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**2016-12**

Cahiers du CURDES

<https://repository.ub.edu.bi/handle/123456789/598>

NDAYITWAYEKO Willy Marcel, NTUNZWENIMANA Jackson, NYAMWERU Jean-Claude, A tale of fiscal decentralization and governance of Burundi, pp. 171-197, Cahiers du CURDES n° 16, Décembre 2016.

# A TALE OF FISCAL DECENTRALIZATION AND GOVERNANCE OF BURUNDI

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## Abstract

In 2005, the Government of Burundi took a series of piecemeal steps towards fiscal decentralization as an important approach to promote democratic space, economic growth and socio-political stability. This paper reports the process of fiscal decentralization and its plausible link with governance. A Model based on panel data analysis was estimated to explain the association between fiscal decentralization and some governance indicators in the 2010-2013 period. The estimation results reveal population and governance indicators to influence the fiscal decentralization reforms in Burundi. However, resource endowments were found to hinder such reforms. An effort should be devoted to comprehend the impact of these factors in order to design and implement proper fiscal decentralization policies.

**Key Words:** Fiscal Decentralization, Governance, sub-national government and Burundi

## 1. Introduction

After an unachieved wave of Structural Adjustment Programs reforms due to a decade of civil war, Burundi has embarked on another promising political and economic decentralization reforms as an alternative development strategy since 2005. However, apart from the implementation of decentralization program, fiscal decentralization represents the weakest link in the decentralization framework (World Bank, 2014). This paper deals with fiscal decentralization based on the following narratives: decentralization increases allocative efficiency from central government to sub-national levels, it is expected to boost accountability and transparency in public good delivery. The reforms operated on four main and inter-related pillars, mainly political, administrative, planning and fiscal decentralization (OAG, 2007). Regardless which pillar someone is considered, the overall goal of the decentralization is to promote democracy and grass-root participation, accountability, unequal distribution of resources and governance.

In Burundi, the implementation of these reforms was done in the environment which is not conducive at all. First, the context in which the decentralization programs, was launched came just after a long and straining civil war that destroyed substantial economical infrastructure and forced thousands people to flee their homes. Second, the economy of Burundi has been declined execrably or sometimes stagnates because of several external and internal factors and the inability to curb the economic shocks. Finally the poor access to basic needs such as health, education and social protection become crucial elements to solve during post-war period and implementation reforms (OAP, 2007). Furthermore, a recent report of World Bank on *Fiscal Decentralization and Local Governance of Burundi* listed a number of challenges to be addressed so that Burundi can be considered a success story in Africa. One of them is linked to financial constraints that local governments are faced. Given that the central government has never set and implemented a formula scheme of financial transfer to commune, this has been seen as a roadblock to fulfill goals laid down in the communal development plan. The commune, according to the report, struggles to remain fiscally viable and cannot afford the basic operating costs. Then the motivation of writing this paper stems from the

evidence that when the scope of the commune responsibilities of improving the livelihoods of its population grows, and the commune lacks resource and capacities for resolving major asymmetries in principal-agent relations, weak or bad governance and high corruption, nepotism and tyranny are likely.

Against these backdrops, Burundi has progressively engaged in the decentralization process with the help of partners. The changes have been in both institutional and legal domains thanks to the new constitution of 2005 and the revised communal law of 2010. Although the decentralization efforts, particularly fiscal decentralization ones, are politically motivated in Burundi like elsewhere, they have a profound impact on economies, among other things, governance in public sector. According to Faguet (2011), decentralization aims to reconstitute government in such way that hierarchal and bureaucratic mechanism of top down management is melted away to leave a place to system of nested self-governments characterized by participation and cooperation, where transparency is high and accountability to the governs acts a binding constraint on public servant behavior, and that is good governance. Humplick and Estache (1995) and Treisman (2000) found that fiscal decentralization, that is, assignment of expenditure functions and revenue sources to sub-national levels of governments, has a recognized bearing on governance and on the quality of government.

For this reason, the objective of this study is to find out the possible link between the fiscal decentralization and governance. The paper is testing the hypothesis that there is not relationship between fiscal decentralization and a number of variables representing the governance. It attempts to verify the evidence that the decentralization programs across rich and poor are centrally motivated by a quest to improve governance (Faguet, 2011). The study endeavors to overcome the issue of constructing indicators of governance which is multidimensional concept and data are readily available.

The paper makes two contributions. First, it adds to the large empirical literature based on showing the effects of governance on fiscal decentralization, In Burundi context, and such studies are scant at best.

Researchers have focused on situation analysis of the fiscal decentralization and the assessment of the progress of such reform. Second, the article acts as a country-weight to the literature in that the case of fiscal decentralization in Burundi is unique since the implementation of fiscal decentralization is done transfers from central government to local government (ABELO, 2013, World Bank, 2014 and Hamann, 2012). This is not what we find elsewhere in developing and developed countries. Furthermore, fiscal decentralization is not implemented in the context of linguistic, ethnic or religious bases. In other countries, such devolution has been carried out on basis of these socio-economic characteristics.

