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Domestic Resource Mobilization
for Poverty Reduction in East Africa:

Burundi Case Study

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List of abbreviations

AfDB	African Development Bank
AfDF	African Development Fund
AIDS	Acquired Immunodeficiency Syndrome
ARA	Autonomous Revenue Authority
ASYCUDA	Automated System for Customs Data
BIF	Burundi Franc
CET	Common External Tariff
CIF	Cost, Insurance and Freight
CIT	Corporate Income Tax
CITPROD	Corporate Income Tax Revenue Productivity
CNDD	National Council for the Defense of Democracy
DFID	Department for International Development
DRM	Domestic Resource Mobilization
EABC	East African Business Council
EAC	East African Community
FDD	Forces for the Defence of Democracy
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoB	Government of Burundi
HIPC	Heavily Indebted Poor Countries
HIV	Human Immunodeficiency Virus
ICT	Information and Communication Technology
IMF	International Monetary Fund
MDRI	Multilateral Debt Reduction Initiative
OBR	Office Burundais Des Recettes/ Revenue Authority of Burundi
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PIT	Personal Income Tax
PITPROD	Personal Income Tax Revenue Productivity
PRGF	Poverty Reduction Growth Facility
PRSP	Poverty Reduction Strategy Paper
PTA	Preferential Trade Area
PwC	PricewaterhouseCoopers
RADDEX	Revenue Authority Digital Data Exchange
SSA	Sub-Saharan Africa
TAXSTAFF	Ratio of Tax Staff per Population
TIN	Taxpayer Identification Number
UK	United Kingdom of Great Britain and Northern Ireland
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
VAT	Value Added Tax
VATGCR	VAT Gross Compliance Ratio

Preface

The African Development Bank (AfDB) has partnered with the African Tax Administration Forum (ATAF) and the East African Secretariat on a project aimed at sharing lessons of experience from Domestic Resource Mobilization (DRM) through case studies for the East African Community partner states (EAC), South Africa and South Korea. For the purposes of this work, DRM is defined to include only tax policy and administration and excludes other possible components of DRM such as domestic financial markets.

The overall objective of this project is to make recommendations, for the participating countries of the EAC, on the priority reforms and ways to sequence and implement them, in order to significantly enhance DRM. As such, the primary beneficiaries of the project are both the Ministries of Finance and the Revenue Administrations of the EAC.

This paper seeks to respond to the following question: *What key factors have contributed to or inhibited DRM in Burundi?* This case study has been prepared following an extensive review of available literature, interviews with key informants in Burundi, the collection of quantitative data, and the analysis of both primary and secondary data. Its development has also been informed by a methodological framework designed by the AfDB. The core principle of the methodological framework is to analyse tax performance as a result of tax systems, reforms and the political economy. The study adopts an explanatory case study approach to match patterns from our analysis of the literature and key informant interviews.

The achievements and lessons of experience contained in this and other country case studies will provide primary inputs for a policy note. The policy note will seek to address the following questions: *What are the priority reforms for EAC partner states and the EAC? How should these reforms be sequenced and implemented?*

Chapter 1 of this case study begins with an examination of Burundi's political economy and fiscal legacies. Thereafter, Chapters 2 and 3 explain and analyse the trends in the tax system and their impact on domestic revenue performance respectively. The final chapters highlight the challenges and issues currently faced by government (Chapter 4), and lessons of experience for consideration by the EAC member states (Chapter 5).

Acknowledgements

The Burundi Case Study was prepared under the overall supervision of Mrs. Diarietou Gaye (Regional Director, Department East A, OREA) and Catherine Baumont-Keita (Lead Economist, OREA). Core team members were Edward Sennoga (Macro Economist, UGFO and Task Manager, Richard Walker (Country Economist, KEFO) and Christian Lim (Private Sector Specialist, OSGE). The external consultants were led by Elizabeth Kariuki and Kithingi Kiragu (PricewaterhouseCoopers).

Mr. Aloysius Ordu (Vice President, Country and Regional Programs), Mr. Steve Kayizzi-Mugerwa (Director, Operational Resources and Policies), and Ms. Radhika Bharat (Investment Officer) initiated the project and were involved in the early design of the study.

The production of this case study was made possible by the generous financial support from the Korea-Africa Fund for Economic Cooperation. We also thank the African Tax Administration Forum, East African Community Secretariat, senior management and staff of the Burundi Revenue Authority and Ministry of Finance and Development Cooperation extremely productive exchanges and valuable insights provided to us during the preparation of this case study. Similar appreciation also goes to representatives of regional organizations, private sector organisations, think tanks and multilateral and bilateral development partners in Burundi.

The case study also benefitted from valuable feedback provided by staff in different departments of the ADB both at headquarters and in the field offices (Kenya, Tanzania, Uganda and Rwanda). External reviewers were Tim Lamont, DfID East Africa Regional Team, Dave Beer, Head of Office, DfID in Burundi, who provided very constructive comments.

There is not enough space here to name each and every one of those who have contributed immensely to the successful completion of this case study; however, Annex A lists some of the key contributors to this report. In addition, we seek the indulgence of all the contributors in accepting this blanket acknowledgement and appreciation of their efforts and contribution. We are indeed very thankful.

Executive summary

1. Context-Political economy and fiscal legacies

Burundi's economic recovery is evident since 2005. However, there are no signs of particularly high economic growth in the short to medium term. Specifically, the IMF (2010), projects that real GDP growth will be 4.5% and 4.8% in 2011 and 2012 respectively. Therefore, for the foreseeable future, the economy will remain dominated by agriculture and a large informal sector which accounts "for 75% of urban employment" predominantly in the capital city Bujumbura (World Bank, 2010). This outlook suggests an economy with severe binding constraints to DRM.

Until relative peace was restored in Burundi five years ago, the prominent socio-culture characteristic for many years was conflict and fear among the population. It is nonetheless paradoxical that, the military coups and prolonged civil war did not seriously disrupt the tax administration system or even undermine the tax efforts and result in low tax to revenue GDP ratios. However, the conflicts and instability associated with war ushered rampant corruption in all aspects of public sector management, including tax administration. It is against this background that the government has recently established Office Burundais Des Recettes (OBR – Revenue Authority of Burundi).

The demand for peace dividends by the population in terms of rapid improvements in public service delivery will probably be the primary fiscal driver in Burundi for the foreseeable future. International development institutions have also been key drivers of fiscal governance in Burundi in periods of relative peace. Since 2005, Burundi has had an exceptionally high share of external development assistance in its public expenditure budget. Also, Government anticipated considerable increase in the volume of external resources after the elections of June 2010. Furthermore, in the medium-term, building the capacity of OBR is expected to result in improved tax revenue collection. Therefore, from a historical perspective, Burundi's medium to long-term fiscal governance trajectory holds promise.

2. Tax reforms: Sequencing, implementation and results

OBR has barely been in existence for more than a few months. Therefore it is expected that with time, the authority's management will map out a comprehensive reform strategy. However, GoB with the support from its development partners, has accomplished the following:

- Promulgation of the of the Value Added Tax (VAT) law in 2009, which brings Burundi closer to ensuring that its tax regime is aligned with international practices, and Burundi's partner states in the EAC;
- Adoption of the EAC Customs Union protocol (and thereby common external tariffs (CETs)), which underscores Burundi's commitment to regional integration and also improving the doing business environment within EAC;
- Adoption of the new revenue authority digital exchange system, whose implementation is almost fully operational and is expected to streamline clearance processes as well as minimise theft and fraud.

3. Domestic revenue performance

In the 10 years to 2008, in spite of the legacy of comparatively prolonged civil war, Burundi's domestic resources on average grew at 14.1% a year, and on average contributed 19.1% of GDP. The highest contributor to domestic tax revenue has consistently been taxes on goods and services whose share in 2008 stood at 42.9%. During the ten year period to 2008, taxes on goods and services grew at an average annual rate of 17.6%. The next highest contributor, income taxes which by 2008 also constituted 42.9% of the total taxes collected, grew at an average annual rate of 14.2%.

