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Domestic Resource Mobilization in Sub-Saharan Africa: The Case of Burundi#

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List of acronyms

NSI	: North-South Institute
INSS	: Institut National de Sécurité Sociale
GDP	: Gross domestic product
RIM	: Réseau des Institutions de Microfinance
BRB	: Banque de la République du Burundi
FNL	: Front National de Libération
USD	: United States Dollar
BIF	: Burundian franc
EAC	: East African Community
IMF	: International Monetary Fund
NGO	: Non-governmental organization
OLUCOME	: Observatoire de Lutte Contre la Corruption et les Malversations Économiques
TC	: Treasury certificate
ING	: International Netherlands Group
ECOBANK	: Ecobank Transnational Inc.
FINBANK	: First Inland Bank
BBCI	: Banque Burundaise pour le Commerce et l'Investissement
BGF	: Banque de Gestion et de Financement
MBB	: Meridien Biao Bank
BPB	: Banque Populaire du Burundi
BCD	: Banque pour le Commerce et le Développement
CAMOFI	: Caisse de Mobilisation et de Financement
CADEBU	: Caisse d'Épargne du Burundi
BNDE	: Banque Nationale de Développement Économique
FPHU	: Fonds de Promotion de l'Habitat Urbain
AFD	: Agence Française de Développement
EIB	: European Investment Bank
ADB	: African Development Bank
SBF	: Société Burundaise de Financement
MFI	: Microfinance institutions
BHP	: Broken Hill Proprietary
BCB	: Banque de Crédit de Bujumbura
CET	: Common external tariff
VAT	: Value-added tax

MOBILIZATION OF DOMESTIC FINANCIAL RESOURCES

1. INTRODUCTION

In the past three decades, public investments in Burundi have largely been funded through foreign aid. Proportions have varied over time and in accordance with the circumstances. However, overall, in times of active international cooperation, all public investments and a portion of current expenditures (since 2004) were assumed by way of outside funding. One exception should be noted. In the late 1970s, thanks to high international coffee prices, large public investments—particularly in the area of government corporations—benefitted from internal funding.

Except for this brief period, foreign savings have maintained a dominant role in funding the Burundian economy. Consequently, within a context where private domestic savings are negative, dependency on outside sources for economic development has become so significant as to lend too much weight to donors' influence on the definition of development strategies. Under these circumstances, taking charge of the development agenda will particularly depend on the capacity to further mobilize domestic resources and reduce the level of dependence on foreign aid.

The international financial crisis and resulting economic recession have made the mobilization of domestic resources a very relevant issue. Although it is generally accepted that the financial crisis would have a limited impact on the day-to-day operations of African financial systems, the economic recession affected African economies through a number of channels: reduction in migrant transfers, lower demand and export prices, decrease in outside financial aid and direct foreign investments. In combination, these factors negatively affected economic growth and the mobilization of domestic savings.

The research project on the mobilization of domestic resources, initiated by the North-South Institute of Canada accordingly comes at a very appropriate time. The mobilization of domestic savings is indeed an essential tool for economic development.

Southwest Asia's experience teaches us that in order to support high rates of economic growth, significant domestic savings must be mobilized over an extended period of time. Furthermore, extreme dependence on outside resources, as is the case for Burundi, can compromise an ongoing economic development process due to the volatile and unpredictable nature of these resources and the constraints imposed by their terms.

This research project is structured as follows:

Following a brief description of the methodology, the project analyzes the political and economic context of Burundi. It then examines the performance and constraints of the mobilization of savings. Third, it analyzes the effects of the international financial crisis on Burundi's economy, and in particular on the mobilization of savings. Finally, it makes recommendations for national decision makers and donors regarding ideas and strategies that could contribute to a greater mobilization of domestic resources.

2. METHODOLOGY

The research project essentially relies on the retrieval of information. Aside from the related literature, the data used was taken from documents published by the Ministry of Finance, the Banque de la République du Burundi, the commercial banks, the Réseau des Institutions de Microfinance, and insurance companies.

More data was collected in publications from international financial organizations like the World Bank and the International Monetary Fund. Interviews were also conducted to learn about experiences in the mobilization of savings.

The period covered extends mainly from 1997 to 2007, but some data covers periods that came before 1997 and after 2007, depending on the need to compare or update data. 1993 to 2002 was a period marked by an intense civil war. Furthermore, between 1996 and 1999, the situation worsened due to the embargo and the cessation of international cooperation. These events had profound repercussions on the economy—repercussions that are occasionally analyzed in greater detail.

3. POLITICAL CONTEXT

After a decade of civil war, the signing of a peace agreement and the 2005 elections paved the way for the establishment of democratic institutions.

Safety, although fragile, is a reality. The last rebel movement, the Palipehutu FNL, signed a ceasefire agreement and its leader returned to Burundi after 17 years in exile. The agreement stipulated that some of the combatants from this movement would be integrated in the army and police force, while the rest would be demobilized and reintegrated in civilian life. The movement's leaders were integrated in the executive and the movement converted back to a political party, which will run in the next elections (2010).

However, there is no shortage of problems. Building **state institutions respectful of the rule of law** is hard work. Respect for human rights and public freedoms has suffered a lot of blows; Justice obeys the **Executive** and corruption has taken over a growing number of areas of government. Crime remains a concern with the considerable presence of weapons in the country.

The reintegration of demobilized rebels in civilian life is a major challenge when no new opportunities are being created by an economy with a persistently low growth rate.

The return of refugees has considerably increased the already fierce competition on increasingly crowded lands, with the upcoming elections making the atmosphere even tenser.

In all, although progress has been made with regard to safety, the situation remains precarious and institutions seem weak in view of the numerous problems caused. Within this context, economic issues have remained in the background.

4. ECONOMIC CONTEXT

The combined effects of the civil war and the embargo have weighed heavily on the economy. From 1992 to 2002, the GDP shrank, per capita income fell from USD200 to USD100, and the incidence of poverty doubled, affecting 68% of the population. The investment rate dropped, going from 17.8% to 9% of the GDP. Annual financial contributions from foreign sources bottomed out, going from USD170 million in 1992 to USD30 million in 1997. Furthermore, what little resources were made available were entirely allocated to humanitarian aid. Between 2002 and 2007, benefitting from the gradual return of safety and cooperation, the economy gradually recovered, although the growth rate was full of ups and downs, primarily due to the fluctuation of coffee and farm product volumes. In all, however, the GDP increased on average by 3.3% annually and per capita income rose to USD120 in 2007. The incidence of poverty remained high at 67% of the population.

Appendix 1 indicates each sector's share of the GDP and highlights the predominance of the primary sector (46% in 2007). However, between 1998 and 2007, the sector saw an annual growth rate of less than 1%, while the secondary and tertiary sectors saw growth rates of 5% and 4%, respectively. In the same period, public revenues increased, in actual terms, by 268%, going from BIF75 B to BIF201 B. The collection rate compared to the GDP rose from 18.7% in 1998 to 21.4% in 2002, dropping again to 19.7% in 2007.

The macroeconomic indicators presented in appendix 2 reveal that in view of a significant drop in production and dwindling external resources, inflation was stepped up, settling at an average of 15% compared to 4% to 5% in the previous decade; real borrowing rates became negative and the Burundian franc collapsed, going from BIF322/USD to BIF1.100 in six years (1996–2002).

In terms of public finance, the strong growth in current **expenditures** was financed alternately or simultaneously by foreign aid and the expanding domestic debt. The **balance of payment** deficit expanded due to both bad export performance and growing public deficits.

5. MOBILIZATION OF GROSS DOMESTIC SAVINGS

5.1. Public savings

5.1.1 Performance

“In Africa, as on other continents, the State must carry out its regalian missions by offering public goods in the most effective manner possible. Accordingly, governments must provide education, health, collective infrastructures… States also have to provide safety to their citizens, legal and economic regulations, as well as justice,” [translation] (Chambas, 2005).

