THE EUROPEAN UNION EMERGENCY TRUST FUND FOR STABILITY AND ADDRESSING THE ROOT CAUSES OF IRREGULAR MIGRATION AND DISPLACED PERSONS IN AFRICA

Action Document for the implementation of the Horn of Africa Window T05 – EUTF – HoA – SS - 05

1. IDENTIFICATION

Title/Number	Support to stabilisation through improved resource, economic and financial management in South Sudan		
Total cost	Total estimated cost: 12 000 000 EUR Total amount drawn from the Trust Fund : 12 000 000 EUR		
Aid method / Method of implementation	*Project modality – direct management, to be implemented through service contracts with private contractors.*		
DAC-code	151	Sector:	15110, 15111, 15114, 15112.

2. RATIONALE AND CONTEXT

2.1. Summary of the action and its objectives

The action is **based on objective two within the Trust Fund**, namely strengthening resilience of communities and in particular the most vulnerable, as well as the refugees and displaced people.

The project will contribute to the implementation of the Valletta Action Plan, and in particular its priority domain (1) "Development benefits of migration and addressing root causes of irregular migration and forced displacement".

The **geographical coverage of the action** is country-wide, focusing on all ten states of South Sudan. The area of intervention may be modulated to avoid overlap or increase synergies with other donor-funded programmes and to accommodate risks.

The intervention logic of the action is to support the implementation of the peace agreement though the facilitation of effective and sustainable service delivery in South Sudan. Component 1 of the action will strengthen local institutions in the areas of public financial management and human resources management, and foster a culture of accountability by lower levels of government (states and counties). Component 2 will support the implementation of specific measures on economic and financial management identified in the peace agreement, which require immediate short to medium term support, but only in response to credible actions by the government to implement reforms.

The component 1 on strengthening local institutions in the areas of public financial management and human resources management is designed as a follow-on of the EU Technical Assistance at Sub-national level to public financial management (PFM) and Payroll (EUTAPP), in response to a request for continued support in local PFM reform by the Government of South Sudan.

By supporting a better economic and financial management of public resources at national, state and local levels, the action aims at tackling one of the causes at the root of instability and conflict in South Sudan.

2.2. Context

2.2.1. Country context

South Sudan is mired in internal conflict since December 2013 and faces a grave man-made humanitarian crisis, the disruption of basic functions of government and a severe monetary and fiscal crisis. The conflict has devastated the lives of millions of South Sudanese and displaced more than 2.2 million people. About 1.6 million of them have been displaced internally in South Sudan and over 600,000 are refugees in neighbouring countries (Ethiopia, Sudan, Uganda and Kenya), putting additional strain on these countries and having a destabilising effect on the entire region. Additionally, South Sudan hosts around 265,000 refugees from neighbouring countries, mainly Sudan. Strengthening country systems and institutions is therefore of prime importance in linking relief, recovery and development to ensure that displaced communities can move out of IDP camps and back to areas where they enjoy long-term access to basic services.

In August 2015, President Kiir signed the peace agreement endorsed in Addis Ababa by other South Sudanese parties. If properly implemented, it will end the fighting and install the transitional institutions essential to the rebuilding of the country. Accountability and transparency, including for public resources and service delivery, will be central to the way forward.

2.2.2. Sector context: policies and challenges

The Local Government Act of 2009 provides for the devolution of functions to the ten states, 79 county governments and their sub-structures at payam (sub-county) and boma (village cluster) levels. The responsibility for delivering basic social and economic services lies primarily with local governments, with state governments providing support and supervision and national government setting the policy environment and providing funding.

Under the Local Services Support (LSS) Joint Plan of Action (JPA), the government has developed Service Delivery Frameworks (SDFs) for primary education, rural water and sanitation, primary health care and small-scale infrastructure and identified common challenges that require cross-agency coordination, notably the strengthening of local government public financial management. South Sudan allocates only a fraction of government spending to the social sectors and to basic infrastructure, while spending in these sectors is largely donor-driven.

During the first three quarters of fiscal year 2014/2015, 60% of government expenditure went to salaries and security-related salaries accounted for 60% of salary expenditures on a monthly basis. The central government has undertaken to gradually orient the budget to better support local service delivery. In fiscal year (FY) 2014/15, the central government has sent transfers to state and local governments worth SSP 2.5 billion (out of an estimated SSP 10.8 billion in total national expenditure) and has undertaken to strengthen its monitoring of these funds, but capacity bottlenecks, the widespread absence of internal controls, and political interference over budget execution have prevented spending from reaching local service delivery units.