Revenue growth in future years is expected to improve with the establishment of OBR, introduction of VAT, and systems modernisation. However, in the medium-term, there will probably be acute limitations on Burundi's DRM growth for as long as the economy predominantly agriculture based.

4. Challenges and issues

There are several challenges and issues that GoB needs to tackle in the medium-term. These include:

- *Managing the transition to an autonomous revenue authority:* OBR will need to develop a strategic plan to guide its revenue mobilization efforts, in particular to sustain and but also surpass previous revenue collection targets;
- *Retaining staff with skills and integrity:* To ensure that it can retain and motivate staff, OBR will be challenged going forward to offer competitive salaries on a sustainable basis;

- *Ensuring the efficiency of tax incentives and exemptions:* Burundi is yet another country plagued with the issue of tax incentives and exemptions which need to be rationalised as means for widening the tax revenue base;
- *Widening the tax base:* Key informants and the literature on Burundi indicate that several informal sector traders remain outside the tax net. Several informal businesses remain outside the tax net because of government's "complex and burdensome rules and regulations" (World Bank, 2009);
- *Combating corruption effectively:* High levels of corruption in Burundi constitutes a key challenge to DRM;
- *Ensuring harmonised, systematic and policy led regional integration measures:* For instance, it is noteworthy that Burundi's top marginal personal and corporate income tax rates at 60% and 35% respectively remain the highest in the EAC.

5. Lessons of experience

The ongoing establishment of OBR heralds the start of the era of reforms that other EAC countries have been implementing over the past decade. Against that backdrop and at this stage, there are only two lessons of experience that can be derived from the Burundi DRM case study as follows:

- *Inaccurate national statistics can translate into a misleading measurement of tax effort:* It has been suggested that Burundi's GDP figures may have been consistently understated through the years, which results in an exaggerated tax revenue to GDP ratio. This is illustrative of the need to improve national statistics so as to enhance evidence based policy making;
- *Major policy initiatives should be backed by rigorous assessment of outcomes:* Burundi has demonstrated the benefits of rigorous assessments as a basis for major policy development, in particular the mitigation of risks associated with the policy changes. For example, one of the key factors that determined Burundi's VAT rate was the need to compensate for anticipated revenue losses from the adoption of CETs.

1 Context – Political economy and fiscal legacies

1.1 A legacy of prolonged civil war and its impact on the economy

Almost from the time it attained independence in 1962, Burundi experienced political instability and violence. In 1966, following a military coup Michel Micombero declared himself President after overthrowing King Ntare V Ndzizeye. Ten years later President Micombero was deposed by Pierre Buyoya in another coup. It was not until 1993 that Burundi held its first multi-party elections which were won by President Melchior Ndadaye. He was assassinated four months later, following which Burundi was plunged into ethnic conflict that resulted in the loss of 300,000 lives. Thereafter, Parliament appointed two Presidents in succession, Cyprien Ntaryamira (who was killed when an airplane he was travelling in was shot down in April 1994), and Sylvestre Ntibantunganya who ruled for about two years until he was overthrown in 1996 by President Pierre Buyoya (BBC, 2010). In response to this coup, the World Bank (1999) reports that:

“Regional leaders imposed economic sanctions covering trade and transportation, with dramatic effect on growth, poverty, and social indicators. Many bilateral donors observed these regional sanctions, and aid levels fell from around US\$300 million per year to US\$27 million”.

From 1999, leaders from other African countries facilitated talks with the warring factions aimed at brokering peace. In particular, the late former President Mwalimu Julius Nyerere of Tanzania initiated the process. Following Mwalimu’s death in 1999, former President Nelson Mandela of South Africa was instrumental in the signing of the Arusha Peace Agreement in 2000, and the establishment of a transitional government. However, it was not until 26 August 2005 that President Pierre Nkurunziza became Head of State when his party the National Council for the Defense of Democracy-Forces for the Defense of Democracy (CNDD-FDD) won the second ever democratic elections in Burundi (Bigirimana, 2005). These elections were held following a 2004 referendum in which voters endorsed a power-sharing constitution.

The new government was faced with the enormous challenge of rebuilding Burundi’s economy. In the decade to 1975, the economy grew at a modest rate of 0.5% of GDP per annum (p.a.). From the late 1970s to 1992, Burundi’s economy grew at a faster rate of almost 4% p.a. largely due to a coffee boom. However:

“Economic prospects were significantly affected by the civil war which occurred between 1993 and 2000, during which the national capital stock

depreciated by 44%, real GDP per capita fell by almost 27% (from US\$137 to US\$100), and by 2002 the number of people below the national poverty threshold increased from 35% to 68%...[From 1993 to 2000], average real GDP growth fell to -2.4% per annum” (IMF, 2006).

1.2 Peace and economic recovery efforts since 2005

From 2005, the new Government of Burundi (GoB) began to implement the “disarmament, demobilization, and reintegration of former combatants and the armed forces” (GoB, 2005). With the support of the IMF and other development partners, it also embarked on the implementation of macro-economic and fiscal reforms including amongst others: improving the governance and efficiency of the central bank; slowing monetary growth by reducing the levels of credit made available to government; liberalising the exchange rate system; strengthening public financial management systems; controlling public expenditure; reforming tax administration; and introducing structural reforms in the coffee sector. Furthermore, the new government “made good governance and combating corruption a primary objective of its administration” (IMF, 2006). To this end, GoB established an audit function and drafted anti-money laundering legislation.

To systematically address poverty issues, following a consultative process, in 2006, the GoB prepared its first full Poverty Reduction Strategy Paper (PRSP). The PRSP has four strategic objectives: (1) to improve governance and security; (2) to promote sustainable and equitable economic growth; (3) to develop human capital; and (4) to combat HIV/AIDS. By late 2006, Burundi’s macro-economic performance began to show signs of improvement. Monetary policy was stronger, inflation was down to single digit figures (but started to rise again thereafter due to high commodity prices before declining again in 2008/09), and the economy started to grow. “Real GDP growth increased to 4½% in 2008, up from 3.6% in 2007, mainly because of a good coffee harvest and more donor-financed investment projects” (IMF, 2009b). As a result of the global crisis, economic growth declined to 3½% in 2009, but is expected to recover in the medium-term.

Agriculture was until a few years ago, the predominant contributor to Burundi’s economy. According to the United Nations Conference on Trade and Development (UNCTAD), in 2003 agriculture, services and industry contributed 42%, 32% and 19% to Burundi’s GDP respectively¹. At around the same time, a report by United States Agency for International Development (USAID) revealed that “agriculture employed 93% of the labour force” (USAID, 2005). Nonetheless, estimates for 2009

¹ http://www.unctad.org/sections/ldc_dir/docs/ldcmisc20053_bdi_en.pdf [Accessed 2 April 2010].

indicate a substantial shift in the composition of Burundi's GDP with agriculture, services and industry contributing 33.3%, 45.8% and 21% respectively².

Within a few years of achieving relative peace and political order, Burundi's social, political and economic prospects are promising. In its first progress report on implementation of the PRSP, GoB (2008) reported progress including but not limited to the following:

- As “of end-December 2007 some 20,330 persons had been demobilized out of [a] total manpower of 55,000”;
- “A national decentralization and development policy letter [was] adopted and the law organizing the administration....revised”;
- Substantial expenditure on primary education by government and development partners resulted in access to free primary education for many Burundian children. The IMF (2010) reported a significant rise in net enrolment rates to 81% in 2008 up from 43% in 2000;
- Immunisation coverage was vastly expanded. By 2008, 75% of children aged between 12 and 23 months had been immunised against measles (IMF, 2010). The government also accorded high priority to preventative and curative care to HIV/AIDS patients;
- On 18th June 2007, at a ceremony in Kampala, Burundi signed the treaties of accession into the EAC.

