International Monetary Fund

Burundi and the IMF

Press Release:
IMF Executive Board Completes Fifth Review Under Extended Credit Facility Arrangement, Approves US$7.6 Million Disbursement, and Concludes 2014 Article IV Consultation with Burundi
August 25, 2014

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

July 21, 2014

Letter of Intent

Bujumbura, July 21, 2014

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

Dear Ms. Lagarde:

1. The Executive Board of the International Monetary Fund (IMF) approved on January 27, 2012, a new three-year arrangement under the Extended Credit Facility (ECF) for the Republic of Burundi. This arrangement supports our medium term program and aims to consolidate the process of macroeconomic stability, accelerate growth and reduce poverty. In accordance with this arrangement, the Government of Burundi has considered, with the help of a mission of the IMF, the implementation of the program for the fifth review under the arrangement. This review focused on the implementation of the program during the period from October 1st 2013 to March 31st, 2014, as well as on the prospects and economic and financial to measures implemented in 2014.

2. Burundi remains vulnerable to the persistent effects of external shocks from commodity prices and the decrease in the tax effort which has been ongoing for more than two years. Moreover, in this pre-election period, social and political tensions may develop, which, coupled with additional external shocks, could undermine the significant progress made towards macroeconomic stabilization in recent years. For this reason, we have stepped up efforts to mobilize additional revenues, including exceptional revenue measures, which could help in responding to potential contingencies related to the upcoming elections.

3. The strengthening of tax administration will compliment the measures included in a July 2014 supplementary budget to compensate for revenue losses arising from the harmonization of the corporate tax regime with that of the East African Community. The strengthening of expenditure controls in the first quarter of 2014 helped mitigate the effects of these shortfalls and contributed to the satisfactory execution of the program at end March 2014. All quantitative criteria have been met except the indicative targets on fiscal revenues and reserve money, as well as some structural benchmarks, including the indicative target pro-poor expenditures, which were protected from the effects of compression of expenditures and from the delay in the disbursement of budget support. The Government remains firmly committed to the continued implementation of the program, which should help preserve the viability of public finances and debt and boost economic growth over the medium term. To this end, it will maintain prudent fiscal and monetary policies to help anchor inflation expectations inflation at levels consistent with price stability.

4. With regard to the significant progress in the implementation of the program supported by the ECF arrangement, the Government is seeking the conclusion of the fifth review, the setting of

new performance criteria and indicative criteria for September 30, 2014 and December, 31, 2014 and the sixth disbursement of 5 million SDR from the IMF.

5. The Government believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. The Government will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

6. The Government will communicate to the IMF all the information necessary to ensure the implementation and regular monitoring of the program. This information, as well as the follow-up modalities related to the implementation of the program as well as the quantitative targets and structural benchmarks outlined in the Technical Memorandum of Understanding (TMU), are also attached to this letter. The sixth Review on September 2014 performance criteria will be completed no later than January 31, 2015.

7. The Burundian authorities wish to make this letter available to the public along with the attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) as well as the IMF staff report on the 5th 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. Amendments to the Memorandum of Economic and Financial Policies

A. Introduction

1. Burundi adopted an economic and financial program supported by an arrangement with the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) to consolidate economic and political gains, promote inclusive economic growth, curb inflation, and strengthen policies designed to combat endemic poverty. This Memorandum supplements the December 2011, July 2012, January 2013, August 2013, and December 2013 versions. It reports on the implementation of the program's quantitative targets and structural benchmarks at end-March 2014 and defines the economic policies and reforms the government intends to implement in the second half of 2014 and in 2015 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. Burundi remains vulnerable to the lingering effects of external shocks associated with commodity prices and the observed decline in the tax effort over the course of more than two years. Social and political tensions might arise during this pre-election period. The combined effects of these external shocks and the risk of social and political tensions could undermine the substantial progress made towards macroeconomic stability. Moreover, the effects of public finances and the external position resulting from the deteriorating terms of trade and a drop in direct budget support are compounded by the insufficient mobilization of domestic resources, particularly due to the narrow tax base. Burundi therefore continues to be forced to seek support from technical and financial partners to complete the transformation of its economy and strengthen its political institutions.