To carry out these missions, the State needs to mobilize public resources. In this regard, Burundi has achieved rather average performances compared to the achievements of other African countries.

In the 1997–2007 period, the average annual public collection rate—a concept that covers all tax and non-tax revenues for the government and local communities, according to Mr. Chambas—reached 19.32% of the GDP. It varied between 13.4% in 1997 and 21.4% in 2001. This performance is slightly higher than those of similar countries (17.5%), according to IMF data, but below the African average of 21%. In the same period, public spending represented, on average, 31.24% of the GDP. **On average, revenue covers 62% of total expenditure**. This **percentage level** is strongly influenced by the availability of outside resources. In the period where the country had no outside assistance, this **level** rose to 68% (1996-2000). When assistance once again became available, the **level** saw a downward trend, reaching 50% in 2007, as shown in table 3. Appendix 2 shows that until 2002, outside resources covered all current expenses and even showed a slight surplus. Starting in 2004, these same resources no longer covered all current expenses. However, collection levels barely changed, except in 2006 (18.5% compared to close to 20% in the other years). This is most likely due to the more rapid growth in expenses over revenues, mainly associated with the resumption of public investments and costs for the demobilization and integration of combatants and redundant army personnel.

Table 3: Evolution of collection and expenditure rates: 1997-2007

(Percentage of the GDP)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Collection	14.2	18.7	19.2	19.2	21.4	21.4	20.9	19.7	20	19.3	19.9
Expenditure	22.7	25.7	25.7	25.2	30.1	33.1	37.5	39.7	34.7	30.4	38.8
Grants	3.1	2.8	2.7	3.5	8.1	12.1	11.1	10.6	12.8	12.0	17.1

Source: Ministry of Finance

The evolution of revenues and their structure is presented and commented on below.

Public revenue

Current public revenue include tax and administrative revenues and off-budget receipts. In the period at issue (1997-2007), current revenues varied between 14.2% and 21.4% of the GDP. On average, the annual collection rate reached 19.32% of the GDP. **This performance** is comparable, and even slightly **higher** than that observed in other economies similar to that of Burundi.

As indicated in tables 4 and 5 below, on average, tax revenues represent slightly more than 75% of the current revenues.

Table 4: Evolution of current State revenues (in billions of BIF)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Tax revenues	39.0	55.2	59.8	72.5	91.4	95.7	105.4	116.9	141.3	157.0	180.6
Non-tax revenues	2.3	3.7	3.7	4.7	6.4	15.7	15.7	13.2	13.2	19.3	15.9
Off-budget receipts	7.3	16.0	24.1	7.3	16.3	11.3	14.3	16.4	17.5	6.6	5.1
Total revenues	48.8	75.1	87.7	98.5	118.1	122.9	135.2	147.5	172.2	183	201.6
% of the GDP	14.2	18.7	19.2	19.2	21.4	21.4	20.9	19.7	20	19.3	19.8

Sources: Ministry of Finance
Ministry of Development Planning and National Reconstruction
Burundian economy (2003–2004, 2005)

Table 5: Evolution of tax revenues (in billions of BIF): 1997–2007

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
I. Direct taxes	11.7	13.6	16.3	19.6	28.8	32.1	32.4	35.6	41.9	44.5	53.0
1. Income tax	11.4	13.4	16.0	19.4	28.6	31.8	32.2	35.6	41.9	44.5	53.0
1.1. Corporations	5.3	6.8	8.1	11.6	19.0	20.8	18.8	20.3	23.2	24.2	27.9
1.2. Individuals	5.1	5.8	7.2	7.2	8.5	9.9	12.5	14.7	11.5	19.2	24.1
1.3. Other	0.7	0.6	0.4	0.3	0.8	0.8	0.5	0.6	7.2	0.9	0.9
2. Tax on capital	0.3	0.2	0.3	0.2	0.2	0.3	0.2	0	0	0	0
II. Indirect taxes	27.6	41.8	43.8	63.1	62.9	63.9	73.3	81.1	99.5	108.9	117.1
1. Tax on internal trade	20.4	25.0	31.3	45.0	44.1	44.4	49.5	58.6	66.5	83.1	92.5
1.1. Transaction tax	7.2	11.4	12.6	21.0	22.6	25.5	31.0	34.7	41.8	54.2	60.4
1.2. Tobacco tax	0.4	0.6	0.9	1.0	0.9	0.8	0.9	2.6	1.3	1.8	1.9
1.3 Beer and soft drink tax	12.7	12.9	17.6	22.1	19.7	16.9	16.5	20.0	22.0	27.1	30.1
1.4. Other domestic taxes	0.06	0.07	0.07	0.8	0.9	0.8	0.9	2.6	1.3	-	-
2. Tax on foreign trade	7.2	16.8	12.5	18.1	18.7	19.5	23.8	22.5	33.0	25.8	24.6
2.1. Import tax	4.7	8.7	9.0	12.6	13.0	13.8	16.1	14.3	18.5	25.3	24.5
2.2. Export tax	0.7	4.5	-	-	0.1	-	0.1	0.1	0.1	0.1	0.09
2.3. Other taxes on foreign trade	1.8	3.5	3.4	5.3	5.6	5.7	7.6	8.1	14.5	0.2	0.01
III. Other tax revenues	-	-	-	3.9	3.9	0.1	0.1	0.2	0.1	3.4	10.2
Total tax revenues	*39.0*	*55.2*	*59.8*	*72.5*	*91.4*	*95.7*	*105.4*	*116.9*	*141.3*	*156.4*	*180.2*

Source: Ministry of Development Planning and National Reconstruction
Macroeconomic Planning Department

Tax revenues are composed of two types of levies: direct taxes and indirect taxes. Direct taxes are collected from personal and corporate income and the capital tax. They account for 23% to 31% of tax revenues.

Indirect taxes are the result of taxation on the trading of domestic goods and services as well as on foreign trade. They account for 70% of tax revenues. They also include specific taxes charged on convenience goods such as beer and gas.

Administrative revenues, mostly obtained through dividends paid to the government by public corporations, range between 4% and 12% of revenues, depending on the year.

As for off-budget receipts, they come from earmarked levies, e.g., the Road Fund, the Special Fuel Fund, national solidarity contribution, etc. On average, they account for 15% of current revenues.

5.1.2 Constraints

The low mobilization of tax revenues can be explained by structural, organizational/institutional and legal constraints, along with various other constraints.

5.1 2.1.Structural constraints

Structural constraints include most notably the per capita income, the agricultural sector's share of the gross domestic product, and the narrow tax base.

• A low and declining per capita income

It is generally accepted that the higher the per capita income, the easier and higher the taxes are. In Burundi's case, not only is the per capita income low, it has followed a downward trend due to the civil conflict that recently prevailed in this country.

In the 1992–2002 period, the per capita income dropped from USD200 to less than USD100. The economy shrank by more than 30% due to the civil war and the embargo. The incidence of poverty rose from 35% in 1992 to 68% in 2002. From 2002 to 2007, income rates gradually recovered to reach USD120. The collapse of outside resources considerably affected public investments, bringing their share of the GDP down from over 17% to less than 9%. The combined effect of the drop in consumption and investments led to a significant slowdown in tax revenues. 1996 and 1997, which correspond to the start of the embargo and the cessation of cooperation, are indeed the two years in which the tax collection rates were the lowest, reaching 12% and 14% of the GDP, respectively.

• Agriculture's high share of the economy

At 45% of the GDP, the primary sector—dominated by subsistence farming—weighs negatively on tax collection levels. The majority of farm productions is not traded and thus escapes taxation. It should also be noted that the demographic pressure on lands significantly reduces farming volumes, to the point that Burundi is becoming increasingly dependent on food imports from Tanzania in particular. These imports constitute transactions that, up until quite recently, were not subject to taxation at the border.

