International Monetary Fund

Burundi and the IMF

Press Release:
IMF's Executive Board Completes the Third Review Under the ECF Arrangement for Burundi and Approves US$7.5 Million Disbursement
September 6, 2013

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

August 21, 2013

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

LETTER OF INTENT

Bujumbura, August 21, 2013

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

Dear Ms. Lagarde:

1. On January 27, 2012, the Executive Board of the International Monetary Fund (IMF) approved a new three-year arrangement under the Extended Credit Facility (ECF) in favor of the Republic of Burundi. This arrangement is intended to support our medium-term program and to strengthen macroeconomic stability, expedite growth, and reduce poverty. Under this arrangement, the government of Burundi and an IMF mission recently assessed implementation of the program as part of the third review of the arrangement. This review focused on program implementation from October 1, 2012 to March 31, 2013, as well as on the outlook and the economic and financial measures to be implemented in 2013.

2. Since early 2013, Burundi has continued to face a difficult economic environment owing largely to the fall in budget support following the euro zone crisis and the modest recovery in domestic economic activity due to the fire at the central market in the capital Bujumbura. Further, in response to the worsening living standards of low-income earners, the government introduced a tax exemption on monthly wages of below BIF 150,000 (about US$100). The combined effect of these developments has created fiscal pressures, particularly as domestic revenues have underperformed initial expectations, and put significant strains on macroeconomic stability. To rein in these problems and preserve fiscal sustainability, the government has implemented fiscal and tax measures including, in particular, (i) the reintroduction of VAT on foodstuffs and petroleum products; (ii) the elimination of exemptions under all procurement contracts, and (iii) a substantial decrease in domestically-financed spending. The new measures have been included in a revised budget approved by Parliament in July 2013.

3. These shocks notwithstanding, program implementation at end-March 2013 was satisfactory overall. All performance criteria and indicative targets were observed, with the exception of the indicative target on pro-poor expenditure owing, once again, to spending cuts and delays in the disbursement of budget support. Nevertheless, the government is firmly committed to pressing ahead with the program with a view to preserving fiscal and debt sustainability and relaunching the country's economic recovery in the medium term. Moreover, the government intends to maintain its prudent fiscal and monetary policies to anchor inflationary pressures.

4. In light of the appreciable progress in implementing the program supported by the ECF arrangement, the government is requesting completion of the third review as well as the fourth disbursement of SDR 5 million under the ECF.

5. Further, the government is requesting a change in the external non-concessional borrowing limit under the ECF so as to be able to use the 28 million US dollar loan that is not yet contracted by the Burundian government with the Saudi Fund for Development and cofinanced by the OPEC Fund for International Development to finance road infrastructure.

6. The government is convinced that the policies defined in this MEFP are sufficient for attainment of the program objectives and are consistent with the orientations of the second-generation Poverty Reduction and Growth Strategy Paper (PRSP-II). It also stands ready to adopt any additional measures that may be required for this purpose. The government will consult with the IMF in advance of the adoption of such measures and/or of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultations.

7. The government will provide the IMF with the necessary information to ensure the implementation and regular monitoring of the program. That information as well as arrangements for monitoring implementation of the program and the performance criteria, quantitative targets, and structural benchmarks are detailed in the Technical Memorandum of Understanding, which is also attached to this letter. We expect the fifth review based on the end-March 2014 performance criteria to be completed by July 31, 2014.

8. The Burundi authorities wish to make this letter available to the public, along with the attached MEFP and Technical Memorandum of Understanding, as well as the IMF staff report on this third 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/

Tabu Abdallah MANIRAKIZA
Minister of Finance and
Economic Development Planning

/s/

Jean CIZA
Governor, Bank of the Republic of Burundi

/s/

Gervais RUFYIKIRI
Second Vice-President, Republic of Burundi

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

ATTACHMENT I. AMENDEMENTS TO THE MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. INTRODUCTION

1. Burundi's economic and financial program, supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF), aims to consolidate economic and political gains, promote inclusive economic growth, contain inflation, and strengthen policies designed to combat endemic poverty in rural and urban areas. This Memorandum of Economic and Financial Policies (MEFP) supplements the December 2011, July 2012 and January 2013 MEFPs. It reports on implementation of the program's quantitative targets and structural benchmarks through end-March 2013 and defines the economic policies and reforms the government intends to implement in the second half of 2013 to achieve the objectives of its economic and financial program. The program measures and objectives are consistent with the Poverty Reduction and Growth Strategy Paper (PRSP-II).