3. The Burundi development partners conference held in Geneva in October 2012 provided a forum for the government to apprise its partners of the considerable advances Burundi has made, notably with regard to good governance, peace consolidation, and improved public access to basic social services. In the wake of the Geneva conference, the government organized two sectoral conferences in July and October 2013. The target sectors are in line with the main pillars of the PRSP-II and pertain to: (i) transport infrastructure and information and communications technologies (ICT); (ii) energy; (iii) private-sector and tourism development; (iv) governance, rule of law, and gender; (v) education; (vi) health; and (vii) the environment, water, and sanitation. The government is aware of how much remains to be done in these areas. This is why the authorities have sought continued political support and additional financial assistance to promote sustainable economic growth, curb unemployment, and reduce endemic poverty.

B. Economic Developments and Implementation Of The Economic Program in 2013 and in The First Quarter of 2014

4. Macroeconomic developments remain broadly in line with program objectives. GDP growth saw a slight uptick from 4 percent in 2012 to 4.5 percent in 2013, a trend that is expected to continue in 2014 owing to the rebound in agricultural production, particularly coffee, and in infrastructure investments, notably fiber optics, transport, and hydroelectric dams. Inflation dropped sharply from 12 percent year-on-year at end-2012 to 9 percent at end-2013, and then to 3.5 percent at end-May 2014, driven by favorable developments in international petroleum product and food prices (and the resumption of agricultural production).

5. The external position remains fragile, as the external current account deficit (including transfers) weakened substantially, reaching 20.5 percent of GDP compared to 18.5 percent in 2012, despite efforts to mitigate the effects of the deteriorating terms of trade. Imports declined by about 0.2 percent, while exports fell sharply by roughly 31.9 percent, largely reflecting lower coffee exports. Official foreign exchange reserves increased slightly to the equivalent of 3.4 months of imports at end-2013.

6. During 2013 and in the first quarter of 2014, better liquidity conditions led to a shift in monetary policy. The Central Bank of Burundi (BRB) was able to cut its intervention rate by 200 basis points to bring it down to 10.5 percent in March 2014, with lower inflation contributing to positive real interest rates. Money supply growth slowed and fell to 9.2 percent year-on-year at end-March 2014, while growth of credit to the private sector was very modest, falling to 2.2 percent. The Monetary Policy Committee published its 2014 first quarter report, along with a monetary policy statement publicly announcing the monetary authority's intentions for the future. This innovation enhances the transparency and credibility of the monetary policy. Following the BRB's interventions to dampen volatility in 2013, the Burundian franc remained relatively stable.

7. Budget execution in 2013 was broadly in line with program objectives. The improvement observed in mobilizing domestic resources with the adoption of corrective measures designed to offset the revenue losses posted in the first half of the year translated into roughly BIF 522.3 billion in tax revenues at end-December 2013, a 6-percent increase from 2012; by comparison, nominal GDP growth was 16 percent. This improvement was driven by the recovery in economic activity, as evidenced by the strong rise in the value added tax (VAT) and by the gradual resumption of taxes on petroleum products. At end-December 2013, the overall fiscal deficit (cash basis, including non-HIPC grants) was estimated at around 1.7 percent of GDP. The tax pressure declinedd to 12.4 percent of GDP, primarily as a result of the continued suspension of excise duties on petroleum products during the first half of the year. In the first quarter of 2014, the full effect of the measures to harmonize the Burundian tax system with that of member countries of the East African Community was amplified by loss statements issued by more than a fifth of the large taxpayers (following elimination of the minimum tax) and shortcomings in tax administration, resulting in a shortfall equivalent to 0.4 percent of GDP. Annualized, this deterioration would lead to a decline in the tax effort and, consequently, in the domestic financing requirement of 1 percent of GDP, furthering the

erosion of gains accumulated by the Burundian Revenue Office (OBR) in its first three years. Wages and salaries, and investment spending financed with own resources were contained to offset the slight increases in spending on materials and transfers.

