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Ministry of Finance and Planning

National
budget
brief

South Sudan
2019

Introduction

This budget brief examines government spending trends in South Sudan in recent years, including the underlying macro-economic context. The main objectives are to synthesize budget information so that it is easily understood by different stakeholders, as well as to present key messages to inform public financial decision-making processes. The brief looks at the size and composition of budget allocations to social sectors vital to children, in comparison to priority sectors such as security and public administration. In terms of data, where time series macro-fiscal information is unavailable from national sources, the analyses use the latest estimates from the International Monetary Fund's World Economic Outlook database (October 2018).

Key Messages and Recommendations

1. South Sudan relies heavily on official development assistance (ODA) to deliver basic social services, which amounted to nearly seven times the size of the national budget in 2017 (US$2.2 billion) and was not channelled through national systems.

   Recommendation: In line with the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) best principles, donor funding should increasingly flow through the Ministry of Finance and Planning (MoFP) to strengthen national systems. This is a joint agenda, which requires the government to minimize fiduciary risk, and donors to reduce project-based support modalities.

2. The budget process is characterized by low budget credibility, which has a disproportionate negative impact on social sector spending.

   Recommendation: Strict measures are needed to ensure spending within budget allocations and compliance by spending agencies to an integrated financial management information system (IFMIS).

3. The government is commended for giving greater budget priority to the education sector, which experienced a nearly four-fold increase from FY2017/18 to SSP 7.6 billion in FY2018/19, yet the social sectors remain severely underfunded (e.g. only 2 per cent of the national budget is allocated to health while there is no funding for child protection, social protection or water, sanitation and hygiene services).

   Recommendation: The government should continue to 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).

4. Negative economic growth, coupled with hyperinflation (currently 106 per cent), continues to erode the disposable income of households and undermine the impact of government investment in social sectors.

   Recommendation: The government's commitment to the restoration of peace, order and security is a crucial precondition for any macroeconomic stabilization plan, while monetary policy should aim to bring inflation to single digits by 2020.

5. The removal of fuel subsidies frees up a significant fiscal space (21 per cent of the FY2018/19 budget or SSP 17.4 billion), yet is likely to contribute to rising inflation and pose additional pressure on disposable household income.

   Recommendation: The government must assess the potentially negative impacts of this reform (i.e. in terms of increased fuel prices) and ensure that the subsidy savings are invested in essential social services to safeguard vulnerable households from higher costs.

6. More than 80 per cent of the current budget supports recurrent spending, mainly on salaries and transfers, which leaves very limited support for much needed capital investment in goods and services in the social sectors.

   Recommendation: The government is strongly encouraged to review the balance of the budget so that it better addresses long-term economic and social development needs.

7. New revenue generation reforms, including the FY2018/19 Financial Bill and the 50 per cent increase on airport departure and personal income taxes, will enable the government to more accurately forecast non-oil revenue and lessen dependence on the oil sector (currently 73 per cent of revenues).

   Recommendation: The government should continue to build on the excellent reforms and consider further expanding the tax base through the development of agriculture and natural resources.

Section 1. Macro- and Socioeconomic Context

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South Sudan's economy continues to experience steep contraction and to be upended by shocks, including changing oil prices and inflation.

Given the oil dependent structure (73 per cent of financing for the budget FY2018/19), the decline in global oil prices coupled with progressively lower production have continued to deliver severe blows to the economy. As oil fields are still maturing, the government has been unable to attract new investments, which largely stems from the high risks associated with the ongoing conflict.

The various shocks have translated into negative economic growth in recent years.

After booming at nearly 30 per cent real growth in 2013, the economy quickly and steadily reversed course, declining by around 14 per cent in 2016 in real[1] per capita terms (Figure 1). This coincided with a massive increase in the gross domestic product (GDP)[2] nominal growth rate from 2015, which was driven by hyperinflation (see also Figure 2).

The near-term economic growth outlook remains worrisome. The International Monetary Fund (IMF) projects that real per capita GDP will decline by 23 per cent in 2019 to -7.5 per cent (see also Figure 1). The capacity of the productive sectors has either stagnated or deteriorated, and most post-independence investments have been reversed.

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1   Real figures are adjusted for changes over time to take inflation into account. Nominal (unadjusted) figures denote prices current at the time.
2   GDP is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output. GDP per capita is GDP divided by mid-year population. Growth is calculated from constant price GDP data in local currency.

Figure 1: GDP and real GDP per capita growth trends, 2011–2020 (%)
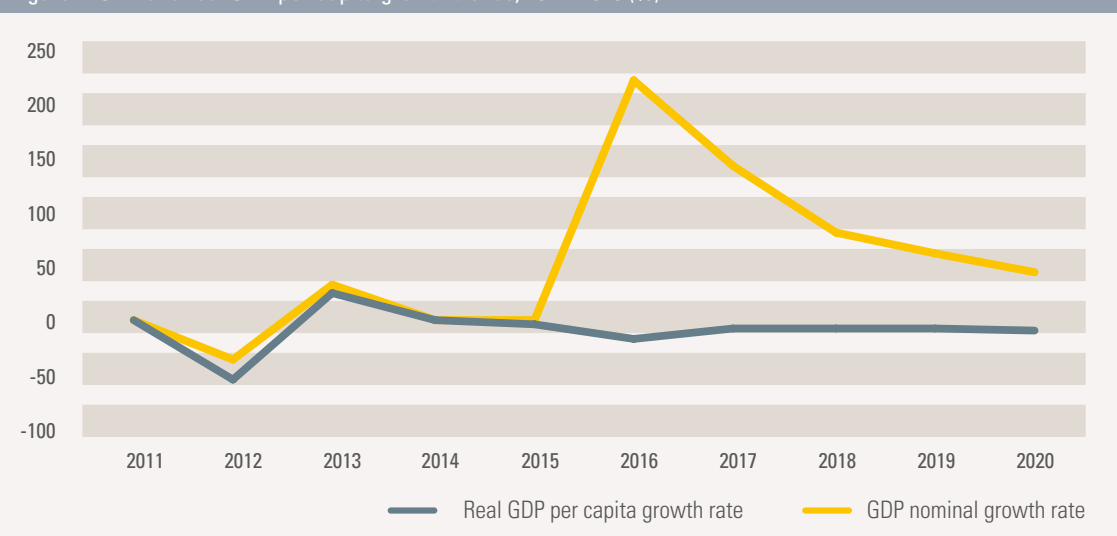
Source: IMF, World Economic Outlook Database, October 2018

