Briefing paper

Mixed fortunes

ODA and poverty in Burundi

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Contents

List of figures

List of tables

Abstract

Burundi remains one of the poorest nations in the world. It has one of the smallest, least developed and vulnerable economies in Africa. A decade of civil war grounded her institutions, discouraged investments and stifled economic growth. Political instability coupled with institutional inadequacies that emerged from the crisis ensured that the country missed out on resource allocation that could have facilitated a better economic growth trajectory, delivery of public goods and building of stronger accountable institutions. Though the post war period saw the country mobilise additional domestic revenue and attract more official development assistance (ODA), the trajectory of economic growth and poverty do not depict a clear departure from the past. Poverty remains extreme and the political economy appears ill suited for longer term development. What have the ODA and domestic resource improvements in post war Burundi changed? Have ODA flows been commensurate to the resource demands for poverty reduction? How has ODA impacted on domestic resource mobilization? How could ODA be best leveraged to reduce poverty? Three separate pieces of analyses summed in this paper indicate that: i) ODA flows to Burundi have been far outstripped by resource demands precipitated by extremely high levels of poverty, ii) longer term poverty reduction requires a shift in ODA allocations to the country's productive sectors, and iii) the prominence of ODA in government revenues could be impinging on domestic resource mobilisation. This paper seeks to inform the macroeconomic policy regime in Burundi and advise Development Partners on how best to deliver ODA to the country in the future.

Introduction

Official development assistance (ODA) has been delivered over the years with the basic assumption that it works for poverty reduction. The outcomes however have varied substantially across different contexts. While some recipients have excelled in reducing poverty and sometimes even enhancing economic growth, others have failed to produce tangible outcomes (Collier and Dollar, 2001; Collier, 2008). It is critical for development actors to understand the threshold of ODA capable of delivering meaningful results, and the sectors most efficient and effective in utilizing ODA allocations in order to alleviate poverty (Collier and Dollar, 2001). This paper presents a summary of the outcomes of three separate analyses on the interaction between ODA and poverty in Burundi. ***Section I;*** examines the magnitude of ODA flows to Burundi. This is compared to other East African states and further gauged against the chronicity of poverty in the country. ***Section II;*** interrogates the patterns of ODA disbursement, specifically sector allocations and what these patterns mean for economic growth, domestic resource generation and sustainability of funding for poverty reduction in the country. The place of ODA in development financing in Burundi is discussed in ***Section III*** where the proportion of ODA in total state revenues is analysed and the influence of this on the funding of government programmes interrogated. The paper concludes with some policy messages for Development Partners and the Government of Burundi.

Burundi country context

Political economy

Since its independence from Belgium in 1962, Burundi has undergone a series of civil conflict the last of which endured for close to a decade - between 1993 and 2000. As a result, Burundi has suffered from food insecurity, destruction of infrastructure, limited public services, all of which combined to stifle economic growth and exacerbate poverty. The installation of a democratically elected government in 2005 (after the Peace agreement in 2000), a cease-fire accord with the last rebel group (FNL – PALIPEHUTU) in 2006 and a subsequent peaceful election in 2010 has seen normalcy return to the country. This induced the demand for humanitarian assistance, technical and financial support for economic reform, state building and reduction of poverty. Aid previously suspended between 1996 and 2000 was duly resumed. To date some progress has been made in economic growth and institutional reform but urgent attention is necessary to enhance inclusive economic development and combat chronic poverty.

Demography:

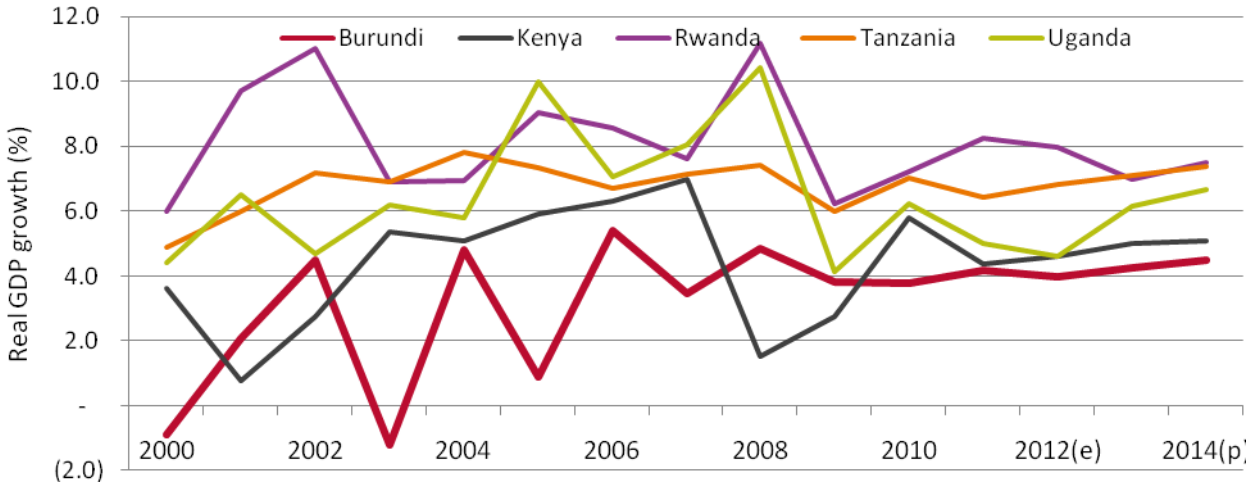
Burundi is one of the most densely populated states in Eastern Africa. In 2012, the country's population density was 346 persons per square kilometre and total population was 8.7 million with a high annual average growth rate of 2.8% (AEO, 2013). It is projected that the population will have doubled in 25 years if it continues growing at the prevailing rate. A high population growth rate in a post conflict state, afflicted with extreme poverty portends enormous challenges in terms of unemployment, service delivery, pressure on land and environmental sustainability.

Economy

The Burundi economy is one of the smallest, least developed and most vulnerable in Africa. In 2012 the country's GDP was US$4.7 billion while GDP per capita was US$483.0 (AEO, 2013). That is compared to Kenya (largest East African economy) with US$34.8 billions GDP and US$1521.7 GDP per capita in the same year. As depicted in Fig 2 below, economic growth has been intermittent all through since independence. This has been attributed to political instability, under-diversification and overreliance on cyclical smallholder agricultural production and vulnerability of the economy to external shocks. In fact GDP per capita declined remarkably

during the period of the war. Though the country's GDP growth rate fluctuated invariably between 2000 and 2012, overall economic growth was on average 3.2% annually over the same period compared to Rwanda's 8.1% (the highest in the East African Community).

Figure 1: Real GDP growth – East African states



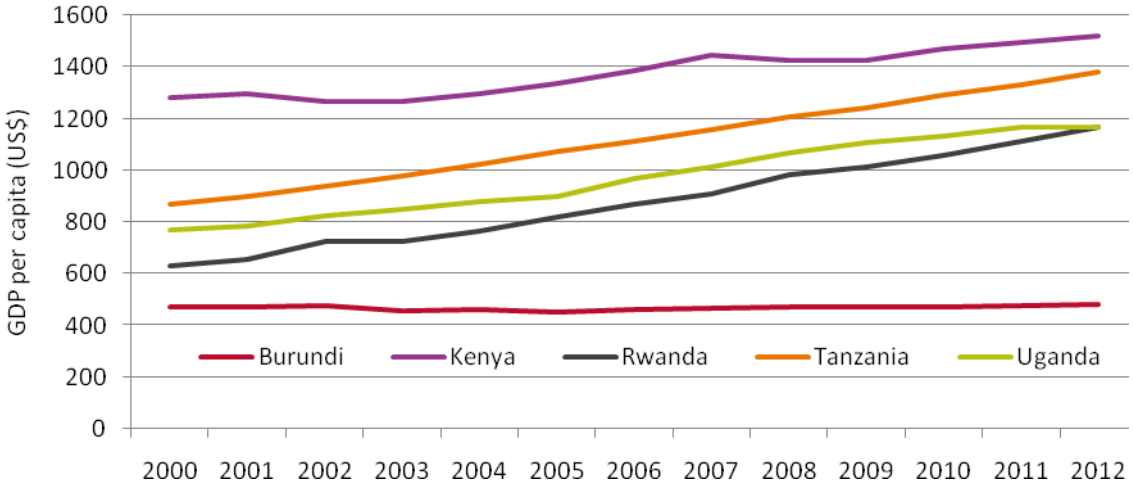
Source: Development Initiatives based on WB; AfDB; EAC statistics

