

Aid instruments for peace- and state-building: Putting the New Deal into practice



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New Deal case study

Donor efforts to strengthen service delivery by the Government of the Republic of South Sudan

1. South Sudan¹ – Background and context

The Republic of South Sudan is the world's newest country, having come into being on 9 July 2011 following an independence referendum in January 2011, in which its population voted overwhelmingly for independence from Sudan following decades of conflict. At its independence South Sudan was one of the poorest countries in the world, with 51% of its population living in extreme poverty, an under-5 mortality rate of 135/1,000, only half of children in primary school and an adult literacy rate of 27%.

Over 90% of the Government's revenues come from the oil sector. This dependency has created instability for South Sudan's revenues and service delivery efforts for two main reasons. Firstly, oil prices have fallen sharply in recent years, from around \$110 a barrel in mid-2014 to \$45-\$65 a barrel during 2015. Secondly, as South Sudan relies on the pipelines of Sudan for exporting oil the sector has been affected by sustained political tensions between these countries. This situation came to a head in early 2012 when South Sudan suspended oil production (until April 2013) following the failure of talks to agree on pipeline transit fees to be paid by South Sudan to Sudan. This shutdown led to a major fiscal crisis.

At independence South Sudan's government and service delivery infrastructure were severely under-developed. The 2005 Comprehensive Peace Agreement with Sudan led to the establishment of a decentralised system of ten states, below which seventy-nine local governments were formed. The 2005 Constitution and the 2009 Local Government Act then laid out the functions and responsibilities of each level of government, although these were broadly defined and often conflicting. Transfers to State Governments began almost immediately after the CPA², and mainly covered salaries for teachers and health workers, but also for the large Police, Prison and Fire Brigade units which had been created to facilitate the demobilisation of rebel soldiers.

Since independence South Sudan has experienced ongoing conflict with Sudan, although its own internal conflicts have been most disruptive. In July 2012 President Salva Kiir sacked his entire cabinet, including the Vice-President Riek Machar. This led to political tensions which ultimately culminated in violence breaking out in December 2012 and large part of the national army defecting to the rebel side. Although the capital Juba was affected early in the conflict, fighting has been confined largely to three of South Sudan's ten states. Several ceasefires were signed between the government and its opponents, but none held. A peace agreement between the government and opposition was finally signed in August 2015.

2. Introducing the main donor programmes supporting Government service delivery

This case study focuses on a number of donor programmes³ supporting service delivery through the Government's administrative systems, including:

- **Local Governance and Service Delivery Program (funded by World Bank, with co-financing from Governments of Denmark, Netherlands, and Norway)** – Funding of \$99.5 million over the period 2013-18; being implemented by the Ministry of Finance, in collaboration with the Local Government Board; this project aims to improve local governance and service delivery in participating counties in South Sudan; it has four components: i) Block grants to counties for Payam (the second-lowest administrative division) development, ii) Community engagement, iii) Institutional strengthening, iv) Project management support (World Bank 2013).
- **Girls' Education in South Sudan (GESS) project (funded by UK Department for International Development/DFID)** - Funding of £60 million over the period 2013-18; being implemented by a consortium of organisations led by Mott MacDonald; this project aims to increase

1 Sections 3-6 of this report drew heavily on Hart and Williamson (forthcoming)

2 These totalled over SSP 4 billion (roughly \$1 billion) during the period 2006-11

3 The programmes addressed by this case study do not constitute the full set of prominent donor programmes which have contributed to strengthening Government service delivery in South Sudan. Other relevant programmes include the multi-donor Capacity Building Trust Fund (CBTF), the European Union's State-Building Contract (EU-SBC) and the Health Pooled Fund (HPF). The decision not to include the CBTF in this case study was taken on the basis that its implementation began before agreement on the New Deal. The decision not to include the EU-SBC was taken largely because this programme was not implemented. The decision not to include the HPF was taken on the basis that this programme is not supporting the Ministry of Health to deliver services but to oversee the work of NGO providers.

access and the capacity for Girls' in South Sudan to stay in school and complete primary and secondary education; it: i) provides incentives to households to offset the cost of keeping girls in schools; ii) provides cash grants to schools to improve the learning environment; iii) mobilises parents and communities to retain girls in school until end of their secondary education; and iv) delivers behaviour change communication in collaboration with government, non-state and private sector actors (DFID 2012).

