POLICY VOICES SERIES

Africa Research Institute

FOR STATE AND CITIZEN

REFORMING REVENUE ADMINISTRATION, IN BURUNDI

By Kieran Holmes, Domitien Ndihokubwayo and Chantal Ruvakubusa

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FOREWORD

Tax issues are high on the agenda of African governments. At an international level, Prime Minister David Cameron has used the UK's presidency of the G8 to call for greater efforts to promote trade, tax compliance and transparency. Clause 4 of the Lough Erne Declaration released at the G8 summit in June 2013 stated that "developing countries should have the information and capacity to collect the taxes owed them – and other countries have a duty to help them".

While the commitment to counter deleterious international tax scheming is laudable, in many of the poorest countries in sub-Saharan Africa a similar – and arguably even more imperative – campaign is being waged to achieve efficient collection and administration of domestic tax revenues. That is the focus of this *Policy Voice* authored by the senior management of the *Office Burundais des Recettes* (OBR).

In 2010, the Transparency International (TI) East African Bribery Index listed Burundi as the most corrupt country in the region. Burundi's tax department was named as the most corrupt institution, dislodging the Kenya Police from the top spot. Even allowing for the limitations of such indices, the backdrop for the creation of the OBR – a new, semi-autonomous revenue authority – was inauspicious.

The scale of corruption in Burundi noted by TI in 2010 was crippling, though not surprising. The Arusha peace agreement signed a decade earlier had been a major step towards ending a civil war that claimed the lives of more than 200,000 Burundians since 1993. However, that peace was still fragile and the economy prostrate. Burundi's GDP per capita was the lowest in the world at US$150. Four-fifths of the population subsisted below the US$1 income per day poverty line. It was estimated that annual GDP growth of 8% would be required until 2015 for Burundi even to regain its limited pre-war level of national income per capita. Yet average GDP growth during the 2000s had been a mere 3%, barely outstripping the rate of population growth. Foreign direct investment in Burundi for the period 2000-08 amounted to less than 0.2% of GDP.

Given the economic and political backdrop, the assertion in the 2010 *African Economic Outlook* that "vast financial resources will have to be raised via sufficient direct or indirect taxation [in Burundi]"[1] seemed to articulate an utterly implausible ambition. An almost simultaneous report from the African Development Bank observed that the structure of – and outlook for – the Burundian economy were "severe binding constraints to domestic resource mobilisation".[2] Most important of all, in a society riven with distrust after years of conflict the state was arguably the most distrusted entity of all. While revenue collection had not collapsed during the war – it was in the interests of the political elite to retain access to this important source of rent and the tax base was very narrow – public tax "morale", or the willingness to comply, was non-existent.

In 2009, despite the signally inhibitive outlook, the Burundian government began implementing a number of measures to improve public financial management. One of these was a tax revenue modernisation programme which included the creation of the OBR and the introduction of value added tax (VAT). Having joined the East African Customs Union in 2009, regional integration was a stated priority of the government following the 2010 elections. The potential of a market of 120m people was self-evident. Burundi is a small, landlocked country of nine million inhabitants, with an undiversified economy vulnerable to external shocks and lacking basic infrastructure.

In 2011, Burundi held the presidency of the East African Community. That year, tax revenue collected by the OBR was nearly 60% higher than in 2009 – one-third higher in real terms. An initial target of improving the contribution of tax revenues to GDP by 1% before 2016 had already been achieved. In 2012, taxes collected by the OBR rose to BIF527 billion (US$350m), 75% more than in 2009, and the contribution of tax revenues to GDP was 16.7% against 13.8% in 2009.

The actions taken by the OBR to achieve this substantial improvement are described in this *Policy Voice*. They included a recruitment drive of unprecedented proportions for Burundi and the strict enforcement of a rigorous Code of Conduct for employees. An anti-corruption drive was supported by President Nkurunziza's own commitment to zero tolerance of corruption. Legislative reforms, more efficient procedures, co-operation with other government agencies and ministries where possible, investment in IT systems, an ongoing effort to widen the tax base and a drive to professionalise customs operations at the borders have been equally important. Rather unusually, many modern practices and "good governance" initiatives applied by tax administrations in developed economies have proved equally appropriate and effective in Africa.

The OBR is targeting the collection of BIF1.2 trillion (US$800m) in tax revenue by 2017. If this were achieved, a much higher proportion of the government's budget would be funded by taxes than the current 50%. A series of business reforms, included those in which the OBR has been instrumental, have seen Burundi's position in the World Bank's Doing Business rankings rise from 181 out of 183 countries in 2011 to 159 in 2013.

Despite its achievements to date, the OBR sees no room for complacency. As the authors point out, it takes between six and eight years to establish a fully functioning revenue authority. Many similar institutions in Africa have found the initial rate of improvement in tax collection impossible to sustain. Retention of the best staff is particularly difficult as they are keenly sought by private sector employers. Autonomy – or semi-autonomy – is often compromised by repeated political intervention. Revenue authorities are typically designed to deal with formal entities, whereas the livelihoods of the vast majority of the population are informal and, in most cases, rural.

For the OBR, continued progress is dependent on a favourable political, economic and legislative environment. President Nkurunziza has declared that Burundi "is now out of the post-conflict period and is truly committed to the path of development",[3] but a complex and multipolar political landscape remains tense, GDP growth at 4% is inadequate and the return of hundreds of thousands of refugees creates considerable social and economic strain.

In September 2013, the IMF stated that "a recommitment to revenue mobilisation by further strengthening tax administration and containing exemptions is critical"[4] in Burundi. As the authors of this Policy Voice point out, "taxation is never popular, but it is a necessity for national development and functioning democracy". Taxation can play a part in fostering a sense of citizenship and a compact between government and the voters – but only if a reciprocal obligation is respected by both parties. Taxpayers have a right to see their taxes spent wisely and in a transparent manner. Government has a right to tax only if it is committed to deliver essential services in exchange for compliance from the taxpayer.

The raising of much higher tax revenues is a tall order for the OBR, as – for the government – are promises to improve substantially the welfare of Burundians. While higher revenue will indeed be critical for the health of the public purse in Burundi, the well-judged deployment of public funds will be essential for social cohesion and stability.

Edward Paice
Director, Africa Research Institute
October 2013

[1] African Economic Outlook, Organisation for Economic Co-operation and Development (OECD)/ African Development Bank (AfDB), 2010, p.134

[2] African Development Bank, Domestic Resource Mobilisation for Poverty Reduction in East Africa, 2011, p.118

[3] IRIN humanitarian new and analysis, "Burundi's bumpy road to the 2015 polls", 1 November 2012

[4] IMF press release No 13/328, 6 September 2013

1: THE TAX COLLECTOR

Taxation, development and accountability

All countries need to levy taxes, but in developing countries it is crucial for the state to be able to tax its population since tax revenues are indispensable for economic development. Tax revenues enable the state to invest in infrastructure and services necessary for the welfare of the public. The private sector is seldom interested in investing in defence and policing, for example, or in heavy infrastructure such as dams, fibre optic cables and hospitals. But the provision of public goods by the state in turn encourages investment – domestic and from abroad. Contrary to received wisdom, taxation can also promote fairness in society if sound policy is set and administered properly.

Burundi cannot rely indefinitely on external sources to finance its development. The country still receives substantial support from international donors, and more than US$2 billion was pledged at a conference in Geneva in October 2012. But the global economic situation is very turbulent. Most donor countries are cutting domestic and overseas development expenditure. Pledges may not be delivered. In Burundi, it has been recognised that the "free donor ride" was significantly curtailed by the 2008 financial crisis. In fact, domestic sources of revenue are the only reliable and unrestricted source of state income and must be maximised.

In 2013, Burundi's tax revenue will finance about half of the government's budget. By 2016, if realistic taxation targets are met in the intervening years, the proportion of the budget funded by tax revenue could be considerably higher. As the size and significance of domestic tax revenues grows, a completely different dynamic is created to that fostered by over-reliance on donor funding. Of course, governments sometimes feel more uncomfortable when substantial revenue starts coming from domestic taxation. There can be a huge public expectation that tax revenues should be spent well. In general, however, governments become increasingly responsive to the population. In the long run, taxation has a vital and essential role to play in promoting accountability between ordinary citizens and the government.

A new revenue authority

In the 1990s and 2000s, tax collection in Burundi was the remit of the Ministry of Finance (MoF). Within the MoF, there were separate tax administrations responsible for collecting income taxes, customs duties and non-fiscal revenues. The departments acted autonomously and, generally speaking, did not communicate well with one another. There were more than 20 tax collection agencies. Taxpayers were often required to deal with more than one tax office, each of which had different operating procedures. Given that the tax administration and collection system was so inefficient, it remained relatively unaffected by the civil war and political instability.

There was a complete lack of trust between taxpayers and tax administrators. Taxpayers felt they had to pay a bribe to get anywhere. Tax inspectors assumed the taxpayers were always cheating. At the border crossings and Bujumbura port, bribery and corruption were reportedly endemic. The basic functions of a modern tax administration did not exist. In 2010, Transparency International's East African Bribery Perceptions Index rated Burundi's tax system the most corrupt institution in East Africa – and Burundi the most corrupt country. In 2009, the state only brought in BIF301 billion (c.US$124m) in domestic revenues, about 35% of total government expenditure. The balance was provided by grants of one sort or another. A new approach was urgently needed.

On 14 July 2009, the *Office Burundais des Recettes* (OBR), or Burundi Revenue Authority, was created by an Act of Parliament. Under Article 6 of Law Number 1/11 the new institution was charged with the following functions and responsibilities:

- To assess, collect and comprehensively administer and account for all the tax and customs revenues
- To advise the government with regard to all aspects of tax policy
- To promote tax compliance and good tax citizenship
- To advise, on their request, local government agencies with regard to the assessment and collection of their revenues
- To assist with the promotion of investment in Burundi

- To combat tax fraud and evasion, and co-operate to that effect with other competent law enforcement agencies in Burundi and abroad
- To prepare and publish reports and statistics relating to revenue collection and trade
- To carry out any other duties relating to the public revenues that may be assigned to it by the Ministry of Finance.

The OBR became the principal agent for tax collection in Burundi following the enactment of the 2009 legislation. Its remit extends to collecting taxes on trade, personal income and corporate profits, value added tax (VAT), and non-fiscal revenues such as fees for establishing a telecommunications network. Under Article 6, the OBR is also responsible for granting income tax exemptions provided for in taxation and customs law, in accordance with procedures established by the revenue authority itself.

Although the OBR is the agent for tax collection, the MoF determines tax policy. The OBR is obliged by contract with the MoF – the *contrat de performance* – to meet strict performance targets. In its day-to-day operations, however, the revenue authority functions much like a private business. It can engage in contracts for goods and services, manage its own bank accounts,

Taxation in Africa: Data and trends

By Jonathan Bhalla
Research Manager, Africa Research Institute

The special theme of the 2010 *African Economic Outlook*, published by the Organisation for Economic Co-operation and Development (OECD) and the African Development Bank (AfDB), was "Public Resource Mobilisation and Aid". In 1990, tax revenues in Africa amounted to 22% of the continent's GDP. By 2007, this figure had risen to 27.5%. Africa collects 10 times more in tax revenue than it receives in overseas aid.

The positive trend in domestic revenue collection in Africa has been largely driven by natural resources. Direct taxation levied on the incomes of individuals and on corporate profits was flat in the mid-1990s and 2000s, at about 6% of GDP on average. Indirect taxation on consumption in the form of VAT, sales tax and excise duties decreased marginally as a percentage of GDP, from 6.2% to 5.7% of GDP in 1996–2007; trade taxes fell from 3% of GDP to 2.1% in the same period.

