

# **GOVERNMENT OF SOUTHERN SUDAN**

**Ministry of Finance & Economic Planning**

## **GOSS AID STRATEGY**

**2006-2011**

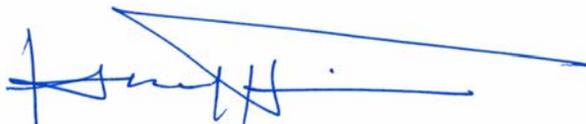
**Presented to the Southern Sudan Legislative Assembly**

## **FOREWORD**

The Government of Southern Sudan is grateful for the efforts made by development partners who have been active in Southern Sudan for many years, delivering emergency assistance and essential services to the people of the South. With the formation of the Government of Southern Sudan, the need has arisen for enhanced co-ordination of donor assistance, whereby development partners align their assistance with the priorities of the Government, and focus increasingly on financing reconstruction and development.

To be effective, co-ordination of donor assistance must be Government-led, with regular information sharing and consultation between the Government and its donor partners. The GoSS Aid Strategy sets out a framework for aid co-ordination to enable Government to establish priorities for donor assistance, and engage donor partners in dialogue on planning and development for the South. The purpose is to ensure that the Government is aware of all the resources available to it, including donor assistance, and plans for them accordingly. The Aid Strategy also sets out the key principles for donor assistance to the South, so that donor engagement is based on best practice, and enhances institutional development in Southern Sudan.

The Aid Strategy has gone through several stages of consultation. It was discussed at the GoSS Under Secretaries Forum in September 2006, and was approved by the Council of Ministers in November 2006. It was subsequently presented to donor partners, and discussed in the GoSS Quarterly Donor Forum, after which donor partners gave the Strategy their support. It is now ready to be used as a working document, which can guide the relationship between the Government of Southern Sudan and its development partners.

A handwritten signature in blue ink, consisting of a series of loops and a long horizontal stroke extending to the right.

Kuol Athian Mawien, Minister of Finance & Economic Planning  
**November 2007**

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## EXECUTIVE SUMMARY

### *Purpose of the Aid Strategy*

The aim of the Government of Southern Sudan's Aid Strategy is to co-ordinate development aid to Southern Sudan within a Government-led framework, so that it is used effectively and aligned with the priorities of Southern Sudan. When managed properly, development aid can bring substantial benefits to the recipient country, but poor management of aid can create a culture of aid dependency.

### *Approach*

The Aid Strategy sets out the **principles** on which development aid to Southern Sudan should be based, and the **procedural mechanisms** to which Government and donors should adhere, to ensure that aid effectively supports the service delivery of the Government of Southern Sudan and the development needs of the South.

### *Scope*

The Aid Strategy covers all forms of development aid to Government from international donor partners, including Multi-Donor Trust Fund projects, bilateral projects and technical assistance. It also covers development aid from international donor partners channelled through non-Government mechanisms, such as NGOs.

### *Aid Principles*

The Aid Strategy is based on six basic principles:

1. *Alignment*; of donor assistance with Government priorities
2. *Co-ordination*; of aid delivery with Government programmes, to avoid duplication, concentration or neglect
3. *Predictability*; of the volume and timing of aid flows
4. *Harmonisation*; of donor activities and programmes
5. *Institutional Development*; using aid to enhance Government capacity
6. *Mutual Accountability*; between Government and donors

### ***Aid Policy***

The Aid Strategy sets out the Government of Southern Sudan's policies on the type of development aid it wishes to receive, and the purpose for which it should be used.

- *Aid Financing*; the Government's preference is to receive aid in grant form, which means that the money does not have to be repaid in future. Loans will only be considered if grant financing is insufficient or unavailable, and even then, the loans will be concessional, contracted on 'soft' terms. Commercial loans contracted at market rates do not constitute aid assistance.
- *Tied Aid*; The Government of Southern Sudan requests donors to provide untied development aid, whereby goods and services financed by donor assistance are procured competitively on the open market. .
- *Aid Expenditures*; the Government of Southern Sudan's will only use development aid to finance development expenditures, not the salaries of Government officials or recurrent Government operating costs.
- *Capacity Building*; technical and capacity building assistance must be aligned with Government's priorities, comply with Government's aid approval and evaluation procedures, and have accountable outputs and outcomes.
- *Optimal Aid Levels*; to ensure budget sustainability, for as long as Southern Sudan has access to oil revenues, annual flows of development aid should not exceed the estimated level of domestic revenues for a given financial year.

### ***Aid Alignment & Co-ordination***

The Government has established a simple, broad-based mechanism for donor alignment and co-ordination, through the creation of **Budget Sector Working Groups**. All donor partners engaged in activities within a sector are requested to participate in the sector's Budget Sector Working Group. Budget Sector Working Groups will develop Budget Sector Plans on an annual basis, which will guide budget allocations in the annual budget and three year Medium Term Expenditure Framework (MTEF). They will also monitor sectoral performance against the objectives set out in the Budget Sector Plans and guide the prioritisation of donor aid at the sectoral level.

### ***Role of GoSS institutions***

- *All GoSS institutions*; identification of donor projects based on priorities in Budget Sector Plans
- *Regional Co-operation*; external contacts with foreign Governments & organisations
- *Ministry of Finance*; aid co-ordination, management & approval
- *Legal Affairs*; approval of legal agreements relating to aid

### ***Aid Approval***

The signatory authority for all development aid rests with the Minister of Finance, because the Ministry of Finance & Economic Planning is the Government institution mandated to manage all Government budgetary and financial issues. However, the procedures for aid approval are designed to ensure that there is full ownership of proposed donor projects across Government, prior to signature. The Aid Strategy sets out four clear steps for aid approval:

1. *Endorsement by Budget Sector Working Group*
2. *Approval by Inter-Ministerial Project Appraisal Committee*, chaired by the Ministry of Finance and Economic Planning
3. *Submission to the Council of Ministers*, for projects over \$20m
4. *Signature by the Minister of Finance*

The Aid Strategy provides a modified version of this approval system for aid delivered through Non-Government mechanisms.