The paper proceeds as follows: Section 2 lays out the origins and implementation process of fiscal decentralization through the lens of governance on two heading: 1- institutional and legal framework and 2- finance and governance. Methodology and results findings are given in section 3 and 4 respectively while section 5 concludes the paper.

## **2. Tracking Fiscal Decentralization and Governance in Burundi**

### **2.1. Institutional Structure**

Burundi is a landlocked country in the East Africa with 17 provinces. The latter are also composed of 129 communes (equivalent to counties in Kenya and Uganda, and divisions in Tanzania). Out of 129 communes, 13 communes are located in Bujumbura province and the remaining ones in upcountry (Table 1).

**Table 1: Data on Decentralized Communes of Burundi**

<b>Provinces</b>	<b># communes</b>	<b>Average area (Km2)</b>	<b>Standard deviation (km2)</b>	<b>Average Population</b>	<b>Standard deviation population</b>	<b>Smallest population</b>	<b>Largest population</b>
<b>Bubanza</b>	5	21,070.2	7,559.8	6,760.6	14,071.2	55,344	83,678
<b>Bujumbura</b>	13	10,382.2	2,877.8	50,539.4	19,402.8	24,660	78,823
<b>Bururi</b>	9	26,608.1	6,028.4	63,779.2	33,824.1	29,685	145,074
<b>Cankuzo</b>	5	37,855.2	13,933.8	45,774.6	9,505.7	32,458	57,322
<b>Cibitoke</b>	6	26,103.7	6,264.4	76,739.2	8,228.6	66,367	88,451
<b>Gitega</b>	11	17,285.8	6,533.5	65,094.9	36,134.2	32,714	155,005
<b>Karuzi</b>	7	20,200.3	3,313.8	62,349.0	16,324.6	41,476	81,938
<b>Kayanza</b>	9	13,145.4	3,698.7	65,045.8	16,261.6	39,633	97,252
<b>Kirundo</b>	7	25,448.4	11,818.3	89,750.9	28,618.6	57,326	145,424
<b>Makamba</b>	6	31,521.3	8,395.4	71,816.5	30,103.1	44,978	112,752
<b>Muramvya</b>	5	13,341.4	4,684.9	58,517.8	15,662.4	41,170	81,257
<b>Muyinga</b>	7	25,679.1	9,296.0	45,231.1	11,637.3	27,954	60,311
<b>Mwaro</b>	6	13,700.0	2,350.7	98,155.7	39,037.9	54,482	151,230
<b>Ngozi</b>	9	15,698.4	4,454.8	73,413.0	20,964.1	57,086	120,557
<b>Rutana</b>	6	30,865.3	12,785.2	55,585.0	19,936.2	35,471	93,365
<b>Ruyigi</b>	7	32,216.3	9,630.7	57,218.6	20,754.0	37,502	99,461

Source: World Bank's data compilation using data from IGEB and ISTEEBU

The decentralization is defined as the transfer of powers from a central agency to regional or local institutions. It is concerned how government or governance should be structured (Azfar *et al.*, 1999). It is also known as the silent revolution by researchers such as Campbell and Fuhr (2004) and Faguet (2004) because the changes made to the system of the government have been considered revolutionary. However, the opponents of decentralization state that local governments lack financial, human and technical resources to provide public services to people.

Since there are two types of decentralization, the technical and territorial decentralization, the latter is the one applied in Burundi. The decentralization has been done at commune level since 2005. Specific mandate and powers of territorial locations (commune) are underlined in the constitution and communal law. The law gives citizen the liberty to be responsible to elect its communal leaders (members of parliament and commune council members).

The decentralization is managed and spearheaded by the ministries of interior and communal development. The two ministries have created an organ called the National inter-ministerial Steering and Orientation Committee on decentralization. The National Decentralization Strategies (NDS) were approved in 2009 to serve as the basis for the institutional and regulatory framework in order to stir up the decentralization reform process. The committee mentioned above has a mandate to coordinate and provide leadership of the reform process. Yet, the activities of this committee are not satisfactory because they are undermined by political forces. At province level, the governor, appointed by the State, oversees all communes and has the power to remove the administrator of the commune (executive body) if he/she abuses or misuses the power vested on him. Important is to point out that the administrator is elected through indirect universal suffrage by and among the municipal councilors, and administrative services provided by two technical advisors (World Bank, 2014). So, the political role of governor at communal level may thwart the first initiative of decentralization in some corners of the province if his/her political ambitions or economic rent are not met.

