

# Do fragile and conflict-affected countries prioritise core government functions?

Stocktaking public expenditures on public  
sector institutions to deliver on 2030 Agenda

*June 2019*

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# Preface

This research explores the relationship between ‘core government functions’ (CGF) and transitions in fragile and conflict-affected situations (FCAS), using the context of five countries including Colombia, Myanmar, Pakistan, Sierra Leone and South Sudan as case studies. The report is part of a multi-country research project commissioned by UNDP that seeks to understand whether (and how) prioritising public spending on CGF can lead to more successful transitions towards peace in fragile and conflict-affected countries. It aims to do this by comparing the experience of different FCAS countries and assessing the extent to which these transitions have been facilitated (or not) by increased investment to rebuild CGF.

CGF are described as those functions that ‘are required to make and implement policy’ (UN-World Bank, 2017) and are defined as:

- **Executive coordination at the centre of government:** the ability of the core executive to effectively integrate central government policies across the public sector and act as the final arbiters between different elements of the government apparatus.
- **Public revenue and expenditure management:** the ability of the government to raise adequate levels of revenue and to spend it effectively, in order to meet the basic service delivery needs of the general population.
- **Government employment and public administration:** the ability of the government to establish basic capacity for defining and administering policies, regulations and programmes, in order to provide public services in a professional and transparent manner.
- **Local governance:** the extent to which the government has been able to establish political and institutional structures and processes at the subnational level, which are responsive to the specific needs of diverse local populations.
- **Security sector:** the ability of the government to restore order and provide basic security for the population, consistent with a political settlement that enables the economic and social functions of society and local communities to resume.
- **Aid management:** the ability of the government to establish developmental partnerships and effectively manage external resources by directing them towards strategic priorities in line with national development plans.

Rebuilding CGF which are responsive and legitimate are viewed as critical undertakings for countries transitioning out of conflict. However, evidence of the connection between public spending and institutional restoration and resilience is sparse. While there are a number of studies which link public spending with improvements in institutional capacity to deliver necessary services, such evidence is largely absent from contexts of conflict and fragility. This research aims to begin addressing this gap.

# Acknowledgements

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The synthesis report was written by Yadaira Orsini and Jo Robinson from the Conflict, Security and Violence Team at Oxford Policy Management, with substantive inputs from Jairo Acuña-Alfaro, from UNDP.

Several authors contributed to the writing of the respective case studies as follows: Colombia by Yadaira Orsini and Dayna Conolly; Myanmar by Nick Travis and Thet Aung Lynn; Pakistan by Kiran Tariq; Sierra Leone by João Morgado and Jo Robinson and South Sudan by Florian Krätke and Manisha Marulasiddappa.

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This research was produced in consultation with members of the UN Interagency Platform on Core Government Functions in Countries Impacted by Fragility and Conflict (IPCGF). The Interagency Platform is co-chaired by the United Nations Development Programme (UNDP) and the United Nations Department of Political and Peacebuilding Affairs (DPPA) and comprises of the UN Secretariat and UN agencies, funds, and programmes mandated to and involved in supporting the strengthening of CGFs in fragile and conflict-affected settings.

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# Executive Summary

Re-building Core Government Functions (CGFs) which are responsive and legitimate is a critical process in a country transitioning out of conflict. Although there is much evidence to support the need for effective government institutions to sustain transitions away from conflict, understanding what is required to successfully develop institutional capacity within core government apparatus in fragile and conflict affected situations (FCAS) is a largely neglected area. Indeed, evidence of the connection between public spending, institutional restoration/reform and resilience is sparse in FCAS. Addressing this gap in understanding is increasingly important in light of the continuing trend towards the concentration of poverty in FCAS.

With its ambition to leave no one behind, the 2030 Agenda poses great demands on governments core functions and institutions to provide integrated and multidimensional responses to development challenges. This is particularly relevant to countries affected by fragility and conflict, as the public administration becomes the chief provider of social protection and public goods while co-existing among formal and informal ineffective political power arrangements. These arrangements are products from protracted struggles between the various powers competing for control over resources.

The public administration of any country, developed, developing, or fragile, embodies a large and complex set of issues, procedures and structures related to the management of personnel, institutions and relationships. These issues are exacerbated in developing and fragile settings given their nascent institutions and the pressures deriving from the dependency of socioeconomically disadvantaged groups on the public sector.

The challenges associated with conditions of fragility and violent conflict are daunting and multidimensional. The strengthening of public institutions is at the heart of Sustainable Development Goal 16, as it aims to enable core functions of government as an essential strategy to promote just, peaceful and inclusive societies. It encompasses both technical and political aspects associated with the functioning of the government apparatus and the delivery of public services and goods.

By testing the hypothesis that - *Fragile and conflict-affected governments that prioritise restoring core government functionality in their national budgets are more successful in their transitions towards peace and development* – this study aims to assess whether countries that prioritised CGFs had better peacebuilding and state-building outcomes and to better understand whether, and how, prioritising spending on CGFs can lead to more successful transitions towards peace in FCAS. Quantitative and qualitative data has been collected across five case study countries: South Sudan, Myanmar, Colombia, Pakistan, and Sierra Leone.

In order to test this hypothesis, the research asked four key questions for each of case study countries. The questions and our findings are presented below.

### **1. What areas are prioritised in government expenditures in FCAS?**

- Quantitative analysis of CGF spending over the full period of transition in each country demonstrates the primacy of the security sector in each case, and equally the lack of prioritisation given to the public administration sector.
- The type of transition influences the space for, nature and timing of specific reform, but restoration is never truly ‘starting from scratch’ and destruction through conflict will not necessarily erase the challenges which existed in previous institutions.
- What is common to all the case studies is the strength of the executive and the centralisation of political power, in opposition to devolution and effective local governance.
- Technocratic reforms such as in public revenue and expenditure management, and to a lesser extent public administration, tend to be more resilient even in complex political contexts, ongoing fragility and protracted crises.
- Successful reform is possible when there are reform-minded officials; ‘champions’ within ministries - even where the political leadership is not prioritising a particular reform agenda.
- Similarly, technocratic leadership has supported some of the most successful reform processes.

### **2. Do spending priorities change before, during and after a violent conflict? Does priority national budget spending shift in particular areas and timeframes during a transition?**

- Timing and sequencing of reforms across the core government functions remains a challenging process to unpick.
- For countries facing protracted crisis, notable escalations of violence triggered a prioritisation of the security sector across the transition timeline.
- Commitments resulting from peace agreements or political settlements have considerably influenced spending patterns and government priorities.
- Security sector reform emerges as one of the most urgent priorities in many contexts, but is often highly politicised and requires government and donor alignment for meaningful and more transformative reform to take place.
- Expenditure is not the only indicator of prioritisation, or of improved functionality.

### **3. Are public expenditures and donor commitments on core government functions conducive and aligned to their restoration needs in fragile and conflict-affected settings?**

- Donor commitments in protracted crises face challenges in the context of multiple transitions and cyclical phases of violence.
- Donor priorities have also shifted within particular functions over the course of transitions in protracted crises.
- In some cases, donor prioritisation of CGFs seems to wane after a certain period of time from the formal end to the conflict, or a key moment of transition (even where underlying fragility remains), and in situations of protracted crisis

- There does not appear to be a quantitative relationship between government and donor spending on core government functions over the transition periods we have investigated.
- The extent to which reforms can be donor-driven is closely linked to the financial influence of donors.
- Successful reforms have often come about when donor and domestic priorities align, and the best examples of success occur when there is sustained national ownership and leadership.

#### **4. What implications does this have on the risk of relapse into conflict?**

- Quantitative analysis shows little connection between government effectiveness and fragility.
- Lack of reforms or incomplete reforms are more connected to risks of conflict relapse than (increasing or decreasing) levels of expenditure.
- Similarly, and particularly in contexts of protracted crises, reform processes which are not inclusive or only provide benefits to a particular group (unless such efforts are intended as a protection measure) are un conducive to supporting peaceful transitions.

#### **Conclusions**

Our findings indicate that the research hypothesis does hold when three key conditions are true:

1. **When CGFs are prioritised by both governments and donors, and there is continued national ownership and leadership** for expenditure in particular areas to support meaningful reform.
2. **When CGFs are prioritised before the formal end of a conflict, and continue to be over a sustained period of time, even in protracted crises to deliver ‘complete’ reform**, rather than initial prioritisation and then a gradually declining interest by both governments and donors.
3. **When expenditure results in reforms which are genuine and equitable, benefitting society at large** rather than only a particular group or set of groups within it, or when expenditure on a function is being instrumentalised by the government for its own political agenda.

Since levels of expenditure and increased functionality are difficult to trace, the question of what success looks like remains open. For the purposes of this study, an indicator of success is a reduction in the risk of relapse into conflict. Success in CGF spending also encompasses other aspects such as service delivery, which points to a need to further unpack this idea and adapt it to what it looks like in each country.

#### **Recommendations**

In light of these findings, the research puts forward six key recommendations for the donor community:

1. Understand expenditure within the broader political economy to unpack the incentive structure behind potential government support (or not) for specific reforms, and drivers of particular prioritisation.

2. Engage consistently and continuously, even in the most challenging situations.
3. Tackle the challenging reforms early on, not only the short-term fixes.
4. (Re)Conceptualise transitions to develop a more nuanced understanding of the type of transition - or multiple transitions - a country is undergoing.
5. Raise the profile of the debate around CGFs, and promote the framework.
6. Understand what the picture of CGF expenditure and reform looks like in more FCAS contexts.



# Overview

## *Synthesis Report*

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## List of abbreviations

ARN	National Agency for Reincorporation (Colombia)
CGFs	Core Government Functions
CPA	Comprehensive Peace Agreement (South Sudan)
DACU	Development Assistance Coordination Unit (Myanmar)
DDR	Disarmament, Demobilization and Reintegration
FATA	Federally Administered Tribal Areas (Pakistan)
FCAS	Fragile and Conflict Affected Settings
HMRO	Human Resource Management Office (Sierra Leone)
IFMIS	Integrated Financial Management Information System
JEP	Special Peace Justice (Colombia)
MDAs	Ministries, Departments and Agencies
MOD	Ministry of Defence (Pakistan)
MTFF	Medium Term Fiscal Framework
PFM	Public Financial Management
PSRU	Public Service Reform Unit
SPLA	Sudan People's Liberation Army (South Sudan)
SPLM	Sudan People's Liberation Movement (South Sudan)
SSR	Security Sector Reform

# 1 Introduction

Re-building Core Government Functions (CGFs) which are responsive and legitimate is a critical process in a country transitioning out of conflict. Although there is much evidence to support the need for effective government institutions to sustain transitions away from conflict, understanding what is required to successfully develop institutional capacity within core government apparatus in fragile and conflict affected situations (FCAS) is a largely neglected area. Indeed, evidence of the connection between public spending, institutional restoration/reform and resilience is sparse in FCAS.

Addressing this gap in understanding is increasingly important in light of the continuing trend towards the concentration of poverty in FCAS. Currently about 1.8 billion people live in fragile contexts, but this figure is projected to grow to 2.3 billion by 2030. Upwards of 620 million people, or 80% of the world's poorest, could be living in these contexts by 2030<sup>1</sup>. As the poorest and most vulnerable are those most dependent on effective and functional government service delivery, it is in these contexts where government functionality is most needed, and simultaneously where it is often severely lacking. However, peacebuilding makes up only a fraction of overall ODA spending. In 2016, just 10% of all ODA was spent on peacebuilding, with only 4.2% spent on core government functions in the most fragile contexts<sup>2</sup>.

This figure belies evidence from countries that have made significant progress in their transition processes through investments in core government functionality. For instance, Rwanda has made significant and sustained progress in its transition, which has been underpinned by a prioritisation of CGFs. According to the Institute for Economics and Peace (IEP), US\$18.35 billion was committed to peacebuilding ODA in Rwanda from 1995 to 2014, with 60 percent - US\$11.33 billion - spent on core government functions<sup>3</sup>. From 1999 to 2000, after the introduction of the government's Vision 2020 plan, spending on core government functions increased from US\$107 million to US\$409 million. Since then, peacebuilding and statebuilding expenditure has continually increased over the past 15 years. It is of course important to note that progress in Rwanda has been underpinned by strong local ownership and decisive political leadership - both key factors in enabling a successful development trajectory in partnership with donors. Nevertheless, it is also argued that reforms 'were often the direct consequence of the government's concern to address particular issues pertaining to state ineffectiveness, rather than the mere result of the adoption of formal rules to please donors'<sup>4</sup>.

As the global agenda on peacebuilding and conflict prevention advances, commitments such as the UN's Sustaining Peace Agenda and Sustainable Development Goal 16 of promoting peaceful societies and effective, accountable and inclusive institutions, will need to address core government functionality. Tangible evidence of the ways in which CGF reform has impacted on transition trajectories will be crucial in moving this agenda forward.

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<sup>1</sup>OECD (2018)

<sup>2</sup>Ibid.

<sup>3</sup>Institute for Economics and Peace (2017)

<sup>4</sup>Chemouni (2017)

With its ambition to leave no one behind, the 2030 Agenda poses great demands on governments core functions and institutions to provide integrated and multidimensional responses to development challenges. This is particularly relevant to countries affected by fragility and conflict, as the public administration becomes the chief provider of social protection and public goods while co-existing among formal and informal ineffective political power arrangements. These arrangements are products from protracted struggles between the various powers competing for control over resources.

The public administration of any country, developed, developing, or fragile, embodies a large and complex set of issues, procedures and structures related to the management of personnel, institutions and relationships. These issues are exacerbated in developing and fragile settings given their nascent institutions and the pressures deriving from the dependency of socioeconomically disadvantaged groups on the public sector.

The challenges associated with conditions of fragility and violent conflict are daunting and multidimensional. The strengthening of public institutions is at the heart of Sustainable Development Goal 16, as it aims to enable core functions of government as an essential strategy to promote just, peaceful and inclusive societies. It encompasses both technical and political aspects associated with the functioning of the government apparatus and the delivery of public services and goods.

In sum, without a functioning government with an operational public administration, the aspiration of the 2030 Agenda will not be realized. Strengthening core government functions to better manage and deliver public resources is a key strategy to keep people out of poverty. It is the most marginalized who need most a responsive and inclusive public sector.

Effective, accountable and responsive institutions are fundamental to the achievement of peaceful and inclusive societies as envisioned in the SDGs. Nowhere is this objective more salient, and more elusive, than in both developing countries as well as societies that have been deeply affected by political fragility and conflict. These core functions of government are essential for development, statehood and resilience. They all are dependent upon the capacity of the civil service to function and deliver.

## 1.1 What are CGFs?

CGFs are described as those functions that ‘are required to make and implement policy’ and are defined as:

- **Executive coordination at the centre of government:** the ability of the core executive to effectively integrate central government policies across the public sector and act as the final arbiters between different elements of the government apparatus.
- **Public revenue and expenditure management:** the ability of the government to raise adequate levels of revenue and to spend it effectively, in order to meet the basic service delivery needs of the general population.

- **Government employment and public administration:** the ability of the government to establish basic capacity for defining and administering policies, regulations and programmes, in order to provide public services in a professional and transparent manner.
- **Local governance:** the extent to which the government has been able to establish political and institutional structures and processes at the subnational level, which are responsive to the specific needs of diverse local populations.
- **Security sector:** the ability of the government to restore order and provide basic security for the population, consistent with a political settlement that enables the economic and social functions of society and local communities to resume.
- **Aid management:** the ability of the government to establish developmental partnerships and effectively manage external resources by directing them towards strategic priorities in line with national development plans<sup>5</sup>.

Although for the purposes of the research each of these functions has been analysed separately, in reality they are overlapping and interdependent. Improvements in public revenue and expenditure management could result in more effective distribution of local governance resources or improved aid management for example. In this sense, each function is of equal importance; technically, strategically and politically. The question for this research is which CGFs governments choose to prioritise across a particular transition timeline and why.

In a post-conflict context, the design and implementation of governance reforms target three overarching and interlinking areas: reconstituting legitimacy, re-establishing security and rebuilding effectiveness<sup>6</sup>. Broadly, the six CGFs identified above are essential for achieving these three goals. Executive coordination is vital for ensuring overall government effectiveness and reconstituting legitimacy through constitutional reform and re-establishment and allocation of functions and authorities across branches and levels of government. Well designed and executed public revenue and expenditure management systems and processes allow for transparent and accountable distribution of government funds aligned with the country's public service needs.

Successful government employment strategies and public administration capacity is also crucial to the challenge of rebuilding effectiveness; providing a functional and capable public service which attracts talented and professional individuals is essential to deliver the often urgently needed service provision. Effective local governance is crucial in both reconstituting legitimacy and rebuilding effectiveness: realising inclusive and equitable service delivery across the country as well as establishing state presence in those areas far from the centre. Security Sector Reform (SSR) is arguably the cornerstone for ensuring post-conflict stabilisation and vital for re-establishing security by ensuring order is restored, providing citizen security and justice, and dealing with ex-combatants. Appropriate aid management is also vital for rebuilding effectiveness, ensuring external resources are managed efficiently and transparently will ultimately improve the likelihood of development goals being achieved.

<sup>5</sup>United Nations-World Bank (2016)

<sup>6</sup>Brinkerhoff, D (2005)

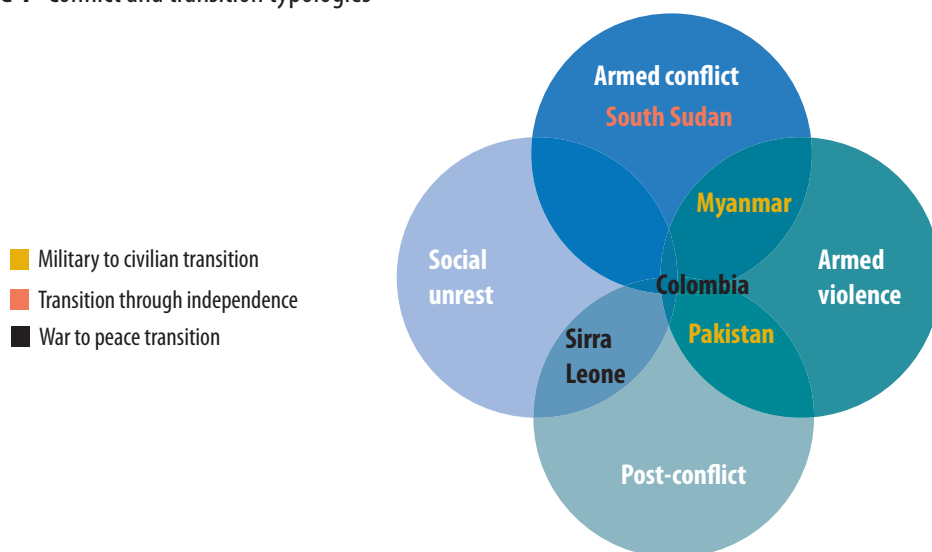
The aim of this study is therefore to assess whether countries that prioritised CGFs had better peacebuilding and state-building outcomes and to better understand whether, and how, prioritising spending on CGFs can lead to more successful transitions towards peace in FCAS. It is hoped that the findings from across the five case study countries can support and inform the ways in which governance assistance in post conflict and transitional contexts are conceptualised and designed.

# 2 Methodology

## 2.1 Country case study selection

Our approach has been to select a suite of countries which experience a variety of types and timings of transitions, including those experiencing protracted conflict. The selection was also based on an adequate geographical spread of countries, as well as on the need to be confident we could access sufficient data to undertake robust analysis. In light of these 3 considerations, the countries selected are: **South Sudan, Myanmar, Colombia, Pakistan, and Sierra Leone**. This selection includes countries which are currently undergoing post conflict or transition processes and others that have already done so. It also reflects different types of transitions, including transitions from military to civilian power (Myanmar and Pakistan), transitions from “war to peace” (Colombia, Sierra Leone), and transitions that resulted from independence (South Sudan).

**Figure 1** Conflict and transition typologies



Source: Adapted from conflict typologies in Orsini and Cleland (2018)

## 2.2 Conceptualising transitions

The level of complexity in contemporary conflict dynamics and the nature of protracted conflicts, means it is challenging to create a clear-cut definition of ‘before’, ‘during’ and ‘after’ a conflict, as Figure 1 illustrates. In order to overcome this conceptual challenge, and in recognition of multiple transition processes which can occur as countries embark on post conflict transition, our approach

has been to select several key milestones which we consider to indicate important moments of transition.

This approach is in line with Brown et al.<sup>7</sup> who understand post conflict scenarios, not as a period bounded by a single event but rather a process that involves the achievement of a range of what the authors call “peace milestones”. This recognizes that post-conflict countries move through a transition continuum (where countries can also go backwards) rather than move from fixed boxes of “conflict” and “peace”. This means we have considered a variety of conventional milestones; such as the signing of peace agreements, cessation of violence, disarmament, demobilization and reintegration (DDR), as well as those which reflect this complexity, such as major changes in conflict dynamics and first elections after ceasefires or political settlement.

Understanding transitions in this way has been particularly important for assessing protracted conflicts. From our case study selection, three countries fall under this category: Colombia, Pakistan and Myanmar, all of which trace the origins of their conflicts back to the 1960s. Our approach for each of these has been to focus on the ‘modern conflict’, but the study recognises that more generally, 21<sup>st</sup> Century conflicts do not follow traditional patterns and are increasingly non-linear and often cyclical. Rather, modern conflict manifests as cycles of repeated violence, instability or weak governance either nationally or sub-nationally<sup>8</sup>.

Furthermore, fewer civil wars end in outright victory today, with five times more conflicts ending in peace settlements than military victories compared to the 1980s when seven times more conflicts ended in victories<sup>9</sup>. This decline in ‘victories’ means “war outcomes fail to decisively settle the rules of the new order”, making transitions out of conflict all the more fragile or even leading the way for new types of conflict to emerge. Evidence suggests that peace agreements and ceasefires are more likely to collapse within 5 years, and that institutional transformation, in the best of cases, takes anywhere from 10-17 years to achieve meaningful progress<sup>10</sup>. As such, lasting and sustainable transitions are a long-term process. Indeed, success stories such as Rwanda point to sustained prioritisation of peacebuilding expenditure (including on CGFs) for more than 15 years<sup>11</sup>.

## 2.3 Quantitative methodology

### 2.3.1 Expenditure Trend Analysis

In order to address the research questions regarding government expenditure in the selected fragile and conflict affected states, we conducted a trend analysis of public spending on core government functions. The expenditure trend analysis includes two main components:

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<sup>7</sup>Brown, G, Langer, A & Stewart, F. (2011)

<sup>8</sup>World Bank (2011)

<sup>9</sup>Von Einsiedel, S. (2014)

<sup>10</sup>UNDP (2014)

<sup>11</sup>IEP (2017)



1. **An overview of the composition of expenditure and revenue as well as the sustainability of public finances (e.g. fiscal balance) throughout the transition processes undergone in each country:** To help understand whether variations in CGF-related expenditures were part of broader structural changes or isolated events surrounding transition points.
2. **An in-depth analysis of CGF-related spending within the 6 year time-span surrounding the identified transition milestones:** To explore whether these changes in public spending were motivated by the prioritisation of certain policies/functions or by the availability (or lack thereof) of public resources.

The broader public expenditure and revenue patterns observed during these transitions allow us to contextualize and interpret changes in CGF-related expenditures surrounding the transition milestones. Overall, variations in budget allocations and expenditure are not solely based on policy-making exercises. In practice, these result from competing government priorities, existing fiscal space and political considerations. All of these elements have been taken into consideration when assessing the connection between public spending and the development of core government functions.

### ***2.3.2 Matching Core Government Functions with Public Expenditure***

In preparation of the expenditure trend analysis, OPM developed a theoretical framework connecting each core government function with public expenditure (see Annex A). This framework was used to guide to the process of data collection and analysis in each selected country. The framework connects the six core functions with the following items:

- **Measurable Priorities:** Subset of priorities for each core function established in the joint UN-World Bank publication on ‘rebuilding basic government functionality’ which can be explored through public expenditure trends (e.g. create/strengthen a central public finance authority)<sup>12</sup>.
- **Relevant Institutions:** Set of institutions likely to control/execute budget allocations related to these priorities under each core function (e.g. Ministries of Planning, Finance).
- **Budget Lines of Interest:** Administrative, functional or economic budget lines related to these priorities under each institution and function (e.g. DDR budget lines)<sup>13</sup>.
- **Relevant Donor Programs:** Common aid programmes with CGF-related components (e.g. PFM reform programmes).
- **Outcome Indicators:** Internationally recognized datasets containing indicators on the status of core government functions (e.g. Fragile States Index, World Governance Indicators, PEFA).

Prior to country visits, the general framework was tailored to each of the specific contexts of the case study country. This involved an assessment of availability, accessibility and quality of the aforementioned data sources and an appreciation of potential data problems. Whenever available,

<sup>12</sup>United Nations and World Bank (2017)

<sup>13</sup>A case-study from the Institute of Economics and Peace (2017) tracked expenditures on core government functions in Rwanda between 1995 and 2014. The study includes examples of budget lines related to some of the core functions considered in this study. Available at [http://economicsandpeace.org/wp-content/uploads/2017/03/Measuring-Peacebuilding\\_WEB.pdf](http://economicsandpeace.org/wp-content/uploads/2017/03/Measuring-Peacebuilding_WEB.pdf)

the study has used functionally classified budget data which aggregates public expenditures according to their purpose which can be easily matched with core government functions. However, in Myanmar the study has been forced to resort to economic or administrative budget classifications. In such cases, assumptions have been made in order to link spending against specific Ministries, Departments and Agencies and the functions under analysis.

This matching exercise, and the underlying assumptions, have been informed by the available data on the constitutional division of roles and responsibilities and, importantly, by qualitative information acquired through key informant interviews. In Pakistan, data on actual public sector spending was limited to financial statements published by the Controller General of Accounts, federal budget data shared by the MTBF Cell in the Finance Division, and information available from published budget documents on the Government's official website. This has constrained the level of disaggregation in expenditure data available for analysis. All assumptions are clearly articulated in the case study country papers, and wherever possible, the approach has sought to maintain as much comparability of data between the countries as possible.

## 2.4 Qualitative methodology

In FCAS a qualitative understanding of the institutions, peace processes and constitutional arrangements is important to assess both the institutional arrangements and rules of the game among decision makers and the allocations and spending against core functions.

The purpose of the qualitative research is to provide a narrative that describes the restoration or reform process for each country, and to understand the political economy behind decision-making. The research team assessed a number of issues including, but not limited to, how these processes took place, what decisions were made and by who, the rationale and ownership behind the reform processes, if and how politics interfered, what was the role of donors, whether there was a particular sequencing, among others. Key informant interviews were conducted with representatives from government ministries, and relevant donor representatives from UN agencies, the World Bank, the IMF and other donors as appropriate. Where necessary, we also sought to consult external actors with a prolonged engagement in the selected countries such as local and international research centres and think tanks. We used two interview templates; one for country government representatives, and one for UN and other donor representatives. They are nuanced to reflect the different positions of the interviewees. Both templates can be found in Annex B.

This approach has allowed us to compare trajectories and processes of institutional rebuilding and reform against the backdrop of conflict dynamics, and the events that took place between each milestone. Reform processes and changes in conflict dynamics have occurred which are key

to understanding the evolution of institutions and systems for each core government function between one milestone and the next.

## 2.5 Research limitations

In some of our case study countries, there have been data limitations which we have made clear in the case study papers. In general the following data limitations have constrained the quantitative analysis:

- In certain case-studies, the absence or breakdown of Public Financial Management (PFM) systems has prevented the analysis of expenditure trends during certain periods of the transition processes<sup>14</sup>;
- In most cases, matching the functional or administrative budget classification and core functions has relied on certain assumptions leading to an under- or over-estimation of expenditures (e.g. assuming that the expenditure of an entire department or institution corresponds to a particular function);
- Similarly, certain Core Government Functions (e.g. executive coordination at the centre of government) are not confined to particular departments or institutions and are not easily visible in the typical functional budget classification;
- The available outcome indicators have not always allowed us to measure the specific objectives of each core function, and are not consistently available in all the case studies which has, in some cases, constrained their comparability.

With regards to the qualitative analysis, there were several instances where donor representatives and some government representatives had not been in post for the duration of the period of interest in each country, and we recognise that this may be a limitation to the type of information they were able to provide us with. Where possible we have accounted for this by consulting secondary sources of literature, and reaching out to interview those from think tanks and other international organisations who have a specific country focus and were able to provide a more detailed historical overview of particular areas of interest.

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<sup>14</sup>This situation is particularly common prior to inflection points in post-conflict countries.

# 3 Research Findings

## 3.1 Research hypothesis

The research hypothesis for this study is as follows: *Fragile and conflict-affected governments that prioritise restoring core government functionality in their national budgets are more successful in their transitions towards peace and development.*

Prior to analysing the link between public expenditure for CGFs and transitions, it is important to examine the link between CGFs and conflict. The underlying concept within the CGF framework is that stronger state institutions can stabilise a country, mitigating further violence and conflict, as well as resulting in improved state legitimacy and development outcomes by restoring the ability of the government to deliver key services<sup>15</sup>.

This hypothesis implies that transitions toward peace require an initial focus on stabilisation, in other words, to provide a minimum level of security and setting in motion an economic recovery to send ‘confidence-raising signals to the population’ and ‘project the authority of the state’<sup>16</sup>. This characterisation – which emphasises restoring CGFs – implies that countries facing violence and conflict are characterised by a breakdown or disintegration of government capacity to the point where the state can no longer fully exercise its power and maintain stability across the country. The CGF framework could therefore be described as embodying a statebuilding approach, which argues that supporting institutional restoration within the core government apparatus will result in greater security, improved service delivery and the foundations for economic development.

It is also important to raise the challenge of how to measure ‘success’ in terms of transition across the five case studies. The World Bank has recognised that the way ‘governance’ is measured is increasingly outdated, and that makes understanding success a real challenge<sup>17</sup>. In the absence of nuanced indicators which can paint an accurate picture of factors such as state capability, the effectiveness of different government departments and ministries and the extent of conflict and fragility, accurately capturing success remains beyond the scope of this study. For instance, unpacking the various indicators within the Fragile States Index demonstrates that an overall improving score (indicating decreasing levels of fragility) can mask a complicated picture of the reality in a particular context<sup>18</sup>. We recognise therefore, that the measures we are using are imperfect ones, and that success is likely to look different in each of the five cases.

That being said, experts consulted as part of this research provided important leads to start thinking about what success from spending in CGFs looks like in countries transitioning out of conflict. An immediate indicator would be a reduction in the risk of relapse into conflict. This

<sup>15</sup>UN-World Bank (2017)

<sup>16</sup>Ibid pp. 3

<sup>17</sup>See <http://www.worldbank.org/en/events/2018/05/15/states-of-disruption>

<sup>18</sup>This is aptly demonstrated in the Myanmar case study paper. While improvements have clearly been made on the economy and ‘state legitimacy’ (i.e. democratisation) indicators of the FSI, indicators related to ‘group grievance’ and the security apparatus have deteriorated significantly during the period of transition.

requires, however, that such risks are clearly identified for each country as this will largely depend on the political economy of each transition. Similarly, another potential indicator suggested was the idea of moving –or breaking- away from cycles of violence and instability to “more linear” conflict trajectories. Success in CGF spending and reforms also encompasses other aspects such as service delivery, state capacity and legitimacy, which points to a need to further unpack this idea and adapt it to the realities of each country.

In order to test this hypothesis, cognisant of these underlying assumptions, we asked four key research questions for each of case study countries:

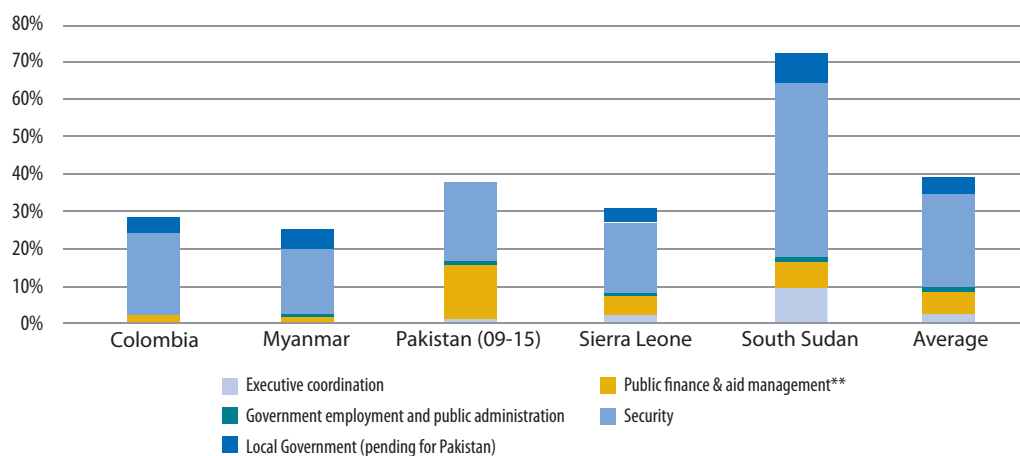
1. What areas are prioritised in government expenditures in FCAS?
2. Do spending priorities change before, during and after a violent conflict? Does priority national budget spending shift in particular areas and timeframes during a transition?
3. Are public expenditures and donor commitments on core government functions conducive and aligned to their restoration needs in fragile and conflict-affected settings?
4. What implications does this have on the risk of relapse into conflict?

We present findings for each question below, in order to highlight differences and similarities between different country case studies. It is however important to highlight that the transition in each country is unique to that context, and that although for the purposes of drawing policy relevant conclusions we have synthesised findings to the extent possible, precise policy responses should be tailored to individual cases. More specific detail on each country can be found in the case study papers.

### 3.2 What areas are prioritised in government expenditures in fragile and conflict-affected settings?

**Quantitative analysis of CGF spending over the full period of transition in each country (shown in Figure 2) demonstrates the primacy of the security sector in each case, and equally the lack of prioritisation given to the public administration sector<sup>19</sup>.** Though as we shall demonstrate, each country has its own very different set of reasons for prioritising spending on security, not always related to best practice reform priorities. Despite reasonable levels of expenditure on local governance in Myanmar and South Sudan over their transition periods, qualitative analysis demonstrates that the limited reforms in this area for both countries have been highly problematic and inherently connected with the conflict in each country. The reader's attention is drawn to the more considerable spend on CGFs overall as a total of domestic expenditure in Sierra Leone relative to other countries.

<sup>19</sup>It should be noted that this analysis is for illustrative purposes only. Each country's transition period varies in length and data limitations affect these totals in some countries more than others. It is therefore difficult to infer strong conclusions from this dataset.

**Figure 2** Average CGF spend as % of total government spending throughout respective transition periods

**The type of transition influences the space for, nature and timing of specific reform.** There are some commonalities in prioritisation in war-to-peace transitions (Sierra Leone and Colombia), in military to civilian transitions (Pakistan and Myanmar), and in contexts of protracted crisis; Myanmar, South Sudan, Colombia, and Pakistan. Even in contexts where many institutions need to be built from scratch, such as in transitions to independence like South Sudan and situations where conflict resulted in complete institutional collapse, such as Sierra Leone, institutional legacies can prevail; **restoration is never truly ‘starting from scratch’ and destruction through conflict will not necessarily erase the challenges which existed in previous institutions.** Transitions in countries such as Colombia and Pakistan where the existing structures around core government functions were relatively strong, provide the potential for prioritisation of reforms focused on transparency, accountability and oversight; rather than more direct improvements to the functionality of particular Ministries, Departments and Agencies (MDAs) for example. However, in both cases, donors and government technocrats face real challenges in reforming the structural legacies in place which allow governments to take advantage of CGF financing for political, and sometimes security gain.

In Sierra Leone, there was an obvious and immediate need to focus on reforming the security sector in the aftermath of conflict, given the connections between the conflict and the wider security forces, and the need to secure state control over its territory in light of conflict risks coming from neighbouring countries such as Liberia and Côte d’Ivoire. This area was therefore prioritised by both the government and international donors. Similarly, in Colombia and Pakistan, the prioritisation of the security sector (as evidenced by sustained increases in domestic spending and aid flows) was triggered by an escalation of violence and lack of state control over its territory. Because of the geopolitical risks each of these countries represented (mainly in terms of containing spill over effects: drugs in Colombia and terrorism in Pakistan), particularly for US interests, there was wide support from key donors provided for the security sector.

However, the nature of conflict and transition in each case influenced the type of reforms which were taking place. In Sierra Leone, conflict had contributed to almost complete institutional collapse, including in the security sector. This necessitated wholesale reform and restructuring of both the military and the police force, beginning with improvements to their basic operational effectiveness and rightsizing, with issues such as their governance and oversight coming later as a second-order set of priorities. These second-order priorities lagged behind in terms of efforts to secure support and buy-in from the government, coming further in the transition process when the security sector had dropped down the hierarchy of priorities. Meanwhile protracted crises with heightened insecurity, such as Pakistan and Colombia, demonstrated more sustained prioritisation of the security sector. The escalation of the conflict in the mid-1990s in Colombia and the sharp rise in terrorist attacks in Pakistan since the early 2000s led to increased expenditure and reforms aimed at strengthening the military apparatus rather than transformative security sector reform. In fact, throughout the transition timeline for Colombia, the priority was to modernise and professionalise the military (Plan Colombia) in an attempt to reach a decisive military victory. Reforms seeking to embed a human rights culture, gender equality, and review of competencies in light of the post conflict have only started to take place in the last three years.

In the early stages of the military to civilian transitions we examined, core government functionality was particularly poor with extremely limited service delivery under military regimes and the lack of an institutional tradition of evidence-based policymaking and reform. In these cases, capacity within government poses a very particular challenge, and in Myanmar the impact of the continued lack of civilian oversight or influence over the Tatmadaw's activities continues to mean the civilian government has limited control over critical areas of policy. The opportunities for meaningful reform are therefore more limited to a smaller sub-set within the six core government functions. In Pakistan we find a similar story in the sense that control and oversight of the state apparatus continues to rest largely in the hands of the military. Perhaps the one difference to note is that in Pakistan core government functionality across the board was not as weak as in Myanmar. For instance, Pakistan has had a fairly well established PFM system and traditionally has had a strong centre of government and security sector, though this is more a reflection of the mechanisms needed to sustain military rule.

**What is common to all the case studies is the strength of the executive and the centralisation of political power, in opposition to devolution and effective local governance.** In each case this centralisation has acted as a counterweight to local governance reforms, which have been slow, incomplete or entirely lacking. In Sierra Leone although some reform has been undertaken, meaningful devolution of decision-making is largely absent and both government and donors have been unprepared to take on the politically difficult challenge of reforming the chieftaincy structure. Similarly, in Colombia, although decentralisation efforts have been underway since the 1980s, a historically strong centralist state and a financially unsustainable structure at the local level remain key challenges. In Myanmar, the lack of local ethnic representation has been a key driver of conflict and despite some reforms in 2011 establishing State and Region governments such developments are, for the most part, superficial. Under Pakistan's current constitution, approved and ratified in 1973, the country is envisioned as a federal republic with four constituent provinces and federally governed regions; however, substantive federalism was only established in

March 2010, post military rule. Local governments have remained a weaker tier that has been used by the different martial law regimes to lend legitimacy to their rule. Indeed in Sierra Leone, Pakistan and South Sudan it can be argued that local governance reforms have been instrumentalised by central government to bolster its power and influence, and undermine that of the opposition. In Sierra Leone this means that uneven service delivery prevails and remains a source of tension in the country, while in South Sudan it has led to localised conflicts over boundaries and authority.

**Technocratic reforms such as in public revenue and expenditure management, and to a lesser extent public administration, tend to be more resilient even in complex political contexts, ongoing fragility and protracted crises.** This is often because they are not as politicised as other sectors such as security and local governance. In Myanmar where other areas of reform have proved extremely challenging, despite the PFM reform agenda remaining narrowly focused, reform to systems of revenue collection and expenditure management have been implemented with some notable improvements in overall functionality, such as the implementation of a Medium Term Fiscal Framework (MTFF) as part of ongoing efforts to strengthen budget preparation. In Sierra Leone PFM and public administration received more financial support both domestically and from donors than the more challenging areas of local governance and executive coordination, and led to the development of a legal framework to regulate the budget cycle, strengthening of budget execution through the introduction of an Integrated Financial Management Information System (IFMIS) and a reduction in the size of the public service. In South Sudan advances in public financial management, aid management and to some extent public service have led to administrative improvements. In Pakistan, the last two decades have seen significant progress in terms of the accuracy, comprehensiveness, reliability, and timeliness of financial and fiscal reporting; enhanced accountability and transparency; the use of financial information for informed decision-making; and oversight of the use of public monies through risk-based audits. Similarly, in Colombia key reforms in the PFM system, such as the introduction of the fiscal rule and performance-based budgeting, have led to an improvement in the government's capacity to link its strategic priorities to the budgeting process and ensuring that the budget is executed as planned. Although it is not always straightforward to identify genuine reform champions in these complex environments, the successes of these examples demonstrate a need to ensure close and sustained engagement, to ensure there are no generalisations about attitudes and behaviours within government.

**Successful reform is possible when there are reform-minded officials; 'champions' within ministries - even where the political leadership is not prioritising a particular reform agenda.** In South Sudan, dedicated technocrats in the Ministry of Finance worked alongside external advisers to simplify and standardise tools for preparing the national budget and execution reports, continuing to provide remote support until April 2018. These improvements emerged largely as a result of continuous investment of time and (comparatively limited) resources of reform-minded officials. Such institutional entrepreneurs have managed to navigate complex governmental politics and utilise moments of crisis to leverage their knowledge, connections and resources, and still continue to do so. Similarly, in Sierra Leone, specific PFM reforms including the introduction of a legal framework to regulate the budget cycle and



strengthened budget execution through the introduction of an IFMIS, were considered successful in spite of their limited support from the country's leadership. Although Sierra Leone's political leadership were wary of their potential to restrict the prevailing discretion over public resource management, backing from a core group of senior finance officials ('reform champions') was a key contributor to their successful implementation.

**Similarly, technocratic leadership has supported some of the most successful reform processes**, where leaders have been able to create or protect the spaces which enable reform, using their political capital even at the expense of their public popularity. In Colombia, this role has been largely played by Presidents as ultimate leaders of peace negotiations. The National Agency for Reincorporation (ARN) offers an interesting example of this. The creation of a Presidential Sector gathered a number of highly dissimilar institutions under it, from the National Infrastructure Agency to the ARN. This was attributed both to administrative decisions but also to the need to 'protect' certain institutions from becoming too politicised. By being under direct control of the President, the more technically oriented entities, such as the ARN, "were allowed to do their job".

### **3.3 Do spending priorities change before, during and after a violent conflict? Does priority national budget spending shift in particular areas and timeframes during a transition?**

**Timing and sequencing of reforms across the core government functions remains a challenging process to analyze.** In the immediate aftermath of conflict and transition, donors and governments find themselves asking; what is a priority when everything is a priority? There are windows of opportunity in the early transition period for certain reforms, but a lack of political will for others – balancing these two dynamics remains challenging. For example, in Sierra Leone donor and government priorities aligned around reforming the security sector, but there was much less political appetite for these reforms to include civilian oversight and accountability mechanisms. These gaps remain today and have become increasingly problematic. Similarly in the area of local governance, the 'low hanging fruit' reforms were pursued, but reforming the chieftaincy structure was left aside; again a problematic structure which is now embedded within local government and will be extremely challenging to reform. In Colombia, and to a lesser extent in Pakistan, institutional development has taken place throughout (and in spite of) the armed conflict. In Colombia, the reform trajectory has been incremental, with each 'wave' of reform seeking to modernise and increase efficiency of existing structures. Many of the recent reforms seem to be aimed at reaching 'second-tier' objectives, having already established a basic level of functionality. As such, many of the reforms of CGF-related institutions are now geared towards setting up integrated information systems, training of staff and introduction of meritocracy, and increasing transparency and accountability to the public, particularly in the PFM and public administration functions.

**For countries facing protracted crisis, notable escalations of violence triggered a prioritisation of the security sector across the transition timeline.** In Colombia, between 2006 and 2017 alone, expenditure on the security sector increased by 48% in constant prices, while at the same time increasing as a proportion of total government spending from 15.7% to 17.3%. In

terms of reforms, as mentioned before, the aim of these was to strengthen military capacity rather than seeking more accountable and transparent security apparatus. In Pakistan, the highest growth rate began with the period of military rule of General Musharraf and then peaked in 2008 to 2010 when the military offense against the insurgency in tribal regions was at its peak. A minor increase in expenditure on law and order by the provincial governments was also observed. Interestingly, in South Sudan, spending on the security sector as a percentage of total domestic expenditure peaked in 2012-2013 and 2015-2016; corresponding with two periods of renewed conflict, but rather than bolstering military capacity to ensure territorial security, this appears to be more closely connected to rewarding different militia groups in an attempt to build extensive networks of support for the government.

**Commitments resulting from peace agreements or political settlements have considerably influenced spending patterns and government priorities.** For example, following the establishment of peace in the Swat Valley and the Waziristan region in Pakistan, a major change induced by these events can be evidenced by the additional 1 per cent of net divisible taxes pool allocated to the Khyber Pakhtunkhwa province in the National Finance Commission of 2009. Such resources are allocated to the reconstruction and rehabilitation of areas affected by the war on terror. With the merger of the Federally Administered Tribal Areas (FATA) and Khyber Pakhtunkhwa provinces through a Constitutional Amendment in May 2018, the Government is considering assigning 3 per cent of the total divisible pool for an ‘accelerated development’ of FATA. In Colombia, the peace agreement has prioritised spending geographically and by sector. In the first case, the post conflict budget prioritises the 170 municipalities most affected by the conflict. In the second case, security spending is now third after health and education, which is consistent with the national development plan priorities on equity, peace, and education. In fact, the creation of a new sector on Social Inclusion and Reconciliation, tasked with eradicating poverty and laying the grounds for peaceful coexistence, is evidence of the evolving prioritisation. Even though it remains small in comparison to other sectors (6 per cent of total expenditure in 2017), it increased two-fold since 2000 in connection to the DDR program and the peace process.

**Security sector reform emerges as one of the most urgent priorities in many contexts (as demonstrated in Figure 2), but is often highly politicised and requires government and donor alignment for meaningful reform to take place.** In certain contexts this is hugely challenging, for example Myanmar and Pakistan (see Box 1 below). In South Sudan, the fragmentation of the military has been a key factor the country’s phases of conflict. The perverse incentive structure means the government does not seek to prioritise security and order in the country, and every faction is driven by the need to protect its own interests and security. This has made the function of the sector more focused on establishing authority, not security and blurs the lines between the civilian and military in South Sudan. Reforming the security sector is therefore a deeply challenging task even as it permeates almost every aspect of governance in the country. The picture in Sierra Leone was very different, where in the early stages of transition the government did prioritise the security of the country. Public confidence in both the military and the police was extremely low as a result of pervasive corruption and an inability to maintain public order, so the government saw SSR as a vital strategy to consolidate the political settlement. Although there was disagreement over the form of SSR the alignment of donor and government priorities was key to the success of early reforms in this area.

### Box 1: Security Sector Reform in military to civilian transitions

Despite moves towards civilian rule since 2010 and free elections in 2015, the Tatmadaw continues to be the most powerful institution in Myanmar, having used its prolonged control of state power to become the dominant political and economic force in society and limiting the autonomy of the state. As a result, security has continued to account for a large percentage of the overall budget during the transition, reflecting the Tatmadaw's dominant role in Myanmar's overall governance. Meaningful reform of the security sector is thus a hugely challenging prospect, and one which is closely linked with the peace process in the country. Ethnic armed groups in Myanmar demand the reform of the armed forces along federal lines, integrating their forces into a 'federal' army. However, the question of how to achieve this and indeed how to determine the role of the Tatmadaw in the civilian-led governance structure of the country remains unanswered.

Pakistan faces similar challenges, where civilian control and oversight of the security apparatus continues to be weak. The Ministry of Defence (MOD) is the overall body responsible for law and order and security within Pakistan, mandated to deal with policy and administrative matters pertaining to the armed forces. In practice, the three branches of the armed forces—Army, Navy, and Air Force—are virtually autonomous and their linkage to the MOD is merely administrative, the latter exerting little or no power over the budgeting, operations, or personnel management within the defence forces.

**Expenditure is not the only indicator of prioritisation, or of improved functionality.** Evidence from several countries suggests that there are instances of successful reform with minimal expenditure, and conversely incidences of high levels of expenditure which have not resulted in meaningful and effective reform. For example, the creation of the aid management system in Myanmar required only small uptick in expenditure to move from almost no functionality to the development of a comprehensive Aid Policy and the establishment of the Development Assistance Coordination Unit (DACU). This unit is widely regarded as working very effectively – playing an advisory role under the government's economic committee and an important role in providing approvals for large aid programmes - whilst costing very little, since the individuals are all also full-time employees in separate institutions. Conversely, in South Sudan, high levels of expenditure on public administration did not equate to improved functionality or indicate government prioritisation, instead representing an increasingly bloated civil service, both in terms of recruitment and salaries. Expenditure in the public sector was used as a means to buy to support and peace in the early transition period and has come to act as a safety net. As a result, spending on salaries crowded out investments in service delivery and infrastructure, even when there was fiscal space to make these investments.

### 3.4 Are public expenditures and donor commitments on core government functions conducive and aligned to their restoration needs in fragile and conflict-affected settings?

**Donor commitments in protracted crises face challenges in the context of multiple transitions and cyclical phases of violence.** In Myanmar, as the transition progressed, donors increasingly moved away from supporting only humanitarian causes to directly developing capacity in government agencies. Although this policy is aligned with a statebuilding approach and has resulted in improvements in functionality in some areas, in the context of Myanmar this shift away from directly supporting ethnic communities and increasingly funding Naypyitaw (the capital city) has caused tensions. In South Sudan, although in the immediate post-conflict period and after independence, efforts were made both by government and donors to align their priorities, donor approaches became increasingly fragmented. Whilst the government made 3 year plans, donors planned annually which made it challenging to predict donor commitments. Similarly, the Multi-Donor Trust Fund over-estimated the government's capacity to implement complex programmes and was thus very slow in getting off the ground, and achieved limited results, prompting donors to increasingly channel aid bilaterally. By 2010, 70% of aid was channelled bilaterally outside of pooled funds. After 2013 when conflict broke out again, donors gradually shifted their focus to providing humanitarian assistance and this trend has continued amid increasing instability and macro-economic uncertainty. The contradiction in South Sudan is that diminishing levels of support in the face of a worsening security situation meant public finance functions (among others) suffered, and gradual improvements which had been made were quickly reversed. The moment at which donor support to technical governance functions was most critical was precisely when the political and security situation prevented its delivery.

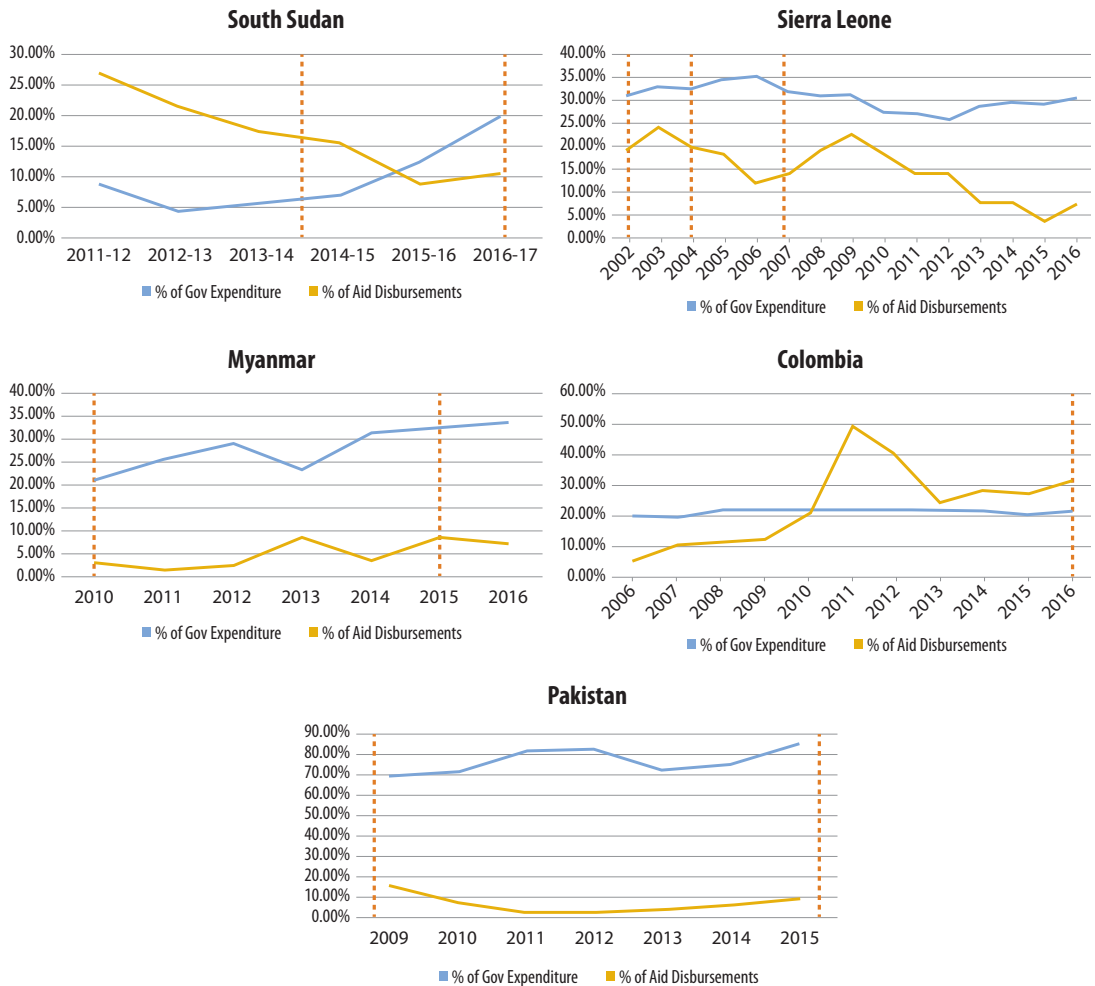
**Donor priorities have also shifted within particular functions over the course of transitions in protracted crises.** In Pakistan and Colombia, where international aid largely supported the security sector throughout the late 1990s and early 2000s, we can observe a shift in the composition of security aid flows. Aid has shifted from investments in the security apparatus to civilian peacebuilding, conflict prevention and resolution in both Pakistan and Colombia. Furthermore, in the case of Colombia, aid flows to the legal and justice system have been increasingly prioritised over peacebuilding itself.

**In some cases donor prioritisation of CGFs seems to wane after a certain period of time from the formal end to the conflict, or a key moment of transition (even where underlying fragility remains), and in situations of protracted crisis.** In some cases this has resulted in stalled or incomplete reform processes. Figure 3 below indicates that external expenditure on CGFs dwindles considerably in Sierra Leone and South Sudan, and shows no increasing trend in Colombia and Myanmar despite ongoing or very recent transition points.

**Looking across the case study countries, there does not appear to be a quantitative relationship between government and donor spending on core government functions over the transition periods we have investigated.** As shown in Figure 3 government expenditure on CGFs remained very flat across the entire period, despite a notable spike in aid disbursements in

2011. In Sierra Leone aid disbursements to CGFs have been volatile, and have dramatically reduced since 2009. However Sierra Leone appears to be the only country where there is a loose trend for donor spending on CGFs to increase after a transition point (in both 2002 and 2007). In Myanmar the 2012-2014 trend may indicate alignment where donor spending and that of government are opposing, a trend also loosely observed in South Sudan post-2014, but this is not indicated as a trend in the remaining data.

**Figure 3** Percentage government expenditure and aid disbursements on CGFs<sup>20</sup>



<sup>20</sup>Dotted lines indicate our identified transition points for each of the countries.

**The extent to which reforms can be donor-driven is closely linked to the financial influence of donors.** There are indications of limited donor influence in contexts where natural resources form a large part of domestic revenue, and conversely, in contexts where aid forms a large proportion of the domestic budget, incentives are more closely aligned to donor priorities. This trend is clear in Sierra Leone, where in the early period of post-conflict transition donor-driven reforms were largely accepted and pursued domestically due to the significant proportion of the country's budget being comprised of aid (approximately 25% in 2004 and 2005). After an initial period of stability allowed for the resumption of natural resource operations, government income from iron-ore post 2007 saw donor influence dwindle. Similarly, in South Sudan, government access to high levels of oil revenue to finance its spending needs from 2005 onwards meant that, with the exception of the MoFEP, donors have had only limited influence over decisions made by the senior ranks of government. This has resulted in a situation where development partners have a limited say in developing or supervising CGF reform, despite pledging significant resources towards CGFs through the Multi Donor Trust Fund and other pooled funds.

**Successful reforms have often come about when donor and domestic priorities align, and the best examples of success occur when there is sustained national ownership and leadership.**

Although examples of this are few, Colombia offers a good case. The signing of the peace agreement in 2016 harnessed donor support for CGF and peacebuilding. As seen, this support has been more political than financial, which points to an alignment in terms of “division of labour”. While the Colombian Government led its peace process, the donor community protected the space for dialogue and helped build trust amongst the parties in a highly politicised and polarised society. As seen in the Rwanda case, sustained prioritisation of expenditure on CGFs (through either peacebuilding or state building umbrellas) and strong domestic ownership and vision were key success factors. Similarly, in Colombia domestic ownership is evidenced by the extent to which reform processes and expenditure in CGFs are sustained by national resources. While Plan Colombia may have been conceived in the U.S., it was certainly paid for by the Colombian government. The same can be said for the current peace deal, with the GoC covering approximately 90% of the peace costs, and donors covering the remaining 10%. In such a context, the role of donors has been key in the political arena. As such, donors' support (particularly the UN and EU) has been aligned to the needs of the transition process (i.e. protecting fora for dialogue, building trust between the parties, monitoring commitments). There were no examples of sustained and successful reform without some level of domestic prioritisation.

### 3.5 What implications does this have on the risk of relapse into conflict?

**Quantitative analysis shows little connection between government effectiveness and fragility.** Using the World Governance Indicator on percentile ranking of Government Effectiveness as a proxy for the progress that governments make in achieving at least one of their key governance reform targets (rebuilding effectiveness), it might be expected that improvements in this score would see an inverse correlation with the fragile states index ranking through two potential causal pathways: firstly, that improved governance reduces the propensity for a country to relapse into conflict and therefore decreases its fragility; secondly, as fragility increases it hampers the ability of the state to effectively govern over its territory and thereby carry out its various functions.

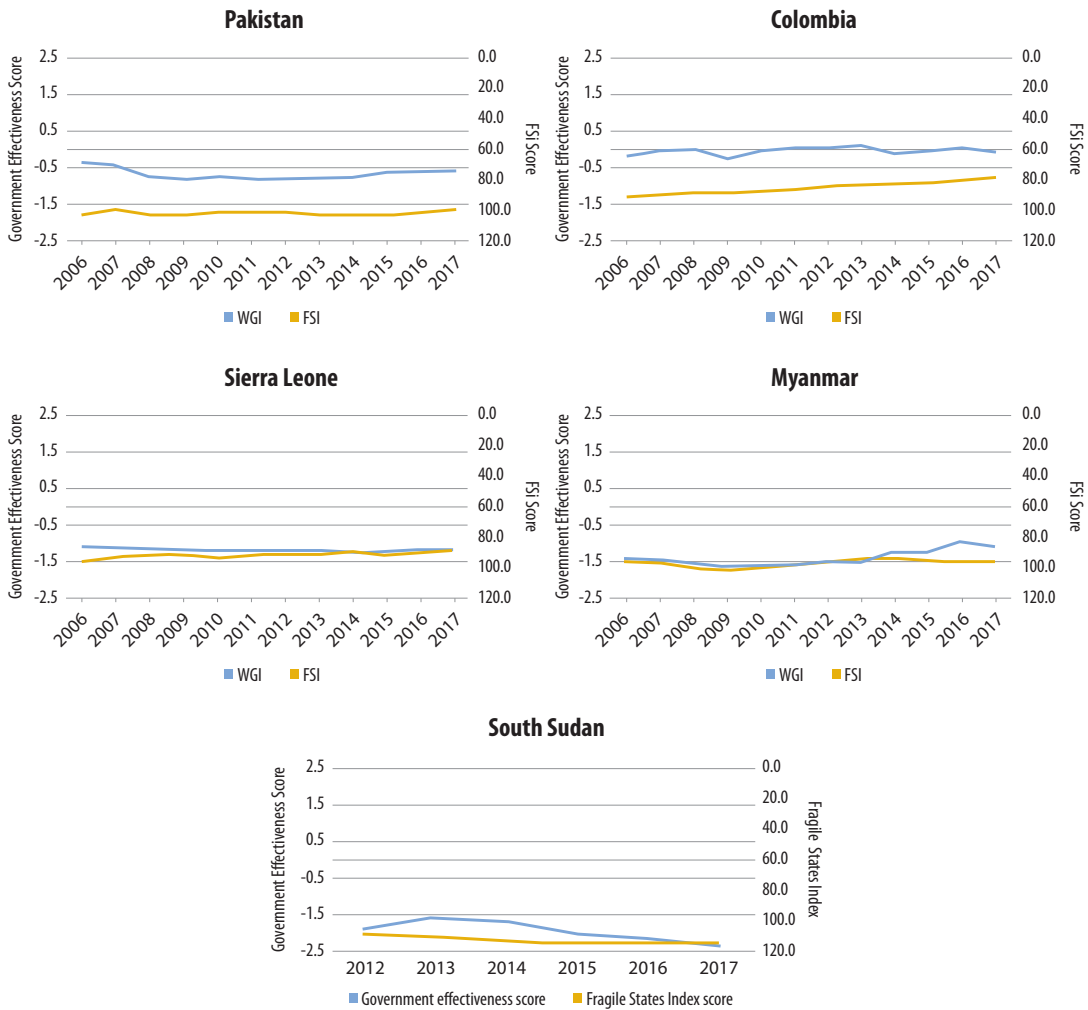
## Box 2: The connection between oil revenues and expenditure on CGFs

In South Sudan, net oil revenues had more than doubled during the period of transition to independence to over USD 2.2 billion in 2010, and further increasing oil prices drove the rapid growth of the administration through a patronage-based system (clientelism). Government expenditure was largely on salaries, allowances and issuing contracts for services. South Sudanese interviewees have referred to government positions being viewed as a 'social welfare mechanism', and anecdotally indicated that government's loose procurement practices at the time explain the large increase in the number of businesses operating in the country over the transition period (from approximately 2,000 in 2007 to over 17,000 companies in 2012). Such clientelism, as well as political repression, featured heavily in efforts to secure the secession referendum, and was for many interpreted as being 'formalised' with independence. The oil shutdown from 2012 to mid-2013 led to a significant drop in revenue, which limited the Sudan People's Liberation Movement (SPLM) senior leadership's abilities to manage the large clientelist structures. Paying salaries and basic operating costs for the organised forces as well as the civil service remained a priority – at between USD 1-2 billion, these comprised 60 per cent of overall spend. To sustain this level of spend in 2012, GRSS significantly reduced spending on public investment and other non-salary items, and other CGFs lost out. This pattern continued with the rapid fall in global oil prices in the second half of 2014: with no reserves left, government was tasked to manage increasing spending levels while net oil revenues halved in three consecutive years. Reducing levels of foreign exchange, steady government borrowing and rapidly diminishing trade levels due to insecurity all contributed to rapid exchange rate depreciation, and double-digit inflation month-on-month, leading to a collapse in the value of civil service salaries and security continued to decrease. This in turn resulted in a halving of aid disbursements to core government functions – several large support programmes to core institutions closed down, and new development aid commitments increasingly targeted maintaining basic social service delivery.

In Colombia, the drop in oil prices also took its toll on public –and CGF– expenditure. From 2010 to 2013 when oil prices soared, public expenditure increased close to 1.6 per cent, going from 17.6 per cent to 19.2 per cent of the GDP. However, as oil prices fell drastically and the economy began a process of deceleration, public expenditure was not adjusted in the same proportion, remaining close to 19 per cent of the GDP. The oil shock created a considerable imbalance in the fiscal accounts: in 2013, oil income reached 3.3 per cent of the GDP but in 2015, such income completely disappeared. At the same time, the depreciation of the exchange rate brought about by the oil price drop increased the value of external debt and interests, creating additional pressures to public expenditure. Government employment was perhaps the function most affected by this. In an attempt to counter such a fall in income, the Government cut back on expenditure by freezing staff costs, reducing by 15 per cent all general costs and cutting the investment expenditures by 13 per cent. Despite such measures, and due to the highly inflexible nature of some budget components, public expenditures as a percentage of the GDP only decreased by 0.3 points. Meanwhile, the National Planning Department and Ministry of Finance had calculated the expected cost of the post conflict for the next 15 years. Against such a dire economic backdrop, the government turned to a major re-focalization of the budget in order to draw out the resources to cover the costs of the post conflict.

However, as Figure 4 suggests, this relationship is weak at the very most, aside from South Sudan where it is worth noting that changes from the 2012 baseline indicators are actually marginal. In Myanmar, as highlighted in the case study report, it is critical to recognise that conflict has not generally been caused or characterised by a disintegration of state capacity, but rather the legitimacy of the central government. So despite a rapidly increasing fragility score

**Figure 4** Case study country World Governance and Fragility Scores



Source: World Governance Indicators and Fragile States Index



between 2006 and 2009, its ability to effectively govern remain unchanged over the same. The conversely rapid decline in fragility sees little change as well. In Sierra Leone, the data shows a steady decrease in government effectiveness over 2006-2017, coinciding with a parallel reduction in fragility. Similarly in Colombia, government effectiveness remains largely unchanged when comparing the baseline and endline figures, despite a consistent decline in fragility over the entire period.

**Lack of reforms or incomplete reforms are more connected to risks of conflict relapse than (increasing or decreasing) levels of expenditure.** Though these are intrinsically connected, what our research has found is that in some contexts, there are connections between (a) a lack of reform, or incomplete reform and (b) conflict risks. For example the connection between poor service delivery and the incomplete nature of decentralisation and local governance reform in Sierra Leone was revealed as a major concern during the Ebola crisis. Additionally, the lack of clarity and agreement over the implementation of the Special Peace Justice (JEP) in Colombia was cited as one of the biggest obstacles for the transition process, with interviewees further stating that this was more of a political problem than a spending issue.

**Similarly, and particularly in contexts of protracted crises, reform processes which are not inclusive or only provide benefits to a particular group do not serve to support peaceful transitions.** For example, while there have been reforms to local governance in Myanmar, most notably through the introduction of subnational fiscal transfers following the creation of State/Region governments - this has increased from around 3 per cent of total Union expenditure to around approximately 8 per cent of the budget in FY 2015/16 - a lack of genuine local governance persists. Chief Ministers of the State/Region governments are still appointed by the President, State/Region governments have a very limited revenue base and must rely on transfers from the union level. The powers of State/Region governments to raise revenue are limited to low value areas – even though many of the ethnic states are home to valuable natural resources. In many sectors there has been no decentralisation of powers, but rather de-concentration of Union ministries to State/Region level. This ultimately means that the majority of government policy is determined by Naypyitaw.

In South Sudan, although there was considerable government and donor spending on core government function reform programmes leading up to, and in the early years after independence, internal tensions at the level of local communities and ethnic groupings over land, security and resources – originating during the two lengthy civil wars that preceded the Comprehensive Peace Agreement (CPA) – were insufficiently addressed and in part exacerbated during the transition period. A largely clientelist political settlement was in this period formalised through a steady process of state capture, in which access to the state's significant oil resources was competitively distributed. A significant share of the high levels of spend on core functions throughout the period under analysis – both before and after relapses into conflict – supported such state capture. This is reflected an extremely large government payroll, as a result of successive drives to employ large numbers of young, uneducated ex-combatants as well as returnees and to pay key senior officials large allowances, as well as high recurrent government operating costs as a result of large numbers of costly government contracts and public sector benefits that drove up spending arrears. Such excessive spending can particularly be seen in those institutions that are mandated to deliver core government functions.

# 4 Conclusions and Recommendations

Our findings indicate that the hypothesis for this research - *Fragile and conflict-affected governments that prioritise restoring core government functionality in their national budgets are more successful in their transitions towards peace and development* – can hold when three key conditions are true.

1. **When CGFs are prioritised by both governments and donors, and there is continued national ownership and leadership** for expenditure in particular areas to support meaningful reform.
2. **When CGFs are prioritised before the formal end of a conflict, and continue to be over a sustained period of time, even in protracted crises to deliver ‘complete’ reform**, rather than initial prioritisation and then a gradually declining interest by both governments and donors.
3. **When expenditure results in reforms which are genuine and equitable, benefitting society at large** rather than only a particular group or set of groups within it, or when expenditure on a function is being harnessed by the government for its own political agenda.

**Since the connection between expenditure and increased functionality is difficult to trace, the question of what success looks like remains open.** For the purposes of this study, an indicator of success is a reduction in the risk of relapse into conflict. Success in CGF spending also encompasses other aspects such as service delivery, which points to a need to further unpack this idea and adapt it to the reality of each country.

However, we have also found it to be the case that meaningful reform of core government functions can come about with minimal levels of budget prioritisation, and there are lessons to be learned from where this has been the case.

## 4.1 What works?

The case study countries provide a number of interesting examples of how best to achieve the three conditions set out above.

### How to align donor and government priorities

Although we have seen that donor influence over government prioritisation is often linked to their financial influence, and this is often lower in contexts where natural resource revenues finance a considerable part of a country’s budget, Colombia indicates that **donors can also exert political influence over government priorities. This is about striking a balance between hands-on guidance and support, and knowing when to take a step back and respect and promote national ownership.** In Colombia, donors respected the vision of the government’s peace deal, they advised on it, but ultimately it was designed - and paid for - by the government. The role of donors then became to help create the space and conditions for such a vision to materialise.

Even in contexts where the political leadership of a country are not prioritising a particular reform area, it remains possible for donors to **affect change by identifying and working with technocratic ‘reform champions’**. Examples from both Sierra Leone and South Sudan indicate that working with such champions in difficult political contexts was key to successful reforms, not least because these institutional entrepreneurs manage to navigate complex governmental politics and utilise moments of crisis to leverage their knowledge, connections and resources. While the research recognises the need for pragmatism to do what there is space to do; targeting areas which might be stepping stones for larger reforms for instance, it seems increasingly important that in these challenging environments **the international community should not shy away from some of the more politically challenging reform areas**, or risk these becoming entrenched throughout a transition and hence more difficult to reform.

From a donor perspective, alignment also requires tailoring support which understands both the capacity and the resources within government to implement reforms; both of which are often much more limited in FCAS contexts.

### How to continuously prioritise CGFs over a sustained period

Several cases have shown that **prioritisation of CGFs can begin *before* the formal end to conflict or moment of transition**. In Sierra Leone, donors began supporting reform of the security sector several years before the formal end to the conflict, and this led to early successes in terms of right-sizing and improving basic effectiveness; vitally important in the security context of the country. In Colombia, the evolution of public expenditure has happened alongside an evolution of institutions responsible for core government functions, meaning structures and systems were in place by the time the peace deal was signed.

**Even in contexts of protracted crisis and ongoing violence, it is possible to continue supporting reform process**. In each of our five cases, **technocratic reforms such as in public revenue and expenditure management, and to a lesser extent public administration, tended to be more resilient to instability and were more likely to be sustained**. This is often because they are not as politicised as other sectors such as security and local governance.

**Continuous prioritisation can be achieved without continuous expenditure either by donors or government**. Examples from Myanmar illustrate some, albeit small, reform successes with very limited expenditure. For instance by establishing an effective Development Assistance Coordination Unit (DACU) playing an advisory role under the government’s economic committee, made up of individuals who are full-time employed in separate institutions.

However, the research recognises that donor commitments in protracted crises face challenges in the context of multiple transitions and cyclical phases of violence, and South Sudan was a particular example of this. The difficult question remains: how can you continue to engage in a meaningful way in the most challenging contexts, even when the political and security situation is deteriorating?

## How to ensure reforms are genuine and equitable

There are unfortunately fewer examples of success in this area, indicating that this is perhaps the most difficult condition to achieve. What several of our case studies indicate is the danger of **expenditure in a particular sector being harnessed for political gain or political survival by the government**; such as security sector and public administration spending in South Sudan. Indications are that **designing programmes which are inclusive of a broad group of stakeholders and multiple parties to the conflict**; involving both civilian and military institutions in the case of South Sudan, may help to bolster the influence of reform programmes and thus their outcomes.

The absence of good evidence to demonstrate how this condition can be achieved, means there remain several unanswered questions. Both Myanmar and South Sudan illustrate two notable dilemmas: How can governments and donors achieve this equitability in the context of a non-inclusive political settlement? And how might it be possible to balance humanitarian assistance with support for central government when they are seen by the population as being a party to the conflict?

## 4.2 What could work? Recommendations for the donor community

**Understand expenditure within the broader political economy so as to gain insight into the incentive structure behind potential government support (or not) for specific reforms, and drivers of particular prioritisation.** This can be particularly useful where such reforms are less technocratic and focus on oversight and accountability, and such an analysis will also help to identify reform-minded individuals with whom donors can work. In addition, the UN CGF framework could even provide a structure around which to conduct a PEA, illuminating the potential windows of opportunity and the reform options within the functions as well as between them.

**Engage consistently and continuously, even in the most challenging situations.** Needs are greatest in times of crisis and withdrawing in moments of political instability means that reform processes simply follow cycles of violence and any improvements in functionality are lost. Understanding the nuance under which technical staff/technocrats operate in FCAS, and especially in protracted crises, is vital to continue to push for reforms, even in the face of political instability and push-back. Lack of such engagement can lead to an attitude to generalise the incentives that drive decision making and behaviours within the government.

**Tackle the challenging reforms early on, not only the short term fixes.** Our case studies indicate that donors need to be bold in moments of transition. While short-term reform ‘fixes’ will bring about short-term stability, key challenges and weaknesses which remain unaddressed in moments of transition, risk becoming more entrenched structural problems which are increasingly difficult to solve as time goes on. Providing political and financial support for some of the most difficult reforms up front is crucial for the long-term stability of countries transitioning away from conflict.

**(Re)Conceptualise transitions.** Whilst this research does not seek to advocate for a categorisation of countries according to typologies of conflict or transition, the differences between the case studies demonstrate that a nuanced understanding of the type of transition - or multiple transitions - a country is undergoing is vital for donors considering the prioritisation of CGFs. It helps not only to understand the institutional legacies of a conflict or period prior to a transition point and the extent to which that background will influence likely developments, but in addition it helps to elucidate the political economy of decision-making within a government as well as the sets of incentives which exist to prioritise, or not, a particular CGF. In turn, this understanding can bring about more tailored responses to reform packages in FCAS and we hope, will help the donor community to move away from pre-conceived plans based on ‘best-practice’ which are not embedded in the political realities of a specific context.

For UNDP in particular, there is space to **raise the profile of the debate around CGFs, and promote the framework**, both within the institutions’ own country offices and beyond, with other donors. There is clear alignment with the World Bank, but UNDP often also works closely with bilateral donors. From the experience of this research, these donors are often not familiar with this agenda. It would also be beneficial to **understand what the picture of CGF expenditure and reform looks like in more FCAS contexts**. Having more examples will help to provide further guidance on how best to analyse CGF expenditure given different classifications, and will provide a bigger picture with which to test the findings of this study.

### 4.3 Which areas require further investigation?

There are however a number of so-called ‘wicked’ or intractable problems where further investigation, perhaps using other case studies, would prove helpful to identify methods by which these can be addressed.

- Common to each of the five case study countries was the centralisation of political power and reluctance to enact meaningful local governance reform and devolve decision-making. This was especially acute in countries transitioning from military to civilian rule, and has meant that in most of the case study countries meaningful local government is largely absent. How to rebalance this status quo and challenge centralisation, particularly in the context of historical conflicts in these countries, is a real dilemma.
- The precise timing and sequencing of reforms both within and across CGFs is a complex process to unpick. Particularly in contexts where there has been institutional collapse, or the need for a new set of institutions exists such as transitions to independence, donors and governments find themselves asking; ‘what is a priority when everything is a priority?’ Balancing windows of opportunity at certain transition points with lack of political will in particular reform areas remains challenging.
- Making a strong connection between expenditure and functionality is particularly demanding, especially in FCAS where data can be patchy, or in some instances non-existent. Even with good quantitative and qualitative data to understand the ‘reform story’ behind the development of a certain function, it remains difficult to make definitive claims about the link between

expenditure and functionality. Further thinking on indicators of functionality, even if individual to a specific context, would greatly benefit research in this area. Similarly, the question of what success looks like requires further attention. If a reduction of the risks of conflict relapse is one way to go about it, then risk assessments will be required to identify what these are for each country. Such an analysis will need to be complemented by considerations on service delivery and state legitimacy, among others.

Further work in this area could consider a closer examination of the distribution of expenditure within a country; at local or provincial level, since local governance emerges as such an important factor in FCAS. Although accessing and analysing this level of data would be challenging and considerably more involved, it would enable a more robust analysis of the equitability and effectiveness of government expenditures. Another consideration would be to pinpoint what expenditure is genuinely discretionary within particular departments. Such a method would provide a more accurate picture of where reforms are genuinely possible.

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## Annex A Theoretical Framework

Core Function	Measurable Priorities	Relevant Institutions	Budget lines of interest	Relevant Donnor Programmes	Outcome Indicators
<b>Executive decision-making &amp; coordination at the centre of government</b>	Structured, routinised and predictable decision-making process	PMO Min. of Planning MoF	Planning Directorate Strategic policy units (PMO/cabinet) Presidency Council of Ministers National development strategy	Centre of Government Reforms Technical Assistance to the Presidency/PMO	World Governance Indicators CPIA Governance Indicators Polity IV PEFA OPM Qualitative Index
<b>Public Finance: Revenue and expenditure management</b>	Create/Strengthen: - Central Public Finance Authority - Revenue Agency - Supreme Audit Institution  Mid-term Fiscal Perspective Budgeting capacity in major line ministries  FMIS  Investments reflect direction of reconstruction/recovery program  Post-conflict expenditure programs follow traditional budgeting process	MoF Social Sector Min. Revenue Authority Audit Institution Parl. Oversight Comm. Min. of Post-Conflict Out of Budget DDR/SSR	Core units of MOF (e.g. Planning, Budget, Treasury, Tax Policy) Revenue Authority Audit Institutions PFM/Fiscal reform lines IFMIS Investment Training lines on PFM Post-Conflict Programmes (e.g. Reconstruction, DDR, SSR)	PFM Reform Programmes Revenue Mobilization Programmes Post-Conflict Support Programmes (e.g. DDR/SSR)	Ratios (e.g. budget execution, revenue to GDP) CPIA Governance Indicators PEFA OPM Qualitative Index
<b>Government employment and public administration</b>	Control the size of government workforce  Training to selected government programmes (e.g. skills in CPAF)	Min. Public Admin. Pub. Sector Reform Unit	Pub. Admin. Min. Pub. Sector Reform Unit HR management systems Wage bill - front line staff Wagebill per head growth Training budget line Allowances & supplements	Civil Service Reform Progr. Civil Service Training Progr.	Worldwide Bureaucracy Indicators PEFA (e.g. Payroll Control) OPM Qualitative Index
<b>Security Sector</b>	Avoid large/sudden spikes in security expenditure  Support for DDR  Controlling major crime	Min. Internal Affairs MoD MoJ Min. of Post-Conflict Out of Budget DDR/SSR	MoD vs Inter. Affairs Allocations Police force MOJ SSR & DDR	Rule of Law SSR DDR Military Training	Global Peace Index World Governance Indicators Polity IV OPM Qualitative Index
<b>Local Governance</b>	Restore basic functionality of sub-national governments: - financial resources for basic equipment - resumption of payroll payments - rehabilitation of facilities	Min. of Local Gov. MoF Sub-national Admin.	Central vs Subnational Allocations Decentralisation Reform Local Government Training Local Government Infrastructure	Decentralisation and Local Governance Programmes	World Governance Indicators PEFA OPM Qualitative Index
<b>Aid Management, financing and donor relations</b>	Single aid management unit Multi-donor trust funds Aid channelled through country systems	MoF	On budget vs off budget Aid Development Cooperation Dep. Investment on AIMS	Sectoral Composition of Aid Aid mechanisms (Budget Support, SWAP) AIMS support	OECD Global Partnership Monitoring Framework PEFA OPM Qualitative Index

## Annex B Interview Templates

### B.1 Key Informant Interview Template – Donors & Think Tanks

#### *Introduction:*

OPM was commissioned by UNDP to conduct a study seeking to understand whether (and how) prioritising spending on core government functions can lead to more successful transitions towards peace in fragile and conflict-affected countries. The research will cover five comparative case-studies including Colombia, Pakistan, South Sudan, Sierra Leone and Myanmar.