• A narrow tax base

The tax base is narrow. Collections are limited to the rather modest structured sector. According to tax departments, the Unité des Grandes Entreprises division of the Direction des Impôts collects around 70% of this department's tax revenues, from only 10% of taxpayers. Alone, one company operating in the brewing sector contributes around 6% of the GDP or 20% of annual budgetary revenues. The primary sector (45% of the GDP) mostly escapes taxation because it is dominated by subsistence crops. A not insignificant portion of the tertiary sector comprises activities taking place within either the informal or the fraudulent sector. Both contribute little or not at all to public collections.

5.1.2.2 Organizational/institutional constraints

These constraints include in particular issues associated with administrative ineffectiveness, a costly exemption system and bad governance.

• An ineffective and unmotivated administration

Insufficient equipment and low capacity of tax officers hamper optimal collection levels. According to IMF data, undue exemptions have cost the Treasury up to 1.5% of the GDP in some years. In addition, the law provides for multiple degrees of auditing, including outside tax departments. Accordingly, the Inspection Générale de l'État and the Brigade Anti-corruption have the prerogative to perform tax audits and customs inspections.

These multiple centers of powers infuriate taxpayers, who are subjected to administrative harassment, sometimes accompanied by financial solicitation. However, the biggest problem remains the central issue of a financial incentive commensurate with the issues. Today, on average, a tax auditor who is responsible for ensuring the collection of approximately USD5 million per year receives an annual salary of around USD600. Under these conditions, arbitrages often take place to the administration's disadvantage.

• A costly exemption system

The law authorizes exemptions as diplomatic privileges, but also for companies eligible under the provisions of the investment code. According to IMF reports, **these exemptions amount to unperceived customs duties and taxes on items the value of which represents** 21% of total annual imports. The highest level was reached in 2006, when "60% of total imports entered the country with full or partial exemption for a total sum in exempted fees and taxes of BIF103.7 billion, i.e., 10.7% of the GDP and 65.5[%] of tax revenues," [translation] (Chambas 2007). There are clear indications that a number of these exempted products are intended for trade. The exemption system in effect accordingly makes it possible to escape levies, thus compromising the mobilization of public savings.

• A governance system marked by corruption and impunity

Generally speaking, the administration's effectiveness depends on how rigorously the political hierarchy is supervised. At the moment, according to Transparency International, but also according to reports from civil society in Burundi, corruption in Burundi has spread and amplified. The Organisation de la Lutte contre la Corruption et les Malversations Économiques (OLUCOME) estimates that over BIF200 billion were lost to the Treasury over the past five years. Even worse, corruption at the highest level of government has been confirmed. Two cases, among others, provide ample proof: the sale of the presidential aircraft and unjustified payments to a local oil company. These payments totalled close to USD20 million, and their recovery is being closely monitored by the IMF. This recovery is one of the conditions for the support provided by this organization to Burundi.

The public's perception of a lack of political will to fight corruption has become an incentive to pursue these illicit and criminal practices.

5.1.2.3 Legal constraints

• Complex and ill-adapted legislation

The current tax legislation is complex and often borders on incomprehensible for the average taxpayer. Furthermore, it is broken up in several texts. For example, for a long time, provisions regarding exemptions for investors were not contained in the tax code, but rather in the investment code. As well, provisions governing exemptions for NGOs were not included in the customs or tax code. Membership in the East African Community partially corrected this gap with the adoption of the common external tariff (CET), but much still remains to be done. Moreover, this complexity affords much in terms of discretionary powers to tax officers, who abuse them and occasionally use them for personal gain. Finally, the legislation does not always reflect the economic reality in its current form.

Accordingly, the import trade and construction sectors, which account for significant portions of the economy, tend to become informal and thus escape taxation.

• A tax collection level that encourages fraud

The marginal income tax rate was brought back down from 45% to 35%. That is a good start. However, this rate is perceived as too high by taxpayers and fosters tax leaks and corruption. It is higher in Burundi than in other East African Community member countries. Furthermore, duty rates on some imported items were, until very recently (prior to the introduction of the CET), particularly high (60%). This taxation level constituted a strong incentive for fraud.

A number of operators, in complicity with the administration, skirted around the legislation. It is difficult to assess the level of resources thus diverted away from the Treasury, but it is public knowledge that importers undervalue their imports and declare import volumes far below the reality.

5.1.2.4. Other constraints

• **The** impact of the abundance of outside resources

Does the abundance of outside resources have a negative impact on the mobilization of domestic resources? Between 1997 and 2001, a period where there was little cooperation, foreign aid went from 3% to 8% of the GDP. Between 2002 and 2007, a period where cooperation was once again stepped up, it went from 12% to 17% of the GDP. The collection rate in the former period varied between 14.2% and 21.4% of the GDP, and between 21.4% and 19.9% in the latter period. It is clear that significant progress was made in the mobilization of public savings in the period with little cooperation. Conversely, in the period that saw relatively abundant outside resources, progress slowed down and even lost a little ground. Could the availability of alternative resources be leading to a slackening off? Or are there other variables at work here? It should be noted that the tax administration saw a number of changes that could have affected its effectiveness, just like the general increase in the degree of corruption did not fail to negatively influence tax receipts. In any case, the impact of outside resources on the mobilization of internal resources should be analyzed in greater detail. Remember that over 50% of Burundi’s budget is funded by outside sources.

Impact of the war and the embargo

The periods that were the most marked by the effects of the war and cessation of cooperation were 1996 and 1997. In these two years, the collection rates recorded were the lowest of the 1996–2007 period, respectively reaching 12.4% and 14.2%. These bad performances also reflected a broader economic crisis: the GDP dropped 7.4% in 1996 and progressed only 1% in 1997.

5.2. Private savings

In the 1990–2007 period, annual average private savings were negative, totalling on average BIF-16.1 billion per year, i.e., -3.5% of the GDP. Except for a few periods (1996–1997), the Burundian economy generally recorded negative savings.

This section describes the formal financial sector and the microfinance sector and analyzes their performance and constraints in the mobilization of domestic private savings.

5.2.1 Formal financial sector

5.2.1.1 Performance

Monetary stability and the fight against inflation remained the ultimate goals of the monetary policy. The Banque Centrale continued to use indirect instruments to regulate the money supply, primarily through mandatory reserves.

Rediscount rates were successively set based on market rates for Treasury certificates obtained by auction and subsequently (2005) based on liquidity interbank market rates. Treasury certificate rates saw an upward trend and reached 19.65% in 2003. The quick rise in these rates caused the Banque Centrale to stop calculating its rediscount rate based on Treasury certificate rates. Indeed, the Banque Centrale's rediscount rate rose from 12% in 1999 to 14% in 2000, and to 15.5% in 2001–2002. In the same period, the certificate rate went from 11.04% in 1999 to 11.83% in 2000, 16.59% in 2001, 19.19% in 2002 and 19.65% in 2003. Credit to the economy saw a rather strong growth due to the demand resulting from the embargo being lifted and the improved safety conditions. Accordingly, the credit to the economy went from BIF74 B to BIF169 B, despite the fact that lending rates saw a significant hike, going from 17.7% in 1999 to 21.5% in 2003. It should be pointed out that the rise in lending rates remained less pronounced than that of Treasury certificates, due to the change in policy at the Banque Centrale for the establishment of rediscount rates. It should be noted that during this period the inflation rate remained moderate, varying between 1% and 9%, except for 2000 and 2003, where this rate rose to 24% and 11%, respectively. Refinancing was abolished and became a last resort. It was discouraged by punishing rates (higher than the interbank market).

