Donor Approaches to Risk
in Fragile and Conflict Affected States

Case Study
Republic of South Sudan

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Revised draft, 7 August 2013

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Introduction

This is a draft case study on the Republic of South Sudan that will feed into an OECD/INCAF report on Donor Approaches to Risk in Fragile and Conflict Affected States. The study aims to provide country level evidence on the approaches used by donors in risk assessment and management. The study is based on interviews carried out in Juba during the week of 15 April 2013 and subsequent discussions by email and telephone. The interviews were mainly directed at multilateral and bilateral donor agencies, but also included discussions with NGOs.

This case study is divided into two parts. The first part discusses broad donor responses to risk in South Sudan. This includes a profile of main types of risk confronting donors in South Sudan, analysis of how donors have responded to these risks in their programming, and explanations of their responses to risk. The second part discusses practical approaches to risk management observed in South Sudan. Five approaches are highlighted in this case study including: (1) improved analysis and response to contextual risks, (2) finding synergies between development, humanitarian and peacekeeping work, (3) managing risks associated with working through country systems, (4) improving donor coordination through the use of pooled funds, and (5) managing relationships with implementing partners.

Part 1 – Donor Responses to risk

1.1 Risk profile

South Sudan presents an almost unique statebuilding and peacebuilding challenge. Emerging from over four decades of conflict (two periods of prolonged and devastating civil war from 1955 to 1972 and from 1982 to 2005), the newly independent state is struggling to establish authority and provide security. Large parts of the country are affected by localised insecurity associated with interethnic violence and cattle raiding, and there is an active rebellion underway in Jonglei state. In the absence of infrastructure, 60% of the country is inaccessible by road during the rainy season (up to 8 months of the year). Government provides very limited services, and most health and education services are provided by international NGOs. An additional challenge is the acute humanitarian and refugee crisis driven by internal conflict, insecurity in the border zone between the two Sudans, and spillovers from conflict in the Republic of Sudan.

The brief period of optimism following independence in July 2011 has rapidly given way realism about the daunting challenges facing South Sudan. Unresolved border disputes with the Republic of Sudan led to serious clashes in 2012. The Addis Ababa peace agreement in September 2012 has brought an end to cross border fighting, but tensions remain, particular in relation to oil rich parts of the border region in Abyei and Heglig (Panthou). Disputes over transit fees for the use of oil pipelines through the Republic of Sudan led South Sudan to shut down oil production in 2012 for 15 months. Since 98% of government revenues arise from oil sales, the oil shutdown has had a serious fiscal and socioeconomic impact. Oil production was restarted in April 2013, but it will take several months for revenues to come back on stream. Khartoum is threatening to close the pipelines again by 21 August 2013 following allegations that South Sudan has been supporting rebels groups in the Republic of Sudan. South Sudan has shown remarkable resilience in managing severe fiscal austerity brought by the oil shutdown. However, tensions in South Sudanese society and polity are clearly evident, reflecting ethnic divisions and the continued influence of civil war factions. Political instability has increased markedly over the past few months with President Kiir dismissing his entire Cabinet on 24 July 2013.

Using the categories of the Copenhagen Circles, the following table identifies and comments on the key risks faced by donors operating in South Sudan. The assessment has been informed by the authors interviews and the fragility assessment completed by the Government of South Sudan in December 2012.[1]

Contextual risks	
Political risks	There are clear political tensions within South Sudan leadership reflecting ethnic divisions and varied experiences of conflict. Current tensions between the President and Vice-President may exacerbate fault lines between their respective ethnic groups (Dinka and Nuer). Tensions are likely to increase in the run up to the 2015 elections and the SPLM party convention in 2013. There are marked differences in outlook within government between former combatants, non-combatants and returnees. Divisions between former rebel groups add to this complexity and sense of unfinished reconciliation.

