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Country Case Studies on Intergovernmental Transfer Schemes and SDC Support: Burundi

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1. Background

Burundi is among East African countries, on the shore of Lake Tanganyika, bordering Rwanda, Tanzania and the Democratic Republic of Congo. The population as of July 2012 is 10’557’259, 51% women on 287’834 Km2. Burundi is a landlocked country, resource-poor with an under developed manufacturing sector. The economy is predominantly agricultural: the share of agriculture is 30% of GDP and employs 90% of the population. The primary exports are coffee and tea which accounts for 90% of foreign exchange earnings. Since April 2015, the country is torn by a political crisis that ensued the ruling party’s nomination of President Nkurunziza to run for a third term.

Since the 70’s the successive governments had chosen decentralization as a way of governance to bring the services closer to the citizens and let local decisions be taken by local authorities for local issues. Yet, the policy per se took years to be translated into actions. Only in 2005 were the first local councils directly elected by the population. From then on, the local authorities had new responsibilities but without subsequent human and financial resources.

Since 2005, the government undertook decentralization reforms starting by devolving a number of responsibilities to local authorities (communes). Five governance tiers were established by the constitution: central, provincial (deconcentrating), communes (decentralization), zones (deconcentration of communes) and villages (decentralization). The communes are the first level of decentralization and among the reforms stated were the decentralization of functions and resources. 10 years after, these reforms didn’t run smoothly, they were hindered by a number of challenges related at the same time to political (fiscal policy) and economic factors (scarcity of resources).

Average revenue by communes is 2.7% of total internal revenues, less than 1$ per capita compared to 3$ in African countries[1]. It is difficult to know exactly the share of the expenditures by communes in the national public spending as what can be predictable are only their own resources. In 2012, the communes accounted for 3% of the public revenues and expenditures[2]. In 2014, the deconcentrated spending in health and education amounted 40% of total public expenditures (*World Bank, opcit*). The communal budget is divided in 3 components: current expenditures (80%), service delivery (5%) and capital expenditures (15% investment)[3].

2. The objectives and design elements of the supported transfer

Fonds National d’Investissement Communal (FONIC) is a transfer scheme created in 2007. The tax base was not enough for the communes to cover current expenses and capital expenditures. FONIC was created to the institution to revive sub national governments (SNGs) and address

[1] *ibid*
[2] World Bank, opcit
[3] Nihangaza Charles, Etude sur la viabilité financière des communes, 2010

resource constrains. The decree which established it stated that 15 percent of the national budget should be transferred. The objective was to provide funds to communes for the implementation of their development plans, that is, to finance public investment All the communes get resources from FONIC provided they have a project to present for approval. Communes present projects for the amount announced. FONIC provides support with an equal share transfer to communes that does not take into account their taxable capacity; needs; or territorial inequalities.. No other allocation criteria that are more needs-or cost-based have been so far set (nothing as population or a poverty index). FONIC is mainly funded by the Government, in a lesser degree by donors. It is still underfunded as compared to the planned amounts: ±8% total national budget. SDC, together with other donors supports FONIC, the intergovernmental transfer scheme Fund and also finances development projects in 20 communes of 3 provinces in the North (Ngozi, Kayanza, Kirundo).

3. The supported transfer within the intergovernmental fiscal system

There are three main transfers in Burundi:

i. FONIC, as described in this paper. Up to 2014, FONIC operated lump sum transfers of about 35'000 USD per commune out of an average of 68'000 USD annual revenue, i.e. more or less 50% of all the collections[4].
ii. Deconcentrated transfers: for investments, tenders are conducted and paid by the line ministries to service providers with no link to FONIC.
iii. The "pooled fund". This is the case in the education sector where donors, mainly the Belgian Technical Cooperation, put in place "Fond Education". This was like a parallel transfer scheme for all the infrastructures in the education sector.