We will use a mixed-methods approach which will involve an analysis of public expenditure patterns in conjunction with a qualitative enquiry to capture the views of government and other stakeholders on the priority given to Core Government Functions (CGF).

The Core Government Functions we will analyse have been defined in a joint UN/WB report and comprise:

1. Executive decision-making and coordination at the centre of government;
2. Public revenue and expenditure management;
3. Government employment and public administration;
4. Local governance;
5. Security Sector;
6. Aid management, financing and donor relations.

The key transition milestones we have identified for [the case study country] are:

#### *Questions*

Which areas of government functionality are prioritised today? [Prompt: were any of these CGFs? what reasons led to their prioritisation?]

How has that changed over time following the end of the conflict/ during identified transition phases?

To what extent were these reforms driven – in part or as a whole - from the political will of the country's leadership, by the country's bureaucracy (e.g. reform champions) or by the donor community? [Prompt: why did certain actors drive certain reforms?]

What, if any, quick impact initiatives were undertaken in the immediate aftermath of conflict/during the transition? [Prompt: What was their purpose – e.g. to restore basic functionality, to cement reform, to prioritise particular rehabilitation?]

## Executive coordination at the centre of government

What has been undertaken to reform the structure of the planning and decision-making processes at the centre of government following the end of the conflict/transition?

To what extent have reforms translated in an improved coordination at the centre of government?

Are there existing dysfunctional practices surrounding operations at the centre of government? Do these persist from before the conflict/transition milestone? Are they linked to capacity constraints or to broader political resistance?

## Public finance: revenue and expenditure management

### *Legal & Organizational*

Was the strengthening or creation of central public finance agencies (e.g. Ministry of Finance, Ministry of Planning, Treasury, Revenue, Accountant General, Auditor General) undertaken following the end of the conflict/transition milestone? Which measures were undertaken?

Was any kind of mid-term fiscal perspective introduced in the country following the end of the conflict/transition milestone? [Prompt: What kind (i.e. MTFP or MTEF)? Why?]

Were other policies adopted to reform the legal and institutional set up of the PFM system (e.g. transparency, programme based budgeting)? [Prompt: why/why not?]

To what extent have reforms translated into an improved legal and institutional set up of the PFM system?

### *Revenue*

Which tax policy and administration measures were adopted to guarantee a steady flow of revenue following the end of the conflict/transition milestone?

To what extent have reforms translated into improved revenue collection?

*[If extractive revenues are important in the case study country]* What provisions are in place for sound governance of extractive revenues and their appropriate allocation? How well do these function in practice?

### *Expenditure Management*

What sort of budget planning or budget execution reforms were conducted - if any - (e.g. commitment control, cash management, accounting and reporting) following the conflict/transition milestone? [Prompt: Were other policies adopted to reform expenditure management?]

Do adequate provisions exist for cooperation between the finance and the planning functions, whether located in a single ministry or separate ones? Does this cooperation happen effectively in practice?

Was any kind of financial information system adopted or restored by the central financial institution following the end of the conflict/transition milestone? What type of system was installed?

Were there any initiatives to strengthen the capacity of line ministries or sectors following the conflict/transition milestone? Which line ministries were prioritised?

Were there special post-conflict expenditure allocations or programmes? How were the allocations to these programmes planned, executed and accounted for?

To what extent have reforms translated into improved expenditure management?

### **Government employment and public administration**

Were policies adopted to reform the civil service (e.g. revision of recruitment and promotion criteria, compensation structure, wage-bill ceilings) following the end of the conflict/transition milestone?

What happened to government employment during the conflict, and the identified transition milestones? [Prompt: Did employees leave the country? Were there certain ministries/regions lacking in staff?]

Was there previously partisan political interference in individual personnel decisions? Is this still the case?

Do certain parties, groups or factions currently control some ministries? Do these arrangements help support the political settlement and consolidation of security, or are they motivated by other considerations?

What sort of training or capacity building efforts were conducted following the end of the conflict/transition milestone? Which functions' and ministries were targeted? Why?

What other sorts of public administration reforms were adopted following the end of the conflict/transition milestone?

To what extent have reforms translated into a more effective public administration and civil service?

### **Security sector**

Which sort of measures were adopted to reform the security sector following the end of the conflict/transition milestone? Which areas were prioritised? [Prompt: Was there any programme of disarmament, demobilization, and reintegration? What did it consist of? Was there any programme to develop/reform the police force? What did it consist of?]

Are there significant fractures in the police force or military along ethnic, religious, ideological, regional lines? Are there police/military factions aligned to political factions?

How are military groups or institutions viewed by the public? Do they enjoy broad legitimacy?

Which initiatives were undertaken to legitimize the security apparatus (e.g. separation of military and police, vetting processes of new recruits, integration of minorities)?

What judicial reforms have been undertaken and how are these linked to the political settlement achieved at the end of the conflict/transition?

### **Local governance**

Did the peace/transition settlement include a comprehensive agreement on local government? [Prompt: What was envisioned (e.g. restoring basic functionality, devolution of functions, revenue sources)? Which areas were prioritised (e.g. securing financial resources for basic equipment, resumption of payroll payments, rehabilitation of facilities, planning/budgeting, urban planning)?

How are resources allocated across local governments? Were there any changes to the methodology employed following the end of the conflict/transition? Was there specific prioritisation of certain locations or sectors?

What are the main sources of direct revenue to local governments? Have these changed following the end of the conflict/transition? Do these revenues account for a large part of local governments' resources?

(How) has communication between sub-national and national government changed since the transition milestone(s)? What if any strategic connections are made between national and sub-national reform processes?

What is the overall status of mechanisms for participation and accountable decision-making at the subnational level? If they exist, how effective are participatory governance practices at including the needs of marginalized groups, in particular those that did not have access to local governance before conflict?

What is the overall status of mechanisms to promote participation (information-sharing, participatory planning, permanent local development committees, social accountability, etc.)? Where they exist, are any of these structures parallel to subnational government decision-making rather than connected to it?

To what extent have reforms translated into a more effective subnational governance system?

### **Aid management, financing and donor relations**

What has been the pattern of support for CGF from donors since the end of the conflict/ transition milestone(s)?

Which UN agencies/bilateral donors provided support specifically for CGF?

How effectively was this timed and coordinated?

What were the specific areas of focus?

Were there other areas beyond CGF which were prioritised by the donor community?

Was an aid management unit set up, and what was the process and timing for this?

Has an aid information system been established or restored after the end of the conflict/transition milestone?

Have multi-donor trust funds focused on CGF? [Prompt: If yes, what have been the advantages and drawbacks of aid funding through MTDFs in the post-conflict phase?]

To what extent has the aid provided to the country been using or is aligned with its own systems? [Prompt: To what extent are the external financial resources provided to the country 'on-budget'?]

To what extent was donor funding accompanied by technical assistance and capacity support?

At what stage in the transition process did this happen? Was there a sequenced approach to this? Was the timing optimal?

Was technical assistance prioritised to the correct areas?

Has this shown results in developing local capacities over the medium/long-term?

To what extent have these reforms translated into a more effective aid management system?

## **B.2 Key Informant Interview Template – Government Representatives**

### ***Introduction***

OPM was commissioned by UNDP to conduct a study seeking to understand whether (and how) prioritising spending on core government functions can lead to more successful transitions towards peace in fragile and conflict-affected countries. The research will cover five comparative case-studies including Colombia, Pakistan, South Sudan, Sierra Leone and Myanmar. We will use a mixed-methods approach which will involve an analysis of public expenditure patterns in conjunction with a qualitative enquiry to capture the views of government and other stakeholders on the priority given to Core Government Functions (CGF).

The Core Government Functions we will analyse have been defined in a joint UN/WB report and comprise:

1. Executive decision-making and coordination at the centre of government;
2. Public revenue and expenditure management;
3. Government employment and public administration;
4. Local governance;
5. Security Sector;
6. Aid management, financing and donor relations.

The key transition milestones we have identified for [the case study country] are:

## *Questions*

Which areas of government functionality are prioritised today? [Prompt: were any of these CGFs? what reasons led to their prioritisation?]

How has that changed over time following the end of the conflict/ during identified transition phases?

To what extent were these reforms driven – in part or as a whole - from the political will of the country’s leadership, by the country’s bureaucracy (e.g. reform champions) or by the donor community? [Prompt: why did certain actors drive certain reforms?]

What, if any, quick impact initiatives were undertaken in the immediate aftermath of conflict/during the transition? [Prompt: What was their purpose – e.g. to restore basic functionality, to cement reform, to prioritise particular rehabilitation?]

## **Executive coordination at the centre of government**

What has been undertaken to reform the structure of the planning and decision-making processes at the centre of government following the end of the conflict/transition?

To what extent have these reforms translated in an improved coordination at the centre of government?

## **Public finance: revenue and expenditure management**

### *Legal & Organizational*

Was the strengthening or creation of central public finance agencies (e.g. Ministry of Finance, Ministry of Planning, Treasury, Revenue, Accountant General, Auditor General) undertaken following the end of the conflict/transition milestone? Which measures were undertaken?

Was any kind of mid-term fiscal perspective introduced in the country following the end of the conflict/transition milestone? [Prompt: What kind (i.e. MTFP or MTEF)? Why?]

Were other policies adopted to reform the legal and institutional set up of the PFM system (e.g. transparency, programme based budgeting)? [Prompt: why/why not?]

To what extent have these reforms translated into an improved legal and institutional set up of the PFM system?

### *Revenue*

Which tax policy and administration measures were adopted to guarantee a steady flow of revenue following the end of the conflict/transition milestone?

To what extent have these reforms translated into improved revenue collection?

### *Expenditure Management*

What sort of budget planning or budget execution reforms were conducted - if any - (e.g. commitment control, cash management, accounting and reporting) following the

conflict/transition milestone? [Prompt: Were other policies adopted to reform expenditure management?]

Was any kind of financial information system adopted or restored by the central financial institution following the end of the conflict/transition milestone? What type of system was installed?

Were there any initiatives to strengthen the capacity of line ministries or sectors following the conflict/transition milestone? Which line ministries were prioritised?

Were there special post-conflict expenditure allocations or programmes? How were the allocations to these programmes planned, executed and accounted for?

To what extent have these reforms translated into improved expenditure management?

### **Government employment and public administration**

Were policies adopted to reform the civil service (e.g. revision of recruitment and promotion criteria, compensation structure, wage-bill ceilings) following the end of the conflict/transition milestone?

What sort of training or capacity building efforts were conducted following the end of the conflict/transition milestone? Which functions' and ministries were targeted? Why?

What other sorts of public administration reforms were adopted following the end of the conflict/transition milestone?

To what extent have these reforms translated into a more effective public administration and civil service?

### **Security sector**

Which sort of measures were adopted to reform the security sector following the end of the conflict/transition milestone? Which areas were prioritised? [Prompt: Was there any programme of disarmament, demobilization, and reintegration? What did it consist of? Was there any programme to develop/reform the police force? What did it consist of?]

Which initiatives were undertaken to legitimize the security apparatus (e.g. separation of military and police, vetting processes of new recruits, integration of minorities)?

What judicial reforms have been undertaken and how are these linked to the political settlement achieved at the end of the conflict/transition?

### **Local governance**

Did the peace/transition settlement include a comprehensive agreement on local government? [Prompt: What was envisioned (e.g. restoring basic functionality, devolution of functions, revenue sources)? Which areas were prioritised (e.g. securing financial resources for basic equipment, resumption of payroll payments, rehabilitation of facilities, planning/budgeting, urban planning)?]



How are resources allocated across local governments? Were there any changes to the methodology employed following the end of the conflict/transition? Was there specific prioritisation of certain locations or sectors?

What are the main sources of direct revenue to local governments? Have these changed following the end of the conflict/transition? Do these revenues account for a large part of local governments' resources?

(How) has communication between sub-national and national government changed since the transition milestone(s)? What if any strategic connections are made between national and sub-national reform processes?

To what extent have these reforms translated into a more effective subnational governance system?

### **Aid management, financing and donor relations**

What has been the pattern of support for CGF from donors since the end of the conflict/ transition milestone(s)?

Which UN agencies/bilateral donors provided support specifically for CGF?

How effectively was this timed and coordinated?

What were the specific areas of focus?

Were there other areas beyond CGF which were prioritised by the donor community?

Was an aid management unit set up, and what was the process and timing for this?

Has an aid information system been established or restored after the end of the conflict/transition milestone?

Have multi-donor trust funds focused on CGF? [Prompt: If yes, what have been the advantages and drawbacks of aid funding through MTDFs in the post-conflict phase?

To what extent has the aid provided to the country been using or is aligned with its own systems? [Prompt: To what extent are the external financial resources provided to the country 'on-budget'?

To what extent was donor funding accompanied by technical assistance and capacity support?

At what stage in the transition process did this happen? Was there a sequenced approach to this? Was the timing optimal?

Was technical assistance prioritised to the correct areas?

Has this shown results in developing local capacities over the medium/long-term?

To what extent have these reforms translated into a more effective aid management system?



# Colombia's

*transition out of  
a protracted conflict*

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## List of abbreviations

ACCI	Colombian Agency for International Cooperation
ANIM	National Infrastructure Agency
APC	Presidential Agency for Cooperation
ARN	National Reincorporation Agency
AUC	United Self Defences of Colombia
CGF	Core Government Functions
DAFP	Administrative Department of Public Service
DAPRE	Administrative Department of the Presidency of the Republic
DAS	Administrative Department for Security
DCAF	Geneva Centre for the Democratic Control of the Armed Forces
DDR	Demobilisation, Disarmament and Reintegration
DIAN	Tax and Customs Directorate
DNP	National Planning Department
ESAP	School of Public Service
EU	European Union
FARC-EP	Revolutionary Armed Forces of Colombia
FCAS	Fragile and Conflict Affected States
FIP	Investment for Peace Fund
GBN	General Budget of the Nation
GDP	Gross Domestic Product
GoC	Government of Colombia
JEP	Special Peace Justice
MIIG	Integrated Model for Planning and Management
MTEF	Medium Term Expenditure Framework
OECD	Organisation for Economic Cooperation and Development
PDET	Development Programmes with a Territorial Approach
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PMI	Framework Implementation Plan
RSS	Social Solidarity Network
SIIF	Integrated System for Financial Information
SIGEP	Public Employment Information and Management System
SIGEPRE	System for Integrated Management of the Presidency of the Republic
SGR	General System for Royalties
SMSCE	Monitoring, Control and Evaluation System
SGP	General System of Participations
SUIIP	Central Information System for Staff
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
US	United States of America

# 5 Introduction

**Colombia, with its recent peace deal and ongoing implementation, presents a case of a State that has developed and evolved amidst decades of armed violence and contestation.** In fact, the country has experienced major transformations in the past 30 years, which saw State systems and functions modernise despite the armed conflict. All CGFs have experienced considerable reforms at different moments in the transition timeline and the country as a whole has improved.

As Colombia's transition is ongoing, it will be a few years before we fully appreciate some of the impacts of public spending and reforms taking place now. **What this case study can offer is an insight into how decisions have been prioritised, negotiated, and how this is passed through (or not) into public spending and institutional reforms.**

In analysing this case, we have interrogated UNDP's research hypothesis that: *'Fragile and conflict-affected governments that prioritise restoring core government functionality in their national budgets, as well as their spending of humanitarian and development aid, are more successful in their transitions towards peace and development'*. The study has used a mixed methods approach combining qualitative key informant interviews with quantitative expenditure trend analysis<sup>21</sup> across each of the CGFs. A certain number of methodological assumptions have been made to inform the latter, which are explained in detail in Annex B.

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<sup>21</sup>A trend analysis of public spending on core government functions (CGF), using two processes. Firstly, an overview of the composition of expenditure and revenue as well as the sustainability of public finances (e.g. fiscal balance) throughout the transition processes to understand whether variations in CGF-related expenditures were part of broader structural changes or isolated events surrounding transition points. Secondly, an in-depth analysis of CGF-related spending within the 16 year time-span surrounding the identified transition milestones, to explore whether these changes in public spending were motivated by the prioritization of certain policies/functions or by the availability (or lack thereof) of public resources.

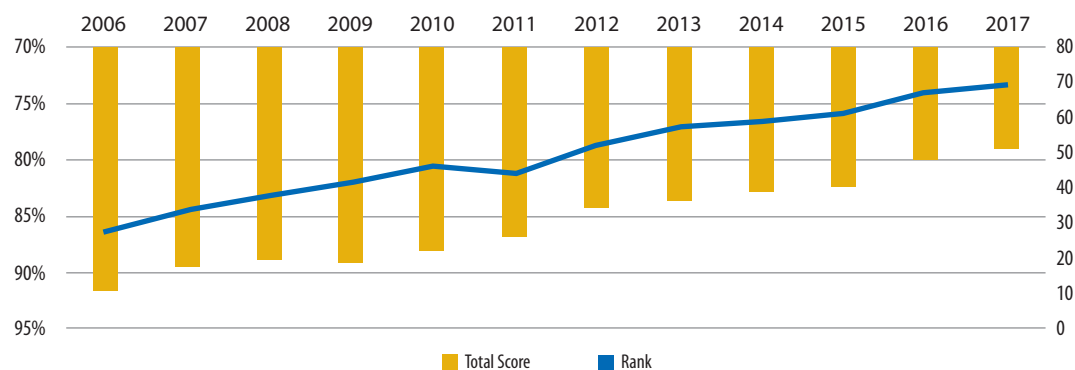
# 6 Colombia as an example of transition out of protracted conflict

Once regarded as “the longest running conflict in the world”, the conflict in Colombia has evolved from its origins in rural and political exclusion to become a complex web of elite capture, economic and social inequalities, and organised crime. Now, as the country embarks on its path to peace, the progress it has achieved is beyond dispute. In fact, according to the Fragile States Index, from 2008 to 2018 Colombia has shown ‘significant improvement’ (-12.4) in reducing its levels of fragility (see Figure 1).

While the origins of the Colombian conflict can be traced back to the 1960s, this paper will focus on its recent history, particularly from the mid-1990s onwards. During this time, the conflict itself transformed and reached its tipping point, affording opportunities for the process of transition that we know today.

**For the purposes of analysis in this paper, the first milestone we have selected in Colombia’s transition out of conflict is the start of Plan Colombia in 2000.** Throughout the 1990s, Colombia was considered a ‘narco-state’, a country at the brink of becoming a failed state. However, the arrival of Plan Colombia represented an “inflection point” in the modern Colombian conflict (Caballero and Pizano, 2014). Even though the objective of reducing the production and trafficking of illegal drugs was not consistently met<sup>22</sup>, Plan Colombia gave way to important institutional reforms, particularly in the aid coordination, local governance and security and justice functions. The strengthening and modernization of the military apparatus led to a change in the correlation of forces between the armed forces and FARC, ultimately leading

**Figure 1** Fragile States Index Colombia



Source: Fund for Peace

<sup>22</sup>As Mejia points out, despite “enormous investments and costs, Colombia continues to be a key producer and trafficker of illicit drugs” with production levels fluctuating from 60 to 80 per cent of global production since the end of Plan Colombia.

to a military stalemate. By the end of Plan Colombia, parties had realised that a military victory or the idea of taking over the State, was not possible.

**The second milestone of our analysis is the signature of the General Agreement for the Termination of the Conflict and Construction of a Stable and Lasting Peace in 2016.** Such an event was however, marred by the rejection of the Agreement in a plebiscite, which took place on 2th October. Promptly after, President Santos invited leaders of the "No" campaign to discuss the contentious points of the document, looking to reach an agreeable solution that could lead to an amended peace accord.

A new Peace Agreement adopting various opposition proposals was signed between the GoC and the FARC on 24<sup>th</sup> November 2016. The revised Agreement, which did not have the support of the opposition, was approved by the Senate on 29<sup>th</sup> November and by the House of Representatives on the 30<sup>th</sup>. For the purposes of this research, this moment marked the beginning of the post conflict in Colombia.

## 6.1 The evolution of conflict in Colombia

**Following a failed peace process between the Government of Colombia and FARC-EP during the mid-1990s, the dynamics of the conflict began to change.** In response to the rapid deterioration of the security situation and the increase in drug production, in 1999 the GoC announced its Plan Colombia. This joint US-Colombia strategy reflected the main priorities of the moment: combatting drug trafficking and regaining control of the territory controlled by armed groups.

**Contrary to what many may think, the considerable investments made to the security sector during Plan Colombia were largely a nationally resourced endeavour.** U.S. funding for the military component of Plan Colombia was on average US\$540 million per year from 2000 to 2008 while the Colombian government invested approximately US\$812 million per year on its fight against drugs and organised crime. Both of these expenditures together equate to approximately 1.2 per cent of Colombia's average annual GDP between 2000 and 2008 (Mejia, 2016). Such a figure was a clear indication of where government priorities stood. By way of comparison, public expenditures in the largest cash transfer programme to alleviate extreme poverty (Familias en Acción) accounted only for 0.37 per cent of Colombia's GDP (Mejia, 2016).

**The consequences of Plan Colombia did not wait, giving way to what experts have called the "re-accommodation period".** Between Pastrana's government (1998-2002) and Uribe's first administration (2002-2006), there was a clear change in the correlation of forces between the military and the insurgency (Granada et al, 2009). As the armed forces were better prepared to respond, an escalation of the conflict started to unfold. With the arrival of President Alvaro Uribe in 2002, the rhetoric also escalated and became more polarised, with all sides hardening their positions, and no one "backing down" (Albert, 2004).

The Historic Commission for the Conflict and its Victims identified the 1996-2002 period as the most violent in the history of the armed conflict (**Comisión Histórica del Conflicto y sus Víctimas**, 2015). This coincides with the creation of paramilitary groups in the mid-1990s as a response to the State's inability to protect citizens from FARC attacks. The main group, the United Self Defence of Colombia (AUC), was responsible for hundreds of violent actions (particularly massacres), which ultimately led to an escalation of war.

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### **Box 1: How will the post conflict be financed?**

In 2016, the Planning Department and Ministry of Finance undertook the task of calculating the cost of the post conflict. The amount was set at 129.5 billion Colombian pesos in constant prices for the next 15 years, representing 0.7 per cent of the GDP on average each year. The distribution was agreed as follows: 85.4 per cent will be invested in a comprehensive rural reform; 3.3 per cent will go to political participation; 1.5 per cent for the termination of the conflict; 6.4 per cent towards the problem of illicit drugs, and 3.3 per cent for the attention of victims of conflict. It is worth noting that the 129.5 billion pesos covers only the 170 municipalities most affected by the armed conflict, and that have consequently been prioritised by the government. The next step, once an amount was agreed, was to identify from where in the budget those costs could be covered. The Government identified six sources:

#### **1. General Budget of the Nation (GBN)**

According to the Minister of Finance, the GBN will be the main source of funding for the implementation of the peace agreement, providing 36 per cent of total resources needed, with a total of 46.7 billion pesos for the 15 years of implementation.<sup>23</sup>

This is divided into two sources of funds: the first one constitutes new resources channelled through the Government's Peace Fund, which became available after the 2016 tax reform. The Peace Fund has supported activities such as the FARC concentration areas, payment of stipends to ex-combatants, Special Justice for Peace (JEP), truth commission, illicit crops substitution, and development programmes at the subnational level. The second source comes from the re-focalization of expenditures. According to staff from the Ministry of Finance, this has been somewhat challenging as the different sectors are struggling to support the priorities set out by the Government (for instance, redirecting expenditure to the 170 prioritised municipalities -or PDETs- has proven harder than originally thought). Information also comes into play as entities are expected to identify their own "peace expenditures" but information systems have not been habilitated for this purpose just yet.

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<sup>23</sup>El Nuevo Siglo, "¿Al posconflicto le alcanzan \$2.6 billones?", October 9, 2018. In: <https://www.elnuevosiglo.com.co/index.php/articulos/10-2018-al-posconflicto-le-alcanzan-26-billones>



## 2. General System of Participations (SGP)

The SGP allows the national government to transfer resources to subnational governments, which are destined to cover education, health, water and sanitation and their overall functioning costs. Such resources are redirected to the 170 PDETs in order to cover such services. Education has been the most prominent area.

## 3. General System for Royalties

The fast track mechanism adopted by the Congress to expedite reforms allowed unlocking existing resources that were “trapped” in the budget and could not –or were not- being used by subnational entities. This is the case, for example, of science and technology budgets (predefined in the Royalty System) from subnational entities, which were not being executed.

## 4. Subnational entities' resources

Either through tax collection or their own resources, subnational entities are expected to “share the load” in paying for the post conflict. Many of them have already been supporting peace activities throughout the years so it is a matter of ensuring such resources are prioritising the PDETs.

## 5. International aid

Donors have been instrumental in supporting expenditures that did not exist as an “expense title” in the budget (i.e. the preparation phase of the implementation of agreements, logistical costs during peace negotiations and for the areas where FARC was concentrated in, among others). As such, donors have been able to support expenses that the government was unable to provide or unlock as reforms were taking place. Nonetheless, the Colombian post conflict process is largely also a nationally funded endeavour, in a clear sign of national ownership. According to UNDP Colombia, the Government is currently funding 90 per cent of peace expenditure while donors cover the remaining 10 per cent. Furthermore, the value of the various peace funds is not especially high in comparison with other processes (around \$90 million USD).

## 6. Private sector

The national government has come up with a number of offers for the private sector (i.e. supporting the socioeconomic reintegration of ex-combatants, supporting local development programmes, or the government's “taxes for infrastructure” programme). However, according to a representative in the Ministry of Finance, this has been the least explored avenue and something the government will have to focus on to a greater extent in the future.

In order to guarantee the sustainability of investments and minimise the effects of external shocks to public finances, the costs estimated in the post conflict budget are consistent with macroeconomic and fiscal projections foreseen in the medium term fiscal framework and the fiscal rule adopted in 2011. This will provide the certainty needed to achieve the commitments and targets set out in the Implementation Plan.

However, in 2003 President Uribe announced the demobilisation of the AUC. **From this period on, the country begins a de-escalation of the conflict that would extend until 2010.** Despite having fully professional and equipped forces and a new combat strategy, it was clear that a military victory was not possible for either side in the short or medium term. These two reasons help explain why a peace agreement with FARC suddenly appeared to be a real possibility (Gonzalez, 2015).

**After four years of intense negotiations, the General Agreement for the Termination of the Conflict and Construction of a Stable and Lasting Peace was signed in 2016.** The State now faced the challenge of ensuring the GoC could keep its end of the deal while juggling a number of other pressing priorities (i.e. responding to the humanitarian crisis in Venezuela). However, given the historical importance of such an event, the GoC ramped up its efforts to prepare for the post conflict needs.

What followed was the identification of priority intervention municipalities (PDETs), costing out and budgeting (see Box 1), and the development of a Framework Implementation Plan (PMI). When deciding which areas to prioritise, the Government agreed on a set of criteria to guide such process. It was also clear that a number of reforms needed to take place for the implementation to be viable, hence the fast track mechanism. Santos put before the Constitutional Court a fast track mechanism to speed up the approval of reforms needed for the implementation of the peace deal. In one weekend alone, President Santos signed 20 decrees on issues related to the implementation of the peace deal, one of which grants powers (“faculties”) to the Constitutional Court to prioritise the review of initiatives related to the peace deal.<sup>24</sup> The intention was to lay the ground for the newly elected Duque administration to continue - without losing momentum - with the commitments made in the Implementation Plan.

## 6.2 The Evolution of Public Expenditure in Colombia

Public expenditure in Colombia consists of two headings: investment and current expenditure. These represent 11 per cent and 89 per cent of the total expenditure, respectively. While current expenditure has increased since 2013, this is mainly due to the inclusion of new transfers to health and education entities, which used to be funded by taxes but were recently moved to the national budget.

**The public expenditure patterns over the last two decades (2000-2017) reveal the relevance of defence spending throughout the transition process.** According to reports from the Ministry of Finance (Hacienda y Credito Publico), the security sector accounted for an average of 20 per cent of public expenditure during this period – the largest area following the main social sectors. **However, the security sector is currently the third largest area of public expenditure following Health and Education, which have gained more prominence in the budget in recent years.** The increase in expenditure in such sectors was consistent with President Santos’ National Development Plan pillars: peace, equity and education.

<sup>24</sup>El Tiempo, “Las claves de los decretos para acelerar la paz”, May 30, 2017. In: <https://www.eltiempo.com/archivo/documento/CMS-15440599>

**Additionally, the evolution of public expenditure on the recently created ‘Social Inclusion and Reconciliation’ sector was also noteworthy.** Even though it remains small in comparison to other sectors (6 per cent of total expenditure in 2017), it has increased two-fold since 2000 in connection to the DDR program and the peace process.

**Overall, in Colombia public expenditure has evolved concurrently with the development of institutions responsible for core government functions. As this report will show, CGF reforms have been driven by external and internal factors alike.** This research identified four main drivers of reforms for the transition timeline: the first one is the 1999 financial crisis, which ushered in important reforms in the PFM and local governance functions. The second driver is undoubtedly Plan Colombia as it targeted reforms in the security and justice sector, local governance and aid coordination. On the latter, it could be argued that reforms were an unintended consequence as Plan Colombia did not target aid coordination but did require changes in it to allow better use of funds. The third driver of reforms, particularly in the PFM and local governance functions, is Colombia's entry to the OECD, for which the country began preparing in 2013. The last driver of reforms is of course the signing of the peace deal, which as will be seen, is having significant impacts on most of the CGFs.

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## **Box 2: The impact of oil prices on CGF expenditure**

A closer look at the evolution of public expenditure reveals how deeply connected it is to the economic cycle. For instance, from 2010 to 2013 when oil prices soared, public expenditure increased close to 1.6 per cent, going from 17.6 per cent to 19.2 per cent of the GDP. However, as oil prices fell drastically and the economy began a process of deceleration, public expenditure was not adjusted in the same proportion, remaining close to 19 per cent of the GDP (Asobancaria, 2017).

The oil shock created a considerable imbalance in the fiscal accounts: in 2013, oil income reached 3.3 per cent of the GDP but in 2015, such income completely disappeared. At the same time, the depreciation of the exchange rate brought about by the oil price drop increased the value of external debt and interests, creating additional pressures to public expenditure.

One of the most affected CGFs was government employment. In an attempt to counter such a fall in income, the Government cut back on expenditure by freezing staff costs, reducing by 15 per cent all general costs and cutting the investment expenditures by 13 per cent. Despite such measures, and due to the highly inflexible nature of some budget components, public expenditures as a percentage of the GDP only decreased by 0.3 points (Asobancaria, 2017).

This section presents the main findings of the expenditure trends analysis. This is complemented by an analysis of key institutional reforms undertaken, including any underlying political economy considerations, for each core government function. Where available, information on outcomes of expenditures and reforms is presented.

## **7.1 Executive Coordination at the Centre of Government**

In Colombia, executive coordination follows the traditional structure of offices under the Executive branch (Ben-Gera, 2009), whereby political leadership is, first and foremost, held by the President of the Republic, supported by the Ministerial Council, and with a special role awarded to the Ministry of Interior, who is responsible for ensuring policy consistency across the Government. In terms of a “head of centre of government”, this role is split across a number of departments, offices, high commissions, and ascribed entities. The main departments are the Administrative Department (DAPRE) in charge of providing logistical and administrative support to the Presidency, and the National Planning Department (DNP), responsible for planning and monitoring. As part of DAPRE, there is also the Office of Political Affairs as well as high commissions for communications, peace, regions, strategic areas, post conflict, among others.

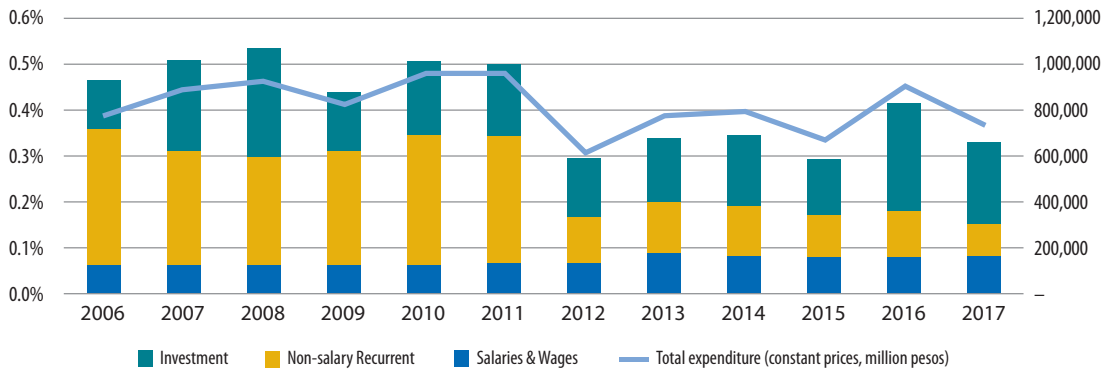
Historically, Colombia has been characterised as having a strong centre of government through a highly presidentialist regime, whereby the President of the Republic enjoys ample constitutional and emergency powers regardless of whether or not they lead a party or coalition (Mainwaring, 2002). As such, presidents in Colombia are able to issue decree-laws on practically any policy area as well as veto proposed bills. While the Congress provides a degree of checks and balances, the fact remains that given to the concentration of power in the executive, the Congress's ability to modify any bills proposed by the President is largely limited (Mainwaring, 2002).

This is particularly the case when it comes to the national budget, whereby Colombian presidents have strong veto powers over it but less so over other legislative matters (no other president, at least in Latin America, has this). In fact, the Congress' authority to increase or make changes to the budget is also largely limited. Though not the norm, this is also encountered in other presidentialist regimes in Latin America such as Brazil, Chile and Peru (Mainwaring, 2002).

### ***7.1.1 Domestic Expenditure Analysis***

In terms of spending, it is worth noting that total government expenditure on executive coordination arises in the President's office and the Ministry of Interior. This is consistent with key reforms undertaken in 2010 when a “presidential sector” was created (see section 3.1.2).

Across the period, domestic expenditure on executive coordination constitutes an average of 0.3 per cent of total government expenditure. The drop in 2012 (Figure 2) corresponds to the wind down of the “Peace and ex combatants” heading transfer in the President's Office as well as the “People's protection” transfer in the Ministry of Interior.

**Figure 2** Executive Coordination by Component (% of Total Dom. Expenditure)

Source: SIF – Ministry of Finance

It is also worth noting that 2012 was officially the last year of Plan Colombia, which also helps explain the drop from that year onwards. There has been considerable support to executive coordination from Plan Colombia: in 2010 alone, it accounted for 1.5 per cent of total government expenditure.

### 7.1.2 Key reforms during the transition period

Wild and Denny (2011) suggest a sequenced support for reform in executive coordination and the centre of government in fragile and conflict affected settings. The initial focus should be on establishing the foundations for key centre of government functions and operations (including establishing the physical infrastructure of the office(s) and initial support systems such as information and communication technologies), and developing regulatory and policy frameworks for reform and building trust between key officials and donor staff or implementers of support. The authors then suggest broadening support to strengthen policy coordination functions, policy and analytical support functions, strategic communication functions, and systems for monitoring key priorities, as well as support for linkages with other levels of government.

Given the history of strong executive coordination in Colombia, and the fact that the armed conflict never really affected the foundations for centre of government functions (at least not like in other Sub-Saharan Africa contexts), reforms today seem to fit with the authors' suggested "second wave" of reforms.

In light of the above, and for the purposes of this research, two key institutional reforms to this CGF took place: the first was in 2010 when a "Presidential Sector" was created. The 3443 Decree creates the Administrative Sector of the Presidency of the Republic, which brings together the Administrative Department of the Presidency (DAPRE), responsible for supporting the President in its legal and constitutional attributions and lending all administrative and budget support for such ends, and four ascribed entities: the National Reincorporation Agency (ARN), the

Presidential Cooperation Agency (APC), the National Unit of Risk and Disaster Management, and the Virgilio Barco National Infrastructure Agency (ANIM).

With this reform, the Presidential Sector and Executive Branch have brought together a combination of administrative and political staff. The 2010 reform put in place what the World Bank refers to as the ‘buckles’ that link “the permanent, career public service or the administration, and the partisan political institutions charged with making policy decisions” (World Bank, 2001). In fact, in Colombia this reform seems to have gone a step further in linking the political with the technical. Such is the case of institutions like the ARN and DNP, both of which have been traditionally known as highly technical entities.

While most interviewees considered the creation of the presidential sector as a welcomed reform, some noted how dissimilar the entities constituting it were. This was attributed to administrative decisions but also to the need of “protecting” certain institutions from becoming too politicised. By being under direct control of the President, the more technically oriented entities, such as the National Reincorporation Agency (ARN), “were allowed to do their job”.

The second and most recent reform took place in 2017 with the adoption of the Integrated Model for Planning and Management (MIPG) through the 1499 Decree of 2017. The MIPG builds on a 2015 reform, which created the System for Integrated Management of the Presidency of the Republic (SIGEPRE). This system seeks to promote a more efficient, effective, and transparent management of the President’s Office through the harmonisation of processes within DAPRE. The System targets the strengthening and coordination of processes, the administrative capacity, the entity’s performance and the optimization of resources. It is also expected to promote greater citizen accountability and participation in the planning, management and evaluation of public institutions while simplifying and speeding up institutions’ capacity to deliver goods and services in response to citizens’ needs. This is one of the outstanding recommendations made by the World Bank in its 2015 PEFA.

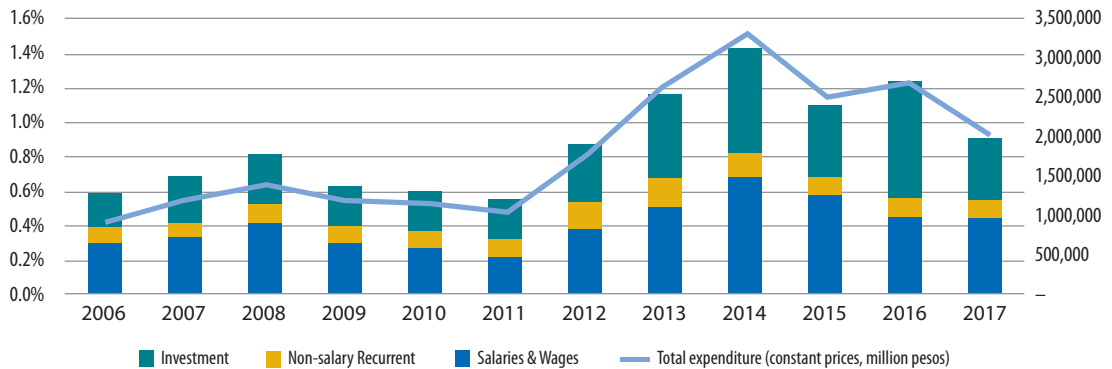
In recent months, the President’s Office published a manual for all civil servants on rolling out the SIGEPRE, with training exercises expected to take place early this year.

## **7.2 Public Financial Management**

Colombia has a robust PFM system, in particular at the Central Government level. According to the last PEFA assessment conducted in the country in 2015, Colombia performs considerably well in indicators related to the PFM government function. Overall, Colombia registered the best scores in areas related to budget reliability, asset management and policy-based fiscal strategy and budgeting (PEFA, 2015).

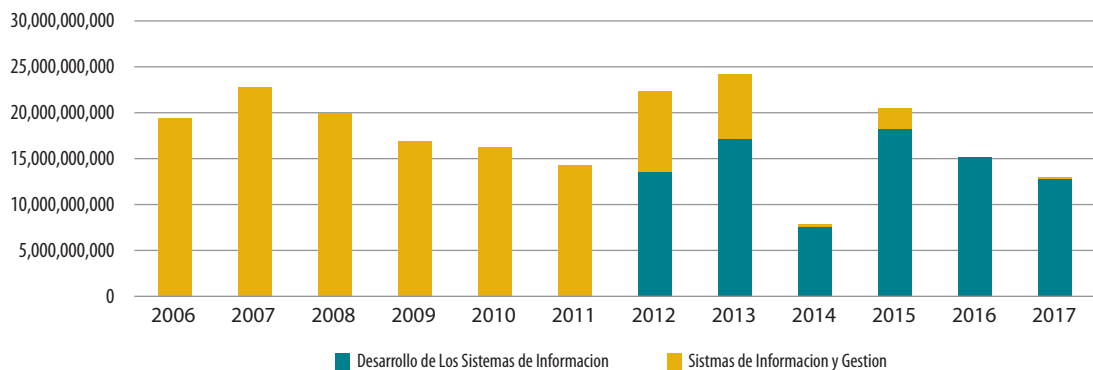
### ***7.2.1 Domestic Expenditure Analysis***

Across the period, domestic expenditure on PFM constitutes an average of 0.9 per cent of total government expenditure. Between 2006 and 2011, PFM expenditure constituted a lower percentage of total expenditure averaging around 0.7 per cent, before increasing to 1.1 per cent between 2012 and 2017.

**Figure 3** Public Finances by Component (% Total Dom. Expenditure)

Source: SIF – Ministry of Finance

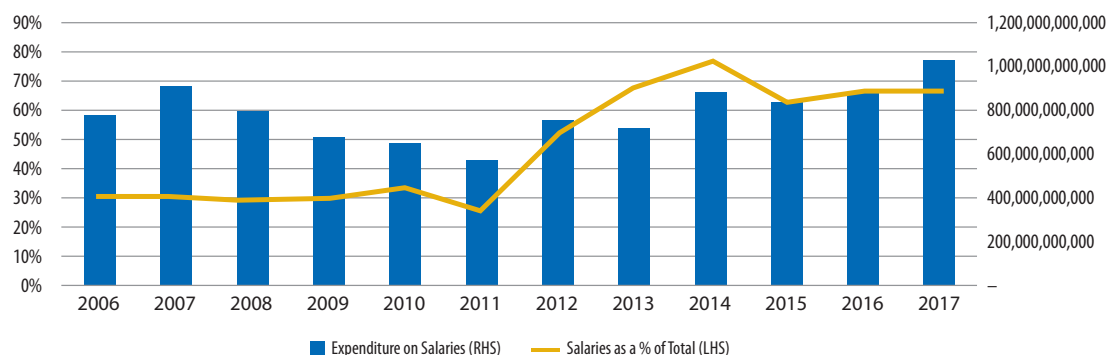
It is also worth noting that within this period the composition of expenditure has varied, shifting away from salaries and wages towards investment. The graph below shows MOF investment in IT systems, which is consistent with the Government's dedicated efforts in the last years to improve its information systems. In fact, the Government has put in place management and information systems for all CGFs.

**Figure 4** Ministry of Finance investment expenditure on IT systems (constant prices)

Source: SIF – Ministry of Finance

Notes: Blue stands for Development of Information Systems; Red stands for Management and Information System

On the other hand, the customs authority (DIAN) spends the largest proportion of PFM expenditure due to the large staffing requirement and the investment in a comprehensive anti-tax evasion plan. From 2012, the DIAN spent a significantly increasing proportion of expenditure on staff, contributing towards the uptick.

**Figure 5** DIAN Expenditure on Salaries and Wages

Source: SIF – Ministry of Finance

### 7.2.2 Key reforms during the transition period

Through our selected transition period, Colombia's PFM system underwent a major transformation thanks to a number of key reforms. These have created the conditions for fiscal discipline that the country enjoys today.

Following the financial crisis of 1999, the PFM system underwent reforms aimed at stabilising the country's finances and deficit, the most important of which was adopted in 2003 through the "Fiscal Responsibility Law". This law created a medium-term fiscal framework, which required the Government to put in place a financial plan, a multi-year macroeconomic programme and a set of indicators to measure budget management performance.

Despite such progress, in 2005 the World Bank conducted a public expenditure review (PER) which concluded that public financial management could be strengthened through the consolidation of the current and investment budgets at the Ministry of Finance, the consolidation of funds on the single treasury account and further implementation of the Medium Term Expenditure Framework (MTEF). Moreover, it noted that additional efforts to 'rationalize public sector wages' were necessary to ensure convergence towards market levels. As expected, defence expenditures already ranked amongst the highest in Latin America in 2005 (second after Ecuador), reflecting the needs of an escalated war. On local governance, the PER concluded that despite the progress of the decentralisation process - from 1967 to 2002 the transfers to taxes ratio increased five-fold - significant challenges remained. In particular, local governments lacked discretion over the allocation of funds and remained highly dependent on transfers from central government.

Another significant set of reforms took place in 2011 when the principle of fiscal sustainability was introduced in the Constitution. What followed was the adoption of the 'fiscal rule', considered "one of the most important advances in the strengthening of the fiscal institutionalisation in the country" (Asobancaria, 2017). The fiscal rule brought about much-

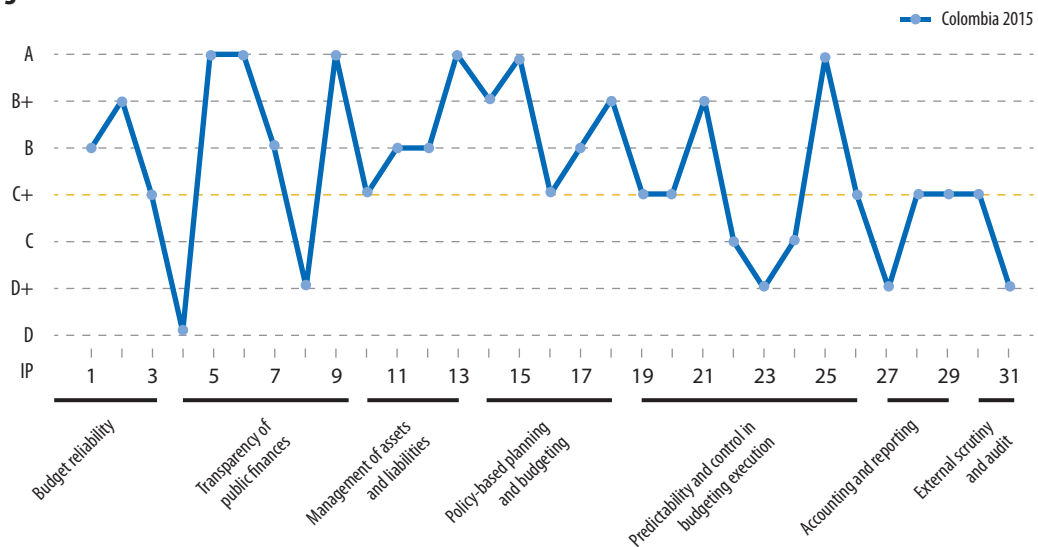


needed fiscal discipline through the establishment of targets over the balance of the budget so that whatever the Nation spends is in concordance with its structural income. That same year, a new General System for Royalties (SGR) was also created, along with its Monitoring, Control and Evaluation System (SMSCE).

### 7.2.3 Outcomes

The PEFA evaluation conducted in 2015 provided an update on the development of the PFM function ten years onwards (see Figure 6). According to this report, the government performed considerably well in linking its strategic priorities to the budgeting process and in ensuring that the budget is executed as planned. In addition, the evaluation noted relevant reform efforts in areas such as fiscal transparency and performance-based budgeting. On the other hand, some weaknesses were identified in core areas including the government's capacity to administer and control payroll, deliver public services and in external scrutiny and audit from oversight agencies.

**Figure 6** Results PEFA 2015



Source: World Bank (2015)

While these have been key developments, there are still pending reforms to Colombia's public expenditure and PFM system. Many call for a comprehensive review of public expenditure to bring about more strategic prioritization and efficient execution (Asobancaria, 2017). In terms of greater efficiency of expenditure, there is still a need to reform the General System of Participations (SGP) in order to curb the transfers to subnational governments: currently, SGP transfers represent close to 20 per cent of total expenditure, which makes their allocation a key requirement for fiscal sustainability. Similar efficiencies should also be sought through a structural

reform to the pensions system, which currently represents 18.3 per cent of total domestic expenditures (Asobancaria, 2017).

Additional improvements to the SGP and PFM at the subnational level should include simplifying the criteria for assigning and distributing transfers and establishing targets for assigning resources in accordance with quality in service delivery (as opposed to indicators on coverage only). Finally, it is necessary to strengthen the management capacity of regional governments in order to improve their spending capacity.

In fact, the OECD suggests the creation of performance-based indicators at the regional level that would incentivise subnational governments to design and implement strategies for optimization of public expenditure, without neglecting their regional obligations or principles of equity.

### 7.3 Government Employment and Public Administration

This core government function is led by the Administrative Department of Public Service (DAFP), in charge of formulating the general policies of public administration, especially in matters relating to civil service, management, internal control and streamlined procedures of the Executive Branch of Colombia. The DAFP also operates the School of Public Service, ESAP, responsible for educating and preparing the new generations of public servants in Colombia.

In addition to the DAFP, government employment also relies on the National Civil Service Commission, which is in charge of the selection of candidates for the administrative and public servants' office career. The Commission is an autonomous and independent entity that is not part of any of the branches of public power.

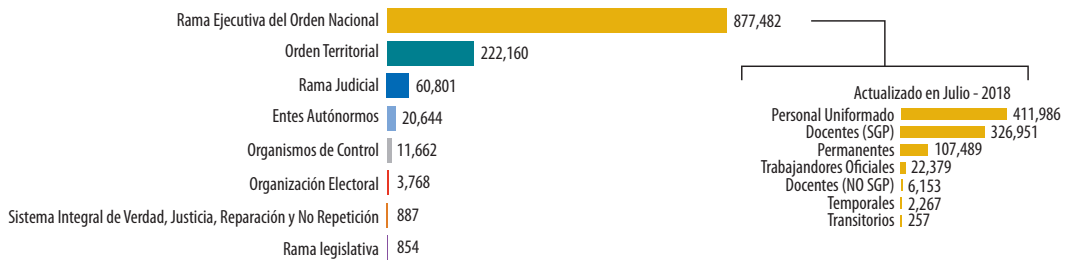
In terms of the size and composition of the civil service in Colombia, the DAFP currently registers 1,198,238 public servants, out of which 27% are teachers and 34% belong to members of the military and police.<sup>25</sup> This figure has been growing at least since 2014 alongside increases in the budget. In 2018 alone, the budget for government employment grew 30.4 per cent with respect to 2017, reaching a sizeable 553 billion pesos.<sup>26</sup> Distribution of public sector employment shows that most civil servants are concentrated in the executive branch-*Rama Ejecutiva del Orden Nacional* (877,482), at the subnational level-*Orden Territorial* (222,160), and the judicial branch-*Rama Judicial* (60,801) (see Figure 7).

Evolution of public employment in the executive branch shows a relatively stable number of teachers-*Docentes* and *Docentes Sistema General de Participaciones* (including those financed through the SGP) and general staff-*Servidores Rama Ejecutiva*, and a slightly more varied picture for members of the armed forces and police-*Personal Uniformado* (see Figure 8). Most notably, there was a drop in number of personnel levels in 2015, which have remained more or less even since then.

<sup>25</sup>In: <http://www.funcionpublica.gov.co/entidades-del-estado-y-sus-principales-caracteristicas>.

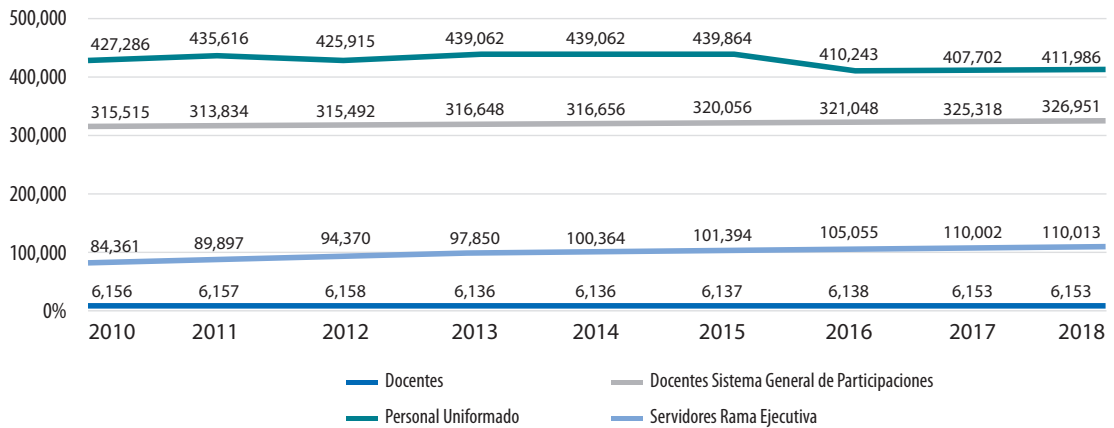
<sup>26</sup>In: <https://www.eltiempo.com/economia/sectores/presupuesto-general-de-colombia-para-2018-114224>

**Figure 7** Distribution of public sector employment



Source: DAFP

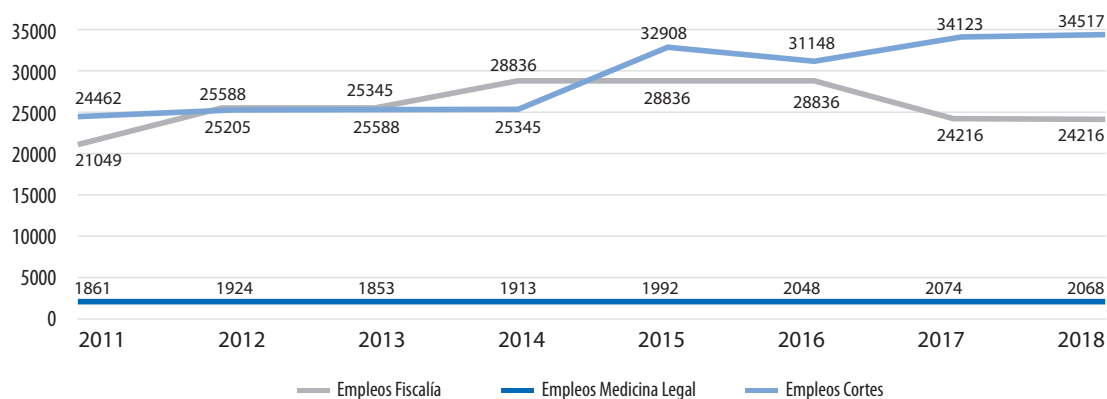
**Figure 8** Evolution of public employment in the executive branch



Source: DAFP

Evolution of public employment in the judicial branch, on the other hand, evidences a considerable rise of jobs in the courts system-Empleos Cortes since 2014 (see Figure 9). A similar trajectory is observed for employment in the Attorney's Office-Empleos Fiscalía, although these present a decreasing trend from 2016. The number of jobs in the forensics office-Empleos Medicina Legal has remained stable since 2011.

**Figure 9** Evolution of public employment in the judicial branch



Source: DAFP

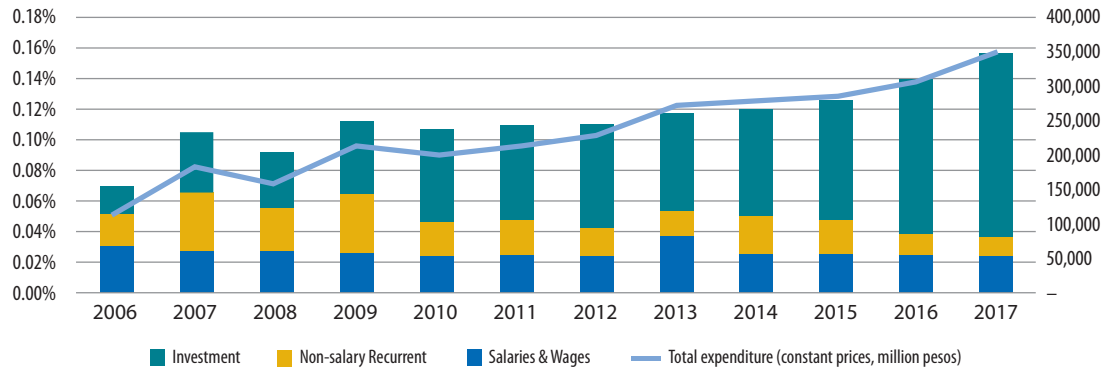
As was the case in other transitions (i.e. Sierra Leone or Liberia), the nature of the conflict did not significantly impact the Colombian public administration systems or availability of staff. Nonetheless, this has been a largely neglected function by governments, at least until recently.

### 7.3.1 Domestic Expenditure Analysis

Across the period, domestic expenditure on Government Employment and Public Administration has constituted a small proportion of total government spending, averaging 0.11 per cent of total government expenditure.

Although small, this figure has grown from 0.07 per cent of government expenditure in 2006 to 0.16 per cent of expenditure in 2017, a 125 per cent increase as a percentage of total expenditure. In constant prices, expenditure has more than doubled.

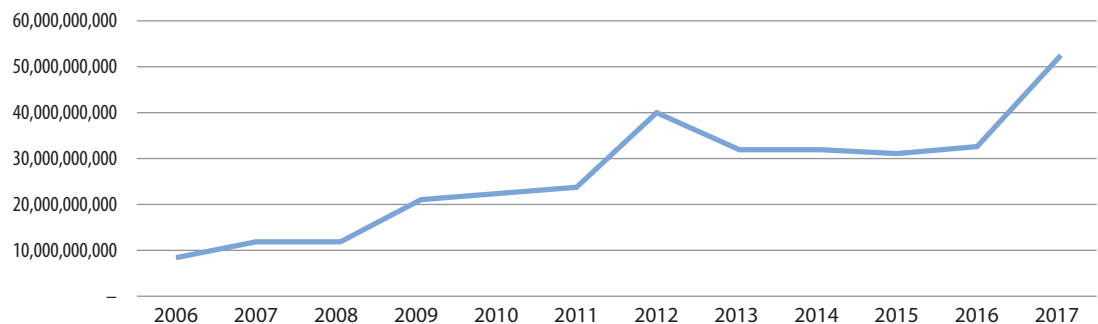
As shown in Figure 10, the increase takes place in the area of investment, accounting for 75 per cent of all expenditure on Government Employment and Public administration in 2017. The ESAP is the main agency which channels expenditure towards this area - a large proportion of investment expenditure has gone towards a programme called Government Efficiency (see Figure 11).

**Figure 10** Government employment by Component (% Total Dom. Expenditure)

Source: SIF – Ministry of Finance

This is also explained by the fact that the 1499 Decree, which created the Integrated Model for Planning and Management (MIPG), gives ESAP the mandate to design and offer training and skills development to public servants as part of its rollout and implementation. This is particularly helpful if one seeks to understand the spike from 2016 to 2017.

The increase in domestic expenditure in this core government function contrasts starkly with the perceptions of all interviewees. Without exception, all respondents agreed that this was the most neglected core government function by governments across the transition period.

**Figure 11** ESAP investment expenditure on Government Efficiency programme (constant prices)

Source: SIF – Ministry of Finance

### ***7.3.2 Key reforms during the transition period***

As seen in the expenditure analysis, only until recently has this core government function started to receive more government attention and as a result the main reforms to this CGF are also recent. A key moment came in the year 2000 at the start of our timeline, with the 617 Law aimed at strengthening decentralisation and introducing controls to public expenditure. The law has been key in controlling staff costs as it establishes that these cannot grow more than inflation.

Another key reform is the introduction of a merit-based system. Despite meritocracy existing since the 1991 Constitution as the principle through which public servants would be selected, not much had happened in terms of institutionalising this approach.

This, however, began to change with the Santos administration, particularly during his second term. The National Development Plan 2014-2018 gave way to an institutional push towards meritocracy. Between 2014 and beginning of 2018, the National Civil Service Commission has trained over 145 entities, undertaken 202 calls and awarded 67,616 merit-based positions.<sup>27</sup> There are a few institutions where the rollout of merit-based contests has already taken place, such as the Attorney General's Office. Other institutions such as the ARN are currently going through the process. This process is consistent with the principles of the MIIPG and it is expected that an integrated management and performance model will support the move to a merit-based system.

The other noteworthy reform of this CGF is the creation of the Public Employment Information and Management System (SIGEP) in 2010. Prior to the SIGEP, there was the Central Information System for Staff (SUIP), which centralised all public servant CVs. With SIGEP, the scope was broadened to include both staff and institutional information at the national and subnational levels regarding type of entity, sector, staff, number of employees, operating manuals, salaries, and benefits.

### ***7.3.3 Outcomes***

In 2015, DAPF commissioned an evaluation of the Government's public employment system. Some of the main findings are presented below<sup>28</sup>:

- 31 per cent of public servants think the competitive process is not transparent. Three out of ten government employees consider meritocracy has not improved performance of their respective entities;
- There is no formal feedback mechanism for public servants. While in theory there is an assessment of work performance, the evaluation found this is only a formality;
- Staff offices spend the majority of their time on operational issues such as holiday approvals, payments, sick leaves, with limited opportunities to provide input into plans and strategies. As a result, public servants have no sense of career progression and lack motivation, and the ability to retain talent is virtually nonexistent. In contrast, it is extremely challenging to remove low performing public servants;

<sup>27</sup>In: <http://www.funcionpublica.gov.co/empleo-publico/descripcion>.

<sup>28</sup>El Tiempo, "La meritocracia en Colombia se quedó en veremos", March 21, 2015. In: <https://www.eltiempo.com/archivo/documento/CMS-15440599>.

- The National Civil Service Committee also faces significant capacity constraints. At the time of the evaluation, the Commission only had 56 permanent staff and 140 contractors. The evaluation found that as a result, public entities ended up hiring contractors directly, which explains why Colombia's public service appears as the second smallest in Latin America, only after Chile;
- Hiring contractors directly helped entities in the short term, yet also afforded opportunities for public employment to be used for political or electoral purposes.

These findings were corroborated by the majority of interviewees three years on. In particular, senior government representatives expressed frustration over how certain meritocracy mechanisms have actually caused key staff with institutional memory and know-how to lose out to others 'with one or two more years in their CVs', which under the competitive mechanism is enough to make them lose. Entities like the ARN have been considerably affected by this, which begs the question of timing. As one ARN representative stated, it is not clear why the Government wanted to start this process in two of the institutions with key responsibilities in the post conflict situation (the Attorney's Office and the ARN).

## 7.4 Security Sector

The security sector in Colombia is led by the Ministry of Defence, ensuring that control and oversight is under the management of civilian authorities. In contrast to the practice in most countries, Colombia's police force is still part of the Ministry of Defence, as opposed to the Ministry of Interior. The National Police currently consists of 176,429 personnel<sup>29</sup>.

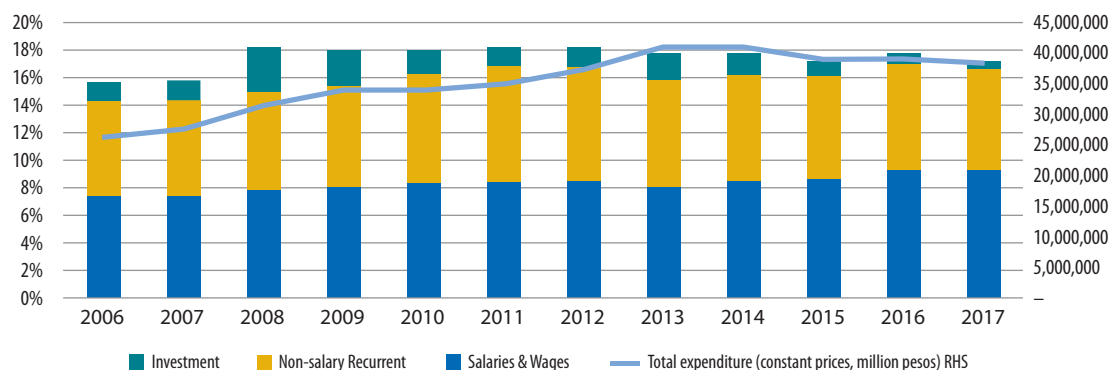
On the other hand, the General Command of the Military Forces is the entity responsible for planning and providing strategic direction of military institutions in the country, which consist of the army, the navy and the air force. The armed forces currently consist of 272,000 personnel (DCAF, 2018).

In terms of the justice sector, Colombia has a centralised judicial system led by the Office of the Attorney General. There is also a military justice system which takes on cases regarding military personnel who committed crimes while in the line of duty, and an Inspector General's Office, which is responsible for the investigation and discipline of government personnel.

### 7.4.1 Domestic Expenditure Analysis

Between 2000 and 2017, the security sector was consistently the third largest area of public expenditure followed by Health and Education (in recent years), representing on average 20 per cent of total expenditure. Between 2006 and 2017 alone, expenditure on the security sector increased by 48 per cent in constant prices, and at the same time increased as a proportion of total government spending from 15.7 per cent to 17.3 per cent. In terms of composition, expenditure on non-salary recurrent costs has remained a consistent proportion of the budget while investment has decreased, making room for salaries and wages as the number of members in the sector continued to grow across our timeline.

<sup>29</sup><https://www.policia.gov.co/talento-humano/estadistica-personal/cifras>.

**Figure 12** Security Expenditure by Component (% Total Dom. Expenditure)

Source: SIF – Ministry of Finance

Undoubtedly, increased spending began with Plan Colombia but was intensified during Uribe's administration and his Democratic Security and Defence Policy (*Política de Seguridad Democrática*). The Policy targeted three main objectives: improving intelligence capacities of the Armed Forces, strengthening cooperation between different branches of Military, Police and the Intelligence Agency (DAS), and effectively allocating resources within the military budget (DCAF, 2018).

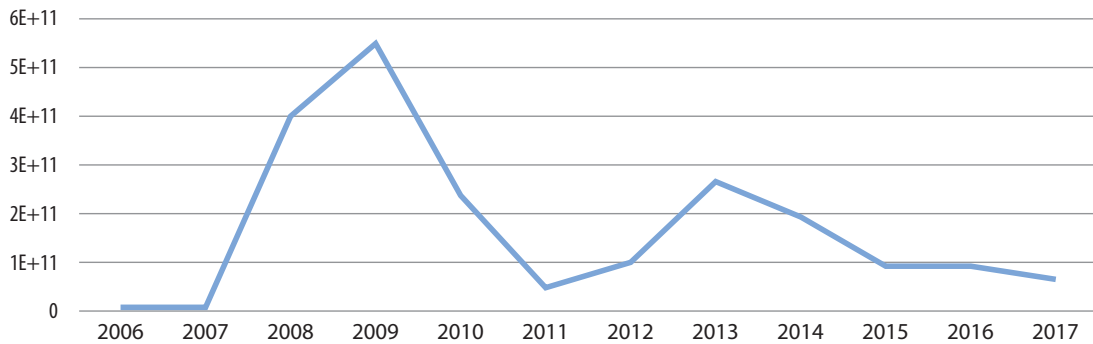
During his second administration (2006-2010), the policy scope broadened to better reflect the changing landscape of the sector. It was now called the Policy for the Consolidation of the Democratic Security, with the rationale being that once the State has achieved territorial control, the next step is to consolidate the presence of State institutions. However, for former Plan Colombia staff and subject matter experts this was not achieved and the main presence in the territories continued to be the army and police. This is consistent with spending patterns as there was a major push for spending between 2007 and 2010 under the Democratic Security Consolidation Policy (see Figure 13). These resources were spent on acquisition of equipment, maintenance and reconstruction. These levels of expenditures have not been seen since. The remainder of non-salary recurrent expenditure is mainly goods and some provisions for severance.

Expenditure peaked in 2008 as a percentage of total expenditure, reaching 18.3 per cent. This was largely the result of investment in the Consolidation Policy heading from both the police and defense sector, constituting 10 per cent of total security expenditure and 55 per cent of total investment in the security sector in 2008 alone.

However, in recent years, this expenditure has flattened and it is expected to remain at the same levels as in the final years of the armed conflict (approximately 3.4 per cent of the GDP) given that the State's presence will still need to be consolidated in the areas affected by the armed groups<sup>30</sup>.

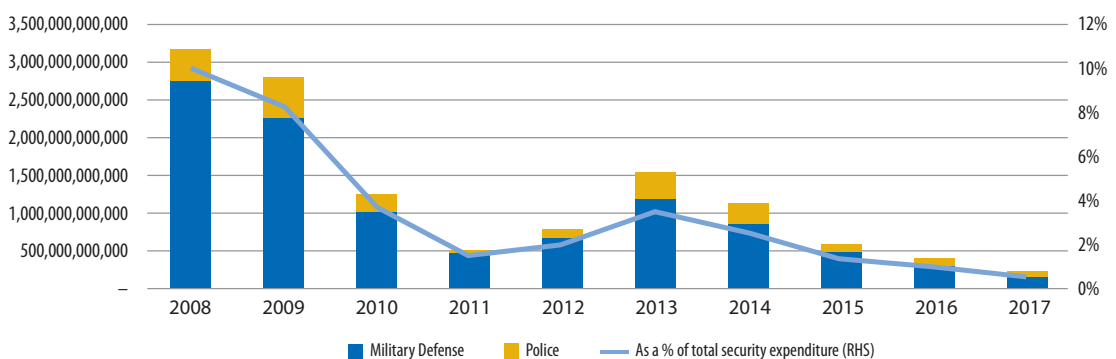
<sup>30</sup>Revista Semana, "Implementar el acuerdo de paz necesitaría una nueva reforma tributaria: Fedesarrollo", January 23, 2018. In: <https://www.semana.com/economia/articulo/costos-del-proceso-de-paz-y-el-posconflicto/554526>.



**Figure 13** Real terms spending of Democratic Security Consolidation Policy

Source: SIF – Ministry of Finance

A staff member from the Presidential Sector offered an additional explanation as to why security sector expenditure would be maintained. A political settlement between the Government and the Military was struck, whereby the security sector budget (and the military in particular) would be maintained (while expenditure was being cut almost everywhere else and deficits rose) in exchange for political support to the peace negotiations. Other sources point to the fear of a possible reduction in the military sector size as additional reasons for the settlement (DCAF, 2018).

**Figure 14** Investment expenditure and its composition on the Democratic Security Consolidation Policy (constant prices)

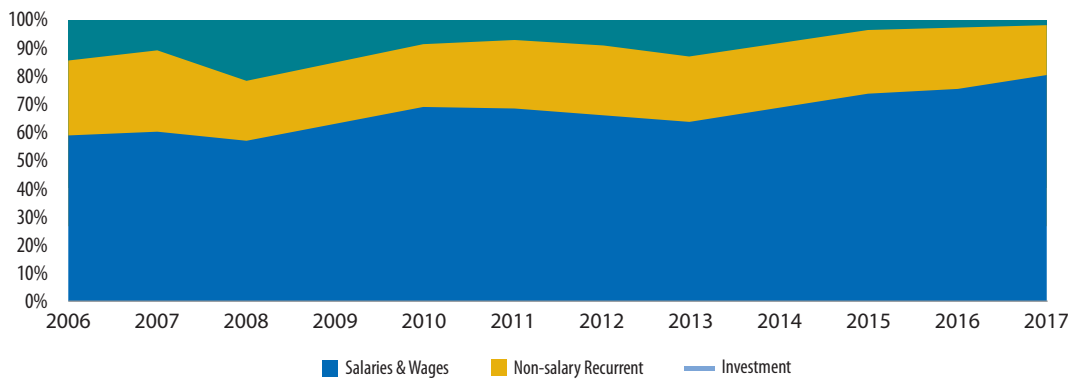
Source: SIF – Ministry of Finance

While the military consistently absorbs the largest share of expenditure from the security sector, across the period a reduction in share is observed (see Figure 14). However, this has not translated into increased spending on the police. In fact, the police have maintained a consistent share of security sector expenditure across the period at around 30 per cent.

A comparative look at the composition of expenditure between army and police (Figures 15 and 16) further reveals the prominence of salaries and wages for both, with similar levels of non-salary recurrent costs. Where differences can be observed is on investment: while currently low, investment in the Army has been considerably--and understandably--larger than in the Police.

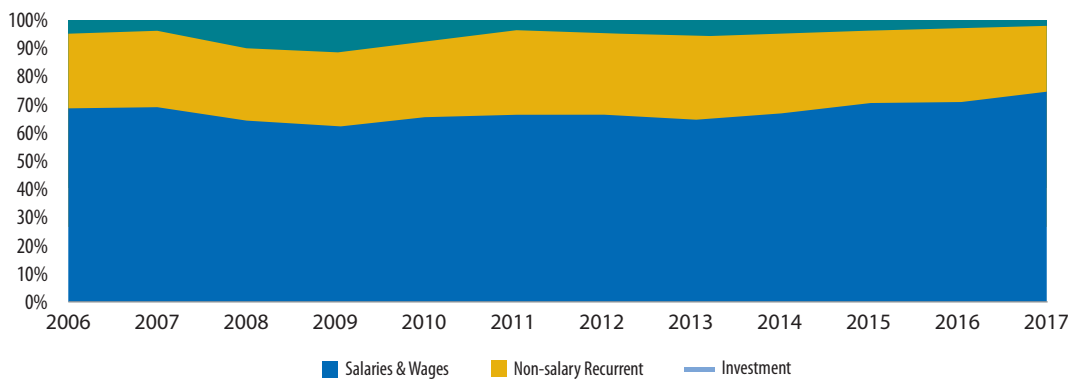
As mentioned, with the reduction in the military share of expenditure, room has been created for spending elsewhere. This has been the case of Courts of Law, which have enjoyed a slow yet steady increase in expenditure (see Figure 17). This increase in prioritisation can be traced back to 2008 with the “False Positive” extrajudicial killings scandal, which led the GoC and the MoD to begin a reform in the military and police forces, including the establishment of the School of

**Figure 15** Composition of Domestic Expenditure on the Army: Expenditure Categories



Source: SIIF – Ministry of Finance

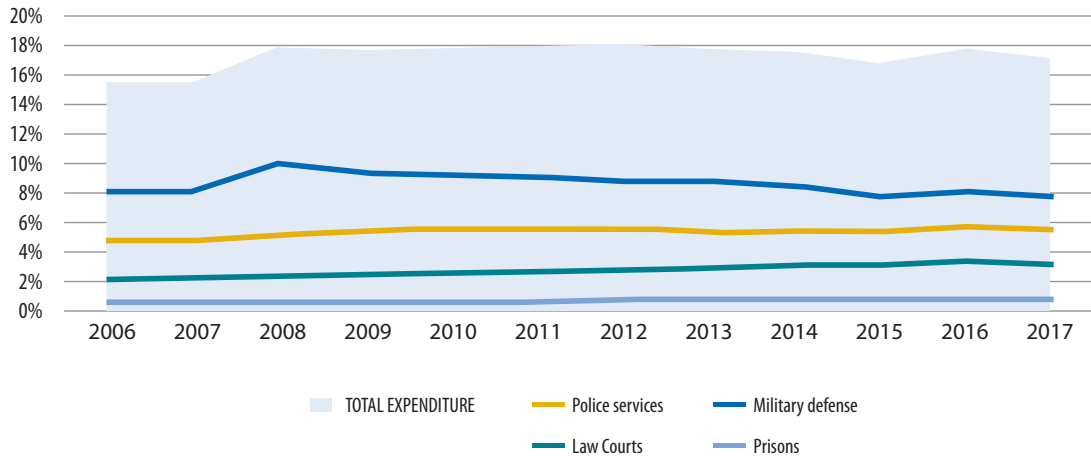
**Figure 16** Composition of Domestic Expenditure on the Police: Expenditure Categories



Source: SIIF – Ministry of Finance

Human Rights and International Humanitarian Law of the Colombian National Army. Alongside such reforms, in 2011 the GoC undertook actions against impunity for human rights violations to ensure the effective implementation of justice.

**Figure 17** Security Sector Expenditure (% of Total Government Expenditure)



Source: SIIF – Ministry of Finance

#### 7.4.2 Key reforms during the transition period

As mentioned, the security sector has been the most prioritised core government function in terms of expenditure, and as this section will show, the outcomes are evident. However, this has not been the case in terms of more structural and transformative reforms, at least until very recently. An interviewee from the MoD pointed out that the sector has not truly been reformed since the 1990s. This seems to be particularly the case for reforms aimed at enhancing democratic oversight. As DCAF has stated, “given the state’s long struggle to establish control over its entire territory, reforms to ensure civil and democratic control over the armed forces have largely been set aside during the long period of internal conflict”.

Prior to such reforms, the levels of transparency and accountability in terms of decision making were not a major concern. Orders to the military were given directly from the executive, bypassing Congress and other oversight bodies. While the aim was to ensure a rapid response to urgent issues, this also gave way to limited accountability for human rights violations attributed to the armed forces (DCAF, 2018), just as it happened with the “False Positives” scandal mentioned before.

Such a situation not only created the space for reforms oriented towards more transparency and accountability but also to greater inclusion of the human rights agenda. The US government has been instrumental in putting pressure on the GoC to prioritise such an agenda, particularly since

2015 onwards. Today, there is even an anonymous whistle-blower mechanism to denounce corruption or human rights issues within the armed forces.

Most recently, the Colombia National Army has begun its first organisational reform since 1990, in acknowledgement of “times of change, modernization, developing towards a new country, a country at peace”<sup>31</sup>. The reform package addresses a wide range of issues at the organizational level, for instance, the elimination of the current Special Task Forces, a restructure of six out of eight regional divisions, and a transformation and modernisation of the military branches. One highlight is the increase of women participation in the armed forces and police and the creation of an ‘Army Officer of Gender’. As of late 2016, 3,838 women served in the Colombian Armed Forces: 1,515 female officers in the Army, 780 in the Navy, and 1,038 in the Air Force (DCAF, 2018).

In 2017, additional reforms set the armed forces, and army in particular, towards a definitive peace path. For example, mandatory service was reduced from 24 to 18 months, and for the first time, there is a conscientious objection law. Salaries of soldiers also increased three-fold and they are now allowed to pursue education programmes as part of the State’s Education System (SENA) while on duty, with the aim of providing them with an alternative livelihood should the army reduce in size.

From a financial perspective, the most relevant reform is the elimination of compensation rates which were absorbing most of the resources. There is a fixed tariff but it excludes victims of violence or beneficiaries of subsidies as they receive such resources from other government programmes and sectors.

Reforms in the police have taken a similar path to those in the military as they were geared towards enhancing military capabilities to respond to the armed conflict. The creation of special units to fight drug-related crime and enhancing tactical coordination with the military in counter-insurgency efforts are some of the changes made. A key year was 2017 when a new Police Reform Code was finally approved by Congress, something that had not happened since the 1970s. The new Code brings the police closer to its constitutional role as the post conflict environment takes hold. For example, it foresees increased enforcement for low-level offences and expands the police’s competences to intervene in daily matters (i.e. noise complaints), “aiming to support a peaceful co-existence for all Colombian citizens” (DCAF, 2018).

The judicial sector, however, has gone through a ‘massive judicial overhaul’ since the early 2000s as it moved from the inquisitorial to an accusatory justice system. This reform was part of Plan Colombia and was entirely supported by the U.S. Department of Justice. Another important reform under Plan Colombia sought to enhance the capacity of criminal investigation as a response to increased crime rates.

