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INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY**

COUNTRY ENGAGEMENT NOTE

FOR

SOUTH SUDAN

FOR THE PERIOD FY21–FY23

April 15, 2021

**South Sudan Country Management Unit, AECE3, Africa Region
The International Finance Corporation
The Multilateral Investment Guarantee Agency**

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The date of the last Country Engagement Note is November 7, 2017

CURRENCY EQUIVALENTS
 (Exchange Rate Effective April 5, 2021)
 Currency Unit = South Sudanese Pounds (SSP)
 US\$1 = SSP 130.26

FISCAL YEAR
 July 1 – June 30

Abbreviations and Acronyms

ASA	Advisory Services and Analytics
BMS	Business Monitoring Survey
BSS	Bank of South Sudan
CEN	Country Engagement Note
CERC	Contingency Emergency Response Component
COMESA	Common Market for Eastern and Southern Africa
CPIA	Country Policy and Institutional Assessment
CRW	Crisis Response Window
CRW ERF	Crisis Response Window Early Response Financing
CSO	Civil Society Organization
ECRP	Enhancing Community Resilience and Local Governance Project
FCS	Fragile and Conflict-affected Situation
FCV	Fragility, Conflict, and Violence
FX	Foreign Exchange
GBV	Gender-based Violence
GDP	Gross Domestic Product
GoSS	Government of South Sudan
HCI	Human Capital Index
HFS	High-Frequency Household Survey
HOC	Heads of Cooperation
HRP	Humanitarian Response Plan
IBES	Integrated Business Establishment Survey
IDP	Internally Displaced Person
IFC	International Finance Corporation
IMF	International Monetary Fund
IPC	Integrated Food Security and Phase Classification
M&E	Monitoring and Evaluation
MDTTF	Multi-Donor Transition Trust Fund
MIGA	Multilateral Investment Guarantee Agency
MoFEP	Ministry of Finance and Economic Planning
MSMEs	Micro, Small, and Medium Enterprises
MTR	Midterm Review

NBS	National Bureau of Statistics
NDS	National Development Strategy
NGO	Nongovernmental Organization
PEHSP	Provision of Essential Health Services Project
PFM	Public Financial Management
PFMRS	PFM Reform Strategy
PfRR	Partnership for Recovery and Resilience
R-ARCSS	Revitalised Agreement for the Resolution of Conflict in South Sudan
RCF	Rapid Credit Facility
RECA	Remaining Engaged in Conflict Allocation
RRA	Risk and Resilience Assessment
R-TGoNU	Transitional Government of National Unity
SGBV	Sexual and Gender-based Violence
SSSNP	South Sudan Safety Net Project
TA	Technical Assistance
TG	Transitional Government
TPM	Third-Party Monitoring
UN	United Nations
UNHCR	United Nations High Commission for Refugees
UNMISS	United Nations Mission in South Sudan
UNOPS	United Nations Office for Project Services
WBG	World Bank Group

	IBRD	IFC	MIGA
Vice President:	Hafez Ghanem	Sergio Pimenta	Hiroshi Matano
Director:	Ousmane Dione	Jumoke Jagun-Dokunmu	Merli Baroudi
Task Team Leaders:	Husam Abudagga Erina Iwami	Cheick-Oumar Sylla	Jessica Wade Olanrewaju Malik Kassim

**FY21–FY23 COUNTRY ENGAGEMENT NOTE FOR
THE REPUBLIC OF SOUTH SUDAN**

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I. INTRODUCTION

1. **South Sudan continues to grapple with development challenges, coupled with major state and peace-building challenges.** After a six-year civil war and the signing of a peace agreement, the Revitalised Agreement for the Resolution of Conflict in South Sudan (R-ARCSS), the country took a significant step with the formation of the three-year Transitional Government of National Unity (R-TGoNU) in February 2020. Nonetheless, subsequent shocks that included flooding in parts of the country, locust infestation, the COVID-19 pandemic, and lower oil prices changed the outlook over a relatively short period and exacerbated existing vulnerabilities and humanitarian needs. These multiple crises have presented an opportunity for the Government and its international partners to engage in dialogue and embark on key reforms to address the legacy of economic mismanagement. Despite political progress, the implementation of the peace agreement has been stagnant. Some critical issues outlined in the R-ARCSS remain unresolved, including completion of transitional security arrangements and reunification of the armed forces.

2. **Since its independence in 2011, South Sudan has been mired in political conflict and uncertainty.** Economic networks built by political factions are an integral part of South Sudan's political economy. The human cost of this 'elite bargain' has been enormous. Intercommunal violence claimed thousands of lives in various parts of the country. This affected humanitarian operations and forced World Bank-supported activities to be temporarily suspended in 2016. After the intervention of the United Nations Mission in South Sudan (UNMISS), violence has receded, but the peace is fragile and requires constant nurturing. In this context, institutions such as the World Bank Group (WBG) can be instrumental in helping lay the foundation for longer-term development through strengthening macroeconomic management, human capital formation, resilience, and self-reliance.

3. **Due to the long conflict, South Sudan was unable to build economic governance institutions to anchor long-term development aspirations.** After two long civil wars, the 2005 comprehensive peace agreement paved the way for a hard-earned independence in 2011. South Sudan started the process of rebuilding and recovery, embarking on a process of institutional building. However, these gains were short-lived, as the country descended into conflict. At the same time, the institutional void has been exploited by bureaucratic elites to plunder and siphon huge amounts of resources out of the country. The result is that South Sudan is currently one of the poorest countries in the world, known more for its humanitarian crises than its development potential and the realization of its natural wealth.

4. **South Sudan remains one of the poorest countries in the world with an estimated four out of five people living in poverty in 2020.**¹ Nearly half of urban households have lost a job activity since 2013. Conflict and violence triggered the breakdown of food production, worsening food insecurity. Women and girls face a disproportionate burden of poverty, poor access to services, and insecurity. South Sudan has the world's highest maternal mortality rate and a third of all women experience sexual violence by a non-partner in their lifetime. South Sudan has the highest proportion of children out of school.² Youth make up 70 percent of the population; most are unemployed. Millions are severely food insecure, including 1.6 million internally displaced persons (IDPs). There are more than 2.2 million South Sudanese refugees in neighboring countries.

¹ World Bank staff estimates.

² World Development Indicators.

5. **Since taking office, the new government has faced multiple shocks.** For much of 2020 and into 2021, intercommunal violence, limited operational capacity, and COVID-19 restrictions exacerbated the country's challenges. The economy had recorded a strong growth pickup before the COVID-19 pandemic, with real gross domestic product (GDP) growth estimated at 9.3 percent in FY2019/20. However, a contraction of 3.4 percent is projected in FY2020/21. The COVID-19 significantly affected household and business income with less wages and slowed remittances.

6. **The country is currently experiencing a rapidly deteriorating food security situation.** Nearly 8.3 million people (more than half of the population) are in need of humanitarian assistance and protection in 2021.³ A catastrophe (IPC⁴ Phase 5) is likely in pockets of Jonglei and Upper Nile, which are extremely vulnerable to conflict- or flood-related disruptions to key food and income sources. The combined shocks have dramatically changed the macroeconomic outlook for the country over a short period. In this context, the World Bank provided US\$9.18 million to help manage the COVID-19 pandemic and strengthen national systems for public health preparedness.⁵ In September, the Crisis Response Window Early Response Financing (CRW ERF) Technical Expert Group on Food Security concluded that South Sudan meets the technical requirements for an eligible food security event with local activation. A CRW ERF application for US\$50 million is currently being processed.

7. **South Sudan is highly reliant on oil revenues.** The oil sector is estimated to account for more than one-third of GDP, 90 percent of central government revenue, and over 95 percent of the country's exports. The country's humanitarian needs are too great for its meagre public finances. Even so, the combined budget allocation for critical sectors such as health, education, and agriculture in FY19 was a paltry 17 percent of the total. Even this small amount is not fully utilized for these key sectors. As a result, South Sudan is highly dependent on humanitarian assistance for the delivery of basic services. Before the drop in oil prices in early 2020, development assistance made up 61 percent of gross national income.⁶

8. **South Sudan has initiated reforms to strengthen the state and improve stability.** This is important for the peace process and for initiating institution building. The Government's economic program is based on the R-ARCSS. The Government has pledged to take forward comprehensive economic, governance, and public financial management (PFM) reforms, as outlined in Chapter IV of the 2018 agreement. The peace momentum and new commitment to reform are positive signs that could provide another opportunity to rebuild the war-torn economy and institutions. The journey will be long and potentially uneven. Given the large gaps in capacity, it is important to first address foundational elements of reform and take small, meaningful steps to reshape institutions.

9. **This Country Engagement Note (CEN) proposes to build on the WBG's existing engagement and implement a pragmatic and adaptive approach to supporting South Sudan.** The World Bank has been a steady partner for South Sudan, helping to mitigate crises and reinvigorating its support for the country's development through an expansion in its portfolio in recent years. The World Bank now has three operations: (a) the Provision of Essential Health Services Project (PEHSP), (b) the South Sudan Safety Net Project (SSSNP), and (c) the Enhancing Community Resilience and Local Governance Project (ECRP). The

³ South Sudan Humanitarian Needs Overview-January 2021. OCHA. <https://reliefweb.int/report/south-sudan/south-sudan-humanitarian-needs-overview-2021-january-2021>

⁴ IPC = Integrated Food Security Phase Classification.

⁵ This includes triggering the Contingency Emergency Response Component (CERC) of US\$5 million on April 6, 2020, under the ongoing PEHSP; allowing the use of the remaining funds (US\$2.6 million) under the previous CERC triggered for Ebola as of April 6, 2020; and US\$1.58 million allocated by the Pandemic Emergency Facility on August 22, 2020.

⁶ OECD DAC Aid at a Glance.

World Bank also has a robust pipeline of financial assistance and Advisory Services and Analytics (ASAs), which will help the Government of South Sudan (GoSS) address key risks and challenges. The new CEN will guide WBG programming decisions over the next 24 months over FY21–FY23. It will focus on (a) laying the ground for institution building, (b) building resilience and livelihood opportunities, and (c) providing continuous support to basic service delivery. The CEN has been prepared jointly by IDA, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA).

10. **The proposed CEN marks a strategic shift in the WBG’s strategy for South Sudan.** There is a new focus on institution building and an attempt to support South Sudan’s transition from emergency and humanitarian response toward development, through capacity-building efforts with a gradual shift away from third-party implementation arrangements to government systems. There will also be greater emphasis on enhancing the evidence base for policy making and strengthening collaboration with partners working along the humanitarian-development-peace nexus. This CEN presents an opportunity to prepare the ground for a full Country Partnership Framework, if the situation permits.

II. COUNTRY CONTEXT - GROWING AND URGENT NEEDS

Political, Insecurity, and Fragility Context

11. **South Sudan—the world’s newest state—gained independence from the Republic of Sudan in 2011 after years of civil war, but violence and conflict continue amid uncertain prospects for peace.** South Sudan was beset by decades of armed conflicts even before its independence. Southern Sudan, as the region was called before independence, has been marred by conflict since 1955, just a year before Sudan attained its independence from Britain. The region has historically experienced systematic marginalization, inhibiting it from developing its physical and human capital.

12. **Less than three years after independence, South Sudan relapsed into civil war, bringing calamitous impact on its people.** A civil conflict broke out in December 2013, which has destroyed lives and livelihoods for civilians across the country. After a few failed ceasefires and peace agreements, the peace agreement was finally signed in 2018. An estimated 380,000 people have died between December 2013 and April 2018 because of the conflict.⁷ Almost 3.9 million people (over a third of the country’s population, with 85 percent women, girls, and boys) remain displaced from their homes, many of whom have suffered recurrent displacement. Service provision is limited, and much, if not all, of what does exist is provided by external aid agencies. While organized armed violence has declined since the signing of the R-ARCSS, fighting and armed clashes continue at the subnational and local levels in parts of the country.

13. **The R-ARCSS provides a cautious opportunity for political stability, although the situation remains uncertain.** The power-sharing agreement between the Sudan People’s Liberation Movement and the main opposition, including the Sudan People’s Liberation Movement In-Opposition, calls for the reinstatement of the former First Vice President and sharing of several key positions as well as new security arrangements among different groups. The formation of the new government is a promising step forward. However, issues of enduring and entrenched corruption, weak governance, resource competition, and high fiduciary risks persist.