Table 1: Select macroeconomic indicators, 2018 (or latest available)		
INDICATOR	**VALUE**	**SOURCE**
GDP per capita (in local currency)	631.5	IMF World Economic Outlook Database, October 2018
GDP per capita (in US$)	306.7	IMF World Economic Outlook Database, October 2018
Real GDP per capita growth rate	-13.8	IMF World Economic Outlook Database, October 2018
Inflation rate	106.4	IMF World Economic Outlook Database, October 2018
Food inflation rate (actual)	51	Trading Economics, October 2018
Revenue (% of GDP)	46.2	IMF World Economic Outlook Database, October 2018
Expenditure (% of GDP)	28.5	IMF World Economic Outlook Database, October 2018
Debt (% of GDP)	43.7	IMF World Economic Outlook Database, October 2018
Foreign aid (% of government budget)	672%*	National: pre-budget statement, budget speech. World Bank, World Development Indicators database, January 2019
Unemployment, total (% of total labour force)	11.5	World Bank, World Development Indicators database 2018

*   Foreign aid to South Sudan was 2.18 billion US dollars (US$) in 2017; FY2017/2018 budget was 46 billion South Sudanese pounds (SSP) which equates to approximately US$324.5 million (average of US$299 million conversion rate US$1 = SSP 130.26) <https://ssp.currencyrate.today/usd> and US$350 million conversation rate US$1 = SSP 153.96 <https://tradingeconomics.com/currencies> as of 21 February 2019).

2018 was also marked by worrying economic indicators (Table 1). Local currency GDP per capita was just SSP 632 (around US$4–5),[3] and the real GDP per capita growth rate was -13.8 per cent. Government revenues and expenditures as a percentage of GDP in 2018 were 46 and 29 per cent respectively. However, the magnitude of government revenue is almost

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3   Conversion rate US$1 = SSP 130.26 <https://ssp.currencyrate.today/usd> and US$1 = SSP 153.96 <https://tradingeconomics.com/currencies> as of 21 February 2019.

entirely the result of printing money, rather than of increases in tax and non-tax revenue flows.

Inflation and real income concerns

The economy continues to be battered by hyperinflation. Prices began spiralling out of control from 2015 and reached 380 per cent in 2016 (Figure 2). Inflation in 2018 remained high – estimated at 106 per cent – although it marked a significant improvement from 2017, when prices increased by close to 200 per cent.
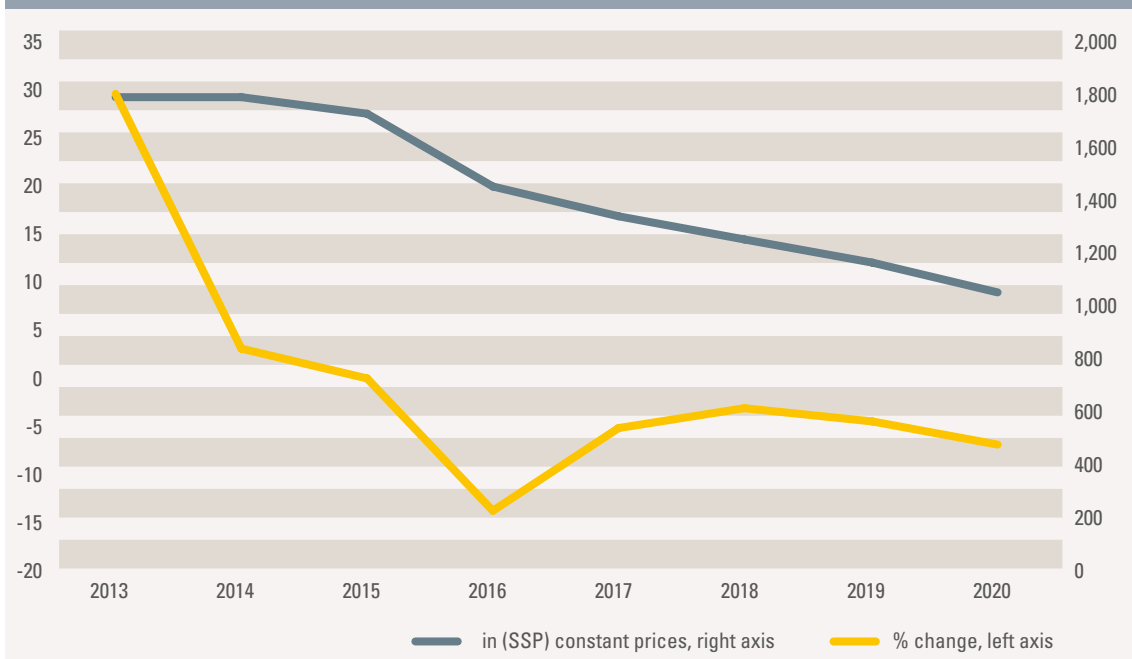
Economic volatility has also profoundly affected incomes. Real per capita income fell from more than SSP 1,800 in 2013 to less

Figure 2: Inflation rate 2010–2020 (%)
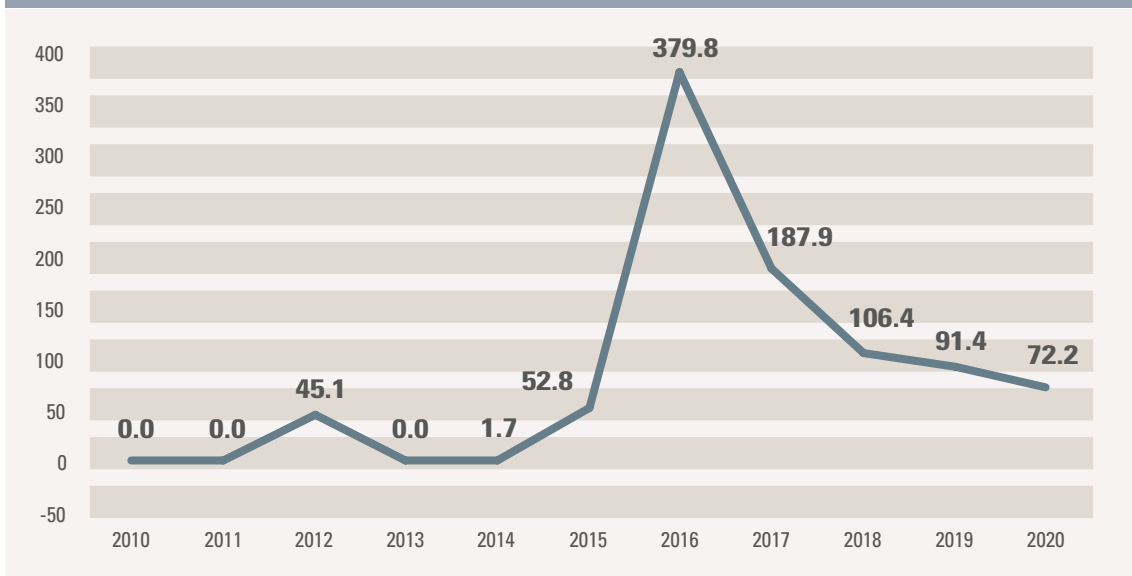
Source: IMF, World Economic Outlook Database, October 2018
Note: Estimates begin after 2017.

