

# **Project Memorandum**

## **Basic Services Fund Interim Activities (BSFIA)**

### **1. Summary**

1. DFID Sudan established the Basic Services Fund (BSF) in 2006 to deliver basic services to war-affected communities on the signing of the Comprehensive Peace Agreement (CPA). Although intended as a temporary measure to ensure delivery while the Multi-Donor Trust Fund (MDTF) established capacity, the BSF was extended until August 2010 because the MDTF continued to face delays and the Sudan Recovery Fund (SRF) was not yet fully operational. It was assumed that both the MDTF and the SRF would be in a position to take on the functions of the BSF thereafter.

2. The requirement to provide a peace dividend is now urgent, as Sudan moves toward elections in 2010 and a referendum in the South in 2011. It is clear that the MDTF and SRF will not be in a position to scale up delivery of basic services post August 2010 to meet needs in time. GoSS capacity to deliver basic services remains low – 85% of all basic services in Southern Sudan continue to be delivered by NGOs. It is imperative to have in place a mechanism that can provide basic services quickly and effectively until 2011. It will also be very important for GoSS to enter quickly into dialogue with partners about how best it can deliver basic services post 2011. The current BSF phase II provides a template for systems and implementation that have been shown to work well; it has been assessed as meeting around 10% of all needs identified by the Joint Assessment Mission (JAM). The BSF Interim Arrangement (BSFIA) is therefore designed to provide an interim arrangement building on a functioning platform in order to ensure basic services continue to be delivered, allowing GoSS time to develop its plans for post 2011.

3. The BSFIA's goal is still to support GoSS in the expansion of primary health care, education, water and sanitation. The purpose is to expand coverage and usage of these services in Southern Sudan and to strengthen GoSS capacity to plan, monitor and co-ordinate non-state service delivery. This is an interim solution only and part of a twin track approach to service delivery in South Sudan. The BSFIA will continue to focus its activities towards delivering services, while DFID and the international community engage with GoSS on developing sector plans that will drive service delivery post December 2011.

4. The BSFIA will continue to finance NGOs to deliver basic services. This will be undertaken in two stages: i) through the extension of NGO service delivery projects meeting the standard and demonstrating value for money under the current BSF phase II; and ii) a call for proposals to expand basic service delivery coverage. As an indicative target, around 50% of BSFIA financing will be allocated to health with the remainder split between education, water and sanitation.

5. DFID has contributed £28.5 million to the BSF since 2006 and will commit £7.5 - £11.5 million (depending on availability and need) to this third and final

phase. Netherlands, Norway and Canada have signed delegated cooperation agreements for around £13 million for BSF phase II and have committed to provide £16 million for the BSFIA. EU procurement laws prevent any further extension of the current service provider of the BSF. DFID will therefore contract a service provider through international tender. The agent's contract will run for two years, covering an implementation period for NGOs of 18 months, from July 2010 to December 2011. There will be **no** extension to this implementation period.

6. A risk matrix for the BSFIA is attached. Though we judge implementation of service delivery to be medium risk, a high risk is attached to enabling GoSS to make the public sector and expenditure reforms necessary for long-term sustainability. GoSS has willingness and ambition to show that peace dividends are flowing from the CPA. However, it faces a number of challenges linked to the upcoming elections and referendum, which may affect its ability and focus to improve the delivery of basic services to its citizens. In our judgement, commitment to the BSFIA, flanked by a robust engagement with GoSS and improved supervision of delivery partners presents the best chance of a successful transition to recovery in Southern Sudan.

## **2. Project Details:**

### **2.1 Programme Description**

7. After many years of civil war, Southern Sudan continues to face huge challenges in building an economy and social infrastructure from scratch. If treated as a separate country, Southern Sudan's development indicators are among the worst in the world. For example, poverty incidence is 90%; overall literacy 24%; access to improved sanitation 7%; maternal mortality among the highest in the world at 2,054/100,000. Under-five mortality is more than one in eight (135/1,000 live births). As a land-locked, oil-dependent, post-conflict territory, South Sudan has all the risk factors that define a 'fragile state'. The elections scheduled for early 2010 and the referendum for 2011 pose further risks to stability.