2. The political and social situation remains fragile because of social pressures in the form of strikes and wage increase demands and is exacerbated by the return of refugees from Tanzania and tensions in the eastern part of the Democratic Republic of Congo (DRC). All of these developments make it difficult to formulate and implement prudent macroeconomic policy, undermining the significant progress made since 2005. Further, Burundi continues to face worsening terms of trade and markedly lower levels of budget support that cannot be fully offset by the increased mobilization of domestic resources given its narrow tax base. Mediation efforts by the United Nations to promote dialogue between the ruling party and the parties in opposition, nonetheless, augur well for the future. However, for all of the above reasons, Burundi still needs technical and financial support from UN agencies and other bilateral partners to complete the transformation of its economy and strengthen its political institutions.

3. As a follow up to the October 2012 Burundi development partners conference held in Geneva, in July 2013, the government organized a sectoral conference covering infrastructure, education, and private sector development. We commend our development partners for their support, which is a demonstration of their commitment to helping us combat endemic poverty in Burundi by promoting sustainable economic growth and reducing unemployment. We plan to hold a second sectoral conference in October 2013. The aim of these two sectoral conferences is to mobilize the financial resources needed to implement the second-generation poverty reduction and growth strategy. Despite the progress achieved since 2005, the government is aware that much remains to be done in these areas. The authorities have therefore requested political support and additional resources to promote growth and reduce endemic poverty.

II. PROGRAM IMPLEMENTATION

4. Macroeconomic developments are largely in line with program projections. Economic growth slowed slightly to 4.0 percent at end-December 2012 versus 4.2 percent in 2011. This slowdown in economic activity reflects the reduction in investment spending prompted by the decline in budget support, worsening terms of trade, and the tightening of monetary policy. Inflation slowed to 11.8 percent at end-December 2012.

5. The overall fiscal deficit (cash basis, including grants) is around 3.7 percent, slightly above the target of 2.7 percent. Domestic revenue amounted to FBu 526.7 billion, that is, 14.8 percent of GDP, as a result of the introduction of tax measures on alcoholic beverages and telephone communications to offset the effects of exemptions on foodstuffs. These tax measures adopted in the context of the 2012 revised budget partially made up for the revenue shortfall resulting from the exemption of food products. Total expenditure exceeded projections by around one percentage point of GDP owing to goods and services and grant-financed capital project expenditure overruns. Pro-poor spending was lower than expected, however, reflecting the shortfall in budget support.

6. Despite facing social demands for the harmonization of salaries, the government maintained its efforts to keep the wage bill trending downward in relation to GDP, achieving a 0.8 percent reduction from 2011 to 7.9 percent of GDP. The installation of OPEN PRH, a human resource and civil service payroll management software program, jointly managed by the Ministry of Finance and the Ministry responsible for the Civil Service, has made it possible to expunge ghost workers and will be used as a tool for controlling recruitment not provided for in the budget.

7. In 2012, monetary policy remained prudent. The BRB kept its refinancing rate indexed to the interest rate of 13-week treasury paper plus 3 percentage points. The annual average refinancing rate was 14.5 percent. Growth of the money supply and of credit was moderate, amounting to around 10.5- and 13.8 percent, respectively. Foreign exchange policy flexibility was maintained by determining the weighted average of foreign exchange buying and selling rates set the preceding day by the commercial banks.

8. The external current account deficit widened to around 19 percent of GDP in 2012, propelled by sharply higher humanitarian aid imports. This deficit was, however, more than offset by the financial and capital accounts surplus generated by capital inflows, resulting in an increase of gross official reserves to US$309 million at end-2012 (that is, the equivalent of 3.9 months of imports of goods and services).