8. The downward trend in the wage bill relative to GDP continued and was at 7 percent of GDP in 2013, a decrease of 0.8 percentage points of GDP from 2012. The roll-out of the payroll software (OPEN PRH) and the adoption of a unified registration procedure for civil servants cleared up the civil service database and payroll system by virtually eliminating duplicates and ghost records. The new OPEN PRH system also considerably reduced payroll processing times. Extended software access will guarantee better management of the payroll, which is one of the largest government budget items (end-September benchmark).

9. Program execution in the first quarter of 2014 was satisfactory overall. All the quantitative performance criteria at end-March were met. However, the indicative targets for tax revenues and the monetary base failed to be attained. Furthermore, the implementation of structural measures lagged due mainly to delays in obtaining the required technical assistance. The audit of extrabudgetary arrears carried out by the Audit Office has begun and is expected to be completed by the end of the year. With respect to the law on debt management, the recommendations stemming from the IMF’s technical assistance were conveyed to the authorities in May and taken into consideration in the draft law, which will be submitted to Parliament before end-September (end-September benchmark). Lastly, significant progress was made in strengthening public financial management. Thus, as part of the efforts to put in place the government’s rationalized expenditure chain (*chaîne rationalisée de dépense*), the Minister of Finance issued an order that will allow ministries and other institutions to engage expenditures where expenditures controllers are present. In addition, an integrated public financial management software package was purchased and is being installed. It will enable online monitoring of all budgetary transactions, the introduction of credits for payment of government obligations, and the compilation of the government flow-of-funds table (TOFE). The software package is a “living” tool, interconnecting with any other systems that monitor government operations or the government’s position, particularly the revenue chain (*chaîne recettes*).

10. The central bank continues to implement projects for the modernization of the financial sector, one of the components of the proposed financial sector development (PSD). To that end, it is working on: (1) strengthening supervision of banks, nonbank financial institutions, and microfinance institutions; (2) modernizing payments systems (ACH/RTGS, e-money and central securities depository) through a more robust IT infrastructure; and (3) making use of new information and communications technologies (NICT) by the banking system more widespread, and modernizing of the payments system and or its associated legal and institutional framework. Much headway has been made in these areas. The law on the National payment system was finalized and introduced in the legislative agenda while the interbank electronic payment agreement protocol is currently being reviewed for signature by the parties involved.

11. As regards bank supervision, directives on business continuity management were adopted and transmitted by the BRB to the banking sector with firm instructions for their implementation by

June 30, 2014. In their cooperation with the regulators of parent foreign banks (Ecobank Burundi, FinBank, DTB Burundi, KCB Bank Burundi, and CRDB Bank Burundi), BRB supervisors have already taken part in joint inspection missions with Central Bank of Kenya supervisors during on-site inspections of the KCB and the DTB, parent banks of KCB Bank Burundi and DTB Burundi, respectively. Moreover, Central Bank of Nigeria supervisors carried out an inspection mission of FinBank, a subsidiary of Access Bank, in December 2012 together with BRB supervisors.

12. The draft banking law, on which the IMF and the National Bank of Belgium had made remarks, was also commented on by the industry. This law will also constitute a legal framework for mobile banking and microfinance activities. A draft regulation on payments systems and another on commercial agents in bank operations and payment services are being finalized to expand the legal framework of payments systems. A draft proposed to amend the decree governing microfinance institutions has been developed. These three instruments will be published following the enactment of the amended banking law from which they originate.

13. In accordance with the recommendations on safeguards, the BRB continues to submit a report on reserve management to its Board of Directors on a quarterly basis. To this end, a schedule of regular meetings has been prepared to ensure gradual implementation of the recommended safeguards.

14. In the coffee sector, the government is relying on support from the World Bank to boost productivity, while pursuing the program to privatize washing stations. The government recognizes the preponderant role the private sector should play in the coffee sector as part of its strategy to boost production and minimize the cyclical effects of coffee production.