### ***Aid Delivery***

The Aid Strategy sets out the Government's policies on aid delivery, to ensure that aid is delivered in a way that promotes institutional development and minimises the bureaucratic burden placed on Government. Key issues include:

- *Minimising project proliferation*, to reduce the management burden placed on Government.

- *Promoting institutional capacity*; project implementation and management should, wherever possible, be led from within the relevant Ministry, by civil servants who are paid through the Government pay roll.
- *Limiting distortions* which can arise amongst employees within the Public Service, by prohibiting donor-funded ‘salary top-ups’ to civil servants
- *Managing Technical Assistance*, so that it is chosen with or by Government, meets Government’s needs, and builds the capacity of Government officials.
- *Strengthening Government’s fiduciary and financial management systems*, by ensuring that donor projects channelled through Government use Government procedures for financial management, accounting, procurement and monitoring to the maximum extent possible.

### ***Aid Reporting and Evaluation***

The Aid Strategy aims to establish a system for Aid Reporting and Evaluation which is transparent, participatory, and pays adequate attention to the evaluation of outcomes.

- *Aid Projections*; Donors are requested to provide three-year indicative commitments of their activities and funding to the Budget Sector Working Groups and the Ministry of Finance and Economic Planning on an annual basis.
- *Aid Reporting*; Donors will be requested to present regular progress reports on all projects in their portfolio to the Budget Sector Working Groups and the Ministry of Finance & Economic Planning.
- *Aid Evaluation*; at the end of each project, donors will also be asked to submit an end-of-project evaluation. Donors are also requested to work with GoSS to develop an effective and harmonised Monitoring & Evaluation system for development assistance.
- *Annual Development Aid Review*; the Government will hold an Annual Development Aid Review, in which all development partners will present their ongoing projects and outline outcomes achieved. The Review will be instrumental in identifying lessons learned from project implementation and outcomes which can feed into the Aid Strategy.

## 1. Introduction

The aim of the Government of Southern Sudan's Aid Strategy is **to co-ordinate development aid to Southern Sudan within a Government-led framework**, so that the people of Southern Sudan benefit fully from the aid which is provided to them. **Effective Government management of development aid is essential, so that aid is aligned with the priorities of Southern Sudan**, and so that its delivery supports, rather than undermines, Southern-led development of the South.

The 2005 Paris Declaration on Aid Effectiveness, to which Sudan is a signatory, sets out a series of international principles with respect to the effective delivery of development aid. These principles aim to harmonise and align donors' aid delivery, so that development aid is cost-effective, accountable and aligned with the recipient country's priorities, systems and procedures. Recipient country 'ownership' of its donor aid is a key principle of the Paris Declaration.

The Government of Southern Sudan's aid strategy draws on the principles of the Paris Declaration, with the aim of ensuring effective use of donor resources. **When managed properly, development aid can bring substantial benefits to the recipient country.** It provides additional resources for financing Government expenditures, which is essential when domestic revenue sources are constrained. It can contribute positively to economic growth, especially in countries which have good policies and a strong institutional environment. It can also enhance service delivery, and act as a useful support to Government-led policy reform and capacity building.

On the other hand, **poor management of aid can create a culture of aid dependency**, in which donor partners, rather than the Government, take the lead in deciding how development aid should be used. Aid dependency can also undermine the Government's incentive to develop its country's economy and revenue base, and its need to hold itself accountable to its people. It can also undermine national sovereignty, and the development of Government systems and institutions.

The Government of Southern Sudan's Aid Strategy therefore **sets out the principles on which development aid to Southern Sudan should be based, and the procedural mechanisms to which Government and donors should adhere**, to ensure that aid effectively supports the service delivery of the Government of Southern Sudan and the development needs of the South, within a Government-led framework.

### **The Purpose of the Aid Strategy**

- The aim of the Government of Southern Sudan's Aid Strategy is to co-ordinate development aid to Southern Sudan within a Government-led framework.
- It sets out the principles on which development aid to Southern Sudan should be based, and the procedural mechanisms to which Government and donors should adhere.

## **2. Scope of the Aid Strategy**

The Aid Strategy covers **all forms of development aid to Government from international donor partners**, including project support, budget support, Multi-Donor Trust Fund financing and Technical Assistance at all levels of Government. It also covers development aid from international donor partners who deliver public goods and services (e.g. health care, education, access to clean water, agricultural development projects) through non-Government mechanisms, such as NGOs and the private sector. This is essential for co-ordination purposes, as a number of donor projects in Southern Sudan which help deliver public goods and services are currently implemented through non-Government mechanisms.

### 3. Aid Strategy Principles

The Government of Southern Sudan's Aid Strategy is based on a number of basic principles, which are as follows:

- I. Alignment;** Development aid programmes should be aligned with the Government of Southern Sudan's stated development priorities<sup>1</sup>, so that they support the service delivery of the Government of Southern Sudan and the development needs of the South, within a Government-led framework.
- II. Co-ordination;** The delivery of development aid should be co-ordinated with Government programmes, so that it fully supports the Government's planning process and the Government budget, effectively addresses gaps in priority areas, and does not duplicate ongoing activities.
- III. Predictability;** Short-term development aid commitments are not an effective tool for delivering long-term development programmes. Development aid commitments must therefore be matched as far as possible to the Government's three year Medium Term Expenditure Framework<sup>2</sup>, enabling predictable development planning.
- IV. Harmonisation;** Having many development aid programmes can place a management burden upon the Government, straining its institutional capacity, as officials are diverted from handling other essential work. The Government therefore encourages its development partners to harmonise their delivery of development aid through joint mechanisms wherever possible. In addition, development aid should adhere to Government financial management, procurement and reporting systems to the maximum extent possible.