The communal council made up of 15 members elected through universal suffrage of the citizen. These members meet three times a year (open to public) and the minutes are pinned on the notice board. They suppose to monitor and advice the administrator. The latter is supposed to present the biannual report on commune development plan and at the same time the annual report of the council. There are consultative organs made to provide crucial supports and development ideas imbedded in the communal development plan. We have the communal committee for the community development (CCDC) and communal committee of development and poverty alleviation (CCDLP). All these committees were created thanks to the donors' intervention such as World Bank, European Union, USAID, UN organizations and other international organizations. There are other bodies that assist the attainment of decentralized commune goals. We have the civil societies such as the Burundian Association of Elected Leaders (ABELO) whose ultimate mission is to promote inter-communal relations and to create a bridge between decentralized communes and international donors (ABELO, 2013) and other private enterprises working at communal levels.

The critics on this institutional structure with regard to decentralization *à la Burundaise* emerge on the ground of the control of the government over the commune administrator who can be sacked at anytime by the government (ABELO, 2013 and OAG, 2007). Indeed, the governor monitors the administrator and report the performance of the latter to the minister of interior. In this way, the freedom of the commune is no longer guaranteed because the State representative (governor) may intervene strongly on the decisions taken by the commune. Another loophole in the structure is the roles played by the consultative organs are not very well specified in such way that there is duplication of roles at the commune levels. Furthermore, World Bank (2014) reported a series of institutional constraints combined with political and bureaucratic des-incentives to be critical obstacle of a significant decentralization reform progress.

## **2.2. Legal Framework**

The decentralization reform agenda is enshrined in the Arusha Peace and Reconciliation Agreement of 20 August 2000 (Protocol II, Article 8, Caption 2) explaining the decentralization as a pillar of development to provide service to the State and to bring closer public service to people. In the Constitution of Burundi voted in 18 Mars 2005 and communal law of 20 April 2005, laws underline a strong legal framework presenting the regulation and manner under which the decentralization reforms have to take place. Moreover, the Code of Organization and Legal Competence contain a chapter of specialized jurisdiction explaining the competence of administrative jurisdiction.

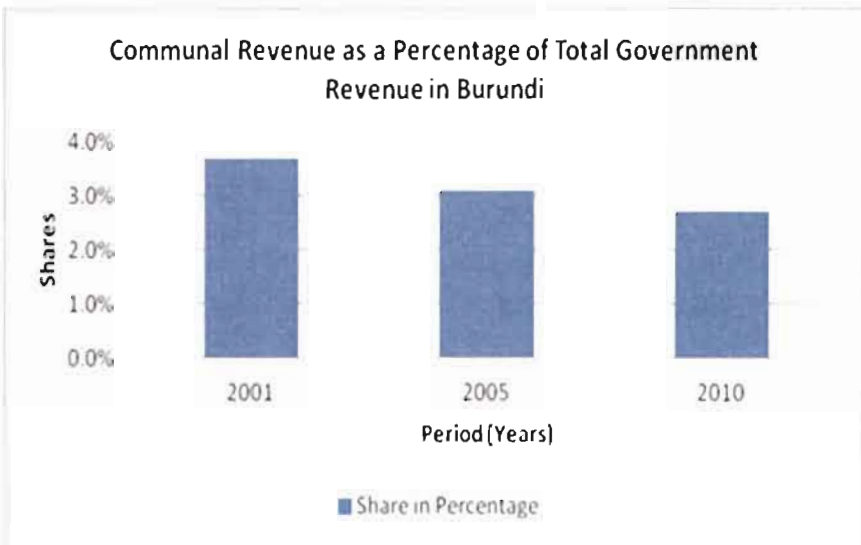
The three legal documents are the ones that guide the leaders on how to implement the decentralization reforms in Burundi. Critics have highlighted the loopholes of legal texts, specifically the communal law which was amended in 2 January 2010. The inputs added explain the ways in which the decentralization reforms have to be carried out. The communal law is in the verge of being amended again if the claims of ABELO and other civil society bodies will be taken seriously. For instance, the law does not speak vividly the transfer of competencies to local government. Prospects of decentralization have created fears among civil servants about the security and location of employment. Besides, the communal law is silent on the issue of the role and capacity of the administrator. In fact, he/she is nominated by the decree of the President of the Republic to be State representative over communal population and at the same time, the communal law precise that he/she is at the hand of the population who has elected. Therefore, the communal administrator, the executor of the communal law, is stuck between the status of an elected official and the manager of the commune as a civil servant who represents the government at the grassroots (World Bank, 2014, ABELO, 20123 and OAP, 2007).

## **2.3. Finance and Governance**

In this sub-section, we are going to dwell on relationship between fiscal decentralization and the governance at local government levels. Good governance is the ultimate end product of a good decentralization process.