8. DFID established the BSF in 2006 to respond to these challenges. The BSF aimed to provide a 'peace dividend' as humanitarian operations wound down and the Multi Donor Trust Fund (MDTF- South) – the main vehicle for development in South Sudan – established capacity to deliver services. DFID Sudan (Khartoum) originally made direct grants to NGOs, but in January 2007 Mott MacDonald was contracted to manage the programme from Juba. This allowed for a permanent BSF presence in the field, daily contact with NGOs and interaction with Government and stakeholders.

9. The BSF continues to serve a vital function beyond its anticipated life-span (two years) and delivers what no other pooled fund has succeeded to do. The most recent annual review shows the BSF to be meeting 10% of all needs identified by the Joint Assessment Mission (JAM). Because of continued delays in the MDTF and the reorientation of the SRF mandate, the BSF was extended from January 2009 – August 2010. This was the maximum extension permitted by EU procurement law.

10. While it was hoped that GoSS and others would pick up the lead on basic services thereafter through the MDTF and SRF, bureaucratic delays, weak Bank management and poor capacity in GoSS have contributed to declining donor confidence. MDTF Phase II is in question and donors and GoSS have recently committed to reallocate unspent funds under phase I. The SRF, originally intended as the instrument to pick up basic services, lacks the capacity to do so and, at donor and GoSS requests, has been reoriented to help reduce violence and meet stabilisation objectives in Jonglei and Lakes states.

11. With no other options in place to deliver services, DFID and GoSS dialogue, based on the principles of the Juba compact, concluded the need for an interim arrangement that would allow for the continuation of service provision for a strictly limited period while GoSS, in partnership with the international community, developed credible sector plans for service delivery post 2011. Thus the BSF Interim Arrangement (BSFIA) implementation period will run from July 2010 to December 2011 (with the service provider

contracted from January 2010). In this period, the BSFIA will continue to play a bridging role providing primary health care, education, water and sanitation to target communities through NGOs. This will allow time for GoSS to finalise the payroll reforms for health and education and free up space in its budget to pick up financial responsibility for basic services thereafter. We will support GoSS to do this with technical assistance. It is recognised that while the BSF has delivered on the ground and quickly, it has done so in some cases by bypassing Government systems at state level. As a rapid response to the need to support NGO involvement in delivering basic services, it was not designed to focus significantly on building the capacity of GoSS and state line ministries.

12. The BSF's delivery record has attracted wider donor interest. Complementing the £28.5 million we have committed to the BSF since its inception, the Netherlands, Norway, and Canada contribute currently to phase II as follows:

- Netherlands - £6.5m;
- Canada - £3.9m;
- Norway - £3.72m.

13. The BSFIA proposes to spend approximately £26 million from July 2010 – December 2011, with donor burden share as follows:

- Netherlands - £7.5m (potential to rise to max £15m)
- Norway - £6.41m (60m NOK)
- Sweden - £5.26m (60m SEK)
- UK - £7.5m (could rise to maximum £11.5m).

14. The BSFIA is consistent with our stabilisation objective, bringing a much needed peace dividend to war affected communities and is a central pillar of our approved country plan.

### ***Goal and Purpose***

15. The Goal of the project is to support GoSS in maintaining and expanding education, water and sanitation to communities recovering from conflict for an interim period of eighteen months while GoSS conducts the sector wide dialogue. The purpose is to expand coverage and use of these services in Southern Sudan and to strengthen GoSS capacity to plan, monitor and co-ordinate non-state service delivery. Evidence of success will be that i) school enrolment rate increased by 21% (MDG 2); ii) child mortality reduced by 33 per 100 live births (MDG 4); iii) maternal mortality reduced by 255 per 100,000 (MDG 5); and iv) access to improved water increased by 7% and access to improved sanitation by 9% (MDG 7). (These outputs are subject to revision based on the latest assessments).

16. Following consultation with all stakeholders in Juba (GoSS, donors and NGOs) it was agreed that around 50% of the BSFIA finances will support health services with the remaining 50% split between education, water and

sanitation. (The proposed ratio may change as a result of NGO capacity and the proposed call for proposals).