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<sup>1</sup> As of 2007, GoSS will develop a rolling three-year GoSS Development Framework

<sup>2</sup> The Government of Southern Sudan will begin Medium Term Expenditure Framework (MTEF) budgeting commencing 2007

- V. Institutional Development;** Development aid delivery should promote, rather than undermine, institutional development. Consequently, development aid delivery mechanisms should enhance institutional capacity wherever possible, and must be compatible with Government institutional arrangements, avoiding creating parallel institutional structures and wage differentials which lead to the leakage of qualified staff from Government institutions.
- VI. Mutual Accountability;** The Government of Southern Sudan fully recognises the importance of providing accountability to development partners, and as such, is committed to establishing transparent, participatory planning mechanisms and strong fiduciary systems within Government. At the same time, it expects development partners to provide full and regular accountability to Government on the performance of their development aid programmes, and their adherence to the principles of the Government’s aid strategy, as set out above.

The remainder of the Aid Strategy sets out the policies and operating procedures the Government of Southern Sudan has put in place to ensure that the principles are adhered to in practice. These policies and procedures, together with the Aid Strategy as a whole, will be reviewed every five years.

#### **The Six Aid Strategy Principles**

1. *Alignment*; of donor assistance with Government priorities
2. *Co-ordination*; of aid delivery with Government programmes, to avoid duplication
3. *Predictability*; of the volume and timing of aid flows
4. *Harmonisation*; of donor activities and programmes
5. *Institutional Development*; using aid to enhance Government capacity
6. *Mutual Accountability*; between Government and donors

## 4. Aid Policy

Development aid comes in many forms, and can finance many different types of expenditure. This section of the Aid Strategy sets out the Government of Southern Sudan's policies with respect to the type of development aid it wishes to receive, and the purpose for which it should be used. It also gives an indication of optimal aid levels, in the context of fiscal sustainability.

### 4.1. Forms of Aid Financing

At the broadest level, development aid financing takes one of two forms. **Development aid can either be extended as a grant**, which means that no future repayment of the aid is required, **or as a loan, which has to be repaid at a future date**, on the terms and conditions set out in the loan financing agreement. Loans can either be contracted at below market rates (known as 'concessional' or 'soft' terms) from development lending institutions such as the World Bank and the African Development Bank, or from commercial lending institutions at market rates.

It is only advisable for a Government to contract loans to finance its budget when it is reasonably certain of its ability to repay those loans. Given the current uncertainties surrounding the flow of revenues in Southern Sudan, both from oil and other sources, and the undeveloped state of the economy, **the Government of Southern Sudan's preference is for grant financing from donors, as it is uncertain of the future revenue stream for repayment of loans.** Moreover, given Southern Sudan's post-conflict status, the Government of Southern Sudan believes that support to the South from international donors should be a priority for grant financing.

Ideally, grant financing should be in the form of budget support, which is disbursed direct to the Government Treasury, for allocation through the Government budget. However, the Government of Southern Sudan recognises that not all donors can give budget support, and that it will need to strengthen its budget and Public Financial Management systems, before those donors that are able to, offer budget support. In the meantime, grants will continue to be offered in project form, both bilaterally, and

through joint project mechanisms such as the Multi Donor Trust Fund and the Capacity Building Trust Fund.

Loans will only be considered if grant financing is insufficient or unavailable, and even then, the loans will be concessional, contracted on ‘soft’ terms, with below market interest rates and a repayment period of thirty years or more. **Commercial loans at market rates do not constitute aid assistance.**

## **4.2. Tied Aid**

Some development aid is ‘tied’ to the country which is providing the aid. This means that the aid can only be used to purchase goods and services from that country. An example of tied aid is when a project to equip Government offices with computers requires the computers to be bought from the country that is providing the aid. The Government of Southern Sudan believes that international donors who are supporting the South should be doing so because they wish to help the South develop, and not because they want to promote business for their own country. The Government of Southern Sudan therefore requests donor partners to provide untied aid, whereby goods and services financed by donor assistance are procured competitively. This request is in line with the Paris Declaration on Aid Effectiveness, in which all DAC<sup>3</sup> donors commit to making progress in untying their aid.

## **4.3. Commodity Aid**

Commodity aid is a variation on tied aid. With commodity aid, instead of giving money to finance development activities, a donor gives goods in kind, which usually originate from its own country. Commodity aid is common in humanitarian and early recovery situations, where donors provide emergency commodities such as food and medical supplies, or provide food in return for work. However, it is less applicable to the development context, where it should be possible for goods to be

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<sup>3</sup> DAC stands for Development Assistance Committee. DAC donors include Australia, Austria, Belgium, Canada, Denmark, EC, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK & USA.

procured at the best price available on the open market. This approach gives the opportunity for local suppliers and companies to bid for the supply contract, particularly when the goods in question are foodstuffs, or agricultural supplies such as seeds. It is critical that they should have such an opportunity, given the need for private sector development in Southern Sudan. Consequently, **the Government of Southern Sudan only wishes to accept commodity aid for humanitarian purposes, such as provision of emergency medical and food supplies, and as a part of food for work schemes, but not as a form of development aid.**

#### **4.4. Development Aid Expenditures**

Ideally, development aid should only be used to finance development expenditures, such as construction of roads, classrooms, health centres, and water and power supply. However, in many post-conflict and developing countries, domestic revenue levels are very low. This means Governments rely on development aid to help finance a large proportion of its salaries and operational costs, in addition to the development expenditures. While this situation is understandable, it can be problematic, particularly if the Government fails to increase the level of domestic revenue over time. In this case, the use of aid to finance Government salaries and operational costs can generate a situation of ‘aid dependency’, since without the continued flow of donor aid, the Government would be unable to pay for its day-to-day running costs.

