

Financing Solution that will unlock financial Opportunities in Burundi integrating the IDA private Window

By Mahona, Benedict Kuhenga

Topic of importance to communicate:

Domestic Resource Mobilization as a Financing solution in Burundi

Burundi is one of the poorest countries on the planet. With 8.1 million inhabitants in 2008, more than half the population is under 17 years old and life expectancy is only 51 years. More than a decade of wars has left the country in an extremely delicate situation, in which peace is a relative concept and insecurity persists. Burundi depends to a large extent on international aid, which represents more than a third of the country's Gross Domestic Product (GDP) (<https://www.oxfam.org/en/countries/burundi>). I chose Burundi among other countries because it the country bordering Tanzania, my country, and we have been receiving refugees for a decade now.

Domestic resource Mobilization is the most important source of financing development. Financing development means the ability of the country mobilize all resources and spend them effectively. This is the process through which countries raise and spend their own funds to provide for their people –

It is the long-term path to sustainable development finance. DRM not only provides governments with the funds needed to alleviate poverty and deliver public services, but is also a critical step on the path out of aid dependence.

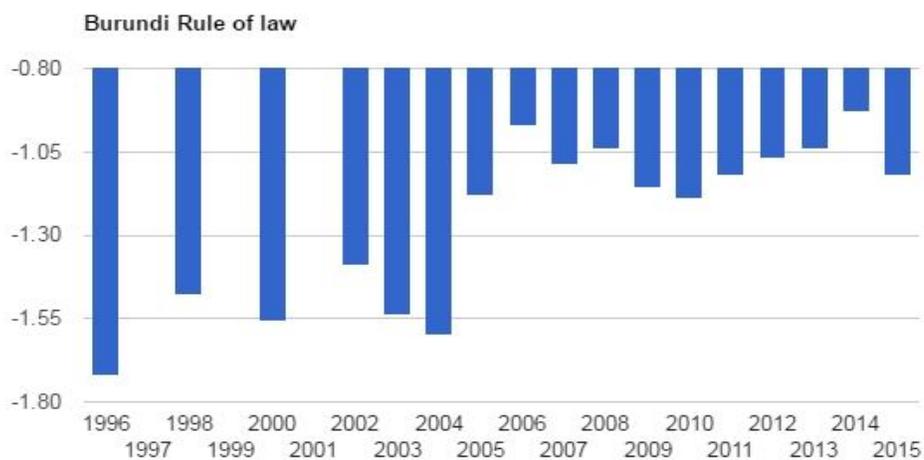
Having enough internal source is important because it helps countries devote needed resources to reduce poverty and hunger, bridge infrastructure gaps, and provide public services. It fosters the social contract between people and government, facilitates a virtuous cycle of transparency, accountability and efficiency and strengthens democratic engagement and institutions

Domestic resources are first and foremost generated by economic growth, supported by an enabling environment at all levels. Sound social, environmental and economic policies, including countercyclical fiscal policies, adequate fiscal space, good governance at all levels, and democratic and transparent institutions responsive to the needs of the people are necessary to achieve our goals.

Problems that have to be addressed in Burundi to enhance Domestic Resource Mobilization

In order to be able to mobilize domestic resource Burundi is supposed to strengthen domestic enabling environments, including the rule of law, and combat corruption at all levels and in all its forms. Civil society, independent media, and other non-State actors also should given opportunity to be advocacy of this. According to the World Bank data **Burundi: Rule of law**

