

## International Monetary Fund

[The Republic of Burundi](#) and the IMF

**Press Release:**  
[IMF Executive Board Completes Fourth Review Under ECF Arrangement for Burundi and Approves US\\$10 Million Disbursement](#)  
July 23, 2010

[Country's Policy Intentions Documents](#)

**E-Mail Notification**  
[Subscribe](#) or [Modify](#)  
your subscription

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

July 7, 2010

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

**TRANSLATED FROM FRENCH**

**BURUNDI  
LETTER OF INTENT**

Bujumbura, July 7, 2010

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

Dear Mr. Strauss-Kahn:

1. On July 7, 2008, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) for the Republic of Burundi. This agreement supports of the medium-term program (from April 1, 2008 to March 31, 2011) to consolidate the macroeconomic stabilization process, reduce poverty, promote structural reforms and strengthen governance. In accordance with the terms of this arrangement, the government discussed program implementation for the fourth review under the arrangement with a mission from the IMF. The discussions focused on the implementation of the program during the period from October 1, 2009 to March 31, 2010, as well as the outlook and economic and financial measures to be implemented in 2010.
2. On the political front, the government continues to make every effort to consolidate the peace process. Within this framework and assisted by development partners, the government of Burundi has taken all the necessary steps to ensure the success of the elections to be held between May 24 and September 8, 2010.
3. On the economic and social front, the government is pleased to report that implementation of the program has been satisfactory, despite the difficult international situation resulting from the global financial crisis, and the domestic situation marked by teachers' strikes and drought in the northern part of the country. In particular, all quantitative performance criteria and the structural benchmark for end-March 2010 were met.
4. The government is resolved to continue implementing the policies and measures described in the Poverty Reduction Strategy Paper (PRSP). The Memorandum on Economic and Financial Policies (MEFP) attached to this letter complements those preceding it since June 24, 2008.
5. The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program. It will take any further measures that may become appropriate for this purpose. The Burundian authorities will consult the IMF on the adoption of such measures in advance of revisions to the policies contained in the MEFP, in accordance with IMF policies on such consultations.

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

7. In view of the considerable progress made in implementing the ECF-supported program, the government is requesting completion of the fourth review and the fifth ECF disbursement in an amount equivalent to SDR 6.6 million. The government is also requesting modification of the end-September performance criteria to reflect the revised program.

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

Sincerely yours,

/s/  
Clotilde NIZIGAMA  
Minister of Finance

/s/  
Gaspard SINDAYIGAYA  
Governor, Bank of the Republic of Burundi

/s/  
Gabriel NTISEZERANA  
Second Vice President, Republic of Burundi

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

**ATTACHMENT I**  
**TRANSLATED FROM FRENCH**

**BURUNDI**  
**MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES**

Bujumbura, July 7, 2010

**I. INTRODUCTION**

1. This Memorandum of Economic and Financial Policies (MEFP) complements the preceding MEFPs since June 24, 2008. It reviews program implementation and updates the medium-term outlook and economic and financial policies that will be implemented in 2010 within the framework of the program covering April 1, 2008 to March 31, 2011. The measures and objectives contained in this MEFP are compatible with the Poverty Reduction Strategy Paper (PRSP) published in September 2006 and the findings of the annual PRSP implementation report sent to the IMF and the World Bank in December 2009.

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

3. With the continued improvement in the security situation, the macroeconomic objectives are as follows for the period of the ECF: (1) GDP growth should average approximately 5 percent over the medium term, compared to the 2007–09 average of approximately 4 percent; (2) average inflation should slow to about 5 percent in 2014; and (3) gross official reserves should stabilize at about six months of import coverage in the medium term, in accordance with the convergence criteria of the East African Community (EAC).

**II. PROGRAM IMPLEMENTATION**

4. The global financial crisis has slowed Burundi's economy and contributed to a strong decline in inflation. Economic growth slowed to 3.5 percent in 2009 from 4.5 percent in 2008, mainly due to a decline in remittances and foreign direct investments. In line with falling world food and fuel prices, end-of-period inflation fell from about 26 percent in 2008 to about 4.5 percent in 2009. The current account deficit widened, reaching 14.5 percent of GDP, with the delays in donor support outweighing the positive effect of lower food and fuel prices. Gross official reserves in 2009 remained broadly stable, at about 6.5 months of import coverage.