The intergovernmental fiscal system in Burundi has not kept pace with recent developments and been adjusted for new important factors. The legal framework[5] has not been updated to take into account new assets and resources like those in extractive industries. Fiscal decentralization is the weakest component of the reforms. The communes have access to local taxes of which the rate has been indexed neither to inflation nor to income growth. 1997 when the tax rate was set, the exchange rate BIF-USD was 280/$ while it is today 1600/$. For example, a slaughtered cow was and is still taxed 2000 BIF, which is today 1.4 $. Current expenditures are partly covered by transfers. As a consequence, except 16 communes, all others have arrears either for staff under contract, not paid by the central government or for social benefits. FONIC's role is to finance their capital expenditures that are in line with the political agenda of the incumbent.

Table 1. Examples of Budget Positions (Selected Revenues and Selected Expenditures) of Communes supported by donors: the Case of the Commune Busiga (2014)

Description	amount (in BIF)
Selected revenue items	
Communal fiscal incomes 2014 (own revenue)	142'323'975

[4] World Bank, Republic of Burundi, Fiscal decentralization and Local governance, PP 47
[5] Ministerial ordinance on communal taxes, 1997, law on taxes, 1964; law on property tax; 1963

SDC funded project	281'962'219
Government transfer through FONIC	53'807'000
Education Basket Fund	355'266'346
Selected expenditure items	
Current expenditures (partly covered by transfers)	176'178'561

As Table 1 above shows and this is the case for most of the communes, there is a very high dependence on transfers and project funding by donors. Communes own revenues would even hardly cover current expenditures (operating costs) as seen in the table.

4. **What are key challenges for implementation of the supported transfer? How are these challenges addressed?**

We can identify four main challenges for the implementation of the transfer scheme in Burundi: (i) Fiscal viability of communes, (ii) uneven local capacities lead to unclear responsibilities; (iii) weak financial oversight and transparency issues; (iv) weak capacities to mobilize funds, to provide services and to steer development.

i. **Fiscal viability of communes. I**n Burundi, public funds get to communes through the above mentioned transfers and local taxes and fees. According to the law, they have access to property tax, rental income tax, business tax, tax on cycles, and market fees. As counterpart, communes have been assigned 11 functions which include construction and maintenance in health, education, roads, water and sanitation, tourism, markets and other services. Communes have to be fiscally viable to cover the current expenses, the service provision to citizens and investment. According to Charles Nihangaza, *opcit*, the minimum of ± 600 million BIF is required per commune. None of the 119 communes reaches this amount apart from those that have donor-funded projects. Communal revenues vary from a commune to another. Some have a very weak tax collection systems due to lack of revenue potential and inappropriate maintenance of tax information systems for the different taxes mentioned above.

ii. **Uneven local capacities lead to unclear responsibilities.** All the communes get equal sum from FONIC provided they have a project to present for approval. Not all the communes are able to execute the funds received from transfers. FONIC disburses funds through tranches and the funds not used are allocated to those planned for the following year. Thus, communes are in general not able to provide good quality of services. Line ministries therefore often continue to directly fund development expenditures relevant to local public services.

iii. **Financial oversight and transparency issues.** Another issue is the management of the funds collected and received. The local body in charge of supervising financial management is “inspection des finances communales”. Not only does it not have enough capacity to play this role, but it is also handicapped by the corrupt system at all levels and the lack of interest in pushing for oversight. This is also the case for the Court of Auditors. For example, it does not have the means to oversee communes, something that is supposed to take place every fiscal year. When donors fund it, its reports are not considered by any of the institutions in charge of enforcement. Horizontal accountability is hampered by rent seeking and other political incentives of government officials or/and MPs. Transparency issues are particularly large for current expenditures.For the funds received for current spending, the sub national governments do not report it as part of their general reporting. Donors are very reluctant to use this scheme for their funds as audits so far commissioned reported mismanagement (embezzlement, clientelism) and corruption practices under the protection of political figures who benefits of these resources.

iv. **Weak capacities to mobilize funds, to provide services and to steer development**: apart from the supporting staff (a Secretary, an accountant, and one on civil registration) the executive team of communes is made of the Mayor and 2 technical advisers. Not only they are few for a substantial number of responsibilities, but also, they lack capacities of all kind. There are no incentives for competent resources to go and work in communes. Some of the consequences of lack of capacities are: for all the communes, the tax collection is very weak, the mobilization of local revenue very low and budget execution uneven.. This makes it very difficult for the communes to execute their budget. Hence, sector ministries are very reluctant to decentralize the investment funds. For current expenditures of deconcentrated services, they are directly paid by the central level.