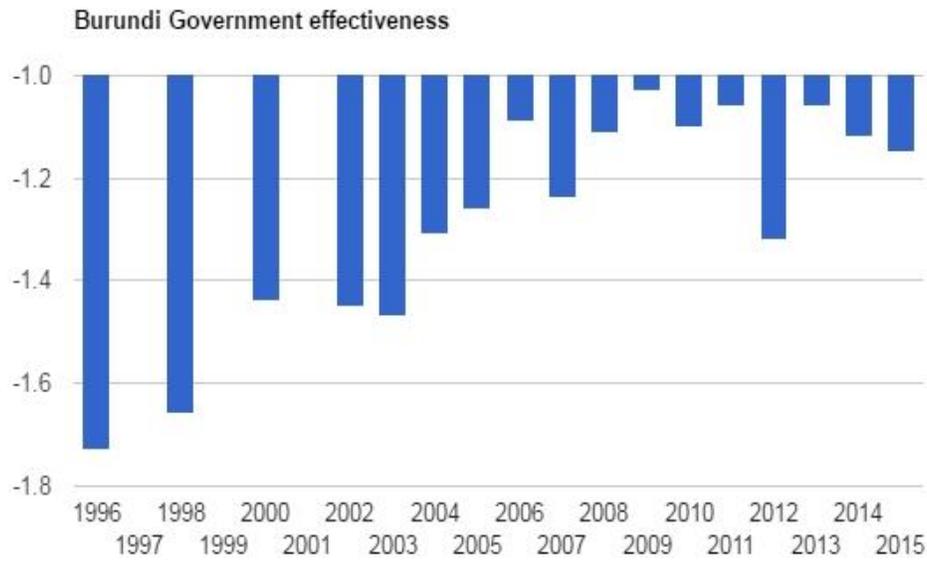
index (-2.5 weak; 2.5 strong): For that indicator, The World Bank (govindicators.org) provides data for Burundi from 1996 to 2015. The average value for Burundi during that period was -1.25 points with a *minumum of -1.72 points in 1996* and a *maximum of -0.93 points in 2014*. This has been the problem in Burundi



Source: TheGlobalEconomy.com, The World Bank (govindicators.org)

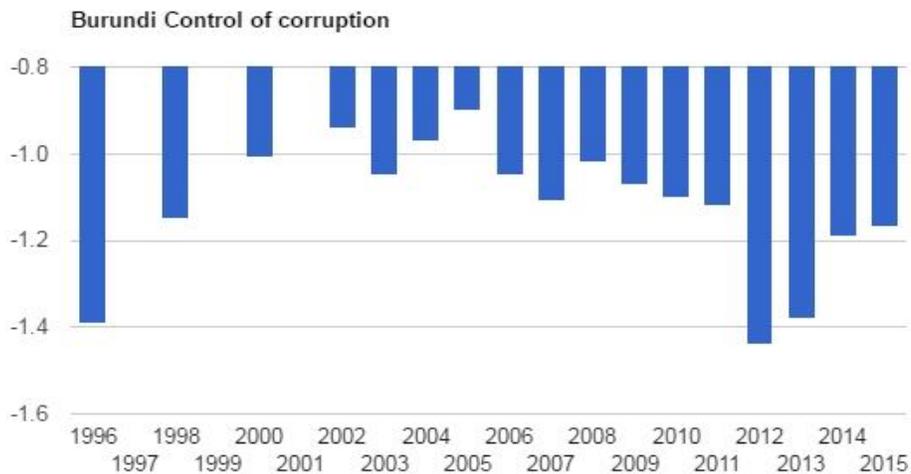
Burundi: Government effectiveness index (-2.5 weak; 2.5 strong)

: For that indicator, The World Bank (govindicators.org) provides data for Burundi from 1996 to 2015. The average value for Burundi during that period was -1.27 points with a *minumum of -1.73 points in 1996* and a *maximum of -1.03 points in 2009*.



Source: TheGlobalEconomy.com, The World Bank (govindicators.org)

Burundi: Control of corruption (-2.5 weak; 2.5 strong): For that indicator, The World Bank (govindicators.org) provides data for Burundi from 1996 to 2015. The average value for Burundi during that period was -1.12 points with a *minimum of -1.44 points in 2012* and a *maximum of -0.9 points in 2005*.