5. The overall fiscal deficit (cash basis, including non-HIPC grants) is estimated at about 5.2 percent of GDP, above the target of 4.3 percent. Domestic revenues accounted for 18.6 percent of GDP, compared to the program target of 18 percent of GDP. Total spending was lower than programmed by about 7 percentage points of GDP, due to lower externally-financed spending. The 2009 wage bill was kept within the envisaged budgetary envelope.

6. The monetary situation was characterized by stronger than expected growth of broad money, due to strong growth in domestic credit. Reserve money was also larger than expected because net foreign assets of the central bank declined by less than expected.

7. Performance of the ECF-supported program was generally satisfactory. All indicative targets for end-December 2009 were met, with the exception of the indicative target on reserve money. All quantitative performance criteria for end-March 2010 were met.

8. In close collaboration with development partners, the government is strongly pursuing structural reform, notably the promotion of transparency and good fiscal management, financial sector reform, coffee sector reform, and the improvement of the business environment. In addition to the achievements described in the preceding memoranda, significant progress has been achieved in all of these areas since the third review.

9. In the area of PFM, the action plan of the PFM strategy for 2010 and 2011 has been revised. In accordance with the new Organic Law on Public Finance, a new convention between the government and the BRB has been signed and a draft General Regulation on Public Budget Management has been finalized and sent to the Cabinet. To strengthen cash flow management, a Cash Flow Management Committee has been created and the “Office of Cash Flow Management” has been reorganized. This has allowed the regular preparation of monthly and weekly cash flow plans, which are now harmonized with the commitment plan. Rationalization of government accounts is making steady progress, without interfering with the smooth operation of the units concerned. In this context, a new government account inventory operation was launched, allowing identification of 55 accounts to be closed before end-June 2010 and 34 others to be closed by end-December 2010 at the latest. To modernize revenue administration, efforts are under way to make the Burundi Revenue Authority (BRA) fully operational. Specifically, 22 key posts have been filled, including those of commissioner general and assistant commissioner general, as well as tax commissioners and customs commissioners. With respect to customs, the SYDONIA++ computer system has been expanded to other customs posts, and installation of the RADDEX system will allow better accounting of customs revenues at the EAC level.

10. Significant steps have been taken to continue to improve transparency in PFM. In the area of public procurement, an Executive Director and support personnel have been named to the Public Procurement Regulatory Authority. Moreover, annual plans for procurement have been prepared to facilitate transparent budget implementation. Regarding budget classification, a new nomenclature was introduced with the 2010 budget to make it consistent with the new chart of accounts. In the areas of control and audit, the final report of the auditor general on implementation of the 2008 budget has been finalized.

11. In the financial sector, the process of developing the Financial Sector Reform Strategy (FSRS) has been launched with the creation of the National Strategy Committee (NSC) by order of the Minister of Finance. Adoption of the FSRS by the Cabinet is expected in the first quarter of 2011. A plan to develop the financial market in Burundi is also being prepared. In the area of foreign exchange, improvements have been made to the symmetrical foreign exchange auction market (*Marché des Enchères Symétrique en Devises (MESD)*). Accordingly, the central bank now systematically publishes complete information after each MESD session in order to

increase the representativeness of the exchange rate, reduce its rigidity and increase its transparency. Likewise, the MESD room has been computerized to increase the efficiency of the daily sessions. In the area of monetary policy, the central bank is preparing to introduce REPO trading as an instrument of monetary policy. For this purpose, the associated regulatory texts (Global Master Repurchase Agreement, Code of Conduct and Operations Guide) have been drafted and discussed with the banks.

12. In the area of banking supervision, on-site inspections are now conducted according to risk-based supervisory procedures, but a detailed supervisory handbook remains to be prepared to better guide the supervisors. All banks and all financial institutions respect the minimum capital requirements of BIF 5 billion and BIF 4 billion respectively. Moreover, the process to mobilize funds in order to increase capital to 10 billion BIF by end-December 2010 has advanced. In the area of safeguard measures, an international auditor was recruited at end-June, 2010 to (1) track the complete implementation of all recommendations formulated by the special audits of 2008, based on the September 2009 action plan prepared by the BRB and the Ministry of Finance; and (2) perform special audits of the controls on important disbursements and transfers on behalf of the government or its creditors during the first half of 2010.