14. **While the situation remains fluid, the recent reduction in large-scale armed conflict may facilitate substantial population movement.** About 1.5 million people have returned from displacement

⁷ Checchi, F., Testa, A., Warsame A., Quach, L., and Burns, R. 2018. *Estimates of Crisis-Attributable Mortality in South Sudan, December 2013–April 2018*. London School of Hygiene.

within or outside South Sudan since 2016. Of these, 644,174 returned in the short period between the signing of the R-ARCSS in September 2018 and June 2019. The largest number of returns were to Jonglei (191,052), Upper Nile (164,068), and Western Bahr Ghazal (162,770). According to a recent intention survey by the United Nations High Commission for Refugees (UNHCR), the main pull factors for return are improved security, family reunification, access to basic services, and livelihood opportunities.⁸ About 30 percent of refugees in neighboring countries are considering return, with IDPs being slightly more willing to return over the next 12 months. Intercommunal conflict continues to create new displacement in locations such as Unity, Warrap, Lakes, Western Bahr-el-Ghazal, Central Equatoria, and Jonglei.

15. **Subnational violence and insecurity continue to uproot South Sudanese people.** While the permanent ceasefire is largely holding, clashes with the non-signatories of the peace agreement continue in certain parts of the country, with large civilian casualties. Between January and July 2020, the number of fatalities in Jonglei State and Greater Pibor Administrative Area increased significantly.⁹ While violence in the areas reduced toward the latter half of 2020, more than 6,000 individuals have reportedly been displaced in July. In Central Equatoria, some 3,500 people were displaced because of continued fighting between armed groups from various political factions.

16. **A Risk and Resilience Assessment (RRA) carried out in February 2021 identified the main structural drivers of fragility, conflict, and violence (FCV) and factors of resilience in South Sudan.** The RRA examined the root causes of FCV risk factors embedded in the country's historical legacies and current political, economic, and social realities. It identified sources of resilience which are central to sustaining peace and stability in South Sudan (Box 1).

Box 1. Risk and Resilience Assessment for South Sudan: FCV Drivers and Factors of Resilience

FCV drivers

- **The militarized rule has led to a dysfunctional governance**, hindering the development of institutions, perpetuating patronage networks, and weakening public trust in the Government.
- **The concentration of power by elites** through the exploitation of natural resources allows them to continue the elite capture practices.
- **Intercommunal violence influences local and national conflict dynamics** as factors such as contestation over natural resources, increased militarization of cattle raiding, and tensions over unequal access to resources have both local and national implications. Local-level conflict and violence is also deeply linked to national-level politics.
- **A weak justice system that perpetuates impunity and violence** worsens instability by allowing elites to engage in corruption and abuses of power at the national level and communities at the local level to resort to violence as a solution to community disputes.
- **Limited socioeconomic opportunities for youth** increase their susceptibility to violence, especially to being coopted by politico-military elites into bearing arms, impeding them from becoming full members of society.

Factors of resilience

⁸ South Sudan: Spontaneous Refugee Return Household Survey - October to December 2019. <https://reliefweb.int/report/south-sudan/south-sudan-spontaneous-refugee-return-household-survey-october-december-2019>.

⁹ Data Overview: Violence against Civilians in South Sudan. Stimson Center. <https://www.stimson.org/2020/data-overview-violence-against-civilians-in-south-sudan/>.

- **Traditional authorities and community organizations** function as local justice mechanisms and have shown resilience and increased community ownership, serving as effective entry points for development operations.
- **Agriculture** is a potential source of growth, with a large portion of the population relying on agriculture and livestock for livelihoods and on the environmental factors that support agriculture.
- **Religious actors and faith-based organizations** can foster social cohesion at the local level by leveraging their long-standing presence in the country to build trust among communities and mediate disputes. These organizations have played an important role in service delivery and humanitarian assistance.
- **The role of women** in building resilience is significant at both the national and local levels. They have been engaged in high-level negotiations and shown potential to strengthen community resilience.

Economic Context

17. **A decade after independence, the economic situation in South Sudan remains dire.** Institutional fragility, policy distortions, lack of economic diversification, and the lingering impact of conflict and violence have increased and entrenched extreme poverty and closed off opportunities to private sector employment and improved livelihoods. The signing of the latest truce in September 2018, formation of the R-TGoNU in February 2020, and a resumption in oil production that had been stalled due to conflict provided hope for peace building and an oil-led recovery. Before the COVID-19 pandemic, there was evidence that these hopes would be realized, with GDP growth reaching 9.5 percent in FY2019/20. However, the impact of the pandemic, coupled with increased subnational violence in 2020, flooding, and the persistence of structural constraints, threatens to reverse recent gains and curb growth in the coming years.

Table 1. Macroeconomic and Poverty Indicators

	FY2018/19	FY2019/20	FY2020/21	FY2021/22	FY2022/23
			Projected		
Real GDP growth	3.2	9.5	-3.4	1.5	3.0
Oil	10.7	27.5	-5.8	0.0	3.1
Non-oil	0.0	0.8	-1.9	2.4	2.9
Real GDP growth	3.2	9.5	-3.4	1.5	3.0
Agriculture	9.9	6.0	3.5	3.5	3.5
Industry (Including oil)	20.9	27.5	-5.8	0.5	2.9
Services	-12.1	-9.6	-1.3	2.5	3.0
GDP per capita (current US\$)	461.0	460.0	395.0	413.0	425.0
Inflation (average)	63.6	72.2	32.2	24.4	18.7
Exchange rate, official (SSP/US\$, average)	152.44	160.8	210.8	258.4	299.8
Exchange rate, market (SSP/US\$, average)	251.0	308.0	600.0	—	—
Current account balance (% GDP)	-5.0	-6.1	-6.3	-5.8	-3.5
Fiscal balance (% of GDP)	-0.9	-6.8	-2.4	-1.1	2.9
Debt (% of GDP)	29.9	42.9	40.8	33.1	30.0
International poverty rate (US\$1.90 in 2011 purchasing power parity)	78.9	76.8	78.2	78.4	78.2
Memorandum items					
Oil production (millions of barrels)	49.1	62.1	58.4	58.4	60.2
South Sudan's oil price (US\$/barrel, average)	62.9	49.5	42.2	45.4	46.6
Brent price (US\$/barrel, average)	64.9	51.5	44.2	47.4	48.6
Nominal GDP (SSP billions)	776.0	826.0	947.0	1,217.0	1,480.0

Source: World Bank staff estimates.

18. **A legacy of economic mismanagement and resistance to reform have resulted in a distorted macroeconomic environment.** Monetization of the fiscal deficit led to soaring inflation, adding to an economic crisis with output contracting and widening the exchange rate premium. Economic management is intricately linked to war economy dynamics, with elites capturing most of the wealth created since 2013, while household consumption has dropped every year, often steeply, and investment has been absent. Recent estimates indicated accumulated loss in real GDP per capita of US\$7,070 between 2012 and 2018 and the aggregate GDP of US\$81.1 billion over the same period.¹⁰

19. **South Sudan's oil sector has continued to be the primary driver of GDP growth, but further expansion will depend on higher oil investments and increased transparency and accountability.** South Sudan has the third largest proven crude oil reserves in Sub-Saharan Africa with a reported 3.5 billion barrels. With increased production following resumption of production in formerly damaged oil wells, the country is estimated to have exported 62.1 million barrels in FY20 from 49.1 million barrels in FY19. However, current oil revenue has been heavily affected by lower oil prices and Organization of the Petroleum Exporting Countries Plus production cuts, with South Sudan's oil production down to an estimated 58.4 million barrels in FY21. Production remains about half of pre-conflict levels, and prospects for increased production have been limited by the postponement of a planned oil licensing round until FY22 due to COVID-19 as well as a structural lack of transparency and accountability in oil sector governance. Reports of corruption and misuse of revenue are widespread, and there is a dearth of credible, publicly available data on production and exports.

20. **The gap between the official and parallel foreign exchange (FX) rates hinders macroeconomic stability and development.** The market exchange rate depreciated significantly in the first half of FY21, due to monetization of the budget deficit stemming from GoSS overdrafts from the Bank of South Sudan (BSS). Lower oil prices and remittances have exacerbated inflation in South Sudan's import-dependent economy. The widening gap between the official and parallel exchange rate also costs the economy by reducing the amount of oil revenue flowing into the budget, biasing government spending toward imports, reducing development resources, deterring foreign investment, and creating avenues for rent seeking among those with privileged access to FX. In addition, exchange rate misalignment distorts statistics and corporate accounts, hinders the ability of banks to identify sound lending opportunities, and thins the interbank FX market.¹¹ Removing exchange rate distortions can significantly boost economic development by removing uncertainty on the availability of FX, strengthening competitiveness, and increasing budget revenue.

21. **The FY20 budget deficit is estimated to have widened to 6.8 percent of GDP, more than twice the 3.2 percent of GDP that was budgeted, but is likely to decline in FY2020/21 and FY22.** Plunging oil prices decreased government revenue to 20.4 percent of GDP in FY20 from 30 percent in FY19, while expenditures declined to 27.3 percent of GDP from 30.1 percent in FY19 due in large part to under-execution of the capital budget. Faced with a large financing gap and significant COVID-19-related disruptions to government functions, FY21 budget preparations were abandoned, and the authorities focused on preparations for the FY22 budget. Still, projections based on available data suggest that fiscal revenue will decline to 25.8 percent of GDP in FY2020/21 relative to the pre-pandemic projection of 34.8 percent, but the fiscal deficit will decline to 2.4 percent of GDP in FY2020/21 from 6.8 percent in FY20 as the authorities commit to fiscal prudence. Fiscal consolidation will also benefit from an expected decline

¹⁰ World Bank (internal draft). *The Economic Cost of Conflict: Evidence from South Sudan*. Technical background report. The Dynamics of South Sudan's Conflict Economy [P169121].

¹¹ Gray, S. T. 2021. "Recognizing Reality—Unification of Official and Parallel Market Exchange Rates." Working Paper WP/21/25, International Monetary Fund, Washington, DC.

in investment expenditures from 3 percent of GDP in FY2019/20 to 1.8 percent of GDP in FY2020/21. The fiscal outlook may further improve in FY22 if oil prices increase, as expected.

22. **Tightening fiscal space and diminishing domestic resources may worsen the delivery of critical basic services, including health care.** Poor budget execution and management have been exacerbated by lower revenue collection, thus compromising spending on infrastructure and public service delivery. A sustained downturn in oil prices will have devastating effects on the economy by further widening the fiscal deficit. The precarious state of public finances has hindered the ability of the Government to effectively mitigate the health and economic impacts of the COVID-19 crisis.

23. **South Sudan's budget process is flawed in terms of transparency and execution.** It does not provide comprehensive information about the overall fiscal policy stance. While annual budgets are prepared, limited information is provided about debt obligations and financing of arrears. The Government maintains off-budget accounts for which oversight and scrutiny are limited. Furthermore, despite poor performance on key indicators of well-being, a majority of the budget is allocated to maintaining security, with the security sector broadly accounting for more than 70 percent of the total budget over the past three fiscal years. While security is essential to creating an enabling environment for improved development outcomes, this concentration of spending leaves few resources for building human capital through effective interventions in health, nutrition, and education or for investing in the institutional strengthening and local-level capacity building on which sustainable development and durable peace depend.

24. **South Sudan remains at high risk of debt distress.** The country has been in debt distress since 2016 due to the combined impact of civil conflict, a large fall in oil prices, and high levels of fiscal spending. Several thresholds were breached, and external and domestic debt arrears were accumulated. Implementation of the peace agreement is putting substantial pressure on Government spending in the near term, while the expected depletion of oil would pose challenges to fiscal sustainability in the long term. South Sudan's external public debt, including arrears, was estimated at US\$1.355 billion (40.8 percent of GDP) as of end-June 2020. The authorities have not taken adequate steps to improve debt transparency and South Sudan has not participated in the Debt Service Suspension Initiative.

25. **The International Monetary Fund (IMF) and the World Bank are assessing ways of supporting South Sudan through its debt crisis.** The World Bank has been asked by the Government to lead the PFM reform process and the World Bank has agreed to provide technical support to the PFM Reform Strategy (PFMRS) and priority PFM reforms. In addition, the Government has established a PFM Oversight Committee to provide policy-level coordination, direction, and oversight of PFM reform implementation and effectiveness.