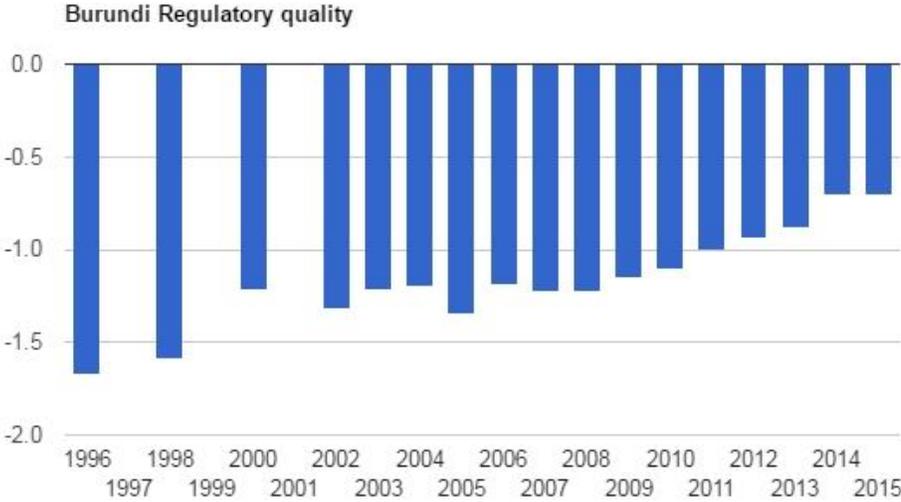


Source: TheGlobalEconomy.com, The World Bank (govindicators.org)

There is much corruption which supports the above data. The index **Burundi: Corruption Perceptions Index, 100 = no corruption** : For that indicator, Transparency International provides data for Burundi from 2005 to 2016. The average value for Burundi during that period was 20.58 points with a *minumum of 18 points in 2009* and a *maximum of 25 points in 2007*.



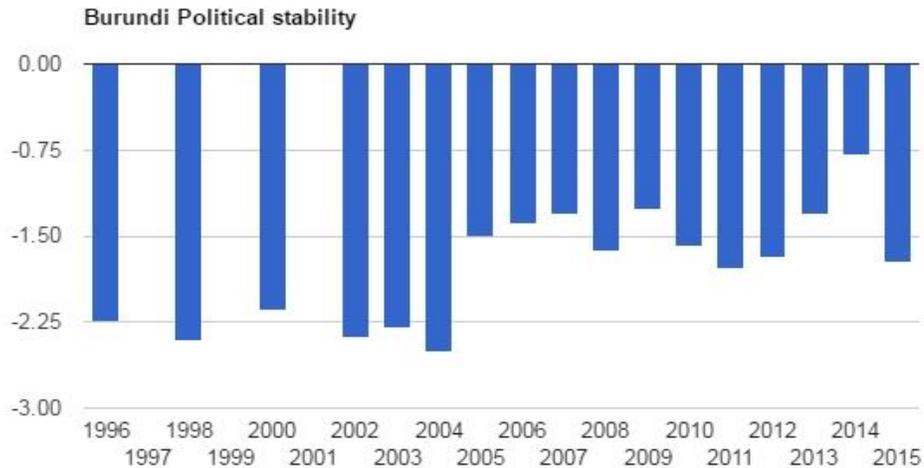
Source: TheGlobalEconomy.com, Transparency International



Source: TheGlobalEconomy.com, The World Bank (govindicators.org)

This is a good signal since the regulatory quality is increasing it still negative showing that its weak (-2.25 is the weakest while 2.5 is the strongest)

Burundi: Political stability index (-2.5 weak; 2.5 strong) : For that indicator, The World Bank (govindicators.org) provides data for Burundi from 1996 to 2015. The average value for Burundi during that period was -1.77 points with a *minimum of -2.51 points in 2004* and a *maximum of -0.8 points in 2014*.



Source: TheGlobalEconomy.com, The World Bank (govindicators.org)

Due to political instability especially the one caused by election crisis in 2015 most of the people have tried to flee Burundi for Tanzania. Tens of thousands of refugees, mostly women and children, have been arriving in Tanzania, pouring over the border from Burundi. Over 70,000 have already arrived at Kagunga beach, on the border between Burundi and Tanzania, from where they are being bused to Nyarugusu camp.



