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Ministry of Finance and Planning

# National budget brief

South Sudan
2019/20

National budget brief

# Introduction

**This budget brief provides an analysis of the Government of the Republic of South Sudan's approved budget estimates for the financial year (FY) 2019/20.**[1] It includes a summary of selected macroeconomic indicators, an overview of sectoral allocations, comments on budget credibility and a snapshot of sources of revenue. Budget data is drawn only from the approved budget estimates and the analysis does not look at budget implementation in FY2019/20.

The brief is jointly produced by the Ministry of Finance and Planning (MoFP) and the United Nations Children's Fund (UNICEF) using a standardized budget brief methodology developed by UNICEF Eastern and Southern Africa Regional Office, allowing for comparison over time and year on year. The budget brief methodology aims to publish a report within 3–6 months of the start of the financial year to provide insights into the budget for the existing fiscal year and, importantly, to make 'on time' recommendations which can feed into the planning and budgeting cycle for the following year.

1. Republic of South Sudan, MoFP, FY: 2019/2020 Approved Budget Book, <www.mofep-grss.org/wp-content/uploads/2019/12/FY-2019-2020-Approved-Budget-Book.pdf>.

# Key Messages and Recommendations

1. **A large amount of donor funding is currently not transparent within Government budgets and is sustaining donor dependency:** At US$1.6 billion, South Sudan relies heavily on official development assistance (ODA) to deliver basic social services, undermining the Government's ability to strengthen its social services systems and creating donor dependency. ODA amounts to over three times the size of the national budget (2018, Table 1), although this proportion has reduced significantly since 2017 when ODA amounted to almost seven times the national budget. There is a lack of aid transparency as ODA is not reflected in the national budget and does not include all sources of foreign assistance.

   **Recommendation:** In line with the Organisation for Economic Co-operation and Development's Development Assistance Committee's best principles, donor funding should increasingly flow through the MoFP to strengthen national systems and transparency. This is a joint agenda which requires the Government to minimize fiduciary risk and donors to reduce project-based support modalities.

2. **An integrated financial management information system (IFMIS) is needed to support budget credibility:** Strict measures are needed to ensure spending within budget allocations and compliance by spending agencies to an IFMIS.

   **Recommendation:** The process of reinstalling an IFMIS at national level should be finalized before the end of FY2020/21. In the interim, states should continue using the state budget preparation system to feed budget data into the IFMIS.

3. **Regressions in social sector budgets need to be urgently reversed:** The significant regressions in the education and health sectors in FY2019/20 (to 5.5 per cent and 1 per cent respectively) further widen the massive gap between social sector allocations in South Sudan and international benchmarks. The combined health, education, and social and humanitarian affairs sector allocations in FY2019/20 regressed to 8.5 per cent despite the National Development Strategy 2018–2021 target of a 15 per cent budget allocation to social services. The situation may prove even more limited for these sectors, as promised funds may not translate into actual expenditure.

   **Recommendation:** The Government should halt reversals and progressively increase the share of the budget directed to social sectors in line with international targets (e.g., 15 per cent of the budget for health and 20 per cent for education). Improvements are needed in budget transparency and credibility as shortcomings in these further undermine social sector spending.

4. **There remains an urgent need to strengthen public financial management (PFM) in South Sudan:** A PFM oversight committee was established in 2020 to address the reforms stipulated in Article 4.1.7 of the Revitalized Agreement on the Resolution of the Conflict in the Republic of South Sudan (R-ARCSS). However, PFM may be undermined by month-by-month emergency budgeting due to the COVID-19 crisis.

   **Recommendation:** In line with recommendations made by the International Monetary Fund (IMF),[2] the authorities are encouraged to implement actions that will provide immediate impact, including (1) removing ghost workers from the payroll; (2) implementing technical tools to support cash forecasting; (3) preparing an annual borrowing plan as part of the budget cycle; and (4) starting verification of the current stock of arrears and developing a

credible clearance strategy. The most effective strategy at the subnational level is to continue using (or reintroduce) the PFM systems implemented in 2012, which are well established and can be easily adapted for future changes in the regulatory environment.

5. **South Sudan is in debt distress, undermining its ability to sustainably fund social services:** The full debt position of the country is difficult to identify, as there are large discrepancies in how the size of the debt is calculated. The IMF calculated current debt for FY2019/20 at US$1.2 billion. This is almost the entire size of the FY2019/20 resource envelope of US$1.3 billion. According to the MoFP, servicing foreign debt in FY2019/20 amounted to US$371 billion. Accumulation of arrears, low capacity to service debt and low foreign exchange reserves indicate unsustainable debt dynamics and undermine the ability of the Government to sustainably invest in and provide essential social services for women and children.

   **Recommendation:** It is imperative that the PFM oversight committee work together with its implementing partners, such as the IMF, World Bank, African Development Bank and donor agencies, to find innovative solutions to South Sudan's debt crisis which by the end of FY2019/20 will have, in all likelihood, deteriorated significantly. It is further recommended that predictions for oil revenue on which future budgets are based are more realistic, and take the potential impact of global economic shocks into consideration.

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# Section 1. Macro and socioeconomic context


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**FY2019/20 was dominated by two major headline events, the formation of the Revitalized Transnational Government of National Unity (R-TGoNU) in February 2020[3] and the onset of the COVID-19 pandemic.** The R-TGoNU aimed to end eight years of civil war and begin the process of rebuilding South Sudan under the framework of the R-ARCSS. However, the R-ARCSS was overshadowed by waves of unprecedented shocks, destabilization of global economies and a devasting setback in economic and social development in South Sudan.

## Economic outlook for 2019/20

**Prior to COVID-19, economic predictions for FY2019/20 were in general positive** with the IMF estimating that South Sudan had average positive economic growth of 3.2 per cent in FY2018/19 and predicting continued growth of 3.4 per cent in FY2019/20.[4] This positive outlook was based primarily on increased oil production and prices, coupled with an improved outlook for a peaceful settlement, repatriation of citizens and improved foreign direct investment. In addition to the projected positive developments in the oil sector, the World Bank predicted gross fixed capital investment to grow at 10.4 per cent, with service sector growth of 1 per cent, led by telecommunications and information and communication technology.[5] The output of the agricultural sector was projected to contract by 5 per cent in 2019 due to floods and low livestock production in parts of the country.