Southern Sudan is fortunate to have access to oil revenues, which means that it has sufficient funds to finance the salary and operating components of the Government budget. Consequently, to avoid a situation of ‘aid dependency’, and to ensure that development aid is used for the intended purpose of financing development, **the Government of Southern Sudan’s policy is that it will not use development aid to finance the salaries of Government officials or recurrent Government operating costs.** These should be adequately planned for by Government spending agencies, and financed by Government’s own revenues. In addition, the Government of Southern Sudan will ensure that it does not accept development assistance without

ensuring that it is able to cater for associated recurrent costs – for example, the cost of maintaining a road, or running a health centre, once constructed.

#### **4.5. Capacity Building & Technical Assistance**

As a result of the prolonged conflict and displacement in Southern Sudan, institutional and technical capacities within Government are currently under-developed. Consequently, Government requires assistance from its donor partners to help build its institutional and technical capacity, and to provide technical assistance to fill interim capacity gaps. While capacity building and technical assistance projects do not contribute to development spending in the form of physical capital accumulation, they are an essential element of human capital development.

Since technical and capacity building assistance is often provided ‘in kind’, through secondment of international experts to Government, or the provision of training opportunities for Government officials, it is often assumed that it is ‘additional’ to other forms of development aid, and as such, does not need to be governed by the same principles and operating procedures as the rest of development aid. This should not be the case. **Technical and capacity building assistance, as with all other forms of development aid, should be aligned with Government’s priorities, comply with Government’s aid approval and evaluation procedures, and have accountable outputs and outcomes.** This is particularly important, given the high cost of technical assistance in particular, relative to the salaries of Government’s own officials.

To ensure that technical and capacity building assistance justifies its relatively high cost, it should be ‘demand-led’. This means that **technical and capacity building assistance must be based on needs that have been clearly identified by, or in conjunction with, Government.** Too often, technical assistance is ‘supply-driven’, with development partners providing high-cost advisers of their own choice, whose purpose is to represent the views of development partners to Government, rather than to advise Government on its own needs. The choice of technical assistance to be

provided by development partners, must rest with Government. Likewise, capacity building assistance will only be approved when it can be demonstrated that it is based on priority needs identified by or with Government. In addition, technical and capacity building assistance must have defined outputs, be subject to regular review, and have a clear handover and exit strategy.

#### **4.6. Optimal aid levels**

Aid levels are often expressed in terms of aid per capita, or in terms of the percentage of the Government budget which is financed by external assistance. Discussions on what constitutes the ‘optimal’ level of aid in a particular country centre on issues such as absorptive capacity (the ability of a country to use additional aid effectively), fiscal sustainability (the ability of the Government to pay for its own institutional and operating costs, and service its debts, in the absence of donor support), and macroeconomic stability (the impact of aid flows on macroeconomic variables such as the exchange rate and inflation). Another key issue relates to the ‘opportunity cost’ of aid dependency, in terms of reduced sovereignty, and diminished incentives to develop domestic revenues or provide domestic accountability.

It is too early to enter into a discussion on optimal aid levels in Southern Sudan, given that the tools are not available to measure aid per capita, or analyse absorptive capacity and the impact of aid on the economy in any great detail. Nonetheless, the Government of Southern Sudan has established some basic principles on aid levels, to ensure that it meets its stated objective of developing a partnership-based approach to development aid, and minimises the risks associated with aid-dependency. **Firstly, aid should not be used to finance the salaries of Government officials or recurrent Government operating costs. Secondly, for as long as Southern Sudan has access to oil revenues, projected annual flows of development aid should not exceed the estimated level of domestic revenues.**

### **Aid Policy**

- *Aid Financing*; the GoSS preference is for grant aid - if grant aid is insufficient or unavailable, it will consider 'soft' loans.
- *Tied Aid & Commodity Aid*; donors are requested to provide untied aid, and GoSS will only accept commodity aid in humanitarian & early recovery contexts.
- *Aid Expenditures*; aid will only be used to finance development expenditures, not to pay for salaries or operating costs.
- *Capacity Building & TA*; must be aligned with GoSS priorities, comply with GoSS aid approval and evaluation procedures, and have accountable outputs and outcomes.
- *Optimal Aid Levels*; projected annual flows of development aid should not exceed the estimated level of domestic revenues.

## **5. Mechanisms for Aid Alignment & Co-ordination**

One of the key principles of the Aid Strategy is that **development aid to Southern Sudan should be aligned with the Government's development priorities**, so that it fully supports Government's service delivery and the development needs of the South, within a Government-led framework. A second key principle is that the **delivery of development aid should be co-ordinated with Government programmes**, so that it fully supports the Government's planning process and the Government budget, and effectively addresses gaps in priority areas. These principles are critical for Government ownership of development aid programmes, and to avoid poor co-ordination between Government and donors, and duplication of effort.

The challenge for the Government of Southern Sudan is to develop a mechanism that enables development partners to adhere to these principles in practice. If Government planning and co-ordination mechanisms are weak, or if its priorities are poorly articulated, then it becomes hard for development partners to deliver on commitments to

align their aid with Government priorities, or to co-ordinate its delivery with Government programmes.