Burundian refugees boarding a bus to Lake Tanganyika Stadium before being moved to the now overflowing Nyarugusu camp. Photo: Bill Marwa/Oxfam



<https://www.oxfam.org/en/burundi-tanzania/burundi-refugee-crisis-stops-journey-refugees-fleeing-tanzania>)

Labor force and Women Participation

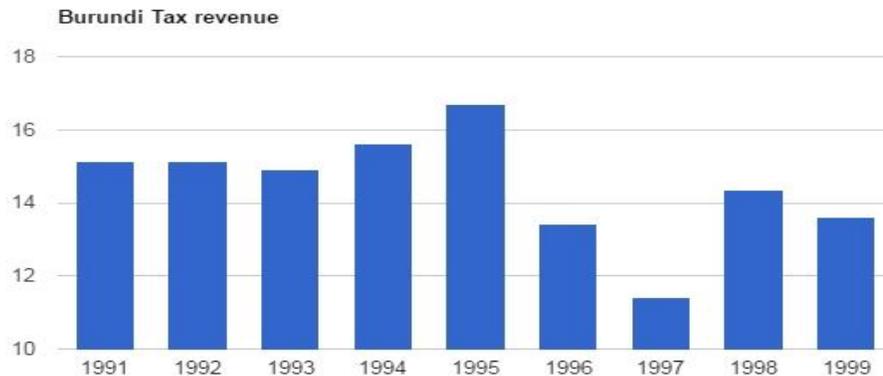
Evidence shows that gender equality, women's empowerment and women's full and equal participation and leadership in the economy are vital to achieve sustainable development and significantly enhance economic growth and productivity. We commit to promoting social inclusion in our domestic policies. The World Bank provides data for Burundi from 1991 to 2014. The average value for Burundi during that period was 7.67 percent with a *minimum of 7.4 percent in 1991* and a *maximum of 7.9 percent in 1996* while the average value for Burundi during that period was 6.65 percent with a *minimum of 6.3 percent in 2014* and a *maximum of 6.8 percent in 2005* for male unemployment. Generally the overall unemployment rate shows that average value for Burundi during that period was 7.18 percent with a *minimum of 6.9 percent in 2014* and a *maximum of 7.3 percent in 2005*. So the government should promote and enforce non-discriminatory laws, social infrastructure and policies for sustainable development, as well as enable women's full and equal participation in the economy, and their equal access to decision-making processes and leadership.

International Relations and Taxation Improvement in Burundi

It should be noted that additional domestic public resources supplemented by international assistance as appropriate, will be critical to realizing sustainable development and achieving the sustainable development goals. The government of Burundi should collaborate with international agencies like Multinational Development Banks and the IMF for enhancing revenue administration through modernized, progressive tax systems, improved tax policy and more efficient tax collection.

Burundi: Tax revenue, percent of GDP

: For that indicator, The World Bank provides data for Burundi from 1991 to 1999. The average value for Burundi during that period was 14.48 percent with a *minumum of 11.42 percent in 1997* and a *maximum of 16.68 percent in 1995*. From this data, Burundi is a lower income country. Lower-income countries have in general lower tax to GDP ratios. Additionally, their corporate income tax rather than personal income tax is usually a larger source of revenue. This is mostly due to limited capacity to raise revenue. The tax ratio of 15%-25% represents are country being a lower income one (<https://www.devex.com/news/financing-the-future-why-domestic-revenue-mobilization-belongs-on-the-post-2015-agenda-83305>).



Source: TheGlobalEconomy.com, The World Bank

The government should work hand in hand with the MDBs in order to improve the fairness, transparency, efficiency and effectiveness of our tax systems, including by broadening the tax base and continuing efforts to integrate the informal sector into the formal economy in line with country circumstances. Burundi also can utilize the World Bank Institution through its official development assistance to support its development goes. ODA welcome efforts by countries to set nationally defined domestic targets and timelines for enhancing domestic revenue as part of their national sustainable development strategies, and will support developing countries in need in reaching these targets (http://www.un.org/ga/search/view_doc.asp?symbol=A/CONF.227/L.1)