5. Success elements

There are three main success elements: (i) vertical accountability; (ii) increase of management capacity; (iii) increase of donors in the Fund.

i. **Vertical accountability**: the association of Mayors (ABELO) is the constituency of the Senate in so far as the senators are elected by local councilors including mayors. This leverage made the vertical accountability work and brought about change in the transfer scheme. ABELO strongly and successfully lobbied and advocated for an increase from 35’000 USD to 350’000 USD per year in 2015. FONIC also used to do transfer in kind and the mayors challenged this approach. FONIC was obliged to change and began to fund in capital in 2013 with the communes having full responsibility to tender and manage the funds.

ii. **Increase of Management capacity**: when SDC started to support FONIC, it was managed with only rudimentary systems in place, and processes which were often done manually, with no standard procedures. FONIC was rather a distribution mechanism than a financing agency. SDC support and later on GIZ helped to go for reforms and get management instruments (manuals, IT programmes). FONIC also agreed to be audited to improve. A merit system was introduced, though not yet implemented. All in all however, there is a move towards formalization of rules and regulations which is a positive step forward.

iii. **Increase of interest by other donors in the Fund:** until mid-2014, donors had a beacon of hope that FONIC will implement the reforms and new policies. Thinking among donors and line ministries had started to see how to spark the merging of all transfer funds, with FONIC having a leading role. This factor of success is now being challenged and is under threat given the situation change after mid-2014, where the momentum was discouraged by the lack of interest by the government of Burundi to push for better management in FONIC.

6. What is the role of SDC with regards to transfers?

The role of SDC has been evolving and been adjusted over time. The support to FONIC is mentioned in the framework of the Decentralization Programme that started in 2007—however concrete SDC support was only implemented as of 2010. Since 2007, SDC has an implementing partner, Twitezimbere, a local NGO, that supports the communes in capacity building and in designing, formulating and implementing development projects. The funds for these projects are transferred by SDC via Twitezimbere which in turn transfers them to SNGs, but off budget. This approach was chosen to reduce fiduciary risks. Twitezimbere and the communes managed the funds put on the communes' accounts jointly.

The support to FONIC came in later, 2010, with the aim to strengthen its capacities so that in the end it become the national transfer scheme that can be used for all transfers to communes. SDC engaged in this because it believed that if there is a trust worthy national mechanism for transfers and equalization, there will be no need to go through implementing partners. So, it supported internal governance, fund management, provided IT tools and staff training. It also worked on trust-building between FONIC and the communes by facilitating exchanges between them. This was done for sustainability purposes, where SDC used a holistic approach to support the decentralization reforms. Thus, it engaged at several levels:

- Technical assistance to FONIC by supporting a capacity building plan to make it more credible and likely to be used by other donors and the government, reducing fiduciary risks;
- Off budget financing of the communal development plans by funding specific projects per commune;
- Supporting communes own revenue generation by targeting the increase of tax incomes and other local revenues from other sources;
- Involvement in policy dialogue on fiscal decentralization and support to advocacy by civil society organizations and associations of Mayors.

By supporting these transfers, the theory of change was that by working on capacity building of state institutions, they would be able to mobilize and manage enough funds for local development and service provision. Had it not been political turmoil that started in April 2015, the goals were about to be achieved. The main lesson learned was that the transformation is time-consuming and requires synergies with other development partners. Good relationship with government agents at different levels of decision making was also determining. The latter indeed become catalyzers of ownership of the reforms and facilitate the buy-in within state institutions. Transformation cannot be sustainable if the country is not politically stable at reasonable levels and if there is no political will for reforms.

7. Further sources of information:

- Credit Proposal, 7F-5358.03-Bu
- Charles Nihangaza, Etude sur la Viabilité Institutionnelle et Financière des Communes Rurales au Burundi, 2013, financée par la DDC
- World Bank, Fiscal Decentralization and Local Governance in Burundi, 2014
- World Bank, PER 2013, Renforcer la Résilience Fiscale pour échapper à la Fragilité et promouvoir l'Efficacité