International Monetary Fund

Burundi and the IMF

Press Release:
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February 16, 2010

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

January 21, 2010

TRANSLATED FROM FRENCH

BURUNDI
LETTER OF INTENT

Bujumbura, January 21, 2010

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

Dear Mr. Strauss-Kahn:

1. The Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) for the Republic of Burundi on July 7, 2008. This arrangement supports the medium-term program (April 1, 2008 to March 31, 2011) aimed at continuing the process of macroeconomic stabilization, reducing poverty, promoting structural reforms, and improving governance. In accordance with the terms of this arrangement, the government of Burundi discussed program implementation for the third review under the arrangement with a mission from the IMF. The discussions focused on implementation of the program between April 1, 2009 and September 30, 2009, as well as the outlook and economic and financial measures to be implemented in 2010.

2. On the political front, the government of Burundi continues to make every effort to consolidate the peace process by implementing the agreements signed between Burundi and the warring parties. Moreover, the government is taking the necessary steps to organize the elections in 2010.

3. On the economic and social front, the government of Burundi is pleased to report that implementation of the program has been satisfactory, despite the difficult international situation resulting from the global financial crisis. In particular, all the quantitative performance criteria and structural benchmarks for end-September 2009 have been met.

4. The government is resolved to continue implementing the policies and measures described in the Poverty Reduction Strategy Paper (PRSP). The Memorandum on Economic and Financial Policies (MEFP) attached to this letter completes previous memorandums since June 24, 2008.

5. The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program. It will take any further measures that may become appropriate for this purpose. The Burundian authorities will consult with the IMF on the adoption of such measures in advance of revisions to the policies contained in the MEFP, in accordance with IMF policies on such consultations.

6. The government of Burundi will provide the IMF with such information as it may request to monitor progress in economic and financial policy implementation. Burundi will also carry out reviews of the ECF-supported program with the IMF every six months. The fourth review should be completed no later than July 2010 and the fifth review no later than January 2011.

7. In view of the considerable progress made in implementing the program supported by the ECF, the government is requesting completion of the third review and the fourth ECF disbursement in an amount equivalent to SDR 6.6 million.

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

Sincerely yours,

________/s/________
Clotilde NIZIGAMA
Minister of Finance

________/s/________
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
Technical Memorandum of Understanding

ATTACHMENT I
TRANSLATED FROM FRENCH

BURUNDI
MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES

Bujumbura, January 21, 2010

I. INTRODUCTION

1. This Memorandum on Economic and Financial Policies (MEFP) completes the preceding MEFPs since June 24, 2008. It reviews program implementation and updates the medium-term outlook and economic and financial policies that will be implemented in 2010 within the framework of the program covering the period from April 1, 2008 to March 31, 2011. The measures and objectives contained in this MEFP are compatible with the Poverty Reduction Strategy Paper (PRSP) published in September 2006 and the findings of the annual PRSP implementation report sent to the IMF and the World Bank in November 2008.

2. Economic policy will continue to be guided by the following objectives: (1) maintain single-digit inflation; (2) improve the composition of public spending to the benefit of priority sectors, while preserving fiscal sustainability; (3) strengthen public financial management (PFM) and good governance; and (4) strengthen the internal control systems of the Bank of the Republic of Burundi (BRB).

3. With the continued improvement in the security situation, the macroeconomic objectives are as follows for the period of the ECF: (1) GDP growth should average about 4.5 percent over the medium term, compared to the 2004–07 average of about 3.5 percent; (2) inflation should slow to about 6.5 percent in 2012; and (3) gross official reserves should stabilize at 6 months of imports coverage in the medium term.

II. PROGRAM IMPLEMENTATION

4. The global financial crisis had significant repercussions on Burundi's economy in 2009. GDP growth slowed from 4.5 percent in 2008 to approximately 3.5 percent in 2009, reflecting the impact of (1) reduced demand for nontraditional exports; (2) the decline in coffee prices in the first half of the year; and (3) the decrease in remittances and foreign direct investment. End-of-period inflation is expected to fall below the program target of 9 percent on account of lower commodity prices. Supported by SDR allocations, gross official reserves are expected to be at 7 months of imports coverage, well above the target set in the program.

