

South Sudan

NATIONAL BUDGET BRIEF

Fiscal Year 2021/2022

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Acronyms

FY	fiscal year
GDP	gross domestic product
ICT	information and communication technology
IFMIS	integrated financial management information system
IMF	International Monetary Fund
MoEST	Ministry of Education Science and Technology
MoFP	Ministry of Finance and Planning
MoGEI	Ministry of General Education and Instruction
NBS	National Bureau of Statistics
ODA	official development assistance
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PFM	public financial management
R-ARCSS	Revitalized Agreement on the Resolution of the Conflict in the Republic of South Sudan
RCF	Rapid Credit Facility
RTNLA	Revitalized Transitional National Legislative Assembly
SSP	South Sudanese pound
STAG	Sales Tax Adjustment Grant
TVET	technical and vocational education and training
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund

Key Messages and Recommendations

1. The combined health, education, and social and humanitarian affairs sector allocations have nearly tripled from SSP 30.8 billion (2.8%, GDP, SSP) in FY2020/21 budget to 80.3 billion in FY2021/22 (5.1%, GDP, SSP), demonstrating Government's commitment to addressing the country's socioeconomic challenges and improving service delivery.

Recommendation: Government is encouraged to continue with this positive trajectory to achieve the global benchmarks of the Abuja Declaration spending target of 15 per cent of the national budget for health, and the Incheon Declaration target of 20 per cent for education. Also, Government needs to increase the social and humanitarian affairs budget (of 0.9%), which falls far short of requirements, especially considering the need for adequate social protection amidst the socioeconomic impacts of COVID-19.

2. The sector allocations for education (14.1%) and health (7.9%) are now closer to international targets of 20 per cent of the national budget for education and 15 per cent for health. The Government is commended for these significant increases compared to FY2020/21, in which education received 11.2 per cent and health just 1.9 per cent¹.

Recommendation: The Government is encouraged to further increase the sector allocations for education and health in line with international targets.

3. There are indications of significant under-spending, particularly in the education and health sectors. In the first half of FY2021/22, the education and health sectors spent only 15 per cent and 6 per cent, respectively, of their annual budget.

Recommendation: The findings of the Education PER request Government to restore the planning and budget systems that existed before the conflict to ensure timely planning, release, flow, and utilization of conditional transfers to social sector service delivery units across the country, thereby enable maximum expenditure/utilization of public funds by frontline workers.

4. South Sudan does not have a fully functioning integrated financial management system (IFMIS) linking States to a Central Treasury. This makes it difficult to properly assess budget credibility and execution performance.

Recommendation: Building on the gains made through the South Sudan SDG Fund project in terms of ICT Infrastructure, Government is encouraged to gradually transition from the current SBPS Budget System and roll-out IFMIS to improve the management of public funds across the two levels of Governments, thereby improve Government's budget credibility and execution.

5. Expenditure on items which are not in the approved budget (unfunded mandates), which can potentially account for nearly 30% of transfers in some States, are a breach of the Constitution and deprive communities of their rights to essential services.

Recommendation: MoFP is encouraged to use the existing MoFP Guidelines² as the basis for preparing Treasury Regulations. This will avoid delays when the revised Public Financial Management and Accountability Act is passed.

¹ MoFP, Republic of South Sudan FY:2020/2021 Indicative Ceilings by Sectors and line Ministries, Scenario 2 (excel), provided April 2022

² MoFP, Interim Guidelines for Budgeting and Accounting for Public Funds, July 2019 and MoFP, Budget Execution and Reporting 2019/20 (undated)

6. Continued debt accumulation and debt arrears pose an issue for the realization of children's rights as a large proportion of the resource envelope is allocated to debt servicing.

Recommendation: Although debt servicing is a national fiscal priority, Government is encouraged to prioritize social sector allocations and refrain from cutting funds from social sector institutions. For the FY2022/23 budget, should oil revenues prove to be more buoyant than forecast, authorities are encouraged to build additional international reserves to insure against future shocks.³

³ IMF, IMF Staff and Republic of South Sudan Hold Discussions on Second Review of Staff Monitored Program and Article IV Consultation, 28 March 2022 <https://www.imf.org/en/News/Articles/2022/03/25/pr2290-south-sudan-imf-staff-hold-discussions-second-review-smp-article-iv-consultation>

Introduction

This budget brief provides an analysis of the Government of the Republic of South Sudan's approved budget estimates for the FY 2021/22. The brief is based on an analysis of approved resource envelope and budget ceilings prepared by the Ministry of Finance and Planning⁴. The budget brief includes a summary of selected macroeconomic indicators, an overview of sectoral allocations, comments on budget credibility and a snapshot of sources of revenue.

The FY2021/22 budget brief is jointly produced by MoFP and 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 aim of the brief is to support sound and inclusive public policy underpinned by transparency and accountability for South Sudan to move towards sustainable peace, economic growth, and poverty eradication. Hence the theme of the FY2021/22 Budget is to **Consolidate Peace, Combat the COVID-19 Pandemic, and Stabilize the Economy**⁵.

Section 1. Macro and Socioeconomic Context

Positive macro and socioeconomic outlook FY2021-2022

The economic outlook for South Sudan is positive for FY2021/22 with significant macro-economic stabilization. After contracting by an estimated 5.4 percent in FY2020/21, South Sudan's economy is projected to grow by 1.2 percent in FY2021/22, with a rebound of growth in services and trade supported by improving macroeconomic conditions and relative peace⁶.

The value of the South Sudanese pound (SSP) strengthened against the US dollar, from SSP 620 in March 2021 to an average of SSP 418 in November 2021⁷. As a result of the implementation of the Bank of South Sudan's exchange rate policy reforms toward a market-determined exchange rate, the gap between the parallel and official rates has virtually ceased to exist⁸.

The rise in global commodity prices from the war in Ukraine may increase South Sudan's revenues from oil exports. Although most of the population will experience the impact in the form of higher prices of food and fuel, appreciation of the SSP has mitigated some of the rises in global prices⁹.

Flooding has affected oil production, altering the fiscal and growth outlook. Consequently, real GDP growth estimates have been revised downwards, from -4.1 percent to -5.4 percent for FY2020/21, and from 2.6 percent to 1.2 percent in FY201/2022¹⁰.

Nominal GDP is steadily increasing, from SSP 711.1 billion in FY2018/19 to an estimated SSP 951.0 billion in FY2020/21 and a projected SSP 2,553.5 billion in FY2022/23¹¹.

⁴ Republic of South Sudan FY:2021-2022 Approved Ceilings by Sectors and lines Ministries (excel), April 2022

⁵ Republic Of South Sudan, Revitalized Transitional Government of National Unity, Budget Speech for the FY 2021/2022, 2 February 2022 <http://www.mofep-grss.org/wp-content/uploads/2022/03/Budget-Speech-FY-2021-22-31-Jan-ver-2.1-01-02-2022.pdf>

⁶ World Bank, South Sudan Economic Monitor, Towards a Jobs Agenda, Fifth Edition, February 2022 <https://documents1.worldbank.org/curated/en/099650002152233681/pdf/P1737580e2efa4025093600b8be2b53aa10.pdf>

⁷ Ibid

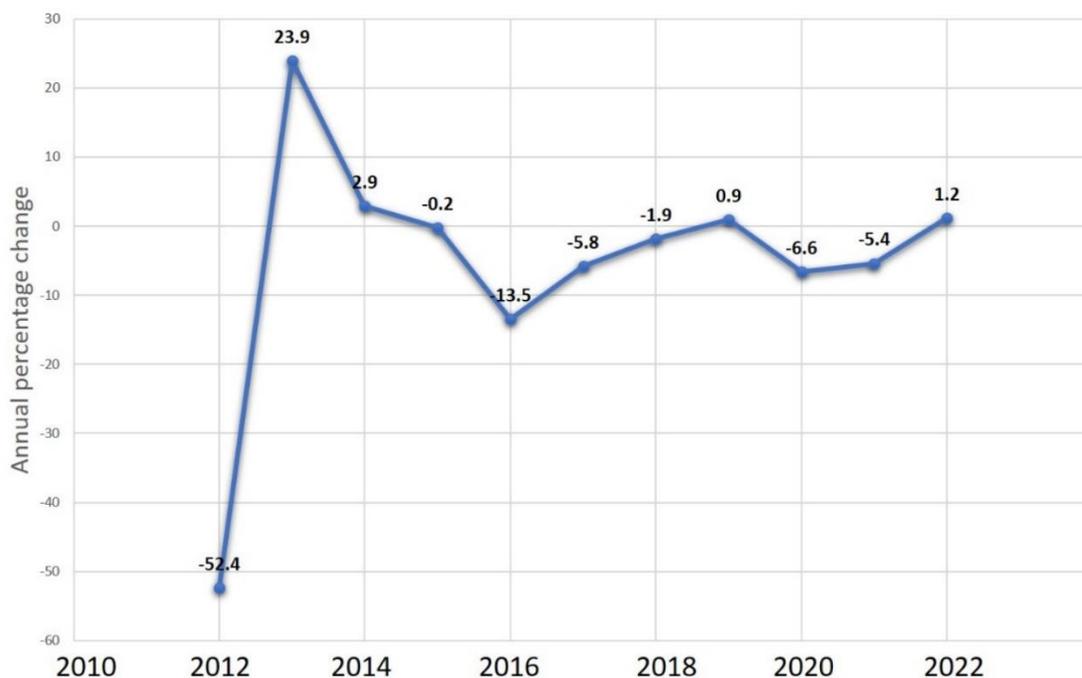
⁸ Ibid

⁹ IMF, IMF Staff and Republic of South Sudan Hold Discussions on Second Review of Staff Monitored Program and Article IV Consultation, 28 March 2022