9. Program implementation is broadly satisfactory. At end-March 2013, all quantitative performance criteria were met, with the exception of the indicative target on pro-poor spending, owing to the downward revision of the total forecast for the year and delays in awarding contracts for public projects in the first quarter of the fiscal year

10. Progress in the area of public finances continues to be consolidated. In the context of a pilot program, the government has deployed three expenditure commitment auditors (CEDs) to the

ministries of education, health, and agriculture and is planning to deploy CEDs to eight other ministries by end-December 2014. However, in order for the CEDs to be fully functional, their capacities would need to be strengthened and the SIGEFI system would need to be reconfigured to take account of the decentralization of the expenditure chain. Although with some delay, the government has made arrangements to audit the stock of payment arrears estimated at FBu 90 billion resulting from extrabudgetary spending on cartage, goods and services for the army, education, and health. A plan to settle these arrears is to drawn up. The cash-flow management committee has been strengthened but its work is hampered by the unpredictability of budget grant disbursements. Lastly, the Parliament has adopted a draft law on the VAT designed to expand the VAT tax base and reduce the size of the informal sector.

11. As part of the financial system reform, the central bank pursues the implementation of projects related to the modernization of the financial sector, one of the components of the proposed financial sector development (PSD). In this context, the central bank will: (1) strengthen the supervision of banks and non-banking institutions and microfinance financial institutions; (2) modernize the payment systems (ACH / RTGS, payment Services and central securities depository) by strengthening the IT infrastructure; and (3) implement an automated banking system and the legal and institutional framework of the payment system. Significant progress has been made on all aspects of the modernization of the financial sector, particularly the legal framework. In fact, the law on the National Payment System went to the Council of Ministers on April 4, 2012. It was returned to the Second Vice-President of the Republic for corrections and possible amendments. The central bank will resubmit shortly the amended draft to the Ministry of Finance for promulgation. Finally, the legal framework will be enhanced by the drawing of agreements that will be signed by all participants.

12. The revision of the Banking Law is in its final stage. It will take into account the legal framework for mobile banking and micro-finance institutions to ensure consistency of regulations governing the financial sector. The draft regulations on electronic money, on payment services and on commercial agents in Bank operations and payment services are being finalized to expand the legal framework for mobile banking and electronic banking. Their enactment will take place after the promulgation of the revised banking law, from which they emanate. A draft project to amend the decree regulating microfinance institutions has been revised and will be finalized after validation of the revised banking law by the BRB management, to avoid contradictions in the two texts, especially regarding the payment services (including mobile banking). Two new banks from Kenya and Tanzania have opened branches in Burundi, thus enhancing financial integration in the EAC. In addition, an interbank electronic payment protocol is being signed by the commercial banks and the Post Office. It aims to create a common recent interbank company whose primary mission is the management of the Centre for Electronic Payment Processing for interbank electronic payment transactions.

13. In the area of bank supervision, business continuity planning was adopted by the banking sector and the banking supervision department was reorganized to include the financial stability assessment function. Preparation of the risk-based supervision methodology and the detailed risk-

based supervision manual as well as the attendant draft circular are in the process of being finalized. Given the final migration to IFRS reporting is scheduled to take place at end-June 2013, the central bank agreed with the commercial banks that all reporting must respect this deadline Quality control of reporting and any adjustments needed will be carried out on the basis of the first three monthly reports generated. The dashboards and consistency tests will be designed in October 2013. With a view to assessing the systemic risks of pan-African banks (Ecobank Burundi, FinBank, DTB Burundi, KCB Bank Burundi, and CRDB Bank Burundi), the supervisors of the banking supervision department have participated in joint inspection missions with supervisors from the Central Bank of Kenya during on-site supervision missions of the KCB and the DTB, the parent companies of KCB Bank Burundi and DTB Burundi, respectively. Further, in December 2012, supervisors from the Central Bank of Nigeria carried out an inspection mission of FinBank, a subsidiary of Access Bank, accompanied by supervisors from the BRB.

14. A draft version of the revised banking law has been finalized and submitted to the IMF for its input. The BRB intends to finalize the draft taking on board comments from the National Bank of Belgium prior to circulating it to the profession for comment. To ensure consistency in financial sector regulation, it will also take into account the legal framework governing mobile banking and microfinance institutions. The draft regulations on the role of e-money, payment services, and commercial agents in Bank operations and payment services are being finalized to expand the legal framework for mobile banking and e-money. They will be published following promulgation of the revised banking law, from which they derive. A draft revision of the decree governing microfinance institutions was reviewed and will be finalized following validation of the draft revised banking law by the Bank's management, to avoid contradictions in the two texts, especially with regard to payment services (including mobile banking).