5. All quantitative performance criteria for end-September 2009 have been met. The ceilings on cumulative domestic arrears and the ceiling on the reserve money were also observed. The wage bill in 2009 will also be kept within the envisaged budget allocation.

6. In close collaboration with development partners, the government is strongly pursuing structural reforms, notably the promotion of transparency and good fiscal management, financial sector reform, coffee sector reform, oil sector reform, and regional integration. In addition to the achievements described in the preceding MEFPs, significant progress has been achieved in all these areas in 2009.

7. In the PFM area, the gradual implementation of the PFM strategy and its action plan will give new impetus to fiscal reform. The rationalization of government accounts is making steady progress, without interfering with the smooth operation of the units concerned. In this context, over 254 accounts have already been closed. To modernize the tax system, the value-added tax (VAT) and the common external tariff (CET) came into effect on July 1, 2009, in accordance with the commitments made in the context of the East African Community (EAC). The law on the Burundi Revenue Authority (BRA) was promulgated on July 14, 2009, and the BRA will become operational in the first half of 2010.

8. In the financial sector, the process of reforming the BRB is moving forward and the BRB has made significant progress in implementing its 2009–11 action plan. In the area of foreign exchange, the symmetrical foreign exchange auction market (*marché des enchères en devises (MED) symétrique*), introduced earlier in the year, is being reinforced. In the monetary sector, the system of liquidity auctions was reformed with the removal of the ceiling on interest rates, and the marginal lending facility was reorganized. In the area of banking supervision, the prudential ratios for the exchange position and liquidity were strengthened. Procedures aimed at strengthening on-site supervision were implemented. A Memorandum of Understanding was signed with supervisors of countries in the EAC. Finally, the BRB and the Ministry of Finance designed an action plan to implement the recommendations of the special audits of the controls on large domestic transfers and disbursements on behalf of the government or its creditors during 2008. All of these results enabled the BRB to further strengthen its operational capacity.

9. With respect to the reform of the coffee sector, invitations to bid for the sale of 117 coffee washing stations, grouped into 29 lots, were published on June 5, 2009, and bids were opened on August 6, 2009. Investors expressed limited interest, and only 13 washing stations were sold upon completion of this process. With regard to oil sector reform, a mechanism for the monthly adjustment of retail prices for petroleum products is currently in place.

III. Economic Prospects and Policies for 2010

A. Fiscal Policy

10. The macroeconomic framework for the 2010 budget is as follows: (1) GDP growth is expected to pick up slightly to 3.9 percent; (2) end-of-period inflation is anticipated at 7.5 percent; and (3) gross official reserves are expected to stabilize at 6 months of imports coverage.

11. It is essential to raise sufficient domestic revenue to ensure fiscal sustainability and to increase poverty-reducing expenditures. The government projects that government revenues in 2010 will be approximately 18.5 percent of GDP, well above the average of 17.3 percent of GDP for fragile states in Sub-Saharan Africa.

12. To ensure that the revenue target is met, significant tax and administrative policy measures will be adopted. In particular, the government will increase the taxable base of the VAT on petroleum products to bring it in line with the VAT law. The tax base will also be enhanced through (1) rigorous monitoring of exemptions; (2) establishment of the investigation and research squad; (3) strengthening of cross-checking between the customs and government procurement; and (4) recovery of arrears and rigorous monitoring of the tax filing obligations of enterprises. The government will also expedite the implementation of IMF technical assistance recommendations on the VAT, following a review of VAT implementation during the first six months. In the area of customs, the ex ante controls of customs valuations and post-declaration audits will be strengthened with assistance from an import verification firm.

