International Monetary Fund

Burundi and the IMF

Press Release:
IMF Executive Board Completes Fourth Review Under the Extended Credit Facility Arrangement for Burundi and Approves US$7.7 Million Disbursement
February 28, 2014

Country's Policy Intentions Documents

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

February 6, 2014

Appendix I. Letter of Intent

Bujumbura, February 6, 2014

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

Dear Ms. Lagarde:

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 fourth review of the arrangement. This review focused on the implementation of the program during the period from April 1st, 2013 to September 30, 2013, as well as on the economic and financial prospects and measures to be implemented in 2014.

Burundi faces a particularly difficult environment, marked by the massive influx of refugees from the eastern part of the Democratic Republic of the Congo, and those expelled from Tanzania and Uganda. These influxes put additional pressures on public finances in a context where they were already weakened by declining budget support and high tax expenditures coming from tax exemptions. However, significant efforts have been made to mobilize revenue, which are now covering an increasing share of budgetary spending.

Measures aiming to strengthen tax administration helped mitigate the effects of these shocks on domestic revenues to a level higher than programmed, thus contributing to the successful implementation of the program at end-September 2013. All performance criteria and indicative targets have been observed, including the indicative target on pro-poor expenditures, which were shielded from the compression of expenditures and delays in the disbursement of budget support. However, the Government remains firmly committed to implement the program and preserve the sustainability of public finances and debt, while boosting economic growth. Furthermore, the government intends to maintain prudent budgetary and monetary policies to anchor inflationary expectations.

In light of the appreciable progress in implementing the program supported by the ECF arrangement, the government is requesting completion of the fourth review, setting of new performance and indicative criteria for September 2014, as well as the fifth disbursement of SDR 5 million under the ECF arrangement.

The government is convinced that the policies defined in this MEFP are sufficient for the 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.

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 the latest July 31, 2014, and the sixth review based on the September 2014 performance criteria to be completed by the latest January 31, 2015.

The Burundi 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 this fourth [sic] 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/	/s/
Tabu Abdallah MANIRAKIZA Minister of Finance and Economic Development Planning	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

February 6, 2014

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 supplements the December 2011, July 2012, January 2013, and August 2013 MEFPs. It reports on implementation of the program's quantitative targets and structural benchmarks through end-September 2013 and defines the economic policies and reforms the government intends to implement in 2014 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 continues to be vulnerable to the lingering effects of external shocks associated with commodity prices and recurrent slippages in tax revenue collection. The social situation has weakened further with the massive influx of refugees, weighing on budget expenditure and exacerbating political tensions. The combined effects of these shocks and the country's social fragility threaten to derail the significant progress made thus far. Moreover, because the country's tax base is narrow, the worsening terms of trade and markedly lower levels of direct budgetary support cannot be wholly offset by the increased mobilization of domestic resources. Consequently, Burundi still needs technical and financial 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 great strides Burundi has made, particularly with regard to good governance, peace consolidation, and improved public access to social services. In order to give greater substance to the promises made during the Geneva conference, the government organized two sectoral conferences in July and October 2013. The targeted sectors are in line with the pillars of the PRSP-II and pertain to (i) transport infrastructure, information and communication technologies (ICT), (ii) energy, (iii) private-sector and tourism development, (iv) governance, rule of law and gender, (v) education, (vi) health, and (vii) environment, water and sanitation. Despite this progress, 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 sustainable economic growth, curb unemployment, and reduce endemic poverty.

II. ECONOMIC DEVELOPMENTS AND IMPLEMENTATION OF THE ECONOMIC PROGRAM IN 2013

4. Macroeconomic developments are largely in line with program projections. GDP growth is expected to improve modestly from 4 percent in 2012 to 4.5 percent in 2013, likely as a result of investments in infrastructure, particularly transport and hydroelectric dams. Inflation, however, is moderating slowly owing to the lingering effects of rising food and fuel prices, and weak agricultural production over the past year.

5. The external current account (including transfers) deteriorated markedly, reaching a deficit of approximately 23 percent of GDP compared to 18.5 percent in 2012, despite slight mitigation of the effects of terms of trade deterioration in previous years. Imports rose by about 2.5 percent, while exports fell sharply by more than 35.5 percent, largely reflecting the decline in coffee exports. Gross official reserves crept up to the equivalent of 3.5 months of imports in 2013.