The manufacturing and service sectors account for only about 6.4% of the country's total wage employment (BTI, 2012). The market, dominated by a large informal sector and an underdeveloped private sector remains weak and constrained by bureaucratic red tape and corruption (BTI, 2012). The country's export base is considerably minimal (only about 10% of the country's GDP) and relies largely on agriculture that contributes nearly 80.0% of total exports (Nielsen and Madani, 2010; Vision Burundi 2020). Though underdeveloped and inefficient, lacking value addition, agriculture plays an integral role in the economy. It accounts for about 46.0% of the country' GDP and employs about 90.0% of the total workforce (USAID, 2005; World Bank, 2010; World Bank, 2011). The domination of agriculture exposes the country's economy to vulnerabilities remitted by climatic shocks and volatile international markets. Whilst there has been progress in improving the ease of doing business in Burundi[1] , investment remains low.

In order to grow, the economy requires substantial investment (financial, policy and human capital) in development financing, service delivery and poverty reduction programmes. A country like Burundi, with such a limited and unstable economy must experience challenges in financing its development programmes with domestic resources. This could explain the reliance of the Government of Burundi on aid and its inability to substantially invest in development programmes.

[1] Though still considerably small, private investment rose from 2.2% of the country's GDP in 2000 to 10.1% in 2010 and estimated to have been 14.0% in 2012 (AEO, 2013)

Figure 2: GDP per capita East African countries



Source: Development Initiatives based on World Development indicators

Poverty:

In 2012 about 81.3% (7.1 million) of the population in Burundi were living below US$ 1 a day (WDR, 2012). That is compared to 43.4% in Kenya, 67.9% in Tanzania, 38.0% (2009) in Uganda and 63.2% in Rwanda living below US$1 a day. The Multidimensional Poverty Index of 2011 indicates that about 7.3 million (84.5% of the population) were in multidimensional poverty with an additional 12.2% others vulnerable to or occasionally oscillating in and out poverty. These statistics depict an alarming poverty situation, one of the highest in the globe.

Poverty Reduction Strategy Papers:

The Government of Burundi implemented the first Poverty Reduction Strategy Paper (PRSP) in 2005 funded by the World Bank and focussed on promoting sustainable and equitable growth, developing human capital, combating HIV/AIDS and improving governance and security. Two subsequent PRSPs have since been actualised. The PRSPs have together facilitated the abolition of primary school fees and seen a marked increase in gross enrolment. The PRSPs also facilitated the subsidization of maternal healthcare, care for children under age five and care for People Living with HIV/AIDS. It also expanded immunization coverage by 80% and births attended by skilled personnel from 22% to 41.3%. However, the PRSPs have done little to improve the rate of growth of per capita food availability. This is reflected in the prevalence of malnutrition. Moreover, whilst they recommended the allocation of 65% of state revenues for poverty reduction, only about 52.5% was actualised due to competing resource demands for state building.

Human development:

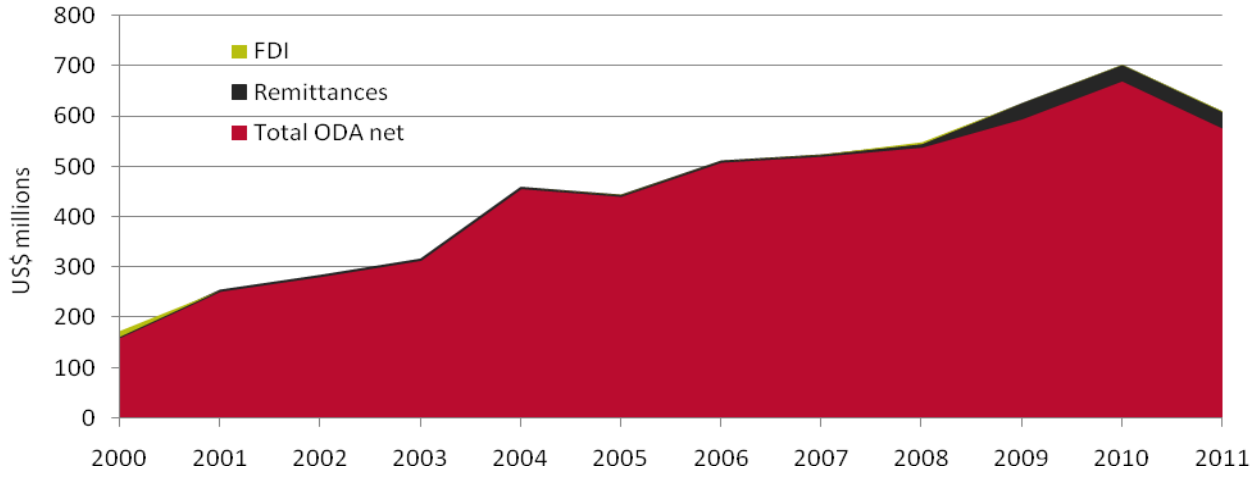
Burundi invariably ranks amongst the worst performers in the Human Development Index (HDI). It scored 0.355, (ranked 178 out of 187) in the 2013 HDI. This was below the 0.466 low human development average and below the 0.475 Sub Saharan as well. Nonetheless life expectancy at birth rose from 43.0 years in 2000 to 50.9 years in 2012; under 5 years mortality declined from 153.9/1000 in 2005 to 141.9/1000 in 2010. Likewise mean and expected years of schooling improved from 1.8 and 4.9 years respectively in 2000 to 11.3 and 2.7 years in 2012. This progress could be plausibly linked to additional resource investments in health and education sectors between 2005 and 2011.

Ultimately, the background statistics above illustrate the level of underdevelopment and extremity of poverty in Burundi. Significant resources are required to lift the country out of poverty. However, as established already, Burundi is a weak economy that relies a lot on ODA. The proceeding sections of this paper interrogate the role of ODA in addressing poverty in Burundi, its allocation and how this has interacted with other revenue streams for financing development in the country.

I – Linking poverty levels to ODA allocations

Development financing in Burundi comprises a mix of external resource streams (mainly official development assistance, foreign direct investment, remittances and other private flows) and domestically mobilised revenues (see Figure 3).

Figure 3: Burundi external resources, 2000–2011



Source: Development Initiatives based on UNCTAD, OECD – DAC, World Bank

The country's national budget relies a lot on external resource flows. Nearly 50% of the budget was funded by external resources, out of which ODA accounted for about 35.6% on average between 2002 and 2011 (Nkurunzinza and Ngaruko, 2008; Nielsen and Madani, 2010). Between 2002 and 2010, total ODA to Burundi (delivered through the public sector) amounted to US$1.6 billion. This was nearly equivalent to the US$ 1.7 billion other government revenues sourced from taxes, natural resource rents and other non-tax revenues. For a country with a weak economy, low domestic resource mobilisation capacity, and reliant on ODA to fund such a significant proportion of its budget; the implication is that poverty reduction programmes rely a lot on the volumes of ODA disbursed.