It is defined as the manner in which powers is exercised in the management of country's (in our case commune) economic and social resource of development. Given its nature of autonomy, the commune has to source its own financial and non financial resources and spend it wisely according to the communal strategic plan and priorities. On the side of the Government, it has to support financially the commune through the national budget. Considering the fiscal fragility of Burundi and its structural vulnerability to external shocks (the country depend on coffee and tea as main exports), the central government has little room for maneuver to improve fiscal viability of the communes. However, some efforts have been made by the government in order to support financially the decentralization process:

- a) The government has initiated an independent body called National Investment Funds for Commune (FONIC) in 2007 to replace Development Funds for Commune. This public institution has a mandate to mobilize and manage funds allocated to communes and to distribute these funds according to a formula that transpires equity and fairness. It is through this institution that communal investments (infrastructure: schools, offices, roads) were supported by central government both in kind (materials) and cash.
- b) It also and deliberately takes a liberty to forgo a number of taxes and duties to commune in order to ensure that fiscal decentralization is financially sustainable. Hence, local property tax, business tax, taxes on bicycles and motorbikes, taxes on cattle and a variety of minor taxes are fixed and collected by commune (Figure 1). Tax rate used is drawn from the legal texts that are not updated to the current inflation rate. This has resulted to substantial revenue erosion for the communes (ABELO, 2013 and World Bank, 2014). In 2012, communes in Burundi collected only about 3 percent of total government revenues (World Bank, 2014).



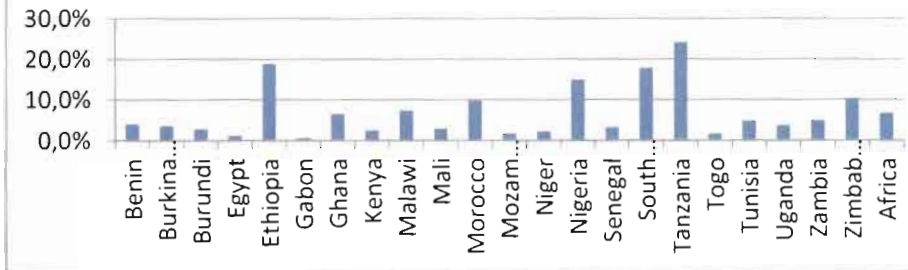
**Figure 1: Share of communal revenue as share of public revenue in Burundi**

Source: World Bank, 2014.

As the Figure above shows, the communal revenue dwindles as one approaches the general election of 2010. In fact, for fear of the outcome of the election, people are usually reluctant to pay taxes. Such behavior has been noted this concluded 2015 general election.

The communal revenue as share of public revenue shows how the government can explain why commune plays a limited role in public service delivery, which contradicts the essence of decentralization philosophy. In fact, we find in Burundi many public services carried out by de-concentrated branches of the central government. Figure 2 presents the story of other countries in Africa.

## Local Revenue as a Share of Total Public Revenue in 22 African Countries: 2006-08



**Figure 2: Local Revenue as a Share of Public Revenue**

Source: Adjusted table from World Bank, 2014

In this Figure above, Tanzania and Ethiopia emerge to be the best countries to allocate funds to local governments.

Basically, communes have to survive for their own and solely depend on its own-revenues. The government does not yet vote a slice of its budget to commune as we find elsewhere like in Uganda and Kenya. However, we find in updated communal law and yet to be amended by the parliament that after election, the government is going to contribute FBU 50 millions to each commune depending on the pre-established formula or transfer scheme in a Kenya style (Table 2).

**Table 2: Example of a First-Generation Transfer Formula: Kenya**

<b>Parameter Weights (%)</b>	
<b>Parameter</b>	<b>Formula Approved by Parliament</b>
Population	45
Equal share	25
Poverty	20
Land area	8
Fiscal responsibility	2
Total	100

Source: Commission on Revenue Allocation, Government of Kenya, 2013, <http://www.crakenya.org/information/revenue-allocation-formula/>.

Many countries have opted to set a similar type of formula to enhance equitable budget distribution among their citizen. We cannot admit that Kenya’s formula is the best but we hope that Burundi may follow the trend and work out for its own. The lack of funds to implement the objectives of communal development has been documented in various sources (World Bank, 2014, OAG, 2007, ABELO, 2013 and Hamann, 2012). This has jeopardized the activities of the commune and also becomes des-incentives to council members and others commune officials who suppose to benefit a per diem after every session. As we said earlier, the shortage of funds can be a source of bad governance and carries in itself a germ of a failing decentralization. Communes source funds through taxes in which the collection does not provide equity, little distortion and low administrative costs. They do not have the administrative capacity to implement a good tax system (Oats, 1993). Lack of transparency and corruption may be a reason for a poor local tax collection.

Besides, there is a duplication of taxes collection. In one hand, agents of communes collect communal revenues and at the same time and on the same people. Burundi Revenue Authority (OBR) carried out its own taxes revenue and at the end population is double taxed. Such behavior turns decentralization to be a double-edged sword in that on one hand, it improves people well-being through participation and equitable revenue distribution and on the other hand, it impoverishes them. In the front of these

challenges, the government is advised to increase fiscal space of commune and at the same time use the OBR agent as the professional revenue collector for commune. Besides, the government in conjunction with donors and well wishers has to invest in training local leaders because failing to do so can be a source of local resource mismanagement and also corruption. Otherwise, the law sets a level of education someone can vie for be local leader. However, the communal law has also to be clear on the transfer scheme that can ensure transparency, equity and pro-poor.