13. With respect to the reform of the coffee sector, invitations to bid for 117 coffee washing stations, grouped together into 29 lots, were published on June 5, 2009, and the bids were opened on August 6, 2009. Investors showed limited interest and only 13 washing stations were sold as the result of this process. The government has already decided to reissue the invitations to bid at the end of the current coffee campaign.

14. Significant measures have been taken to improve the business environment. In particular, the revision of the Commercial Code now underway is intended to facilitate business by simplifying procedures and increasing alignment with international standards with regard to business law. The competition law, which focuses on the required harmonization of taxes within COMESA and the EAC, defines and provides sanctions for unfair practices in the conduct of business. Finally, the creation of the Agency to Promote Investments (API) will contribute to strengthening the confidence of national and foreign investors by guaranteeing respect for the application of Investment Code directives.

### **III. ECONOMIC PROSPECTS AND POLICIES FOR 2010**

15. The revised macroeconomic framework for 2010 is as follows: (1) GDP growth is expected to pick up slightly to 3.9 percent; (2) end-of-period inflation is expected to be around 9.5 percent; and (3) gross official reserves are expected to stabilize at six months of import coverage. The government will implement all tax, public spending, monetary and foreign exchange and structural policies as described below and in the January 21, 2010, MEFP.

16. It is essential to raise sufficient domestic revenue to ensure fiscal sustainability and to increase poverty-reducing expenditures. Accordingly, the government will take special measures to make the BRA fully operational as soon as possible. To ensure that the revenue target is achieved, major fiscal and administrative policy measures will also be taken. In particular, the government has already increased the VAT taxable base on petroleum products to comply with the law on the VAT. The general tax base will also be expanded by: (1) rigorous monitoring of exemptions; (2) establishment of the investigation and research unit; (3) strengthening of cross-

checking between customs and government procurement; and (4) recovery of arrears and rigorous monitoring of tax filing obligations of enterprises. The government will also expedite the implementation of IMF technical assistance recommendations on VAT implementation. In the area of customs, the ex ante controls of customs valuations and post-declaration audits will be strengthened with assistance from an import verification firm.

17. The primary objective of expenditure policy in 2010 is to significantly improve the composition of public spending in favor of priority sectors in order to accelerate progress toward the MDGs. Accordingly, pro-poor spending is expected to increase by about 1.8 percent of GDP. To protect priority spending, the government has identified non-priority spending that will be cut if there is a decline in revenues or financing.

18. In consultation with IMF staff, the program has been revised to take into account: (1) the new law on security force remuneration; (2) the cost of the 2010 general elections; and (3) emergency spending due to the drought. These three elements have resulted in an increase in public spending of about 1.2 percent of GDP compared to the initial program and in an increase in domestic financing. The program revision also reflects the government's decision to issue bonds to eliminate the liabilities resulting from the retroactive implementation of the civil service statutes (2.4 percent of 2010 GDP) during 2010–11.

19. The 2010 government wage bill is currently expected to be 12.2 percent of GDP. The government will continue its objective of bringing the wage bill below 11 percent over the medium term. Since recruitment in the education and health sectors affects progress towards the MDGs, the wage bill for these sectors will continue to grow, due to the enormous needs for teachers and health personnel. Thus, achievement of the medium-term wage bill target will depend on continued demobilization. In light of the political and social implications of this operation, it may not be possible to address these issues until after the 2010 elections.

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

21. Given the high risk of debt distress and low capacity, Burundi will seek only concessional external financing or grants. The government will not contract any nonconcessional foreign debt and will ensure that all loans contracted have a grant element of at least 50 percent.

#### **IV. PROGRAM MONITORING**

22. Program implementation will continue to be subject to half-yearly reviews, performance criteria, indicative targets, and structural benchmarks as specified in Tables I.1 to I.4. The information to be reported to the IMF and the definitions of the pertinent variables can be found in the attached TMU. The government is also ready to adopt, in consultation with IMF staff, any new financial or structural measures necessary for the program's success.