As is often the case in a fragile context, the political setting of South Sudan is still fluid and is linked to issues of political settlement and to ongoing debates over various new demands regarding overall principles as well as the potential creation of new sub-national entities. In October 2015, the government announced its intention to increase the number of federal states to 28, which may have significant implications for the course of local PFM reform in the country.

2.3. Lessons learnt

Programme design will integrate lessons-learned from the EU Technical Assistance at Sub-national level to PFM and Payroll (EUTAPP), from September 2014 to February 2016, and from previous donor-funded programmes (World Bank Local Governance and Service Delivery Project (LGSDP), United States International Development Agency (USAID) CORE II, United Nations Development Programme (UNDP) Support to Development Planning and Public Financial Management, and the International Monetary Fund (IMF) Trust Fund). Under the EUTAPP programme, significant achievements have occurred thanks to on-the-job training of local officials; these efforts need to be sustained over time to entrench positive behaviour within key public administrations:

- 52% of the counties (41) are now providing quarterly budget performance reports, up from 21% (17) at the start of the project.
- 20% of the counties (16) are uploading payroll reports by sector, up from 0 at the start of the project.
- County Transfer Monitoring Committees are functioning in 8 of 10 states reviewing quarterly budget performance reports and monthly payroll reports submitted by counties.

However, most counties are still incapable of executing their budgets and of consistently and accurately reporting in a timely manner on their payroll and budget performance. State systems and capacities also need further support as transfers from the states to counties remain low because of non-compliance in budgeting and execution by the states. For example, of the total primary school capitation grant amount transferred by the Ministry of Finance and Economic Planning (MoFEP) to State Ministries of Finance (SMoFs) in FY 2014-15, only 24% appears to have been transferred by states to the primary schools. Similarly, only 50 % of county salaries and 42% of county operating transfers from MoFEP to SMoF was transferred to counties. As a result, the action will devote more attention to supporting the state level and will also seek to foster more public awareness of PFM issues to bolster budget accountability.

The EUTAPP programme has shown that a modular, flexible approach can enable a project to be more reactive to an evolving situation and achieve higher impact. In a situation where the outlook for the implementation of the peace agreement is uncertain, this will enable the programme to quickly target areas in need of immediate, short-term support. As a result of this lesson-learnt, implementation will combine a core of long-term experts on the ground with a facility to quickly mobilise short-term expertise to address emerging needs that are linked to a desired policy response or to short-term gaps. As the success of the complementary approach between EUTAPP and LGSDP has shown, this will also enable support to be calibrated on a geographical basis depending on the roll-out of other donor-funded programmes.

Another lesson-learnt is that support is effective if it is targeted at policy change that is government-led, not just in intentions with a declaratory effect, but in tangible policy outcomes. In the face of entrenched rent-seeking behaviour, support for broad macro-economic reform since 2012, including sorely needed exchange rate adjustments, has not translated into a change of direction, despite long-term technical assistance. For this reason, support to the implementation of specific measures on economic and financial management identified in the peace agreement will be conditional on the following criteria: the issue requires immediate short to medium term support and is a response to credible actions by the government to implement reforms.

2.4. Complementary actions

The action will be completed by the programming of two more actions: one to deliver improved access to quality health services, and respond to emergency needs where required, with a specific focus on reducing maternal and child mortality; and another to increase student retention and raise learning outcomes in primary and secondary schools, through improved teacher training, teacher management and performance in schools.

The action will continue to maintain synergies with and to complement the World Bank's Local Governance and Service Delivery Project (LGSDP), which is implemented by the Ministry of Finance and Economic Planning (MoFEP) and the Local Government Board (LGB) (2013-2018; approx. 50 million USD). The objective is "to improve local governance and service delivery in participating counties in South Sudan" in up to 40 out of the 79 counties. Through block grants to counties for payam development, LGSDP supports a simple process for the planning, implementation and oversight of small-scale public infrastructure subprojects corresponding to community priorities in education, health, water and sanitation, etc.

2.5. Donor co-ordination

Donor support to local governments and to PFM is waning after the termination of a UNDP programme at state level and of the USAID-funded CORE II programme. Other than the EUTAPP project, the only other ongoing programme supporting PFM at local level is the World Bank's LGSDP. The key development partners are the donors of the Budget Strengthening Initiative (United Kingdom), USAID, the IMF and the co-donors of LGSDP (World Bank and Denmark). Donor coordination will be carried at the technical level through a programme steering committee for the action and through an already established donor forum (donor PFM working group) and government-led forum (local services support working group on human resources (HR) and PFM). At a strategic level, donor coordination should take place in the context of the Economic and Financial Management Authority, when and if it is set up.