It is widely known that good governance is linked to fiscal. In Burundi, since the end of civil war, the efforts have been made to foster good governance, an ingredient known to support fiscal decentralization reforms (International Crisis Group, 2012). Indeed, to promote economic governance and fight against corruption, a special program 2005-2010 'Priorities for Good Governance and Economic Revival' was launched in order to tackle all issues related to bad governance. Other strategic governance reforms were introduced and supported by new and updated national codes such as custom code, investment code, public procurement code and other important statutory and legal texts. All legal texts were meant to establish the rule of law in a country devastated by a decade of civil war triggered were by issues related to bad governance.

Though the country is endowed with rich and well elaborated legal text to ensure public accountability and the prevalence of rule of law in the country, the implementation these texts and strategies remain elusive. The creation of ministry in charge of governance issues and the anti-corruption brigade and court do not deter Burundi to be marked by a high rate of corruption, social exclusion and inefficiencies of formal governance institution. In fact, Burundi is ranked among the most corrupt nation in the world. It is the 159<sup>th</sup> corrupt country in 2012 (out of 174 countries) and 165<sup>th</sup> in 2014 (Transparency International, 2012 and 2014). The fear is not position but the effect of the level of corruption in the country. If the country's corruption went up to the local government, one may hypothesize that Burundi is establishing corruption decentralization instead of fiscal decentralization. This paper offers a venue to debate on the plausible link between decentralization and governance in Burundi.

### 3. Research Methodology

A growing body of literature has emerged to highlight the link between decentralization and governance. The correlation between the two remains ambiguous. Decentralization of local public good finance and delivery is argued to improve public accountability and suppress corruption. This is reported by Wallis and Oates (1988 in Faguet, 2011) who stress the importance of decentralization by making government more responsible to local needs by tailoring levels of consumption to the preferences of smaller, more homogeneous groups. Moreover, decentralization fosters efficiency of resource allocation (Oates, 1999 and Breton 1996), improve accountability (Bahl, 1999 and Oates, 1999) and reduce corruption (Weigast, 1995 and Treisman in Mello and Barenstein, 2001). However, there is another school of thought that defends the idea of negative association between fiscal decentralization and governance. Local officials are susceptible to be more corrupt through capturing local economic interests (Tanzi, 1995 and Prud'home, 1995).

There is no clear theory on which one can trace the synergy or tradeoff between decentralization and governance. The empirical literature visited show whether there is association or not between the two through a multiple model in which either fiscal decentralization measured in terms of local revenue as a share of total public revenue or one governance indicator to be a dependent variable. The findings of Mello and Barenstein (2001) indicate that a range of governance indicators improve as share of local revenue in total public revenue increase. According to Kyria and Roca-Sagales (2011), fiscal decentralization has positive effect on quality of government. In this paper, we are going to follow the models developed by Mello and Barenstein (2001) in order to attempt to measure the determinants of fiscal decentralization where governance indicator are considered as pivotal independent variables.

**Model Specification:** Our model is built on three types of variables. First, we have the fiscal centralization considered here as share of local revenue of national budget at commune level. Second, variables characterize the local communes such as population, revenues per capita, presence or not of minerals or adjacency to the Lac of Tanganyika as an important factor

endowment to be benefited by owner-commune and its adjacent communes of the province. Finally, the variables denoted the types of governance indicators. In this paper, we chose only three important variables: Voice and accountability, government effectiveness, rule of law and control of corruption.

**Voice and accountability:** According to World Bank, it reflects the perception of the extent to which a country's citizen are able to participate in selecting their government (here at local level) as well as freedom of expression, freedom of association and a free media.

**Government of effectiveness:** This is the perception of the quality of public services, the quality of the civil service and the degree of its independence from political pressure.

**Rule of law:** The variable measure the perception of the extent to which the public or private agent has confidence in and abide by the rule of law of the country and in particular the quality of the contract enforcement,

**Control of corruption:** The factor tends to assess the perception of the extent to which public power is exercised for private gain, including petty or grand form of corruption.

The model has this form of multiple regression:

$$FiscDe_{it} = b_{0it} + b_{1it}X_{it} + b_{2it}Z_{it} + e_{it}$$

Where:  $FiscDe_{it}$  is the commune revenue  $i$  as a share of total public budget at time  $t$ ,  $X_{it}$  is the variables denoting the characteristics of the commune  $i$  at time  $t$  and  $Z_{it}$  is variable representing the governance indicators as described above.  $b_0$ ,  $b_1$ ,  $b_2$  and  $\varepsilon$  are coefficients and errors term respectively.