26. **In November 2020, the IMF's Executive Board approved a disbursement of US\$52.3 million to South Sudan under the Rapid Credit Facility (RCF).** The disbursement is expected to help South Sudan contain the fiscal impact of the COVID-19 shock and provide critical fiscal space to maintain poverty-reducing and growth-enhancing spending. The authorities indicated that the disbursement will be used to settle two months' civil service salary arrears. This is the first IMF-supported financial assistance to South Sudan and is expected to play a catalytic role that will enable the country to access a large pool of concessional financing. It is expected that the facility will be followed by a second RCF and a staff monitored program.

27. **Lack of data challenges credible macroeconomic monitoring.** Capacity for macroeconomic data generation is weak. While the National Bureau of Statistics (NBS) produces monthly Consumer Price Index data, these are riddled with significant delays and are of poor quality. At the same time, GDP data are produced, but neither the Government nor partners use it because of underlying weaknesses in quality which significantly undermine its usefulness. The BSS maintains a monthly database of key indicators, but important data including the balance of payments are not fully developed. Fiscal data are affected by lack of transparency on revenues, expenditures, arrears, and debt. There is an urgent need to strengthen both the institutional and human resource capacities for data collection and dissemination, starting with the most urgent needs for data related to welfare, inflation, and GDP monitoring and forecasting.

28. **South Sudan's financial sector is small and undeveloped, with negligible levels of intermediation and private sector credit.** While the banking sector experienced dynamism and growth during the period after independence, progress stalled and even reversed because of cycles of conflict and economic crises since 2013. While there are 30 banks operating in South Sudan, access to financial services is limited, and only 13 percent of the population has a bank account. The recurrence of conflict and subsequent collapse of the economy resulted in many banks scaling back operations and closing branches outside of Juba. Consequently, the financial sector has limited reach outside the capital. Financial intermediation is low in South Sudan. Due to continuing financial shocks (currency depreciation and inflation), the trust of the population in banks is at a low level. Private sector credit remains constrained, even as many firms are credit constrained; however, banks are highly exposed to government debt. This high exposure to the Government presents a significant source of risk which is unsustainable and should be monitored as well as implies that banks currently do not play any role in financial intermediation to finance the real economy, promote financial inclusion, nor contribute to economic activity in the country. At the macro level, deposits as a percentage of GDP have been declining over the past two years, reflecting the country's turbulent economic situation. Similarly, credit expressed as a proportion of GDP has been declining since FY13 and is estimated to be 1.05 percent, which is one of the lowest in the world. Credit, as a proportion of deposits, is only about 10.3 percent. Loan applications usually require collateral, whose value is usually more than double the loan value. The land market is undeveloped, further constraining access to finance. In addition, property rights are not established, and legislation allowing the use of chattels does not exist.

29. **The private sector remains underdeveloped and is dominated by micro, small, and medium enterprises (MSMEs).** Nearly two-thirds of MSMEs are concentrated in Juba, mostly operating in the informal sector. The business environment is characterized by high risk, high cost, and low demand, with political instability considered the largest challenge. The regulatory framework governing investment and private enterprises remains underdeveloped and lacks transparency and enforcement. The Government put in place key reforms to enable a better business environment, including the simplification and centralization of the tax system, with the creation of the National Revenue Authority in 2018. Recognizing the role of private sector development in leveraging recovery opportunities, further reforms and advisory services will be key to unlock untapped private sector development opportunities and create jobs in areas such as agribusiness, manufacturing, information and communication technology, and financial sectors.

30. **With limited employment opportunities in the private sector, public employment plays a large role.** The public sector accounts for the largest share of formal sector employment in South Sudan. This is not surprising given the non-diversified structure of the economy with few formal private sector employment opportunities. In FY2019/20, there were 449,343 national-level public sector employees.¹²

¹² Limited state-level employment data are available and are thus not included in this figure.

The roughly 50,000 public employees outside of the armed forces and police are about as many as all urban workers in established businesses (formal or not) and equivalent to about 4 percent of the estimated urban labor force. Consequently, public employment plays a critical role in South Sudan's labor market as well as in sustaining demand in the markets for goods and services. Public employment is dominated by the security sector and rule of law functions, which collectively employ nine in ten public sector employees.

31. **Employment outside of the civil service primarily consists of own-account agricultural production, which is being strained by demographic pressures and conflict-related disruptions.** People living in rural areas and the urban poor rely heavily on agricultural production for their livelihoods. In urban areas, better-off households are more likely to rely on wages and salaries, though women are largely excluded from salaried labor. Labor force participation and unemployment rates are low; the latter can largely be explained by little churn in labor markets given the informal nature of employment.

32. **Agricultural markets remain a source of individual income but still with challenges.** After years of decline, greater stability in 2019 allowed for some returns to farms and a modest increase in agricultural production and market activity. Despite some optimism among businesses and traders, key challenges still exist, including lack of funding, low demand, and erosion in real wages resulting from inflation. Only one in three agricultural traders sells at least half of what they could offer on a typical day. Most market activities are small-time, and profits are slim, particularly for agriculture processors. Bad and dangerous roads are major constraints, including sporadic checkpoints where people pay significant fees. Electricity is an additional concern for businesses, especially the larger ones.

33. **South Sudan has the opportunity to leverage its natural endowments and economic potential to grow a diversified and competitive economy.** South Sudan is a country rich in natural resources and biodiversity, with great potential for agricultural production that could potentially make it Africa's breadbasket. Besides oil, the country has unexploited potential in fisheries, wood/forest resources, and other minerals and commodities, including gold, copper, lead, zinc, nickel, marble, and various rare earth metals. To fully harness the potential of these sectors, there is a need to foster human capital development and close a huge infrastructure gap, which is a key constraint to production and trade.

Poverty and Vulnerability Context

34. **Violent conflicts and multiple shocks have had a devastating effect on South Sudan.** According to the last nationally representative household surveys conducted pre-independence, the poverty headcount (at US\$1.90 per person per day) was 44.7 percent in 2009, projected to have increased to 53 percent in 2015 and almost 73 percent in 2016. The increase in poverty between 2015 and 2016 was attributable to the simultaneous onset of hyperinflation and intensification of conflict. Given the similarity of the recent macroeconomic situation, which has manifested in the form of rising prices, flooding-induced displacement, and heightened local conflict, poverty is likely to increase further. Early results from COVID-impact phone surveys reported a reduction in household and business income and a fall in wage and remittance income.¹³ The projected poverty rate at US\$1.90 per person per day is almost 82 percent in 2021.¹⁴

35. **Recurring conflict has forced many people into displacement within and outside the country.** As of December 2020, 1.6 million people were internally displaced and about 2.3 million South Sudanese

¹³ COVID Round 1 Report, Economic Update, Fall 2020.

¹⁴ Macro Poverty Outlook, Fall 2020.

lived as refugees and asylum seekers in other countries, including Uganda, Sudan, Kenya, Ethiopia, the Democratic Republic of Congo, and the Central African Republic.¹⁵ While UNHCR reports an estimated 200,000 South Sudanese refugees have returned to South Sudan spontaneously since 2017, the majority are currently in IDP-like situations.¹⁶ The most recent estimates comparing poverty rates among IDP and non-IDP populations—only available from 2017 data—report significantly higher levels of poverty among IDPs.

36. The food insecurity situation is heightening vulnerability, as the most food insecure regions are also among the poorest in the country. Food insecurity is particularly severe in Jonglei, Upper Nile, Lakes, and Eastern Equatoria, which have some of the poorest counties and the highest number of poor people (see Figure A.1 and Figure A.2). An estimated 1.3 million children were malnourished in 2020, increasing the prevalence of acute malnutrition between 2019 and 2020 from 11.7 to 12.6 percent (IPC, February 2020). This increase was also considerably higher in the poorest parts of the country, from 19.5 to 23.8 percent in Jonglei and from 14.0 to 16.4 percent in the Upper Nile region.

37. South Sudan’s vulnerability to climate change and natural disasters compounds the country’s humanitarian situation, jeopardizes post-civil war recovery, and undermines development efforts. The Global Climate Risk Index ranked the country 125 out of 171 between 1998 and 2018.¹⁷ With a strong reliance on subsistence farming and pastoralism, rural communities are particularly affected by extreme weather events and natural disasters. Historical records show a large year-to-year variability in precipitation, but droughts have become more frequent and widespread since the 1960s.¹⁸ The seasonality and intensity of the rainy season is also changing, resulting in more frequent and extreme flooding in many parts of the country.¹⁹ Climate-related hazards are seen to intensify intercommunal conflict over natural resources, driving population displacement and worsening food insecurity. The compounding effects of climate-sensitive disasters such as the recent floods in South Sudan highlight the need to better understand the complex interplay between disasters, conflict, and forced displacement.

38. The desert locust invasion in 2020 destroyed crops and pasture, heightening the risk of food insecurity. The ongoing East African desert locust upsurge reached South Sudan in 2020, the first locust upsurge in South Sudan in 70 years. The first swarms that arrived in late February during the dry season caused damage to pastureland. Subsequent swarms hit the country during the cropping season (May–June and then again around August), affecting over 20,636 ha of crop land and 18,845 households. The second wave of the upsurge is now affecting East Africa and the swarms are larger and denser than in 2020. Over 60 percent of crop fields have reportedly been damaged in the greenbelt region, a key source of the country’s agricultural production. The worsening situation may further deteriorate the food insecurity situation in South Sudan.

39. Public expenditure on human development is extremely low. In the FY20 budget, combined public expenditures on basic services (health, education, and rural development) constitute only about 7.4 percent and expenditures on social protection constitute only 2.7 percent of the total budget.

¹⁵ South Sudan: Humanitarian Snapshot (December 2020). Office for the Coordination of Humanitarian Affairs.

¹⁶ South Sudan Regional Refugee Response Plan January 2020–December 2021. UNHCR. <https://reliefweb.int/report/uganda/south-sudan-regional-refugee-response-plan-january-2020-december-2021#:~:text=The%202020%2D2021%20Regional%20Refugee,Sudan%2C%20over%20the%20next%20two>

¹⁷ Germanwatch. 2019. *Global Climate Risk Index 2020*. p. 42.

¹⁸ USAID. 2019. *South Sudan Climate Vulnerability Profile*. p. 2.

¹⁹ ThinkHazard. 2020. *South Sudan*. <https://mcas-proxyweb.mcas.ms/certificate-checker?login=false&originalUrl=https%3A%2F%2Fthinkhazard.org.mcas.ms%2Fen%2Freport%2F74-south-sudan>

However, even these allocations are misleading, as, in past years, actual expenditures on health and education were significantly less than originally budgeted for. Although caution should be given to the quality of data for South Sudan, the country received an index score of 0.30, where the score ranges between 0 and 1, in the first year of Human Capital Index (HCI) rankings (2018). The results of the HCI highlight the importance and urgency to invest in health, education, and overall human development outcomes in the country.

40. **Gender disparities and inequalities are staggering.** Local governance challenges and barriers in access to services in South Sudan take on specific gendered dimensions, such that women and girls are affected disproportionately compared to men and boys. A highly patriarchal structure leads to male decision-makers or gatekeepers in local community leadership structures, customary law and restorative justice settings, policy positions, security forces, and homes. There are limited income-generating opportunities for women. Girls are often excluded from educational opportunities based on gender norms dictating that they assume domestic and caretaking responsibilities and expectations that they will marry early.

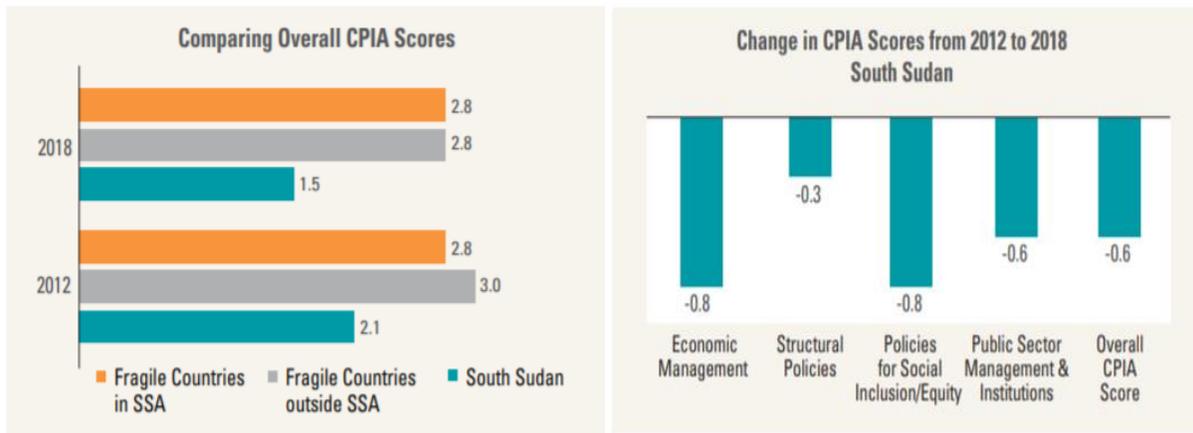
41. **Gender-based violence (GBV), particularly against women and girls, is among the highest in the world.** Close to 65 percent of women and girls experience physical and/or sexual violence in their lifetime in conflict-affected locations.²⁰ Beyond underlying gender and social norms, ongoing conflict, displacement, and pervasive insecurity have increased the exposure of women and girls to GBV-related risks, including the risk of sexual exploitation and abuse. Women and girls who experience violence are less able to engage in formal and informal work, accrue significant out-of-pocket expenses when seeking services and support, and are less able to care and provide for their families. Businesses are also affected by violence experienced by female employees who miss days of work due to intimate partner violence and non-partner sexual harassment.