Figure 3: Real per capita income, in SSP , and annual % change, 2013–2020

Source: IMF, World Economic Outlook Database, October 2018
Note: Estimates begin after 2017.

than 1,300 in 2018, representing a 30 per cent decline (Figure 3). Going forward, per capita income is expected to drop further in 2019 and beyond. These bleak economic indicators are clear markers of an ailing economy.

Poverty and poor development remain pressing challenges

According to the latest estimates, more than 80 per cent of the population lives below the national poverty line. Income poverty is compounded by multiple vulnerabilities that continue to affect the majority of the population. A combination of droughts, floods, crop and livestock failures, and diseases cause severe hardship and mortality, while conflict continues to hamper the delivery of basic services.

As a result, all social sector indicators have either stagnated or worsened over time. Negative social progress across recent years[4] includes high mortality rates; prevalence of stunting and severe wasting in children; and low primary education enrolment and literacy rates, in conjunction with severe protection concerns and lack of access to adequate water, hygiene and sanitation (Table 2). As a general performance indicator, the Human Development Index (HDI), which captures progress on health, education and living standards, ranks South Sudan at 187 out of 189 countries.[5]

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4   Between 2010 and 2017, South Sudan's HDI value decreased from 0.41 to 0.39.
5   The HDI is a summary measure for assessing long-term progress in three basic dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living. The HDI is expressed as a number between 0 and 1. The higher a country's HDI score, the higher its level of human development (and vice versa), and the lower its number in the country ranking.

| Table 2: Select social development indicators, latest available	
INDICATOR	**VALUE**
Population, total	12,575,714 (2017)[6]
Population, ages 0–14, total	5,240,722 (2017)[7]
Population growth (annual %)	2.8 (2017)[8]
Poverty headcount ratio at national poverty lines (% of population)	82.3 (2016)[9]
Poverty headcount ratio at US$1.90 a day (2011 purchasing power parity [PPP]) (% of population)	42.7 (2009)[10]
Human Development Index (HDI) ranking	187 (2017)[11]
Life expectancy at birth, female/male (in years)	58/56 (2016)[12]
Infant mortality rate (per 1,000 live births)	62.5 (2017)[13]
Prevalence of stunting, height for age (% of children under 5)	31.1 (2010)[14]
Prevalence of stunting, height for age, female/male (% of children under 5)	28.9/33.1[15]
Adjusted net enrolment rate, primary (% of primary school age children)	32.2 (2015)[16]
Literacy rate, adult total (% of people ages 15 and above)	26.8 (2008)[17]
People using at least basic drinking water services (% of population)	50.4 (2015)[18]
People practicing open defecation (% of population)	60.9 (2015)[19]
Women who were first married by age 18 (% of women aged 20–24)	51.5 (2010)[20]
Prevalence of HIV, total (% of population ages 15–49)	2.4 (2017)[21]
Children (0–14) living with HIV	13,000 (2017)[22]
Internally displaced persons due to conflict and violence (# of people)	1,899,000 (2017)[23]

6   (1) United Nations Population Division. World Population Prospects: 2017 Revision. (2) Census reports and other statistical publications from national statistical offices, (3) Eurostat: Demographic Statistics, (4) United Nations Statistical Division: Population and Vital Statistics Report (various years), (5) U.S. Census Bureau: International Database and (6) Secretariat of the Pacific Community: Statistics and Demography Programme.

7   World Bank staff estimates based on age/sex distributions of United Nations Population Division's World Population Prospects: 2017 Revision.

8   Derived from total population. Population source: (1) United Nations Population Division: World Population Prospects: 2017 Revision, (2) Census reports and other statistical publications from national statistical offices, (3) Eurostat: Demographic Statistics, (4) United Nations Statistical Division. Population and Vital Statistics Report (various years), (5) U.S. Census Bureau: International Database and (6) Secretariat of the Pacific Community: Statistics and Demography Programme.

9   World Bank, Global Poverty Working Group. Data are compiled from official government sources or are computed by World Bank staff using national (i.e. country-specific) poverty lines.

10 World Bank, Development Research Group. Data are based on primary household survey data obtained from government statistical agencies and World Bank country departments. Data for high-income economies are from the Luxembourg Income Study database.

11 United Nations Development Programme (UNDP) Table 1. Human Development Index and its components <http://hdr.undp.org/en/composite/HDI>.

12 As footnote 7.

13 Estimates developed by the UN Inter-agency Group for Child Mortality Estimation (UNICEF, World Health Organization [WHO], World Bank, UNDESA Population Division) at <www.childmortality.org>.

14 UNICEF, WHO, World Bank: Joint child malnutrition estimates (JME). Aggregation is based on UNICEF, WHO and the World Bank harmonized dataset (adjusted, comparable data) and methodology.

15 WHO, Global Database on Child Growth and Malnutrition.

16 United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics.

17 Ibid.

18 WHO/UNICEF Joint Monitoring Programme (JMP) for Water Supply, Sanitation and Hygiene (<washdata.org>).

19 Ibid.

20 Demographic and Health Surveys (DHS), Multiple Indicator Cluster Surveys (MICS), AIDS Indicator Surveys (AIS), Reproductive Health Survey (RHS) and other household surveys.