Specifically, the model to be used in this article is the following:

$$FiscDe = b_0 + b_1 POP + b_2 ResEndo + b_3 VoA + b_4 Geff + b_5 RoL + b_6 CoCorr + \varepsilon_{it}$$

Where : FiscDe = Fiscal Decentralization, POP= Population, ResEndo =Resource Endowment (Either presence of minerals or adjacent to the Lac Tanganyika, 1 if presence or 0 if not present), VoA = Voice and Accountability, Geff = Governness Efficiteness, RoL = Rule of Law and CoCorr = Control of Corruption

The above explanatory variables are predicted to have a positive influence on the fiscal decentralization represented by a ratio of local revenue over total revenue of Burundi as a proxy.

On the above model and given the data availability, the following aspects about the model are worthwhile discussing:

- We simply estimate the model by using pooled cross-section panel analysis. A panel or longitudinal data analysis, a cross-section repeatedly sampled over time; offers an ability to control for the individual fixed effects and particularly the stubborn individual heterogeneity when examining temporal effects on behavior. The panel data have some missing data; here they were taken as zeros. Thus, we deal with an unbalanced panel data. Consideration is taken on the variables of governance indicators. The level of governance of the whole country is hypothesized to be the same like that of the commune or local government. Hence if the country is characterized by good governance, this is reflected at local level and likewise if the governance is bad. This assumption is taken because of lack of data at commune level.
- The log-linear is rather than linear FiscDe is considered in this model. The linear models are associated with a standard residual plot that indicates the existence of non-constant variance (available upon request). If we apply a natural logarithmic transformation to the TI variable, then the problem of non-constant variance does not emerge. The result of White's heteroskedasticity test (available

upon request) indeed reveals that heteroskedasticity plagues the linear models, but not their log-linear alternatives. Besides, the importance of log form is based on its virtue of reducing the effects of outliers and also giving the direct estimate of elasticity. It is also a technique used in case of lack of normality in variables of the model.

- We then calculate Pearson correlation to detect if the estimation is not suffered from the problem of multicollinearity. Other diagnostic tests (F test, LM test, Wooldridge test for autocorrelation and heteroscedasticity) were applied in order to have robust estimates of our model. Guided by the outcomes of these tests, we opted to the random effect model estimated by Generalized Least Square (GLS) to take care of the problem of heteroscedasticity.

#### **4. Data**

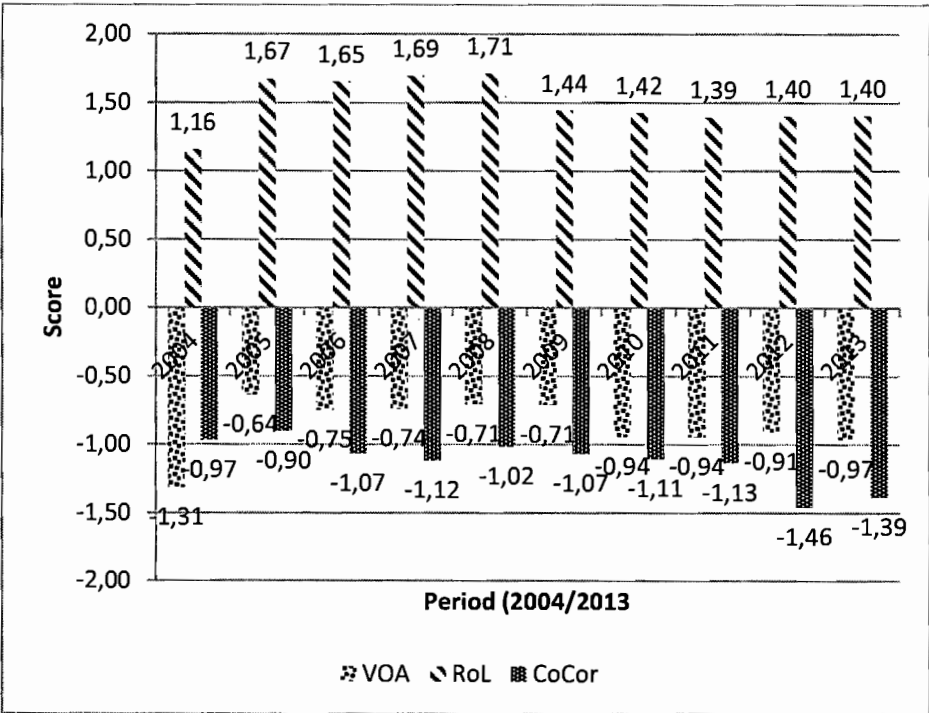
The data from the period of 2010-2013 were collected from different sources. First, data on local revenues of 117 out of 129 communes and population were collected from Burundi National Statistics Institute (ISTEEBU). We visited the national government website (<http://www.finances.gov.bi/index.php/budgets>) to collect national budgets. Governance indicators were found in the World Bank website <http://info.worldbank.org/governance/wgi/index.aspx#home> from which six indicators are given for many nations of the world. Presence of Mine are recorded in the World Bank report (2014) found in the World Bank website (<http://documents.worldbank.org/curated/en/2014/10/20468301/burundi-fiscal-decentralization-local-governance-managing-trade-offs-promote-sustainable-reforms>).

