including 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.

11. 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.

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

External financial assistance adjustor

13. The program provides for adjusters to allow higher than expected external assistance to be spent (with a cap) and shortfall of external assistance to be financed domestically (with a cap).

14. Any financing excess up to US$60 million will be spent on expenditure priorities defined in the PRSP. The floor on the stock of net foreign assets of the central bank will be adjusted upward, and the ceilings on the net domestic assets of the central bank and on the net domestic financing to the government will be adjusted downward to accommodate 100 percent of any financing excess above US$60 million.

15. The floor on the stock of net foreign assets of the central bank will be adjusted downward, and the ceilings on the net domestic assets of the central bank and on the net domestic financing to the government will be adjusted upward to accommodate a financing shortfall up a maximum of US$60 million. External financial assistance will be converted to Burundi francs using the program-specified FBu/US$ exchange rate.

16. External financial assistance (measured in US$) is defined to include the following: (i) nonproject loans and grants to the budget (including payments made through the multi-donor trust fund managed by the World Bank for current debt service to multilaterals); (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.

B. Provision of Information to IMF Staff

17. To facilitate the monitoring of program implementation, the authorities will prepare and forward to the IMF African Department a monthly progress report on the program, within six weeks of the end of each month, containing:

18. The following weekly data:

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

19. The following monthly data, with a maximum lag of six weeks:

- a monitoring table (*tableau de bord*) containing the most recent weekly and monthly data on the main financial indicators (REFES);
- a table on 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 Finance); and

- an update on the implementation of structural measures planned under the program (REFES).

20. The following quarterly data, with a maximum lag of six weeks:

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

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