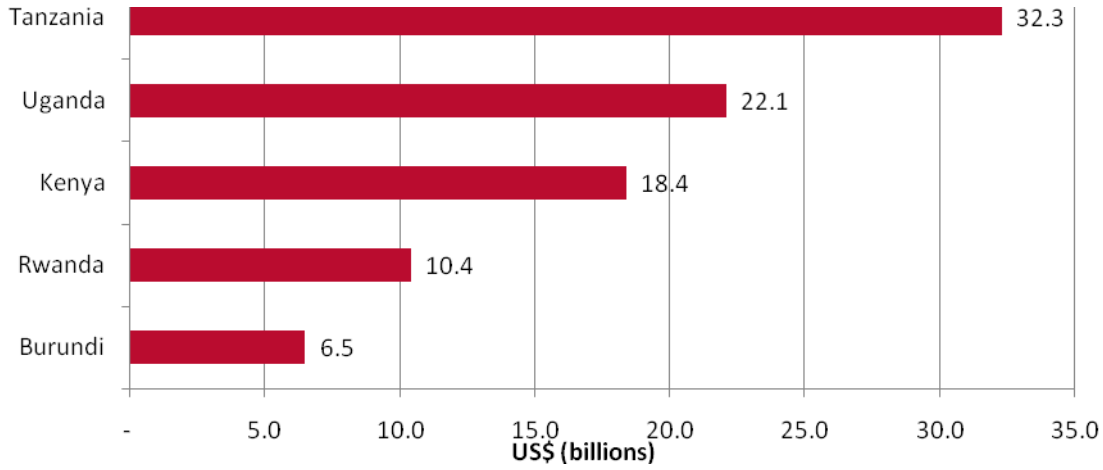
Table 1: Government of Burundi - Revenue sources (2002–2010)

Revenue source	2002	2003	2004	2005	2006	2007	2008	2009	2010	Aggregate
Other government revenues	0.13	0.13	0.13	0.16	0.17	0.18	0.22	0.25	0.30	1.66
I - Taxes	0.11	0.11	0.12	0.15	0.15	0.17	0.19	0.22	0.28	1.51
II - Natural Resource rents	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01
III - Non-tax revenues	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.14
ODA	0.00	0.00	0.07	0.05	0.15	0.19	0.22	0.66	0.26	1.60

Source: Development Initiatives based on AEO, OECD and IMF

Poverty levels in Burundi are undoubtedly high and extreme. By all measures of poverty (MPI, poverty headcount, national poverty line poverty severity), Burundi ranked highest in terms of poverty rates among East African states (see Table 2). For ODA to contribute meaningfully to poverty reduction, disbursements therefore have got to be predictable and substantial (at least commensurate to the resource demands precipitated by the levels of poverty). Analysis of ODA to Burundi revealed that disbursements to the country have remained low compared to other states in the East African region. Between 2002 and 2012, while Burundi received just about US$6.5 billion cumulatively (through all channels), Rwanda received US$10.4 billion, Kenya US$18.4, Uganda US$22.1 and Tanzania with the largest disbursement US$32.3 billion. However when this ranking is superimposed with ODA flow data, assuming ODA is allocated largely to address poverty; there seem to be a marked divergence (see Fig 4).

Figure 4: Cumulative ODA flows to East African States (2000 - 2012)



Source: Development Initiatives based on OECD

Equally when the population of the poor is considered (using both the MPI and headcount measure) Burundi still received the lowest ODA per poor person in East Africa. Kenya showed the highest ODA per poor person (US$ 174.5 using the MPI and US$158.0 using the headcount measure), more than that of Burundi. This is despite Burundi reporting the highest poverty gap (36.4%), poverty severity (19.1%), MPI (84.5%) and poverty head count (81.3%) than Tanzania, Uganda, Kenya and Rwanda. This is also despite Burundi being a post conflict state prone to poverty and low human development indices (see Table 2).

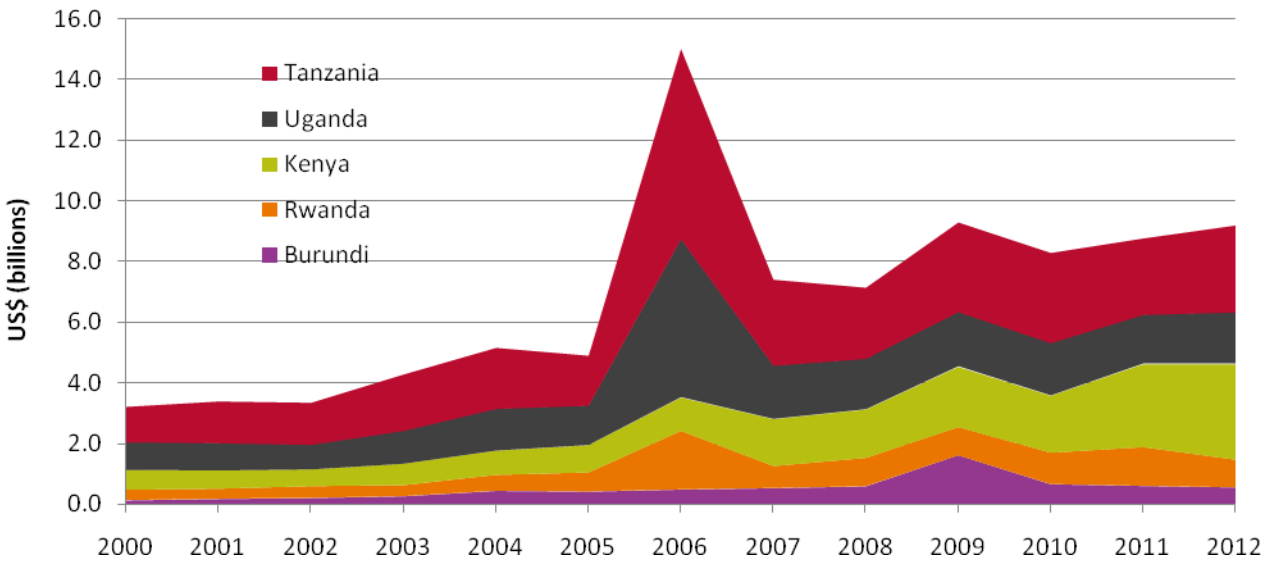
Table 2: Poverty indices vs. ODA disbursements – East Africa

	Poverty rates (%)						Population of poor		ODA per capita (poor)	
	Poverty Gap	Poverty gap squared (severity)	MPI	Poverty head count	National population	ODA 2012 (US$ millions)	MPI	Poverty head count	MPI	Poverty head count
Rwanda	26.6	8.8	80.2	63.2	10.6	916.7	6.7	8.5	136.8	107.9
Uganda	19.1	9.1	72.3	38	35	1705.1	13.3	25.3	128.2	67.4
Tanzania	28.1	14.8	65.2	67.9	46.5	2873.1	31.6	30.3	90.9	94.8
Kenya	16.9	8.8	47.8	43.4	42	3175.0	18.2	20.1	174.5	158.0
Burundi	36.4	19.1	84.5	81.3	8.7	539.2	7.1	7.4	75.9	72.9

Source: Development Initiatives based on OPHI – MPI, OECD and World Bank - Povcalnet

Table 2 illustrates clearly that ODA disbursements were not made based on evidence of high levels of poverty, as in the case of Kenya and Burundi. For Burundi resources thus did not match poverty levels and the resource demands for past and existing poverty reduction programmes. Though ODA flows expanded considerably between 2000[2] and 2012, the levels of poverty were extreme and must have far outstripped the scope of outcomes that available funding could possibly produce[3]. This could have limited the ability of the Government of Burundi to achieve substantial poverty reduction outcomes.