The Government of Southern Sudan believes that an effective alignment and co-ordination mechanism should be both transparent and participatory. Transparency is critical, so that all development partners are aware of Government's priorities, and of the processes they need to follow to align and co-ordinate their aid within a Government-led framework. Participation is essential, so that development partners support the priorities that their aid is to be aligned with, and work with Government to identify the gaps in capacity and service delivery which require donor support.

The Government of Southern Sudan recognises that alignment and co-ordination mechanisms are likely to evolve over time, as both the Government and its development partners learn jointly from experience. However, **at this initial stage of its development, the Government has established a simple, broad-based mechanism for donor alignment and co-ordination, through the creation of Budget Sector Working Groups.** Ministries and other spending agencies have been grouped into budget sectors, according to their function.<sup>4</sup> Each sector has established a Budget Sector Working Group, which comprises senior officials from each GoSS agency in the Sector. Development partners involved in the sector have been invited to participate.

The Budget Sector Working Groups will, over time, have a number of functions. As an immediate priority, they are expected to **develop Budget Sector Plans on an annual basis**, which will set out the sector's objectives and expenditure priorities for a rolling three year period. **The Budget Sector Plans will guide budget allocations in the annual budget and three year Medium Term Expenditure Framework (MTEF).** As their capacities increase, the Budget Sector Working Groups will be required to monitor expenditure outturns relative to the annual budget allocations of the agencies in the sector, and to review annual sectoral performance against the objectives set out in the

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<sup>4</sup> The ten sectors are Accountability, Economic Functions, Education, Health, Infrastructure, Natural Resources, Public Administration, Rule of Law, Security, and Social & Humanitarian Affairs.

Budget Sector Plans. Thirdly, and critically in terms of the Aid Strategy's objective of alignment and co-ordination of development assistance, **Budget Sector Working Groups will also guide the prioritisation of donor aid at the sectoral level.**

#### **Budget Sector Working Groups**

- All donor partners are requested to participate in the GoSS Budget Sector Working Groups.
- Budget Sector Working Groups will develop Budget Sector Plans on an annual basis, which will guide budget allocations.
- Budget Sector Working Groups will monitor sectoral performance against the objectives set out in the Budget Sector Plans
- Budget Sector Working Groups will guide the prioritisation of donor aid at the sectoral level.

**Donor membership of the Budget Sector Working Group will enable donor partners to participate in developing the Budget Sector Plan,** and monitoring the sector's performance against its objectives. This in turn should enable development partners to align their assistance with the sectoral priorities articulated by the sector in their Budget Sector Plans, and to co-ordinate them with the activities of the agencies in the sector. In addition, the process of monitoring sectoral performance against objectives will enable the Budget Sector Working Group to identify the capacity and institutional development gaps within the sector which require donor assistance on an ongoing basis.

To ensure that the Budget Sector Working Groups act as an effective mechanism for aid alignment and co-ordination, **all donor partners engaged in activities within a sector are requested to participate in the sector's Budget Sector Working Group.** In addition, they are requested to give the Budget Sector Working Group regular feedback on the performance of their programmes within the sector, and to present all proposed

new programmes to the Budget Sector Working Group for discussion. This includes programmes within the sector which will be delivered by non-Government mechanisms such as NGOs.

The Aid Strategy's procedures for the approval and evaluation of donor programmes are designed to ensure that development partners engage with the Budget Sector Working Group mechanism appropriately.

- Role of GoSS Institutions**
- *All GoSS institutions*; identification of donor projects based on priorities in Budget Sector Plans
  - *Regional Co-operation*; external contacts with foreign Governments & organisations
  - *Ministry of Finance*; aid co-ordination, management & approval
  - *Legal Affairs*; approval of legal agreements relating to aid

## 6. Aid Approval

This section of the Aid Strategy sets out the Government of Southern Sudan's procedures for development aid approval. **The signatory authority for all donor development aid rests with the Minister of Finance**, because the Ministry of Finance is the Government institution mandated to manage all Government budgetary and financial issues, including flows of donor aid. However, the procedures for aid approval are designed to ensure that there is full ownership of proposed development aid projects across Government, prior to signature.

**The aim of the procedures is to ensure that there is full consultation on development aid programmes prior to approval, that they are consistent with Government priorities and needs, and that the Government of Southern Sudan is fully aware of development partners' activities within Southern Sudan.** The procedures differentiate

between development aid where Government is the direct counterpart, and development aid which is channelled through non-Government mechanisms.

## **6.1. Government Aid**

In the context of the Aid Strategy, Government Aid refers to **development aid where the Government, at any level, is the direct counterpart.** This applies to budget support, Multi-Donor Trust Fund financing and bilateral projects where Government either implements the project directly, is responsible for project oversight, or, in the case of technical assistance and capacity building, is the project recipient.

The procedure for approval of Government aid projects prior to signature by the Minister of Finance is as follows:

- 1. Endorsement by Budget Sector Working Group;** The programme or project is discussed and approved by a meeting of the relevant Budget Sector Working Group. Endorsement is given when a programme or project is aligned with the Sector's objectives, addresses gaps in priority areas of activity, and is consistent with the Government's aid principles. (As already explained, the project should not be used to finance Government salaries or operating costs, or provide tied or commodity aid.) Endorsement should be indicated in writing, either through the Minutes of the meeting in which the project was discussed, or by written confirmation from the Chairperson of the group.
- 2. Approval by Inter-Ministerial Project Appraisal Committee;** After endorsement by the Budget Sector Working Group, the programme or project must be presented by the relevant Line Ministry to the Inter-Ministerial Project Appraisal Committee for appraisal and approval. The Inter-Ministerial Appraisal Committee, which is chaired by the Ministry of Finance and Economic Planning, is mandated to appraise and approve all new Government aid projects prior to signature. The Appraisal Committee has six core members, including the

Ministry of Finance<sup>5</sup>, and all Spending Agencies from within a sector are invited to meetings which discuss projects that fall within the sector.