In the FY2019/20 budget speech[6] the Minister of Finance announced the Government's

3. UN News, 'UN chief welcomes South Sudan's Unity government, lauds parties for "significant achievement"', 22 February 2020, <https://news.un.org/en/story/2020/02/1057941> accessed 10 September 2020.
4. IMF, World Economic Outlook Database, October 2019.
5. World Bank Group, *South Sudan Economic Update: Poverty and Vulnerability in a Fragile Environment*, February 2020.
6. Republic of South Sudan, Budget Speech FY2019/20, 2019.

renewed commitment to positive economic reform through plans to (1) limit borrowing from the Bank of South Sudan; (2) increase and grow non-oil revenue to 23 per cent of the total resource envelope by improving the functionality of the National Revenue Authority; and (3) implement foundations for stronger budget management and greater fiscal sustainability.

## Economic context

**It is significant that in 2019 Government revenue as a share of gross domestic product (GDP) was estimated at 15 per cent lower than in 2018,** indicating that funds collected by the Government contributed less to the country's economy. On the other hand, Government expenditure remained relatively constant at just under 29 per cent of GDP. Debt decreased by 9 per cent to a share of 34.4 per cent of GDP in 2019.

The World Bank reported that the gap between the official and parallel exchange (black market/unofficial) rate between the South Sudanese pound (SSP) and United States dollar (US$) increased from 65 per cent in December 2018 to 95 per cent in September 2019.[7] **This implies that the official rate is overvalued and does not reflect the underlying economic fundamentals of South Sudan.**

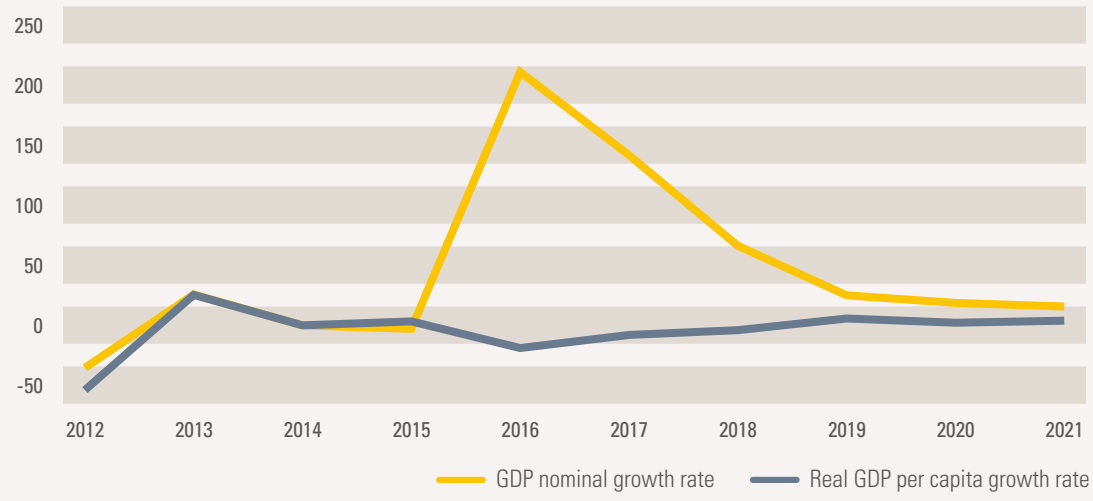
Table 1 provides a selection of economic indicators for 2019. In the context of this budget brief, it should be noted that the indicators in Table 1 cover the 2019 calendar year and not FY2019/20, unless otherwise stated.

Table 1: Select macroeconomic indicators

| INDICATOR | VALUE | | SOURCE |
|---|---|---|---|
| | FY2018-2019 | FY2019-2020 | |
| National budget | SSP 82 billion<br>US$529 million[8] | SSP 208 billion<br>US$1.29 billion[9] | MoFP FY: 2018/2019 Approved Budget, <www.mofep-grss.org/docs/fy-2018-2019-approved-budget><br>MoFP FY: 2019/2020 Approved Budget, <www.mofep-grss.org/wp-content/uploads/2019/12/FY-2019-2020-Approved-Budget-Book.pdf> |
| GDP per capita (in US$), current prices | 306.7 | 275.2 | IMF World Economic Outlook Database, October 2019 |
| Revenue (% of GDP) | 46.2 | 31.2 | IMF World Economic Outlook Database, October 2019 |
| Expenditure (% of GDP) | 28.5 | 28.8 | IMF World Economic Outlook Database, October 2019 |
| Debt (% of GDP) | 43.7 | 34.4 | IMF World Economic Outlook Database, October 2019 |
| Net ODA and official aid received (current US$) | US$1.58 billion (US$2.18 billion in 2017)[10] | Most recent data available 2018 | World Bank, Net ODA and official aid received (current US$), South Sudan, <https://data.worldbank.org/indicator/DT.ODA.ALLD.CD?locations=SS>, accessed 1 October 2020 |
| Foreign aid (% of Government budget) | 303.85%[11] (672% in 2017)[12] | Most recent data available 2018 | World Bank, Net ODA and official aid received (current US$) – South Sudan |
| Unemployment, total (% of total labour force) | 11.5 | 12.7 | World Bank, World Development Indicators Database 2019 |

7. World Bank Group, *South Sudan Economic Update: Poverty and Vulnerability in a Fragile Environment*, February 2020.
8. MoFP indicative exchange rate SSP 155 to US$1.
9. MoFP indicative exchange rate SSP 161 to US$1.
10. MoFP, *National Budget Brief 2019*, <www.mofep-grss.org/wp-content/uploads/2019/09/UNICEF-South-Sudan-National-Budget-Brief-2019.pdf>.
11. ODA to South Sudan was US$1.58 billion in 2018 and US$526 million (US$0.52 billion) in the FY2018/19 budget.
12. MoFP, *National Budget Brief 2019*.

Figure 1: Real and nominal GDP per capita growth trends 2012–2021 (%)




*Source:* IMF, World Economic Outlook Database, October 2019.
*Note:* Estimates begin after 2017.

Table 1 shows that GDP per capita at current (nominal) prices contracted by 10 per cent from 2018 to 2019. Taking the inflationary trends into account, real GDP per capita growth remained negative from 2014 to 2018 averaging approximately -10 per cent but was predicted to reflect positive growth of 5.5 per cent in 2019 (Figure 1).

## Predicted inflationary trends in 2019/2020

As illustrated in Figure 1, average consumer price inflation declined from a 2016 peak of 380 per cent. It was estimated to decline to 91 per cent by the end of 2019 and continue declining to 72 per cent in 2020 (Figure 2).