Figure 5: ODA flows - East African states[4]



Source: Development Initiatives based on OECD DAC

A number of examples illustrate the resource gaps that have emerged out of the inadequacy in ODA allocation for existing or past poverty reduction programmes. The Free Primary Education programme (FPE) introduced in 2005 is a typical example. Largely funded by ODA, it helped increase gross enrolment rates up to 137.7% in 2011. However, the scope of resources allocated to the education sector could not cope with the influx of learners precipitated by the abolition of school fees. The result has been that available education facilities, personnel, teaching and learning materials are outweighed by the additional demand (Obura, 2008). While this was a prudent initiative aimed at improving literacy and other education outcomes, it might have had negative impacts on the quality of education and stifled the accumulation of human capital needed to drive the economy and to reduce poverty due to such eminent resource gaps.

Between 2000 and 2012, increases in ODA per poor person facilitated some progress in basic education, and maternal health. However resource constraints and institutional inadequacies continue to limit the scope of outcomes. As argued by Collier and Dollar (2001), to maximise poverty reduction outcomes, it is more logical to allocate more resources (ODA) to countries with high poverty levels and good policy. There is a compelling case for increasing ODA to Burundi. The country has little chance of substantively addressing poverty on her own. The

[2] The Arusha Peace agreement was signed in 2000 ending nearly a decade long civil war that started in 1993

[3] Collier and Dollar (2011) argue that there is a threshold of ODA that require to be attained for it to begin generating poverty reducing outcomes

[4] ODA data referred to in this graph include debt relief and reflects receipts through all channels. The spikes in 2006 and 2009 represent the years when the highest amounts of debt relief was reported as ODA by donors

pattern of ODA flows thus needs to adjust accordingly in order to sustain progress already made and achieve even more.

Resource gaps: Burundi education sector

Even before the crisis, the education system in Burundi was hamstrung by insufficient resource allocation, incoherent policy and inadequate planning (Bazikamwe, 1998; Obura, 2008). After 2005 (upon installation of a new government) ODA allocations to the sector increased (US$2.0 million in 2004 to US$43.4 millions in 2011). This saw gross enrolment increase from 80% in 2006 to 137.7% in 2012; primary completion rate increase from 38% in 2006 to 56% in 2012; and percentage of children unable to read drop to 19%. The additional resources also facilitated the development of an education sector plan and ensured Burundi is endorsed for the Eduactio For All (EFA-FTI) GP programme. Nonetheless, the education sector remains characterised by inadequacies in school facilities, teaching and learning materials and qualified teachers (Obura, 2008). And despite donor commitments to bridge the resource shortfalls necessary to meet the EFA framework action targets for Burundi, ODA flows have been below expectations. Such eminent resource gaps could be having negative implications on the quality of education and might be impinging on the nexus between quality education and skills development necessary for private sector growth and job creation.

Resource gaps: Burundi health sector

Out of the 63% total ODA allocated to social infrastructure and services between 2002 and 2011 in Burundi, the health sector received about 41.6%. However, despite receiving the largest proportion of ODA, per capita ODA allocation to the health sector was still very minimal. On average, every Burundian was entitled to just about US$2.3 worth of ODA annually between 2000 and 2011 compared to a corresponding entitlement of US$8.3 in Rwanda, US$3.9 in Tanzania, US$3.3 in Uganda and US$2.8 in Kenya. This alone illustrates the resource gaps and disparities between Burundi and peer states with commensurate or even lesser demand for ODA.

Whilst the policy framework remains inadequate to complement a surge in ODA, ongoing reforms in public finance management, planning and programming of poverty reduction and service delivery is considerably improving. Moving forward, in the midterm, Burundi will require more aid and an expanded portfolio of Development Partners. The country needs to strategically leverage ODA to support investments in social infrastructure and pro-poor service delivery (especially in health, education and agriculture). More importantly, in the longer term, more resources will need to be channelled to productive wealth creating sectors in order to expand opportunities for employment and better livelihoods (*see discussion in section II*).

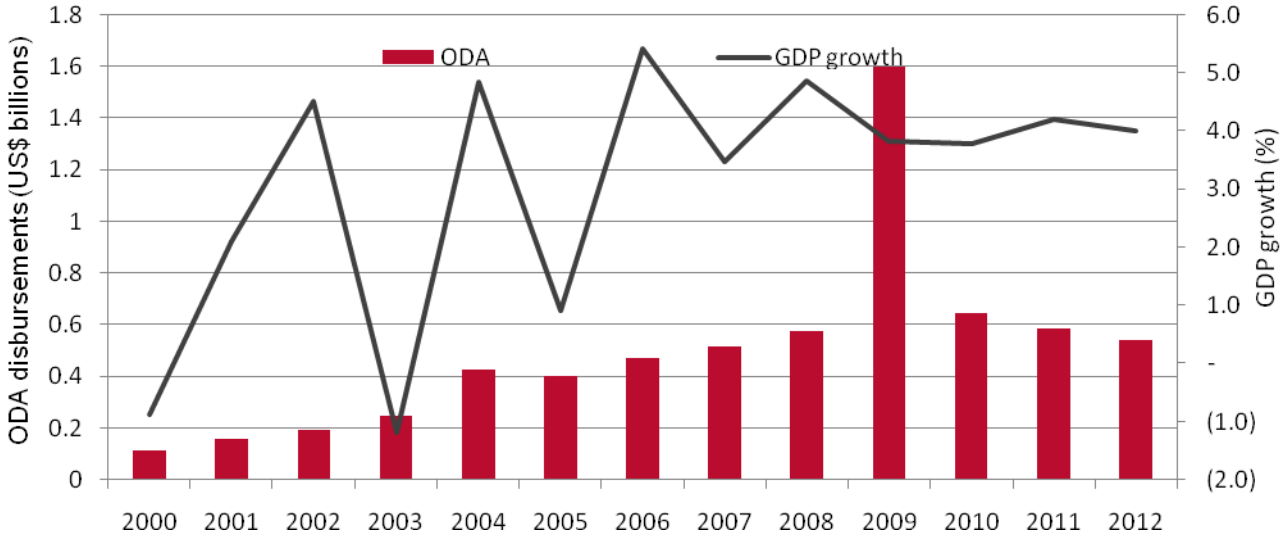
II - Shift ODA to productive sectors for longer term poverty reduction

ODA to developing countries declined by 3% in 2012. It is projected to further decline and most DAC donors are unlikely to meet the 0.7% target by the end of 2015. This implies that that any post-2015 poverty reduction agenda will depend a lot on domestic resource flows to succeed. In fact, there is hardly any country that has effectively addressed poverty using ODA alone without complimentary growth in the economy and reform in domestic resource mobilisation. However there has been evidence to show that where efficiently and effectively applied, ODA can affect growth and growth can in turn enhance poverty reduction in developing countries (Dollar and Kray, 2010; Collier and Dollar, 2001).

Unlike other post conflict states, like Rwanda where substantive ODA has been remitted in the past, Burundi has not seen remarkable growth in the economy over the post crisis period

(GPRSF, 2009). In fact GDP growth remained lower than the growth in the country's population. This is despite absorption and expenditure of increased ODA disbursements. Between 2002 and 2011 average growth stood at about 3.2% compared to Rwanda's at an average 8.1% over the same period (see Fig 6). This has been blamed on low overall demand and sluggish investment in key sectors of the economy (AEO, 2013). The country's economy remains weak, less diversified and vulnerable to external shocks. Its manufacturing and service sectors are underdeveloped and the dominant agriculture sector is largely underproductive. The business environment is constrained by corruption, poor infrastructure, bureaucratic red tape and interventionist macro-economic policies (BTI, 2012).