¹⁰ Ibid

¹¹ Ibid

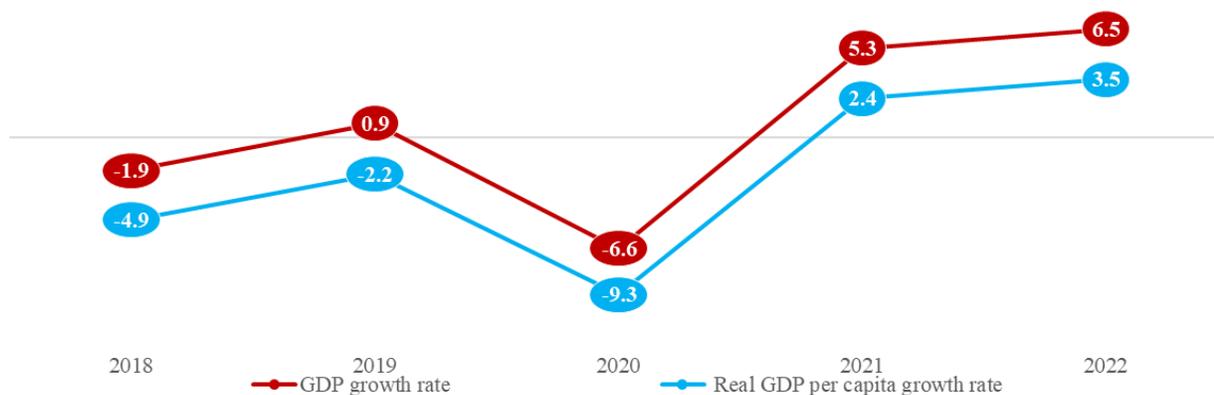
Figure 1: Trends in real GDP growth South Sudan 2012-2022



Source: IMF https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/SSD?year=2022 adjusted for 2021 and 2022 with World Bank, South Sudan Economic Monitor, Towards a Jobs Agenda, Fifth Edition, February 2022

Similarly, Figure 1 shows overall GDP growth trends and further examines changes when prices and the size of the population factored in. The period 2018-2020 saw negative growth for both GDP and Real GDP per capita. The economy however rebound in 2021 and the IMF World Economic Outlook Database of April 2022 projects it to remain positive at 3.5% GDP per capita in 2022.

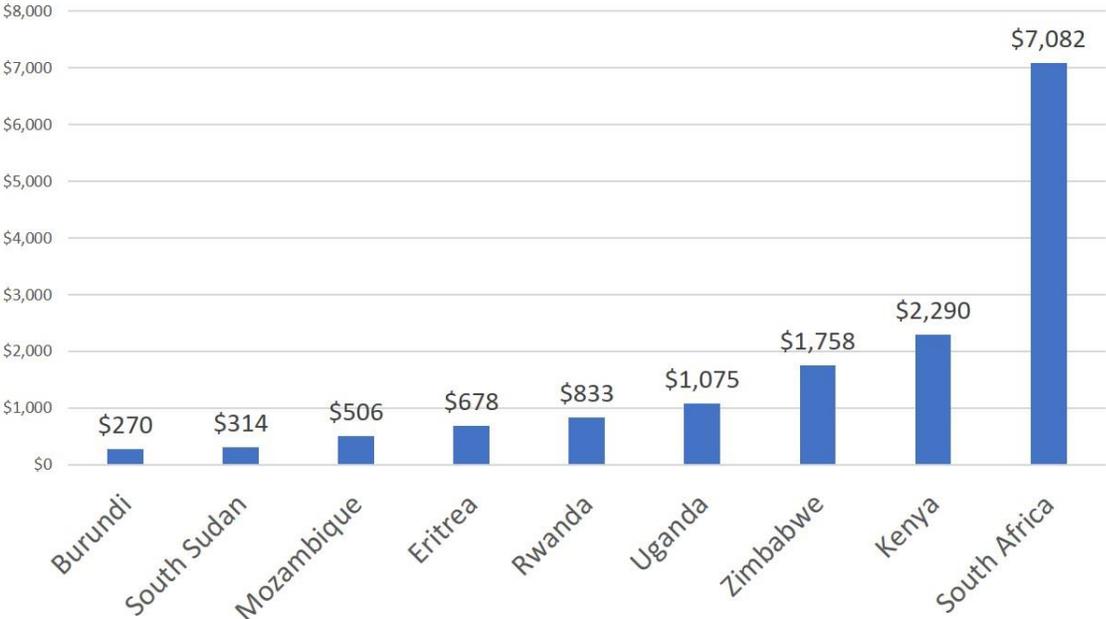
Figure 2: GDP and Real GDP per capita growth, 2018 to 2022 (as %)



Source: IMF World Economic Outlook Database, April 2022 <https://www.imf.org/en/Publications/WEO/weo-database/2022/April>, estimates begin in 2017.

South Sudan's GDP per capita is the lowest in the Eastern and Southern Africa region. At \$314, the country's GDP is second-last in the region after Burundi, and it trails far behind its neighbors Kenya and Uganda, respectively, with \$2,290 and \$1,075 GDP per capita. South Sudan's economy has been shrinking over the recent past, thereby affecting businesses and overall economic growth which was already battered by the recurrent conflicts.

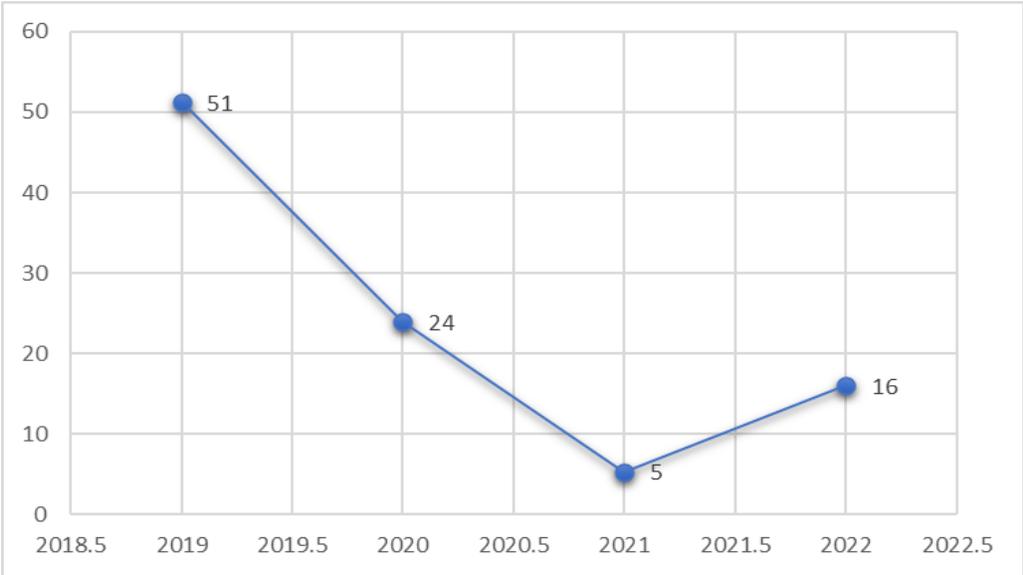
Figure 3: Comparisons of GDP per capita in selected countries in Eastern and Southern Africa 2022 (US\$)



Source: IMF World Economic Outlook Database, October 2021 <https://www.imf.org/en/Publications/WEO/weo-database/2021/October/>

South Sudan witnessed significant decline in inflation trends between 2019 and 2021. Figure 4 shows the country recorded its lowest inflation rate of 5% in 2021 but the rate then rose again to 16% in 2022. This rise will contribute to decline public funds to social sector institutions, potentially affecting delivery of goods and services to vulnerable children and children. Given the ongoing global economic turmoil, Government will struggle to keep inflation under control, the desired and main objective of monetary policy of Governments. South Sudan's savings and investment rates will thus be affected over the short to long term if the global economic status quo remains the same or worsens

Figure 4: Inflation trends, annual % change, consumer price indices, FY 2019/20 – 2021/2022



Source: Calculations from data in IMF World Economic Outlook Database, April 2022
<https://www.imf.org/en/Publications/WEO/weo-database/2022/April>

South Sudan’s economy had shown strong signs of improvement before the COVID-19 pandemic. However, the impact of COVID-19 restrictions and a resurgence in sub-national violence subdued growth in FY2020/21¹². Living conditions deteriorated, with many people urgently requiring humanitarian assistance. The damaging effect of COVID-19 on the economy will lead to fewer employment opportunities and continued non-payment of government salaries.