**Table I.1. Burundi: Performance Criteria and Indicative Targets for 2009**

(BIF billion, unless otherwise indicated)

	2008		2009										
	Dec.		Mar.		Jun. <sup>1</sup>		Sep.			Dec. <sup>1</sup>			
	Act.	Prog.	Adj.	Act.	Prog.	Adj.	Act.	Prog.	Adj.	Act.	Prog.	Adj.	Act.
<b>Performance Criteria</b>													
Net foreign assets of the BRB (floor; US\$ million) <sup>2</sup>	112.9	15.4	-17.9	85.1	35.0	4.1	120.9	40.0	-20.0	91.8	69.0	22.0	96.5
Net domestic assets of the BRB (ceiling) <sup>2</sup>	17.0	126.7	166.3	33.6	122.6	159.8	13.9	127.4	200.0	44.8	90.2	149.7	79.3
Net domestic financing of the government (ceiling) <sup>2</sup>	19.0	36.5	76.1	-7.9	46.9	84.1	-3.3	61.2	133.8	6.9	21.7	81.2	68.7
External payments arrears of the government (ceiling; US\$ million) <sup>3</sup>	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0
Short-term external debt of the government (ceiling; US\$ million) <sup>3</sup>	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; US\$ million; cumulative from beginning of calendar year; US\$ million) <sup>3</sup>	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0
<b>Indicative targets</b>													
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	2.3	0.0		1.2	0.0		0.0	0.0		0.0	0.0		0.0
Reserve money (ceiling)	...	145.0		138.7	164.7		162.7	175.8		157.9	177.5		198.0
<b>Memorandum item:</b>													
External nonproject financial assistance (US\$ million; cumulative from beginning of calendar year)	113.3	33.3		0.0	33.7		2.8	64.2		2.8	105.8		58.8

Sources: Burundi authorities and IMF staff estimates.

<sup>1</sup> Indicative targets.

<sup>2</sup> The ceiling or the floor will be adjusted as indicated in the TMU.

<sup>3</sup> Continuous performance criterion.



**Table I.2. Burundi: Performance Criteria and Indicative Targets for 2010**

(BIF billion, unless otherwise indicated)

	2009		2010							
	Dec.		Mar.		Jun. <sup>1</sup>		Sep.		Dec. <sup>1</sup>	
	Act.	Prog.	Prog. Adj.	Act.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.
<b>Performance Criteria</b>										
Net foreign assets of the BRB (floor; US\$ million) <sup>2</sup>	96.5	59.6	59.6	85.6	52.8	76.2	67.4	79.3	86.1	101.5
Net domestic assets of the BRB (ceiling) <sup>2</sup>	79.3	74.8	74.8	49.8	87.6	83.3	90.5	91.5	88.1	89.2
Net domestic financing of the government (ceiling) <sup>2</sup>	68.7	58.0	58.0	-34.6	89.6	71.1	80.7	83.7	21.2	27.5
External payments arrears of the government (ceiling; US\$ million) <sup>3</sup>	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; US\$ million) <sup>3</sup>	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; US\$ million, cumulative from beginning of calendar year) <sup>3</sup>	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Indicative targets</b>										
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve money (ceiling)	198.0	150.9		155.1	155.8	178.3	178.2	191.6	201.4	219.0
Propoor spending (floor; cumulative from beginning of calendar year)	274.8	50.1		64.5	105.4	105.4	200.7	200.7	342.2	342.2
<b>Memorandum item:</b>										
External nonproject financial assistance (US\$ million; cumulative from beginning of calendar year)	58.8	11.2		35.0	11.2	46.2	72.2	107.2	151.0	186.0

Sources: Burundi authorities and IMF staff estimates and projections.

<sup>1</sup> Indicative targets.

<sup>2</sup> The ceiling or the floor will be adjusted as indicated in the TMU.

<sup>3</sup> Continuous performance criterion.