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<sup>30</sup>El Espectador, “Reformas al Ejército”, junio 17 de 2017. In: <https://www.elespectador.com/opinion/reformas-al-ejercito-columna-698833>

### 7.4.3 Outcomes

In addition to the points mentioned in the previous section, expenditure in this CGF led to improvements in the sector's performance and in changing the dynamics of the conflict, constituting a turning point on the transition out of conflict. Military experts point to a number of key achievements at an organizational and tactical level. Rangel (2004) highlights the following: strengthening of technical intelligence; the creation of the Rapid Deployment Force, high mountain battalions, and the River Control Brigade; the establishment of professional career for soldiers (which saw the numbers jump in the first years of Plan Colombia from 20,000 to 60,000); air power of armed forces multiplied by four; the programme for surveillance and protection of roads (highly vulnerable to kidnappings) was established, along with night combat capacity; and the doctrine for joint operations was developed along with the Central for Joint Intelligence.

All of these measures ultimately improved the armed forces' capacity to react, mobilise and respond to the growing needs. In parallel, reforms aimed at introducing respect of human rights and international humanitarian law were partially successful in contributing to a change in mentality of military personnel. Such a process has proved challenging but unfortunate events such as the "False Positives" have harnessed increased public oversight and accountability. These reforms also help explain the dramatic improvement in the general public's view of the Armed Forces, which has continued to improve throughout the selected timeline (see Figure 18), with the result that in past decades the Armed Forces have constituted the Colombian institution that enjoys the most favourable perceptions (Gallup Poll, 2017).

However, these changes came at an extremely high price. As Mejia points out, the cost that Colombia has had to pay in its war against drugs has not only been in financial terms but more importantly, in human lives. The author calculated that at least 25% of total homicides between 1994 and 2008 were drug-related, mostly resulting from confrontations between FARC and the Colombian government (Mejia and Restrepo, 2014). Numerous human rights violations also occurred during this period, at hands of both armed groups and state actors, many of which targeted community leaders, judges, students, union members, and civilian population.

Such a high cost begs the question of what successful reforms or transitions should be defined. When one considers that transitions to peace are not linear and that progress and backsliding are possible, Plan Colombia was both a step forward and backwards in the country's conflict history.

As previously mentioned, reforms aimed at enhancing civilian and democratic oversight have been moderately successful. For example, the defence budget is subject to congressional oversight, and the 2015 Open Budget Survey found that oversight by the Colombian legislature over the executive's budget was adequate (DCAF, 2018). However, challenges remain in terms of oversight of security expenditure, particularly as the military has a special regimen for procurement, which does not subject them to the same level of oversight and control as civilian institutions are.

## 7.5 Local Governance

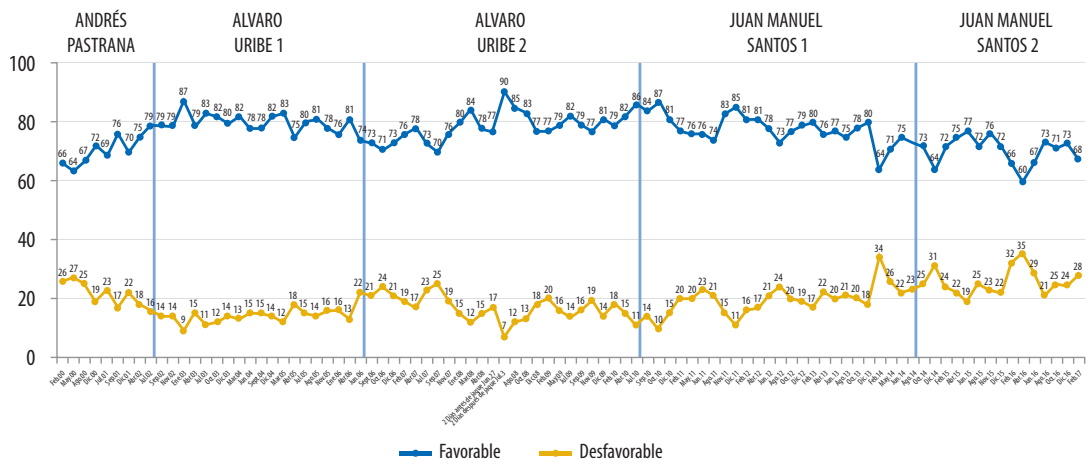
Spending on local government is done through transfers from the Ministry of Finance through the SGP. Subnational entities are responsible for spending their transfers on service delivery of health (24.5 per cent), education (58.5 per cent), water and sanitation (5.4 per cent) and other services (11.6 per cent) (Asobancaria, 2017). Transfers represent 57.2 per cent of total current expenditure and also happen to be where the biggest budget inflexibilities are, especially those related to the SGP and pensions.

Expenditure on pensions constitutes 32 per cent of transfers (18.3 per cent of total current expenditure) and it is one of the most concerning headings in terms of its sustainability. Despite a number of reforms that have yielded partial results, there are components that are still financially unsustainable. This was the case in 2003 when the Social Security Institute's reserves (which covers Colombians' pensions) ran out and the General Budget of the Nation had to cover for this (Asobancaria, 2017).

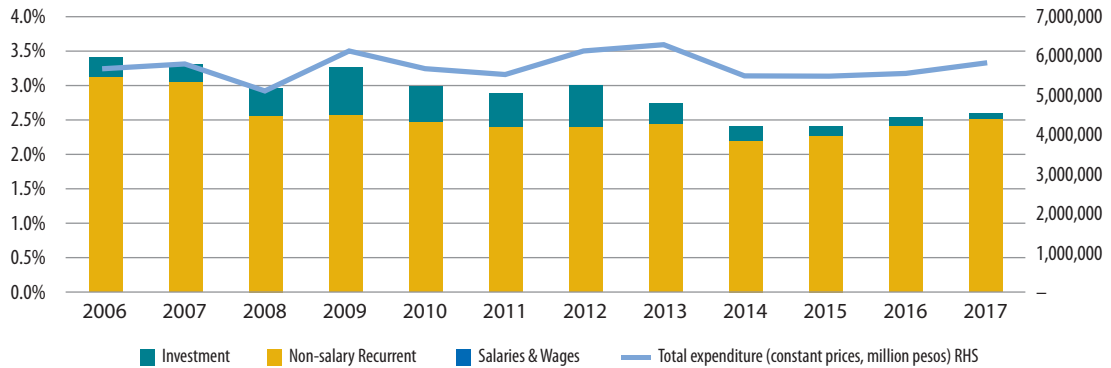
### 7.5.1 Domestic Expenditure Analysis

Spending has remained flat in constant prices between 2006 and 2017. As a percentage of total government expenditure, expenditure on local government has fallen over the period from 3.4 per cent in 2006 to 2.5 per cent in 2017, illustrating its reduced prioritisation across this period, despite the fact that the actual amount spent remained equal (in constant prices) across this period (see Figure 19).

**Figure 18** Favourability of Armed Forces 1998-2017



Note: Blue = Approves; Yellow = Disapproves  
 Source: Gallup Poll 2017

**Figure 19** Local Government expenditure by Component (% of Total Dom. Expenditure)

Source: SIF – Ministry of Finance

### 7.5.2 Key reforms during the transition period

Local governance in Colombia was transformed in the early 1980s with the implementation of a decentralised system at the administrative and political levels. However, to understand the evolution of this CGF, it is important to understand the consequences of the 1999 financial crisis, which gave way to reforms aimed at stabilising subnational finances and thus deepening the fiscal and administrative decentralisation. By 1999, current costs had considerably surpassed income taxes at the subnational level, creating a deficit situation that could only be financed through debt. As the economy expanded, regional transfers increased, evidencing how the increase in spending was tied to increases in income (as opposed to spending needs). The decentralisation model therefore led to an unsustainable expansion of subnational spending. According to analysis from the Ministry of Finance, while subnational authorities were happy to receive additional resources, these resources were not coupled with the right levels of political and administrative autonomy needed to design and deliver development plans in accordance with their fiscal realities (MinHacienda, 2015).

The crisis gave way in 2000 and 2001, right at the start of our timeline, to a series of reforms aimed at controlling current expenditures and deepening decentralisation. Law 617/2000 established controls to State staff growth while the 01 Legislative Act introduced a stable growth rule for the SGP, tied to inflation and annual growth as a way to promote fiscal stability. The Act also introduced limits to how much current expenditures can grow. In terms of decentralisation, in 2001 the 715 Law further defined competencies between the regions and the Nation, established a formula to assign resources at the subnational level, and introduced incentives for results on coverage and quality of service delivery.

A more recent development concerned the creation of the General System for Royalties (SGR), following a government-led reform in 2010. With 80 per cent of royalties concentrated in

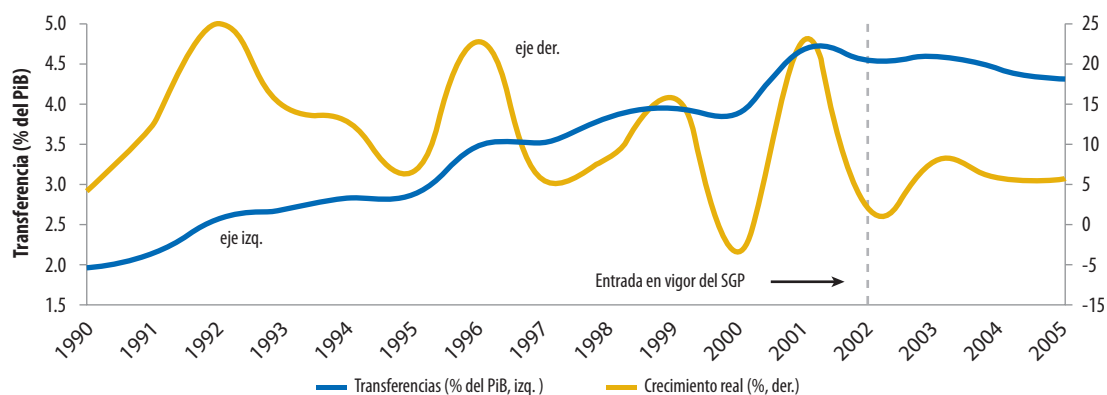
subnational entities that represent 17 per cent of Colombians, and 33 per cent of the country under the line of poverty, the government presented a reform bill to fundamentally readjust the system. The reform was aimed at ensuring regional equity by modifying the distribution of royalties, promoting social equity by privileging the poorest areas, and incentivising savings at a moment of growth led by the extractive industry (Semana, 2010). The reform was also interpreted by many as a response from the centre of government seeking to take back some control over decades of irresponsible management and corruption at the subnational level, in a reaffirmation of just how centralised Colombia still is.

The Government faced a “monumental political challenge” in getting these reforms approved. On one hand, the President did not have Congress majority and was subject to Liberal majority. For example, as a precondition for their support for the SGP reform, the Liberal Party demanded that letters signed by all mayors and governors expressing their support be delivered (something which took the GoC a year to achieve). Unions also opposed ferociously to the package of reforms. However, the leadership of Ministers of Finance and the DNP was instrumental in ensuring that very unpopular reforms were passed without delay (Caballero and Pizano, 2014).

### 7.5.3 Outcomes

The legal developments aimed at controlling State current expenditures and deepening decentralisation had the ultimate outcome of protecting subnational entities' income against fluctuations in the economy (Caballero and Pizano, 2014). Figure 20 below shows the evolution of transfers from the State to subnational entities before and after the reforms in 2000 and 2011:

**Figure 20** Evolution of transfers to subnational entities before and after 2001 reforms



Note: Blue=Transfers (% of GDP); Yellow=Real growth (%)

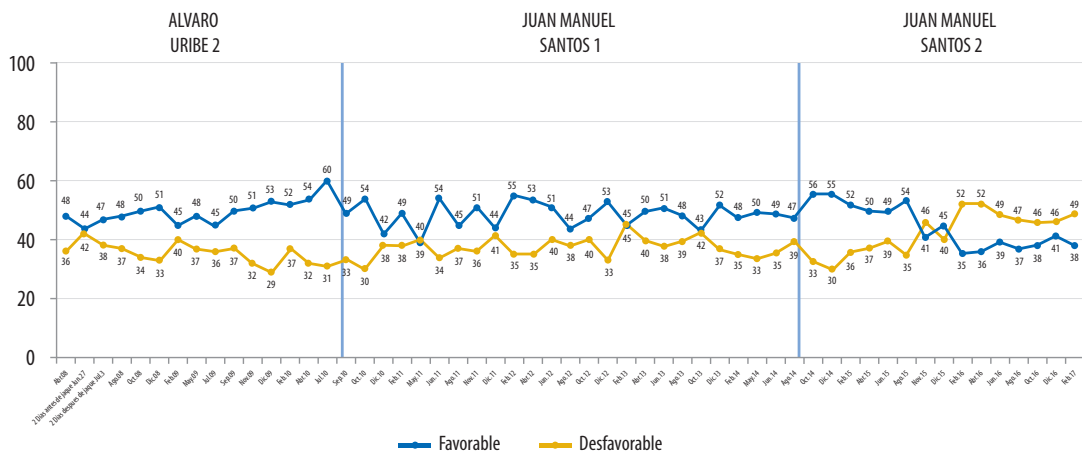
Source: Caballero and Pizano, 2014



Overall, such measures also led to a situation of macroeconomic stability and a stabilisation of the public debt. In its analysis, the Ministry of Finance also points to an increase in revenue collection, a stabilisation of recurrent costs, an expansion of regional public investments, the identification of reserves to cover pension deficit, and the fact that fiscal deficit was no longer recurrent, as evidence that the measures yielded many of the expected results (MinHacienda, 2015).

One aspect worth mentioning concerns service delivery. As significant progress has been made in terms of fiscal, political and administrative decentralisation, public service delivery continues to be a weakness (PEFA, 2015). Subnational authorities continue to struggle in terms of strategic allocation of resources and transparency in spending, which ultimately impacts their ability to provide services. Accordingly, citizens' perceptions in terms of quality and coverage of public services has remained constantly low across our timeline, and even worsened during the last years (see Figure 21).

**Figure 21** Citizens' perceptions on quality and coverage of service delivery



Note: Blue = Approves; Yellow = Disapproves  
Source: Gallup Poll 2017

## 7.6 Aid Coordination

The role of donors, while not as prominent in terms of financial resources if compared to other transitions, has been key in the political space. According to interviewees from the GoC and the donor community, there was agreement that donors were instrumental in supporting what the GoC could not do, or would not want to do. As such, donors' support (particularly the UN and EU) has been aligned to the needs of the transition process. For instance, at the beginning, the UN and EU focussed on supporting and protecting the space of on-going negotiations, helping build confidence among the negotiating parties, and fostering confidence in a peace agreement among the wider population, especially during times of crisis (like in 2015 following an escalation of armed actions by FARC).

As negotiations reached their final stage, donors focussed on creating the environment and enabling conditions in the most conflict-affected areas of Colombia for the forthcoming implementation of the Peace Agreement (this was prior to the creation of the EU Trust Fund). As an agreement was reached, support then moved to provide support for protecting the achievements obtained during the negotiations and sustain the political momentum ignited by the signature of the Peace Agreement. During this time, the EU and UN supported confidence-building measures of a humanitarian nature. As concentration zones for FARC were put in place, support was needed to help create the security and stability conditions near and around the concentration zones and the FARC themselves. Support was also provided to the ongoing bilateral and permanent ceasefire and cessation of hostilities and to the handing-over of arms. As the process consolidated and made progress, donors focussed on providing support for the early implementation of strategic elements of the Peace Agreement.

### ***7.6.1 Domestic Expenditure Analysis***

The expenditure analysis of this core government function is unfortunately only available from 2012 onwards, as data was not disaggregated prior to that. However, as pointed out by the OECD, between 2007 and 2016, annual aid flows increased by approximately 50 percent in Colombia. This increase was particularly noticeable on the aid flows to the ‘Government and Civil Society’ sector, which increased from roughly 16 per cent of total flows in 2007 to 33 percent in 2016. This pattern is consistent with the broad support of the international community to the Colombian peace process. A prominent example was the assistance provided by the European Union, which among the European Commission and the individual member states, have supported the process with approximately € 1.5 billion from 2000 to 2017.

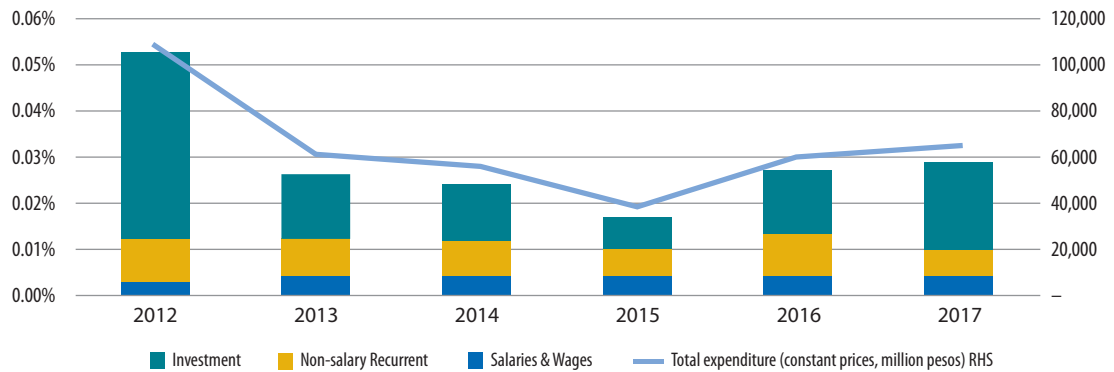
Alongside such an increase, a central aid and cooperation unit was created in 2011. The 4150 Decree creates the Presidential Cooperation Agency (APC), which led to a step forward in the institutional design of this core government function. It also constituted a response to the evolving needs of aid realities and best practice globally, as well as preparation for what was to come with the expected influx of post conflict aid.

The data also shows a clear peak in 2012, showing how the creation of the APC led to a peak in aid management expenditure, particularly in the investment component.

### ***7.6.2 Key reforms during the transition period***

Prior to the APC, international aid was managed through the Presidential Agency for Social Action and International Cooperation (Acción Social). This agency had the objective of channelling and administering national and international resources for the delivery of social programmes that depended directly on the President and that worked with vulnerable population affected by poverty, drug trafficking, and violence (largely those forcibly displaced).

Creating Acción Social allowed the Government to bring together the Social Solidarity Network (RSS), the Colombian Agency for International Cooperation (ACCI), and the Investment for Peace Fund (FIP). In particular, the FIP channelled resources from the social component of Plan

**Figure 22** Aid Management expenditure by Component (% of Total Dom. Expenditure)

Source: SIF – Ministry of Finance

Colombia, consisting of cash transfer programmes such as Families in Action and Familias Guardabosques, social infrastructure and other productive and alternative livelihood projects. The Government needed to create a coordinated space where the institutions responsible for delivering the social component of Plan Colombia were in the same place. This method would allow for a more coordinated institutional response while allowing the President to closely monitor and oversee the use of such funds. In fact, while aid coordination was again made independent, it was now assigned to the President's Office and not the Ministry of Foreign Affairs, as was the case with the previous ACCL.

The aid coordination function was reformed once again with the 2011 Decree and the creation of the APC as a separate, technical entity with the twofold objective of ensuring a more efficient aid management and delivery as well as “achieve an international projection in the medium and long term (...) as well as [a positive role in] global scenarios. (...) It is necessary to position Colombia as offering international cooperation (...)” (Decree 4152, 2011). With Colombia already in the preparatory stages of joining the OECD, this became a new priority for the Santos administration. So much so that the creation of the APC took place under Santos' extraordinary faculties awarded by Congress in 2011, which allowed the President to create or reform entities in the executive branch.

Needless to say, the evolution of the aid coordination function would also lay the foundations for what was to come with the expected flows of post conflict aid. However, most interviewees agreed that while the APC is regarded as a competent and technical entity, it does not have sufficient “political weight” nor capacity to respond to existing needs. As a new entity, respondents from agencies such as the ARN and DNP thought it needed more time to consolidate.

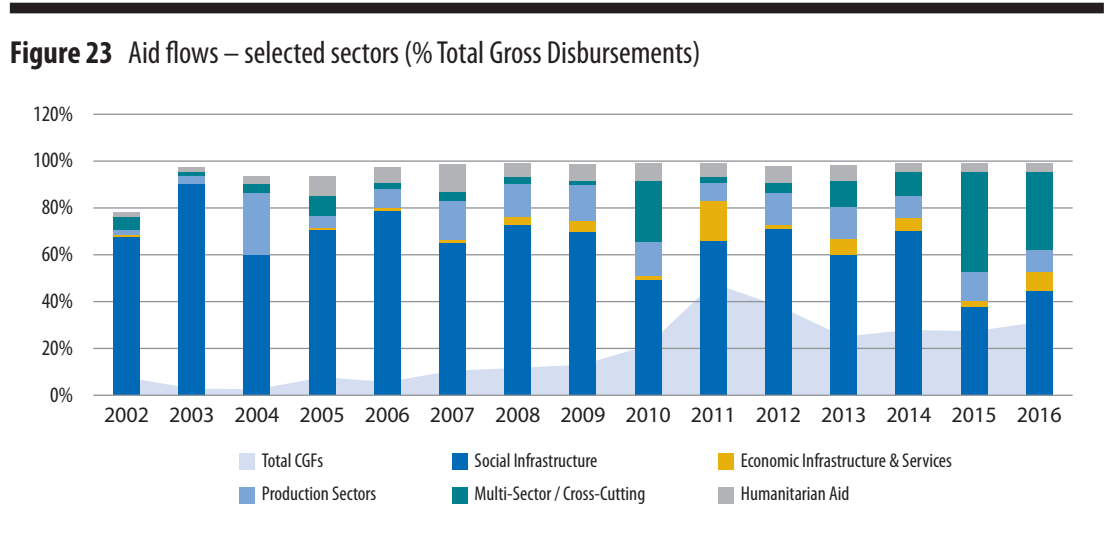
This could partially help explain why there are currently five multi-donor funds to support Colombia's transition to peace. There is the EU Trust Fund for Colombia (EUR 95m), the UN

Multi-Partner Trust Fund (USD \$86m), the World Bank Post Conflict Fund, a fund set up by the Inter-American Development Bank (IADB), and the government's own Colombia in Peace Fund, which consists of national and international resources. While each fund has specialised in different areas (i.e. the IADB's fund will focus on environmental issues; the EU's fund focuses on rural development; the UN fund supports the implementation of the peace deal), there is a coordination mechanism led by the Colombian government. Representatives of donor governments and the UN that were interviewed highlighted the Government's consistency and continuity in its participation and considered there was alignment with government priorities. In fact, one interviewee from the DNP stated that the peace funds helped set up structures that were very costly (politically and financially) to the State.

However, the peace funds have faced some difficulties. In April 2018, a few EU governments expressed concerns over the management of the Colombia in Peace Fund. As a result of allegations regarding contracting irregularities, the Fund's managing director was removed from office and a number of transparency initiatives were undertaken, particularly those concerning access to information. As a senior UN officer put it, "it was unfortunate what happened but a lot of pedagogy and information sharing needed to be done. Today, the government publishes all its contracts online and you can monitor spending and contributions through an online platform".

### 7.6.3 Aid flows

In comparison to other sectors, there is an increased funding to CGF in our selected timeframe since 2002 to 2016, with peaks in 2011 and 2012 due to increased expenditure in legal and judiciary development within the social infrastructure sector (see Figure 23).



Source: Creditor Reporting System (OECD)

But are donors prioritising core government functions? It does not seem to be the case. With 75 per cent of aid flows going to “other areas”, core government functions (mainly, security sector and executive coordination) only constitute 25 per cent (Figure 24).

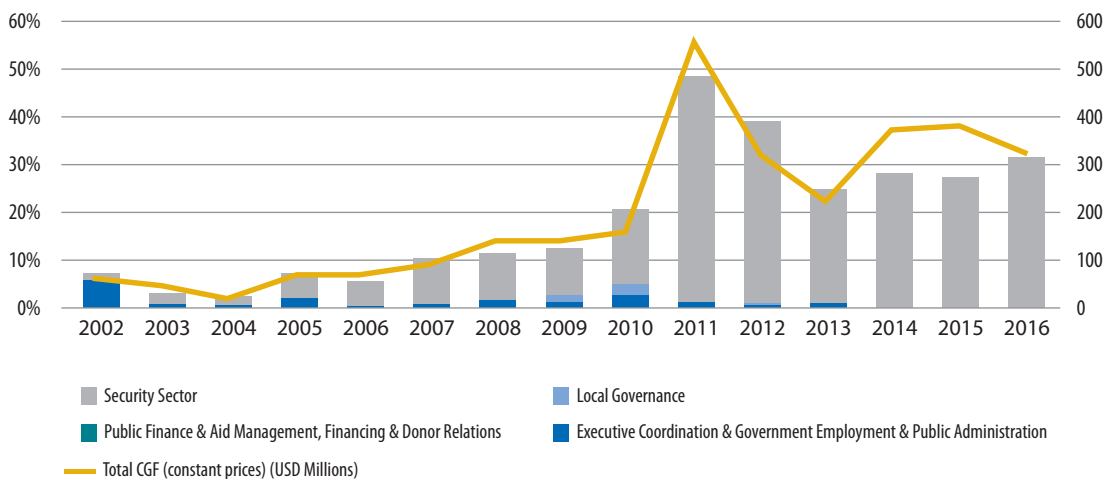
**Figure 24** Aid Flows to Core Government Functions vs Other Areas (2006-2017)



Source: Creditor Reporting System (OECD)

What donors have in fact been prioritising is, unsurprisingly, the security sector. Looking specifically at aid flows to CGFs, there is a clear dominance of the security sector, with executive coordination and government employment and public administration and local governance coming in second and third, respectively, but by a long way (Figure 25).

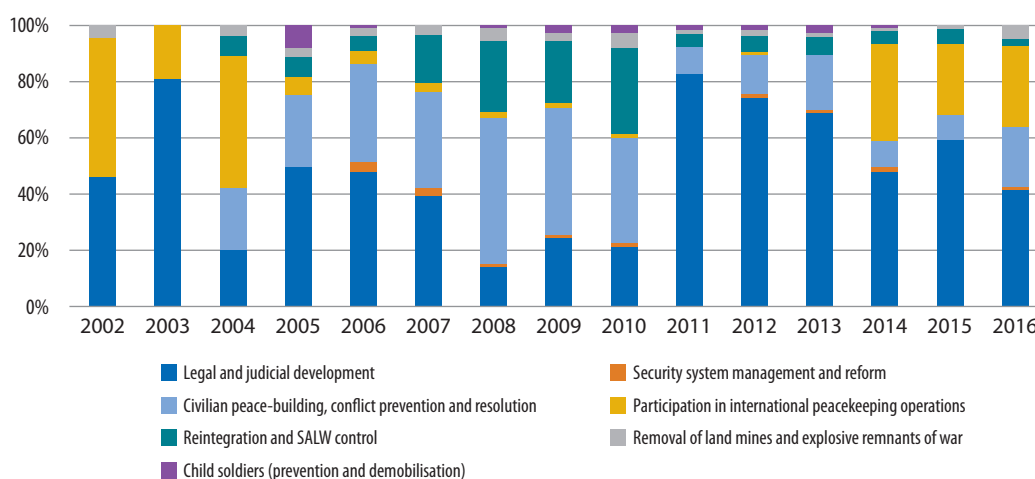
**Figure 25** Aid flows to Core Government Functions (% Total Gross Disbursements)



Source: Creditor Reporting System (OECD)

However, it is important to note that the recent increase in aid flows towards the security sector is mainly driven by disbursements towards supporting strengthening of the legal and judiciary systems, which has been a common trend for the studied period (Figure 26). In further analyzing the security sector aid flows, we find that legal development investments are followed by participation in international peacekeeping operations, civilian peace-building, conflict prevention and resolution, and reintegration and SALW control. The latter increased steadily from 2004 to 2010, underscoring the paramilitary DDR process that took place.

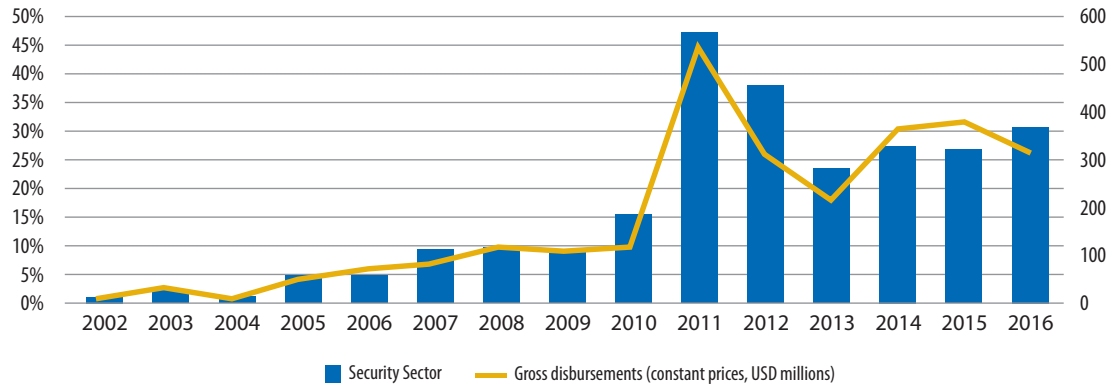
**Figure 26** Composition of Security Sector Aid



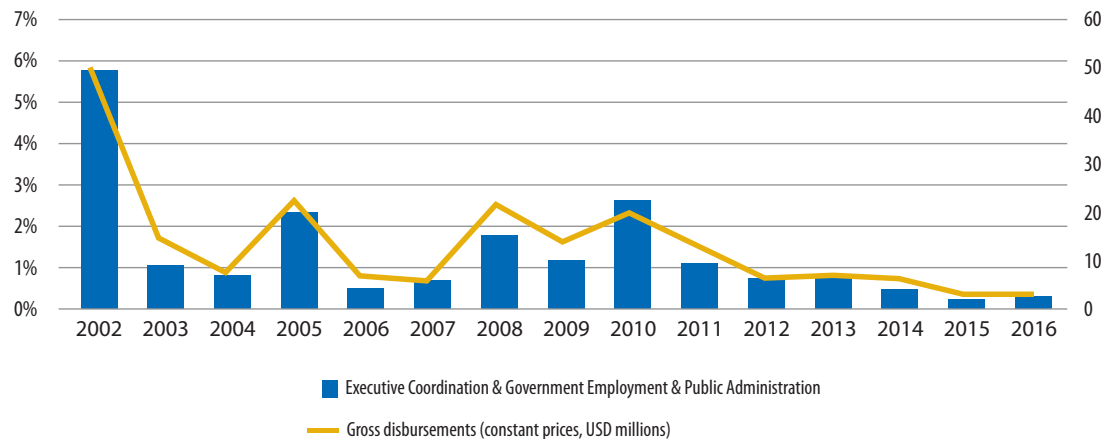
Source: Creditor Reporting System (OECD)

It is also worth noting that, while aid flows to the security sector have been slowly increasing since 2002, they reached a peak in 2011 and have maintained relatively high since then (see Figure 27). The donor community, the US, EU, UK and UN in particular, has prioritised supporting the legal and judicial system throughout Plan Colombia and the recent transition to peace. Important reforms have taken place throughout this period (particularly since 2010), including the transition to an oral accusatory system and the development of a transitional justice system in preparation for the implementation of the peace agreements.

A different picture is shown in aid flows to support executive coordination and government employment and public administration (Figure 28). There is a decrease, particularly from 2010 onwards, which contrasts with the Colombian government's increase in expenditure in both functions (see section 3.3). As seen, these have been processes managed and led closely by the Colombian Government and where donor interest is also limited.

**Figure 27** Security Sector (% of Gross Disbursements)

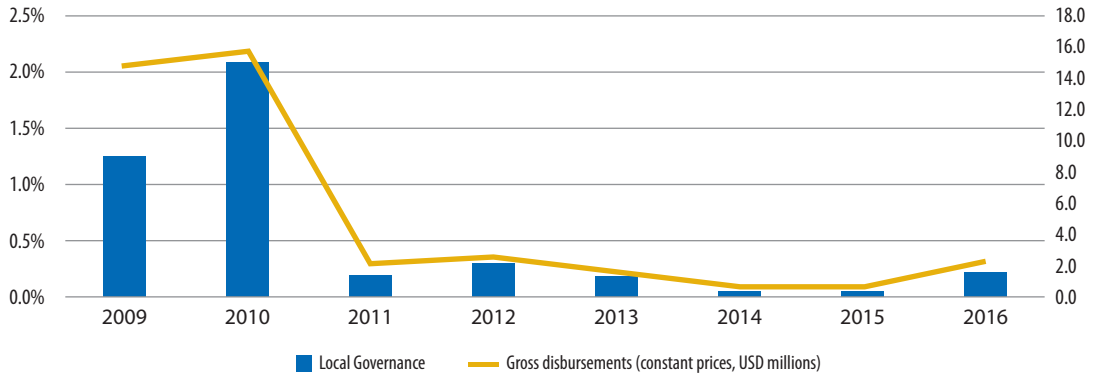
Source: Creditor Reporting System (OECD)

**Figure 28** Executive Coord. & Gov. Employment/Pub. Admin. (% Gross Disbursements)

Source: Creditor Reporting System (OECD)

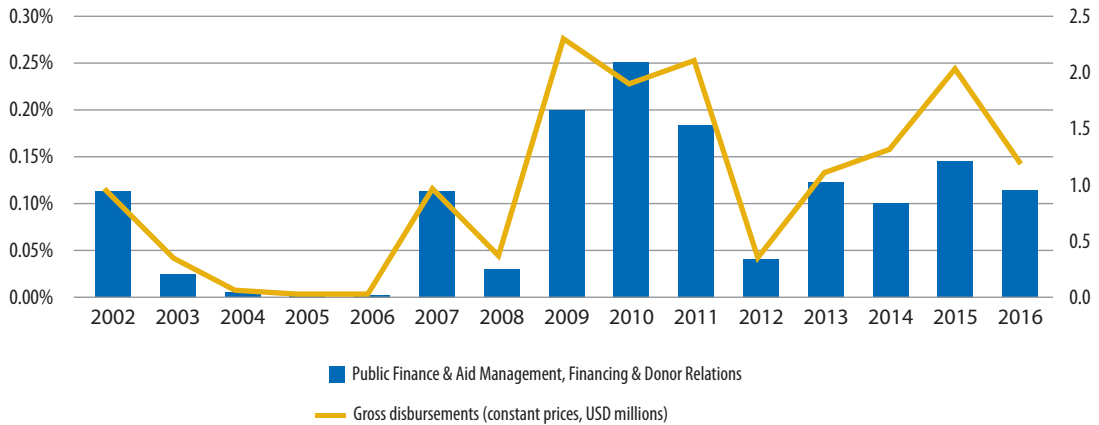
An even less favorable picture of aid flows concerns local governance. From 2010 onwards, aid flows towards local governance have fallen from over 2 per cent of gross disbursements to less than 0.5 per cent in 2016 (Figure 29). There even seems to be a “shift” in donor interest from supporting local governance to legal and judicial reforms, probably reflecting the new priorities associated with the role strengthened judicial systems in addressing the upcoming challenges of the post conflict environment. As for aid flows in PFM and Aid Management, the picture is more mixed (Figure 30). With clear peaks in the 2009-2011 and 2013-2016 periods, it is important to

**Figure 29** Local Governance (% of Gross Disbursements)



Source: Creditor Reporting System (OECD)

**Figure 30** PFM and Aid Management (% of Gross Disbursements)



Source: Creditor Reporting System (OECD)

consider that during that time the Presidential Agency for Cooperation (APC) was created, pointing to the investment the Government had to make to create and resource the new institution. It is also worth noting that peaks in disbursements coincide with dates of the World Bank PEFA reviews, 2009 and 2015, pointing to support provided to put in place recommendations from both assessments. Additionally, since 2013 Colombia had started to lay the groundwork for its entry to the OECD (which materialised in 2018), which meant a number of reforms needed to be put in place (see section 3.2 on PFM).



# 8 Conclusions

During the period 2000-2017, Colombia has experienced major transformations in all core government functions. While considerable challenges remain, significant progress has been made in modernising and building a more efficient and transparent State, despite an armed conflict. In fact, Colombia is a case of transition from protracted conflicts where institutional development has taken place amidst the armed violence, making the story of Colombia one of reform rather than restoration. The State has evolved and modernised and the country has become less fragile and on a set path towards sustainable peace with the signing of the peace deal in 2016.

Throughout this period, public expenditure on CGF has been led by the security sector, particularly spending on the military and the justice sector more recently. Plan Colombia was key in injecting resources to modernise the security sector and strengthen executive coordination. While spending on the military has flattened in recent years, it is not expected to decrease dramatically any time soon (despite post conflict expectations that spending on armed forces should decrease). This is due to the ongoing security challenges related to drug trafficking and organised crime as well as the power vacuums left by the demobilisation of FARC in the territories. However, significant reforms to the sector will continue to take place, perhaps not at the speed some may wish, as the sector continues to adapt to the needs of the post conflict environment.

Interestingly, the other CGF that has experienced increased spending throughout our timeline is government employment and public administration. Contrary to statements from all interviewees assuring that this is the least prioritised function, there has been a considerable investment in modernising and qualifying public administration through extensive education and training efforts, particularly during the Santos administrations.

In fact, it is with the Santos administration that changes in spending priorities began to materialise. This was the first time another sector (education) surpassed security spending, a trend that continued until the end of his second term and it is expected to continue with President Duque's budget currently being reviewed by Congress. As seen, security spending is now third after health and education, which is consistent with Santos' national development plan priorities on equity, peace, and education. In fact, the creation of a new sector on Social Inclusion and Reconciliation, tasked with eradicating poverty and laying the grounds for peaceful coexistence, is evidence of the government's evolving prioritisation.

A similar story can be told for donor spending on CGF. With Plan Colombia, donor priorities were set on the security sector, with important distinctions between donors providing military aid and those providing support to the justice sector or to alternative livelihoods development. However, with the signing of the peace deal (and the stages leading up to it), donors have also shifted their funding priorities. The security sector continues to be the main core government priority, with spending presently focussing on justice rather than military sectors. Executive coordination trails a

distant second for our selected period. The majority of the funding has indeed gone to supporting the peace process and creating an enabling environment for negotiations and commitments to be made and implemented. While donors continue to support programmes that target CGF, this does not currently represent the majority of spending.

The foregoing trends also point to what is arguably a more interesting story alongside expenditures, namely, the level of political ownership that the Colombian State has had over its transition period. While Plan Colombia may have been conceived in the U.S., it was certainly paid for by the Colombian government. The same can be said for the current peace deal, with the GoC covering approximately 90 per cent of the peace costs until now, and donors covering the remaining 10 per cent. Executive coordination and the historically strong centre of government have been key factors in driving such processes of reform, often times at the expense of the President of the time's political capital. As we have seen, the leadership exerted by presidents and entities such as the DNP have been crucial.

## What next for Colombia?

As the post conflict deepens, certain CGFs will need to be strengthened and perhaps re-prioritised. While there seems to be a consensus that going back to an armed conflict is no longer a possibility, when asked generally about the relationship between CGFs and risks of conflict relapse, a few respondents mentioned the Special Peace Justice (JEP) as the one area raising the biggest concerns. If there is no agreement between the GoC and FARC leaders on the “fine print”, and if FARC leaders fail to meet their end of the deal, this could become a considerable set back to the transition process. However, interviewees agreed that the nature of this risk, at least at this moment in time, was more political and not because of a change in spending.

Another CGF that will prove to be key going forward is local governance. This is not only due to outstanding reforms needed in terms of the ongoing fiscal decentralisation process (i.e. the SGP and pension systems are currently being discussed in Congress as part of a government-led reform) but also because of the role it will have in implementing the peace agreements at the subnational levels. This points to perhaps one of the biggest paradoxes of the peace process so far in the sense that while the government went out of its way to conceptualise and promote the idea of a “territorial peace”, the peace process was very much (and continues to be) a top-down effort. Subnational entities were not sufficiently involved in the design of the peace process and now they have to bear the brunt of implementation on the ground. As a representative from the Comptroller's Office pointed out, local authorities need to be educated on what peace is, how it will affect their programmes and priorities, and how they will meet the requirements from the National Implementation Plan. In this sense, further research will need to address how local governments prioritise their expenditure on core government functions throughout the transition, and whether there is alignment between national and local governance.

The newly elected Government also faces important challenges that will certainly have a bearing on expenditure and prioritisation and the transition to peace. For one, the crisis in Venezuela has become a new government priority both in political and humanitarian terms. The Government also needs to continue implementing the commitments of a peace process it did not negotiate while continuing the fight against FARC dissidences and organised crime, all while trying to bridge the deep polarisation in Colombian society. It will be interesting to see how expenditure on core government functions continues to evolve as the country navigates its complex path to peace.

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## Annex C Interviewees

Ministry of Finance

Ministry of Defence

National Planning Department (DNP)

National Comptroller's Office

National Agency for Reincorporation and Normalization (ARN)

UNDP Colombia

Former Director of Consolidation, Plan Colombia

British Embassy in Colombia

EU Delegation in Colombia

## Annex D Quantitative Framework and Assumptions

Core Government Functions	COFOG Objective	COFOG Group	COFOG Classes	Appropriate COFOG Descriptors	General Assumptions
<b>Executive Coordination at the Centre of Government</b>	General Public Services	Executive & legislative organs, financial & fiscal affairs, external affairs	Executive & legislative organs	Office of the chief executive at all levels of government - office of the monarch, governor-general, president, prime minister, governor, mayor, etc; administrative and political staffs attached to chief executive offices; physical amenities provided to the chief executive, and their aides; permanent or ad hoc commissions and committees created by or acting on behalf of the chief executive	Excluding chief executives of sub-national government.  When delivery units relevant to other Core Functions fall under the chief executive, they are reallocated to the respective spending aggregate.
<b>Public Finance: Revenue &amp; Expenditure Management</b>	General Public Services	Executive & legislative organs, financial & fiscal affairs, external affairs	Financial & fiscal affairs	Administration of financial and fiscal affairs and services; management of public funds and public debt; operation of taxation schemes; operation of the treasury or ministry of finance, the budget office, the inland revenue agency, the customs authorities, the accounting and auditing services; production and dissemination of general information, technical documentation and statistics on financial and fiscal affairs and services. Includes: financial and fiscal affairs and services at all levels of government	Excluding Subnational Levels of Government.  Excluding Aid Management Unit/Coordination Mechanism.
	General Public Services	General Services	Overall planning & statistical services	Administration and operation of overall economic and social planning services and of overall statistical services, including formulation, coordination and monitoring of overall economic and social plans and programs and of overall statistical plans and programs. Excludes: economic and social planning services and statistical services connected with a specific function (classified according to function)	Excluding the NSO.  Excluding Aid Management Unit/Coordination Mechanism.



Country Specific Assumptions	Aligned MDAs (including expenditure codes)	Aligned OECD-DAC AID Codes	Outcome Indicators	Notes - Internal Expenditure	Notes - Aid
	370101 Ministerio del Interior 020101 Presidencia de la República 410101 Departamento Administrativo para la Prosperidad Social	15110 - Public sector policy and administrative management		Within the ministry of interior, certain large transfers and investments have been removed and not considered CGFs (some moved to security, see below): Transfers excluded: Fondo lucha contra crimen organizado Fondo Nacional de Calamidades Fondo Nacional de Seguridad y Convivencia Ciudadana  Investment programmes excluded: Apoyo Al Fortalecimiento de Los Servicios de Justicia A Nivel Nacional Atencion de Emergencias Atencion Humanitaria y Rehabilitacion de Las Zonas Afectadas Por La Ola Invernal Construccion de Carceles E Infraestructura Fisica del Sistema Penitenciario y Carcelario Nacional Infraestructura Fisica del Sistema Penitenciario y Carcelario Nacional	15110 includes i) General Personnel Services and ii) Executive Office.
Transfers from the Ministry of Finance were subtracted from budget totals.	130101 Ministerio de Hacienda (excl. transfers) 130117 Agencia de Tributos, Rentas y Contribuciones Parafiscales - ITRC 130800 Contaduría General 130900 Superintendencia Solidaria 131000 DIAN	15111 - Public Financial Management 15114 - Domestic Revenue Mobilization	<b>CPIA</b> <b>CPIA quality of budgetary and financial management rating</b>  <b>PEFA</b> <b>Revenue</b> 20. Accounting for revenue 3. Revenue outturn <b>Expenditure</b> 16. Medium-term perspective in expenditure budgeting 17. Budget preparation process 11. Public investment management <b>Budget Execution</b> 1. Aggregate expenditure outturn 23. Payroll controls 25. Internal controls on nonsalary expenditure 24. Procurement 29. Annual financial reports 26. Internal audit 30. External audit	Within the Ministry of Finance, certain large investments have been removed and not considered CGFs: Investment programmes excluded: Atencion de Emergencias Hospitales Prevencion y Atencion de Desastres Sistemas de Transporte Masivo	15111 - Public Financial Management includes Debt and Aid management

030101 Departamento Nacional de Planeación

## Annex D Quantitative Framework and Assumptions

Core Government Functions	COFOG Objective	COFOG Group	COFOG Classes	Appropriate COFOG Descriptors	General Assumptions
<b>Government Employment &amp; Public Administration</b>	General Public Services	General services	General personnel services	Administration and operation of general personnel services, including development and implementation of general personnel policies and procedures covering selection, promotion, rating methods, the description, evaluation and classification of jobs, the administration of civil service regulations and similar matters. Excludes: personnel administration and services connected with a specific function (classified according to function).	
<b>Security Sector</b>	Defense	Military defense	Military defense	Administration of military defense affairs and services; operation of land, sea, air and space defense forces; operation of engineering, transport, communication, intelligence, personnel and other non-combat defense forces; operation or support of reserve and auxiliary forces of the defense establishment. Includes: offices of military attachés stationed abroad; field hospitals. Excludes: military aid missions (70230); base hospitals (7073); military schools and colleges where curricula resemble those of civilian institutions even though attendance may be limited to military personnel and their families (7091), (7092), (7093) or (7094); pension schemes for military personnel (7102)	
	Defense	Foreign military aid	Foreign military aid	Administration of military aid and operation of military aid missions accredited to foreign governments or attached to international military organizations or alliances; military aid in the form of grants (in cash or in kind), loans (regardless of interest charged) or loans of equipment; contributions to international peacekeeping forces including the assignment of manpower.	
	Public Order & Safety	Police services	Police services	Administration of police affairs and services, including alien registration, issuing work and travel documents to immigrants, maintenance of arrest records and statistics related to police work, road traffic regulation and control, prevention of smuggling and control of offshore and ocean fishing; operation of regular and auxiliary police forces, of port, border and coast guards, and of other special police forces maintained by public authorities; operation of police laboratories; operation or support of police training programs. Includes: traffic wardens. Excludes: police colleges offering general education in addition to police training (7091), (7092), (7093) or (7094).	

Country Specific Assumptions	Aligned MDAs (including expenditure codes)	Aligned OECD-DAC AID Codes	Outcome Indicators	Notes - Internal Expenditure	Notes - Aid
	050101 Función Pública 050300 ESAP 380100 Comisión Nacional del Servicio Civil	15110 - Public sector policy and administrative management	<b>CCPIA</b> <b>Quality of public administration rating</b>  <b>PEFA</b> <b>23. Payroll controls</b> 23.1 Integration of payroll and personnel records 23.2 Management of payroll changes 23.3 Internal control of payroll 23.4 Payroll audit		15110 includes i) General Personnel Services and ii) Executive Office.
	150101 Ministerio de Defensa 150102 Mindefensa - Comando General 150103 Mindefensa - Ejército 150104 Mindefensa - Armada 150105 Mindefensa - Fuerza Aérea 150111 Mindefensa - Salud 150112 Dimar 150113 Centro de Rehabilitación Inclusiva 150300 Caja de Retiro Militar 150700 Casas Fiscales Ejército 150800 Defensa Civil 151000 Club Militar 151900 Hospital Militar 152000 Agencia Logística de las Fuerzas Militares 060101 DAS 060200 Fondas 420101 Dirección Nacional de Inteligencia	15210 - Security system management and reform 15230 - Participation in international peacekeeping operations 15240 - Reintegration and SALW control 15250: Removal of land mines and explosive remnants of war 15261 - Child soldiers (prevention and demobilisation)	<b>Fragile State Index</b> <b>Security Apparatus</b> <b>External Intervention</b>	Within the ministry of interior, some programmes have been included within security, see below: Transfers Fondo lucha contra crimen organizado Fondo Nacional de Seguridad y Convivencia Ciudadana  Investment programmes : Apoyo Al Fortalecimiento de Los Servicios de Justicia A Nivel Nacional Construccion de Carceles E Infraestructura Fisica del Sistema Penitenciario y Carcelario Nacional Infraestructura Fisica del Sistema Penitenciario y Carcelario Nacional	
	150110 Comisionado Nacional Policía 151100 Caja de Sueldos Policía 151201 Fondo Policía 160101 Policía Nacional 160102 Policía Nacional - Salud	15130 - Legal and judicial development 15220 - Civilian peace-building, conflict prevention and resolution			

## Annex D Quantitative Framework and Assumptions

Core Government Functions	COFOG Objective	COFOG Group	COFOG Classes	Appropriate COFOG Descriptors	General Assumptions
<b>Security Sector cont'd</b>	Public Order & Safety	Prisons	Prisons	Administration, operation or support of prisons and other places for the detention or rehabilitation of criminals such as prison farms, workhouses, reformatories, borstals, asylums for the criminally insane, etc.	
	Public Order & Safety	Law Courts	Law Courts	Administration, operation or support of civil and criminal law courts and the judicial system, including enforcement of fines and legal settlements imposed by the courts and operation of parole and probation systems; legal representation and advice on behalf of government or on behalf of others provided by government in cash or in services. Includes: administrative tribunals, ombudsmen and the like. Excludes: prison administration (70340).	
<b>Local Governance</b>			No corresponding Objective/Group/Class/Descriptor		Spending by MDA responsible for sub-national governments and the subnational governments themselves.
<b>Aid Management, Financing &amp; Donor Relations</b>			No corresponding Objective/Group/Class/Descriptor		Spending by Aid Management Unit/Coordination Mechanism

Country Specific Assumptions	Aligned MDAs (including expenditure codes)	Aligned OECD-DAC AID Codes	Outcome Indicators	Notes - Internal Expenditure	Notes - Aid
	121100 Servicios Penitenciarios y Carcelarios – USPEC				
	290101 Fiscalía General de la Nación 290200 Medicina Legal 290300 Conocimiento e Innovacion para la Justicia (CIJ) 270102 Consejo de Gobierno Judicial 270102 Consejo Superior de la Judicatura 270103 Corte Suprema de Justicia 270104 Consejo de Estado 270105 Corte Constitucional 270108 Tribunales y Juzgados 120101 Ministerio de Justicia y del Derecho 120900 Estupefacientes 121000 Agencia Nacional de Defensa Juridica del Estado				
Includes SGP transfer from Ministry of Finance	032500 Fondo Nacional de Regalías 410102 Direccion de Gestión Territorial 410200 Consolidación Territorial 130101 Ministerio de Hacienda - Sistema General de Participaciones SGP	15112 - Decentralisation and support to subnational government	<b>PEFA</b> 7. Transfers to subnational governments 7.1 System for allocating transfers 7.2 Timeliness of information on transfers		
	020900 Agencia de Cooperación Internacional	15111 - Public Financial Management	<b>PEFA</b> D-1 Predictability of Direct Budget Support (N/A 2018) D-3 Proportion of aid that is managed by use of national procedures (N/A 2018)  <b>Aid Composition</b> % of Budget Support over Total Disbursements	Unable to disaggregate expenditure on aid management prior to 2012.	15111 - Public Financial Management includes Debt and Aid management



# Myanmar's

*triple transition*

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## List of abbreviations

BGF	Border Guard Force
CGF	Core Government Functions
CSRSAP	Civil Service Reform Strategic Action Plan
EAO	Ethnic Armed Organisation
FSI	Fragile States Index
FY	Financial Year
GAD	General Administration Department
KNU	Karen National Union
MDI	Myanmar Development Institute
MDRI	Myanmar Development Resource Institute
MOGE	Myanmar Oil and Gas Enterprise
MPC	Myanmar Peace Centre
MISIS	Myanmar Institute of Strategic and International Studies
NCA	Nationwide Ceasefire Agreement
NLD	National League for Democracy
OPM	Oxford Policy Management
PFM	Public Financial Management
SEE	State Owned Economic Enterprise
SPDC	State Peace and Development Council
USDP	Union Solidarity and Development Party



# 9 Introduction

**Politics in Myanmar has long been dominated by two distinct but interrelated conflicts:** the struggle for a democratic and accountable government and the struggle for self-determination of ethnic minority peoples. While some important progress has been made on the former in recent years, grievances related to the autonomy, representation and equality of Myanmar's numerous and diverse group of ethnic nationality communities<sup>32</sup> continue to drive armed conflict across large parts the country. Relations between the Bamar<sup>33</sup> dominated central government and ethnic communities have been problematic since at least the end of British rule in 1948. Particularly following the military coup in 1962, ethnic communities – several of whom had historically never been subject to any form of direct rule before 1948 – suffered under a predatory and violent regime with an agenda to impose a unifying national identity based on the culture, language and values of the Bamar majority (South, 2008). This arrangement gave little authority or voice to those outside a centrally appointed group of elites, providing limited decision-making autonomy to local leaders and undermining local identities, traditions and freedoms (Smith, 1999). The decades of violent conflict between the government and the numerous ethnic armed organisations (EAOs) that have emerged in resistance has had a pervasive influence on all aspects of Myanmar's post-independence development and society. Thousands have been killed, hundreds of thousands have been displaced, and millions more have suffered from the broader impacts of conflict and the consequent stagnation of the country's political and socioeconomic development (Burke et al, 2018).

**Despite various attempts at reform, the political architecture in Myanmar today remains inadequate for delivering peace.** Following a series of national conventions starting in the early 1990s, a new constitution was finally introduced by the military in 2008. However, significant authoritarian elements were retained, which provide for a very limited degree of devolution of powers. The military retains substantial authority within the executive and legislative branches of government and subnational governments are still centrally appointed and hold limited authority. Understandably, this state of affairs has not satisfied ethnic leaders' desire for a federal model of governance that respects the diversity of Myanmar's population. This fundamental fracture between the central government and local populations, ultimately caused by disagreement over the political model that the country should follow, has been further exacerbated over the last seven decades by war-related human rights violations and development-related grievances, with mistrust and resentment being further fuelled by numerous failed peace initiatives.

**The protracted nature of the conflict in Myanmar has given rise to a highly complex governance environment.** Large portions of Myanmar's non-Bamar areas are contested by multiple actors with overlapping territorial claims.<sup>34</sup> Several of the larger EAOs have developed their own systems that raise revenue, deliver health and education services, invest in infrastructure

<sup>32</sup>The population of Myanmar is made up of 135 officially recognised ethnic groups who speak over 100 different languages.

<sup>33</sup>The politically dominant Bamar ethnic group accounts for approximately two-thirds of Myanmar's population.

<sup>34</sup>A full explanation of the intricacies of Myanmar's governance environment is beyond the scope of this paper. However, suffice it to say that it is difficult to overstate the degree of complexity and contestation for authority when all EAOs, BGFs and paramilitary groups are considered. Further explanation can be found amongst the list of references at the end.

and administer local justice in areas under their control (Jolliffe, 2015). The bureaucracy in these areas resembles formal state structures, with line ministries established for key policy areas and administrative systems at the township and village level. In many cases, these 'non-state' actors enjoy much stronger legitimacy in the eyes of local ethnic communities compared to that of the central state (Saferworld, 2018). Indeed, for many communities they have been the only provider of basic services operating in their region throughout the country's entire history. Nonetheless, successive Myanmar governments have persisted in their attempts to impose a unitary vision of the nation, rather than recognising and compromising with the array of subnational stakeholders that exist across the country.

**Prolonged conflict and a patchwork approach to dealing with insurgencies have also created numerous other structural barriers to peace.** Over the years, both governments and rebel groups have financed their activities and enriched themselves through revenue generated from the sale of natural resources such as jade, timber and opium (Woods, 2019). More recently, the emergence of Shan State as a global centre for the production of crystal methamphetamine has resulted in an informal economy that is so profitable that it dwarfs the formal economy. The scale of economic rents from these informal economies is a major disincentive for armed groups (both government affiliated groups and EAOs) to disarm, since revenues are the key to financing the purchase of weapons and maintaining territorial control – which is only possible in the absence of state institutions that would inevitably establish themselves following any peace agreement (ICG, 2019b). The lack of substantive political dialogue regarding these issues in the ongoing peace process therefore represents a major barrier to ending conflict.

**The contested nature of state authority in Myanmar therefore represents an interesting challenge to the CGF framework.** Conflict in Myanmar is less related to state capacity to carry out basic functions and is more a consequence of the government's political agenda for governing the country. Indeed, conflict in Myanmar has been strongly associated with statebuilding efforts, as civil war provided the pretext for strengthening the armed forces with the aim of 'safeguarding national sovereignty' and establishing deep roots for public governance all the way down to village level in the territories captured by the central government (Egreteau et al, 2018). As illustrated in Figure 1, conflict in Myanmar is not a peripheral issue – large areas of the country continue to be impacted by insurgencies and there are still areas of the country that have remained outside of state control since before independence. In such a context, where numerous 'non-state' actors have greater levels of legitimacy than the state amongst local populations, strengthening central government capacity may in fact exacerbate conflict rather than alleviate it (Parks et al, 2013).

**More plural approaches to governance are clearly needed, but state institutions are not well equipped with the necessarily skills.** Military dominance of the key institutions of the state has severely impeded the evolution of core government functionality with the characteristics necessary for conflict resolution. Decades of top-down management have resulted in a passive organisational culture within the bureaucracy, which is focussed on implementing directives

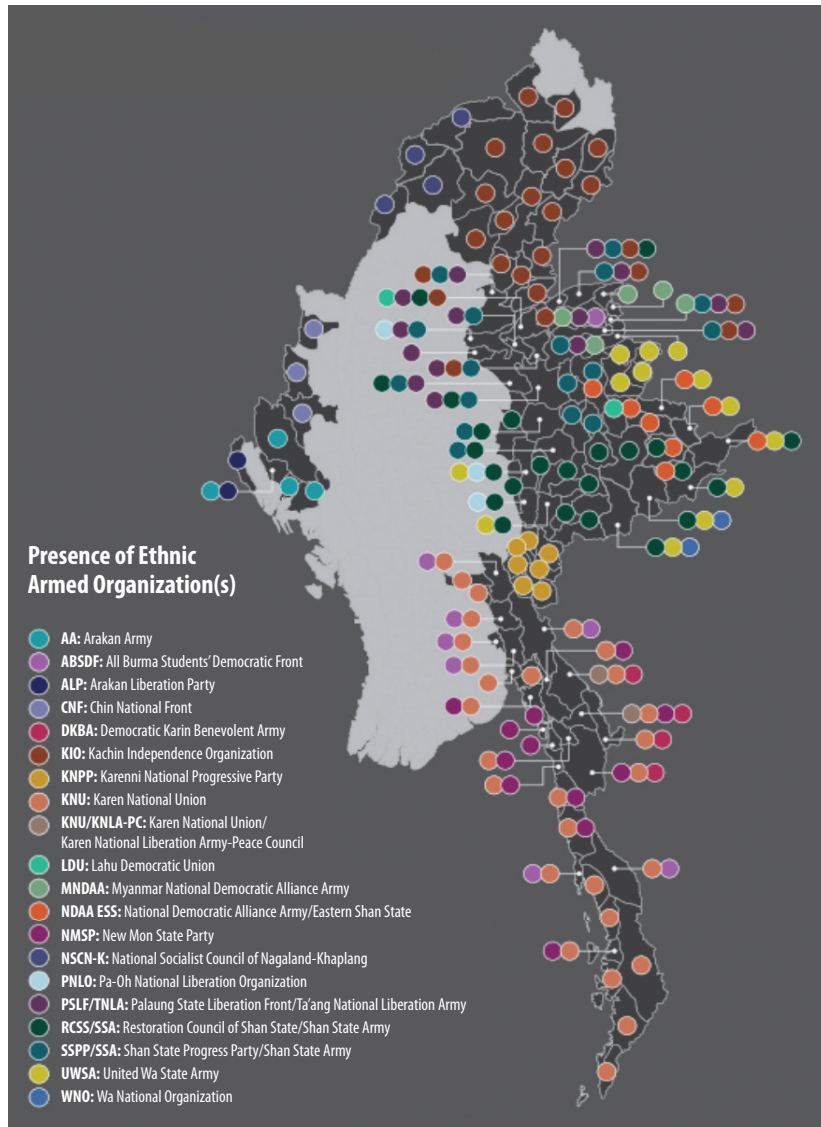
rather than contributing to inclusive policy-making (Stokke et al, 2018). Furthermore, the presence of military leadership across all ministries and sectors, encouraging the administrative behaviours of military command, has fundamentally distorted state-society relations, resulting in a deep suspicion of outsiders and the general public. This is succinctly summarised by Callahan (2005) who argues that ‘in twentieth century Burma, warfare created state institutions that in many situations cannot distinguish between citizens and enemies of the state.’ As such, the challenge is not merely one of capacity to implement but also capacity to change behaviours and overall approaches to governance.

**In analysing this case, we have interrogated UNDP’s research hypothesis** that ‘fragile and conflict-affected governments that prioritise restoring core government functionality in their national budgets, as well as their spending of humanitarian and development aid, are more successful in their transitions towards peace and development’. The study has used a mixed methods approach combining qualitative evidence from key informant interviews with quantitative expenditure trend analysis<sup>35</sup> across each of the CGF areas. The limited transparency and extent of public expenditure data in Myanmar have hampered the analysis for this study, and therefore the quantitative analysis is less extensive than that of the other case study countries. There have also been a certain number of methodological assumptions to inform the quantitative approach, set out in Annex B.

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<sup>35</sup>A trend analysis of public spending on core public administration functions using two processes. Firstly, an overview of the composition of expenditure and revenue throughout the transition processes, to understand whether variations in CGF-related expenditures were part of broader structural changes or isolated events surrounding transition points. Secondly, an in-depth analysis of CGF-related spending within the timespan of the identified transition milestones, to explore whether these changes in public spending were motivated by the prioritisation of certain policies/functions or by the availability (or lack thereof) of public resources.

**Figure 1** Presence of Ethnic Armed Groups in Myanmar



Source: Burke et al. (2017) [UWSA is "United Wa State Army".]

# 10 Transition in Myanmar

## 10.1 Background

**Since 2011, Myanmar has undergone an unprecedented period of transition.** After 50 years of isolationist and authoritarian military government, the country embarked on a remarkable and largely unanticipated political and economic transition. Despite many observers at the time dismissing the flawed 2010 elections as an attempt by the Tatmadaw<sup>36</sup> to disguise continued military dictatorship under the banner of a civilianised government, the extent of change soon became apparent. The newly installed President of Myanmar, Thein Sein – a former general and Prime Minister under the previous regime – quickly unleashed extensive political and economic reforms, leading to the release of political prisoners; the lifting of media censorship; the legalisation of political protests and trade unions; the restructuring of state-owned enterprises; and the liberalisation of trade, investment and foreign exchange. These efforts culminated in Myanmar ending its international pariah status; the easing of sanctions; debt relief; new aid programmes; and an increase in foreign investment – all of which contributed to an economic boom in which Myanmar posted some of the highest rates of economic growth in the world – over 7 per cent annually on average between 2012 and 2016 (OECD, 2018).

**The policy agenda of the transitional government had a significant positive impact on the majority of the Myanmar population.** With some exceptions, most notably the Rohingya minority in northern Rakhine state, the standard of living for the majority of Myanmar's population has improved considerably since 2011. Poverty rates are down from over 26 per cent in 2009 to 19 per cent in 2015 (World Bank, 2017a); access to energy, safe drinking water and consumables have greatly increased (CSO, 2018); and public spending has risen for education (from 3.5 per cent of total spending in 2011 to 7 per cent in 2015) and health (from 1 per cent to 4 per cent). Perhaps the most noticeable change during this period was the increase in 'connectivity' and access to information, with the percentage of the population with access to a mobile phone increasing from 2 per cent in 2011 to 60 per cent by 2015 (Dasandi et al, 2017). The impact of democratic reforms became evident when the new government decided to suspend a major Chinese-backed hydroelectric dam project in Kachin State, in response to intense opposition from local communities and CSOs – the first time the Myanmar government had visibly yielded to public pressure in decades.

**The Nationwide Ceasefire Agreement (NCA) between the government and eight ethnic armed organisations in October 2015 is often highlighted as another important milestone.** Upon assuming power in 2011, and despite ongoing fighting between the Tatmadaw and several EAOs, President Thein Sein moved quickly to establish bilateral ceasefires, signing nine agreements in the first six months – including with EAOs that had never before come to an agreement with the government (ICG, 2015). The 2012 agreement with the Karen National Union (KNU) formally ended one of the longest armed conflicts in the world. These bilateral agreements

<sup>36</sup>The Tatmadaw is the official name of the Myanmar armed forces.

were subsequently followed by the NCA in October 2015, which was seen as essential for paving the way to multilateral political dialogue between the government and the EAOs. Although the objectives of the NCA were laudable, the negotiating position of the government and Tatmadaw led many EAOs to believe that it was simply another mechanism for causing division and control without genuine political dialogue, much like the national conventions under the previous military era. Ultimately, only eight (out of over 20) EAOs signed the agreement – which in the end was rushed for political expediency ahead of the 2015 elections – with the non-signatory groups accounting for approximately 80 per cent of total ethnic fighters (Anderson, 2018).

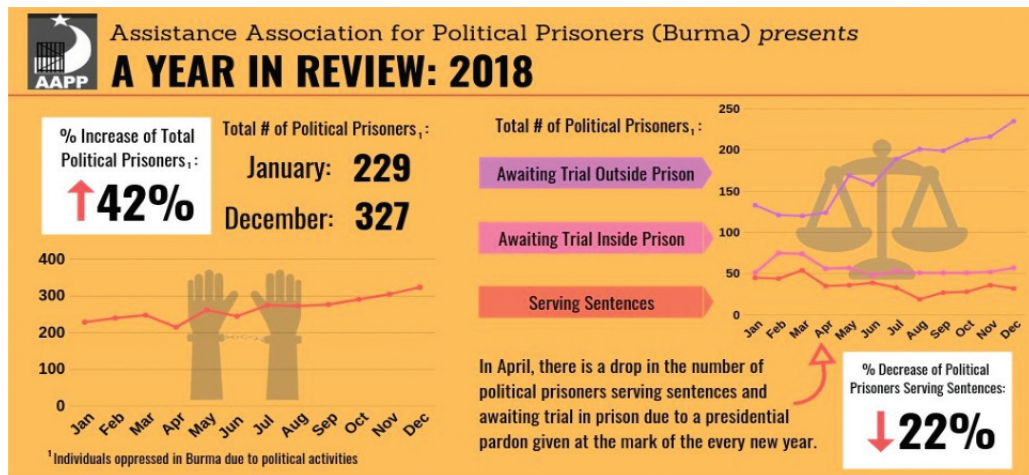
**In November 2015, the first free and fair general election since 1990 resulted in a landslide victory for Aung San Suu Kyi's National League for Democracy.** Winning 57 per cent of the popular vote and 77 per cent of contested seats, the peaceful handover of civilian power from the military-backed Union Solidarity and Development Party (USDP) to the NLD unleashed a new wave of unbridled optimism. The election of Aung San Suu Kyi – a national figure of peaceful resistance during the military era and daughter of Myanmar's independence leader Aung San – to high political office resulted in sky-high expectations for radical change, both domestically and internationally. The extent of euphoria within Myanmar at this time was reflected by the decision by *The Economist* magazine to name Myanmar as its 'country of the year' for 2015.

**However, the first two years of NLD government have been disappointing.** A lack of technical expertise and administrative experience appears to have constrained progress on domestic policy reform. The decision of the new government to prioritise the peace process has meant that major areas of economic policy – such as financial sector reform, electricity tariff reform, land reform, informal trade and tax reform – have been neglected, leading to many leading figures in the private sector to believe that 'there is no plan' for the economy. The well-publicised crackdown on journalists and political activists, which has resulted in more arrests being made following two years of NLD government than the entire USDP period (see Figure 2 below) has led many commentators to question Aung San Suu Kyi's long held commitment to promoting democracy and human rights in Myanmar (DVB, 2018). Meanwhile, the peace process itself has deteriorated markedly, culminating in the KNU – the most important EAO to sign the NCA – withdrawing from formal talks in October 2018, citing a lack of progress on fundamental issues (Mon, 2018). Finally, the crisis in Rakhine and the flight of over 700,000 refugees over the border to Bangladesh since August 2017 has resulted in enormous international criticism of the fledgling administration.

**These formidable challenges have put the brakes on Myanmar's transition,** with some prominent critics claiming it to be fundamentally stalled. Commentators have reflected on 2018 as 'a year of despair and despondency' characterised by the government's 'failure to execute key reforms' and decisions that have 'plunged the country into crises and chaos' (Chau, 2019). 'Rarely has the reputation of a leader fallen so far, so fast' was the verdict on Aung San Suu Kyi in a report by International Crisis Group (ICG, 2018). The poor performance of the NLD has not been lost on the general public, as the results of the November 2018 by-elections illustrate (Lwin, 2018). Ethnic populations in particular have been disappointed by a lack of progress on

meaningful political reform and the new government's broad alignment with the Tatmadaw's negotiating position in the peace process. The legitimacy of the NLD in the eyes of ethnic leaders and the communities they represent has declined markedly as a result, leading analysts to conclude that a meaningful political settlement is now very unlikely prior to the 2020 elections (South, 2019). In the eyes of many ethnic leaders, Aung San Suu Kyi and her NLD government hold the same Bamar chauvinist views and characteristics of the many regimes that preceded it.

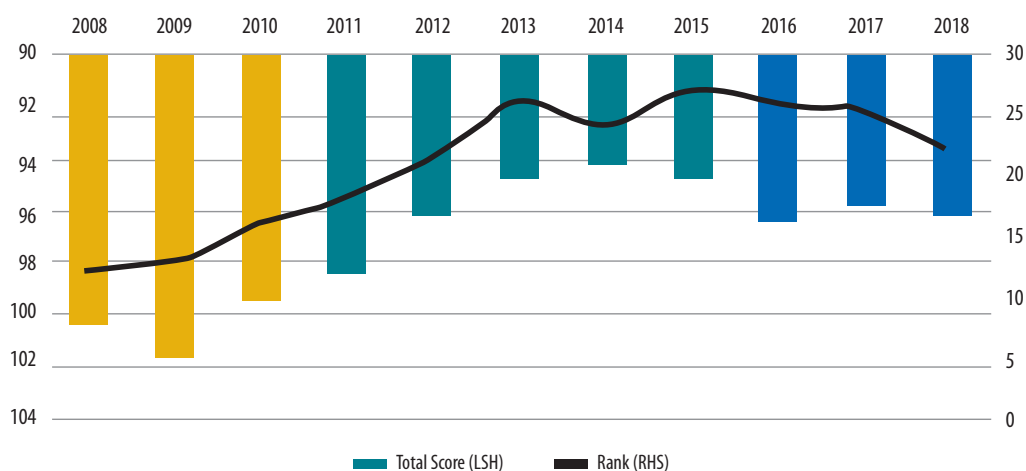
**Figure 2** The rising number of political prisoners in Myanmar



**Undoubtedly, significant structural barriers have hampered the ability of the NLD government to deliver on its core election pledges.** The NLD came to power citing the peace process and constitutional reform as its major policy priorities. However, in practice, its ability to deliver on its promises has been hampered by the power sharing arrangements with the military, imposed by the 2008 constitution. Provisions that allow for the military to be automatically allocated a quarter of parliamentary seats results in their veto power over any constitutional amendment. Unconditional authority over the security apparatus of the country, including the power to appoint the Minister of Defence and the Minister of Home Affairs, as well as the power to undertake military operations without civilian oversight, means that the civilian government has very limited influence over the security sector. By deciding to target security sector reform and constitutional reform – two issues that directly impact the Tatmadaw's core interests and over which they have enormous power – and focus less in areas where progress could more easily be made (e.g. economic reform) it is hardly surprising that the NLD have relatively little to show after two years of government.

Notwithstanding the enormous challenges involved, the overall trajectory since 2010 has been positive at an aggregate level. This is reflected in most global indices tracking political, economic and social progress, including the Fragile States Index (FSI) which is widely used to assess a country's overall vulnerability to conflict or collapse. As illustrated in Figure 3, the trajectory of Myanmar since 2010 has been one of general improvement.<sup>37</sup> A small but notable downturn can be observed since the start of the NLD government in 2016, which is confirmed by the qualitative evidence that will be set out in the remainder of this paper. Briefly, this is largely accounted for by a deterioration in the peace process, an uptick in fighting between the Tatmadaw and EAOs and the ongoing crisis in northern Rakhine. However, it is very important to note that this aggregate assessment hides the deteriorating picture in the conflict affected border areas of Myanmar. Not only has the intensity of conflict been increasing since 2011, but the economic and social benefits generated since the start of transition – so recognisable in places such as Yangon – have been slow reach down to populations in ethnic areas.

**Figure 3** Fragile States Index 2018 (Myanmar)<sup>38</sup>



Source: Fund for Peace

## 10.2 Myanmar's so-called 'Triple Transition'

Myanmar is often said to be undergoing a triple transition not just from conflict with ethnic minorities towards peace in the border areas, but also from authoritarian politics towards democratic governance and from a centrally directed economy towards a market-oriented economy. The varying degrees of progress in these interrelated but ultimately distinct processes

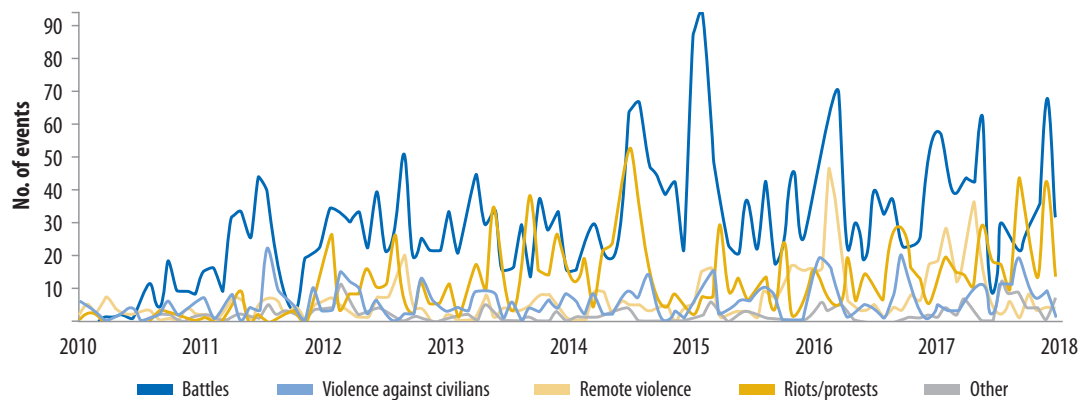
<sup>37</sup>The score of the FSI increases with the level of 'fragility' (and vice versa). As such, a reduction of the score of a given country implies it is becoming less fragile. On the other hand, the rank is inversely related to fragility (i.e. the less 'fragile' the higher its rank).

<sup>38</sup>Yellow bars represent years under the SPDC (pre-2010); green bars under USDP (2011-15) and red bars under NLD (2016-present). This colour code is maintained in section 3 for analytical purposes.



makes it difficult to form an overall judgement on the success or otherwise of Myanmar's transition. For instance, on the economic front there has undoubtedly been progress following a series of market-orientated reforms implemented by the USDP government, which have helped to improve Myanmar's integration within the global economy and increase national income. On the other hand, since the transition started, the country has witnessed some of the most intense armed conflict in decades, as longstanding ceasefires have broken down on its northern border with China and new insurgencies in northern Rakhine have emerged. As illustrated in Figure 4, it is hard to reconcile the standard narrative of 'transition from conflict to peace' with the available evidence on the extent and intensity of fighting. This reality is reflected by the view of one leading researcher on Myanmar interviewed for this study who noted that 'Myanmar is really engaged in a peace *and conflict process*' – in other words, that Myanmar's transition towards peace is only partial and, in some respects, appears to be going in the wrong direction.

**Figure 4** Patterns of conflict in Myanmar since 2011



Source: ACLED Conflict Trends dataset – Myanmar Dashboard

**In line with the objectives of this study, we will concentrate primarily on Myanmar's transition away from conflict and towards peace.** In particular, the focus is on understanding the linkage between public expenditure on the six areas of core government functionality and transition towards peace. In order to do this, it is necessary to define periods of transition (i.e. the specific timeframe) against which the analysis of this question can be conducted. However, for the case of Myanmar it is not possible to define 'before', 'during' and 'after' the conflict – not least because it is still ongoing in many parts of the country. We have therefore identified transition periods based on key 'peace milestones' linked to Myanmar's broader political development. For the purposes of this paper, we have selected 2010 and 2015 as key transition milestones in Myanmar. The elections in 2010 that led to the quasi-civilian USDP regime was a pivotal moment

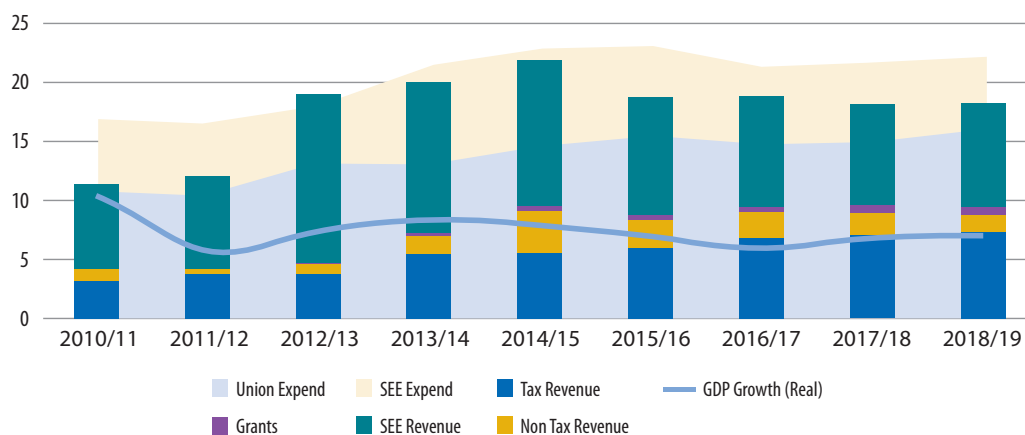
in the nation's history and coincided with a fresh impetus to initiate peace talks in a comprehensive manner, unlike the previous strategy of negotiating bilateral ceasefires. The second milestone is 2015, a highly significant year for two reasons: (i) the signing of the NCA between the government and eight EAOs; and (ii) the election of the NLD to government, leading to the first civilian President since 1962 and a positive indicator of the resilience of Myanmar's democratic transition.

### 10.3 Overview of aggregate revenue and expenditure trends

**Historically, Myanmar has maintained a very low tax base, with the overall tax take being as low as 3 per cent of GDP as recently as 2010.** The very low rate of revenue collection through taxation reflects two historical dimensions of governance in Myanmar. The first factor pertains to the extremely limited extent of service delivery under previous military regimes, which resulted in a limited need to raise significant amounts of revenue in the first place, reinforced by an unwillingness on the part of the population to contribute to the public finances, given the lack of services provided in return. The second factor relates to the existence of vast sums of revenue generated from jade, narcotics and more recently the oil and gas sector, which financed the military outside the confines of the budget and limited the need for further tax-raising measures. In the words of one respondent, 'historically, revenue raising was about funding a regime, whereas now it is about funding a government' – a comment that also encapsulates the broader challenges of transition.

**Revenue reform initiated under the USDP government has improved this situation, but to a related limited extent.** As illustrated in Figure 5, tax revenue has increased since 2011 from 3 per cent of GDP to around 7 per cent of GDP but has stabilised in recent years. Myanmar continues to rely heavily on revenue from natural resources (petroleum, timber and jade) – at least a quarter of the budget has been financed by revenues from the extractives sectors managed by a group of State-Owned Economic Enterprises (SEE). Overall revenue from all sources has actually gone down from over 20 per cent in 2014/15 to around 17 per cent in 2018/19, largely due to a decline in revenue from SEEs and tax revenues essentially remaining flat.

