

Mapping External Resource Flows to Burundi

In resolution A/RES/60/180, the PBC was mandated to bring together all relevant actors to marshal resources and to advise on and propose integrated strategies for post conflict peace building and recovery. The same document recognizes that support from the Peacebuilding Support Office could include gathering and analyzing information relating to the availability of financial resources. A mapping exercise was accordingly launched and will be pursued over the coming months. This note, prepared by PBSO, provides an overview of the availability and gaps in resources to Burundi, as done recently for Sierra Leone. This exercise could be followed by a more thorough analysis of sectoral financing gaps, based on the priorities agreed with the Government of Burundi.

The conclusion of this preliminary analysis is that Burundi is a “cas d’école”, as the country experiences typical challenges for external resource mobilization. This should facilitate decision-making in the context of the Strategic Framework, which lists amongst key challenges the “mobilization and coordination of international assistance”. Burundi needs to address economic governance, aid absorption risks, and to look at both its spending capacity and aid dependency risks, as well as to focus on spurring other inflows of external resources, including FDI and remittances. Overall, important gaps remain to be filled to contribute to building peace in the country and to implementing the Strategic Framework.

1. Resource Flows to Burundi

a) Volumes of aid are increasing

** Conflict had turned Burundi into an “aid orphan” but since 2003 aid increased steadily* (figure 1). ODA was high in the early 1990s but fell considerably during the crisis, from US\$320 million in 1992 to less than US\$100m after 1996. Total aid in 2005 was US\$365m.

** In 2005, bilateral aid was US\$ 181 million*, down from US\$ 186 million in 2004 (source: OECD). *Multilateral aid was US\$ 184 million that year*, up from US\$ 176 million in 2004. Over 1996-2005, the EC alone provided more than 40% of multilateral aid to the country.

** With an average of US\$ 48 per capita in Official Development Assistance (ODA) for 2005, Burundi compares relatively favorably to other African countries* (Figure 2). ODA per capita has not yet reached the maximum level attained in 1992.

Table 1- Top 10 bilateral donors to Burundi

| 1996-2005 | | 2005 | |
|-------------------------|--------------------------------|-------------------------|--------------------------------|
| Top 10 bilateral donors | Net ODA disbursements (US\$ m) | Top 10 bilateral donors | Net ODA disbursements (US\$ m) |
| United States | 196.0 | United States | 54.7 |
| Belgium | 114.5 | Netherlands | 22.9 |
| Netherlands | 100.1 | Belgium | 21.3 |
| France | 98.5 | United Kingdom | 14.8 |
| Norway | 78.2 | France | 14.5 |
| Germany | 62.1 | Germany | 11.4 |
| Sweden | 43.4 | Norway | 10.3 |
| United Kingdom | 39.8 | Sweden | 5.3 |
| Switzerland | 29.9 | Denmark | 5.2 |
| Canada | 29.8 | Canada | 5.1 |

(Source: OECD DAC Statistics 2007)

** Seven donors in 2005 provided the overwhelming majority of bilateral aid (92%)*. Over the last decade, the five main donors provided two thirds of bilateral aid.

** These numbers include debt relief and emergency aid*, which can be granted on criteria independent of development purposes. 2007 could be the completion year for the Heavily Indebted Poor Country Initiative in Burundi, further inflating total ODA amounts. But even when emergency aid and debt relief are not included, ODA per capita increased steadily since 1999.

Figure 1 – External Resource Flows (million US\$)