Table 1: Select macroeconomic indicators for 2021 (or most recent available)

Indicator	Value		Source
	FY 2020-2021	FY 2021-2022	
National budget	SSP 218.19 billion	SSP 373.97 billion	Republic of South Sudan FY:2020/2021 Indicative Ceilings by Sectors and line Ministries, Scenario 2 (excel), provided April 2022 Republic of South Sudan FY:2021-2022 Approved Ceilings by Sectors and lines Ministries (excel), April 2022
GDP per capita (in US\$), current prices	322.2 (2020)	230.1 (2021)	IMF World Economic Outlook Database, October 2021 https://www.imf.org/en/Publications/WEO/weo-database/2021/October/

¹² World Bank, South Sudan Economic Update. Fourth Edition. Pathways to Sustainable Food Security, June 2021
<https://documents1.worldbank.org/curated/en/254381624340029941/pdf/South-Sudan-Economic-Update-Pathways-to-Sustainable-Food-Security.pdf>

Indicator	Value		Source
Revenue (% of GDP)	36.5 (2020)	50.6 (2021)	IMF World Economic Outlook Database, October 2021
Expenditure (% of GDP)	38.3 (2020)	43.2 (2021)	IMF World Economic Outlook Database, October 2021
Debt (% of GDP)	35.8 (2020)	64.4 (2021)	IMF World Economic Outlook Database, October 2021
Net official development assistance and official aid received (current US\$)	US\$1.577 billion (2018)	US\$1.885 billion (2019*)	World Bank, Net official development assistance and official aid received (current US\$) - South Sudan https://data.worldbank.org/indicator/DT.ODA.ALLD.CD?locations=SS
Foreign aid (% of government budget)	303.85% (2018) ¹³	146.12% (2019*) ¹⁴	World Bank, Net official development assistance and official aid received (current US\$) - South Sudan MoFP, National budget brief South Sudan 2019/20 https://www.unicef.org/southsudan/media/6361/file/South-Sudan-National-Budget-Brief-2020.pdf
Unemployment, total (% of total labour force)	12.2 (13.2 female, 11.2 male) (2019)	14.0 (15.1 female, 13 male) (2020*)	World Bank, World Development Indicators database https://databank.worldbank.org/source/world-development-indicators
Unemployment, youth total (% of total labor force ages 15-24)	18.9 (17.8 female, 20.1 male) (2019)	21.3 (20.1 female, 22.6 male) (2020*)	World Bank, World Development Indicators database

*Indicates most recent year available

Social and developmental context

Prior to the negative impacts of COVID-19 measures, South Sudan had a poor health system and some of the lowest global human development indicators. Although the head count of COVID-19 infections in South Sudan was relatively low, vulnerable groups were the hardest hit due to the over-stretched health system, hindering of supply chains and challenges experienced by humanitarian agencies in delivering services in a restricted context.

In 2021, South Sudan faced its highest levels of food insecurity and malnutrition since independence 10 years ago.¹⁵ South Sudan is facing an unprecedented humanitarian situation caused by persistent conflict, climatic shocks, preventable disease, socioeconomic shocks and rising costs. Over 70 per cent of the men, women and children in South Sudan will struggle to survive the peak of the lean season in 2022 (the period between harvests when households run out of stored food, typically between March and August)¹⁶.

¹³ ODA to South Sudan US\$1.58 billion in 2018; FY2018/19 budget US\$526 million (US\$0.52 billion).

¹⁴ ODA to South Sudan US\$1.885 billion in 2019; FY2019/2020 budget US\$1.29 billion

¹⁵ OCHA, South Sudan Humanitarian Response Plan 2021, March 2021

https://www.humanitarianresponse.info/sites/www.humanitarianresponse.info/files/documents/files/south_sudan_2021_humanitarian_response_plan_print.pdf

¹⁶ UNICEF, South Sudan Country Office Humanitarian Situation Report No. 166, Reporting Period: 1 – 28 February 2022 <https://www.unicef.org/media/118331/file/South-Sudan-Humanitarian-SitRep-28-February-2022.pdf>

Updated inequality estimates reveal that South Sudan's national poverty headcount rate (US\$1.90 poverty line) is 76.4 per cent (previous estimate 82 per cent)¹⁷. Inequality has increased, as measured by the national Gini coefficient¹⁸, at 44.1 per cent (previous estimate 41.0 per cent).¹⁹

Table 2: South Sudan human development indicators 2021 (or latest available)

Indicator	Value	Source
Human Development Index (HDI)	0.433 (Rank 185) (0.384 female, 0.456 male)	UNDP South Sudan Human Development Indicators 2019* https://hdr.undp.org/en/countries/profiles/SSD
Inequality-adjusted HDI (IHDI)²⁰	0.276	UNDP South Sudan Human Development Indicators 2019*
Overall loss in HDI due to inequality (%)	36.3	UNDP South Sudan Human Development Indicators 2019*
Life expectancy at birth (years)	57.9 (59.4 female, 56.4 male)	UNDP South Sudan Human Development Indicators 2019*
Poverty headcount ratio at national poverty lines (% of population)	76.4	World Bank, Global Poverty Monitoring Technical Note 18, Rapid Consumption Method and Poverty and Inequality Estimation in South Sudan revisited, October 2021
HIV prevalence, adult (% ages 15-49)	2.3 (2.9 female, 1.7 male)	UNAIDS South Sudan 2020* https://www.unaids.org/en/regionscountries/countries/southsudan
Child marriage, women married by age 18 (% of women ages 20–24 who are married or in union)	52	UNDP South Sudan Human Development Indicators 2019*
Adolescent birth rate (births per 1,000 women ages 15-19)	62.0	UNDP South Sudan Human Development Indicators 2019*
Child malnutrition, stunting (low height-for-age) (moderate or severe) (% under age 5)	31.3	UNDP South Sudan Human Development Indicators 2019*
Child malnutrition, wasting (low weight-for-height) (moderate or severe) (% under age 5)	16.2 (15% emergency threshold)	UNICEF South Sudan, Country Office Annual Report 2021 https://www.unicef.org/media/116406/file/South-Sudan-2021-COAR.pdf
Mortality rate, infant (per 1,000 live births)	63.7	UNDP South Sudan Human Development Indicators 2019*
Mortality rate, under-five (per 1,000 live births)	98.6	UNDP South Sudan Human Development Indicators 2019*

¹⁷ The changes in these rates reflect more sophisticated ways of calculating poverty and inequality, rather than necessarily changes on the ground.

¹⁸ The higher the Gini coefficient, the greater the gap between the incomes of a country's richest and poorest people.

¹⁹ World Bank, Global Poverty Monitoring Technical Note 18, Rapid Consumption Method and Poverty and Inequality Estimation in South Sudan revisited, October 2021

<https://documents1.worldbank.org/curated/en/169871634583488580/pdf/Rapid-Consumption-Method-and-Poverty-and-Inequality-Estimation-in-South-Sudan-Revisited.pdf>

²⁰ HDI value adjusted for inequalities in the three basic dimensions of human development health, education and income

Indicator	Value	Source
Maternal mortality ratio (deaths per 100,000 live births)	1,150	UNDP South Sudan Human Development Indicators 2019*
Birth registration (% under age 5)	35	UNDP South Sudan Human Development Indicators 2019*
Gross enrolment ratio, pre-primary (% of preschool-age children)	11	UNDP South Sudan Human Development Indicators 2019*
Gross enrolment ratio, primary (% of primary school-age population)	73	UNDP South Sudan Human Development Indicators 2019*
Gross enrolment ratio, secondary (% of secondary school-age population)	11	UNDP South Sudan Human Development Indicators 2019*
Primary school teachers trained to teach (%)	44	UNDP South Sudan Human Development Indicators 2019*
Pupil-teacher ratio, primary school (number of pupils per teacher)	47	UNDP South Sudan Human Development Indicators 2019*
Internet users, total (% of population)	8.0	UNDP South Sudan Human Development Indicators 2019*
Mobile phone subscriptions (per 100 people)	33.5	UNDP South Sudan Human Development Indicators 2019*

*Indicates most recent year available

Key takeaways: Macro and Socioeconomic Context

- The Government should take advantage of the positive economic outlook to strengthen domestic revenue mobilization to finance the delivery of essential services for children.
- The COVID-19 pandemic shone a spotlight onto weak statutory systems for social service delivery and further emphasizes the importance of investing adequately into social sectors to create a resilient population.

Section 2: Aggregate Spending Trends and Priorities

In nominal terms, the total budget for FY2021/22 has increased year-on-year by 62 per cent. However, inflation dramatically reduces the impact of this increase. This can be illustrated by comparing nominal vs real expenditure over time (Figure 3).