## Social and developmental context

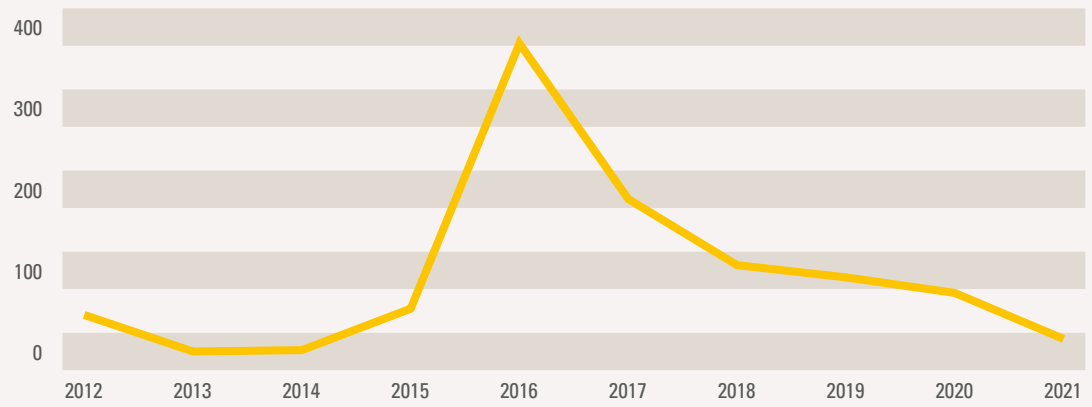
**South Sudan continues to rank bottom or low across key global indices** including the African Child Policy Forum's Child Friendliness Index; the Africa Regional Integration Index which measures the extent to which each country in Africa is meeting its commitments under the various pan-African integration frameworks; the Fragile States Index; and the Human Development Index.[13]

While also evident among the urban population, poverty in South Sudan is primarily rural, characterized by a general lack of access to services, infrastructure and economic opportunity. Nine in 10 members of the population experience multidimensional poverty, with 3 in 4 (74.3 per cent) experiencing severe multidimensional poverty. Almost 83 per cent of South Sudan's population of 13.2 million people live in rural areas but less than 5 per cent of arable land is currently cultivated.[14]

**The severity and scale of acute food insecurity are high across the country, driven by the loss of productive assets linked to conflict, poor macroeconomic conditions and climatic shocks,** such as large-scale crop and livestock losses during floods in 2019. Meanwhile, the population's vulnerability to the health and food security impacts of COVID-19 is very high.[15] Comparing the IMF's economic projections before COVID-19 with the latest

13. UNICEF, *Update of the Situation Analysis of Children and Women in South Sudan 2018–2020*, Draft, pending publication.
14. Ibid.
15. Famine Early Warning System Network, 'South Sudan: Food Security Outlook, June 2020 to January 2021', July 2020, <https://fews.net/east-africa/south-sudan/food-security-outlook/june-2020>, accessed 10 September 2020.

Figure 2: Predicted trends: average consumer price inflation




*Source:* IMF, World Economic Outlook Database, October 2019.
*Note:* Estimates begin after 2017.

updates indicates that the crisis may remove more than 6 per cent of real GDP growth.[16]

Food insecurity has reached the most extreme levels since independence in 2011, and it is estimated that almost 7 million people or more than 60 per cent of the population are struggling to find enough food each day.[17] While 1.9 million people are internally displaced, another 2.3 million are refugees in neighbouring countries.[18]

Children aged 0–17 years make up 47.9 per cent of the population and young people aged below 25 years make up 62.9 per cent of the population. The ongoing demographic transition is increasing the number of newborns each year (around 350,000 in 2019) as well as the size of the working age population. The large youth contingency is characterized by high rates of unemployed young people (an estimated 20 per cent) and lack of access to education.[19]

Table 2: South Sudan human development indicators 2019 (or latest available)

| INDICATOR | VALUE |
|---|---|
| Human Development Index (HDI) | 0.413 (rank 186) |
| Inequality-adjusted HDI[20] | 0.264 |
| Overall loss in HDI due to inequality (%) | 36.1 |
| Life expectancy at birth (years) | 57.6 |
| Poverty headcount ratio at national poverty lines (% of population) | 82.3 (2016) |
| HIV prevalence, adult (% ages 15–49) | 2.4 |
| Child malnutrition, stunting (moderate or severe) (% under age 5) | 31.3 |

16. From 11.3 per cent for 2019, to a predicted 4.9 per cent in 2020 and 3.2 per cent in 2021 (Table A3 in IMF, *World Economic Outlook, The Great Lockdown*, April 2020, <www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>.
17. World Food Programme, 'South Sudan Emergency', <www.wfp.org/emergencies/south-sudan-emergency>, accessed 10 September 2020.
18. Famine Early Warning System Network, 'South Sudan: Food Security Outlook, June 2020 to January 2021', July 2020.
19. UNICEF, *Update of the Situation Analysis of Children and Women in South Sudan 2018–2020*, Draft, pending publication.
20. The inequality-adjusted Human Development Index combines a country's average achievements in health, education and income with how those achievements are distributed among a country's population by 'discounting' each dimension's average value according to its level of inequality, <http://hdr.undp.org/en/content/inequality-adjusted-human-development-index-ihdi>, accessed 1 October 2020.

| INDICATOR | VALUE |
|---|---|
| Mortality rate, infant (per 1,000 live births) | 62.5 |
| Mortality rate, under-five (per 1,000 live births) | 96.4 |
| Birth registration (% under age 5) | 35 |
| Gross enrolment ratio, pre-primary (% of preschool-age children) | 10 |
| Gross enrolment ratio, primary (% of primary school-age population) | 67 |
| Gross enrolment ratio, secondary (% of secondary school-age population) | 10 |
| Primary school teachers trained to teach (%) | 44 |
| Pupil-teacher ratio, primary school (number of pupils per teacher) | 47 |
| Internet users, total (% of population) | 8.0 |

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## Key takeaways: Macro and socioeconomic context

- FY2019/20 was dominated by two major events, the formation of the R-TGoNU in February 2020 and the onset of the COVID-19 pandemic. Prior to COVID-19, South Sudan's economic outlook was generally positive but now an urgent resetting of predictions around economic growth, income and expenditure is required.
- Over the course of 2020 – due to the impact of COVID-19 on trade and economic restrictions, and on limited access to vital services – the quality of life for the children of South Sudan 'grew unimaginably worse'.[21] Prior to the 2019/20 global economic crisis, multiple indicators illustrated the severe deprivations already experienced by the majority of children in South Sudan. The new situation emphasizes even more the importance of investing adequately in the social sectors.