The appraisal evaluates the programme's alignment with the Government's aid principles and its expenditure priorities. In the event that the project or programme has a value of less than USD \$1 million the Chairperson and Deputy Chairperson of the Inter-Ministerial Project Appraisal Committee may approve the project without a full meeting Committee, unless they deem it to be necessary.

- 3. Submission to the Council of Ministers;** After approval by the Inter Ministerial Appraisal Committee, all projects with a value of more than USD \$20 million will also be submitted to the Council of Ministers.
- 4. Signature by Ministry of Finance;** After approval by the Inter-Ministerial Project Appraisal Committee, the programme or project is signed by the Minister of Finance or his delegated representative. The Minister of Finance will not sign any project which has not been appraised and approved by the Inter-Ministerial Project Appraisal Committee.

Given the limited capacities of Budget Sector Working Groups to discuss donor projects at present, attendance and agreement at the Appraisal committee by Spending Agencies from the relevant sector will substitute for Budget Sector Working Group endorsement, until such a time as Budget Sector Working Groups are meeting regularly.

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<sup>5</sup> Other core members are Regional Co-operation, Presidential Affairs, Legal Affairs, the Centre for Statistics, and the Ministry of Environment, Wildlife Conservation & Tourism.

#### **Four Steps for Aid Approval**

1. *Endorsement by Budget Sector Working Group*
2. *Approval by Inter-Ministerial Project Appraisal Committee, chaired by the Ministry of Finance and Economic Planning*
3. *Submission to the Council of Ministers (for projects with a value of more than USD \$20 million)*
4. *Signature by the Minister of Finance*

The signatory authority for all donor development aid rests with the Minister of Finance.

## **6.2. Aid channelled through non-Government mechanisms**

Aid channelled through non-Government mechanisms refers to **development aid where a donor partner contracts a non-Government entity to deliver public goods and services**, and the Government is not involved in either project implementation or project oversight. Public goods and services are broadly defined as activities which are normally led by Government, rather than the private sector or civil society. Examples of delivery of public goods and services channelled through non-Government mechanisms include a donor directly contracting an NGO to drill boreholes, a donor engaging a UN agency to implement a community recovery and agricultural development project, or a donor directly contracting a private sector company to rehabilitate a road.

It can be argued that the Government has no role to play in approving projects which do not involve Government agencies. However, this view is not consistent with the guiding principle of the Aid Strategy, which is to ensure that development aid effectively supports the service delivery of the Government of Southern Sudan and the development needs of the South, within a Government-led framework. Even when the Government is not directly involved in project implementation or oversight,

it needs to be aware of, and approve, the development activities being financed by international donor partners who help deliver public goods and services, so that all development aid is aligned with the Government's priorities and co-ordinated with Government's programmes, whatever the delivery mechanism.

This is particularly important given the current situation in Southern Sudan, where the Government at all levels is still in the process of building its capacity, and non-Government entities such as NGOs and UN agencies have a long track-record in delivering public goods and services such as education, health care and access to clean water.

The procedure for approval of development aid projects channelled through non-Government mechanisms is therefore as follows:

- 1. Endorsement by Budget Sector Working Group;** The programme or project is discussed and endorsed by a meeting of the relevant Budget Sector Working Group. Endorsement is given when a programme or project is aligned with the Sector's objectives, and addresses gaps in priority areas of activity. Endorsement should be indicated in writing, either through the Minutes of the meeting in which the project was discussed, or by written confirmation from the Chairperson of the group.
  
- 2. Approval by Inter-Ministerial Project Appraisal Committee;** After endorsement by the Budget Sector Working Group, the programme or project is forwarded by the relevant Line Ministry to the Chairperson of the Inter-Ministerial Project Appraisal Committee for appraisal and approval. The Chairperson and Deputy Chairperson of the Inter-Ministerial Project Appraisal Committee may approve the project without convening a full meeting Committee, unless they deem it to be necessary.

- 3. Signature by Ministry of Finance;** The Minister of Finance or his delegated representative will sign a Memorandum of Understanding with the donor partner with respect to the activities to be delivered through a non-Government mechanism.

While the Government of Southern Sudan has no way of compelling international donors to adhere to these procedures, it strongly requests them to do so, as this indicates their commitment to the Paris Principles on Aid Effectiveness. The Paris Principles aim to harmonise and align donors' aid delivery, so that development aid is cost-effective, accountable and aligned with the recipient country's priorities, systems and procedures.

### **6.3. Time Frame for Aid Approval**

The Chairperson of the Inter-Ministerial Project Appraisal Committee will call Committee meetings on a regular basis throughout the first three quarters of the Financial Year (January – September) to appraise and approve projects which have been submitted to it. In general, Committee meetings will be called within two weeks of submission of a project, unless the Committee decides to sit in a given week of each month. However, the Committee will not sit in the fourth quarter of the Financial Year (October-December), which is the period for annual budget preparation, unless the Chairperson deems a meeting to be essential.

## **7. Aid Delivery**

Even when development aid is properly aligned with Government priorities and coordinated with Government programmes, **the way in which aid is delivered can place a significant management burden upon Government, and undermine institutional development.** Such risks are magnified in a context where the Government is still in its infancy and institutional capacities are weak, as is the case in Southern Sudan. This section of the Aid Strategy therefore sets out the Government of Southern Sudan's policies on a number of aspects of Aid Delivery. The aim is to ensure that aid is

delivered in a way that promotes institutional development and minimises the bureaucratic burden placed on Government.