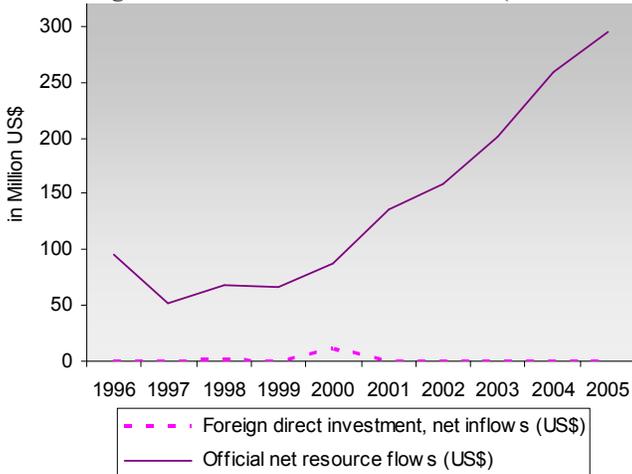
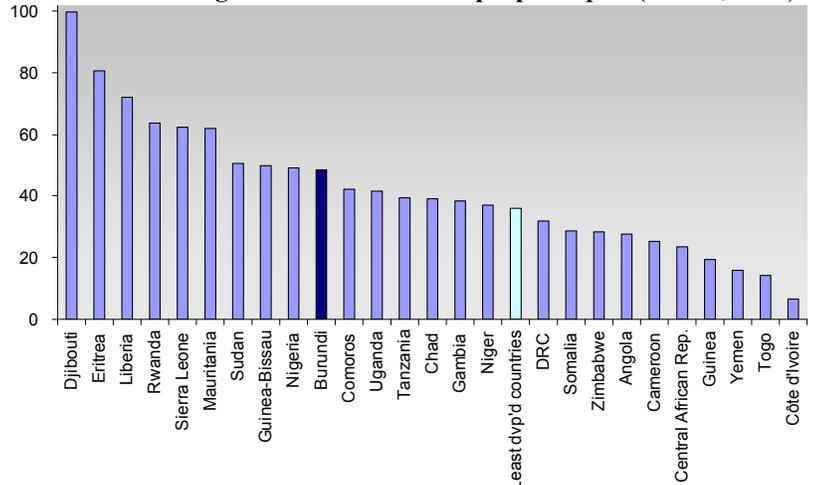


Figure 2 – net ODA receipts per capita (in US\$, 2005)



b) Results of the 24-25 May 2007 Donor Conference are encouraging

* ***In collaboration with the UN system, the Government of Burundi held a Round Table*** of the partners in development on 24-25 May 2007 in Bujumbura. Several partners gave statements of their financial contributions, which amounted to US\$ 681.24 million for 2007-2010 –above initial requirements. As noted in the Strategic Framework, it will be important for the PBC to help ensuring that pledges and commitments are honored.

c) Fresh difficulties in Burundi jeopardize budgetary and other donor support

* ***Budget support was expected to increase in 2007.*** Additional expenditure incurred under the 2007-2010 PRSP should increase in part due to the transition from a project approach to budgetary support (total PRSP budgetary support: US\$ 248 million). At the May 2007 Round Table, donors had earmarked US\$ 191.44 million for budget support. Yet serious governance challenges led to delays in concluding the IMF 6th Review Under the Arrangement Under the PRGF and in disbursing donor budgetary support. The government has adopted additional fiscal and other measures but still needs to strengthen government controls over expenditures. The three-year IMF arrangement, extended to September 2007, will be extended until January 2008.

* ***Budget support carries numerous advantages but also challenges.*** Recipient countries must demonstrate an ability to manage resources and improve governance before funding can be made through this channel, while international financial institutions must take into account the fragile situation in the country.

d) Support is provided by the Peacebuilding Fund (PBF) and other funds

* ***US\$35 million from the PBF was allocated to Burundi.*** The PBC had recommended, in December 2006, an allocation of at least US\$ 25 million in support of peacebuilding. A Priority Plan was subsequently finalized by Government of Burundi and BINUB and endorsed by the Head of the PBSO. On 29 January 2007, the Secretary-General formally announced a US\$35 million allocation. The Priority Plan identified four priority areas: Governance; Strengthening Rule of Law and the Security Sector; Strengthening Rule of Law and the Protection of Human Rights; Property/Land Issues. To date the PBF approved 12 projects with a total of nearly US\$27 million.