15. In line with the safeguards recommendations, the BRB hired an international audit firm to (i) conduct a special audit of large disbursements on behalf of the government processed by the BRB during June 30, 2011–March 31, 2012, (ii) evaluate the implementation of the new decree on public expenditures management, and (iii) ascertain the status of implementation of earlier special audit recommendations contained in the 2011 report of the audit firm, Deloitte GPO. Although some progress has been made, especially in the area of central bank internal controls, the audit findings indicated ongoing control weaknesses that need to be addressed, including the lack of supporting documents for certain transactions and the partial implementation of the decree establishing the General Regulation on Government Budget Management., The government plans to pursue its program of privatizing coffee stations. At end- December 2012, 41 washing stations were sold to domestic and international private investors in two bidding procedures. A new invitation to bid will be issued for the 76 remaining washing stations following the adoption by Parliament of the privatization law. Given the significant need for financing to revitalize the sector, the government intends to give the private sector a lead role in its strategy to boost production and mitigate the cyclicality of coffee production.

16. Efforts to increase the role of the private sector in the modernization of the Burundian economy have been stepped up. As a result, for two consecutive years, 2012 and 2013, Burundi

has been ranked among the ten best global reformers. According to the World Bank Doing Business report, the country has moved up 22 places, from 181st in 2011 to 172nd in 2012, and 159th in 2013. Looking ahead to beyond these encouraging results, a national private sector development strategy is in the final stages of preparation with a focus on (i) supporting entrepreneurship, (ii) strengthening the legal and regulatory framework, and (iii) facilitating integration into the regional and global economy. Measures undertaken in the context of improving the business environment also include preparation of the draft law establishing the general regime for public private partnership contracts, which has already been discussed at the level of the Council of Ministers.

III. ECONOMIC OUTLOOK AND POLICIES FOR 2013

A. Macroeconomic Framework

17. Despite the difficult social context, the government is firmly committed to pursuing economic reforms aimed at laying the foundation for accelerating economic growth and poverty reduction as outlined in the PRSP-II. However, wage claims and the associated strikes as well as sociopolitical tensions in the subregion (in the DRC) are risks that could result in slippages in program implementation.

18. Notwithstanding these risks, GDP growth is projected to rise slightly to 4.5 percent, up from 4.0 percent in 2012. This upturn in activity is expected to be driven essentially by investments in the telecommunications, hotel, and tourism sectors as well as in the manufacturing sector. In addition, several investments have been made in the energy sector with the implementation of the Kabu 16 major projects and the arrival of additional diesel generators at REGIDESO, thus increasing the country's electricity supply. Agricultural exports, however, are expected to fall off sharply, owing to the cyclical nature of coffee production. Inflation is expected to slow to around 9.0 percent in 2013. Projections for 2013 show a reduction in the current account deficit to 16 percent of GDP. These projections are driven by the significant drop in imports owing to falling petroleum product prices and lower external aid related imports. Official reserves are projected to increase to 3.8 months of imports, reflecting in part a cutback in BRB interventions on the foreign exchange market.

B. Fiscal Policy

19. The aim of fiscal policy is to support growth, by improving the composition of expenditure, and mitigate the effects of shocks on the most vulnerable segments of the population. In response to weak domestic revenue mobilization at end-March, the government took additional steps to raise revenue and cut government spending. Against that backdrop, revenue and expenditure are expected to amount to 13.2 percent and 30.1 percent of GDP, respectively. The overall fiscal balance deficit (cash basis, including grants) should be contained at 1.7 percent of GDP. Thus, pro-poor spending will be maintained without jeopardizing fiscal consolidation, and the wage bill will be brought under control.