21. UNICEF Eastern and Southern Africa Regional Office, *Economic Fallout, Vulnerability and Death: Are Cash Transfers the Light at the End of the COVID-19 Tunnel for Children and Economies in Sub-Saharan Africa?*, September 2020.

# Section 2. Aggregate spending trends and priorities


**The FY2019/20 resource envelope of SSP 208 billion was based on a highly optimistic economic and political outlook** and was increased by 150 per cent from the previous FY2018/19 budget of SSP 82 billion, which had in turn more than doubled compared to the previous fiscal year FY2017/18 budget of SSP 32 billion.[22]

## Revenue context

**The revenue forecast for FY2019/20 is SPP 156 billion, based on net oil revenue of SSP 152 billion and taxes and fees of SSP 30 billion, minus principal loan repayments of SSP 26 billion.** The positive outlook on which this forecast was based has since been rocked by the COVID-19 crisis and unstable oil prices. Although the number of COVID-19 cases in the country is relatively low (under 3,000 cases and 56 deaths at the time of writing)[23] the country's already fragile economy pre-2020, low allocations to social spending and weak mechanisms for service delivery have worsened the plight of the country's children and is threatening the survival of many.

The biggest factor determining South Sudan's resource envelope is oil revenue, as it accounts for over 86 per cent of Government revenue.[24] From 2016 to 2019 the global demand for oil had slowed and the price had been volatile. However, a marginal rise in demand and improved price stability were forecast for 2020 by the IMF, US Energy Information

22. MoFP, FY: 2018/2019 Approved Budget, <www.mofep-grss.org/docs/fy-2018-2019-approved-budget>.
23. WHO COVID-19, South Sudan, <https://covid19.who.int/region/afro/country/ss>, accessed 29 October 2020.
24. Author's calculation based on FY2018/19 Budget Estimate in Republic of South Sudan, Approved Budget, 2019.

Administration, Goldman Sachs and the World Bank. This – together with improved security and renewed interest in investing in South Sudan's oil – supported the optimistic forecast of a 24 per cent increase in oil revenue on which the FY2019/20 budget was based. The IMF forecast that the global price of Brent Crude oil would stabilize at approximately US$60–65 over 2019–2020.[25] The FY2019/20 budget is based on an estimated US$55 per barrel for Dar Blend oil, which is a 'heavier' oil suited mostly for industrial use, with China as the major buyer.

**As the COVID-19 pandemic began to impact global trade, South Sudan experienced severe cuts in oil revenue and reduced tax revenues,** leading to a further increase in the already crippling fiscal deficit and lack of access to foreign currency. The predicted price of Brent Crude more than halved to US$26 by the end of March 2020 and plummeted to negative -US$30 by April 2020,[26] a first in the history of the oil market. Major foreign direct investment projects in oil exploration and re-engineering existing oil fields were stalled.

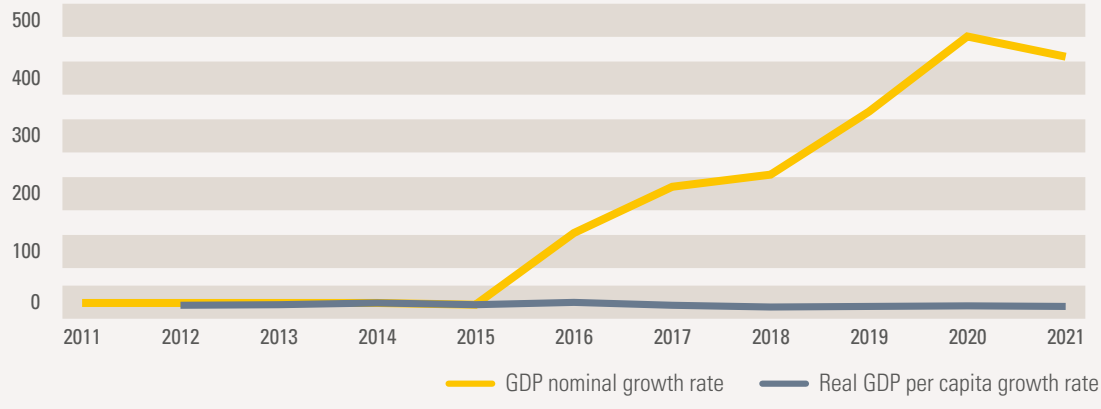
**The collection of non-oil revenue is low, due to the depressed economy as well as weak collection mechanisms by the National Revenue Authority.** Revitalization of the National Revenue Authority is currently under way and actual tax collection in the first three quarters of FY2018/19 exceeded the 12-month forecast by 12 per cent.

## Total budget nominal vs real trends

**The 154 per cent nominal increase in the budget resource envelope planned for FY2019/20 aimed to make an additional SSP 126 billion available for Government programmes.** However, when reviewing the planned delivery of statutory services for FY2019/20, the actual increase in spending power of only between 3 and 5 per cent (when adjusted for inflation) needs to be taken into account.[27]

The IMF estimated increase for FY2020/21, which continues the trend of doubling the nominal size of the resource envelope (Figure 3), is unlikely to be realized once the revenue forecasts for FY2019/20 have been adjusted to reflect the reality of South Sudan's economic performance in 2020. There is in fact no real change in Government spending over time despite large budget increases, due to the effects of inflation.

Figure 3: Nominal and real total Government spending trends in South Sudan, FY2012–2021 (in SSP billions)




*Source:* IMF, World Economic Outlook Database, October 2019.
*Note:* Estimates begin after 2017.

25. Republic of South Sudan, Ministry of Petroleum, *Petroleum Report June 2018–May 2019, 12-Month Results,* Volume 7, 2020.
26. <https://fortune.com/2020/04/20/oil-prices-negative-crash-price-crude-market>.
27. Republic of South Sudan, Approved Budget FY2019/20, 2019.


## Social sectors decline further, widening the gap with international benchmarks

### Sector share allocations

The size of the share allocations to sectors is a primary indicator of a government's investment priorities, and year-on-year changes can be indicators for shifts in priorities. With 60 per cent of the FY2019/20 budget allocated to capital expenditure, it follows that the infrastructure sector received the largest share of 55 per cent (Figure 4).

**The massive increase in the infrastructure sector share required decreases in the shares allocated to other sectors.** The public administration share decreased from 19 per cent to 11 per cent; security from 19 per cent to 10 per cent; and accountability from 35 per cent to 11 per cent.