Tax revenues from oil, gas and mining concessions – namely royalties and corporate income taxes – more than doubled as a share of national income between 1996 and 2007, from 6% to 13.5% of GDP. African governments that generate substantial revenues from natural resources are less inclined to seek more revenue from politically demanding sources of income such as corporate income tax on other industries and personal income tax, VAT and excise duties. By contrast, countries without large resource endowments typically collected a wider variety of taxes and the quality of their tax revenues tended to be higher.

In general, wealthier African states are more effective at collecting taxes. In 2008, countries with per capita income between US$3,856 and US$11,905 collected revenues that amounted to 34% of GDP. This marked a convergence with the average unweighted rate of 35.8% in OECD countries. By contrast, the tax take as a percentage of GDP in countries with per capita incomes of US$976–3,855 was only 22%, and below 15% where average incomes are less than US$975.

There are large disparities in per capita levels of tax revenue between African countries. In Burundi, Democratic Republic of Congo, Ethiopia and Guinea-Bissau, the state annually raised as little as US$11 per inhabitant during the 1990s and 2000s, compared with up to US$3,600 in Seychelles, Libya and Equatorial Guinea.

Tax effort indices measure the progress of individual countries in raising revenues domestically by dividing the tax share by an estimate of how much income should be collected given the structural characteristics the economy. In 1992–2007, 24 African countries recorded tax effort greater than one, which indicates that they collected more tax revenues than expected. Eighteen countries had a score below one.

Tax effort was considerably lower in many resource-rich countries when incomes from natural resources are excluded. In Angola, exclusion of resource revenue reduces the tax effort from 2.02 to 0.39; in Nigeria from 1.76 to 0.44; and in Equatorial Guinea from 1.12 to 0.08. The opposite effect is true for South Africa, where tax effort increased from 1.04 to 1.62 if resource revenue is excluded; for Namibia (1.17 to 1.63); and for Botswana (0.8 to 1.21).

and pay salaries. It can sue and be sued. The whole rationale underpinning the creation of a competent tax authority was to bring business principles and better management practices to tax collection. The OBR's mandate is sufficient to allow it to do that.

The route to reform

The OBR was the product of an eight-year consultation process. The decision to establish a semi-autonomous revenue authority (SARA) to collect taxes on behalf of the MoF was not taken lightly or hastily. The deliberations occurred during a very difficult and insecure period for Burundi. By 2009, however, the civil war had in effect petered out and institutions were being re-established.

A number of political developments proved particularly influential. In July 2007, Burundi joined the East African Community (EAC), knowing that in 2010 member countries would be legally obliged to join the EAC common market and facilitate the free movement of goods and people across borders. Taxpayers, goods and services were treated differently throughout the region, and often subject to repeated taxation when "EAC-nationalised" goods were transported to a neighbouring member country. Tax bases were also different, which had the effect of encouraging competition for investment between member states. The move towards the establishment of a fully fledged customs union required harmonisation of the tax systems of member countries to make it work.

Although the establishment of a SARA was not a formal requirement of Burundi's membership of the EAC, such institutions existed in Tanzania, Kenya, Uganda and Rwanda. It was obvious that following suit would complement wider regional efforts in tax administration reform. Regional tax system harmonisation facilitates the effective sharing of experience among revenue authorities. Tax regimes do not have to be identical within a trading bloc but they need to be similar – and administered in a similar manner – to mitigate distortions in the way the regional market functions.

In addition to an explicit commitment on the part of the government of Burundi to regional integration, there was a growing determination at the highest political level to tackle corruption, maximise domestic revenues, enhance trade competitiveness and improve Burundi's appeal to investors. It was considered that a new, semi-independent tax institution could further these objectives.

The World Bank, the International Monetary Fund (IMF) and the UK's Department for International Development (DFID) were strongly in favour of establishing a SARA in Burundi. Their experience in neighbouring countries added weight to the donors' case. For example, the Rwanda Revenue Authority (RRA) succeeded in increasing domestic tax revenues by 700% between 2003 and 2010. By 2009, the RRA was generating more than 90% of the government's recurrent budget expenses. That was a compelling example for donors, without whose funding and technical expertise there could be no reform of tax administration in Burundi.

Other models for tax administration in Burundi were carefully considered, including continuing with the *direction générale* model then prevalent in francophone Africa, by which tax administration and collection were controlled by central government but highly fragmented. Nevertheless, the decision was taken to create a SARA – the first in a francophone African country. The OBR came into being at the start of 2010 and was fully operational by the middle of the year.

Not everyone in the government or the private sector saw the need for a new tax authority. A lot of people had a vested interest in maintaining the status quo. The widespread occurrence of bribery within the tax system was an open secret, and many people benefited from this.

In its early days, the revenue authority had to contend with a lot of lobbying against its existence. Powerful individuals in the public and private sectors would complain to ministers that the revenue authority was acting against their interests. The OBR often had to defend itself robustly. Some opponents propagated conspiracy theories that the institution had only been created by donors so that they could walk away from the country. This sort of chatter was very voluble in 2012, and still occurs in 2013 – but to a lesser extent.

Employment drive and open planning

The act of creating a new revenue authority was just the first step. In its inaugural year, the OBR relied on the staff of the old tax and customs administrations. Many of them were not happy with the change. Some resented the OBR as a usurper or interloper. The recruitment of new staff was an absolute priority. It was no good trying to pursue a radical strategy with people who were not willing to embrace it. This was a point about which the OBR's Commissioner General, Kieran Holmes, was adamant.

Initially, the OBR set out to employ 425 new staff. This was a recruitment drive of unprecedented magnitude in Burundi – and an extremely testing logistical exercise. Everybody from the old administration was allowed to reapply for positions at the OBR, but they were on an equal footing with all other candidates. There were more than 9,000 applications in total. About 2,500 people were selected to sit an exam, which was marked in the basement of the Commissioner General's house to ensure full confidentiality and rectitude. The top 700 performers in the exam were shortlisted for interview.

Recruitment was based purely on merit. The OBR agreed with the government to select the best people for each job. No quotas were imposed, but it was politically important to reflect the county's ethnic, regional and gender diversity in the composition of employees.

The final outcome of the selection process was gratifying. Each region was represented among the employees, 40% were female and the ethnic balance was 48% Hutu, 52% Tutsi. Only a small number of individuals from the previous tax administrations secured positions at the revenue authority. Further recruitment drives followed, although they were not as large. By 2013, the OBR had 623 staff in Bujumbura, the four regional offices and the border posts.

At the same time as the initial recruitment drive, new job descriptions, terms of service, a Code of Conduct with clear disciplinary procedures and human resources policies had to be drawn up. This was part of a wholesale restructuring of tax administration and collection undertaken in close consultation with the IMF, the World Bank and TradeMark East Africa (TMEA), the OBR's primary source of external financing. The structure of the revenue authority had to be optimal for the practical needs and resources of Burundi. It was a major learning process for everyone involved and the structure has been continually refined. For example, in December 2012 the Board of Directors approved the creation of a new directorate for rapid intervention and the OBR's police unit, and a directorate for taxpayer and vehicle registration.

The OBR's senior management insist on having open-plan offices. Any walls that do exist in the main OBR locations are glass walls. Most office complexes in Africa have been designed in such a way as to create insulated – and insular – "silos". Every person above a certain rank has their own room, and they do not interact with the majority of staff on a regular basis. This is highly inefficient and it encourages secrecy and corruption. By contrast, open-plan offices encourage work-sharing and a culture of openness. You can set up groups to collaborate on a particular task. This dramatically improves productivity.

The OBR offices at Bujumbura port have been refurbished but not yet reorganised. Internal walls are still standing but their demolition is planned. A number of different agencies are involved at the port – customs, police, clearing agents and immigration people. These agencies all have their own offices, which is not an ideal situation. Not all of them have reason to be involved in controls on the movement of cargo and can impede the facilitation of commerce which the OBR is trying to promote with a "single window approach". The aim is to design a system that enables work to flow logically from one agency to another as required. By 2016, it is hoped that other OBR locations in Bujumbura will be consolidated in a new headquarters. This was approved by the Board of Directors in 2012.

Staff conduct and discipline

The OBR is the only institution in Burundi with a comprehensive Code of Conduct and clear disciplinary procedures for corruption. Among the stipulations in the code, employees have to declare their assets. The OBR is determined to enforce the zero tolerance of corruption policy championed by H.E. President Pierre Nkurunziza. It publishes free hotline numbers to allow anyone who witnesses fraud or corruption to report it. A new dedicated call centre will be set up in the last quarter of 2013. Other revenue authorities, like the one in Rwanda, have demonstrated that disciplinary processes – and a proper appeal process – are very important in fostering staff discipline and transparency.

The Board of Directors and senior management are resolutely committed to tackling problems with staff, even at the highest levels. In 2012, 37

How the OBR is funded

By Kieran Holmes
Commissioner General, Office Burundais des Recettes (OBR)

The OBR's core funding – its budget – is agreed with the Ministry of Finance. Our target is to keep operating costs below 3% of all revenue collected. All of our past budgets have been in the 2–2.5% range, which is reasonable for a new revenue authority. In 2012, our budget was BIF13 billion (c.US$8.5m), or 2.5% of revenue collected. Once the OBR becomes more efficient, we should be able to reduce our requirement to 1.5% or even 1% of revenues collected.

About 75% of the budget is spent on salaries and other staff-related expenses. The remaining 25% is allocated to the running costs of the offices, transport, IT expenses and rent. This is all government money. Donor funding is only sought for technical assistance and capital expenditure.

The UK's Department for International Development (DFID) was the OBR's inaugural donor. It was encouraged by its successful support of the Rwanda Revenue Authority (RRA). I spent eight years with the RRA before coming to Burundi, and during that time we negotiated a double taxation agreement with Belgium; drafted new income tax, tax procedures and VAT laws; and computerised customs and tax administration. Revenue collected by the RRA increased by 700% between 2003 and 2010. DFID provided it with £24m (US$38m) over an 11-year period. By 2010, the RRA was collecting that amount in revenue every two or three weeks.

In 2009, DFID pledged £11.5m (US$18m) as initial support to the OBR. When it closed its office in Burundi in 2011, the administration of DFID's funds – and the task of acquiring new donor support – was taken over by TradeMark East Africa (TMEA), a regional programme that seeks to promote economic growth and poverty reduction through increased trade. By 2013, DFID's overall contribution to TMEA had reached £16.5m.

Most of the funds that the OBR receives from donor organisations are channelled through TMEA. The TMEA Burundi programme started in 2010 and runs until 2016. It has a budget of US$50m, of which 40% is allocated to the OBR. Its principal sponsors are DFID and the Belgian government. The latter has announced that it plans to provide direct assistance to the OBR from 2014 through the Belgian Development Agency (BTC). In 2013, USAID agreed to contribute US$0.9m to the OBR's communications and outreach programme – an essential part of our work. The OBR has also partnered with the World Bank for the acquisition of IT equipment and with the African Development Bank for the creation of one-stop border posts at Gasenyi/ Nemba and Ruhwa.

There is a formal agreement between TMEA and the OBR which outlines how much money will be released each year, and we agree in partnership how this money will be spent. The relationship between the two organisations has been a very positive one. Donors have always encouraged the OBR to develop its own priorities for institutional development. Our five-year Corporate Plan forms the basis of funding discussions. Donor support through TMEA is always project-based. It pays for things such as technical assistance, new computer systems, office renovation, specific training workshops and infrastructural development, including the construction of the one-stop border post at Kobero, on the border with Tanzania.

The biggest challenge going forward is financing the OBR's 2013–17 Corporate Plan. We may need as much as US$40m of additional support in that period to develop the OBR as it should be developed. This is money that will not come from the government and must be found externally. We need to invest considerably more in our computer systems, our people, a modern headquarters, one-stop border posts and sourcing technical expertise when it is required. But we fully expect that investment to be returned many times over in terms of additional revenue, easier and expanded trade and reduced costs to businesses and taxpayers. Semi-autonomous revenue authorities generally provide good returns on donor money. By mid-2012, the Burundi government was receiving an additional US$8.30 in revenue for every US$1 invested by TMEA.