20. Total fiscal revenue was revised downward and is projected to amount to FBu 541.4 billion, that is, 1.9 percentage points of GDP below initial projections. This shortfall is attributable to the adoption of the law governing professional income tax (IPR) that introduced tax exemptions for incomes below the FBu 150.000/month (about US$100) threshold as well as tax advantages related to transport and housing benefits. VAT exemptions granted to enterprises also contributed to the shortfall. However, to attenuate the resulting decline in revenue, the government implemented new tax measures such as the reintroduction of VAT on foodstuffs and petroleum products and the elimination of exemptions on all government procurement contracts. It will also request IMF technical assistance for drafting an excise code and for restructuring the system of tax exemptions to strengthen domestic revenue collection.

21. Total expenditure is estimated at FBu 1,257 billion, that is, 30.1 percent of GDP. Efforts to streamline expenditure will remain a major priority given the lower revenues and declining budget support. In that regard, the government intends to cut domestically-financed capital spending and current expenditure by around 20.5 billion without compromising economic growth. The wage bill relative to GDP is set to dip to 7.3 percent of GDP versus 7.9 percent in 2012.

22. In the health sector, the government will continue its policy of free health care for children under five years and care for women in childbirth. The building of health centers will help to meet the growing demand for health services. The hiring of medical personnel in a context of wage bill containment will contribute to higher quality medical care.

23. With the support of the development partners that have been providing sustained assistance to the education sector through the Education Funding Pool, the government also intends to continue the program of free primary schooling and will expand it to include secondary education in line with its basic education policy. Plans are being made to increase the number of teachers in order to achieve a significant reduction in the teacher-student ratio.

24. In the agricultural sector, the government, in close collaboration with donors, plans to combat the high cost of living and eliminate food insecurity. The support of development partners, in the context of the Fertilizer Fund, represents a significant contribution to improving agricultural production. The government also intends to implement the National Agricultural and Livestock Investment Plan, the priorities of which are as follows: (i) sustainable growth of food production and food security; (ii) professionalization of producers and promotion of innovation; (iii) development of market segments and agri-business, including livestock and fisheries and; (iv) institution-building.

25. The government is committed to maintaining a prudent debt policy to avoid overindebtedness and therefore intends to seek grant funding or highly concessional loans with a grant element of at least 50 percent, in sufficient volume to cover its financing requirements. In view of the central role of debt management in the budgeting process, the government intends to prepare a quarterly report on debt forecasting. Efforts to strengthen the government's debt management capacity will be pursued in 2013 with particular emphasis on the recommendations of the World Bank DEMPA mission of August 2012. In that context, careful attention will be paid to preparing a legal framework governing debt management. A fiscal and monetary policy

coordination committee is to be created shortly and the law on public debt management will be submitted to Parliament by December 30, 2013 at the latest (new structural benchmark).

C. Monetary and Exchange Rate Policy

26. Monetary policy will continue to focus on reducing inflation and stabilizing the expectations of economic agents. Despite the decline in the inflation rate, monetary policy will remain prudent. The central bank will remain vigilant to changes in inflation and improve its ability to predict this macroeconomic indicator. If the decline in inflation becomes sustained and if it does not represent a risk to economic activity, the central bank will analyze, in consultation with the IMF, the possibility of gradual easing of monetary policy to provide the economic resources necessary for its operation without reigniting inflationary pressures.

27. Foreign exchange policy remained flexible as the daily reference exchange rate continued to be determined by the weighted average of foreign currency buying and selling rates set the preceding day by commercial banks. However, to reduce exchange rate volatility, in March 2013 the BRB decided that the margins applicable to foreign currency buying and selling transactions had to be contained within a ceiling/floor of 1 percent around the reference rate published by the Central Bank. Further, deposit and withdrawal transactions on resident foreign currency accounts are now unrestricted, as are the amounts, as an incentive to encourage economic operators to place their foreign currency holdings in local banks. Similarly, with a view to encouraging the development of the interbank foreign exchange market, on April 12, 2013 the BRB launched the delocalized interbank foreign exchange market (MID), which opens on all business days and replaces the symmetrical foreign exchange auction market (MESD) that used to be held on Tuesdays and Fridays at the Central Bank. Since then, exchange bureaus may no longer be supplied by commercial banks and all banks with excess foreign exchange liquidity are required to sell exclusively on the MID. In turn, at its own initiative, the BRB may intervene in the MID through foreign exchange selling or buying auctions depending on market conditions.