13. The global financial crisis will continue to have repercussions on government finances. It is expected to reduce government revenues by about 1 percentage point of GDP compared to the projected pre-crisis level of 19.4 percent of GDP (IMF staff report for the first review, dated January 9, 2009). To offset the impact of the crisis on the poor, the program envisages emergency spending on targeted social safety nets (approximately 1.5 percent of GDP) financed by additional budgetary assistance. Such spending will be used to finance food security and school meal programs and for targeted assistance to the most vulnerable members of the population and farmers.

14. The primary objective of expenditure policy in 2010 is to significantly improve the composition of public spending in favor of priority sectors so as to accelerate progress toward the Millennium Development Goals (MDGs). Accordingly, the goal is to raise propoor spending by 1.7 percent of GDP. The reform of the government's car fleet, which yields a saving of 0.5 percent of GDP, will create more fiscal space for increasing propoor spending. In the health sector, the necessary funds are in place to ensure free health care for children under 5 and women during childbirth. There are also plans to recruit 186 health personnel, including 40 doctors. In order to increase health care coverage in Burundi, the policy of building health care centers in the most disadvantaged regions will continue with the creation of 27 new centers.

15. In the field of education, increased financial resources will be allocated for school facilities, recruitment of teachers, and educational materials in order to address the demand for school enrollment fostered by free tuition at the primary level. Furthermore, the government plans to build 3,634 primary classrooms and 920 secondary classrooms. The government also intends to recruit 6,794 teachers, including 3,500 at the primary level, which will help keep down the student-teacher ratio. To ensure that students are properly supervised in their education, 1,416 teaching assistants and monitors will also be hired.

16. In the agriculture sector, efforts will be made to step up the production of food crops to ensure food security. In this respect, debt relief from the Multilateral Debt Relief Initiative (MDRI) will be allocated to improving irrigation infrastructure—in particular, rehabilitating and extending the irrigation system in the Imbo Plain. A wide-ranging program of reforestation with fruit trees will be continued in light of the significant results already achieved. Over and above its direct impact on the environment, such a program will have a beneficial impact on poverty, in particular by generating substantial income in rural areas by helping demobilized individuals take their place in society.

17. The government wage bill will be kept within the allocation planned for 2010 at the time of the second review in July 2009 (about BIF 212 billion). The 2010 wage bill now stands at 11.6 percent of GDP. In 2010 the government will pursue implementation of the law on the new civil service regulations that began in 2009. Implementation of these regulations, promulgated in 2007, has been delayed in an effort to reach agreement with teachers' unions on grade reclassification. In accordance with the spirit and the letter of this law, the regulations will be applied retroactively to 2007. The government will sign an agreement with the unions regarding payment of amounts due.

18. The government will continue to pursue its goal of lowering the wage bill-to-GDP ratio below 11 percent over the medium term. According to IMF projections, the ratio will be about 11.3 percent in 2012. Because the wage bill in the education and health sectors, which are key for achieving progress toward the MDGs, will continue to grow, reflecting high demand for teachers and health care personnel, the extent to which our medium-term target for the wage bill-to-GDP ratio can be achieved will depend upon continuation of the demobilization process. In light of the political and social implications of that operation, it may not be possible to address these issues until after the 2010 elections.

19. In support of its fiscal policy, the government will strengthen implementation of its sliding quarterly cash flow plan. Expenditure commitment and cash flow plans will be harmonized at the beginning of each quarter and submitted to the Minister of Finance for approval. In this context, all budget spending will require the prior authorization of the Minister of Finance and will be executed strictly on the basis of financing availability. A monthly budget allocation will be defined, with strict expenditure prioritization.

B. Monetary and Foreign Exchange Policy

20. The government plans to pursue a prudent monetary policy, which is necessary to control inflationary expectations. To secure the objective of single-digit inflation, the BRB will set broad money growth below nominal GDP growth.

21. Better fiscal and monetary policy coordination will be essential. Accordingly, the BRB and Ministry of Finance will hold monthly meetings. In addition, the role of the Cash Flow Management Committee will be greatly enhanced with the preparation of monetary and fiscal policy recommendations to the BRB and Ministry of Finance.