* ***Burundi also receives support from the Central Emergency Response Fund CERF*** –for the first half of 2007, it received US\$ 8.5m under the Under-Funded Emergency window for projects with WFP, FAO, and UNICEF.

e) Other External Resources are weak

* ***Foreign Direct Investment (FDI) in Burundi is extremely weak*** (Figure 1). FDI inflows in 2004 and 2005 were almost nil, well below the average of 13% for developing economies in 2005, as they barely reached US\$ 3 million in 2004 and US\$1 million in 2005 (Source: UNCTAD). FDI stocks are low at 5.6% of GDP, compared to 27% of GDP in developing countries, 20% in Guinea-Bissau or 45% in Angola.

* ***The growing potential of microfinance remains largely untapped.*** Rural microcredit is listed in the PRSP Priority Action Plan to promote sustainable and equitable growth, and the PRSP recommends developing microfinance institutions. Legal improvements are also needed: with UNDP, the “Réseau des Institutions de Microfinance” coordinated practitioner feedback as the government crafted microfinance legislation. In 2006, a decree was completed and now directs appropriate oversight of microfinance in Burundi.

* ***There also needs to be more advocacy to mobilize the diaspora and catalyze remittances.*** Burundi does not keep detailed track of remittances but it is estimated that in 2004 only US\$ 4.1 million were remitted to Burundi. Remittances leaving the country probably offset this inflow (source: IOM).

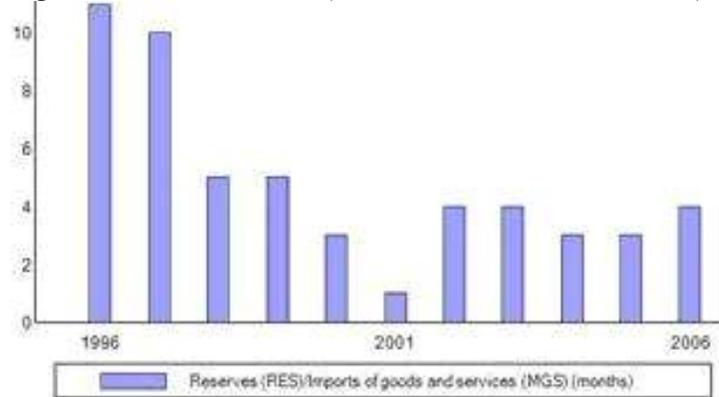
2. Challenges for Increased Aid Flows to Burundi

a) Absorption Capacity needs to be addressed, spending capacity should be scrutinized

* ***The efficiency of surges in aid flows depend on the spending and absorption capacity of a country.*** Surges can produce exchange-rate appreciation and decrease price competitiveness. Sterilization of foreign exchange inflows can be costly. In these economies, risks linked to surges are compounded by limited absorptive capacity, and an underdeveloped financial sector. Aid absorption is the extent to which non-aid current account deficit widens in response to increased aid flows (reflects increase in net imports resulting from increased aid). Aid spending is the widening of fiscal deficit that accompanies an aid increase (shows extent to which government uses aid to finance increase in expenditures). Of course, the remarks that follow do not entail any conclusions regarding the level of aid in Burundi, which remains in patent need of sustained external resources.

*** In Burundi, absorption capacity could soon limit aid efficiency.** A recent IMF/IEO report on aid to Sub-Saharan Africa found that for countries with low reserves (below 2.5 months of imports), incremental aid was on average used to strengthen reserves. This is what could be happening currently in the country. It can be expected that a share of aid inflows will be absorbed by the Central Bank of Burundi in the near future to build up its reserves (Figure 3). According to recent IMF estimates, there was a close to a 30% increase in reserves in 2006, from US\$ 112 million to US\$ 145 million.

Figure 3 - Reserve Position (Source: World Bank-GDF, IMF)