17. The programme will have five interrelated outputs drawn from previous experience:

1. *Stronger primary education services*
2. *Stronger primary healthcare services*
3. *Water and sanitation services strengthened*
4. *Increased state-level GoSS capacity to deliver basic services – including local official capacity (ii), state planning (iii)*
5. *Stronger central GoSS commitment and capacity to delivery basic services – including lesson learning (iv), transition (v)*

- (i) **Availability and use of basic services infrastructure in underserved areas enhanced.** Although the project does not rule out building more infrastructure, primacy will be given to utilising existing but currently unused clinics, hospitals etc.
- (ii) **Service providers deliver improved and demand-led services in project areas.** Focus on enhancing the quality and sustainability of service provision in project areas, by providing training and professional development to those responsible for the maintenance of service infrastructure. Implementing NGOs will need to demonstrate that local officials have been actively engaged and that proposed projects are based on participatory planning with local communities and.
- (iii) **Officials at the GoSS, state and county level better able to plan, monitor and manage service provision in project areas.** Because of weak capacity the GoSS will likely need to partner with non-state service providers for the delivery of basic services over the medium term. BSF programmes will support the capacity of GoSS at all levels to plan, monitor and manage service non-state provision.
- (iv) **Decision makers in government, civil society and development agencies understand the main lessons drawn from the BSFIA and its individual projects.** The BSFIA Secretariat will appoint a full time Policy and M&E advisor who will not only oversee project M&E, but commission analysis and lesson learning and communicate this to key partners in government, the donor community and civil society.
- (v) **Smooth transition to post-2011 financing and related support to BSFIA funded projects.** To ensure the impact of the BSFIA lasts beyond 2011, and for synergies to be built with the SRF and the MDTF, a clear and detailed exit strategy, including who assumes financial and management responsibility for work currently being undertaken, for the programme as a whole and for its individual projects will be developed. This will need to be done under a GOSS lead of a sector wide dialogue.

## ***Impact***

18. Between January 2006 and December 2008 the BSF delivered basic services to 1.8 million people. Successes included providing:

- providing 300,000 children with primary education
- 1.4 million people with primary health care
- 453,000 people with access to water and sanitation.

19. The most recent analysis of impact of the BSF demonstrates that the fund's activities have met around 10% of the needs of South Sudan as assessed by the joint assessment (2005). Tangible deliverables to date include the construction of 21 schools and the training and employment of 800 teachers, the operationalisation of 64 health facilities, the installation of 246 boreholes, 785 latrines, and the establishment and training of 154 community water committees to maintain and rehabilitate assets. Phase II is currently underway and we will be in a position to report on impact by June 2010.

20. A recent instruments review highlighted the BSF as the primary modality for delivering a peace dividend to post-conflict communities. Its fast disbursing mechanism has made it the instrument of choice for NGOs who have actively campaigned for its extension. Its monitoring and evaluation mechanism, focussing on NGO peer reviews of BSF projects, has proved an effective mechanism for lesson learning across BSF projects, which participating NGOs have valued.

21. These design features will be incorporated into the BSFIA to ensure continued delivery of essential services throughout the interim period. In an effort to increase state involvement, sector representatives will participate in upcoming monitoring and evaluation missions of the proposed BSFIA, but we are also reviewing options for secondments into the line ministries and housing the service provider for the BSFIA within the Ministry of Finance to increase ownership.

## **2.2 Project Programme Appraisal**

22. Under the Country Plan approved by the Secretary of State in November 2008, DFID Sudan has six priority themes for the next five years, one of which is delivering more effective and sustainable basic services. This project contributes directly to this objective, while less directly supporting objectives around security and capacity building. It also integrates the Fragile States Principles into its design and is a central pillar of our HMG stabilization objectives in Sudan.

23. The BSFIA, like BSF phase II, is aligned with the expenditure priorities of GoSS for 2008 – 2011. These are: Security; Roads; Primary health care; Basic education; Water; and Livelihoods. Primary health care, basic education and water relate directly to the service delivery functions of the BSFIA. These expenditure priorities and individual Budget Sector Plans (2007-11) set out targets and activities for each of the three basic service sectors. These are

summarised in Table 1 below. In addition, our approach, in terms of the ratio of funding per sector, will also be shaped by GoSS consultations on sector priorities. We are presently having this dialogue with key ministries.