22. Proactive management of the BRB's foreign exchange reserves and sterilization of foreign exchange operations will continue within a flexible exchange rate regime for the Burundi franc. With technical assistance from the IMF, the BRB will continue to implement the recommendations of IMF experts for improving the operation of the foreign exchange market. In particular, in consultation with the local banks, the BRB will prepare and adopt a market convention (*convention de place*) with a code of conduct for market dealers. It will also strengthen its communication with banks in regard to the functioning of the symmetrical MED and its intervention policy, in particular by holding monthly meetings.

C. Structural Reforms

23. In close collaboration with development partners, the government will continue to pursue its ongoing structural reforms: promotion of transparency and good public financial management, financial sector reform, coffee sector reform, and oil sector reform.

24. In the field of government finance, the government will continue to capitalize on the major reforms that have been initiated in recent years (Table I.1). Thus, the government will continue with the gradual implementation of the new Organic Law on Government Finance (*Loi Organique relative aux Finances Publiques, LOFP*) as well as the PFM strategy and its action plan, with assistance from technical and financial partners, especially the IMF, the World Bank, and the European Union.

25. A new agreement between the central government and the BRB redefining the role of the BRB in PFM will be adopted by March 31 2010 (structural benchmark). The new 2008 chart of accounts will be introduced with the 2010 budget, which will further enhance transparency and ensure more effective monitoring of budgetary operations. The government will also prepare a presidential decree notifying all members of government that under the LOFP (1) any draft law or decree having an expenditure impact—as well as any public announcement of such a bill—must henceforth be submitted to the Minister of Finance for prior approval; and (2) henceforth no draft law can have fiscal provisions. As part of the gradual move toward the single Treasury account, rationalization of the ministerial accounts will be completed in 2010. By September 2010, the Minister of Finance will prepare a final report on the closure of the government accounts (structural benchmark for end-September 2010).

26. In the financial sector, although there are no signs of systemic risk resulting from the global financial crisis, the BRB will step up banking supervision on a preventive basis. In particular, it will move ahead with the planned increase in bank minimum capital requirements to BIF 10 billion (averaging 12 percent of bank assets) by December 31, 2010, and will take appropriate measures against banks that do not meet this requirement. Moreover, the BRB will undertake reforms to align prudential standards and ratios with the rules currently in force within the EAC. It will also strengthen cross-border supervision by signing memoranda of understanding with foreign supervisory authorities other than those in the EAC subregion.

27. Furthermore, the BRB will use the final recommendations of the joint IMF-World Bank study on the financial sector to guide its strategy and action plan for reform of the sector. Credit concentration is the most important risk facing the banking sector. To mitigate this risk, the BRB will scrutinize bank risk management practices and lending standards. The BRB will also (1) begin conducting stress tests on a regular basis and incorporate these into its microprudential rules, and (2) engage in dialogue with banks regarding the results of these tests. Technical assistance for this purpose has been requested from Central AFRITAC.

28. In the context of the safeguards assessment report prepared by Fund staff, the BRB undertakes to recruit an international auditor to (1) monitor full implementation of all the recommendations made by the 2008 special audits on the basis of the September 2009 action plan prepared by the BRB and the Ministry of Finance; and (2) carry out special audits of the controls on significant domestic transfers and disbursements on behalf of the government or its creditors during the first half of 2010 (structural benchmark for end-June 2010). As a structural benchmark for end-December 2010, the BRB will submit to the General Council, the Audit Committee, and the Minister of Finance a report on the special audits of the controls on significant domestic transfers and disbursements on behalf of the government or its creditors during the first half of 2010.

29. With respect to reform of the coffee sector, the government expects that privatizing the 13 coffee washing stations will have positive spillover effects on the entire sector. In view of the limited interest expressed by foreign investors, the government will study its options for relaunching the invitations to bid, in consultation with the World Bank. As for reform of the oil sector, the government will press ahead with implementation of the monthly price adjustment mechanism that has been in place since May 2009.