**External development assistance has played a relatively small role in the overall budget in Myanmar.** Despite being the world's seventh largest recipient of development assistance, aid continues to represent a small percentage of overall domestic expenditure – around 4 per cent on average relative to the domestic budget (Carr, 2018). The vast majority of aid is delivered 'off-budget' and in instances where grants are reflected in the budget they tend to constitute aid that is spent largely via parallel systems (i.e. 'projectized' aid), although some funding is channelled through the government's financial systems. A World Bank financed budget support operation worth \$200m was postponed in late 2017 as a result of intensifying international pressure in Rakhine (Mann, 2017).

**Figure 5** Revenue and Expenditure (as % GDP)

Source: IMF Article IV consultation reports (2011-18)

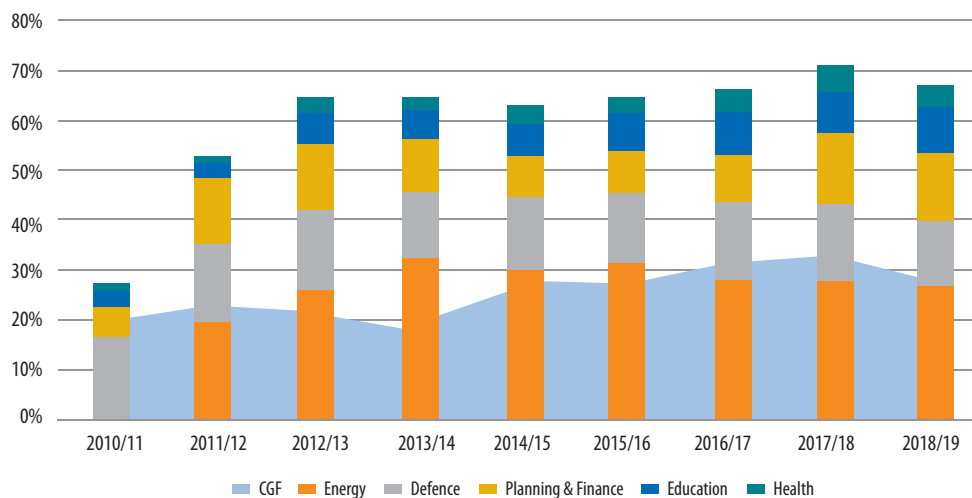
**The increase in ‘fiscal space’ since 2010 has enabled the government to expand the size of its budget, initiating new expenditure programmes across a wide number of sectors.** Rising from approximately 17 per cent of GDP in 2010 to over 20 per cent in recent years, expenditure in a number of key priority sectors (such as energy, infrastructure, education and health) has risen considerably, reflecting the policy reforms initiated in 2011 by the USDP and continued under the NLD to expand basic service provision and promote economic growth. Nevertheless, general government spending is still low relative to public service and infrastructure needs and when compared to regional averages (World Bank, 2017b).

**The expenditure side of the budget has been dominated by the energy and security sectors, with planning and finance, education and health also rising.** Security has accounted for a high proportion of the Myanmar budget for many years and has remained fairly stable as a proportion of the budget at around 15-18 per cent during the course of Myanmar’s transition period. Within the energy sector, expenditure has been driven largely by the SEEs under the Ministry of Energy, which include entities that generate electricity for the entire country.<sup>39</sup> The relative importance of SEEs on the expenditure side of the budget has declined over the period, reflecting a degree of restructuring and privatization – although in nominal terms they continue to represent a significant spending unit (Bauer et al, 2018).

<sup>39</sup>Expenditures incurred by SEEs within the Ministry of Energy have only been separately identifiable within the budget since FY 2011/12 (hence the lack of data related to the sector in Figure 4 for FY 2010/11).

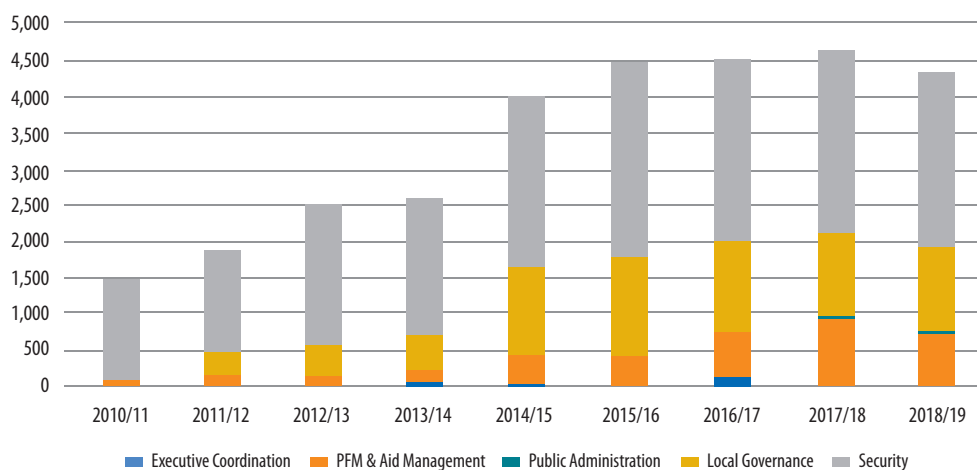
**Spending on CGF has increased from around 20 per cent of the budget to 30 per cent over the period of analysis.** As illustrated in Figure 6, FY 2014/15 saw a relatively sharp increase to overall spending on CGF. Figure 7 demonstrates that this can be accounted for by a substantial increase to the value of subnational fiscal transfers (CGF4: Local Governance) to Myanmar's 14 States and Regions, as part of the government's effort to decentralise some functions of government in accordance to the provisions in 2008 Constitution. Increases in expenditure

**Figure 6** Budgeted Expenditure: CGFs and MDAs (as % of total expenditure)



Source: Government of Myanmar Budget Laws (2010-19)

**Figure 7** Budgeted Expenditure: CGFs (in constant MMK billions)

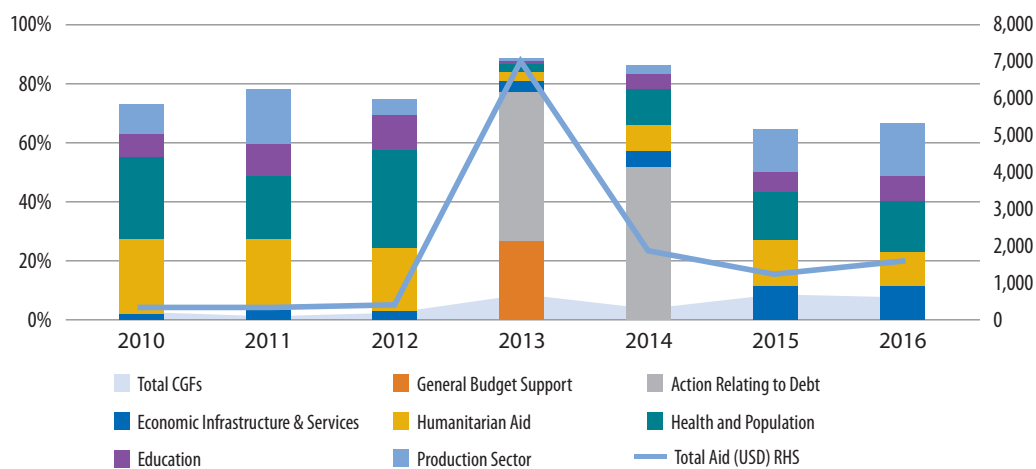


Source: Government of Myanmar Budget Laws (2010-19)

incurred by the Ministry of Planning and Finance have also contributed to this, although to a lesser extent. As explored in Section 3, expenditure in the other CGF areas has remained relatively constant as a percentage of the total budget and generally have been small overall.

**Official aid flows to Myanmar during the military era were very low but have increased markedly since the start of the transition.** Prior to 2008 – when large volumes of humanitarian aid were mobilised in response to the devastating impact of Cyclone Nargis – official aid flows to Myanmar were tiny, amounting on average to less than \$100m annually (Carr, 2018). However, the political and economic reforms brought about by the Thein Sein government transformed the aid landscape. Debt relief in 2013 was an essential foundation for the mobilisation of development assistance, after which the multi-lateral finance institutions and many bilateral donors began new aid operations. As illustrated in Figure 8, as well as increasing in volume, the focus of aid has also changed. Whereas prior to 2013, aid was overwhelmingly focused on humanitarian and basic services, a greater proportion of aid during transition has been spent on the economic and infrastructure sectors, reflecting a change in strategy by donors to engage with government.

**Figure 8** Aid Disbursements: CGFs versus Key Sectors (as % total disbursements)

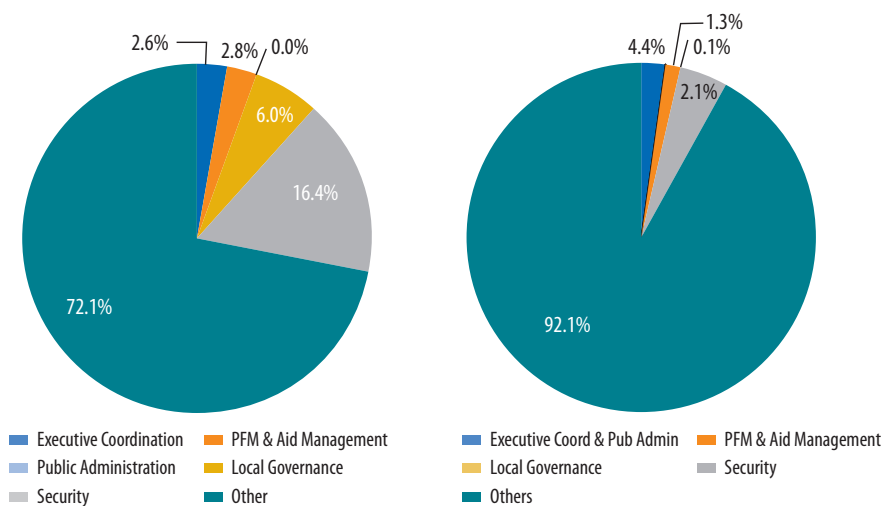


Source: OECD DAC aid database

**According to OECD data, a very small proportion of development assistance has been spent directly on CGF areas.** As illustrated in Figure 9, when it comes to expenditure on CGFs the government is the main funder, spending around 30 per cent of its budget on between 2010/11 and 2015/16. Donors have spent a relatively small proportion of its budget on CGF, reflecting its focus on the humanitarian and social sectors, although this has started to change in recent years. However, this is likely to reflect the fact that support to CGFs is likely to be in the form of technical assistance (e.g. supporting reforms to enhance revenue collection or providing training to

civil servants) whereas other sectors (humanitarian, health, education) tend to also involve more direct expenditures on service delivery (e.g. grants to NGOs to manage health facilities). The data therefore doesn't indicate a lack of priority on the part of donors to support CGFs – simply that it probably costs less than other activities.

**Figure 9** Domestic Expenditure (LHS) and Aid Flows (RHS) to CGFs (2010-2016)



Source: OECD DAC aid database

# 11 Evolution of Core Government Functions<sup>40</sup>

## 11.1 Executive Coordination

### 11.1.1 Background

**The successful management of Myanmar’s transition requires effective policymaking, yet the country’s authoritarian history is not conducive to such arrangements.** Myanmar under military dictatorship can be best characterised as ‘one-man policy coordination’ (Aung & Arnold, 2018). For almost 50 years, the core executive was militarised and its key policy concern was regime survival and ‘maintaining the integrity’ of the state, through the strengthening of the military to defeat continuous ethnic insurgencies. Decisions were typically made through directives, rather than through laws and policies carefully crafted through consultation with key stakeholders. The legacy of this system is a weak bureaucracy that is not able to fully participate in the process of developing and implementing complex policy reforms.

**The lack of a tradition and an overall architecture for policymaking is a significant drag on Myanmar’s transition process.** The key characteristics of good policymaking that are essential for promoting transition in Myanmar, such as the use of evidence, transparency and accountability, are significantly lacking. The legacy of rigid hierarchy and top-down directives means that Myanmar has few of the effective tools for policy making seen in other countries – such as dedicated policy units and the use of white papers. The historic focus of the bureaucracy on implementing decisions coming down from the top, rather than using evidence and initiative to inform such decisions, means that there are few institutions in Myanmar that have a genuine capability to develop reform agendas.

**Executive leadership and its link to transition towards peace in Myanmar must be understood within the context of the 2008 constitution.** As explained in previous sections, while the 2008 constitution has introduced a number of democratic innovations, it retains significant authoritarian provisions. In particular, the impact of the continued lack of civilian oversight or influence over the Tatmadaw’s activities cannot be overstated. As this section will explain, the critical role of the military in Myanmar’s transition – particularly the peace process – has resulted in the civilian government having limited control on key areas of political reform that are essential for any successful outcome.

### 11.1.2 Main developments during the transition period

**Under the USDP transitional government, executive decision making and coordination underwent significant change.** The situation facing the new quasi-civilian regime was unique in

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<sup>40</sup>Unless otherwise stated, all graphs are sourced from GoM Budget Laws (2010-18) and OECD DAC aid database.

that it had to begin the process of rearranging government structures to reflect the provisions of the 2008 Constitution. Although the authorities lacked the knowledge and experience of how to manage policymaking processes under a democratic system, as well as the necessary supporting government structures, a number of key reforms were carried out. Of particular significance was the appointment of six so-called 'super-ministers' operating within the President's Office, who were tasked with coordinating sector priorities across ministries. These highly capable ministers are widely regarded as the dominant drivers of policymaking under the USDP, who were empowered by the President to push forward critical policy reforms, such as initiating the peace process and implementing economic reforms. They chaired the influential cabinet sub-committees and ultimately supervised the activities of line ministers, helping to break down information barriers between departments to achieve a number of important reforms. Other key innovations during the USDP period included the formation of 'delivery units' to coordinate the implementation of sectoral reforms by the civil service; the establishment of policy think tanks such as the Myanmar Development Resource Institute (MDRI) which acted as 'reform facilitators' to the government; and the reintroduction of the Permanent Secretary position into the line ministries, to provide greater continuity of leadership in each ministry.

**The formation of the Myanmar Peace Centre to act as the key facilitator in Myanmar's peace process was also significant.** The MPC was established to host and facilitate peace negotiations between the government and EAOs. Led by U Aung Min, a former minister and general under the SPDC regime, the MPC had no formal executive power but had direct access to the President for decision making purposes. It was tasked with establishing a nationwide ceasefire agreement with the EAOs in line with Thein Sein's priority to establish a basis for dialogue on political reform – a considerable challenge given the lack of trust in government from EAOs after years of broken agreements and false promises. Nevertheless, after extensive negotiations the MPC was able to achieve the NCA – albeit with only eight out of over twenty ultimately signing. Much of this 'success' is attributed to the capable people within the MPC, the fact that it was staffed with experienced personnel with the right connections to the Tatmadaw and EAOs and its ability to conduct informal talks and support the process through various 'confidence raising measures' (Oo, 2018).

**The arrival of a new government under the NLD has led to further change in the institutional structures associated with executive coordination.** A number of structural changes have taken place – in particular the establishment of the position of State Counsellor (SC) as a new executive entity to navigate around the restrictions in the 2008 constitution regarding eligibility for President, thereby enabling Aung San Suu Kyi to establish herself as the *de facto* leader of Myanmar. Other changes have included the decision to consolidate the number of line ministries to 21 in an effort to cut 'government waste' and corruption; the creation of new policy institutes such as the Myanmar Development Institute (MDI) to replace the USDP associated think tanks; and the replacement of the MPC with the National Reconciliation and Peace Centre (NRPC).

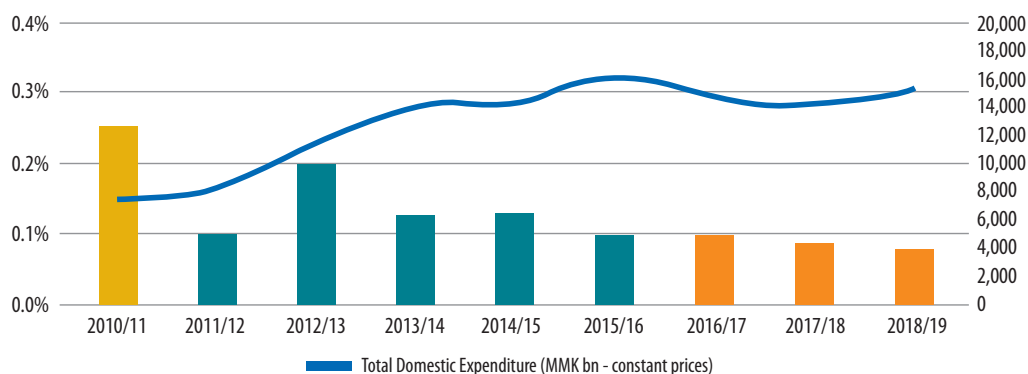


**However, executive coordination under the NLD has been heavily criticised.** The new civilian government has undoubtedly come up against the structural obstacles involved in sharing power with the military, as required under the 2008 Constitution. However, even against more realistic benchmarks the government is considered to have underperformed on the economy and the peace process (ICG, 2018). The cabinet selected by the SC was widely considered as underwhelming for a leader able to draw on the talents of the entire country following a landslide election victory. Decision making has been characterised as highly centralised – ‘more centralised than General Than Shwe’ (an earlier Burmese leader and strongman), according to the somewhat humorous observation of one interviewee. A great deal rests on the shoulders of Aung San Suu Kyi. As well as being the SC, the Minister in the President’s Office and Foreign Minister, she is the Chair of 13 executive and standing committees (Aung and Arnold, 2018). The decrease in the number of Ministers following the merger of key Ministries has increased their workload significantly. Delivery-unit teams have been discontinued and the previous practice of establishing coordinating ministers has been abolished. With little substantive progress being made on economic reform, sentiment from the business community has turned decidedly negative (Htoon, 2018).

**At the same time, the NLD government’s approach to the peace process has been widely viewed as ineffective.** Upon entering office, the NLD government prioritised the peace process over all other issues, reflecting the longstanding belief of the SC that peace is a pre-requisite for economic development. However, the decision to disband the MPC, which was staffed with many capable and experienced people, was widely considered to be a mistake. The more formalistic approach to the peace process with limited opportunity for substantive negotiation appears to have derailed progress. The decision of the KNU to suspend its engagement in the formal peace process in November 2018 is perhaps the strongest indicator of the nadir that the peace process currently appears to be at.

**The quality of executive leadership appears to have no direct relationship with the amount of expenditure incurred to carry out the function.** As illustrated in Figure 10 below, the percentage of the recurrent budget allocated to this function has remained relatively stable over both the USDP and the NLD governments at around 0.1 per cent. Despite this, the overall effectiveness of the core executive was regarded by all respondents in this study to have differed significantly across the two transition periods. By its very nature, the overall quality of executive coordination is determined to a large extent by the characteristics and personalities of the key individuals carrying out its function and the approach to governing that they adopt. As suggested by one key respondent, ‘effective leadership is not like health or education – you can’t just buy more of it and hope it gets better’.

**Respondents consistently highlighted a number of other important, non-financial factors that go some way to explaining the divergence in effective executive leadership.** First, the significantly higher capacity of key USDP figures in terms of their education, technical understanding of policy issues and administrative experience under previous regimes. Second, a greater ability on the part of the USDP to push forward reforms as a result of their superior understanding of how the opaque Myanmar bureaucracy worked. Third, the significantly better

**Figure 10** Executive Coordination: Recurrent Expenditure (as % of Budget)

Source: OECD DAC aid database

relations between the USDP and the Tatmadaw. Fourth, the fact that USDP had more ‘low hanging fruit’ to pick – in the words of one respondent ‘they were *deconstructing* bad policies, whereas the NLD is trying to construct new ones, which is inherently more difficult.’

### 11.1.3 Key takeaway points

- Executive Coordination is a key determining factor in Myanmar’s overall transition process. Aside from its responsibility to coordinate economic and social reforms, the role of the core executive in managing the ongoing peace process ultimately means that its performance will to a significant extent determine whether a settlement between the government and EAOs will be reached in the future.
- The period of USDP government between 2011 witnessed a significant improvement in the quality of executive coordination – albeit from a very low baseline. The establishment of cabinet committees and ‘super ministers’ appear to be particularly significant, combined with the President’s willingness to delegate key tasks to a group of trusted reformers.
- Since taking office in 2016, the NLD has struggled to formulate and execute policy. This is reflected by significant delays in establishing key policy documents across multiple sectors and the lack of substantive legislative progress. A lack of expertise and experience appears to have incentivised a policy of centralised control, resulting in delays and bottlenecks.
- These dynamics have played out in the peace process over the past few years. Under USDP leadership, significant progress was made which appears to have reversed under the new government. Much of this can be ascribed to the differences in approach of the two governments, rather than changes in the external context or financing.

- There appears to be little relationship between the quality of executive coordination and the share of the budget allocated to the key institutions with responsibility for carrying it out. In the case of Myanmar, the more important factors have been the knowledge and expertise of key personnel occupying the positions involved in executive decision making.

## 11.2 Revenue and Expenditure Management

### 11.2.1 Background

**The notion of the state as a service provider is not strong in Myanmar.** Historically, raising revenue and spending it on public services for the benefit of the population has never been a central objective of the state and this is reflected by the extremely low rates of revenue collection and public spending on services over the past few decades. The primary concern of the state budget since independence has been on strengthening the military and the limited extent of service delivery under previous military regimes ultimately resulted in a limited need to raise significant amounts of revenue. Over the course of time, this has been reinforced by an unwillingness on the part of the population to contribute to the public finances when very little was given back in return (The Economist, 2017). Furthermore, the existence of large sums of revenue generated from jade, narcotics and more recently the oil and gas sector, some of which has financed the military outside the confines of the official budget, limited the need for further tax-raising measures. Consequently, many basic public services in Myanmar are funded – and often organised – by communities directly, with little or no government input (McCarthy, 2015).

**The overall PFM system in Myanmar is therefore understandably rather antiquated,** with a PEFA assessment conducted in 2012 noting that the system ‘would benefit from strengthening in all areas’. In particular, the system emphasises financial controls rather than the effective allocation of resources to achieve policy objectives. As is common in many other countries, there is a lack of connection between strategy and budgets and a focus on managing the short term rather than thinking strategically about the medium and long term. Prior to the onset of transition in 2011, resource allocation decisions were taken by the President’s Office rather than the Ministry of Finance, the role of which was confined to ‘bean counting’ and preparing the relevant budgetary documentation.

### 11.2.2 Main developments during the transition period

**Under the USDP government, PFM emerged relatively quickly as an important element of the reform agenda.** This was driven by a number of factors, such as the constitutional requirement for the separation of State/Region budgets from the Union budget, the establishment of a parliament and committees tasked with promoting oversight of the budget, as well as the broader objective of the USDP government to increase its legitimacy with the public by raising more revenue to fund an expanded set of services to the population. PFM reform objectives were formalised through the development of a strategy led by the Ministry of Planning and Finance –

with input from the PEFA and other diagnostic research – and was subsequently followed by the commencement of various donor-funded reform programmes, such as the World Bank managed Modernisation of Public Financial Management (MPFM) project, covering revenue mobilization, planning and budget preparation, budget execution and external oversight.

**On the revenue side, some substantive reforms have been implemented**, including establishing a Large Taxpayer Office that has helped the movement towards a self-assessment system, coupled with tax audits. The Internal Revenue Department has received technical assistance from the IMF and USOTA to deliver these reforms and partly as a result, tax revenue has increased since 2011 from 3 per cent to 7 per cent of GDP (IMF, 2018). However, as noted by the World Bank (2018) tax revenue collection has flatlined in recent years, for various reasons including a general downturn in SEE tax payments and a continuation of tax exemptions for certain businesses.

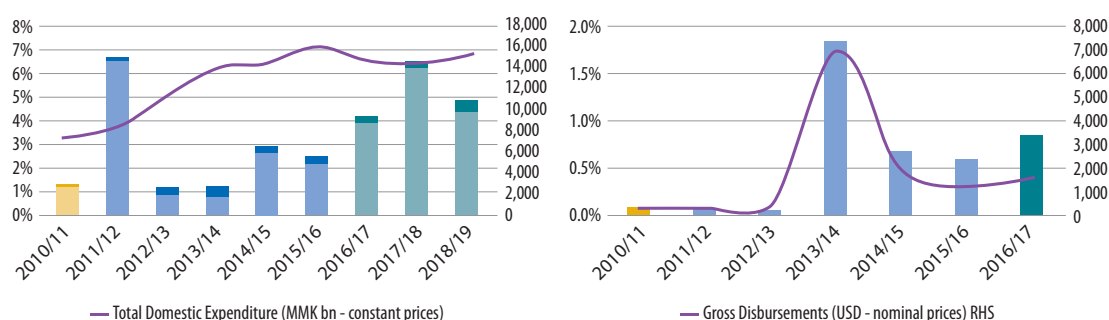
**On the planning and budgeting side there have also been some notable developments.** The implementation of a medium-term fiscal framework (MTFF) as part of ongoing efforts to strengthen budget preparation is significant – it combines top down fiscal aggregates (revenue, expenditure, and financing) with bottom up prioritisation across ministries. These efforts have facilitated the process of allocating a higher volume of resources to priority public services such as health and education. The ramp up in spending may have been attributable to a large jump in revenue from an expanded tax base and higher gas receipts. Another important reform on the expenditure side concerns fiscal decentralisation. As a result of the formation of State and Region governments, fiscal transfers were introduced to finance the basic functions at the subnational level. Since FY 2015/16, these transfers have been formula-based, although it is important to note that the formula is problematic, as budgetary outcomes have not reflected relative need and are inequitable (Shotton et al., 2017).

**As illustrated in Figure 11, a greater emphasis on PFM during the transition period has coincided with higher levels of finance for the responsible institutions.** In terms of domestic expenditure, we observe a gradual expansion in spending under the Ministry of Planning and Finance. The precise nature of this spending is unclear, since the research team was unable to get a detailed breakdown of expenditure by Department or function. Nevertheless, anecdotal evidence suggests that at least a portion of this additional spending was related to increasing the functionality of the PFM system – for instance, one respondent noted that IRD has doubled the number of staff dedicated to the revenue collection effort. Aid financed expenditures have also increased from virtually zero, reflecting the commencement of externally financed PFM reform programmes.

**However, the direct link between improved PFM and Myanmar's transition towards peace is less clear.** Respondents noted that although revenue and expenditure management in Myanmar has been poor by any standard, its relation to conflict in Myanmar is only partial. While the lack of resources provided to local actors is certainly a concern, it is ultimately a symptom of the broader problem of political reform. Furthermore, Myanmar's PFM reform agenda has remained quite narrowly focused, focussing on technical improvements in largely uncontroversial areas. PFM

related areas that are more directly relevant for Myanmar's peace process – such as the management of the extractive industries sectors – have seen relatively little change, mostly as a result of the military's strong vested interests in those sectors. For instance, reform to the jade sector, which by some estimates may account for up to USD 30 billion per year (Global Witness, 2015) has remained outside the confines of the reform agenda. As noted by one respondent, 'ultimately, the way money moves around the system has remained unchanged'. Nevertheless, ongoing initiatives to improve the transparency of expenditure can only be a positive development in building greater levels of trust between the state and the public, which is an important element of peacebuilding.

**Figure 11** PFM & Aid Management: Domestic (LHS) and External (RHS) Expenditure<sup>41</sup>



Source: GoM Budget Laws (2010-18) and OECD DAC aid database

## 11.3 Government Employment and Public Administration

### 11.3.1 Background

**A key feature of Myanmar's statebuilding efforts during the military era was to establish a highly controlled public administration system across all levels of government.** After the 1988 protests, which the military regarded as a clear indicator of the core weaknesses of the civil administration, the regime suspended the constitution and assumed all executive, legislative and judicial powers. The military believed that the country's civilian administration had failed to maintain stability and that only they could preserve the sovereignty and integrity of the nation. As a result, Myanmar was governed by decree and this had a marked impact on the nature of public administration that is still very much lasting to the present day.

**The key characteristic of public administration during this period was centralised control.** The military regime established an administrative structure that asserted control from the centre

<sup>41</sup>This chart combines expenditure on PFM and Aid Management due to the fact that budgets and expenditure for aid management are not separately identifiable within standard reporting formats for both domestic and external spending. The institutions included in the analysis are the Ministry of Planning and Finance, the Auditor General and the Central Bank of Myanmar.

down to every village in the country. The transfer of military officers into senior positions within the public service meant that in the majority of ministries, nearly all director general and deputy director general positions, and about half of director and deputy director positions were occupied by military officers (Hook et al, 2015). The civil service training institutes became more ideological and civilian officials were required to fill out forms describing their political views – information which was used by the military to regularly purge the civil service. The General Administration Department (GAD) –the most dominant public administration entity in Myanmar – was integrated into the Ministry of Home Affairs to support the command and control agenda at the subnational level.

**The legacies of these military-era practices are pervasive in the public administration system in Myanmar today.** Public administration is characterised by a high degree of ‘siloism’ or stovepiping, with very limited communication between administrative units and a rigid hierarchy of decision making. This was by design, since a key objective of the regime was to control the flow of information regarding government activity. It has left a legacy of governing by directives and commands, rather than by administrative law and institutional practices. The result is a hierarchical culture that fosters compliance rather than innovation. This legacy plays out today and is a significant drag to the implementation of policy reform. Other legacies include: (i) very limited public trust and confidence in the civil service due to the lack of fairness, transparency and accountability within the service; (ii) outdated civil service regulations and systems, that do not effectively reflect the principles of merit, integrity, impartiality, accountability, equality, inclusivity, transparency and responsiveness; and (iii) a very weak culture of performance and limited modern management practices (UNDP, 2018).

**Despite these obvious limitations, the public administration system in Myanmar also displays some remarkable strengths.** According to a comprehensive analysis by the World Bank (2018b) Myanmar’s public administration system is characterised by significant merits. The civil service wage bill is generally affordable, the compensation system is clearly regulated and enforced, pay levels are reasonable considering the previously conditions in the economy and jobs are considered attractive with low rates of resignation. This has meant that public administration in Myanmar has largely achieved what it was designed to undertake. As noted by one respondent, ‘if the effectiveness of administration is measured by the ability of the state to collect socioeconomic data across all villages in the country, then the state in Myanmar is more effective than India and Pakistan’. This demonstrates the challenges of the terms ‘weak’ and ‘strong’ when used to describe the functionality of the state in Myanmar. The situation is perhaps best summarised by Hook et al. (2015):

Myanmar is a ‘militarized state’ but paradoxically it is not a ‘strong state’. In many respects, the history of military intervention in Myanmar’s political sphere is a symptom of state weakness. However, Myanmar has shown that it has the capacity to reform. When the government decides to pursue a course of action, one way or another, it will be implemented. This quality sets the country apart from what the international community commonly calls ‘fragile states’

**Ultimately, however, Myanmar's public administration systems are not currently operating in a way that is particularly conducive for reform.** Many of the high-level functionaries within the bureaucracy come from military backgrounds without the knowledge or systems for leading or managing a civilian, development-minded and reform-focused government. The civil service is constrained by day-to-day administrative practices which display strict requirements to seek prior approval from the highest political authorities for activities that would normally be within its own ministerial delegation of authorities. The civil service itself appears comfortable with such historical practices that do not expect personnel autonomy or initiative, and which offer few mechanisms for delegation with accountability and oversight. As a result, the gap between the reform objectives expressed by the leadership and the extent of policy execution is often wide.

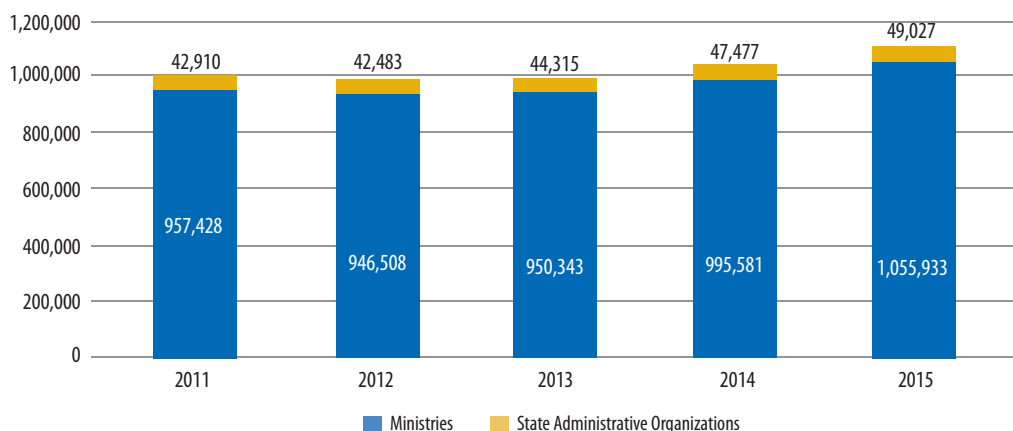
### *11.3.2 Main developments during the transition period*

**Reform to the public administration system in Myanmar is only just beginning.** Given the overwhelming legacy of a militarised public administration system that enforced compliance and discouraged initiative, transforming the way in which the public service operates is likely to take at least a generation. Some initial measures were taken under USDP to establish a sound legal framework for managing the civil service. For instance, in 2013, the USDP government introduced the Civil Service Personnel Act, which sets out the general framework for the management of civil servants, as well as addressing specific terms and conditions of employment such as leave and pensions (UNDP, 2018). The act commits to a meritocratic civil service, free from discrimination on the basis of race, birthplace, religion or gender.

**The USDP government increased the overall size of the civil service and raised the level of compensation.** As illustrated in Figure 12, overall numbers of civil servants increased by 10 per cent between 2011 and 2015. This is still regarded as relatively low for a country with an overall population size of over 50 million (Hook et al, 2015). This expansion was managed in a responsible manner orientated towards service delivery, with the majority of this growth occurring in the Ministries of Education and Health and coinciding with the revised set of expenditure priorities of the USDP (World Bank, 2018b). The USDP government also demonstrated a sound ability for controlling the wage bill. Although a series of pay adjustments have been introduced since 2010 (see Figure 13) the overall public sector wage bill is still relatively low by regional standards.

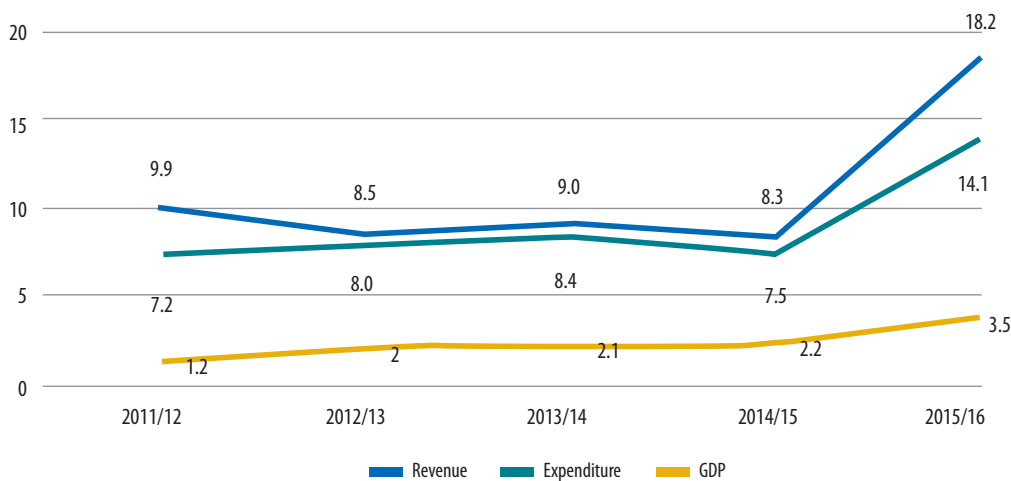
**Anti-corruption was a key theme of the NLD's election manifesto and this has fed into their plans for public administration reform.** The Civil Service Reform Strategic Action Plan for Myanmar was launched in July 2017. This is a four-year strategic plan for reform of the civil service, placing a strong emphasis on eradicating corruption. The plan has four key objectives: (i) strengthen governance; (ii) promote merit-based and performance-driven management systems; (iii) increase staff development and training opportunities; and (iv) improve transparency and accountability. However, as of the end of 2018, the Steering Committee responsible for overseeing the implementation of the CSRSA had not yet started its functions, indicating limited 'action' in practice.

**Figure 12** Government employment in Myanmar MDAs (2011-15)



Source: World Bank (2018b)

**Figure 13** Wage Bill growth in Myanmar FY 2011/12 – 2015/16 (per cent)



Source: World Bank (2018b)

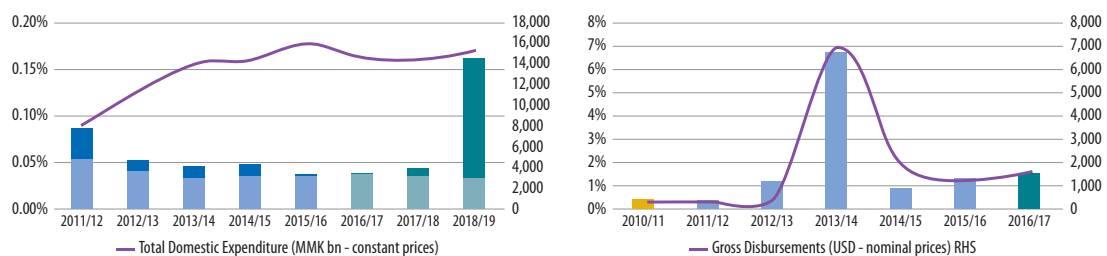
**However, by far the most significant administrative reform under the NLD to date has been the decision to move the GAD under civilian control.** The General Administration Department (GAD) is the most important actor in Myanmar’s public administration system. It constitutes the backbone of subnational administration since it is the only organisation that has extensive presence at the township and village level across Myanmar. Its ubiquitous presence means that it is the only



institution at the subnational level that is capable of coordinating, communicating with and convening other government actors (Saw & Arnold, 2014). The GAD performs multiple cross-cutting and sectoral functions on behalf of other agencies that are unable to operate comprehensively at the local level. During the military era, the GAD also served as the military's 'eyes and ears' on the ground, monitoring local activity and enforcing strict rules limiting the movement of individuals. Given its critical role in Myanmar's public administration system, the decision to move the GAD to the Ministry of the Office of the Union Government is an important step forward for civilian-led governance in Myanmar (Kean, 2019). It follows a previous reform in 2017, which transferred the administration of subnational parliaments from GAD to the Union Parliament service. These reforms have the potential to improve core government functionality by strengthening local government, promoting further decentralisation and laying a path towards federalism.

**Analysis of public expenditure on government employment and public administration is challenging given the absence of disaggregated data.** In particular, the lack of data related to the expenditure of the GAD means that such analysis can only be done by examining the budget information for the key institution responsible for the management of the civil service – the Union Civil Service Board (UCSB). As Figure 14 illustrates, expenditure incurred to manage the public service has been stable throughout the period of transition and has accounted for a very small percentage of the budget.<sup>42</sup> Donor funding has generally been on the rise as new reform programmes have started to emerge in support of civil service reform. The lack of any data prior to 2011 prevents analysis of changing expenditure patterns under military and civilian governments (although it is safe to assume that under military rule, very little resources were allocated to the function of improving public administration). Overall, it is hard to make any concrete conclusions from this analysis since changes and improvements to public administration are likely to be reflected across the whole government – for instance, pay increases to civil servants will impact all public sector institutions and not just those in charge with managing the function. There is therefore a measurement challenge associated with this CGF in the case of Myanmar.

**Figure 14** Public Administration: Domestic (LHS) and External (RHS) Expenditure



Source: World Bank (2018b)

<sup>42</sup>The increase to the UCSB capital budget in FY2018/19 can be attributed to the construction of a new training facility.

### 11.3.3 Key takeaway points

- More important in the context of Myanmar is the culture and attitudes within the established systems of public administration and the lack of ‘good governance’ principles, shaped by decades of military rule and which result in an excessive focus on compliance over initiative. Entrenched habits will take time to change and it is most likely too early to analyse the success or otherwise of reform, let alone the correlation with resources allocated for reform efforts.
- Despite new legislation, recruitment and promotion regulations and processes are sometimes still open to abuse and do not include provisions for ensuring gender equality, inclusiveness, and diversity (UNDP, 2018). Training is still overwhelmingly focused on knowledge retention and the attainment of academic qualifications, rather than the practical skills of leadership and management. There is limited evidence of meaningful change in civil service management practices, although anecdotal evidence from some respondents suggests that ‘silos are gradually being broken down’.
- Given this context, it is difficult to argue that there is a strong linkage between the volume of resources spent on improving public administration and the transition towards peace. Myanmar has an extensive system of public administration in place already. Decisions around the future direction and mandate of the GAD – which may ultimately cost very little given the existing structure that already exists – and whether systems and processes of administration are aligned with the need for greater decentralisation are likely to be much more significant than the financial resources allocated to build capacity.

## 11.4 Local Governance

### 11.4.1 Background

**Local governance is fundamental to Myanmar’s transition towards peace.** Myanmar is a multi-ethnic, multi-lingual and multi-religious society, yet it has functioned as a unitary and highly centralised country with power overwhelmingly concentrated in central government (Stokke et al., 2018). The power of the central state and the consequent lack of local ethnic representation and autonomy in the governance of the country has been the key driver of conflict since independence in 1948. As noted by Batchelor (2018) ‘Myanmar’s chief hope for ending its long-running internal conflicts lies in peace processes intrinsically linked to an improved subnational governance system’.

**The 2008 Constitution established State and Region governments, which provided for a modest decentralisation of powers.** However, the policy functions of these new institutions are very limited and fall far short of the kinds of standards that local political actors demand. Ultimately, governance arrangements in Myanmar are still centralised. Chief Ministers of the State/Region governments are still appointed by the President, rather than being elected by citizens.<sup>43</sup> A hybrid system of central control and devolution means that in many key sectors –

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<sup>43</sup>One particularly important case to note is that of Rakhine State. Despite the NLD being overwhelmingly defeated in Rakhine by the Arakan National Party in the 2015 elections, a representative of the NLD was appointed Chief Minister, which has since been linked to the recent violence committed by the Arakan Army in early 2019 (ICG, 2019a).

including health and education – there has been no decentralisation of powers to State/Region governments, but rather deconcentration of administrative duties to departments that report to the Union government. State/Region ministers do not have their own ministries to design and implement policy – they have instead inherited the departmental structures that existed prior to the new constitution, resulting in unclear dual accountability structures. State/Region governments also have a very limited revenue base and must rely on transfers from the Union level. Their power to raise revenue is limited to sectors of relatively low importance, even though many of the local areas are home to valuable natural resources. All of these factors ultimately mean that the vast majority of government policy is still formulated and implemented under the auspices of the Union government. At the same time, the creation of representative parliaments at State/Region level has resulted in a tension between the executive and the legislative branches of government.

**One of the most striking features of Myanmar's local governance system is that it lacks a local government.** Since 2011, central government has evolved greatly through the creation of the upper and lower houses of parliament and their appointment of a president and cabinet. States and Regions have become increasingly relevant, via the creation of governments at that level with chief ministers and cabinets, and the creation of State/Region parliaments. In contrast, there are no elections at Township level (aside from indirectly elected representatives at ward/village tract level). Local administration is coordinated by GAD, which receives instructions directly from the Union and State/Region governments. As noted by Arnold (2016) 'for an average Myanmar citizen, interaction with government will be with Union bureaucrats via the local offices of Union ministries'. Local governance is therefore the least reformed part of Myanmar's administrative system.

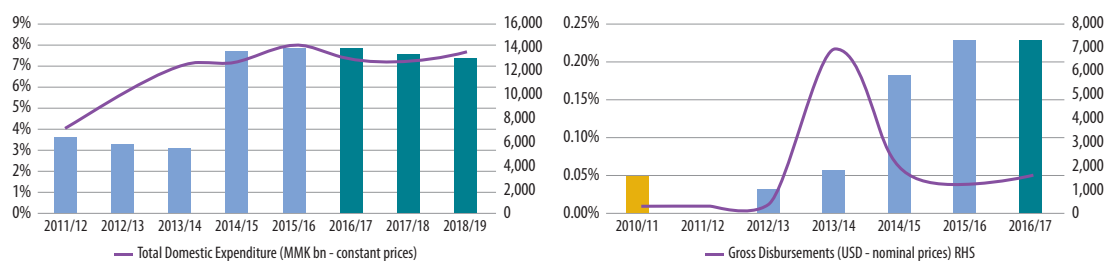
#### ***12.4.2 Main developments during the transition period***

**At the centre of Myanmar's peace process is the issue of federalism, which has long been a central demand of EAOs since independence.** In theory, the 2015 NCA sets out a future state based on the principles of democracy and federalism through political dialogue. However, progress since the signing of the agreement has been slow, with ethnic negotiators maintaining that the government and the Tatmadaw are unwilling to discuss political reform. The official position of the Tatmadaw has been that EAOs must disarm prior to political negotiation, which the EAOs argue would be tantamount to surrender and would eliminate any bargaining power they would have during any subsequent negotiations. Perhaps unsurprisingly, the provisions contained within the NCA are vague on which should come first, resulting in stalemate between EAOs and government since 2015. The situation has perhaps not been helped by the lack of a collective vision on the part of EAOs over what model of federalism is ultimately wanted. The diversity of opinion across EAOs has meant that the precise demarcation of powers and responsibilities desired is not homogenous.

**Concurrently, the Tatmadaw maintains that the 2008 constitution is already sufficiently federal and is resistant to allow further decentralisation**, as it is concerned that by doing so at a time when ‘internal and external threats’ to the integrity of the nation are still in existence, it will result in instability and the possible ‘fragmentation’ of the state – especially as the most significant EAOs with the largest fighting capability are not party to the NCA. Whether this narrative represents a genuine perception of responsibility on the part of the Tatmadaw or is more about protecting the existing power and economic interests of the military is a matter of intense debate (Saferworld, 2018). Respondents noted that the Tatmadaw appears willing to engage in discussions about reform that impacts the civilian government, such as recent proposals that would see Chief Ministers elected by subnational parliaments, but not on issues that impact their own power. Attempts to pursue constitutional reform that impact the latter have been met with brutal opposition – as the alleged military ordered assassination of prominent constitutional lawyer U Ko Ni in January 2017 has demonstrated (Reuters, 2018).

**Nevertheless, it should be noted that Myanmar has experienced some change in its system of governance following the introduction of the 2008 Constitution.** The establishment of State and Region governments has resulted in the need for their financing and so the most observable financial impact of reform to date has been the introduction of subnational fiscal transfers. The value of these transfers has increased from around 4 per cent of total expenditure in FY 2011/12 to around 8 per cent by FY 2015/16. As a proportion of the overall budget, this remains very low in comparison to most other ASEAN countries, such as the Philippines (25 per cent) and Indonesia (35 per cent). Finance is a reasonable indicator of responsibility, demonstrating that decentralised decision making in Myanmar remains very limited.

**Figure 15** LG: Domestic (LHS) and External (RHS) Expenditure (% of total)



Source: GoM Budget Laws (2010–18) and OECD DAC aid database

**Given the general lack of political reform towards genuine local governance, the expansion of government administration at the subnational level has exacerbated tensions.** Following the ceasefires from 2011 onwards, there have been substantial efforts to extend the reach of state administration into the ceasefire areas, ostensibly to enable the roll-out of ‘development’ activities.

The GAD and other government departments have established themselves in most areas in which the Tatmadaw has managed to secure control (Jolliffe, 2015). However, many EAOs consider this to be an existential threat, as it increases the risk of them being superseded by the state, which has greater capacity to deliver services. This has damaged confidence in the peace process, since many EAOs cite progress on political reform as a prerequisite for development activities. According to Jolliffe (2016) this growth of the state at the local level is viewed by some EAOs as a bigger threat to security than the concurrent expansion of the Tatmadaw.

**International support towards efforts to strengthen state structures therefore needs to be managed very carefully.** Since 2011, service delivery through government systems has often been supported by international donors, thereby increasing the legitimacy of such activities. Conversely, EAO administered systems rely on local contributions and tax-raising measures. However, in the absence of political reform, it is likely that supporting government systems alone is likely to increase tensions. Instead, recognising non-state providers as partners, rather than attempting to replace or ‘converge’ them into the state system, will contribute to service delivery goals and the broader peace process (Jolliffe & Speers Mears, 2016). As noted by Davis (2016) ‘until these [political] ambiguities can be formally resolved, donors should provide even-handed support to both the government and EAOs to the extent that each is able to deliver quality services in the most efficient way.’

## 11.5 Security

### 11.5.1 Background

**Despite several decades of military rule, the state has never been able to establish full control over the entire country.** The security environment across the rural and mountainous northern and eastern borderlands of Myanmar can only be understood as a complex of numerous armed actors, including a range of EAOs and government-backed paramilitary forces (Jolliffe, 2015). This situation can be traced back to the Second World War, when the majority Bamar army led by independence hero General Aung San fought against various non-Bamar ethnic forces as part of the Japanese battle with the British to take control of Burma.<sup>44</sup> These deep divisions at the very birth of the new nation sowed the seeds for decades of mistrust, hostility and conflict between the central armed forces and the ethnic divisions that had helped to liberate the country. In 1945, following an agreement with the British, the various armed forces were combined to form a national army, ethnically segregated into class battalions. Following independence in 1948, the country descended into civil war as large numbers of infantry units broke away to form communist and ethno-nationalist insurgencies. In the following decades, various other insurgencies were formed in opposition to the state and its resistance to adopting a federal structure of governance. The Tatmadaw’s central objective to recapture territory has since been ongoing ever since.

<sup>44</sup>The Bamar initially supported the Japanese during WWII, but later switched sides to the British.

**Since the 1960s the central tenant of the Tatmadaw's strategy of counter-insurgency has been to convert EAOs into paramilitary organisations under its command.** Rather than pursuing political reform, the strategy has involved convincing the numerous insurgencies to join the Tatmadaw ranks and to cooperate in its struggle against other ethnic insurgencies – typically in exchange for access to state resources and exclusive business interests. The approach has had mixed success – while there are now in excess of 35 such paramilitary organisations today, the majority of the larger and more influential EAOs have been determined to retain their status as independent armed groups, willing to negotiate with the Tatmadaw only in exchange for political reform that would allow their regions more autonomy. Despite over seven decades of conflict and slowing progress, the same basic strategy of the Tatmadaw persists to this day, resulting in prolonged conflict and an ever complex array of informal and unwritten governance arrangements.

**The Tatmadaw continues to be the most powerful institution in Myanmar,** having used its prolonged control of state power to become the dominant political and economic force in society. It maintains significant powers under the 2008 constitution, which provides for a mostly civilian structure but critically retains complete autonomy for the Tatmadaw over the conduct of warfare and for its veto power over any further constitutional reform. These provisions ultimately mean that no fundamental change to Myanmar's governance or political structure is possible unless the Tatmadaw consents. The Tatmadaw justifies this arrangement by arguing that complete civilian control of the country would result in the country descending into chaos and becoming defenceless against armed insurgencies – as happened during the 1950s prior to the military coup – resulting in the 'Balkanisation' of the country (Saferworld, 2018). While publicly committed to a process of democratisation, the Tatmadaw has remained remarkably consistent in its view that this can only happen in a gradual fashion and under the direction of the armed forces.

### ***11.5.2 Main developments during the transition period***

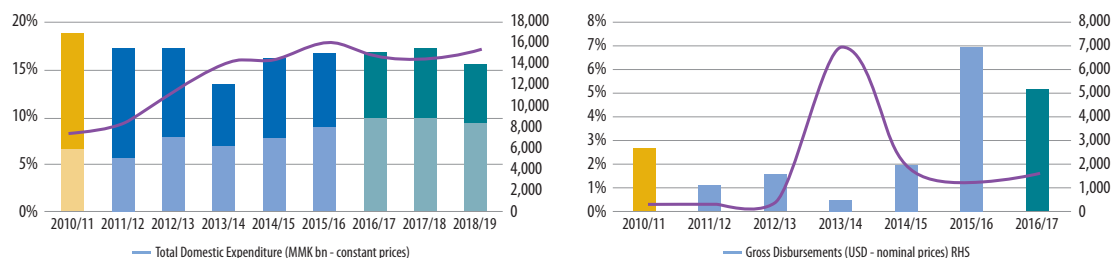
**Major changes in Myanmar's peace process have taken place since the onset of the transition in 2011, culminating in the Nationwide Ceasefire Agreement.** Although the NCA is yet to be signed by the majority of the most powerful EAOs – and can therefore hardly be described as 'nationwide' – the NCA is still significant, as it commits all sides to engage in political dialogue towards the establishment of a federal system of government and a contiguous process of security sector reform. Following the NLD victory in 2015, political dialogue has involved three parties – the Tatmadaw, the NLD government and EAOs. Although their role is not as powerful as these three actors, other political parties are also involved in the dialogue under the NCA. Unfortunately, each of the key stakeholders have widely divergent positions on what constitutes federalism and what form security sector reform should take.

**The Tatmadaw continues to hold a firm view that it is the only actor capable of defending the nation's sovereignty and integrity.** The Tatmadaw has never viewed itself as having separate military and political roles, as is usual in Western democracies, which is reflected by the provisions in the military-drafted 2008 constitution (Selth, 2015). As such, its vision for the future of the armed forces is one that is based on the modernisation of its combat abilities, in particular by incorporating the use of modern technology and improving its airborne and naval capabilities. It has therefore emphasised the need for EAOs to simply disarm or be incorporated under the command of the Tatmadaw without itself undergoing any major transformation. As a well-developed institution, with significant financial resources at its disposal, the Tatmadaw ultimately appears not to regard the challenge of incorporating EAO combatants into its ranks as sufficient enough reason to overhaul its own structure – nor that of the state and the constitution. In recent years, the Tatmadaw has also appeared concerned with improving its international image, although the recent crisis in Rakhine suggests that this has not been an overriding priority (Thiha, 2017).

**The NLD vision for security sector reform is anchored around its broader platform of democratisation and the rule of law.** In particular, the NLD has strongly articulated the need for the Tatmadaw to relinquish its political role in the governance of the country and come under civilian control. While Aung San Suu Kyi has in the past provided some support to the concept of a federal armed forces as demanded by EAOs, the NLD has yet to provide any indication of how it intends to pursue such a model as part of the peace process. A move in early 2019 to establish a new parliamentary committee to draft a bill to list constitutional provisions for amendment – a key NLD manifesto pledge – seems unlikely to cover the key issues of security sector reform.

**The EAO position on security sector reform varies widely across the numerous different organisations, but the key demand of many is for a 'federal' armed forces.** What this means in practice, however, has been difficult to articulate. At a basic level, the key demand of EAOs is for a military that is equally representative of all ethnic groups in the country and for greater decentralisation within its governance. Achieving such an outcome could entail establishing recruitment quotas and the separation of the armed forces and the police. Some EAOs have called for separate State Armed Forces under the command a rotating Commander in Chief – a prospect that the Tatmadaw seems very unlikely to accept.

**Unsurprisingly, given the entrenched positions on security sector reform and the consequent lack of progress, analysing the public financing of the sector has limited value.** Security has continued to account for a large percentage of the overall budget during the transition, reflecting the Tatmadaw's dominant role in Myanmar's overall governance and security apparatus. Further investment for improving the capabilities of the Tatmadaw seems extremely unlikely to be an effective avenue for promoting peace given that its actions are a direct driver of conflict. Indeed, it seems more likely that support to non-state actors (i.e. the EAOs) to develop a more meaningful and collective vision focusing on security sector reform and the technical steps involved, will be more instrumental in promoting better political dialogue in the years to come.

**Figure 16** Security: Domestic (LHS) and External (RHS) Expenditure (% of total)

Source: GoM Budget Laws (2010–18) and OECD DAC aid database

## 11.6 Aid Management

### 11.6.1 Background

**Prior to 2011, Myanmar received limited amounts of aid – as a result there was no aid policy and the overall function of aid management simply didn't exist.** After the violent suppression of political protests in 1988, Western donors and multilateral agencies such as the World Bank suspended their operations in Myanmar. Japan continued to provide aid, albeit in lower quantities, largely due to geopolitical concerns. This resulted in the regime pursuing a closer relationship with China, which made its first grant to Myanmar in 1991 (Carr, 2018). In the early 2000s, the OECD aid community began to re-examine its policy of restricting aid to Myanmar, advocating for re-engagement rather than continued isolation which was increasingly viewed as being ineffective. In 2006, a group of European donors established the Three Diseases Fund – a pooled health fund aimed at supporting the eradication of HIV/AIDs, TB and malaria. Further engagement came following the devastating impact of Cyclone Nargis in 2008, with major humanitarian aid flowing into the country.

**However, it was only in 2012 that a more fundamental shift in aid relations began to take root.** As the scope and substance of the reforms initiated by Thein Sein started to become more apparent, the international community took several steps to normalize aid relations, including significant debt forgiveness, the re-entry of multilateral funding organizations and the proliferation and expansion of bilateral aid programmes. The re-engagement of international donors created a need for an aid management architecture. The main pattern of aid over the period has been one in which donors have increasingly redirected their aid away from humanitarian causes and towards supporting capacity in government agencies to develop and implement new policies. Respondents familiar with EAO leaders noted that this shift away from directly supporting ethnic communities and increasingly funding Naypyidaw has caused significant tension and uneasiness in the contested areas.



### ***11.6.2 Main changes during the transition period***

**Under the USDP government, the basic policies and systems to support engagement with and management of donors had to be established from scratch.** The Foreign Economic Relations Development (FERD) within the Ministry of National Planning and Economic Development was tasked with leading this process. Key early initiatives included the Naypyidaw Accord on Effective Development Cooperation (which set out a number of joint commitments for GoM and donors, mostly in line with international aid effectiveness principles); the Framework for Economic and Social Reforms (which set out government priorities for aid financing); the establishment of an Aid Information Management System to keep track of donor commitments and disbursements; and membership of the International Aid Transparency Initiative.

**According to key informants familiar with this period, this wasn't a straightforward process.** Within FERD, many viewed development partners with suspicion – ‘malign forces’ that were aiming to meddle in the internal affairs of Myanmar, undermining government structures to the detriment of the country's development. At the same time, aid was viewed very positively by the President's Office as from their perspective, aid was a proxy indicator for international support to Myanmar's transition, thereby providing greater legitimacy to the USDP regime. It was also viewed as a positive way of rebalancing Myanmar's external geopolitical relationships, as well as a useful source of finance for promoting transition. In order to carry out the demands of the President, FERD looked to the experience of the ASEAN countries. This resulted in a learning process in which the FERD observed the adoption of aid effectiveness principles as being relatively non-controversial, which provided them with the confidence to adopt them. The development of policies and management structures has been a technically driven process within the FERD and MoPF more broadly.

**Under NLD, aid management has become more structured, technically driven, centrally directed and 'bureaucratized'.** The development of a more comprehensive Aid Policy and the establishment of the Development Assistance Coordination Unit (DACU) represent key substantive achievements for the NLD. The DACU has an advisory role under the government's economic committee and plays an important role in providing approvals for large aid funded programmes. This was followed by the drafting of the Myanmar Sustainable Development Plan (MSDP) which sets out a comprehensive framework of core priorities for the government that donors can align with. In late 2018, an interactive and publicly accessible online ‘project bank’ was unveiled, consisting of major priority infrastructure programmes approved by the government designed to coordinate donor and private sector efforts for promoting positive impact on economic and social development. These are significant advances in the sophistication of aid management, although it is too early to judge whether the outcomes of these initiatives will improve the quality of aid spent.

**Due to a lack of data, it has not been possible to conduct quantitative analysis of the expenditure incurred on aid management.** In Myanmar, the aid management function is carried out at departmental level (within DERPT) for which public expenditure information is not available. However, given the very limited resources allocated under the previous military regimes to this core function, it is safe to assume that the total volume of resources devoted to aid management has risen since 2011. The precise relationship between the quantity of funding and the effectiveness of the function is less clear, however. The emphasis has largely been on the development of policies, plans and coordination structures that do not necessarily constitute large quantities of public finance.

# 12 Conclusions

## 12.1 Key reflections

**The drivers of armed conflict in Myanmar since independence ultimately relate to the political vision of the state, rather than its capacity to undertake core functions.** It is critical to recognise that conflict in Myanmar has not generally been caused or characterised by a lack of state capacity. In other words, the inadequacy of CGFs is not a major conflict driver in Myanmar – relative to many other 'fragile' countries, Myanmar has reasonable competence in this regard. While Myanmar is certainly 'conflict-affected' and particular parts of the country could be described as 'fragile' it is not immediately apparent that the state itself is especially 'weak' in terms of its capacity to undertake basic functions, such as maintaining a basic public administration system. It is therefore unsurprising that some commentators have pondered whether it is appropriate to label Myanmar as a 'fragile state' in the first place (e.g. Green, 2016). Rather, it is the state's vision for governing the country in a unitary fashion that has been the major driver of conflict, which means that the expansion and strengthening of CGFs, particularly in conflict and ceasefire areas, is likely to be highly contested and therefore needs to be managed carefully.

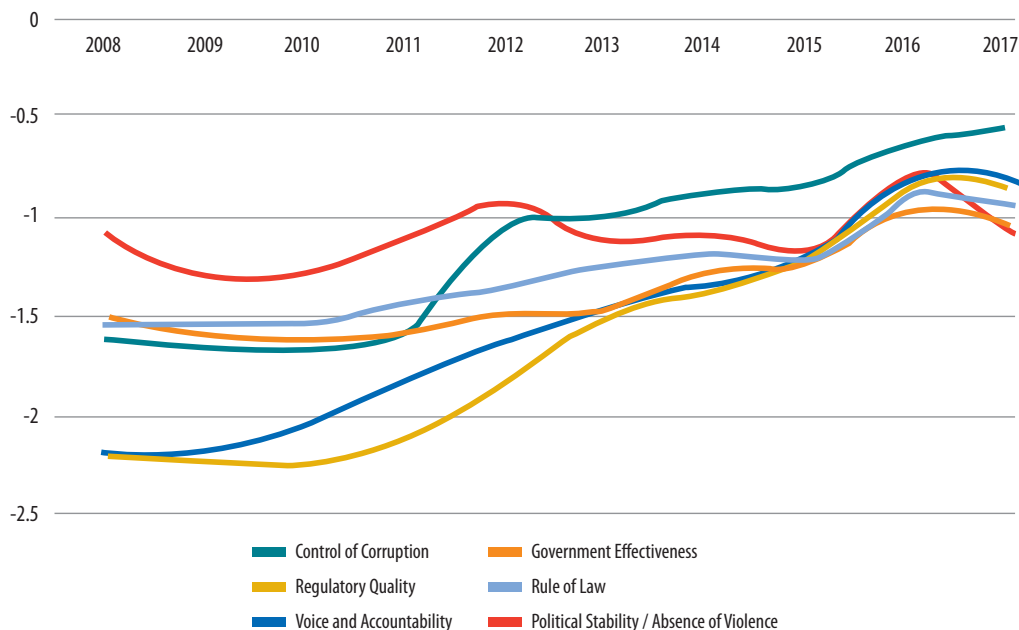
**This is not to deny that there are major inadequacies with CGFs in Myanmar – rather that their strengthening should not be viewed as a conflict-mitigation strategy.** Myanmar suffers from many weaknesses in each of the CGF areas when compared to more developed countries in the region. The country's broader political and socioeconomic transformation will depend on these functions improving over time, which will have benefits for most people in Myanmar. However, lasting peace in Myanmar will ultimately require a major reform in the distribution of political power and improving state capacity is not an adequate substitute for this. While improvements to CGFs will likely result in improved performance of the state, it is not certain that this will result in an increase in the legitimacy of the state, unless the process is accompanied by an inclusive political settlement.

**As such, any successful transition towards peace in Myanmar does not necessarily need to coincide with any great enhancement of the capacity of the state.** In the longer term, the state will certainly need to develop the ability to operate more conventionally in the manner of a 'normal' government that delivers essential services to its population. However, more important in the short to medium term is the need to recognise that further political reform is needed if the underlying grievances driving conflict are to be addressed. This point was stressed by one respondent as follows: 'the problem I see with the CGF approach is that it implies strengthening the state without necessarily achieving any meaningful political reform.' As illustrated by Figure 17, many of the core elements of governance (rule of law, government effectiveness, regulatory quality and control of corruption) have improved notably in Myanmar since 2011. Yet, at the same time, the extent and intensity of violent conflict has been increasing (see Figure 4). While correlation does not necessarily imply causation, it certainly casts doubt on the research

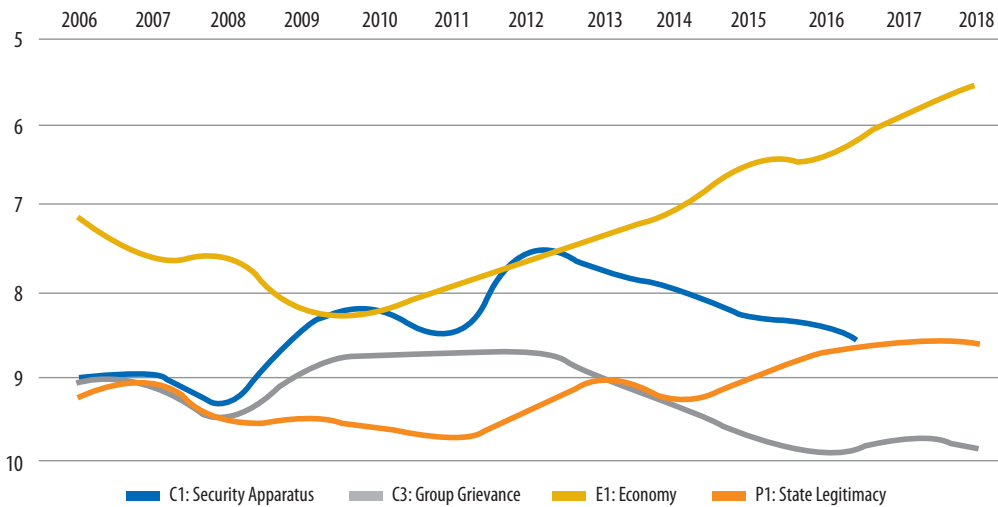
hypothesis that investing in core state functionality is necessary or even desirable for better peace outcomes. As one respondent with five years of experience working as an advisor to the government put it, ‘the government could deliver on all these core government functions and still have raging conflicts across the country.’ Breaking down the component parts of the FSI demonstrates this point. While improvements have clearly been made on the economy and ‘state legitimacy’ (i.e. democratisation) indicators related to ‘group grievance’ and security have deteriorated significantly during the period of transition (Figure 18).

**Ultimately, transition in Myanmar to date has had relatively little to do with issues of state capacity.** As Jones (2014) has convincingly argued, Myanmar’s transition has been a top-down process driven by a state willing to introduce moderate reforms (‘disciplined democracy’) following an extensive process of counter-insurgency to diminish ‘threats’ to the ‘integrity’ of the state. Given that EAOs no longer seriously threaten the integrity of the state, it seems likely that the pace of future transition is more likely to be determined by the willingness of elites to engage in dialogue towards achieving a political settlement, rather than the enhancement of state capacity.

**Figure 17** Worldwide Governance Indicators (Myanmar)



Source: World Bank (2018c) *Worldwide Governance Indicators*

**Figure 18** Component parts of the FSI (Myanmar)

Source: Fund for Peace (2018) *Fragile States Index*

In the case of Myanmar, expenditure appears to be a poor indicator of prioritisation and functionality. Spending patterns on CGFs shed limited light on what was actually done to support CGFs. Unlike other areas of government expenditure – such as health and education – the quantity of finance allocated to a particular CGF does not necessarily relate to the quality of the function provided. The quality of some CGF areas (e.g. executive coordination) has varied considerably over the period of transition with relatively stable spending patterns, while in other areas (e.g. aid management) there have been significant improvements without much additional finance. More broadly, changing expenditure patterns in Myanmar reflect a change in the nature of governance – the evolution of public expenditure since 2011 can best be explained not by the need to build the capacity of the state, but rather by changing attitudes to the state's role in delivering services and the implementation of policies and approaches that had never been considered previously.

Some CGFs are vastly more important than others in achieving transition towards peace. In the case of Myanmar, local governance and security are by far the most important topics, as current arrangements in these areas are a major driver of conflict. Reform to these two CGFs are key concerns in the ongoing peace process and collectively constitute the political settlement that is needed to achieve peace between the state and EAOs. While the other four CGF areas are important for supporting the broader socioeconomic transition, they cannot by themselves address the key drivers of conflict and therefore are unlikely to directly promote transition towards peace. Ultimately, conflict can be driven by a host of different factors – some related to CGFs and some not – and so a broader approach to conflict resolution seems likely to be necessary in most cases. In Myanmar, economic factors such as disputes over natural resources and narcotics are additional barriers to peace and will ultimately need to be addressed in any successful peace settlement.

## 12.2 What next for Myanmar?

International actors supporting Myanmar face a dilemma. While the state in Myanmar cannot ultimately be described as ‘fragile’ in a classic sense, there is no doubt that it lacks capacity to undertake many of the functions normally associated with a well performing government. For donors, engaging with the central government to implement reforms that transform the state into a genuine service provider will be fundamental in addressing many of the development challenges that exist in Myanmar. However, unless accompanied by genuine devolution, efforts to enhance the capacity of the state in certain functional areas (e.g. the expansion of administration, infrastructure projects, service delivery) may be resisted by local actors in the contested areas, as this undermines their objective of achieving greater autonomy. Balancing humanitarian support with support for centre of government reforms in contexts where the state is a party to the conflict is extremely challenging and even more so in contexts such as Myanmar where the political influence of western donors is relatively weak. The sensitivities surrounding donor support for CGFs are evident in a recent case in which an influential EAO accused international actors of aiding ‘repressive operations’ against local communities through a donor finance project to support the capacity and reform of the Myanmar Police Force (Myint, 2019).

Ensuring that both state and ethnic actors are sufficiently integrated into a coherent nationwide system is therefore a key challenge and is a critical element of Myanmar’s ongoing peace negotiations. Ultimately, there needs to be a political process which ensures a clear understanding among ethnic actors of how the state can be a force for positive economic and social development. However, the deep-rooted nature of Myanmar’s conflict most likely means that a more plural approach, which recognises and supports the diverse set of existing governance arrangements and service providers at the local level, will be needed to promote peace. Strengthening the capacity of EAO and civil society systems of service delivery and local governance is likely to be just as important – if not more important – for promoting peace than supporting the capacity of central government institutions, particularly in the short term (South et al, 2018). Any so-called ‘convergence’ of state and ‘non-state’ service delivery institutions must be carefully negotiated and sequenced, leveraging the strengths of both systems (Egreteau et al, 2018).

The complexity of the environment does not mean that international actors should refrain from engaging on CGF related issues. It is unlikely that disengaging from the issues until a political settlement is achieved will be productive. In the words of one respondent, ‘waiting for a grand bargain to be made before working with government is just a dead end’. Given this reality, working collaboratively with both the government and non-state actors on issues of joint concern, promoting incremental improvements to elements of core functionality across a both systems in support of the broader democratisation and decentralisation processes, is likely to result in more a more positive outcome than simply disengaging. This also means that the focus of engagement should be less around the volume of finance allocated towards improving CGFs and more about the nature of the reforms that should be undertaken. In other words, ensuring that reforms promote inclusive governance, rather than just basic state capacity. Further research and

analysis into the dynamics of the numerous conflicts across Myanmar are essential in this regard, given the relative paucity of existing knowledge (Mathieson, 2018).

Ultimately, if Myanmar is to succeed in achieving a complete transition from conflict to peace it must achieve a political settlement. At present, there are immense challenges in achieving such an outcome and there have been significant setbacks since the broader economic and political transition started in 2011. While a renewed effort by the NLD to pursue constitutional reform represents a major step forward, as highlighted by one respondent, 'the areas of reform that are likely to be proposed are those that would take power away from the civilian government, rather than the Tatmadaw.' Prospects for the kind of political reform desired by EAOs and ethnic communities therefore appear limited. Despite these undeniable barriers to further progress, many of the positive elements of Myanmar's transition remain intact. The power-sharing arrangement between the Tatmadaw and the civilian government are still in place; free and fair elections are still being used as a key tool for bringing about political legitimacy and reform; and the relative decline in structural barriers to further economic and social reform should enable further improvements in the years to come. These features of governance were entirely absent in Myanmar less than a decade ago and still represent an important, if imperfect, foundation on which to build.

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## Annex E List of Interviewees

Advisor to the State Counsellor

Asia Foundation

Budget Department, Government of Myanmar

Central Bank of Myanmar

Department of Political Affairs, United Nations

Foreign and Economic Relations Department, Government of Myanmar

Former Economic Advisor to President Thein Sein

Former Minister in the Office of the President under Thein Sein

General Administration Department, Government of Myanmar

Independent Researchers

Internal Revenue Department, Government of Myanmar

International Crisis Group

Joint Monitoring Committee – Technical Secretariat

Natural Resource Governance Institute

Saferworld

United Nations Development Programme

World Bank

## Annex D Quantitative Framework and Assumptions

Core Government Functions	COFOG Objective	COFOG Group	COFOG Classes	Appropriate COFOG Descriptors
<b>Executive Coordination at the Centre of Government</b>	General Public Services	Executive & legislative organs, financial & fiscal affairs, external affairs	Executive & legislative organs	Office of the chief executive at all levels of government - office of the monarch, governor-general, president, prime minister, governor, mayor, etc; administrative and political staffs attached to chief executive offices; physical amenities provided to the chief executive, and their aides; permanent or ad hoc commissions and committees created by or acting on behalf of the chief executive
<b>Public Finance: Revenue &amp; Expenditure Management</b>	General Public Services	Executive & legislative organs, financial & fiscal affairs, external affairs	Financial & fiscal affairs	Administration of financial and fiscal affairs and services; management of public funds and public debt; operation of taxation schemes; operation of the treasury or ministry of finance, the budget office, the inland revenue agency, the customs authorities, the accounting and auditing services; production and dissemination of general information, technical documentation and statistics on financial and fiscal affairs and services. Includes: financial and fiscal affairs and services at all levels of government
	General Public Services	General Services	Overall planning & statistical services	Administration and operation of overall economic and social planning services and of overall statistical services, including formulation, coordination and monitoring of overall economic and social plans and programs and of overall statistical plans and programs. Excludes: economic and social planning services and statistical services connected with a specific function (classified according to function)
<b>Government Employment &amp; Public Administration</b>	General Public Services	General services	General personnel services	Administration and operation of general personnel services, including development and implementation of general personnel policies and procedures covering selection, promotion, rating methods, the description, evaluation and classification of jobs, the administration of civil service regulations and similar matters. Excludes: personnel administration and services connected with a specific function (classified according to function).

General Assumptions	Country Specific Assumptions	Aligned MDAs (including expenditure codes)	Aligned OECD-DAC AID Codes
Excluding chief executives of sub-national government.	When delivery units relevant to other Core Functions fall under the chief executive, they are reallocated to the respective spending aggregate.	The President of the Union The Union Government Office The President's Office The State Counsellor's Office	15110 - Public sector policy and administrative management
Excluding Subnational Levels of Government.	Internal and External Expenditure on the core function "Aid Management, Financing & Donor Relations" is reported as part of PFM due to data limitations.	Auditor General of the Union Government Ministry of Planning and Finance (previously split in the Ministry of Finance and Revenue and the Ministry of Ministry of National Planning and Economic Development) Central Bank of Myanmar	15111 - Public Financial Management 15114 - Domestic Revenue Mobilization
Excluding Aid Management Unit/Coordination Mechanism.		Ministry of Planning and Finance (previously split in the Ministry of Finance and Revenue and the Ministry of Ministry of National Planning and Economic Development)	
Excluding the NSO.			
Excluding Aid Management Unit/Coordination Mechanism.	Due to data limitations, the budget for the General Administration Department (GAD) was not separately identifiable with the Ministry of Home Affairs. This was therefore included in the security sector	The Union Civil Service Board	15110 - Public sector policy and administrative management

## Annex D Quantitative Framework and Assumptions

Core Government Functions	COFOG Objective	COFOG Group	COFOG Classes	Appropriate COFOG Descriptors
<b>Security Sector</b>	Defense	Military defense	Military defense	Administration of military defense affairs and services; operation of land, sea, air and space defense forces; operation of engineering, transport, communication, intelligence, personnel and other non-combat defense forces; operation or support of reserve and auxiliary forces of the defense establishment. Includes: offices of military attachés stationed abroad; field hospitals. Excludes: military aid missions (70230); base hospitals (7073); military schools and colleges where curricula resemble those of civilian institutions even though attendance may be limited to military personnel and their families (7091), (7092), (7093) or (7094); pension schemes for military personnel (7102)
	Defense	Foreign military aid	Foreign military aid	Administration of military aid and operation of military aid missions accredited to foreign governments or attached to international military organizations or alliances; military aid in the form of grants (in cash or in kind), loans (regardless of interest charged) or loans of equipment; contributions to international peacekeeping forces including the assignment of manpower.
	Public Order & Safety	Police services	Police services	Administration of police affairs and services, including alien registration, issuing work and travel documents to immigrants, maintenance of arrest records and statistics related to police work, road traffic regulation and control, prevention of smuggling and control of offshore and ocean fishing; operation of regular and auxiliary police forces, of port, border and coast guards, and of other special police forces maintained by public authorities; operation of police laboratories; operation or support of police training programs. Includes: traffic wardens. Excludes: police colleges offering general education in addition to police training (7091), (7092), (7093) or (7094).
	Public Order & Safety	Prisons	Prisons	Administration, operation or support of prisons and other places for the detention or rehabilitation of criminals such as prison farms, workhouses, reformatories, borstals, asylums for the criminally insane, etc.
	Public Order & Safety	Law Courts	Law Courts	Administration, operation or support of civil and criminal law courts and the judicial system, including enforcement of fines and legal settlements imposed by the courts and operation of parole and probation systems; legal representation and advice on behalf of government or on behalf of others provided by government in cash or in services. Includes: administrative tribunals, ombudsmen and the like. Excludes: prison administration (70340).

General Assumptions	Country Specific Assumptions	Aligned MDAs (including expenditure codes)	Aligned OECD-DAC AID Codes
		Ministry of Defence Cantonment Municipalities under the MoD	15210 - Security system management and reform 15240 - Reintegration and SALW control 15261 - Child soldiers (prevention and demobilisation) 15230 - Participation in international peacekeeping operations
		n/a	
	Unable to disaggregate expenditures on police from prisons, law courts (and also GAD).	Ministry of Home Affairs	15130 - Legal and judicial development 15220 - Civilian peace-building, conflict prevention and resolution 15250 - Removal of land mines and explosive remnants of war
	Unable to disaggregate expenditures on police from prisons, law courts (and also GAD).	Ministry of Home Affairs	
		The Supreme Court of the Union	

## Annex D Quantitative Framework and Assumptions

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Core Government Functions	COFOG Objective	COFOG Group	COFOG Classes	Appropriate COFOG Descriptors
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<b>Local Governance</b>	No corresponding Objective/Group/Class/Descriptor			
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<b>Aid Management, Financing &amp; Donor Relations</b>	No corresponding Objective/Group/Class/Descriptor			
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General Assumptions	Country Specific Assumptions	Aligned MDAs (including expenditure codes)	Aligned OECD-DAC AID Codes
Spending by MDA responsible for sub-national governments and the subnational governments themselves.	Excluded State/Region own source revenues due to data limitations.	Grants and Loans to States/Regions Naypyidaw Council Naypyidaw Development Committee	15112 - Decentralisation and support to subnational government
Spending by Aid Management Unit/Coordination Mechanism	Internal and External Expenditure on the core function "Aid Management, Financing & Donor Relations" is reported as part of PFM due to data limitations.	Ministry of Planning and Finance	15111 - Public Financial Management



# Pakistan's

*transition from military  
rule to democratisation*

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## List of abbreviations

CGF	Core Government Function
CIGI	Centre for International Governance Innovation
DAC	Development Assistance Committee
DFID	Department for International Development
FATA	Federally Administered Tribal Areas
GDP	Gross Domestic Product
GST	General Sales Tax
IGC	International Growth Centre
IMF	International Monetary Fund
KP	Khyber Pakhtunkhwa
MDTF	Multi Donor Trust Fund
MTBF	Medium Term Budgetary Framework
NACTA	National Counter Terrorism Authority
NFC	National Finance Commission
NRB	National Reconstruction Bureau
OECD	Organisation for Economic Co-operation and Development
PCNA	Post Crisis Needs Assessment
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIDE	Pakistan Institute of Development Economics
PIFRA	Project for Improvement in Financial Reporting and Auditing
PKR	Pakistani Rupee
TARP	Tax Administration Reform Project
UNDP	United National Development Programme
US	United States
WDR	World Development Report

# 13 Introduction

**The constant presence of tension and violence in Pakistan has severely hampered its transition from military rule to democracy, and the resulting reform of key state institutions.**

As we shall see, Pakistan's is a fragile transition process that is endeavoring to address multiple sources of conflict, many of which are not even directly related to, or a consequence of, the military rule.