21 Joint United Nations Programme on HIV and AIDS (UNAIDS) estimates.

22 Ibid.

23 The Internal Displacement Monitoring Centre, <www.internal-displacement.org>.

Figure 4: South Sudan population projections for children and adults, 1950–2100
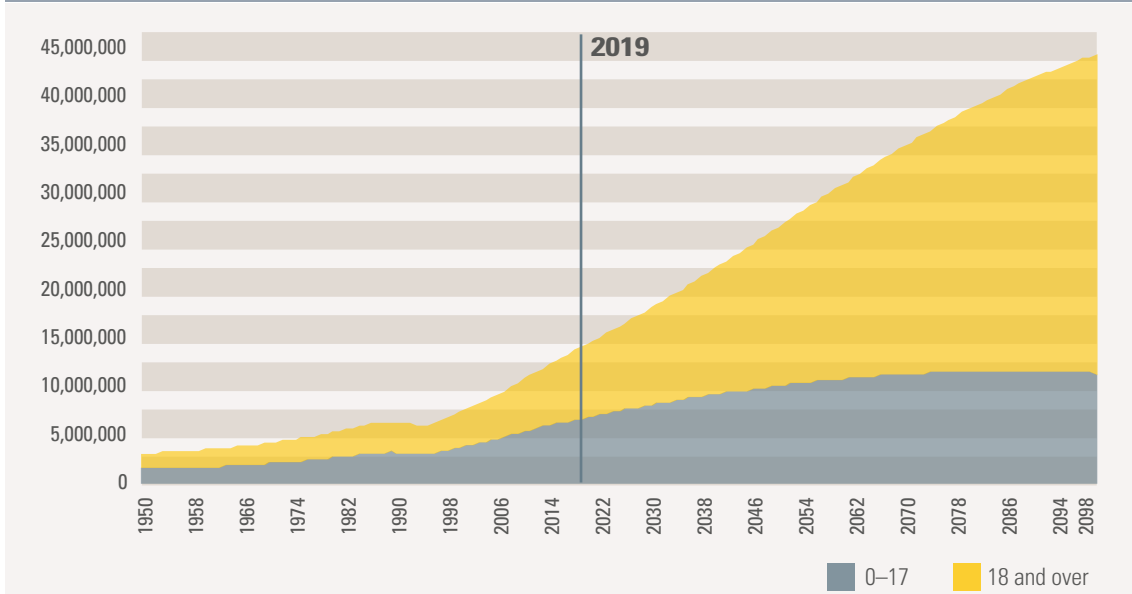
Source: UNICEF Eastern and South Africa Regional Office (ESARO), based on United Nations Department of Economic and Social Affairs (UNDESA) World Population Prospects: 2017 Revision

Figure 5: South Sudan dependency ratio projections, 1950–2100 (%)
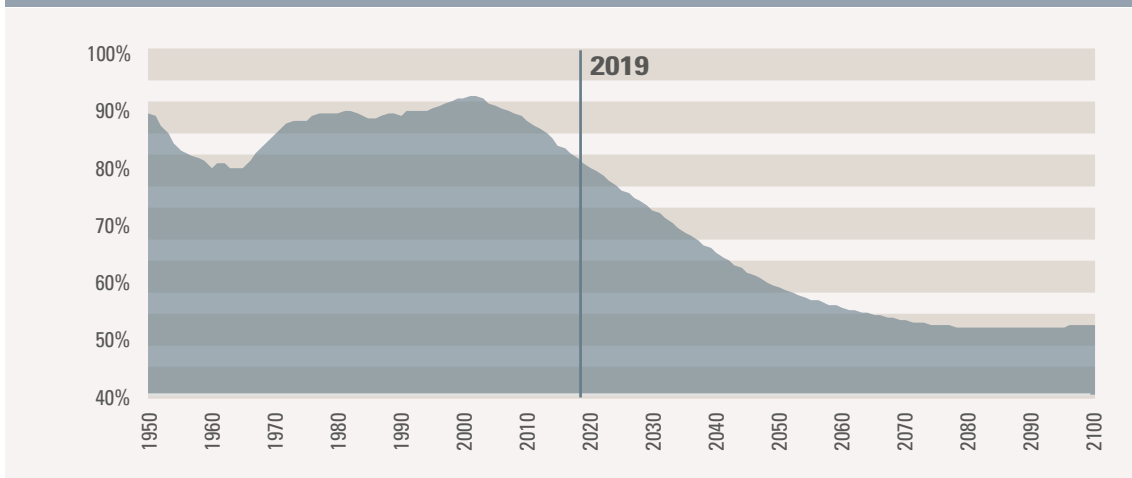
Source: UNICEF ESARO, based on UNDESA World Population Prospects: 2017 Revision

A demographic boom

South Sudan's population is young and growing at a remarkable pace. The population of children under 18 years is currently estimated to be 6.2 million (2018), which amounts to 48 per cent of the population (Figure 4). Every day, over 1,000 babies are born across the country, the majority under dangerous conditions (i.e. without the support of skilled health personnel). By 2030, the total population under 18 years of age will reach 8 million. These trends place increasing pressure on basic social services provided by both government and development partners.

South Sudan is experiencing a demographic transition that presents an enormous opportunity and challenge. Specifically, the size of the economically active population is increasing relative to that of the non-working population (Figure 5).[24]

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24 The age dependency ratio is the ratio of dependents (those younger than 15 or older than 64) to the working-age population (those aged 15–64 years). Data are expressed as the proportion of dependents per 100 working-age population.

If the government dedicates adequate resources to social sectors and strategically invests in children and youth, this could facilitate a sustained boost of economic growth, help poverty eradication and lead to long-term peace.

In contrast, if children are neglected, current vulnerabilities are likely to deepen, thereby exacerbating prevailing levels of poverty and inequality, crime, violence, social and political instability, emigration, and so on.

South Sudan is predominantly rural

Four out of five South Sudanese live in rural areas. Remote locations are normally devoid of basic social services and hence have elevated levels of vulnerabilities, which are most pronounced in children and women. However, with ongoing conflict and displacement within and outside the country, compounded by underdevelopment and lack of services in most remote areas, populations are expected to increasingly concentrate in urban areas (Figure 6).

Figure 6: South Sudan rural and urban populations, 2018, 2030, 2050 (millions and %)
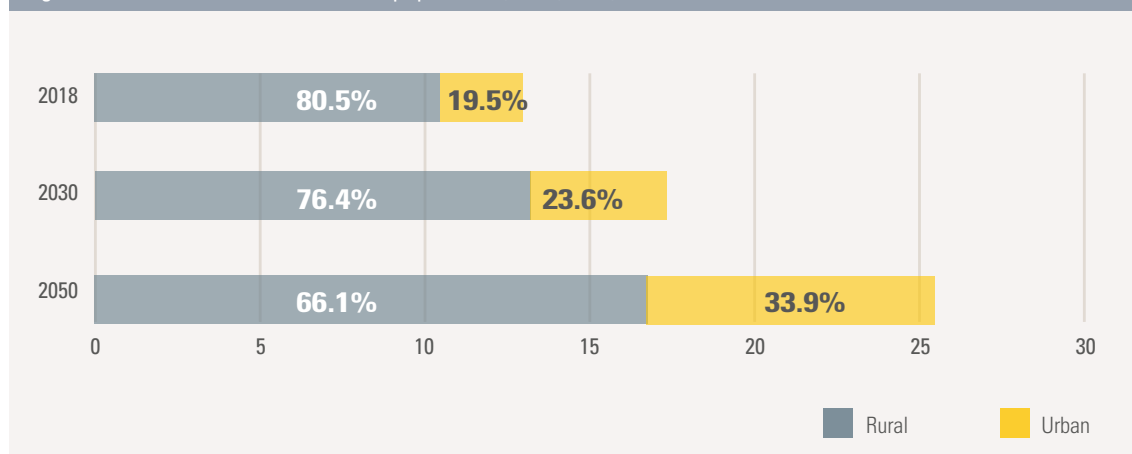
Source: UNICEF ESARO, based on UNDESA World Population Prospects: 2017 Revision and UNDESA World Urbanization Prospects: 2014 Revision

Key Takeaways:
Macro- and Socioeconomic Context

> Changing price levels continue to affect the size of the national budget, thereby limiting its ability to support the most vulnerable children and families across the country.