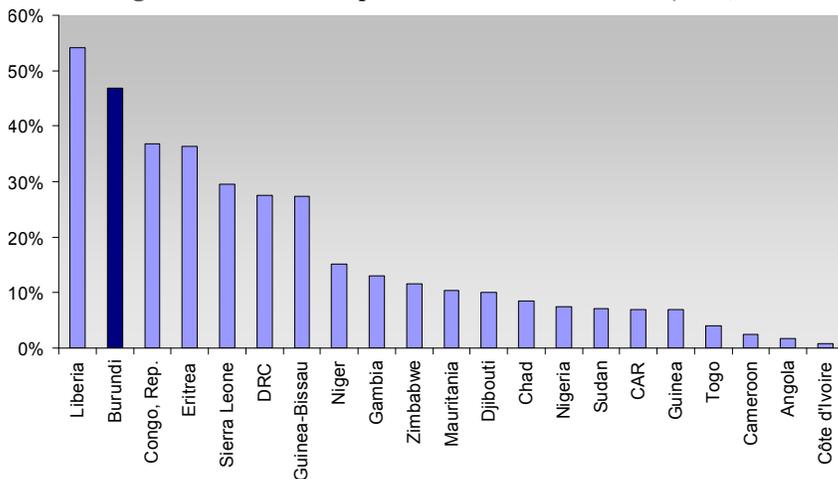


*** Spending capacity should be scrutinized in Burundi:** the same IEO report showed that when inflation exceeds 7 %, programmed aid spending is limited. In Burundi, inflation fell in 2005 to about 1 % year-end, reflecting the tightening of monetary policy and probably good spending capacity. Another positive sign is the increase in government expenditures observed without fiscal revenues increases. However, the fall in inflation also reflected nominal exchange rate appreciation due to increases in aid, which could signal a weakening of spending capacity.

b) Aid is becoming less predictable and aid dependency is increasing

*** Some donor disbursements are delayed.** From 2002 to 2004, aid inflows were higher than projected aid. This trend was reversed since 2005, as disbursements fell short of programmed assistance, largely reflecting delayed WB disbursements and donor concerns over governance. The 2006 Emergency Program did not produce expected effects due to a low realization rate of commitments (US\$66 million out of \$168 million in 2006 were honored).

Figure 4 – ODA Receipts/Gross National Income (2005, Source: OECD)



*** Aid dependency is a growing concern and calls for enhanced ownership of peacebuilding and development strategies.** Some argue that above a certain threshold of aid to GNI, a growing number of negative impacts emerge. In Burundi, aid dependency is increasing as its aid/GNI ratio reached 47% in 2005, if both emergency aid and debt relief are included. Without these two components –which explain in part why Burundi or Liberia are outliers in this graph¹– the threshold remains above 20% of GNI, signaling aid dependency. This is due to aid increases and to a very low GNI per capita compared to other least developed countries.

c) Transition from humanitarian needs is still ongoing

*** Humanitarian needs are significant but evolving.** By July 2007, more than 350 000 refugees have returned home but the process slowed down in 2007 and it is unlikely that targets for return of refugees will be met this year, according to UNHCR. The UN Consolidated Appeal 2007 (CAP) requested US\$ 139m for planned humanitarian activities to address root causes of poverty –access to land and depletion of assets- that need sustained partnership. To date, about 62% of requirements have been committed, which is relatively high compared to other CAP countries. Over the coming years, a challenge will be to adapt the implementation of humanitarian programmes from a conflict to a post-conflict setting –it is expected that the CAP 2007 will be the last one. According to the CAP 2007 mid-year review, “PBC’s work in Burundi (...) offers opportunities to engage the humanitarian community”. PBF resources can also be used for this purpose, as recently illustrated by a \$0.7 million PBF support through UNHCR for the pacific resolution of land disputes.

¹ See OECD/DAC Fragile States Group, *Monitoring Resource Flows to Fragile States, 2006 Report*

d) Overall, governance challenges remain

* *Burundi suffered from slow disbursement of some support due to difficulties in governance.* In 2006, this affected the macroeconomic policy and the government responded by cutting spending (3½% of GDP of non wage primary spending) and delaying the clearance of domestic arrears (1.3% of GDP) (source: IMF, MEFP). Over the summer of 2007, new difficulties in economic governance appeared, which led to delays in budget support, as described earlier. To ensure lasting donor commitments, as emphasized in the recent conclusions and recommendations by the PBC, governance issues needs to be investigated and necessary steps ought to be taken to strengthen government controls over expenditures, to prevent misuse and misappropriation of public funds.