Table I.3. Burundi: Performance Criteria and Structural Benchmarks for 2009

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

Table I.4. Burundi: Structural Benchmarks for 2010

Proposed Measures	Dates	Status	Rationale
<b>Public Financial Management</b>			
Adopt a new “convention” between the Ministry of Finance and the BRB redefining the role of the central bank in public financial management, as stipulated under the new budget organic law.	March 31, 2010	Completed	Key to implementing the new budget organic law.
Prepare a final report on the closing of government accounts.	December 31, 2010 <sup>1</sup>		Implementation of a single treasury account is key to sound public financial management.
<b>Central Bank and Treasury Safeguard measures</b>			
Recruit an international auditor to: (i) monitor the full implementation of all the recommendations formulated in Deloitte's 2008 special audit reports (consistent with the September 2009 agreed-upon action plan between Burundi's central bank and the Ministry of Finance); and (ii) verify on a test basis the controls on significant domestic disbursements and transfers executed by the central bank on behalf of the government or its creditors during the first half of 2010.	June 30, 2010	Completed	To enhance the safeguard measures in force at the central bank and the Treasury.
Submit to the General Council, the audit committee, and the Minister of Finance the report on special audits of the controls on important domestic disbursements and transfers—on behalf of the government or its creditors— that took place in the first half of 2010.	December 31, 2010		To enhance the safeguard measures in force at the central bank and the Treasury.
<b>Fiscal Governance</b>			
In accordance with the laws of Burundi, the BIF 6 billion and the deeds for 25 properties belonging to INTERPETROL that have been placed under seal will remain in place until a court decision has been reached on the INTERPETROL case.	Structural benchmark (continuous)	Completed	Enhance fiscal governance to ensure the continuation of budget support.

<sup>1</sup> The date of this structural benchmark has been changed from September to December to ensure that the final report does cover the closing of government accounts that will take place in the last quarter of 2010.

**ATTACHMENT II**  
**TRANSLATED FROM FRENCH**

**BURUNDI**  
**TECHNICAL MEMORANDUM OF UNDERSTANDING**

Bujumbura, July 7, 2010

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

**A. Quantitative Program Targets**

**Quantitative performance criteria and indicative targets**

2. **The quantitative performance criteria for the program as shown in the MEFP are as follows:**
- net foreign assets of the BRB (floor);
  - net domestic assets of the BRB (ceiling);
  - net domestic financing of the government (ceiling);
  - external payment arrears of the government (ceiling, continuous);
  - stock of short-term external debt (maturity of less than one year) of the government and the BRB (ceiling, continuous); and
  - new nonconcessional medium- and long-term external debt contracted or guaranteed by the government or the BRB (ceiling, continuous).
3. **The quantitative indicative targets for the program, shown in the MEFP, are as follows:**
- accumulation of domestic arrears (ceiling);
  - propoor spending (floor); and
  - reserve money (ceiling).

### **Definitions and measurement**

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

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

### **Adjuster for changes in the compulsory reserves coefficients**

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

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

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

9. The program includes a ceiling on **new nonconcessional external debt** contracted or guaranteed by the government and the BRB. This performance criterion applies to the contracting or guaranteeing by the central government, local governments, or the BRB of new nonconcessional external debt (as specified below) with an original maturity of one year or more, including commitments contracted or guaranteed for which value has not been received. Debt contracted by state-owned enterprises is included in the overall ceiling, if guaranteed by the government. The term "debt" shall be understood as defined in the

Executive Board Decision No. 12274, Point 9 as revised on December 1, 2009, (Decision No. 14416-(09/91). Debt rescheduling and restructuring are excluded from the criterion. Included are financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on nonconcessional terms. In determining the level of concessionality of these obligations, the definition of concessional borrowing shall apply. Concessional debt is defined as having a grant element of 50 percent or more. 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 the use of Fund resources and any Burundi franc-denominated treasury securities held by nonresidents.

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

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

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

#### **External financial assistance adjustor**

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

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

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

16. External financial assistance (measured in US\$) is defined to include the following: (i) nonproject loans and grants to the budget (including payments made through the multi-donor trust fund managed by the World Bank for current debt service to multilaterals); plus (ii) debt relief on current maturities; minus (iii) any cash payments for external arrears clearance operations. Donor disbursements into blocked accounts for the purpose of clearing arrears will not be considered foreign assistance for program monitoring purposes.

#### **B. Provision of Information to IMF Staff**

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

18. The following weekly data:

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

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

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

breakdown by creditor and any accumulation of arrears on domestic or external debt (Ministry of Finance);

- a detailed breakdown of the stock of domestic payment arrears for the current fiscal year (Ministry of Finance);
- the amount of new debts contracted or guaranteed by the government, including detailed information on the terms (such as currency denomination, interest rate, grace period, maturity) (Ministry of Finance);
- actual disbursements of nonproject financial assistance, including new loans and debt relief granted by Burundi's external creditors (Ministry of Finance); and
- an update on the implementation of structural measures planned under the program (REFES).

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

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

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