Exchange rate reforms have helped reduce inflation from 70 per cent in January 2021 to 16.3 per cent end FY2021/22²¹.

Figure 5: Nominal and real total government spending trends, FY2017-2022 (SSP billions)



Source: Calculations from data in IMF World Economic Outlook Database, April 2022
<https://www.imf.org/en/Publications/WEO/weo-database/2022/April>

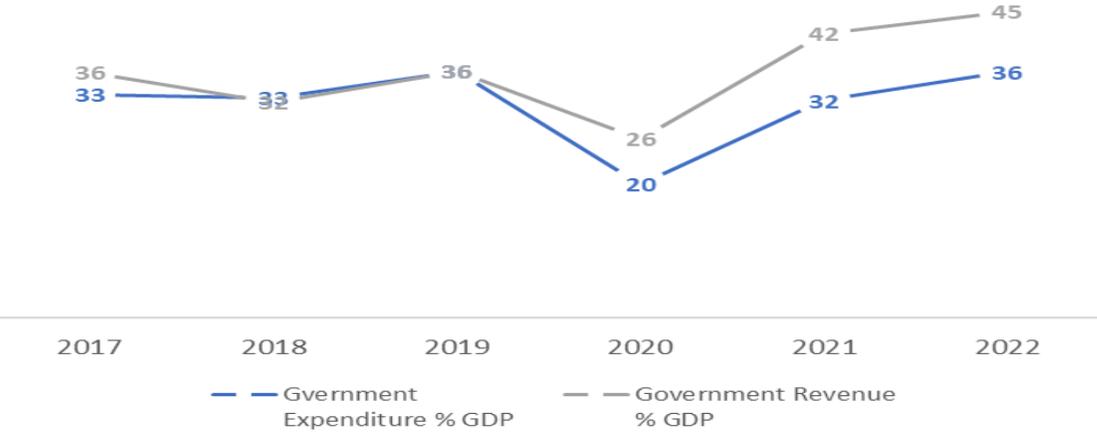
Note: Estimates begin in 2017

	Nominal Expenditure	Real Expenditure	Inflation Index	Inflation Rate	Nominal Expenditure, annual % change	Real Expenditure, annual % change
FY 2017	131,116,000,000	131,116,000,000	3408.7
FY 2018	214,755,000,000	117,031,747,641	6255.1	84%	64%	-11%
FY 2019	305,913,000,000	110,266,883,588	9456.8	51%	42%	-6%
FY 2020	220,058,000,000	63,976,223,316	11725.0	24%	-28%	-42%
FY 2021	513,359,000,000	141,678,881,870	12351.2	5%	133%	121%
FY 2022	902,700,000,000	214,767,902,405	14327.4	16%	76%	52%

Except in 2020, the annual percentage change in the nominal expenditures of Government indicated misleading economic growth at a time of soaring inflation rates which topped 84% in 2018. Conversely, Figure 5 shows a contracting economy with a real expenditure annual percentage change reaching minus 28% in 2020, which corresponds to minus 42% nominal expenditure annual percent change in the same year.

²¹ Republic Of South Sudan, Revitalized Transitional Government of National Unity, Budget Speech for the FY 2021/2022, 2 February 2022

Figure 6: Total Government Revenue and Expenditure, % GDP, FY 2017/2018 – 2021/2022



Source: Calculations from data in IMF World Economic Outlook Database, April 2022
<https://www.imf.org/en/Publications/WEO/weo-database/2022/April>, estimates begin 2017

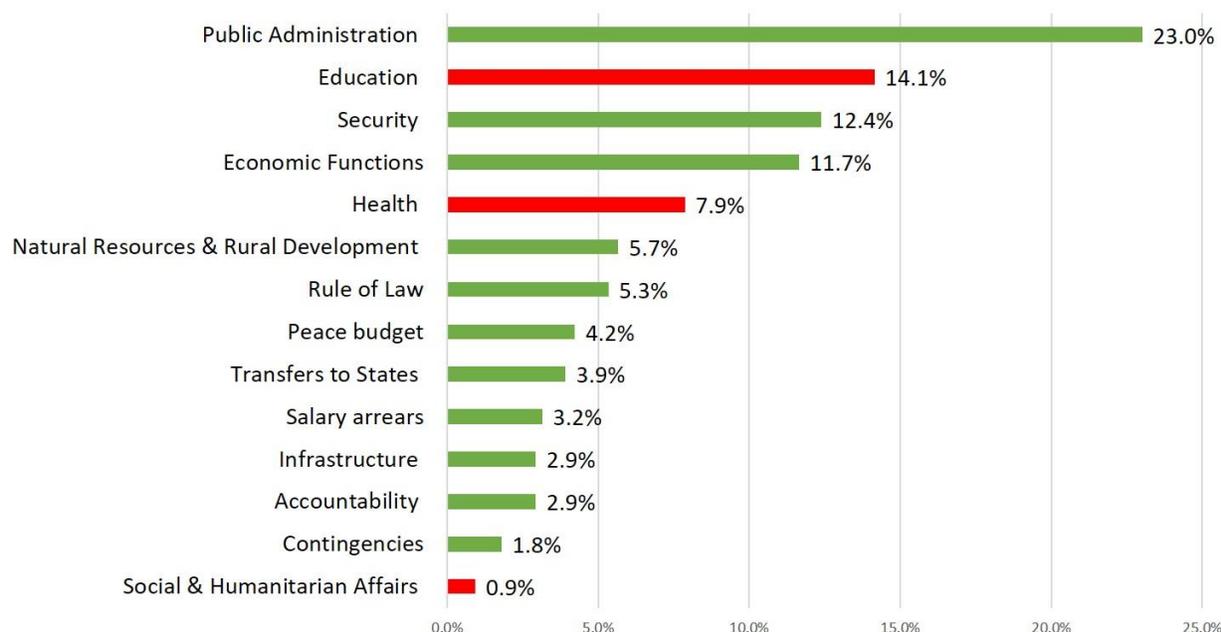
Figure 4 shows estimates of Government Revenue and Expenditure as percentages of GDP in the recent five years. The proportions for both indicators hovered between 33 and 36 percent in earlier years and thereafter plummeted to between record low expenditure proportion of 20 percent against a revenue of 26 percent in 2020. As revenue rose to 42 and 45 percentage points in respectively 2021 and 2022, government expenditure equally rose to 32 and 36 percentage points respectively.

Budget deficit this fiscal year is SSP 40.3 billion, representing 1.8 % GDP. Although Government plans to restrict borrowing to finance national budgets, it plans to finance this deficit through borrowing from commercial banks. The challenge is in ensuring the proposed debt plans and proposals are implemented as suggested/planned.

Sector allocations

The rise by 50.5 billion (3.2% GDP) of the FY2021/22 resource envelope aimed to make an additional fiscal space to fund Government programmes, compared to FY2020/21. This corresponds to a rise of more than 260% rise in budget compared to the previous fiscal year. The size of the share allocations to sectors (Figure 4) is a primary indicator of a government’s investment priorities, and year-on-year changes can be indicators for shifts in priorities.

Figure 7: South Sudan allocations by sector, FY 2021/22 (as % of total budget)



Source: Republic of South Sudan FY:2021-2022 Approved Ceilings by Sectors and lines Ministries (excel), April 2022 Note: **Red bars** indicate social sector budgets

The FY2021/22 budget contains an allowance of SSP 11.18 billion for the payment of salary arrears for central government and state personnel. The Government is currently five months in arrears on salary payments²².

Combined social sector funding more than doubles in three years

Allocations to the social sector have changed dramatically over the latest three fiscal years (Figure 8). Budget allocations to the social sector (education, health, and social and humanitarian affairs) have increased to SSP 148 billion in the budget FY2021/22, from SSP 81 billion in FY2020/21 and SSP 31 billion in FY2019/20.

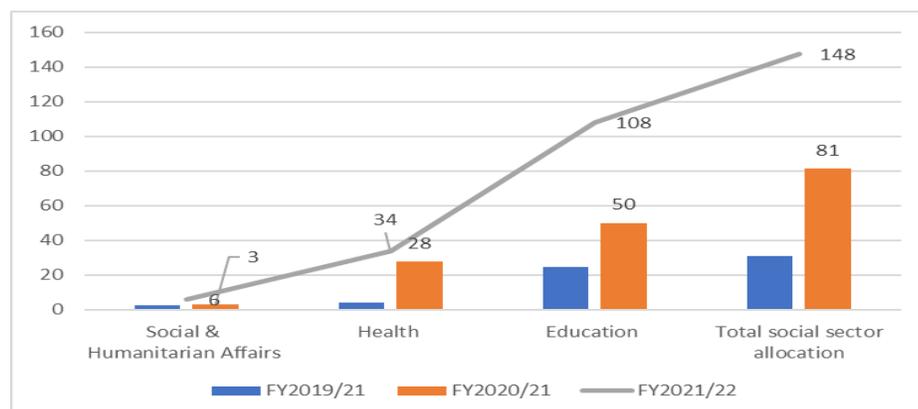
In FY2021/22 the sector with the highest increase was the health sector at SSP 28 billion, followed by education from SSP 25 billion to SSP 50. billion. These allocations are closer to global benchmarks of the Abuja Declaration spending target of 15 per cent of the national budget for health, and the Incheon Declaration target of 20 per cent for education.