[1] Republic of South Sudan (2012) Draft Fragility Assessment

	Divisions within government lead to policy unpredictability and rapidly changing messages.
Conflict risks	Serious border clashes occurred in 2012 with the capture of Heglig (Panthou) by southern forces in April, and retaliatory northern bombing raids on border areas of South Sudan. Relations have normalised since the Addis Ababa peace agreement in September 2012, but the northern approach to South Sudan remains unpredictable, and can suddenly change. Current peacebuilding between north and south has been overshadowed by evidence that the Republic of Sudan has been supplying weapons to the David Yau Yau insurgency in Jonglei State, South Sudan. The Republic of Sudan has also recently accused South Sudan of supporting rebellion in South Kordofan. There are several local conflict hotspots within South Sudan. Jonglei State is affected by interethnic conflict (Lou Nuer, Bor Dinka and Murle) and an anti-government insurgency (Yau Yau). Violent clashes occur commonly in Lakes, Warrap and Unity states in connection with cattle raiding. Border areas with Sudan have also been destabilised by refugee movements, spillovers from conflict in South Kordofan and displacement caused by military movements in the area. Conflict incidents in 2012 were fewer than 2011, but the situation is volatile and can rapidly deteriorate. The widespread availability of small arms has made local conflicts increasingly lethal. A recent International Alert conflict assessment for South Sudan notes the following conflict drivers: “excessively dominant position of the ruling party, ingrained cultures of violence, a weak sense of shared nationhood (except in opposition to Sudan), low institutional cohesion and accountability, lack of incentives to demobilise and reintegrate former combatants into society or for civilians to disarm, lack of access to justice, paucity of connecting infrastructure, lack of realistic livelihood alternatives to pastoralism for rural populations, lack of even basic education or literacy, and a growing economic gap between those in and around power, and the rest.”[2]
Risk of failed development	South Sudan is in a position of economic vulnerability as a result of its dependency on oil for 98% of government revenues, and reliance on export pipelines passing through the Republic of Sudan. Tensions between South Sudan and the Republic of Sudan in 2012 led to South Sudan shutting off oil production for 15 months with considerable fiscal and economic costs. Options to promote economic diversification away from oil are constrained by inaccessibility and poor security affecting much of South Sudan.
Risk of humanitarian crisis	There are currently more than 220,000 refugees mainly from the Republic of Sudan (especially the South Kordofan conflict) located in refugee camps in Upper Nile and Unity State (Yida camp).[3] Since October 2010 more than 500,000 returnees have reentered South Sudan requiring a complex humanitarian and development response.
Programmatic risks	
Risk of programmes not achieving	Humanitarian programmes implemented by international NGOs and UN agencies often underachieve their objectives as a result of insecurity, cost overruns, weather related inaccessibility, unexpected administrative constraints and difficulty securing commitments from local partners. Programmes working with government counterparts face higher

[2] International Alert (2012) *Peace and Conflict Assessment of South Sudan*

[3] http://data.unhcr.org/SouthSudan/country.php?id=251

objectives	programmatic risks arising from weak capacity and management systems and uncertain government commitment.
Risk of doing harm	There is a substantial risk that development programmes working selectively with particular target groups can exacerbate local tensions and inequalities, for example where they affect competition for land and resources or alter the terms of trade between pastoralist and agriculturalist groups.
Institutional risks	
Security risks	Security problems currently exist in Jonglei, Upper Nile, Lakes, Unity, Warrap and Eastern Equatoria, as well as border areas with the Republic of Sudan. NGOs are usually able to continue operations in spite of security risks, which often relate to localised incidents of cattle raiding and intercommunal violence. The exception is Jonglei where a major rebellion is underway and few NGOs are currently willing to operate. Donor agency staff have reasonable access to most parts of the country, but face restrictions in the most insecure zones (border areas and Jonglei).
Fiduciary risks	Donors have limited fiduciary risks by choosing to channel their aid mostly through international NGOs and UN agencies. Greater use of country systems is likely in future, and donors will need to manage the consequent fiduciary risks, which are judged to be substantial in the absence of well established PFM and procurement systems, and widespread corruption.
Reputational risks	Reputational risks are currently limited because most donor aid is channelled through international NGOs or UN agencies. However, cases of donor mismanagement (notably the Multi Donor Trust Fund – see section 2.4) have caused some reputational damage. A shift towards greater use of country systems will generate reputational risks.

1.2 Observations on how donors act on risk

The large majority of aid to South Sudan has so far been directed at humanitarian relief and direct provision of social services. Aid is largely channeled through international NGOs and specialised UN agencies. OECD DAC statistics for 2010-2011 indicate that 86% of bilateral aid was allocated to humanitarian aid, health, education and other social sectors.[4] Very little of this assistance has been delivered through government and using country systems.