Institutional Context

42. **South Sudan's institutional capacity is limited.** Since its independence, Country Policy and Institutional Assessment (CPIA) scores have been weakening in all clusters (Figure 1). Years of civil war and conflict eroded institution-building efforts in the country, resulting in severe capacity constraints in various key government functions. Low levels of accountability and an opaque budget process eroded public trust in the Government. Lack of effective PFM coupled with severe budget deficits due to macroeconomic mismanagement affected payment of salaries and further weakened institutional capacity. The Government has a weak service delivery system and has been largely dependent on international donors and humanitarian agencies.

²⁰ USAID. 2019. *USAID/South Sudan Gender-Based Violence Prevention and Response Roadmap*. September 2019.

Figure 1. Country Policy and Institutional Assessment



Source: World Bank CPIA 2018.
 Note: SSA = Sub-Saharan Africa.

43. **Basic service provision is severely constrained, particularly in rural areas of South Sudan.** Increased demands by the displaced, particularly large numbers of returnees, will further strain people’s access to basic services. Access to electricity in the country is virtually nonexistent in rural areas (1 percent) relative to urban areas (14 percent). Only 5 percent of rural households have access to improved sanitation compared to 62 percent of urban households. Access to drinking water is the only service that has an equitable outcome across rural and urban areas, at 68 percent. The country has the lowest road density in Africa with less than 2 percent of the primary network paved, constraining access to the limited number of schools and health facilities that do exist. In 2016, only about four in ten people reported being able to read or write. An estimated 31 percent of schools across the country have experienced physical damage since 2013, and many others are occupied by IDPs or armed forces. By 2016, teacher attendance had fallen by a third, primarily due to the Government’s continued failure to pay salaries. More than 70 percent of school-age children are not receiving education.

44. **Weak institutional capacity transcends the statistics offices at the national and ministerial levels.** This in turn affects the quality and reliability of both macro- and micro-level data collected at the national and subnational levels. In addition to collecting reliable, frequent, and high-quality data for welfare measurement, there is a need to collect data for effective macro monitoring. This requires developing the capacity of the NBS and the statistics offices at various ministries, collecting reliable data to estimate GDP and price statistics, and collecting high-quality consumption data in a nationally representative sample of households to measure poverty. The last nationally representative survey for South Sudan comes from 2009, and the most recent household survey data for the country post-independence are also dated (see Annex 1 for details). There is a need to develop local capacity and leverage adequate funding and buy-in to both develop a National Statistical Strategy and institutionalize frequent, reliable, and timely data collection. More recently, the Ministry of Finance and Economic Planning (MoFEP) has shown interest in collecting data on aid within South Sudan, which can further help align government and donor priorities.

COVID-19 Impact

45. **The COVID-19 crisis is rapidly unfolding in South Sudan and putting pressure on the country’s already weak health system.** As of March 30, 2021, the number of confirmed COVID-19 cases was 10,119,

with 108 deaths.²¹ Insufficient testing capacity suggests that the actual situation could be understated. The country's weak health system, low water supply coverage, poor hygiene and sanitation services, inadequate financing and supplies, and reduced footprint of humanitarian assistance pose a significant threat. The Government endorsed a National COVID-19 Response Plan for six months with an indicative budget of US\$10.9 million to control and contain the transmission of the virus.

46. **The pandemic is inflicting a heavy economic toll with serious consequences for human capital and household welfare.** The pandemic is unfolding against the backdrop of the country's dire economic situation, which has stemmed from political conflict, collapse in oil prices, and multiple external shocks such as floods and locust infestation. The WBG's Household Monitoring Survey and Business Monitoring Survey (BMS) conducted in June and October 2020 report signs of lower incomes, falling wages, and reduced access to markets and educational facilities. About 52 percent of the respondent households suffered income losses after the onset of COVID-19, with 13 percent losing all of their income. Nonfarm business activities were most affected with two in three households reporting less income. Income from farming, which is a critical source of livelihoods for many South Sudanese, is also expected to worsen with the recent floods. Close to 46 percent of households reported that they had not been able to buy their main staple food (cassava, sorghum, and maize) and about 15 percent of the households were unable to access medical treatment.

47. **Nationwide school closures and lack of access to remote learning are likely to have long-term negative effects on human capital.** In March 2020, South Sudan closed schools across the country, affecting almost 2 million learners. In addition to students losing valuable months of schooling, school closures may deprive the children of poor families of food, because they often rely on school feeding programs. Temporary school closures may also lead children from vulnerable households to permanently drop out, a risk that is particularly severe in rural areas where early dropout is more common even in ordinary circumstances.

48. **The World Bank responded quickly with adjustments to the portfolio to respond to the emerging needs.** A CERC of the PEHSP was triggered in May 2020 to provide emergency support to the National COVID-19 Response Plan. Combined with accessing financing from the Pandemic Emergency Financing Facility, a total of US\$7.6 million in financing was provided for activities including risk communication, community engagement, infection prevention controls at points of entry, and logistics and operations for procurement of required items. The US\$40 million SSSNP, approved in April 2020, adjusted its implementation plan to follow a phased approach, initially prioritizing Juba with more than double the number of target beneficiary households in recognition of the increasing and deepening socioeconomic vulnerabilities of poor urban households.

III. THE WORLD BANK GROUP COUNTRY ENGAGEMENT STRATEGY

WBG Engagement in South Sudan

49. **The WBG has been engaged in South Sudan since the conclusion of the Comprehensive Peace Agreement in 2005.** Following independence in July 2011, South Sudan officially became a member of the WBG in April 2012. In November 2017, the Board approved a CEN for the FY18–19 period. The CEN focused on (a) supporting basic services for vulnerable populations and (b) enhancing livelihoods, food security, and basic economic recovery.

²¹ Johns Hopkins University Coronavirus Resource Center. <https://coronavirus.jhu.edu/map.html>.

50. **A small number of projects make up the portfolio and a small number of projects are in the pipeline.** There are three active projects with total commitments of US\$190.4 million (Table 2). The SSSNP provides temporary income opportunities to selected poor and vulnerable households and aims to improve delivery mechanisms. The Enhancing Community Resilience and Local Governance Project helps improve access to basic infrastructure and strengthen community institutions in selected counties. The PEHSP sustains health service delivery and strengthens coordination at the central and state levels. The portfolio also comprises a wide range of ASAs to build a robust evidence base for programming, manage and mitigate risks, and promote peace building, recovery, and stabilization. The World Bank’s ASA portfolio benefits other international partners and helps leverage additional support in line with WBG recommendations.

Table 2. List of Active Projects (as of March 2021)

Project	Amount (US\$, millions)	Implementing Agency
South Sudan Provision of Essential Health Services Project	105.4	United Nations Children’s Fund and International Committee of the Red Cross
South Sudan Safety Net Project	40.0	United Nations Office for Project Services (UNOPS)
South Sudan Enhancing Community Resilience and Local Governance Project	45.0	UNOPS

51. **While WBG support is ongoing, the portfolio has faced a number of operational challenges.** These include challenges in project implementation, due to insecurity and violent incidents, logistical challenges due to severe weather, and limited transportation options for supplying key inputs for ongoing projects. In some instances, delays in processing debt service payments by South Sudan’s Government led to suspension of disbursements. There have also been instances of ineligible expenditures, which underscore the difficult fiduciary environment in which WBG operations are implemented. More recently, the stark difference between the official and market rates has limited the World Bank’s ability to effectively respond to growing vulnerabilities by disbursing cash transfers to eligible beneficiaries as part of the SSSNP. An interim measure has now been reached between the GoSS and the World Bank to proceed with the delivery of cash transfers.

Lessons from FCV contexts and past WBG programming in South Sudan

52. **There are important lessons learned in other FCV contexts as well as in South Sudan to guide this CEN.** The WBG’s FCV strategy highlights the importance of addressing the root causes of fragility and stresses the need for development actors to remain engaged and be willing to accept higher levels of risk. Lessons from supporting fragile transitions point to the importance of building an inclusive and resilient social contract between citizens and the state and strengthening the legitimacy and capacity of core institutions. Innovative technology can also facilitate implementation and monitoring. The lack of WBG ground presence in insecure areas beyond Juba highlights the importance of capitalizing on opportunities to leverage technology-based solutions to support operations and track progress. It also underscores the need to build capacity at the local level and effectively collaborate with humanitarian partners and development actors on the ground.

53. **As WBG continues to engage in South Sudan, lessons from previous engagement are critical to shaping future operations in the country.** A CEN midterm review (MTR) prepared in 2019, coupled with a portfolio review and extensive consultations with operations units on the ground, points to lessons on

programmatic approaches, implementation methods, and partnerships that can be leveraged in the coming period. The MTR observed that a set of principles guide key strategic and operational decisions. These include 'do no harm', nondiscrimination, strengthening of resilience, and building of social accountability systems. The operations of the WBG moving forward in South Sudan will be informed by these lessons, which include the following:

- (a) **Reduced engagement with the Government has hindered building a strong relationship with the client.** Since 2018, all new operations in South Sudan have been implemented through a third party. Although third-party implementation modalities have enabled the World Bank to operate in insecure areas, the modality has limited the involvement and buy-in of government technical staff. Additionally, it has disrupted previous capacity-building efforts at the national and local levels (state, county, and payam). Limited WBG presence in the country has also hindered nurturing a relationship with government counterparts. Supporting institutional strengthening and capacity building should be carried out with the goal of transferring skills and knowledge to national stakeholders.
- (b) **Coordination and convergence among humanitarian and development partners.** Instability and enormous humanitarian needs in the country have made coordination challenging at times in South Sudan. A recent effort by development and humanitarian partners focuses on devising a coordinated approach under the Partnership for Recovery and Resilience (PfRR) initiative. The PfRR, spearheaded by donors, United Nations (UN) agencies, and nongovernmental organizations (NGOs), aims to promote local ownership and strengthen partnerships to reduce vulnerability and increase the resilience of people, communities, and institutions in South Sudan.
- (c) **The rapidly evolving context in South Sudan calls for operational flexibility to respond to fluid needs and circumstances.** Limited flexibility in project design has posed challenges to being agile and responding to the volatile setting of South Sudan. Flexibility in organizational frameworks would allow teams to use contracting and procurement processes more efficiently to carry out project activities.
- (d) **The lack of clear and transparent targeting strategies may fuel tensions.** A clear evidence-based and objective approach to the allocation of goods and services can help increase the buy-in of diverse actors. In situations of conflict, targeted methods used by development partners for distributing benefits need to be carefully crafted. If they are not well understood and perceived as fair by some stakeholders, it could be a source of tension and even violence.
- (e) **The importance of robust monitoring and evaluation (M&E) frameworks for effective implementation.** The need for robust M&E frameworks was emphasized as a lesson across previous projects in the World Bank portfolio in South Sudan. It has been noted that challenges in implementation and limited availability of data also tend to shift attention away from evaluation. Committing to an M&E strategy from early stages of the project would significantly contribute toward improving the effectiveness of a project.
- (f) **Third-party monitoring (TPM) is useful, but challenges and limitations exist.** The WBG defines TPM as monitoring by parties that are external to the project's direct beneficiary chain or management structure to assess whether intended outputs, outcomes, and impacts

have been achieved by the project. In South Sudan, the performance of TPM firms has been mixed. Part of the problem is the challenging operating context. However, issues also exist in TPMs being ex post exercises and not intended to capture risks, such as corruption or access issues, in real time. Although TPM firms are on the ground and are willing to go to insecure areas, they are not exempt from access problems and, in any case, cannot be everywhere at all times. For these reasons, TPM should be used in combination with other tools such as Geo-Enabling Initiative for Monitoring and Supervision that can extend the reach of TPM actors.