The education, health and social and humanitarian sector receive nominal budget increases of 105 per cent, 588 per cent and 41 per cent respectively. This is indicative of the Government's commitment to addressing socioeconomic challenges and improving service delivery²³. However, when reviewing the planned delivery of statutory services for the year FY2021/22 the actual increase in spending power when adjusted for inflation needs to be considered.

²² MoFP, Presentation on Oil and Non-Oil Revenue and Expenditure for the first six months of FY2021/22 July-December 2021 PPT

²³ Calculated from Republic of South Sudan FY:2021-2022 Approved Ceilings by Sectors and lines Ministries (excel), April 2022 and Republic of South Sudan FY:2020/2021 Indicative Ceilings by Sectors and line Ministries, Scenario 2 (excel), provided April 2022

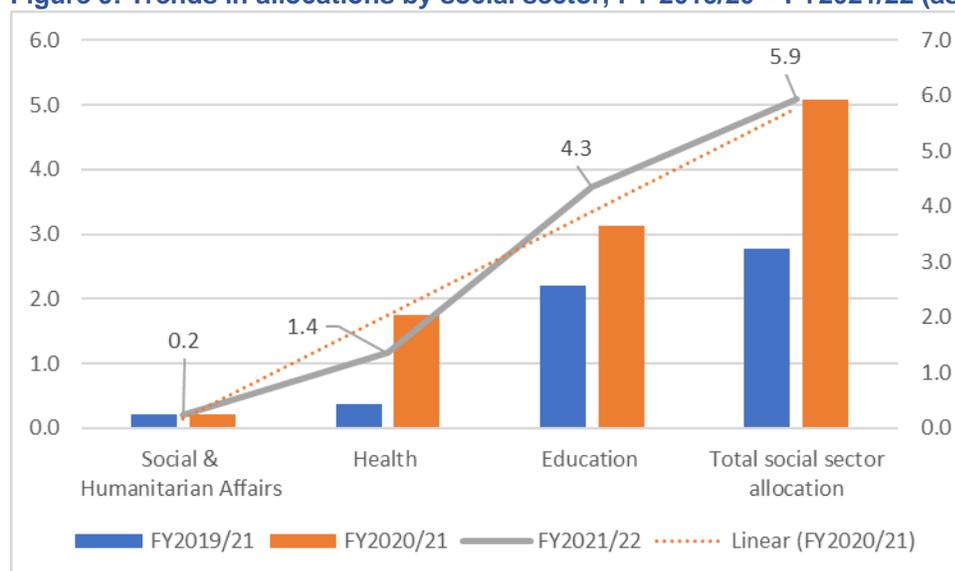
Figure 8: Social sector allocations, nominal figures, FY 2019/20 – FY2021/22, SSP billion



Source: MoFP National Budget Brief 2019/20 <https://www.unicef.org/southsudan/media/6361/file/South-Sudan-National-Budget-Brief-2020.pdf>; Republic of South Sudan FY:2020/2021 Indicative Ceilings by Sectors and line Ministries, Scenario 2 (excel), provided April 2022; Republic of South Sudan FY:2021-2022 Approved Ceilings by Sectors and lines Ministries, April 2022

Similar trends emerged when the social sector allocations were examined as % of GDP. Figure 9 shows trends in allocations by social sector, FY 2019/20 – FY2021/22 as % of GDP. The combined social sector allocations in FY2021/2022 rose to almost 6% GDP, up from 5.1% GDP in FY 2020/2021. The education sector saw a significant rise in proportion, up from 3.1% GDP FY 2020/2021 to 4.3% GDP in FY2021/2022. The Social and Humanitarian sector saw stagnation in growth which stood at 0.1% GDP, and the health sector regressed to 1.4% GDP in FY2021/2022, down from 1.7% GDP in FY 2020/2021. **A GDP per capita (current prices) examination revealed similar trends as shown by the % GDP analysis in Figure 9 below.**

Figure 9: Trends in allocations by social sector, FY 2019/20 – FY2021/22 (as % of GDP)

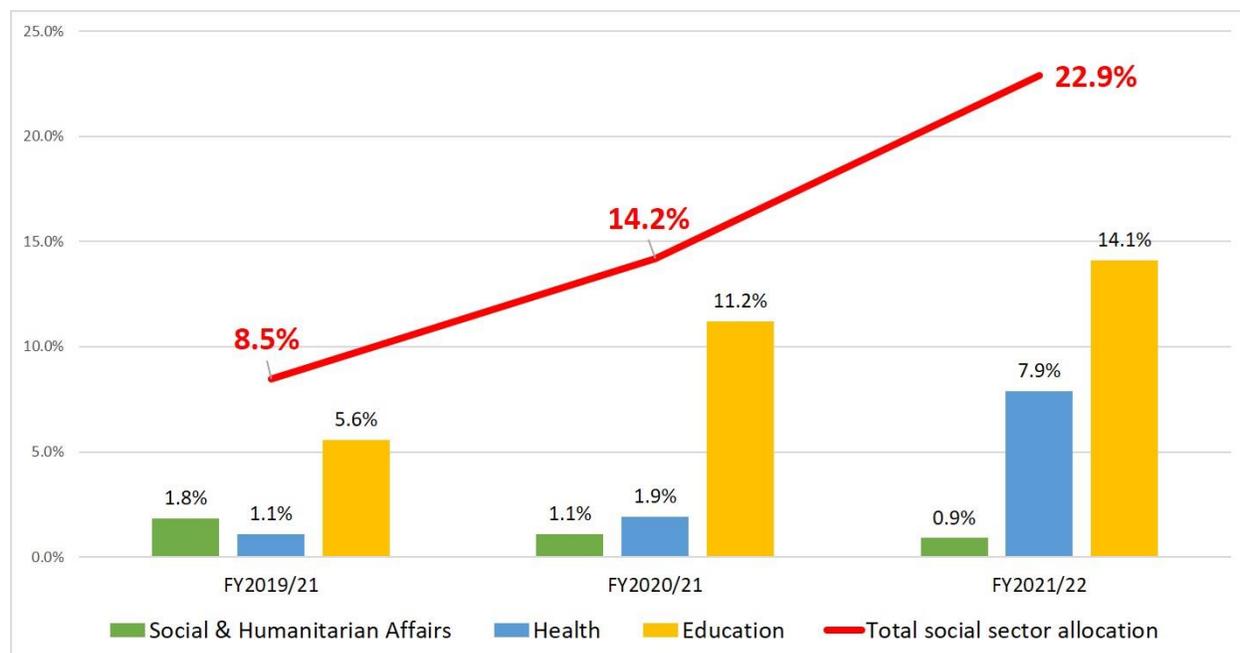


Source: MoFP National Budget Brief 2019/20 <https://www.unicef.org/southsudan/media/6361/file/South-Sudan-National-Budget-Brief-2020.pdf>; Republic of South Sudan FY:2020/2021 Indicative Ceilings by Sectors and line Ministries, Scenario 2 (excel), provided April 2022; Republic of South Sudan FY:2021-2022 Approved Ceilings by Sectors and lines Ministries, April 2022

Proportion-wise, the same trajectory shown above remains valid (Figure 5). Budget allocations to the social sector (education, health, and social and humanitarian affairs) have increased to 22.9 per cent of the budget FY2021/22, from 14.1 per cent in FY2020/21 and 8.5 per cent in FY2019/20.

In FY2021/22 the most significant shift is an increase in the health sector share from 1.9 to 7.9 per cent (SSP 27.89 billion) and education from 11.2 to 14.1 per cent (SSP 50.13 billion). These allocations are now closer to global benchmarks of the Abuja Declaration spending target of 15 per cent of the national budget for health, and the Incheon Declaration target of 20 per cent for education.

Figure 10: Trends in allocations by social sector, FY 2019/20 – FY2021/22 (as % of total budget)



Source: MoFP National Budget Brief 2019/20 <https://www.unicef.org/southsudan/media/6361/file/South-Sudan-National-Budget-Brief-2020.pdf>; Republic of South Sudan FY:2020/2021 Indicative Ceilings by Sectors and line Ministries, Scenario 2 (excel), provided April 2022; Republic of South Sudan FY:2021-2022 Approved Ceilings by Sectors and lines Ministries, April 2022

The Education Sector

Disaggregation of the education sector budget shows that the Ministry of Education and Instruction (MoGEI) and the Ministry of Education Science and Technology (MoEST) receive approximately SSP 50.1 billion.

MoGEI is responsible for providing basic and post-primary education, TVET, alternative education systems (AESs) accelerated learning programmes (ALPs), community girls' schools (CGSs) and the pastoralist education programme (PEP). The allocation to MoGEI therefore covers 5,400 schools, with the potential enrolment of 6 million children (2.8 million of whom are currently out of school²⁴).