> Alarming levels of poverty and deprivation require massive increases in social sector support for the most vulnerable populations across the country.

> Such support is also critical to ensuring that a demographic 'nightmare' does not unfold as a result of a burgeoning youth population.

Section 2: Aggregate Spending Trends and Priorities

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The theme of the South Sudan FY2018/19 national budget is to continue with necessary public financial management (PFM) reforms to stabilize the ailing economy and allow it to recover. This builds on the FY2017/18 PFM reforms that began the stabilization work.

The resource envelope in FY2018/19 is estimated at SSP 82 billion, almost double the FY2017/18 budget of SSP 46 billion. In real terms however (i.e. adjusted for inflation), this represents a decrease of 13 per cent. The budget is divided into four chapters and eight sectors (analysed below). The main three chapters include salaries and wages, transfers and operating costs, which collectively constitute more than 80 per cent of approved spending. Importantly, this also includes SSP 17.4 billion of arrears for salaries and transfers that were carried forward from FY2017/18.

Increasing prices undermine the impact of the budget

The growth of the overall budget in nominal terms is impressive, yet troubling when accounting for rising prices. Sharp annual increases in nominal spending figures and a decrease in real figures (reduced purchasing power) are indicative of the weak status of the South Sudanese pound and the crippling hyperinflation being experienced across the country.

In nominal terms, the budget is expected to continue exponential growth. Between 2015 and 2018, nominal expenditure increased 10-fold and reached SSP 180 billion in 2018 (Figure 7). Projections indicate that nominal expenditure will continue to skyrocket over the near term, reaching around SSP 600 billion in 2020. On the other hand, real government expenditure peaked at roughly SSP 11 billion in 2014. Since then, it has gradually declined, bottoming out at roughly SSP 3 billion in 2018. IMF projections suggest that real spending will maintain that level at least through 2020.

South Sudan's investment priorities

As in 2017, the tough economic situation has focused the allocation of resources

Figure 7: Nominal and real total government spending trends in South Sudan, FY2011–2020 (in SSP billions)

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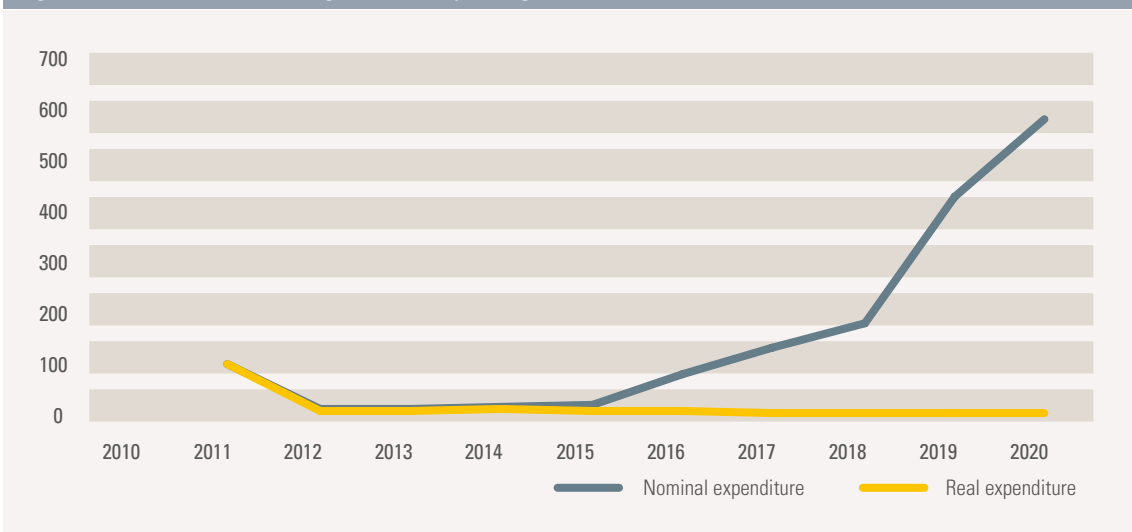
Source: IMF, World Economic Outlook Database, October 2018
Note: Estimates begin after 2017.

in the current budget into government priority areas. Investment priorities in FY2018/19 include the security, public administration and accountability sectors, which combined account for 73 per cent of the approved budget (Figure 8). Also noteworthy is the heavy focus on salaries, which will consume close to 70 per cent of the total recurrent budget, largely due to arrears payments that are being carried forward (see Section 4).
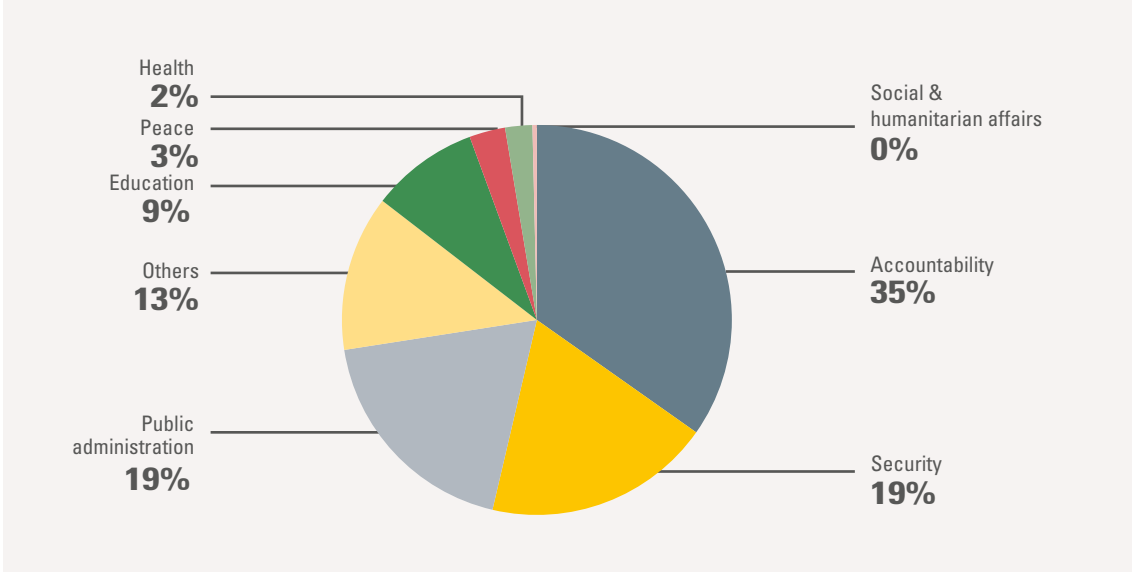
Importantly, none of the priority sectors have a direct impact on improving the lives of children. The three main social sectors that do receive funding include education, health and social and humanitarian affairs,

which account for just 12 per cent of the FY2018/19 budget. Although they continue to be a low priority, the current budget does mark an improvement from FY2017/18, when these sectors received less than 7 per cent of the budget.