- (g) **Community organizations have been functional following project closures.** Community organizations created under the Local Governance and Service Delivery Project have remained active for several years following the end of the project. Communities have used these organizations as a platform to engage with other development agencies to address the priorities in local areas. Building on the experiences of the World Bank project, community organizations have been used as a tool to raise funds to address needs of the community. Further, previous engagement with these groups also indicates that representation of gender and youth must be improved to leverage the potential of the organization.

The Government's Strategy

54. **The Government laid out its immediate vision in the 2018 R-ARCSS and the National Development Strategy (NDS) 2018–2021.** The NDS (Box 2) is currently under review and is a first critical step toward the fulfilment of key aspects of the latest peace agreement. Chapter IV of the peace agreement calls for a medium-term economic and financial management reform program, new economic governance institutions, and principles for sharing of national wealth and resources. There are also many references to PFM, the responsibility for collection of revenues by the central government and local governments, as well as the transparent allocation of revenues by the national government to states and local governments. The principle of transparency around oil revenues is also enshrined in the peace agreement.

Box 2. Republic of South Sudan National Development Strategy 2018–2021

The NDS was formulated to guide national investment and development actions for three years from July 2018 to June 2021. The key objective of the strategy is to consolidate peace and stabilize the economy. The NDS has six interconnected priority strategic actions:

- (a) Create enabling conditions for and facilitate the voluntary return and integration of displaced South Sudanese.
- (b) Develop appropriate laws and enforce the rule of law.
- (c) Ensure secure access to adequate and nutritious food.
- (d) Silence the guns by facilitating a permanent cessation of hostilities.
- (e) Restore and expand the provision of basic services.
- (f) Restore and maintain basic transport infrastructure such as roads and bridges.

The strategy was formulated with a structure which consisted of a secretariat charged with coordinating across five working groups or clusters. Three of the NDS clusters—governance, economic, and service delivery—were articulated in the peace agreement. The other two—context and cross-cutting—were instituted to reflect the unique context of the NDS and mainstream key cross-cutting issues such as gender, capacity, and climate resilience. To ensure national ownership and successful implementation, the NDS was formulated through a participatory process with diverse stakeholders contributing to the cluster and sector priorities.

55. **The Government has initiated changes in its budget process as well as the allocation framework.** Annual budget plans for each of the five clusters (governance, economic, service, infrastructure, and gender and youth) must be aligned with the R-ARCSS and the NDS and be approved by the Council of Ministers after budget workshops and meetings of sector working groups. After the Council of Ministers approves the budget, it is to be presented to the Transitional National Legislative Assembly. The budget allocations through this process appear to mark a shift toward greater spending on health, education, and infrastructure. Furthermore, as part of the budget allocation process, the Government is also reviewing the implementation of the NDS. In this context, an alignment of the NDS priority actions and the R-ARCSS was conducted in developing the National Budget Plan for FY2020–21. A concept note and terms of reference for the NDS review have also been developed. The Government expects the NDS review to be a participatory process that will engage key stakeholders, such as government institutions, civil society, the private sector, and development partners.

Proposed WBG Country Engagement

56. **Despite a challenging country context, there are opportunities to help improve the lives of the people of South Sudan.** Along the humanitarian-development-peace nexus, the WBG has a major role to play. Remaining engaged along this nexus is the surest way to find pathways to peace, stability, and development. With a significant amount of annual humanitarian and development aid, there are opportunities for the WBG to leverage its knowledge and analytical base to promote medium-term development, reduce aid dependency, and stimulate the local economy and job creation. There is significant pressure on political parties to maintain peace and ensure progress in South Sudan. There is a sense that inaction may worsen the situation and affect future reengagement.

57. **Assessments by WBG teams indicate that South Sudan has many opportunities that need deeper exploration.** Key potential sources of growth include agriculture, land, oil and mining, a young population, and the diaspora. There is also an opportunity to work toward a shift from pure humanitarian assistance to more development-oriented activities and to gradually transition away from third-party execution to implementation through government systems. The South Sudanese people expect the

Government to help improve their lives and there are opportunities to do so. However, such expectations must be managed because deep-rooted problems are not amenable to quick solutions. A consistent, transparent, and inclusive approach is prudent and one that the WBG stands ready to support.

Principles of Engagement

58. The selection criteria for specific areas of engagement are based on the following: (a) the Government's priorities and commitment to reform in specific sectors; (b) responsiveness to addressing FCV drivers; (c) the WBG's comparative advantage, including experience in FCV countries; (d) division of labor among partners; (e) priorities for reducing poverty and boosting shared prosperity; and (f) a realistic assessment of the security and capacity challenges of the South Sudanese context. Government leadership on development of a vision and on resource allocation will be critical for reducing dependency, especially in social sectors.

59. **Acknowledging the complexity of the conflict in South Sudan, WBG engagement is grounded in conflict-sensitive and 'do no harm' principles.** Throughout the portfolio, the WBG will look closely at national and local political economy dynamics, address FCV drivers, and seek to leverage sources of resilience. Careful attention to 'do no harm' is crucial to avoid triggering conflict or further tensions and negative perceptions. This is consistent with the FCV strategy's 'do no harm' approach. According to the 'do no harm' principle, activities financed by donors and development partners should first and foremost seek to avoid causing or contributing to adverse human or environmental impacts. In FCV contexts, this calls for donors and development partners to adopt a context-specific, conflict-sensitive approach based on adequate due diligence, diagnostics, risk analysis, and citizen engagement. This approach needs to be carefully tailored to local contexts and dynamics, with a gendered lens. Aided by a conflict-sensitive framework, a portfolio-wide approach will facilitate synergies across WBG operations to help achieve meaningful development outcomes for the people of South Sudan.

Stakeholder Consultations

60. **Preparation of this CEN was informed by a series of internal and external consultations.** These discussions spanned the full range of stakeholders including the GoSS, bilateral and multilateral development partners, civil society organizations (CSOs), NGOs, private sector representatives, academics, and think tanks. Consultations also included an online platform for anonymous feedback on South Sudan's development priorities.

61. **The majority of those who provided feedback expressed the importance of building government institutions and infrastructure,** as well as peace building, ensuring access to basic services, citizen empowerment, agriculture, and human capital. This feedback is consistent with the strategic focus areas of the CEN. The consultations' process and findings are described in greater detail in Annex 2.

The WBG's Strategy

62. **The CEN has three focus areas—(a) lay groundwork for institution building, (b) continue support for basic public service delivery, and (c) promote resilience and livelihood opportunities—with a cross-cutting principle of social inclusion, particularly youth and gender.** The first focus area responds to the need to initiate steps to help develop the country's institutional base. Without basic institutional capacity, South Sudan will find it difficult to reach its development potential. Lack of accountability is unlikely to lead to responsible policy making. It is also important to promote greater transparency in government institutions and processes as a way of developing trust between citizens and the state. The second focus

area will build on existing support for basic public service delivery. The needs in South Sudan are great and institutional delivery capacity is extremely weak. Strengthening this system will be important for citizen welfare. Finally, the third focus area will take steps toward greater resilience through peace building and creation of livelihood opportunities. The WBG will use a Project Targeting Index approach to inform spatial targeting of activities to prioritize areas with the greatest needs and with the greatest potential to maximize development benefits.

63. **Focus Area 1: Lay groundwork for institution building.** Under this focus area, the WBG program will build foundations for institution building and strengthen governance to enhance accountability and transparency and build confidence among citizens. Engaging the Government in the consultative process of developing a road map for strengthening core state institutions will ensure government-led development process. It will also pave the path for a smoother transition to a government-led implementation model. Following the signing of the R-ARCSS, the Government outlined several reforms to strengthen stewardship of public resources and improve service delivery. These envisioned reforms include efficient mobilization and equitable allocation of resources, transparency in public procurement, prudent public debt management, payroll and wage bill management, and strengthening of the capacity of key oversight institutions. The focus area will also contribute to creating an enabling environment and institutional development to provide opportunities and better services for women.

- **Objective 1.1: Building core institutional administrative capacity and transparency.** The WBG will undertake capacity assessments and technical assistance (TA) to improve the Government's effectiveness and efficiency in policy preparation and implementation. At the national level, functional and capacity assessments will be conducted for selected ministries, including the MoFEP; Ministry of Agriculture and Food Security; Ministry of Education; and Ministry of Gender, Child, and Social Welfare. The assessments will identify how the selected ministries and local governments can improve their capacity and ability to operate under principles of transparency, accountability, and inclusion for the citizens of South Sudan. The diagnostics will be followed by the WBG's technical support to the key ministries to develop road maps for more open and transparent government, including regular publication of budget documentation. The WBG will also provide support for building capacity of the BSS. All operations—both ongoing and pipeline—will include dedicated components to strengthen the technical and administrative capacity of respective ministries and government agencies at both the national and local levels.
- **Objective 1.2: Strengthen and support public procurement and financial management.** The WBG will help strengthen the administrative capacity in the MoFEP to plan, execute, and monitor budgets. The R-ARCSS envisaged amendment of PFM-related legislation, including the National Audit Chamber Act, the Anticorruption Act, and the Public Financial Management Act, as indicated in the PFMRS concept note. Advisory and TA activities will be provided to support the first phase of PFM reform over the next 24 months, including (a) PFM dialogue with the GoSS and development partners, including on development of the PFMRS; (b) development of public procurement regulations and documents and training and capacity building of procurement staff; (c) support to address the backlog of financial statements and clear the audit backlog of the National Audit Chamber; and (d) efforts to enhance timeliness of the budget, accuracy of budget figures, alignment with Government priorities and the NDS, and the link between revenue forecasting and budgeted expenditures to make the budget more realistic. The World Bank will also help the country address macro-fiscal challenges during the CEN period. TA will be provided to build the NBS' capacity to

compile key national statistics, reinforced by World Bank analytics to support generation of macroeconomic and poverty data. A public expenditure review ASA will provide a detailed update on the economic situation and help fill knowledge gaps on spending and revenue management, with focus on the oil sector. Finally, the World Bank will continue to work with the IMF to promote key macroeconomic policy reforms, which will be supported by the Staff-Monitored Program the IMF is expected to endorse in March 2021.

64. **Focus Area 2: Continue Support to Basic Service Delivery.** Under this focus area, the WBG program will continue to support basic public service delivery to develop and preserve human capital. The focus area also aligns with a core objective supported under the IDA19 Remaining Engaged in Conflict Allocation (RECA) to preserve and develop human capital for the country's future recovery with a continued focus on providing services for women and girls.

- **Objective 2.1: Improve access to basic human development services.** Under this objective, the WBG will continue to support the delivery of basic services, including health and education. In 2019, at the request of the GoSS, the World Bank approved the PEHSP with the aim of delivering high-impact, immediate response and early recovery interventions in areas significantly affected by the conflict that remain inaccessible to more development-oriented assistance approaches. The project also continues broad support to primary care centers and secondary care hospitals, focusing, among others, on the states of Upper Nile and Jonglei. Going forward, the World Bank intends to continue its support to essential health services including support for COVID-19-related services (for example, vaccines) and transition its service delivery model from through UN agencies to a model that builds the Government's capacity to gradually take over some level of service provision. The ongoing Integrated Service Delivery for Human Development ASA assesses current national and international modalities of service delivery in education, health, and social protection in FCV contexts with the goal of developing evidence-based recommendations and a pathway to improve service delivery coverage and quality as well as strengthen institutional capacity for sustained human capital development.
- **Objective 2.2: Improve access to economic infrastructure.** The WBG will leverage existing and new operations to enhance economic infrastructure. The ongoing ECRP supports investments in community-level infrastructure, such as water supply and sanitation facilities and community roads, through a participatory planning process. During the CEN period, the WBG will continue and expand its support to improve access to community infrastructure in selected areas. To promote financial inclusion, the WBG will work with the BSS to develop a plan for improving access to finance and advancing enabling reforms to strengthen the banking sector. This will include strengthening the analytical basis for financial sector reforms and working with the authorities to define a strategic direction. There will be continued engagement in building on the outcomes of the payment systems/digital payments ASA, working closely with IFC. IFC will build partnerships with individual banks to explore areas of advisory and technical support that would facilitate investments in support of SME finance. As a member of the Common Market for Eastern and Southern Africa (COMESA), the country may benefit from the MIGA guarantee of EUR 359 million covering loans to the Eastern and Southern African Trade and Development Bank.