D. Structural Measures

28. Having completed the installation of the institutional steering mechanism for its strategy to enhance public financial management, the government has turned its attention to the implementation of the twelve programs selected through the technical groups. Streamlining the expenditure chain to reduce execution time lags remains a key element of the reform despite the progress already achieved and that has made it possible to: (i) improve expenditure execution rates; (ii) decrease the number of participants in the process, with the five stages having been replaced by a single stage with the CEDs; and (iii) reduce the processing time to within five days. A program to strengthen the operational capacities of CEDs is envisaged with financing from the AfDB. At end-September 2013, 10 CEDs are expected to be redeployed to various institutions and ministerial departments. Conditional on the availability of qualified human resources, the government intends to continue the rollout of its CED deconcentration program in a pragmatic manner to cover at least 80 percent of expenditures by end-2013 by appointing CEDs to the major ministries as a priority. As

regards overdue payments, the national audit office has appointed controllers to identify the amounts concerned and establish a repayment schedule.

29. Faced with declining budgetary support and spending pressures, the government is committed to improve revenue collection, strengthening tax administration in collaboration with the IMF. Thus, over the next three years, our strategy is to:

- improve the central and operational organization of revenue services, through reorganizing the central and local structures of the tax authorities in accordance with clear functional lines and by optimizing the effects of segmentation;
- improve the registration and procedures, by expanding and enhancing the reliability of the taxpayers register, and by simplifying basic procedures; and
- encourage voluntary filing of income statements, by extending the coverage of the tax control and improving the management of recovery and litigation procedures.

30. Public financial management safeguard measures remain at the heart of these reforms. Coordination between the Ministry of Finance and the Central Bank is to be strengthened through the establishment of a regular schedule of meetings between the management of the two institutions. Furthermore, to facilitate the justification and verification of transactions, a filing system for supporting documentation attached to payment orders will be created in the government accounting office.

IV. POVERTY REDUCTION AND GROWTH STRATEGY PAPER

31. To mobilize the political support and resources necessary to finance the priority action program contained in the Poverty Reduction and Growth Strategy Paper (PRSP-II), the government organized a donor conference in Geneva in October 2012. The financial commitments of our development partners are encouraging in light of the sluggish global economy. The pledges made at the conference, amounting to the equivalent of US$2.6 billion, confirmed donors' commitment to enhancing their support for the efforts made by the government to reduce poverty over time and lay the foundation for sustainable growth. In collaboration with its partners, Burundi undertook to organize two sectoral conferences to facilitate disbursement of the commitments made in Geneva and thus mobilize all the resources needed to ensure successful implementation of the PRSP-II. The first conference was held in July 2013 and the second one is scheduled to take place during the month of October 2013. In parallel, the government is currently preparing the first progress report covering the first year of implementation of the PRSP-II, with a focus on an inclusive approach.

V. PROGRAM MONITORING

32. Semiannual monitoring of the program by the IMF Executive Board will continue, based on the quantitative monitoring indicators and structural benchmarks set out in Tables I.1 and I.2. These

indicators are defined in the attached Technical Memorandum of Understanding (TMU). The semi-annual reviews will be based on the data at end-September 2013 and end-March 2014. To ensure the success of the program, the authorities will take all the steps necessary to meet the quantitative targets and structural benchmarks on which understandings were reached with IMF staff.

Table I.1. Burundi: Performance Criteria and Indicative Targets, 2012–14

(BIF billion, unless otherwise indicated)