15. Government reforms to make the business climate more appealing to private investors continue. Substantial progress has been made in eliminating constraints related to: (i) business start-ups; (ii) the issuance of building permits; (iii) property transfers; and (iv) regional trade, which no longer pose an obstacle to entrepreneurship. Owing to government's efforts to improve the business climate, Burundi is ranked among the 29 most reform-oriented countries in the Doing Business 2014 report, rising 37 spots from 177th to 140th in the 2011 and 2014 rankings, respectively.

C. Economic and Political Outlook for 2014

Macroeconomic framework

16. The economic outlook for Burundi remains challenging. GDP growth is expected to climb in the medium term, driven by a recovery in agricultural activity and construction, particularly for hydroelectric projects. Integration within the East African Community should spur investment in the tourism, wholesale and retail, and financial sectors and in telecommunications.

17. GDP growth should thus rise to 4.7 percent in 2014 compared to 4.5 percent in 2013, due to the rebound in coffee production and infrastructure works, namely the rehabilitation of roads

damaged by rain and the construction of hydroelectric dams. Inflation, measured by the household consumer price index, is expected to fall to 7.5 percent and stabilize at around 6 percent as an annual average in the medium term, buoyed by a prudent monetary policy and the projected drop in international food and petroleum product prices. The current account deficit of the balance of payments should improve slightly to settle at roughly 21 percent of GDP as a result of the rebound in coffee exports, and should continue to improve in the medium term owing to higher exports and a weaker expansion of imports, which had been driven by humanitarian aid these past few years. A slight improvement in official foreign exchange reserves is expected and should reach the equivalent of 3.6 months of imports, a reflection of the limited BRB interventions on the foreign exchange market.

Fiscal policy

18. The prudent fiscal policy conducted in recent years led to an improved fiscal position, with the reduction of the deficit in the basic primary balance in response to lower budget support and a contraction in the deficit from 5.8 percent of GDP in 2011 to 3.5 percent in 2013. The meagre fiscal space too often led to budget adjustments at the expense of investment spending in order to mitigate the effects of exogenous shocks. Capital expenditure remains precarious and tied to project grants, while execution continues to be highly dependent on the pace of disbursements of budget support.

19. Total government revenues and expenditures are expected to reach 27.6 and 29.9 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 continue to grow to about 9.5 percent of GDP without jeopardizing fiscal consolidation, and the wage bill will be brought under control.

20. Total (non-grant) budget revenue is forecasted to be FBu 648.8.2 billion, compared to FBu 571.6 billion in 2013. To reach this target, the July 2014 supplementary budget introduced new tax measures to generate additional revenues equivalent to about 1 percentage point of GDP and to put an end to the decline in the tax effort that has been ongoing since 2012. These measures focussed on the reinstatement of the minimum tax for companies that post an operating loss, the collection and remittance of VAT on beverages and petroleum products through withholdings (at the producer end), the exclusion of sole proprietorships from the investment code, the elimination of the VAT exemption for investors under the investment code, the treatment of tax credits to make them applicable solely to class zero goods and to bring the rate down from 37 to 30 percent, and the collection of a lump sum of 4 percent of the CIF value on the imports of companies not listed as major taxpayers. These measures, coupled with windfall revenues expected from mobile phone companies and the expected outcome of efforts to strengthen tax administration, particularly with respect to the collection of outstanding balances, will protect expenditure priorities and place government finances in a less precarious position in the run-up to the 2015 election. In response to the government's request, the IMF sent a technical assistance mission to Bujumbura in the second half of July to support the authorities in developing a code on excise duties in order to increase revenue mobilization.

21. Total expenditure could reach FBu 1428.9.1 billion in 2014, an increase of 7.8 percent. This rise, following that of 5.1 percent expected in 2013, is in keeping with the requirements to develop economic and social infrastructure. The wage bill is expected to be FBu 322.3 billion, or 6.7 percent of GDP, meeting the human resources needs of the key education, health, and agricultural sectors. Investment spending financed with own resources is expected to total FBu 99.9 billion, or about 2.0 percent of GDP as in 2013.