**Table 1 GoSS targets and activities for basic services 2008-11**

| <b>Priority area</b>          | <b>2011 Targets</b>   | <b>Main Activities</b>   |
|-------------------------------|---|--|
| <b>Primary Health Care</b>    | <ul style="list-style-type: none"> <li>• Provide 50% with basic health services.</li> <li>• Reduce infant and maternal mortality rates by 25%.</li> <li>• Increase routine vaccination coverage from 30% to 90%.</li> <li>• Increase awareness of HIV/AIDS from 5-10% to 90%.</li> </ul>                                      | <ul style="list-style-type: none"> <li>• Provide basic health services to 6 million people.</li> <li>• Reach 9 million people through vaccination campaigns.</li> <li>• Increase stock of functioning health facilities by 10%.</li> <li>• Train 4,000 health workers.</li> <li>• Undertake HIV/AIDS awareness campaigns.</li> </ul> |
| <b>Basic Education</b>        | <ul style="list-style-type: none"> <li>• Increase the gross primary enrolment rate to 1,762 million children.</li> <li>• Increase girls' enrolment to 40%.</li> <li>• Increase primary school structures by 50%.</li> <li>• Attain pupil-teacher ratio of 50:1 in primary.</li> </ul>   | <ul style="list-style-type: none"> <li>• Recruit 15,000 primary teachers and 5,700 AES instructors.</li> <li>• Train 13,000 existing teachers.</li> <li>• Rehabilitate / construct 500 primary schools.</li> <li>• Provide school feeding to 200,000 pupils.</li> </ul>  |
| <b>Water &amp; Sanitation</b> | <ul style="list-style-type: none"> <li>• Increase the proportion of rural population with access to clean water to over 40%.</li> <li>• Provide new &amp; rehabilitated schools and health facilities with access to safe water and sanitation.</li> <li>• Increase awareness of hygiene amongst rural population.</li> </ul> | <ul style="list-style-type: none"> <li>• Construct 6,500 new boreholes.</li> <li>• Maintain &amp; repair 3,650 existing boreholes.</li> <li>• Construct 4,550 latrines.</li> <li>• Sanitation and hygiene awareness campaigns.</li> </ul>  |

24. The BSFIA is aligned with other development partners' expenditure priorities. While BSFIA will remain a DFID administered fund, Netherlands, Norway and Sweden will contribute through delegated cooperation agreements (e.g., silent partnership). The BSFIA Steering Committee and Secretariat will work in conjunction with other donors (e.g. USAID) to ensure

that priorities and geographical focus are compatible with their spending plans.

## **Approach**

25. Delivering basic services is central to progress toward the MDGs, growth and sustaining the peace in Southern Sudan. The BSF approach of funding non-state service provision while engaging the government in decision making and oversight has proven to be reasonably efficient and effective. The BSF has proved itself to be relatively quick in making decisions and allocating funds. It has delivered tangible 'peace dividends' to the communities in which it works and its projects are having a real impact on the ground (see section on Impact).

26. The BSFIA follows a tried and effective way to deliver basic services and increase GoSS' engagement in non-state service provision. In the short term, non-state service provision will remain important given that, even with improvements in GoSS capacity, non-state actors will have to deliver a large proportion of services in Southern Sudan. When the BSFIA closes in December 2011, it is expected that the GoSS will contract at least some of those NGOs delivering basic services directly under public-private partnership agreements, linked to a GoSS-led sector wide approach, behind which the current BSFIA donors can align support.

## **Economic Appraisal**

27. An educated and healthy population is fundamental to economic growth. Without sustained investment in basic health and education, human capital development in Southern Sudan will continue to be low and growth will be limited. The BSFIA works to address this human capital deficit directly by ensuring that basic services are delivered to the people of Southern Sudan. More generally, the BSFIA provides value for money in an environment in which it is difficult and costly to deliver results. The recent BSF review also found that the Service Provider was generally delivering value for money, and that BSF-funded NGOs have largely justified their overheads.

[Our economist will conduct a more in-depth economic appraisal in the coming weeks.]

## **Social Appraisal**

28. The poverty context of Southern Sudan is complex and under-researched. The limited indicators available demonstrate that the region is among the poorest and underserved in Africa. However, the civil war affected different communities in different ways and there are considerable variations in poverty dynamics. A range of cultural and socio-economic factors, such as limited participation of girls in the education system and the labour demands on boys in pastoralist settings, also acts as barrier to people using basic services. All projects funded will therefore be subject to rigorous gender appraisal. We will also introduce sex-disaggregated indicators into the logframe. The BSFIA and

its SC relies on the on-the-ground knowledge provided by implementing NGOs. As more information and analysis becomes available from the Population Census, Household Health Survey and the Participatory Poverty Assessment it will be easier for the BSFIA and other aid instruments to understand and address social inclusion and poverty dynamics in the South.