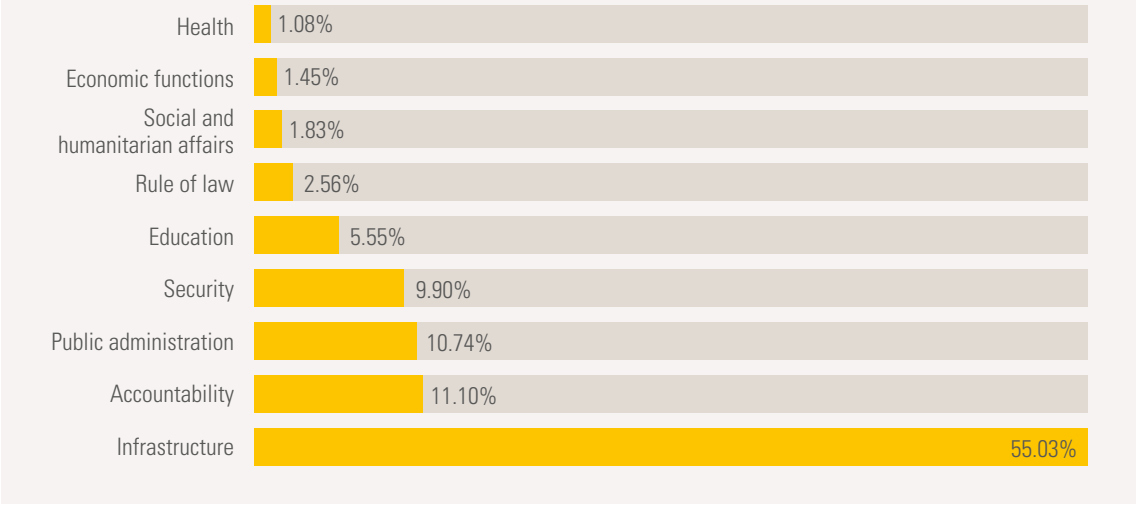
### Social sector share allocation decreases

Turning to social sector spending, the collective social sector allocation decreased from an 11 per cent share in FY2018/19 to an 8.5 per cent share in FY2019/20.[28] This was despite the National Development Strategy target of a 15 per cent budget allocation to social services. Health and education shares both decreased – by 1 per cent and 4 per cent respectively – leaving the health sector with a budget share of just 1 per cent and education dropping significantly from 9 per cent to 5.5 per cent. The situation in the education sector is critical due to a dire shortage of teachers, partly due to staff leaving as a result of unpaid salaries.

There continues to be no funding for child protection or water, sanitation and hygiene services. However, the social and humanitarian affairs sector share increased five-fold from 0.28 per cent to 1.83 per cent in FY2019/20, which is a positive trend in light of the Government's commitment to allocating 1 per cent of its annual budget to finance the National Social Protection Policy Framework through the Ministry of Gender, Child and Social Welfare.

28. The figures for FY2018/19 were education, 9 per cent; health, 2 per cent; and social and humanitarian affairs, 0 per cent. For FY2019/20 the figures were education, 5.5 per cent; health, 1 per cent; and social and humanitarian affairs, 2 per cent.

Figure 4: South Sudan allocations by sector, FY2019/20 (percentage of total budget)




*Source:* MoFP, Budget Book FY2019/20.

**The Government continues to fall short of international benchmarks on financial commitments to children.** The FY2019/20 budget is a blow to the education sector, which had seen a growth in its allocation in FY2018/19 (from 4 per cent in FY2017/18).[29] The education budget remains far below the Incheon Declaration 2015 which requires 20 per cent of the national budget to be spent on education. The health sector allocation has been halved year on year, further widening the massive gap in achieving the Abuja Declaration spending target of 15 per cent of the national budget for health.

**The situation may prove even more limited for these sectors, as promised funds may not translate into actual expenditure.** Social sectors have historically been underspending as funds have not been disbursed due to both the credibility of revenue projections and the fact that Government was unable to raise the requisite amount for the resource envelope.[30]

## Nominal and real increases in SSP allocations by sector

The 154 per cent nominal increase in the overall budget of SSP 126 billion from FY2018/19 to FY2019/20 was spread across all sectors, with the exception of the accountability sector which saw a nominal 19 per cent decrease in its SSP budget allocation.

Public administration received a 46 per cent nominal increase; security, 33 per cent; education, 51 per cent; health, 25 per cent; and social and humanitarian affairs, 150 per cent.

The average nominal increase in SSP of 74 per cent to the social sectors equates, at best, to zero real increase. Therefore, as with all sectors, social spending agencies will have considerably less funding to implement even the most basic levels of service delivery.

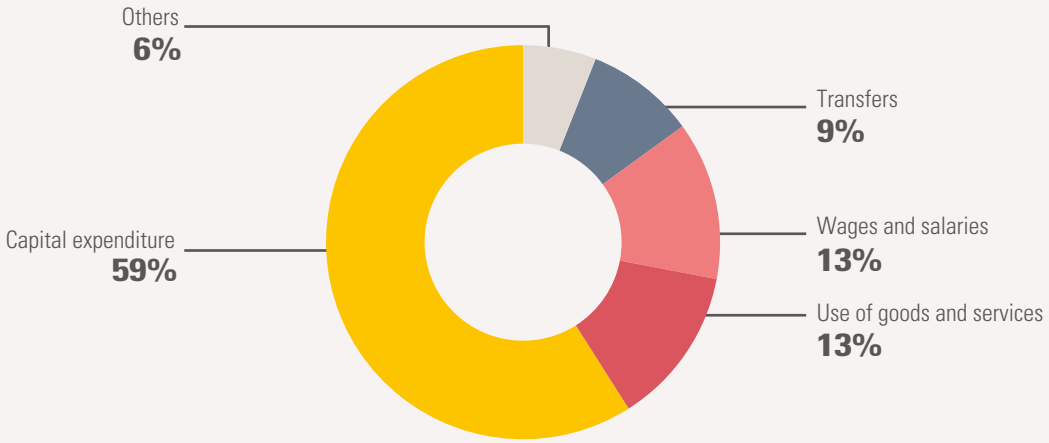
When analysing the FY2019/20 budget allocations, it is important to keep in mind that the allocations were made without any prior knowledge of the devastation that 2020 would bring to the global economy and the poor, women, children and marginalized in South Sudan due to COVID-19.

## Economic classification of share allocations

There are significant changes between how funds were allocated along economic lines in

29. MoFP, *National Budget Brief 2019.*
30. Ibid.

Figure 5: South Sudan national budget allocation, by economic classification, FY2019/20 (percentage of total budget)




*Source:* Minister of Finance, Republic of South Sudan, Budget Book and Budget Speech FY2019/20.