Donors have been able to limit their fiduciary risks by working mainly with partners with a track record in managing aid projects (INGOs and UN agencies), by requiring tight accounting and audit controls and by closely managing contractual relationships. However, programmatic risks are moderately high because of the challenging environment for aid delivery. Programmes frequently experience cost overruns and underachieve against their targets as a result of insecurity, weather related inaccessibility, unexpected administrative constraints, and difficulty securing commitments from local implementing partners. Support to national NGOs has so far been limited because of greater fiduciary and reputational risks, but several donors have been stepping up their support to national organisations (e.g. the French Embassy and the European Union Delegation).

[4] OECD DAC aid statistics. http://www.oecd.org/dac/stats/SSD.gif. Paris Declaration indicators are not available for South Sudan, but it can safely be assumed that use of government PFM and procurement systems is minimal (close to zero).

Recognising the need to address contextual risks, donors have also invested heavily in peacebuilding initiatives, including Disarmament Demobilisation and Reintegration (DDR), police training, conflict prevention and early warning, support to local conflict resolution mechanisms, promoting alternative livelihoods, improving access to conflict prone areas and state presence and strengthening cross-border economic relationships. This represents a sizeable effort to address conflict risks. However, there are a number of weaknesses evident in donors' approach to peacebuilding. Several interviewees noted that donor investment has tended to neglect the most conflict prone areas, and has instead focussed on the more stable Equatoria states. There has been a particular reticence by donors to fund transport infrastructure, which will be essential to improving access, creating economic opportunities and extending state authority to insecure areas.[5] International Alert recommends that donors need to do more to mainstream conflict sensitive programming, and highlights the significant risk that aid can do harm by accentuating local inequalities and grievances.[6]

Although donors have tended to work through non-governmental channels, recognition of the enormous statebuilding challenge is encouraging increasing engagement with the Government of South Sudan. So far donor support to government has mainly focussed on technical assistance and capacity building. This has been provided on a large scale through programmes that embed expert advisors in ministries and provide training and mentoring. For example, the IGAD Capacity Development/Twinning project has currently placed 199 civil servants from Ethiopia, Uganda and Kenya within central government ministries. UNDP also follows the practice of embedding all its staff within government structures. The effectiveness of capacity building programmes is not yet proven, and could easily be undermined by the sizeable programmatic risks of providing technical assistance in the present context of poorly functioning government institutions. However, donors view this support as being an essential contribution to statebuilding goals and part of their risk management strategy. Embedded TA helps to improve information flows between donors and government and build mutual confidence creating conditions for the increased use of country systems in future. So far the fiduciary risks of technical assistance have been quite limited because donors have managed these programmes using their own agents and procedures.

There are strong indications of donor commitment to step up their support to government. Present discussions around the New Deal and transition compact envisage much greater use of country systems including the payment of salaries through the government payroll and donor transfers to sub-national government (see box 1). Donors would also commit to more predictable aid using pooled funding mechanisms in exchange for progress on reform and strengthening of public financial management, which would make country systems more reliable. The New Deal represents an ambitious plan, which exposes donors to significant programmatic and institutional risks. Government commitment to the New Deal may not be sustained as oil revenues come back on stream or other sources of finance become available.[7]

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[5] Economic infrastructure accounted for only 7% of bilateral aid during 2010-11. OECD DAC aid statistics *op cit.*

[6] International Alert (2012) *Peace and Conflict Assessment of South Sudan*

[7] Currently planned Chinese projects are reported to be greater than the c. $250m committed by donors at the Washington conference

1.3 Explanations of donor response to risk

The present pattern of aid delivery largely avoids working with government and country systems. This reflects the reality of the extreme weakness of government capacity and the need to respond to the urgency of humanitarian needs. Donors have also been justifiably wary of the very high programmatic, fiduciary and reputational risks of working with government. National systems to manage aid funds are non-existent or too weak to provide donors with necessary confidence. For example, South Sudan does not yet have a procurement law. Donors are also concerned about reports of human rights abuses and widespread corruption. In this context the avoidance of government can therefore be viewed as reasonable approach to risk management rather than an indication of excessive risk aversion.