Figure 6: GDP growth Vs growth of ODA flows to Burundi



Source: Development Initiatives based on OECD – CRS; World Bank

Broadly, addressing poverty in Burundi requires a livelihoods approach focussed on improving and diversifying incomes at household levels. Actualising this requires effective service delivery in sectors responsive to the livelihoods of the poor. It will also require targeted poverty reduction programmes aimed at reaching the chronically poor and working towards guaranteeing a minimum level of income for poor poverty in Burundi. Essentially this comes with significant resource demands that can only be supported and sustained by a robust, diversified and steadily growing economy. The Burundi economy therefore needs to grow substantially and steadily in order to respond effectively.

For the economy to sustain such growth, it requires competitive and productive local enterprises, a favourable balance of trade and a robust investment climate. Whilst the government continued to execute structural and macroeconomic reforms aimed at revamping the productive sectors, these thus far still inadequate. The economy is largely under-diversified and overly reliant on small holder agriculture prone to climatic and global market shocks. In the foreseeable future, the economy is projected to remain dominated by agriculture that accounts for about 41.2% of its GDP and employs more than 80.0% of total workforce (49.0% of whom are women) (USAID, 2005; World Bank, 2010; World Bank, 2011). The manufacturing and service sectors account for just about 6.4% of the country's wage employment (BTI, 2012). The market is weak, constrained by an underdeveloped private sector and a large informal sector founded on subsistence farming. The investment climate is limited by bureaucratic red tape,

corruption and economic interventionism (BTI, 2012). Burundi ranked 159 out of 185 countries in annual Doing Business index 2013 (Doing Business Report, 2013)[5].

Substantive resources therefore need to be invested in reforming macroeconomic policy and revamping the country's productive sectors for example in improving infrastructure and access to energy. This is reflected well in the country's macro objectives – Vision Burundi 2025. Pillar three on economic growth and the fight against poverty outlines the intention to diversify and promote a competitive and sound economy, and to set up infrastructure for promoting production. Particular attention is paid to modernisation of the agriculture sector (value addition) and improvement of the business climate.

Can ODA supplement domestic resource revenue streams to meet such extensive resource demands? Can ODA allocations lead to sustainable economic growth capable of guaranteeing resources for poverty eradication?

'Productive sectors' as used in this paper

The productive sectors are deemed to have the capacity to drive economic growth through increasing trade, enhancing investment and increasing employment. They have the capacity to increase domestic revenue sources for government to leverage to fund poverty. These include:

- Sector and subsector expenditure areas closer linked to providing physical infrastructure, energy and the policy/regulatory environment necessary to enhance competitiveness of the investment climate and bolster ease of doing business.
- Specific sectors that include agriculture, industry, tourism, mining, fishing, and construction.

Clemens et al (2004) argue that in post conflict situations, the impact of ODA on growth can be understood when allocation is grouped into three broad categories of sectors in relation to their impact on growth. These categories are: i) Humanitarian aid; ii) Aid with short term impact (aid spent on economic infrastructure and production sectors); and iii) Aid with long run impact on growth (aid spent on social infrastructure and services). They argue that there is a strong correlation between short term impact ODA and economic growth, though this is augmented by effective institutions.

When the Clemens et al (2004) framework is applied to analyse the case of Burundi, it reveals that going by the trends in ODA allocation over the past decade, ODA could not have substantially contributed to economic growth. A greater proportion of ODA to Burundi between 2002 and 2012 was allocated to social infrastructure and services sectors. Table 3, Fig 7 and 8 give the impression that ODA allocation favoured 'aid with long run impact on growth' at the expense of 'aid with short term impact' – mostly linked to the productive sectors (economic infrastructure & services and production sectors) which are more associated with growth as argued by Clemens et al (2004) and Nielson and Madani (2010).

[5] Burundi has eliminated requirements that slow down company registration, reduced geotechnical study costs, enacted statutory time limits for processing property transfer requests and introduced electronic data interchange systems reducing time to trade across borders (. Nonetheless, the country still ranked last in 2012/13 Global Competitiveness Index. Access to credit (19.8%), corruption (18.5%), political instability (9.8%), heavy taxation (9.3%), inflation (9.2%), inefficient government services (6.9%) and inadequate infrastructure (5.4%) ranked the top impediments to growth in the country's productive sectors (AEO, 2013).

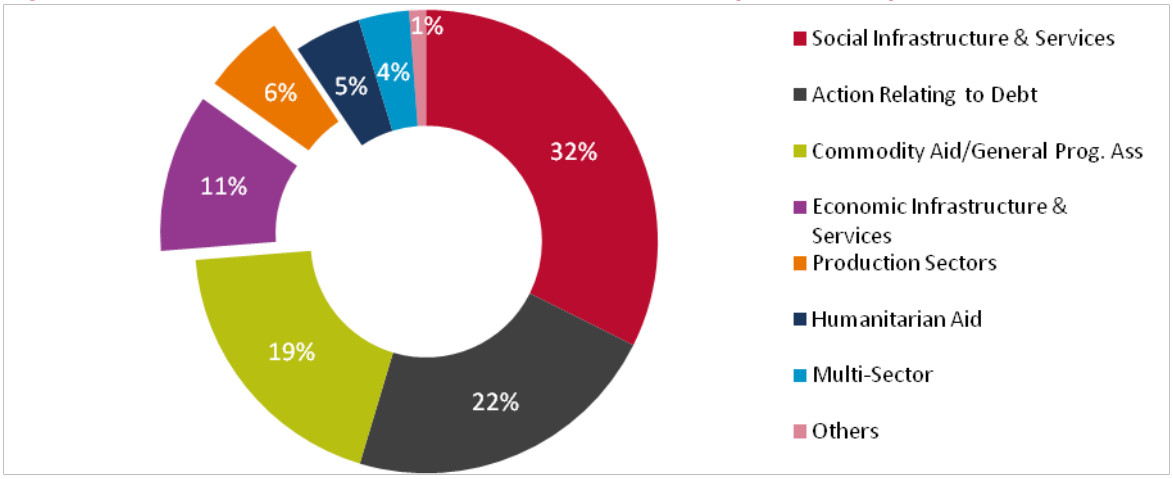
Table 3: ODA sector allocation, Burundi 2002 – 2012

Sector	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Aggregate
Social Infrastructure & Services	0.0	3.7	12.2	17.9	38.4	59.5	84.5	86.7	105.5	106.1	101.3	**616.0**
Action Relating to Debt	0.0	0.0	0.9	1.0	1.0	1.0	18.9	394.7	2.0	2.0	1.9	**423.6**
Commodity Aid/General Prog. As	0.0	0.0	47.6	25.1	46.3	42.9	49.3	78.2	47.7	24.9	1.4	**363.3**
Economic Infrastructure & Services	0.0	0.0	0.1	0.0	5.2	13.9	28.8	37.3	52.1	15.6	58.0	**211.1**
Production Sectors	0.9	0.0	0.0	2.9	3.5	39.7	2.5	15.1	16.0	13.5	15.7	**110.0**
Humanitarian Aid	0.0	0.0	3.3	0.1	42.1	18.8	12.0	5.8	2.9	2.3	1.5	**88.9**
Multi-Sector	0.0	0.0	0.0	0.2	2.4	3.2	12.1	11.2	16.7	10.4	10.8	**67.2**
Others	0.0	0.0	0.0	0.0	3.3	1.3	1.2	3.1	5.2	4.3	4.1	**22.6**

Source: Development Initiatives based on OECD, CRS

Essentially, this pattern of allocation deprived the productive sectors of necessary funding necessary to promote economic growth. Notably, out of the US$ 1.9 billion ODA disbursed to Burundi between 2000 and 2012, 32.0% (cumulatively) and 47.4% (average annually) was allocated to social infrastructure and services. Little was allocated to the sectors with short term impact on growth as advocated for by Clemens et al (2004) and Nielsen and Madani (2010). Throughout the period between 2002 and 2012 (cumulatively and on average), the sectors linked closer to production and economic growth received much smaller proportions of total ODA. Conversely the production sectors received 6.0% cumulatively and 8.5% average annually while the economic infrastructure and services sector received only about 11% cumulatively and 16.2% average annually.