FY2018/19 and FY2019/20. As mentioned in the previous section, the resource envelope for FY2019/20 was 150 per cent larger in nominal terms than in FY2018/19.

**The majority (60 per cent) of this increased budget was allocated to capital expenditure, amounting to a six-fold increase of the average capital budget of 10 per cent in the previous five years.** Increased spending in capital investment is a major driver for economic growth. The positive shift by the Government can be viewed as illustrative of its commitment towards peace and the renewal of the country's capital stock. However, although investing in infrastructure is both a positive and necessary part of a post-conflict country's budget, it should not come at the cost of the Government's commitment to fund its ongoing service delivery.

Such a significant change in the share in one economic classification goes with concomitant changes in the size of other sectors. Salaries and wages, which accounted for a 50 per cent share of the FY2018/19 budget, were reduced to 13 per cent in FY2019/20 (Figure 5). Goods and services, operating expenses and transfers collectively made up 28 per cent of the FY2019/20 budget – 10 per cent lower than their collective allocation in FY2018/19.

Although the share to salaries and wages was considerably lower in FY2019/20, the nominal allocation did not change significantly. It represented a nominal 7 per cent increase, which amounted to a 1–2 per cent real increase. Furthermore, state and county transfers are normally used for running costs – mainly salaries.[31]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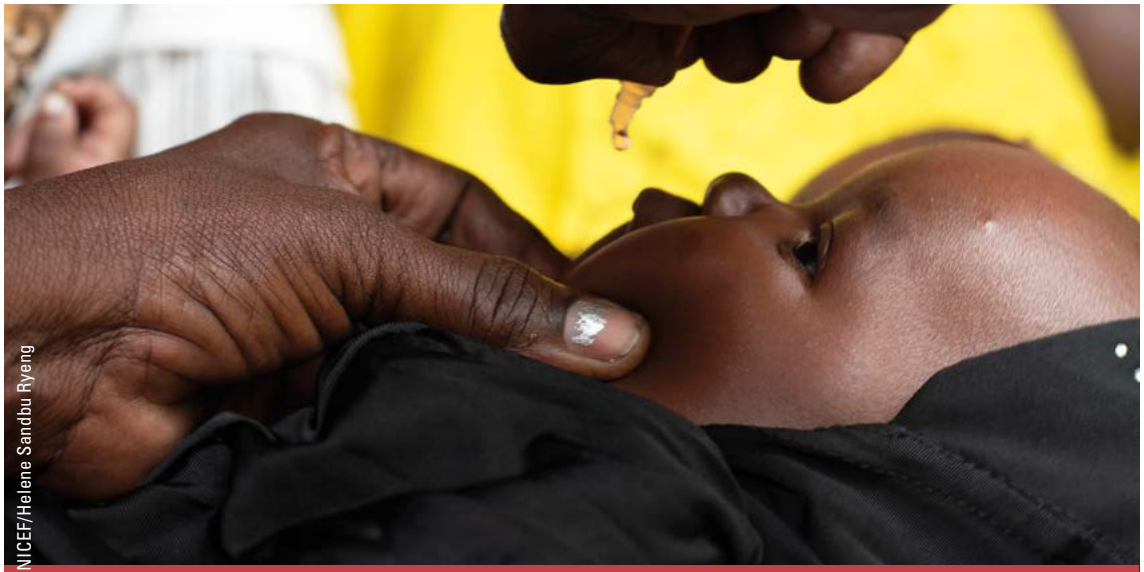
31. MoFP, *National Budget Brief 2019.*



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## Key takeaways:
### Aggregate spending trends and priorities

- The combined health, education, social and humanitarian affairs sector allocations in FY2019/20 were approximately 3 per cent lower than in FY2018/19 (down to 8.5 per cent). The 1.1 per cent FY2019/20 budget share allocated to health has been halved from the previous year and is considerably lower than the international target of 15 per cent. The situation for children is bleak in light of the lack of prioritized spending on the well-being of children and the provision of basic services.
- The internationally agreed target for the education sector (2015 Incheon Declaration) is a 15–20 per cent share of a country's budget. The FY2019/20 allocation of 5.5 per cent is a reversal of the previous, much lauded, FY2018/19 share of 9.4 per cent with severe implications for the education sector, especially in light of the urgent need for a qualified and salaried teaching workforce.
- The 59 per cent capital expenditure allocation is a significant positive step to aid economic growth and service provision, especially when considering that capital expenditure was as low as 3 per cent in FY2017/18.[32] However, the increase in capital expenditure should not come at the cost of the Government's commitment to fund its ongoing service delivery.

32. MoFP, *National Budget Brief 2019.*

# Section 3. Budget credibility and execution

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## Unplanned and planned budget deficits

Planned expenditure vs actual expenditure in FY2018/19 shows a lack of expenditure control. By the third quarter of FY2018/19, actual budget expenditure amounted to SSP 94,000 billion. This means that expenditure for nine months had already exceeded the 12-month budget of SSP 82,000 billion by almost 15 per cent. If this spending pattern continued in 2018/19 total annual expenditure could have reached SSP 124,000 billion,[33] exceeding the budget by over 50 per cent, and amassing an SSP 42 billion deficit. The challenges to implementing R-ARCSS were confounded by the planned overspend and the impact of COVID-19.

The FY2019/20 situation differs from the unplanned overspend in FY2018/19, as the Government's planned expenditure of SSP 208

33. Republic of South Sudan, Budget Speech FY2019/20.

billion will exceed the revenue forecast of SSP 156 billion by SSP 52 billion,[34] implying a 33 per cent budget deficit. The Government thus plans to spend 33 per cent more than its forecast revenue which, in turn, implies the need to borrow funds to cover the deficit and goes against its commitment to limit borrowing.

In terms of budget implementation in FY2019/20, not only did the unprecedented external shock of COVID-19 and extreme fall in the oil price render the country's ability to fund its planned expansion of expenditure impossible, but its weak PFM systems failed to rein in expenditure.

At a delivery level, salaries of civil servants had not been paid post April 2020 and transfers to service delivery units and subnational governments ceased at about the same time. This is contrary to the sentiments made by the (then) Minister of Finance of a renewed commitment by the Government to tackle the "failure to moderate expenditures, build up reserves and diversify the economy", as well as the failure to "develop our capacity to mobilize domestic resources".[35] It also severely undermines education and health care service delivery due to a lack of a salaried workforce.