The proposals being discussed for the New Deal and transition compact represent a significant shift in donor engagement in South Sudan, and will require considerable tolerance of risk. This reflects donors' recognition that more concerted support for statebuilding and peacebuilding will be essential for South Sudan's development and to counter contextual risks. It is also a reflection of historical and geopolitical factors that have led donors to adopt a generally supportive stance towards South Sudan in contrast to much cooler relations with the Republic of Sudan. Western countries have been supportive of the peace process and South Sudan's right to self determination. This gives donors a certain staying power and risk tolerance. However, their resilience was tested during the 2012 oil shutdown and border clashes, which donors viewed as indicative of poor judgment and communication on the part of the Government of South Sudan. However, the relationship remains generally strong, and following the Addis Ababa peace settlement and the restarting of oil production, donors are showing renewed willingness to engage around a government-led development agenda.

Donors' interest in the New Deal reflects their sense that they are now enjoying a narrow window of opportunity to use their influence constructively. If oil revenues restart donor influence is likely to diminish over time, and additional sources of finance (particularly from China) are becoming more available. Donors also recognise that in the short- to medium-term there are considerable risks of inaction. Before oil revenues come back on stream finance is urgently needed to pay salaries of government workers and the security services. In the absence of this support there is a danger that government bodies will lose their workforce and capacity, setting back progress in institution building and basic service delivery.

There are clear variations between donors in their tolerance of risk. Bilateral donors tend to be more conscious of reputational and fiduciary risk, particularly those that are exposed to greater public and parliamentary scrutiny of the use of aid funds. In contrast, multilateral donors are mainly answerable to governments, and have generally been more willing to engage with the government of South Sudan at a level that would be seen as too risky for bilaterals. UNDP for example has been at forefront of delivering assistance to government and experimenting with the use of national systems (see section 2.3). Bilateral donors have recognised UNDP's ability to take on these risks and have channeled around $120 million per year through UNDP (a high level for a country of this size). Bilateral donors have also been showing increasing willingness to take on the risks of supporting the government. The New Deal process has been assisted by the existence of a like minded group of donors, and the supportive position of bilaterals.

Part 2 – Practical approaches to risk management

Contextual risks

2.1 Improved analysis and response to contextual risks

The past year has demonstrated the unpredictability of the political and economic environment in South Sudan. The oil shutdown has had a severe fiscal impact that has been transmitted through the economy through austerity, cuts to civil service salaries and delayed public investment. These events provide an interesting test case of donors' ability to manage contextual risks. There are several features of donors' response that indicate relatively effective risk assessment, management and response.

- Donors have been responsive in analyzing the consequences of the oil shutdown and potential scenarios. DFID held a joint scenario planning workshop (with UNDP, the World Bank and the United Nations Mission in the Republic of South Sudan). DFID's analysis also identified trigger points that would lead to a particular response in order to ensure it could adjust its approach proactively rather than simply try to catch up with events. The scenario analysis has since been extended in longer term thinking about how donors can support resilience in the face of future crises. The EU and its Member States have also held meetings to define a coordinated response to possible scenarios.

- Donors have generally maintained a firm political message that they would not provide the Government of South Sudan with bailouts during the shutdown. This was probably an appropriate stance given the danger of moral hazard and the need to encourage rapid resolution of the crisis between the two Sudans.

- Donors have shown flexibility in reorienting their programmes in the face of changed needs and priorities. However, the length of the programming cycle has meant that such changes have not been radical and have occurred at the margins where donors can chose to terminate programmes early (or not to extend them) or to bring forward the preparation of new programmes. DFID reports that it has shifted resources into humanitarian aid as a result of the refugee crisis, and has brought forward service delivery initiatives, such as the Health Pooled Fund. The UK and Norway have established an Emergency Medicines Fund to keep drugs supply systems functioning during fiscal austerity and following the closure of the Multi Donor Trust Fund which had previously financed medicines.

- The European Union has demonstrated flexibility through the rapid programming of the EU Instrument for Stability, which focuses on cross border reconciliation, the prevention and resolution of conflicts linked to cattle migration, and human rights training for the armed forces.