The country also should do efforts to substantially reduce illicit financial flows, with a view to eventually eliminating them, including by combating tax evasion and corruption through strengthened national regulation and increased international cooperation. The illicit flow from 1970-2008 shows that in Burundi the amount is accumulated to U.S dollar 1,568.7 million (http://www.gfintegrity.org/storage/gfip/documents/reports/gfi_africareport_web.pdf). On average for 38 years this means each year the countries loses U.S dollar 41 million. This is a huge amount of money if you compare with its GDP data given by the World Bank for Burundi from 1960 to 2015. The average value for Burundi during that period was 0.96 billion U.S. dollars with a *minumum of 0.16 billion U.S. dollars in 1965* and a *maximum of 3.1 billion U.S. dollars in 2015*.

The country has also to reduce opportunities for tax avoidance, and consider inserting anti-abuse clauses in all tax treaties. The country has to enhance disclosure practices and transparency in both source and destination countries, including by seeking to ensure transparency in all financial transactions between Governments and companies to relevant tax authorities. The government of Burundi should be sure that all companies, including multinationals, pay taxes to the Governments of countries where. It has to be noted that one of the strategy to strengthen DRM would include stronger administration, simpler revenue systems, and collective action to address

international tax issues and illicit financial flows (from Billions to trillions page, 9, par, 25) https://d396qusza40orc.cloudfront.net/fin4devmooc/pdf/Billions_%207-12.pdf).

Involving the Private Sector into Financing Development

The largest source of external private financing for developing countries is the foreign direct investment however a new way of investors comes in terms of Institutional Investors (World Bank, 2017). These are like University endowments, sovereign wealth funds, and public and private pension funds but when they invest they look for high return and diversification. Domestic private financing is dominated by banking sector. The banking sector dominates financial systems in many developing countries. Other sources of finance, such as domestic and corporate bond markets, have grown but remain relatively small. The presence of institutional investors, such as national and private pension funds, insurance companies, and sovereign wealth funds, has been growing but is far from dominating the markets.

Involving these private investors is nowadays enhanced by “cascade” approach. Using this approach Burundi has to do the following; Firstly, private sector solutions are considered first, then public-private partnership, and if the first two are not feasible only then public sector solutions. Secondly, free-up scarce public resources and allow them to be deployed to facilitate reforms to improve the enabling environment investments. And, thirdly, Cascade should lead to market liberalization and support development of competitive markets in Burundi (<http://www.worldbank.org/en/news/speech/2017/03/15/remarks-wbg-svp-mahmoud-mohieldin-at-ceo-summit-sustainability-leadership-conference-2017>)

In order to support PPP , the country is advised to lower the withholding tax for external creditors financing public projects, Change legislation to permit private investors such as commercial banks and pension funds to invest in public-private investment projects, and allow commercial banks to increase leverage for every dollar they invest in public-private scheme. Other issues to be considered in order to encourage investment includes, providing subsidies to end users, create and enforce standards, and developing data on investment opportunities (http://www.enterprise-development.org/wp-content/uploads/DCED_Creating_An_Enabling_Environment_For_Inclusive_Business.pdf).

Burundi has to work hard to solve the issue of informality. As noted in IDA reports (<https://ida.worldbank.org/sites/default/files/images/ifc-miga-private-sector-window-ida18.pdf>). In most cases for fragile and conflict countries, the domestic private sector is small and informal, and constrained by a weak macroeconomic and regulatory environment, infrastructure bottlenecks and a limited skilled labor force. These constraints, combined with high country risks, make foreign investors reluctant to engage. So the country should struggle to harmonize business environment as such work fosters regulatory reforms, strengthens macroeconomic and structural policies, allows for infrastructure projects, and improves labor market and skills

policies. In addition, IDA's sector knowledge and resources are used to finance the private sector directly through lines of credit and policy and project-based guarantees.

Therefore, it's vital introducing commercial finance which is the source of public fiancé with the same risk/return objectives as the private sector. This can be done through blended finance which is combining the public sector's social return objectives and private sector's financial return objectives through risk mitigation by the public sector in manner induces the private sector to participate (http://www.un.org/ga/search/view_doc.asp?symbol=A/69/315%20Lang=E).