- **The Budget Strengthening Initiative, Sudan (funded by DFID South Sudan)** – this programme is hosted by the Overseas Development Institute (ODI), and acts as a semi-autonomous provider of advice to Governments in fragile states⁴; in South Sudan it has been supporting the Ministry of Finance since 2010; its main focus has been on i) supporting public finance management reform; ii) support to the planning and budgeting process, and deepening sector-based policy planning and budgeting cycle; and iii) efforts to improve aid coordination, and develop aid modalities which use government systems in support of infrastructure and service delivery (Agulhas 2013).

These programmes have collaborated closely in supporting the Government of South Sudan to develop its policies, systems and processes for providing support to sub-national structures for delivering services.

3. What were the drivers of these programmes and efforts to coordinate them?

The dominant mode of donor funding for service delivery in South Sudan at independence used systems parallel to the Government's (e.g. through UN agencies and NGOs), as incipient Government structures were deemed too weak and too corrupt to be trusted to handle donor funding. As a result donors were doing little to strengthen Government systems for delivering and coordinating services, creating challenges for promoting the sustainability and cost effectiveness of service delivery.

In an effort to address some of these challenges, following independence the Government began expressing its desire (including through early drafts of its aid policy) for

donors to provide their assistance for service delivery through direct support to its budget. This policy was reportedly driven in part by expectations for a new approach to aid emerging from the New Deal and South Sudan's selection as a pilot country for this process.

However, there was a disconnect between Government and donor views on aid modalities and the Government's requests for budget support were met with resistance from donors. In response to this impasse the BSI programme began supporting government to develop an innovative aid instrument that could meet the Government's objective of aid using government systems, and could also address the concerns of donors about the weakness of those systems. The result was the proposal to introduce a "Local Services Support Aid Instrument (LSSAI)", which would have windows to support sector-specific expenditures, and would include safeguards to ensure funds were correctly spent. The LSSAI was subsequently incorporated into the Government's aid strategy as the preferred way for donors to start using government systems.

The LSSAI was initially conceived as covering primary education and healthcare, with a window for community-driven infrastructure and development. This additional window was included in an effort to encourage the World Bank to deliver a community-driven development project it was developing (the Local Governance and Service Delivery project/LGSDP) through local Government rather than outside of local Government directly to communities. This led to the World Bank incorporating the LSSAI into in the concept note for the LGDSP, and subsequently using this project to initiate a new development transfer - the Payam Development Grant - to be implemented by Counties (rural local governments). Initiation of the LSSAI, and to some degree the LGSDP, was disrupted by the suspension of oil production in January 2012 (see the introduction). A number of donors expressed their opposition to this suspension and resulting concerns about the sustainability of the Government's finances by taking a step back from pursuing efforts to directly finance Government service delivery. However, with the prospect of donors financing Government service delivery programmes worsening the government's focus turned towards addressing the challenges of strengthening its own systems. This led to intensive efforts to develop a range of policy, planning and

4 Booth (2013) categorises BSI as an "arms-length" provider of advice to Governments, in that it is donor-funded but operates with some degree of autonomy from the donor; such an approach allows a more demand-led and flexible engagement to emerge, that has the potential to better address challenging institutional issues

Key aspects of service delivery systems supported by donor programmes

- Fiduciary Risk Management Strategy – This was developed during 2011, and identified the main weaknesses of Public Financial Management (PFM) systems, made proposals for the development of a county PFM system and transfer system and highlighted the demand-side interventions that were needed to strengthen PFM systems
- Local Government PFM Manual – This was developed with support from the multi-donor Capacity Building Trust Fund, and was signed off by the World Bank so that it could be used for the LGDSP project
- Financing framework for local service delivery – This aimed to identify how funds could flow to local governments for to finance their basic service delivery responsibilities
- Service delivery frameworks (SDFs) – These aimed to support sectors to plan and strategise for improving service delivery; for each sector they identified service delivery roles and responsibilities for the various levels of government, systems and capacities needed to fulfil these responsibilities, and the blockages to improved service delivery and how these could be addressed
- Joint Plan of Action – This aimed to identify and support the development of strategies to address the common blockages to improved service delivery identified by the SDFs

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delivery systems (the most significant of which are detailed in the box below), with the BSI programme playing an important facilitation and technical role in their development.