22. In the health sector, the government will continue the policy of providing free healthcare for children under 5 years of age and covering the costs of childbirth. The rate of assisted childbirth was assessed at 72 percent in 2013. The government policy to control population growth was implemented, beginning with the approach of community-based distribution of contraceptives. In 2013, contraceptive use increased by 28 percent. Additional infrastructure investments are planned to meet the growing demand for health services. The government will continue to give priority to the hiring of medical personnel in a context of wage bill stabilization. These measures will contribute to higher quality medical care. The health insurance program, which gives vulnerable segments of the population access to health services, is becoming increasingly successful. To ensure its long-term viability, the government has embarked on its reform to better target beneficiaries and to enhance its complementarity with other medical insurance plans, particularly care for indigents provided by the Ministry of Solidarity, community-based mutual health insurance plans, medical coverage for civil servants, and private medical insurance.

23. In the education sector, the government will continue its successful program of providing free primary school education, which includes free meals for students served by school cafeterias. During the 2012/2013 academic year, the primary school completion rate increased to 68 percent and the percentage of students repeating a year dropped by 29.4 percent. The government also plans to build new classrooms and hire teachers to reduce the teacher–student ratio.

24. In the agricultural sector, the government, in close collaboration with technical and financial partners, plans to improve productivity in order to (i) combat the high cost of living, (ii) eliminate food insecurity, and (iii) increase coffee production while improving its quality so as to promote the label “Burundi coffee” on international markets. Accordingly, the government has developed and is implementing a program encouraging the use of fertilizer by rural producers. The purpose of this program is to achieve significant increases in agricultural productivity, thereby contributing to the fulfillment of objectives under the National Agricultural and Livestock Investment Plan (*Plan National d’Investissement Agricole et de l’Elevage*).

25. Aware of the fragility of the country’s external position, the government will continue with a prudent debt policy to avoid over-indebtedness and therefore intends to request funds in the form of grants or highly concessional loans with a grant element of at least 50 percent, sufficient to cover its financing requirements. The proposed law on debt, prepared with IMF technical assistance, will be tabled in Parliament during the October 2014 session and will provide an effective framework to guide the debt policy.

Monetary and exchange rate policies

26. The BRB continues to modernize the conduct of monetary policy, which will continue to be guided by the pursuit of price stability. To enhance the effectiveness of the policy, the BRB strives to build its capacity to forecast inflation and analyze the autonomous factors influencing liquidity. The observed deceleration of inflation enabled the BRB to gradually ease monetary policy in order to inject the economy with the resources it needs to function, without reigniting inflationary pressures. To that end, the BRB has requested technical assistance from the IMF in order to build its capacity to design and implement monetary policy, with a particular focus on identifying instruments that increase the effectiveness of interest rates and other BRB signals.

27. The exchange rate policy is conducted in a context of weak foreign exchange inflows and greater demand for imports. To ensure the effectiveness of the exchange rate policy, the BRB is pursuing its active market-making policy for the foreign exchange interbank market to ensure, with the required flexibility, that the exchange rate remains consistent with the fundamentals of the economy in order to maintain external stability.

28. The BRB is aware of the great importance of monitoring the financial system to bolster its soundness. To that end, it requested technical assistance from the IMF’s Monetary and Capital Markets Department. Fund support came in the form of short-term missions. This mission should significantly reinforce the financial system monitoring mechanism, particularly the BRB’s bank supervision unit. The BRB is also receiving technical assistance from the U.S. Department of the Treasury in the area of financial stability.

Structural measures

29. Some progress has been made in strengthening public financial management but the government is still facing major challenges, which it is striving to overcome with support from technical and financial partners. To permanently reverse the decline in the mobilization of revenues relative to GDP, the government decided to make available to the revenue authority (OBR) the resources it needs to strengthen its capacity to carry out its mission and give greater impetus to the Tax Policy Directorate. Both units have already undertaken to implement the key recommendations made by the IMF technical assistance mission in terms of tax policy and administration, including establishing an interface between the ministry of finance and OBR (end-December benchmark).