**Although on the surface the transition to democratisation has been underway since 2008, the process has been constantly threatened by political, religious and economic dynamics.** The country faces additional complexities related to the separate governance and law and order framework in the tribal areas, the ongoing ethnic violence in Balochistan and Karachi, and the war on terror spreading from neighbouring Afghanistan.

## 13.1 Objective and approach

This report is part of a cross-country study aimed at comparing experiences of countries transitioning out of conflict and the level to which they are invested in rebuilding core government functions (CGF). The study seeks to test the following hypothesis, formulated by UNDP: *'fragile and conflict-affected governments that prioritise restoring core government functionality in their national budgets, as well as their spending of humanitarian and development aid, are more successful in their transitions towards peace and development'*.

The study consists of five cases<sup>45</sup>, which aim to better understand whether (and how) prioritising spending on core government functions can lead to more successful transitions towards peace in fragile and conflict-affected countries. Specific 'transition milestones' were identified around which to frame the analysis for each case study.

The study has used a mixed methods approach combining qualitative key informant interviews (KIIs) with quantitative expenditure trend analysis<sup>46</sup> across each of the CGFs. A certain number of methodological assumptions have been made to inform the latter, which are explained in detail in Annex B.

**The Pakistan case offers a chance to explore spending on CGFs in a country undergoing a transition from military rule to democracy, in a state with a highly decentralised local governance structure, the presence of terrorist threats and long-standing ethnic violence.**

From our selection of case studies, Pakistan (and to a lesser extent, South Sudan) is perhaps the best example of what the 2011 WDR describes as 21<sup>st</sup> century conflicts: cycles of repeated

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<sup>45</sup>Five countries were chosen: Myanmar, Sierra Leone, South Sudan, Pakistan and Colombia

<sup>46</sup>A trend analysis of public spending on core government functions (CGF), using two processes. Firstly, an overview of the composition of expenditure and revenue as well as the sustainability of public finances (e.g. fiscal balance) throughout the transition processes to understand whether variations in CGF-related expenditures were part of broader structural changes or isolated events surrounding transition points. Secondly, an in-depth analysis of CGF-related spending within the 16 year time-span surrounding the identified transition milestones, to explore whether these changes in public spending were motivated by the prioritization of certain policies/functions or by the availability (or lack thereof) of public resources.

violence, instability and weak governance either nationally or sub-nationally. In this sense, Pakistan does not fit the 'traditional' conflict model of civil war leading to a collapse of government functions, which ended followed by investment in core government functions ushering in a rebuilding of government capability. In two important aspects, Pakistan's situation is different from the traditional model: (i) the country maintains a high level of security expenditure and capability driven by the need to respond to possible conflict with India, interspersed with an internal security conflict which has waxed and waned during the period. As a result it is difficult to observe expenditure-driven transition points from insecurity to security. (ii) Pakistan has had pockets of fairly strong core government functionality throughout the period, indeed since the 1960s, so that transitions in state capability are also difficult to observe from the contextual analysis. In this respect, the Pakistan case is similar to that of Columbia – despite both countries being fragile and conflict affected, with high levels of violence, they have both managed to develop and/or maintain some strong institutions and pockets of stability and significant state capability. This point has been made by other observers, who treat it as a viable and coherent state that, within the limits and by the standards of its own region, does work:

*'Trying to understand Pakistan's internal structures is complicated ...[it] is divided, disorganised, economically backward, corrupt, violent ... and home to some extremely dangerous forms of extremism and terrorism – and yet it moves ...Pakistan contains islands of successful modernity and of excellent administration – not that many but enough to keep the country trundling along: ...a powerful, well-trained and disciplined army; and in every generation, a number of efficient, honest and devoted public servants ...none of these things is characteristic of truly failed states like Somalia, Afghanistan or the Congo'<sup>47</sup>*

**This case assesses the development of core government functions in Pakistan from 2002 to 2017, however due to data limitation expenditure patterns are only assessed from 2008 onwards.** The democratic transition in 2008 represents an important landmark, which has influenced the development of CGFs for this case and from which a series of subsequent reforms can be traced, up until the Constitutional Amendment to merge Federally Administered Tribal areas with the neighbouring Khyber Pakhtunkhwa province in 2017.

**This case study is structured around three key transitions:**

**The military coup turned presidential regime of General Pervez Musharraf in 2002**, after he became the President of Pakistan in 2001 and won a controversial referendum in 2002, which awarded him five years of presidency. This coincided with a period of stability in Pakistan's economy from 2002 to 2005.

**The democratic transition in 2008**, leading to an increased emphasis on decentralisation picking up in 2009 and 2010. While this is happening, the military is waging war on Taliban forces in the Swat region, which halts when a short-lived peace agreement is reached in 2009. Eventually, after several military operations, the area is declared peaceful in 2010.

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<sup>47</sup>Anatol Lieven, *Pakistan: Hard Country*, Allen Lane, 2011

**The disarmament, demobilization and reintegration of tribal regions in 2017 marks a key moment in the transition** as reconstruction activities in Waziristan region begin following two major military operations (2014 and 2017) managed to disband militant factions. This drew attention once again to the long-standing issue of establishing law and order and mainstreaming governance mechanisms in the tribal regions. After consultations with tribal representatives, a Constitutional Amendment was passed in 2017 to merge Federally Administered Tribal Areas with the neighbouring Khyber Pakhtunkhwa province.

These three milestones are relevant turning points for understanding the trends in the development of core government functions since 2008 and for informing the design and effectiveness of external assistance in contexts of protracted conflict. This also ensures that the study can consider detailed budget data, allowing for analysis of expenditures on the various CGFs before and after each milestone.

## 13.2 Methodology and structure

The analysis presented in this research is based on interviews and discussions conducted (both in Islamabad and remotely) with a range of past and present officials of government agencies and international agencies, as well as technical advisers supporting various core government functions for the last two decades. These are listed in Annex A, and are complemented by an extensive review of available literature on Pakistan, as well as an analysis of government expenditure and aid data.

In Pakistan, data on domestic expenditures is only publicly available in the audited financial statements produced by the Controller General of Accounts from 2008 onwards. These have been used for most of the domestic expenditure analysis. A major limitation has been that the financial statements are only available as scanned images, which cannot be exported for data analysis, and the image quality is for older reports is poor. The expenditure data for this study has been cross-checked with budget documents, fiscal operations reports and other available datasets from the Government. Where further details were required, data has also been taken from the publicly available fiscal operations report that presents national expenditures (federal and provincial) and the federal budget books. The Government of Pakistan uses a SAP-based Integrated Financial Management System (IFMIS) for budgeting and accounting at federal, provincial and district levels. However, budget execution reports compiled by the Government are not publicly accessible and this has also constrained the data analysis significantly. The level of disaggregation required for an analysis of core government functions does not exist uniformly across the publicly available resources.

As a result of these data issues, the analysis of public expenditure does not cover the full time period of the study. Annex B presents further information on data sources for domestic expenditures on core government functions along with assumptions and limitations.

The data on external finance flows from OECD DAC Creditor Reporting System, which is available for Pakistan for 1999 onwards, reports aid commitments and disbursements in USD. Government revenue and spending is reported in PKR, however percentage shares in total expenditures have been included for comparability.

Relatively limited analysis is possible from existing data sources on the capabilities of Pakistan's core government institutions. Relevant datasets have been used where these are available – such as the Fragile States Index and World Governance Indicators. This is complemented by detailed interview evidence, from stakeholders with first-hand knowledge of Pakistan's core institutions, and literature available from secondary sources.

The following section (Section 2) presents an analysis of how the wider political economy evolved around the key milestones – notably how decision-making within government was affected by internal and external political and economic factors – as a framework to understanding the narrative around specific core government functions.

Section 3 provides a qualitative and quantitative assessment of how each of the six CGFs evolved across the milestones, detailing what reforms were prioritised and why, as well as the role of development partners in this process, as well as an analysis of government budget and aid spend on each CGF.

Section 4 summarises key factors and trends affecting the development of CGFs in a situation of protracted conflict.



# 14 Pakistan as a transition from military rule to democratisation

**At first sight, Pakistan's case seems to be about a transition from military rule to democracy. However, as this report will show, multiple conflicts have coexisted,** some of which are not even directly related to the issue of military rule (i.e. longstanding ethnic conflicts). The country's history is replete with efforts to grapple with federalism and the fragile center-provinces balance. This makes Pakistan an interesting case study when looking at factors influencing governance systems and priorities. Overall, government priorities seem to be influenced by three major factors: the nature of the political system, the escalation of security threats, and economic fragility.

**The exercise of politics has often resulted in regime change in Pakistan.** Since its independence, Pakistan's political system has fluctuated between civilian and military governments at various times throughout its political history. Political instability, the nature of State-citizen relations, and corruption allegations have resulted in periodic coup d'états by the military establishment against weak civilian governments, resulting in frequent enforcement of martial law across the country (in 1958, 1969, 1977 and 1999).

Since its first and last major civil war in 1971 that resulted in independence of East Pakistan (now known as Bangladesh), internal conflicts have generally been more localised to tribal regions and have had little influence in changing the power dynamics or influencing government priorities. However, conflicts arising from the exercise of politics have led to long periods of authoritarian military regimes and ineffective elected civilian rule, with the latest nine-year-long military regime ending in 2008 and the first politically elected government to complete a full term in Pakistan's political history from 2008 to 2013.

**Even today, the military still retain a strong influence within Government.** The Army received nearly half of the country's defence budget in the early 2000s. Hussain (2014) states that "while the military has seemingly taken a back seat, it has not lost its clout and remains a determinant of Pakistan's security and, to some extent, its foreign policy".<sup>48</sup> The speculated involvement of the military in shaping Pakistan's politics remains a concern to date, with the 2018 elections marred by allegations of wide-scale pre-poll rigging, with many pointing towards the military, and the EU Observation Mission declaring "a lack of equality and of opportunity".<sup>49</sup>

**In fact, in terms of the security sector, the overall priority has been strengthening the military apparatus.** A report by the Centre for International Governance Innovation (CIGI) raises concerns over the non-military security sector in Pakistan, describing the "under-resourced police... inadequately trained, poorly equipped, outmanned and outgunned by the various foes they confront" alongside a "deficient criminal justice system". Up until 2002, Pakistan operated under the Police Act of 1860. The CIGI does, however, find that in Punjab and KP there have been some improvements linked to increased pay, an expanded force and better equipment.

<sup>48</sup>Hussain, 2014. The construction and deconstruction of Pakistan.

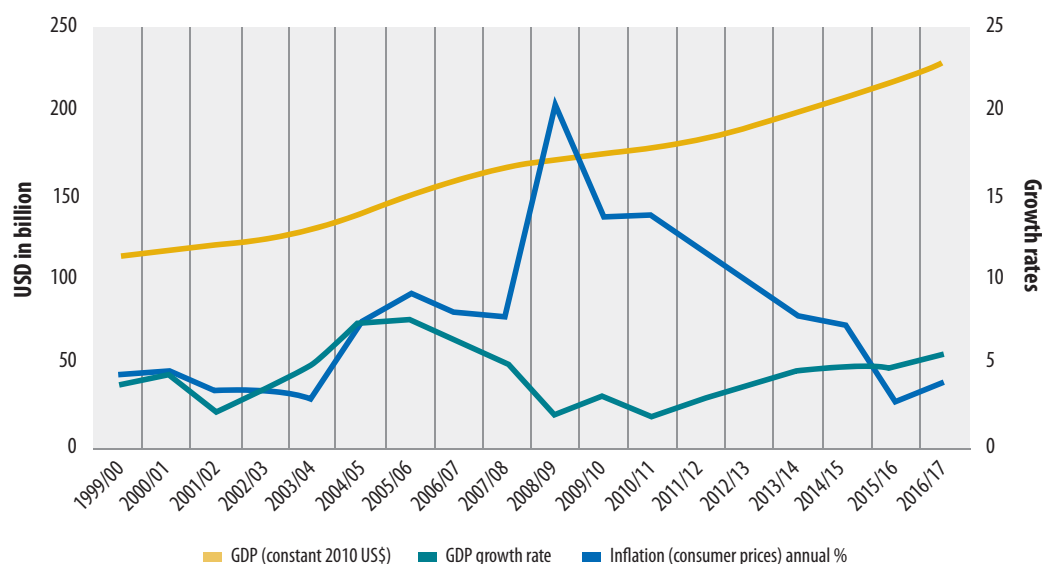
<sup>49</sup>Preliminary statement on general elections 2018, European Union Election Observation Mission, [https://eeas.europa.eu/sites/eeas/files/eu\\_eom\\_pakistan\\_2018\\_-\\_preliminary\\_statement\\_on\\_25\\_july\\_elections.pdf](https://eeas.europa.eu/sites/eeas/files/eu_eom_pakistan_2018_-_preliminary_statement_on_25_july_elections.pdf)

**In recent years, the war on terror has also determined government priorities.** A long history of conflict in neighbouring Afghanistan, linked to Pakistan's own tribal regions, escalating tensions with India, and religious militancy elements have deteriorated Pakistan's internal security situation. From 2002 to 2014, at least 19,886 civilians died in or from incidents of terrorism and militancy, whereas an additional 6,015 security personnel, including four general officers have been killed by militants.<sup>50</sup>

In its National Security Policy from 2014, the government reports that 13,721 terrorist incidents have taken place. Of these, 523 occurred between 2001 and 2005, and another 13,198 between 2007 and late 2013. According to data released by the US National Consortium for the Study of Terrorism and Responses for Terrorism (Start), out of 1404 terrorist attacks in Pakistan in 2012, more than one-third (33%) occurred in Khyber Pakhtunkhwa, followed by Balochistan (23%), FATA (19.6%) and Sindh (18%). This wave of terrorism has also resulted, according to government estimates, in losses of up to \$78 billion to the national economy as foreign investment dried up, businesses moved abroad, human capital emigrated, and the cost of doing business in Pakistan increased.

Against this backdrop, economic performance has been linked to fiscal management practices of the different governments, with periods of considerable growth between 2003 and 2007 during the

**Figure 1** Economic performance of Pakistan



Source: OECD

<sup>50</sup>“Fatalities in Terrorist Violence in Pakistan 2003-2014,” South Asia Terrorism Portal, [www.satp.org/satporgtp/countries/pakistan/database/casualties.htm](http://www.satp.org/satporgtp/countries/pakistan/database/casualties.htm).

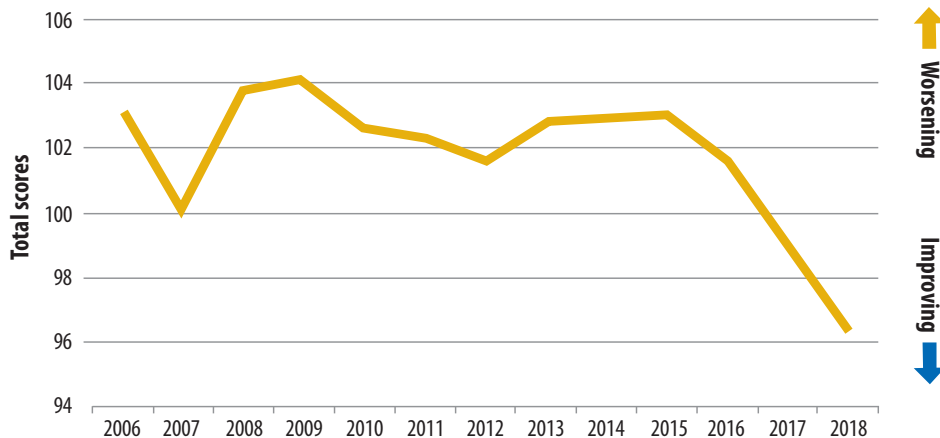
military regime of General Musharraf, followed by stagnating growth between the democratic government of 2008 and 2013, and muted recovery from 2013 onwards (see Figure 1). In addition, since 2008 there have been repeated incidences of Balance of Payment crises in Pakistan driven in large part by persistent fiscal deficits and underperformance of the export sector. Pakistan has held lower middle-income status for almost a decade, its tax to GDP remains low and Pakistan often runs large fiscal deficits. Therefore, Pakistan has been reliant on external financing, not only for bridging the financing gap for development, but as a source of foreign exchange to stabilize its Balance of Payments. The economic growth under Musharraf's regime is often attributed to sound fiscal policies and structural reforms that encouraged foreign direct investment in Pakistani markets.

## 14.1 Transition and emerging conflicts

**This section provides an overview of the trends and factors that have affected three milestones in Pakistan's recent history,** namely the military coup-turned-presidential regime of General Musharraf, the start of the democratisation process, and the disarmament, demobilization and reintegration of tribal regions. In summarising these political economy factors, this section also describes the headline trends in government revenues and spending, as well as donor commitments.

It is worth noting that throughout the transition timeline, Pakistan has actually improved its levels of fragility (see Figure 2), with sustained improvements since 2015. The Fragile States Index for Pakistan shows an improvement of -7.5 points change over the past ten years, with improvements in state legitimacy, economic inequalities, and to a lesser extent, the security apparatus.

**Figure 2** Fragile States Index Pakistan 2006-2018



Source: Fragile states index

### ***Transition from military to presidential regime (2002-2005)***

**In 1999, General Pervez Musharraf, then Chief of Army Staff, took over the government in a military coup from the democratically elected Prime Minister, declaring a state of emergency and appointing himself as the Chief Executive.** In order to legitimize his rule, he led a liberal movement of “enlightened moderation” to neutralize the strong opposition from conservative religious parties, issued several amendments in the Constitution legalising his coup and strengthening his position of power. He also held general elections in 2002 that were won by parties supporting his regime. In a controversial referendum, he appointed himself as President while allying with the US Government on the war against terror. General Musharraf also instated a local government system that devolved significant powers from the provinces as a way to destabilise political strongholds of major parties in the provinces. This gave way to several governance reforms.

**Meanwhile, the country was almost on the verge of a default crisis on its external payments in when President Musharraf took over in 1999.** With the support of his appointed and trusted Prime Minister, he embarked on a set of multifaceted fiscal structural and economic reforms that included consolidation by raising tax revenues, reducing expenditures, cutting down subsidies of all kinds, containing the losses of public enterprises, and privatizing state-owned enterprises. These measures, along with considerable inflows of external finances to supplement development activities and trade liberalisation, led to the country’s gross domestic product experiencing rapid growth over the next five years. Pakistan attracted over \$5 billion in foreign direct investment in the 2006-07 fiscal year, ten times the figure of 2000-01.<sup>51</sup>

**However, while this was a period of stability for the economy, the same could not be said for the security situation.** There was a sharp rise of terrorism incidents during the latter half of General Musharraf’s presidency. As a major US ally in the war against terror, Pakistan had become a threat to the militant Taliban forces in tribal regions. In its search for Al-Qaida operatives, the military launched an offense in South Waziristan region in 2004, which led to a string of short-lived peace deals with the local tribes and militants between 2004 and 2009. The country reached a tipping point when Benazir Bhutto, head of a prominent political party who had recently been allowed to return to the country after a long exile, was assassinated in 2007 while leaving a rally.

### ***Transition to democracy (2008-2016)***

**Pakistan’s recent transition to democracy begins in 2008 with the resignation of President Musharraf** in order to avoid impeachment. The new elected federal government led by the Pakistan People’s Party undertook major constitutional reforms to correct federal imbalances and empower the provincial tier. Decentralization was a clear priority during 2009 and 2010. In fact, political consensus led to the Eighteenth Amendment of the constitution, passed with the support

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<sup>51</sup>Foreign Direct Investment in Pakistan: The Role of International Political Relations  
<https://www.oxfordtmd.org/sites/www.tmd-oxford.org/files/SLPTMD-WP-039.pdf>

of all political parties in 2010. Under the 18th Amendment, the provincial governments were granted greater autonomy and an increase in key functions, especially service delivery functions like education and health. The provinces were also granted the ability to raise their own domestic resources through the Sales Tax on Services and the ability to raise certain loans autonomously. The provinces were also allowed a greater share in the national divisible pool of resources through the seventh National Finance Commission Award in 2009.

**The government also restored the judiciary, previously deposed by General Musharraf.**

Under the leadership of the Chief Justice of Pakistan, Iftikhar Chaudhry, the judicial sector gained prominence and, while it is sometimes criticised for overstepping, it succeeded in recasting the judiciary as a credible institution.

**Despite such apparent progress, the war against Taliban forces in the Swat valley was steeply escalating since 2007.** The Taliban had taken over the region and enforced their interpretation of Shariah law that not only enforced a strict form of modesty and virtuous behaviour under threat of violence, but also prevented inoculation against polio and other diseases as well as education for women. This led to a first military operation in the Swat valley that ended in a temporary ceasefire based on a peace agreement, which was criticised by the international community for potentially legitimizing human rights abuses. This peace agreement was also short-lived and fighting resumed. Eventually, after a number of decisive military operations the area was declared peaceful in 2010.

To assist in the crisis management and reconstruction efforts, multiple donors (Asian Development European Union, World Bank, and United Nations) collaborated to support the federal government, provincial governments of KP and Balochistan, and the FATA Secretariat to **conduct a Post Crisis Needs Assessment in 2010**. The PCNA was aimed at providing a helpful, pragmatic, coherent and sequenced peace building strategy. A Multi Donor Trust Fund (MDTF) was also established in August 2010 as one of the key instruments to support the reconstruction, rehabilitation, reforms and other interventions needed to build peace and create the conditions for sustainable development in the aftermath of the 2009 crisis. The MDTF is administered by the World Bank and supported by twelve development partners: Australia, Denmark, the European Union, Finland, Germany, Italy, Netherlands, Norway, Sweden, Switzerland, Turkey and the UK.

Despite this, fighting continued in the tribal regions. **The government's priority continued to be gaining territorial control and containing the terrorist threat through a strengthened military apparatus.** The 'establishment of peace' in the Waziristan region and the Swat valley came only after two decisive military operations in 2014 and 2017, which managed to disband militant factions.

***Establishing peace (2017 onwards)***

With the disarmament, demobilization and reintegration of tribal regions in 2017, reconstruction activities in the Waziristan region initiated. This brought the long-standing issue of establishing

law and order and mainstreaming governance mechanisms in the tribal regions to the fore once again. After consultations with the tribal representatives, a Constitutional Amendment was passed in 2017 to merge the Federally Administered Tribal Areas with the neighbouring Khyber Pakhtunkhwa province.

While establishing peace in Swat Valley and Waziristan region has been a key milestone in Pakistan's recent conflict history, assessing expenditure trends and aid flows for this period has been constrained by unavailability of data.

However, we do know that **the political settlement and peace agreement have led to important reforms in CGFs such as PFM and local governance.** For instance, a major change in the government's expenditure priorities can be evidenced by the additional 1% of net divisible taxes pool allocated to Khyber Pakhtunkhwa province in the National Finance Commission of 2009 for reconstruction and rehabilitation of areas affected by the war on terror. With the FATA merged with Khyber Pakhtunkhwa province through a Constitutional Amendment in May 2018, the government is giving consideration to assigning 3% of the total divisible pool for accelerated development of FATA.

## 14.2 Aggregate revenue and expenditure trends

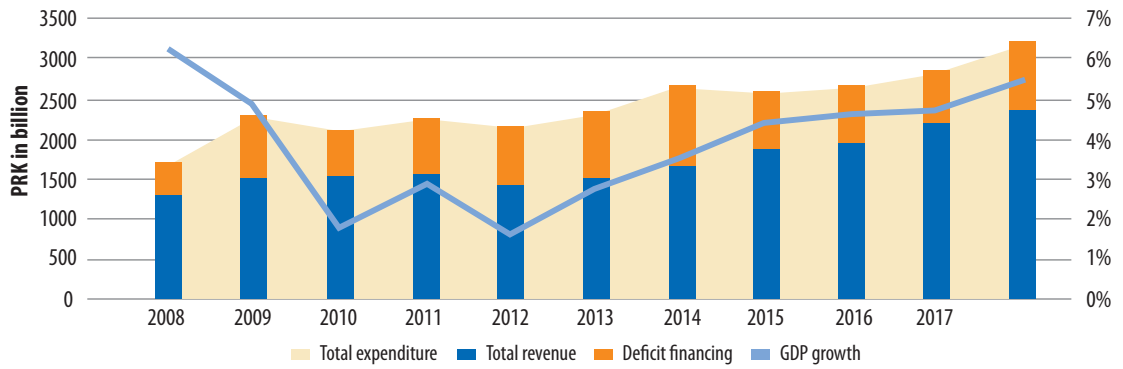
The aggregate revenue and expenditure trends in Pakistan show that revenues have increased slightly over the years, but as a percentage of GDP have remained stable around an average of 14%. The tax to GDP ratio improved from 10% in 2007 to 12% in 2017 (see Figure 3).

There was a spike in total government expenditure between 2008 and 2009, when the civilian democratic government took over from General Musharraf. Following years show a stagnant trend as the GDP growth faced the lowest slump in over seven years. The letter of intent from Pakistan Government to the IMF for a stand-by programme in 2008 attributed the decline to "adverse security developments, large exogenous price shocks (oil and food), global financial turmoil, and policy inaction during the political transition to the new government".

The other major spike in government spending is observed in 2014, is also when a new government passed its first budget and the expenditure rise is met from deficit financing rather than domestic revenues.

Over the years the biggest expenditure items of the federal government remain interest payments on mark-up, followed by spending on defence, public order and safety, education affairs and services, and health.

**Figure 3** Aggregate national revenue and expenditure trends at constant prices



Source: Government fiscal operations report

# 15 Evolution of core government functions

This section presents the public expenditure trends and aid flows on core government functions in the backdrop of institutional architecture of the public sector in Pakistan and key reforms undertaken during the period. While detailed data on aid flows (in terms of commitments and disbursements) was available from the OECD database, data on actual public sector spend available to the team was limited to financial statements published by the Controller General of Accounts, federal budget data shared by the MTBF Cell in Finance Division, and information available from published budget documents on the government's official website. This has constrained the level of disaggregation in expenditure data available for the analysis.

## 15.1 Executive coordination at the centre of government

In its almost 70 years of history, Pakistan has experienced both presidential and parliamentary systems. The periods of presidential governments were all preceded by martial laws vehemently opposed by the political elite of the time. Devolution reforms since 2001 have sought to devolve major service delivery sectors like health, education, police, and levying and collection of GST on services to provincial governments, but has ended up in creating gaps between national interests and those at the local governance level.

By far the largest amount of resources spent on executive coordination is attributable to the Cabinet Division that primarily is responsible for administrative support to the cabinet and cabinet committee and includes budget and privileges assigned to Ministers. Some of the Cabinet Divisions' assumed mandate has clear functional overlaps with other ministries and devolved functions, such as ensuring quality in relief measures, labour force training, and urban health centres. Other secondary functions include security of classified communications, federal intelligence, social welfare, land reforms, and preservation of state documents. The significant increase in expenditure by the Cabinet Division in 2011 is due to rural development initiatives taken by the government, funds which were placed under the control of the Cabinet Division. Otherwise, the expenditure on executive coordination budget lines has not witnessed an increased share in total expenditure over the years (see Figure 4).

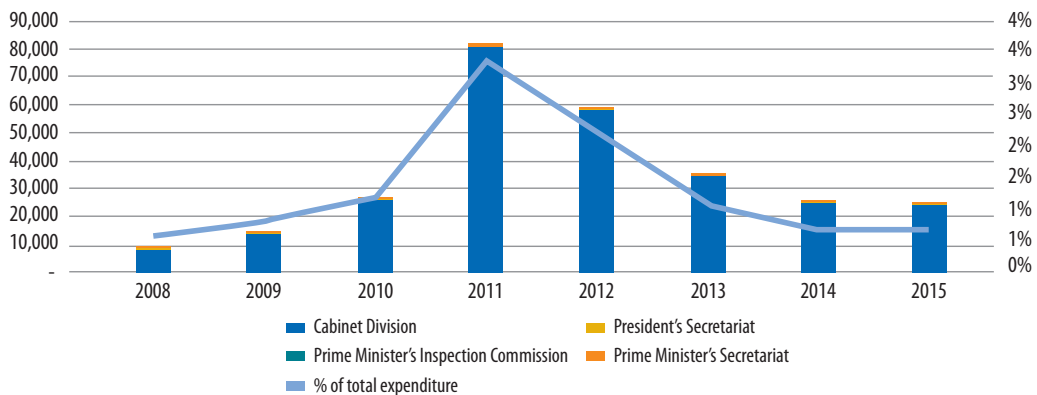
The KIIs have highlighted that there are issues of coordination at every tier of the executive branch and in almost every sector. Recent efforts have focused on improving interdepartmental and intergovernmental coordination on specific issues, e.g. during times of humanitarian crises, when a number of ad hoc committees and bodies are formed. For instance, after the 2005 earthquake, an Earthquake Reconstruction and Rehabilitation Authority was formed at the national level that was mandated to coordinate relief efforts, undertake macro planning, developing sectoral strategies, arranging financing, monitoring and evaluation, and facilitating implementing partners, while physical implementation of the projects was mainly the responsibility of provincial governments. At the same time, a donor coordination and external financing database was also developed for improving coordination and data sharing on relief efforts.



Similarly, just before the devolution of 2010, in an attempt to strengthen interprovincial coordination, these functions were separated from the Cabinet Division and an Interprovincial Coordination Division was created under the Cabinet secretariat in 2007. This was later made into a full-fledged Ministry in 2008, which still exists to this date.

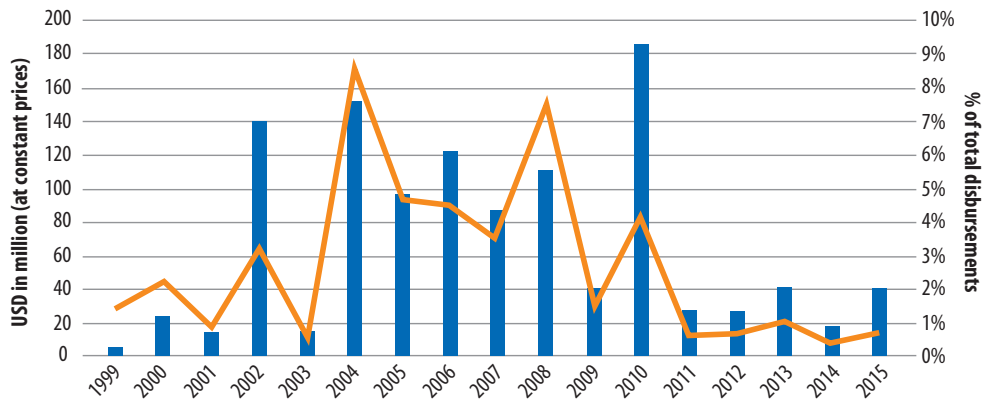
External aid disbursements on executive coordination (coupled with public administration here due to data challenges posed by the OECD DAC categorization) have remained erratic over the years, with major peaks in 2004 and 2008 (see Figure 5).

**Figure 4** Composition of expenditure on executive coordination (PKR in million)



Source: Government budget documents (green book, financial statements)

**Figure 5** Aid flows to executive coordination functions



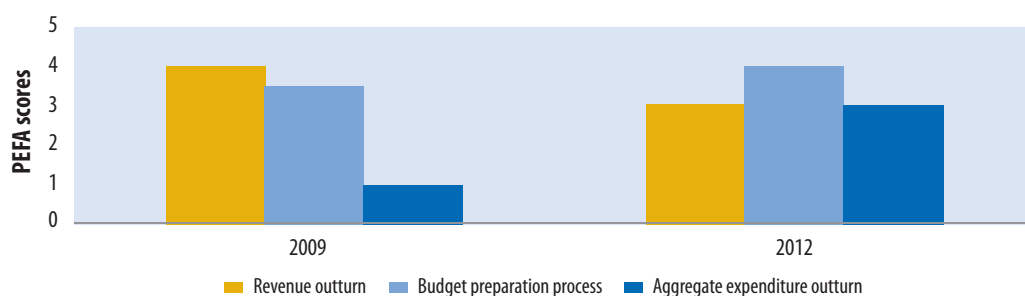
Source: OECD DAC Creditor Reporting System

## 15.2 Public finance

Pakistan has a fairly established PFM system with a single treasury account system and comprehensive budgeting and accounting management system. The government, recognizing the importance of sound public financial management, has maintained a trajectory of reforms, for instance, taking actions to enhance the accountability and effectiveness of public expenditures.

In terms of Pakistan's public financial management systems, the federal government's ability to collect revenue remains fairly weak.<sup>52</sup> Despite numerous reforms, the IGC report states that the Federal Board of Revenue still performs poorly with limited signs of improvement. For instance, the tax to GDP ratio was 10.5% in 2017, compared to 14% in 1989-90. Although Pakistan showed an overall improvement in federal PEFA scores between 2009 and 2012 (see Figure 6), the 2012 PEFA states that "there are deficiencies in PFM that must be addressed with some urgency in order to strengthen the fiscal discipline and align management with international standards", including budget execution, procurement and control functions.<sup>53</sup>

**Figure 6** PEFA assessed rankings in 2009 and 2012 for public finance indicators



Despite this, in the last two decades, significant progress has been made in terms of the accuracy, comprehensiveness, reliability, and timeliness of financial and fiscal reporting; enhanced accountability and transparency; the use of financial information for informed decision-making; and oversight of the use of public monies through risk-based audits.<sup>54</sup>

Domestic debt repayment is a major expense for the government and formed on average 70% of the total federal expenditure since 2009 (see figure 7).

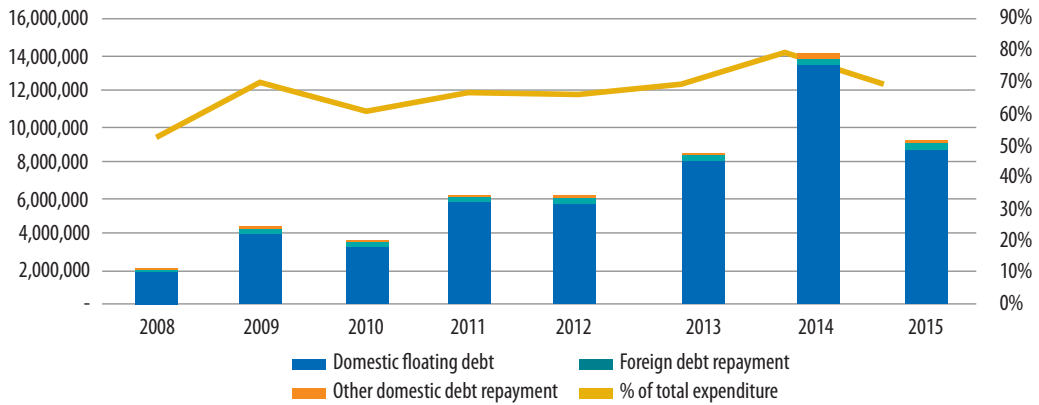
When debt repayments are set aside, the biggest share of expenditure on public finance is done by the Finance Division (approx. 95%), followed by the Revenue Division (approx. 2%).

Government spending on public financial management functions forms a significant percentage of total expenditures (see Figure 8).

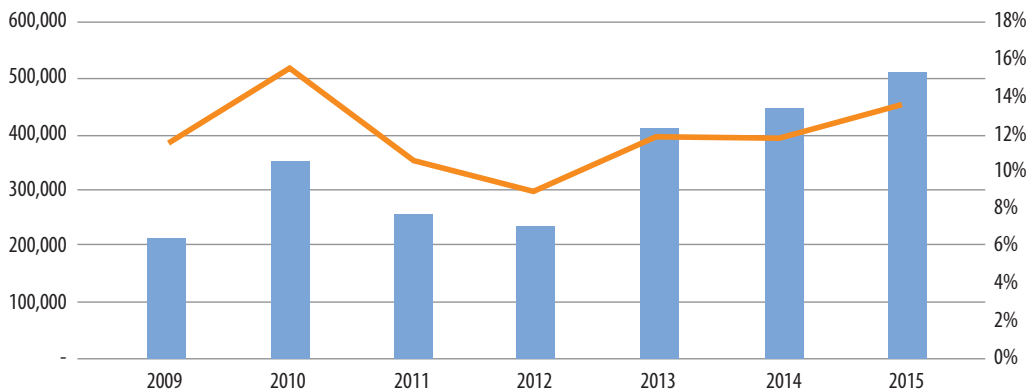
<sup>52</sup>Hussain, 2014. *The construction and deconstruction of Pakistan*.

<sup>53</sup>PEFA, 2012.

<sup>54</sup>Pakistan PEFA Assessment 2012.

**Figure 7** Debt repayment over the years (PKR in million)

Source: Financial Statements

**Figure 8** Expenditure on public finance functions (expenditure and revenue management)

Source: Budget data provided by the MTBF Cell in Finance Division

Strengthening of the PFM systems has relied largely on the pace of implementation of the World Bank financed Project for Improvement in Financial Reporting and Auditing (PIFRA), which began assisting with PFM reforms in 1995. PIFRA was implemented at federal, provincial and district levels of the government in three phases from 1996 to 2014. 2001 was especially significant as a large number of PFM reforms were approved and promulgated through a number of ordinances, including the separation of audit and account functions and the establishment of the

Controller General of Accounts, the Auditor General of Pakistan, and the Federal Tax Ombudsman office. A New Accounting Model was introduced in the year 2000 through approval by the Auditor General of Pakistan, to improve the traditional government accounting system by moving to a modified cash-basis of accounting, double-entry bookkeeping, commitment accounting, fixed asset accounting and a new multi-dimensional Chart of Accounts. However, the use of the system remains significantly limited. Despite having the capability within the system, the budgeting module is not used for planning purposes, with the planning division and line departments all using their own MIS/manual systems for planning purposes. The Finance Division and Controller General of Accounts both maintain separate servers causing issues of reconciliation, leading to records being manipulated manually.<sup>55</sup>

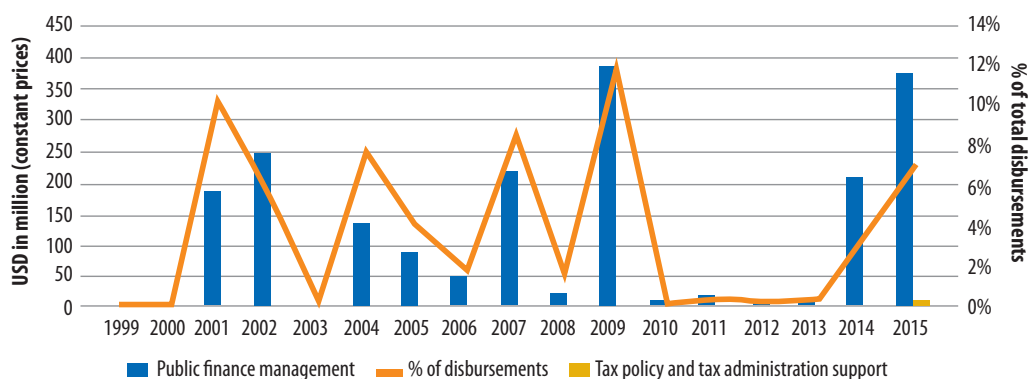
DFID has been a key partner in supporting planning and medium term budgeting reforms. Medium term budgeting was first implemented in Pakistan in 2006 at the federal level, and in KP in 2010 along with output based budgeting. However, KIIs have indicated that despite significant technical assistance, an incremental approach to budgeting remains in practice and the implementation of output-based budgeting in line departments and field offices remains weak or missing. The PEFA assessment in 2012 noted that linkages between multi-year estimates and annual budgetary ceilings are weak, signalling unpredictability of resources.

The tax to GDP ratio of Pakistan has remained consistently low for years. On the advice of an IMF Mission in 2001, the Government devised and approved a Revenue Reform Strategy. From 2012 to 2016, the government implemented several reforms on the revenue management front through a \$149 million Tax Administration Reform Project (TARP) supported by the World Bank and DFID. The focus of the reforms were taxpayer facilitation, self-assessment for income tax and reorganisation of the federal Board of Revenue. With the support of the TARP, the Government of Pakistan has achieved some notable changes in tax administration. New information technology systems were also developed to improve efficiency, including a data warehouse, e-portal, payments and refunds system, and taxpayer accounts, along with the implementation of a single Tax Identification Number for all taxpayers for effective functioning of these systems. However, project evaluation upon completion noted that progress had been unsatisfactory and it was recommended that future revenue administration projects should incorporate a comprehensive political economy analysis of reforms and investment loans should be complimented with technical assistance.

The above-mentioned donor support to PFM functions is corroborated by the aid flows where disbursements for these functions increased as a percentage of total in 2001-02 and 2007 to 2009, and more recently in 2014-15 (see Figure 9)

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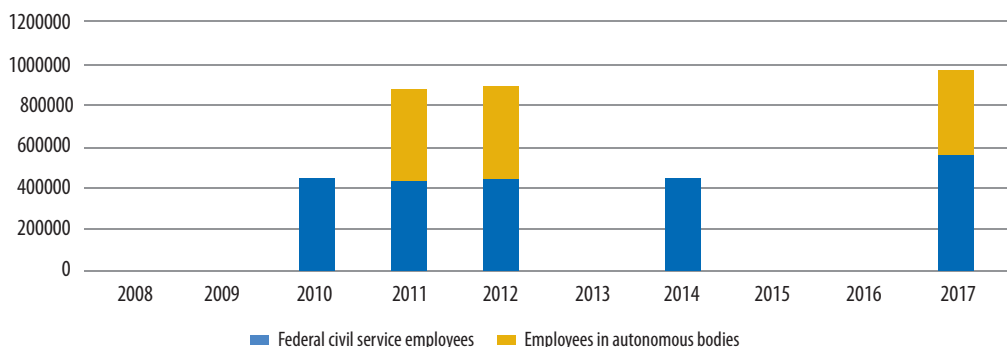
<sup>55</sup>Interviews with officials in Finance Division and CGA

**Figure 9** Composition of aid flows on PFM and aid management

Source: OECD DAC Creditor Reporting System

### 15.3 Government employment and public administration

The civil service structure of Pakistan has witnessed little improvements over the years, despite the size of the public sector growing considerably since the 1970s. Civil service remains constricted by archaic rules and procedures, along with a rigid hierarchical authority structure that undermines its effectiveness. Low salaries, insecure tenure, and obsolete accountability mechanisms have facilitated the spread of corruption and impunity.<sup>56</sup> Over the years efforts have been made to attract better quality candidates, reduce corruption, and improve accountability yet reforms have remained stuck at the design stage.

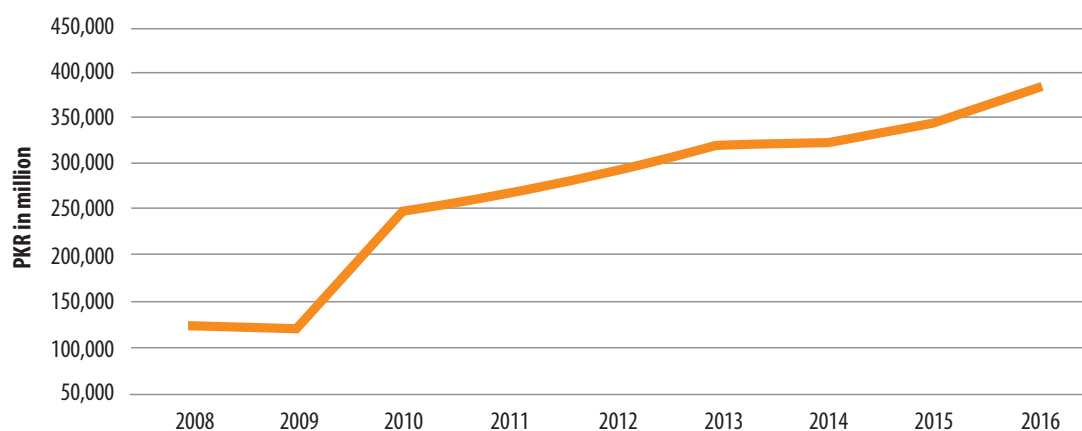
**Figure 10** Number of federal government employees

Source: Establishment Division's Annual Statistical Bulletin on Federal Government Employees

<sup>56</sup>IGC report on Reforming Pakistan's Civil Structure 2010 (<https://reliefweb.int/report/pakistan/reforming-pakistans-civil-service-ieg-report>)

More recently, the overall number of permanent federal government employees has increased by 10% since 2011, despite an 8% decrease in employees in autonomous bodies<sup>57</sup> (see Figure 9). However, the federal expenditure on salaries and employees shows steep increase over the years, particularly from 2010 onwards (see Figure 11). This indicates that after the devolution of 2010, the rate of increase in government employment was accelerated at the provincial level to fill in gaps in public service delivery. The average public sector wages have also increased at a faster rate than average private sector wages as per the data reported in the World Bureaucracy Indicators (see figure 12). Despite increasing human resources and wages, performance management is notably weak and consists mainly of the annual Performance Evaluation Report<sup>58</sup>. KIIs reported that while individual performance evaluations are done annually and form a critical element in the promotion criteria, however, these remain highly discretionary as performance

**Figure 11** Government spending on salaries and employee benefits (constant at 2008)



Source: Federal government financial statements<sup>59</sup>

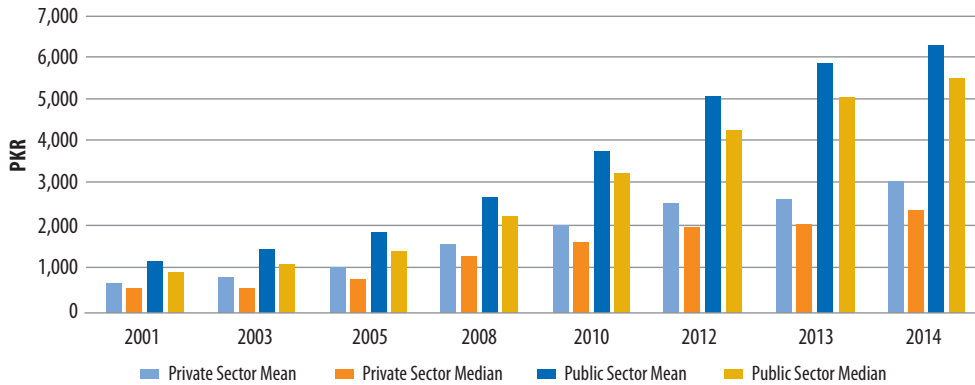
targets are not agreed at the start of the year. Objective and tangible performance yardsticks do not exist which makes the process of performance evaluation a mere formality and often a means to exercise politics within the bureaucratic.

The Public Services Commission and the Establishment Division are the primary institutions responsible for government employment and public administration at the federal level. The expenditure trends analysis shows that government expenditure on these two institutions decreased since 2008 but has increased slightly since 2014 (see Figure 13).

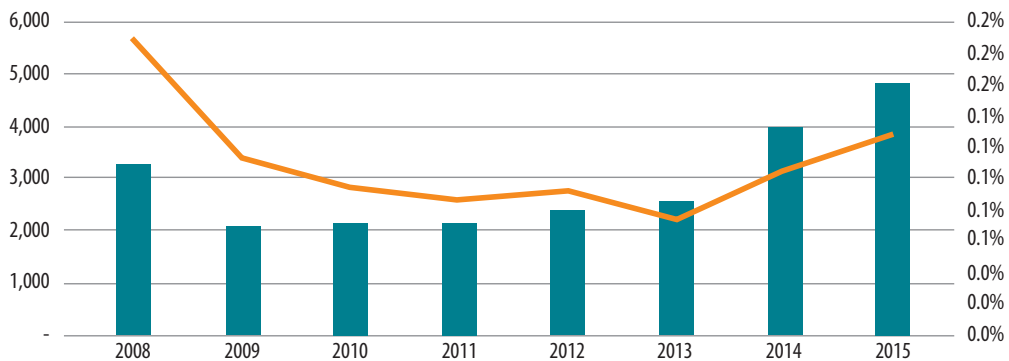
<sup>57</sup>Data on provincial government employees was not made available.

<sup>58</sup>Previously known as Annual Confidential Report (ACR), the report is filled by the superior officials for their subordinates and are counterchecked by countersigning officers.

<sup>59</sup>Expenditures have been adjusted at constant 2008 prices using GDP deflator reported in national economic surveys

**Figure 12** Average weekly wages (in local currency unit) in public and private sector in Pakistan over the years

Source: World Bureaucracy Indicators

**Figure 13** Public expenditure on government employment and public administration

Source: Federal Budget Data

Based on interviews, it is clear that there is a slow shift in policy focus from general examination based hiring towards specialised recruitment caused by a demand for better quality of civil service. Civil service reforms are also inherently linked to the political economy. For instance, a look at the reform efforts undertaken in Musharraf's era (specifically in 2006-2008) show that the aim was to curtail powers of the elite and the all-powerful office of the District Management Group as cornerstones of the military rule. However, these efforts reverted due to weak ownership

and follow-through, caused by the weakening legitimacy of Musharraf's rule.<sup>60</sup> Before this, there had been many other short-lived reform efforts, and with the only major and sustained civil service reform taking place in 1973 under the government of Bhutto, which gave autonomy to the Federal Public Services Commission, created occupational groups/cadres, unified national pay scales, initiated joint pre-service training, and enabled lateral recruitment through competitive examination.

Yet, a review of the transition timeline shows that civil service reforms and administrative reforms take on a new life in times of transition towards peace and stability. After the 2018 elections, the nascent political government has set out to design civil service reforms anew with a focus on rightsizing and e-governance approaches.

Interviewees informed that there have also been several efforts to introduce performance evaluations, merit based promotions and a revision in remuneration and allowances over the years, which are usually set-aside after a slew of subsequent court cases and challenges. Anti-corruption and accountability reforms have also been a major focus of civil service reforms across the transition timeline. The National Accountability Bureau was formed in 1999 by a Presidential Order issued by General Musharraf and has gained constitutional sanctity since then. However, it is often accused of being mismanaged, playing favourites, taking off-books settlements, being unwilling to prosecute military officers, among others. The PTI-led government that rose to power in Khyber Pakhtunkhwa for the first time in 2013 established a provincial Accountability Bureau as a parallel mechanism which was wrapped up four years later in November 2018 amid complaints of mismanagement and overlaps with the National Accountability Bureau.

Payroll and pension contributions combined are the biggest item in the national budget. Payroll management and control has improved considerably through a better use of IT systems in budgeting, expenditure controls and audit. However, recent payroll audits conducted at the provincial level through the DFID funded Sub-National Governance programme have revealed that there is still opacity in the payroll data, with significant anomalies related to personnel data which is also reflected in the PEFA scores (see figure 14).<sup>61</sup>

## 15.4 Security

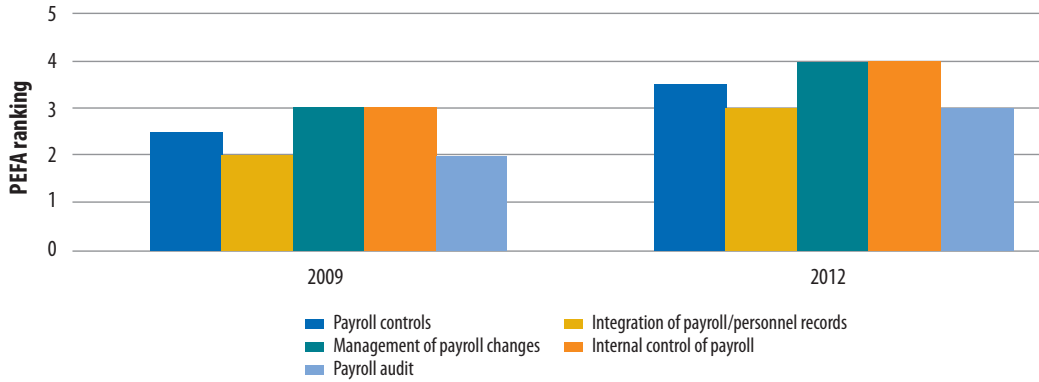
Pakistan's historically entrenched civil-military imbalance puts the military in the driver's seat on all issues related to national security, including internal security arrangements, and to a great extent foreign policy. At the federal level, the Ministry of Interior is the overall body responsible for law and order and security within Pakistan, mandated to deal with policy and administrative matters pertaining to the armed forces. In practice, the three branches of the armed forces—Army, Navy, and Air Force—are virtually autonomous and their linkage to the Ministry of Interior is merely administrative, the latter exerting little or no power over the budgeting, operations, or personnel management within the defence forces. As a result there is little disaggregation

<sup>60</sup><https://dailytimes.com.pk/304482/reforming-the-civil-service-avoiding-the-pitfalls/>

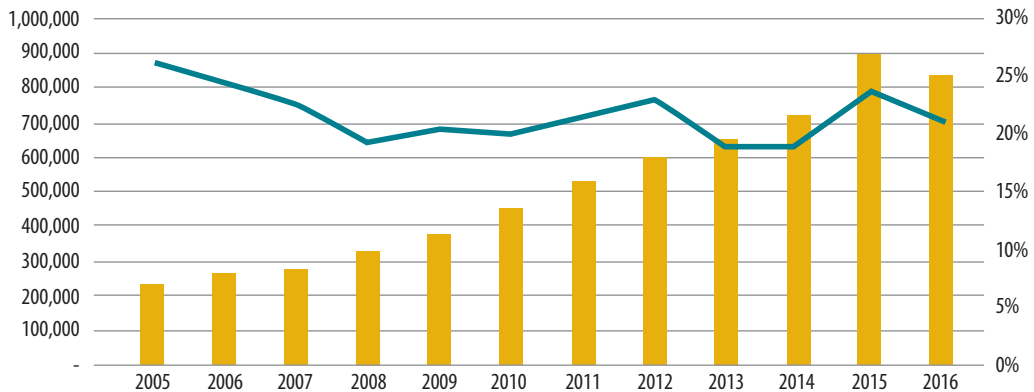
<sup>61</sup>KP IT based payroll audit report of Education Department, 2014



**Figure 14** PEFA assessed rankings in 2009 and 2012 for government employment and public administration indicators



**Figure 15** Government expenditure on security sector (PKR in million)



Source: Financial statements

available on Pakistan's defence expenditures. The only time when there seemed to have been stronger dialogue and relatively transparency between these institutions has been during the emergency relief efforts.

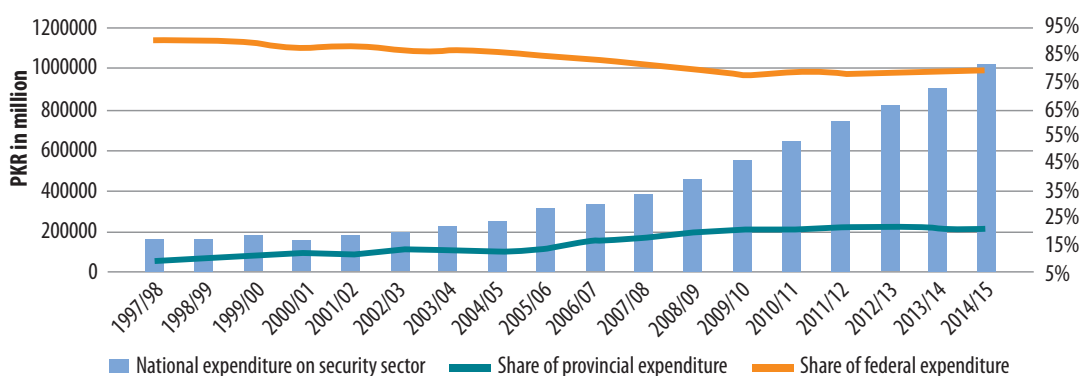
The Federal Government's expenditure on the security sector has risen year-on-year, reaching its highest in 2015 when the military operations in tribal regions were at their peak. **However, as a percentage of total expenditures, the security sector share has decreased** (see Figures 15 and 16).

There was a sharp increase in annual growth rate of spending on the security sector from 2003 to 2006, coinciding with bilateral aid received to support the country while combating militancy within its borders. While national spend on the security sector (including law & order and defence) has been on the rise in nominal terms, the federal share has been declining in terms of proportion of total spend whereas provinces share has increased. This is mainly due to:

- Increased spending on law and order by the provincial government after devolution of these services post 2010.
- Decreased spending on defence as a share of total expenditures at federal level

The highest annual growth rates in security sector spending at national level are evidenced during the period of military rule of General Musharraf and between 2008 and 2009 when the military offense against insurgency in tribal regions was at its peak. A minor increase in expenditure on law and order by the provincial governments is also noticed during the same time.

**Figure 16** National level expenditure on security sector



Source: Financial statements

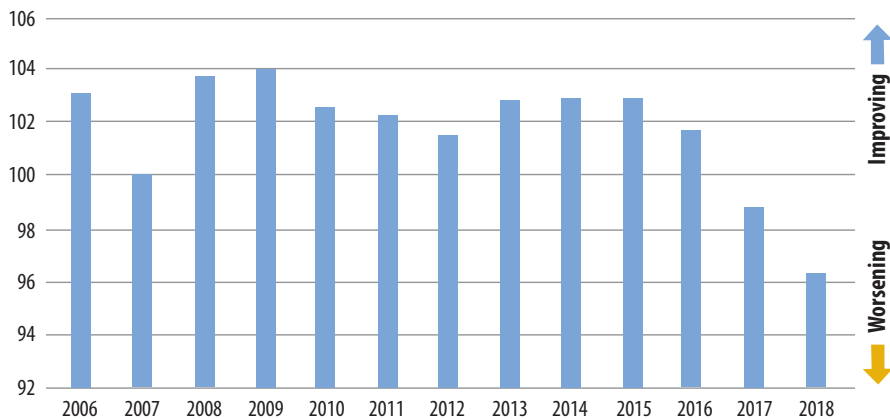
The focus of military operations in the Swat region of Khyber Pakhtunkhwa in 2007 and 2009 (Swat) and North Waziristan in 2013 is not reflected in aggregate federal expenditures on security and defence which show a downward trend over the period. While shifts in government priorities during this period is however clearly evidenced from a review of reforms during these periods. The adoption of the war on terror in led to significant reforms in the security sector. In 2010, the National Counter Terrorism Authority (NACTA) was created and given the mandate to formulate and monitor the implementation of national counterterrorism strategy. However, NACTA has remained largely ineffective since its inception, caught amidst various turf wars over information-sharing between the intelligence agencies and the Ministry of Interior and the placement of NACTA under the Ministry or the prime minister's office. The country's first ever National Internal Security Policy and National Action Plan were approved by the Cabinet in 2014, focusing on efforts to combat terrorism and militancy and address endemic insecurity and radicalization.

The Police force has been largely devolved to the provinces after the 18th Constitutional Amendment and is concentrated around urban centres. While there has been little progress on reforming law enforcement however, over the years the provinces have increased their allocations for improving the security situation, countering terrorism, and maintaining law and order.

There are eighteen federal law enforcement organizations and separate police forces in each of the four provinces since devolution of policing functions in 2010. These provincial and regional police organizations are organized along similar lines and abide by the same set of laws and rules. For instance, the procedural criminal laws (i.e., the Pakistan Penal Code, the Code of Criminal Procedure, and the Qanun-e-Shahadat Order) are uniformly applicable to all parts of the country (except FATA).

While security related expenditures decreased as a share of total expenditures, the security sector outcomes seem to have remained volatile in the medium term as determined by the Fragile States Index, however, improvement in the longer term is also evidenced (see figures 17 and 18).

**Figure 17** Pakistan's total score on the Fragile State Index over the years



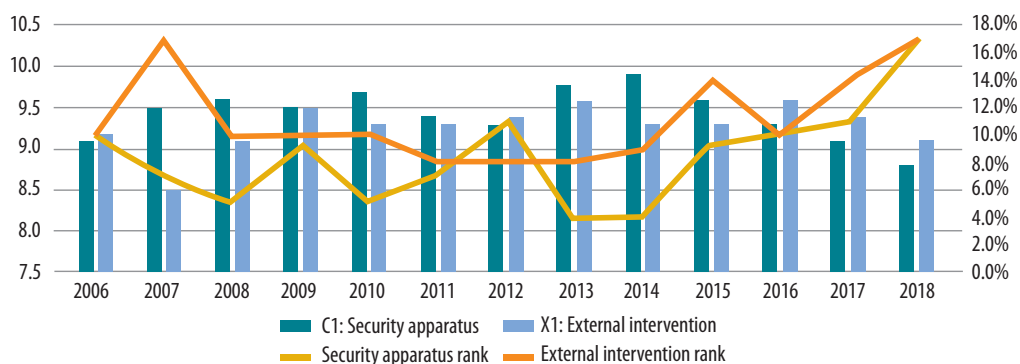
Source: *Fragile States Index*

On the other hand, Worldwide Governance Indicators report that perceptions about the state's effectiveness<sup>62</sup> have deteriorated over the years (see figure 19), especially since 2006 as the Musharraf's regime was facing increasing external critique and legitimacy issues within Pakistan.

Aid flows to security sector were negligible prior to 2009; however these increased significantly in 2009 and 2010, driven primarily by aid from UK, US and Germany (see Figure 20).

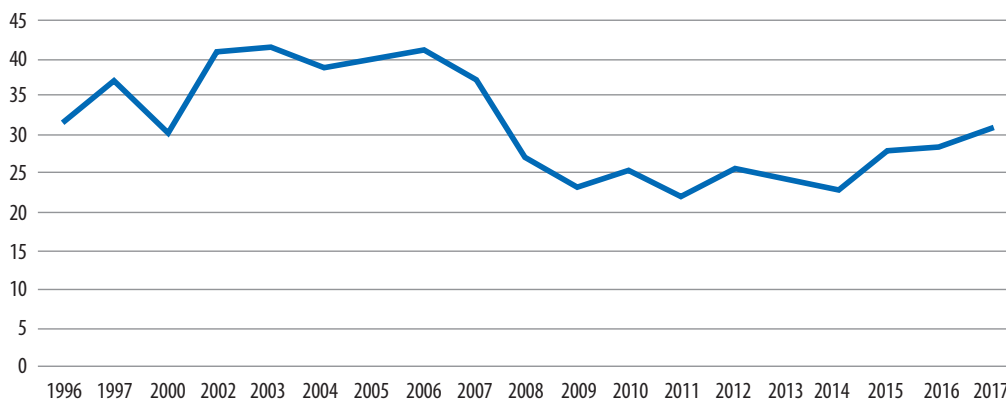
<sup>62</sup>Defined as perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

**Figure 18** Fragile State Index selected indicators on security sector



Source: Fragile States Index

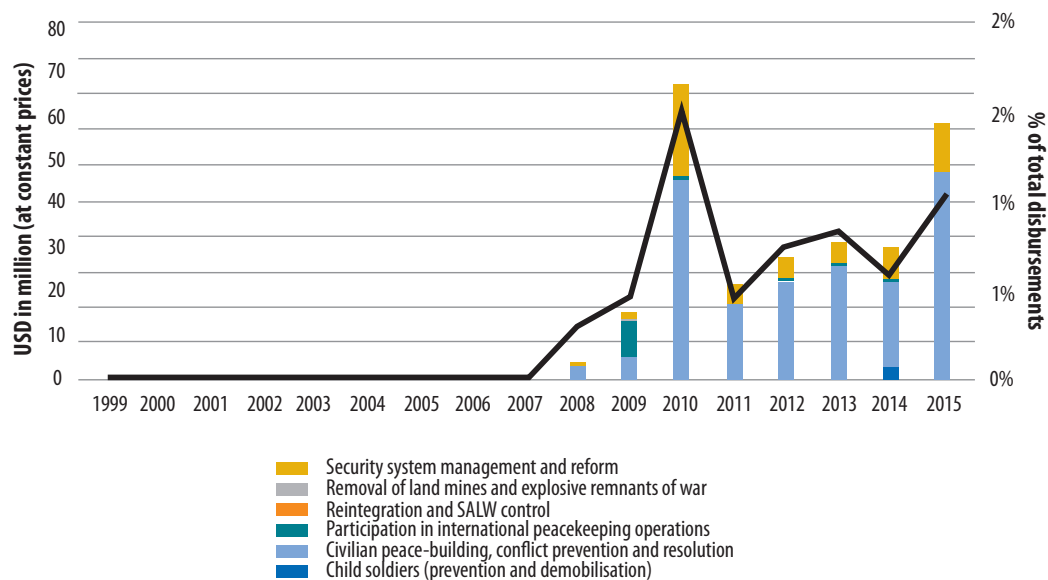
**Figure 19** Percentile rank of State Effectiveness of Pakistan



Source: World Governance Indicators

## 15.5 Local governance

As a result of years of instability and violence, the local government system in Pakistan remains fragile and progress has been slow. Under Pakistan's constitution (1973), the country is envisioned as a federal republic with four constituent provinces and federally governed regions however, substantive federalism was only established in March 2010, post military rule. Local governments (tiers below the provincial level) have remained weaker institutions, with insufficient resources

**Figure 20** Composition of aid flows to security sector

Source: OECD DAC Creditor Reporting System

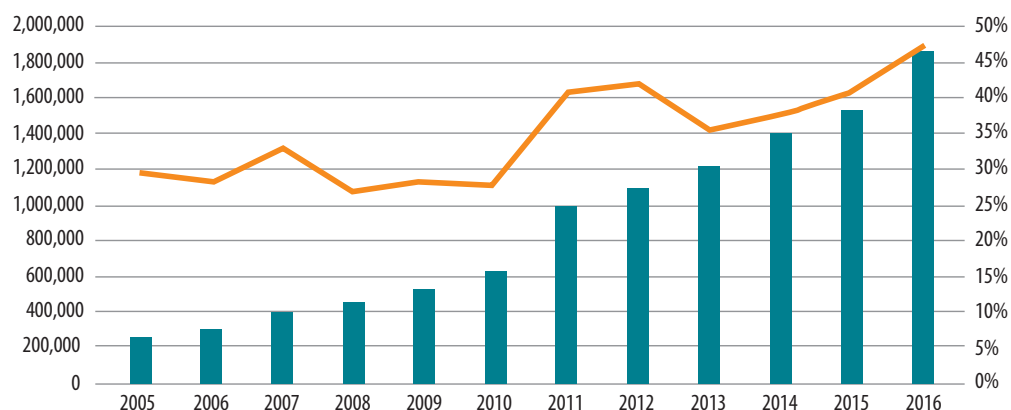
and powers and that has been used by the different martial law regimes to lend legitimacy to their rule and democratic regimes to exercise political patronage.<sup>63</sup>

Since 2008, policymakers have initiated substantive efforts to address legitimacy-based drivers of fragility, with a strong focus on decentralisation, including the NFC award, which significantly increases the amount of annual fiscal transfers made to the provinces. According to the IGC, the revenue shares historically contributed to a great deal of mistrust between the federating units.<sup>64</sup>

For the local governance function, substantial gains were made during General Musharraf's regime from 1999 onwards. A National Reconstruction Bureau (NRB) was established in 1999 as a federal independent institution tasked with economic recovery and prosperous development through the local government system. Recommended by the NRB, the Local Government Ordinance was promulgated by the provincial governments in August 2001. While significant service delivery functions were devolved to the local governments, the provincial governments neglected to provide the requisite capacities and funds.

<sup>63</sup>In the absence of data on appropriate proxy indicators for measuring capacity of local government (e.g. budget utilisation, service delivery indicators, and compliant redressal) this opinion is based off multiple opinion papers such as: <https://www.pakistantoday.com.pk/2015/11/28/ineffectual-local-governments/> and <https://dailytimes.com.pk/302871/policy-issues-in-local-governance-reforms/>

<sup>64</sup>IGC, 2018. *SSR Issue Papers No. 5 — January 2012 Security Sector Governance in Pakistan: Progress, But Many Challenges Persist*.

**Figure 21** Transfers from federal government to provinces

Source: Fiscal operations reports

The primary source of resources for the provincial governments remains the federal transfers, which have increased over the years, particularly after the 9th National Finance Commission Award in 2010 (see Figure 21). With the devolution of Sales Tax on Services in 2013, some provinces, such as Punjab, quickly demonstrated better adaptation to new roles than others, assigning staff and setting up new administrative units. Still, all provinces continue to struggle to enhance their own revenues, collectively financing only 11 per cent of their expenditures through provincial tax and non-tax sources.

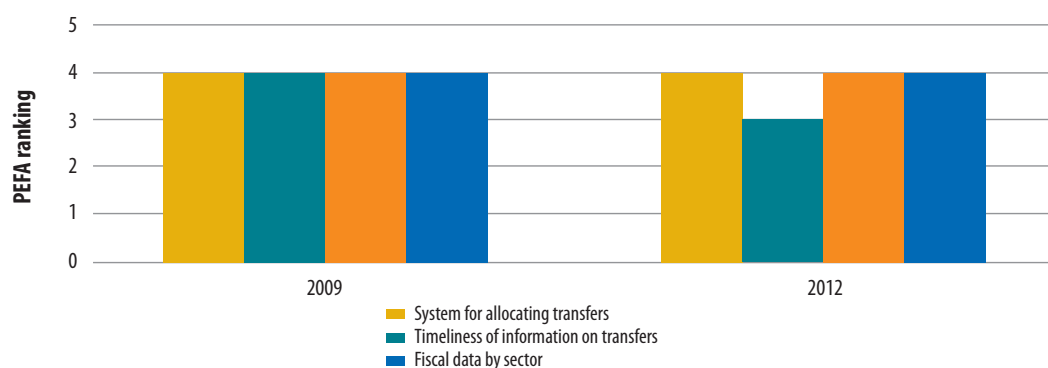
The shift in priorities when comparing provincial shares vs. government share under various NFC Awards over the year is also worth noting. The last two NFC Awards (1997 and 2009) have been significant for decentralisation and empowering provinces: the 1997 Award included all taxes in the divisible pool whereas previously only a percentage of income tax and sales tax were applicable, and the 2009 Award increased provincial share in the divisible pool while maintaining the size of the divisible pool (see Table 1).

The expenditures of sub-national governments (i.e. provinces and local governments) are not publicly available in a form that facilitates detailed analysis. However, literature suggests that the new local government ordinance of 2010, as a result of reforms led by President Musharraf, forced the provinces to give greater autonomy and resources to the local levels. In terms of the quality of the systems in place, successive PEFA assessments have shown that PFM performance for local governance has remained largely the same from 2009 to 2012, with some decline in timeliness of information of transfers (see Figure 22).

**Table 1** Distribution of resources among government tiers under various National Finance Commission Awards

<b>Assigned Shares to Provinces under various NFC Awards</b>	<b>NFC 1974</b>	<b>NFC 1990</b>	<b>NFC 1997</b>	<b>NFC 2009</b>
Federal share in divisible pool	20	20	62.5	42.5
Provincial share in divisible pool	80	80	37.5	57.5
Horizontal shares of provinces				
Punjab	60.25	57.87	57.88	51.74
Sindh	22.50	23.29	23.28	24.55
NWFP	13.39	13.54	13.54	14.62
Balochistan	3.86	5.30	5.3	9.09

Source: PIDE Working Paper 2007:33<sup>65</sup> and federal budget documents

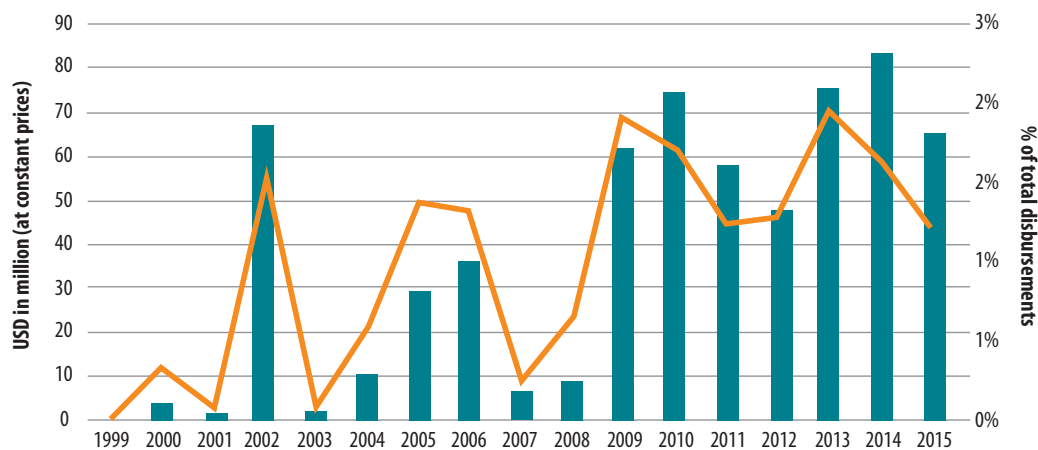
**Figure 22** PEFA assessed rankings in 2009 and 2012 for local governance

Source: PEFA assessment reports

An analysis of aid flows shows that a shift in government priorities towards local governance system since 2001 onwards has been met with a substantial increase in development support (see Figure 23). After the 18th Constitutional Amendment, aid support for local governance has been routed to the provincial governments, however aid flows in this sector as a proportion of total disbursements has been less than 2% in any given year.

<sup>65</sup><http://pide.org.pk/pdf/Working%20Paper/WorkingPaper-33.pdf>

**Figure 23** Aid flows to local governance



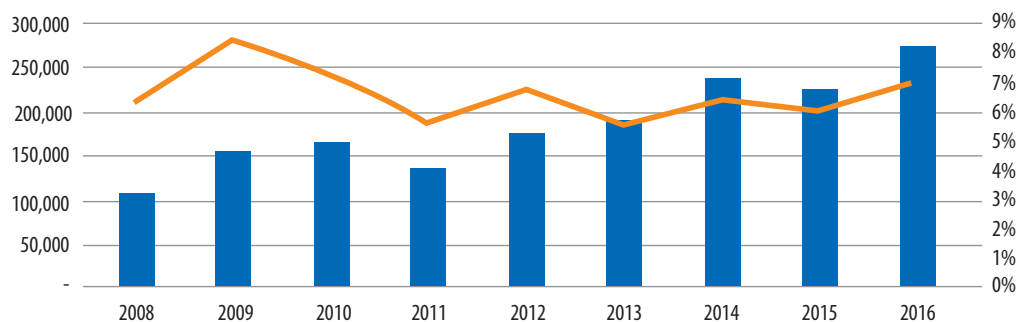
Source: OECD DAC Creditor Reporting System

## 15.6 Aid management & donor relations

The Economic Affairs Division is the central authority for coordinating foreign grants and loans in the country, including on behalf of provinces. Provinces, while authorised to raise certain types of loans within certain limits, must route all aid flows through the EAD. Over the years, government spending on aid has increased, especially in 2009, 2012, 2014 and 2016 (see Figure 24).

Since 9/11, Pakistan has received substantial foreign aid, military aid, loan write-offs and cheap loans in return for its active role in the 'war on terror'. The United States has been one of

**Figure 24** Expenditure composition on aid coordination

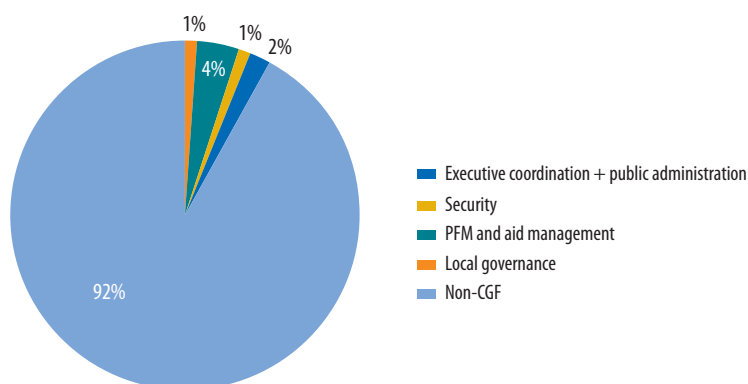


Source: Financial statements



Pakistan's largest donors, obligating nearly \$67 billion to Pakistan between 1951 and 2011, according to the Centre for Global Development.<sup>66</sup> Aid flows have however, been particularly volatile, and closely linked to specific geo-strategic events. Despite Pakistan's transformation from a military regime to an elected civilian government, international aid flows, particularly from the US, have been security related. Hence, it seems that the transition from military rule to democracy has not influenced expenditure on security, but rather that this increase is more closely connected to the escalation of terrorist violence and the adoption of the war on terror.

**Figure 25** Composition of aid disbursements from 1999 to 2015 at constant prices 2010



Source: OECD data

According to the International Crisis Group, almost two thirds of US funding between 2002 and 2012 has been security related, double the \$7.8 billion of economic aid. An interesting development came in October 2009 with the Kerry-Lugar-Berman bill, which put security and development on two separate tracks, insulating the development agenda from unpredictable geopolitical and military events. The act authorized a tripling of US economic and development-related assistance to Pakistan, or \$7.5 billion over five years (2010 - 2014), to improve Pakistan's governance, support its economic growth, and invest in its people.<sup>67</sup>

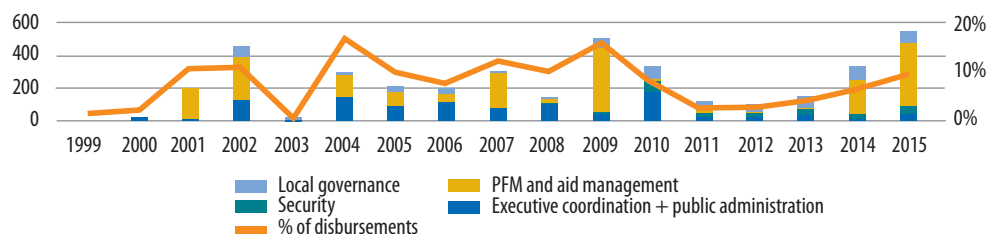
CGF related aid flows have constituted about 12% of the total aid disbursements on average in the fifteen years considered for this analysis (see Figures 26).

The MDTF has been a key financing mechanism in response to the Post Crisis Needs Assessment Strategy for directly supporting reconstruction and rehabilitation activities in the conflict affected areas of Khyber Pakhtunkhwa, Balochistan and erstwhile federally administered tribal areas. An

<sup>66</sup>Centre for Global Development, 2013. *Aid to Pakistan by the Numbers*.