	2012							2013								2014	
	Sep.			Dec.[1]				Mar.				Jun.[1]		Sep.	Dec.[1]	Mar.	Jun.[1]
	Rev. Prog.	Prel.	Status	Rev. Prog.	Prog., with adj.	Prel.	Status	Rev. Prog.	Rev. Prog., with adj.	Prel.	Status	Rev. Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Performance criteria																	
Net foreign assets of the BRB (floor; US$ million) [2]	11.1	19.1	Met	10.1	-14.9	9.1	Met	23.1	24.3	30.2	Met	30.6	40.6	31.9	17.0	25.4	33.4
Net domestic assets of the BRB (ceiling) [2]	235.0	191.6	Met	231.7		231.3	Met	248.4		236.9	Met	261.5	230.0	264.8	225.2	232.3	245.4
Net domestic financing of the government (ceiling) [2]	49.0	-61.0	Met	34.6	72.2	66.3	Met	21.4	23.2	9.3	Met	46.8	21.6	42.0	33.3	11.6	26.3
External payments arrears of the government (ceiling; US$ million) [3]	0.0	0.0	Met	0.0		0.0	Met	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; US$ million) [3, 4]	0.0	0.0	Met	0.0		0.0	Met	0.0		0.0	Met	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 the program) [3, 4, 5]	0.0	0.0	Met	0.0		0.0	Met	0.0		0.0	Met	0.0	0.0	28.0	28.0	28.0	28.0
Indicative targets																	
Gross fiscal revenue (excluding grants, floor, cumulative from beginning of calendar year)	…	…		…		…		…		…		…	…	380.2	536.4	148.2	261.2
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	0.0	0.0	Met	0.0		1.6	Not Met	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Reserve money (ceiling)	250.7	219.8	Met	249.0		245.3	Met	284.7		248.2	Met	309.6	291.8	313.7	252.0	274.4	300.1
Pro-poor spending (floor; cumulative from beginning of calendar year)	288.3	276.0	Not met	398.0		353.7	Not met	100.7		68.0	Not met	201.4	128.0	190.0	270.0	57.5	148.3

Sources: Burundi authorities; and IMF staff estimates and projections.

[1] Indicative targets.
[2] The ceiling or the floor will be adjusted as indicated in the TMU.
[3] Continuous performance criterion.
[4] See definitions in TMU.
[5] The $28 million ceiling starting in September 2013 is to finance a road infrastructure project.

Table I.2. Burundi: Structural Benchmarks for 2013-14

Proposed measures	Dates	Status	Objective
Public financial management			
Adopt a decree on the appointment and legal status of the Commissioner of the Burundian Revenue Office.	March 30, 2013	Met with delay.	Clarify the division of responsibilities between the commissioner of the OBR and the senior government accountant (pursuant to the Organic Budget Law and Article 6 governing the OBR).
Prepare an audit of arrears on extra-budgetary expenditure (not committed and without payment order) in prior years (to be performed by an independent auditor, for example the Audit Office or IGE [State Inspectorate General]); and adopt a payment plan.	June 30, 2013 New date proposed for end-March 2014	Not met.	Identify and verify the amounts actually due and disputed invoices. Seventeen magistrates from the Court of Auditors have been nominated and six staff from the Ministry of finance assigned to facilitate the audit.
Implement a monthly cash flow plan in line with commitment plans.	March 30, 2013	Met.	Improve budget execution management and avoid end-period arrears.
Put in place a rationalized spending chain with pilots in the Ministries of agriculture education and health, and nominate 10 expenditure controllers in ten ministries.	June 30, 2014	New measure.	To ensure timely and accurate reconciliation between government accounts and the accuracy of revenues collected.
Implement a program to unify the current data base of civil servants with that form the 2008 census.	September 30, 2014	New measure.	Reinforce the Ministry of Finance's management of salaries.
Put in place an interface between the revenue authority (OBR) and the Ministry of Finance.	December 31, 2014	New measure.	Improve budge execution.

Tax policy			
Submit a law on the VAT to parliament).	June 30, 2013	Met with delay. Law approved on July 24.	Establish legal framework governing the collection of VAT.
Debt management			
Prepare a quarterly report on domestic debt forecasting with a view to improving budget and cash management.	March 30, 2013	Met.	Make debt management a key element of the government's budgetary process and of cash requirements planning in line with World Bank recommendations.
Submit a new law on debt management to parliament.	December 31, 2013. New date March 31, 2014	Technical assistance now planned for November 2013.	Establish a legal framework governing public debt.
Central bank and Treasury safeguard measures			
Each quarter, submit a report on reserve operations to the General Council of the BRB.	March 30, 2013	Met.	Improve BRB Board of Directors supervision of reserves management.
Put in place a monitoring framework and calendar of regular meetings of the coordination committee of the Ministry of Finance and the central bank regarding the implementation of monetary and fiscal policy and the recommendations concerning public financial management, including from the special audit of large disbursements on behalf of the government processed by the BRB during June 30, 2011-March 31, 2012.	September 30, 2013	New measure.	Implement a monitoring framework to ensure that the safeguard recommendations are met.