30. The Government adopted the first texts defining the renewed framework for the implementation of the organic law relative to public finance. The Minister of Finance signed the Ordinance which defines the legal regime applicable to public accountants and that establishes an audit capacity relating to budget management which will help pursue further reforms, such as the delegation of the commitment of expenditure, in acceptable conditions of safety, effectiveness and efficiency. An ordinance will be issued to facilitate the audit of managerial capacity (September benchmark) and the issuance of a decree governing the organizational chart of the financial directorate (end-December benchmark). Aware of its prior engagements relative to the successful implementation of these reforms and to the continuous improvement of budgetary discipline, the

Government also committed to the standardization and to the strengthening of budget management structures in ministries and other institutions through the adoption of a decree on the establishment of a financial and administrative divisions within these institutions (DAF).

31. The audit of extrabudgetary arrears by the Audit Office was finally initiated, with the results expected at end-2014. The Ministry of Finance earmarked FBu 100 million to enable the Audit Office to carry out this task.

32. In the context of efforts to implement the rationalized expenditure chain following the ministerial capacity audit conducted by the Audit Office, expenditure commitment will be delegated within the ministries responsible for health, education, and agriculture by the end of the year while the function of expenditure controllers shall be disabled. To make their work more effective, the government has decided, with support from such partners as the AfDB and the Netherlands, and in close consultation with World Bank and Fund staff, to speed up modernization of the public financial management system (SIGEFI). More specifically, the government purchased an integrated public financial management software package to enable secure online monitoring of all budgetary transactions, the allocation of appropriations after the budget vote, and the issuance of daily accounting reports (*journées comptables*) for Treasury settlement balances. The software can also be used to automatically create the TOFE. The SIGEFI will continue to generate budget execution monitoring data while the package, which already includes existing SIGEFI databases, is installed. The software package is a "living" tool and will be interconnected with other expenditure chains, particularly those relating to the wages and salaries of civil servants, and the computerized revenue tracking system.

D. Poverty Reduction and Growth Strategy Paper

33. The first review of implementation of the poverty reduction strategy (CSLP II) which was published in December 2013 highlights the persistent challenges having marked the year 2012. It stresses that the transformation of the transformation of the Burundian economy is slower-than-envisaged because of the weak performances of the main sectors driving growth and the delays recorded in putting in place supporting infrastructures. For this purpose, it is recommended to expedite reforms aimed at: (1) improving the productivity of the cash crops, in particular coffee; (2) a rational exploitation of the mining resources; (3) enhancing the business climate and the competitiveness of companies operating in Burundi; and (4) continuation of energy-related programs, transport and information technology (IT).

34. The preparation of the second progress report for 2013 started in June 2014. Thanks to the support of the World Bank, the Minimum Basket of Care (MBC) Survey provided new data, the exploitation of which will allow carrying out an analysis of the vulnerability profile, which constitutes one of the key indicators of the evolution of the socio-economic indicators of the CSLP. In addition, it is envisaged to update the poverty line through new information resulting from the survey of households' living conditions, which includes modules relating to employment, informal sector, social protection and the labor force. The next step will be to measure the evolution of this phenomenon whose estimates go back to 2006.

35. To improve the production of statistics, the ISTEEBU started to establish a system for compiling provisional national accounts, with support from AFRITAC Center, and plans to finalize this activity before the end of 2014. In addition, it also plans to set up, with support from AFRITAC Centre, a system of quarterly national accounts, to improve the production of its national accounts and to meet the users' needs. The update of the base year is one of the activities contributing to this improvement. Moreover, the ISTEEBU has just conducted a national survey on the households' living conditions. The results of this survey will make it possible to update a number of indicators necessary for the compilation of national accounts. An agricultural survey is also ongoing.