29. The BSFIA's emphasis on underserved areas and areas expecting high rates of IDPs and returnees, ensures that projects are targeted on some of the neediest and underserved groups in Southern Sudan. To receive funding, individual BSFIA projects must also demonstrate a clear strategy for addressing social inclusion: i.e. women, different ethnicities, returnees and refugees, children and the HIV positive.

### ***Civil Society***

30. The BSFIA will support capacity building and training of local NGOs and CBOs in management and technical skills relevant for service delivery. International NGOs guide and mentor local NGOs and Community Based Organisations on needs identification, delivery and implementation. This will allow some smaller organisations to participate in the recovery process and build their capacity over time to manage larger funds.

### **Political Appraisal**

31. Security concerns define the policy environment in the South. The CPA is inherently unstable being an agreement between the National Congress Party and the SPLM rather than an all inclusive political agreement. Little trust has been created between the two parties. And, as the interim period nears its conclusion, the significant issues where the CPA deferred resolution (such as the referendum on separation) are coming sharply into focus. The resumption of conflict along the border can not be discounted. GoSS has responded by increasing military expenditure, as illustrated by last years' supplementary budget allocation of resources for the SPLA. One consequence of this is that funding for and political engagement in development initiatives is being squeezed.

32. Other factors likely to contribute to downward pressure on development spending are: fluctuating oil prices (a major source of revenue for the south), corresponding fears of a financial crisis linked to the recent procurement scandal, political disagreements with the North over foreign currency reserves. The GoSS is also grappling with the consequences of an enormous post CPA expansion in the government payroll driven by the need to provide an immediate peace dividend to key groups and provide for its supporters. A lack of effective control and public financial management systems compounds the problem. Some in the GoSS may also feel that, come what may, the international community may continue to support recovery and development spending, thus allowing them to focus on defence and security.

### **Institutional Appraisal**

33. A more realistic assessment of the political and corresponding institutional realities in South Sudan needs to underpin all DFID financing decisions and interventions in the next few years. The link between people and the government that is crucial for state building has not yet been made. Following the signing of the CPA international efforts were focused on quickly standing up the central Government in Juba rather than government at the state and county level. Consequently, the relationships of accountability and responsiveness in which a strong state is grounded have not yet been established. In this context, it is now apparent that in the immediate post CPA period the MDTF was over optimistic and unrealistically designed.

34. The international community now needs to assist GoSS to build a firmer foundation for becoming a capable, accountable and responsive state. Central to this will be supporting the public service reform and decentralisation agendas – both currently enjoying high-level political support. A sharper focus on public financial management and corruption will also be required. Finally, greater attention will need to be paid to ensuring that the main instruments supporting non-state service delivery (such as the BSFIA) are working in tandem with political dialogue to build rather than undermine state accountability and structures and the connections between the government and the people on which they are founded.

### **Environmental Appraisal**

35. Potential environmental issues and corresponding good practice will depend on the service sector and local context. The key environmental impacts of the BSFIA relate to the construction and ongoing operation of schools, clinics and boreholes. In preparing their proposals, BSFIA-funded NGOs must assess the environmental impacts of their projects. The BSFIA states a commitment (consistent with Fragile States Principles) of ensuring all activities do no harm, which is achieved by proactive environmental screening and analysis in project design, approval and monitoring and lesson learning processes, together with dissemination of good practice. The Technical Secretariat, under SC supervision, have responsibility for this and ensure that the necessary operational modalities are in place. DFID will undertake an Environmental Assessment of BSFIA.

### **2.3 Lessons & Evaluation**

36. Evaluation of the initial phase of the BSF highlighted three key points, which will be integrated into the BSFIA:

- BSF accountability to GoSS is built around the SC (see section three below for a description of BSF Management Arrangements). But the quarterly reports do not bring many strategic issues or decisions to the attention of the SC. Under the BSFIA, this process will be strengthened, with stronger links between the SC and the GoSS built into the system.
- GoSS' limited capacity to deliver basic services directly means that the BSF's objective of enabling GoSS to 'plan, monitor and coordinate

service delivery' through non-state service providers is of prime importance as they are likely to remain the principal agents of service delivery for a considerable period. Under the BSFIA, the SC will broaden its remit to disseminate best practice into wider GoSS policy discussions. This will be through the BSFIA using specialists to facilitate sectoral meetings and using comparative reviews of distinctive approaches in health or education to present policy conclusions in an accessible form to GoSS and the wider donor audience.