We are alert to opportunities to diversify the OBR's external funding and take advantage of the specific interests and agenda of individual bilateral and multilateral donors. BTC has announced that it plans to provide direct assistance to the OBR from 2014. We are currently working very hard to improve our internal financial management procedures in order to take and pass a Fiduciary Risk Assessment by the end of 2013. This would enable the OBR directly to manage some or all of the funds received from donors and thereby reduce the time spent seeking approval for procurements. A project is currently being undertaken by the OBR, TMEA and BTC to design the next phase of support for the OBR in 2014–17. This should be concluded by the end of 2013.

disciplinary cases were identified among OBR employees in relation to alleged corruption, unjustified increase of wealth and theft. Only two of these were serious enough to warrant dismissal. In the first half of 2013, eight officers were dismissed. In the early days of the OBR, with the full support of the Second Vice-President, four very senior officials were dismissed and two were imprisoned.

As important as the Code of Conduct and disciplinary procedures, the OBR continues to place strong emphasis on staff training. Employees must be able to learn new skills and demonstrate that they can do their jobs better. This is essential if the institution is to continue attracting and retaining the highest-calibre personnel.

Job descriptions are regularly reviewed and employees know exactly what is expected of them. They are encouraged to embrace technology and to establish links with counterparts in other EAC revenue authorities. Salaries are generally higher than in government ministries and will increasingly include a performance-related component. The OBR aims to be the employer of choice for talented individuals with relevant qualifications and experience.

New technology

Despite working with staff seconded from the MoF and outdated manual systems, tax revenues for July–December 2010 – the OBR's first six months – were 25% higher than the corresponding period in 2009. This was encouraging, and a testament to the determination of many people inside and outside the revenue authority. But after the initial recruitment process and organisational restructuring were under way, computerisation became a priority. The OBR urgently needed to automate the administration and collection of taxes.

Technology makes tax collection more efficient and improves transparency. Individual and company records can be stored, checked and compared with ease. The experience of revenue authorities in other EAC member states suggests that it takes a minimum of two to three years to develop and implement an effective IT system for tax collection. The OBR is still too paper-based, but the development of its systems has come a long way since 2010.

At the outset the OBR bought three computer systems. For customs, Automated System for Customs Data (ASYCUDA World) is used. This was developed by the United Nations Conference on Trade and Development (UNCTAD). The system became fully operational in May 2013 and will enable customs to provide faster and better service to taxpayers. For the back office, an ERP (enterprise resource planning) software package handles finance, human resources, asset management and procurement. The Revenue Authorities Digital Data Exchange (RADDEx) system, launched in November 2012, facilitates information and data-sharing with sister revenue authorities in the EAC.

As for the system for domestic taxes, the OBR is currently operating a small one built in-house. The system originally purchased was not right for the job. At the end of 2013, the OBR will tender for a new one.

Governance, institutional relationships and co-location

The support the OBR has received from President Nkurunziza, First Vice-President Therence Sinunguruza and Second Vice-President Gervais Rufyikiri has been constant and unwavering. The most recent presidential elections were held in June 2010 – just as the OBR became operational. As soon as he was elected, President Nkurunziza announced a policy of zero tolerance on corruption. That is exactly what is required to create the right political environment in which to build a modern and efficient revenue authority.

Second Vice-President Rufyikiri has been the driving force behind a plethora of business reforms which have assisted the revenue authority. Generally speaking, government ministries and departments have provided sufficient backing for the OBR. A good working relationship with the Ministry of Commerce, the Ministry of the EAC, the police and army – among others – is vital for the OBR.

It is a statutory responsibility of the OBR to counsel the MoF on tax issues and policy. Discussions with the MoF often involve lengthy negotiations and, ultimately, concessions. The OBR advised on every aspect of three new tax laws and amendments – for VAT, income tax and tax procedures. Most – but not all – of the revenue authority's recommendations were taken on board after lengthy discussions with the Minister of Finance and the private sector.

It is inevitable that there is more support in the private sector for a low tax rate than for a broad tax base. But one pays for the other. The formula is simple – tax revenue is generated by tax rates, collection rates and the breadth of the tax base. The tax policy is the responsibility of the MoF. Tax collection and the expansion of the tax base, based on government policy and the legal framework, are administrative functions performed by the OBR.

The Board of Directors is centrally involved in strategic decisions, structural changes, budgets and high-level recruitment. The Board members are all external and appointed by the government. They include the Governor of the Central Bank, representatives of the Ministries of Finance and Commerce, representatives of the private sector and senior civil servants.

The Board meets every month to review the OBR's policies and procedures, the Corporate Plan, and all major contracts. This is not simply a rubber-stamping of the senior management's plans. The annual budget and human resources issues are hotly debated and Board meetings are often lengthy affairs. When the management proposed consolidating the OBR's several offices in Bujumbura into a new headquarters, it took about six months to convince the Board of the merits of the move.

The OBR works closely with many governmental agencies as well as ministries. The Investment Promotion Authority (API), which was set up at much the same time as the OBR, is one example. The two institutions do not always see eye to eye. The API is obviously keen to offer tax exemptions to attract investment. Again, the OBR's position is that if you want to have lower tax rates, the tax base must be broadened. There are always areas of conflict and tension and the API has resisted the OBR's suggestion to co-locate. But there is also close co-operation – for example, in establishing a one-stop shop with the Commercial Tribunal in Bujumbura to register new companies within one hour, an enormous improvement on the time taken previously.

Co-location is an essential component of driving down the costs of doing business in Burundi. It saves a taxpayer's time to be able to visit different agencies in the same office and facilitates a reduction in the number of procedures. At the same time, however, some agencies view co-location with suspicion – even when the OBR stresses that its staff will work under another agency's authority. Some regard the revenue authority's modern, performance-driven working practices as a threat to their long-established modes of operation. Despite opposition, we have created a one-stop shop for land registration and the transfer of property deeds by co-locating with the Land Registry Office. At the border posts, all agencies – for example, Immigration and the Bureau for Agricultural Standards – work with the revenue authority. A department of the police is embedded within the revenue authority and bound by the OBR's Code of Conduct. When OBR agents go out on tax-collecting missions they are supported by the police unit.

The OBR is very clear about its main objectives.

They are:

- Revenue maximisation
- Enhancement of taxpayers' compliance
- Developing a competent and effective organisation
- Developing effective control systems and procedures that promote taxpayer service

The OBR is three years into a programme designed to create a modern, efficient, customer-focused tax authority that makes a substantial contribution to the development of Burundi. Success is measured against demanding and precise performance targets for the number of taxpayers registered, the volume of revenue collected, the number of taxpayers filing on time, the number of taxpayers audited – and so on. These targets are set out in the five-year Corporate Plan that is supported by an annual business plan.

Taxing Africa

By Mick Moore
Chief Executive, International Centre for Tax and Development

Anglophone countries have led the way in reforming tax administration in Africa, considerably more so than their francophone peers. The reasons for this are numerous. Networks of international tax specialists are based mainly in English-speaking countries. Many of the modern systems that promote best practice within tax authorities were developed in anglophone countries, especially Australia. International donors, and particularly the UK's Department for International Development (DFID), have directly and indirectly promoted a lot of reform of national tax authorities. In fact, this has been one of the success stories of British aid.

A package of reforms has been pursued in anglophone Africa. The most profound change is the amalgamation of revenue collection under a single agency, often referred to as a semi-autonomous revenue authority (SARA). Previously, it was common for tax collection to be dispersed among a number of departments within the Ministry of Finance. For example, different people would be in charge of collecting income tax, VAT and excise taxes. Multiple lines of tax collectors existed, usually not co-operating with one another and each trying to strike private deals with taxpayers. This structure – and practice – still occurs in much of francophone Africa.

SARAs have tended to establish separate offices to deal with large taxpayers in particular. In doing so, they have been able to apportion the necessary skills and expertise to meet the specific requirements of different taxpayer groups. For example, tax authorities need their best auditors and analysts handling the affairs of large companies for the simple reason that they are the source of most revenue. This is both a practical and strategic reform. Specialist departments have also been established to focus on functions such as internal compliance, anti-corruption, personnel and policy.

There has been a concerted move to reduce the amount of face-to-face interaction that takes place between taxpayers and tax collectors. This is where corruption takes place. Tax assessments have been separated from physical revenue collection. Payment may take place at large open collection centres, and the whole process is automated. In some countries, such as Burundi, taxes can be paid through banks. A mobile phone tax payment system – M-Declaration – was launched in Rwanda in September 2012 for businesses with an annual turnover of between US$3,000 and US$770,000 per annum.

Many of these revenue collection and administration reforms have also taken place in developed countries in the not-too-distant past. This is partly why donor funding has generally played a positive role in revenue reform in sub-Saharan Africa. The principles and processes behind tax reform in OECD countries apply quite well to developing counties, with important modifications.

In some countries, SARAs have been an effective lever for the stimulation of wider economic reforms. Their creation has often initiated and fuelled important debates about fiscal policy, service delivery and tax exemptions in anglophone African countries. However, SARAs are not a silver bullet – and to some extent have been oversold by donors.

The informal conundrum

SARAs are highly formalised and centralised institutions, usually housed in impressive headquarters in capital cities. They often have strong working relationships with international accountancy firms and donor organisations. Salaries are not tied to government pay scales, and are often akin to those in the private sector. The institutional culture is orientated towards engaging with the private sector and large formal organisations. However, SARAs are seldom suited, or keen, to engage with the vast majority of actual or potential taxpayers in Africa – those involved in the informal economy. This reality has not always been fully recognised by policy-makers and donors.

Tax authorities in anglophone Africa have sought to capture more revenue from the informal economy through levies on the presumed income of individual or small enterprise. Presumptive taxation is based on the type of business or economic sector. In francophone Africa, traders or companies are required to purchase a business licence, which is essentially the same process.

The idea of presumptive taxation has existed for some time, although it has not been successful as a revenue generator when applied on a large scale. In most cases, the motivation is to put in place systems that prevent large- and medium-sized companies from presenting themselves as small taxpayers, and therefore claiming exemptions, rather than to raise substantial revenues.

Some tax authorities have been quite innovative in their efforts to capture revenue in the informal economy. Some success has been achieved by working closely with local business and trader organisations. For example, the Ghana Revenue Authority (GRA) reached an agreement with a union of bus drivers in Accra to collect a daily income tax. In exchange, bus drivers were issued with a sticker and given assurances by the police that they would not be stopped at road blocks and fined for insignificant – or invented – transgressions. In this example, however, the initial success was stymied when the union stopped handing over all the money to the GRA. Initiatives like this need to happen more regularly, and on a bigger scale, so that lessons can be learnt and shared.

The purpose of taxing the poorer segments of society should not be to generate vast sums of money. The majority of people who work in tax authorities in Africa are aware that most citizens – rich and poor – pay informal taxes of one sort or another to all kinds of people. At border crossings, for example, it is common for there to be three or four government agencies – from customs authorities to environmental standards to border security – extorting fees from traders and businesses. This occurs even more in West Africa than East Africa.

Local government and the golden egg

Taxation plays a vital role in promoting citizenship and reciprocal relations between the taxpayer and government. It is about encouraging people to make a contribution for which they receive something in return. In Africa, local government will need to play an important role in developing sustainable relations of this nature.

Rwanda is one of the few exceptions, where tangible services are directed and delivered at national level. The government in Kigali taxes everything it can, while at the same time ensuring a low level of corruption. The system works because most people are confident that their taxes are paying for public good. Fear may also be a factor. Most African governments do not have the capacity or political will at a national level comparable to that displayed by the state in Rwanda.