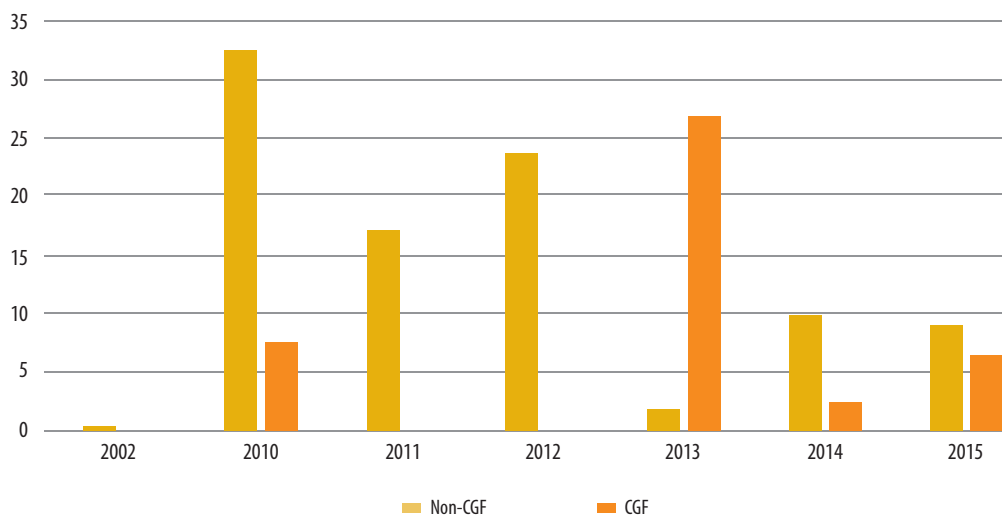
<sup>67</sup>International Crisis Group, 2004. *Liberia and Sierra Leone: Rebuilding Failed States*

**Figure 26** Total CGF related disbursements to Pakistan



Source: OECD data

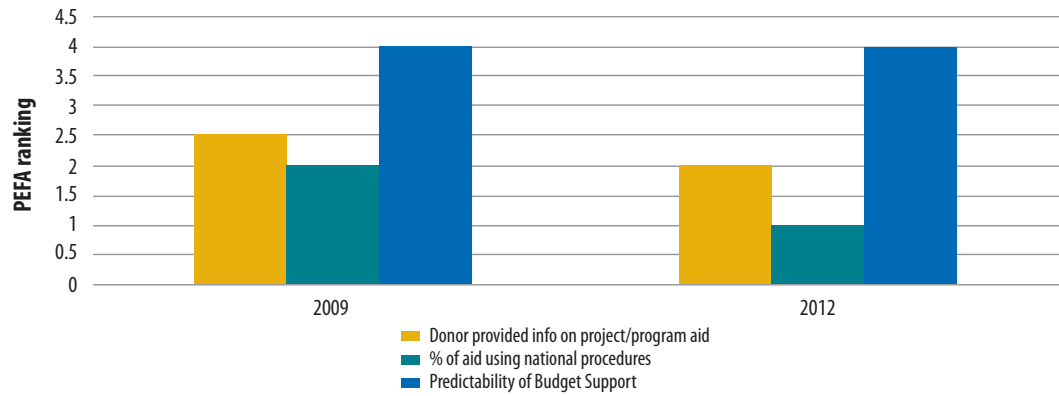
**Figure 27** Aid disbursements under MDTF



Source: OECD data

analysis of MDTF aid flows shows that while total MDTF disbursements have decreased over time, the CGF related disbursements under MDTF have increased since 2012 (see Figure 27). This has been partly due to completion of most infrastructure related projects and an increased emphasis on PFM related technical assistance being provided to the provincial governments of KP, Balochistan and FATA Secretariat.

The PEFA scoring indicates that aid management was actually better in 2009 than in 2012 as seen from Figure 28.

**Figure 28** PEFA assessment ratings on aid management in 2009 and 2012

Source: PEFA website

# 16 Conclusions

While Pakistan's context and significant constraints on the availability of public expenditure data, described in the introduction to this study, have made it difficult to observe clear expenditure patterns or to find substantive clues in the budget lines linked to core government functions, it is evident from analysis of priority reforms that **some of the core government functions were prioritised by the Government of Pakistan during the identified transition periods. This was especially the case for local governance, security, and public financial management.** The majority of KIIs corroborated this assessment.

The incentive for adopting a certain trajectory of reform has been linked to priorities stemming from three dynamics: the deterioration of the security situation, internal political strife and ethnic conflict and bleak economic performance. **Two core government functions emerged more prominently during the research: local governance and security.** Reforms to local governance have deepened the devolution process fiscally, administratively and at political levels. Local governance reform has also been a cornerstone of the transition from military to rule to democratisation. It was equally important issue to address when the war on terror was adopted and when peace was established in the most conflict affected areas of the country (in particular Khyber Pakhtunkhwa and the FATA). On the other hand, reforms in the security sector aimed at strengthening the military capacity in order to contain internal insurgencies as well as the threat of terrorism from neighbouring Afghanistan are difficult to observe in the expenditure data, although well reported through data sources in what is commonly regarded as a complex geopolitical context. More transformative reforms (accountability, human rights, oversight) are harder to observe, especially as the military are still regarded as the main powerholders in Pakistan.

**Both CGF and non-CGF aid flows appear to be related to the country's transition milestones and changing government priorities.** CGF-related aid has remained a smaller proportion of the total aid disbursements over the past decade and a half, with infrastructure and energy sectors overshadowing the rest. This signals a prioritisation of reconstruction and recovery efforts (especially following the 2005 earthquake and more recently under the integration of the FATA into Khyber Pakhtunkhwa province) which may not be CGFs but are definitely priorities for any country undergoing a transition.

**Out of the CGF related expenditures, the highest share has been spent on sub-national governance** (including local governments and provinces), followed by the security sector, public finance, aid coordination, executive coordination, and government employment and public administration, in that order.

**While MDTF related aid disbursements have decreased over time, the CGF related disbursements as a proportion of MDTF aid flows has increased since 2012.** The CGF related aid flows go mainly towards providing technical assistance to the provincial governments on investment management, expenditure management and tax policy and administration reforms, all of which are core government functions.

**Public administration has perhaps been a critical area requiring extensive reform but has remained a challenge due to its complex political economy.** Reform efforts were initiated within the observable pattern of the transition period, however failed due to weak authorization and absence of a sequenced approach. Some of the high impact areas that have remained a policy focus for many past governments, but with little progress, are merit-based service structures, performance-based remuneration, pension liability management, and human capital development. In the past year, this has emerged as key priority for the new government, which had included civil service reforms in its election manifesto as well as a key action area in the five-year development and reform strategy.

**Local governance remains a priority for the new government, which seems to be focused on deepening devolution to town, village and neighbourhood councils** (particularly in those parts of the country significantly affected by conflict and re-establishment of the writ of state). However, this needs to be coupled with concerted efforts to provide enabling systems and capacity to local governments and allowing greater financial autonomy on resource distribution.

## What next for Pakistan

**It is expected that spending priorities will continue under the new government, particularly on the security sector and local governance.** The KP and FATA merge marks a historic landmark in Pakistan's road to democracy. This will have deep consequences in the country's local governance, particularly as tribal people will now have representation in the KP Assembly. Regarded as a 'win for democracy', the merge is a critical step to "establish beyond doubt Pakistan's status as a democratic entity which cannot function any other way".<sup>68</sup> The success will be up to the parties and political forces and with public pressure amounting, "their conduct will have to improve dramatically".

**However, the road to deepening democracy is marred by challenges in the security sphere.** Pakistan is still under pressure to demonstrate a genuine interest in cracking down on militants. For decades, Pakistan's military and intelligence have been accused of giving sanctuary to extremist groups subscribing to the state's anti-India agenda or Taliban allies in Afghanistan.<sup>69</sup> While Pakistan has continuously denied such allegations, the Financial Action Task Force's (FATF) decision to put Pakistan onto a "grey list" in 2018 due to 'strategic deficiencies' in its anti-money laundering and terrorism financing regime.

**The country continues to walk a fine line between its military ways and the changes needed for a country still undergoing its transition into democracy.** Additional warnings came from Western nations in 2018 calling for Pakistan to stop evicting some 22 non-governmental organizations, which operated in the country for many years. The government continues to crack down on civil society, with NGOs now required to obtain a "no-objection certificate" for their activities, which is practically never granted.

<sup>68</sup>Nasir, Abbas, "Democracy wins again", in Dawn Paper, May 26, 2018.

<sup>69</sup>Rashid, Ahmed, "Will Pakistan mend its ways on terror?", BBC News, June 8, 2018.

**Nevertheless, security is expected to continue to be a priority, especially in light of the recent events with India.** The attack on Indian-controlled Kashmir by Pakistani terrorists exacerbated existing and historic tensions, with the recent shoot down of Indian and Pakistani jets further igniting tensions and casting a nuclear shadow over the contested region.

**Such instability in the region will continue to drive support of donors such as the US and the UK under the war on terror and radicalisation.** However, Pakistan will still need to improve its economic performance and one such way is through foreign investment. That being said, China is now the biggest investor in Pakistan, with some \$60bn invested in infrastructure projects. However, if Pakistan is intent on diversifying and growing its economy, a grey list designation is certainly a deterrent for international businesses deciding whether to invest in the country. Such dynamics show that the positive effects of democratisation have yet to filter through to the economy or the security setup.

## **Annex G List of interviewees**

### **Government**

- Mr. Zafar Hassan Ulmas, Chief Macroeconomics Section, Planning Division
- Mr. Rauf Gandapur, former Deputy Secretary, Economic Affairs Division
- Dr Waqar Masood, former Secretary Finance, Ministry of Finance
- Sahibzada Saeed, former Additional Chief Secretary, Government of KP

### **Donors**

- Dr. Muhammad Waheed, Senior Economist, World Bank
- Mr. Martin Waehlich, Desk Officer for Pakistan, DPA

### **Technical Advisors**

- Mr. Nohman Ishtiaq, Consultant to the MTBF Cell, Finance Division
- Mr. Hanid Mukhtar, Freelance Consultant and Economist to the Government of Pakistan

## Annex H Methodological Note

Core Government Functions	Data source (years available)	Domestic budget lines	Assumptions/limitations	Aligned OECD DAC Codes and notes
<b>Executive coordination</b>	Budget Estimates for Service Delivery (2011 onwards) Audited financial statements (2008 onwards)	Cabinet Division, President's Secretariat, Prime Minister's Inspection Commission, Prime Minister's Secretariat		15110 - Public sector policy and administrative management Includes i) General Personnel Services and ii) Executive Office
<b>Public finance: Revenue and expenditure management</b>	Audited financial statements (2008 onwards)	Finance Division (minus domestic debt repayment, debt servicing and subsidies), Planning and Development Division, Revenue Division, Tax Ombudsman, Controller General of Accounts, Accountant General Pakistan Revenue, and Auditor General.	Data may include some amounts relating to transfers to provinces which are covered under 'sub-national governance' as well.	15111 - Public Financial Management Includes debt and aid management 15114 - Domestic Revenue Mobilisation
<b>Government employment &amp; public administration</b>	Audited financial statements (2008 onwards)	Establishment Division and Federal Public Service Commission		15110 Public sector policy and administrative management Includes i) General Personnel Services and ii) Executive Office.
<b>Sub national governance</b>	Fiscal operations report (2001 onwards)	Transfers (from federal) to provinces.	Does not include transfers from provinces to local governments. A part of these transfers may also be covered under 'public finance' expenditures. Limitations in available data disaggregation restricted the authors from preventing double counting of expenditures completely.	15112 - Decentralisation and support to subnational government
<b>Aid coordination</b>	Audited financial statements (2008 onwards)	Economic Affairs Division	Some foreign debt repayment expenditures are reported in the EAD budget and, where possible, have been identified and removed from the budget line.	15111 - Public Financial Management
<b>Security</b>	Audited financial statements (2008 onwards) Fiscal operations report (2001 onwards) approx. figures only	Functional classification heads of 'defence affairs' and 'public order & safety'. The figures are comparable to the sum of individual budget lines of Defence Division, defence services, defence production, interior division, and law & justice division, with minor differences.	Data excludes majority police related expenditures and provincial courts as they are devolved functions and are not included in federal budget. Unlike the audited financial statements, Functional classification used in fiscal operations report represents only recurrent expenditures, therefore these figures from 2001 to 2007 have been qualified as approximate expenditures only.	15210 - Security system management and reform 15240 - Reintegration and SALW control 15261 - Child soldiers (prevention and demobilisation) 15230 - Participation in international peacekeeping operations 15220 - Civilian peace-building, conflict prevention and resolution 15250 - Removal of land mines and explosive remnants of war



# Sierra Leone's

*'war-to-peace' transition*

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## List of abbreviations

APC	All People's Congress
CFFA	Country Financial Accountability Assessment
CGF	Core Government Function
DACO	Development Assistance Coordination Office
DAD	Development Assistance Database
DDR	Disarmament, Demobilisation and Reintegration
DEPAC	Development Partnership Committee
DFID	Department for International Development
EU	European Union
FCAS	Fragile and Conflict-Affected Situation
FSU	Family Support Units
IFMIS	Integrated Financial Management Information System
IRCBP	Institutional Reform & Capacity Building Programme
LTA	Local Technical Assistant
MDAs	Ministries, Departments and Agencies
OPM	Oxford Policy Management
OSD	Operational Support Division
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PRSP	Poverty Reduction Strategy Paper
PSRU	Public Service Reform Unit
RUF	Revolutionary United Front
SLPP	Sierra Leone People's Party
SPU	Strategy and Policy Unit
SSR	Security Sector Reform
UN	United Nations
UNDP	United Nations Development Programme
WB	World Bank

# 17 Introduction

**In many respects, Sierra Leone represents more of a ‘model’ case than any of the other case study countries selected for this study.** After a formal disarmament process negotiated by the UN, there was an end to the conflict, a national election process and a steady move towards increasing stability; a relatively linear post-conflict trajectory. The complete collapse of the state in the lead up to the war meant institutional restoration of the highest order was required to re-establish any sort of functioning governance structure. However, this also presented an opportunity to restore and rebuild more effective core government functions (CGFs) than had previously existed.

In analysing this case, we have interrogated UNDP’s research hypothesis that: *‘Fragile and conflict-affected governments that prioritise restoring core government functionality in their national budgets, as well as their spending of humanitarian and development aid, are more successful in their transitions towards peace and development’*. The study has used a mixed methods approach combining qualitative key informant interviews<sup>70</sup> with quantitative expenditure trend analysis<sup>71</sup> across each of the CGFs. A certain number of methodological assumptions have been made to underpin the latter, which are explained in detail in Annex B.

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<sup>70</sup>A total of 15 interviews were conducted for this case study, both in Freetown and by phone, with a range of past and present government and international agency officials, as well as technical advisers working on the various core government functions. These interviews contextualise and complement a review of available literature on Sierra Leone, and an analysis of government spending and aid data.

<sup>71</sup>A trend analysis of public spending on core public administration functions (CPAF), using two processes. Firstly, an overview of the composition of expenditure and revenue as well as the sustainability of public finances (e.g. fiscal balance) throughout the transition processes to understand whether variations in CPAF-related expenditures were part of broader structural changes or isolated events surrounding transition points. Secondly, an in-depth analysis of CPAF-related spending within the 6 year time-span surrounding the identified transition milestones, to explore whether these changes in public spending were motivated by the prioritization of certain policies/functions or by the availability (or lack thereof) of public resources.

# 18 Sierra Leone as a ‘war-to-peace’ transition

Responsibility for Sierra Leone’s political and economic collapse, and ultimately descent into war, is largely attributed to the country’s former leader Siaka Stevens, who over almost two decades weakened the country’s institutions through patronage and corruption to concentrate his own power and wealth<sup>72</sup>. Despite his rule ending in 1985, his successor General Joseph Momoh was unable to reverse this trend and prevent state collapse. In March 1991 a newly formed rebel group; the Revolutionary United Front (RUF), backed by the Liberian president Charles Taylor, launched attacks at the border with Liberia, propelling Sierra Leone into a decade-long bloody war, funded by the illicit trade of arms and diamonds. During the conflict the government often failed to meet targets relating to net domestic financing because of shortfalls in revenues and external budget support, together with expenditure overruns on wages. Expenditure tracking surveys conducted by the World Bank illustrated a considerable diversion of resources, with subsidies often unaccounted for, particularly in the education and health sector.<sup>73</sup>

There were several failed attempts to negotiate a peace deal, first in Abidjan in 1996, then in Lomé in 1999, both criticised for various reasons including the fact that the RUF was treated as a legitimate negotiating partner and credible political entity, as well as the exclusion of key provisions to address the causes of the conflict, and to monitor and enforce peace<sup>74</sup>. In May 2000, the RUF took 500 peacekeepers hostage, which prompted the UN to strengthen its mission and deploy more peacekeepers and led to the involvement of the United Kingdom military forces. These developments, coupled with the first public denouncement of Liberian support for the RUF by the UN put considerable pressure on the rebel forces, leading them to agree to enter a disarmament process in May 2001. Despite initial scepticism that this would be a success, the process continued for eight months and was declared completed, and the war officially over, in January 2002.

After the formal end to the conflict, Presidential and Parliamentary elections were held in May 2002 with support from the UN mission, and the incumbent, Ahmed Tejan Kabbah, secured 70% of the vote. More a referendum on the incumbent president, this landslide victory was attributed to Kabbah’s Sierra Leone People’s Party (SLPP) claim to have secured their previous election promise of ending the war<sup>75</sup>. Thus **2002 marks our first identified milestone in the transition, signalling the formal end to the conflict and marking the first election process of the post-conflict phase.**

From 2002, Sierra Leone’s growth performance and fiscal management improved due to more stable security and political conditions. Despite the fact that the SLPP remained in power after the end of the war, they had not been able to influence change during the conflict period and the immediate aftermath was the first opportunity for any significant restoration. Following the disarmament agreement in 2002, the government launched its National Recovery Strategy for

<sup>72</sup>Ducasse-Rogier, M. (2004)

<sup>73</sup>Chatham House (2007)

<sup>74</sup>Ibid.

<sup>75</sup>Kandeh, J. (2003)

Newly Accessible Areas which focused on restoration and resettlement rather than radical governance reform, despite the fact that most state institutions had ceased to function by 2002. Progress proved challenging, with the strongest improvements witnessed in the security sector, police, fiscal management, and the restoration of the chieftaincy at the local government level.

Despite a new democratic mandate, the SLPP faced a myriad of challenges, not least considerable security concerns from conflicts in neighbouring Liberia and Côte d'Ivoire, and an army lacking in both resources and adequate training. The SLPP government during this period is frequently described as presiding over a 'shadow state' following endemic corruption, a collapsed legal system, poor service delivery and a lack of transparency.<sup>76</sup> However, by the end of 2004, the Ministry of Defence and security service had made significant strides, with improved local capacity and a number of key structures and systems in place.<sup>77</sup>

**2004 represents the second identified transition milestone marking a number of significant developments in the move towards stability.** Not only did this mark the beginning of phase 1 of the government's reform plan – the Institutional Reform & Capacity Building Programme (IRCBP) – it was the year during which the UN handed back control of security in the capital to Sierra Leonean forces. Additionally, 2004 also saw the first local elections in more than three decades, and the enacting of the Local Government Act 2004 which gave both the local councils and the chieftdom councils' powers to raise revenue.

The country's first nationally organised Presidential and Parliamentary elections in 2007 did prompt a degree of violent protest, but the All People's Congress Party (ACP) Ernest Bai Koroma, won the results of a run-off and was duly elected. The elections were deemed to be 'largely transparent and well-administered'<sup>78</sup> and the result was particularly significant, representing the first peaceful handover of power from a democratically elected president who had completed two terms in office to another from an opposing party. This successful election was seen by many in the international community as a marker that the country was successfully making the transition away from conflict. Research and perspectives from key informant interviews have confirmed **this as a moment of significance in the transition and we have therefore opted to select 2007 as our final milestone** rather than the originally proposed milestone of 2006 (when the UN peacekeeping mission drawdown had been completed).

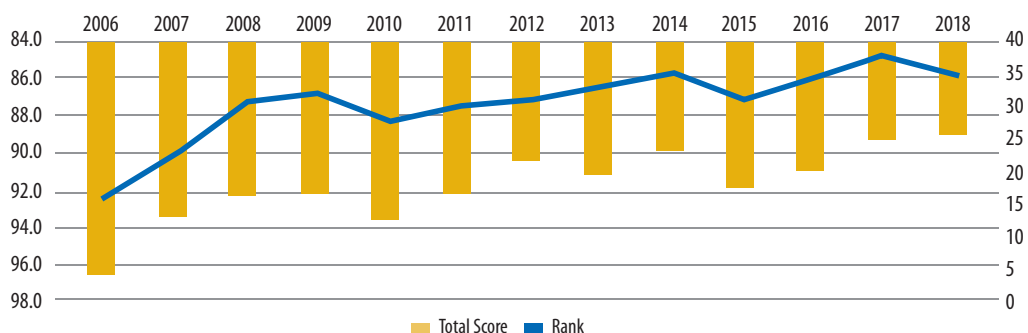
As indicated in Figure 1, the trajectory of Sierra Leone from 2006 onwards shows a generally improving picture in terms of levels of fragility over time.<sup>79</sup> However, violence did accompany the Ebola outbreak in the country (2014-2016), and most recently, although 2018 Presidential elections were largely peaceful in the first round, they were not without violence in the second round, starkly drawn along regional lines. This represented a continuation of longstanding ethnic and regional tensions between the country's two dominant parties; the APC and the SLPP. Each

<sup>76</sup>See UNDP (2006) and International Crisis Group (2004)

<sup>77</sup>Chatham House (2007)

<sup>78</sup>Carter Centre (2012)

<sup>79</sup>The score of the Fragile States Index and its subcomponents increase with the level of fragility (and vice versa). As such, a reduction of the score of a given state implies it is becoming less fragile. On the other hand, the rank is inversely related to fragility - the less fragile a state is, the higher its rank.

**Figure 1** Fragile States Index - Sierra Leone Total Score (left) & Rank (right)

Source: *Fragile States Index*

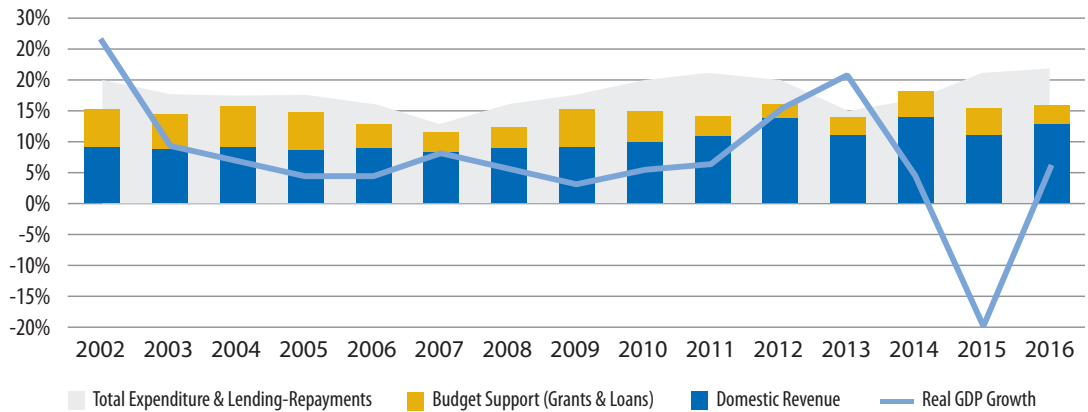
party draws on a regional and ethnic power base: the SLPP are supported in the East, a predominantly Mende area, and the APC are supported in the North by the Temne and also Limba. Although this ethnic and regional rivalry was not central to the conflict in Sierra Leone, it does present a potential obstacle to the long-term stability of the country, particularly as these divisions are often exploited by politicians.

## 18.1 Overview of Aggregate Revenue and Expenditure Trends & CGF Spending

Domestic revenue collection appears to have gone through three distinct stages during the post-conflict period. Between 2002 and 2009, domestic revenue remained relatively stable at approximately 9 percent of GDP revealing a limited impact of the initial revenue mobilization reforms.<sup>80</sup> From 2010 up to 2014, it increased substantially to 14 percent of GDP driven by the resumption of Iron Ore exploitation. This growth would be partially reverted in 2015 and 2016 due to the impact of the Ebola crisis (see Figure 2). On the other hand, this period was marked by a reduction of the proportion public revenue corresponding to direct budget support. Immediately after the conflict (2002-2005), budget support accounted for approximately 40 percent of government revenues (6 percent of GDP). This proportion would progressively decrease and by 2016, it corresponded to less than 20 percent. On balance, public revenue appears to have remained relatively stable at approximately 15 percent of GDP despite some variability.

This evolution implies that throughout the period under analysis, there was limited fiscal space for a substantial increase of public expenditure. This is reflected on the evolution of aggregate spending from 2002 to 2016. Over these fifteen years, public expenditure was relatively volatile but mostly within an interval ranging from 16 to 21 percent of GDP.

<sup>80</sup>These estimates were derived from data provided by the Ministry of Finance and World Bank GDP figures inclusive of Iron Ore production (WDI). As such, there are slight differences to the estimates reported in IMF reports.

**Figure 2** Aggregate Public Revenue & Expenditure (Actuals, % GDP) vs GDP Growth

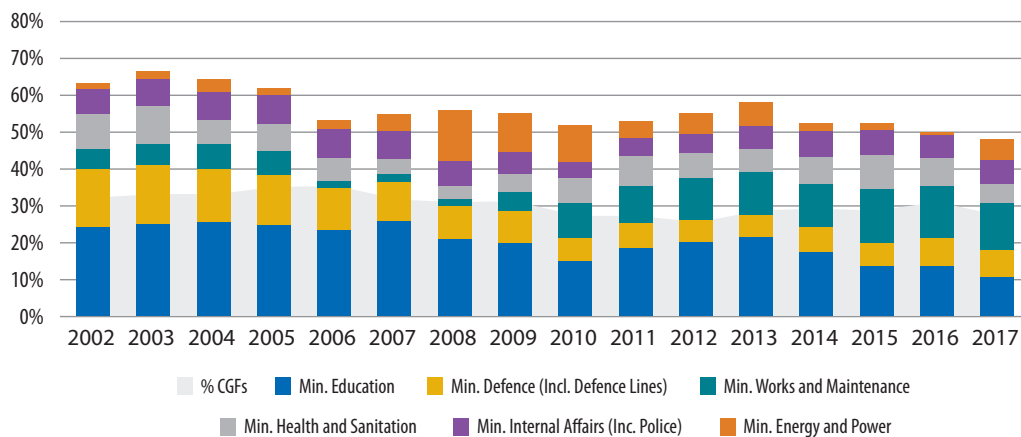
Source: Sierra Leone Fiscal Tables (EPRU, MoFED), Sierra Leone Annual Financial Statements of the Consolidated Fund (Accountant General's Department) & World Development Indicators

Nevertheless, between 2002 and 2016, there were substantial changes to the Government's spending priorities (see Figure 3). In the immediate aftermath of the conflict (2002-2007), the fields of education, health and defence were clearly the most relevant areas of expenditure. The composition of public spending would change considerably with the government turnover in 2007. From 2008 onwards, defence and education would lose prominence to the fields of energy and infrastructure. This shift is consistent with President Koroma's commitment to these two fields expressed in the two government strategies which covered this period (Agenda for Change and Prosperity). It is noteworthy that the aggregate domestic expenditure on core government functions accounted for roughly one third of total spending throughout the whole period.<sup>81</sup>

The composition of aid flows to Sierra Leone was considerably more volatile. Debt relief accounted for a very large share of the aid provided to Sierra Leone up to 2007 in light of the Heavily Indebted Poor Country Initiative. Budget support also corresponded to a considerable proportion of aid flows immediately after the conflict (26 percent in 2004) but progressively lost relevance. Sizeable flows of humanitarian aid were provided to Sierra Leone in two key moments, the post-conflict recovery (2002-2005) and the Ebola crisis (2014-2016). In terms of support to specific sectors, the development of CGFs received substantial external assistance in the immediate aftermath of the civil war (31 percent in 2003). Nevertheless, with the consolidation of peace, the CGFs would lose relevance to areas such as Health, Infrastructure and Productive Sectors.

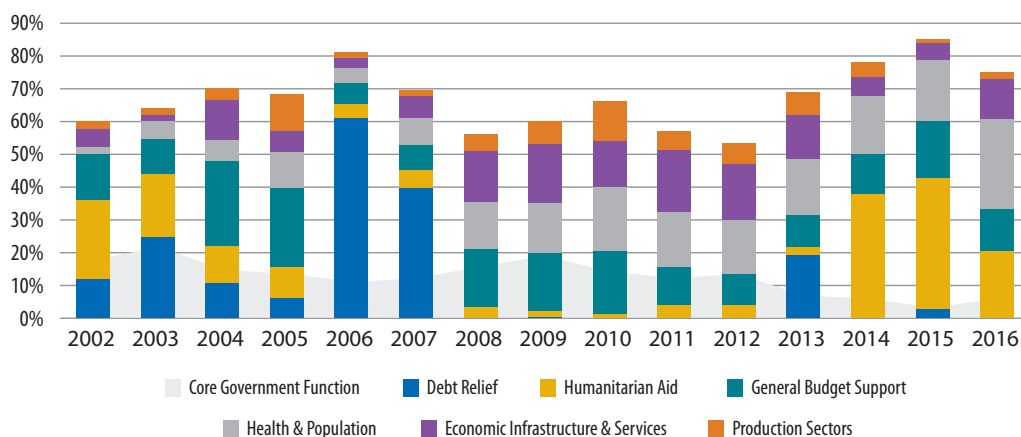
<sup>81</sup>The expenditure on CGFs includes the Ministries of Internal Affairs and Defence reported separately in the chart.

**Figure 3** Domestic Expenditure - Top MDAs Vs CGFs, % Total Expenditure (Actuals)



Source: Sierra Leone Fiscal Tables (EPRU, MoFED) & Sierra Leone Annual Financial Statements of the Consolidated Fund (Accountant General's Department).  
 NB: 2013 figures correspond to budget allocations as budget execution data was not available for that fiscal year.

**Figure 4** Aid Flows - Selected Sectors (% Total Gross Disbursements)

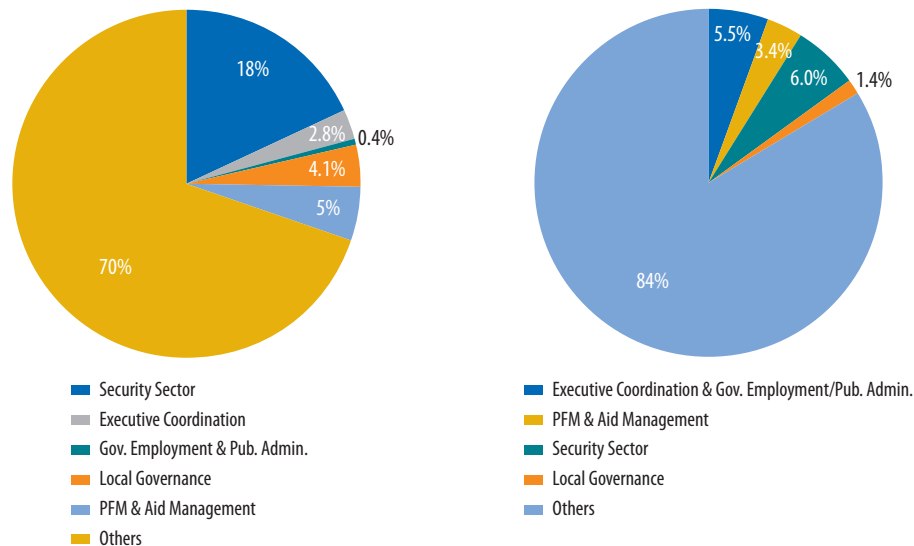


Source: OECD-DAC Creditor Reporting System



Overall, between 2002 and 2016, 30 percent of domestic expenditure and 16 percent foreign aid was spent on CGFs in real terms. In both cases, the security sector was the area where most resources were spent. On the other hand, no clear pattern can be detected between domestic and foreign spending priorities on the remaining functions. The next sections will discuss the public and foreign spending on each of these areas and the evolution of each function from 2002 to 2016. The expenditure figures presented here were derived from the Audited Annual Accounts prepared by Sierra Leone's Accountant General and the Gross Aid Disbursements reported by the OECD-DAC Creditor Reporting System.<sup>82</sup> A detailed methodology on how expenditure was classified and aggregated to match each core function can be found in Annex B.

**Figure 5** Domestic Expenditure (left) & Aid Flows (right) to Core Government Functions vs Other Areas (2002-16)



Source: Sierra Leone Fiscal Tables (EPRU, MoFED), Sierra Leone Annual Financial Statements of the Consolidated Fund (Accountant General's Department) & OECD-DAC Creditor Reporting System. NB: Aid flows reported in this chart exclude Budget Support & Humanitarian Aid.

<sup>82</sup>Budget execution data was not available for 2013. As such, the 2013 estimates presented in this report correspond to budget allocations.

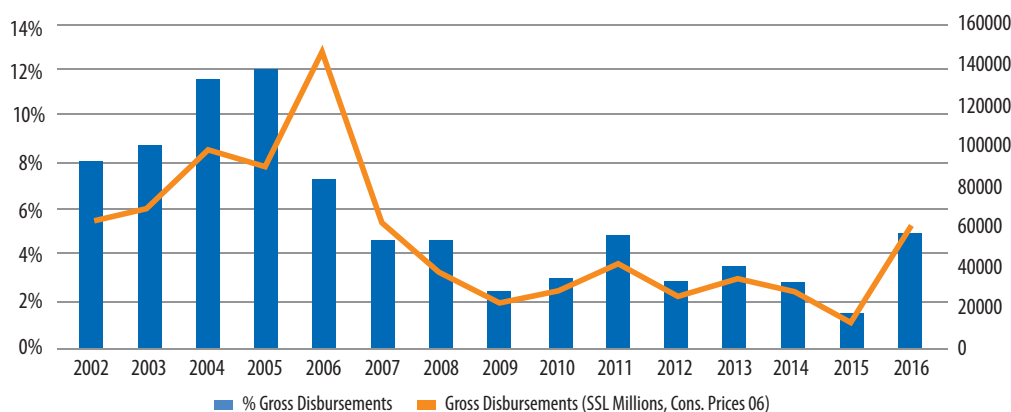
# 19 Evolution of core government functions

The following section discusses the evolution of external and domestic expenditure for each of the core government functions identified in the UN and WB publication ‘Rebuilding Core Government Functions in FCAS’<sup>83</sup> over the course of the transition period in Sierra Leone. It is accompanied by qualitative evidence from interviews and literature explaining how and why each function has evolved, the political economy behind certain prioritisation, and the perspectives of interviewees on the effectiveness of reforms and their connections to the country’s stability.

## 19.1 Government Employment and Public Administration

Figure 6 presents the gross aid disbursements related to the Public Administration and Executive Coordination functions as reported by the OECD-DAC Creditor Reporting System. These two functions are reported together under the ‘Public sector policy and administrative management’ area. This field corresponds to the aid flows meant to support ‘institution-building assistance to strengthen core public sector management systems and capacities’ including i) the ‘administration and operation of the civil service’ and ii) the administration and operation of the office of the chief executive.<sup>84</sup>

**Figure 6** Executive Coordination & Government Employment/Public Administration (% of Gross Aid Disbursements<sup>85</sup>)



Source: OECD-DAC Creditor Reporting System

<sup>83</sup>These functions are identified in the report as; Executive Coordination, Government Employment and Public Administration, Public Financial Management, Aid Management, Security Sector and Local Governance, and are identified as of crucial importance to ensuring stable transitions away from conflict.

<sup>84</sup>This area also includes unrelated areas such as: i) foreign affairs; ii) diplomatic missions; iii) Administration of developing countries' foreign aid; iii) central procurement; iv) national monitoring and evaluation; v) macroeconomic policy; vi) meteorological services; and vii) national standards development. These sub-areas are not reported separately by the OECD-DAC.

<sup>85</sup>Excluding budget support and humanitarian aid.

**Aid flows to this area accounted for a large proportion of external expenditure on CGFs in the immediate aftermath of the conflict. Between 2002 and 2006, this field absorbed between 7 and 12 percent of the total gross disbursements excluding humanitarian aid and budget support (allocable flows).**<sup>86</sup> Following this initial period, there was a pronounced decrease in the aid flows to these functions in both absolute and relative terms. In 2015, gross disbursements reached their lowest level between 2002 and 2016 corresponding 1 percent of total allocable flows. Over the whole period, these functions absorbed approximately one third of total aid flows to CGFs, the second largest area.

The bulk of these aid flows were channelled to the Government Employment and Public Administration reforms. The initial surge in 'external expenditure' in this field is related to the support provided by several donors who prioritised the restoration of a functional civil service following the end of the civil war. Although not an immediate post-conflict priority, support to this area was led by DFID namely through the Civil Service Reform Programme (2008-12) and the financial assistance provided to the Record Management Improvement Programme (2005-2013).<sup>87</sup> Despite the reduction of gross disbursements from 2006 onwards, external support to civil service reform continued through various programmes. In 2009, the government started its Public Sector Reform Programme (2009-15) which received financial and technical support from DFID, UNDP and the EU.<sup>88</sup> From 2012 to 2018, the World Bank also supported the reform of the civil service through the results-based financing "Public Sector Pay and Performance Project".

**In contrast to the evolution of gross aid disbursements, the domestic expenditure on Government Employment and Public Administration followed a positive trend between 2002 and 2016.**<sup>89</sup> During this period, public spending in this field increased more than 5 times. Nevertheless, this area absorbed the smallest amount of public spending of all the CGFs (between 0.2 and 0.5 percent of total spending).<sup>90</sup> The small scale of domestic spending in this area contrasts with the predominance of Public Administration Reform Projects among the aid flows discussed in section 2.1.1. This dichotomy suggests that the lion's share of expenditure on Civil Service Reforms has been financed through external funding despite an incremental absorption of some of these costs.

In the immediate aftermath of the conflict the civil service was facing a number of challenges. The first was a general lack of skilled staff across the public service, with many senior posts vacant. This was increasing pressure on the existing senior and skilled staff to compensate for capacity gaps. Salaries were generally low, particularly for in the middle grades, making public service jobs

<sup>86</sup>Budget Support is excluded because the corresponding expenditure is reflected in the domestic accounts. Humanitarian aid was also deducted because it reflects aid flows which result from an emergency rather than the strategic allocation of donor resources.

<sup>87</sup>World Bank (2012), Programme Appraisal Document, Sierra Leone Pay & Performance Project. The Record Management Improvement Programme had the objective of cleaning the government's payroll and improve its integrity particularly in the education and health sectors. The improvement of Teacher's Records was also supported by the AFDB.

<sup>88</sup>The EU also provided assistance through a separate programme starting in 2012, "The EU Support to Civil Service Reform Programme". This projected provided technical and institutional support to key government institutions in this area including the Human Resource Management Office (HRMO) and the Public Service Commission.

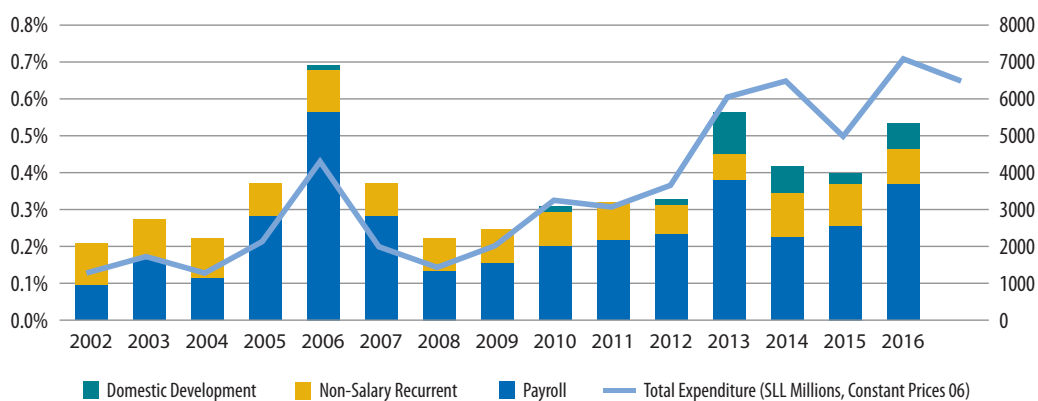
<sup>89</sup>The expenditure reported under Government Employment and Public Administration corresponds to the spending coded under the Establishment Secretary's Office, the Human Resources Management Office, the Public Service Commission (PSC) and the Public Sector Reform Unit (PSRU).

<sup>90</sup>These figures are slightly underestimated due to the poor reporting of the PSRU's spending. Between 2002 and 2008, it was impossible to obtain a breakdown of the expenditure on the Governance Reform Secretariat (GRS), the PSRU's predecessor under the President's office. Between 2009 and 2016, the PSRU's expenditure data was generally incomplete.

unattractive to skilled workers, and although donors had stepped in to fund the salaries of key staff – perhaps to a greater extent than in any other country in Africa<sup>91</sup> - this was reported to be demoralising those skilled workers who were not paid higher salaries by external donors<sup>92</sup>. As a result, the distribution of public service was generally skewed towards the lower grades - grades 1 plus 3 through 5 accounted for 22.5 percent of total employment and 19.0 percent of direct costs in 2002<sup>93</sup> (see Table 1 below.) In addition, the wage bill was relatively high – around 8% of GDP compared with an average of 6 percent for SSA countries. The ratio expanded from 3.5 per cent in 1996, to 4.8 per cent in 1998. 6.1 per cent in 1999, 7.1 per cent in 2000, 7.4 in 2001 and about 8.1 per cent in 2002. Personnel expenses as a proportion of total government recurrent expenditure, at 32 per cent, is about average for SSA<sup>94</sup>.

In 2003 with support from a number of donors, DFID in particular, the GOSL, under the responsibility of the Public Service Reform Unit, initiated a reform of the public service with four key objectives; the re-organisation and restructuring of ministries, Conversion of the Office of the Establishment Secretary into a Personnel Management Office (PMO); the improvement records management and the restoration of the Civil Service Training College to build capacities.

**Figure 7** Government Employment/Public Administration by Economic Classification  
(% of Domestic Expenditure)



Source: Sierra Leone Fiscal Tables (EPRU, MoFED) & Annual Financial Statements of the Consolidated Fund (Accountant General's Department)

<sup>91</sup>World Bank (2003), Sierra Leone - Strategic Options for Public Sector Reform (English).

<sup>92</sup>The World Bank 2004 PER indicates that of the senior posts that were filled, roughly 100 were financed by external donors at wages higher than those prescribed by the public service salary scale.

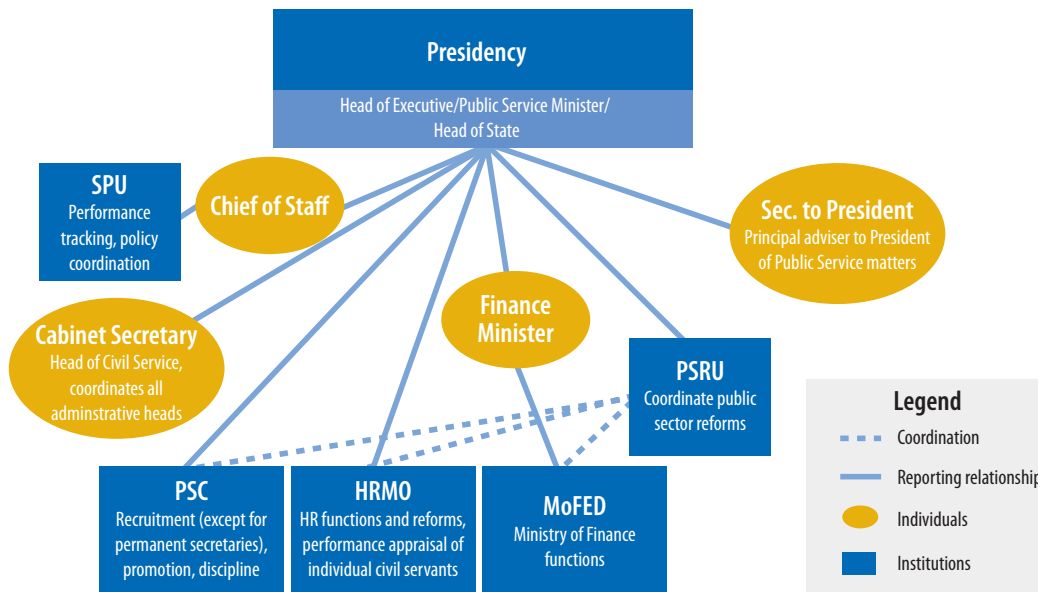
<sup>93</sup>World Bank (2004), Sierra Leone Public Expenditure Review.

<sup>94</sup>World Bank (2003), Sierra Leone - Strategic Options for Public Sector Reform (English).

A 2008 evaluation of DFID's support in this area found that it only had limited success, due to an overambitious technocratic approach which assumed a number of conditions. In reality there was not sufficient political will and interest in place, nor was there a common vision shared by donors and government of what type of civil service should emerge from the reform process, or sufficient technical and management capacity in place to implement the proposals<sup>95</sup>. Indeed, others have highlighted that during the years immediately following the conflict, public service reforms were not a government priority and reform attempts were largely donor driven<sup>96</sup> - a view with which several interviewees concurred.

Government initiatives have instead tended to focus on ad-hoc measures in response to immediate problems, without adequate consideration for the long term consequences. This pattern usually reflects a response to pressures from different interest groups. For example these initiatives have often dealt with civil service capacity gaps by outsourcing their functions - working with NGOs – or by creating temporary capacity through the use of donor funded staff in line positions<sup>97</sup>. This has undermined the central agencies formally responsible for the process and as a result, the relationship between the MoFED and the various ministries, departments and agencies (MDAs) – including those directly responsible for civil service reform – has historically been characterized

**Figure 8** Public Sector Reform Actors



Source: Srivastava & Larizza (2013)

<sup>95</sup>Poate et al. (2008).

<sup>96</sup>Srivastava & Larizza (2013)

<sup>97</sup>Ibid

by mistrust<sup>98</sup>. Donors must bear some responsibility for these challenges; their efforts have been shown to exacerbate inter-agency rivalry, by supporting individual agencies (such as DFID support to the PSRU and EU and UNDP support to the HRMO), which has provided financial independence without providing complementary incentives to effectively engage with counterpart institutions<sup>99</sup>.

Although reforms have prompted a small improvement in the numbers of professional and technical staff, the 'missing middle' remains a problem in Sierra Leone. As shown in Table 1, only 11 percent of the civil service workforce are professional and technical staff. Comparable figures for Gambia (in 2007) were 26 percent and for Sudan (in 2004) it was 14.3 percent<sup>100</sup>. Interviewees pointed to limited opportunities for merit-based promotions and expressed frustration over the pace of salary reform as contributing to the problem.

However, the World Bank did report some progress in some areas, including a reduction in the overall size of the public service from around 100,000 people in the mid-1980s to 71,000 in 2008. Although it should be noted that the vast majority of this reduction had already taken place by the end of the conflict in 2002. Notably, the reduction in the share of armed forces and increases in the number of police and teachers are significant successes<sup>101</sup>. In addition, there were a series of management and functional reviews which led to the retirement of many over-age workers, and the ongoing elimination of ghost workers following a verification exercise in 2008 that covered the entire civil service.

To address the issues described above – namely the deficit of donor coordination and their alignment with national priorities – the government approved the Public Sector Reform Programme in 2009 which received implementation support from DFID, UNDP, EU and WB. The programme recognised the continuing challenges impeding effective service delivery and sought

**Table 1** Civil service workforce composition before and after conflict

Category	Grades	1993/94		2008		2011	
		Numbers	%	Numbers	%	Numbers	%
Low	<b>1–5</b>	23,400	80%	13,255	92%	11,881	87%
Middle	<b>6–10</b>	3,039	10%	995	7%	1,559	11%
High	<b>11+</b>	2,819	10%	134	1%	177	1%
<b>Total</b>		<b>29,258</b>	<b>100%</b>	<b>14,384</b>	<b>100%</b>	<b>13,617</b>	<b>100%</b>

Source: *Srivastava & Larizza (2013)/World Bank, Sierra Leone Public Expenditure Review (2010)*

<sup>98</sup>Srivastava & Roseth (2013)

<sup>99</sup>Ibid

<sup>100</sup>Srivastava & Larizza (2013)

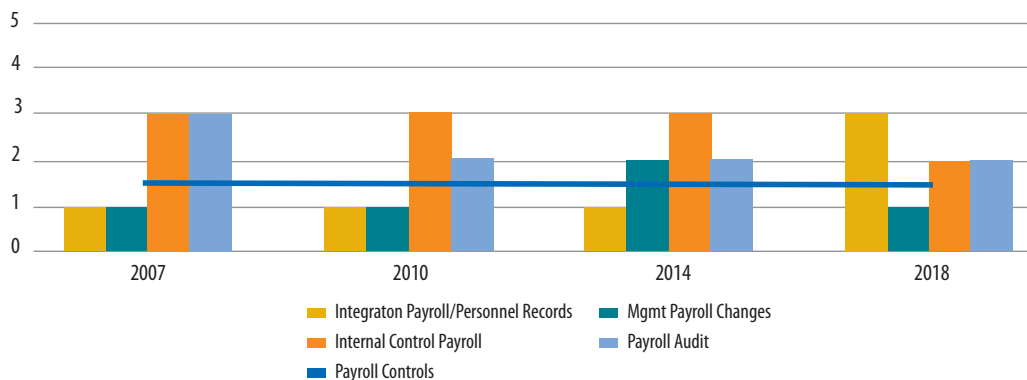
<sup>101</sup>World Bank (2010), *Sierra Leone Public Expenditure Review*

to improve public sector productivity and public service delivery to 'levels that are consistent with the developmental priorities articulated in the Government of Sierra Leone's Agenda for Change'<sup>102</sup>. It sought to undertake pay reforms aimed at improving competitiveness, rationalise staffing, minimise waste and inefficiencies introduce robust performance management and implement comprehensive training and staff development.

The consensus on the outcome of these reforms is mixed. As shown in Figure 12, the aggregate indicator for this function – Payroll Controls - shows no improvement between 2007 and 2018 with a low score throughout the whole period (equivalent to D+). The behaviour of the sub-indicators is quite volatile and no consistent improvement is observed in any of the areas. Interviewees suggested that although the government has made progress on improving the timeliness of salary payments, ghost workers continue to be an issue, wage disparities remain and the pay ranges for each grade are not respected nor enforced. In addition, one interviewee from a key bilateral donor argued that the civil service remains highly politicised with recruitment and promotion still dependent on political connections. These conditions are described by some commentators as 'binding constraints' to improving overall civil service performance<sup>103</sup>.

Despite this, the 2018 PEFA did report that although ghost workers still exist, considerable work has been done to clean up the payroll and 'the payroll budget is the most predictable government expenditure.'<sup>104</sup> The PEFA also reports that human resource management is now well organised with each ministry having a dedicated HR management unit and clear job descriptions in place to guide employees on responsibilities and key performance areas. Since 2015 there has been a

**Figure 9** Selected PEFA Indicators - Government Employment & Public Administration



Source: Sierra Leone Public Expenditure and Financial Accountability (PEFA) Assessments (2007, 2010, 2014, 2018)

<sup>102</sup>World Bank (2012), Project Appraisal Document: Pay and Performance Project

<sup>103</sup>Srivastava & Larizza (2013)

<sup>104</sup>Sierra Leone PEFA Assessment (2018).

moratorium on employment of both civil and public servants except where new appointments are absolutely necessary<sup>105</sup>. This is borne out in figures (shown in Table 2) which indicate only moderate growth in public employees since the conflict came to an end.

**Table 2** Trends in public employee numbers since the end of the conflict

Public Service Branch	2002		2007		2017	
	Numbers	%	Numbers	%	Numbers	%
Civil Service	17,015	28%	16,597	24%	18,045	25%
Military	16,556	27%	10,623	15%	7,451	10%
Police	7,338	12%	9,339	14%	11,472	16%
Teachers	20,962	34%	32,571	47%	34,507	48%
<b>Total Employees</b>	<b>61,871</b>	<b>100%</b>	<b>69,130</b>	<b>100%</b>	<b>71,475</b>	<b>100%</b>

Source: World Bank, *Sierra Leone Public Expenditure Review 2010 & Sierra Leone PEFA Assessment 2018*

In conclusion, public sector reforms have been largely donor-led, particularly until 2009. From that period onwards the government have taken more ownership over reforms in this area although the majority of the funding continued to be provided by donors. This later stage of reforms appear to have been the more successful, although results in this area remain moderate.

## 19.2 Executive Coordination at the Centre of Government

As stated in section 2.1, the OECD-DAC reports the aid flows to the Executive Coordination and Public Administration functions as an aggregate. This flaw of the reporting system prevents us from analysing specific aid flows to executive coordination. Nonetheless, **several sources indicate that the external support to this area was mostly circumscribed to the assistance provided to the Strategy and Policy Unit (SPU) established by President Koroma within the State House.** Throughout its existence (2008-2017), the unit received financial support through a Multi-Donor Trust managed by UNDP and technical assistance from the Africa Governance Initiative.<sup>106</sup>

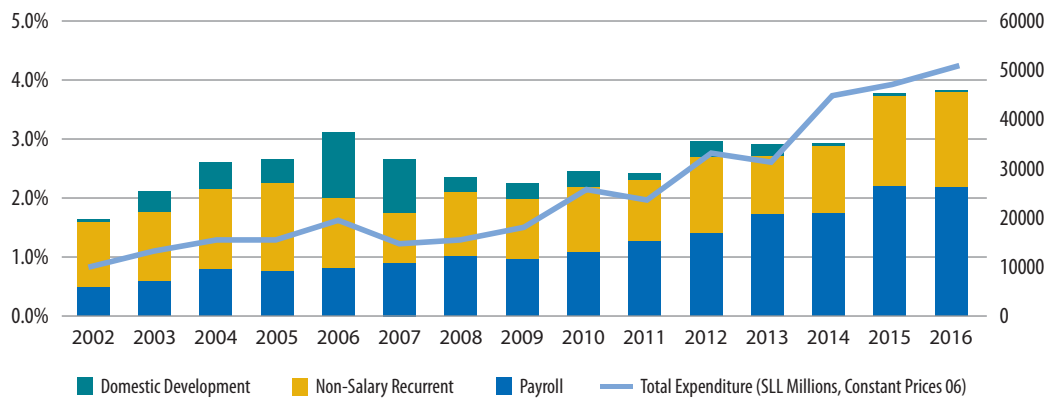
On the other hand, **domestic expenditure** on Executive Coordination can be analysed separately. As shown by figure 7, **it increased steadily in particular from 2007 onwards.**<sup>107</sup> **Spending on this area increased fivefold in real terms between 2002 and 2016 mostly driven by the growth in recurrent expenditure (payroll and non-salary recurrent).** Although the predominance of recurrent expenditure is to be expected in a function such as executive coordination, the considerable weight of non-salary recurrent expenditure might suggest that a large part of this expenditure was in practice unrelated to the actual functionality of executive coordination

<sup>105</sup>Ibid.

<sup>106</sup>The Multi-Donor Trust Fund was financed by DFID and the EU.

<sup>107</sup>The expenditure reported under Executive Coordination corresponds to the spending coded under the Ministry of Presidential Affairs, the Office of the President, the Office of the Vice-President and the Cabinet Secretariat.



**Figure 10** Executive Coordination by Economic Classification (% Domestic Expenditure)

Source: Sierra Leone Fiscal Tables (EPRU, MoFED) & Annual Financial Statements of the Consolidated Fund (Accountant General's Department)

institutions. While representing a small share of total public spending - 3.8 percent by 2016 - such a pronounced increase is noteworthy.<sup>108</sup> This trend could be explained by a combination of different factors. On the one hand, Sierra Leone's political system has become increasingly centralised and is prone to a top-heavy structure surrounding the president. On the other hand, this gradual increase in public expenditure is also likely to reflect the integration of external staff. As an example, the external support provided to the SPU was designed to progressively decrease assuming an incremental absorption of these costs.<sup>109</sup> The extent to which this trend is also a reflection of a gradual increase of the government's investment in this area is unclear.<sup>110</sup>

Achieving effective coordination of the executive branch has been a long-standing challenge in Sierra Leone. The domestic efforts to improve the functionality of the centre of government started even before the end of the civil war. Following his return to power in 1998, President Kabbah set up the National Policy Advisory Committee, a body composed of retired government advisors meant to "provide guidance and ideas on policy matters". However, the committee would prove unsuccessful in improving the implementation of the government's top-level strategy and would be dissolved with the political transition of 2007.<sup>111</sup>

Upon taking office in 2007, President Koroma also took steps to improve the coordination of the executive in order to ensure the effective implementation of the government's new strategy (Agenda for Change). His main actions were the creation of a Chief of Staff post and, most

<sup>108</sup>The scale of domestic expenditure in this area from 2010 onwards is comparable to the related aid disbursements between 2009 and 2016.

<sup>109</sup>Simson, 2013.

<sup>110</sup>The aggregate domestic and external "expenditure" on Executive Coordination and Public Administration (actual government expenditure + gross aid disbursements) was on average lower from 2008 onwards than during the immediate aftermath of conflict.

<sup>111</sup>Scharff (2012)

importantly, the Strategy and Policy Unit (SPU) mentioned above. This unit was created with a mandate to “strengthen policy analysis and coordination, provide implementation support [and] monitor and evaluate government performance”.<sup>112</sup> As such, it introduced a number of new procedures to streamline implementation of government programmes. Flagship programmes were identified within the broader government strategy in order to enable a strategic prioritization of the President’s Office resources. This approach was complemented by the establishment of performance contracts with line ministries in order to ensure that the executive's efforts were fully in line with these priorities. These performance contracts were regularly monitored through a stocktake process meant to hold ministries accountable and address bottlenecks that might arise.

These new procedures led to positive results during Koroma’s first mandate. The stocktake process is understood to have played an important role in improving “top-down performance discipline” by using the president’s influence as a ‘stick and carrot’<sup>113</sup>. The SPU is also credited with improvements in intra and inter-ministerial communication by using advisors as honest brokers between these institutions<sup>114</sup>. Nevertheless, according to an interviewee from an international NGO, an expansion of SPU’s mandate following President Koroma’s re-election considerably reduced the unit’s effectiveness. From a broader perspective, the SPU never addressed the root causes of poor executive coordination in the country. By relying on the influence of the President, the SPU took advantage of Sierra Leone’s hyper-presidential system rather than promoting a collegial decision-making process at cabinet level.<sup>115</sup> Moreover, this *modus operandi* is conducive to the systematic bypassing of line ministries and the civil service, compromising an actual reform of the public sector.<sup>116</sup>

Interviewees from the diplomatic and development communities agree that the coordination of the executive branch remains highly problematic. The creation of the SPU--and the underlying external and domestic expenditure--suggests that this area became a higher priority for the government and donors between 2007 and 2016. However, the positive impact of this new structure was short-lived. Several interviewees agreed that the excessive concentration of power in the President’s Office continues to undermine any significant improvements in this area. Moreover, the complete reshuffling of the personnel and structure of the State House whenever the administration changes poses serious constraints upon efforts to institutionalise better coordination practices.<sup>117</sup> Overall, the available evidence indicates that the increasing expenditure on this area did not directly translate into better functionality. Besides these additional resources, the improvement of the coordination of the executive will likely require a reform of Sierra Leone’s political culture into a less centralised system.

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<sup>112</sup>Simson (2013).

<sup>113</sup>Simson (2013)

<sup>114</sup>Ibid

<sup>115</sup>Ibid

<sup>116</sup>Srivastava and Larizza, 2012

<sup>117</sup>Upon taking office in early 2018, President Bio disbanded the SPU and created the post of Chief Minister to replace the former Chief of Staff.

## 19.3 Public Finance: Revenue and Expenditure Management & Aid Management, Financing and Donor Relations

Figure 8 presents the aggregate aid flows (gross disbursements) related to the PFM and Aid Management Functions. The OECD-DAC reports the flows to both functions under two different headers, i) Public Finance Management, and ii) Domestic Revenue Mobilization. The former comprehends the fields of budget planning, national audit and public debt and aid management while the latter comprises tax collection, tax policy and administration and non-tax revenue mobilization.

### **PFM and Aid Management received substantial external support between 2002 and 2016 accounting for approximately 21 percent of all flows to core government functions.**

Nevertheless, gross disbursements to this area were extremely volatile. Throughout this period, the external funds disbursed to this field varied between 1 and 10 percent of total allocable aid flows (excluding budget support and humanitarian aid). Notwithstanding, there were noticeable peaks in the disbursements to both functions in particular between 2008 and 2010, 2012 and 2015.

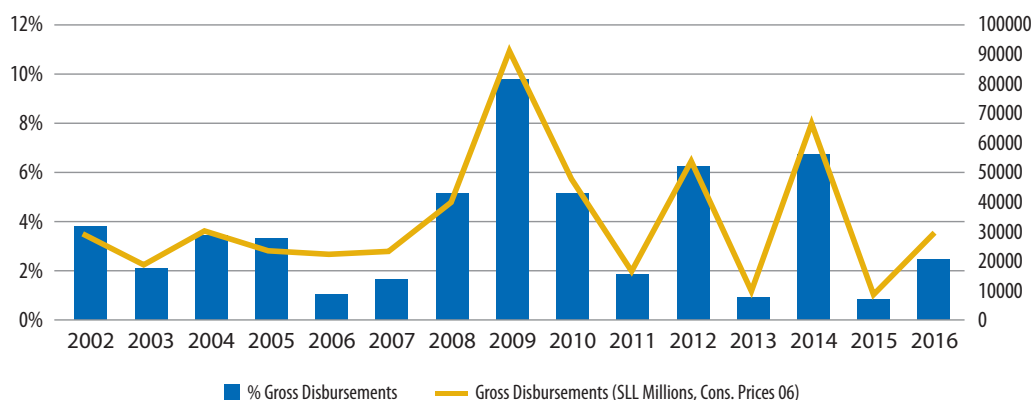
The large majority of these aid flows were channelled to PFM projects. The external assistance to PFM reforms has been led by the World Bank (WB), DFID, the EU and the African Development Bank (AFDB) since the end of the civil war.<sup>118</sup> The Institutional Reform and Capacity Building Project (IRCBP, 2004-2011), funded by the WB, DFID and the EU, was the first sizeable PFM project following the end of the conflict.<sup>119</sup> During this period, DFID, the EU and AFDB also provided specific financial and technical support to the establishment or restoration of key PFM institutions through the Sierra Leone Audit Service and the National Revenue Authority Support Projects (DFID), the Ministry of Finance Institutional Strengthening Project (EU) and the Institutional Support to Strengthen the PFM and Energy Sectors Project (2005-2011).<sup>120</sup> This group of donors continued to fund PFM reforms after the conclusion of IRCBP via the Integrated Public Financial Management Reform Project (IPFMRP, 2009-2014) and the Public Financial Management Improvement and Consolidation Project (PFMICP, 2013-2020).<sup>121</sup>

<sup>118</sup>These four donors also support the Government of Sierra Leone through a Multi-Donor Budget Support fund (MDBS) which is conditional on specific targets of PFM reform.

<sup>119</sup>This project had two main components, i) PFM Reform and ii) Decentralisation.

<sup>120</sup>Support to the Sierra Leone Audit Service (2004-13), Support for National Revenue Authority (2005-13) and Institutional Strengthening of the Ministry of Finance.

<sup>121</sup>PFMICP also received financial contributions from the AFDB.

**Figure 11** PFM & Aid Management (% of Gross Aid Disbursements<sup>122</sup>)

Source: OECD-DAC Creditor Reporting System

The external assistance to Aid Management has been centred on the establishment and consolidation of the Development Assistance Coordination Office (DACO).<sup>123</sup> The department received continuous support from its inception in 2004 until 2016 through the “Strengthening of the Development Assistance Coordination Office” project implemented by UNDP with financial support from the EU and DFID.

**The PFM and Aid Management functions also accounted for the second largest share of domestic spending on CGF’s between 2002 and 2016 corresponding to 16 percent of related expenditures (5 percent of total domestic spending).**<sup>124</sup> Public spending on these functions increased steadily over this period - more than four times in real terms. Throughout these fifteen years, the majority of these expenditures went into goods and services (non-salary recurrent expenditures) while barely any resources were assigned to development spending. Payroll expenditure increased eight-fold (in real terms) far outstripping the growth registered amongst the two other categories. As an aggregate, aid disbursements and domestic spending related to PFM and Aid Management registered grew considerably throughout the period under analysis.<sup>125</sup> This pattern suggests the Government not only absorbed a large part of the external recurrent expenditure on PFM reform (namely on local technical assistance) but also progressively increased the pool of resources allocated to this field from 2002 to 2016.

<sup>122</sup>Excludes budget support and humanitarian aid.

<sup>123</sup>DACO was set up in 2004 under the Vice-President’s Office.

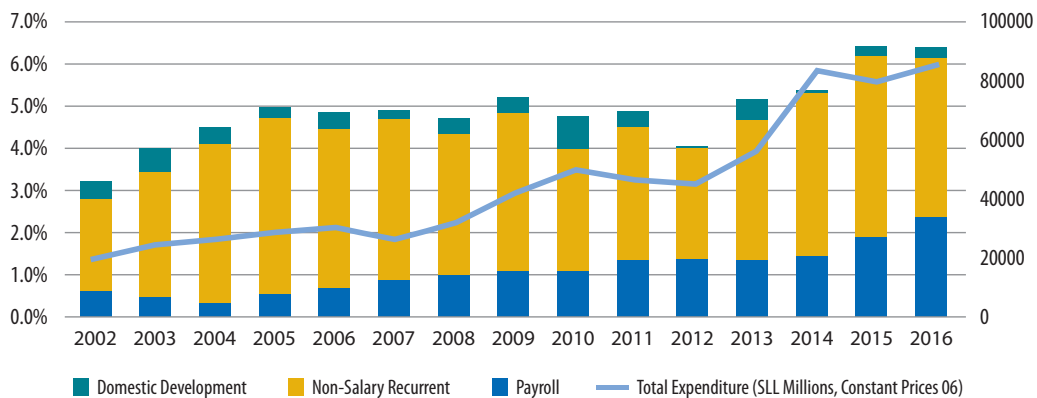
<sup>124</sup>The domestic spending related to PFM and Aid Management comprises the following expenditure heads: i) Auditor General’s Department, ii) Ministry of Development & Economic Planning; iii) Ministry of Finance/Ministry of Finance & Economic Development; iv) Customs and Excise Department/National Revenue Authority; v) Income Tax Department/Revenue Appellate Board; vi) Accountant General’s Department; vii) National Public Procurement Authority. Expenditure on Aid Management is only included from 2007 onwards as DACO was located within the President’s Office before the merger of the Ministries of Finance and Planning under President Koroma.

<sup>125</sup>An increase of approximately 60 percent between 2002 and 2016.

By the end of the civil war, Sierra Leone's PFM system was severely affected by the lack of qualified personnel and precarious physical conditions. The internal conflict had led most qualified personnel to flee the country and resulted in the destruction of the Ministry of Finance building along with its computerised systems.<sup>126</sup> Despite these constraints, an assessment conducted by the World Bank in 2002 concluded that the system had withheld a "platform of competence in economic management" which would serve as a stepping-stone to the PFM reforms which would follow.<sup>127</sup> According to this report, the country managed to ensure "strong expenditure control and adherence to the legal and regulatory framework" during the conflict by relying on highly qualified technical assistance experts at the central level.

During President Kabbah's second term (2002-2007), PFM reforms were guided by two donor-driven reform plans, the Country Financial Accountability Assessment (CFAA) from 2002 and the Common Action Plan from 2004. The goals of this initial set of reforms would be mostly achieved. By 2007, the majority of the issues identified by the CFAA had been addressed and the first PEFA assessment concluded that Sierra Leone's PFM system was at par with regional standards.<sup>128</sup> Throughout these five years, the strengthening of PFM institutions and the reinforcement of budget execution processes were prioritized. Therefore, an appropriate legal framework was developed to regulate the budget cycle while key institutions were created or consolidated (e.g. National Revenue Authority, Sierra Leone Audit Service, National Public Procurement Agency). In addition, budget execution was strengthened through the introduction of an Integrated Financial Management Information System (IFMIS). On the other hand, the

**Figure 12** PFM & Aid Management by Economic Classification (% Domestic Expenditure)



Source: Sierra Leone Fiscal Tables (EPRU, MoFED) & Annual Financial Statements of the Consolidated Fund (Accountant General's Department)

<sup>126</sup>Tavakoli et al., (2015).

<sup>127</sup>The Country Financial Accountability Assessment (CFAA) was published by the World Bank in March 2002.

<sup>128</sup>Tavakoli (2012).

progress made on budget planning and audit was considerably more limited. A medium-term expenditure framework (MTEF) was introduced but did not materialize into a *de facto* improvement in multi-year fiscal planning. Moreover, the external audit reports continued to be submitted with significant delays and remained limited in scope.

Although there was limited support for these reforms among Sierra Leone's political leadership due to their potential to restrict the prevailing discretion over public resource management, backing from a core group of senior finance officials ('reform champions') were a key contributor to their implementation.<sup>129</sup> Besides this, two other factors were considered important to the achievement of these reform goals. On the one hand, local technical assistance (LTA) experts ('parallel public service') appear to have made a crucial contribution to these results<sup>130</sup>. In addition, as one interviewee from an International Financial Institution explained, the conditionality attached to the Heavily Indebted Poor Country Initiative (HIPC, 2002-2007) and the Multi-Donor Budget Support worked as a strong incentive for the implementation of the reform plans.

Under President Koroma, two other reform plans would follow. The Integrated PFM Reform Programme (IPFMRP, 2009-2013) - supported by a multi-donor project under the same name – was designed to be a comprehensive government-driven process in order to increase local ownership and improve donor coordination. In turn, the PFM Reform Strategy (2014-2017) would build upon the IPFMRP approach while incorporating the findings from more recent diagnostics (e.g. PEFA 2010, Audit Reports) and placing more emphasis on revenue management in light of growing iron ore exports.<sup>131</sup>

Despite the comprehensiveness of these two reform programmes, several interviewees along with available PFM diagnostics suggest that Government engagement in this area decreased considerably from 2010 onwards.<sup>132</sup> One explanation put forward was the declining influence of western donors resulting from smaller aid inflows, the growth in natural resource revenue and the increasing presence of China. Interviewees also suggested that by 2010 the 'low-hanging fruit' had been exhausted and that further reform would require more structural interventions.

In fact, the available evidence indicates that the progress made in improving Sierra Leone's PFM system slowed down following the change in government in 2007. According to an evaluation of the Multi-Donor Budget Support to Sierra Leone (2002-2015), between 2010 and 2014 there were noticeable deteriorations "in the overall credibility of the budget, policy-based budgeting and significant remaining weaknesses in all areas of public finance management". This conclusion is supported by the evolution of core PEFA indicators during this period (see Figure 10).

Nevertheless, the 2018 PEFA assessment registered improvements in some of these areas. Some examples included the expansion of the IFMIS coverage from 7 to 30 MDAs which will contribute to improved fiscal discipline and the introduction of a Treasury Single Account which

<sup>129</sup>Tavakoli et al (2015)

<sup>130</sup>Ibid. Tavakoli et al (2015) explains that Budget support corresponded to 25 percent of discretionary spending between 2001 and 2006.

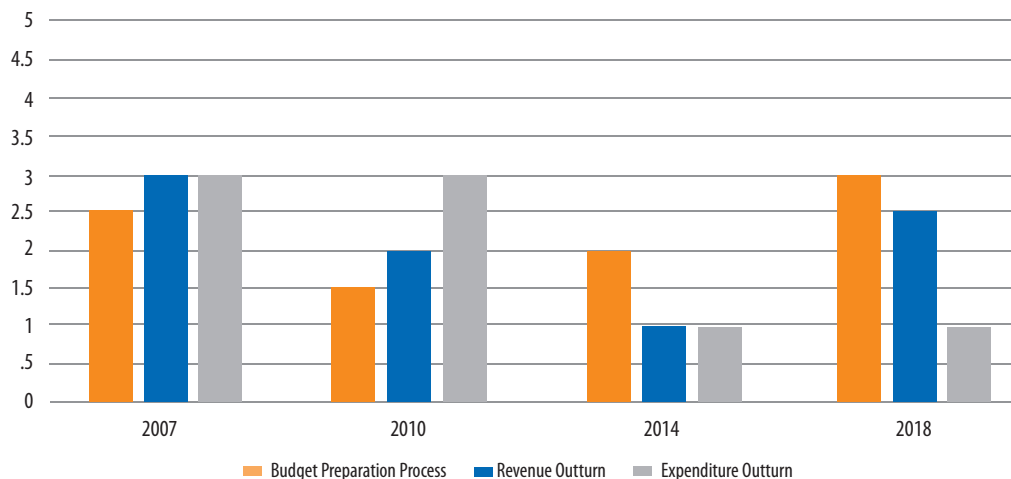
<sup>131</sup>The PFM Reform Strategy would be supported by the donor-financed PFMICP project.

<sup>132</sup>Welham and Hadley (2016) & Interviews with Senior IFI Official and Diplomatic Sources.

will enable a more strategic allocation of resources. Moreover, there is evidence that the LTA staff was absorbed into the government payroll ensuring the retention of expertise within the Ministries of Finance and Planning.<sup>133</sup> However, serious shortcomings remain. Expenditure arrears continue to accumulate as a result of political interference and overrides of spending ceilings. Moreover, recurrent budget reallocations and repeated delays in payments to suppliers continue to impact on the quality of service delivery.

By and large, the evolution of Sierra Leone's PFM system from 2002 to 2016 has been somewhat inconsistent. Between 2002 and the first years of President Koroma's mandate, there was a relatively fast improvement of the quality of the system led by external technical assistance and financial support. A lack of national leadership in conjunction with a reduced influence from western donors appears to have slowed the pace of reform until at least 2014. Over the past few years, some progress was achieved; however, the system is still constrained by structural flaws. This evolution suggests that the incremental increase of domestic expenditure on this area was primarily a result of the absorption of external expenditures rather than a genuine prioritization of PFM reforms by the Government of Sierra Leone.

**Figure 13** Selected PEFA Indicators Public Finance: Revenue & Expenditure Management



### 19.3.1 Evolution of the Aid Management Function

Sierra Leone's accounting system does not provide for a breakdown of public expenditure on Aid Management.<sup>134</sup> Nonetheless, a number of reports and diagnostics provide some evidence of the evolution of this function and the extent to which it was prioritized by the Government and

<sup>133</sup>Welham and Hadley (2016) estimate that former LTA staff accounted for approximately one fifth of the Ministry's staff. These civil servants were kept at their previous (higher) salary levels what will likely require a revision of pay grades to avoid marked discrepancies with the rest of the staff.

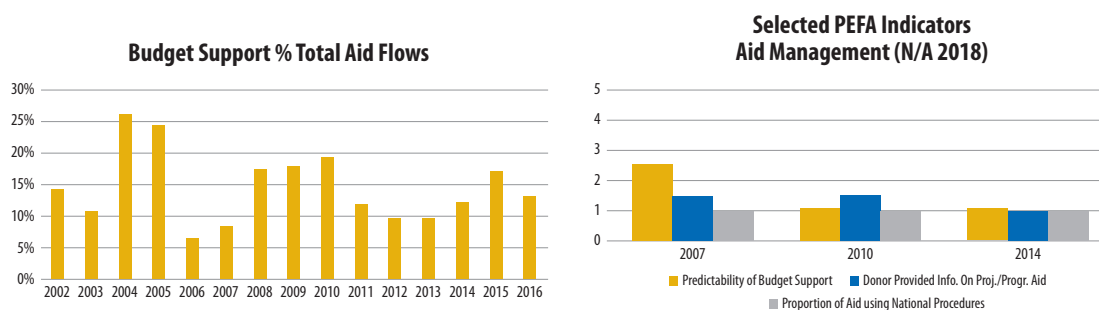
<sup>134</sup>Presumably, only a very small share of the overall spending on this area was assigned to Aid Management.

Development Partners. The Development Assistance Coordination Office (DACO) – the public body in charge of this area – was created in 2004 with the objective of improving aid coordination and lead the preparation of Sierra Leone's first Poverty Reduction Strategy Papers (PRSP).<sup>135</sup> The office was initially located in the Vice-President's Office and subsequently moved to the Ministry of Finance and Economic Development in 2007 following the merger of the Finance and Development ministries.

According to an assessment of the donor project which supported the establishment of DACO (2009), this body achieved a number of important goals during its first years of existence.<sup>136</sup> By 2009, the PRSP had been successfully concluded, an Aid Management Information system had been established (DAD) and donor coordination mechanisms had been set up (i.e. Development Partnership Committee – DEPAC, Sector Working Groups). However, the report criticized the lack of sustainability of these results as the unit was mostly staff with external consultants rather than focussing on the development of internal capacity.<sup>137</sup>

According to the 2014 PEFA assessment, seven years after being created, the DAD was still unable to capture all aid flows to Sierra Leone. This was related to a lack of timely reporting and follow up from both donors and DACO. In addition, the utilisation of country systems for aid programmes remained unimpressive. The Paris Declaration Monitoring Surveys of 2010 and 2007 revealed that donor alignment with national procurement systems had decreased from 38 to 21 percent while the proportion of aid recorded on budget remained stable at approximately 50 percent. Furthermore, the share of aid provided as budget support between 2002 and 2016 was volatile, undermining budget credibility. The unpredictability of budget support is also reflected on the evolution of the corresponding PEFA indicator from 2007 to 2014.

**Figure 14** Aid Management: Budget support and selected PEFA indicators



Source: Sierra Leone PEFA Assessments (2007, 2010 & 2014) and OECD-DAC Creditor Reporting System

<sup>135</sup>Including the PRSP I (2007-2008), the Agenda for Change (2007-2012) and the Agenda for Prosperity (2013-2018).

<sup>136</sup>UNDP (2009), "End-of-Project Evaluation of 'Support to Development Assistance Coordination Office' & Review of Sierra Leone's Aid Coordination Architecture".

<sup>137</sup>Most of the original DACO staff left following the 2007 election depleting the unit of internal capacity.



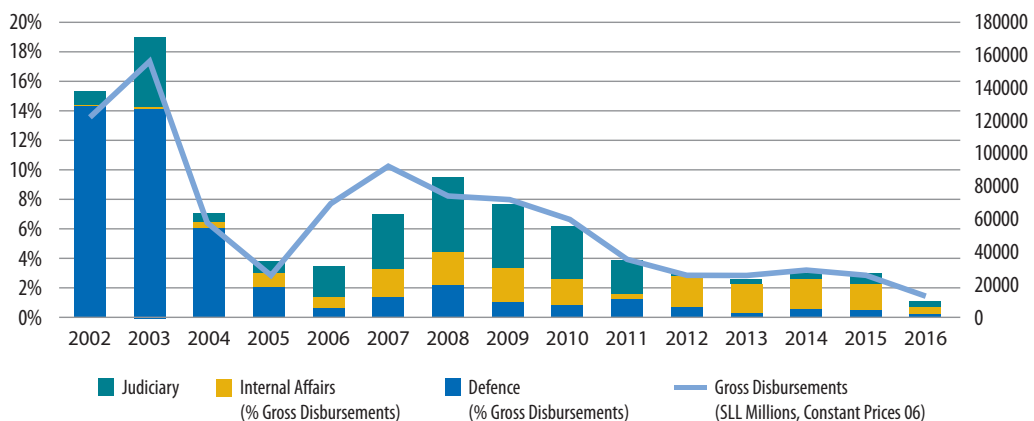
Overall, it appears that the attempts to improve aid management were led by the donor community in the immediate aftermath of the conflict. The extent to which this reform was also prioritized by the government remains unclear. The merger of the Ministries of Finance and Development in 2007 and the subsequent transfer of DACO suggests that it was a cause of concern to the Koroma government. Nevertheless, as suggested by the 2014 PEFA assessment, the effectiveness of aid coordination in Sierra Leone still has substantial room for improvement.

## 19.4 Security Sector

As indicated in Figure 13, the security sector received the largest share of aid contributions among the six CGFs accounting for 37 percent of disbursements to core functions between 2002 and 2016. The aid flows presented were selected using a broad definition of the security sector recognizing the nexus between defence, internal affairs and the judiciary.<sup>138</sup>

Donor support in this area was predominantly led by the UK – a result of the considerable British military involvement in bringing the conflict to an end. DFID's Sierra Leone Security Sector Reform Programme (SILSEP) ran from June 1999 to 31 March 2008 with the initial focus on building civilian oversight of the armed forces, establishing oversight of an already-existing Ministry of Defence (MoD) and establishing co-ordination for the security and intelligence sectors. In addition, the UK provided direct technical support to the Republic of Sierra Leone

**Figure 15** Security Sector (% Gross Aid Disbursements<sup>139</sup>)



Source: OECD-DAC Creditor Reporting System

<sup>138</sup>These three areas correspond to 6 different Aid codes from the Creditor Reporting System: i) Security system management and reform; ii) Reintegration and SALW control; Child soldiers (prevention and demobilisation); iii) Participation in international peacekeeping operations; iv) Legal and judicial development; v) Civilian peace-building, conflict prevention and resolution; and vi) Removal of land mines and explosive remnants of war.