### Lack of audited expenditure data

Furthermore, a lack of (audited) expenditure data across all levels of Government makes it difficult to properly assess budget credibility and execution performance. One of the core weaknesses in South Sudan's PFM architecture is that in FY2019/20 there was no IFMIS. The license for a previous IFMIS, which had been operational and linked to state Ministries of Finance, had expired and although it was still used by the Treasury, it was unable to print consolidated expenditure reports. The tracking of expenditure was mostly done on stand-alone spreadsheets. In addition, once subnational transfers were disbursed, there was no mechanism in place for monitoring implementation.

South Sudan scores low on the Open Budget Survey which measures public access to information. In 2019, the country was awarded a Transparency Index score of 7/100 denoting 'scant budget information'. This is a 2 per cent improvement from 2017, but it is still low by regional standards, with Uganda at 58, Kenya at 50, Rwanda at 39 and Tanzania at 17. South Sudan ranks 106 of 117 countries, topping Burundi (6), Somalia (3), Sudan (2) and Comoros (0).

## Key takeaways: Budget credibility and execution

- A lack of (audited) expenditure data across all levels of Government makes it difficult to properly assess budget credibility and execution performance.
- Non-payment of transfers, grants and salaries for essential social services undermines the Government's ability to strengthen its social services systems, creates donor dependency and leaves millions of children vulnerable and at risk.

34. Republic of South Sudan, Approved Budget – Resource Envelope. p. iii, 2019.
35. Minister of Finance, Republic of South Sudan, Budget Speech FY2018/19.

# Section 4.
# Financing the national budget


## Oil revenue over-estimated

The FY2019/20 budget of SSP 208,000 billion is based on an estimated total net oil revenue of SSP 152 billion. To reach that amount, allowing for the complex mechanisms of South Sudan's oil industry, oil sales would need to reach SSP 273 billion. Even if oil production reached the planned targets of 175,000 barrels per day and realized US$55 per barrel, the revenue from oil would be SSP 50 billion shy of that target.

Taking into account many factors impacting on the volatile price of oil, including the stagnating global demand for oil from 2016–2019, the low levels of production, low grade of South Sudan's oil and the security concerns which had a significant impact on the country's ability to take advantage of its oil reserves, achieving gross oil revenue of SSP 273 billion was unrealistic.

## Non-oil revenue not enough to cover the deficit

Non-oil revenue for FY2019/20 was forecast at SSP 30 billion, resulting in oil and non-oil revenue only covering 52 per cent of planned expenditure.

## Official development assistance

ODA was estimated to be over three times larger than the South Sudan national budget (2018) but did not flow through the MoFP. In FY2018/19 the only ODA reflected in the resource envelope was a loan from the World Bank Local Governance and Service Delivery (Logoseed) project of SSP 1.139 billion (1.4 per cent of the FY2018/19 resource envelope), which is not included in the FY2019/20 budget. This was an earmarked loan to provide block grants to payams[36] for capacity-building, community development and engagement and to support the Government in contracting

36. Payams are the second lowest administrative unit of government in South Sudan.

other facilitating partners in subnational development.

### Borrowing and repayment of loans

SSP 25.606 billion (12 per cent of the FY2019/20 resource envelope) is allocated to loan repayments. There are no allocations to repay the Bank of South Sudan. The allocation is for external loan repayments to Trafigura (SSP 7.4 billion) and South Sahara Energy (SSP 18.8 billion), which are related to oil payments and infrastructure development.

**To fund the difference between revenue and expenditure, the Government needs to borrow money.** Due to the continuation of deficit budgeting, total public debt during FY2018/19 had risen to an estimated 34.2 per cent of GDP, with 30.2 per cent being external debt.

South Sudan's full debt position is difficult to identify, as there are large discrepancies in how the size of debt is calculated. According to the IMF, South Sudan's external public debt, including arrears, was estimated at US$1.196 billion (34 per cent of GDP) as of end March 2019[37] – almost the entire size of the FY2019/20 resource envelope of US$1.29 billion.

According to the MoFP, servicing foreign debt in FY2019/20 amounted to US$371 billion.[38] In addition, the original amount of domestic debt of US$210 million now stands at US$215 million due to outstanding arrears.[39] Based on external debt indicators, South Sudan is currently in debt distress. Accumulation of arrears, low capacity to service debt and low foreign exchange reserves indicate unsustainable debt dynamics.[40]

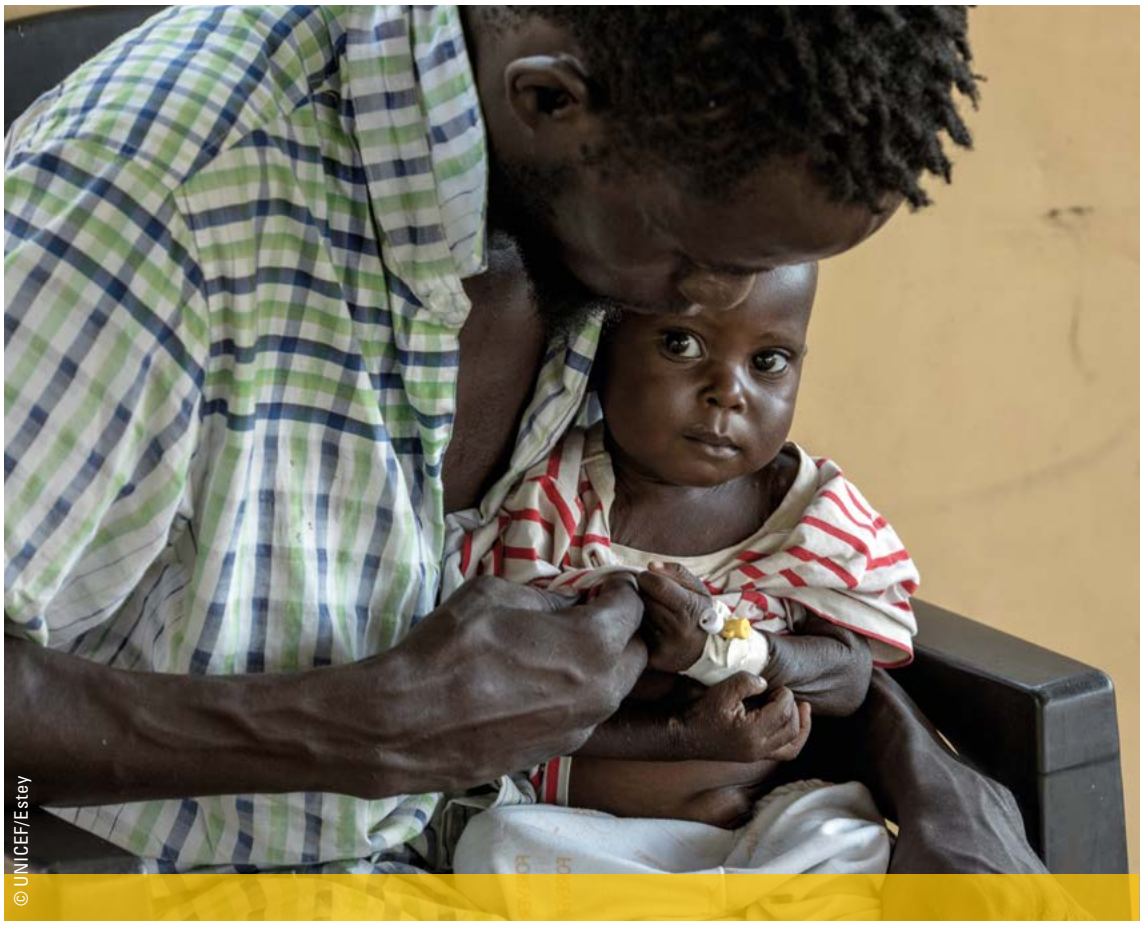
Domestic debt amounts to SSP 38.67 billion, with arrears totalling almost half of that again (SSP 17.2 billion). Almost all domestic debt is to the Bank of South Sudan.[41] In addition, FY2018/19 overspend and the planned budget deficit in FY2019/20 will add to the accumulated debt position.