- Donors recognise that the squeeze on public sector wages represents a threat to stability, statebuilding and basic service delivery. As a means to preserve human resources and institutional capacity, donors have become interested in funding public sector salaries, particularly in the social sectors. The EU is preparing a Statebuilding Contract to be finalised before the end of 2013 that will fund the salaries of health and education workers. Other donors are likely to finance salary costs through the proposed Partnership Fund (see section 2.3).

- Adjustments have also been made within particular programmes to mitigate the effects of fiscal austerity. For example, the Capacity Building Trust Fund (see section 2.4) has made resources available to cover government's operating expenses, which are necessary for programme activities to go ahead, but are liable to being cut under conditions of austerity. Approaches to capacity building have also been adapted to cope with increased government staff turnover in the constrained fiscal environment. For example, the IGAD twinning programme has switched from individual mentoring to group mentoring.

- The oil shutdown has also revealed opportunities for donors to step up their engagement. The resilience shown by South Sudanese institutions in the face of severe austerity has provided donors with greater confidence that it is worthwhile investing in institutional strengthening, and that gains are likely to prove durable. In addition, constrained resources have led to renewed interest by government in reforms to improve public sector efficiency, develop non-oil revenues, diversify the economy and strengthen links with the East African Community. These reform dynamics provide new opportunities for donors to engage.

2.2 Finding synergies between development, humanitarian and peacekeeping work

The United Nations Mission in the Republic of South Sudan (UNMISS) provides around 7,000 peacekeepers at an annual budget of $839 million. Spread over the whole country, this represents a relatively modest level of engagement, and enables UNMISS to provide only limited security and protection of civilians. For example, in the highly troubled Pibor County in Jonglei State there are only 168 peacekeepers, who struggle to respond to the severe threat of interethnic violence. There are limitations to UNMISS' mandate, which prevent it from taking on an offensive role against belligerents.

The UN mission is an integrated mission where UN peacekeeping is coordinated with other development and humanitarian actors. In practice, there are many examples of successful coordination at national level. UNMISS provides weekly security briefings to donors and NGOs, organises armed escorts and vehicle convoys to enable access by aid workers to insecure zones, and can arrange medical evacuation. UNMISS is also establishing County Support Bases that will provide a central and secure location at county level for peacekeeping and aid operations.

Donor and NGO staff interviewed for this study recognised the value of the UN mission, but pointed to some important shortcomings in coordination. This was said to be a particular problem at state level where the quality and UNMISS state coordinators is highly variable. Donors expressed disappointment with the slow roll out of Country Support Bases - so far only 19 out of 35 planned bases have been established. Several examples were cited indicating that UNMISS has been of limited relevance for ensuring access by aid workers to insecure zones.[8] There have been some disturbing cases of NGOs being denied access to UNMISS safe havens even under conditions of imminent threat. Some interviewees also expressed doubts about the usefulness of security information provided by UNMISS. For reasons of political sensitivity UNMISS only officially shares a summary version of its security ratings and incident data with donors, and NGOs receive

[8] Norwegian Cooperation commented that it has not been able to access sites in Upper Nile State where it is implementing a highly strategic oil metering project. It has not been able to use UNMISS services to secure access to these sites. NGOs operating in Yida refugee camp noted that UNMISS only provides security for UNHCR staff. NGOs feel highly exposed to insecurity in the camp, but commented that the limited number of UNMISS peacekeepers did not make them feel safer.

a filtered version of this. Informally, however, greater exchange of information occurs through personal connections.

To a large extent these criticisms reflect UNMISS' stretched capacity and logistical constraints. However, many interviewees were generally critical of UNMISS' performance and highlighted several factors that have undermined the effectiveness of the mission: (1) the practice of spreading peacekeepers across all states instead of focussing on conflict hotspots, (2) the difficulty of coordinating peacekeeping brigades provided by different countries and operating to different rules, and (3) the failure to respond robustly to incidents where government actions have compromised its mission.[9] UNMISS has its own security rules which limit its engagement in the most insecure parts of the country (e.g. Jonglei and Western Bahr el Ghazal).