- Through its mandate and ToRs, lessons will be taken from the BSF phase II to give the SC a clearer role in directing implementation and holding service providers to account for delays, overspends and non-performance. Committee members will also be appropriately trained.

37. The recent 2009 Annual Review of the BSF concluded that it had:

- increased Southern Sudan's basic service infrastructure and human capacity rapidly and effectively;
- funded important basic service operations for the short term, but not found ways to help GoSS to sustain them for the long term;
- the potential to contribute to GoSS basic service strategies and implementation capacities by helping to strengthen GoSS capacity; and
- offered an integrated approach to service delivery and capacity building in the 'middle ground' between relief and development.

In short, while immediate delivery has been good, sustainability and broader coherence between sectors has been less effective. The BSFIA will therefore focus its attention on maintaining service delivery, while simultaneously supporting a broader dialogue with GoSS on longer term, more sustainable delivery of basic services. In particular, it will look at improving capacity building support to GoSS.

### **3. IMPLEMENTATION**

#### **3.1. Management Arrangements**

38. The BSFIA will follow the current management arrangements of the BSF. The BSF is governed by a Secretariat, staffed by the Service Provider, and accountable to the BSF Steering Committee (SC). The SC is chaired by the Director of Foreign Aid Coordination from the Ministry of Finance. A representative of the Local Government Board acts as the Deputy Chair. Voting members include the GOSS sectoral Ministries of Health, Education, and Water, NGO (international and national) representatives, and DFID. The Joint Donor Office (JDO) (alongside USAID and the EC) also participate in the SC, providing advice on key sectoral issues. Given the changing aid architecture in South Sudan, representatives of the BSF, MDTF and SRF are all represented as observers within the respective steering committees of each to ensure better synergy and avoid duplication.

39. The SC has the responsibility for: i) approving BSF operational procedures; ii) determining the geographical and sectoral priorities; iii) project

approval; reviewing monitoring reports; and iv) prioritising and disseminating lessons learned. Our own role as the donor, and the leading position we play in the secretariats of other funds, adds weight to our representation and decision-making.

40. Project implementation will be sub-contracted to a service provider to be selected by international tender. BSFIA Monitoring and evaluation will be undertaken by the Secretariat comprising service provider staff in Juba, and by peer review of BSFIA implementing partners.

41. Joanne Raisin, Transition and Recovery Advisor, is the lead DFID advisor, and Rob Ower the Deputy Programme Manager. The Transition Advisor provides links to other service delivery and recovery instruments and processes, through their position on both the SRF and BSF SCs. The Joint Donor Office participates in all SC meetings as an observer, providing advice on key sectoral issues / links to other instruments.

### **3.2 Timing and Funding**

42. DFID Sudan established the BSF in 2006 with just over £17 million. In May 2008, a further extension of £2.5 million was agreed until 31 December, bringing the total allocation to around £19.5 million. A further £9 million was subsequently approved to extend the BSF for the period 1 January 2009 – 1 August 2010 and a new call for proposals. This was complemented by nearly £14 million from Norway, Canada and Netherlands under delegated cooperation agreements.

43. The BSFIA, proposes to spend approximately £26 million from July 2010 – December 2011, with donor burden share as follows:

- Netherlands - £7.5m (potential to rise to max £15m)
- Norway - £6.41m (60m NOK)
- Sweden - £5.26m (60m SEK)
- UK - £7.5m (could rise to maximum £11.5m).

44. In addition to new projects arising from the call for proposals, a number of projects currently under implementation by phase II will be extended until December 2011. These have yet to be confirmed.

45. A call for proposals will be initiated in January 2010, in order for projects to be selected in April and an 18 month implementation period to begin on 1 July, when projects under the BSF Phase II will close or transfer to BSFIA extensions. All projects will close on 31 December 2011, with two months allowed for administration, and the DFID programme closing on 28 February 2012.

46. All potential projects must include a detailed exit strategy in order to be assessed. The exit strategy will be considered at the call for proposal stage. In terms of ownership of DFID funded assets on completion, standard DFID rules and regulations apply.