Empowering local government in Africa is not easy. Donors such as DFID have traditionally avoided close engagement with sub-national government. It also makes a lot of practical and financial sense to try and reform central revenue collection first. Where competent SARAs now exist, the same amount of effort and resources is required to build the capacity of local authorities to levy certain taxes and provide services. But there is no unanimity or shared conviction regarding this imperative at present.

The skills needed at national and local levels are quite different. Central revenue authorities require the knowledge and expertise to engage effectively with large multinational firms. To tax a telecommunications company effectively, for example, requires considerable industry knowledge and legal expertise. Yet these attributes are almost entirely useless when it comes to setting up a local property tax register.

Most local authorities in Africa have very small budgets, and an extremely limited capacity to collect additional revenues. More politicians would be interested in local authority taxation if the revenues were higher and they could use them to increase their popularity. It is a chicken-and-egg problem. There are two areas where central government could help. Firstly, give local authorities full control over business taxes. The second would be to help build effective systems for property tax.

Property tax is the number one unexploited revenue source in Africa. It is a largely untapped source of funding for sub-national governments. In fact, property tax is underexploited all over the world. In many countries, a colonial system for taxing property is still in place which is very complicated and tends to be weighted in favour of wealthier elites. Most property tax decisions are made locally, where class interests can be particularly powerful. Any sensible tax system would include provisions to revalue properties every five years, especially in rapidly urbanising countries. In reality, political decisions are made not to undertake revaluations for a long time – so property tax is an ever-shrinking proportion of total revenue.

2: THE TAXPAYER

The OBR is committed to treating the taxpayer as a customer. The mistrust and animosity that typified relations between the old tax regime and the taxpayer must be dispelled. The taxpayer is legally obliged to file a tax return and pay taxes. The OBR must facilitate compliance by making the process as straightforward, fast and fair as possible. This is new thinking and it will take time to take root.

In June 2012, domestic taxpayers were divided into three categories – large, medium, and small and micro. Large taxpayers generate turnover in excess of BIF1 billion (US$650,000) per annum. Medium taxpayers have turnover above BIF100m (US$65,000) and below BIF1 billion and are generally registered for VAT. Small taxpayers have turnover above BIF24m (US$16,000) but less than BIF 100m and are not obliged to register for VAT. The micro group have turnover below BIF24m. Part of the rationale for creating separate categories was to enable the OBR to improve its service for different types of taxpayer. In 2012, 2,688 business taxpayers paid income tax – an increase of more than 50% on the previous year.

For large taxpayers, the OBR aims to operate like a private bank. It is recognised that large taxpayers make the biggest contribution to the government and the OBR wants to respect their time. The aim is to get them in and out of the building as fast as possible. There are also two separate offices for the recovery of tax debts – one for large and one for medium, small and micro. In time, the OBR expects to be able to offer electronic filing and payment of taxes and this would commence with e-filing for the largest taxpayers.

Large taxpayers

There are fewer than 250 large taxpayers in Burundi. The OBR receives 75% of its domestic tax revenue – or 35% of total tax revenue – from this group. Relations between the revenue authority and large taxpayers are good, which is reflected in relatively high compliance rates in this category. For example, by 2013 almost all of them were paying VAT correctly. Of course, it is easier to ensure compliance from large taxpayers because there are fewer of them, they have a better understanding of their tax obligations and the OBR provides them with a dedicated service.

Most large taxpayers remit more than just taxes on their profits. They also collect and pay income tax on behalf of their employees – the *Impôt sur les Rémunérations d'emploie* (IRE), the equivalent of PAYE in the UK tax system. Brarudi, the national brewery, and the country's biggest private sector employer, pays tax on its profits, VAT on the supply of its goods, excise duties and employee income tax. The sources of its total tax bill are quite varied. The government is also a substantial taxpayer. At least 50% of large taxpayers are state-owned public companies.

Within the large taxpayer category, the capacity of companies to monitor their finances and fulfil their tax obligations varies. The very largest businesses employ permanent accountants to keep their books in order. Others use the services of external accountants. All are obliged to file properly audited accounts.

The quality of external accountants varies. Some may not be as familiar with the latest tax legislation and practices, or have poor in-house knowledge of the business they are working with. If the OBR discovers discrepancies or needs to conduct an audit, it does so. A lot of time is spent assisting companies to move towards accurate self-assessment.

The OBR is working towards using the external accountants and tax consultants as a means to promote tax compliance. The accountants' professional body – the *Ordre des Professionnels Comptables du Burundi* (OPC) – participated actively in the drafting of the income tax and tax procedures laws that have recently been enacted. This co-operation will continue as the OBR wishes to work even closer with the accountants to improve tax compliance. Additionally, the OBR plans to train private accountants and lawyers in the tax laws.

There are profits being made in Burundi that bring no tax benefit to the state at present, but will do in future. A number of large companies – mostly international – that have made substantial investments signed special agreements with the MoF and were exempt from paying certain taxes for defined periods of time, but almost all of these have come to an end. To further rationalise Burundi's tax system, the government is also considering the removal of the fiscal provisions in the Investment Code, especially a 37% tax credit that substantially erodes the country's tax base. Of course, the government is still keen to attract investors and the new tax legislation contains generous depreciation allowances established for this purpose.

Medium taxpayers

There are about 1,200 registered medium-sized taxpayers and these account for 20% of domestic tax revenues. They are not all private entities as they include major payers of the *Impôt professionnel sur les Rémunérations* (IPR) such as government departments, international organisations and non-governmental agencies. It is difficult to be precise about the number, following the creation of the new taxpayer categories, and the segmentation process is still evolving. The semi-automated systems are being modified to distinguish between medium and small and micro taxpayers. When that is done, the OBR's intelligence on the medium sized category of taxpayer will be more precise.

Many medium taxpayers try to masquerade as small taxpayers by only declaring part of their income. In the past, people who were starting enterprises would be arbitrarily defined as small or medium taxpayers without a full assessment of their assets and finances. As the OBR progressively gathers more accurate information about medium, small and micro taxpayers, it will become much harder for medium taxpayers to remain in the wrong category. Medium taxpayers must adhere to the same tax procedures and rates as large taxpayers. They are required to pay VAT, for which small and micro taxpayers are below the threshold for registration.

Many medium taxpayer businesses are run by one person or one family. This makes it even more problematic for the OBR to obtain accurate tax returns than it is with some large taxpayers. There is no manpower to prepare tax declarations properly, and accountants employed on a temporary basis can only work with the information they are given. Often this is incomplete.

There is a real need for a code of ethics that obliges accountants to uphold the highest possible standards and respect the ethics of their profession. If there were a pool of properly trained and accredited accountants who could work with companies to ensure adherence to the revenue authority's tax guidelines, it would be a real improvement. The OBR is also keen to create an approved accounting and tax assistance centre, staffed by accountants who could be kept up to date with tax requirements by the OBR.

Small and micro taxpayers

Small and micro taxpayers are the largest tax group numerically, but they contribute the least in terms of domestic revenue – about 5%. In 2012, the OBR conducted a door-to-door taxpayer identification exercise which yielded 7,000 names in this category. The target is to register 300 of these individuals a month. The difference between small and micro taxpayers is largely administrative, with categorisation by turnover.

Small taxpayers are assessed through a simplified declaration showing receipts and payments, whereas micro taxpayers have to keep a register of their daily receipts on the basis of which they must declare their turnover annually. This is known as *forfait,* and the *forfait* rate is applied on the turnover to arrive at the tax they should pay. The payment is scheduled monthly or quarterly as agreed with each taxpayer. Both of these categories of taxpayer are exempt from paying VAT. This is one of the reasons why some medium taxpayers pretend to be small or micro taxpayers.

The OBR introduced a fixed-rate *forfait* tax system for micro taxpayers in 2013. They submit information regarding their sales, purchases, inventories, number of employees and wages. A non-negotiable *forfait* rate is then determined by the revenue authority according to standard profit margins for the sector in which the taxpayer operates – trade, services or manufacturing. This is an improvement on the previous system through which a fixed-sum *forfait* was based on negotiations between the taxpayer and the tax officer. This procedure was conducive to corruption. There was considerable scope for "negotiation" between tax auditors and the taxpayers. Inspectors would often levy less tax if they received a financial incentive in return. Occasionally, the OBR still finds quite a large company on a *forfait* rate.

The OBR's aim is to incentivise small taxpayers to self-assess their tax obligations based on a simplified system of cash-based accounting. Under the income tax law passed in 2013, those working with chartered accountants and declaring correctly will be eligible for a reduction in their tax rate. It is a challenge to collect revenue from the small and micro taxpayer. Many people change activities or addresses frequently, many have multiple businesses and most do not have a bank account. If someone has a taxpayer identification number or NIF – *numéro d'identification fiscale* – it is easier for the OBR's systems to track their activities, but even that is not infallible. Some people try to have more than one NIF, sometimes successfully. The predominance of cash-based businesses is not conducive to close monitoring.

Regional offices, local authorities

The OBR is developing four domestic taxation offices in the regions – East/Central, North, South and West. This is to ensure that systems and procedures are joined up and the OBR presents a unified presence to taxpayers all over the country. To achieve this, it has to provide a better service to taxpayers outside the capital. It is not reasonable for the OBR to expect people from regional cities and rural areas to come to Bujumbura just to register a car. The cost of the travel can be as much as the cost of registering the vehicle. The OBR must be able to provide the same services in the regions as it does in the capital.

The task of creating a unified system of tax administration across the country is a costly one. It will require more well-trained people and equipment and is complicated by the fact that local authorities are responsible for collecting certain revenues, including business licence fees, tax on rental income and agricultural products, and communal fees for services. Revenues collected locally are not returned to the MoF – they remain with the local authorities. This is typical of tax administrations in francophone Africa. The tax rates are also decided at the local level and there is considerable variation.

From a tax administrator's point of view, such anomalies do not make sense. A business licence in the north should cost the same as it does in the south, not least to avoid competition between local authorities. There are many questions which need resolving if local authorities are to optimise their tax collection. Is the business licence charge optimal? Could there be a differentiated business licence for different levels and types of business?

The OBR is exploring ways in which collaboration with local authorities could be improved. Local taxes may be completely outside the revenue authority's remit, but the skills of revenue collection are transferable. The OBR and local authorities should be working closely to train local tax collectors and administrators. The first step must be to devise a system for more effective sharing of information.

Property transfers nationwide are an important issue for the OBR. If a taxpayer is buying or selling property, the revenue authority should be informed. Growth in property ownership is a clear indicator of potentially taxable profits being made somewhere. The OBR is working with local authorities to develop their computer systems and technological capacity to track property transfers, which will enable information to be exchanged with far greater ease. A taxpayer's NIF can be used as the common locator. A joint committee with the Ministry of the Interior was set up to develop this programme further. The mayor of Bujumbura is also involved.

Taxing the informal sector

The informal sector accounts for an estimated 70% of economic activity in Burundi. But taxing the informal economy is not straightforward. The OBR is keen not to end up in a situation where the cost of collecting taxes from small enterprises and individuals is higher than the revenue collected. Sometimes it is more prudent and practical to ignore certain classes of taxpayers. It is important that tax policy is rational in this respect.

Take, for example, a motorbike taxi driver. There are thousands throughout Burundi. Many of these people have borrowed money to purchase the bike. They charge a small fee to transport people from A to B and profit margins are minuscule.If the driver pays a business licence fee to the local authority, then the OBR is content to leave him or her alone. It is not interested in taxing any profit because the costs associated with calculating this are going to be far greater than any revenue that will eventually be paid.