The effort to develop stronger systems allowed for tangible progress on these projects to be made in the second half of 2013 as the relationship with donors improved following productive negotiations with Sudan and resumption of oil exports in early 2013.

Another donor project that was incorporated into this expanding framework of interventions supporting the Government's service delivery systems was DFID's Girls' Education in South Sudan (GESS) project, which began in early 2013. Due to fiduciary concerns GESS does not use Government systems to transfer capitation grants to schools. However, BSI and the project's lead agency on technical systems, Charlie Goldsmith Associates (CGA), worked together to ensure that the capitation grants GESS provided to schools complemented those from Government⁵ and that a common reporting systems for schools was applied to both Government and GESS grants. This "shadow alignment" approach ensured that CGA technical assistance to support school reporting for the GESS programme also helps to strengthen the Government's school reporting system. It also means that when the Government takes over full funding of the system the transition process should be relatively simple as schools will already be used to the systems for managing and reporting on grant funds.⁶

At the same time that donor projects were being designed, government was increasing investment of its own funds in local service delivery. The 2013/14 budget included allocations for service delivery transfers, including the funding of primary school capitation grants. With support from external advisors, the Government was also addressing vital human resource issues and work had started on developing social accountability mechanisms. However, the outbreak of civil conflict in December 2013 led to a further disruption to government efforts to initiate donor financing for Government service delivery.

Despite these disruptions and the ongoing fighting the Government used the new systems for transfers (County block transfer, County education, health and water operating transfers and capitation grants for primary schools) to states unaffected by the fighting from March 2014. In addition, the LGDSP began its transfers to Payams and technical assistance from BSI and the World Bank (as well as the EU) got back underway in March 2014.

5 It was agreed that the government would fund capitation grants for primary schools and GESS would fund capitation grants for secondary schools

6 Schools manage the funds themselves. This is in contrast to donor support in the health sector, where typically NGOs provide in-kind support to government health facilities (pay for staff, goods or services) and so the government facility plays no role in managing the funds.

4. How these programmes addressed the New Deal principles

These programmes supporting the Government of South Sudan's service delivery efforts have addressed a range of the New Deal principles, especially the TRUST principles. The links between these programmes and the New Deal are illustrated below:

Use and strengthen country systems – These programmes have placed a significant emphasis on strengthening the Government's service delivery systems, thereby helping to encourage donors to begin to use these systems. Important progress has been made in building PFM systems at both central and local government level; in developing systems for planning service delivery, and addressing delivery constraints; and in addressing human resource and general policy systems. As systems have begun to develop, donors have begun to take steps towards using these systems, e.g. through support to local government institutions (LGSDP) and shadow alignment (GESS).

Strengthen capacities – As a part of their effort to strengthen government systems, these programmes have placed an emphasis on building human capacity to address service delivery challenges. The LGSDP project has provided technical assistance in planning, budgeting, accounting and investment management to the first eight counties to be selected for the project. The GESS project has been providing technical assistance to schools to support their efforts to report on project expenditures and outcomes, as well as reporting for government programmes. In addition, the Local Government PFM Manual, developed through the Capacity Building Trust Fund (not a focus of this case study) with support from the BSI programme, has been used to train local government staff in all ten state capitals.

Risk-sharing – Whilst these programmes have not led to donors notably increasing their tolerance of risk in terms of the types of aid modalities they are prepared to use (e.g. no donor has yet provided budget support) they have helped to make questions about risks more explicit and visible, as well to promote a concrete dialogue on addressing them. For example, discussions on the LSSAI provided a platform to discuss donor concerns related to fiduciary risks and identify benchmarks for donor use of systems. This dialogue in

turn stimulated the development of the Fiduciary Risk Management Strategy.

5. Impacts and challenges

This section provides some insights into the impacts of the programmes supporting Government service delivery addressed in this case study, as well as the challenges which have been involved in implementing them.