In turn, MoEST covers higher and tertiary education through 14 institutions across the country which have approximately 40,000-50,000 students. From a per capita equity perspective, these allocations are therefore highly detrimental to basic education which is in deep crisis. Due to the millions of children who cannot access basic education, their pathway to higher education is denied, thereby also undermining the importance of higher education and its positive impacts on economic growth.

²⁴ Ministry of Finance and Planning, Government of the Republic of South Sudan and UNICEF South Sudan. The Situation of Children and Women in South Sudan 2018–2020. United Nations Children's Fund, Juba. July 2021

Social and humanitarian affairs sector

The budget allocation to the social and humanitarian affairs sector of SSP 3.3 billion has increased by 41 per cent compared to the FY2020/21 allocation of SSP 2.3 billion. Nonetheless, the sector is still (and has consistently been) woefully underfunded with percentage allocations reducing in real terms over time. At just 0.9 per cent of the FY2021/22 budget, that allocation has to fund: the Ministry of Humanitarian Affairs and Disaster Management (MHADM); the Ministry of Gender, Child and Social Welfare (MGCSW); the Ministry of Culture, Youth and Sport (MoCYS); Museums and National Heritage; the South Sudan Relief and Rehabilitation Commission; and the War Disabled, Widows and Orphans Commission.

The social and humanitarian affairs sector is expected to fund much needed social protection and safety nets, which are currently resourced almost entirely by donors; a recent mapping reveals the Government of South Sudan funds \$376,580 and donors fund the remainder of a social protection budget of USD \$117.6 million²⁵.

The National Bureau of Statistics (NBS) is a direct contributor to the provision of social welfare services. However, the low levels of funding to the NBS (SSP 67 million for FY2021/22) perpetuates the lack of credibility in national statistics.²⁶

The Health & WASH Sectors

The budget allocation to the health sector of SSP 27.9 billion rose seven-fold compared to the FY2020/21 allocation of SSP 4.1 billion. This is a marked rise in allocation to the sector which covers: Ministry of Health, HIV/Aids Commission, Drugs & Food Control Authority, and the Health Care Support Fund. This allocation, constituting 8 percent of the national budget, is more than half of the global benchmark of the Abuja Declaration spending target of 15 per cent of the national budget for health. Unlike the other social sectors, the WASH sector is embedded in the Economic sector, mainly represented by the Ministry of Mining, Ministry of Land, Housing & Urban Development, Ministry of Water Resources & Irrigation, Petroleum and Gas Commission, and the South Sudan Urban Water Corporation. Overall, the SSP 41.3 allocation to the economic cluster quadrupled compared to the FY2020/21 allocation of SSP 10.7 billion. Again, this is commendable progress as in proportions terms, this rise corresponds to 5 percent rise compared to the previous FY.

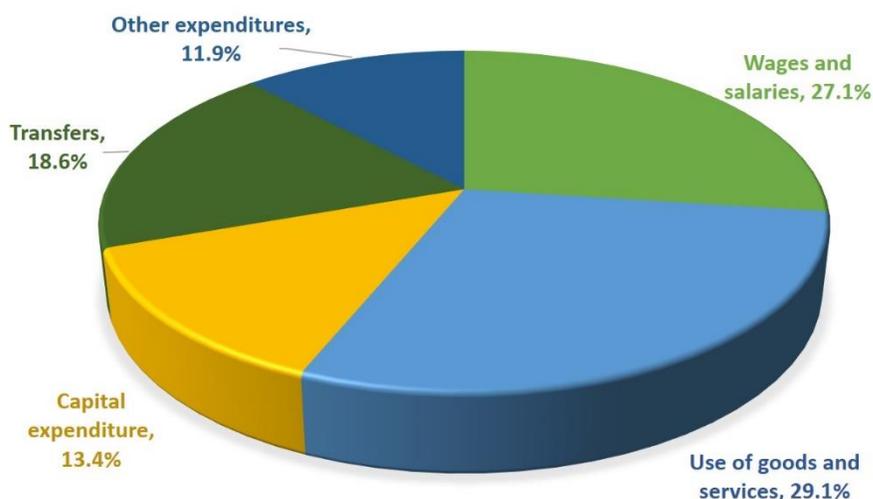
Composition of the budget

The proposed total Government expenditure this FY is SSP 354.40 billion. This expenditure comprises SSP 103.0 billion (29.1 %) for Goods and Services, SSP 96.0 billion (27.1 %) for wages and salaries, SSP 65.8 billion (18.6 %) proposed for transfers to States, SSP 47.5 (13.4 %) for capital expenditures, and SSP 42.1 billion (11.9%) as other expenditures. Nearly 60 percent of this year's budget is earmarked for wages & salaries and goods & services.

²⁵ Situation of Children and Women in South Sudan 2018–2020. United Nations Children's Fund, Juba. July 2021

²⁶ Development Initiatives (2021) South Sudan SDGs Data Landscape Diagnostic

Figure 11: South Sudan national budget allocation, by economic classification, FY 2021/22 (as a % of total)



Source: Republic of South Sudan FY:2021-2022 Approved Ceilings by Sectors and lines Ministries, April 2022

The category goods and services – which includes the cost of providing services to the community such as fuel costs to travel to remote villages to vaccinate children, providing school lunches and the costs of community participation workshops – totals SSP 103.01 billion for FY 2021/22 (29.1 per cent of the budget), up from SSP 32.45 billion in FY2020/21. In reality, a significant portion of the goods and services budget line is used for other unfunded mandates and potentially for various allowances for civil servants across State Governments including offices of the State Secretariat and Office Bearers.

Wages and salaries make up 27.1 per cent of FY 2021/22 government expenditure, with plans to double the current wage levels for all civil servants.

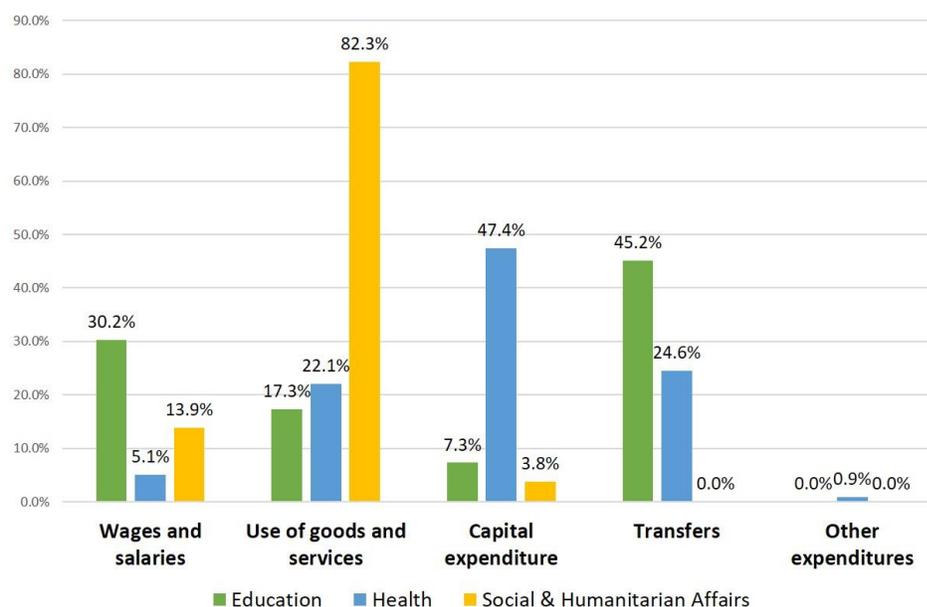
Social sector economic classifications

The education sector wage bill – at 30.2 per cent of the education sector allocation (Figure 7) – is significantly higher than for other social sectors. Wages in the health sector account for only 5.1 per cent of the sector allocation²⁷ with 47.4 per cent allocated to capital expenditure. This implies that significant amounts will be spent on upgrading existing health facilities or building new ones.

Wages in the social and humanitarian affairs sector are 13.9 per cent of the sector allocation, with 82.3 per cent allocated to goods and services. This high allocation to goods and services demonstrates a service-oriented sector, and stakeholders are encouraged to monitor how these funds are used.

²⁷ The bulk of the health sector in South Sudan is donor funded. In addition, the number of the health cadre in the MoFP budget system is lower than the staff on the ground and the actual paysheets in some of the States. This made it impossible to pay health personnel for more than four months because the salary component of the health sector to the State is not enough to pay all the health professionals there. A number of efforts are underway to fix this problem.