3. DETAILED DESCRIPTION

3.1. Objectives

The **Overall Objective** of the programme is to improve stability and development in the region by supporting the implementation of the peace agreement, in particular through improving resource, economic and financial management and facilitating effective and sustainable service delivery in South Sudan.

The **Specific Objectives** are: 1) to strengthen local institutions in the areas of public financial and human resources management, 2) to foster a culture of accountability by lower levels of government (states and counties) and 3) to support the implementation of specific measures on economic and financial management identified in the peace agreement.

3.2. Expected results and main activities

The **expected results** are:

- **Result 1**: Counties are supported to effectively and transparently manage and account financial and human resources.

The foreseen activities will focus on the provision of technical assistance and on-the-job training to key personnel in county administration departments, county planning units, and basic services sector units at county level (e.g. county education department). The technical assistance will support the application of the Local Government PFM Manual linked to budget planning, reporting and execution, public procurement and asset management, as well as of the human resource management (HRM) Manual, including payroll management. In parallel, awareness-raising and sensitisation activities on accountability and the use of public resources targeting county commissioners and county legislative assemblies will aim to increase support at political and community level.

- **Result 2**: States are supported to effectively and transparently manage and account for financial and human resources.

The activities will ensure that, on the one hand, states are supported to effectively and transparently manage and account for their own financial and human resources and, on the other hand, that states are supported to effectively monitor the financial and human resource management by the counties with a view of enforcing their accountability. Activities will focus on the provision of technical assistance and on-the-job training to key personnel in the state ministries, including the State Ministry of Finance, the State Ministry of Public Service, the State Ministry of Local Government, and key state ministries in basic services sectors (education, health, water, physical infrastructure). The technical assistance will support the application of the Local Government PFM Manual linked to budget planning, reporting and execution, as well as of the HRM Manual, including payroll management. It will also support the oversight and outreach function of the states' County Transfers Monitoring Committee (CTMC) and compliance with national policies. Support will address the management of resources at the state level, including the national transfers to state governments and their onward transfer to the county level, and the ability of states to supervise, mentor and provide backstopping to county specialists. To the extent that states have increasingly been exploring ways to raise local revenue to compensate for short-falls in central government transfers, the technical assistance may support taxation reform with a view to ensuring that states adhere to a coherent, national approach in line with their constitutional prerogatives. Parallel awareness-raising and sensitisation activities on accountability and the use of public resources targeting state governors and state legislative assemblies will aim to increase support at political and community level.

- **Result 3**: The national government is supported to effectively and transparently monitor states' and counties' financial and human resources and to hold them accountable for their management.

The foreseen activities will focus on the provision of limited technical assistance and on-the-job training to key personnel in the Ministry of Finance, in particular the Intergovernmental Fiscal Relations Unit under the Directorate for Budget, the Ministry of Public Service and Human Resources Management, and the Local Government Board. It will coordinate with other donor efforts targeting basic services sectors, for the application of the Local Government PFM Manual linked to budget planning, reporting and execution, as well as of the HRM Manual, including payroll management. It will also support the oversight and mentoring function of the State Transfers Monitoring Committee (STMC) to enforce compliance by lower levels of government with national policies and accountability systems. It may include supporting the correct use of the Integrated Financial Management Systems (IFMIS) to generate timely and comprehensive state-level budget reporting and also supporting national institutions to conduct performance assessments and audits of local governments.

- **Result 4**: Citizens' awareness of the use of public resources for service delivery is increased.

The foreseen activities will focus on communication and awareness-raising, with the aim of fostering public debate and a culture of transparency and accountability concerning the use of public resources to deliver value-for-money and basic services to the people, at the local level. Activities will be cross-cutting and target all relevant levels of government to support the roll-out of key activities under results 1, 2 and 3. Information campaigns will be devised using the most appropriate medium to target citizens, communities and civil society organisations.

- **Result 5:** The implementation of the economic and financial management measures of the peace agreement is supported.

Activities will consist in short to medium term technical assistance targeting areas in need of immediate support in order to address emerging needs that are linked to a desired policy response or to short-term gaps in the context of the implementation of Chapter IV of the peace agreement on "resource, economic and financial management". Specific technical assistance will be conditional on the following criteria: the issue requires immediate short to medium term support and the transitional government has taken credible actions to implement reforms. A technical assistance facility will be set up with a contractor to quickly identify and mobilise experts as required and to ensure project coordination and monitoring.