One of the most important impacts of these programmes has been the emergence of a more coherent Government agenda for supporting service delivery. Initially buy-in to the reforms and actions required to improve service delivery existed largely within a small cohort of officials and administrative units. However, the significant and sustained investments made through these programmes in promoting inter-Ministerial cooperation and the building of capacity during the period 2012-13 helped to deepen and broaden Government commitment to strengthening service delivery. This commitment is exemplified by the Government's allocation of \$100m in funding for local Government service delivery in 2013/14 and disbursement of these funds in early 2014 despite the outbreak of conflict.

These programmes have also helped to promote a more constructive dialogue between Government and donors on aid modalities, through their efforts to make the key challenges more explicit, promote dialogue on addressing these challenges and identify intermediate steps for donors to take towards use of government systems. For example, the GESS project's adoption of the Government's reporting procedures for secondary schools will help to facilitate any future transition towards use of government systems for the delivery of donor financing of the sector. The progress that has been made in taking aid approaches forward is also illustrated by a quote from a recent evaluation of the BSI programme, which stated that in South Sudan the programme had "helped to break the cycle of donors funding services through parallel mechanisms such as NGOs..." and made "...a highly strategic contribution to state-building" (Agulhas 2015, pii).

Much of the funding mobilised for local service delivery has focussed on the education sector. This support

has helped to facilitate a significant increase in the number of children enrolled in school. According to a recent press release from the Government and the GESS project, as of July 2015 the number of children enrolled in primary and secondary school had reached 1 million, and is projected to reach 1.2 million by the end of 2015 (GESS 2015).

However, one of the biggest challenges for expanding service delivery is reaching the estimated 2.25 million people who have been displaced by the fighting that has taken place since late 2012 (UNHCR 2015). These figures include 800,000 children, half of which have been forced out of school (STC 2015). There is continued instability in South Sudan, as fighting has continued to flare-up despite the signing of a peace agreement in August 2015. The countries' economy has also deteriorated, partly due to the instability, but also the collapse in oil prices and increasing inflation. If these conditions worsen then the achievements made in strengthening service delivery systems and expanding services will be threatened.

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6. Lessons learnt

This section highlights some of the key lessons that have emerged out of this set of programmes and their efforts to strengthen the government's delivery of services.

Progress can be made on state-building even in fragile contexts – This case illustrates that it is possible for external assistance to help facilitate progress in areas as challenging as institutional reform and systems strengthening even in a fragile context. Achieving these outcomes in such contexts requires bottom-up, context-driven and flexible interventions, as highlighted below.

Working in a bottom up, context-driven and flexible way is vital to success

– These programmes have helped to deepen local commitment and capabilities for strengthening service delivery by identifying and building on existing political support and capacity and pursuing strategic opportunities for expanding them. In a fragile and rapidly changing context such as South Sudan, it has also been important for donors to take a flexible approach to programme delivery, so that adjustments can be made in response to contextual challenges and strategic opportunities as they emerge.

The value of an explicit dialogue on donor concerns

– The progress that has been made in moving towards aid modalities which more effectively supports Government leadership and oversight of service delivery has been helped by donors making their concerns about Government systems explicit. This in turn has helped to focus technical assistance and inter-Ministerial cooperation on addressing the most pressing issues blocking progress on the strengthening of systems and their progressive use by donors.

The contribution that an arms-length provider of advice and technical assistance can make to improving Government-donor and cross Government cooperation

– One of the most critical roles that the BSI programme has played has been its efforts to support more constructive and productive dialogue between the Government and donors, as well as across Government ministries. BSI has been supported in playing this role by its arms-length relationship with its donors, allowing it to operate in a neutral and independent way to address challenging issues.

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g7plus

Address: Kobe House 2nd Floor, Ministry of Finance,
Avenida Presidente Nicolau Lobato, Dili, Timor - Leste

Telephone: (+670) 331 0126

E-mail: g7plus.secretariat@gmail.com

Facebook: www.facebook.com/g7plus

Twitter: [@g7plus](https://twitter.com/g7plus)

Website: www.g7plus.org