6. Monetary policy remained prudent in 2013. The Bank of the Republic of Burundi (BRB) thus kept its refinancing rate indexed to the interest rate of 13-week treasury paper (*bons du Trésor*) plus 3 percentage points. The required reserve ratio was maintained at 3 percent and money market interventions were limited. The average refinancing rate for this period was 11.7 percent. The BRB kept the required reserve ratio at 3 percent and limited its interventions in the money market. Monetary and credit growth in the private sector was moderate at around 17 and 9 percent, respectively. Monetary policy witnessed an innovation with the creation of a Monetary Policy Committee that publishes quarterly reports, together with a monetary policy statement, announcing the monetary authority's future intentions to the public. The goal is to enhance the transparency and credibility of monetary policy. In response to the steep depreciation in the Burundi franc at end-2012 and in early 2013, the BRB intervened in the foreign exchange market, adopted a foreign exchange regulation easing policy by eliminating restrictions on cash withdrawals from foreign exchange accounts, encouraged banks to supply the interbank market with foreign exchange, continues to monitor liquidity conditions and stands ready to intervene depending on market conditions.

7. With respect to public finances, domestic resource mobilization improved significantly following the implementation of corrective actions designed to offset revenue losses posted in the first half of the year. Tax revenue is expected to reach about FBu 556 billion at end-December 2013, up 3 percent compared to 2012. This good revenue performance is largely due to improved economic activity, as evidenced by the surge in the value added tax (VAT) and the gradual reinstatement of taxes on petroleum products. Expenditure was brought down to fit into the available resource envelope. Thus, the overall deficit should be in line with projections in 2013. At end-December 2013, the overall budget deficit (cash basis, non-HIPC grants included) is estimated at 2 percent of GDP. The tax burden decline to 12.9 percent of GDP, primarily as a result of the further elimination of excise duties on petroleum products in the first half of the year.

8. The downward trend of the wage bill relative to GDP continued. It was 7 percent of GDP in 2013, down 0.8 percentage points of GDP compared to 2012. The roll-out of payroll software (OPEN PRH) made it possible to expunge ghost workers from the payroll. The new OPEN PRH system

considerably reduces pay processing times, thereby minimizing payment arrears. Broader access will guarantee better control over payroll, which is one of the government's largest budget items.

9. Program implementation is satisfactory overall. By end-September 2013, all the quantitative performance criteria had been met. All indicative targets were also reached, including, for the first time, that of pro-poor expenditure. Significant progress has also been made in implementing structural measures.

10. Progress in the area of public finances continues to be consolidated. In addition to three expenditure commitment controllers (*contrôleurs des engagements de dépenses*—CED) in the ministries of education, health, and agriculture, the government has assigned ten others in other sectoral ministries; thus, 74 percent of the budget is covered by the rationalized expenditure chain (*chaîne rationalisée de la dépense*). The expenditures of ministries without CEDs will be managed by a central CED. However, in order for the CEDs to be fully functional, their capacities will need to be strengthened and the Integrated Government Finance Management System (*Système d'Information Intégré pour la Gestion des Finances Publiques* – SIGEFI) will need to be reconfigured to take account of the decentralization of the expenditure chain. The audit on outstanding arrears, estimated at FBu 90 billion and attributable to extrabudgetary spending on a vehicle fleet and goods and services for the army, and education and health, is underway. An arrears clearance plan will also be developed once the audit office has examined all supporting documents to confirm the final amount of the arrears. The cash-flow management committee has been bolstered, but its work is hampered by the unpredictability of budget grant disbursements. Lastly, the law amending the VAT and the law establishing the tax procedures code have been enacted. The government is continuing its efforts to make a lasting impact on revenue. In addition to strengthening the administrative capacity of the Burundi Revenue Authority (OBR) and its campaign to raise taxpayer awareness, the government intends to make the process of moving goods with Tanzania and Rwanda smoother by creating one-stop border posts, thereby boosting foreign trade.

11. Efforts to improve debt management continue. Two successive World Bank missions developed, jointly with Burundian authorities, an action plan for implementing debt management reforms in response to the results of the Debt Management Performance Assessment (DeMPA). This means that the government publishes a quarterly report on public debt every three months, along with a portfolio analysis. These publications are available on the Ministry of Finance website. A third IMF mission is expected to visit Bujumbura in April to help finalize the new law on debt. As part of the restructuring of the Ministry of Finance and Planning for Economic Development (*Ministère de Finances et de la Planification pour le Développement Economique*—MFPDE), a modern unit in charge of debt management was created.