65. **Focus Area 3: Promote Resilience and Livelihood Opportunities.** Under this focus area, the WBG program will support resilience among citizens confronted with multiple shocks and enhance livelihood opportunities—with a particular focus on food security and social protection.

- **Objective 3.1: Expand and strengthen access to social protection and livelihoods.** The ongoing SSSNP provides access to income opportunities to poor and vulnerable households and strengthens safety net delivery tools. The World Bank will continue its support to the safety net system and the socioeconomic empowerment and financial inclusion of vulnerable women and their families through business and livelihood development. WBG teams working on social protection and the financial sector will jointly explore the use of innovations for financial inclusion through the safety net. To promote livelihood opportunities, the World Bank will support labor-intensive public works programs through multiple operations including the SSSNP and the Enhancing Community Resilience and Local Governance Project. The Women Social and Economic Empowerment Project will help strengthen women’s social protection and provide economic opportunities to them. Investments will enhance women’s self-affirmation and agency and promote their access to skills training, economic empowerment, and quality reproductive and maternal health and childcare services.
- **Objective 3.2: Enhance food security and improved agricultural productivity.** South Sudan has enormous agricultural potential given its favorable soil, water, and climatic conditions—yet most of the food sold in markets is imported from neighboring countries. Interventions addressing agricultural productivity will be key to improving domestic agricultural production as well as enhancing livelihoods for farmers. Improved agricultural production would also promote stability across local markets by decoupling exchange rates and food prices. The proposed Resilient Agricultural Livelihoods Project will help improve agricultural production and develop farmer institutions in project areas. The proposed South Sudan Emergency Locust Response Project will help build national capacity to manage future crises and help maintain the food security and productivity of affected households. IFC will support private sector initiatives in the agribusiness sector as part of the agriculture program. Lessons from IFC global and regional agribusiness advisory and investment initiatives will guide interventions in South Sudan. Sector-specific reforms, advisory services, and TA targeting aggregate institutions and private off-takers of key value chains will lead to investments, increased income for smallholder farmers, and job creation.

66. **The WBG program will incorporate a particular focus on women and youth to address drivers of fragility and facilitate peace building and inclusive development in the country.** Challenges in accessing education and vocational training and limited job prospects are major impediments to young people seeking to position themselves in society. Inability to access socioeconomic opportunities drives these at-risk populations into further competition over resources and violence in both rural and urban settings. The RRA identifies that in the absence of productive employment opportunities, young men become susceptible to recruitment by local militia or engage in crime and violence such as cattle raiding. Ensuring a portfolio-wide focus on youth and their socioeconomic inclusion is crucial to mitigate their vulnerabilities and increase community resilience. Women are particularly vulnerable in many parts of the country. Young women are at a disadvantage when accessing services or pursuing economic opportunities in comparison to their male counterparts. Traditional gender norms and heightened sexual and gender-based violence (SGBV) risks are impediments to women’s empowerment. A deliberate effort, such as

setting hard targets in all programs and projects and measures to address GBV, is crucial to minimize any gender gaps in human capital and development outcomes.

67. The CEN and proposed program will contribute to women’s empowerment and their resilience in communities. In addition to the GBV risk mitigation approach, the CEN program will place a significant emphasis on transforming the social norms and role of women and girls in communities. The RRA identified the role of women as a source of resilience in South Sudan both at the national and community levels. The proposed Women Social and Economic Empowerment Project will help address these issues and leverage their resilience in communities. While the principle of gender inclusion and youth engagement is central, the understanding of local dynamics, particularly around perceived inequity and frustration felt by men and boys, will be extremely important to avoid any further gender-based discriminations or violence. A ‘do no harm’ approach that is carefully crafted to local contexts will also be important. The WBG will incorporate lessons learned from the prior operational experiences and analytics and work with the Government, as well as humanitarian partners, and UN agencies to implement gendered approaches.

68. The WBG program will engage with community organizations and local structures to strengthen local ownership and the sustainability of interventions. The RRA notes that engaging with community groups and traditional leaders has been a useful entry point to working at the community level. It also helps secure the buy-in of local communities. Youth groups, cattle camp leaders, and council of elders are also among existing community structures that can be leveraged for development interventions. However, engaging with these groups must be carried out with a nuanced understanding of their role in the local FCV dynamics.

IV. IMPLEMENTING THE CEN

Financing

69. Implementation of the CEN is financed by a combination of IDA resources and trust fund resources including IFC-managed trust funds.

- **IDA resources.** The overall IDA19 envelope for South Sudan is SDR 214 million (FY21–FY23), including the top-up from the IDA19 RECA.²² In addition, South Sudan has access to up to US\$50 million from the IDA19 CRW ERF. South Sudan also accesses the IDA19 Regional Window for its upcoming South Sudan Emergency Locust Response Project.
- **Trust funds.** The WBG is in discussion with multiple donors to establish a new Multi-Donor Transition Trust Fund (MDTTF) to provide catalytic support for the institutional reform agenda, supporting basic service delivery and articulating pathways to recovery and development. Upon its establishment, the MDTTF will provide a range of TA and analytical works in the key areas outlined in the CEN. The MDTTF will play an important role in filling strategic funding gaps. By enabling donor engagement, the MDTTF will not only serve as an

²² Referenced IDA19 volumes (FY21–23) are indicative based on the existing IDA19 framework (FY21–FY23) and subject to change. In particular, FY22 and FY23 IDA19 volumes may change subject to the proposed advancing IDA20 which will result in some front-loading into FY22 while FY23 volume will be subject to IDA20 replenishments. Also, actual performance-based allocations including the RECA FCV envelope will be determined annually and will depend on (a) total IDA resources available; (b) the number of IDA-eligible countries; (c) the country’s performance rating, per capita gross national income, and population; (d) implementation of IDA’s Sustainable Development Finance Policy; (e) the performance and other allocation parameters for IDA borrowers; and (f) annual review of RECA implementation to confirm eligibility for FY22.

effective funding mechanism but also provide a platform for coherent dialogue around critical priorities in South Sudan.

- **IFC.** Given that South Sudan is eligible for IDA19, IFC will leverage various funding sources including the blended finance instruments to de-risk projects when potential transactions are available (investment transactions and advisory work). IFC’s upstream and fragile and conflict-affected situation (FCS) teams will support business development and project identification while also addressing overall reforms and improved governance in the private sector. IFC plans to launch a Horn of Africa Fragility Initiative (FY22–FY26), which will also fund advisory engagements. As investment projects/programs are identified jointly with the World Bank sector teams (in agriculture, health, infrastructure, and others), various IFC instruments will be explored to complement World Bank funding and create synergies.
- **MIGA.** MIGA’s FY21–FY23 strategy aims to support foreign direct investment and high development impact projects, with a focus on IDA and FCV countries. While MIGA currently has no outstanding exposure in the country, South Sudan may benefit from a MIGA guarantee of EUR 359 million, covering loans to Eastern and Southern African Trade and Development Bank (TDB). The loan is to support the growth and diversification of TDB’s trade finance portfolio throughout the COMESA region, which includes South Sudan. MIGA, working closely with the World Bank and IFC, will explore opportunities to support foreign investment into South Sudan using MIGA’s political risk insurance instruments.

70. **Proposed projects in support of the CEN focus areas are outlined in the Table 3 with indicative financing from IDA19.** The pipeline consists of the additional financing of existing operations and new projects in an advanced state of preparation. In addition, two new operations (PFM and Financial Sector Strengthening Project and Women Social and Economic Empowerment Project) will contribute to the CEN objectives with a strong focus on institution building and promoting resilience. As the World Bank advances its efforts in building the institutional capacity of the Government, enhancing PFM, and addressing fiduciary weaknesses, it will review its portfolio and explore the possibility to increase investment during the CEN period, subject to the Government’s readiness and capacity.

Table 3. Indicative Financing

Project	Indicative Financing (US\$, millions)	CEN Focus Areas		
		Institutional Building	Basic Services	Promote Resilience
FY21				
South Sudan Resilient Agricultural Livelihoods Project	63	○		○
South Sudan Emergency Locust Response Project	51			○
FY22				
South Sudan COVID-19 Emergency Response and Health Preparedness Project	60	○	○	
Women Social and Economic Empowerment Project	70		○	○
PFM and Financial Sector Strengthening Project	34	○	○	

South Sudan Enhancing Community Resilience and Local Governance Project AF	40	○		○
Total	318			

Note: AF = Additional Financing.

Advisory Services and Analytics

71. **The proposed CEN includes knowledge products that will support the three focus areas described above (Table 4).** Ongoing analytical work on jobs, poverty targeting, and conflict economy dynamics has established a strong basis for ASAs planned in the period ahead. In terms of the pipeline, a an overall economic/governance report or a broad public expenditure review will feature analytical components on the economic reform, budget management, and poverty and social dynamics, including a proposed county-level census and nationally representative household survey (see Annex 1). An Infrastructure Knowledge Assessment and Planning ASA will consolidate analytics on water and sanitation with an assessment on the digital economy; these series of key sectoral notes would help bring out the missing information/knowledge that would be crucial for doing any future operational investment in South Sudan. Another planned ASA will focus on the policies and strategy necessary to facilitate a transition from an aid-based, humanitarian approach to food security to one rooted in development and more productive, sustainable forms of agricultural production. On human capital, new analytical efforts will explore opportunities to empower women with greater access to health, education, and jobs, strategies for unlocking key barriers to child development and enhancing institutional capacity for environmental and social management. Finally, as a direct follow-up to a recommendation from the recent RRA, a new ASA will seek to identify, monitor, and provide actionable guidance to operations on fragility drivers at the subnational level.

Table 4. Advisory Services and Analytics

ASAs	CEN Focus Areas		
	Institutional Building	Basic Services	Promote Resilience
Pipeline			
Public Expenditure Review	○		
Infrastructure Knowledge and Planning Assessment	○	○	
Institutional Development for Environmental and Social Management, including Gender and Citizen Engagement	○		
Agriculture Policy, Strategy, and Planning to Transition from Food Aid to Food Growth	○		○
The Demographics of Health, Education and Jobs: The Challenge of Reaching and Empowering Women and Girls in South Sudan		○	○
Stunting and Learning Poverty in South Sudan: Strategies for Addressing Truncated Child Development in a Fragile State		○	
Fragility Drivers at the Subnational Level: Social Conflicts, Social Cohesion, and Inclusion			○

Implementation Arrangements

72. **WBG engagement in South Sudan faces enormous capacity challenges.** Recognizing the Government's limited implementation capacity, particularly in ensuring operational, fiduciary, and safeguards accountability and robust monitoring, all WBG operations currently apply a Third-Party Execution approach. Operational supervision costs are high due to the need for rigorous risk assessment,

monitoring, and implementation support, as well as security for staff. Operational flexibility is therefore a necessity. However, such flexibility requires attention to interrelated factors such as (a) different implementation arrangements, (b) additional administrative costs, (c) staffing footprint, and (d) a risk management framework.

73. **WBG projects use different implementation modalities, depending on the type of program.** All ongoing operations in South Sudan apply Third-Party Execution, whereby the project is primarily managed and implemented by a third party, such as a UN agency, with a limited degree of government oversight. TPM by an independent agent (TPM agent) is also being piloted in two projects. TPM is important to allow an independent agent to verify that WBG-financed assets and services are being used for their intended purposes.

74. **The WBG is also reviewing the possibility of transitioning to government implementation over time.** The proposed return to Government implementation is informed by a number of factors, including the need to progressively ensure full Government engagement and ownership of development programs, establish a sustainable institutional strengthening program and provide opportunity for capacity development of government staff through a ‘learning by doing’ approach, support the Government in the implementation of the ongoing PFM reforms as a basis for future use of country systems, and enhance transparency and accountability through closer partnership and collaboration with the Government and other stakeholders. Such a transition will require significant capacity-building support and careful fiduciary assessments. As outlined in Table 5, the World Bank intends to employ a differentiated, gradual, multiphase approach to transitioning to Government implementation, one rooted in the need for institutional strengthening as a basis for progressive, future use of country systems. Specifically, the approach is differentiated, in that it recognizes the varying degrees of institutional capacity readiness and fiduciary accountability and oversight that exist across ministries and departments: gradual, incremental, and progressive, recognizing that the process of institutional reform takes time to achieve, and phased, in that it expects different ministries and departments to graduate to the next phase based on set criteria. This approach to transitioning to Government implementation will be applied dynamically, with ongoing stocktaking of lessons learned and iteration and adaptation as needed throughout the CEN period.