1.3 Development financing mix and challenges

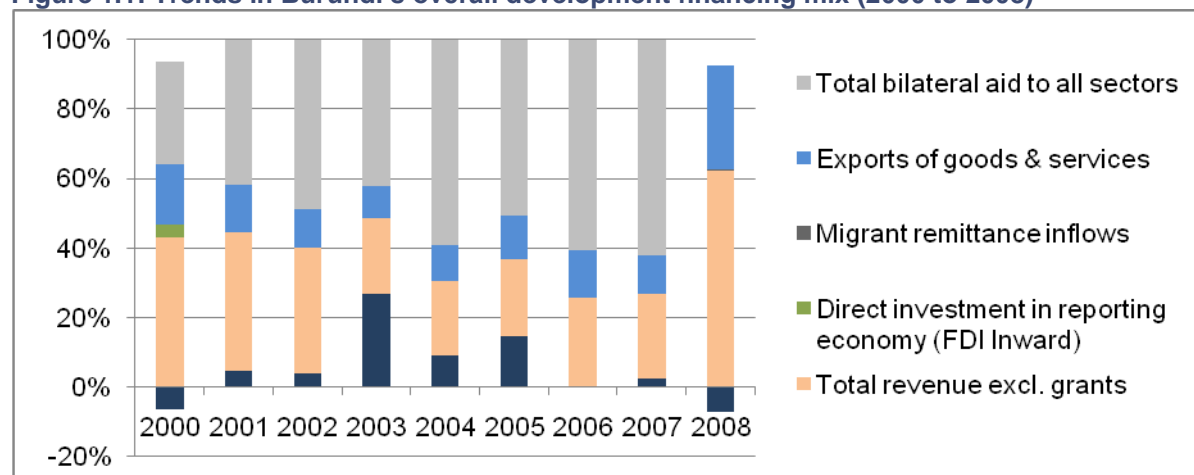
Figure 1.1 shows trends in the overall development financing mix for Burundi. Between 2000 and 2007, the largest source of development financing was bilateral aid which averaged at 36.5% of GDP, and grew at an average rate of 26.9% p.a.. GoB also financed its expenditures from domestic revenues, the second source of development financing (see **Chapter 3**).

Exports of goods and services between 2000 and 2008 contributed on average 8.6% of GDP, and were the third largest source of development financing. Burundi's exports are largely primary commodities – in particular, “coffee exports have accounted for about 75 percent of export revenues in recent years” (Basdevant, 2009). As a result, foreign exchange earnings are vulnerable to

² <https://www.cia.gov/library/publications/the-world-factbook/geos/by.html> [Accessed 2 April 2010].

fluctuations in the international commodity prices. Burundi's landlocked status and weak infrastructure also reduce the competitiveness of her exports.

Figure 1.1: Trends in Burundi's overall development financing mix (2000 to 2008)³



Source: Africa Economic Outlook (AEO) 2010 data

Between 2000 and 2008, direct investment in Burundi was negligible, at 0.2% of GDP, although GoB is open to foreign direct investment (FDI) especially in the mining, tourism and services sectors. Burundi has deposits of nickel, gold, uranium, cobalt, copper, platinum, among others, and “preliminary works with two drills, have shown possibilities of finding oil resources in the depth of the base of Lake Tanganyika” (Davenport, 2008). However, a recent review by UNCTAD (2010) indicates that “the challenge for Burundi to attract significant FDI inflows is considerable” as the nation still needs to strengthen its business environment, infrastructure and human capital. Nevertheless, in recent times, several international as well as African businesses have invested in Burundi including Ecobank of Nigeria, and Diamond Trust and Bank of Africa from Kenya.

Compared to other countries in the EAC, Burundi's total public expenditure and net lending since 2001 has been relatively high at 27.2% and 36.8% of GDP in 2001 and 2005 respectively. Military expenditure ranging between 6.2% and 8.0% constituted a large part of this expenditure. Burundi has financed a significant proportion of its public expenditure by borrowing. By 2005, the country's external debt had reached unsustainable levels at 189.3% of GDP (IMF, 2006). At that point, the IMF and World Bank worked closely with GoB to ensure that Burundi met the

³ Data on ODA for 2008 is not available.

criteria required to qualify for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. In January 2009, Burundi reached completion point under HIPC, and as a result qualified for debt relief in the amount of US\$833 million, and was also “eligible for further debt relief from the IMF, IDA, and the African Development Fund (AfDF) under the Multilateral Debt Relief Initiative (MDRI)”⁴:

1.4 Political economy dynamics underpinning domestic resource mobilisation

The synopsis of the political economy legacies that have impacted DRM, as presented in the subsections below, is based on Brautigam’s (2008) analytical framework⁵, which consists of the following five facets: (1) level of economic development and economic structure; (2) societal factors: culture, values, trust and ‘tax morale’; (3) war and taxes: bureaucratic modernisation as a response to threat; (4) political institutions and tax systems; and (5) taxation and the fiscal contract.

1.4.1 A small economy dominated by agriculture and a large informal sector

Burundi’s economy has always been predominantly agriculture based. Agriculture is mainly subsistence, but there are a few limited export commodities. Coffee and tea account for most of the foreign currency earnings⁶. Many years of war ravaged the economy, but paradoxically, a significant level of modern business activity continued. In the years of war, economic performance was erratic with an overall decline, but interspersed with some years of positive growth.

Economic recovery is evident since 2005. However, there are no signs of particularly high economic growth in the short to medium term. Specifically, the IMF (2010), projects that real GDP growth will be 4.5% and 4.8% in 2011 and 2012 respectively. Therefore, for the foreseeable future, the economy will remain small, dominated by agriculture and a large informal sector which accounts “for 75% of urban employment” predominantly in the capital city Bujumbura (World Bank, 2010). This outlook suggests an economy with severe binding constraints to DRM.

⁴ <http://www.imf.org/external/np/sec/pr/2009/pr0918.htm> [Accessed 2 April 2010].

⁵ Brautigam’s framework is adopted because compared to others that were examined; it is judged to be more comprehensive and elegant. However, like most others, its historical perspective derives too much from the emergence of the modern European state to be linearly applied to states that are legacies of colonial rule, such as Burundi.

⁶ http://news.bbc.co.uk/2/hi/africa/country_profiles/1068873.stm [Accessed 2 April 2010].

1.4.2 An evolving culture of nationhood and social solidarity but high levels of distrust remain and tax morale is virtually non-existent⁷

Until relative peace was restored in Burundi five years ago, the prominent socio-culture characteristic for many years was conflict and fear among the population due to violence and the “unequal distribution of economic resources and political power” (Taabco, 2008). However, a sense of nationhood, social solidarity as well as individualism, is fast evolving – according to the USA’s Special Adviser to the Great Lakes Region: “If you go to Burundi today, though they still have many issues in front of them, you will no longer hear the dialogue framed in terms of Tutsi versus Hutu”⁸.

Yet, there is still a strong distrust of political leaders. Although there is no questioning of the legitimacy of the government in power – “The [2005] elections were...judged to be free and transparent...[producing], a clear result which...gave legitimacy to the new institutions” (Umoya, 2009). However, the role of politicians in the instigation of hostilities in the past, and public experience and perception of widespread corruption, has sustained a high-level of distrust of political leaders and government. In this environment, tax morale is virtually non-existent.

Following the cessation of hostilities, peaceful co-existence is a treasured value all round. It appears that the vast majority of Burundi society will go to any length to ensure that peace and stability prevail – Burundians recognise “that their economy has been destroyed,...society [is] fragile and they can only manage with support from neighbours, the region and the international community” (The East African, 2010). This is an environment in which a government, with a clear vision and strong strategy for economic growth and poverty reduction, can propagate tax morale.