3.3. Risks and assumptions

The main risks are:

- The implementation of the peace agreement breaks down, leading to a resumption of hostilities and further instability (High);
- The transitional government fails to tackle the fiscal and monetary issues underpinning the economic crisis, including by continuing to monetise its deficit, thereby undermining PFM reform and the budget's credibility and potentially triggering hyperinflation (High);
- The creation of new sub-national entities will aggravate existing local government staffing and resources constraints (High);
- States refuse to cooperate with the central government and to hand down transfers to counties (Medium);

- Climatic shocks significantly impact the harvest and people's livelihoods and food security (Low).

The assumptions for the success of the project and its implementation include:

- Stakeholders are committed to the timely implementation of the peace agreement;
- The transitional government will be willing and able to take action to tackle the economic crisis;
- The central government is able to enforce and harmonise PFM rules and prioritise transfers over security-related expenditure;
- Implementing partners are able to operate effectively despite security concerns;
- Implementation of the decision to create new sub-national entities may not be immediate, or in any case gradual.

Mitigating measures have been considered, including:

- A permanent policy dialogue at all levels (technical and political);
- Targeting resources and activities at local government as direct beneficiaries;
- Focusing on institution and system strengthening, in particular at local level, to increase sustainability by improving the resilience of states and counties and by paving the way for government-led service delivery;
- A flexible and modular delivery approach to enable the programme to support emerging needs and capacity gaps, and to adapt to the political and security situation, thereby increasing reactivity, complementarity with other initiatives and impact;
- The approach outlined above will also apply to the choice of intervention area in order to take into account the creation of new sub-national entities. If the latter results in an increase of the number of beneficiaries that goes beyond available resources, the action may target only a limited number of states and counties.

3.4. Cross-cutting issues

The action will support the rights' holders/vulnerable groups as indirect beneficiaries vis-à-vis local government as duty-bearer by fostering transparency and accountability in the decision-making process at local level for the equal access to basic public services and goods. The equitable provision of social services of decent quality, for women and men, including among different ethnic groups, displaced people and returnees is expected to strengthen local government’s legitimacy and thereby stimulate the social compact between citizens and the state, reduce fragility and contribute to state building processes. The action will be framed using a conflict-sensitivity analysis in order to promote peaceful coexistence (do no harm approach). The action is a pre-requisite for indirect beneficiaries, both women and men, to benefit from equitable access to public services. The gender perspective will be mainstreamed by ensuring that: direct beneficiaries of the technical assistance are equitably targeted; local governments' PFM and payroll management performance is gender-neutral.

3.5. Stakeholders

The key stakeholders are the local authorities, at county and state level, whose capacity is generally weak. The direct beneficiaries are key personnel in county administration departments, county planning units, and basic services sector units at county level (e.g. county education department) and in the state ministries, including the State Ministry of Finance, the State Ministry of Public Service, the State Ministry of Local Government, and key state ministries in basic services sectors (education, health, water, physical infrastructure). Indirect stakeholders are the public at large and relevant CSOs. Other stakeholders are national Ministries and lead agencies responsible for the development of policies, regulations and standards and for the provision of intergovernmental transfers to enable the counties and states to adequately assume their roles: the Ministry of Finance, in particular the Intergovernmental Fiscal Relations Unit under the Directorate for Budget, the Ministry of Public Service and Human Resources Management, the Local Government Board and the ministries competent for health, education, infrastructure, water and sanitation. These national level ministries have been extensively consulted to arrive at the present action document, specifically component 1. Chapter IV of the peace agreement envisages the creation of an oversight body, the "Economic and Financial Management Authority" (EFMA) under the umbrella of the Joint Monitoring and Evaluation Commission (JMEC), the body responsible for monitoring the implementation of the agreement and the mandate and tasks of the transitional government of national unity. This body, when and if it is created, will be an important stakeholder, as well as, to a lesser extent, the other agencies, bodies and funds mentioned under Chapter IV.

4. IMPLEMENTATION ISSUES

4.1. Indicative operational implementation period and geographical scope

The period of implementation will be 36 months from the signature of the service contracts (indicatively in April 2016), whilst the overall execution period (including a closure phase of no more than 24 months) will not exceed 60 months from the date of approval of this Action Document by the Operational Committee of the EU Trust Fund

4.2. Implementation components and modules

Component 1 will support local institutions strengthening in the areas of public financial and human resources management (Results 1, 2 and 3) and also aim to foster a culture of accountability by lower levels of government (Result 4). Component 2 of the action will support the implementation of specific measures on economic and financial management identified in the peace agreement, which require immediate short to medium term support, but only in response to credible actions by the government to implement reforms (Result 5). Both components will be implemented through restricted tendering procedures, leading to the conclusion of two or more service contracts with private contractors, which will provide the flexibility necessary for the delivery approach.