36. To enhance the production of balance of payments data, the BRB carried out, in collaboration with the ISTEEBU and the Investment Promotion Agency (API) a foreign direct investment survey in 2013. It also carries out, in collaboration with the ISTEEBU, an annual survey of cross-border trade. The collection of data on transport fees of goods at the OBR should be effective before the end-2014. Moreover, two projects are being studied which relate to the training of commercial banks on the geographical distribution of international transactions, which would allow compilation of regional balance of payments of the ECA and the data on insurance premium from insurance companies.

E. Program Monitoring

37. 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 1 and 2. These indicators are defined in the attached Technical Memorandum of Understanding (TMU). The semiannual reviews will be based on the data at end-March and end-September. The sixth program review will be based on the performance criteria for end-September 2014. To ensure the success of the program, the authorities agree to take all the steps necessary to meet the quantitative targets and structural benchmarks on which understandings were reached with the IMF.

Table I.1. Burundi: Performance Criteria and Indicative Targets, 2013－14
(BIF billion, unless otherwise indicated)

	2013							2014					
	Sep.				Dec.[1]			Mar.			Jun.[1]	Sep.	Dec.[1]
	Prog.	Prog., with adj.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prog.	Prog.
Performance criteria													
Net foreign assets of the BRB (floor; US$ million) [2]	31.9	21.1	50.2	Met	17.0	75.8	Met	25.0	60.7	Met	33.1	19.7	49.0
Net domestic assets of the BRB (ceiling) [2]	264.8		254.3	Met	225.2	252.0	Not met	216.6	182.4	Met	229.7	270.4	262.7
Net domestic financing of the government (ceiling) [2]	42.0	52.7	28.6	Met	33.3	43.4	Not met	10.7	2.2	Met	21.3	39.0	42.7
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
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
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; US$ million, cumulative from beginning of the program) [3, 4, 5]	28.0		28.0	Met	28.0	28.0	Met	28.0	0.0	Met	28.0	28.0	28.0
Indicative targets													
Gross fiscal revenue (excluding grants, floor, cumulative from beginning of calendar year)	380.2		414.0	Met	536.4	561.4	Met	151.8	137.3	Not met	267.6	450.2	636.6
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	0.0		0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0
Reserve money (ceiling)	313.7		275.2	Met	252.0	303.3	Not met	257.3	276.2	Not met	282.8	302.2	339.1
Pro-poor spending (floor; cumulative from beginning of calendar year)	190.0		196.6	Met	270.0	270.8	Met	34.5	61.3	Met	118.7	189.2	303.6

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

[1] Indicative targets.

[2] Le plafond ou le plancher sera ajusté comme convenu au protocole d'accord technique.

[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 Measures: Fifth Review and Sixth Review Under the ECF

Measures	Implementation Date	Benchmark for Review	Objective
Public financial management			
Adopt the ministerial ordinance on the referential of budget management capacity audit.	September 15, 2014	Proposed for the 6th	Implement the regulatory framework necessary for the payment orders de-concentration.
Implement a program to unify the current data base of civil servants with that from the 2008 census.	September 30, 2014	6th	Reinforce the Ministry of Finance's management of salaries.
Adopt the decree settling the organization chart of the administrative and financial directorate (DAF) within ministries and other institutions.	December 30, 2014	Proposed for the 6th	Normalize and empower the budget management bodies within ministries and other institutions in order to improve the overall fiscal discipline.
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.	November 30, 2014	Proposed to reschedule for the 6th	Identify and verify the amounts actually due and disputed invoices.
Put in place an interface between the revenue authority (OBR) and the Ministry of Finance.	December 30, 2014	6th	Improve budget execution.
Tax policy/Revenue administration			
Submit a law on excise taxes in line with IMF Technical Assistance.	December 30, 2014	Proposed for the 6th	Provide an umbrella legal framework clearly spelling out the purpose and scope of the law.
Debt management			
Submit a new law on debt management to parliament.	September 30, 2014	Proposed to reschedule for the 6th	Establish a legal framework governing public debt.

Source: IMF staff; and Burundi authorities.

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. The discount rate used for this purpose is 5 percent.

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 2014 is 1,550 and at end-December 2014 is 1,560.2.

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.

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.