3. Resource Gaps for Peacebuilding

a) Employment and productivity gains can enhance peacebuilding

* *Opportunities to structure enterprise assistance and workforce training programs could contribute to significant increases in productivity and spur sustained growth.* This seems all the more feasible as Burundi enjoys exceptionally high levels of labor force participation, poorly channeled to high value-added sectors: only 2% of the workforce is engaged in industry, which nevertheless accounts for 20% of GDP; services account for a growing share of GDP, but the labor force lacks training and skills.

b) Investments need to pick up extensively and sustainably

* *It is essential to create opportunities* for public and private, domestic and foreign investment and encourage diversification of activities, to prepare Burundi for the transition from international assistance to sustained development. The economy remains too dependent on primary commodities as the agricultural sector accounts for 85% of export earnings. Priorities could consider using microfinance, fostering SME development and building an inclusive financial sector². But triggering a gradual and sustained flow of private investment to priority sectors for peacebuilding remains a challenge: the current investment code lacks provisions for efficient implementation based on minimum transparency and automatic implementation, which are crucial to attract foreign investors, while the commercial code lacks details on the status of foreign companies operating in the Burundian economy.

c) Nationally-owned tools to track aid flows are needed

* *Specific mechanisms are being created by the national authorities of Burundi.* A mechanism for implementation and monitoring of the PAP/PRSP was put in place and structured around four mechanisms: a political guidance framework; a monitoring mechanism for PAP PRSP implementation; a mechanism for indicators; and a mechanism for evaluation, implementation and updating. The Ministry of Planning, Development and National Reconstruction (MPDRN) of Burundi will be at the center of the monitoring system, ensuring ownership of the process. Following the 24-25 May 2007 Round Table, a Partners Coordination Group (GCP) was created on 12 June 2007. The GCP is the highest national coordination body, in charge of ensuring the coordination of aid. It will ensure follow-up/evaluation of the implementation of the Peacebuilding Strategic Framework. It was also decided to set up a scoreboard for the follow-up of conclusions and recommendations drawn from the Round Table conference.

* *Burundi is creating tools to track aid.* An Aid Management Platform (AMP) by Development Gateway Foundation is currently being set up with the aid coordination agency CNCA, and received donor support. PBSO will be following closely the evolution of this project. The AMP software was developed in Ethiopia and Bolivia, to provide a virtual workspace where aid information is gathered and shared – from planning through implementation – and analyzed by donor, sector, status, region, timing and other attributes. Efforts to ensure ownership of this process, interest and participation by the government and donors should be encouraged for AMP to become a sustainable aid platform in Burundi.

➤ **Allocation by Framework Priorities show a potential for PBC engagement**

[Table a\) on page 5](#) provides an overview of all major frameworks priorities.

➤ **Allocation by Peacebuilding Priorities illustrate some of the possible needs for funding**

[Table b\) on page 6](#) lists Peacebuilding priorities, and potential for PBC engagement.

² Informative studies on the private sector in Burundi can be found at http://pdf.usaid.gov/pdf_docs/PNADG056.pdf and http://pdf.usaid.gov/pdf_docs/PNADG055.pdf; See also the 2006 Ecosoc report on Burundi, E/2006/53.