Figure 12: Social Sector budgets by economic classification (% of the sector budget)



Source: Republic of South Sudan FY:2021-2022 Approved Ceilings by Sectors and lines Ministries, April 2022

Key takeaways: Aggregate Spending Trends and Priorities

- The combined health, education, and social and humanitarian affairs sector allocations in FY2021/22 have almost doubled from 14.2 per cent in FY2020/21 to 22.9 per cent, demonstrating the Government's commitment to addressing the country's socioeconomic challenges and improving service delivery. Critical basic services will continue to be constrained across all service delivery units, and the hard-to-reach areas will continue to experience elevated basic needs.
- The budget allocation to the social and humanitarian affairs sector (0.9%) falls far short of requirements, especially considering the need for adequate social protection amidst the socioeconomic impacts of COVID-19. Flagship social protection instruments contained in the National Social Protection Policy Framework will remain un-implemented.
- The sector allocations for education (14.1%) and health (7.9%) are still short of but are now much closer to international targets (20% for education and 15% for health). Notwithstanding, the most vulnerable children in the remotest parts of the country will continue to suffer health and education related deprivations.
- Allocations within education, favour higher education at the expense of basic education, which needs huge investment as 2.8 million children remain out of school. As basic education is the pathway to higher education, these allocations also limit the accessibility of and therefore impact of higher education. The needs of children at the basic level will remain unmet for some time.

Section 3. Budget Credibility and Execution

Budget execution and outturns

Year to date outturns (actual expenditures) for the first half of FY2020/21 indicate that the Government only spent 30.3 per cent of the annual budget, with the education and health sectors spending only 15 per cent and 6 per cent respectively²⁸. It is concerning that the health sector spent so little of its budget in a year dominated by COVID-19 and a need for health systems strengthening. On a positive note, the social and humanitarian affairs sector achieved a higher execution rate, spending SSP 2,035,341,601.88 of its 3,304,742,015 annual budget (61.6%) in the first six months of FY2021/22²⁹.

The low spending may be a result of budgeting processes, as the statistics given are only those captured in the IFMIS, with other expenditures yet to be reconciled³⁰. It is hoped that the UNICEF Public PER and PETS conducted in 2021 (and at draft stage at the time of writing) will shed light on the reasons for MoEGI's large underspend. This underspend further exacerbates the low budget allocation to basic education.

Issues with state and county level budget execution

Non-payment of transfers, grants and salaries for essential social services³¹ undermines the Government's ability to strengthen its social services systems, creates donor dependency, and leaves millions of children vulnerable and at risk.

Irregular and delayed transfers create confusion around which period the transfer is intended for. In addition, a lump sum for both conditional and discretionary transfers is deposited into the State Ministry of Finance account, without accompanying payment advice, which can lead to the misdirection of funds from their intended purpose.

State transfers lack equity as they are calculated using a formula with 60 per cent based on equal shares to all states and 40 per cent based on the size of the population in the state. The formula therefore allocates more funds to states with a higher population. However, states with a lower population are likely to have a dispersed population including remote, vulnerable and displaced communities which need more resources.

Other mechanisms favour states with a higher level of economic output. For example, Sales Tax Adjustment Grant (STAG) transfers are based on household consumption at state level, and therefore favour states with a higher level of economic output. Oil producing states and communities receive additional grants, and although these allow for the possibility of improved infrastructure development, they are a further indicator of a lack of equity.

States do not have a salary payment system and use Excel and paper-based sheets to authorize salary payments. Goods and services funds are not reported on by state ministries, departments and agencies.

A state's own revenue is mostly not reported on by the State Ministry of Finance, as the funds are often controlled by agencies and office-bearers outside of formal reporting lines. In addition, sub-national entities fear that disclosure of their own revenue streams could lead to cuts in funding from national government.

²⁸ SSP 107,520,513,283.01 national budget spent of 354,403,478,694; SSP 7,358,884,527.29 spent of 50,132,401,342 for education and SSP 1,575,278,962.20 of 27,889,196,633 for health. MoFP, Presentation on Oil and Non-Oil Revenue and Expenditure for the first six months of FY2021/22 July-December 2021 PPT and Republic of South Sudan FY:2021-2022 Approved Ceilings by Sectors and lines Ministries, April 2022

²⁹ MoFP, Presentation on Oil and Non-Oil Revenue and Expenditure for the first six months of FY2021/22 July-December 2021 PPT and Republic of South Sudan FY:2021-2022 Approved Ceilings by Sectors and lines Ministries, April 2022

³⁰ MoFP, Presentation on Oil and Non-Oil Revenue and Expenditure for the first six months of FY2021/22 July-December 2021 PPT

³¹ A finding from some County Transfer Monitoring Committee visits to counties in Central Equatoria, Northern Bahr El Ghazal and Western Equatoria.

The Director Generals of Finance in the three UNICEF PFM-supported states are well qualified and experienced officials. However, their fiduciary duty is compromised when office-bearers request payment for unfunded mandates which are not in the state budget and are not in line with the Public Financial Management and Accountability Act 2011. Although a Director General of Finance has the legal mandate to block these, the institutional and governance hierarchy limits their authority.

Transfers to counties comprise 7.2 per cent of state transfers and it is the responsibility of the State Ministries of Finance to distribute them to county administrations. County administrations are, however, not well established due to changes in demarcation, poor levels of administration, destruction of infrastructure and in many cases, limited accessibility. A county needs to meet certain criteria to receive funding, including having key officers in place and a bank account, and considerable number of counties do not have access to banking facilities.

Further, there are not sufficient accounting and bookkeeping staff in the public sector. Accredited and continuous training of accountants and bookkeepers should be fast tracked, for example through engaging international e-based learning courses, together with localized support and mentoring arrangements.

State transfers

Discretionary grants amount to 6 per cent of Government expenditure in FY2021/22. There are four types of discretionary grants, as shown in Table 3.

Table 3: Breakdown of state discretionary grants

Item	% of national budget	SSP
Total Government expenditure FY 2021/22	100	354,403,478,694
Transfers to states	3.9	13,894,306,446
Breakdown of discretionary transfers	% of discretionary grants	
Block transfers* to states	84.5	11,744,306,446
Block transfers* to counties	7.2	1,000,000,000
County development grants**	1.1	150,000,000
Sales Tax Adjustment Grant (STAG) transfers***	7.2	1,000,000,000

* A discretionary amount which a state/county can spend as it wishes on activities of the state/county

** Enable the county to conduct development activities such as construction of schools and office blocks.

*** Used to distribute 50% of sales tax collection to states

Source: Republic of South Sudan FY:2021-2022 Approved Ceilings by Sectors and lines Ministries, April 2022

In practice, discretionary grants are not unconditional, as they are sometimes referred to. MoFP guidelines indicate that discretionary grants are intended only for core functions and priorities of States and Counties.

Key takeaways: Budget Credibility and Execution

- The lack of a holistic IFMIS and audited expenditure data across all levels of Government makes it difficult to properly assess budget credibility and execution performance.
- Inequitable, irregular, delayed or 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.

Section 4. Financing the National Budget

Revenue projections for FY2021/22

Net oil revenue for FY2021/22 is projected at SSP 428.78 billion (88%), and non-oil revenue at SSP 58.25 billion (12%) (Table 4). Total oil production is projected at 156,000 barrels per day in FY2021/22, down from 170,000 barrels per day in FY2020/21. The projected reduction in oil production is due to depletion of some oil wells and the effects of floods experienced in 2020³².

However, the National Assembly increased the benchmark oil price for Dar Blend from US\$ 63 per barrel in the draft budget to US\$ 100 per barrel in the approved budget. Thus, net oil revenue was increased by US\$ 436 million or SSP 174.5 billion³³. However, the PFM Technical Working Group considers this increase to be beyond the reasonable range and therefore unrealistic³⁴.

Table 4: Composition of resource envelope oil and non-oil FY2021/22

Resource envelope	SSP billions	%
Net oil revenue	428.78	88
Non-oil revenue	58.25	12
Total	487.03	100

Source: South Sudan PFM Technical Working Group, South Sudan FY2021/22 Budget update PPT, April 2022

Worryingly, MoFP notes that no oil revenues have been transferred to operating accounts and non-oil revenue is low. MoFP is thus overwhelmed with claims but with insufficient revenue flow³⁵. MoFP's inability to deliver on its mandate is due to factors such as a lack of resources, and a lack of PFM good practices including the need for a Treasury Single Account for receipt of oil revenues.

The projections for non-oil revenue are likely to be conservative and increase to at least SSP 72 billion in FY2021/22. In addition, the draft Finance Bill that accompanies the FY2021/22 budget envisages several revenue-raising measures including phasing out several tax exemptions and expanding the digitalization of the tax collection system³⁶.