1.4.3 No attempt at bureaucratic modernisation until recently

Until the ongoing initiative to establish OBR, there has been no attempt at bureaucratic modernisation in Burundi. One of the paradoxes of the prolonged past war situation in Burundi is that the bureaucracy (public service) remained largely intact, albeit, necessarily demoralised and with diminishing capacity. Thus annual statements of central government operations throughout the years of conflict indicate that the public service, including the revenue collection departments in the Ministry of Finance, continued to collect taxes and regularly pay both public servants and the military. According to key informants to this case study, this

⁷ In a society where “tax morale” is high, there are low levels of tax evasion and avoidance. It is only in a social culture where citizens generally appreciate their responsibility for sustaining state services and where they have a trust in their state institutions and leaders that a “tax morale” evolves.

⁸ <http://allafrica.com/stories/200911090605.html> [Accessed 2 April 2010].

comparatively solid state of public administration is largely attributed to the legacy of Belgian colonial administration.

It is nonetheless paradoxical that, as the review of tax revenue performance will show, the military coups and prolonged civil war did not seriously disrupt the tax administration system or even undermine the tax efforts and result in low tax to revenue GDP ratios. On the contrary, Burundi's tax to GDP ratio (which ranged between 16% and 18% from 1998 and 2008 (see **Section 3.1**) has consistently been higher than in all the EAC countries, except Kenya, for most years where comparative statistics are available. Some key informants explained this paradox on the basis of the distinct possibility that there have been persistent measurement errors through the years, in particular, a gross understatement of the GDP. This perspective is backed by the fact that in spite of the high tax collection levels, Burundi is still heavily dependent on international development assistance.

In any case, setting aside the latter explanation of the paradoxical performance, there is no ready explanation why the tax and other public administration systems did not collapse under the common disruptive effects of civil war. Therefore, alternative hypotheses to explain the paradox are warranted. Three are proffered here. One, successive elites that captured power in Burundi over the years appreciated the need for preserving the tax administration institutions as instruments that could facilitate extractions from individuals as well as from the state. According to Nkurunziza and Ngaurko (2005), rent capture by a small group was commonly the overarching objective of successive governments since the mid 1960s. The second alternative hypothesis, and they are not mutually exclusive, is that the public administrators were knowledgeable enough to keep paying adequate royalties to the ruling elite in return for preserving the system and retaining their jobs and associated perks. Whatever the factors, it is noteworthy that a robust tax administration system survived the wars in Burundi.

The third perspective is that the elites who captured power were made an effort to sustain the tax system because in the circumstances, until recently, there has not been any strong local motive to recreate or reform the revenue collection institutions.

1.4.4 Limited political interference but bureaucracy and corruption characterise public administration

As indicated above, the colonial administration bequeathed successive Burundi regimes a tax system that was embedded in public administration structures under conventional ministries. It would seem that Burundi's political institutions did not on the whole interfere with either the public administrations or the tax systems.

However, the conflicts and instability associated with war ushered rampant corruption in all aspects of public sector management, including tax administration. A study commissioned by USAID (2006) reported that “tax collection is clearly lower than its potential; and customs duties are routinely evaded by deliberate misclassification and abuse of exemptions”. It would appear that the only restraint to total fraud in the tax administration was public service managers’ concern to ensure the availability of resources for salaries and rudimentary operating expenditures. Another USAID (2008) report suggests that:

“The problem [of corruption] is exacerbated by Burundi’s unstable political situation; when ministers and agency heads change frequently, there is little oversight and a strong incentive for incumbents to grab what they can while they can”.

The onset of peace does not seem to have abated fraud and corruption. It is against this background that the government has recently established Office Burundais Des Recettes (OBR – Revenue Authority of Burundi). The momentum to establish OBR has also emanated from Burundi’s accession to the EAC. The other four partner states already have autonomous revenue authorities (ARAs). The President of Burundi and other political leaders have expressed the expectation that: (1) OBR will be modelled along the lines of the best systems and practices of the other EAC ARAs; (2) OBR will overcome the constraints around staff competence and morale, bureaucracy and corruption that characterised the legacy tax administration system.

1.4.5 A fiscal contract between the state and its citizenry was never a real prospect⁹

In the absence of democratic practice for much of the period of Burundi’s post colonial existence, a fiscal contract between the state and its citizenry was never a real prospect. It could be argued that the public service bureaucracy enforced the legacy tax system because the associated revenue was critical to its own survival. In these circumstances the tax base remained narrow, and focussed on areas where enforcement was easy. This situation has remained until today. According to information obtained from key informants, about 200 large taxpayers contribute 80% of total internally collected revenues, and 1,500 small and medium taxpayers pay the rest. “Indeed, one company—Brarudi, the brewery—contributes over 20% of non-customs tax revenues” (USAID, 2008).

⁹ Fiscal contract has its genesis in agreements between European monarchies and the propertied class and merchants that the latter would contribute to state coffers especially to fund war in return for specific benefits. In modern times a fiscal contract would be characterised by government pledges of specific socio-economic benefits to justify taxation. This is a more realistic proposition in a democratic dispensation.

The need for a fiscal contract has also been rendered somewhat irrelevant by the availability of substantial external resources to fund public service delivery and development activities. The IMF (2010) reports that in 2007 and 2008, government financing from external grants as a percentage of GDP was 20.9% and 24.9% respectively. In addition, government financing from external grants as a percentage of GDP was projected to rise to 90.3% in 2009 mainly as a result of debt relief through the HIPC initiative, but is expected to drop to 25.0% in 2012 (IMF, 2010).

1.5 Fiscal governance drivers, results and trajectory

Other than the public service sustaining the legacy fiscal frameworks and the tax administration system, there is some evidence of one other indigenous fiscal governance driver in the past – i.e. rent capture by an elite. As earlier observed, according to Nkurunziza and Ngaurko (2005), rent capture by a small group was the overarching objective of successive governments since the mid 1960s.

Nevertheless, it would appear that international development institutions have also been key drivers of fiscal governance in Burundi in periods of relative peace. Since 2005, Burundi has had an exceptionally high share of external development assistance contributions to its public expenditure budget. In aggregate, development assistance is estimated to be between 55% and 60% of total public expenditure. However, war denied government and development partners the opportunity to develop a systematic policy dialogue. Following the 1996 coup, donor sanctions were only lifted in 2000 when:

“International assistance resumed..., demonstrated by the pledges of UD\$440 million made at the international donor conference held in Paris in December 2000, and the additional pledges at the Round Table donors meeting in Geneva in December 6-7, 2001, bringing the pledges to US\$830 million” (World Bank, 2002).

Still, in the past four years, besides receiving conventional assistance, government has engaged with international development organisations, particularly the IMF and World Bank, in policy dialogue, leading to the write-off of its debts under the HIPC initiative. Concurrently, the government has entered into a Poverty Reduction Growth Facility (PRGF) with the IMF. Both HIPC and PRGF commit government to macro-economic and fiscal performance benchmarks, as well as a more stringent fiscal discipline, including the reduction of subventions to loss making enterprises. On the heels of HIPC and PRGF, government has also entered into consultative policy dialogue with other international development organisations under the leadership of the World Bank. One significant benefit of these developments is access to budget support from five international development partners, including the

AfDB. If the government can sustainably deliver on its policy commitments in the short-term, it can expect to benefit from substantial additional budget and project support.

After five years the majority of Burundians are still waiting for peace dividends. Furthermore, “socio-economic instability has not been dealt with as a priority”, in particular, through the creation of employment and income-generating activities for the redundant ex-combatants and large numbers of idle youth (Specker et al, 2010). In addition, the same authors state that “current patterns of economic governance do not appear well suited to a concerted, medium to long term project for development”.