## 5. Results and Discussions

### 5.1. Descriptive statistics

**Governance Indicators:** The score of governance indicators ranges from -2.5 (worse) to +2.5. The more the value, the more significance of the indicator is in Burundi governance realm. In our case, while the indicator of governance effectiveness and rule of law are slightly decreasing, down, we observe a dwindling ng of the indicator of control of corruption from 2010 to 2013 (Table 3).

**Table 3: Governance Indicator**



Source: World Bank data available at

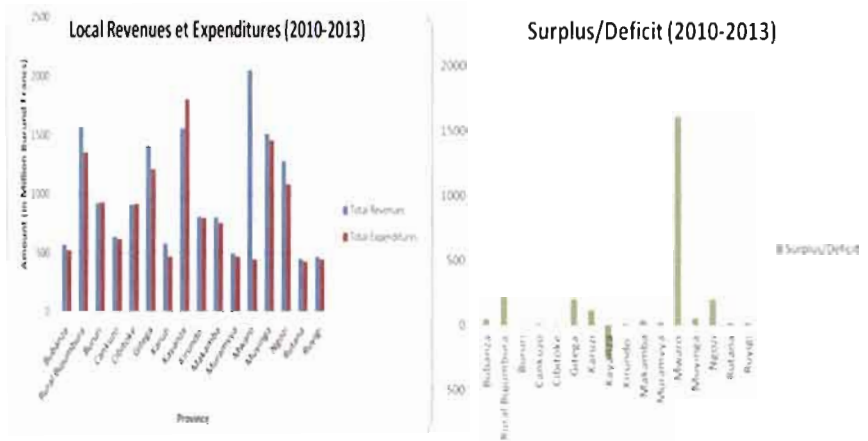
<http://info.worldbank.org/governance/wgi/index.aspx#home>

As reported earlier, the corruption is the only challenge the current government has to tackle. It has been documented that corruption kills the economic growth and hinders local and foreign enterprises to invest in the

country. Not only it robs the country of its scarce resources and dented the spirit of economic self-reliance, corruption at commune level reduces the fiscal decentralization space. However, there is a close relation between these three indicators of governance.

**Local Revenues and Expenditures:** In the following Table 4, it is evident that local own revenues are very dismissal. This reveals their low capacity of revenue collection and lack of creation of new sources of revenues.

**Table 4: Local Revenue and Expenditure      Table 5: Local Revenue Surplus and Deficit**



Source: Data from ISTEEDU, 2014

Apart from Kayanza commune, all other communes are characterized by small surplus. This is in contrarily with the view of Faguet (2011). He asserts that decentralized countries face the intrinsic problem of soft budget constraints because local politicians or leaders have strong incentives to overspend and nationalize this behavior through central bailouts. However, we cannot conclude that these surpluses in local governments will last since Burundi is in the first stage of decentralization process whereby transfers from central government to local communes is quasi-inexistent.

**Model Estimations:** The descriptive statistics (Table 6) give substantial information on the crucial variables considered in the model. In Table 6, the mean of income or revenue per capita is 1461 Burundi Francs. If this

figure is divided by the mean of inflation rate, we find that the income is below 1 USA dollar. This finding has been reported by ABELO (2013) and World Bank (2014) and raises an issue of fundraising or substantial government transfers to communes. Other important results are the mean value of governance indicators which are less than 0 indicating the worsening of both good effectiveness and control of corruption as reported above. However, the indicator of rule of law is quietly satisfactory but there is a room for improvement.

**Table 6: Descriptive Statistics of the Variables of the Model**

Variables	Obs.	Min.	Mean	Max.	St. Dev.
Coinco (Local Income or Revenue in millions of Burundi Francs)	468	0	118	4160	330
Population	468	25088	68706	478155	46191
Colnccap (Revenue per Capita)	468	0	1461	35047	2135
VoA (Voice and Accountability)	468	-0.97	-0.94	-0.91	-0.021
Geff (Governance Effectiveness)	468	-1.03	-1.03	-0.98	0.37
RoL (Rule of Law)	468	1.39	1.44	1.42	0.10
Cocorr (Control of Corruption)	468	-1.46	-1.27	-1.11	0.15

The diagnostic tests reveal that the random effects model is the right model to give good estimates. Indeed, F-test, LM test and Hausman test converge to the same conclusion. Though we did not find the problem of serial correlation, the model did not escape from the problematic multicollinearity. One way to circumvent, the authors drop the variable with a high correlation or with  $r^2$  when associated with another explanatory variable. Variable voa, that, Voice and Accountability was then dropped. Another technique introduced to produce a good performance of our panel

analysis was a transformation approach, that is, logarithmic transformation. Given that population of commune was in thousands and communal revenue share with respect to the national revenue is a drop in an ocean, we introduce log-log function to improve our random effects model. The end results were appearing and robust.