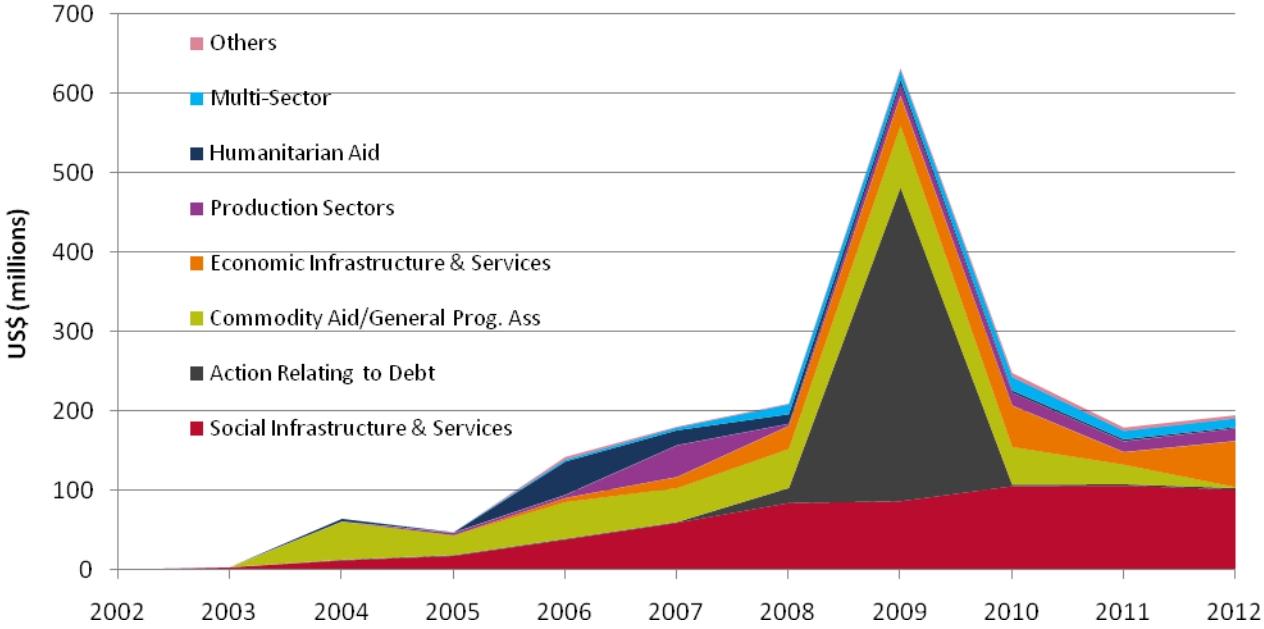
Figure 7: Sector allocation of cumulative ODA to Burundi (2002 – 2012)



Source: Development Initiatives based on OECD-CRS

Arguably, this pattern of ODA allocation was inevitable, for a post conflict state dealing with complex structural and historical political economic challenges. Over the first decade after the civil war (as was the case in Liberia, Sierra Leone, South Sudan and Rwanda) ODA was bound to be focussed on humanitarian response, social services and state building (Clemens et al, 2004)[6]. But proceeding past the crisis, into a stronger state, able to deal with poverty, Burundi requires a growing economy sustained by vibrant productive sectors. ODA needs to be delicately balanced and strategically shifted to fund the country's productive sectors while continuing to provide resources to sustain progress and further investments in social service delivery[7].

Figure 8: ODA sector disbursements 2002-2012



Source: Development Initiatives based on OECD

The Government of Burundi has recognised the need to transform its productive sectors. This is reflected in its intentions to broaden and diversify the productive base in the Vision Burundi 2025. However, this needs to be followed through with deliberate prioritisation of the productive sectors like infrastructure, agriculture, tourism ICT and mining as key expenditure areas for effective alignment of resources. An effective shift could bolster the agriculture sector (especially in the coffee subsector), currently constrained by technological and infrastructural constraints. It could also facilitate expansion of infrastructure and energy and correction of institutional inefficiencies (bureaucratic red tape) that limit the investment environment and ease of doing business.

Ultimately, shifting resources to more productive sectors has the potential to bolster FDI, expand manufacturing and grow the service sectors that could improve employment opportunities, better livelihoods and increase individual/household incomes. Though the proportion of ODA to the productive sectors (production sectors and economic infrastructure) in total allocations to Burundi somewhat grew between 2002 and 2012, a marked shift in

[6] While humanitarian aid is not associated with growth, it is important in for restoring normalcy and stabilisation of the polity. This is a necessary foundation for growth and other state building and reconstruction activities to proceed

[7] While it is problematic to attribute progress to ODA alone, it notable that ODA helped: i) expand immunization coverage to 80%, ii) increase the proportion of births attended by skilled personnel by over 20%, iii) increase overall enrolment up to 137.7% in 2012, and iv) expand access to HIV screening, Antiretroviral therapy and care for Orphans and vulnerable Children (PRSP report, 2006; HDR, 2013).

allocations towards these two sectors will determine the effectiveness of domestic resource mobilisation and sustainability of resource allocations for poverty reduction in the future.

III – Responsiveness of domestic revenue generation to ODA

The impact of official development assistance on the ability and willingness of [a] government to mobilise revenues and the desire of [a country's private sector] to save is practically profound (Njeru, 2003; ICP, 2005:10). Though ODA normatively bolsters state revenue streams, it can have a negative effect on the mobilisation of domestic resources. This could have varying implications on a country's macroeconomic stability as well as the sustainability of revenues for longer term development. Gupta et al (2003) established that ODA, especially grants, have a negative effect on the mobilisation of domestic resources. McKinley (2005) argues that an influx of ODA that finances government deficits could be a disincentive to government to augment public revenues (McKinley, 2005). Although Samy and Bushan (2012) argue that determining the relationship between ODA and domestic resource mobilisation is problematic, they acknowledge that in many Sub Saharan countries, abundant ODA tends to distract government from pursuing prudent macroeconomic policy and effective domestic revenue mobilisation (especially tax). The impact manifests in i) ODA dependency (reflected in large proportions of government revenues contributed by ODA), and ii) weak resource mobilisation capacity.

i) ODA dependency:

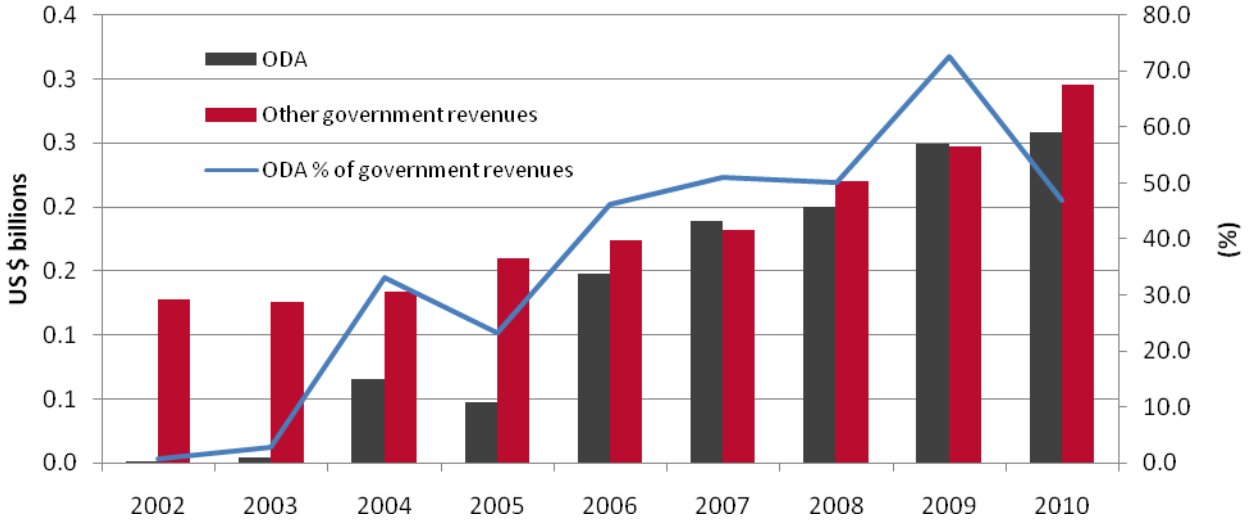
ODA flows to Burundi over the past decade played a crucial role in supporting post conflict state building, delivery of public goods, and humanitarian assistance. However, judging by the proportion of ODA in total government revenues and the rate of growth of ODA compared to the growth of other government revenues (OGRs), it is arguable that ODA could have adversely affected the willingness and ability of the government to mobilise domestic revenues. Notably, between 2002 and 2010, ODA accounted for nearly half of total government revenues (46.1% cumulatively and on average 36.4% annually). The prominence of ODA in state revenues is also reflected in the rate of growth of ODA vis a vis Other government Revenues (OGRs), See Table 4. While OGRs registered some growth (10.6%) and 11.4% on average, they were outpaced by the rate of growth of ODA which increased by 14.3% and 19.6% on average over the same period. This evidence of over reliance on ODA is congruent with arguments by McKinsey (2005), Gupta et al (2003) as well as Samy and Bushan (2012).

Table 4: Growth in ODA Vs Other Government Revenues

	2002	2003	2004	2005	2006	2007	2008	2009	2010	Average	Median
ODA % of government revenues	0.76	2.94	33.12	23.31	46.19	51.17	50.08	72.67	46.87	**36.35**	**46.10**
ODA	0.00	0.00	0.07	0.05	0.15	0.19	0.20	0.25	0.26		
OGRs	0.13	0.13	0.13	0.16	0.17	0.18	0.22	0.25	0.30		
ODA growth		2.22	48.77	-13.10	62.73	23.84	6.11	22.44	3.39	**19.55**	**14.30**
Growth in OGRs		-1.26	6.21	19.90	8.54	4.64	21.00	12.59	19.25	**11.36**	**10.60**

Even before the crisis, ODA formed an integral part of state revenues - amounting to about 25% of GDP on average annually between 1962 and 1993 (Reyntjen, 1995). However, the prominence of ODA in state revenues became more apparent after the civil war and installation of a new government in 2005. The resumption of aid, previously suspended by most donors due to the war and the entry of new development partners, saw ODA rise to dominate other non-domestic resource streams and nearly equal domestic resource flows. Between 2002 and 2011 cumulative ODA disbursements (channelled through the public sector) amounted to US$1.6 billion compared to US$1.7 billion worth of Other Government revenues[8].

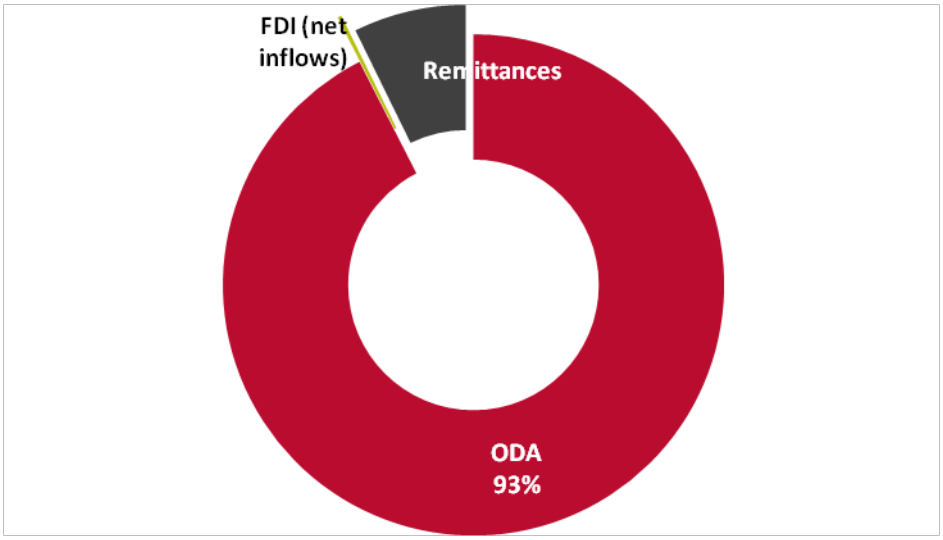
Figure 9: ODA as a proportion of government revenues, 2002–2010



Source: Development Revenues based on IMF; OECD

Other external sources of development finance to Burundi were equally far outpaced by ODA. In 2011, remittances amounted to only about 7% (US$46.1 millions) and inward flows of Foreign Direct Investment were less than 1% (US$1.7 million).

Figure 10: Sources of development finance – Burundi



Source: Development Initiatives based on UNCTAD; OECD;

[8] Other Government Revenues comprises other domestically mobilised resources that include taxes, natural resource rents, and other non-tax revenues. Data on OGRs sourced from the Africa Economic Outlook and the IMF

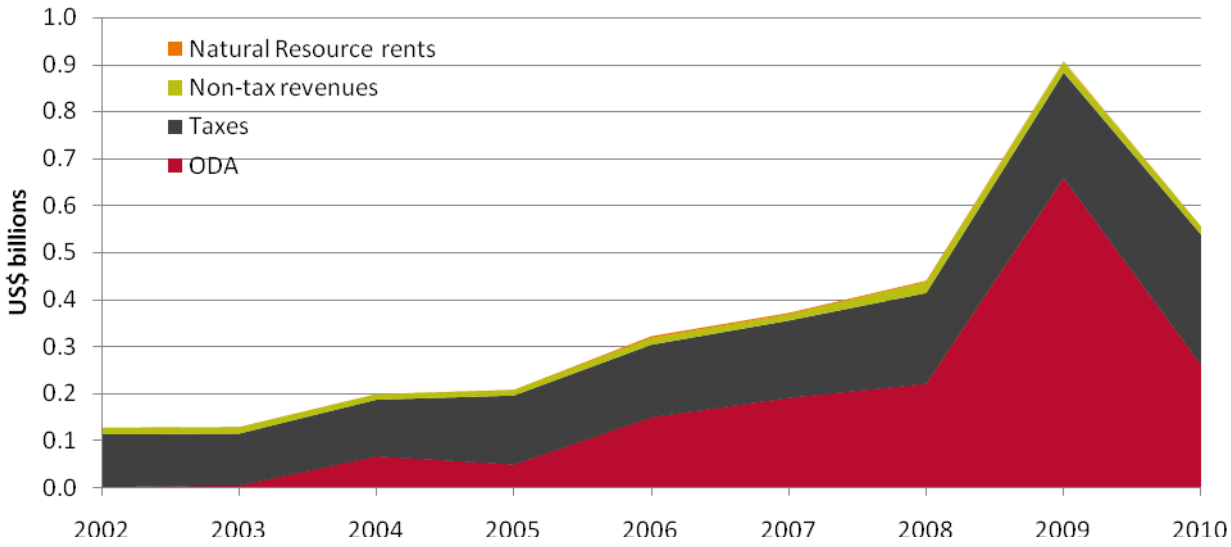
In the process of absorbing the increased inflow of ODA, Burundi transformed into one of Africa's most aid dependent states. Continued expansion of ODA (albeit smaller in absolute volumes compared to other states) appears to have provided disincentives that may have gradually stagnated or stifled domestic resource mobilisation. It is arguable that the prominence of ODA in state revenues could be exacerbating vulnerability of an already weak economy to external shocks and could pose further socio-economic challenges in case donors opt to reduce or discontinue disbursements as it happened in Rwanda and Uganda in the second half of 2012.

ii) Weak resource mobilisation capacity

To a large extent the failure to bolster domestic revenues in Burundi has been attributed to eminent challenges that include the weakness of the economy emerging from conflict and political instability. However, it is also possible that the prominence of ODA provided lesser incentives for the Government of Burundi to fix the structural issues that inherently impede economic growth and expansion of national revenues like corruption, ineffective government services and inadequate fiscal policy. The tax regime in Burundi remains largely ineffective and inefficient. Corruption, tax evasion and tax breaks continue to undermine domestic resource mobilisation (AEO, 2013). This is despite some progress in tax reform, notably the strengthening of the *Office Burundais des Recettes* (OBR), the national tax authority.