³² Republic Of South Sudan, Revitalized Transitional Government of National Unity, Budget Speech for the FY 2021/2022, 2 February 2022 and World Bank, South Sudan Economic Monitor, Towards a Jobs Agenda, Fifth Edition, February 2022

³³ South Sudan PFM Technical Working Group, South Sudan FY2021/22 Budget update PPT, April 2022

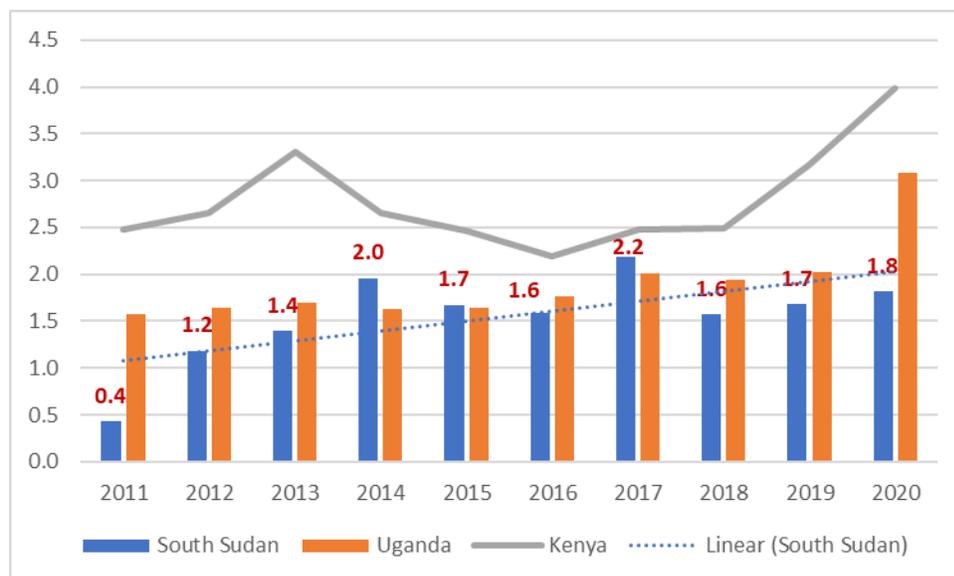
³⁴ Ibid

³⁵ MoFP, Presentation on Oil and Non-Oil Revenue and Expenditure for the first six months of FY2021/22 July-December 2021 PPT

³⁶ IMF, Republic of South Sudan, First Review Under the Staff-Monitored Program—Press Release; and Staff Report, IMF Country Report No. 21/246, November 2021

Net Official Development Assistance and Official Aid flows continues to decline. Although South Sudan is one of the main recipients of ODA and official aid in the region, the donor funding landscape continues to decline despite the continuing and rising humanitarian crisis across the country. Aid flows remained focused on life-saving interventions channeled off-budget, and consequently this FY's resource envelop has no ODA and official aid support. Figure 13 shows that net ODA and official aid picked in 2017 (\$2.2 billion), slightly higher than estimates to Uganda but significantly lower than flows to Kenya. Thereafter, donor funds to the country hovered between \$1.6 and \$1.8 billion, constituting a remarkable fall in aid flow amidst rising humanitarian needs across the country.

Figure 13: Net Official Development Assistance & Official Aid Received (current US\$), 2011 - 2020



Source: World Development Indicators, The World Bank, OECD Data, South Sudan

South Sudan's debt burden

A total of SSP 555.445 billion is allocated to mandatory transfers and debt service (Table 5).

Table 5: Breakdown of Direct Mandatory Transfers

Payment	SSP billion
Payment to Sudan ³⁷	63.823
Transfers to oil producing states and communities	26.265
Transfer to Ministry of Petroleum	15.759
Oil for roads and other projects	229.006

³⁷ Under the terms of a Transitional Financial Arrangement (TFA), South Sudan agreed to pay Sudan a one-off sum of \$3.028 billion by 31 December 2016, through a fee of \$15 per barrel of oil transported through Sudan. In addition, South Sudan agreed to pay Sudan a transport fee of \$9.10 per barrel of oil produced in Upper Nile state and \$11 for oil produced in Unity state, in total \$24.10 and \$26 per barrel respectively, regardless of the oil price. The terms were renegotiated in 2016, reducing payments toward the Agreement balance when oil prices fell below \$50 per barrel, though keeping the fees the same.

https://d2071andvip0wj.cloudfront.net/305-south-sudan-oil_0.pdf

Payment	SSP billion
IMF loan	77.400
Debt service repayments	143.192
Total direct/mandatory payments	555.445

Source: South Sudan PFM Technical Working Group, South Sudan FY2021/22 Budget update PPT, April 2022

Protracted years of deficit budgeting and the country's large debt burden (Table 6) means that the Government is trapped in a borrowing cycle. From the perspective of the current generation of children in South Sudan, this leaves very little money to invest into vital infrastructure such as the building of schools, hospitals and childcare centres. The debt burden will continue to impact on their future as a large proportion of government funds will continue to go to debt repayment.

Table 6: Debt stock as of June 2021 (US\$ million)

Debt category	Total amount outstanding	% of GDP
Total debt	2,747.02	48.7
External debt	2,237.57	39.9
Multilateral	326.85	5.8
Bilateral	150	2.7
Commercial	1,138.21	20.3
Domestic debt	489.45	8.7
Overdraft from Bank of South Sudan	489.45	8.7

Source: Table 3.1 MoFP, Draft Budget Book FY2021/2022

As a first step to managing the country's debt, MoFP has set up a Cash Management Task Team and one of their first orders of business is to ascertain the size and contractual arrangements for all debt.

Key takeaways: Financing the National Budget

- South Sudan continues its reliance on oil to fund the national budget, which is projected to fund 88 per cent of revenues.
- Despite the rising humanitarian and lifesaving needs across the country, Official Development Assistance and Official Aid continues to decline, potentially indicative of donor fatigue due to lack of political will by Government to restore lasting peace in the country.
- Continued debt accumulation and huge stocks of debt arrears pose an issue for the realization of children's rights as a large proportion of the resource envelope is allocated to debt servicing.

Section 5. New PFM Developments

Progress in PFM reforms

The economic fallout from the COVID-19 pandemic has made PFM reform even more pressing. The Government of South Sudan is committed to a PFM reform process that prioritizes the modernization of the country's PFM systems through the formation of three key structures:

- PFM Oversight Committee
- PFM Technical Committee
- PFM Secretariat.

Following the establishment of these structures, the authorities have identified 11 PFM priorities and commenced working with a wide range of stakeholders to implement the targeted reforms³⁸.

In support of this effort, the IMF Board approved a nine-month Staff Monitored Programme (SMP) for the period from 31 March to 31 December 2021. This program will help to anchor the ongoing reform process.³⁹ In addition, in March 2022, the World Bank approved a \$34 million grant to support a new five-year PFM and Institutional Strengthening Project (PFMISP) which aims to advance reforms, strengthen key oversight institutions, and improve budget transparency and PFM outcomes in the country⁴⁰.

Considerable progress has been made on the PFM reform agenda at national level. Improvements can clearly be seen in economic stabilization, strengthening of the local currency, and improved revenue collection. The PFM Oversight Committee, PFM Technical Committee and the State Transfer Monitoring Committee (STMC) are largely responsible for coordinating these reforms.

PFM at state and county level needs more investment

States have yet to be included in the R-ARCSS PFM reform agenda. In 2020 the number of state administrations were changed from 32 back to 10. Challenges experienced by states are the consequence of an uncertain political environment, irregular transfers and a constrained operational environment.

Improved state fiscal accountability was probably a positive unintended consequence of the IMF RCF, as reporting on total expenditure led to the states submitting financial reports for the first time in many years. Due to poor compliance with reporting criteria, a national team visited states to check on the authenticity of reports, and verify the staff payments, which was then followed up by a Compliance Audit. Although results from these verification procedures are not yet available, they constitute significant steps in achieving sub-national accountability.

County Transfer Monitoring Committees (CTMCs), intended to link PFM by states and counties, have not been established. The CTMCs should monitor the use of funds by counties, however, in many counties there is no internet connectivity and travel to counties is costly and difficult during the flood season, leading to very low levels of reporting on funds transferred to counties.

The State Ministries of Finance in the UNICEF target states are considerably under-resourced, but still keep comprehensive accounting records using hybrid Excel/paper-based formats. Mandatory financial forms for the authorization process, supplied by national government, are not available. State Ministries of Finance do not have internet connectivity, most ICT Infrastructure is outdated and un-networked, and two of the three State Ministries of Finance that UNICEF supports do not have electricity. Although most officials have the required skills to fulfil their roles, they lack adequate workstation linkages, and in some cases duplicate

³⁸ World Bank, South Sudan Economic Update. Fourth Edition. Pathways to Sustainable Food Security, June 2021

³⁹ Ibid

⁴⁰ World Bank, World Bank Provides \$34 million to Support Public Financial Management Reforms in South Sudan, 4 March 2022 <https://www.worldbank.org/en/news/press-release/2022/03/04/world-bank-provides-34-million-to-support-public-financial-management-reforms-in-south-sudan>

work with a small core group workload. UNDP is installing ICT networks and solar powered electricity at State Revenue Authorities in the three States.

Key takeaways: New PFM Developments

- Considerable progress has been made on the PFM reform agenda at national level with the formation of key PFM structures and evidence by factors such as strengthening of the local currency, and improved revenue collection.
- States have yet to be included in the R-ARCSS PFM reform agenda and significant PFM investments are needed at state and country level.

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