Table 6: GDP growth rate, inflation and interest rates

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP growth rate	0.3	4.8	-1.0	-0.9	2.1	4.5	-1.2	4.8	0.9	5.2	3.6
Inflation	31.1	12.5	3.4	24.3	9.3	-1.3	10.7	8.3	13.2	2.7	8.3
Lending rates	16	17.6	17.7	20.4	20.9	20.3	21.1	20.8	20.6	18.0	17.5
Borrowing rates	8.8	9.1	9.4	11.3	12.1	13.3	13.7	12.8	9.6	8.9	8.3
Real borrowing rates	-22.3	-3.4	6.0	-13.0	2.8	14.6	3.0	4.5	-3.6	6.2	0.0
Intermediation spread	7.2	8.5	8.3	9.1	8.8	7.0	7.4	8.0	11.0	9.1	11.2
Money stock / GDP ratio	17.9	15.3	20	18.5	19.8	24.1	26.7	28.9	29.9	31.9	32.5

The financial sector comprises eight commercial banks, two financial establishments, six insurance companies and two social security organizations. Access to financial services is limited. Approximately 2% of the population has a bank account and less than 0.50% use bank credit facilities.

All of these establishments are concentrated in the capital and in a few provincial administrative centres, with 45% of bank agencies located in Bujumbura.

Three commercial banks—Banque de Crédit de Bujumbura (formerly a subsidiary of FORTIS), Banque Commerciale du Burundi (formerly a subsidiary of ING), and Interbank Burundi (100% privately owned)—control 75% of deposits and credits. The shareholding of the first two banks has changed. The Europeans sold their shares to Burundian or African shareholders. The State also holds a portion of the shares.

The three commercial banks' domination over the **banking** system is such that most newcomers have ended in bankruptcy. Three banks—Meridien Biao Bank (MBB) in 1995, Banque de Commerce et de Développement (BCD) in 2003, and Banque Populaire du Burundi (BPB) in 2006—filed for bankruptcy due to insolvency (too many non performing loans) and a lack of liquid assets. The same was true of three financial establishments: Crédit Vente Service, Caisse de Mobilisation et de Financement (CAMOFI), and CADEBU (Caisse d'Épargne du Burundi).

The four remaining commercial banks—Ecobank, Finbank, BBCI (Banque Burundaise pour le Commerce et l'Investissement) and BGF (Banque de Gestion et de Financement)—were bought out using African capital, except for BGF, which is still looking for a partner. A new bank, Diamond Trust Bank (Kenya), just opened its doors in 2009.

This movement was fostered by new regulations from the Banque Centrale requiring that the shareholders' equity be raised from BIF3 billion to BIF10 billion in 2010.

The evolution of deposits and credits saw tangible growth. Deposits went from less than 10% of the GDP in 1990 to 24% of the GDP in 2007. Table 7 below also shows strong growth in both public and private credits.

Table 7: Evolution of deposits and credits (in billions of BIF)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Demand deposits	23.5	23.7	36.2	36.3	44.1	56.6	74.6	99.9	115.6	147.4	151.2
Term deposits	14.5	14.0	22.4	26.8	30.8	40.2	53.0	60.0	74.2	83.9	94.6
Credits	66.2	87.1	117.4	129.8	162.7	183.6	215.3	278.7	289.7	364.5	372.4
Public	23.3	29.4	4.9	23.9	46.2	31.5	46.0	106.5	120.9	157.9	156.8
Private	42.9	57.7	75.5	105.9	116.6	151.9	169.3	172.1	168.8	206.6	215.6

The money stock / GDP ratio also saw clear growth, rising from 14.9% in 1990 to 32.5% in 2007. Of course, it remains below the African average of 45%, and is far behind the East Asian average, which exceeds 120%. However, it should be noted that it is growing faster than the African average.

Table 8: Evolution of the money stock / GDP ratio

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		
Money stock	62	62	91	95	109	140	172	217	258	299	330		
GDP	346	404	455	511	549	580	645	749	861	935	1013		
GDS	11.5	- 32.3	3	- 38	- 60	- 17	- 53	- 54	-102.4	- 255	-159.2		
Money stock / GDP (%)	17.9	15.3	20	18.5	19.8	24.1	26.7	28.9	29.9	31.9	32.5		

Bank intermediation spreads are generally very high, resulting from both high risk and high operating expenses. In the late 1990s and early 2000s, the top expense line item associated with operations for banks was not **depositors' interest** but other operating expenses (personnel, other operational expenses). **Non performing loans** represented close to 20%. High margins were also symptomatic of a severe lack of competition in the financial sector. These margins varied between 5% and 11%, as shown in table 9.

Table 9: Bank intermediation spreads (percentage)

	Borrowing rates	Lending rates	Spreads
1990	6.4	11.9	5.5
1995	8.4	15.5	7.1
2000	11.3	20.4	9.1
2005	9.6	20.6	11
2006	8.9	18.0	9.1
2007	8.3	17.5	9.2

Source: BRB reports

The arrival of new large-cap banks could shake up a number of behaviours. Deposit **remuneration** is already on the rise (two to three points). Lending rates are also experiencing strong downward pressure, sinking two to four percentage points, causing rates to drop back down from 16%–17% to 12%–13%. As coffee production was particularly low in 2009, **credit demand decreased sharply**, thus inciting greater aggressiveness.

The competition could accordingly be fiercer. Intermediation spreads will narrow and weigh on the profitability of the bank system as a whole.

There is only one development bank in Burundi: the Banque Nationale de Développement Économique, or BNDE. Its shareholders include the Government of Burundi, a few commercial banks, public corporations as well as foreign public organizations (AFD, Belgian cooperation, German cooperation, etc.). The bank benefits from mainly foreign credit lines (EIB, ADB, AFD, etc.) for its medium- and long-term funding. During the embargo, the bank limited its interventions to a few short-term funding projects. It could not mobilize long-term resources to provide funding in the medium and long terms.

There is also a financial establishment specializing in real estate credit: the Fonds de Promotion de l'Habitat Urbain (FPHU).This establishment is endowed with public capital. It was created to finance urban housing needs. It has the same difficulties securing long-term resources, and even more so since refinancing from the Banque Centrale is no longer a stable resource.

Other attempts at establishing a development bank failed. Accordingly, CAMOFI (Caisse de Mobilisation et de Financement) and the Société Burundaise de Financement (SBF) were respectively forced to file for bankruptcy and convert to a commercial bank due to a lack of long-term savings on the Burundian market.

The financial health of the **banking** system has gradually improved. During the embargo, mandatory reserves were not established, liquidity standards were not respected and the profitability left much to be desired. Since 2002, prudential ratios have clearly improved.

Solvency is around 20%, liquidity is above average, at around 110%, and shareholders' equity is steadily increasing. Offsetting these positive aspects is the portfolio of outstanding payments, which remains a cause for concern, representing 17% of the lending volume in 2007.

The liberalization of the financial sector had mixed effects on the mobilization of savings. Between 1986 and 1989, the gross domestic savings rate was positive and varied between 8% and 3%. Between 1990 and 1993, this rate became negative. Since 2004, the year in which the economic reform was once again set in motion, the rate remained negative and will continue to be negative until 2012, according to IMF forecasts.

Burundi's situation corroborates the results of studies that found that liberalization had very limited effects on the mobilization of savings in the countries **that undertook adjustment programs.**

A comparison of the evolution of real **interest** rates and domestic savings revealed no correlation. The 1990–2000 decade saw an average real **interest** rate of -6.4%. The 2001–2007 period saw an increase in this rate to +3.5%.

Table 10: Evolution of real interest rates (%)

1990	1991	1992	1993	1994	1995	1996	1997	1998
-0.6	-1.6	+6.6	-1.7	-6.1	-11.1	-18.1	-22.3	-3.4

1999	2000	2001	2002	2003	2004	2005	2006	2007
+6	-13	+2.8	+14	+3	+4.5	-3.6	+6.2	0

However, domestic private savings remained negative for the entire period. Paradoxically, they were even more negative in periods that saw a positive real interest rate.

Insurance

The insurance industry comprises six companies. Shareholders are essentially Burundian, and the largest company (SOCABU) is dominated by State ownership.