In a positive sense these shortcomings indicate that there is considerable potential to strengthen coordination between peacekeeping and development/humanitarian work with important benefits for risk management. More effective peacekeeping would make a substantial contribution to the safety and impact of aid work, and would help to reduce conflict and security risks. There are also several areas of potential synergy where UNMISS' security expertise could be usefully combined with development practice. This relates in particular to the management of security sector reform (SSR) and Demobilisation, Disarmament and Reintegration (DDR) programmes that have been led by UNMISS, but could benefit from the application of developmental approaches to managing reform, providing social protection and promoting alternative livelihoods. Recognising these opportunities, Denmark is funding a position in the office of the UN Deputy Special Representative of the Secretary General to work on harmonising the military, political, humanitarian and political agenda. Two issues calling for a joint development and security sector response include pensions for former combatants and supporting demilitarisation more broadly through integrated justice and security sector support.

Programmatic and institutional risks

2.3 Managing risks associated with working through country systems

Discussions around the New Deal and a transition compact have gained considerable momentum in South Sudan, and signal the intention by donors to work more through government systems in future. The structure of transition compact is still under discussion. However, there appears to be consensus emerging from the April 2013 Washington meetings around the sequencing of three main instruments: (1) an IMF Staff Monitored Programme, (2) an EU Statebuilding Contract, and (3) a Partnership Fund. The Partnership Fund would be the main multi-donor instrument in support of the New Deal. It is likely to consist of three windows: (1) payment of salaries for health and education, (2) capacity building initiatives and (3) focussed investment in government priorities. It may also channel to funds to sub-national governments through the Local Social Services Aid Instrument (see box 1 below).

The New Deal provides a framework for donors to disburse funds through more predictable and coordinated arrangements in support of national priorities identified in the South Sudan

[9] Reported mission breaches on the part of government include the expulsion of an UNMISS human rights advisor, the shooting down of an UNMISS helicopter in unclear circumstances in December 2012, and the transportation of armed security personnel on humanitarian flights (UNHAS rather than UNMISS).

Development Plan. Donors would commit to increase progressively the use of national systems. Both the EU Statebuilding Contract and the Partnership Fund envisage that donors would finance the salaries of health and education worker using government's own payroll systems. In exchange the government would commit to key reforms. Under the IMF programme this would focus on a limited set of measures relating to exchange rate management and the Petroleum Management Bill. The intention is start with a modest and realistic set of reforms that will build confidence in the mutual accountability framework. Over time reforms can be progressively expanded in scope.

Donors recognise that the New Deal will create considerable programmatic and fiduciary risks. ThIS will require attention to putting in place mechanisms to monitor, manage and mitigate risks. Present discussions on the design on New Deal arrangements have emphasised the value of the following mechanisms:

- A mutual accountability framework based on a jointly agreed set of indicators and targets. In designing this framework it will be important to avoid overloading it with an excessive number of indicators and reform measures, and to ensure that it is based on mutual commitments rather than one-sided, donor-imposed conditionality.

- Selective use of government systems where donors have greater confidence. Initially this applies to using government payroll systems, which had previously been strengthened using support from the Capacity Building Trust Fund.

- Targeted capacity building assistance to create conditions for donors to make greater use of national systems in future. This could include, for example, donor support to developing procurement legislation and administrative structures. These measures could then enable donors to make use of national procurement systems in their programming.

Other initiatives enabling greater use of country systems. In addition to the discussions around the New Deal there are currently a number of initiatives underway to enable greater use of country systems. UNDP is experimenting with the use of *Letters of Agreement* that are a hybrid of its direct implementation and national implementation modalities. Under this arrangement, recipients of UNDP funds are first subject to a financial management capacity assessment. They then receive a letter of agreement that specifies how the funds should be spent. Expenditure is later audited through UNDP systems. Ministries that have successfully managed a series of Letters of Agreement can then be entrusted with greater responsibilities. UNDP expects that the use of letters of agreement will be a transitional stage enabling a move towards national implementation modalities over a five year horizon.

Donors are also preparing a framework to support local service delivery by providing grants and conditional transfers to state government and counties (see box 1 below).

Box 1 – The Local Social Services Aid Initiative (LSSAI)

The Local Social Services Aid Initiative is a framework to enable donors to finance the delivery of basic services and infrastructure at state and county level. It provides a means for donors to use national PFM systems to channel funds. The initiative aims to strengthen government-led service provision, reduce reliance on parallel systems established by non-state actors, and provide a harmonized approach to service delivery and financing that can be supported by multiple donors. Currently funding has been committed by the World Bank, Denmark, Sweden, Norway and The

Netherlands. The funds are expected to start flowing in FY 2013/14.

