AID-FOR-TRADE: CASE STORY

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Changing Incentives – Revenue Growth in Burundi

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Changing Incentives - Revenue Growth in Burundi

In 2009, the new semi-autonomous revenue authority in Burundi was established with the aim of increasing revenue collection and improving the enabling environment for business. Burundi is a landlocked, resource-poor country that has been severely damaged by civil war. High levels of poverty and a fragile peace since the end of hostilities in 2006 provide a precarious backdrop for the new government following the 2010 elections. With high aid dependency (in 2008, net ODA received was over 40% of GNI[1]) and serious concerns about the quality of governance and public sector management[2], Burundi, one of the East African Community's (EAC) newest partner states, is faced with considerable challenges.

1. Issues Addressed

The importance of taxation to development has often been a neglected issue. Taxation is both a fiscal and governance issue and it is necessary to deliver short term operational solutions and longer term political solutions. In highly aid dependent countries, governments have access to revenues without having to rely on taxpayers, resulting in public spending being influenced by patronage networks rather than for growth priorities. With few citizen taxpayers there is also limited government accountability to citizens. Significant levels of tax evasion with monies lost to inefficient systems and corrupt behaviour, also contribute to a vicious cycle of dependence. Taxation in Burundi represents a dependable source of government revenues and is critical to enabling the government to meet its recurrent expenses, notably government salaries.

In 2009, the Government of Burundi recognised that it had an opportunity to streamline and strengthen the collection of revenue (from more than 20 agencies with revenue collection responsibilities) with the aim on increasing revenue collection and decreasing its reliance on aid. As a new member of the EAC, Burundi was also required to improve customs and revenue management in line with the EAC Customs Management Act. Support from the Belgian government, United Kingdom Department for International Development (DFID), German Technical Cooperation (GTZ), International Monetary Fund, Rwanda Revenue Authority and World Bank led to the development of a law, based on good practice in the East African region, to establish a semi-autonomous Office Burundais des Recettes (OBR). This separated the government's revenue collection functions from the Ministry of Finance's tax policy function. Subsequently, a four-year programme of support (USD18m) was initiated by the Belgian government and DFID and is managed by the TradeMark East Africa (TMEA) regional trade programme. Significant reforms commenced in mid 2010 when the first Commissioner General was appointed and tax and customs staffs of the Ministry of Finance were seconded to the OBR.

2. Objectives Pursued

The streamlining and strengthening of revenue collection is expected to contribute to increasing Burundi's trade competitiveness. For instance, upgrading key border posts with technology-supported integrated services will decrease the time taken to cross borders by an estimated 30 per cent; electronic cargo tracking will reduce transportation times and the need for escorts on corridors; compliant tax-payers will benefit from priority treatment based on self-assessment principles; and greater fiscal discipline will contribute to an improved investment climate. Additional revenues will provide the government with the means to pay for infrastructure (electricity, roads and rail links) and provide increased social services such as health and education.

3. Design and implementation

The programme in Burundi is based on the assertion that there is a need to change the incentives, internally and externally to the OBR, if sustainable improvements in revenue collection and trade are to be achieved. As such, a number of interventions, which can be grouped according to their emphasis on the functional or political internal or external dynamics of the OBR are being implemented to stimulate change.

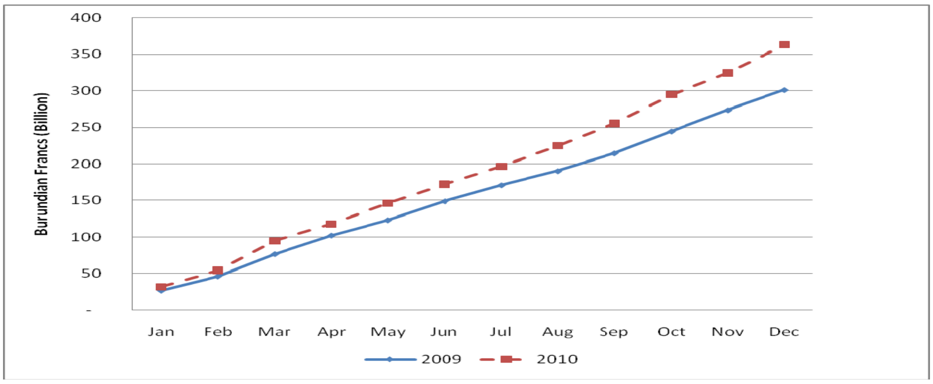
The *internal* functional dynamics are being addressed by what may be considered traditional organisational capacity development interventions including restructuring; developing a corporate plan; staff training (in partnership with the Rwanda Revenue Authority); re-engineering systems and processes to reduce customs documentation; implementing information technology systems such as ASYCUDA World to connect headquarters with border posts; and the provision of resources such as equipment, buildings and funds. Changes in these organisational elements aim to improve the operational performance of the OBR. Improving operational performance in 2010 focused on the larger corporate taxpayers with the aim of showing short-term gains to build support for further change. The Commissioner General has been leading the executive management team to change the *political* dynamics within OBR. For instance, customs and other officers known to be untrustworthy have been replaced with staff known to be trusted. Merit-based recruitment processes have been used to recruit around 434 staff (or 80 per cent of the total establishment) in 2010/11 and a code of conduct, which includes a declaration of personal assets, has been approved by the OBR Board. A performance pay system, where employees are entitled to additional pay if they meet or exceed revenue collection targets, is being developed in order to focus staff on their job.