Industry sales reached USD10 million in 2007. The life insurance portfolio was introduced a few years ago and represents 20% of the total, but it is rapidly growing. For example, SOCABU started selling life insurance products in 2003. The result: BIF66 million in 2003 and BIF1,955 million in 2007, i.e., an annual growth of 600%. The premium/GDP ratio is of 1%, i.e., close to 5 times less than the African average. The premium/inhabitant ratio is of USD1.3, i.e., 50 times less than the African average. The overseeing institution in place does not work, making it very difficult to gauge the sector's financial health.

Social security organizations

Today there are three pension systems. The first is organized by the State. It covers all employees working in the formal private sector and the parapublic sector as well as members of the police and army. This system is administered by the Institut National de Sécurité Sociale. The system has around 130,000 affiliates.

Together, the employer and employee contribute 9.5% of the employee's basic salary to ensure the employee's retirement and his occupational hazards. The contribution cap was raised to BIF150,000, i.e., around USD125. Retirement, taken at age 60, is obtained by multiplying the contribution base for the last 3 years, multiplied by the number of years of contribution divided by 60. Thus calculated, the most an employee can get is USD100/month after contributing for 40 years.

The annual resources collected are of BIF12 billion. They are primarily invested in real estate (40%) and partially in bank capital or in the form of deposits in the bank system.

The second system is also organized by the State. It covers public service officers other than members of the police and army. Retirements are included in the budget every year. Only the State contributes; the employee contributes nothing to his future retirement. This system is vulnerable. The number of retirees tends to increase while the recruitment of new public servants is limited by the small budget and commitments to donors. Under these conditions, the sustainability of the system is far from certain. That is why the government has just decided to establish a contribution system for public servants. The new system will take effect in 2010. It will cover a workforce of close to 40,000 public servants, with a contribution rate of 9%. An annual collection of close to BIF4 billion is anticipated.

The third pension system is organized by insurance companies and corporations.

Aware of the low retirement amounts cited above, some companies have agreed, at the request of their unions, to establish a complementary pension for their employees. The insurance companies, sensing an opportunity to develop their life insurance portfolios, also began selling “voluntary pension” products. Generally speaking, this voluntary pension system is an employer/employee contribution system, with each contributing 5% of the employee’s basic salary. Rates can go up to 10%. The contributions are tax-deductible. These resources can serve as collateral for a credit application, and are placed in the bank system and released in a lump sum payment at retirement or in the event of termination of employment. A significant number of companies from the formal sector use this system for an estimated annual contribution of BIF3.0 billion. The insurance industry, however, collected BIF3.2 billion in the life insurance field in 2007.

5.2.1.2. Constraints to the mobilization of private savings

Two types of constraints explain the poor mobilization of private savings: structural and organizational/institutional.

5.2.1.2.1 Structural constraints

Small size of the corporate fabric

In Burundi, the size of the formal corporate sector is limited because of the state of its development. It tends to decline as a result of the closure of public and private companies caused by both liberalization and privatization policies. This situation causes most new jobs to be created in sectors (informal, State) that do not pay well. Furthermore, the openness of the economy has reduced the profitability of companies already subject to fierce competition.

Demographic dependency rate

The demographic dependency rate is defined by the World Bank’s World Development Indicators as the ratio of persons not in the labour force (persons younger than 15 and older than 64) to persons of working age. In Burundi, there are three persons not in the labour force for every two who are of working age, i.e., a ratio of 150%. It is generally accepted that a high rate of demographic dependency negatively influences savings levels. Combined with low incomes, this situation significantly hampers the development of private savings. Moreover, with an annual demographic growth rate of 2.8%, and in the absence of a strict fertility control policy, this rate will continue to be high and to be a constraint on the mobilization of savings.

5.2.1.2.2 Organizational/institutional constraints

Capital flight

Among the causes put forward by Ndikumana and Boyce ("New Estimates of Capital Flight from Sub-Saharan African Countries: Linkages with External Borrowing and Policy Options," April 2008) to explain the flight of capital are macroeconomic imbalances (inflation, overvaluation of currency, exchange control, etc.) and political instability.

Burundi has experienced—either concurrently or in turn—the political and economic risks that constitute the root cause for the capital flight observed in this country. According to the same authors, Burundi suffered a capital flight of amounting to USD2.566 million (including interests) between 1970 and 2004. This hole is due less to the foreign debt than to the overcharging of imports and the undervaluation of exported goods. This amount represents 185% of the country's foreign debt stock and over 312% of the GDP.

Low urbanisation

Bank agencies are concentrated in the cities and urban agglomerations. Alone, Bujumbura (the capital) is home to 45% of these entities. Yet 85% of Burundi's population lives in rural areas and scattered settlements. Combined with the low income and lack of infrastructure, this is a factor that makes the collection of savings considerably more expensive and that explains, at least in part, the absence of institutions charged with collecting savings.

Macroeconomic instability

The war and the embargo considerably perturbed economic policies. The high level of inflation and the collapse of the Burundian currency—resulting in internal and external deficits—caused citizens to seek refuge in values less likely to depreciate, particularly real estate.

Non-financial savings

Although it is not possible to estimate their true extent, significant resources are used in real estate construction operations. Without long-term resources, banks contribute little to the funding of such activities. Since 1993, approximately ten new neighbourhoods have been implemented and built. Between 5,000 and 10,000 homes have been built. The two other forms of non-financial savings frequently observed are the purchase of farm land and cattle.

Absence of a capital market

There is no stock exchange in Burundi, nor is there a bond market. Due to the smallness of the economy, it does not seem likely that a viable stock exchange could be established for the short or medium term. On the other hand, quality borrowers could obtain resources at a better price than those available from the bank system. One local bank, BBCI, funded the construction of its head office with a bond loan at two to three points below the best rate offered by the bank market. However, it would seem better to organize a bond market within a broader context, for example, the East African Community.

5.2.2 Microfinance: performance and constraints

Access to the **banking** system for low-income populations is severely limited by high minimum deposit (BIF1 million, or USD850) or minimum salary requirements (between BIF300,000 and BIF500,000 per month, or between USD250 and USD425). The initial deposit required represents eight times the average annual income of Burundi's inhabitants. Because of this, people turned to microfinance institutions.

The microfinance sector is still in the very early stages but has recently seen rapid growth. Since 2006, it is governed by a regulatory framework defining the conditions for access, operations and withdrawals.

The regulatory framework borrows largely from the provisions of the banking legislation, with more flexible arrangements to take into account the particular situation of operators in this sector (cooperatives, clients from the informal sector, etc.). The implementation of this regulation, overseen by the Banque Centrale, represents an important step forward to allow for a sound and sustainable foundation on which to develop the microfinance sector so as to create trust in the latter.

The regulations set out three categories of microfinance establishments: cooperatives, microcredit programs and microfinance companies. Only the microfinance companies are subject to a minimum capital amount, i.e., BIF200 million (USD165,000).

The sector comprises 26 establishments, i.e., 11 cooperative institutions, 7 corporations and 8 microcredit programs (BRB). The sector is dominated by six microfinance institutions representing 84% of the sector's members/clients, 94% of deposits and 84% of the loan portfolio.

Microfinance institutions have an organization specifically created to represent their professional interests: the RIM, or Réseau des Institutions de Microfinance. Its mission is to

"contribute to the development of viable and effective financial services for the underprivileged and low-income population without access to traditional bank services by supporting member MFIs to achieve their objectives."
The RIM has 13 members, including the BNDE.

A few performance indicators for the microfinance sector are presented in **table 11**.

Table 11: A few microfinance performance indicators (in BIF)

Variables	2004-12-31	2005-12-31	2006-12-31	2007-12-31
Clients or members	272,340	311,094	365,074	309,945
Credit amount	9,603,149,000	8,704,138,000	14,172,283,643	20,622,337,797
Borrowers	52,955	63,051	115,997	112,422
Average credit	181,000	138,050	122,178	183,437
Aggregate savings collected		12,067,087,787	13,443,118,223	17,657,582,439
Loan portfolio		13,897,427,000	14,173,075,189	18,930,603,801

Source: RIM reports

This table indicates strong growth in the sector in terms of both the mobilization of savings (40% over three years) and credit granted (more than 100% over 3 years).