D. External Financing

30. The government will ensure that all its external obligations are settled when due. The authorities will also draw on key recommendations of MCM and other donors' technical assistance to strengthen public debt management. In line with these recommendations, a joint Ministry of Finance-BRB committee has been set up. Moreover, the Ministry of Finance prepares monthly public debt position reports that give a detailed account of obligations falling due. Regular publication of these reports is critical for strengthening Burundi's debt management.

31. Burundi will seek only concessional external financing or grants. The government will not contract any nonconcessional foreign debt and will ensure that all loans contracted have a grant element of at least 50 percent. To make certain that the concessionality threshold is respected, the government will ensure compliance with the provision that the Ministry of Finance has the exclusive right to negotiate and sign external loans.

E. Technical Assistance and Coordination of Development Partners

32. 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. Technical assistance from development partners is key in the

areas of tax policy and administration, public expenditure and debt management, monetary and foreign exchange policy, banking supervision, and economic statistics.

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

- Organize the work between the government and development partners at the sectoral level, relying on the lead donor among the development partners for each sector. A high priority should be the creation of sectoral groups, as described in the CNCA organization chart.
- Centralize coordination of assistance within a single agency, which would facilitate coordination and decision-making by the government.
- Monitor aid disbursement and project implementation, in close collaboration with the Minister of Finance, to ensure that all financial assistance from development partners is included in the budget.

F. Program Monitoring

34. Program implementation will continue to be monitored on the basis of half-yearly reviews of performance criteria, indicative targets, and structural benchmarks, as shown in Tables I.2 to I.5. The information to be reported to the IMF and the definition of the pertinent variables can be found in the attached Technical Memorandum of Understanding. Program implementation, achievement of the related objectives, and compliance with the performance criteria will be the subject of 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.

Table I.1. Burundi: Public Financial Management Measures, 2006–09

Area/measures	Date	Impact
Legislative and regulatory		
Promulgation of the new budget Organic Law	December 2008	Transparency, accountability, and spending efficiency
Adoption of the PFM strategy and action plan	May 2009	
Decree establishing a steering committee for PFM reforms	May 2009	
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	Modernization of the tax system
Introduction of a VAT and implementation of the EAC's common external tariff	July 2009	
Procurement		
Promulgation of the procurement code	February 2008	Transparency, spending efficiency, and improved governance
Establishment of the Regulatory National Authority and a National Directorate of procurement control	July 2008—February 2009	
Budget classifications		
Decree on accounting and budgeting plan (administrative classification, economic classification, functional classification)	2005	Improved fiscal reporting and expenditure tracking
Preparation and presentation of the budget		
Decree on the content of the budget guideline letter – indicative ceiling and fiscal calendar	May 2008	Improved budget preparation
Establishment of a new unit in charge of budget preparation within the budget directorate	April 2009	Improved budget preparation
Consolidated presentation of the regular budget and the special investment budget by ministry	Budget 2008	Improved budget preparation
Budget execution and tracking of budget execution		
Signing of the decree establishing the list of expenditures not requiring prior authorization	2007	Transparency
Establishment of an independent national committee to monitor HIPC funds	June 2007	Improved budget execution

Table I.1. Burundi: Public Financial Management Measures, 2006–09 (concluded)

Introduction of an integrated public expenditure management system	2006	Improved budget execution and fiscal reporting
Payroll management		
Census of government civil employees	September 2008	Improved wage bill management and elimination of ghost employees
Census of the police and army	2009 Q1	
Transfer of payroll management to the Ministry of Finance	March 2009	
Debt management	2007	Improved debt management
Installation of a computerized foreign debt management system)		
Cash management	2007	
Transferring the management of the HIPC account to the Government Cashier	October 2007	Improved treasury management
Closing of off-budget accounts and more than 254 ministry accounts	2007–09	Improved treasury management and move toward single treasury account
Establishment of a Cash Management Office	October – December 2007	Improved treasury management
Government accounting		
Adoption of a new manual on accounting procedures	April 2007	Improved accounting and monitoring
Establishment of an Accounting Quality Office	May 2008	
Control and audit		
Independent audit of the use of HIPC funds for 2005–07	May 2008	Transparency and accountability
Creation of the Inspectorate General of State; and creation of an internal inspection and control unit in the Ministry of Finance;	2007	Transparency and accountability
Creation of the General Accounting Office authorized by a law of 2004	2006	Transparency and accountability

Source: Burundi authorities.