12. In the context of the financial system reform, the Central Bank is continuing to implement projects designed to modernize the financial sector, one of the components of the Financial Sector Development Project. To this end, the Central Bank will: (1) strengthen supervision of banks, non-bank financial institutions, and microfinance institutions; (2) modernize payment systems (ACH/RTGS, electronic banking, and central securities depository) through enhanced IT infrastructure; and (3) implement an automated banking system as well as the legal and institutional framework of the payment system. Significant progress has been made on all aspects of financial sector modernization, particularly the legal framework. In fact, the draft law on the national payment

system went to the Council of Ministers on April 4, 2012. It was returned to the Office of the Second Vice President of the Republic for corrections and amendments. Discussions are ongoing to analyze the legal text on payment systems as a law rather than a decree. Lastly, the legal framework will be complemented by the implementation of participation agreements to be signed by all participants.

13. In the area of bank supervision, guidelines on business continuity management were adopted and transmitted by the BRB to the banking sector with strict instructions that they be implemented by no later than June 30, 2014. The bank supervision unit was restructured to include the financial stability function. Preparation of the risk-based supervision methodology and the detailed risk-based supervision manual as well as the attendant draft circular are being finalized. Final migration by commercial banks towards adopting the International Financial Reporting System (IFRS) is being completed. Quality control of reporting and any adjustments needed will be carried out on the basis of the first three monthly reports. With a view to aligning bank supervision practices and assessing the probable risk of systemic pan-African bank crises (Ecobank Burundi, FinBank, DTB Burundi, KCB Bank Burundi, and CRDB Bank Burundi), BRB supervisors have already participated in joint inspection missions with supervisors from the Central Bank of Kenya during on-site inspections of the KCB and DTB, the parent companies of KCB Bank Burundi and DTB Burundi, respectively. Further, in December 2012, supervisors from the Central Bank of Nigeria were accompanied by supervisors from the BRB in conducting an inspection mission of FinBank, a subsidiary of Access Bank.

14. Observations made by the IMF and the National Bank of Belgium were incorporated into the amended draft banking law, which was circulated to the profession for comment. This law will also constitute a legal framework for microfinance activities, the National Postal Administration (*Régie Nationale des Postes*), and payment services (including mobile and electronic banking). A draft regulation on payment systems and another on commercial agents in bank operations and payment services are being finalized to expand the payment systems legal framework. 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 emanate.

15. In accordance with the recommendations concerning 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 between the central bank and the ministry of finance has been prepared to ensure gradual implementation of the recommended safeguards.

16. In the coffee sector, the government plans to pursue its program of privatizing washing stations, 41 of which were sold to domestic and international private investors in two bidding procedures, while ensuring that coffee growers have access to reserved shares in keeping with the government's commitment (25 percent of the capital). Following the adoption by Parliament of the law governing privatization, the 76 remaining washing stations will be subject to a new bidding process in 2014 once their values have been reviewed. 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.

17. 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 thus

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.

III. ECONOMIC AND POLITICAL OUTLOOK FOR 2014

A. Macroeconomic framework

18. The uncertainties weighing on the global economy pose a major challenge for program implementation. Factors such as the slowdown in global economic activity—especially in Europe, Burundi's strategic partner, where economic growth remains weak—, the return of refugees from neighboring countries, and sociopolitical tensions in the sub-region, particularly the Democratic Republic of the Congo (DRC), all pose downside risks with the potential to affect the level of economic activity, external accounts, and public finances in Burundi.

19. Despite these risks, GDP growth is estimated to climb to 4.7 percent in 2014 compared to 4.5 percent in 2013. This recovery is likely to be driven primarily by the secondary and tertiary sectors. Moreover, the start of construction on the hydroelectric dam (Kabu 16) in 2013 and work on the road projects financed through Japanese cooperation and the African Development Bank (AfDB) should support this growth. Agricultural exports, however, are expected to rebound, owing to the cyclical nature of coffee production. Inflation is expected to decline to 7 percent in 2014. The current account deficit in the balance of payments should improve moderately to 21.4 percent of GDP, a decline of more than 4.9 percentage points of GDP compared to the program projection, and an improvement of 1.6 percentage points of GDP compared to 2013, due mainly to a rebound in coffee export revenue. Official foreign reserves are expected to rise slightly to 3.6 months of imports, a reflection of the BRB's limited intervention in the foreign exchange market.