Table 5. Transitioning to Full Government Implementation

Phase	Key Features	Criteria for Transition to Next Phase	CEN Activities to Strengthen Institutions and Build Skills
Phase I: Third-party implementation with GoSS executing some activities	<ul style="list-style-type: none"> • Third party retains fiduciary responsibility for project implementation • GoSS executes specific activities agreed in writing with the third-party entity • Payments made by the third party for specific activities executed by the GoSS 	<ul style="list-style-type: none"> • Basic fiduciary capacity in selected ministries and departments in place as evidenced by <ul style="list-style-type: none"> ○ Successful execution of agreed activities and deliverables ○ Traceability and transparency of payments made under the agreement 	<ul style="list-style-type: none"> • Ensure third-party entities build capacity of GoSS counterparts • Conduct capacity and institutional assessment of key oversight institutions and PFM/procurement staff in key ministries • MoFEP develops and implements skills building capacity-building program
Phase II: GoSS contracts third-party entity	<ul style="list-style-type: none"> • FA signed between the GoSS and World Bank • GoSS contracts third-party entity to 	<ul style="list-style-type: none"> • Evidence of capacity in key government ministries and dept by 	<ul style="list-style-type: none"> • Continued capacity building and training for procurement, accounting, and auditing staff

Phase	Key Features	Criteria for Transition to Next Phase	CEN Activities to Strengthen Institutions and Build Skills
	<ul style="list-style-type: none"> implement project activities GoSS responsible for procurement, financial management, reporting, auditing, and procurement 	<ul style="list-style-type: none"> Timely and accurate financial and audit reports Elimination of ineligible expenditures Evidence of proper contract management, procurement processing capacity, and reasonable level of contract management capability 	<ul style="list-style-type: none"> Strengthening of internal control environment and PFM processes Upgrade and rollout of core budget and treasury information system
Phase III: GoSS implementation and greater use of country systems	<ul style="list-style-type: none"> FA signed between the GoSS and World Bank GoSS assumes full fiduciary responsibility, procurement, and project management 	<ul style="list-style-type: none"> Ongoing 	<ul style="list-style-type: none"> Ongoing institutional and capacity strengthening Ongoing improvements to GoSS PFM, procurement, systems, and processes

Note: FA = Financing Agreement.

A Responsive and Adaptive Strategic Framework

75. **The fluid political situation in South Sudan requires operational flexibility.** To think through such flexibility, the CEN presents three scenarios (Table 6). Under the first scenario (Fragile Peace), the Government is only partially inclusive. While localized conflicts and violence continue and the likelihood for relapse into Juba-centered conflict remains high, relative peace holds in at least parts of the country. Weaknesses in capacity and accountability of government institutions, poor economic and public financial management, and sentiments of social exclusion persist. In this case, the World Bank would apply a phased approach to transition its implementation if and when pre-agreed criteria are met. These criteria will be developed in close dialogue with the GoSS and various WBG teams.

76. **Under the second scenario (Gradual Improvement), an inclusive transitional government is in place.** There is limited progress toward sustained peace. In this case, the World Bank would initially maintain engagement through third-party implementation but continue exploring opportunities to build capacity and systems in selected government entities to enable direct engagement at the appropriate time. The World Bank would scale up its support to basic services and build resilience to future shocks. Peace-building interventions would help reduce poverty, vulnerability, and communal conflicts, particularly in areas with high concentration of returnees. A peace-building lens would be embedded in all operations.

77. **Under the third scenario (Relapse into Conflict), the parties to the peace agreement fail to resolve their differences and a new phase of armed conflict starts.** In this scenario, the WBG could revisit its approach and maintain limited engagement through partnership with UN agencies. The World Bank could sustain engagement in South Sudan through third-party implementation.

Table 6. Responsive and Adaptive Framework Scenarios

Scenario →	Fragile Peace	Gradual Improvement	Relapse into conflict
Politics, Security, Conflict	<ul style="list-style-type: none"> • Transitional Government of National Unity in place with reforms slowly underway. • Fragile peace holds at the national level, but hotspots remain. • Gender inclusion and GBV issues persist. • Limited progress on constitution making & elections 	<ul style="list-style-type: none"> • Peace deal holds with reforms under way. • Sustained positive but messy and nonlinear progress on key issues • Intercommunal conflicts reduces over time. • Gender inclusion and GBV issues persist 	<ul style="list-style-type: none"> • Peace deal collapses and gradual return to political conflict. • Intercommunal violence fueling larger scale conflict and violence • Pervasive SGBV • Further efforts at brokering a new deal (in outer years).
WBG Operational Framework	<ul style="list-style-type: none"> • Maintain engagement through third party implementation with a view to explore transition to government-implemented arrangement • Support for gradual institution building. • Limited engagement in insecurity areas • Conflict sensitive and risk management analytical work • Operationalize Humanitarian-Development nexus • IFC will continue to develop new business and mobilization of potential private sector actors. This will be complemented with targeted assessments to better understand the needs for advisory and technical assistance at national, sector and firm levels. 	<ul style="list-style-type: none"> • Implementation through partners with “boots on the ground” • Scale up support to basic services and build resilience to future shocks • Peacebuilding interventions, especially in areas with high concentration of returnees. • Technical and financial support for economic and governance reforms 	<ul style="list-style-type: none"> • Minimal staff presence • Very selective operational engagement on basic service delivery through a partnership with UN and/or INGOs. • Third-party implementation on the basis of a request from the international community in lieu of an official request from the government.

Source: Adapted from Foreign, Commonwealth, and Development Office scenario planning.

Note: INGOs = International nongovernmental organizations.

Partnerships and Donor Collaboration

78. **South Sudan is highly dependent on assistance from the international community.** Since the onset of conflict in 2013, the focus of the international community has been on crisis response. Against a requirement of US\$10 billion for emergency relief from 2014 from 2019, South Sudan received US\$6.3 billion. This financing is provided within the context of the annual United Nations Office for the Coordination of Humanitarian Affairs Humanitarian Response Plans (HRPs). The latest HRP calls for US\$1.5 billion for 2020. The main donors are the US and UK governments and the European Commission. The UN peacekeeping mission remains fundamental to protecting citizens.

79. **The donor community is more focused on humanitarian relief than on development assistance.** The Government is keen on a better balance between the two, but donors would like to see more of a commitment to peace, reforms, and addressing of fiduciary risks before they can work through Government systems. The WBG can contribute to the discourse on the humanitarian-development nexus and help articulate a path to recovery and development. The WBG maintains strong connections and engages regularly with partners at important forums. The World Bank is an active participant in meetings of the Heads of Cooperation (HoC), Heads of Mission, and the Senior Management Group. The WBG and the IMF are working together on economic and governance reforms, especially those related to PFM, transparency, and accountability.

80. **The WBG can leverage its partnerships for ensuring implementation of the peace agreement and supporting stability in the country.** The slow pace of implementation of the peace process has been the most pressing concern for the international community. This is an area of common interest because a delayed peace process can pose risks for the institution strengthening envisaged by the World Bank. In this context, South Sudan’s international partners are proposing to set up the MDTTF to provide catalytic support for the institutional reform agenda. Donors expect the WBG to wield its convening power to facilitate dialogue between donors and the Government and administer the MDTTF. The fund will be established for an initial three-year period. A Concept Note is under preparation for internal review. Evaluations of the Multi-Donor Trust Fund for South Sudan, launched in 2005, pointed out that the World Bank overpromised what it can deliver and underperformed as it lacked operational capacity in the

country, a challenge that was compounded by the limited institutional capacity of the Government. Therefore, having a limited agenda initially, which can be expanded with time, and realistically assessing what the World Bank can deliver with its operational capacity alongside the expectations of national stakeholders will improve the effectiveness of the trust fund.

81. **Collaboration with other partners is crucial for advancing the PFM reform agenda.** The GoSS has taken initial steps toward reforms by establishing a PFM governance structure, called the PFM Oversight Committee, co-chaired by the UK Ambassador. As members of the PFM Oversight Committee, the Troika (Norway, the United States, and the United Kingdom) and the World Bank can support PFM reforms by working together. The World Bank has planned an ASA on the humanitarian-development-peace nexus in partnership with UN agencies and other partners. The World Bank will undertake an analytical work, 'Transforming Agriculture: From Humanitarian Aid to a Development Oriented Growth Path', to identify viable public and private investment scenarios and related policy and institutional support requirements that would help transition the agriculture sector in South Sudan from humanitarian relief to a development-oriented growth path. The study team will collaborate closely with the WFP, which is the largest food aid agency on the ground, and with other partners and NGOs that have keen interest in supporting development-oriented agriculture in the country, such as the UN Food and Agriculture Organization; Alliance for a Green Revolution in Africa; International Fund for Agricultural Development; United States Agency for International Development; and UK Foreign, Commonwealth, and Development Office.

82. **Partnerships across the humanitarian-development-peace nexus can also support long-term resilience of communities.** Considering the significant humanitarian and development needs in South Sudan, the WBG can facilitate greater collaboration with various partners through strategic cooperation in priority areas. Improved coordination among humanitarian, development, and peace actors will result in a more cohesive development and humanitarian assistance framework focusing on building peace in South Sudan. The WBG and UNMISS are in discussion to deepen collaboration and ensure the complementarity of approaches and operations in support of the broader peace and stabilization agenda in South Sudan. The WBG program also aligns with the PfRR, a collective of donors, UN agencies, and NGOs, which aims to harmonize partners' activities to collectively reduce needs, risks, and vulnerability.

V. RISKS AND RISK MITIGATION

83. **The overall risk to achieving the CEN's development objectives is rated 'High'.** The overall risk and the other risks that contribute to the overall risk are all rated high in spite of mitigation measures (Table 7). However, it is important that the WBG remains engaged. Not doing so will likely worsen the situation of ordinary South Sudanese citizens and more than 300,000 refugees who live in the country and prolong any reengagement at a later date. The WBG can mitigate some of the risk elements by working closely with partners and putting together joint efforts to encourage the GoSS to embark on a path of genuine reforms.

Table 7. CEN Risks

Risk Category	Rating (H, S, M, or L)
Political and governance	H
Macroeconomic	H
Sector strategies and policies	H
Technical design	H
Institutional capacity for implementation and sustainability	H
Fiduciary	H
Environment and social	H
Stakeholders	H
Other (COVID-19 impacts)	H
Overall	H

Note: H = High; L = Low; M = Medium; S = Significant.

84. **Political and governance risk is ‘High’.** Violence continues in parts of the country, and there is a risk that national-level conflict between the country’s central political actors will recur. While the peace agreement calls for stronger governance reforms, this has not translated into reality. The WBG will monitor such risks, which are partially mitigated by the close engagement of the international community, like the Troika and UNMISS, to push the peace process forward. The WBG will further seek to mitigate this risk by working as part of various partner forums and evolve a joint position on peace and development efforts. With a degree of fragile peace now holding, there is an opportunity to push ahead on PFM reforms and initiate the necessary trust building that can help build consensus among key stakeholders on the legitimacy and necessity of future reforms. World Bank-financed operations also face the risk of corruption as well as a risk around the extent of ownership and support of World Bank activities within the current governing arrangement. The World Bank will seek to mitigate these risks through leveraging its relationship with the authorities and leading the PFM reform process.

85. **Macroeconomic risk is ‘High’.** The precarious state of South Sudan’s economy, volatile oil prices, high inflation, COVID-19, and weak public finances pose a severe risk to the CEN program. Macroeconomic imbalances disproportionately affect the poor and vulnerable populations, which is almost the entire country. High inflation and the stark difference between the official and market exchange rates may limit the World Bank’s ability to effectively respond to growing vulnerabilities, especially in terms of providing direct income and financial support to the poor and vulnerable households. To reduce these risks, the World Bank will work closely with the Government, the IMF, and other partners to put in place safety nets and a pathway to reforms to enhance economic resilience. The World Bank is in discussion with the GoSS and the IMF on better managing exchange rate distortions, which should help mitigate risks emanating from misalignment of the exchange rates. At an operational level, COVID-19 will limit travel and logistical capacity within the country. Mitigation measures could include use of technology to facilitate stakeholder consultations and work collaboratively on preparation of projects and monitoring of activities.

86. **Sector strategies and policies risk is ‘High’.** South Sudan’s institutional weaknesses currently prevent the World Bank from executing programs through line ministries. However, building the capacity of key line ministries can be an important contribution of the CEN should such efforts become part of a systematic country dialogue involving the Government, development partners, and other stakeholders. The World Bank will further develop the evidence base for reforms through sectoral assessments and help strengthen capacity in key ministries to formulate and implement reforms.