<sup>139</sup>Excluding budget support and humanitarian aid.

Armed Forces (RSLAF) through the International Military Assistance Training Team (IMATT). UK government funding also supported the police through the Commonwealth Community Safety and Security Project from the late 1990s, which was overtaken by the Justice Sector Development Programme - focusing on policing, correctional services, the judiciary and to a lesser extent the Ministry of Internal Affairs. The World Bank also committed US\$31.5 million, through a Multi-Donor Trust Fund, and additional direct financing through Emergency Recovery Credits, budget support and a Post-Conflict Fund Grant.

During these 15 years (2002-2016), the sector appears to have lost prominence among donor priorities as gross disbursements decreased from 15 to 1 percent of allocable aid flows. In addition, the distribution of gross disbursements within the sector also changed dramatically. Between 2002 and 2005, defence absorbed the vast majority the external resources channelled to the sector (55.5 to 93.5 percent) reflecting the urgency of interventions such as DDR and the reform of the military. From 2006 onwards, the judiciary and internal affairs would become the target of the majority of external expenditure in this field reflecting a shift of focus towards law enforcement and rule of law.

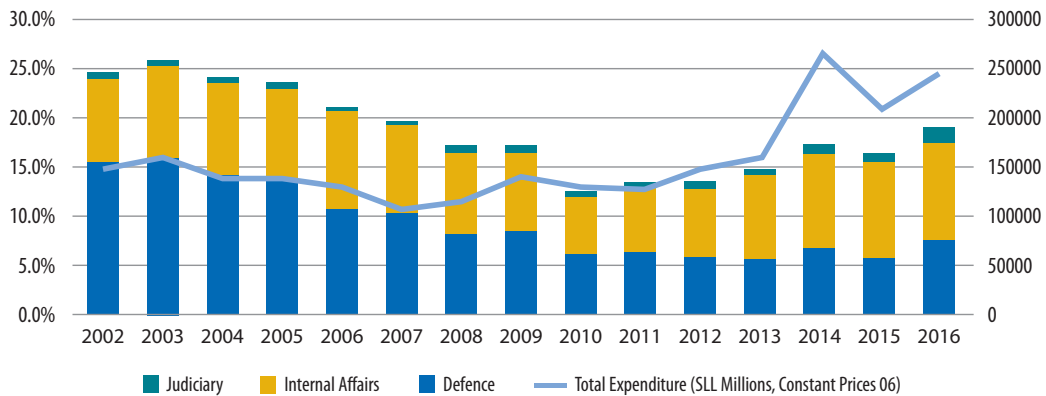
**Security was also by far the largest domestic spending area among the six CGFs, accounting approximately 60 percent of public expenditure on CGFs.** The proportion of domestic expenditure spent on the security sector followed a non-linear path between 2002 and 2016. From 2002 to 2010, it decreased considerably from approximately 25 to less than 13 percent.<sup>140</sup> Subsequently, it would grow back to roughly 19 percent of total expenditure until 2016. Despite an initial reduction observed from 2002 to 2007, security expenditure would actually increase in absolute terms during the period of analysis. By 2016, spending on this sector was 65 percent higher (in real terms) than in 2002. Nonetheless, this additional spending would be insufficient to completely offset the sharp reduction in external aid flows to the field.

The distribution of domestic spending within the sector is also noteworthy. In parallel to the aid disbursement patterns, there was also a progressive shift of domestic spending from Defence to the other areas, in particular Internal Affairs.<sup>141</sup> In fact, most of the expenditure growth observed between 2002 and 2016 was driven by this subsector. Conversely, the evolution of domestic expenditure on defence was far more irregular during this period. It is also interesting to note that while expenditures on the defence payroll decreased steadily as share of domestic spending from 2002 to 2016, the exact opposite occurred in the internal affairs subsector.

Drawing from the domestic and external expenditure trends, it appears that this area was a priority for both the government and donors in the immediate aftermath of the conflict. Due to the nature of the conflict in Sierra Leone, it was clear that reform of the security sector had to be a priority. Public confidence in both the military and the police was extremely low as a result of pervasive

<sup>140</sup>The domestic expenditure reported for the security sector correspond to the following expenditure votes: Ministry of Defence; Defence Expenditure; Central Intelligence & Security Unit; Small Arms Commission; Immigration Department; Immigration Department; Independent Police Complaints Board; Ministry of Internal Affairs; Police; National Security Adviser's Office (ONS); Prisons Department; Supreme Court; Court of Appeal; High Court; Law Officers' Department; Local Courts; Justice and Legal Service Commission.

<sup>141</sup>We considered all the security expenditure votes that were unrelated to the judiciary or defence (i.e. Ministry of Defence, Defence Expenditure and Central Intelligence & Security Unit) to be part of the Internal Affairs area. This included institutions such as the Ministry of Internal Affairs and the Sierra Leone Police Force.

**Figure 16** Security Sector by Component (% Domestic Expenditure)

Source: *Sierra Leone Fiscal Tables (EPRU, MoFED) & Annual Financial Statements of the Consolidated Fund (Accountant General's Department)*

corruption and an inability to maintain public order and security. The security forces were in urgent need both of improvements to their basic operational effectiveness and to their governance and oversight.

One interviewee indicated that this priority was the result of government leadership and external pressures, including those from donors. The government saw SSR as a vital strategy to consolidate the political settlement, but there was also a considerable push and accompanying funds from donors. SSR was deliberately placed at the core of the first pillar of Sierra Leone's poverty reduction strategy, building on the priorities identified in the Security Sector Review and highlighting the security-development nexus: the inherent connection between the maintenance of the country's internal security and the alleviation of poverty<sup>142</sup>.

Although smaller reforms began before the formal end to the conflict, prioritising Disarmament, Demobilisation and Reintegration (DDR), larger scale reform did not get underway until 2002. Technical Advice was given both to the DDR of ex-combatants and community-driven recovery efforts, with the participation of donors, NGOs and civil society<sup>143</sup>.

Despite the considerable emphasis which the donor community placed on security sector reform in the immediate aftermath of the conflict, the main challenge facing the effective reform of the security sector was a 'perception trap'<sup>144</sup>. Although there was agreement among the principal stakeholders in SSR as a concept, there were differing views about what security sector reform meant in practice and how it should be implemented. In the context of relative peace, the role of

<sup>142</sup>Adedeji Ebo (2006) The challenges and lessons of security sector reform in post-conflict Sierra Leone, *Conflict, Security & Development*, 6:4, 481-501

<sup>143</sup>World Bank (2002) Sierra Leone: Disarmament, Demobilization and Reintegration (DDR), Good Practice Infobrief, Africa Region No 81.

<sup>144</sup>Albrecht, P (2008) Monitoring and evaluation arrangements for the Sierra Leone Security Sector Reform Programme: a case study, Saferworld

the military was not immediately clear and containing the military whilst strengthening the role of the police in domestic security initially challenged the relationship between the two<sup>145</sup>. As the ONS interviewee explained, the UK interventions also sought to right-size the military which, by the end of DDR was made up of 17,500 operatives. The objective was to cut this number to 8500, while at the same time increasing police numbers from around 7000 to 14000. As Table 2 above demonstrates, this strategy has been largely successful.<sup>146</sup>

One particular issue of contention was the Special Security Division - a police unit feared by the population because of its role in the conflict, it was perceived as being damaging to the unity of the police and it was assumed it would either be reduced or disbanded. However, it played a crucial role in preventing the RUF's invasion of western Freetown towards the end of the conflict and subsequently public perceptions dramatically changed. As a result of this change in perception towards the SSD (renamed the Operational Support Division – OSD – in 2003), with donor support, it expanded from making up just roughly one-fifth of the entire police force in the late 1990s, to one-third by 2005<sup>147</sup>. During the 2007 election period, presidential candidate Ernest Bai Koroma employed a former RUF commander and his subordinates as his bodyguards. After winning the election, Koroma employed them as officers of the OSD's Presidential Guard Police Unit, raising concerns over the risk of the politicization of the OSD. However, with underlying concerns over the military's involvement in domestic issues, the momentum for the OSD's expansion and strengthening has remained as an attractive option within the government. Prior to the 2012 elections, despite the challenging financial situation of the Sierra Leonean government, the OSD purchased weapons totalling approximately \$4.5 million, including machine guns and grenade launchers, under the pretext of protecting citizens from terrorism<sup>148</sup>. One interviewee from the ONS explained the OSD still inspires fear and faces a lack of confidence from the public as a result of numerous cases of extra-judicial killings.

Although in technical terms the SSR process did begin to have an impact, an evaluation has demonstrated that once the country stabilised, there was a loss of government interest in the SSR process. In 2005 Defence Councils were postponed several times and the National Security Council had not been convened for two years; 'A situation thus arose where the various security-providing agencies prepared for the 2007 general elections with only limited interest or involvement from the executive'<sup>149</sup>. There was a consensus among interviewees that after the election of the APC in 2007, there was a change in prioritisation and a move away from a focus on the security sector. According to one interviewee, the situation changed considerably and the resources under the MoU with the UK began to decrease without being matched by the government's budget. Their view was that the government sought to re-politicize the security

<sup>145</sup>Akira W. Jingushi (2015) Post-Conflict Security Sector Reform, and the Roles of the Military and the Police: The Case of Sierra Leone, NIDS Journal of Defense and Security, 16

<sup>146</sup>This is also consistent with the evolution of payroll expenditures in the defence and internal affairs sectors.

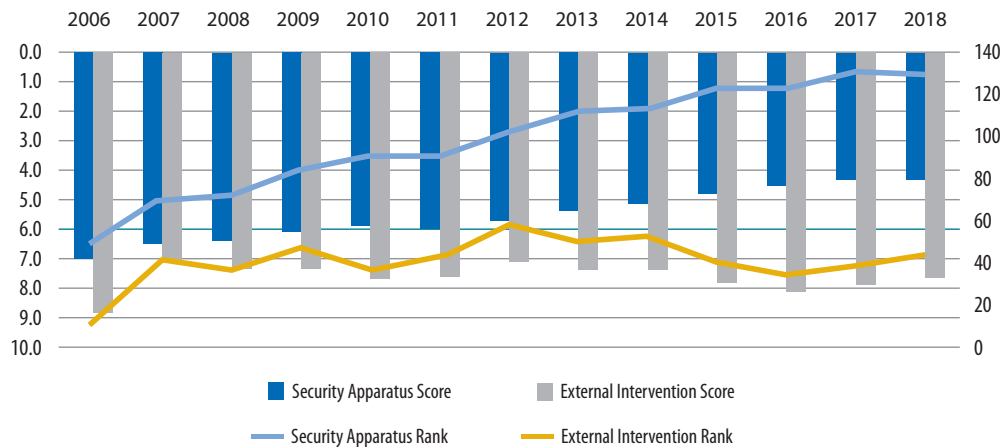
<sup>147</sup>Ibid

<sup>148</sup>Akira W. Jingushi (2015) Post-Conflict Security Sector Reform, and the Roles of the Military and the Police: The Case of Sierra Leone, NIDS Journal of Defense and Security, 16

<sup>149</sup>Albrecht, P (2008) Monitoring and evaluation arrangements for the Sierra Leone Security Sector Reform Programme: a case study, Saferworld

institutions by giving prominence to those from the North West (a predominantly APC-supporting region of the country) in the armed forces. This policy shift appears to have been detrimental to the reform of the Sierra Leone Police despite the additional domestic and external resources spent on law enforcement from 2007 onwards.

**Figure 17** Selected Indicators Fragile State Index - Security Sector



Source: Fragile States Index

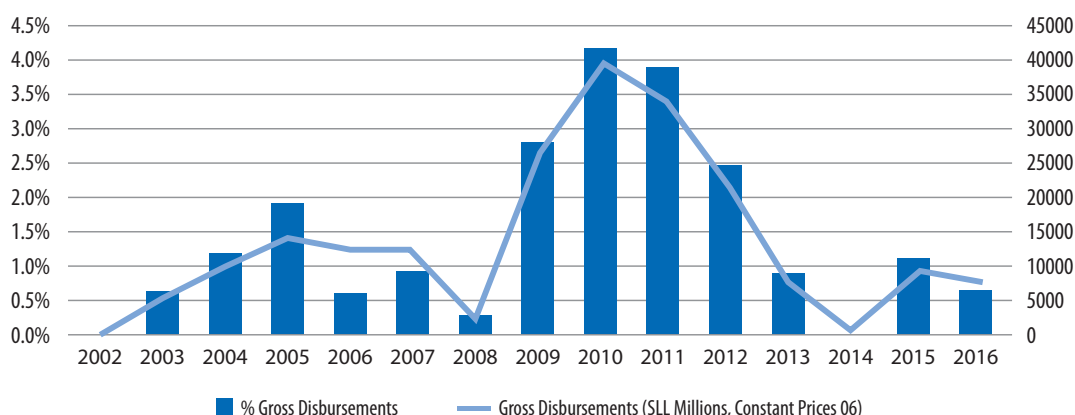
Security sector reform was regarded by a number of interviewees as having been one of the most successful reforms across the CGFs in Sierra Leone. This perception is consistent with the evolution of the security indicators of the Fragile State Index (see Figure 17). Many agreed that the landmark represented by the peaceful elections in 2007, just five years after the formal end of the conflict and conducted without the presence of large-scale UN troops, was a significant achievement and a sign of the success of SSR. There was also agreement among many interviewees, however, that although the reform of the army in terms of its professionalization, rightsizing and civilian oversight has been a success, reform of the police force has not yielded such positive results. The commonly held view was that corruption within the police remains a significant problem and that as a result they do not command the trust of the population.

## 19.5 Local Governance

In aggregate terms, Local Governance was the area which received the smallest amount of external funding among the various core functions. Figure 18 reports the gross aid disbursements to the Local Governance core function between 2002 and 2016. The OECD-DAC Creditor Reporting Systems aggregates all the aid flows into this area under a single aid code presented here - Decentralisation and support to subnational government.

**From 2002 to 2016, this field received 8 percent of the gross aid disbursements to CGFs, the equivalent to 1.4 percent of the total allocable aid flows.** Aid disbursements to this area were in general quite volatile ranging from roughly 0 to 4 percent of allocable flows. They also indicate that this area was not an immediate priority for donors in the aftermath of conflict, with external support to decentralisation appearing to have peaked between 2009 and 2012. For the remainder of the period analysed here, the aid flows to this field were considerably more modest.

**Figure 18** Local Governance (% Gross Aid Disbursements<sup>150</sup>)



Source: OECD-DAC Creditor Reporting System

External assistance to decentralisation has been led by the World Bank since 2002. The Institutional Reform and Capacity Building Project (IRCBP, 2004-2011) - which also supported PFM reforms - was the most relevant local governance project during the initial phase of the peace transition.<sup>151</sup> This project, co-funded by DFID and the EU, provided financial support to design and implement of Sierra Leone's decentralisation programme managed by extra-governmental bodies: the Decentralization Secretariat (DS) under the Inter-Ministerial Committee on Decentralization and Local Government (IMC).

Alongside IRCBP, the Bank and the EU also supported the improvement of decentralised service delivery through the first and second phases of the Decentralized Service Delivery Programme (2009-2018). From 2006 to 2011, DFID would complement these efforts by investing on the development of internal capacity of local councils through the Decentralisation Capacity Building Programme.

<sup>150</sup>Excluding budget support and humanitarian aid.

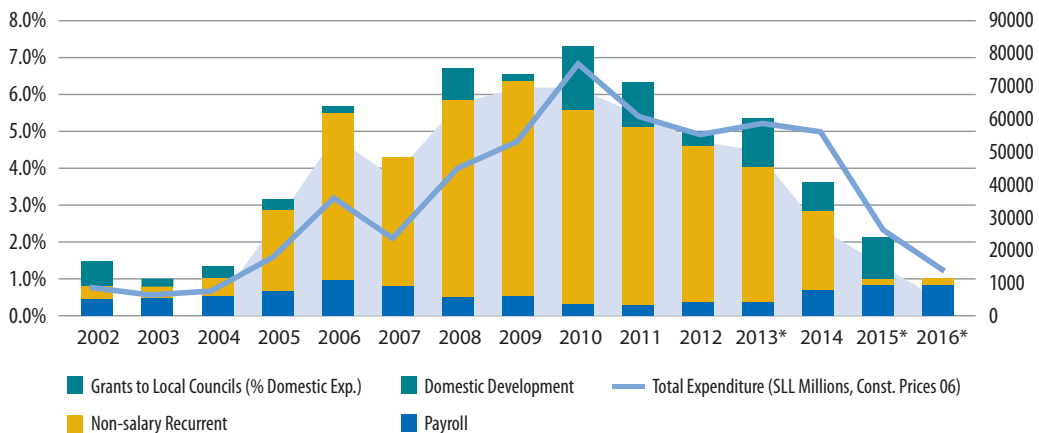
<sup>151</sup>The peak of gross aid disbursement s observed between 2009 and 2012 might be explained by the back-loading or delayed release of IRCBP funds towards the end of the project.

**Domestic expenditure on Local Governance corresponded to 4.1 percent of public spending (in real terms) between 2002 and 2016 – the third largest area among CGFs.**<sup>152</sup> Public spending in local governance increased considerably from 2005 onwards following the re-establishment of local councils in 2004. From 2005 to 2014, public expenditure on this field varied between 3 and 7 percent of total spending. The sharp reduction of expenditure observed in 2015 and 2016 appears to be related to the misreporting of transfers to local councils.<sup>153</sup>

The lion's share of domestic expenditure on this area corresponds to transfers to local councils, averaging 78 percent of total local governance spending over 2005-16. Nevertheless, the proportion of decentralised spending remains remarkably low even at the highest level registered between 2002 and 2016 - 6.2 percent of public spending. Sierra Leone's reporting system does not provide a breakdown of the share of this transfers that was actually spent at the local council's discretion (deconcentrated vs decentralized spending). The proportion is likely to be small as the majority of these funds is ring-fenced for specific purposes.

Local councils and chieftaincies had not been active in Sierra Leone since the 1970s when they were abolished by Siaka Stevens. After the end of the conflict and the re-election of the SLPP in 2002, decentralisation was, according to many interviewees, a clear priority for the government and was seen as a peacebuilding strategy. One interviewee emphasised the importance of decentralisation after the conflict to ensure that the state and public services reached remote locations where it had historically been absent.

**Figure 19** Local Governance by Component (% Domestic Expenditure)



Source: Sierra Leone Fiscal Tables (EPRU, MoFED) & Annual Financial Statements of the Consolidated Fund (Accountant General's Department)

<sup>152</sup>The following expenditure heads were considered part of local governance expenditure: i) Ministry of Local Government & Community/Rural Development; and ii) Grants to Local Councils.

<sup>153</sup>A comparison of different data sources gives us reasons to believe that the annual accounts misreported the non-salary recurrent component of Local Council Grants in 2015 and 2016 leading to under-estimation of spending during those years.

Local governance is pivotal in a context where service delivery is poor, trust in the institution of government low and the promotion of social cohesion a primary concern. The government's National Recovery Strategy for Newly Accessible Areas included a commitment to establish elected district councils and the re-instatement of chiefs. Elections for the vacant paramount chieftaincies were held in June 2002 and a task force on decentralization and local government, funded by the UNDP and the World Bank, started work in October. It has been argued that the political and economic interests of the SLPP were in fact a key rationale for this prioritisation. The SLPP was the prime victim of the dismantling of local councils, which resulted in the concentration of power in Freetown and the consolidation of APC power in the country. The decision to pursue decentralization can therefore be seen as an attempt to reconfigure political institutions to reduce the potential for a return to the pre-war political economy, which tended to benefit the APC more than the SLPP<sup>154</sup>. Additionally, the SLPP may have perceived decentralization as a good opportunity to enhance the government's legitimacy and increase political support for the ruling party. Similarly, development partners viewed the revival of sub-national institutions as a strategy to sustain political stability and reduce the centralised politics which had arguably been responsible for the country's conflict<sup>155</sup>.

These circumstances led to the approval of the Local Government Act in 2004 and reactivation of 19 local councils (Freetown City Council, five town councils, and thirteen district councils) through peaceful local elections. The Local Government Act made provisions for political, fiscal and administrative decentralisation. The local council is designated the highest political authority in the jurisdiction, chiefdoms are recognised as the lowest political unit, and paramount chiefs are provided representation in councils and memberships of ward committees. Political decentralisation was considered a success the first phase of the ICRBP programme (2004-2008). Both rounds of local elections (in 2004 and 2008) witnessed peaceful transitions, and evidence suggests that they became increasingly competitive, suggesting that channels of political accountability were taking root at the local level<sup>156</sup>.

In terms of fiscal decentralisation, the Local Government Act recognised that in the short term own revenues were unlikely to finance the functions devolved to the subnational level. It therefore provides for a "first-generation" system of intergovernmental transfers to fill the gap, which lasted from 2004 up until 2008. The act provided for tied grants to the local councils to carry out the functions devolved to them and to meet their administrative costs. It did not provide a rule or formula for determining the vertical pool of resources to be devolved; in practice, each sector allocation was determined through negotiations with the line ministry, inter-mediated by the Local Government Finance Department<sup>157</sup>.

<sup>154</sup>Srivastava & Larizza (2011)

<sup>155</sup>Ibid

<sup>156</sup>Srivastava & Larizza (2011)

<sup>157</sup>Ibid

<sup>158</sup>See Chatham House (2007) and Srivastava & Larizza (2011).



The decentralisation process in Sierra Leone has been widely praised as a success story of the post-conflict reforms. In a country with a history of centralisation, establishing district councils through peaceful elections in 2004 was a major achievement<sup>158</sup>. Despite the hike in the domestic and external expenditure on this area between 2008 and 2011, the progress made in the decentralisation process appears to have slowed down from 2008 onwards. After 2008, parliament retained the authority to specify the functions on which tied grants must be spent and transfers became significantly tied not only to sectors but to specific activities and programs, making for a large number of separate grants. In addition, while each local council has a political head, a chief administrator and core technical staff, staff for devolved functions continued to remain under the administrative control of the central ministries, departments, and agencies. The devolution of functions has also been slower than expected with only 46 out of the 80 functions envisioned in the 2004 act formally devolved to local councils.

Revenue generation by the local councils also remains weak. Data from 2011 suggests that, on average, local councils were only able to finance about 25–30 percent of their spending through own-source revenues<sup>159</sup>. This was confirmed by two interviewees who asserted that low capacity at local council level persists, and local revenue generation is meagre. The view of one interviewee was that this capacity gap is not something which the government appears to be addressing.

In most assessments, local governance reforms have not significantly impacted on chieftaincy authority. As two interviewees alluded to; the Local Government Act did not introduce a clear division between the roles of local councils and those of paramount chiefs and tensions between the two remain. One interviewee from the APRM suggested that donors did not seek to engage traditional authorities and other informal bodies in the design or implementation of decentralisation reforms. The existing literature attributes this to 'a concurrent reluctance among donors to involve themselves in the politically explosive issue of the chiefs and reticence among both the SLPP and the APC governments to really alter pre-war structures inherited from the colonial regime'<sup>160</sup>.

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<sup>159</sup>Srivastava & Larizza (2011)

<sup>160</sup>Broadbent (2012).

## Box 1: Ebola in the context of post-conflict decentralisation

As an external shock which came at a time when Sierra Leone was understood to have transitioned away from conflict (2014-2016), Ebola brought to light the incomplete nature of decentralisation and the lack of devolved decision-making.

Several authors point to the lack of decentralised authority within the health sector. Core functions like hiring, deploying and managing staff remained highly centralised impeding local responsiveness, a problem exacerbated by slow information and direction from the centre and bureaucratic delays<sup>161</sup>. One representative of UNDP in the country agreed with this assessment, arguing that despite considerable investment, local governance reforms have stopped short of a de facto institutionalisation of genuinely local democratic practices. As such, the UNDP interviewee explained that shocks such as Ebola mean that citizens associate effective service delivery with emergencies when donors take the lead. Indeed a senior diplomat pointed to the fact that foreign technical assistance was increased during the Ebola crisis to fill capacity gaps in the civil service, but has been progressively phased down.

In the context of decentralisation explained above, and given the echoes of war in the Ebola outbreak; *“Ebola took exactly the same path from Liberia to Sierra Leone as did the RUF”* one interviewee explained - a trajectory which is also widely noted in the literature<sup>162</sup> - the crisis also exposed continuing underlying tensions, deep suspicion and mistrust of public authorities.

Most strikingly, the connections between this mistrust and the process of decentralisation were marked, pointing to a risk of future conflict connected with incomplete locally devolved decision-making. The remoteness of the state from the daily lives of most Sierra Leoneans is one of the most significant conflict legacies seen in the current Ebola epidemic<sup>163</sup> and many people's experience of multiple decades of corrupt and partial treatment by government, especially with respect to ethnic and internal regional rivalries, played a part in the lack of trust in government responses to the crisis<sup>164</sup>. Early on during the outbreak, this manifested as violence. In July 2014 there was a large riot in Kenema when crowds threatened to burn down the hospital where the treatment centre was located, and in a number of locations in the East and North West of the country, ambulances and burial teams were stoned when they tried to collect patients and bodies<sup>165</sup>.

Although local governance structures remain problematic, some argue that international community drives to embed responsibilities in locally trusted institutions was the key to success. In rural areas in particular, chiefdoms boundaries and authorities were the key structure through which Ebola response was mounted and Ebola control often relied on their legitimacy<sup>166</sup>. This points to the importance, even in a challenging context, of devolving decision-making capabilities to the local level. However, it has been argued that the lack of central government willingness to meaningfully devolve of power and responsibility to sub-national governments has prevented the development of a resilient local healthcare system, leaving the country vulnerable to further health shocks<sup>167</sup>.

<sup>161</sup>See McPake et al (2015) and Wurie (2014).

<sup>162</sup>See Lind, J. and Ndebe, J. (2015) and Wilkinson and Fairhead (2017).

<sup>163</sup>Ibid

<sup>164</sup>McPake et al (2015)

<sup>165</sup>Wilkinson & Fairhead (2017)

<sup>166</sup>Ibid

<sup>167</sup>Conteh, F. (2016)

Indeed, the process of decentralisation has largely followed local governance structures which existed in the pre-war period which some have argued have failed to redress deeply rooted social inequities. According to Lind and Ndebe (2015): 'Much more needs to be done to address the remoteness of the state from the lives of most people. This condition pre-dates civil wars in the region, meaning the challenge is not simply to recreate governance structures that pre-date conflict. The implicit emphasis of 'reconstruction' on piecing back together a normative social and political order only underlines the need for greater efforts that break the mould.'<sup>168</sup>

In conclusion, the sustained prioritisation of local governance reform in the early post-conflict period has led to a number of successes - providing the opportunity for citizens to participate and stand in local elections and to hold the government accountable. Despite the challenges local councils are also thought to have had a significant impact on local service delivery<sup>169</sup>. However, the more recent moves to embed a system which increasingly resembles that of the pre-war years and to limit the political power of local governments through the incomplete devolution of functions and fiscal decision making have been shown to prevent local responsiveness to crises and therefore do pose a risk to continuing underlying fragility in Sierra Leone.

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<sup>168</sup>Lind, J. and Ndebe, J. (2015)

<sup>169</sup>See Broadbent (2012) and Srivastava & Larizza (2011)

# 19 Conclusions

**In the post-conflict period in Sierra Leone, the first and most immediate priority of all the CGFs was the security sector.** This is reflected in both donor and government priorities, and its receipt of the highest levels of spending of all the CGFs immediately after the conflict. Interestingly, the urgency with which SSR needed to take place meant that **reforms of the military in particular were rapid and responsive to the context, rather than necessarily based on a long term strategy incorporating ‘best practice’ approaches. There is agreement that this has yielded considerable success.** Conversely, reform within the police force has not been as impactful. Spending trends highlight that this became an area of focus slightly later in the post-conflict period, and it could be argued reform has stalled due to more entrenched structures and practices since the end of the conflict. This indicates perhaps **that the period immediately after conflict offers a window of opportunity in which to effect positive change in terms of more effective core government functions, and as time goes on, the more difficult it becomes to deliver radical reform.** It also points to the alignment of donor and government priorities as a key success factor.

Core government functions other than the security sector were prioritised at a slightly later stage with large donor programmes focusing on reforms in these remaining areas from 2004 onwards. **Reforms in the more technocratic areas of PFM and public administration appear to have had relative success compared with those in inherently more politicised areas such as executive coordination and local governance.** Spending trends indicate that the former two also received more financial support than the latter two. This may be the result of donor reluctance to engage with these more challenging areas – a factor which comes to light in the context of local governance and the reform of the chieftaincy structure.

Across all the core government functions, Sierra Leone has received significant levels of donor support. As a result reforms prioritised by donors have inevitably been pushed forward, even in circumstances where the government may not have shared the same idea of prioritisation – for instance in public administration. In the period immediately following the conflict, when donors were able to exert considerable influence over reform priorities there was some clear progress across most of the functions. However, **it seems that progress stalled or was halted completely in the period post-2007. This trend may be a result of dwindling donor influence; in the context of both improved government revenue from natural resources such as iron ore, and the influence of Chinese operators in the country.** In practice this state of affairs has meant that many reforms are incomplete and have stopped short of being genuinely institutionalised in many cases.

**In some instances, these incomplete reforms can be linked to risks of instability and conflict, a fact brought sharply into view by the Ebola crisis.** In a context where widespread mistrust of the police remains, and where the state remains distant from the lives of many people because local government reform has stopped short of institutionalising genuinely local decision-making processes, the Ebola outbreak resulted in many incidences of violence and exposed

continuing fragility in Sierra Leone. This also points to the security-development nexus identified early on in the government post-conflict reform programme; the inherent link between development through effective service delivery, and the relative stability of the country. The link between improved CGFs and improved service delivery is especially relevant in Sierra Leone where the absence of state provided services was a key driver of the conflict.

**The story of core government functions in the post-conflict era in Sierra Leone also challenges a popular assumption; that it is 'easier' to enact meaningful reform in a context where you are rebuilding CGFs from scratch due to almost complete institutional collapse.** In reality, several of the core government functions have, in more recent years, increasingly come to resemble the institutions which existed before the conflict; local governance structures and executive coordination, for example, are indicative of increasing centralisation, while particular divisions of the police force are once again feared by the population at large. Such developments highlight **the significance of institutional legacies even in contexts of the complete breakdown of CGFs – restoration is never truly 'starting from scratch' and destruction through conflict will not necessarily erase the challenges which existed in previous institutions.**

From a donor perspective it should also be noted that **Sierra Leone indicates that both the path to stability and the reform of CGFs in FCAS are often much longer term processes than donor programmes usually allow for.** In these contexts the binding constraints - while often similar to those in other developing countries - are much more challenging to overcome because of their inherent connections with conflict legacies.

## What next for Sierra Leone?

Despite success in some CGF reforms, there is more progress to be made across the board. In some areas, more technocratic reforms are required, which may be more straightforward for donors to support. For example, in terms of Public Administration, although LTAs brought into to fill capacity gaps have been integrated, they effectively operate as a parallel civil service. Integrating staff into the existing civil service pay structure will be vital to boost morale and motivation of civil servants not benefitting from external pay scales, and encourage the recruitment of the best candidates. The improvement of the PFM system requires that the lack of budget credibility is addressed. This can be achieved by introducing more systematic cash management processes which reduce the scope for political interference and ensure more timely payments to suppliers.

Although Executive Coordination is an area where it is extremely difficult for donors such as UNDP to effect change, a focus on moving away from a hyper-presidential system will be important. There was no sense from interviewees that this area is a priority for the new government in the country, but addressing the complete reshuffling of personnel and structure of the State House with each new administration will be key to tackling the lack of institutionalisation of better coordination practices.

Two areas are particularly pertinent in Sierra Leone from the standpoint of their conflict legacies and the risks associated with conflict relapses in the absence of reform. In the security sector, reform of the police force is an area which should be prioritised, particularly given the potential risks associated with the politicisation of the force. While reviewing pay scales will be an important step to tackle ongoing corruption, more important is a rigorous oversight mechanism for hiring practices to ensure that particular divisions are not allowed to become ethnically and regionally aligned to the party in power. Similarly, local governance is highly politically sensitive, but requires considerably more investment to deliver on essential public services such as health and education. Pushing for the institutionalisation of genuinely local decision-making alongside larger budget provision will be an important factor in addressing a key conflict legacy in the country – the absence of the state, particularly in rural areas or those non-aligned with the ruling party.

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## Annex I List of Interviewees

**Alimamy Bangura** Director of the Economic Policy and Research Unit

**Dr Sheka Bangura** Director of Central Planning, M&E, Ministry of Planning

**Dr Osman Gbla** Chairman of the Governing Council, African Peer Review Mechanism

**Abibatu Kamara** Deputy Director, Development Aid Coordinating Office

**Georgiana Kamara** Director, Public Sector Reform Unit

**Cyprian Kamaray** Former Accountant General

**Francis Keili** Director, Research and Planning Department, Office of National Security

**Abdulai Koroma** Permanent Secretary, Ministry of Local Government

**Andrew Lavali** Executive Director, Institute for Governance Reform

**Lahai Lawrence** Leema Deputy Minister, Ministry of Internal Affairs

**Kemoh Mansaray** Senior Economist, World Bank Sierra Leone

**Simonetta Rossi** Peace & Development Adviser Sierra Leone, UN Department of Political Affairs

**Mathew Sandy** Economist, IMF Sierra Leone

**Emily Stanger-Sfeile** Africa Governance Initiative

Diplomatic Source, High Commission

## Annex J Quantitative Framework and Assumptions

Core Government Functions	COFOG Objective	COFOG Group	COFOG Classes	Appropriate COFOG Descriptors	General Assumptions
<b>Executive Coordination at the Centre of Government</b>	General Public Services	Executive & legislative organs, financial & fiscal affairs, external affairs	Executive & legislative organs	Office of the chief executive at all levels of government - office of the monarch, governor-general, president, prime minister, governor, mayor, etc; administrative and political staffs attached to chief executive offices; physical amenities provided to the chief executive, and their aides; permanent or ad hoc commissions and committees created by or acting on behalf of the chief executive	Excluding chief executives of sub-national government.  When delivery units relevant to other Core Functions fall under the chief executive, they are reallocated to the respective spending aggregate.
<b>Public Finance: Revenue &amp; Expenditure Management</b>	General Public Services	Executive & legislative organs, financial & fiscal affairs, external affairs	Financial & fiscal affairs	Administration of financial and fiscal affairs and services; management of public funds and public debt; operation of taxation schemes; operation of the treasury or ministry of finance, the budget office, the inland revenue agency, the customs authorities, the accounting and auditing services; production and dissemination of general information, technical documentation and statistics on financial and fiscal affairs and services. Includes: financial and fiscal affairs and services at all levels of government	Excluding Subnational Levels of Government.  Excluding Aid Management Unit/Coordination Mechanism.
	General Public Services	General Services	Overall planning & statistical services	Administration and operation of overall economic and social planning services and of overall statistical services, including formulation, coordination and monitoring of overall economic and social plans and programs and of overall statistical plans and programs. Excludes: economic and social planning services and statistical services connected with a specific function (classified according to function)	Excluding the NSO.  Excluding Aid Management Unit/Coordination Mechanism.

Country Specific Assumptions	Aligned MDAs (including expenditure codes)	Aligned OECD-DAC AID Codes	Outcome Indicators	Notes - Internal Expenditure	Notes - Aid
<p>PSRU expenditure was subtracted from the Office of the President and assigned to core function "Government Employment &amp; Public Administration".</p> <p>Due to data limitations, external expenditure is presented as an aggregate of i) Executive Coordination at the Centre of Government &amp; ii) Government Employment &amp; Public Administration.</p>	<p>106 - Ministry of Presidential Affairs/Office of the Chief of Staff</p> <p>110 - Office of the President</p> <p>112 - Office of the Vice President</p> <p>117 - Cabinet Secretariat</p>	<p>15110 - Public sector policy and administrative management</p>		<p><b>Cabinet Secretariat Functions:</b> "Organizing the business of the Cabinet and coordinating and supervising administrative and professional heads of Ministries, Departments and Agencies (MDAs); strengthening coordination and collaborative networks both locally and internationally, in being more proactive in supporting the activities of MDAs; commitment to efficient and effective service delivery to our clients and stakeholders."</p> <p><b>Miscellaneous Services</b> appears to include expenditure of the secretary to the President that is unrelated to executive coordination (e.g. improving road network 2012)</p>	<p>15110 includes i) General Personnel Services and ii) Executive Office.</p>
<p>Internal and External Expenditure on the core function "Aid Management, Financing &amp; Donor Relations" is reported as part of PFM due to data limitations.</p>	<p>121 - Auditor General's Department</p> <p>129 - Ministry of Finance/Ministry of Finance &amp; Economic Dev</p> <p>130 - Customs and Excise Department/NRA</p> <p>131 - Income Tax Department/Revenue Appellate Board</p> <p>132 - Accountant General's Department</p> <p>142 - National Public Procurement Authority</p>	<p>15111 - Public Financial Management</p> <p>15114 - Domestic Revenue Mobilization</p>	<p><b>CPIA</b></p> <p><b>CPIA quality of budgetary and financial management rating</b></p> <p><b>PEFA</b></p> <p>Revenue</p> <p>20. Accounting for revenue</p> <p>3. Revenue outturn</p> <p><b>Expenditure</b></p> <p>16. Medium-term perspective in expenditure budgeting</p> <p>17. Budget preparation process</p> <p>11. Public investment management</p> <p><b>Budget Execution</b></p> <p>1. Aggregate expenditure outturn</p> <p>23. Payroll controls</p> <p>25. Internal controls on nonsalary expenditure</p> <p>24. Procurement</p> <p>29. Annual financial reports</p> <p>26. Internal audit</p> <p>30. External audit</p>	<p><b>Finance and Development and Economic Planning</b> were separate institutions between 2002 and 2007 when they were merged into a single Ministry.</p> <p>The <b>NRA</b> was set up in 2002 but its expenditures continued to be coded under the <b>Customs and Excise Department</b> and <b>Income Tax Department</b> for a number of years.</p>	<p>15111 - Public Financial Management includes Debt and Aid management</p>
	<p>125 - Ministry of Development &amp; Economic Planning</p>				

## Annex J Quantitative Framework and Assumptions

Core Government Functions	COFOG Objective	COFOG Group	COFOG Classes	Appropriate COFOG Descriptors	General Assumptions
<b>Government Employment &amp; Public Administration</b>	General Public Services	General Services	General personnel services	Administration and operation of general personnel services, including development and implementation of general personnel policies and procedures covering selection, promotion, rating methods, the description, evaluation and classification of jobs, the administration of civil service regulations and similar matters. Excludes: personnel administration and services connected with a specific function (classified according to function).	
<b>Security Sector</b>	Defense	Military defense	Military defense	Administration of military defense affairs and services; operation of land, sea, air and space defense forces; operation of engineering, transport, communication, intelligence, personnel and other non-combat defense forces; operation or support of reserve and auxiliary forces of the defense establishment. Includes: offices of military attachés stationed abroad; field hospitals. Excludes: military aid missions (70230); base hospitals (7073); military schools and colleges where curricula resemble those of civilian institutions even though attendance may be limited to military personnel and their families (7091), (7092), (7093) or (7094); pension schemes for military personnel (7102)	
	Defense	Foreign military aid	Foreign military aid	Administration of military aid and operation of military aid missions accredited to foreign governments or attached to international military organizations or alliances; military aid in the form of grants (in cash or in kind), loans (regardless of interest charged) or loans of equipment; contributions to international peacekeeping forces including the assignment of manpower.	

Country Specific Assumptions	Aligned MDAs (including expenditure codes)	Aligned OECD-DAC AID Codes	Outcome Indicators	Notes - Internal Expenditure	Notes - Aid
<p>PSRU expenditure was subtracted from the Office of the President and assigned to core function "Government Employment &amp; Public Administration".</p> <p>Due to data limitations, external expenditure is presented as an aggregate of i) Executive Coordination at the Centre of Government; ii) Government Employment &amp; Public Administration.</p>	<p>122 - Establishment Secretary's Office/HRMO 123 - Public Service Commission 1102 - Public Sector Reform Unit</p>	<p>15110 - Public sector policy and administrative management</p>	<p><b>CPIA</b> <b>Quality of public administration rating</b></p> <p><b>PEFA</b> <b>23. Payroll controls</b> 23.1 Integration of payroll and personnel records 23.2 Management of payroll changes 23.3 Internal control of payroll 23.4 Payroll audit</p>	<p><b>HRMO:</b> To formulate and advise Government on human resource policies and also manage and develop the workforce of the Sierra Leone Civil Service for efficient and effective service delivery. It replaced the Establishment Secretary's Office which had been in existence since 1961.</p> <p>The policy objective of the reformed <b>Public Service Commission</b> within the framework of the Public Sector Reform Programme and the 'AGENDA FOR PROSPERITY' is to implement an open, competitive, and merit-based recruitment of competent personnel into the Civil Service and ensures the development and enforcement of ethical standards that ensure professional and merit-based progression of Civil Servants.</p> <p><b>PSRU:</b> In charge of the Public Sector Reform Programme (2009-15) which incorporates a Civil Service Reform framework. The overall goal of the Programme is to improve public sector productivity and service delivery to all levels of society, consistent with the developmental priorities articulated in the Government's Agenda for Prosperity (Pillar 7-Governance).</p>	<p>15110 includes i) General Personnel Services and ii) Executive Office..</p>
	<p>201 - Ministry of Defence 202 - Defence Expenditure 209 - Central Intelligence &amp; Security Unit</p>	<p>15210 - Security system management and reform 15240 - Reintegration and SALW control 15261 - Child soldiers (prevention and demobilisation) 15230 - Participation in international peacekeeping operations</p>	<p><b>Fragile State Index</b> <b>Security Apparatus</b> <b>External Intervention</b></p>		

## Annex J Quantitative Framework and Assumptions

Core Government Functions	COFOG Objective	COFOG Group	COFOG Classes	Appropriate COFOG Descriptors	General Assumptions
	Public Order & Safety	Police services	Police services	Administration of police affairs and services, including alien registration, issuing work and travel documents to immigrants, maintenance of arrest records and statistics related to police work, road traffic regulation and control, prevention of smuggling and control of offshore and ocean fishing; operation of regular and auxiliary police forces, of port, border and coast guards, and of other special police forces maintained by public authorities; operation of police laboratories; operation or support of police training programs. Includes: traffic wardens. Excludes: police colleges offering general education in addition to police training (7091), (7092), (7093) or (7094).	
	Public Order & Safety	Prisons	Prisons	Administration, operation or support of prisons and other places for the detention or rehabilitation of criminals such as prison farms, workhouses, reformatories, borstals, asylums for the criminally insane, etc.	
	Public Order & Safety	Law Courts	Law Courts	Administration, operation or support of civil and criminal law courts and the judicial system, including enforcement of fines and legal settlements imposed by the courts and operation of parole and probation systems; legal representation and advice on behalf of government or on behalf of others provided by government in cash or in services. Includes: administrative tribunals, ombudsmen and the like. Excludes: prison administration (70340).	
<b>Local Governance</b>		No corresponding Objective/Group/Class/Descriptor			Spending by MDA responsible for sub-national governments and the subnational governments themselves.
<b>Aid Management, Financing &amp; Donor Relations</b>		No corresponding Objective/Group/Class/Descriptor			Spending by Aid Management Unit/Coordination Mechanism

Country Specific Assumptions	Aligned MDAs (including expenditure codes)	Aligned OECD-DAC AID Codes	Outcome Indicators	Notes - Internal Expenditure	Notes - Aid
	1082 - Small Arms Commission 111 - Immigration Department 211 - Immigration Department 126 - Independent Police Complaints Board 205 - Ministry of Internal Affairs 206 - Police 210 - National Security Adviser's Office (ONS)	15130 - Legal and judicial development 15220 - Civilian peace-building, conflict prevention and resolution 15250 - Removal of land mines and explosive remnants of war		The <b>Sierra Leone National Commission on Small Arms</b> was established by an Act of Parliament in 2010 to Control the proliferation, illicit possession and use of Small Arms and Light Weapons in Sierra Leone.	
	207 - Prisons Department			The <b>Sierra Leone National Commission on Small Arms</b> was established by an Act of Parliament in 2010 to Control the proliferation, illicit possession and use of Small Arms and Light Weapons in Sierra Leone.	
	118 - Supreme Court 119 - Court of Appeal 120 - High Court 124 - Law Officers' Department 1252 - Local Courts 143 - Justice and Legal Service Commission			The Chief Justice and Judges of the Superior Court are appointed by the President of Sierra Leone acting on the advice of the <b>Judicial and Legal Service Commission</b> subject to the approval of Parliament.  The office of the Attorney General and Minister of Justice constitutes on a broader basis two main divisions namely: the <b>Law Officers' Department as the professional wing</b> and the Administrative wing that provides Management support services to all divisions and in the regional offices.	
	107 - Ministry of Local Government & Community Development 701 - Grants to Local Councils	15112 - Decentralisation and support to subnational government	<b>PEFA</b> 7. Transfers to subnational governments 7.1 System for allocating transfers 7.2 Timeliness of information on transfers		
Internal and External Expenditure on the core function "Aid Management, Financing & Donor Relations" is reported as part of PFM due to data limitations.		15111 - Public Financial Management	<b>PEFA</b> D-1 Predictability of Direct Budget Support (N/A 2018) D-3 Proportion of aid that is managed by use of national procedures (N/A 2018)  <b>Aid Composition</b> % of Budget Support over Total Disbursements		15111 - Public Financial Management includes Debt and Aid management





# South Sudan's

*transitions from  
and back to conflict*

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## List of abbreviations

AfDB	African Development Bank
ARCISS	Agreement on the Resolution of the Conflict in the Republic of South Sudan
BOSS	Bank of South Sudan
BSWGs	Budget Sector Working Groups
CANS	Civil Authority for New Sudan
CBTF	Capacity Building Trust Fund
CCSS	Coordinating Council for Southern Sudan
CGFs	Core Government Functions
CPA	Comprehensive Peace Agreement
CSC	Civil Service Commission
DDR	Disarmament, Demobilisation and Reintegration
EJC	Employees Justice Chamber
GONU	Government of National Unity
GOSS	Government of South Sudan
GPAA	Greater Pibor Administrative Area
GRSS	Government of the Republic of South Sudan
HRMIS	Human Resource Management Information System
IC	Interim Constitution
IFMIS	Integrated Financial Management Information System
IGAD	Inter-Governmental Authority on Development
IMAC	Inter-Ministerial Appraisal Committees
JAM	Joint Assessment Mission
JMEC	Joint Monitoring and Evaluation Commission
LGB	Local Government Board
MDAs	Ministries, Departments and Agencies
MOFA	Ministry of Federal Affairs
MOFEP	Ministry of Finance and Economic Planning
MOLPS	Ministry of Labour and Public Service
MOLPSHRD	Ministry of Labour, Public Service and Human Resource Development
MTDF	Multi Donor Trust Fund
NLA	National Legislative Assembly
OoP	Office of the President
PGC	Public Grievances Chamber
PFM	Public Financial Management
PROGRESS	Project for Good Governance in the Republic of South Sudan
QDF	Quarterly Donors Forums
RARCSS	Revitalised Agreement on the Resolution of Conflict in South Sudan
SPLA/M	Sudan People's Liberation Army/Movement
SSDF	South Sudan Defence Forces
SSEPF	South Sudan Economic Partners Forum
SSEPS	South Sudan Electronic Payroll System
SSNPS	South Sudan National Police Service
STAG	Sales Tax Adjustment Grant
STMC	State Transfer Monitoring Committee
TC	Transitional Constitution
UNMISS	United Nations Peacekeeping Mission in South Sudan

# 21 Introduction

## 21.1 Context

**South Sudan has returned to a prolonged state of crisis in recent years, following a brief period of stability.** After decades of civil war, a pathway to independent statehood emerged in the early 2000s, culminating in 2011 on a wave of national and international optimism. The young government subsequently faced a series of political and economic shocks, and armed conflict and ethnicised violence have resumed and escalated across the country since 2013. Whereas there are some recent signs for a lasting resolution of conflict, the transitional government and its partners will face immense challenges in recovering from a largely collapsed state and economy, as well as managing one of the worst humanitarian crises.

## 21.2 Objective and approach

This report is a part of a cross-country study aimed at comparing experiences of countries transitioning out of conflict and the level to which they are invested in rebuilding core government functions (CGF). The study seeks to test the following hypothesis, formulated by UNDP: *‘fragile and conflict-affected governments that prioritise restoring core government functionality in their national budgets, as well as their spending of humanitarian and development aid, are more successful in their transitions towards peace and development’*.

The study consists of five cases<sup>170</sup>, which aim to better understand whether (and how) prioritising spending on core government functions can lead to more successful transitions towards peace in fragile and conflict-affected countries. Specific ‘transition milestones’ were identified around which to frame the analysis for each case study.

**The South Sudan case offers a chance to explore a number of counterfactuals to typical narratives on the strengthening of government functions.** South Sudan can be broadly characterised as a case of protracted conflict, with a brief period of transition towards peace and development starting in 2005, followed by a resurgence of civil war from 2012 onwards, interspersed by a series of ceasefires and peace agreements drawn up, signed and violated. In this regard, the distinguishing aspects of the direction and nature of South Sudan’s conflict and transitions offer a different perspective on the research hypothesis to other case studies, in that it provides insight into the conditions under which core government functions were strengthened in spite of (or as a result of) extreme duress, even as conflict intensified from 2013 onwards.

**This case assesses the development of core government functions in South Sudan from 2005 to 2018.** The signing of the Comprehensive Peace Agreement (CPA) in 2005 represents an important landmark, which has framed the development of core government functions for this case and from which a series of subsequent transitions can be traced, up until the signing of the Revitalised Agreement on the Resolution of Conflict in South Sudan (RARCSS) in 2018.

<sup>170</sup>Five countries were chosen: Myanmar, Sierra Leone, South Sudan, Pakistan and Colombia

**This case study is structured around three key transitions:**

**South Sudan gaining independence in July 2011**, after many decades of civil war with Sudan and within Southern Sudan, and following the six-year transition period governed by the CPA that laid the foundations for the trajectory of most CGFs;

**The resumption of civil war in South Sudan in December 2013**, after unresolved issues from the pre- and post-CPA period lead to internal crises within the Sudan People's Liberation Army/Movement (SPLA/M), which take on an increasingly ethnicised dimension and become particularly severe in the wake of the 2012 shutdown of oil production and President Salva Kiir's firing of the Cabinet and Vice-President;

**The signing and implementation of the Agreement on the Resolution of the Conflict in the Republic of South Sudan (ACRiSS) in August 2015**, following several failed ceasefires and peace efforts as conflict intensified and spread across the country, and after resources were rapidly depleted due to the reduction in global oil prices.

These three milestones are relevant turning points for understanding the trends in the development of core government functions since 2005, and for providing input for the design and effectiveness of external assistance in contexts of protracted conflict<sup>171</sup>. This approach also ensures that the study can consider detailed budget data, allowing for analysis of expenditures on the various CGFs before and after each milestone.

## 21.3 Methodology and structure

The analysis presented in this research is based on interviews and discussions conducted (both in Juba and remotely) with a range of past and present officials of government agencies and international agencies, as well as technical advisers supporting various core government functions between 2005 and 2018. These are listed in Annex A, and are complemented by an extensive review of available literature on South Sudan, as well as an analysis of government expenditure and aid data.

Official development aid data has been available for South Sudan since 2011, whereas government revenue and spending figures are available as far back as 2008, with detailed data available for review to the team for the 2013-2018 period. The rapid devaluation and increases in inflation experienced by South Sudan, particularly after 2013, necessitate that government revenue and expenditure figures be presented in US dollars throughout this case study. In contrast to the availability of spending data, relatively limited structured analysis is available on the capabilities

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<sup>171</sup>The authors also acknowledge that various other events within the same timeframe (oil shutdown, creation of 28 states, devaluation of the exchange rate, among others) were equally defining in terms of its implications on the political landscape. The implications of these events are discussed in the report.

of South Sudan's core government institutions. This is proxied by detailed interview evidence, obtained from stakeholders with first-hand knowledge of South Sudan's core institutions. As explained later in the paper (see Box 1), it is clear that reported spending totals can easily misrepresent how much is invested in delivering on individual agencies' mandates. As a consequence, the authors strongly caution against drawing conclusions from spending data as helpful indicators with regards to support for core government functions.

The following section (Section 2) presents an analysis of how the wider political economy evolved around the key milestones – notably how decision-making within government was affected by internal and external political and economic factors – as a framework to understanding the narrative around specific core government functions. Section 3 provides a qualitative and quantitative assessment of how each of the six CGFs evolved across the milestones, detailing what reforms were prioritised and why, as well as the role of development partners in this process, as well as an analysis of government budget and aid spend on each CGF. Section 4 summarises key factors and trends affecting the development of CGFs in a situation of protracted conflict.

# 22 Transitions from and back to conflict in South Sudan

**This section provides an overview of the trends and factors that have affected three milestones in South Sudan's recent history**, namely the transition first to independence, the resumption of civil war and the subsequent fragile peace agreement. In summarising these political economy factors, this section also describes the headline trends in government revenues and spending, as well as donor commitments and disbursements.

What is today South Sudan has long been inhabited by agro-pastoralists from a wide variety of socially interlinked ethnic groupings, who have been subject to many decades of deliberate physical and economic predation and pacification. Solidarity and competition between ethnic communities was recurrently exploited to grant access to land and natural resources since the 19th century. These communities have started armed resistance in protest to such practices, as well as the perceived underdevelopment of the Southern region in comparison to the North (what is today Sudan), since the early 20<sup>th</sup> century.

North-South tension intensified following a first civil war, which results in a measure of regional autonomy being granted to the South, when oil was discovered in the borderlands in the late 1970s.

Khartoum's oppression intensified in order to secure oil resources needed to finance economic recovery, with the Sudan People's Liberation Movement (SPLM) forming in response and a second civil war starting in 1983. Whereas the SPLM and its associated army initially had a more unified vision under the leadership of Dr John Garang, and rapidly gained ground in the 1990s, it consisted of rapidly changing alliances which also fought one another over territory, deploying similar tactics to the Khartoum government. Previously supportive linkages between communities notably (in the northern areas of South Sudan) began to suffer from grievances or were destroyed, and ethnic groupings assumed an increasingly militarised character.<sup>172</sup>

## *Transition to independence (2005 – 2011)*

**Five decades of civil war between Khartoum and Juba officially ended in 2005 with the signing of the Comprehensive Peace Agreement**, which set a course and built momentum for resolving a range of territorial and resource disputes, following an extensive negotiation process supported by the international community. A Government of National Unity (GONU) was formed in Khartoum, alongside the Government of South Sudan (GOSS) in Juba, to which the administration of all state functions in the south were devolved for the six-year interim period up to the outcome of the independence vote. The CPA determined that half of all revenues from oil production in the South (or Southern States) would go to GOSS, as well as of non-oil revenues collected in the South, which corresponds to an increased budget of approximately USD 100,000 to over USD 1 billion in revenue annually<sup>173</sup>.

Simultaneously, GOSS was tasked with developing an integrated administration of the South territory: the SPLA/M had to reform itself and build a new, unified civil service from two

<sup>172</sup>Rolandsen & Kindersley, 2017

<sup>173</sup>Martell, 2018

existing ones: the Coordinating Council for Southern Sudan (CCSS), comprised of educated Northerners and Southerners administering the main urban centres through the Khartoum government structures, and the Civil Authority for New Sudan (CANS), made up of loyal and largely uneducated combatants administering rural areas controlled by SPLA<sup>174</sup>. Both services had limited capacity to administer or organise basic services, with the former remaining purposefully resource-constrained by the GONU, while the SPLA prioritised military and separatist efforts over building a civilian administration.

To guide this process, **a Joint Assessment Mission (JAM) was launched in 2004 to develop a comprehensive vision for Sudan's reconstruction and South Sudan's course.** The JAM report outlined ambitious objectives for redressing imbalances between the North and the South, and set out how government and donor resources would complement one another (at a suggested 2:1 ratio) to deliver on these<sup>175</sup>. Donor assistance to the South had already grown exponentially in the run up to the CPA, from around USD 30 million in 2000 to over USD 300 million in 2005, and further increased in the transition period. Donors intended to invest in a coordinated manner through a Multi-Donor Trust Fund (MDTF) managed by the World Bank, based on a number of strategic priorities identified through the JAM process.

**Senior officials had two strong motivations in how they viewed the transformation of the SPLM/A from a fragmented army into a unified government.** Dr John Garang's death shortly after the signing of the CPA put leaders in charge who strongly favoured separatism, and were under pressure to keep the SPLA/M from fracturing. In the first place, those involved in the civil war and independence struggle were to be repaid for years of 'lost salary', in order to secure participation of the various factions and militia in the SPLA in a bid to affirm the South's secession. To support this, the SPLM leadership did not want to retain structures and processes that were 'from Khartoum'. The CCSS was largely disbanded, and proposals for competitive, meritocratic recruitment into the civil service blocked and rejected, as a result of which spending on the wage bill increased exponentially. The presence of Nuer grew to match that of Dinka in GOSS structures and the army, previously largely staffed by the former.<sup>176</sup>

Donors invested heavily in providing basic services during this period, assuming that improved services would increase GOSS' legitimacy in support of state- and peacebuilding efforts. Some tension grew between the international community and GOSS, as multilateral assistance could not be mobilised sufficiently quickly; GOSS officials instead contributed less to the Multi Donor Trust Fund (MDTF), sought other modalities and invested more in election and referendum preparations.

The SPLM's narrative and efforts focussed almost entirely on secession in the latter part of the transition period, with many of the political challenges spelled out in the CPA parked until after the referendum, which became a technical objective for both the government and international community to attain. An overwhelming vote for independence was the result of the SPLM's aggressive and both politically and financially expensive consolidation of power in the years prior<sup>177</sup>.

<sup>174</sup>Fritz, 2017

<sup>175</sup>JAM, 2005

<sup>176</sup>Chevriillon-Guibert, 2013

<sup>177</sup>Sefa-Nyarko, 2016

### ***Transition back to conflict (2012-2014)***

**Net oil revenues had more than doubled during the transition period, to over USD 2.2 billion in 2010, and further increasing oil prices drove the rapid growth of the administration.**

Government expenditure was largely on salaries, allowances and issuing contracts for services. South Sudanese interviewees have referred to the rapidly increasing number of government positions being viewed as a 'social welfare mechanism', and anecdotally indicated that the boom in the number of businesses at the time (rising from 2000-odd in 2007 to over 17000 in 2012) was partly driven by numerous government contracts issued which routinely violated sound procurement procedures. Such patronage-based behaviour (clientelism), as well as political repression, featured heavily in efforts to secure the secession referendum, and were - for many - interpreted as being 'formalised' with independence<sup>178</sup>.

Efforts were however made to enable the southern government to undertake functions in basic service delivery, including through directly contracting NGOs to provide health services in selected states through the MDTF. The Government of the Republic of South Sudan (GRSS) also managed the education sector payroll. Far larger amounts of external assistance were however implemented in parallel to the government's own efforts (replacing or supplementing government functions), with few formal relationships or collaborative efforts between UN agencies and NGOs with government: as a result, the transfer of skills and capabilities for service delivery to government during this period was limited, and service delivery efforts often patchy and time-limited. Every fourth dollar of aid was spent on food aid at independence, at a level of USD 270 million<sup>179</sup>.

**Grievances among ethnic communities left over from the pre-CPA period were not addressed and in some ways exacerbated during this period.** While the JAM and CPA implementation processes addressing disparities between the North and Southern Sudan, integrating the SPLA and delivering elections and the referendum, over 260,000 ethnic Southerners returned from the North prior to independence, and also competed for state resources. More structurally, efforts to capture the state and 'dividends' from peace led to a situation in which state institutions were organised in line with a largely clientelist and unstable political settlement, in which some groups benefitted less than others.

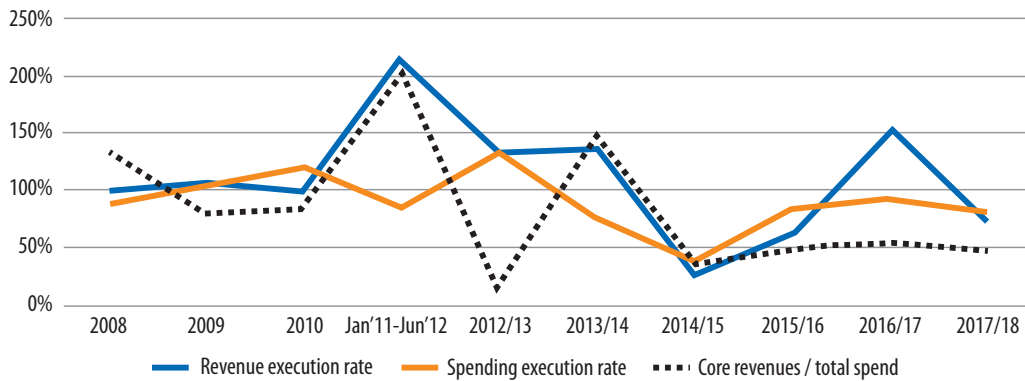
Discontentment grew rapidly among the younger, under-employed rural population, partly in the face of decentralised institutions providing less benefit compared to the Juba-based government. Groups who felt they were benefitting less – including many Nuer communities – began reverting to violence to express political discontent: various pastoralist groups began arming themselves, and migrate more internally, as ethnic identities hardened. Efforts at demobilisation, demilitarisation and reintegration were insufficiently funded to counter these developments.

**The oil shutdown from early 2012 up to May 2013 intensified these dynamics.** Tensions around contested border areas between the North and Southern territories had been insufficiently addressed in the transition period, and clashes continued into 2011. Following disputes with the Government of Sudan on the terms of the oil transport and transit agreements, together with accusations that the Juba and Khartoum were funding the Sudanese Revolutionary Front and

<sup>178</sup>Ibid

<sup>179</sup>Pantuliano et al, 2010



**Figure 1** Revenue and spending execution rates, core revenues as a share of total spend, 2008-18

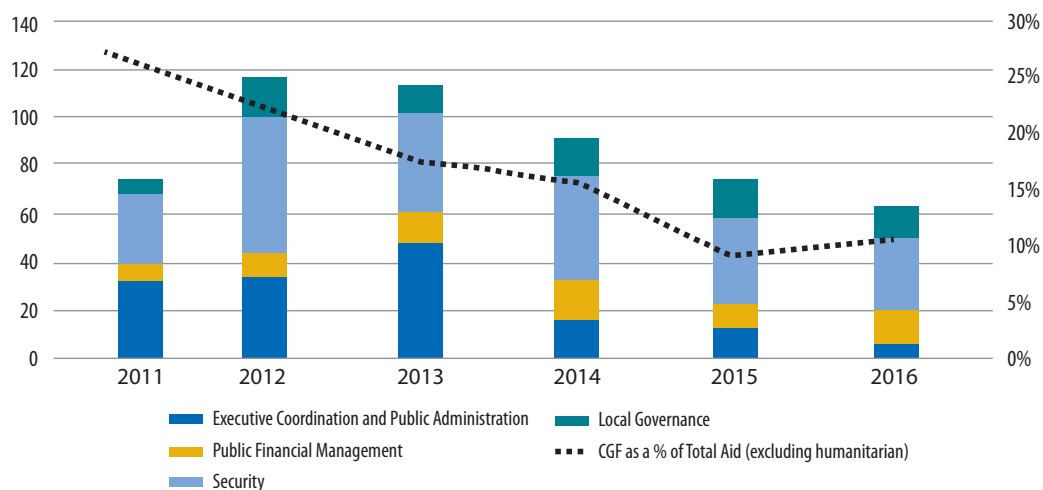
Source: Ministry of Finance and Planning ([www.grss-mof.org](http://www.grss-mof.org)), authors' own design

rebels in eastern Jonglei respectively, South Sudan shut down production in all of its oil fields in January 2012. The two countries engaged in a brief border war from March to September 2012 concentrated around the town of Heglig.

**The shutdown marked the start of persistent worsening of South Sudan's economic situation.** As the fragile clientelist system was supported by salary payments and basic operating costs (payments on contracts), government significantly reduced spending on public investment, drew on over USD 1 billion in reserves and engaged in considerable debt financing to sustain most of these existing spending commitments. Sudden decreases in foreign exchange in circulation, as well as government borrowing, led to rapidly increasing price levels after independence – with public sector salaries effectively losing 65% of their real value by end of 2012.<sup>180</sup> Discontentment in the SPLA/M's senior leadership grew over what was seen as economic mismanagement, leading to the President dismissing senior SPLM officials, and subsequently the entire cabinet, being dismissed. Violence erupted in Juba in late 2013 and rapidly spread to the northern states of South Sudan, where ethnicised reprisal and revenge steadily escalated as violence targeting Dinka and Nuer civilians was responded to by armed youths and militia groups.

**Disillusionment grew in the donor community during this period,** in the face of minimal progress on service delivery indicators since 2005 and no real return on investments to the governance and security sectors. Whereas donors had stepped up efforts to finance local government (which was maintained throughout the eruption of conflict) governance support programmes targeting the centre of government gradually decreased. Interventions – both in service delivery and in governance sectors – were designed in haste to respond to great and urgent

<sup>180</sup>Authors' own calculations based on historic budget figures and annual budgets available at GRSS Ministry of Finance and Planning website (<http://grss-mof.org/>)

**Figure 2** Development aid disbursements on CGFs, millions USD, current prices

Source: OECD Stat, accessed November 2018, authors' own design

needs, and therefore had limited scope to integrate an understanding of internal conflict dynamics, rather increasingly delivered short-term interventions through parallel systems.<sup>181</sup>

### *Transition to fragile peace and beyond (2014 onwards)*

**The resumption of conflict changed the face and functioning of government**, with those staff members found to have 'abandoned their posts' (largely those Nuer that fled Juba during the fighting) screened from the payroll, and other staff brought in. Less was spent on operating the civilian government, in favour of procuring arms and ammunition, while spending on salaries stayed at similar levels. Government revenues rapidly diminished, as oil production was halved after the resumption of conflict, and further as global oil prices fell rapidly in the second half of 2014.

With no reserves left, and net oil revenues halving for three consecutive years, GRSS managed to finance ever-increasing spending levels with sales of oil futures, commercial borrowing as well as oil sales that did not pass through government systems. Reducing levels of foreign exchange, steady government borrowing and diminishing trade levels all contributed to exchange rate depreciation and double-digit month-on-month inflation. Payment delays mounted, the value of civil service salaries collapsed and, in the face of rumours of government bankruptcy, government contractors as well as all government agencies effectively took a run on the Ministry of Finance and Economic Planning (MOFEP) and the Bank of South Sudan (BOSS) in 2015.

<sup>181</sup>FAFO, 2013 and Rolandsen & Kindersley, 2017

**Relations between South Sudanese leaders and the international community steadily worsened during this period.** Peace negotiations sponsored by Inter-Governmental Authority on Development (IGAD) and the Troika during 2014 proved largely fruitless, as leaders of the SPLA and opposition factions had limited control over their forces, and new factions in the conflict emerged in quick succession as the conflict wore on. As donors rapidly withdrew support to governance sectors – not wanting to be seen to support the ‘war economy’ – and turned to pressure former allies to resolve the conflict, the SPLM’s leadership felt slighted at how quickly former partners changed stance<sup>182</sup>. High levels of humanitarian aid continued to flow to South Sudan, though aid disbursements to core government functions halved over this period as several large support programmes to core institutions closed down and deteriorating security made it difficult for agencies and implementers to operate in South Sudan.

**Negotiations on a peace treaty began in earnest in 2015**, when government resources were unsustainable and the international community threatened sanctions. These factors, and fear of possible international intervention, led parties to eventually sign the IGAD-brokered ARCISS in August 2015. Salva Kiir signed under pressure, as Dinka leaders in South Sudan criticised the resolution: they felt the agreement was too prescriptive, sacrificed too much control to opposition groups, and there was little confidence that resources could be found to deliver on the agreement.

**Ambitious changes were introduced by government in a short space of time to seek to pacify those threatening to rebel in response to ARCISS, as well as to appease the international community.** On the one hand, the country’s sub-national units were re-divided to allow greater control for Dinka communities over oil-rich territories, also creating a large number of additional positions in local government, and salaries across the organised forces and civil service were doubled or tripled. Concurrently, efforts were taken in discussion with the IMF to improve South Sudan’s standing with the international community, including through floating the exchange rate and cancelling outstanding government contracts. Each of these efforts further ignited political tensions, further splintered the SPLA, and introduced confusion throughout government.

**The ARCISS agreement was abandoned less than a year after its signing**, when fighting resumed in Juba shortly after the process of integrating SPLA and opposition groups was starting. With sub-national government in disarray, central government critically under-resourced and the conflict spreading to new areas – including the southern regions of South Sudan – citizens, traders and international actors left South Sudan in 2016. Disputes around land and resources at local level multiplied, and alliances to the SPLA and opposition forces continued to change rapidly. The SPLA’s leadership launched a national dialogue process in 2017, though it was boycotted by opposition as specific political opponents to government were explicitly excluded from the process.

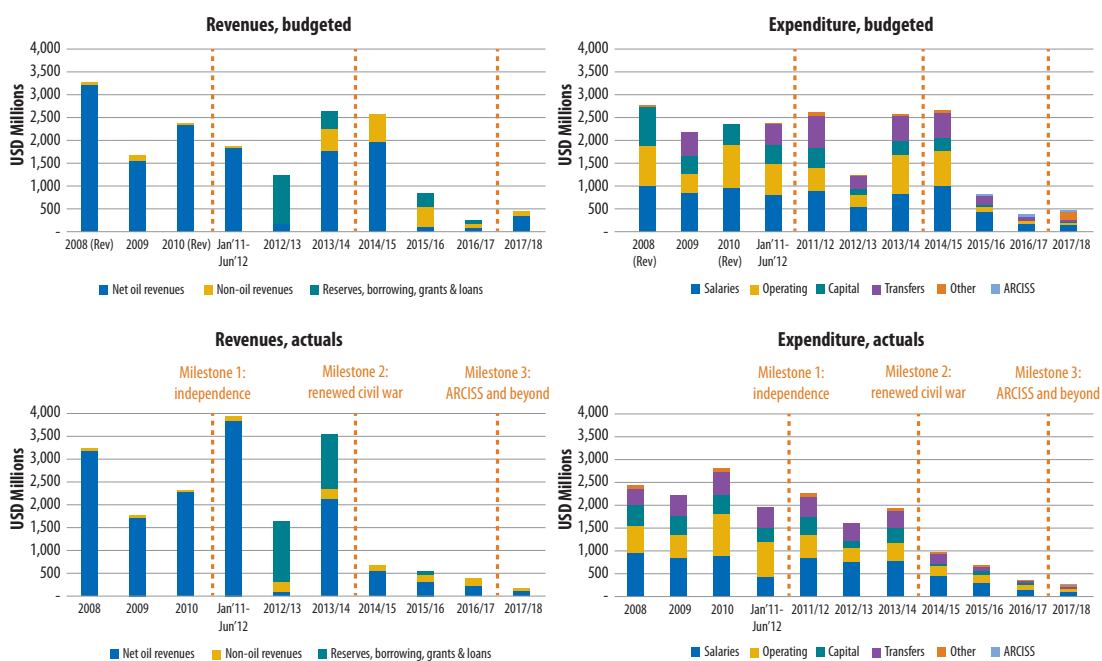
**Despite the renewed agreement signed in 2018 not being remarkably different from the 2015 agreement, current signs of slow improvement offer some hope for a more lasting transition back to peace.** Though few changes were introduced to the agreement’s sections covering arrangements for humanitarian aid, resource management, justice and accountability, SPLA and opposition groups’ leaderships seem more comfortable with the proposed composition of the transitional government, and the transitional security arrangements. SPLA has gained a stronger

<sup>182</sup>Martell, 2018

military position in the past year, and a growing sense of fatigue of war has been noted among both the SPLA and opposition forces.

Inflation is falling and the exchange rate is stabilising, as traders and some international support efforts are resuming operations in South Sudan. That said, the implementation of specific provisions of the latest peace agreement – including the integration of the national army and security organs, the rehabilitation of the oil fields and national elections – are likely to be key determinants in ensuring how effective the agreement is.

**Figure 3** Budgeted and actual government revenues and expenditures, 2008-18, USD millions, current prices



Source: Ministry of Finance and Planning ([www.grss-mof.org](http://www.grss-mof.org)), authors' own design.

The following sections describe the evolution of each of the six core government functions across the three transition milestones, drawing on interview findings, relevant literature as well as a review of the available data. Each section indicates major developments in contrast to observed spending patterns, and seeks to explain these.

### 23.1 Executive coordination

The Transitional Constitution (2011) mandates that the National Council of Ministers, composed of the President, the Vice President and Ministers, shall be the highest executive authority in the Republic (page 43, Transitional Constitution, 2011). It further states that “without prejudice to the powers conferred upon the President by this Constitution, decisions of the Council of Ministers shall prevail over all other executive decisions.” The right to appointment and removal rests with the Office of the President. The National Legislature is comprised of the National Legislative Assembly (NLA) and the Council of States. The NLA is mandated to (among other things) approve plans, programmes and policies of the National Government, approve budgets and can cast a vote of no-confidence against any Minister.

**However, in practice, decision-making and coordination of government policy in South Sudan has largely remained an SPLM/A, Office of the President (OoP) function.** For instance, the Police Service, Prisons and Wildlife Service Act, unlike the Civil Services Act, are under the Ministry of Interior and mandates the President to approve salaries for the police and prison service, upon recommendation by the Minister. One interviewee recounted (on the subject of decision-making) that ‘the Council is only a collection of Ministers but not actually the Government’ and added that ‘a decision is already made by the Speaker and the President in the morning before the Parliament convenes and it serves as a rubber-stamp institution’. The Ministry of Cabinet Affairs has, from the outset, played a ceremonial role mainly responsible for management of allowances and emoluments for cabinet members, with no accountability for functioning of Ministries.

Unlike other CGFs, it is challenging to make a distinction in how executive coordination has evolved across different ‘transition phases’ since South Sudan has not seen a change in leadership since 2005. In other words, underlying incentives that have driven policy making have remained the same (explained in chapter 2) although this has manifested itself in different ways depending on access to resources and the costs of reaching a compromise with development partners vis-à-vis appeasing internal (and regional) networks of support.

Between 2005-12, donor support was provided to some core institutions through the MDTF, Capacity Building Trust Fund (CBTF) and CORE I. Through the MDTF, an electronic archiving system was established in the Cabinet Office and 17 out of 19 GOSS ministry buildings, the NLA and State Governors’ offices were renovated and provided with basic supplies. The CBTF provided support to accountability institutions for basic capacity building in administration within the NLA and Ministry of Information. CORE I provided embedded TA support to the Ministry of

Cabinet Affairs and OoP along with support to central finance agencies. Donor-funded efforts to support centre of government have remained largely ineffective<sup>183</sup> in affecting the process of prioritisation by centre of the Government priorities.

Despite the top-down approach to decision making, the Cabinet and Parliament have approved and supported reforms across different sectors since independence. This reform effort has been made possible by a combination of committed technocrats pursuing it and finding a champion in a reform-minded Minister or Presidential Advisor. In some cases, the Parliament has voted in majority as it was left with little choice; For instance, in the case of re-alignment of exchange rate in 2015, lifting of fuel subsidies in 2018 and passing of the National Revenue Authority Bill in 2016 after signing of the ARCSS (after lack of movement for a long time). Few others such as ratification of South Sudan's accession to the East African Community have received support across the board.

At the other end of the spectrum, decisions made out of the Office of the President on the creation of 28 states and restructuring of the Cabinet in 2013 have directly contradicted the ARCSS and the Transitional Constitution (TC). In the case of 28 states, less than two-thirds of parliament members voted to approve constitutional amendments although a 'victory' was claimed on the basis that the numbers added up when the NLA and Council of States votes were tallied. However, the TC requires that the two houses sit separately when voting on constitutional amendments.<sup>184</sup> On the latter, amidst increasing disagreements and friction among SPLM leaders, Riek Machar, Rebecca Garang (among others) surfaced as stiff opposition to the President in the 2015 presidential race. Kiir responded by dismissing his entire cabinet in July 2013 including Riek Machar as Vice President, and increased security powers setting the stage for increased violence in December<sup>185</sup>.

The Council of Ministers have continued to meet in the aftermath of fighting in 2013, although over 40% of members depart after the conflict, and through renewed violence from 2016 onwards. Salva Kiir, however, has continued to maintain his position as de-facto Minister of Finance, Foreign Affairs, Defence. One of the reasons why the executive leadership and the Government did not completely collapse in the aftermath of violence and even when the fiscal situation deteriorated beyond all control was the continued access (of the leadership) to resources, outside formal channels<sup>186</sup>. Commercial loan agreements have been usually made out of the OoP with little involvement from MOFEP. Ronaldsen and Kinsley note that even when austerity measures were introduced by the Ministry of Finance during the oil shutdown in 2012-13, 'no cuts were made to the systems and military budgets that shored up Kiir's government.'<sup>187</sup>

Since 2016, the focus of the executive has remained on balancing power dynamics and negotiating the peace agreement. There has been limited capacity for cabinet functions to develop since 2015 given rapid changes in positions due to first the formation and later slow dissolution of the Transitional Government of National Unity followed by its reformation, in the span of three years. Development partners have pulled back all support to strengthen the executive after 2014. USAID

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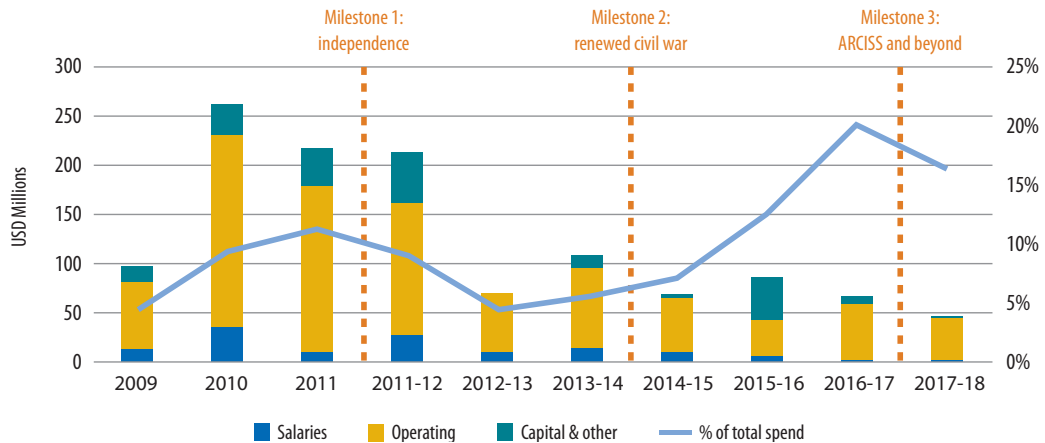
<sup>183</sup>Fritz, 2017

<sup>184</sup><https://radiotamazuj.org/en/news/article/less-than-2-3-of-s-sudan-parliament-members-vote-to-approve-28-states-proposal>

<sup>185</sup>Ronaldsen and Kinderley, 2017

<sup>186</sup>Based on interviews

<sup>187</sup>Ibid

**Figure 4** Total spend on CGF 1 and as % of budget, 2009-18, millions USD, current prices

Source: Ministry of Finance and Planning ([www.grss-mof.org](http://www.grss-mof.org)), authors' own design.

