

CONFORMED COPY

GRANT NUMBER H422-BI

Financing Agreement

(Second Economic Reform Support Grant)

between

REPUBLIC OF BURUNDI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 19, 2008

FINANCING AGREEMENT

AGREEMENT dated August 19, 2008 entered into between REPUBLIC OF BURUNDI (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I of the Schedule to this Agreement; and (b) the Recipient’s maintenance of an appropriate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to eighteen million five hundred thousand Special Drawing Rights (SDR 18,500,000) (“Grant”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of the Schedule to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Un-withdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are April 15 and October 15 in each year.
- 2.05. The Payment Currency is the Dollar.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end:

- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
- (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
- (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following:

A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS

5.01. The Effectiveness Deadline is the date 90 days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is its minister at the time responsible for finance.

6.02. The Recipient's Address is:

Ministry of Economy, Finance, and Development Cooperation
P. O. Box 1830
Bujumbura
Burundi

Facsimile:

257 22 22 38 27

6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, DC 20433
United States of America

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, DC

248423(MCI) or
64145(MCI)

1 202 477 6391

AGREED at Bujumbura, Burundi, as of the day and year first above written.

REPUBLIC OF BURUNDI

By /s/ Clotilde NIZIGAMA

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Alassane SOW

Authorized Representative

SCHEDULE

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

Actions Taken under the Program. The actions taken by the Recipient under the Program include the following:

- A. Budget Management
 1. Cabinet approval and submission to Parliament of a new draft organic budget law, in form and substance satisfactory to the Association and reflecting relevant current international standards, in accordance with paragraph 36 of the LDP.
 2. Establishment of a budget preparation timetable, related responsibilities of various entities, and the principal elements of a future framework letter for purposes of improvement of timeline and efficiency of budget preparation process, all through the promulgation of legislation, in form and substance satisfactory to the Association, in accordance with paragraph 37 of the LDP.
 3. Improvement, in a manner satisfactory to the Association, of the identification methodology applicable to poverty reduction expenditures, through revision of the criteria for functional classification of such expenditures on the basis of the Recipient's 2006 Poverty Reduction Strategy Paper, in accordance with paragraph 38 of the LDP.
 4. Preparation and implementation, by the ministry at the time responsible for finance, in consultation with the Recipient's ministries at the time responsible for public security, national defense, and ex-combatants, national education, agriculture, health, and AIDS control, commencing the second quarter of 2008, of revolving quarterly cash flow plans, in form and substance satisfactory to the Association, based on realistic revenue forecasts and assessments of seasonal expenditure requirements, and providing said ministries quarterly commitment ceilings, in accordance with paragraph 40 of the LDP.
 5. Submission, to the Audit Court, of the 2006 and 2007 general and extra-budgetary government accounts, in form and substance satisfactory to the Association, in accordance with paragraph 43 of the LDP.
 6. Reestablishment, in a manner satisfactory to the Association, of an internal inspection and verification unit under the supervisory authority of the ministry at the time responsible for finance, with an institutional framework, functions, and resources satisfactory to the Association, including adoption of a 2008 work program, in form and substance satisfactory to the Association, and transmittal to

the Association of a draft procedures manual governing the functioning of said unit, in form and substance satisfactory to the Association, in accordance with paragraph 42 of the LDP.

B. Business Growth

7. Cabinet approval and submission to Parliament of a new draft investment code, in form and substance satisfactory to the Association and reflecting relevant current international standards, in accordance with paragraph 44 of the LDP.
8. Re-launch of a public-private consultation framework with regard to economic policy relating to private sector development, through the promulgation of legislation, in form and substance satisfactory to the Association, in accordance with paragraph 45 of the LDP.
9. Launch, in a manner satisfactory to the Association, of a study analyzing the institutional capacity of the Recipient for public enterprise reform and including a related action plan for purposes of improvement of said capacity, in accordance with paragraph 46 of the LDP.
10. Publication, in French and Kirundi, in a manner satisfactory to the Association, of green coffee export sales regulations, setting out the rules applicable to marketing during the Recipient's 2008 coffee season and approved by the Council of the Coffee Office of Burundi, in form and substance satisfactory to the Association, in accordance with paragraph 47 of the LDP.

Section II. Availability of Financing Proceeds

- A. **General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. **Allocation of Financing Amounts.** The Financing shall be withdrawn in a single tranche. The allocation of the amount of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (Expressed in SDR)
Single Tranche	18,500,000
TOTAL AMOUNT	18,500,000

C. Deposits of Financing Amounts. Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into a dedicated foreign currency account designated by the Recipient and acceptable to the Association (“Deposit Account”); and
2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient’s budget management system, in a manner acceptable to the Association.

D. Audit. Upon the Association’s request, the Recipient shall:

1. have the Deposit Account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
2. furnish to the Association as soon as available, but in any case not later than four (4) months after the date of the Association’s request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and
3. furnish to the Association such other information concerning the Deposit Account and its audit as the Association shall reasonably request.

E. Excluded Expenditures. The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

F. Closing Date. The Closing Date is June 30, 2009.

APPENDIX

Section I. Definitions

1. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another financing, credit, grant, or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, un-worked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;

- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) under a contract with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds during the procurement or execution of such contract, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to remedy the situation.
2. "Financing Agreement" includes all appendices, schedules, and agreements supplemental to this Agreement.
 3. "General Conditions" means the "International Development Association General Conditions for Credit and Grants", dated July 1, 2005, with the modifications set forth in Section II of this Appendix.
 4. "Letter of Development Policy" or "LDP" means the letter referred to in paragraph 6 of this Section.
 5. "Poverty Reduction Strategy Paper" means the document setting out a country's macroeconomic, structural, and social policies and programs to promote growth and reduce poverty, as well as associated external financing needs, prepared by governments through a participatory process involving civil society and development partners, including the World Bank and the International Monetary Fund.
 6. "Program" means the program of actions, objectives, and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated June 19, 2008 from the Recipient to the Association declaring the Recipient's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
 7. "Single Tranche" means the amount of the Financing allocated to the category entitled "Single Tranche" in the table set forth in Part B of Section II of the Schedule to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program.”