Although the OBR would like to broaden the tax base, which is very narrow in Burundi, this should not be done indiscriminately because it could be counter-productive. There are hundreds of thousands of subsistence farmers and street vendors in towns who do not make any significant profit. There is simply no point in the revenue authority attempting to extract taxes from this group. The OBR must be sensitive to the economic realities. It is not even possible to bring the entire taxable population into the fiscal fold immediately. It takes time before people are convinced about the merits of paying tax.

The OBR is stepping up its registration effort all the time. No economic sectors are overlooked and there are compelling reasons for people to register. For example, you need a NIF to import, export, or tender for a public contract. When the OBR's regional offices are fully operational, many more taxpayers in smaller cities, towns and even rural areas should be registered. Different ways of collecting small tax payments from remote areas are being considered. The use of mobile phone technology has worked well in other African countries, and the OBR has plans to use this medium for small payments, starting with non-fiscal revenues.

Compliance and enforcement

Compliance rates, particularly in relation to VAT, have increased significantly. For large taxpayers the compliance rate is close to 100% and for medium taxpayers it is about 65%. Small and micro taxpayers are the least compliant group, at 15% – 20%. That is not at all bad at this stage of reorganising tax collection, but it is not high enough.

Enforcement is never easy. It means you are forcing someone to do something they do not want to do. Nowadays, people know that if they do not pay they will be penalised. Word gets around that the OBR can – and will – close or freeze bank accounts and close businesses. It should be doing more asset-seizures of homes, office buildings and farms as a deterrent, but it is important to give people two or three chances to pay what they owe to the state.

The revenue authority does not want its auditors to act as policemen. The previous tax administration had a very confrontational relationship with taxpayers. That is counter-productive. The aim is to improve education and knowledge about tax issues, to move towards self-assessment for the majority of taxpayers. In order to do this, people must be confident about knowing what they have to pay, and why.

Talking to the taxpayer, serving the customer

Creating an environment for tax compliance does not happen overnight. To achieve this, there must be willing taxpayers and efficient tax collectors. People must understand the benefit of paying tax. Most Burundians – like people anywhere else in the world – do not like paying taxes. But they can tolerate doing so if they are not required to pay bribes and they know that their taxes are being put towards public goods. No one walks into a shop, puts money on a counter and leaves with nothing. Why should taxation be any different? The OBR expects taxpayers to do the mental calculation where they consider what they will get out of paying taxes, whether in the form of better internet services, hospitals, schools, roads or police protection.

Communication is an increasingly important part of the OBR's mandate. When higher tax revenues enable the government to build a dam or a new hospital, the revenue authority must help to publicise the fact. Establishing the link between taxation and services in the public consciousness is vital, but still in its infancy. Every month, the OBR publishes its revenue collection figures, regardless of whether they are good or bad. Every three months, the Commissioner General meets the press to answer questions. Billboards and media are used to increase public awareness of taxation issues. The revenue authority has a responsibility to bring discussion about tax onto the national agenda.

The OBR has held mass public meetings outside Bujumbura to discuss taxation with ordinary citizens. People ask practical questions about specific taxes, and quite often get very angry about what they regard as an unfair tax. These dialogues are healthy in a democracy. People should debate how they should pay taxes, when and why. This is the beginning of ensuring accountability between citizens and the state. In a democracy, citizens must be able to hold their representatives to account by saying, "We are paying this tax, what are you doing for me?" or "Why does that person have a tax exemption?"

The OBR also has a responsibility to ensure taxpayers understand legislation. Tax laws and procedures are being translated into Kirundi and a charter – the *Charte du contribuable* – setting out the rights and obligations of taxpayers is being drafted. Such initiatives are as important as being able to issue a NIF for free in 15 minutes, or making it easier to obtain a receipt for the payment of taxes, or extending the OBR's working hours. All domestic tax offices are open from 7.30 a.m. to 5.30 p.m. Customs offices are open until 8 p.m. and there are plans for 24-hour service.

The OBR has also laid the groundwork for co-ordinating with local administrations and the Federal Chamber of Commerce (CFCIB) to promote tax dialogue with taxpayers. Joint technical teams have been created to pursue this initiative. Good communication is a crucial part of establishing the OBR as a modern, professional and effective revenue authority – and can set an example to other institutions.

Tax, the informal sector and communication – perspectives from the small trader in Burundi

Christian Nkengurutse

General Secretary, *Chambre Fédérale de Commerce et d'Industrie du Burundi – Chamber of Commerce and Industry* (CFCIB)

One of the biggest challenges facing government and the OBR relates to taxing small, informal traders and businesses. These are the majority of Burundians – about 70% of the population participates in the informal economy. So the tax base is 30% of the population, and within that about 80% of taxes are paid by the richest 20% of taxpayers. This isn't correct and needs to change. The majority of the population is not contributing to its own development.

The new income tax law passed by the government in July 2013 includes a provision for each small trader who has an annual turnover between BIF24m (US$16,000) and BIF100m (US$65,000) to self-declare their income and pay their taxes accordingly. That is a lot of the population. It isn't easy. Most of these people have not paid taxes before.

The majority of small traders and businesses do not understand why they have to pay tax. For example, consider a person who sells beers on behalf of Brarudi, the national brewery. Most of these vendors will sell, on average, three crates per day. This is the type of person who has turnover of about BIF24m. It is not easy to raise a family on this income. Explaining to these people why they should pay tax is a difficult task. Even more challenging is getting them to register and declare their incomes. It will take some time to organise this kind of collection.

We do not think this is simply a matter of the OBR going and collecting taxes. Equally important is the need to teach the population about tax issues. People have to understand the importance of taxation to a functioning society and in the end they have to accept a compromise. For its part, the OBR must understand that education is as important as collection. Otherwise, they will continue to encounter considerable problems raising revenues from the small traders.

The population must be made aware how their taxes are being spent, whether it is on roads, schools or hospitals. This is essential. People need to see results. At the moment this type of communication does not exist. One reason for this is that taxes only account for 52% of the government's budget. The rest is sponsored by foreign donors. The more money the government is able to generate through taxation, the more likely it will be that they respond to the needs of the population. There is a need for long-term communication about taxation. It is a process, not something that will take one or two years. I want the OBR to understand this. At the moment, they don't.

The government should be fully involved in educating the population. It is the responsibility of the Ministry of Finance to integrate this educational programme into the entire government system. In an ideal world, the momentum for this would come from the president. In Rwanda, President Kagame is completely involved in the process of educating the population. He speaks about the importance of taxation wherever he goes and you can see the results. There needs to be proper political will if the OBR and the Chamber of Commerce are to succeed.

Cyriaque Ndayishimiye

General Secretary, *Chambre Sectorielle des Commercants du Burundi – Chamber of Burundian Traders* (ACOBU)

The Chamber of Burundian Traders aims to help traders and businesses understand and comply with tax laws and regulations. Many Burundians are illiterate and cannot do basic calculations. ACOBU teaches these people how to pay their taxes. It is important they are aware of their tax obligations before they get a knock at the door from an OBR agent. We also offer a forum for people to voice their ideas and to learn new trading techniques. Our membership is made up of small, medium and large traders. Our aim is to include traders from throughout Burundi, not just Bujumbura.

Traders tend not to have a positive view of the OBR. Before it existed, many traders who worked informally were not obliged to pay tax. Since 2010, everyone is obliged to pay tax. This has shrunk the size of the informal economy. OBR agents collect money directly from traders but they don't see what it is for – just a reduction in their income. The benefit of the OBR is not clear to most traders. Consumers are equally disillusioned because they have experienced a simultaneous rise in prices. This is a genuine problem and consumers have complained.

ACOBU try to explain to the OBR that they must communicate better with traders. The OBR assure me that this is a priority for the organisation but they need to do more than take a loudspeaker and heckle people about the importance of paying taxes. For example, OBR agents often say "pay your taxes or we will close you down". This is clearly unhelpful, and not good enough. Many people regard this as quite threatening.

The tax system in Burundi is a source of confusion for traders and businesses. For example, sometimes traders are required to pay tax on food products despite there being a law stating that local agriculture is exempt. The amount of customs duty paid at border posts is at the discretion of OBR agents, and it is almost impossible to challenge these decisions successfully. Tariffs are rarely published, which the OBR says is impossible because prices are constantly changing on the global market. It is quite common for importers to abandon their goods at border posts because they cannot afford to pay customs duties. Some traders have stopped importing goods altogether. Tax officers also need more training. The OBR is only three years old and many of their newer officers are not sufficiently trained.

Running a business in Burundi is not easy. Access to credit is extremely limited, particularly for small traders and businesses. Inflation has often been very high in recent years. Bank interest rates on loans are also very high – often more than 20%. High tax rates in Burundi mean our businesses cannot compete with those in neighbouring countries. The Central Bank is doing very little to lower interest rates and increase lending facilities.

3: LAWS, EXEMPTIONS AND CUSTOMS

Laws

When the OBR was set up in 2009, the legal framework governing tax collection was outdated and not aligned with modern economic realities in Burundi or the region. The OBR has to ensure that its procedures and guidelines complement those of EAC member states. For this to happen, the legal framework for tax collection required substantial alteration – an imperative about which the OBR was very vocal.

The MoF fully recognised the need to reform the tax laws. Three new laws relating to income tax, VAT and tax procedures were presented to the National Assembly and the Senate in 2013. The laws have now been promulgated, including the Ministerial Order for VAT. This is an important step towards enshrining a legal framework for tax administration in Burundi that meets the highest international standards. As a result, the prospects for consolidating and improving on the progress made in revenue collection since 2010 have been greatly enhanced.

Income tax

A principal aim of the new income tax law was to introduce a simplified three-tier system of taxation with rates of 0%, 20% and 30%. There were 10 different rates previously. The top rate of income tax has been lowered from 35% to 30% in line with the EAC regional norm. Corporate tax is also levied at 30%, similarly reduced from 35%. The changes should underpin the OBR's efforts to broaden and deepen the tax base for individuals and corporates.

To compensate for the loss of revenue from lowering the income tax rate – estimated by the World Bank to be in the region of 3% to 4% of GDP – the OBR has made concerted efforts to bring new taxpayers into the fold. For instance, under the old legislation about 500 of the top civil servants were not obliged to pay any income tax and their gross salary was their net income. The OBR managed to convince the government to repeal this clause and specify in the new legislation that senior government employees be taxed in the same manner as other employees. This was inevitably contentious, but much fairer.

One of the biggest changes in the income tax law was the introduction of provisions to facilitate self-assessment of tax obligations. The OBR does not want to waste time and resources chasing after taxpayers. Ideally, taxpayers should come forward voluntarily and declare the correct amount of tax they owe. To encourage this, the law has been drafted in language that is comprehensible to ordinary citizens.

With regard to foreign investment, the new income tax legislation introduced comprehensive source rules, rules for "thin" capitalisation and the more effective taxation of benefits in kind and allowances. The OBR has missed out on significant revenues because the laws governing these types of income were ambiguous or non-existent.

For example, there were two main options for a foreign investor setting up a subsidiary in Burundi. They could opt for what is known as the share capital route or make a loan to a direct subsidiary. In the case of the latter, investors could charge interest on the loan that the subsidiary was able to write off against its profits – thereby reducing its taxable profit. With a capitalised entity, returns on investment are paid to the investor in the form of dividends, which can only be generated by net profits. This type of subsidiary therefore pays more tax but also has a more secure form of capitalisation through equity rather than loan capital.

The financial incentive for foreign companies to invest via loan capital rather than share capital has been reduced through thin capitalisation rules that were placed in the new income tax law. These stipulate that if loans are above a certain amount, interest payments are disallowed. The law also introduces a number of other general anti-tax-avoidance provisions that are designed to prevent common and easy means of tax avoidance by non-residents.