4.3. Indicative budget

Component*	Amount in EUR

Component 1 – Results 1 to 4	10 000 000
Component 2 – Result 5	1 850 000
Monitoring, audit and evaluation	150 000
Total	**12 000 000**

* Communication and visibility funds will be included in the various components

4.4. Evaluation and audit

If necessary, ad hoc audits or expenditure verification assignments could be contracted by the European Commission for one or several contracts or agreements. Audits and expenditure verification assignments will be carried out in conformity with the risk analysis in the frame of the yearly Audit Plan exercise conducted by the European Commission. Evaluation and audit assignments will be implemented through service contracts, making use of one of the Commission's dedicated framework contracts or alternatively through the competitive negotiated procedure or the single tender procedure.

4.5. Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU. This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated mainly under Result 4 of Component 1. In terms of legal obligations on communication and visibility, the measures shall be implemented by the partner country and contractors. Appropriate contractual obligations shall be included in the procurement contracts. The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan and the appropriate contractual obligations.

LOGFRAME MATRIX OF THE ACTION

	Intervention logic	Indicators	Baseline/ current value (reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Overall objective: Impact	In the context of the implementation of the peace agreement, effective and sustainable service delivery in South Sudan is supported.	Nationally budgeted amount devoted to social transfers to states and counties (% of outturns).	23% (FY2014-15)	At least 25% (FY2019-20)	National budget execution reports	Stakeholders are committed to the timely implementation of the peace agreement. The transitional government is willing and able to tackle the economic crisis. The central government is able to enforce and harmonise PFM rules and prioritise transfers over security-related expenditure. Implementing partners are able to operate effectively despite security concerns.
Specific objective(s): Outcome(s)	Oc. 1) Local institutions are strengthened in the areas of public financial and human resources management. Oc. 2) A culture of accountability by lower levels of government (states and counties) has been fostered. Oc. 3) The implementation of specific measures on economic and financial management identified in the peace agreement is supported.	Variance between budgeted amounts and outturns at each level of government (%). Average variance between transfers from MoFEP to SMoF and transfers from SMoF to counties/Service delivery units (%). The Strategic Economic Development Roadmap referred to in Ch. IV 2.2.1.1. of peace agreement is adopted by the National Legislative Assembly.	Variance between budgeted amounts and outturns at each level of government (%). 40% variance between transfers from MoFEP to SMoF and transfers from SMoF to counties/Service delivery units (FY2014-15).	Tbd Tbd	County quarterly budget performance reports County annual financial performance reports County Transfer Monitoring Committee (CTMC) reports State Transfer Monitoring Committee (STMC) reports Minutes of meetings of the Joint Monitoring and Evaluation Committee (JMEC) and of the Economic and Financial Management Authority (EFMA) News reports in the media on budget and PFM issues Minutes of local services	
Outputs	Op. 1.1) Counties are supported to effectively and transparently manage and account	Number of state and county budgets approved by legislative branch (%).	50% (5) of state and 25% (20) of county budgets approved by legislative branch	Tbd		

	financial and human resources. Op. 1.2) States are supported to effectively and transparently manage and account for financial and human resources. Op. 1.3) The national government is supported to effectively and transparently monitor states' and counties' financial and human resources and to hold them accountable for their management. Op. 2.1) Citizens' awareness of the use of public resources for service delivery is increased. Op. 3) Short to medium term support to the implementation of the economic and financial management measures of the peace agreement is provided.	Nr. of counties submitting annual financial accounts (as per section 9 of the LG PFM manual) within three months of the end of the FY (%). Nr. of counties providing quarterly budget performance reports (%). Nr. of counties uploading monthly payroll reports by sector (%). Nr. of states where County Transfer Monitoring Committees are functioning regularly. Nr. of information initiatives carried out on the use of public resources for service delivery. Nr. of measures referred to in Ch. IV of peace agreement passed by TGoNU following recommendation of EFMA and JMEC.	(FY2014/15). 0 counties submitting annual financial accounts (as per section 9 of the LG PFM manual) within three months of the end of the FY (FY2014-15). 52% of the counties (41) are providing quarterly BPR (FY2014-15). 20% of the counties (16) are uploading payroll reports by sector (FY2014-2015). County Transfer Monitoring Committees are functioning in 8 of 10 states (FY2014-15).	50% (FY2016-17) 70% (FY2016-17) 50% (FY2016-17) 10 (FY2015-16)	support technical working groups	