Table I.2. Burundi: Performance Criteria and Indicative Targets for 2009

(BIF billion, unless otherwise indicated)

	2008	2009										
	Dec.	Mar.			Jun.[1]			Sep.			Dec.[1]	
	Act.	Prog.	Prog. Adj.	Act.	Prog.	Prog. Adj.	Act.	Prog.	Prog. Adj.	Act.	Prog.	Proj.
Performance Criterion												
Net foreign assets of the BRB (floor; US$ million) [2]	112.9	15.4	-17.9	85.1	35.0	4.1	120.9	40.0	-2.2	91.8	69.0	91.3
Net domestic assets of the BRB (ceiling)[2]	17.0	126.7	166.3	33.6	122.6	159.8	13.9	127.4	178.5	44.8	90.2	65.0
Net domestic financing of the government (ceiling) [2]	19.0	36.5	76.1	-4.7	46.9	84.1	0.2	61.2	112.3	9.5	21.7	21.7
External payments arrears of the government (ceiling; US$ million) [3]	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	0.0
Short-term external debt of the government (ceiling; US$ million) [3]	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; US$ million; cumulative from beginning of calendar year; US$ million) [3]	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	0.0
Indicative targets												
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	2.3	0.0		1.2	0.0		0.0	0.0		0.0	0.0	0.0
Reserve money (ceiling)	…	145.0		138.7	164.7		162.7	175.8		157.9	177.5	180.6
Memorandum item:												
External nonproject financial assistance (US$ million; cumulative from beginning of calendar year)	113.3	33.3		0.0	33.7		2.8	64.2		22.0	105.8	103.8

[1] Indicative targets.

[2] The ceiling or the floor will be adjusted as indicated in the TMU.

[3] Continuous performance criterion.

Table I.3. Burundi: Performance Criteria and Indicative Targets for 2010

(BIF billion, unless otherwise indicated)

	2009	2010			
	Dec.	Mar.	Jun.[1]	Sep.	Dec.[1]
	Proj.	Prog.			
Performance Criterion					
Net foreign assets of the BRB (floor; US$ million) [2]	91.3	59.6	52.8	67.4	86.1
Net domestic assets of the BRB (ceiling) [2]	65.0	74.8	87.6	90.5	88.1
Net domestic financing of the government (ceiling) [2]	21.7	58.0	89.6	80.7	21.2
External payments arrears of the government (ceiling; US$ million) [3]	0.0	0.0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; US$ million) [3]	0.0	0.0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; US$ million, cumulative from beginning of calendar year) [3]	0.0	0.0	0.0	0.0	0.0
Indicative targets					
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	0.0	0.0	0.0	0.0	0.0
Reserve money (ceiling)	180.6	150.9	155.8	178.2	201.4
Propoor spending (floor; cumulative from beginning of calendar year)	274.8	50.1	105.4	200.7	342.2
Memorandum item:					
External nonproject financial assistance (US$ million; cumulative from beginning of calendar year)	103.8	11.2	11.2	72.2	151.0

[1] Indicative targets.

[2] The ceiling or the floor will be adjusted as indicated in the TMU.

[3] Continuous performance criterion.