VAT

On 29 July 2013, the government enacted changes to the 2009 VAT Law. The 2009 law replaced a transaction tax that had been in place for several decades. It was a landmark piece of legislation which introduced a general tax of 18% on the sale and import of all goods and services, albeit with a number of exceptions. For example, financial transactions, agricultural products, property rental, hotels, medical care and pharmaceutical products, university activities and social security organisations are not liable for VAT. Imports for diplomatic and donor organisations are also exempt, as are all exports with the exception of raw hides and minerals.

The VAT law has not changed dramatically. Most notably, a number of new VAT exemptions have been added to the law. International transport and the domestic carriage of people now qualify for 0% VAT. Non-transformed agricultural produce has been exempted. A new intermediary rate of 10% has been applied to agricultural and livestock inputs as well as selected foodstuffs that are imported and certain agricultural produce that is transformed locally. Individuals whose turnover exceeds BIF100m (c.US$65,000) are liable for VAT. For the OBR to effectively track contributions, new VAT identification numbers have been introduced for such persons.

A number of technical problems – and some slight absurdities – have been corrected. For example, there was only a 50% VAT tax break on capital equipment investments. If a manufacturing company purchased a large item of machinery for US$100,000, of which 18% was VAT, they would have only been entitled to claim back US$9,000 of the total US$18,000 tax outlay. The remaining US$9,000 of VAT expenditure was not recoverable. The new law gives 100% credit on capital investments, which is in line with regional and international best practice.

There have been a number of other minor changes. For example, all shops and outlets that are registered for VAT are required to inform their customers that they will be charged VAT. It was common practice for some of these businesses not to charge VAT on the sale of goods and to request suppliers lower their prices by omitting VAT. Finally, anyone who is under the threshold for registration may opt into paying VAT.

Tax procedures

The new tax procedures law creates common standards for all taxes. For example, procedures for appealing a tax bill or contesting a penalty for a breach of a tax law have been standardised across all types of taxation. Previously, rules were inconsistent and scattered across different acts and pieces of legislation. This meant that tax procedures were sometimes ambiguous and often inconsistent across taxes. These changes will benefit tax administrators and taxpayers and they bring Burundi into line with other EAC member states.

The tax procedures law also sets out rules for auditing taxpayers. It specifies exactly how and when audits are supposed to be conducted. Like all tax administrations, the OBR does not have the time or resources to audit every taxpayer. Audits should be determined on the basis of risk. The OBR has partnered with the International Finance Corporation to implement a system of "red flags", which are issued to taxpayers when they breach a certain rule or procedure. If a taxpayer has many red flags, then they will be audited.

One substantial problem that will be alleviated by implementation of the new legislation concerns small traders. Many do not have a NIF. They used to go to Uganda or Tanzania to buy goods and not pay VAT when they imported them. Now all traders must have a NIF so that they can pay VAT on their goods when they return to Burundi.

Exemptions

When the civil war in Burundi ended, the economy was in a dire state. The government was desperate to attract investors to create jobs and generate economic activity. As a result, certain economic incentives were offered to investors that in hindsight should not have been. Regional competition for private sector investment exacerbated the issuance of tax exemptions in what has been termed "a race to the bottom".

The government has granted a number of very generous tax exemptions to foreign – and domestic – investors. As a share of GDP, Burundi's exemptions are among the highest in the region. In 2009, they amounted to more than 3% of GDP, or about 21.5% of total tax revenue. The OBR has had some success in reducing these figures, but not as much as it would like. In 2012, about BIF106 billion (US$70m) of tax revenue was still being lost to exemptions, equivalent to one-fifth of the total revenue collected by the OBR. Of 430 exemption files introduced in the second quarter of 2013, 427 qualified for exemptions according to the law. In the previous quarter, 563 out of 571 exemption requests were treated favourably. If exemptions did not exist, government revenues would of course be much higher.

Exemptions are divided into three categories. First, there are exemptions that are granted by law or through adherence to an international agreement. For example, if the African Development Bank is financing an infrastructure project, the government

The essential debate on taxes in Burundi

By Prime Nyamoya

The fiscal policy of any government must be geared towards achieving key developmental and social objectives. Burundi, like many developing countries, has not been able to collect sufficient tax receipts to finance services and public goods that would help the country to meet the principal Millennium Development Goals.

The creation of the Office Burundais des Recettes (OBR) has significantly increased government revenues by tackling tax evasion and putting in place a better-managed, more efficient system for tax collection. But the tax base remains narrow, and Burundi's membership of the East African Community and Common Market for Eastern and Southern Africa implies that tax revenue gained from import tariffs is going to reduce significantly. The ratio of fiscal revenues to GDP has been less than 20% for many years, compared to an average of 45% in OECD countries. Until there is a significant rise in GDP per capita in Burundi, tax revenues will be insufficient to finance the country's development priorities.

A fundamental change to the 1963 tax code by the Minister of Finance, which obliges Burundian nationals to pay tax on revenue generated abroad, will have a negative impact on the business community. The measure was initiated without assessing the potential economic impact. It will have an adverse effect on the flow of revenues from the Burundian diaspora. Precise statistics on remittances from the diaspora are not available, but sources in the financial sector – such as Western Union – suggest the figure is in the region of several tens of millions of US dollars each year.

In Kenya and Uganda, where central banks have more reliable statistics, remittances are worth over US$1 billion per annum, and constitute one of the main sources of foreign currency. They bring in even more than foreign direct investment, tourism, tea and coffee. The decision to tax income from Burundians in the diaspora jeopardises a source of money which does much more to alleviate poverty than the state. Furthermore, members of the diaspora who have bank accounts in Burundi will be tempted to move their money to neighbouring countries, to the detriment of our national finances.

The exchange rate of the Burundian franc is volatile, with significant fluctuations relative to the dollar and euro. This is a reflection of an economy that imports four times more than it exports – Burundi is afflicted by a substantial current account deficit which has persisted for decades. The government has only been able to balance its payments and attempt to stabilise the currency thanks to the assistance of partners such as the EU and World Bank.

The economic base of Burundi has barely altered since independence in 1962. In 1959, with a population of two million, Burundi was producing 28,000 tonnes of coffee and 10,000 tonnes of cotton. In 2012, the production of coffee and cotton was 24,000 tonnes and 1,000 tonnes respectively – and the population was almost nine million. It is in agriculture that politicians must find an urgent and appropriate response to save the Burundian economy.

The answer is not simply to increase taxes willy-nilly. If the government is going to widen the tax base, it will need to attract foreign direct investment (FDI) in agro-industry, where Burundi has a comparative advantage. A similar opportunity exists for mining nickel, gold and coltan reserves. There is a high chance that oil and gas can be extracted from under Lake Tanganyika. Other countries in the East African Community – namely Kenya, Uganda and Tanzania – attract FDI in excess of US$1 billion a year for infrastructure, mining, oil and gas.

Even our neighbour Rwanda has received an average of US$300m in FDI and enjoyed economic growth of 6–7% per annum over the past decade. Burundi has attracted less than US$50m in FDI and the economy has grown by 3–4% annually over the same period. GDP per capita in Rwanda is US$700, while in Burundi it is US$200.

It is very important for Burundi's financial health that state resources are used more effectively. The ultimate aim should be to combat the corruption in state institutions such as those meant to provide public services. Economic and political governance must be improved. Furthermore, grants and loans from donor organisations should be handled with much greater transparency to avoid the enormous costs to the public purse of corrupt practices. Better budgetary decisions need to be made, prioritising projects which can stimulate economic growth and create jobs in rural and urban areas in the medium to long term.

A 2006 study by the United Nations Development Programme and the Ministry of Planning identified potential agricultural opportunities in each commune and province in Burundi. The proposal of some economists that we can create 1,000 jobs per commune at a cost of US$1.50 per day is exactly the sort of major public investment programme we need. If implemented correctly, it could double or triple production of tea, coffee and cotton. As a result, revenues would increase for producers and the state in the medium term.

The African Union Maputo Declaration in 2003 committed African governments to allocate 10% of their national budget to agriculture. The Burundian government should fulfil its obligations by financing key agricultural priorities, notably the provision of strategic stocks of fertiliser and crop storage facilities to prevent damaging post-harvest losses. The management of these projects should be undertaken by independent bodies to guarantee their transparency, precision and rigour. Donor organisations could augment the inadequate resources of the state and help the government to realise such objectives in a transparent manner which prioritises large-scale job creation, higher and more inclusive economic growth, and food security.

The government would equally benefit from initiating the infrastructure plan presented by the African Development Bank in 2009. The cost of implementing this huge project is estimated at US$4.6 billion between 2010 and 2030 – but it would transform the structure of the Burundian economy by accelerating GDP growth for a sustained period.

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will draft a memorandum of understanding that stipulates that capital expenditures are exempt from tax. The same applies to all other donor agencies. These are international agreements that are ratified by Parliament and entered into law. They have legal standing in domestic law. There is nothing the OBR can do about such exemptions.

Discretionary exemptions seek to encourage a particular type of investment or taxpayer, such as a manufacturing company. The API is legally entitled to offer exemptions on domestic taxation, such as VAT, without prior approval from Parliament. The guidelines and process for discretionary exemptions are detailed in Burundi's investment code, which has been enacted by Parliament. The OBR and the API have a joint committee and work together to try to limit these exemptions as much as possible.

Finally, there are the tax exemptions written into the contracts of agreement between the government and a particular private investor. The Minister of Finance has sent a circular correspondence to all government departments stating that exemptions of this nature should not occur – and if they are to do so they require written approval from the minister. But they still occur. These discretionary exemptions are the most damaging to the economy and are the ones that the OBR is most keen to eliminate.

Irrational economics

There is no economic rationale for discretionary exemptions. The assumption that such incentives will accelerate job creation or revenue generation is empirically unfounded. Furthermore, there is no evidence that the foreign investment attracted since 2010 occurred because of exemptions. There is a real danger that the state is giving away something for nothing. The OBR is working to quantify all exemptions and calculate the cost-benefit ratio – and is confident that this will prove to be negative in all cases. When tax is foregone, the benefit in terms of jobs or economic development is either zero or negligible.

The price of fuel is a good example of irrational economic thinking. Government policy has been driven solely by focusing on the price of fuel at the pump. This is understandable. Incomes are low in Burundi and the cost of living ever rising. Those without a taxable income still have to run their cars. But a zero tax on fuel is equivalent to the government subsidising the pump price. The principal winners are international oil companies and wealthy taxpayers who are protected from the international price increases. In the long term, this is not the best policy.

The OBR's view is that there has to be a tax on fuel. The government is slowly coming round to this idea. Tax policy is a matter of balancing positives and negatives. However, the ultimate benefit must be weighted in favour of the state and the majority of taxpayers. There is definitely price inflation when fuel is taxed, but equally there are strong fiscal revenue pressures that must be considered. Fuel taxation is one of the few genuinely broad-based sources of revenue for the government that cannot be foregone.

As far as the OBR is concerned, the way forward is for the government to grant tax exemptions much more selectively. If they are to exist at all, they should be limited to those guaranteed by international agreements only, or for specific capital investments where it can take a number of years before companies see a return on their investment. All exemptions should also be linked to specific economic targets. For example, an investor must create *x* number of jobs in *y* years, otherwise they will lose their preferential tax status. The investment code should also be amended accordingly. Ideally, all tax incentives should be stipulated only in the income tax law.

Customs: going regional

The government has given high priority to deepening regional co-operation since becoming a full member of the EAC in 2007. The OBR is actively supporting pursuit of this objective, particularly with regard to economic integration, by working to reduce the time it takes for goods to pass through border posts and through Bujumbura port. Efficient and accurate levying of duties, tariffs and VAT by customs officials is an essential component of increasing trade within the region.