Among the other performance indicators for which data is available, the profitability of the shareholders' equity was, on average, 8% in 2005, and varied between 2% and 28%.
Profitability is on the rise compared to 2004, where it reached an average of 2%.

It is unfortunate that data regarding the quality of the portfolio is not available.

The liquidity ratio is satisfactory at 15%. For the microfinance institutions as a whole, it varies between 3% and 28%.

Finally, two more prudential ratios are still not respected: the establishment of a general reserve by allocating 20% of earnings to the shareholders' equity and the long-term coverage of **loans** using stable resources.

Despite the significant progress made, the sector continues to face major constraints hampering its development.

The target clientele of microfinance institutions is part of the population earning income below the national average. The incidence of poverty is at 70% in rural areas, compared to the national average of 68%. The low urbanization rate (10%) increases the costs associated with the collection of savings. The absence of basic infrastructures (electricity) does not always make it possible to use logistical tools to increase productivity (e.g., computers). The dangers of a pyramid structure should be pointed out here. Such structures can undermine savers' trust. Three provinces (Gitega, Makamba, Ruyigi) have recently borne the brunt of such practices. Based on the government's estimate, the populations in these provinces were despoiled of more than BIF3 billion (USD2.5 million). The higher fertility rate in rural areas compared to urban areas increases the pressure on already low household incomes and leaves little room for saving money. Finally, it should be noted that a portion of the savings seen in rural areas is non-monetary; within that setting, land and cattle are the preferred forms of saving.

6. GLOBAL FINANCIAL CRISIS AND SAVINGS IN BURUNDI

Although the global financial crisis did not have a destabilizing impact on the banking system, the economic crisis did affect economic growth and the mobilization of savings.

Since the civil war that broke out in Burundi in 1993, the country's financial relations with the international financial system were very limited. In reality, Burundi had no access of any kind to any international trade funding. Letters of credit were entirely covered by foreign currency deposits.

Moreover, FORTIS and ING (who had subsidiaries) sold their shares in 2007 and 2004, respectively, thereby eliminating the risk of contagion through the shares they held. The Burundian banking system accordingly had no "toxic assets" in its portfolio.

The only risks incurred were the loss of foreign currency deposits held by foreign banks (FORTIS, ING, CITIBANK).

By the end of 2008, these deposits totalled around USD270 million and represented close to seven months of imports.

These risks were avoided due to the intervention of the host countries of partner banks.

A comparison of the evolution of deposits and credits within the Burundian banking system before and after the crisis confirms the latter's autonomy. Deposits are on the rise in 2009, as are credits.

Overall, the health of the **banking** system is rather satisfactory.

According to indicators established in a report from the International Monetary Fund in August 2009, the main prudential ratios exceed the standards set by the Banque Centrale. Accordingly, the solvency ratio is 15%, the liquidity ratio is 110% and the profitability ratio is close to 30%. **Non performing loans** are funded at 90%.

On the other hand, the economic crisis that followed the financial crisis had a negative impact on Burundi's economy. For one, the reduced global demand for exports affected coffee. In late 2008, a slowdown in sales of this product was observed, but more importantly, so was a 12% drop in prices.

Migrant transfers generally take place through informal channels and accordingly go mostly undetected. Those that went through the bank system were not affected by the crisis and even saw a slight 8% increase.

Already the recipient of little in terms of direct foreign investments, Burundi suffered from the withdrawal of Broken Hill Proprietary (BHP), which had begun exploring for nickel deposits in Burundi.

As for foreign aid, a significant slowdown in disbursements was observed in 2009. By late June 2009, only 22% of the foreign aid had been disbursed.

Officially, the reasons given are of a technical nature for multilaterals (World Bank), but political for bilateral establishments. However, the fact remains that questions and concerns regarding the fate of multi-year commitments are starting to surface.

On a more positive note, the drastic drop in prices for oil and food products has already been reflected in the local market. Prices at the pump have dropped by close to 20%. Inflation, which was at 27% in 2008, dropped back down to less than 10% in 2009.

The IMF estimates that the economic crisis will cause the initially forecast economic growth rate to decrease by 1.3%, bringing it down from 4.5% to 3.2%.

Finally, also according to IMF estimates, the mobilization of public revenues will be negatively affected by 1.5% of the GDP.

7. OPPORTUNITES AND RECOMMENDATIONS

7.1. Public sector

On average, public collections reached over 19% of the GDP. This level is slightly higher than the average in countries with an economy comparable to that of Burundi. But these barely covered 50% of the public spending in 2007.

Furthermore, among the constraints analyzed above, some have proved rather difficult to overcome in the short term. It is the case, in particular, of the low per capita income and the weakness of the corporate fabric in the formal sector. The central issue is determining the additional fiscal potential that can be recovered in the short term, and how to achieve it.

Five courses of action merit closer examination and implementation: consolidating the effectiveness of the fiscal and customs administration, expanding the tax base, countering corruption, simplifying the legislation and improving relations between taxpayers and the fiscal administration.

7.1.1 Consolidating the effectiveness of the administration

The strategy likely to be the most productive to increase public collections must be centered on the reform of the fiscal and customs administration. The primary objective of this reform is to increase the fiscal rate of return without increasing tax rates. Institutional and human factors in large part explain the low yield observed in the mobilization of resources. The narrow collection base is the product of fraudulent exemptions and the non-taxation of promising economic sectors. Similarly, organizational issues and lack of adequate equipment along with capacity issues associated with the insufficiency of staff training limit the effectiveness of the administration. Moreover, low financial incentives in the face of heavy responsibilities leave officers highly susceptible to corruption, which is already widespread at the top levels of government. All of these factors put considerable strain on the effectiveness of the fiscal administration. The government is committed to correcting this situation with a complete overhaul of the fiscal administration.

A reformed administration can expand the tax base by eliminating undue exemptions and taxing sectors currently not subject to taxation. A better organized administration, more competent and financially motivated is less likely to be swayed by corruption. Of course, if corruption is not fought on the whole at the institutional level, this task will remain difficult. However, it will always be easier to fight corruption at this level if incentives are commensurate with responsibilities; if the organization promotes competence and merit, rewards performance, and punishes insufficiencies. The legislation embodying the reform has been enacted, the statutes—which include a code of ethics—have already been adopted, and the board of directors for the Office des Recettes has already been appointed. Together, these measures contain the ingredients necessary to the reform's success and constitute signs of the government's will to move forward. But they remain insufficient.

Another condition essential to the success of the reform is the strict observance by the government of the new Office's autonomy. The government must refrain from interfering in any way with recruitment efforts and the technical management of issues. Political appointments not based on merit and skill criteria would doom this reform to fail and, ultimately, entail exceptionally high costs.

To counter this risk, the significant involvement of donors is essential, and concrete mechanisms to verify the reform's implementation will need to be established and closely monitored. Two criteria could be set.

First, a qualitative criterion. The idea would be, on the one hand, to ensure that the conditions making the Burundian Office des Recettes autonomous are respected. Managers and staff must be recruited based on skill criteria and completely independently of political considerations. Delays in the recruitment of the director general and the recent appointment of senior executives to the Office have generated concerns and seem to point to the existence of political interference. Steps would then have to be taken to ensure that the establishment and management of the Office are such that they can guarantee the effectiveness of this new entity. Quality of the employees hired, equipment, establishment of systems and procedures to facilitate the recovery process, training, communications with taxpayers, etc.

Second, a quantitative criterion. The goal is to set quantitative recovery objectives over a two- to three-year period. For example, increasing the collection level by 1.5 percentage points of the GDP in the first year by eliminating fraudulent exemptions. The release of budgetary aid would be linked with the achievement of these objectives.