### **3.3 Contracting and Procurement; Accounting and Audit**

47. The BSFIA will be financed through a contract arrangement with the service provider to be selected by international tender. Accounts will be audited by KPMG and sent to DFID. There are no special audit requirements regarding large scale procurements, although if the issue arose the service provider will engage one of DFID identified Professional Procurement Agents. Management guidelines for NGOs on how to dispose of assets procured under the BSFIA grant are already in place through BSF phase II. DFID consent will be obtained before finalising and distribution to NGO partners. The service provider will adhere to the disposal principles mentioned in the DFID Essential Guide to Rules and Tools (Blue Book).

### **3.4. Monitoring and reporting**

48. Day-to-day monitoring of BSFIA funded projects will be undertaken by the Service Provider. Twelve person months of additional call down support for specific monitoring and evaluation tasks, lesson learning and analysis has been budgeted. The BSFIA Secretariat will report progress and challenges to both DFID and the BSFIA SC. Additionally, the Secretariat will produce: (a) full progress reports at the end of each six-month period, with any proposed corrective action feeding into detailed work-plans for the next six-month period; and (b) a final report at the end of the assignment to be approved by steering committee. DFID will commission a multi-donor review in mid-2010. An independent Output to Purpose / Completion Review of the project on behalf of all donors will be commissioned by end of December 2011.

49. The BSFIA will use a NGO peer review mechanism for BSF projects, which has proved effective for lesson learning across BSF projects. In an effort to increase state involvement, sector representatives will participate in upcoming monitoring and evaluation missions.

## **4. Risks**

50. As part of our country plan we have developed a full risk matrix. A risk matrix for the BSFIA is also annexed to this project memorandum. We judge this project to be high risk when set against the need for GoSS to make the public sector and expenditure reforms necessary for long term sustainability.

### *Government capacity*

51. The transition of responsibility for service delivery from donors and NGOs to government is only feasible if government has the capacity to take this on. This will require greater progress on decentralised public sector reform to enable GoSS to begin to perform basic state functions more effectively and accountably. We are lobbying hard for the World Bank to take a stronger leadership role on public sector reform. Supporting this process is at the core of DFID and JDO goals over the next three years. With greater capacity in Juba and increasing demand from government for support in this area there is now an opportunity to make progress.

## *Government commitment and priorities*

52. GoSS is strongly committed to this programme, seeing the BSFIA as critical to scaling up delivery of the peace dividend. But the success of the programme will depend largely on the transition to a GoSS-led approach by December 2011. Before then, concrete steps will need to be taken on providing the salaries of health workers for example, or increasing GoSS' contribution to basic services. The budget revision in October 2008 demonstrates GoSS' overriding commitment to security. Following an oil price windfall, an in-year \$900 million, 61% increase in 2008 spending was authorised by parliament. Around \$400m of this was spent on the military, which saw an 80% increase in its 2008 budget. Only \$200m was allocated to 'recovery', and this mostly to address unfunded commitments made to contractors for roads and other infrastructure. A further allocation for the functioning of parliament outstripped GoSS' entire spending for the health sector. We are concerned that the GoSS priorities laid out at the Sudan Consortium were not reflected in the way the windfall has been allocated. A further concern is the sustainability of such a large budget increase, and a possible squeeze on non-military spending following the sharp oil price fall leading to a more austere budget for 2009. Although oil prices have risen again, there is a risk that GoSS will see the BSFIA as an alternative to providing its own funding.

53. This creates a major challenge for donors, but one that should be expected in a post-conflict fragile state. We should understand the GoSS priority for security. However, maintaining stability and providing effective government requires a balance between security objectives and delivering peace dividends.

54. We will approach the situation in three ways. Firstly, donors will undertake a much tougher dialogue about reciprocity and mutual commitment to recovery and in particular, through a sector wide dialogue for basic services that aims to lock in GoSS leadership and resources by December 2011. This will be in the context of clarity that there will be no extension to the BSFIA. The December 2011 end date will not be negotiable. Secondly, DFID is providing support for security sector reform to produce a modern efficient defensive capability at affordable cost. Thirdly, we are designing work on the underlying drivers of North-South tension as part of our efforts to support the CPA – for example work on oil wealth sharing and marginalised groups.

## **5. Conditionality**

**Not Applicable**