87. **Technical design risk is ‘High’.** Given the limited capacity in government institutions, there is high risk that the design of programs, if executing through country systems, will encounter challenges. It is for

this reason that third-party execution will be the main implementation modality initially. In preparation for the transition to greater use of country systems, the World Bank will help develop the capacity of individual ministries and institutions as part of the CEN program.

88. **Institutional capacity for implementation and sustainability risks are ‘High’.** As discussed above, the World Bank will have to work extensively with key ministries to build up their implementation capacity to enable the transition to greater use of country systems. Measures that the World Bank can support to facilitate this transition include helping to recruit personnel with specialized skills in procurement, financial management, M&E, and communication.

89. **Fiduciary risk is ‘High’.** Weaknesses remain in the procurement and financial management processes, particularly regarding noncompliance with key procedures. This heightens the risk of misappropriation, corruption, and diversion of funds. Ongoing operations directly engage with UN agencies and risks are mitigated through internal and external audits in accordance with UN Financial Regulations and Rules as well as TPM. As an additional mitigating measure, the World Bank will work with the GoSS and, in collaboration with other partners, provide TA to build the financial management and procurement capacity of project implementation units.

90. **Environment and social risks are ‘High’,** owing to South Sudan’s deeply uncertain politics and insecurity, its vulnerability to impacts of climate change, weather-related disasters, and the locust crisis as well as limited experience and institutional capacity in implementing sustainable development interventions in line with the World Bank’s Environmental and Social Framework. Specific social risks include (a) exclusion of beneficiaries; (b) security concerns for project workers and beneficiaries; (c) lack of citizen engagement and elite capture; (d) sexual exploitation, abuse, and GBV; (e) operational concerns due to remoteness and insecurity; and (f) weak implementation capacity (even of TPM firms). The World Bank is developing more knowledge on political economy, conflict sensitivity, and gender to ensure that CEN programming incorporates risks systematically. The CEN will give high importance to quality and risks at entry for new operations and continue strong monitoring and supervision.

91. **Stakeholders risk is ‘High’.** While a new government is in place and peace is broadly holding, the focus has been more on elite political bargaining rather than on social inclusion and genuine stakeholder consultation. Increased focus on inclusion and consultation is unlikely to happen in the short term. Those with vested interests in the status quo have much to lose from greater inclusion. Mitigation efforts will focus on gaining a better understanding of the political economy and propose ideas for reforms that are more likely to be implemented and effective. The World Bank will also continue outreach to South Sudanese stakeholders and facilitate citizen engagement to increase inclusion in and reduce risks to the program.

92. **Security risk in ‘High’.** While the peace agreement is in place and large-scale violence has declined over the past years, intercommunal violence and armed conflict among political factors remain sources of insecurity in many parts of the country. Proposed mitigation measures include close dialogue with UNMISS²³ and other humanitarian actors; the operationalization of a conflict and risk monitoring framework; and strengthening of conflict sensitivity across the portfolio. Given the prevalence of GBV in South Sudan, it is a potential security risk. A strong mitigating factor will be establishing mechanisms to carefully manage grievances whether raised by project staff or the public.

²³ While it is not envisioned that any CEN activities will involve military or security-related assistance, efforts will be made to ensure that implementation of the program is in compliance with the forthcoming update of OP 2.30.

2. The most recent nationally representative household survey was conducted pre-independence in 2009. Post-independence, the World Bank, through UK Department for International Development funding, conducted four rounds of HFS between 2015 and 2017. This survey included an ‘abridged’ version of the full consumption module as a full consumption module could not be carried out due to cost and security concerns. The 2017 round (which was also the fourth and the last round of the HFS) was supplemented with data on IDPs from the UNMISS Protection of Civilians sites. Due to the outbreak of conflict during the survey years, data collection was limited to certain states. Among the four rounds of data collected through the HFS, the 2016 round (which was also the third round of the HFS) had the largest spatial coverage and representation. The 2016 survey covered seven out of ten states and was fielded in both urban and rural areas. The 2016 data have been extensively used along with other secondary data sources (spatial and otherwise) to impute poverty at the subnational level in South Sudan. However, these poverty numbers can only provide a ranking of counties in terms of welfare levels (Figure A.1). They cannot estimate the exact number of poor people or the poverty headcount in each county in South Sudan. This is because the HFS is limited both in terms of the abridged consumption module and by its inability to access the entire country. That said, it is important to note that at the time the HFS was conducted, the best possible choices were made in terms of the depth and breadth of the survey. Political instability and insecurity had to be prioritized and the World Bank followed every protocol to ensure that.

3. Now the time is ripe for suggesting a more comprehensive approach to data collection for welfare and poverty monitoring. Given the recent peace process and the proposed country engagement, the World Bank is looking to develop a road map for the first nationally representative household survey to measure poverty in South Sudan. This requires donor support and government buy-in, for adequate funding and sustainability. Involving the NBS is key to the success of the survey and will also help build the NBS’ technical capacity. Training and collaborating with NBS staff on data collection and poverty estimation would be useful in developing their capacity to continue doing household surveys in the coming years.

4. A nationally representative data set on consumption will pave the way for the estimation of subnational poverty through innovative and robust estimation methodologies. Once these high-quality small-sample consumption data are collected, they can be used to run a model at the state level that, combined with data from the county census discussed in the following paragraphs, would be able to generate subnational poverty estimates. Such an approach would be a major stride in poverty modeling efforts not only in South Sudan but also in Africa.

County-level Census

5. There is a paucity of reliable, up-to-date data that World Bank project teams and partners can use in South Sudan. While there are a large number of projects being implemented across the country by many different actors, there is little disaggregated information on poverty, vulnerability, and socioeconomic characteristics of the population, particularly at the subnational level. To help address this, World Bank engagement with the GoSS—as outlined in the CEN—is increasingly rooted in institutional capacity-building and human capital development. The county census tries to do both. Data collection at the local level will help enhance the technical and analytical capacity of local government offices, and the local enumerator network will provide employment and knowledge to community youth.

6. The census aims to conduct three activities: (a) interviews with county authorities and local officials, (b) a small household survey in each county (budget and sampling frame permitting), and (c) setting up of a monitoring system which enables frequent data collection through the presence of a local

enumerator network. Parties that have expressed a keen interest in making use of data from a county census include internal World Bank teams as well as many of the donors and development partners that have been part of targeting discussions over the years.

Sampling for Business Monitoring Survey and Market Monitoring Survey for COVID-19

7. The BMS data are representative of established urban businesses in South Sudan. The sample was drawn from among the respondents of the 2019 Integrated Business Establishment Survey (IBES), who in turn were sampled from a full listing of established businesses in urban South Sudan conducted in 2018. In line with the IBES sample's characteristics, the BMS sample was stratified by town (Aweil, Juba, Rumbek, Wau, or other), entity type (commercial business or NGO), and size (micro or larger). The corresponding sampling weights were computed and used in analysis. The resulting sample is fully representative of the stratum of businesses of any size that have at least some degree of permanence—a place of business and a name. While it is important to note that such businesses provided only 1 in every 17 jobs even in the towns of South Sudan, the data can nonetheless provide a good sense of the vibrancy of the country's economic activity.

8. The Market Monitoring Survey sample was drawn from among the respondents to a September 2019 survey of market traders. Respondents in the earlier survey were selected by a random walk procedure within each market, without a full listing. The 2019 data were therefore representative within each market but not of market traders overall. Regrettably, survey enumeration was beset with significant problems due to refusals (4 percent of those sampled), nonresponse (39 percent), and defunct phone numbers (30 percent). Ultimately, interviews could only be completed with 118 respondents out of a sample of 540 traders. Because of this serious limitation, results are not representative of a well-defined group of traders and must be viewed with caution.

Annex 2: Summary of CEN Stakeholder Consultations

1. To promote country ownership and gain a better understanding of South Sudan’s development priorities, the CEN was developed in consultation with a broad range of stakeholders. This was intended to ensure that the CEN is in tune with the needs of the country and its citizens. Engagement with stakeholders focused on how the WBG can best support South Sudan’s development goals while maximizing the effectiveness of WBG resources—financial support, knowledge work, and the WBG convening role.
2. Between November 2020 and December 2020, six consultations were conducted in South Sudan using a variety of formats including face-to-face, formal, and informal consultations as well as multistakeholder engagements. Additionally, web-based consultations enabled South Sudanese from different backgrounds to share their views on what they see as priority areas of development. The consultations allowed over 100 participants to provide substantive input for the development of the CEN.
3. **Consultations with the GoSS.** In collaboration with the MoFEP, a session was held with key government counterparts including undersecretaries and the auditor general. The session aimed to confirm the relevance of the proposed strategic focus areas of the CEN and the proposed interventions as well as discuss the implementation plans.
4. **Consultations with bilateral and multilateral development partners.** Meetings with various development partners including the United Nations Country Team and HoCs were intended to identify opportunities for strengthened partnerships. Additionally, the sessions were aimed at better harmonizing activities, especially as development partners plan their respective strategy documents to guide their engagement in South Sudan.
5. **Multistakeholder engagement.** A session was held with CSOs, NGOs, academia, and think tanks. The session yielded a rich array of comments and suggestions on potential areas of collaboration for the World Bank’s engagement in South Sudan.
6. **Consultations with the private sector.** The session provided the opportunity for the WBG to hear the views of members of the private sector and get their insights on key challenges faced by them and potential areas for collaboration with the WBG.
7. **Online consultations/public outreach.** To complement the consultations with government officials and the groups listed above, the WBG also sought the views of South Sudanese citizens through an online consultation platform created on the World Bank’s website. The platform allowed South Sudanese from all walks of life to provide anonymous comments and suggestions on what they see as challenges facing the country and propose potential solutions. Posts addressed issues such as governance, political freedom, distribution of wealth in South Sudan, corruption and institutional capacity building, the need to transform agriculture, and weaknesses in the education system.
8. Overall, participants confirmed that the challenges identified in the CEN are accurate and that the CEN focus areas are appropriate. Throughout the consultations and across the various groups of stakeholders, common themes and priorities emerged. The following are among the key areas suggested for more WBG engagement/ focus:
 - Putting the Government in the driver’s seat and moving away from third-party implementation in South Sudan. Working in close partnership/consultation with the

Government, especially line ministries, when it comes to project design, implementation plans, and budget projections.

- Strengthening South Sudan's weak institutions through capacity building of both the workforce and Government systems including in the area of PFM.
- Supporting the Government to develop and implement well-thought-out economic plans based on accountability and transparency will be key to reducing corruption and misuse of public funds as well as mobilizing resources to address its budget deficit.
- Leveraging the WBG's strong partnership with other development actors and its convening power to harmonize and align the various engagement frameworks for South Sudan will promote efficiency and effectiveness of activities.
- Promoting local knowledge sharing using the South-South exchange model including learning from experiences of neighboring countries unlike the current North-South model is essential. Additionally, the WBG should tap into local knowledge by working more closely with CSOs and academia to develop knowledge products.
- Having an inclusive strategy when planning and implementing projects in South Sudan that leaves no one behind, especially vulnerable groups such as women, children, youth, and people living with disability. Ensuring that refugees and IDPs who return home as a result of peace in the country are provided with basic services such as health, water, and education.
- Creating livelihood and employment opportunities for women and youth will be key to reducing conflict and promoting peace as conflict or intra-communal violence is often caused by lack of opportunities or means to gain income.
- Supporting the Government to create a more conducive investment climate for the private sector including by supporting the formulation of policies, facilitating access to finance, providing trainings and basic business skills (especially for youth and women owned businesses), and removing barriers such as unnecessary taxes and corruption.
- Empowering citizens and encouraging involvement in the development of the country by strengthening citizen engagement, not just in World Bank projects but also by creating platforms that encourage dialogue and greater public participation, will promote ownership of development activities, facilitate implementation, increase transparency, and lead to greater government accountability and informed decision-making processes.
- Focusing on developing the agriculture sector is key to reducing poverty, increasing food security, creating employment, and diversifying economic growth.
- Addressing the huge infrastructure gap in the country by helping to build roads and supporting the provision of reliable energy, including building feeder roads, will ease citizens' movement and connect farmers to markets.
- Building human capital and investing more in the people of South Sudan by supporting access to proper nutrition, health care, quality education, jobs, and skills that will enable them to realize their potential as productive members of society.

- Continuing the production of timely knowledge products and analytical work and providing quality data will enable better targeting of development activities and humanitarian efforts.