If this reform bears fruit, public collection rates could see a significant increase. In Rwanda, the implementation of this reform caused revenues to triple in seven years. The tax collection rate compared to the GDP doubled in ten years (from 7% to 14%). The collection rate in Burundi is of 19% and accordingly cannot see a spectacular increase. However, according to estimates by people who have worked within these administrations, it is realistic to hope for a five-point increase over a three-year period. The collection rate would accordingly rise to 24% of the GDP, i.e., exceeding the African average (21%).

7.1.2. Expanding the tax base

As noted above, the exemption level clearly indicates that this sector is poorly controlled and entails an untapped potential. Estimates claiming that 21% of imports escape taxation indicate a potential as high as 1.5% of the GDP.

In "Mobiliser des ressources fiscales pour le développement," Chambas makes the distinction between the informal sector and the fraudulent sector. The informal sector is composed of microenterprises that are neither recorded nor registered in official statistics and that operate on a very small scale and with a low level of organization. Most of them involve a very low level of capital, productivity and revenue. The main objective of this informal activity is to find employment. The potential for tax-based revenues from the informal sector is low.

The fraudulent sector is composed of entities of varying sizes. "Contrary to informal activities, tax fraud is a decisive factor in the development of fraudulent activities, which are also likely to cast doubt on the tax structure as a result of the unfair competition they introduce."

The potential for tax-based revenues could be significant. In Burundi, recent controls on the import of petroleum products revealed the accumulation of unpaid customs duties, all companies combined, in the amount of BIF30 billion, representing 3% of the GDP. It is also generally accepted that a high number of operators declare values and/or volumes far below the reality.

It should also be added that the recent introduction and generalization of the value-added tax (or VAT) drew on the government's desire to expand the tax base.

Finally, it seems appropriate to examine the possibility of increased contributions from urban properties. Prices for the latter have soared over the past five years and have sometimes doubled and even tripled in certain neighbourhoods. Within the same period, however, the tax on real estate transactions dropped significantly, going from 13% to 3%.

7.1.3. Countering corruption

Of course, technical measures like the reform of the tax administration and the simplification of the legislation are tools that can be used to limit corruption. Beyond that, a political will manifested through administrative sanctions and the pursuit of legal proceedings is required. Only forceful actions taken against confirmed cases of corruption can send a powerful message of deterrence.

7.1.4. Simplifying the legislation

The legislation should be easy to understand, reduce the administration's discretionary powers, and thus eliminate opportunities for corruption.

7.1.5. Creating a climate of trust between taxpayers and the tax administration

It is essential that there be a single tax code. It is equally important to implement a procedural code for taxation to inform taxpayers and limit the powers of tax officers.

Finally, to protect taxpayers from abuses perpetrated by the administration, the Charte du Contribuable should be instituted. This taxpayers' charter, already in effect in some West African countries, contains the rights and duties of taxpayers and establishes safeguards limiting the administration's powers.

7.2. Formal private sector

7.2.1 Expanding and gradually generalizing the pension system

The niche most likely to further mobilize private savings in the short term is, without a doubt, the generalization of the social security system for target populations that are still not covered. The current coverage remains limited. Approximately 10% of the total population is covered in one way or another (pension, health, accident). Officers working in the formal private sector benefit from a pension and accident plan but have no contribution-based health coverage. Public servants are covered for health benefits, but until recently did not contribute to a pension and accident plan. A pension and occupational hazards office (the Office National des Pensions et Risques Professionnels, or ONPRP) has just been created for government employees as of January 1st, 2010, following a recent decision. Health coverage should be extended to the private sector and the population as a whole. Furthermore, as regards pensions, insurance companies along with certain companies and unions have set up voluntary contribution systems (complementary pension) intended to enhance the modest retirement sums paid out by the State-established system. The State is responsible for taking appropriate steps with social partners to establish health coverage for the formal and informal private sector. Burundi's neighbour, Rwanda, has done it; there is no reason for it not to be possible in Burundi. To enhance the pension savings initiatives already initiated by the private sector (insurance, corporations, unions, etc.), the government should implement tax incentives and, more importantly, make parcels of land available for construction under accessible conditions.

Together, these measures could mobilize annual savings representing between 1% and 1.5% of the GDP.

7.2.2. Creating credit reference bureaus

Credit reference bureaus collect information on compliance with financial commitments under commercial contracts. They are an essential tool for facilitating the analysis and quality of risks and, consequently, make it possible to reduce the high securities required from borrowers. Their existence will help reach new borrowers who still do not have access to bank credit. Donors could help establish this information system.

7.2.3. Strengthening the effectiveness of the institutions responsible for ensuring compliance with commercial contracts (trade tribunal, bailiffs, land titles, etc.)

The lagging and non-execution of commercial contracts and the realization of securities in large part explains banks' reluctance to accept certain securities and, consequently, to grant credits. In the past, USAID helped improve these institutions (regulations, training, equipment, etc.), but the progress made could not be sustained due to the high turnover of staff and officers and a lack of continuity in policy. The sector deserves renewed support through foreign aid.

7.2.4. Using new technologies to reduce deposit collection costs

Following the example set in other countries (M'Pesa in Kenya), the bank system could take advantage of the expansion in cellular technology and the Internet to reduce collection and management costs.

7.2.5. Increasing the supervision of banks

The private sector's development depends in particular on the efficiency of the country's financial sector. It is accordingly vital that a sound and competitive bank system be maintained. Despite the current good health of the bank system, the numerous bankruptcies seen in this sector in the past decade should not be forgotten. The Banque Centrale must accordingly remain vigilant.

7.2.6. Pursuing efforts to ensure macroeconomic stability

A stable macroeconomic framework is necessary for investment and growth. It is an essential condition to pave the way for higher incomes, a major constraint to the mobilization of savings. The efforts already underway must continue. In the past, the interruption of economic reforms has been detrimental to the business climate and investment.

7.2.7 Initiating other actions to mobilize long-term resources

The BCB solicited the Burundian diaspora to collect resources for investment in real estate. The response from the latter was so positive that in 2007, USD1.5 million had already been collected. However, this initiative ran out of steam when the commitments made for the development of the real estate sought by this clientele were not honoured. Other banks (Finbank, Ecobank) are also targeting this clientele.

Another BCB initiative examined the possible establishment of an investment fund.

This project, supported by the Association Burundaise des Établissements Financiers, proposed mobilizing BIF2 to 3 billion per year by levying the revenues of the main banks and companies whose financial health improved when the crisis ended. The project's mission was to:

- Intervene in venture capital
- Intervene in financial leasing
- Intervene in microfinance

Although promising, these initiatives were abandoned because the proponent left the bank and no one else took on the project. These initiatives should be revisited and seen through to the end.

7.3. Informal private sector

7.3.1. Multiplying microfinance institutions and bringing them closer to the target population

The growth rate observed in this sector is high and can be explained, in part, by a higher number of points of service across the country. This policy should be pursued.

7.3.2. Enforcing regulations in this sector

The fragility of the clientele, together with the newness of the sector, increases the risks with this activity. Pyramid structures can undermine the population's trust. That is why regulatory authorities should ensure flawless monitoring and build long-lasting trust.

7.3.3. Creating collaborative relationships with the banking sector

This approach will facilitate the development of microfinance by building on the professionalism of banks.

7.3.4. Supporting the sector's promotion using a multidimensional approach

Four support channels seem useful:
- Training and technical assistance
- Lines of credit
- Audits
- Securities

These supports allow for a quicker and smoother development of the microfinance sector. Donors could help support this sector, which represents the most promising channel for supplying financial services to a higher number of people.

Despite the high level of poverty among the target population of microfinance institutions, results indicate that there is still a potential for the mobilization of savings using these channels. Some donors (Netherlands, Belgium) recently provided support to the development of this sector. Resources have accordingly been allocated to training, equipment grants (computers, etc.), initial lines of credit (pending the collection of deposits) as well as to institutional support for regulation (BRB) and promotion organizations (Ministry of Finance, RIM).