a) Priorities Within Existing Frameworks – Potential for PBC Engagement

3/10/2007

| Framework | Focus: Good Governance, Justice, Security | Resource Requirements (in US\$ million) | Ratio of Framework Total | Findings – Potential for PBC Engagement |
|---|---|--|--------------------------|---|
| PBC Strategic Framework | Challenge 1 - Promotion of good governance Challenge 3 – Security Sector Challenge 4 - Justice, promotion of human rights and action to combat impunity | | | <ul style="list-style-type: none"> ▪ Limited capacity of Government to monitor and establish the conditions for effective mobilization and utilization of international assistance “could lead to major delays in the release of funds and could compromise ongoing peacebuilding and economic recovery efforts” (SF, para. 43) ▪ Reintegration objectives contained in 2006 Emergency Plan were largely underfunded ▪ Judiciary reform remains weak and in need of additional resources ▪ Delays in creating Commission Vérité et Réconciliation (C.V.R.) ▪ Delays in creating the Tribunal Spécial ▪ Situation remains worrying in the area of Human Rights ; ▪ Independent National Human Rights Commission was underfunded until PBF support ▪ Funding for return of refugees remains problematic (14 August 2007 HCR/WFP call for \$20m funding) ▪ Engaging civil society remains a critical challenge in the areas of governance and justice sector reform |
| PRSP 2007-2010 (PAP) | Main Principle 1 – Improve Governance and Security | 273.9 | 20.7% | |
| | <i>Strengthen security</i> | 125.6 | 9.5% | |
| | <i>Strengthen the rule of law & justice system, fight impunity</i> | 41.1 | 3.1% | |
| | <i>Manage disputes related to the past, anticipate the future</i> | 7 | 0.05% | |
| | <i>Promote good governance</i> | 100.2 | 7.6% | |
| UN Integrated Strategy (2007-2008) | Peace Consolidation & Democratic Governance | 29.5 | 11.3% | |
| | DDR & SSR | 13 | 5% | |
| | Human rights and action to combat impunity | 15.7 | 6% | |
| | Reintegration of populations affected by conflict | 30.9 | 11.8% | |

| Framework | Focus: Socio-economic Recovery | Resource Requirements | Ratio of Framework Total | Findings – Potential for PBC Engagement |
|---|--|--------------------------------------|--------------------------|--|
| PBC Strategic Framework | Challenge 5 - The land issue and socio-economic recovery | | | <ul style="list-style-type: none"> ▪ Private sector could be affected by imports from the sub region, which could “cripple economic recovery and reduce the role of the private sector in the peacebuilding process” (SF para. 48) ▪ Implementation of recovery programmes remained poorly funded compared to the agriculture and health sectors ▪ Civil society was not fully engaged in areas of reform that can promote economic and social development ▪ Food security has not been fully ensured yet as more than one million people require food aid in 2007 (WFP) |
| PRSP 2007-2010 (PAP) | Main Principle 2 - Sustainable & Equitable Economic Growth | 577 | 43.7% | |
| | Development of growth sectors | 231.6 | 17.5% | |
| | Diversification of employment and income opportunities | 58.5 | 4.4% | |
| | Private sector development | 32.3 | 2.5% | |
| | Development of infrastructure in support of production | 278.5 | 21.1% | |
| UN Integrated Strategy (2007-2008) | Agriculture, Food Security | 122.6 (including 118 in WFP funding) | 46.8% | |

| Framework | Focus: Human Capital, Health | Resource Requirements | Ratio of Framework Total | Findings – Potential for PBC Engagement |
|---|--|-----------------------|--------------------------|--|
| PRSP 2007-2010 (PAP) | Main Principle 3: Develop Human Capital | 413.3 | 31.3% | <ul style="list-style-type: none"> ▪ Overall lack of capacity in Burundi, like in many post-conflict countries, remains critical obstacle to development and peacebuilding and could be addressed by adequate training and technical assistance ▪ Insufficient empowerment of women still limits development |
| | Main Principle 4: Prevent And Control HIV/AIDS | 56 | 4.2% | |
| UN Integrated Strategy (2007-2008) | Basic Social Services | 43.9 | 16.7% | |
| | HIV/AIDS, Tuberculosis, Malaria | 6.2 | 2.4% | |