Government anticipated a considerable increase in the volume of external resources after the elections of June 2010. Furthermore, in the medium-term, building the capacity of OBR is expected to result in improved tax revenue collection. Therefore, from a historical perspective, Burundi’s medium to long-term fiscal governance trajectory holds promise.

2 Trends in the tax system

2.1 Key tax policies since 2005

In the years of political instability and violence, there was no proactive tax policy stance by successive governments. In 2005 the GoB initiated the reform of its tax systems with a focus on lowering and streamlining the tax regime as a means of raising domestic revenue, “reducing smuggling, simplifying administration and boosting trade” (IMF, 2005). This sub-section highlights key developments with respect to the three major categories of taxes collected in Burundi: taxes on domestic goods and services; income tax; and taxes on international trade.

On 1 July 2009, the government introduced the Value Added Tax (VAT) at a standard rate of 18% except for exports which are zero rated, and imports for diplomatic and certain international organisations which are exempt. The VAT replaced the transaction tax (Decree Law No. 1/04 of 1989 and 1/005 of 1994) which was levied at rate of 17%¹⁰. The rationale for its introduction was twofold: “to raise the efficiency of tax collection, and offset potential losses on customs revenue due to [Burundi’s] accession to the EAC” (IMF, 2008). The government also prepared an action plan to phase out the transaction tax.

The other tax levied on domestic goods and services is excise. Excise tax is levied on beer, soft drinks and tobacco in accordance with Decree Law no. 01/02. Products destined for export are exempt from excise tax.

Income taxes are levied in accordance with Part II of the General Tax Code first enacted in 1963 and amended numerous times since¹¹. The highest marginal income tax rate on companies is 35%. The rate is levied on “all net profits received by domestic and foreign companies from Burundi sources” (IMF, 2004). Certain institutions are exempt from corporate tax (e.g. firms covered under the investment code, agriculture and livestock businesses). It is also noteworthy that loss making companies are required to pay corporate tax equivalent to 1% of their turnovers. There is also a tax on capital income (of 35%) payable on dividends and equity ownership in companies. Personal marginal income tax rates range from 0% to 60%; however there are again exemptions offered, for example, to any income covered by international conventions (e.g. the Vienna convention). In addition, a

¹⁰ Previously there were three different transaction tax rates levied: (1) 7% (e.g. for agriculture, fishery and livestock products; meat and real estate sales); (2) 17% (e.g. on imports, manufacturers, services); and (3) 20% (e.g. on telecommunications, sales of cigarettes).

¹¹ However, GoB has issued “additional laws as well as orders...and rules” (GTZ, 2009)

“rental income tax is [levied] based on... progressive tax brackets ranging from 20% to 60%” (GTZ, 2009).

Burundi became a signatory to the EAC Customs Union protocol in July 2009, prior to which: import duties were levied in accordance with Preferential Trade Area (PTA) tariffs for goods emanating from PTA countries; customs duties were charged on goods from outside the PTA area; an ad valorem tax was payable on petroleum products; and a 6% services tax was charged on cost, insurance and freight (CIF) values. The EAC Customs Union protocol is enshrined into the East African Community Customs Management Act of 2004, which underpins the establishment of common external tariffs (CETs) and elimination of internal tariffs. It also brought about the: harmonisation of customs principles and procedures; and removal of suspended duty.

It is noteworthy that in 2008, Burundi’s National Assembly promulgated a new investment code simplifying “existing legislation and [harmonising it] with frameworks applicable in” the EAC (De Backer and Binyingo, 2008). Under the code, an Investment Promotion Agency is to be established. The code also broadens eligibility criteria to allow existing firms as well as those requiring rehabilitation to receive incentives. In addition, the new legislation provides for “tax advantages for investors [to be granted automatically] rather than... [through] prior authorization” (USAID, 2008). However, the implementation of the investment code has been on hold as “provisions concerning tax incentives make reference to the tax code”, which has only recently been drafted (World Bank, 2009).

In an effort to streamline the tax system (particularly indirect taxes) and remove exemptions, in its 2008 budget the National Assembly promulgated a new tax on cable television, and a hotel and tourism tax. It also eliminated “the transaction tax on real property transfers; and [reduced] transfer tax [rate] on...property sales from 6% to 3%” (GoB, 2008).

2.2 Other institutional changes

In 2009, Parliament passed the OBR law which came into force on 14 July of the same year (IMF, 2010). OBR aims to: widen the tax base and mobilise more revenue; narrow the communication gap between taxpayers and the fiscal administration and thereby improve relationships; provide better services to taxpayers including education; simplify tax administration procedures; and promote improved staff performance.

The authority did not become operational until 1 April 2010. Since then, the implementation momentum has picked up with the support of the UK’s Department

for International Development. It appears that the establishment of the OBR is significantly informed by the models and experiences of the other EAC ARAs, especially the Rwanda Revenue Authority.

At the time of writing this paper, OBR intended to hire 600 people through an open-recruitment process. The first two phases of recruitment for 21 executive and senior management team positions had been completed and a Commissioner General, Deputy Commissioner General, Commissioners and Directors recruited following: the screening and short-listing of over 400 applications; further candidate screening through assessment centres; and selection by the Board following assessment centres.

A Board of Directors comprising eight members from the private and public sectors, and accountable to the Ministry of Finance had been appointed. The Board is required by legislation to meet on a monthly basis. However, in the initial stages of OBR's launch the Board of Directors met every week.

Three Commissioners report to the Commissioner General as follows: Customs and Excise; Domestic Tax and Non-Tax Revenue; and Investigations and Anti-corruption. In addition, the Commissioner General is in-charge of various technical support functions such as: appeals; research and performance; taxpayer information; risk analysis; internal audit and assurance; and EAC matters. The Deputy Commissioner General is responsible for functions such as finance, human resources, and ICT and electronic business.

2.3 Changes in administrative systems

The systems supporting the administration of inland revenues are largely manual. The study team was informed that in 2005, GoB procured a computer-based system, NIF, to generate and maintain tax identification numbers (TINs). However, the system has not been effective due to some technical defects. Therefore government is looking to install a more reliable automated TIN system.

“A new customs code was promulgated in 2007 to make customs procedures more efficient [and to comply with the Kyoto protocol]” (IMF, 2008). This customs code has been incorporated in Automated System for Customs Data ++ (ASYCUDA++). This version of ASYCUDA, allows for direct trader input so that importers can lodge declarations from their bases, thereby facilitating a reduction in clearance times. OBR also uses ASYCUDA++ to generate trade statistics which are exported to an ORACLE database that is used to convert data into formats such as Excel and Access.

At the time of writing this report, OBR was pilot testing the Revenue Authority Digital Data Exchange (RADDEX) system. RADDEX is also operational in Kenya, Rwanda, Tanzania and Uganda.

OBR recently launched a French language website <http://obr-gouv.org/>. Understandably, this website is still at the 'bill-board stage' – it currently provides news, information (e.g. on organisational arrangements, senior executives, vacancies etc.) and downloads (e.g. legislation). With time, presumably OBR will develop its website to provide various taxpayer services. Furthermore, given that Burundi is part of the EAC, the website will presumably offer information and services in languages such as English and Kiswahili.

2.4 Fiscal decentralisation and taxation by local governments

Public administration in Burundi is on the whole characterised by weak capacity at the central and local government levels, including weak local revenue collections. Decentralisation reforms and the local finance system in Burundi are in their infancy. Although, the decentralisation process was started in 2005, the decentralisation strategy is still being discussed at Cabinet level and major progress is not expected before the completion of central and local elections in 2010 (Specker and Briscoe 2010).