### **7.1.Minimising Project Proliferation**

**The greater the number of aid projects in place at any one time, the greater the co-ordination burden that is placed upon the Government.** This is the case irrespective of whether the projects are delivered through Government or non-Government mechanisms, as the Government still needs to keep track of them, and be able to monitor their outputs. In addition, the larger the number of aid projects, the more meetings the Government will be required to hold with international donor partners. Continual demand for meetings with incoming Missions, particularly at short notice, can place an institutional strain on Government, to the point that under-resourced Ministries are overwhelmed, and officials do not have time to complete other key tasks.

To avoid such a situation arising, the Government of Southern Sudan is requesting international donors to harmonise their funding wherever possible. Harmonisation can occur at two levels. Firstly, harmonisation can take place within an individual donor's portfolio, by limiting the number of small projects the donor funds, and by concentrating assistance to some, rather than all, Sectors. The Budget Sector Working Group mechanism facilitates such an approach. Secondly, harmonisation can occur across donors, with a number of donors pooling their resources to fund a single project (this is sometimes referred to as 'basket funding'), or by donors agreeing amongst themselves which of them will take the lead in certain sectors.

While the Government of Southern Sudan appreciates that some international donors are not in a position to pool their resources with other donors, it strongly encourages those that are able to, to do so. It also **encourages individual donors to harmonise their portfolios**, and will scrutinise new projects at the appraisal stage to ensure that they do not contribute to project fragmentation or proliferation.

## **7.2. Project Implementation Units and Salary Top-Ups**

As has already been outlined, development aid projects can either be implemented through the Government, or through non-Government mechanisms such as NGOs or UN agencies. Whichever way they are implemented, it is important that they do not create distortions which can undermine institutional development in the long-run.

When projects are implemented through the Government, it is common for ‘Project Implementation Units’ (PIUs) to be created within the implementing Line Ministry. These PIUs often use project funds to hire staff on short-term contracts to work at a premium to the wage being paid to civil servants within the Ministry. Such an approach can undermine institutional development, by creating inequalities within a Ministry, and drawing civil servants into project-based jobs. To avoid this problem, **the Government of Southern Sudan’s policy is for project implementation and management to be led from within the Ministry, by civil servants who are paid through the Government pay roll.** Contract staff will only be hired when capacities within the Ministry are insufficient to manage or implement the project.

Consistent with the Public Service Policy issued by the Ministry of Labour, Public Service & Human Resource Development in August 2006, Government officials involved in managing or implementing donor projects will not be entitled to receive salary ‘top-ups’ from the projects. Such ‘top-ups’ are distortionary, as they create an imbalance between those Government officials whose duties require them to be involved in donor project implementation, and those who do not. However, Government officials involved in managing or implementing donor projects will be entitled to receive Daily Subsistence Allowances from the project when travelling within Sudan or abroad on project duties. The Government of Southern Sudan will establish standardised rates for the Daily Subsistence Allowances to be paid to Government officials.

Donor funds may be used to contract Southern Sudanese experts from the Diaspora on temporary, fixed-term contracts to assist with capacity building in the Public

Service and fill gaps in expertise. Consistent with the Public Service Policy, these experts will not be assigned to Public Service positions, but will work with counterparts in the Public Service as national experts. If, on expiration of their temporary contracts, such specialists should decide to remain permanently in Government employment in Southern Sudan, they must then convert to regular Public Service posts, on the same terms and compensation as anyone else at the same grade.

#### **Project Implementation Units & Salary ‘Top-Ups’**

- GoSS donor projects should be implemented by civil servants who are paid through the Government pay roll.
- Contract staff will only be hired when capacities within the Ministry are insufficient to manage or implement the project.
- Government officials involved in managing or implementing donor projects will not be entitled to receive salary ‘top-ups’ from the projects .

### **7.3. Technical Assistance**

When Government institutions lack the capacity to carry out their core functions, development aid can be used to provide Technical Assistance in the form of national or international experts who work within the Government. Technical Assistance has a two-fold role; it can provide expertise to fill technical gaps, and it can be used to help build the capacity of Government officials, through on-the-job training. However, it can only fulfil these roles if it is managed effectively. Too often, donors recruit Technical Assistance on behalf of Government which does not meet Government’s capacity needs, and instead, reflects the priorities of the donor providing the assistance.

To ensure that the provision of Technical Assistance is aligned with Government priorities, it **must be based on needs that have been clearly identified with or by**

**the Spending Agency.** In addition, the Terms of Reference and outputs of the Technical Assistance should be part of the submission to the Budget Sector Working Group and the Inter-Ministerial Appraisal Committee for endorsement/approval.

Wherever possible, Government should take the lead in recruiting the Technical Assistance which is to be funded through development aid. **If a donor partner manages the recruitment process on behalf of Government, it must ensure that the Under Secretary of the Ministry is involved in the selection of the candidate(s).** In instances where a donor uses an implementing partner to provide Technical Assistance, the relevant Line Ministry must have the final choice over the potential candidates provided by the implementing partner.

It is also critical that Technical Assistance focuses adequately on the capacity-building element of its remit. If Technical Assistance does not build the capacity of Government officials, it can entrench dependency, as continued Technical Assistance is required to fill technical gaps which still cannot be filled by Government officials. To avoid this problem, **all Technical Assistance must clearly identify Government counterpart to work alongside the recruited expert(s).** This counterpart should not be the official the expert will report to, but the person he/she will work with on a daily basis, to help them increase their capacity to perform their designated role. In addition, **Technical Assistance projects must identify clear outputs, in terms of the technical gaps to be filled, and have a defined hand-over strategy and end-point.**

### **Managing Technical Assistance (TA)**

- TA must be based on needs identified by or with the relevant Spending Agency.
- Terms of reference & outputs for the TA should be submitted to the Budget Sector Working Group & Appraisal Committee.
- Government should take the lead in recruiting the TA which is to be funded through development aid.
- If a donor partner manages the recruitment process, the Under Secretary should be involved in the selection of the candidate..
- All TA must have a Government counterpart.
- TA must clearly identify its expected outputs from the outset, and have a defined hand-over strategy and end-point.