B. Fiscal policy

20. The aim of fiscal policy is to support growth and improve the composition of expenditure with a view to mitigating the effects of shocks on the most vulnerable segments of the population. Total government revenue and expenditure are expected to reach 27.6 percent and 29 percent of GDP, respectively, as a result of expenditure controls and improved revenue collection. The overall fiscal balance deficit (cash basis, including grants) should be contained at 1.6 percent of GDP. Pro-poor expenditure will therefore continue its upward trend to around 9.5 percent of GDP, without jeopardizing fiscal consolidation, and the wage bill will be under control.

21. Total budget revenue (excluding grants) is estimated to be FBu 627.3 billion compared to FBu 558 billion in 2013. This revenue growth will likely be the result of enhanced administrative reforms put in place in previous years, notably those to broaden the tax base, combat fraud and tax evasion, and minimize exemptions. Other initiatives will also boost revenue collection, particularly the introduction of a 10-percent tax on the remuneration of political representatives, the gradual expansion of the use of the tax identification number (TIN), including in the informal sector, and the effects of the excise tax on beer and wine. The creation of one-stop border posts should facilitate regional trade and, in so doing, boost customs revenue. Lastly, the law on the VAT has been

enacted. It aims to broaden the tax base, while reducing the size of the informal sector in the economy. The government will also be seeking IMF technical assistance in drafting an excise code and restructuring the tax exemption system in order to strengthen domestic revenue collection.

22. To meet unforeseen pre-election requirements, the government undertakes to keep such revenue as may potentially be generated through the renewal of telecommunication licenses and the collection of tax arrears from large- and medium-size businesses. Furthermore, a review of the investment code, taking account of the recommendations expected to come out of the joint IMF, IFC, and World Bank mission scheduled in early 2014, is intended to curb the granting of exemptions with the aim of replenishing the Treasury account.

23. Total expenditure in 2014 could rise by 3.4 percent to FBu 1,393.3 billion. This increase, following the 6-percent growth expected in 2013, reflects the need to strengthen economic and social infrastructure. The wage bill is projected to be FBu 322.3 billion, or 6.7 percent of GDP, in response to the human resource requirements in the key sectors of education, health, and agriculture. Overall, domestically-financed capital expenditure is expected to increase to FBu 93.9 billion, or approximately 2.0 percent of GDP, as in 2013.

24. In order to reduce government spending on the management of its vehicle fleet, the government decided to adopt the zero vehicle fleet (*Charroi zéro*) policy. Despite difficulties in implementing this policy, the government will give top priority to capping the cost of the policy with a view to making the necessary resources available to meet the financing requirements of social sectors.

25. In the health sector, the government will continue its policy of free health care for children under five and care for women in childbirth. 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 seeing growing success. In order to sustain it, the government intends to focus on its financing by placing sufficient appropriations in the government budget so that adequate resources can be transferred to hospitals to cover the cost of procedures under the health card program. The necessary decisions will have been made to keep public finances balanced at the level agreed to under the program.

26. In the education sector, the government also intends to continue the program of free primary school tuition and extend it to include higher education, and to expand the number of school cafeterias providing free meals to students. It plans to build new classrooms and hire teachers in order to reduce the teacher-student ratio.

27. In the agricultural sector, the government, in close collaboration with technical and financial partners, plans to combat the high cost of living and eliminate food insecurity. Accordingly, the government has put in place 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*).

28. The government is committed to maintaining 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.

C. Monetary and exchange rate policies

29. Monetary policy will continue to be guided by the pursuit of price stability. The BRB will carefully monitor the growth of inflation and will continue to improve its capacity to forecast this macroeconomic indicator. If inflationary pressures pose no threat to economic activity, the BRB, in consultation with Fund staff, will weigh the possibility of gradually easing monetary policy to provide the economy with the resources needed 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, including identifying instruments that increase the effectiveness of interest rates and other BRB signals.

30. To enhance the effectiveness of the exchange rate policy, the BRB has decided to pursue an active market-making policy for the foreign exchange interbank market and will continue to reduce the frequency and amounts of its interventions in the foreign exchange market to maintain official reserves. In the context of the recently signed monetary union protocol of the East African Community, the central bank remains committed to pursuing a floating exchange rate regime.

31. 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 and will culminate in the assignment of a resident advisor on bank supervision to the BRB. This mission should significantly reinforce the financial system monitoring mechanism, particularly the BRB's bank supervision unit.