b) Peacebuilding Priorities – Potential Areas of Focus

3/10/2007

| Area | PBF (1) | PRS Principle (2) | UNDAF Axis (3) | Peacebuilding Priorities for Potential PBC Engagement (4) | Impact for Peace Building | Examples of Recent Projects | Potential needs for Funding |
|---|---------|-------------------|----------------|--|----------------------------|---|---|
| Good Governance | ✓ | 1 | 1 | <ul style="list-style-type: none"> ▪ Encourage development of appropriate frameworks for dialogue to develop national peacebuilding strategies ▪ Improve management of public affairs and awarding of public contracts ▪ Reduce corruption at all levels and ensure accountability in the use of public funds ▪ Clarify roles and prerogatives of local administration | <i>Strong</i> | <i>\$ 3 m PBF support for dialogue and concertation ; \$1.5 m PBF support for the fight against corruption; UNDP \$9m Democratic Governance & Poverty project;</i> | <ul style="list-style-type: none"> ▪ Support of Brigade Spéciale Anti-corruption ▪ Support of Cour Anticorruption ▪ Elaboration of a Guide and Ethics Code for elected officials |
| Security Sector | ✓ | 1 | 1,2 | <ul style="list-style-type: none"> ▪ Ensure respect of human rights ▪ Economic opportunities for the reintegration of those demobilized ▪ Improve working and living conditions of police ▪ Reform Service National de Renseignement (SNR) and encourage its professionalization | <i>Strong</i> | <i>\$4.6 m PBF support for quartering of Forces de Défense Nationale; \$0.5m PBF support for disarmament and small weapons;</i> | <ul style="list-style-type: none"> ▪ Institutional support to the Police Nationale Burundaise (PNB) ▪ Quartering of Forces de Défense Nationale (FDN) ▪ Disarmament of civil populations and work by Commission Technique de Désarmement de la Population Civile |
| Justice, human rights, reconciliation and fight against impunity | ✓ | 1 | 1,2 | <ul style="list-style-type: none"> ▪ Encourage consensus on transitional justice mechanisms ▪ Improve access to justice ▪ Ensure development of independent justice ▪ Fight against impunity ▪ Encourage prosecution of those responsible of human rights abuse ▪ Encourage suppression of extra-judicial practices | <i>Strong</i> | <i>\$1 m PBF Support of national programme of reporting and execution of judgments; \$0.8m PBF support for construction of tribunals;</i> | <ul style="list-style-type: none"> ▪ Work of Independent National Human Rights Commission ▪ Commission Vérité Réconciliation ▪ Consensus-building on transitional justice ▪ Transitional justice mechanisms and support for their operation ▪ Planned programmes to strengthen capacity of judiciary |
| Land issue and reintegration | ✓ | 1 | 1 | <ul style="list-style-type: none"> ▪ Target interventions focusing on urgent rehabilitation needs, especially for vulnerable populations ▪ Improve reintegration of refugees and internally displaced persons, taking into consideration land issues ▪ Foster employment opportunities for displaced persons and refugees returning to their land | <i>Strong</i> | <i>\$0.7m PBF support for pacific resolution of land disputes; UNDP \$0.1m grant to Commission Terres et Autres biens; EC DG-ECHO's €15 m 2007 Global Plan focusing on reinsertion and reintegration;</i> | <ul style="list-style-type: none"> ▪ Further funding database and information campaign of Commission Nationale des Terres et Autres Biens. ▪ Reintegration of refugees coming back from neighboring countries |
| Other: Economic Development | | 2 | 3, 6 | <ul style="list-style-type: none"> ▪ Ensure protection of the citizens and their economic activities ▪ Promote youth employment in rural and urban areas ▪ Improve agriculture production and productivity | <i>Medium term</i> | <i>\$60m World Bank / PRSP Economic Reform Support Grant; \$17.8 m IFAD-supported project for livestock and agriculture training; UNCDF/UNDP \$1.7m Project for Microfinance;</i> | <ul style="list-style-type: none"> ▪ Training and technical support for youth employment; ▪ Community work & income generating activities; ▪ Peace & solidarity education |
| Other: Gender, Health & Infrastructure | | 2,3, 4 | 4,5 | <ul style="list-style-type: none"> ▪ Rehabilitate role of women in reconciliation and reconstruction process ▪ Promote community level development in particular for health infrastructure ▪ Promote road infrastructure reconstruction | <i>Medium term/ Strong</i> | <i>\$3 m PBF support for role of women in reconciliation and reconstruction; \$40 m World Bank Community and Social Development Project; \$45m AfDB road project to Rwanda</i> | <ul style="list-style-type: none"> ▪ Initiatives that focus on the most vulnerable communities of women and girls affected by conflict |

(1) PBF Priority Plan (2) PRSP 2007-2010 (3) UNDAF 2008-2010 (4) Based on documentation by Government, UN Agencies and WB, and outcome of the PBC CSM on Burundi.

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