2.5 Reform sequencing, implementation and results

OBR has barely been in existence for more than a few months. Therefore it is expected that with time, the authority's management will map out a comprehensive reform strategy to support the attainment of the objectives underpinning its establishment as outlined in **Section 2.2** of this paper. However, it is worth drawing attention to the fact that some of the tax policy measures and planned systems described earlier, constituted part of GoB's immediate reforms under the PRGF. For example, the French Development Agency assisted government in the development of the new customs code. Furthermore, OBR is receiving financial and/or technical assistance support from: the IMF in the area of VAT; DFID through Trademark East Africa, in establishing OBR; and the World Bank's Financial and Private Sector Development, and Economic Management Support Projects in for example simplifying tax procedures.

At this stage, it is premature to gauge the impact of tax and administrative reforms on DRM. However, GoB with the support of its development partners above, has accomplished the following:

- GoB undertook a "budgetary and economic impact study on Burundi's entry into the EAC" (GoB, 2008). It also assessed the impact of introducing the

VAT. In the medium-term, both policy measures are expected to have a “positive impact on revenue...[however the], studies show that they could result in a loss of revenue amounting to about 0.4% of GDP in 2009” (IMF, 2009a);

- The VAT law which brings Burundi closer to ensuring that its tax regime is better aligned with international practices, and Burundi’s partner states in the EAC;
- By adopting the EAC Customs Union protocol (and thereby common external tariffs (CETs)), Burundi has contributed to simplifying the trading environment within East Africa. To cushion Burundi from initial revenue losses as a result of adopting the CET regime, it received US\$6.5 million from the Common Market for East and Southern Africa’s Compensation Fund¹². By adopting CETs Burundi expects to lose Burundi Francs 2.7 to 3.1 billion (about US\$2.2 million to US\$2.5 million) a year. However, it anticipates that by widening the tax base and through increased production any losses will be recouped¹³;
- A new authority (OBR) is operational and offers significant promise in enabling GoB to increase and better administer domestic resources;
- The new RADDEX system is almost fully operational and should help to streamline clearance processes as well as minimise theft and fraud;
- GoB has made a commitment to realign its fiscal year which runs on a calendar year to 1 July to 30 June. This change will enable all five EAC member states to formulate policy, read their budgets and implement policy measures concurrently.

In addition to the above, initial reports from GoB are that the VAT performed well in the first quarter of its implementation. According to a source from the Ministry of Finance “fiscal revenues grew 38% in the third quarter of 2009 compared with the same period...[in 2008] due to higher” VAT collections (Reuters, 2009).

¹² <http://about.comesa.int/lang-en/publications/other-press-coverage/243-rwanda-burundi-get-22m-lost-revenue> [Accessed 6 April 2010].

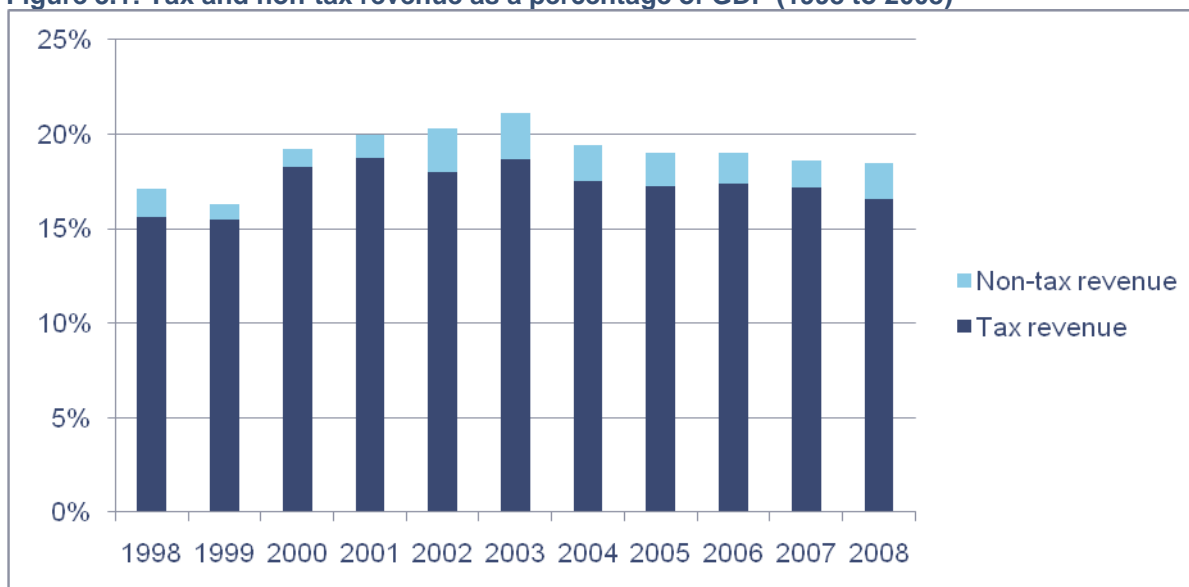
¹³ <http://www.senat.bi/spip.php?article1375> [Accessed 6 July 2010].

3 Domestic revenue performance

3.1 Domestic revenue performance trends

Figure 3.1 sets out Burundi's tax DRM efforts for the ten year period to 2008. The domestic revenue ratios as a percentage of GDP are higher than most of those reported by other EAC countries. Key informants to this case study suggest that these high levels of tax effort are due to base figures of GDP being potentially understated. GDP figures have probably not been adjusted to allow for year on year comparisons.

Figure 3.1: Tax and non-tax revenue as a percentage of GDP (1998 to 2008)



Source: Various IMF staff reports

Between 1998 and 2008, domestic revenue as a percentage of GDP ranged between 16.3% (1999) and 21.1% (2003) (see [Annex C: Table C3](#)). During this period, domestic revenue grew at an average annual rate of 14.5%. The bulk of domestic revenues over the years were tax revenues. On average, the tax to non-tax revenue split was 91.6% to 8.4%.

The highest contributor to domestic revenue has consistently been taxes on goods and services which in 2008 stood at 42.9% (see [Annex C: Table C5](#)). During the ten year period to 2008, taxes on goods and services grew at an average annual rate of 17.6%. The next highest contributor, income taxes which by 2008 also constituted 42.9% of the total, grew at an average annual rate of 14.2%. It is also

noteworthy that during this period, taxes on international trade as a proportion of total taxes declined from 29.5% in 1998 to 17.7% in 2008 as a result of tariff reductions. In particular, in 2005 GoB: condensed the number of tariff bands into three; reduced the maximum tariff rate from 40% to 30%; and folded the 12% tariff into the 10% rate (IMF, 2005).

3.2 Tax administration benchmarks

3.2.1 Performance efficiency

Formerly all taxpayers were handled by Inland Revenue and Customs Departments within the Ministry of Finance. Also ministries, departments and agencies collected non-tax revenues. Given its recent establishment, there are no benchmarks available on OBR's operating costs as a percentage of total tax collected. Moreover, OBR's management is yet to agree revenue collection targets from fiscal year 2011 onwards. Still, we are aware the OBR plans to service the top 100 largest taxpayers in Burundi through a large taxpayers department. It is also noteworthy that going forward, OBR has responsibility for collecting all non-tax revenues.

Again, unlike the other ARAs in the EAC, there are no benchmarks available from secondary sources on: the VAT gross compliance ratio (VATCGR); corporate income tax productivity (CITPROD); and personal income tax productivity (PITPROD). However, there are two available measures of performance efficiency. First, the World Bank's Doing Business Survey of 2010 ranks Burundi 116th out of 183 countries in terms of ease of paying taxes (see **Annex C: Table C7**)¹⁴. Second, the World Bank's 2010 Paying Taxes report indicates that a company is required to make 32 payments a year which are respectively, less and more than the Sub Saharan Africa(SSA) and Organisation for Economic Cooperation and Development (OECD) averages of 37.7 and 12.8 a year.