Other *external* interventions focus on improving relationships between the OBR and taxpayers so that implementation of Burundi's tax regime may be seen as a better-negotiated, fair and transparent experience for citizens. In other words, the way that revenue is collected is as important as the amount of revenue collected. The OBR is also building coalitions of support with external stakeholders, such as the business community, corporations and business member organisations, able to influence change and the external political dynamics. In 2010, the OBR developed and commenced the implementation of a communications strategy to improve taxpayers' understanding of OBR activities and changes in the law. Initiatives are underway to provide compliant businesses with significant benefits such as the speedy removal of goods from customs and the right to clear goods at their own premises. Work with Burundi's Private Sector Federation and Burundi's Association of Manufacturers aim to create win-win situations and these organisations have agreed to incorporate good tax citizenship provisions in their constitutions. In return, OBR will deal with them on an institutional level and provide them with speedy customs clearance in return for agreed compliance actions. The OBR and East Africa Revenue Authorities Association have been working together to train revenue staff, dissemination good practices in tax and customs administration and share lessons learned in the region.

4. Results achieved to date

Despite working with seconded personnel and out-dated manual systems, revenues for July - December 2010 were 25% greater than the same period in 2009. There was a 20% year-on-year increase from 2009 to 2010 (Table 1). The additional revenue collected in the second half of 2010 exceeded the total five-year investment, evidence that revenue enhancement projects can show very high initial returns.

Table 1: Cumulative Revenue 2009 – 2010



The public and most taxpayers have welcomed the OBR and the promise of a level playing field that comes with a new transparent administration. The President of Burundi, both Vice Presidents and senior public servants are highly supportive of the reforms. Predictably, some revenue staff, taxpayers and government officials who were used to the old ways of doing business have found it harder to adjust to the new revenue administration.

5. Looking forward

The short-term performance improvements have presented an opportunity to create lasting positive change if the political and governance issues can be successfully addressed. The Burundi authorities and the IMF have set a target for revenue collection for 2011 at BIF 437 billion (US$35m), 20% up on the 2010-year. While Burundi is often described as a resource-poor country, a more accurate description may be a 'resource-untapped' country. Given its geographic location, Burundi is likely to rely increasingly on resource extraction and new tax laws will ensure that non-residents extracting minerals and other natural resources from Burundi will be taxable.

OBR operates within a wider environment where corruption and fiscal evasion are still viewed as acceptable by many taxpayers, or at least to the extent that some officials are unwilling to fight against corruption. OBR staff may find themselves in situations whereby different rules, formal and informal, are applied internally within OBR and then outside OBR. This may create a tension for staff as they move between different settings. To address this, OBR will further strengthen its external functional relationships with other anti-corruption agencies such as the Ministry for Good Governance and the Anti-Corruption Brigade. The media is another potential source of influence within Burundi and OBR is aiming to strengthen its watch-dog role. Other initiatives will allow the public to access hot lines and suggestion boxes, which allow concerned taxpayers to inform the OBR of illicit activity, anonymously if they wish.

The OBR has generated short-term gains that are to be expected from revenue administration and customs reforms. Building on these and addressing the political dynamics in Burundi to support sustainable change and the achievement of the objectives is the focus of the OBR going forward.

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[1] World Bank Indicators http://data.worldbank.org.

[2] The 2010 Transparency International Corruption Perception Index ranked Burundi at 170 out of 178 countries with a rating of 1.8, where 0 is the most corrupt and 10 the least.