D. Structural measures

32. The government continued to consolidate progress in public financial management reforms. Accordingly, it issued the decree on the appointment and legal status of the Receiver General of the OBR, establishing the scope of his responsibility and relationships with the senior government accounting officer (new structural benchmark). The Commissioner General of the OBR also assumes the Receiver General's functions. The government is aware of the need to adapt the responsibility of the senior government accountant granted to the Commissioner General of the OBR, and intends to conform gradually. The government has decided to provide the OBR with the resources it needs to conduct its missions, increasing the OBR's allocation to 3 percent of collected revenue. With respect to the tax on incoming calls, the government has opted to clear the share of proceeds from this tax, accruing to the government budget, from the transit account into the account of the Receiver General of the OBR, now responsible for clearing it into the treasury single account.

33. In the context of strengthening public financial management, 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 modernize the SIGEFI. This modernization should eventually secure the entire expenditure chain, from the establishment of budget appropriations to the payment of

the expenditure from the Public Treasury. The new system should allow the Budget and Treasury to issue statements of expenditure incurred and balances of authorized expenditure and outstanding payments. The SIGEFI should be interconnected with other expenditure chains, particularly the salaries and wages of government officials, and the IT system for monitoring revenue. This integration should help the Treasury establish its balances.

IV. POVERTY REDUCTION AND GROWTH STRATEGY PAPER

34. The PRSP-II, which is a key component of the effort to consolidate peace and kick-start economic growth, is structured around four strategic pillars: (i) strengthening of the rule of law, consolidation of good governance, and promotion of gender equality; (ii) transformation of the Burundian economy to achieve sustained, job-creating growth; (iii) improvement in the accessibility and quality of basic services and strengthening of national solidarity; and (iv) management of land and the environment in keeping with sustainable development principles.

35. To mobilize the political support and resources necessary to finance the priority action program contained in the PRSP-II, the government organized two sectoral conferences in Bujumbura in July and October 2013, following the donor conference in Geneva in October 2012. The government plans to implement the reforms provided for in the PRSP-II to facilitate disbursement of the commitments made in Geneva and thus mobilize all the resources required for effective implementation of the PRSP-II.

36. The government has completed the first report on the progress in implementing priority programs recommend by the PRSP-II. The report conveys the main actions taken in 2012 and points out the challenges to which special attention will need to be paid in order to achieve better performance.

37. To ensure that reliable socioeconomic indicators are regularly available, the government is determined to strengthen its data collection units. All ministries were therefore instructed to set up statistical departments responsible primarily for updating quick result indicators.

38. In addition, the government launched a national survey on household living conditions in December 2013 with a view to updating the household basket and achieving national consumer price index (CPI) coverage. This survey comprises five modules and should be finished in March 2014.

39. In addition, the government launched a national survey on household living conditions with a view to updating the household basket and achieving national CPI coverage.

V. PROGRAM MONITORING

40. "Semiannual reviews of the program by the IMF Executive Board will continue based on the quantitative performance criteria and indicative targets, 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 half-yearly reviews will be based on the data at end-March and end-September. The fifth program review will be based on the performance criteria for end-March 2014. To ensure the program's success, the authorities will take all the steps necessary to meet the quantitative targets and structural benchmarks agreed to with Fund staff."

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	Rev. Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Performance criteria										
Net foreign assets of the BRB (floor; US$ million) [2]	31.9	21.1	50.2	Met	17.0	23.2	25.0	33.1	24.4	51.6
Net domestic assets of the BRB (ceiling) [2]	264.8		254.3	Met	225.2	213.8	216.6	229.7	239.2	201.4
Net domestic financing of the government (ceiling) [2]	42.0	52.7	28.6	Met	33.3	47.5	10.7	21.3	32.0	42.7
External payments arrears of the government (ceiling; US$ million) [3]	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	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]	28.0		28.0	Met	28.0	28.0	28.0	28.0	28.0	28.0
Indicative targets										
Gross fiscal revenue (excluding grants, floor, cumulative from beginning of calendar year)	380.2		414.0	Met	536.4	551.0	151.8	267.6	442.9	626.2
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Reserve money (ceiling)	313.7		275.2	Met	252.0	249.5	257.3	282.8	277.8	283.3
Pro-poor spending (floor; cumulative from beginning of calendar year)	190.0		196.6	Met		270.0	34.5	118.7	189.2	303.6

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.

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		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		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		Improve budget 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	Met	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.

QUANTITATIVE PROGRAM TARGETS

A. 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).

B. 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.

C. 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.

D. 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.

E. 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-March 2014 is 1624.55.

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.

F. 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.