In addition, about 2.5 per cent of the overall budget (SSP 2 billion) is allocated to the peace budget.[25] This will be used by the Peace Commission to implement the peace agreement and facilitate the return of internally displaced persons (IDPs) to their homes.

There are clear winners and losers in the 2018/19 budget when calculated as the

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25 Budget Book FY2018/19, MoFP.

Figure 8: South Sudan allocations by sector, FY2018/19 (as % of total budget)

Health **2%**
Peace **3%**
Education **9%**
Others **13%**
Public administration **19%**
Social & humanitarian affairs **0%**
Accountability **35%**
Security **19%**

Source: Budget Book FY2018/19, MoFP
Note: Numbers rounded. Social and Humanitarian Affairs Budget is 0.3%.
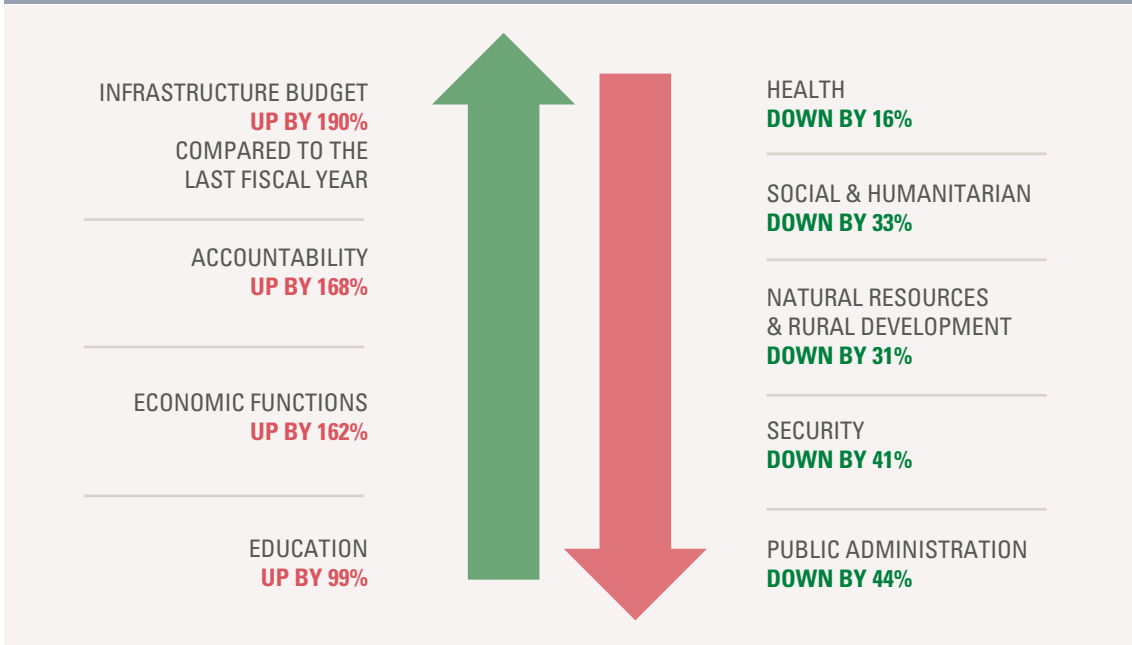
increase or decrease in real terms from the 2017/18 sector budget. The winners are the accountability, education, economic functions and infrastructure sectors, all of which saw increases in their allocations in real terms. In contrast, the health, social and humanitarian affairs, natural resource, public administration, rule of law and security sectors had reduced

allocations compared to the previous fiscal year (Figure 9).

The budget for education grew significantly, but other child-focused sectors remain underfunded

Education more than doubled its allocation of the national budget in FY2018/19 to 9 per cent

Figure 9: Annual change in sector budgets, real terms, FY2017/18 to FY2018/19 (as a %)

INFRASTRUCTURE BUDGET **UP BY 190%** COMPARED TO THE LAST FISCAL YEAR

ACCOUNTABILITY **UP BY 168%**

ECONOMIC FUNCTIONS **UP BY 162%**

EDUCATION **UP BY 99%**

HEALTH **DOWN BY 16%**

SOCIAL & HUMANITARIAN **DOWN BY 33%**

NATURAL RESOURCES & RURAL DEVELOPMENT **DOWN BY 31%**

SECURITY **DOWN BY 41%**

PUBLIC ADMINISTRATION **DOWN BY 44%**

Source: Approved Budget Tables, FY2018/19, MoFP

Figure 10: Budget allocations for social sectors compared to security, FY2018/19 (billions of SSP and as % of the total budget)
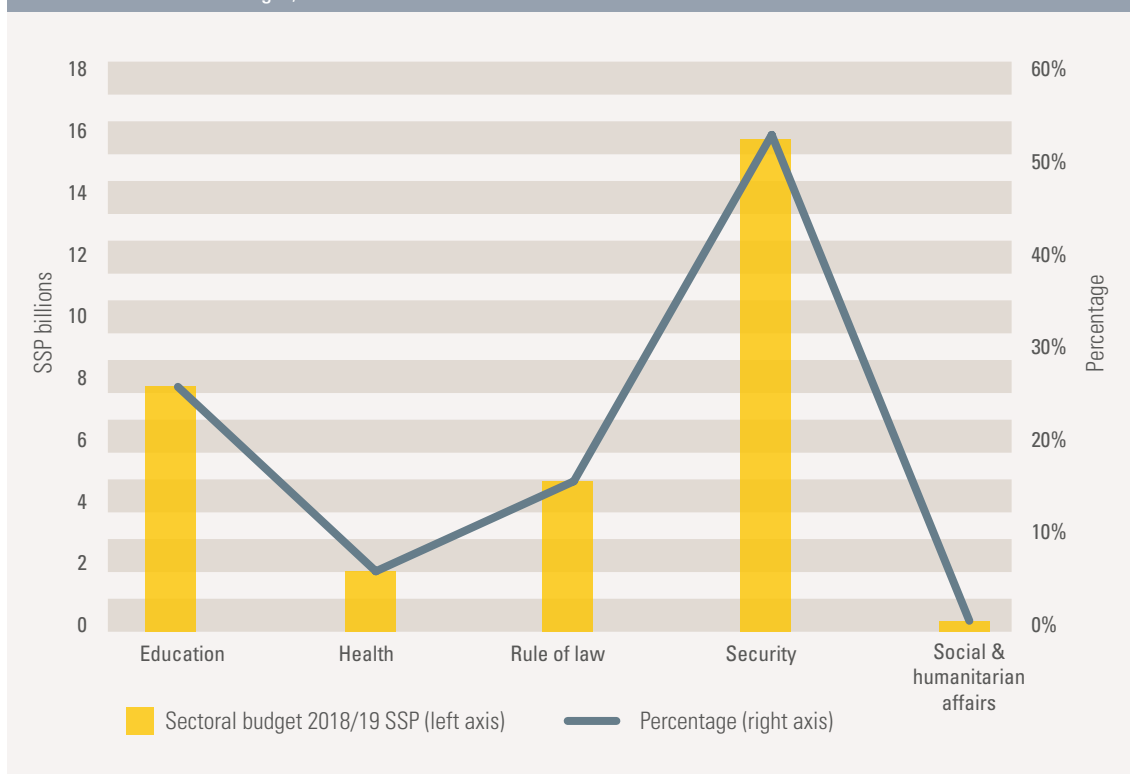
Source: Approved Budget Ceiling, FY2018/19, MoFP