Burundi joined the EAC Customs Union in 2009 at the same time as neighbouring Rwanda. A common external trade policy was agreed that granted free trade amongst EAC member states. Goods produced within the region are exempt from import tariffs and duties, though VAT still applies. Products from outside the EAC, however, are still subject to import tariffs unless a special arrangement is in place, such as a free-trade zone or bilateral trade agreement.

The OBR receives about 41% of its total revenues from various taxes collected at border posts and Bujumbura port. Since 2009, customs revenues collected by border authorities have declined, though the growth of domestic taxes and the introduction of VAT have more than compensated for losses from free trade within the EAC. While customs revenues fell by 8% in 2012, revenues from domestic tax collection grew by 34% over the same period. As trade at borders increases, it is anticipated that customs receipts will eventually supersede the levels before Burundi joined the customs union.

In 2013, about 80% of goods entering Burundi arrive through Kobero, the main border crossing with Tanzania, about five hours by road from Bujumbura. Most of these products originate from the Tanzanian port of Dar es Salaam but also come from as far afield as Mombasa in Kenya. As many as 45 trucks transit Kobero every day. The remaining 20% of goods arrive via smaller border crossings, particularly those shared with Rwanda and the Democratic Republic of Congo, and Bujumbura port on Lake Tanganyika. The lake route is mostly used to import products from South Africa and Zambia.

Border corruption

Combating corruption at border crossings has been one of the OBR's greatest challenges. The imposition of customs duties occurs in real time and through a number of stages, all of which increase the potential for corruption. The priority for most importers and traders arriving at border posts and the port is to get their goods to market as fast as possible while incurring as little cost as possible. The simplest way of doing this is not to declare certain goods. Many people simply do not understand why they are required to pay customs duties or VAT, and complain vociferously about bribes at police checkpoints and other forms of extortion by customs officials and agents.

The process for clearing goods through customs used to be chaotic and opaque. The port used to be very overcrowded usually, and it was impossible to tell who worked for whom and who was doing what. Customs officials and clearing agents would sit side by side in the customs office and openly collude with one another to exploit importers and traders. Clearing agents had too much power and often directed the entire process. Deals were struck behind closed doors. Shipments would be processed at the discretion of tax officials. If for whatever reason they decided not to come into work, the importer would simply have to wait.

The antidote to corruption at borders is to have good procedures and strong and consistent enforcement of the OBR's Code of Conduct. If the process for clearing goods through customs is clearly defined and comprehensible to all, the opportunities for corruption are greatly reduced. Customs agents and OBR officials now reside in separate offices. When agents need to see OBR officials they must do so one at a time and the customs officer will be selected at random, never by request. Every stage of the clearing process is documented on a form so that disputes and delays can be tracked. There has been a lot of resistance to the revenue authority's attempts to reform and speed the passage of goods through customs.

OBR officers at customs must provide a service of quality and high speed. It is part of a wider effort to treat the taxpayer as a customer. Practical training and education is being provided. Officers are taught about the importance of their job to the wider business climate. For example, they are made to understand that if a truck sits in the port for a week, an importer or trader will lose business. Sometimes individuals fall back into old habits but progress is being made.

From borders to markets

Vehicles entering Burundi with goods destined for – or transiting – Bujumbura are registered on a computer at the border and issued with a T1 certificate of internal transit before being lead-sealed. This is done by a private transit agency that guarantees the products are as described and takes responsibility for the entire shipment arriving at the OBR's customs and excise headquarters at Bujumbura port (64%) or to the inland clearance offices of Kayanza (4%) and Gitenga (5%). The agency takes full responsibility if any merchandise disappears along the way. Customs at the airport processes 15% of import declarations. The fact that customs at Bujumbura port now clears only two-thirds of import declarations demonstrates that the OBR has decentralised its customs services in recent years.

Upon arrival at the port and other inland clearance offices, OBR officers verify that the vehicle is sealed and check the transit certificate on the computer system. The rest of the procedure is performed on behalf of the declarant by a private clearing agent. The agent calculates how much the client must pay to the OBR in the form of duties and tariffs based on an assessment of the goods, the value and place of origin. The agent then settles the tax bill on behalf of the declarant. This process can be done remotely; agents do not always have to be physically present in the port.

The process of calculating the value of the shipment must be verified by an OBR official before it is finalised, to ensure the correct tax sum has been calculated. The goods remain at the port while this takes place. If the OBR official concludes that the declaration and the customs documents are correct, and that the goods do not pose any risk, then they are released. Not all vehicles are checked physically, only those that arouse suspicion after the inspection of documentation. If there is any cause for doubt, the goods will be inspected physically.

The process of verifying a shipment involves a lot of common sense and intuition. There is a long and detailed list provided by the valuation department which states what tariffs should be applied to specific goods. Even if this is all in order, other factors must also be considered. For example, an OBR official is likely to be suspicious if a 40ft truck travelling from Nairobi, Kenya, contains only 1,000 bags of cement. In such cases, it is likely the truck is carrying something else that has not been declared. Inspectors will also carry out a physical verification when they know that the importer in question has a past record of evasion.

The OBR aims to change this approach in the immediate future and operate entirely on the principle of risk management programmes. Only shipments representing a risk to customs controls will be selected for physical verification. Recent detailed analysis has revealed that only 7% additional revenue is generated as a result of the verification process, but it is costly in terms of clearance time for cargo and the OBR's resources. Legitimate imports and compliant clients will benefit from the expedited processes.

The clearing process, from submitting transit certificate to exit, usually takes about eight hours. However, it is not always straightforward. When OBR officials conduct a physical verification the clearing process will take longer, as they will usually have to recalculate the taxes owed. If clearing takes longer than 48 hours, the declarant may refer this complaint to the Commissioner for Customs and Excise. Sometimes importers cannot afford to pay their tax bill, so they leave their truck and return when they have the money.

Small traders follow a simplified declaration procedure. To qualify, the value of the goods imported by an individual cannot exceed U$1,000. The declaration process can be completed at the border crossing, and does not require traders to travel to the headquarters at the Bujumbura port or hire an agent to act on their behalf.

The simplified declaration started when Burundi joined the EAC and was designed to encourage cross-border trade. The definition of a small trader, and the level of exemption to which they are entitled, differs between EAC member states. For example, in Rwanda the threshold is US$2,000. There is still a problem with calculating values – and statistics in general – in Burundi. It is also difficult to ascertain whether a small trader is importing goods on behalf of a larger trader.

One-stop border posts

One of the main ways in that the OBR is working to increase trade with neighbouring countries is through the creation of multiple one-stop border posts (OSBPs). These are complex operations because governments need to link trade policy, construct shared infrastructure and agree legal frameworks. In 2013, two were operational in Burundi – at Ruhwa and Gasenyi on the Rwandan border.

An OSBP allows for both countries' imports and exit procedures to be combined at one location, with traffic only stopping at the point of entry to the country of destination. At the single stop, all officials are present, which removes the need to report at many offices. Similar, or in some cases the same, automated systems are used and the same forms. This all contributes to a marked reduction in clearance time – and costs – for traders and the OBR, and also helps to protect against fraud and reduces corruption.

The main OSBP is planned for Kobero, through which more than 80% of Burundi's road imports pass. There is a 6km exclusion zone between the Tanzanian and Burundian borders, but goods can often go “missing” in transit. Cargo arriving from Dar es Salaam will clear Tanzanian customs only to repeat the same exercise when reaching Burundi. There is no facility for inspection at Kobero, which means that most trucks must travel to inland clearance offices at Kayanza, Gitega or Bujumbura – regardless of their final destination. Non-tariff barriers of this nature greatly increase the cost of trade in the region.

The planned OSBP at Kobero will bring customs officials from both countries under one roof to reduce the time and costs of clearing goods by half. Other relevant government departments will also be present, including officials from the Health, Agriculture and Standards Ministries. The construction of a new warehouse will allow for inspections and clearance of cargo to take place without the need to travel to inland clearance offices. Greater automation and simplified declaration have already helped importers. By mid-2013, only two-thirds of cargo clearance was processed at the OBR’s headquarters in Bujumbura, a real improvement from the time when this was the only national clearance centre. Kobero will eventually become operational 24 hours a day, seven days a week.

4: CONCLUSIONS AND RECOMMENDATIONS

Although the OBR has made good progress on many fronts, establishing a fully functioning revenue authority is a long-term project. The capacity and competence of staff needs to be developed over time. A proper organisational structure has to be set up and evolve. Policies and procedures require continual refinement, and effective IT systems have to be bedded down. Realistically, all this takes between six and eight years – and success is dependent on a favourable political, business and legislative environment.

During the first three years of the OBR’s existence, increased revenue collection was the foremost priority. This imperative absorbed about 70% of the funding from international donors. The initial goal was to increase revenue as a percentage of GDP by 1% by 2016. That was achieved by 2011. In 2012, the OBR collected BIF527 billion (US$350m), a 75% improvement on 2009. The increase is more than 25% even after allowing for inflation. The OBR is certainly capable of reaching its target of collecting BIF1.2 trillion (US$800m) in 2017 as set out in its Corporate Plan, a sum sufficient to finance a substantially increased share of the government’s recurrent expenditure. Although these achievements are gratifying, they are not grounds for complacency.

Burundi is usually described as a very poor, post-conflict state. This is misleading. The country is resource-untapped, not resource-poor. It has considerable economic potential. There is good land, high-quality coffee and tea, Lake Tanganyika, and nascent agribusiness and the extractive industries. The government’s Vision 2025 is a sound strategic plan for the country. Its key objectives are annual GDP growth of 10%, the containment of population growth at less than 2%, and the reduction of the poverty rate to 50%. The realisation of these goals depends on skilful political and economic management. In the economic sphere, the government should give business – large, medium and small-scale – as much room as possible. Investment will be attracted by economic opportunities, an improving environment for doing business and new tax laws.

Burundi’s starting point is similar to that of neighbouring Rwanda in the early 2000s. Three main factors underpinned rapid economic growth there. Firstly, huge support existed from the government, at the highest levels, for the Rwanda Revenue Authority (RRA). Secondly, Rwanda received substantial budget support over and above what the RRA was collecting while it was being established. This freed up funds for capital investment by the government in infrastructure and public welfare. Finally, leading donors virtually guaranteed to the government that they were in the country for the long haul.

In effect, the RRA grew up inside a cocoon. DFID provided it with £24m over an 11-year period. By 2010, it was collecting £24m in revenue every two or three weeks. That rate of return is unprecedented in the public sector. It demonstrates that funding revenue administration projects can be hugely beneficial. In Burundi, the OBR does not have the luxury of developing against such a favourable backdrop as its Rwandan counterpart.

Although the government is getting a great deal more revenue from domestic sources in Burundi, there is not enough external funding for the massive infrastructure development and expansion of public services required to consolidate the relative stability experienced since 2005. The state cannot exploit the country's natural resources because of this funding shortfall – and therefore is unable to generate the funds for the next stage of economic development. Annual GDP growth of around 4% is half what the country needs to make real headway. At a major donor conference in Geneva in October 2012, the government secured pledges of donor assistance that exceeded US$2 billion. This was a real achievement and if the funding is forthcoming it would provide the wherewithal for Burundi – and Burundians – to make real progress towards achieving the objectives of its Poverty Reduction Strategy and Vision 2025.

The OBR has put a proposal to the Ministry of Local Government that recommends **much closer co-operation between the OBR and local authorities in order to widen the tax base in the regions.** The OBR should have offices in the local authorities so that it can train its staff in tax administration and help them to maximise tax revenues. There also needs to be greater exchange of information between the two with regard to property ownership. There is too much tax evasion in this area.

Ideally, tax on rental income would be placed within the remit of the revenue authority. In return, the OBR could help local authorities develop a proper property transaction tax, based on the value of the property, which they could collect themselves and incorporate in their budgets. Close links with local authorities would help the OBR to present a unified image to taxpayers right across the country and increase the resources available to local government.