The results in Table 7 show that some of the variables under consideration are statistically significant. They carry the expected signs (except Resendo or presence of minerals or adjacent to Lac Tanganyika) but with different magnitudes. First and foremost, the variable of fiscal decentralization, here abbreviated FiscDe, carries values of own values collected according to jurisdiction governing the local government but as share of national budget. Hence, there are no traces of central government transfers in them. Then, population of local government is negatively associated with fiscal decentralization. It means that the higher the population, the less the share of own revenue on the national budget.

**Table 7: Results of Random Effects Panel Model**

Variables	Coefficient	Rob. Std. Err.	z-test	P-value
Pop (Population)	0.49	0.06	7.32	0.00
Resend	-0.06	0.051	-1.25	0.21
Geff	0.04	0.03	4.86	0.02
RoL	0.12	1.26	0.09	0.92
CoCorr	0.31	0.05	3.27	0.04
Const.	-4.55	1.93	-2.36	0.02
R <sup>2</sup> (,Overall)	0.22			
F-Test	6.3			0.000
LM Test	0.0001			1
Hausman Test	0.03			0.86
Wooldridge Test	2.40			0.12

The finding was what it expected because population is related to the high collection of local revenues. The presence of minerals is negatively related to fiscal decentralization but not statistically. The key objective was to investigate the probable relation between fiscal decentralization and the governance, here proxy to three indicators: voice and accountability, government effectiveness, rule of law and control of corruption. Only two variables, that is, government effectiveness and control of corruption were statistically significant ( $p < 0.05$ ) have the expected positive sign. These results suggest that the promotion of both government effectiveness and control of corruption will improve by far the fiscal decentralization dispend.

The control of corruption boosts the degree of fiscal decentralization. In Burundi, the control of corruption remains elusive during the period under study. Corruption known as an insidious plague that has a wide range of corrosive effects on societies, takes away financial means that may be used for fiscal decentralization. Burundi has its own story and if such beast is not

A theoretical framework was provided and well demonstrated by Oates (1972) and Tiebout (1956) in which a clear relationship exists between fiscal decentralization and efficient provision of public goods, that is, government effectiveness. The Leviathan Hypothesis echoes the views of these two authors by stressing that fiscal decentralization conveys the reduction of government size. This stems somehow the public inefficiency which is a trade off of the improvement of social welfare.

Promotion of good governance, that is , increasing the values of the indicators up to + 2.5, will boost the local revenue collection by the virtue that people will be motivated to be tax compliant.

In Burundi, the effort devoted to the fiscal decentralization through Communal National Investment Funds (FONIC) is encouraging and its success is solely due to a number of government reforms (OBR, rules and regulations of management of budget and control, budget framework law and single national account among others) and to government will to advance the governance agenda through the launching of national strategy for good governance and the creation anti-corruption police. Such reforms explain the outcome of fiscal decentralization at least in the period under consideration in this research.

The control of corruption remains elusive during the period under study. The corruption known the insidious plague that has a wide range of corrosive effects on Burundi, takes away financial means to be devoted to the fiscal decentralization process. Burundi has its own episodes of corruption if we refer ourselves to the different report of International Transparency but the government has managed to issue some policies to mitigate the beast with blunt policy instruments to catch the big fishes in the system. However, our results ensures that once a well control of corruption is done, then government revenue will be collected equitably and in that way the fiscal decentralization will be boosted.

## **5. Conclusion and Recommendations**

The relationship between fiscal decentralization and governance is ambiguous. Several economists have made the case for fiscal decentralization as a means of promoting long-run economic growth based on the view that it leads to better resource allocation and a more productive, and possibly smaller, public sector. In 2005, Burundi took a number of piecemeal steps toward fiscal decentralization. This process accelerated impressively in 2010 when the peace and stability was rooted strongly in the country.

The study used a most advanced technique to gauge the effects of quality governance and control variables on the fiscal decentralization. Though governance indicators and population have a positive effect, resource endowment exerts a negative influence on the fiscal decentralization. The study recommends that both population taken as an indicator of country size to capture economies of scale in establishing effective institution, and quality of governance may be looked into, first by putting some check and balance on population, which has here a non negligible impact of fiscal decentralization; and lastly to strive in promoting all social and political instruments to improve quality governance, fiscal and democratic space.

### **Acknowledgment**

The authors are grateful to the sponsorship of Inter-University East Africa Council (IUEC) and to FSEA of University of Burundi colleagues for valuable comments that improved the quality of this paper

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**Référence bibliographique des Cahiers du CURDES**

**Pour citer cet article / How to cite this article**

NDAYITWAYEKO Willy Marcel, NTUNZWENIMANA Jackson, NYAMWERU Jean-Claude, A tale of fiscal decentralization and governance of Burundi, pp. 171-197, Cahiers du CURDES n° 16, Décembre 2016.

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