compared to the previous fiscal year (4 per cent). However, most of the funds are for covering teachers' salaries and capitation grants[26] (to primary schools), with capital or development expenditure, particularly for pre-primary and primary schools, virtually nonexistent.

Despite progress, the social sectors remain gravely underfunded. The social and humanitarian affairs sector is due to receive only 0.3 per cent of the budget, while the health sector was allocated a dismal 2 per cent (Figure 10). The situation may prove even more limited for these sectors, as promised funds may not translate into actual expenditure (Section 4). In addition, there continue to be no investments in the social protection or WASH sectors.

The budgets of child-focused sectors mainly support salaries and operational expenses. This means that there is very limited investment to expand basic social infrastructure, which is already underinvested in and is facing demand pressures from the rapidly growing population.

The government continues to fall short of international benchmarks on financial commitments to children. Despite the growth in the budget for education, it is still far below the Incheon Declaration 2015 which requires 20 per cent of the national budget to be spent on education. Similarly, at just over 2 per cent of the budget, the government faces a massive gap in achieving the Abuja Declaration spending target of 15 per cent of the national budget for health. All sectors mandated to support children and women, including the rule of law sector, have also received low budget allocations in previous fiscal years. These sectors continue to rely on humanitarian funding from donors and development partners.

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26 Capitation grants allocate a fixed amount of money per student and are based on the number of recognized pupils enrolled in a school.

Key Takeaways:
Aggregate Spending Trends and Priorities

> The government's investment priorities have changed little over the past year and remain focused on supporting the defence and public administration sectors.

> Social sector investments remain significantly below international benchmarks, and there is no budget for social protection and other child-focused programmes, such as child protection and water.

> Failure to give greater budget priority to basic social services means that the government will likely be unable to take advantage of the demographic dividend.

> Radical and swift policy change is required to address this deficit in funding and prioritization.

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Section 3:
Spending Imbalances
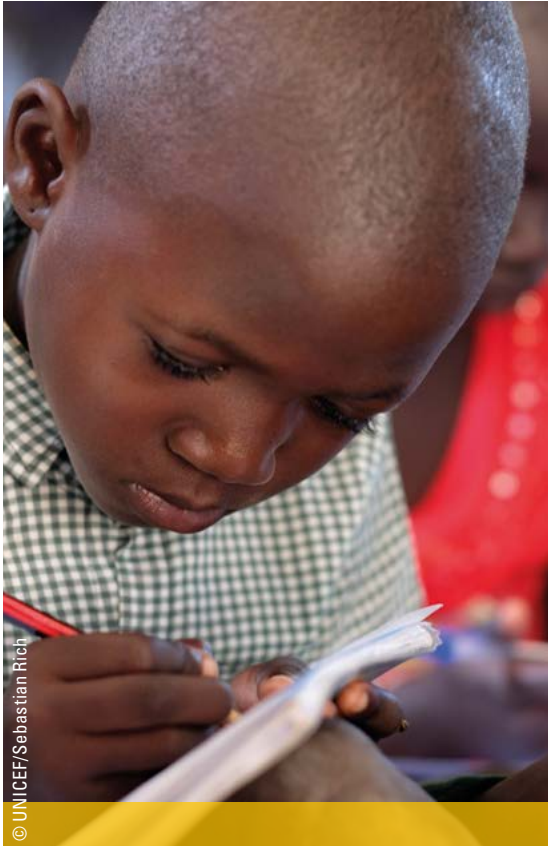
The picture of low capital resourcing for social sectors is mirrored in the overall national budget. When looking at the economic classification of expenditures, the FY2018/19 budget gives very little support to capital spending. Only 11 per cent of the budget is devoted to capital investments, the disbursement of which is conditional on the steady flow of revenue as well as government indebtedness. However, while low, this nonetheless bucks the recent trend in diminishing capital expenditure since FY2015/16 when it stood at 12 per cent, having reduced to just 3 per cent in FY2017/18.

In contrast, the lion's share of the budget is for recurrent spending. Nearly half of the budget (49 per cent) is allocated for salaries and arrears (Figure 11), but as state and county transfers are normally used for running costs – mainly salaries – nearly 70 per cent of the budget is supporting the wages of government employees.

Figure 11: South Sudan national budget allocation, by economic classification, FY2018/19 (as a % of total)

Others
8%

Capital
11%

Operating
31%

Salaries and pensions
50%
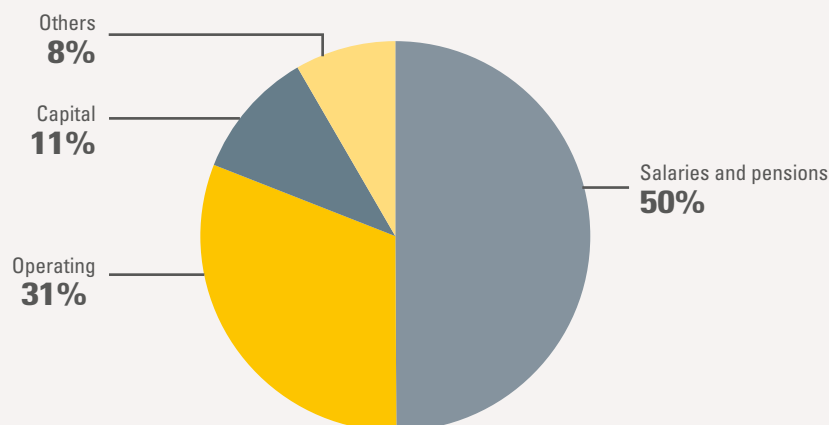
Source: Budget Book and Budget Speech FY2018/19, MoFP