A professional, well-organised tax administration enables the state to increase the tax revenue raised from the informal sector. The OBR has developed an office dedicated to advising small and micro taxpayers. In future, it should be possible for small tax payments to be made by mobile phone technology throughout the country so that people do not have to go to Bujumbura to pay their dues. The main market in Bujumbura was destroyed by fire in early 2013. When it reopens, the OBR will have an office there. It is vital that – here and everywhere – the OBR demonstrates to small traders the highest standards of fairness and transparency.

All provisions for offering revenue exemptions should be collated and re-examined. Those that are proved to be economically productive should be incorporated into the income tax law. Any exemption provided to an investor or private company should be made public to ensure transparency. There needs to be greater co-operation and consultation between the API and other government agencies and the OBR with regard to exemptions. The issue is complex, but the tax authority exists to be consulted on all tax matters – and the granting of exemptions without doing so is counter-productive. The issue of exemptions is highly controversial – and often political. It is a good thing that the issue is now out in the open in Burundi. In the context of improving the business climate, the negotiation of double taxation agreements with international trading partners is another priority.

The OBR must improve its communications. Taxation is never popular, but it is a necessity for national development and functioning democracy. If the state wants more people to pay the correct tax in Burundi, all taxpayers have a right to know why they should pay their taxes and exactly how much they are legally required to pay. People also need to know more about what their taxes are being spent on – roads, health centres, dams and so forth. Developing a connection in the people's mind between the payment of tax and expenditure on such projects is a long-term project, but an essential one.

A comprehensive transparency and anti-corruption campaign that was embraced by other government agencies as well as the OBR would be beneficial. Large corporate taxpayers – such as Brarudi and telecommunications firms – should be encouraged to endorse the OBR on billboards and in radio advertisements. If the private sector demonstrates its faith in tax administration, people take notice.

At present, salaries consume about 75% of the budget provided by the government to the OBR. Funds for capital expenditure and technical assistance are very limited. **A more diversified external funding structure would help the OBR to pursue multiple objectives simultaneously.** For example, the organisation would really benefit from having six to eight technical advisers over the next two years. There is substantial further expenditure on IT systems to finance and the consolidation of the main offices in Bujumbura on a single site. OBR staff would learn an invaluable amount – and gain confidence – from more face-to-face contact with their peers in other regional revenue authorities. These are absolute necessities, not luxuries.

To date, the OBR has been dependent on TradeMark East Africa (TMEA) for its capital requirements and technical assistance. The relationship has worked very well. But TMEA's focus is increasingly on the practicalities of regional integration and cross-border trade – roads, border posts, tariff barriers. This is only one aspect of the OBR's business. It would be beneficial to have other sources of funding for specific projects, especially as TMEA funding will taper off between 2014 and 2016. The Belgian Development Corporation has pledged €6m commencing in 2014. USAID has committed US$923,000 to supporting the OBR's communication strategy. External assistance will remain a necessity until the government can support all the OBR's requirements. Diversification of funding sources is prudent and beneficial.

The new tax procedures law introduces a fully independent Tax Appeals Commission. This will make the appeal process more transparent. The new law requires that cases must be decided upon within 60 calendar days from the time the commission receives the appeal. The taxpayer has the legal right to lodge an appeal to the courts if not satisfied with the decision of the commission. The previous appeals procedure administered by the MoF used to take much longer. **While the rationalisation of the appeals process is a benefit to the taxpayer, other measures that protect the treasury must be taken – including the denial of access to public services and tenders to anyone who is not tax compliant.** Such entitlements should be reserved for those who have honoured their tax responsibilities.

TIMELINE

1 July 1962 – Urundi separated from Belgian colony of Ruanda-Urundi and becomes independent Kingdom of Burundi under Mwami Mwambutsa IV.

1972 – Massacre of more than 100,000 Hutus by government forces following an uprising in southern Burundi.

1976 – President Micombero deposed in a *coup d'état* by Jean-Baptiste Bagaza.

1981 – New constitution creates a one-party state under pro-Tutsi Union for National Progress (UPRONA) party.

1987 – President Bagaza deposed in a *coup d'état* led by Major Pierre Buyoya. Constitution suspended and military rule imposed.

1992 – New constitution adopted by referendum provides for a multiparty system.

June 1993 – Multiparty elections contested between Front for Democracy in Burundi (FRODEBU) and UPRONA. Predominantly Hutu FRODEBU wins 65 out of 81 seats. International media reports call accession of President Melchior Ndadaye a model for Africa – his government includes many Tutsi and members of UPRONA.

21 October 1993 – President Ndadaye, Burundi's first democratically elected president, assassinated in an attempted *coup d'état*. Subsequent civil war in which Tutsi-dominated army and Tutsi civilians are opposed by multiple Hutu opposition factions claims more than 200,000 lives.

January 1994 – Burundi National Assembly appoints Cyprien Ntaryamira as president.

April 1994 – Plane carrying President Ntaryamira and President Habyarimana of Rwanda shot down over Kigali, the Rwandan capital. Sylvestre Ntibantunganya, the Speaker of Parliament, appointed president.

July 1996 – Former president Pierre Buyoya seizes power in a *coup d'état*. Constitution suspended. Economic sanctions imposed by regional leaders. Donor assistance to Burundi cut from c.US$300m per annum to less than US$30m.

28 August 2000 – Following intervention by Julius Nyerere, Nelson Mandela and other African leaders, Arusha Peace Accords signed by Burundian government and Tutsi groups. Main Hutu rebel groups and Tutsi hardliners refuse to lay down arms. Sanctions lifted and US$440m of assistance pledged at a donor conference in Paris in November.

October 2001 – Transitional government installed, led by President Buyoya (Tutsi, UPRONA). His deputy is Domitien Ndayizeye (Hutu, FRODEBU). Under the transitional power-sharing agreement, the two swap positions after 18 months. At Geneva donor conference, total pledges of assistance for Burundi reach US$830m.

16 November 2003 – Global ceasfire signed in Tanzania. FDD, the largest Hutu rebel group, led by Pierre Nkurunziza, lays down arms. Agreement that ethnic composition of new national army will be half Hutu, half Tutsi.

June 2004 – United Nations assumes peacekeeping responsibilities from African Union troops.

2004 – Power-sharing constitution drawn up. Among other things, the constitution guarantees that Tutsis, who comprise c.15% of the population, have 40% representation in parliament and other state institutions; and that 30% of parliamentary seats must be held by women.

28 February 2005 – Adoption of new constitution approved in a referendum by 90% of voters.

May-August 2005 – Multiparty municipal, parliamentary and presidential elections. In parliamentary election, *Conseil National pour la Défense de la Démocratie – Forces pour la Défense de la Démocratie* (CNDD-FDD) wins 59 of the 100 seats, FRODEBU 25 and UPRONA 10.

26 August 2005 – Inauguration of President Pierre Nkurunziza.

2005-06 – Government announces free universal primary education and free health care for pregnant women and under-fives. Disarmament and demobilisation of former combatants commences. Government prepares its first Poverty Reduction Strategy Paper (PRSP). National debt reaches unsustainable level of 189% of GDP.

September 2006 – Ceasefire signed by last Hutu armed opposition group, the *Forces Nationales de Libération* (FNL) but violence continues.

18 June 2007 – Burundi signs treaties of accession to East African Community (EAC). Foreign direct investment in Burundi for 2000-08 less than 0.2% of GDP.

December 2007 – Burundian troops join African Union peacekeeping mission in Somalia.

May 2008 – New ceasefire agreement signed by FNL. According to World Development Indicators, Burundi has lowest GDP per capita in the world – US$150 – and more than an estimated 80% of Burundians are living below the US$1 income per day poverty line.

1 July 2009 – Burundi a signatory to EAC Customs Union protocol. VAT introduced at a standard rate of 18%. The law providing for the creation of the *Office Burundais des Recettes* (OBR) comes into effect on 14 July and the OBR becomes operational on 1 April 2010.

2009 – Burundi qualifies for Heavily Indebted Poor Countries relief of US$833m.

24 May 2010 – In municipal elections, 65% of the vote won by CNDD-FDD and 14% by runner-up FNL. Enthusiasm of international donors for the election process not matched by the eight opposition parties, both Hutu and Tutsi, who allege massive fraud and voting irregularities. All call for a recount and announce a boycott presidential and parliamentary polls. Widespread fears of increase in violence.

28 June 2010 – President Nkurunziza unopposed in presidential election.

23 July 2010 – Only the three leading parties contest parliamentary elections. CNDD-FDD, estimated to have an ethnic composition of approximately two-thirds Hutu and one-third Tutsi, win 80 seats out of 100. UPRONA wins 16 and FRODEBU 4. GDP growth 2005-10 averages 3.5%, scarcely above the rate of population growth.

October 2012 – More than US$2 billion of assistance pledged to Burundi at donor conference in Geneva.

REPUBLIC OF BURUNDI – KEY FACTS, 2012 (unless stated)

Map No. 3753 Rev. 7 UNITED NATIONS
November 2011

Department of Field Support
Cartographic Section

OSBP = One-Stop Border Post

- Surface area – 27,834 km²
- Population – 8.7 million
- Population growth (average annual 2000-09) – 2.6%
- Population density (people per km²) – 314
- Population % under 15 – 37.5%
- Life expectancy (2011) – 54 years
- Prevalence of undernourished in population (2011) – 73%
- GDP (current prices) – US$2.5 billion
- GDP per capita – US$253
- GDP growth (average annual 2004-12) – 4.1%
- CPI inflation – 14.5%
- Foreign direct investment (2006-11) – US$8 million
- ODA (2006-11 – all donors) – US$3.2bn
- Transparency International Corruption Perception Index – 165/174 countries
- Internet users per 100 inhabitants (2011) – 1.11

Sources: OECD/ IMF *African Economic Outlook* 2013, World Bank statistics database

FOR STATE AND CITIZEN

REFORMING REVENUE ADMINISTRATION, IN BURUNDI

By Kieran Holmes, Domitien Ndihokubwayo and Chantal Ruvakubusa

Tax is high on the agenda in Africa. At an international level, advocacy groups and the G8 have called for greater efforts to counter tax evasion and avoidance by multinational companies. But in many countries in sub-Saharan Africa, a similar – and arguably even more pressing – campaign is being waged to improve the capacity of the state to collect domestic revenues.

In Burundi, the prospects for improving tax administration could not have been more inauspicious. By 2009, following the cessation of a civil war that claimed more than 200,000 lives, Burundi's GDP per capita was the lowest in the world at US$150. Four-fifths of the population subsisted below the US$1 income per day poverty line. The Transparency International East African Bribery Index listed Burundi as the most corrupt country in the region. The country's tax department was named as the most corrupt institution.

Despite the signally inhibitive outlook, the government implemented a number of measures to improve financial management. These included the creation of a new semi-autonomous revenue authority – the *Office Burundais des Recettes* (OBR). In 2012, tax revenues were 75% higher than in 2009 – a 25% increase in real terms. The contribution of tax to GDP had risen from 13.8% in 2009 to 16.7%.

In this *Policy Voice*, the OBR's senior management describe in detail how tax collection and administration has been reformed in one of Africa's poorest nations. Their account highlights the actions taken to reduce corruption, improve services, implement legislative reforms and widen the tax base. The authors are candid about the difficulties confronting the OBR. Among other things, tax exemptions remain too high and the costs of taxing much of the informal economy outweigh any financial benefit. The establishment, and continued success, of an efficient revenue authority is dependent on a favourable political, business and legislative backdrop.

Tax reform is about more than simply raising revenues for central government. Higher revenue will be essential for the health of the public purse. However, the judicious deployment of public funds will be critical for building a viable democracy in Burundi.

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