3.2.2 Allocative efficiency

According to Ndukimana (2001) a decade ago the authorities appeared to "be excessively lenient, granting widespread tax exemptions...often on questionable grounds". A few years later, Nkurunziza and Ngaruko (2005) observed that "large firms are more likely to benefit from tax and duty exemptions provided for in the Investment Code than small firms". It is also noteworthy that a study by Chambas and Laporte (2007) estimate that in 2006, 60% of imports were exempted from transaction tax and as a result contributed to revenue foregone of 103.7 billion Burundi Francs (about US\$ 84 million) or 10.7% of GDP. In addition, "they are the root cause of the spread in fraud and corruption and thus contribute to distortions in the national economy" (IMF, 2007).

¹⁴ <http://www.doingbusiness.org/ExploreEconomies/?economyid=185> [Accessed 10 March 2010].

Moreover, Burundi has one of the least conducive business environments in the world with an ease of doing business ranking of 176th out of 183 countries (World Bank, 2010). It is noteworthy that “in the country given the enormous obstacles to investing such as the low level of electrification, inadequate infrastructure, a lack of skilled labour and a very modest manufacturing base”, tax exemptions are likely to be low down among key factors that influence the decisions of potential investors. Therefore, tax exemptions to attract investments are not only likely to be ineffective but also distortionary and allocatively inefficient¹⁵.

3.2.3 Performance equity

Personal income tax rates are progressive. However, it is difficult to reliably assess the degree of progressivity because data on the distribution of taxpayers by tax brackets is not available. There is nonetheless a basis for observing that Burundi’s income tax regime is probably the most regressive among the EAC member states. For example, the minimum monthly taxable income attracting the lowest marginal tax rate of 27% is for earnings over 40,000 Burundi Francs (US\$ 33). Furthermore, the highest marginal income tax rate is 60% for a monthly taxable income over 331,667 Burundi Francs (US\$ 270) (GTZ, 2009).

“Income taxes and duties for Burundi are higher than those in neighbouring countries, putting Burundian businesses at a relative disadvantage” (USAID, 2008). In this regard, a striking statistic from the World Bank’s Doing Business Survey of 2010 is Burundi’s total corporate tax rate as a percentage of profit – which totals a staggering 278.6% (see **Annex C, Table C9**). As a matter of fact, Burundi’s ‘total tax rate’ as a percentage of profit is substantially higher than the OECD average of 44.5%, and the SSA average of 67.5%. Until 2009, the transaction tax (of 250.4%) was the major contributor to this substantial tax burden largely because it was levied on a cascading sales tax basis. Following the introduction of VAT, “the tax burden as measured by *Doing Business* is expected to fall substantially in” future years (World Bank, 2010).

3.2.4 Performance effectiveness

There were no readily available data on Burundi’s tax effort and gap. However, there are indications that corruption, tax evasion and the tax exemption regime are serious problems – for example, the East African Business Council’s (EABC’s) Business Climate Index survey of 2008 reports that out of the five EAC states “the number of business leaders who stated that bribery at customs was a major obstacle in business was highest in Burundi at 68%”. It can therefore be inferred

¹⁵ www.estandardsforum.org/system/briefs/240/.../brief-Burundi.pdf [Accessed 6 July 2010].

that there is probably significant scope for Burundi to reduce its tax gap and increase tax effort and thereby its performance effectiveness.

3.3 Summary of overall trends

In the 10 years to 2008, in spite of the legacy of comparatively prolonged civil war, Burundi's domestic resources on average grew at 14.5% a year, and on average contributed 19.1% of GDP. There are no ready explanations for the paradox that the civil war did not result in the collapse of the tax administration. But some hypotheses to explain this result were offered in **Section 1.4.3**.

OBR inherited a comparatively well performing tax administration system. Growth in future years is expected to improve with the introduction of VAT, establishment of OBR, and systems modernisation. However, in tandem, Burundi needs to widen its tax base, further simplify the tax regime, curb corruption and tax evasion, and manage tax exemptions/incentives more effectively. Still, in the medium-term, there will probably be acute limitations on Burundi's DRM growth for as long as the economy remains small.

4 Challenges and issues

If peace is sustained in Burundi, our literature review and key informant interviews intimate that the potential for enhanced DRM is high. However, there are several challenges and issues that GoB needs to tackle in the medium-term.

4.1 Managing the transition to an ARA

Any major organisational restructuring and transformation initiative can be disruptive. Setting-up OBR, recruiting tax administration staff from scratch, and transforming ways of working all represent a significant departure from the past. OBR will therefore need to ensure that as it fully establishes the authority's tax collection efforts and any targets agreed with the Ministry of Finance receive due attention.

4.2 Retaining staff with skills and integrity

Significant investments have gone into, and are still ongoing to attract honest and capable personnel into OBR. For some positions, GoB has even sought to recruit resources internationally. To ensure that it can retain and motivate them, OBR will be challenged going forward to offer competitive salaries on a sustainable basis. A commensurate remuneration policy may also assist in minimising corruption. In this respect a USAID (2006) report suggests that “a bonus system linked to actual customs duties collected might perhaps be considered”.

4.3 Ensuring the efficiency of tax incentives and exemptions

Burundi is yet another country plagued with the issue of tax incentives and exemptions. This regime seems inequitable when one reviews the hefty overall tax burden placed on companies that are not eligible for any tax dispensations (see **Sub-section 3.2.2**). As a result, this inequity “may ultimately be cause for tax evasion” (World Bank, 2009). Both these scenarios inevitably lead to loss of domestic resources. To this end, the IMF (2010) recently urged government to “continue efforts to broaden the revenue base by reducing exemptions”. These efforts will require the firmness and resolve of Burundi's political leadership.

4.4 Widening the tax base

Key informants maintain that several informal sector traders operate businesses with significant turnovers but remain outside the tax net. Others pay minimal taxes through a single business, even when, they operate many more. In addition, according to one literature source, “small Burundian businesses often have a foot in the informal economy and are usually trying to minimize their exposure to scrutiny

from the state” (USAID, 2008). Another source suggests that there are also informal businesses that are not able to comply with government’s “complex and burdensome rules and regulations” (World Bank, 2009). There is therefore need to: (1) forge ahead with simplifying the tax system for the informal sector through the Financial and Private Sector Development project with a view to widening the tax base and encouraging the formalisation of businesses; (2) appraise the informal sector to establish its size, and the potential revenue that could be raised through taxes; and (3) offer taxpayer education to the informal sector.

There is legislation in place to collect property tax. However, there are challenges around its efficient collection. The Registrar of Property Deeds operates a manual system. However, “computerization is under consideration” (USAID, 2008). It may well be that property tax revenues will never be significant, but a well functioning land registry is a potentially useful source of third party information for OBR.

4.5 Combating corruption effectively

As a nation, Burundi is flagged as having high levels of corruption. Specifically, Burundi’s place in world corruption rankings has been on a decline indicating that corruption is a worsening problem. In 2009, 2008 and 2007 Burundi ranked 168th (out of 180), 158th (out of 180) and 131st (out of 179) countries respectively in Transparency International’s corruption perception index. Furthermore, direct taxation is considered to be one of the main areas susceptible to corrupt practices as “paying taxes...is cumbersome and complicated by the multiplicity of taxes...[which] leaves room for uncertainty and corruption” (World Bank, 2009).

4.6 Ensuring harmonised, systematic and policy led regional integration measures

Over and above the need to address non-trade barriers (e.g. corruption), there has been a proposal for a comprehensive survey and analysis of the tax systems (both direct and indirect) in the EAC partner states to ascertain the need, extent and form of tax coordination required if the Common Market is to function properly. Once such a study is carried out, it would be easier to identify priorities in terms of key issues to address. However, at this stage it is noteworthy that Burundi’s top marginal personal and corporate income tax rates at 60% and 35% respectively remain the highest in the EAC.