Spend on CGF 1 comprises all expenditure on the Office of the President and Ministry of Cabinet Affairs as well as the Office of the (First) Vice President and Ministry of Presidential Affairs in relevant years. Budget execution rate computes absolute spend on the CGF as a percentage of the sum of the relevant agencies' budgets.

funded Project for Good Governance in the Republic of South Sudan (PROGRESS) which was aimed at strengthening executive policy and decision making processes was meant to run from 2013- 2018 but was suspended in 2014 after one year of operations, except for some support for specific committees of the NLA.

From Figure 4, it can be observed that spending on executive coordination was at its highest just before and after independence, ranging between USD 200-250 million. The majority of this spending was comprised of operating expenses of the Ministry of Cabinet Affairs, Office of the President, Office of the Vice President and the Ministry of Presidential Affairs. In the lack of further disaggregated data, it is not possible to ascertain the nature of this spending. This increased spending, therefore, cannot be correlated to an investment in strengthening of executive coordination as a core government function. Since 2012/13, spending has dropped to less than USD 100m. This decline can be attributed to the overall decrease in levels of spending than changing priorities of the executive leadership.

## 23.2 Public financial management

**Development of the public finance functions in Southern Sudan prior to independence began from a very low base.** Whereas some trained, experienced accounting staff transferred from the CCSS to the GOSS, public financial management (PFM) was largely considered a Sudanese practice, and over 100 young, largely untrained and mostly Dinka employees were appointed to the new MOFEP in 2006. The SPLM's Secretariat for Finance and Economic Planning meanwhile only had experience developing and managing budgets a fraction of the size of the resources now flowing into the GOSS. Revenue collections was still largely administered by Khartoum

government structures, and no aid resources were being managed by any Southern institution. As indicated in the JAM report, basic infrastructure for managing finances were not in place (ranging from communications, roads, banking services and expertise in financial management).

With limited legislation in place, initial PFM reform efforts reflected prevailing attitudes to government. Early budgets up to 2011 were largely incremental, lump-sum budgeting exercises, with limited accountability over expenditure. Budgets were supplemented after the fact to match reported spending figures. This is reflected in spending figures on this CGF: the majority of spend on public finance agencies in the transition phase was on government contracts: as MOFEP was liable to pay against contracts issued by any one of the spending agencies, its budget was consistently exceeded by an average of 100% each year.

**Significant effort was made prior to independence to leapfrog some of the capacity and system constraints in PFM**, to start strengthening functions based on recommendations of the JAM process. Core fiduciary functions – audit, accounting and procurement – were contracted out to international firms until such time that capacity for these in government was sufficiently developed. The accounting function was directly contracted out through MOFEP, in order to retain confidentiality and autonomy of Government accounts, whereas other functions were contracted through co-financed MDTF projects. Such efforts, in key formative years of the new state, were in large part misaligned and ineffective<sup>188</sup>, partly due to limited government capacity to formulate and manage support requirements, and as such did not lead to improved control of GOSS expenditures, as reflected in levels of overspending against the budget.<sup>189</sup>

The MDTF intended to recruit an agent to support government's day-to-day procurement needs. The Bank's slow procurement procedures however meant the agent started over a year late, in 2007 – leaving government and the MDTF with little procurement capacity at a critical time, and allowed decentralised procurement procedures to take hold. The agent was also understaffed to manage the number and complexity of contracts for a government with close to USD 1bn in annual revenues, and faced significant resistance to reform within government: as a result, this support was not able to establish centralised control over government procurement. Interviewees noted that all support efforts lacked a sufficiently prominent and well-resourced capacity development component, which left the over 200 new staff members hired in 2008-10 with very limited capacity.

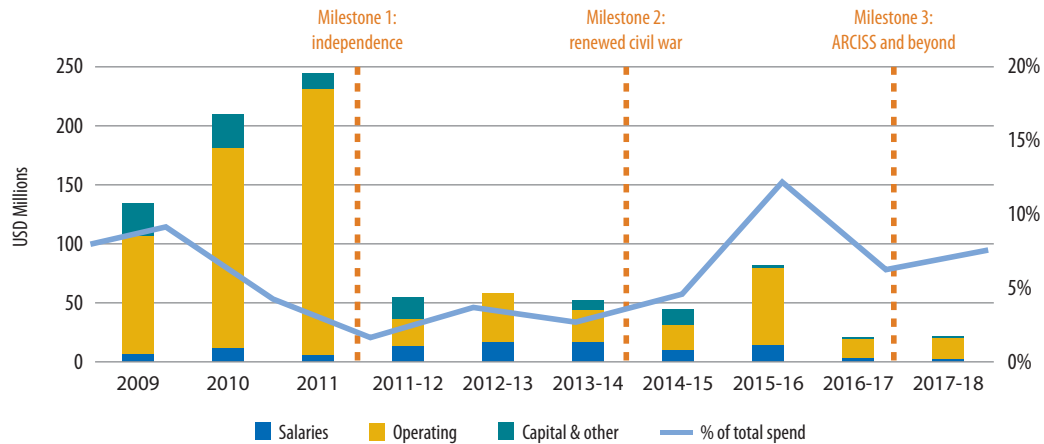
**Other support efforts were more effective, and lessons were learnt to improve public financial management functions despite continuing challenges.** Appointments of project accounting and external audit agents had more time to mature and were more suitably scaled. MOFEP tightened its oversight of the accounting agent in 2007, and assumed operations of treasury functions itself in 2008. A FreeBalance-based financial management information system

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<sup>188</sup>Government contracted KPMG in 2006 to record transactions, reconcile cash books and bank statements, and to draft monthly financial statements as well as annual accounts. Whereas this support was intended to help improve oversight and management of public finances, the contract greatly benefited the sole-sourced agent and did not prioritise developing these functions to be handed over to government – this constrained rather than enabled greater government

<sup>189</sup>OECD, 2009



**Figure 5** Total spend on CGF 2 and as % of budget, 2009-18, millions USD, current prices

Source: Ministry of Finance and Planning ([www.grss-mof.org](http://www.grss-mof.org)), authors' own design.

Spend on CGF 2 comprises all expenditure on the Ministry of Finance and (Economic) Planning, the Audit Chamber and the South Sudan Revenue Authority, excluding payments made on transfers of oil revenues to Sudan as well as transfers made to sub-national government. Budget execution rate computes absolute spend on the CGF as a percentage of the sum of the relevant agencies' budgets.

(IFMIS) was procured and deployed in 2007-8 – while limited to basic accountability tools, it was rolled out from the central finance ministry to a few agencies and all states in a short space of time. Senior officials in MOFEP meanwhile worked with the World Bank to design follow-up support arrangements, in order to ensure that follow-up MDTF-funded programmes were more effective: they felt the government had wasted the approximately USD 4m spent on the accounting agent.<sup>190</sup>

**Steady improvements were seen in public finance functions following these early missteps.** A range of longer-term, more coordinated support programmes were launched or restructured in the latter stages of the transition process, carrying on into the first years of government, which were specifically designed to have more explicit embedded advisory and capacity development components in their terms of reference (see Table 1 below). Overall donor spending on support to PFM increased from less than USD 5m annually prior to independence to around USD 15m spent in 2014.

All government spending was moved onto the IFMIS, making more detailed and regular expenditure reporting possible. The level of detail contained in budget documentation increased substantially from 2009 to 2014, reflecting budget preparation improvements, and agencies received more regularised and detailed reports on budget execution. Central government was able to more clearly track public resources going down to and being spent outside of Juba. On the revenue side, the 2009 Taxation Act laid the foundations for MOFEP to assume the mandate for tax collections in the South, and basic tax administration functions – such as registering taxpayers and starting to receive regular returns – were introduced.

<sup>190</sup>Ibid

**Table 1** Overview of donor support programmes to PFM in South Sudan

<b>Funder, project title</b>	<b>Timeframe and areas of support</b>	<b>Financial volume</b>
<b>World Bank: LICUS TF</b>	2009-11: capacity building and institutional development for fiduciary and aid management systems (north and south)	USD 4.5 million
<b>World Bank: Core Fiduciary Systems</b>	2006-13: providing fiduciary assurance for use of MDTF funds, including support to the Audit Chamber	USD 11.15 million
<b>Multiple bilaterals: Capacity Building Trust Fund, phases I and II</b>	2005-14: support gov't to manage human, organizational and financial resources	USD 13.63 million
<b>USAID: Core institutional structures (CORE), phases I and II</b>	2005-15: improve PFM policies, legislation and procedures, strengthen policies and capacities of the Bank of South Sudan, build government capacity to manage oil resources	USD 93 and ca 90 million
<b>IMF technical assistance</b>	2012-16: support to macro-fiscal and monetary management and coordination at the Bank of South Sudan, MOFEP	ca USD 5.6 million
<b>United National Development Programme</b>	2012-2018: assistance to PFM, notably revenue mobilization, at state levels, and at the central level for planning and budgeting	ca USD 18 million
<b>EU TA to sub-national payroll and PFM (EU-TAPP)</b>	2014-16: building capacity on PFM at state and local level	ca USD 10 million
<b>DFID, Budget Strengthening Initiative</b>	2010-18: strengthening capacities and systems for budget planning and preparation, fiscal transfers	ca USD 6.5 million
<b>Norway (Norad &amp; Norwegian MOFA)</b>	2011-17: supporting petroleum revenue management, macroeconomic analysis and strategic fiscal policy making	ca USD 5 million
<b>African Development Bank</b>	2015-2021: supporting management of natural and non-oil resources, budgeting and debt management capacities	ca USD 15 million

*Based on Fritz (2017), amended by authors*

**Long-term public finance officials nevertheless reflect critically on the pre-independence period**, noting key challenges and weaknesses not addressed during this time that grew into structural problems following independence:

- The lack of public finance and audit legislation meant procedures changed frequently, and offered limited spending and procurement controls. As MOFEP senior officials did not have access to the up-to-date cash position and cashflow forecasts, the Ministry could not challenge spending commitments on contracts made by line agencies, which started an accumulation of spending arrears that would be carried into South Sudan's independence.
- The development of audit capabilities was not prioritised by government. Whereas technical assistance was provided to the Audit Chamber as well as line agencies' internal audit departments from 2008 onwards through the MDTF, audits had few practical consequences across government, and no audited government financial statements have been reviewed and published since 2008.
- Key sources of government revenue were administered by the GONU rather than GOSS – including oil, sales tax and customs revenues – leaving government with underdeveloped capacity to administer revenues and foreign exchange reserves up to independence.

**The 2012 oil shutdown therefore was a significant challenge for MOFEP, though some improvements in the public finance functions emerged from it.** Faced with a sudden drop in government resources, the Ministry prioritised the development of non-oil revenue collection and administration. The Taxation Act was rapidly expanded to cover the governments new mandates, customs functions were integrated into MOFEP and new staff were recruited and deployed to administer the sales tax and customs revenues. Similarly, the new Public Financial Management and Accountability Act was approved in 2012, with accountability and reserves management provisions prioritised.<sup>191</sup> Technical assistance programmes supporting MOFEP at this time peaked, with around 40 advisers to the Ministry. Continuous support helped maintain gains in budget planning, preparation and reporting made up to independence, as well as managing austerity measures in 2012.

**Following the transition back into conflict in late 2013, public finance functions were tested to their limits, and suffered as a consequence.** The combination of diminishing revenues in the face of increasingly high spending commitments (war-time procurements in addition to the USD values of existing contracts and the large government wage bill), alongside lower levels of support as the security situation worsened, meant recent or ongoing reforms were halted or reversed. Notably, gradual improvements in spending control were undone, and efforts to introduce a structured budget process and performance monitoring against spent were abandoned.

A few factors precipitated the retreat in public finance capabilities. Firstly, the integrity of the IFMIS as well as the taxpayer registry suffered following the reduction and withdrawal of technical support, as Ministry staff was not qualified to programme or trouble-shoot systems for expenditure and revenue recording and management, budget preparation or for managing taxpayer information. Consequently, lag times for producing accurate, credible, reconciled data and reports increased substantially, and oversight of overspending and revenue leakages lessened (see Box 1). In addition, staff in key departments were rotated and new staff recruited just as external support was reducing in 2014/15.

External advisers have noted that specific types of support provided by development partners during this period contributed to weakening functions. Notably, African Development Bank (AfDB) funded efforts to increase budgeting and accounting capacity in 2015 were largely misaligned: staff were offered fully-funded masters courses or short-term training courses abroad in subjects not directly relevant to their work, resulting in the loss of talented officials in key departments, permanently or during critical surges in workload.

**Extensive effort was however made to retain and strengthen core public finance functions.** Dedicated technocrats in the Ministry of Finance, committed to improving their circumstances and those of their countrymen, and unable to officially leave their jobs for fear of reprisal, worked alongside external advisers to realign support efforts to adapting and consolidating core functions. As a result, national and state-level budgets are still being produced through a budget process involving all government spending agencies, and review by Cabinet as well as the National Legislative Assembly. The majority of government payments are still recorded on the IFMIS, and bank reconciliations are still being conducted.

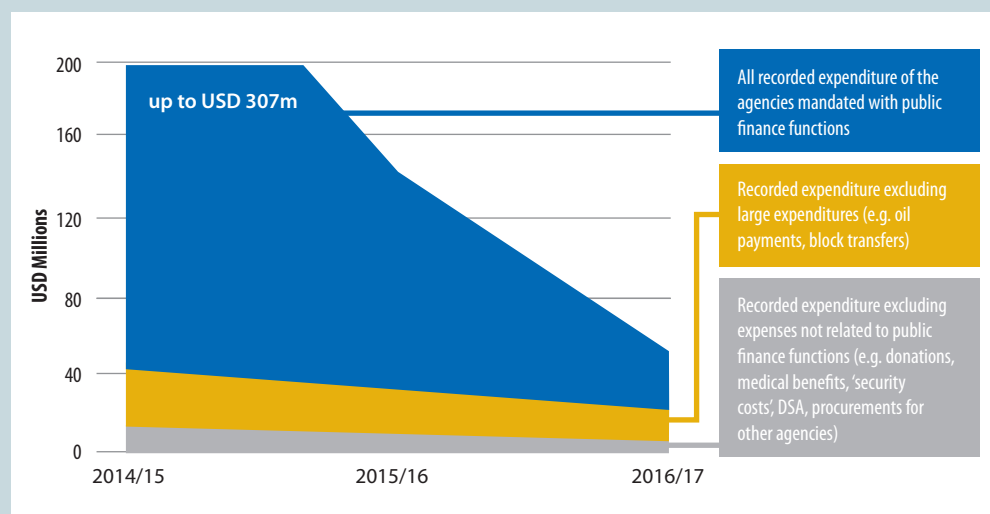
<sup>191</sup>World Bank, 2012a and 2012b

### Box 1: Interpreting expenditure data & approximating 'true spending' on core government functions

Expenditure data for South Sudan suggests that significant and increasing amounts of public resources are spent on individual core government functions, in the face of still weak capabilities across the period analysed in this study. Sufficiently detailed spending data was made available for this research from 2014/15 onwards, to help form a clearer picture as to what degree the spending totals represent a real investment of government resources in strengthening and maintaining core functions.

From reviewing the data, it is clear that reported spending totals can easily mischaracterise how much is invested in delivering on individual agencies' mandates. For South Sudan, the breakdown in spending controls during this period noted by interviewees is clearly reflected in the expenditure data of four key agencies (the Office of the President, the Ministry of Finance, the Ministry of Defence and the National Security Services). As a consequence, **the authors strongly caution against drawing conclusions from spending data as helpful indicators with regards to support to core government functions.**

Taking MOFP as an example, spending totals include large spending items – such as oil payments and transfers to states and counties – which are budget lines managed by the Ministry but not spent on the Ministry itself. Moreover, a wide range and increasing number of smaller expenditures were made from 2014/15 onwards which are clearly not part of the Ministry's public finance mandate, including on medical benefits for MOFEP and other government staff, donations, allowances and voluntary contributions, as well as spend on other agencies' operations and large lump-sum amounts spent on 'security', 'peace', 'food rations' or 'relocating IDPs'. Such expenditures comprise anywhere between



50 and 65% of total spend on operating costs in this period. Stripping these expenditures out indicates that less than 20% of total spending reported against the Ministry is indeed spending that directly contributes to fulfilling its mandates (staff salaries, training, supplies and utilities etc), as shown in the figure above.

The data sheds further light on the support to core functions if understood in light of narratives from interviews and readings. Expenditure figures in SSP show a steady increase in spending on the public finance function over this period, continuing from before. Yet a closer look at the data indicates that the number of individual expenditures – both in absolute terms and per vendor – increased dramatically in 2015-16, whereas the value of these expenditures decreased, and reversals increased. Numbers of expenditures decreased again in 2016-17.

Interviews described a rapid weakening of spending controls during this period: in light of public knowledge of the rapidly diminishing government revenues, mostly allocated to resource the renewed civil war, and rapidly rising price levels, government agencies, officials and contractors effectively ran on state resources following the appointment of a new Minister of Finance in 2015, explicitly brought in to help fund the war effort. Expressed in US dollars, the value of spending at current prices shows a rapid decline overall, though spending on the 'true' public finance functions comparatively fluctuated a lot less over this period (between USD 10 and 23 million).

Forms of support to these areas were more effectively tailored to the situation as the crisis worsened from 2014 onwards. Through combinations of remote and in-country advisory support through to early 2018, tools for reporting, budget preparation and some parts of expenditure management were simplified and automated to overcome some of the challenges noted above, and to allow these functions to be handed over to Ministry staff. Such changes also enabled MOFEP to become more responsive to the need to engage the IMF more regularly at a technical level.

**There is scope for significant advances in public finance capacity in South Sudan in the short term.** Following a period of severe deterioration, most public finance functions have a stronger foundation to build on as the country transitions out of conflict, and the transitional government has agreed to bold policy reforms to stabilise the nation's macro-fiscal position – during 2016/17 central bank borrowing was stopped, all outstanding contracts were cancelled and fuel subsidies were ended in order to regain control on revenue outflows and on spending. Ministry officials are also intending to act on IMF recommendations for further improving PFM, including by introducing introduce a cash allocation planning mechanism, and some development assistance is resuming following commitments made in line with ARCISS. Notably, the African Development Bank and UNDP have currently resumed support to the non-oil revenue sectors at national and state level respectively, following the enactment of the revenue authority.

### 23.3 Government employment and public administration

The Interim Constitution (IC) of 2005 mandates the Ministry of Labour, Public Service and Human Resource Development (MOLPSHRD) with key regulation, oversight and management functions for South Sudan's civil service including recruitment and promotion within professional grades, establishment control and training for civil servants.

The IC also mandates that a similar set-up be maintained in states and counties. Although, in practice, the functions of finance and public service are managed by the same institution in many states. Other central level MDAs responsible for oversight and advisory functions include the Civil Service Commission (CSC), the Employees Justice Chamber (EJC) and the Public Grievances Chamber (PGC). However, impartial regulatory bodies of this nature have had limited power in South Sudan.

Although the SPLM's strategic framework notes the need to build a robust and competent public service and every attempt was made to build one by the Ministry of Labour and Public Service (MOLPS), the idea of expansion of the organised forces and the civilian payrolls by absorbing SPLA forces was also anchored in the framework from the very beginning<sup>192</sup>. A key consequence of this policy, between 2005 and 2011 was the aggressive staffing of the GOSS structures: spend on salaries increased from USD 35 million in 2005 to close to USD 900 million by end of 2010. This expansion was exacerbated by the lack of a pension system for retiring civil servants. The creation of a pension system was discussed during the early JAM workshops but the Government decided against it. It would have been politically sensitive and given lack of revenue constraints, it was more convenient to put the matter on hold before independence. The magnitude of expansion of the public sector is highlighted in Figure 6.

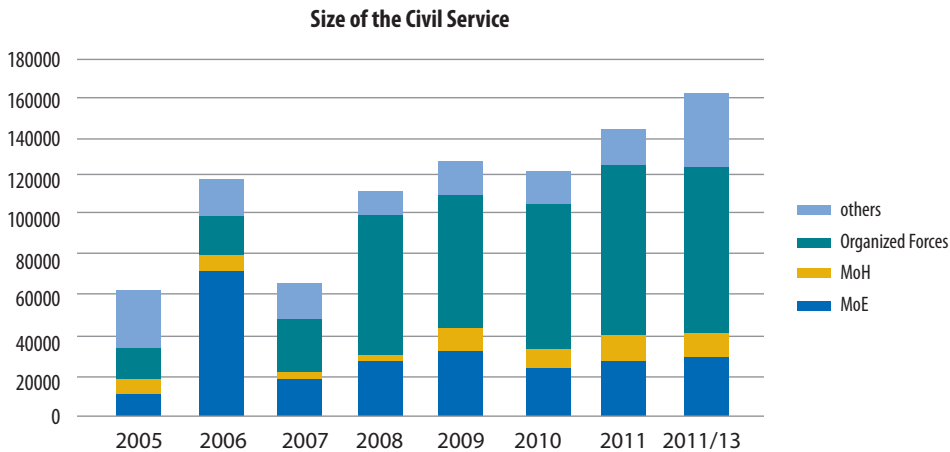
One of the implications of the sudden growth of the total workforce was the increasing numbers of staff on the payroll who did not have necessary education qualifications. Staff from the CANS were absorbed onto the payroll without assigning grades. Merit did not play a role in the merger between the CCSS and CANS. The organised forces and education sector absorbed more staff from the CANS, whereas most of the staff joining the Ministry of Finance and Economic Planning mostly came from the CCSS<sup>193</sup>. For instance, during a pilot exercise to clean the education payroll, it was found that a lot of support staff at the sub-national level were graded higher than teachers in primary and secondary schools, and this still remains the case. Senior ranks of the GOSS rejected most civil service training that required any qualification criteria and instead opted for paid short-term training courses.

Despite lack of broader political support, MOLPSHRD, under the leadership of Minister Awut Deng Acuil spearheaded efforts to streamline recruitment and expenditure on salaries between 2009 and 2013. Key efforts included<sup>194</sup>:

<sup>192</sup>(Fritz & Issa, 2015) SPLM's strategic framework notes that "the task of Team 5 (referring to the transition team) will focus on encampment and *screening of SPLA forces as to those who will remain in the SPLA* standing armed forces, those who will go into Joint Integrated Units, those who will go into the Police, Prisons, Firefighters and Wildlife services and those who will undergo *disarmament, demobilisation and reintegration (DDR) into civil service*".

<sup>193</sup>As noted by Fritz (2015) citing a survey of public service that was undertaken in 2005 through a Coordination and Verification Committee

<sup>194</sup>(Fritz & Issa, 2015)-reforms included based on interviews and citation

**Figure 6** Size of the civil service inclusive of organised forces, 2005-2013

Source: Fritz et al (2015), page 46).

- With the support from DFID in 2008, the capacity building unit in the Ministry pursued the development of a national curriculum training across the civil service although efforts to develop a comprehensive approach to training remained largely unsuccessful. This can be partially attributed to uncoordinated efforts between donors, MOLPSHRD and other line ministries.
- The President declared 2009 as the ‘Year of decentralisation’ and the ‘Year of public service reforms’ although key reforms in the year were limited to developing and adopting relevant legislation- the Local Government Act in 2009 and the Civil Service Act in 2011. The Police Service Act was passed in 2009, the Prison Service Act and Wildlife Services Act were adopted in 2011.
- The South Sudan Electronic Payroll system (SSEPS) aimed at monitoring payroll expenditure was piloted in the education and health sector in 2008 and rolled out, in 2009, to all MDAs including both national and state levels. Financed by the CBTF, it was one of the more notable reforms during this period, allowing MDAs and MOLPSHRD to monitor how many employees are on the payroll and who is paid at what grade. Between 2008 and 2011, there was an attempt within the education, health and police sector to reduce the number of ghost workers<sup>195</sup>. This is also reflected in the PEFA scores in Table 2 (see indicator ‘internal controls of changes to personnel records and the payroll’).
- In mid-2012, discussions and work around setting up a Human Resource Management Information System (HRMIS) was initiated, with support from the CBTF (building on initial efforts made by USAID in 2009-10). However, limited progress was made on this front and SSEPS continued to remain the more commonly used mechanism to collect and record all data on civil servants. UNDP supported development of a comprehensive payroll management system for the Police Service although this was never linked to SSEPS.

<sup>195</sup>In August 2013, for instance, the Government announced that roughly 10,000 ghost workers has been identified in the police force alone equivalent to 20% of the entire force. <http://sudantribune.com/spip.php?article33958>

**Table 2** PEFA Scores on effectiveness of payroll control in South Sudan, 2012

<b>Effectiveness of Payroll Control (PI-18 aggregate score)</b>	<b>C+</b>
Pi-18 (i) Degree of integration and reconciliation between personnel records and payroll data	B
Pi-18 (ii) Timeliness of changes to personnel records and the payroll	B
Pi-18 (iii) Internal controls of changes to personnel records and the payroll	A
Pi-18 (iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	C

Source: PEFA, 2012

- Central ministries introduced a system of ‘nominal roll’<sup>196</sup> aimed towards setting ceilings on hiring in line with budget allocations for each financial year. Through the 2011 Civil Service Act, MDAs were mandated to adopt establishment structures that would outline the number of posts at each grade, for every department within the MDA. Although this only applied to ‘civilian’ ministries, excluding the organised forces and the army. Unlike the civil service law, the police and prisons services provide limited authority to the MoFEP or MOLPSHRD over establishment and hiring.
- In 2011-12, the MOLPSHRD developed two strategy documents, (a) a Strategic Plan (2012-2016) and (b) a Medium-Term Capacity Development Plan for 2011-2013 although this could not be implemented following the sequence of events from 2013.
- In 2013, the Civil Service Pension Act was passed by the President and the Ministry housed a ‘Pensions’ Department. However, the Civil Service Pension Scheme Bill was not passed and contributions were never transferred from the MoFEP to the pension fund for reasons that can be attributed to political costs. The police services had a separate pension fund (into which payments to the tune of 3% of their salaries transfers was made) although it is not clear if this was operational at any stage. At the time of writing this report, however, the Government had just launched payment of pensioners for the first time since independence<sup>197</sup>.

Most reform efforts that were pushed through by the Ministry during this period were widely supported by development partners. Donor support was provided by the CBTF, USAID’s CORE program, DFID’s skills for South Sudan project and capacity building through the MDTF. Especially the CBTF focused on supporting public sector capacity and was designed to provide more flexible and demand driven support.

Significant effort was invested, during this period, in building core functions of public administration - establishing payroll control, efforts to remove ghost workers, streamline

<sup>196</sup>For each financial year, nominal rolls contain the number of positions in each institution for which funding has been approved, by the Ministry of Public Service, for a given budget. For a position to be filled, it must be vacant, allocated in the budget and be included in the nominal roll (Fritz, 2015).

<sup>197</sup><https://radiotamazuj.org/en/news/article/south-sudan-government-starts-payment-of-pensioners>

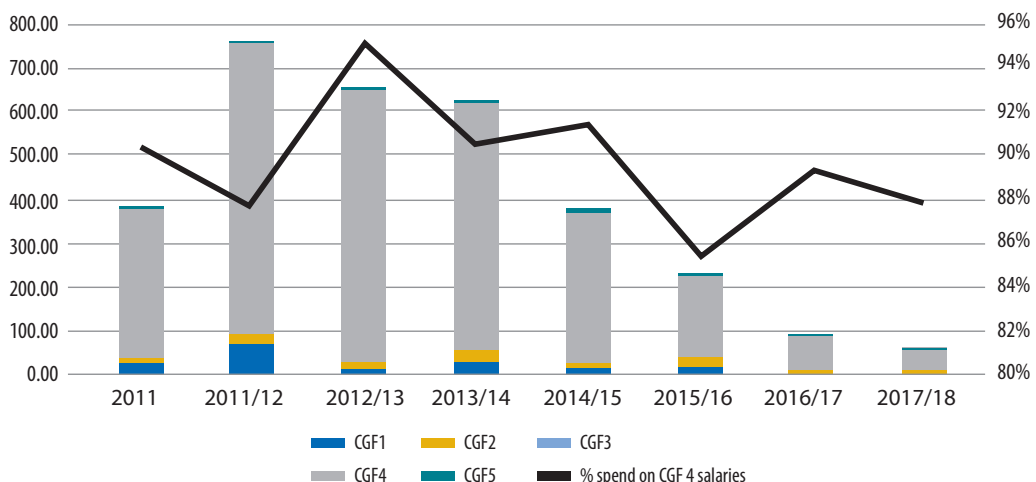


recruitment based on merit, passing of the pension Act. These reforms, however, failed to introduce any control over the expansion of the organised forces payroll or build capacities to prevent exploitation of the weaknesses of payroll control. Spending on salaries in the security sector has constituted 85-90% of total spending on salaries by all CGFs. Figure 7 indicates spending on wages and salaries in the security sector in comparison to spending on salaries by other CGFs. MOLPSHRD and MOFEP have come under considerable pressure to favour hiring of and payment to members of the SPLA, within organised forces and civilian positions irrespective of their qualification and capabilities. In 2011, Former Minister Awut Deng Acuil proposed to form a committee to screen public servants across the country to streamline the bloated public workforce by matching grades with educational qualifications. The proposal was faced with significant resistance from the Council of Ministers following which she resigned from her post.<sup>198</sup>

Most progress was brought to a stand-still after late 2012 starting from the oil shut-down, followed by renewed fighting in 2013 and the deepening fiscal crisis. Where reform efforts were pursued, it had little impact given the broader context. In the wake of the oil production shutdown in 2012, a hiring freeze was declared. The freeze was never formally lifted but hiring gradually resumed once oil production resumed in 2013. Housing allowance were also cut down in April 2012, a move less politically sensitive than reducing basic pay, although it was restored to normal levels after the conflict in January 2014 despite the increasing pressure on resources<sup>199</sup>.

In January 2014, after the conflict, the government established a Crisis Management Committee to pay salaries upon physical verification. It was, however, suspended two months later, following

**Figure 7** Spending on salaries at the Union level for each CGF, proportion of spending on salaries in the security sector, USD m



Source: Ministry of Finance and Planning ([www.grss-mof.org](http://www.grss-mof.org)), authors' adaptation. Note that spending does not include salaries transfers to states and counties by MoFEP and by other agencies (including organised forces).

<sup>198</sup><https://paanluelwel.com/2011/10/30/breaking-news-awut-deng-acuil-the-minister-of-labor-resigns-from-kiirs-government/>

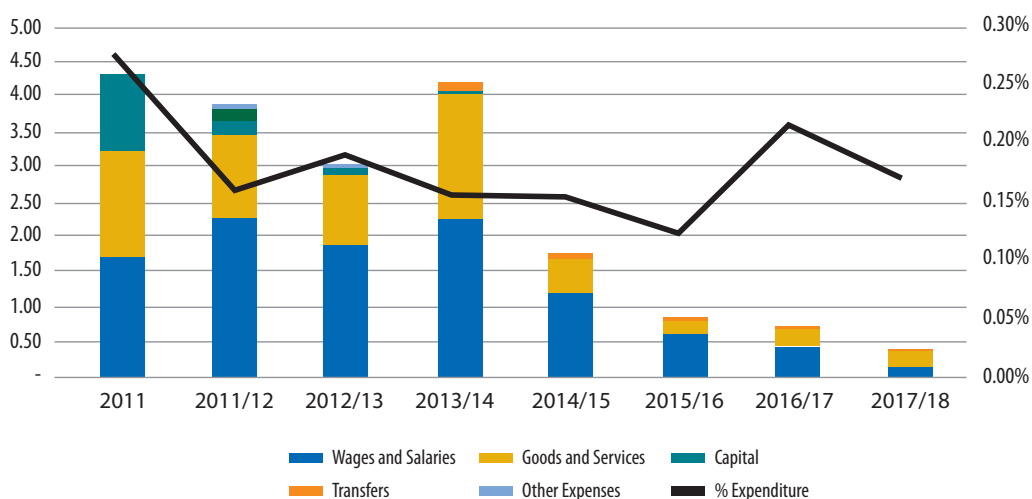
<sup>199</sup>Interview notes

criticism around potential corrupt practices, abuse of power and resulting exclusion. Delays in salary payments were rectified a couple of months after payments were reverted to regular channels<sup>200</sup>. The CBTF was meant to conclude in 2014 but was suspended soon after the conflict. Other donor programmes in the pipeline were put on hold. Despite CBTF pulling out, SSEPS remained functional and in use at least till 2015.

Following on from the rapid erosion of salaries in 2014 and 2015 and alignment of the exchange rate in December 2015, the Council of Ministers announced a two-threefold increase (depending on the grade) in salaries at the central level, putting further pressure on shrinking resources. Soon after, salaries for sub-national level staff were also increased. The creation of 28 states in October 2015 has, so far, been the biggest setback to payroll management in that the MOLPSHRD lost track and control over recruitment and payroll (including civilian) in all states and counties after this decision. A lot of staff in states were asked to ‘go back to the states to which their home town now belongs to’. After July 2016, the conflict has spread to most parts of the country making it impossible to retain systems, procedures and monitor even payment of salaries.

Payroll management has been severely affected at central level as well. The World Bank cancelled the Institutional Development and Capacity Building Project after 2016, an IDA credit worth US\$ 40m aimed at developing core human resource management and development along with improved PFM capacities in selected ministries. The austerity period since early 2012, renewed

**Figure 8** Total spending on Public Administration and Government Employment, and as a proportion of total spending in USD m



Source: Ministry of Finance and Planning ([www.grss-mof.org](http://www.grss-mof.org)), authors' adaptation. Spend on 'Public Administration and Government Employment' includes the following MDAs: Ministry of Labour, Public Service and Human Resource Development (MOLPSHRD), the Civil Service Commission and the Employees Justice Chamber. Note: the MOLPSHRD was termed MOLPS in 2011 and 2012. In FY 2014/15, there were two separate MDA lines- (i) Labour and (ii) Public Service & HRD. All of these are summed up to include spend on MOLPSHRD for each year.

<sup>200</sup>(Fritz & Issa, 2015)

fighting since 2013, and more importantly, the creation of 28 states and the fiscal crisis starting from 2014 has severely undermined any early gains made on managing recruitment, establishing payroll controls and matching grades with qualification even in sectors such as health and education. Development partners are no longer providing support to capacity building, public administration and human resource management.

From Figure 8, spending on public administration as a proportion of total spending has remained at almost the same levels, between 0.16-0.22%, since independence with wages, salaries and operating expenses constituting most of the spending. There is a sharp decline in the real value from FY 2014/15 onwards which can be attributed mainly to the fiscal crisis. Although most reforms were pushed through between 2009 and 2013, this is not reflected in spending patterns since most of these are policy changes which cannot be captured by budget data on salaries and operating expenditure within the Ministries mandated to regulate public administration.

### 23.4 Security

The security sector in South Sudan influences every other sphere of politics and affects significantly the level of resources available for investment in other sectors including service delivery and infrastructure.<sup>201</sup> Non-payment or delays in payment of salaries in the security sector in recent years has resulted in a spike in lootings and break-outs of violence across the country<sup>202</sup>. What happens in the security sector has always been critical to the stability of the country. This can be attributed to the fact that the line between the civilian and military has always been blurred in South Sudan because of how the security sector has evolved in South Sudan. Although both 2013 and 2016 conflicts were largely political, the SPLA was drawn into this situation very easily since senior members of the SPLA hold influential political positions and have traditionally used their positions to maintain patronage networks. This story has its roots, partly, in how integration was pursued and executed between 2005 and 2011.

Salva Kiir bought entire networks of support by awarding senior members of the SPLA and leaders of other factions key positions within the organised forces and civilian ministries. Furthermore, commanders in any militia that fought in the civil war were offered equivalent ranks or promotions in the unified army, with lower-ranking militia members and many unemployed youths rapidly inflating the lower ranks of the SPLM and government. This also significantly increased the Nuer presence within the SPLA/M (both within higher and lower ranks). As reflected in the Preamble of the Juba Declaration of 2006<sup>203</sup>, the integration between the Sudan People's Liberation Army (SPLA) and the South Sudan Defence Forces (SSDF) was driven by the desire to build and maintain 'peace, reconciliation and unity among the people of Southern Sudan'

<sup>201</sup>It is a massive undertaking to summarise the complex, fluid and non-linear politics and realities of the security sector in South Sudan, especially to chart out why and how various decisions were taken since 2005 and its implications for larger political decisions and the direction of reform. Delving into these complexities is beyond the scope of this study. Instead, it aims to (i) present spending trends in the security sector against total spending; (ii) place the trends within the broad dynamics that have guided decision making in the security sector; and (iii) trace briefly DDR efforts in South Sudan and explain why initial efforts failed to bear any tangible results.

<sup>202</sup><http://www.sudantribune.com/spip.php?article62931>

<https://www.news24.com/Africa/News/red-cross-warns-unpaid-wages-deepening-s-sudan-crisis-20170821>

<sup>203</sup>The Juba Declaration was critical in bringing brought tens of thousands of soldiers into the SPLA.

and to 'usher an era of stability and sustainable development in Southern Sudan'. The intention was never to develop a professional base of armed forces. As one interviewee put it, ***'It was this process that was of utmost priority to the senior leadership during this period and not investments in core government functions. It (building unity) was a well-intentioned idea that went wrong in execution'***.

However, the SPLA never fully achieved unified military command over leaders of different factions or its soldiers despite forming a dominant part of the security sector in South Sudan<sup>204</sup>. A key reason is how SPLA senior leadership has been perceived by others in power. Despite Salva Kiir being at the helm of affairs since 2005, there has been little respect for central command even within SPLA<sup>205</sup>. Kiir is considered by many other Commanders in powerful positions as a co-command. Fragmentation both within SPLA and across factions have always existed but became prominent after revenues started declining post 2012 oil shutdown<sup>206</sup>; Maintaining loyalties and hence, control became a growing challenge. For instance, after the war in Heglig against the Sudan Armed Forces (SAF), 'the national assembly confessed that the government only had control of only 30 per cent of the number of its soldiers on its pay list<sup>207</sup>. The fighting in 2013 further undermined any attempts to maintain a unified security sector.

Even amidst the economic crisis, senior SPLA leadership has continued to find substitutes to oil revenues- doling out recognised authority over territory has become the new political currency for patronage. The creation of the Greater Pibor Administrative Area (GPAA) and 28 states (now 32) both demonstrate this attempt to appease groups within the SPLA and outside. In the former case, a peace agreement was signed between the GRSS and the Cobra Faction calling for the creation of the GPAA in May 2014, appointing David Yau Yau as the Governor, putting an end to a rebellion that began in 2010<sup>208</sup>.

The significance of the security sector is also reflected in how crucial an 'apparent agreement' on security arrangements was to signing of the ARCSS in 2015 and the revised agreement in 2018. Even after signing of the agreement in 2015, there were severe delays in implementing the security arrangements. For instance, the former Chairperson of the Joint Monitoring and Evaluation Commission (JMEC), Festus Mogae, reported that the Joint Military Ceasefire Committee- responsible for coordinating activities around cantonment- was not functional "since the government general chairing the body was too busy planning military operations against the Opposition". Close observers noted that the Strategic Defence and Security Review Board responsible for providing a roadmap for the security sector transformation process was barely functional<sup>209</sup>. Now more than midway through the pre-transitional period after signing of the Revised Agreement in September 2018, little progress has been made on disengagement, cantonment and unification of the armed forces which observers note will be a 'decisive milestone'.<sup>210</sup>

<sup>204</sup>Schomerus et al, 2016

<sup>205</sup>(Breitung, Paes, & Van De Vondervoort, 2016)

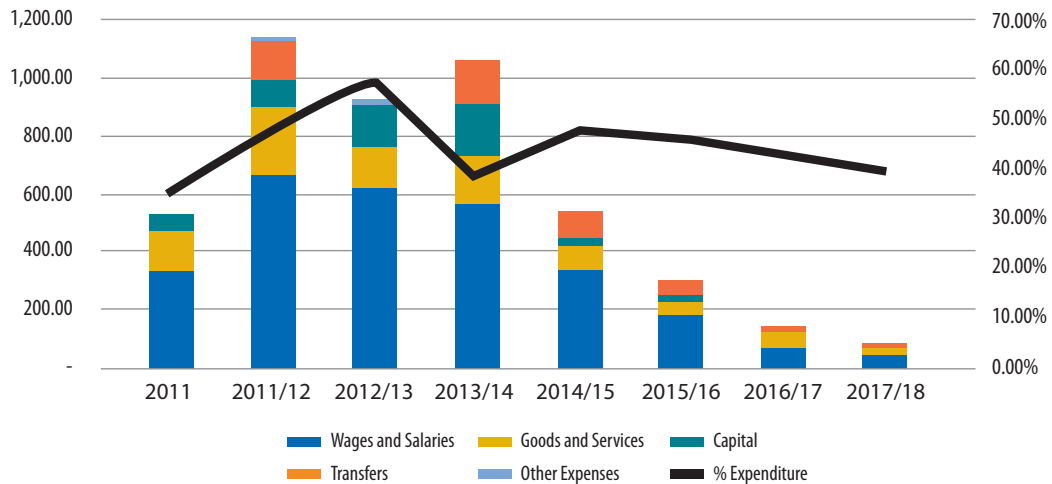
<sup>206</sup>Literature indicates that a key issue around fragmentation relates to SPLA's failure to fully integrate an influx of untrained soldiers following the Juba Declaration which brought the SSDF into the SPLA.

<sup>207</sup>(Schomerus & Aalen, 2016)

<sup>208</sup>See <https://radiotamazuj.org/en/news/article/yau-yau-appointed-to-head-greater-pibor> and <http://www.sudantribune.com/spip.php?article57671>; David Yau Yau was replaced by Baba Bedan Konyi following which Yau Yau joined the SPLM in 2016, as a part of the power sharing agreement.

<sup>209</sup>(Breitung, Paes, & Van De Vondervoort, 2016)

<sup>210</sup><https://www.theeastafrican.co.ke/news/ea/South-Sudan-parties-still-fighting-over-peace-deal/4552908-4952086-1309t9xz/index.html>

**Figure 9** Spending in the security sector and as a proportion of total spending, USD m

Total spending in the security sector has constituted an average of 44% of total spending between FY 2011/12-FY 2017/18. It was the highest in FY 2014/15 and FY 2012/13, constituting 47% and 57% of total spending, respectively. Similar to trends across other core government functions, the total value of spending has declined from over one USD billion around independence to less than USD 100m in FY 2017/18. A majority of spending is comprised of wages and salaries whose key purpose has been to maintain networks of support (discussed in detail in chapter 2). These numbers should be carefully interpreted as it may not fully capture spending on the security sector including those outside of the system and/or through other MDAs. More importantly, it is worth noting that given the incentives driving the SPLA and all parties in the current conflict, it is hardly a priority for the government to maintain security and order in the country. In the perceived lack of a central command, every faction is driven by the need to protect its own interests and security (Schomerus and Vries, 2014). At the same time, it is almost impossible to expect that the Government will reduce spending on the security sector any time in the near future given the purpose this serves. ***The levels of spending on the security sector in South Sudan and prioritising it in national budgets, therefore, cannot be interpreted as a marker of government's priority to build a professional security sector as one of its core functions.***

Source: Ministry of Finance and Planning ([www.grss.mof.org](http://www.grss.mof.org)) authors' adaptation; Spend on the security sector includes the following MDAs: Defence, Wildlife, Fire Brigade, Interior, Police, Prisons, Judiciary, DDR Commission and the National Security Service. This includes transfers to states and counties budgeted for within these MDAs.

### ***DDR and other donor interventions in the security sector***

Attempts to initiate and implement a DDR (demobilisation, disarmament and reintegration) programme during the CPA period and after independence has remained largely unsuccessful in South Sudan. This lack of success can be attributed mainly to the contradiction between what the international community tried to implement--a process of downsizing of the SPLA--and the goals

being pursued by the GOSS as a part of its big tent policy. Donors' approach in the period between 2005 and 2011 assumed that the Government was committed to professionalise and re-structure the army.

The government's idea of DDR meant absorption of SPLA officials onto the civilian or organised forces payroll. For various reasons including lack of consensus on what the DDR programme would entail in South Sudan, the programme was officially launched only in 2009. But there was little incentive, given resource constraints, to invest in anything other than public sector jobs. On the demand side as well, the average pay in the public sector (including organised forces and the army) was attractive enough to deter voluntary participation in the DDR. Limited control over recruitment meant that holding a 'public sector job' and bearing arms were not mutually exclusive. Donors committed significant funds to the DDR programme<sup>211</sup> (estimates indicate commitments in excess of US\$130m) but evaluations of the programme indicate that it failed in downsizing the armed forces.

An internal UNDP audit '*confirmed that both procurement and hiring procedures had been violated, while significant assets disappeared*'. There were some other key issues which affected the reach and level of influence: (i) the programme was managed, on the government side, by the DDR Commission, a civilian institution that had limited access to senior SPLA leadership<sup>212</sup>; and (ii) the funds allocated to the DDR programme both by donors and the Government, although not insignificant, were not sufficient to mobilise a large-scale programme.

In addition to DDR efforts, the international community, between 2006 and 2012, supported security sector reform targeting mainly the SPLA and SSNPS (South Sudan National Police Service). Interventions focused on improving accountability of the armed forces and increasing its operational efficiency. Key players included the UN Peacekeeping Mission in South Sudan (UNMISS), DFID, Norway, USAID and Switzerland. Efforts were aimed at improving transparency of military expenditure, strengthening demand-side actors (civil society), and capacity building aimed at improving operational capabilities of the SPLA. The U.S. State Department supported internal re-structuring of the SPLA<sup>213</sup>. Whilst all of this enabled the SPLA in achieving independence and 'in fighting against a common enemy', existing literature indicates that international security sector reform interventions overlooked the nuances and complexities of working with the security sector; including the implications of supporting specific factions (capacity building efforts focused more on parts of the SPLA that were better educated), the timing of the DDR programme-mobilised only in 2009, and the inability of reforms to control the expansion of the SPLA and organised forces' payroll.

**After independence**, there were renewed efforts to design a DDR programme supported mainly by key UN partners-UNMISS, UNDP-and other donors. In September of 2011, a DDR policy document was developed and approved by the Council of Ministers. In reality, the only notable progress was demobilising approximately 500 soldiers in the Mapel demobilisation camp where

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<sup>211</sup>The DDR programme was managed by UNDP, implemented by IOM, GIZ and others;

<sup>212</sup>(Breitung, Paes, & Van De Vondervoort, 2016)

<sup>213</sup>(Breitung, Paes, & Van De Vondervoort, 2016)

they were provided with vocational training. After 2013, all donors cancelled support to the DDR Commission except support from UNICEF towards DDR for children. Within the wider context of renewed conflict and lack of funds (inter-linked), the DDR Commission has not actively carried out any activities relating to its mandate since 2013.

The Revised Agreement signed in 2018 requires that the DDR Commission should be reconstituted one month after signing of the agreement although there has, so far, been little movement on this front. After the civil war resumed in April 2016, fighting spread to most parts of the country making conflict dynamics more complex; especially at the sub-national level, factors affecting the conflict and decision making vary from one context to another. A successful DDR programme will require all factions (not just the SPLA) to buy-in to the idea; otherwise, each faction would perceive DDR as obliging them to relinquish the means to protect themselves from other factions. In addition to political commitment, it will require financial support from both the Government and development partners. Donor interventions will need to approach security sector reforms with more consideration for what is required to maintain stability in the region (than what should be) in the long-term.

### 23.5 Local Governance

The IGAD led mediation for the CPA did not discuss federalism in much detail.<sup>214</sup> It established ten states and seventy nine local governments within four tiers of governments: national, autonomous regional government for Southern Sudan, state government and local government. The national and state tiers of government were designed to have three branches- executive, legislature and judiciary. The Local Government Act (2009) further sets out local governments to be comprised of three levels: the country, payam and boma<sup>215</sup> (and the equivalent in urban areas to be city, municipality and town councils in urban areas). The functions and responsibilities of each level of government were not set out in great detail except in schedules to the Interim Constitution (2005) and the LG Act<sup>216</sup>. These structures were to remain in place regardless of the outcome of the referendum and to continue in independent and sovereign South Sudan until the adoption of a permanent Constitution.

However, the Transitional Constitution (TC) in 2011 featured a departure from the Interim Constitution in how powers would be decentralised to different administrative levels, indicating a first move towards centralisation, from what was initially envisaged. Some key departures included (i) the TCSS provides the President of South Sudan with exceptional powers to remove a state governor or dissolve the state legislature in the event of a state crisis that threatens national security; and (ii) the TCSS centralised previously decentralised services such as the judiciary, public attorneys, police, prisons, wildlife and the fire brigade. It also did not provide for the establishments of a state judiciary as one of the branches of the autonomous government<sup>217</sup>. The

<sup>214</sup>(Schomerus & Aalen, 2016)

<sup>215</sup>Counties are given wide ranging responsibilities for local planning and primary service delivery, however their capacity is highly variable and generally weak.

<sup>216</sup>LSS review documentation, MoFEP.

<sup>217</sup>(Schomerus & Aalen, 2016)

last one, specifically, has resulted in conflicting approaches to developing and maintaining security mechanisms at the sub-national level. These changes to the Transitional Constitution laid the foundation of a unitary state wherein the central government would, ultimately, have a final say on crucial matters relating to local governance.

Between 2005 and 2011, most donors were focused on providing support to setting up core functions in the capital- key counterparts of most large-scale governance projects were central agencies of finance. Some donors had internal discussions on the balance of focus across national and sub-national, but support was pre-dominantly directed towards Juba and this seemed fitting at the time in the period leading up to the referendum. Some support was provided, though, by pooled funds, USAID and UNDP to support state level revenue reforms, legislative drafting capacity and compilation of state assets.

The Transitional Constitution mandates the Local Government Board (LGB), established within the Office of the President, 'to review the local government system and recommend the necessary policy guidelines and action in accordance with the decentralisation policy as enshrined in the Constitution' (page 64, Transitional Constitution, 2011). However for all practical purposes, the LGB has had little power (and capacity) to recommend, to the Office of the President, on matters relating to governance of LGs. Senior officials within the LGB reported that they have barely met with the President and the Presidential representative on decentralisation, since independence, on policy matters relevant to local governance. The absence of their representation in the Cabinet further limits its influence over matters such as approach to fiscal decentralisation, for instance. Local governments, as well, do not seek advice from the LGB especially on political matters, and instead consult directly with the Presidency.

Since 2011, the central government's most visible efforts to support local governments have been through its commitment to transfer financial resources in the form of unconditional transfers, for salaries and operating expenses, and conditional transfers for specific agencies (education, health, organised forces and agriculture). Although with delays, transfers still continue to be disbursed prioritising it as much as salary payments. This is further illustrated in Figure 9 and 10. Even between 2006 and 2011, over SSP 4 billion was transferred to state governments from the Government of Southern Sudan, an average of nearly 20% of the government budget.<sup>218</sup> The MoFEP also instituted the State Transfer Monitoring Committee (STMC) in 2010/11 to monitor expenditure reports from states and advise accordingly to the Undersecretary of Finance on release of transfers for the following month. It also included representation from the Local Government Board and the Ministry of Labour and Public Service. Its role expanded further between 2012 and 2014 to monitoring payrolls from states, increased representation from supporting donors and implementing partners and included representation from Line Ministries after transfers to service delivery units was initiated in 2013/14.

After 2011, donors were keen to support service delivery especially in the health and education sectors. At the same time, the MoFEP was increasingly concerned about increasing fragmentation

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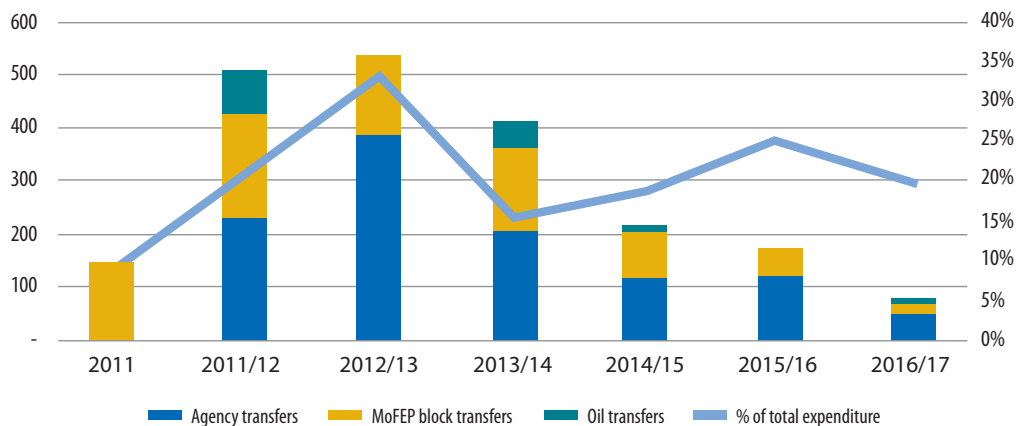
<sup>218</sup>The Local Services Support Initiative: an Overview, Republic of South Sudan, May 2015 (<http://grss-mof.org/documents/>). Most of these funds were allocated towards paying salaries of teachers, health workers and the Organised Forces but did not include operating funds for state and county governments.



of donor support to sectors and how it would undermine government systems in the long run. Committed technocrats at MoFEP, along with support from technical advisors and inputs from Line Ministries, developed a Service Delivery Framework and a Plan of Action (between 2010 and 2013) that would ensure that funds earmarked for service delivery would be channelled through modalities that would strengthen government capacities and systems.

In 2013 when government's revenues was expected to increase after oil production resumed, senior officials within MoFEP were conscious to commit to service delivery and infrastructure as priorities, especially in the context of recent concerns (from the international community) on the credibility of government spending. To this end, the Minister of Finance and President (with support from the President's economic advisor) made the most out of potential increase in government's revenues by pledging to increase resources towards service delivery units, states and counties for their efficient operation. This was approved by the Council of Ministers in November 2013<sup>219</sup>. This can be seen in Figure 10 when the share of agency transfers as a proportion of total transfers increased from FY 2012/13 onwards. In FY 2011/12, agency transfers constituted 46% of total transfers increasing to 73% in FY 2012/13. In FY 2015/16 and 2016/17, it constituted 70 and 76%, respectively of total transfers.

**Figure 10** Spending on transfers, conditional and unconditional, and as a percent of total spending, USD m



Source: Ministry of Finance and Planning ([www.grss-mof.org](http://www.grss-mof.org)), authors' adaptation.

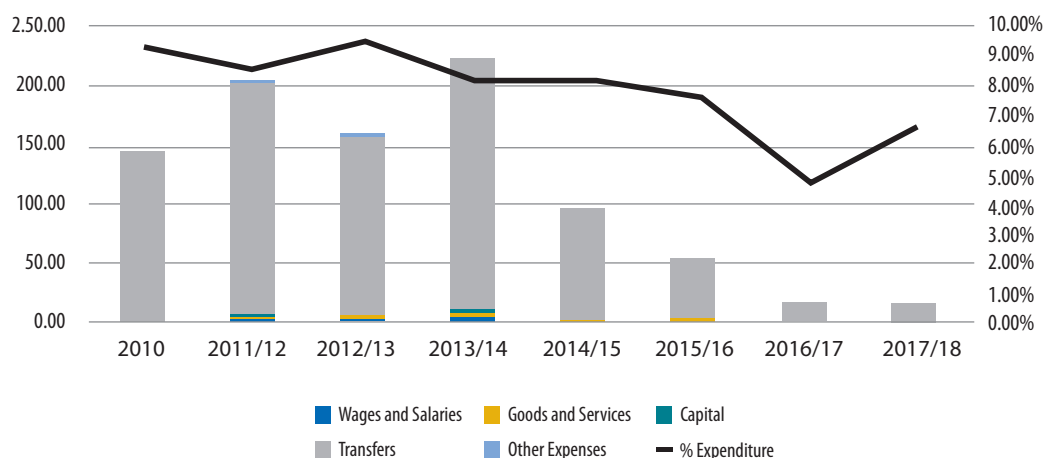
Spend on agency transfers includes (i) all salaries and operating transfers to the following agencies- Water Resources and Irrigation, Education, Health, Agriculture, Wildlife, Employees Justice Chamber, Rule of law comprised of Police, Prisons and Fire Brigade and the security sector; and (ii) transfers to service delivery units in the case of education and health sector. MoFEP block transfers includes (i) salaries and operating transfers to states and counties, (ii) sales tax adjustment grant, (iii) transfers to Abyei and (iv) transfers to state legislatures which was discontinued after FY 2012/13. Oil transfers include transfers to states and communities. Figures for FY 2016/17 are based on budget allocations.

<sup>219</sup>Based on interviews and documents relating to the Local Service Support Initiative (on the website: <http://grss-mof.org/>)

Several other reforms were pursued during this period (from 2013-2015):

- In 2013, MoFEP and LGB, through support from CBTF, developed a Local Government PFM manual which provided standards for budgeting, procurement, financial management, reporting and accountability by the LGs and outlines related roles and responsibilities at each administrative level.
- The horizontal allocation of block transfers to states and counties were in 2012 changed from a system of “equal share” allocations to a system based partly on populations: 60% of the grant pool equally to all states/counties and 40% of the transfer pool allocated in proportion to each state/county population. This reform was undertaken in recognition of varying financing needs of different entities – and the relative importance of population as one explanatory factor on which data was available.
- Another discretionary grant, the Sales Tax Adjustment Grant (STAG) was introduced in 2012/13, to distribute 50% of sales tax collection to states after national and state governments agreed to harmonise their taxation systems. An agreement was reached in 2012 to centralise collection of sales tax by MoFEP and customs officials, on behalf of state governments.
- The MoLPSHRD and Local Government Board issued the *Interim Local Government Human Resource Management Manual* in December 2014 which provides guidance on standard organisational and staffing structures at the county level. This was meant to be fully rolled out to counties with support from donors although this was not achieved after key programmes were suspended in 2015 and 2016.

**Figure 11** Spending on local governance and as a proportion of total spending in USD m



Source: Ministry of Finance and Planning ([www.grss-mof.org](http://www.grss-mof.org)), authors' adaptation. Spend on local governance includes expenditure by the Local Government Board, Ministry of Federal Affairs, Council of States, Fiscal and Financial Allocation and Monitoring Commission and all block transfers from MoFEP to states and counties. 'Transfers' excludes all conditional agency transfers budgeted for by MDAs.

- Efforts to improve payroll management at the county level were initiated in 2013.
- From FY 2014/15 onwards, salaries for education, health and water staff at county levels were separated out to increase transparency in resource allocation and to allow for gradual increased county oversight over their staff.

These efforts and commitments were supported through key donors' initiatives including the CORE II project (2013-15) funded by USAID which focused on PFM technical assistance to states, EU TAPP (Technical Assistance for PFM and Payroll Management at sub-national in South Sudan) and the LGSDP (Local Government Service Delivery Project) funded by the WB.

The level or extent of commitment to transfers were not affected significantly after the break-out of conflict in 2013. It mainly affected HR capacity in the Greater Upper Nile states as staff were displaced and they moved to Juba where possible; Offices were left vacant and GUN states were the first to stop reporting to MoFEP on expenditure. However, other parts of the country were largely unaffected in how they received and spent transfers.

The regularity and total value of transfers was affected more by the fiscal crisis-the falling value of SSP affected the purchasing power of operating transfers. Support through CORE II came to an end in 2015 which made it further challenging for states to report on expenditure. Mechanisms such as the STMC could no longer carry out its original function of taking stock and addressing payroll and PFM related challenges faced by states. MoFEP, responsible for convening STMC meetings, was also faced with more pressing priorities given the fast deteriorating fiscal situation. Despite this, the MoFEP has continued to prioritise all transfers including those to schools (capitation grants) and health care centres. However, the real value of transfers has now decreased rapidly and increasing delays in disbursements have been reported. Figure 9 indicates that the total value of transfers (in USD m) has decreased from FY 2014/15 onwards, although it has remained steady as a proportion of total expenditure. In the education sector, for instance, capitation grants and teacher incentives have complemented donor initiatives in the sector demonstrating commitment even after the creation of 28 states and renewed fighting in 2016.

The creation of 28 (now 32) states and approximately 300 local governments following the Presidential Decree 36/2015 remains the biggest factor in fragmentation of gains made since 2011 in building capacities at the sub-national and clarifying roles and responsibilities at each administrative level. Existing literature and interviews indicate that the decision was driven by the need to reward and appease those within the government who perceived the signing of the ARCISS in August 2015 as a compromise. The move was backed by the Dinka council of elders although it was a direct contradiction of the peace agreement<sup>220</sup> and a violation of the Transitional Constitution which provides the right to alter state boundaries only to the Council of States-one of the two chambers comprising the National Legislature of South Sudan mandated to initiate legislation on the decentralised system of government and pass legislation with two-thirds majority of all representatives (Transitional Constitution, 2011).

<sup>220</sup><https://radiotamazuj.org/en/news/article/dinka-council-of-elders-welcomes-appointment-of-28-state-governors>

The decision was taken unilaterally despite recommendations from the Council of States that recommended otherwise illustrating the level of power centralised within the Office of the President<sup>221</sup>. The decision motives and implications of the move are summarised by Schomerus and Aalen: *'the re-division of South Sudan's state governments served its purpose, giving rise to localised conflicts over boundaries and authority, and undermining the practical and political powers of regional opposition'*<sup>222</sup>. It has also led to further 'securitisation' of civilian positions and a practice of ad-hoc removal and reinstating of governors.<sup>223</sup>

The Local Government Board has had little oversight and power in matters relating to division of assets between counties, let alone determination of the number of counties or settling boundaries disputes. The MoFEP responded to this by re-allocating resources to 28 states within the existing ceiling (due to resource constraints but also because the move was announced in the middle of the Financial Year). The creation of 28 states along with renewed fighting in 2016 have led to a complete disintegration of the functioning of sub-national governments. The MoFEP no longer has any oversight on how resources are spent. Given sensitivities around the number of counties and boundaries, ceilings for county transfers are issued at the state level and it is now the mandate of the state to further determine allocation of resources. The Ministry has continued to issue ceilings and guidelines to states on how to spend transfers although it has not been possible to conduct state budget workshops (due to resource constraints and lack of support from development partners) or monitor spending during the financial year. One interviewee remarked that 'we have now reached a stage where a lot of work with State Ministries of Finance will have to start from the scratch'.

Based on negotiations before the ARCISS, the Council of Ministers approved the establishment of the Ministry of Federal Affairs (MoFA) in October 2017<sup>224</sup>, although its mandate and role still remains unclear. The Preamble of the Agreement recognises setting up a federal system as one of the principles that will guide the process of constitution-making<sup>225</sup>. However, since its creation, the issue of number of states and counties has dominated every discussion on local governance and federalism leaving little room for discussions around what a federal set-up might look like (if at all) and how (much) power and resources will be devolved to LGs. Many interviewees expressed the view that the current model of doling out counties and political power to maintain support might create stability in the short run, but it is hard to see how this can be sustained when the government is suffering from severe resource constraints as it endeavours to fund human resource deployment and basic administrative set-up in these states and counties.

## 23.6 Aid management, financing and donor relations

The signing of the CPA shifted donors' priorities to focus on post war re-construction, state-building and peacebuilding priorities. The Multi-Donor Trust Fund was set up to finance priorities identified in the Joint Assessment Mission--an ambitious set of public sector outcomes to be achieved by 2011, estimated to cost US\$1.6bn--by providing 'coordinated, flexible and swift

<sup>221</sup><https://radiotamazuj.org/en/news/article/less-than-2-3-of-s-sudan-parliament-members-vote-to-approve-28-states-proposal>

<sup>222</sup>(Schomerus & Aalen, 2016)

<sup>223</sup>Ronaldsen & Kindersley, 2017; <https://radiotamazuj.org/en/news/article/kiir-sacks-aweil-governor-appoints-new-officials>

<sup>224</sup><http://www.sudantribune.com/spip.php?article63650>

<sup>225</sup>(Schomerus & Aalen, 2016)

donors responses to finance JAM priority expenditures<sup>226</sup>. From the outset, the Government was keen on owning decisions around what to prioritise and the mechanisms. i.e., for priorities to be financed through a framework that is led and mainly managed by the Government.

There has been a notable difference, however, between the level of commitment demonstrated by technical staff within central agencies and senior ranks of the government engaging with the international community. On the latter, donors have had limited tangible influence, since independence, over decisions made by senior ranks in developing or defining how core government functions would evolve despite pledging significant resources. One reason for this has been that net oil revenues to government continued to outstrip development and humanitarian assistance by a large margin<sup>227</sup>. In fact, the volume of oil revenues meant that South Sudan immediately became a middle-income country on independence.

On the other hand, senior technocrats within MOFEP invested heavily in ensuring that donor financing is effective and coordinated in developing core functions. The Aid Coordination Unit within MOFEP was at the centre of building relationships with development partners and setting up processes to ensure support would focus on building government's systems and capacities. This included developing an Aid Strategy in 2006 which was approved by the Council of Ministers and endorsed by the Assembly. The Strategy outlined principles and mechanisms for aid coordination which were mostly set up between 2006 and 2008 and improved subsequently, such as Quarterly Donors Forums (QDF), Budget Sector Working Groups (BSWGs) and Inter-Ministerial Appraisal Committees (IMAC). The Aid Strategy was later revised in 2011. Donor books were published annually alongside the budget, between 2008-2013, based on donors' reporting at budget sector working groups and later through the AIMS (Aid Information Management System) between 2011 and 2014<sup>228</sup>. Through these mechanisms, the government took a keen initiative to involve both donors and NGOs in government's budgeting and planning processes, encouraging harmonisation and providing regular feedback on compliance<sup>229</sup>.

Despite these efforts, there was increasing fragmentation within donors' support to key institutions. USAID, for instance, did not participate in pooled funds from the outset. Whilst the government made 3 year plans, donors planned annually which made it challenging to predict donor commitments<sup>230</sup>. The MDTF provided fiduciary assurance to donors but it over-estimated the government's capacity to implement complex programmes requiring them to adhere to World Bank's financial management and procurement practices. As a result, it was very slow in getting off the ground and limited results were achieved through donor financing by 2008 which was already half-way through the timeline for implementing the CPA. Donors started using bilateral channels and by 2010, 70% of aid was channelled bilaterally outside of pooled funds. The MDTF ultimately spent less than a third of the JAM estimate needed to strengthen GOSS, and at USD

<sup>226</sup>(Davies, Smith, & Williamson, 2011)

<sup>227</sup>Fritz, 2017

<sup>228</sup>Starting from 2006, budget sector working groups was used as a forum to capture data donor projections (using spreadsheets). The AIMS was introduced in 2010; access was then limited to MOFEP staff who would input data reported by donors. It was rolled out for donors to input directly in FY 2012/13 and 2013/14. Due to funding constraints and technical issues, the Aid Coordination Unit reverted to collecting data on aid using excel spreadsheets from FY 2014/15 onwards.

<sup>229</sup>(Davies, Smith, & Williamson, 2011)

<sup>230</sup>Noted by an interviewee

728 million spent between 2005 and 2013, it paled in comparison to the GRSS investments both in the interim period and after independence.

In recognising the increasingly fragmented nature of aid, the aid strategy of 2011 stresses the need for donors to support building of institutional capacity and systems by using government's systems, capacities and institutions.<sup>231</sup> It is within this context that South Sudan volunteered to be a pilot country for implementation of the New Deal followed by a decision in April 2013 in Washington DC at the SSEPF (South Sudan Economic Partners Forum) to develop a New Deal Compact. The Compact was specifically aimed at increasing the use of country systems in aid delivery, including through direct budget support and an innovative pooled fund<sup>232</sup>. At the SSEPF, it was also agreed that signing of the New Deal Compact was conditional upon implementation of the IMF Staff Monitoring Programme and related fiscal conditions. Other key deliverables that were linked to the Deal included a State Building Contract funded by the EU, investment in local support services. Among other conditions, the signing of the Compact hinged on aligning the official and parallel exchange rate. However, the signing of the Compact and other associated processes fell through in early December due to insufficient buy-in from stakeholders across the board for an exchange rate alignment. The political climate in Juba changed soon after when fighting broke out in December 2013 which significantly changed dynamics between the Government and donors.

After 2013, donors gradually shifted their focus on providing humanitarian assistance. Most donors did not suspend existing 'governance' programmes but pulled back all projects in the pipeline including budget support, local services support and direct support to core government functions<sup>233</sup>. Since then, donors such as the World Bank have adopted a 'stop-go pattern' to implementation of ongoing projects amidst increasing insecurity and a worsening macro-economic situation<sup>234</sup>. Donors started working directly with concerned line ministries and less with central agencies of finance. The role of the Aid Coordination Unit in MoFEP shifted significantly from spearheading all aid coordination initiatives to merely setting up meetings between donors and the Minister of Finance, and providing oversight to specific World Bank projects (as opposed to oversight of investments to entire sectors). Figure 12 indicates an increase in the proportion of humanitarian aid post 2013 and a decline in total spending by donors on CGFs especially 2014 onwards.

Between 2013 and 2016, the government, at the most senior level, further alienated donors by demonstrating a lack of commitment to maintain a political settlement and macro-economic stability. For most parts of 2014 and 2015, key senior members of the Government ignored hard messages from the IMF (and from technical staff within MoFEP) to undertake austerity measures and spent a significant portion of its dwindling resources on the security sector. It refused, despite significant pressure from the international community, to re-align its exchange rate until December 2015. A reluctance which was thought to be due to corrupt practices which took advantage of the coexistence

<sup>231</sup>(Aid Strategy for the Government of the Republic of South Sudan , 2011)

<sup>232</sup>Between July-October, 2013, the MoFEP, along with donors, conducted intense stakeholder meetings including with all states in order to develop state and peace building priorities. This was the first and only time consultations of this nature took place between the central and state governments.

<sup>233</sup>Based on interviews with donors

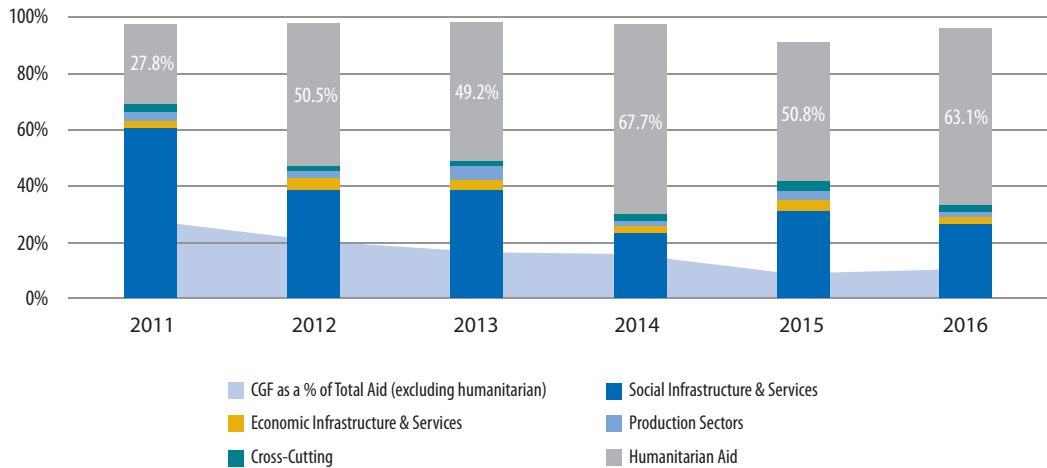
<sup>234</sup>Fritz, 2017

of an official exchange rate and a parallel market rate. A select few elites were able to buy cheap US dollars at the official rate and sell them on for considerable profit on the black market<sup>235</sup>.

Whereas relations improved briefly in the lead-up to ARCISS, this was nullified by the Presidential Decree announcing the creation of 28 states which was a major setback not least because of the challenges it posed for donors to operate at the sub-national level. One donor remarked that ‘it was the creation of 28 states, more than any other event in the past 3 years, that made the institution seriously think through the government’s commitment to peace and stability and credibility of their operations in the country’.

In addition to larger political decisions, the slow collapse of systems in the latter half of 2016 within central agencies of finance and the hiatus created by the leaving of key international TA did not help to improve relations between donors and technical staff. This breakdown of relations can also be partly attributed to a high turnover of staff within donor agencies resulting in an inclination to generalise the incentives that drive decision making and behaviours within the government. Very few donors (such as the African Development Bank and in some instances, UNDP) have engaged with technical staff within central MDAs since 2017. Even though Fiscal Affairs Department and Article IV missions have continued, the slow-down of and gaps in data on revenue collections and petroleum exports have led to a rapid decline in the understanding of key parameters.

**Figure 12** Proportion of aid disbursements to key sectors and disbursements to CGFs as a proportion of total spending<sup>236</sup>



Source: OECD, authors' adaptation

<sup>235</sup>Sy, A. (2015) ‘The implications of South Sudan’s decision to float its currency’, Brookings. Accessed at: <https://www.brookings.edu/blog/africa-in-focus/2015/12/18/the-implications-of-south-sudans-decision-to-float-its-currency/>

<sup>236</sup>The team does not have access to spending by the Aid Coordination Department (which falls within the Macro Directorate of MOFEP). The Ministry of International Affairs is somewhat relevant but is excluded as it includes salary payments (in USD) for embassy staff and hence, does not appropriately capture investments on ‘aid management’ as a core government function.

Donors have expressed optimism at the significant economic reforms that were undertaken at the IMF's recommendation in 2017 and 2018 despite strong resistance, including the removal of fuel subsidies, increased foreign reserve holdings for commercial banks and ended BOSS borrowing, although not sufficient to re-think a shift away from current focus on humanitarian and service delivery. The declaration of famine in March 2017 and the refugee crisis in Uganda, Kenya and Sudan further divided the focus of the 'beleaguered international community.'<sup>237</sup> The World Bank's unprecedented decision to sign grant and credit agreements with third-party implementing agencies, putting an end to implementation of projects through implementation units (PIUs) housed within ministries, is the latest indication of where donors stand on investing in strengthening core government functions. One other donor remarked that after late 2015, aid disbursements to South Sudan resembled patterns observed during the civil war (pre-CPA period) mainly focusing on humanitarian interventions, health and education service delivery being channelled through NGOs.

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<sup>237</sup>Ronaldsen & Kindersley, 2017; Other factors contributing to the toxic relationship include government's temporary decision to issue work-permits at the cost of US\$10,000 and issue of access to NGOs to different parts of the country.



# 24 Conclusions

This section summarises overall trends in how the various core government functions have evolved across the three transition milestones, and what this implies for supporting future transitions towards lasting peace and development in South Sudan.

**Concerted efforts were made to invest in core government functions leading up to South Sudan's independence.** The CPA and JAM reports outlined the significant state-building challenges facing the nascent administration, and government and donor spending ramped up significantly during the 6-year transition period. Whereas government spending on core functions appears at first glance to have been significant throughout the period under review, and a range of donor programmes was launched in this period targeting all core government functions, capabilities and outcomes for these functions have seen limited improvement up to independence, the first of the three transition milestones.

The evidence presented in this case raises challenging questions regarding the appropriateness of donor efforts for developing effective, sustainable capabilities. Programmes launched in critical early stages of state-building leading up to independence were slow to mobilise, not sufficiently resourced to build capacity in government, and not designed with prevailing internal fragilities and conflict factors in mind. Nevertheless, foundations were laid for a few of the functions – notably public financial management and local government – that would in the long term support a lasting transition to peace.

**South Sudan's relapse into conflict in late 2013 – the second transition milestone – bears witness to the fragile nature of the SPLA's consolidation, reflected in weak core government functions.** Internal tensions at the level of local communities and ethnic groupings over land, security and resources – originating during the two lengthy civil wars that preceded the CPA – were insufficiently addressed and in part exacerbated during the transition period. Leaders prioritised delivering on the secession movement, by promising dividends to independence, rather than addressing the fractions within the SPLA/M. A largely clientelist political settlement was instituted up to independence through a steady process of state capture, in which access to the state's significant oil resources was competitively distributed. Border issues and resource splits with the Government of Sudan were not adequately addressed during the transition period.

A significant share of spending on core functions throughout the period under analysis – both before and after relapses into conflict – directly supported such state capture. This is demonstrated by the extremely large government payroll, as a result of successive drives to employ large numbers of young, uneducated ex-combatants and returnees, to pay key senior officials large allowances, as well as high recurrent government operating costs as a result of large numbers of government contracts and public sector benefits that drove up spending arrears. Such excessive spending is especially conspicuous in those institutions that are mandated to deliver core government functions, with no clear returns in CGF outcomes.

**Successive shocks to the level of resources and support available led to a collapse in government functions, despite the signing of the ARCISS.** Various factions in the SPLA/M relied heavily on distributing rents from oil, which supported the limited development of CGFs up to independence. The 2012 oil shutdown and the subsequent drop in oil prices constrained resources needed to maintain the fragile alliances in the SPLA/M. Donors shifted aid commitments and disbursements further towards the provision of humanitarian aid and direct support to basic social service delivery, away from support to governance sectors. Donors unified around the view that international pressure needed to be put on ethnic and military leaders blamed for propagating political violence.

Though government spending on core government functions in the narrowest definition (excluding overspending and unrelated expenditures) did not reduce markedly following these shocks, core functions were put under considerable pressure as a result of these political and economic developments. Rapid exchange rate depreciation, rising inflation and clear signals that resources were constrained led to immense pressures on the government payroll, procurement and spending control and local government arrangements. ARCISS added to these pressures, leading SPLA/M leaders to introduce reforms for which core government functions were not prepared (including exchange rate realignment and the creation of new states).

**Specific core government functions appear to have withstood and even continued to develop despite relapse into conflict.** Advances in public financial management, local governance, aid management and to some extent public service have led to administrative improvements that can still be seen at the time of writing. These improvements emerged largely as a result of continuous investment of time and (comparatively limited) resources of reform-minded officials, paired with long-term donor-funded technical assistance, notably to the Ministry of Finance and Economic Planning.

Dedicated officials – ranging from Ministers to departmental Directors and line officials – all have a combination of relevant qualifications and prior experience, substantial institutional knowledge and connections within the GRSS, and a clear understanding of how to work with and make use of embedded advisory support and external partners. Improvements in CGFs following 2013 noted in this case study are largely the result of such institutional entrepreneurs having managed to navigate complex governmental politics and effectively utilising moments of crisis to leverage their knowledge, connections and resources.

That said, many aspects of core government functions could not withstand the rapid decline seen from 2014 onwards. Whilst basic tools and practices to support CGFs – such as recording and reporting on government expenditure and delivering resources to local government – were successfully designed to withstand shocks, overall functions were weakened to such an extent that outcomes of core government functions slumped from already low levels. These functions have thus far not been inherently supportive of efforts to transition back into peace.

**This case study therefore underlines the limited relevance of government spending and aid data for understanding core government capabilities, and how these are able to support transitions.** Across all the core government functions described, positive as well as negative

developments have overwhelmingly been driven by individual capacities and decisions of senior and lower-level government officials, how appropriate these were in light of prevailing political and economic drivers, and the extent to which these were appropriately supported by aid programmes. The level of government and donor resources deployed are related but often misleading indicators.

## What next for South Sudan?

**There are some positive signs for successful transitions to lasting peace and development in South Sudan.** Since the signing of the Revitalised ARCISS in 2018, levels of political violence have reduced, the economy and inflows of government revenues have begun to normalise, and positive developments in core government functions have materialised (e.g. first pension payments). The base capabilities retained in some CGFs – notably in public finance, government employment, local government and aid management – are supporting these improvements, and can usefully be targeted for further support.

Successive positive transitions will, however, need to be matched with efforts to address the tensions between communities across South Sudan. Case in point: the recent resumption of considerable armed conflict in Yei, which risks undermining the peace agreement, and lowers the confidence of the international community in the parties' commitment to peace.

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## **Annex K List of interviewees**

### **Government**

- Ministry of Finance and Planning: senior officials and technical staff
- Local Government Board
- DDR Commission
- Ministry of General Education and Instruction
- Former member of the Cabinet

### **Donors and technical advisors**

- DFID
- World Bank
- UNDP, South Sudan
- Former advisors on the Budget Strengthening Initiative Programme
- Advisor to the Joint Monitoring and Evaluation Commission (JMEC), South Sudan