Several mechanisms for the financing of local services are envisaged under the LSSAI. These include salary transfers, operating transfers and capitation grants. The weakness of capacity and PFM systems at national and local government level creates substantial fiduciary and programmatic risks for donors. In order to manage these risks the design of the LSSAI emphases the following elements:

- Support for strengthening government systems for the allocation, flow, management and accountability of resources from government and donors. This includes the development of a local government public finance management manual that elaborates procedures for planning, budgeting, procurement, accounting and reporting.
- Additional safeguards for donors. Possible measures under discussion include measures to enable the separate tracking of donor contributions and government funds, joint fund management by government and donors at national and state levels, use of separate bank accounts, joint signatory arrangements, the appointment of State and County Transfers Monitoring Committees to verify transfers, annual performance audits and mechanisms for social accountability.
- The development of Service Delivery Frameworks (SDFs) that will identify and analyse problems hampering service delivery and recommend remedial actions.

2.4 Improving donor coordination through the use of pooled funds

Pooled funding arrangements have been used relatively extensively in South Sudan and are viewed by donors as an important risk management tool. Initially, in the post conflict period pooled funds provided a convenient funding arrangement for bilateral donors, who had yet not established their presence in country. This led to the establishment of the Joint Donor Team, which manages the Capacity Building Trust Fund (CBTF, see box 2 below). A large Multi Donor Trust Fund was established under World Bank management, and operated between 2005 and 2012. Other pooled funds include the South Sudan Recovery Fund that has been financing infrastructure development since 2008, the Common Humanitarian Fund and the Basic Services Fund (2005-2012).

As donors have scaled up their support to South Sudan and established presence in country, there has been a trend towards more individual donor projects and greater aid fragmentation. A recent aid inventory counted 419 planned projects for 2012/13 compared to 331 in 2011. Furthermore, the average project size has fallen from USD 2.8m in 2011 to USD 2.2m in 2012/13.[10] Pooled funding and multilateral funding has become relatively less important, especially with the closure of the Multi Donor Trust Fund. However, this trend is likely to be temporary as donors are conscious of the risks of aid fragmentation, and are in the process of establishing new pooled fund arrangements, for example the Health Pooled Fund and the Partnership Fund planned under the New Deal.

[10] Republic of South Sudan (2013) Donor Book, Ministry of Finance and Economic Planning. www.goss.org

There is mixed experience in South Sudan on the performance of pooled funds and consequences for risk management. The Multi Donor Trust Fund in South Sudan has been widely criticised for unsuitable management procedures that led to considerable implementation delays, slow disbursement, loss of focus on strategic priorities and damage to donor reputation.[11] The delays were partly explained by strict fiduciary and audit rules required by donors, and overly complicated governance structures. A critical problem appears to have been the understaffing of the World Bank administered technical secretariat. In addition, government was required to manage procurement using World Bank procedures, which proved to be unrealistic given its lack of capacity and experience. The case of the Multi Donor Trust Fund provides a warning that poorly designed pooled funds can increase risks to donors, and that there are risks of transferring aid management responsibilities to national partners too quickly.

Other pooled funds in South Sudan have tended to operate more successfully. The Common Humanitarian Fund is perceived to be functioning well and enables rapid disbursement and efficient management of small grants. The South Sudan Recovery Fund is perceived as having begun badly due to inadequate governance arrangements, but the improving quality of its Steering Committee is driving increased effectiveness. The Capacity Building Trust Fund is generally viewed as well managed, strategically focussed and effective (see box 2).

Interviewees identified several benefits of pooled funds from a risk management perspective. First, when used effectively they provide donors with stronger collective voice. Second, they enable donors to share the costs of risk management and to pool resources to enable specialised management agents to monitor fiduciary risks (see CBTF example in box 2 below). Third, they enable donors to establish a division of labour where each may perform distinct roles. In South Sudan donors have divided leadership roles for pooled funds: leadership of the Capacity Building Trust Fund has been assumed by The Netherlands and the South Sudan Reconstruction Fund by the UK. Finally, several interviewees suggested that participation in pooled funds embolden donors to take on riskier programming choices because this can be presented as a shared international effort rather than risk taking by an individual donor.