## **7.4. Financial Management Systems**

The Government of Southern Sudan is committed to establishing strong, transparent fiduciary and financial management systems within Government. To enhance transparency, and to minimise the management burden placed on Government, **all donor funds channelled through the Government of Southern Sudan should wherever possible be governed by the same fiduciary and financial management procedures which apply to Government expenditures financed by domestic revenues.** This refers to Government's systems for opening and managing bank accounts, payments, procurement and accountability, as established by the Ministry of Finance and Economic Planning and the Auditor General.

## **7.5. Multi-Ministry/Multi-Sector Projects**

When a development aid project cuts across two or more Line Ministries, or two or more Sectors, the project must clearly identify the lead Line Ministry which will take responsibility for overall project oversight.

## **8. Aid Reporting and Evaluation**

In line with the Aid Strategy's principle of Mutual Accountability, **the Government of Southern Sudan wishes to establish a system for Aid Reporting and Evaluation which is transparent, participatory, and pays adequate attention to the evaluation of outcomes.** Too often, donor aid projects are measured in terms of the amount of money spent, rather than the outcomes achieved, and new projects are formulated before the outcomes of existing projects have been properly evaluated. In addition, the Government of Southern Sudan wishes to ensure that donor information on expenditure projections and outturns is aligned with the Government's budget classifications, so that they can be incorporated in the annual budget and Medium Term Expenditure Framework. This is important both in terms of accountability, and of alignment of donor aid within a Government-led framework.

### **8.1. Project Commitments and Outturns**

As a starting point, all donor partners are requested to avail the Ministry of Finance and Economic Planning with copies of project documents for their current projects, as at 1<sup>st</sup> September 2006. This will act as an information baseline for all current donor activities in Southern Sudan.

Going forward, **donors will be requested, on an annual basis, to provide each Budget Sector Working Group with projections for all donor activities within the sector,** including those channelled through non-Government mechanisms, for the following three Financial Years. This information will be included in the Sector's three year Budget Sector Plan, and should therefore be provided during the annual drafting process. In addition, **donors will be requested to provide the Ministry of Finance and Economic Planning with indicative commitments, at project level,**

**for every project in their portfolio for the next three Financial Years.** The project information must be clearly mapped to Sectors and Line Ministries, and to activities/programmes within Line Ministries. This information will be requested during the annual budget preparations.

At the same time donors should also provide the Budget Sector Working Groups and Ministry of Finance and Economic Planning with outturns for the previous Financial Year, and projected outturns for the current Financial Year. UN agencies will be requested to identify clearly their sources of funding, to avoid double counting with the donors who are funding them.

#### **Donor Commitments & Outturns**

- Donors should submit all project documents to MoFEP.
- Donors must give Budget Sector Working groups three year projections of activities on an annual basis, when Budget Sector Plans are being drafted.
- Donors must give MoFEP expenditure outturns and three-year indicative commitments during the annual budget preparations.

## **8.2. Monitoring & Evaluation**

Donors are requested to work with the Ministry of Finance & Economic Planning to develop a harmonised Monitoring & Evaluation and reporting system for donor activities. At a minimum, donors will be requested to **present the Ministry of Finance and Economic Planning and relevant Budget Sector Working Groups with progress reports on a semi-annual basis.**

### **8.3. Project Outcomes**

At the closure of each project, **donors will be asked to submit an end-of-project report to the relevant Budget Sector Working Group and the Ministry of Finance and Economic Planning.** The Ministry of Finance and Economic Planning will evaluate the lessons learned from the project implementation and outcomes, and every year will produce a donor project evaluation report which summarises the lessons learned from all projects which have been completed during the year.

### **8.4. Quarterly Donor Forums and Annual Development Aid Review**

As a part of its commitment to Mutual Accountability, the Government of Southern Sudan has already pledged to hold an annual Public Expenditure Review (PER) with its donor partners. As a counterpart to the Public Expenditure Review, the **Government of Southern Sudan also intends to hold an Annual Development Aid Review meeting with development partners.** This review will give all development partners the opportunity to make a presentation on their ongoing projects, and outline the outcomes achieved so far, and expected outcomes. It will also facilitate discussion on lessons learned from project implementation and outcomes, and enable the Government of Southern Sudan to chart a way forward with development partners. The Review will be held in the first quarter of every Financial Year.

In addition, the Government of Southern Sudan will hold a Quarterly Donor Forum with development partners, to discuss issues of mutual interest, and facilitate ongoing discussion and dialogue on key aspects of the planning and budgeting cycle.

### **Monitoring & Evaluation**

- Donors are requested to work with the Ministry of Finance & Economic Planning to develop a harmonised Monitoring & Evaluation and reporting system for donor activities.
- Donors are requested to give semi-annual project reports on all their projects to the relevant Budget Sector Working Group and MoFEP.
- Donors should submit an end-of-project report to the relevant Budget Sector Working Group and MoFEP.
- GoSS will hold an Annual Development Aid Review with

## **9. Conclusion**

The Government of Southern Sudan's Aid Strategy sets out the principles and procedures on which development aid to Southern Sudan should be based, to ensure that it effectively supports the service delivery of the Government of Southern Sudan and the development needs of the South, within a Government-led framework. The Aid Strategy will be revised every five years, in light of experience, and the changing needs of the Government of Southern Sudan.