5 Lessons of experience

Burundi has no significant history of tax reforms, although it paradoxically sustained a fairly resilient tax administration system through the civil war years. The ongoing establishment of OBR heralds the start of the era of reforms that other EAC countries have been implementing over the past decade. Against that backdrop and at this stage, there are only two lessons of experience that can be derived from the Burundi DRM case study.

5.1 Inaccurate national statistics can translate to a misleading measurement of tax effort

On the basis of statistics compiled by the IMF, Burundi's tax effort seems high by EAC as well as SSA standards, even in the years of conflict and war. Going by the tax revenue to GDP indicator (which for Burundi hovered at between 16% and 18% between 1998 and 2008), Burundi has consistently outperformed all the EAC countries, except Kenya, for most years where comparative statistics are available. It has been suggested by some study informants that Burundi's GDP figures may have been consistently understated through the years, which results in an exaggerated tax to GDP ratio. If this is the case, then statistics are erroneous for planning purposes. Also, it is difficult to realistically benchmark DRM performance with other countries. This is illustrative of the need to be cautious in the use of statistics generated from secondary national data to compare performance in tax administration, or indeed other national development outcomes between countries and their institutions.

5.2 Major policy initiatives should be backed by rigorous and systematic study

Burundi has demonstrated the benefits of rigorous and systematic study as a basis for major policy development in two instances. First, there was depth and rigor in the study of the implications of Burundi joining the EAC Customs Union. Second, a similar quality of analytical effort and results are reflected in the study of the transiting from sales tax to VAT. Consequently the policy decisions made catered for mitigation of the risks entailed as a result of policy changes. For example, the rate of VAT was set to compensate for anticipated revenue losses from the adoption of CETs.

Annex A: Key informants

Agathe Nsengiyumva (Ms) Director Non Fiscal Revenue, OBR

Beatrice Hamenyayo (Ms) Director Budget, Ministry of Finance

Dave Beer (Mr) Head of Office, DFID Burundi

Emile Simzumisi (Mr) Acting Commissioner General, OBR

Eric Mabushi (Mr) Resident Economist, World Bank

Hermenegilde Ndikumasabo (Mr) President, Federal Chamber of Commerce and Industry of Burundi

Joas Katanga (Mr) Director Large taxpayers, OBR

Joseph Ndarishikanye (Mr) Commissioner of Customs, OBR

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Annex C: Select Indicators

Table C1: Tax policy – Maximum marginal tax rates (2006 to 2009)

Fiscal year	PAYE	Corporate tax	VAT
2006	60%	35%	-
2007	60%	35%	-
2008	60%	35%	-
2009	60%	35%	18%

Source: IMF (2004), Doing Businesses and GTZ (2009)

Table C2: Ratio of tax staff per population (TAXSTAFF)

Indicator	Burundi's measure	World's measure	SSA's measure	Low income economies' measure
TAXSTAFF	-	0.82	0.37	0.20

Source: http://www.fiscalreform.net/index.php?option=com_wrapper&Itemid=132 [Accessed 2 February 2010].

Table C3: National government revenue and fiscal deficit as a percentage of GDP

Fiscal year	Revenue (tax and non-tax revenue)	Fiscal deficit excluding grants
1998	17.1%	-6.6%
1999	16.3%	-9.1%
2000	19.2%	-4.9%
2001	20.0%	-7.2%
2002	20.3%	-5.7%
2003	21.1%	-14.2%
2004	19.4%	-22.8%
2005	19.0%	-24.3%
2006	19.0%	-19.4%
2007	18.6%	-19.85
2008	18.5%	-23.5%

Sources: Various IMF staff reports

Table C4: Split of total budgeted tax and non-tax revenue as a percentage of total domestic revenue (1998- 2008)

Fiscal year	Tax revenue	Non-tax revenue
1998	91.2%	8.8%
1999	95.0%	5.0%
2000	95.2%	4.8%
2001	93.6%	6.4%
2002	88.5%	11.5%
2003	88.6%	11.4%
2004	90.4%	9.6%
2005	90.8%	9.2%
2006	91.6%	8.4%
2007	92.5%	7.5%
2008	89.7%	10.3%

Source: Various IMF staff reports

Table C5: Composition of main taxes as a percentage of total revenues collected (1998 to 2008)

Fiscal year	Income tax	Taxes on goods and services	Taxes on international trade
1998	29.8%	40.7%	29.5%
1999	27.3%	48.4%	24.3%
2000	22.3%	52.2%	25.4%
2001	28.8%	49.2%	21.9%
2002	28.1%	49.7%	22.2%
2003	26.9%	48.5%	24.5%
2004	24.9%	50.9%	24.2%
2005	24.8%	52.0%	23.3%
2006	28.8%	52.4%	18.8%
2007	42.2%	42.2%	15.5%
2008	42.9%	42.9%	14.1%

Source: Various IMF staff reports

Table C6: CIT and PIT revenue productivity and VAT gross compliance ratio (2008/09)

Indicator	Burundi's measure	World's measure	SSA's measure	Low income economies' measure
CITPROD	-	0.13	0.09	0.08
PITPROD	-	0.14	0.08	0.07
VATGCR	-	65.48	42.3	38.45

Source: http://www.fiscalreform.net/index.php?option=com_wrapper&Itemid=132 [Accessed 2 February 2010].

Table C7: World Bank Doing Business indicators on the tax burden (Burundi only)

Indicator	Year		
	2008	2009	2010
Burundi's global ranking	-	117	116
Number of tax payments a year	32	32	32
Time taken to comply with the major tax types	140	140	140

Source: <http://www.doingbusiness.org/ExploreEconomies/?economyid=32> [Accessed 10 March 2010]

Table C8: World Bank Doing Business indicators (2010) on the tax burden (Burundi vis-à-vis the OECD and SSA)

Indicator	Region		
	Burundi	OECD	SSA
Number of tax payments a year	32	12.8	37.7
Time taken to comply with the major tax types	140	194.1	306.0
Total tax rate as % of profit	278.6%	44.5%	67.5%

Source: <http://www.doingbusiness.org/ExploreEconomies/?economyid=32> [Accessed 10 March 2010]

Table C9: Breakdown of taxes as a percentage of profit

Tax or mandatory contribution	Statutory tax rate	Tax base	Total tax rate as a % of profit
Sales tax	17.0%	Purchase	250.4
Corporate income tax	35% (1%)	Taxable profits (turnover)	17.7
Social security contributions	3.9%	Gross salaries	4.4
Health insurance contribution	3.0%	Gross salaries	3.4
Capital gains tax	35%	Capital gains	1.8
Building tax	BIF 36	Per square metre of developed land	0.5
Vehicle tax	3900 BIF per trimester	Per truck operated	0.5
Land tax	BIF 3	Per square metre of undeveloped land	0
Total			278.6

Source: <http://www.doingbusiness.org/ExploreTopics/PayingTaxes/Details.aspx?economyid=32>

Annex D: Glossary of definitions of select terms

CITPROD	CITPROD indicates how well CIT does in terms of producing revenue, given the prevailing tax rate. It is calculated by dividing total corporate income tax revenues by GDP and then dividing this by the general corporate income tax rate.
PITPROD	PITPROD attempts to provide an indication of how well the personal income tax in a country does in terms of producing revenue. It is calculated by taking the actual revenue collected as a percentage of GDP, divided by the weighted average PIT rate.
Tax effort	Actual tax revenue as a percentage of estimated potential tax revenue
Tax gap	The difference between estimated potential tax revenue and actual tax revenue
VATCGR	This is a measure of how well the VAT produces revenue for the government. It is computed by dividing VAT revenues by total private consumption in the economy and then dividing this by the VAT rate.