Table I.4. Burundi: Performance Criteria and Structural Benchmarks for 2009

Measures	Condition type and date	Status	Macroeconomic Rationale
Fiscal management			
Resumption of payroll management by the Ministry of Finance by taking charge of the payroll database.	Performance criterion (March 31, 2009)	Completed	Efficient wage bill management is essential for focusing spending in priority areas, while enhancing fiscal sustainability. Wage bill management is being reinforced through the creation of a single wage data management and elimination of ghost employees.
Close and transform into subaccounts for special allocation from the general treasury account the off-budget accounts mentioned in the Finance Minister's letter No. 540/4904/2008 of November 12, 2008.	Structural benchmark (September 30, 2009)	Completed	Implementation of a single treasury account is key to sound public financial management.
Close the accounts mentioned in the Finance Minister's letter No. 540/4768/2008 of October 31, 2008.	Structural benchmark (September 30, 2009)	Completed	Implementation of a single treasury account is key to sound public financial management.
Prepare and implement a sliding quarterly cash-flow plan.	Structural benchmark (June 30, 2009)	Completed with delay	Enhance budget execution and ensure coordination of monetary and budget policies.
Revenue administration and tax policy			
Introduce VAT and the common external tariff.	Structural benchmark (July 31, 2009)	Completed	To raise the efficiency of tax collection, and offset potential losses on customs revenue due to the accession to EAC.
Fiscal governance			
In accordance with the laws of Burundi, the BIF 6 billion and the deeds for 25 properties belonging to INTERPETROL that have been placed under seal will remain in place until a court decision has been reached on the INTERPETROL case.	Structural benchmark (continuous)	Completed	Enhance fiscal governance to ensure continuation of budget support.

Source: Burundi authorities.

Table I.5. Burundi: Structural Benchmarks for 2010

Proposed Measures	Dates	Rationale
Public Financial Management		
Adopt a new "convention" between the Ministry of Finance and the BRB redefining the role of the central bank in public financial management, as stipulated under the new budget Organic Law.	March 31, 2010	Key to implementing the new budget organic law.
Prepare a final report on the closing of government accounts.	September 30, 2010	Implementation of a single treasury account is key to sound public financial management.
Central Bank and Treasury Safeguard measures		
Recruit an international auditor to: (i) monitor the full implementation of all the recommendations formulated in Deloitte's 2008 special audit reports (consistent with the September 2009 agreed-upon action plan between Burundi's central bank and the Ministry of Finance); and (ii) verify on a test basis the controls on significant domestic disbursements and transfers executed by the central bank on behalf of the government or its creditors during the first half of 2010.	June 30, 2010	To enhance the safeguard measures in force at the central bank and the Treasury.
Submit to the General Council, the audit committee, and the Minister of Finance the report on special audits of the controls on important domestic disbursements and transfers—on behalf of the government or its creditors— that took place in the first half of 2010.	December 31, 2010	To enhance the safeguard measures in force at the central bank and the Treasury.
Fiscal Governance		
In accordance with the laws of Burundi, the BIF 6 billion and the deeds for 25 properties belonging to INTERPETROL that have been placed under seal will remain in place until a court decision has been reached on the INTERPETROL case.	Continuous	Enhance fiscal governance to ensure the continuation of budget support.

Source: Burundi authorities.

ATTACHMENT II
TRANSLATED FROM FRENCH

BURUNDI
TECHNICAL MEMORANDUM OF UNDERSTANDING

Bujumbura, January 21, 2010

1. This technical memorandum of understanding covers the agreements on monitoring implementation of the program supported by the Extended Credit Facility (ECF) Arrangement. It sets out the definitions of program variables to monitor implementation of the program and the reporting requirements for the government of Burundi and the Bank of the Republic of Burundi (BRB). It defines quantitative performance criteria, indicative targets, and applicable adjusters.

A. Quantitative Program Targets

Quantitative performance criteria and indicative targets

2. **The quantitative performance criteria for the program as shown in the MEFP are as follows**:

- net foreign assets of the BRB (floor);
- net domestic assets of the BRB (ceiling);
- net domestic financing of the government (ceiling);
- external payment arrears of the government (ceiling, continuous);
- stock of short-term external debt (maturity of less than one year) of the government 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).

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

- accumulation of domestic arrears (ceiling);
- propoor spending (floor); and
- reserve money (ceiling).