Notably, income tax and taxes on goods and services (the main sources of domestic revenues) grew at an average annual rate of 14.2% and 17.6% respectively between 2000 and 2011 (BTI, 2010). Nonetheless, this and the overall 11.4% growth in total domestic government revenues were still below progress in comparable states in East Africa. While domestic revenues represented over 75% of total government revenues in 2010 in Kenya, and 81.1% in Uganda, in Burundi, they represented only about 53.1% in the same year.

Figure 11: Trajectory of Burundi government revenues



Source: Development Initiatives based on OECD; AEO; IMF

Burundi has made significant strides towards improving the ease of starting or doing business as well as the overall investment climate in the country. For example it has eliminated requirements that slow down company registration, implemented statutory time limits for processing property transfer requests and introduced electronic data interchange systems to speed up cross border trade (AEO, 2013). Nonetheless, the country still ranked last in 2012/13 Global Competitiveness Index. Access to credit, corruption, high taxation, inflation, inept

government services and infrastructural inadequacies still topped the list of key obstacles to growth and domestic resource generation (AEO, 2013).

These are issues sufficiently within the purview of the government of Burundi that seem not to be receiving sufficient attention arguably due to the availability of ODA supporting expenditure areas that should be funded by alternative resources generated locally. Until substantive policy and resource investments are made towards addressing the structural and systemic issues regarding public financial management, fiscal policy and taxation, domestic resource generation will remain below par in Burundi.

In summary, increased ODA flows to Burundi though not commensurate with the magnitude of poverty, appear to have financed crucial social services and infrastructure expenditure areas on behalf of the government. This coupled with corruption and other state inadequacies[9] could have impinged on effective domestic resource mobilisation.

Globally, ODA flows are projected to fall as a result of global fiscal turmoil exerting pressure on aid budgets and shifting donor priorities and perspectives on the purpose of aid. The implication of this is that there are likely resource short falls in the funding for poverty reduction that developing countries will have to deal with. Domestic revenues will thus be critical for funding any post 2015 protocols. Developing countries like Burundi therefore will require more of public revenues and domestic savings and investment to foot the larger part of the bill. The Government of Burundi must thus not allow ODA to substitute or stifle domestic resource mobilisation but effectively leverage it to expand and diversify the scope of government revenues.

Many donors now acknowledge the need for domestic resource mobilisation; hence are open to supporting programmes aimed at bolstering capacity for domestic revenues mobilisation. The EU Commission on tax, The African Tax Administration Forum (ATAF) as well as the World bank and the African Development Bank have been actively supporting tax reforms in Burundi, especially the restructuring of the tax authority – the OBR. Burundi could exploit such revenue opportunities to augment ongoing economic reform programmes aiming to enhance prudent monetary and fiscal policy, improve public finance management and improve the business climate.

[9] Structural, institutional and capacity issues persist that continue to hamstring effective domestic resource mobilisation: political instability, poor infrastructure, corruption, public finance management inefficiencies, and a largely underdeveloped dominant agriculture sector (BTI, 2010; AfDB, 2010)

Conclusion and some policy messages

Burundi remains one of the world's poorest countries. Its social, economic and political development has been hampered by years of internal conflict. The poverty situation remains perverse precipitating a cycle of economic and socio-political underdevelopment. ODA flows to the country appear non-proportional to the resource demands required to deal with the extreme levels of poverty and deprivation to the country. With the prevailing resource constraints and institutional insufficiencies, Burundi cannot succeed in reducing poverty on her own. Moving forward, Burundi needs to work with development partners to: i) increase ODA disbursements, ii) ensure that ODA and other government resources are focused more on the productive sectors, iii) bolster domestic resource mobilisation, and iv) leverage the opportunities presented by regional integration**.**

- **Increase ODA disbursements**

In the short term, Burundi will require more ODA to sustain the gains that have been made thus far. Development Partners should reconsider their commitments accordingly. The pool of donors and the value of their commitments will need to be expanded substantially in order to cope with the resource demands that dealing with the extreme poverty levels in Burundi require.

- **Ensure that ODA and other government resources are focused more on the productive sectors**

For longer term fiscal sustainability and assurance of resources for poverty reduction, Burundi needs to leverage ODA to drive economic growth. The Government of Burundi requires to strategically balance ODA allocation to continue funding investments in social services and infrastructure while shifting resources to more productive, wealth creative sectors.

- **Bolster domestic resource mobilisation**

In the longer term, the government of Burundi will require more of public revenues (domestic savings and investments) than ODA. Continue reforms in macroeconomic policy and nurture a competitive economy in order to guarantee sustainable poverty reduction funding. The Government of Burundi must not allow ODA to substitute or disincentivise domestic revenue generation. Development partners should increase support for technical and capacity development for economic policy reform and intensify pressure for tax reform. Further, the Government of Burundi must effectively deal with corruption, and sustain momentum in tax system and PFM reforms in order to increase opportunities for more sustainable domestic resource mobilisation.

- **Leverage the opportunities presented by regional integration**

The regional integration process underway in East Africa presents Burundi with increased opportunity for growth, domestic resource mobilisation and sustainability of funding for poverty reduction. Burundi could use this to increase trade (both intra-EAC and in other global markets), improve infrastructure and promote private investment. The demands for active participation in the EAC could compel the government of Burundi to deal with the issues that affect its competitiveness like inadequate infrastructure, access to credit, and prudent fiscal policy. Integration promises mobility in factors of production, access to regional public goods (such as infrastructure and energy), and export diversification (World Bank, 2012; Ogalo, 2012). Pillar IV of the Vision Burundi already 2025 underscores the intention of the government of Burundi to leverage on opportunities presented by the EAC integration to diversify the economy. Nonetheless, this will rely almost entirely on the ability of the country to revamp the productive sectors and sustain a competitive business environment.

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About us

Development Initiatives works to end extreme poverty by 2030 by making data and information on poverty and resource flows transparent, accessible and useable. We help decision-makers use information to increase their impact for the poorest people in the most sustainable way.

We work at every level:

- Supporting local partners in East Africa and Nepal to use data. For example, we have trained volunteer “resource trackers” in Northern Uganda to increase the use of information at local level.
- Providing information and analysis to inform national and regional decision-making. For example, our Investments to End Poverty programme maps global resource flows and makes the data accessible on and offline.
- Offering technical and political support to help improve international systems. We are the technical lead of the International Aid Transparency Initiative (IATI) secretariat supported by the governments of Sweden and Ghana, UNDP and UNOPS.

We are an international organisation with staff in Brazil, Kenya, Nepal, Uganda, UK and the US. This model allows us to be agile and flexible in our approach to drive change. We also provide consultancy services – undertaking analysis, editing reports and presenting data through infographics and digital visualisations.

We are funded by the Bill and Melinda Gates Foundation, the William and Flora Hewlett Foundation and national governments including Canada, Netherlands, Sweden and the UK. We provide consultancy to non-governmental organisations, civil society organisations, philanthropic foundations, governments and multilateral agencies.