The new regulations in this sector are a step forward in establishing the public's long-lasting trust and thereby ensuring the development of microfinance institutions.

The frequent occurrence of usury practices testifies to the absence of credit for operators in the rural sector. To minimize the risk of non-repayment of credits, employees—who are easier to collateralize—are favoured over small shop owners and farmers. It seems appropriate to establish innovative securities mechanisms to facilitate access to credit for this category of economic operators.

8. Burundi matrix

This table takes stock of constraints to the mobilization of domestic resources, identifies opportunities and makes recommendations on strategies for the mobilization of savings.

Mobilization of domestic resources	Public sector	Private sector	
		Formal	Informal
1. <u>Structural constraints</u>	1. Low per capita income (USD120, 2007).	1. Low per capita income (USD120, 2007).	1. Population in this sector earns lower-than-average income.

	2. The incidence of poverty rose from 35% to 68%.	2. The incidence of poverty rose from 35% to 68%.	2. The incidence of poverty is higher in rural areas (80%).
	3. Narrow tax base; large informal sector.	3. The weak corporate fabric in the formal sector.	3. Furthermore, part of this income is not in monetary form.
2. Organizational & institutional constraints	4. Ineffective and unmotivated tax administration. 5. High exemptions concealing undoubtedly high revenue losses for Treasury. 6. Bad governance caused by corruption.	4. Macroeconomic instability (high inflation, negative real borrowing interest rates). 5. A not very competitive financial sector limited to the structured sector. 6. Absence of a financial market. 7. A development strategy too focused on foreign resources. 8. Low urbanization that increases the costs associated with the collection of savings.	4. Microfinance is still in the early stages. 5. Absence of local structures to collect savings. 6. Absence of minimum infrastructures (electricity), making the use of productive equipment difficult (i.e., computers).
3. Legal constraints	7. High tax rates fostering tax fraud 8. Complex and ill-adapted legislation that gives discretionary powers to the administration.		
4. Various constraints	9. The impact of the war and embargo on the economy and administration. 10. The ready availability	9. The impact of the war and embargo on the economy.	

	of foreign aid.		

2. Opportunities and recommendations	1. Reform and motivate the tax and customs administration. Create an administratively and financially autonomous revenue office. 2. Expand the tax base (eliminate the fraudulent sector, abolish exemptions, control the VAT, create a tax information department within the revenue office). 3. Create a climate of trust between taxpayers and the tax administration (single tax code, tax procedural code, taxpayers' charter, etc.). 4. Simplify the tax legislation to eliminate the administration's discretionary powers and opportunities for corruption. 5. Fight corruption and fraud. Harshly penalize confirmed cases of corruption.	1. Generalize and expand the pension system for public servants and employees working in the formal private sector. 2. Create credit reference bureaus. 3. Strengthen the effectiveness of the institutions responsible for ensuring compliance with commercial contracts (trade tribunal, bailiffs, etc.). 4. Use new technologies to reduce savings collection costs. 5. Increase the supervision of the bank sector to prevent bankruptcies that could undermine the public's trust. 6. Maintain macroeconomic stability	1. Multiply microfinance institutions 2. Enforce sectoral regulations to create long-lasting trust in the new sector. 3. Facilitate access to credit for rural savers through securities mechanisms. 4. Support the sector's promotion through a multidimensional approach (training, audits, lines of credit, securities, etc.) 5. Create ties with the bank sector.

Appendix 1: EVOLUTION OF THE GDP BY SECTOR (millions of BIF)

Year	Primary sector	%	Secondary sector	%	Tertiary sector	%	TOTAL	%
1998	168,580	46.32	61,297	16.84	134,083	36.84	363,960	100
1999	184,806	43.70	75,488	17.85	162,645	38.45	422,939	100
2000	184,024	40.40	85,561	18.89	185,876	40.81	455,461	100
2001	195,867	39.52	94,345	19.04	205,423	44.44	495,635	100
2002	230,217	44.11	91,076	17.48	200,612	38.44	521,905	100
2003	207,638	35.14	122,279	20.69	260,973	44.17	590,890	100
2004	222,400	32.99	146,000	21.61	307,000	45.45	675,400	100
2005	389,500	48.58	132,400	16.51	279,800	34.9	801,700	100
2006	422,400	48.42	143,000	16.39	306,900	35.19	872,300	100
2007	422,100	46.77	158,600	16.78	344,600	36.45	945,300	100

Source: BRB annual reports

Appendix 2: MACROECONOMIC INDICATORS

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Monetary									
- Inflation (%)	7.0	9.0	1.8	9.7	14.9	19.2	26.5	31.1	12.5
- Borrowing rates (%)	6.4	7.4	8.4	8.0	8.8	8.4	8.4	8.8	9.1
Lending rates (%)	11.9	15.4	16.6	16.7	16.3	15.5	15.5	16.0	17.6
	89.89	99.02	96.35	105.64	73.8	69.3	73.7	72.4	56.6
- Real nominal exchange rate	60.36	68.06	64.00	69.49	84.2	89.8	60.08	75.9	64.9
Budgetary (billions of BIF)									
- Tax revenues	30,889	36,100	39,173	39,683	40,335	44,074	37,754	43,313	63,531
- Current and investment expenditures	26,311	28,487	31,273	34,777	37,618	39,186	45,266	54,582	62,172
- Domestic public debts	5,962	6,074	7,031	7,809	43,072	21,737	21,559	16,221	25,848
	22,661	18,067	15,644	13,783	13,501	17,695	27,356	39,989	49,659
Balance of payments (billions of BIF)									
- Current account	11,364	5,827	11,387	6,383	3,692	1,127	11,903	156	-24,402
- Capital account	13,361	12,790	20,596	12,836	7,872	5,267	4,283	4,819	16,610

	1999	2000	2001	2002	2003	2004	2005	2006	2007

Monetary									
- Inflation (%)	3.4	24.3	9.3	-1.3	10.7	8.3	13.2	2.7	8.3
- Borrowing rates (%)	9.4	11.3	12.1	13.3	13.7	12.8	9.6	8.9	8.3
Lending rates (%)	17.7	20.4	20.9	20.3	21.1	20.8	20.6	18.0	17.5
- Real nominal exchange rate	61.3 89.0	52.7 92.0	47.8 88.3	46.8 82.7	77.4 73.8	71.2 71.0	67.8 79.9	75.3 81.1	67.4 82.6
Budgetary (billions of BIF)									
- Tax revenues	87,78(2)	98,536	118,953	122,966	113,223	147,508	176,658	183,029	201,614
- Current and investment expenditures	69,671	82,479	100,316	116,467	142,609	177,615	221,267	227,140	265,047
	23,155	40,547	49,278	65,770	99,405	119,900	77,868	91,470	128,146
- Domestic public debts	64,528	62,071	80,894	95,081	118,798.2	200,520.9	193,066.9	230,472.2	241,179.0
Balance of payments (billions of BIF)									
- Current account	-14,757	-34,759	-29,044	-2,991		36,320	-10,436.5	-137,370.0	-125,103.0
- Capital account	-426	15,702	3,489	3,229		19,743	34,391.9	63,803.6	138,497.6

Source: BRB annual reports

Appendix 3: Evolution of Risks to the Financial System (End of Period) (in billions of BIF)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Credits distributed	71,326	89,445	122,651	137,177	175,064	180,703	179,782	174,172	215,886	228,992
- Short-term credit	58,427	74,518	102,371	113,740	146,224	147,227	143,585	138,857	170,825	174,218
- Medium-term credit	7,159	8,895	14,365	14,999	23,253	28,139	31,627	30,875	38,604	48,323
- Long-term credit	5,736	6,031	5,913	5,437	5,586	5,336	4,570	4,439	5,796	6,450

Source: BRB annual reports

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