Box 2 – The Capacity Building Trust Fund (CBTF)

The Capacity Building Trust Fund (CBTF) is funded by the Joint Donor Team (Canada, Denmark, The Netherlands, Norway, Sweden and the UK). It is focussed on strengthening public financial management systems (particularly pensions and payroll management) and institutions of public accountability. In this respect it is helping to create the conditions for donors to channel funds through country systems in future.

The CBTF is generally regarded as effective and well managed. It provides donors with an instrument to build capacity in government while limiting fiduciary risk. It has focussed on relevant capacity building needs where government has requested support. There are several aspects of the design of the CBTF that have enabled effective risk management.

- Focus on a limited set of priorities backed by a clear strategy.
- A strong organisational set up with strategic oversight provided by the Technical Secretariat

[11] OECD (2012),*International Support to Post-Conflict Transition: Rethinking Policy, Changing Practice*, DAC Guidelines and Reference Series, OECD Publishing. doi: 10.1787/9789264168336-en

managed by the Joint Donor Team, and specialised financial management provided by a contracted financial management agent.

- A strong sense of government ownership of the fund. The Steering Committee is jointly chaired by the Ministry of Finance and The Netherlands. Co-decision procedures and joint signatures are required.

- Ensuring the relevance of CBTF funded activities by requiring government to identify capacity building needs and to request support from the fund. Government is reportedly enthusiastic about this arrangement which provides it with a leading role in determining priorities, but does not require it to engage in technical and management details.

- Management of procurement by the CBTF according to EU procurement rules.

- A short planning and financing horizon (2 years) that requires regular re-evaluation of programme priorities.

- Experimentation with new types of capacity building initiatives, but rapid shut down of activities that are not delivering.

2.5 Managing relationships with implementing partners

Effective risk management depends on functional relationships between donors and their implementing partners. Managing these relationships is challenging in South Sudan where inaccessibility and poor security makes it difficult for donors to directly monitor activities on the ground and to intervene where problems arise. Implementing partners bear significant fiduciary and security risks, and expect reasonable support and contractual conditions from donors in order to complete their work effectively and safely.

For the most part relationships between donors and their implementing partners work smoothly. Donors do not impose substantial operating restrictions on NGOs, and generally have confidence in their partners' ability to deliver programmes in insecure zones. Donor staff are in regular contact with NGO staff and show reasonable flexibility in responding to changing requests. The volatile security situation in many parts of the country often requires implementing partners to change their approach. Donors are generally supportive in such situations. USAID, for example, includes a 'conflict modifier' clause to its contracts that provides considerable flexibility to change approach as circumstances require.

In spite of this generally positive relationship there are some areas of tension between donors and implementing partners. A critical issue facing NGOs in the field is the regular harassment and bureaucratic impediments that they encounter when dealing with local officials. This problem has reportedly become more serious as a result of austerity and the starving of funds for local government. NGOs report numerous incidents of harassment, arbitrary arrest, confiscation of equipment and vehicles, interference in personnel and recruitment decisions, and problems obtaining visas. NGOs contend that donors are in the best position to take these issues up with government, but express disappointment at the apparent lack of progress. There has been some donor lobbying around the NGO bill, but this has not yet had much impact the everyday problems experienced in the field. A critical problem is the weak chain of command between central and local level of government. One positive example comes from Upper Nile State where donor pressure led to government issuing a letter that there should be no restrictions on humanitarian movement. Some donors are also pushing for the inclusion of a commitment to NGO freedom from harassment in the transition compact.

Logistical problems and government harassment greatly add to NGO's operating costs. A common complaint by NGOs is that donors do not sufficiently appreciate these costs. One interviewee commented that as donors shift from humanitarian to development programming they are demanding steep reductions in operating costs. However, the reality in the field and the real operating costs have not changed. Donor restrictions on permissible costs are beginning to strain NGOs ability to operate. In this context the funding levels and conditions under the Health Pooled Fund were mentioned as being particularly problematic.

List of people met or contacted

Donors

Paul Tholen, Head of Cooperation, Netherlands Embassy

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Government

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