Definitions and measurement

4. **The net foreign assets of the BRB** are defined as the difference between (i) gross official reserves (valued at market prices) and other claims; and (ii) foreign exchange liabilities to nonresident entities (including the use of Fund resources, and liabilities arising from the use of any SDR allocation). The gross official reserves of the BRB are defined as those foreign assets that are liquid and freely available to the BRB.

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

Adjuster for changes in the compulsory reserves coefficients

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

7. **Net domestic financing of the government** is defined as the change in (i) outstanding loans, advances, and other credit to the government from the BRB and all of Burundi's commercial banks; (ii) plus the stock of all government securities held by the nonbank public denominated in Burundi francs, including that held by nonresidents; (iii) less government deposits held in the BRB or in Burundi's commercial banks. The coverage of government is defined as central government and any other special funds or operations that are part of the budgetary process or have a direct impact on the government's financial position.

8. The stock of **external payment arrears** for program monitoring purposes is defined as the end-of-period amount of external debt service due and not paid within the grace period defined by a creditor, including contractual and late interest, for which a clearance agreement is not in place or for which arrears are not reschedulable. For arrears to exist, a creditor must claim payment of amounts due and not paid. Amounts in dispute are not considered arrears. Arrears for which a clearance framework has been agreed with the creditor or which are subject to rescheduling or restructuring are not considered arrears for program monitoring purposes. Program arrears would include any debt service due under such agreements that has not been paid.

9. The program includes a ceiling on **new nonconcessional external debt** 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 leases). Excluded from this performance criterion are rescheduling arrangements, borrowing from the Fund, and any Burundi franc-denominated treasury securities held by nonresidents. As of September 2007, the stock of short-term debt outstanding was nil.

11. Consistent with the PRSP, the authorities' definition of propoor spending is based on three criteria: (i) social character of spending, based on the administrative classification of spending (this includes "social services" spending and part of "general services" and "economic services" spending if it has a social character component); (ii) consistency with one of the four PRSP pillars; and (iii) propoor investment spending, financed by donors.

12. **The accumulation of domestic arrear**s 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 BRB will be adjusted upward, and the ceilings on the net domestic assets of the BRB and on net domestic financing to the government will be adjusted downward to accommodate 100 percent of any financing excess above US$60 million.

15. The floor on the stock of net foreign assets of the BRB will be adjusted downward, and the ceilings on the net domestic assets of the BRB and on net domestic financing to the government will be adjusted upward to accommodate a financing shortfall up to a maximum of US$60 million. External financial assistance will be converted to Burundi francs using the program-specified BIF/US$ exchange rate. The average program exchange rate in 2010 is 1290.

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); plus (ii) debt relief on current maturities; minus (iii) any cash payments for external arrears clearance operations. Donor disbursements into blocked accounts for the purpose of clearing arrears will not be considered foreign assistance for program monitoring purposes.

B. Provision of Information to IMF Staff

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 foreign exchange cash flow (BRB Foreign Banking Operations Department);
- the monetary survey, including the breakdown of the BRB and of commercial banks (BRB Research Department);
- monthly exchange-rate data (official and parallel markets, end-of-month and monthly average) (BRB Research Department);
- a detailed breakdown of government revenue (Ministry of Finance);
- a detailed breakdown of government expenditure on a commitment basis, including propoor spending (Ministry of Finance);
- a detailed breakdown of the servicing of domestic and external public debt, including amounts due and paid, on interest and principal, as well as the breakdown by creditor and any accumulation of arrears on domestic or external debt (Ministry of Finance);
- a detailed breakdown of the stock of domestic payment arrears for the current fiscal year (Ministry of Finance);

- the amount of new debts contracted or guaranteed by the government, including detailed information on the terms (such as currency denomination, interest rate, grace period, maturity) (Ministry of Finance);

- actual disbursements of nonproject financial assistance, including new loans and debt relief granted by Burundi's external creditors (Ministry of Finance); and
- an update on the implementation of structural measures planned under the program (REFES).

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 IMF African Department with any information that is deemed necessary to ensure effective monitoring of the program.