## Key takeaways:
### Financing the national budget

- Continued debt accumulation and huge stocks of debt arrears pose an issue for the realization of children's rights as children in South Sudan are denied basic services due to the large proportion of the resource envelope allocated to debt servicing.
- Borrowing funds by a government is not inherently negative. The productive use of loans for investment in infrastructure development will grow the current economy and provide for future economic opportunity. However, in South Sudan there is currently little to show for the funds from previous loans, as the country's infrastructure has deteriorated and basic infrastructure such as roads and telecommunications are, for the most part, not in place.

37. IMF Country Report No. 19/153, South Sudan, June 2019.
38. Republic of South Sudan, MoFP, FY: 2019/2020 Approved Budget Book.
39. Ibid.
40. IMF Country Report No. 19/153, South Sudan, June 2019.
41. Ibid.

# Section 5.
# New PFM developments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## PFM oversight committee established

Through an executive order the Minister of Finance and Planning created a PFM oversight committee to address the reforms stipulated in Article 4.1.7 of the R-ARCSS, providing a clear indication of the commitment of the Government to tackle the underperforming areas of its economic and PFM systems.

In its draft work plan the committee has proposed prioritizing the development of a PFM strategy to guide the implementation of PFM laws, the implementation of critical provisions of the R-ARCSS, capacity development, a review of the National Development Strategy that ends in 2021, and the enterprise development funds contained in Article 4.15 of the R-ARCSS.[42]

The Sustainable Development Goal Project in South Sudan was launched in October 2020. It aims to complement the R-ARCSS and the work of the PFM oversight committee by targeting capacity-building; revenue collection; strategic and operational planning; budgeting and reporting; and accountability mechanisms at subnational government level.

42. Reconstituted Joint Monitoring and Evaluation Commission, Report on the Status of Implementation of R-ARCSS for the Period 1 April to 30 June 2020, Report No. 007/20, <https://reliefweb.int/sites/reliefweb.int/files/resources/RJMEC-2nd-Qtr-2020-Report-Final.pdf>.

## Passing of FY2020/21 budget

In late August 2020, the resource envelope and proposed budget ceilings for FY2020/21 were presented to the Economic Cluster Committee for forwarding to the Council of Ministers, which should then lead to its presentation to the National Assembly.

However, in addition to the economic shocks that undermined the FY2019/20 budget, political disputes and disagreements caused a political stalemate. The result is that the FY2020/21 budget was delayed and only passed in September 2020.

South Sudan was amongst many countries that delayed passing their FY2020/21 budgets, as they battled to find funds and mechanisms to cope with the impact of the COVID-19 pandemic. Although countries passed budgets, albeit late, the reality of coping with the massive economic shocks experienced in 2020 led to countries operating on a month-by-month basis, constantly reallocating funding to emerging needs and demands. Anecdotal evidence appears to indicate that this ad hoc approach to demand-driven budgeting in turn led to less openness with budget data. This needs to be monitored in future budget briefs.

## PFM at the subnational level

In February 2020, the previous 32+1 states[43] were dissolved and 10 states were established. However, by August 2020 no state legislatures had been established and no complete state governments had been appointed. In 2016, the move from 10 to 32+1 states led to an institutional capacity split between the states and to the relocation of officials. Five years later, officials from the 32+1 state capitals will need to relocate back to the now new/old state capitals and human capital, specifically in PFM, accounting, auditing and budgeting may be lost in the process.

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43. Thirty-two states plus the Abyei Administrative Region, which remained a contested area between Sudan and South Sudan.

## Key takeaways:
### New PFM developments

- Government commitment to PFM was confirmed with the establishment of a PFM oversight committee to address the reforms stipulated in the R-ARCSS. The Government should build on this commitment to ensure fiscal discipline through improving its macroeconomic capacity and fast-tracking the installation of an IFMIS with states using the state budget preparation system as an interim measure. The state budget preparation system is a simple Excel module which state officials have been trained in and which has been used by states since 2012.
- South Sudan was amongst many countries which delayed passing their FY2020/21 budgets and then operated month by month, reallocating funding to emerging needs and demands. This ad hoc approach to demand-driven budgeting may lead to less openness with budget data, placing further emphasis on the need for transparency and PFM reform.
- The use of the PFM oversight working committee is encouraged as a platform for openness and cooperation with international donors, partners and international financial institutions to collaborate in addressing the systemic economic and PFM challenges in South Sudan.
- Measures should be taken to ensure that capacity in PFM, accounting, auditing and budgeting is not lost in the process of relocating Government staff back to the now new (former) state capitals as the country returns to 32+1 states.
- A rapid audit of subnational PFM capacity needs to be carried out, and meanwhile states should continue using the PFM systems implemented in 2012. These are more than adequate, are well documented in existing budget guidelines, state officials are already familiar with them, and they can be easily adapted to future changes in the regulatory environment.

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Ministry of Finance and Planning
PO Box 80, Juba

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