ATTACHMENT II. AMENDMENTS TO THE TECHNICAL MEMORANDUM OF UNDERSTANDING

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 adjustors.

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 (ceiling, continuous); and new nonconcessional 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:

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

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.

6. The government's gross fiscal revenue is defined as the revenue appearing in the TOFE and includes all tax and non-tax revenue in the national budget, before deduction of tax refunds generated during the year, particularly accumulated VAT credits.

Adjustor for changes in the compulsory reserves coefficients

7. 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.

8. 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.

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

Definition of debt

10. The program includes a ceiling on new nonconcessional external debt contracted or guaranteed by the government or the BRB. For the purpose of this program, external debt is defined as all debt contracted in a currency other than the Burundian Franc. This performance criterion applies to the contracting or guaranteeing by the government, local governments, the BRB and REGIDESO of new nonconcessional external debt (as specified below) with an original maturity of one year or more, including commitments contracted or guaranteed for which value has not been received (including leases). The coverage of government is defined as central

government and any other special funds or operations that are part of the budgetary process or have a direct impact on the government's financial position. Debt contracted by state-owned enterprises is included in the overall ceiling, if guaranteed by the government.

11. For program purposes, the definition of debt is set out in Executive Board Decision No. 12274, Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)).

a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

12. (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

13. (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

14. (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

15. The grant element of debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of contracting is calculated by discounting the future stream of payments of debt service due on this debt. The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions,

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

16. The stock of short-term external debt with a maturity of less than one year owed by the government is to remain at zero under the program. The coverage of government is defined as central government and any other special funds or operations that are part of the budgetary process or have a direct impact on the government's financial position. Normal import credits are excluded from this ceiling. Loans with an initial maturity, as recorded in the original loan agreement, of one year or more are considered medium-term or long-term loans. This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received (including leases). Excluded from this performance criterion are rescheduling arrangements, borrowing from the IMF, and any Burundi franc-denominated treasury securities held by nonresidents. As of September 2007, the stock of short-term debt outstanding was nil.

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

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

External financial assistance adjustor

19. 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).

20. Any financing excess up to US$40 million will be spent on expenditure priorities defined in the PRSP. The floor on the stock of net foreign assets of the BRB will be adjusted upward, and the ceilings on the net domestic assets of the BRB and on net domestic financing to the government will be adjusted downward to accommodate 100 percent of any financing excess above US$40 million.

21. The floor on the stock of net foreign assets of the BRB will be adjusted downward, and the ceilings on the net domestic assets of the BRB and on net domestic financing to the

government will be adjusted upward to accommodate a financing shortfall up to a maximum of US$40 million. External financial assistance will be converted to Burundi francs using the program-specified BIF/US$ exchange rate. The program exchange rate for end-September 2013 is 1534.5 and at end-December 2013 is 1577.2.

22. 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

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

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

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

- a monitoring table (*tableau de bord*) containing the most recent weekly and monthly data on the main financial indicators (REFES);
- a table on foreign exchange cash flow (BRB Foreign Banking Operations Department);
- the monetary survey, including the breakdown of the BRB and of commercial banks (BRB Research Department);
- monthly exchange-rate data (official and parallel markets, end-of-month and monthly average) (BRB Research Department);
- a detailed breakdown of government revenue (Ministry of Finance);
- a detailed breakdown of government expenditure on a commitment basis, including pro-poor spending (Ministry of Finance);
- a detailed breakdown of the servicing of domestic and external public debt, including amounts due and paid, on interest and principal, as well as the breakdown by creditor and any accumulation of arrears on domestic or external debt (Ministry of Finance);

- a detailed breakdown of the stock of domestic payment arrears for the current fiscal year (Ministry of Finance);
- the amount of new debts contracted or guaranteed by the government, including detailed information on the terms (such as currency denomination, interest rate, grace period, maturity) (Ministry of Finance);
- 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).

25. 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).

26. 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.