Figure 12: South Sudan government spending by economic classification FY2013–17 (in SSP billions and as % of the total budget)
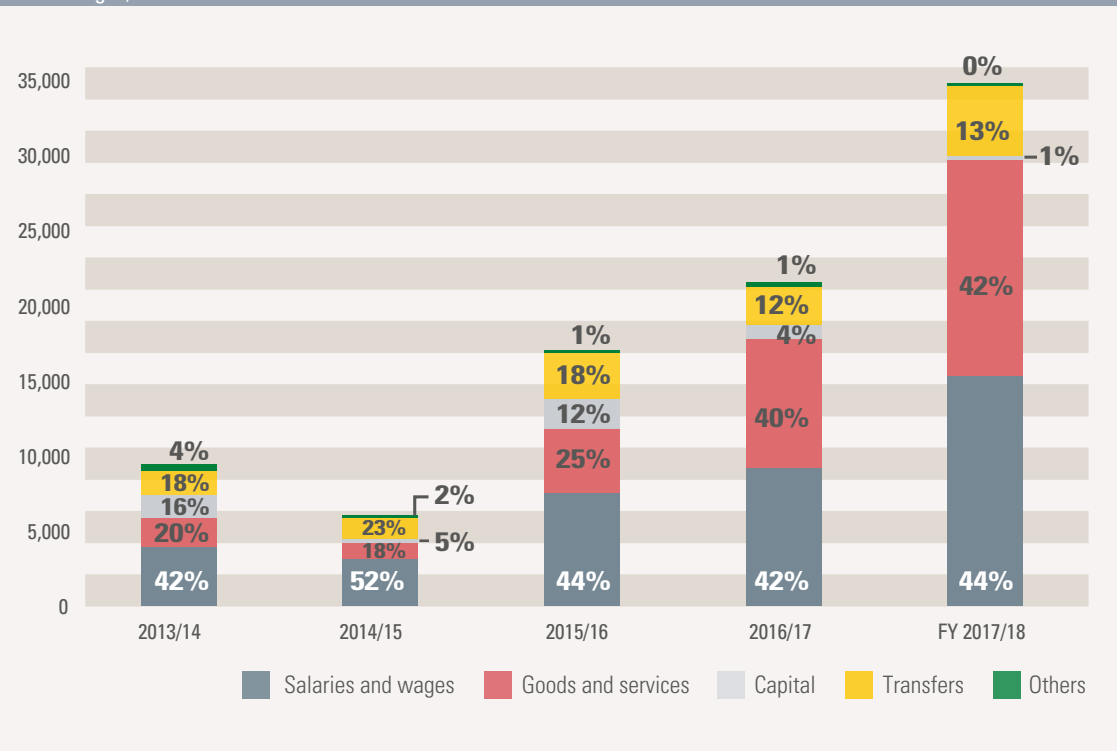
Source: MoFP website data

Persistent spending imbalances fail to prioritize development needs

Similar trends are apparent when exploring past budgets. The bulk of public funds contain limited support to goods and services (though this has increased in the last two financial years) and very limited support to capital investments, which fails to support long-term economic or social development needs (Figure 12). Regional development allocations for FY2018/19 are comparatively higher, for example in Botswana (28 per cent)[27] and Eswatini (26 per cent).[28] Salaries and wages have dominated past government budgets. These accounted for 45 per cent of expenditure, on average, over the period 2013–2017, followed by goods and services and transfers to states. These three budget lines constituted the bulk of government expenditure in the period, collectively averaging 91 per cent of the national annual budget, peaking at 99 per cent in 2017. This clearly shows that during this period, government expenses are mostly recurrent in nature, dominated by salaries and wages.

27 UNICEF, Botswana Budget Brief 2018, <www.unicef.org/esaro/UNICEF-Botswana-2018-National-Budget-Brief.pdf>.
28 UNICEF, Kingdom of Eswatini, National Budget Brief 2018/2019, <www.unicef.org/esaro/UNICEF-Eswatini-2018-National-Budget-Brief(1).pdf>.

Key Takeaways: Spending Imbalances

> The bulk of public funds in the current and recent fiscal years are earmarked for salaries and transfers, with very limited support to capital investments, which does not correspond to long-term economic or social development needs.

Section 4: Budget Credibility and Execution

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There were many challenges with the planning and implementation of the FY2017/18 budget. As with the previous year, erratic and unpredictable revenue, largely driven by conflict and the volatile oil sector, has limited the ability of the government to budget, and resulted in severe overspending. After the 2013 crisis, the economy went into steep decline, while oil output and revenue severely underperformed. Non-oil revenue collection was also hampered by continued leakages due to non-compliance of institutions with government regulatory frameworks, poor banking infrastructure, the existence of unauthorized tax collection centres and deficient human and institutional capacity of the tax administration infrastructure across the country.

Uncontrolled expenditure significantly undermined budget execution and service delivery. In addition, unplanned medical and foreign travel costs, tax exemptions and payroll issues hampered budget execution in FY2017/18. There is also a lack of adherence to formal budget planning processes instituted by the MoFP in 2011. Collectively, these factors affected the planning and implementation of the 2017/18 budget.

Another big challenge is a lack of timely and adequate budgetary information. A lack of (audited) expenditure data across all levels of government makes it difficult to properly assess budget credibility and execution performance. The only fiscal year with a complete expenditure picture is FY2015/16.

Over- and underspending undermines budget execution

In FY2015/16 and subsequent fiscal years, priority sectors such as accountability, public administration, rule of law and security overspent their budgets. The

Presidency, the Civil Aviation Authority and the Ministry of Transport exceeded their capital budgets, while several agencies, including the Roads Authority, did not receive any resources to execute their capital budgets during the first three quarters of FY2017/18.

Unlike the priority sectors, social sectors have been underspending in the past four years. 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 for FY2017/18. In addition, a dearth of data prevents the calculation of the difference between the total amount of funds released by the MoFP (to spending agencies) and the total amount of funds that are actually spent (by these agencies) by the end of the fiscal year. The trend was at its worst in FY2016/17 and FY2017/18 (except for the humanitarian sector) when underspending hit record levels of over 50 per cent (Figure 13).

Timeliness of payments has been another major challenge. Except for FY2015/16, government was unable to meet its development obligations (via capital spending), effect transfers (within and abroad) and pay salaries in a timely manner (Figure 14). Most of the
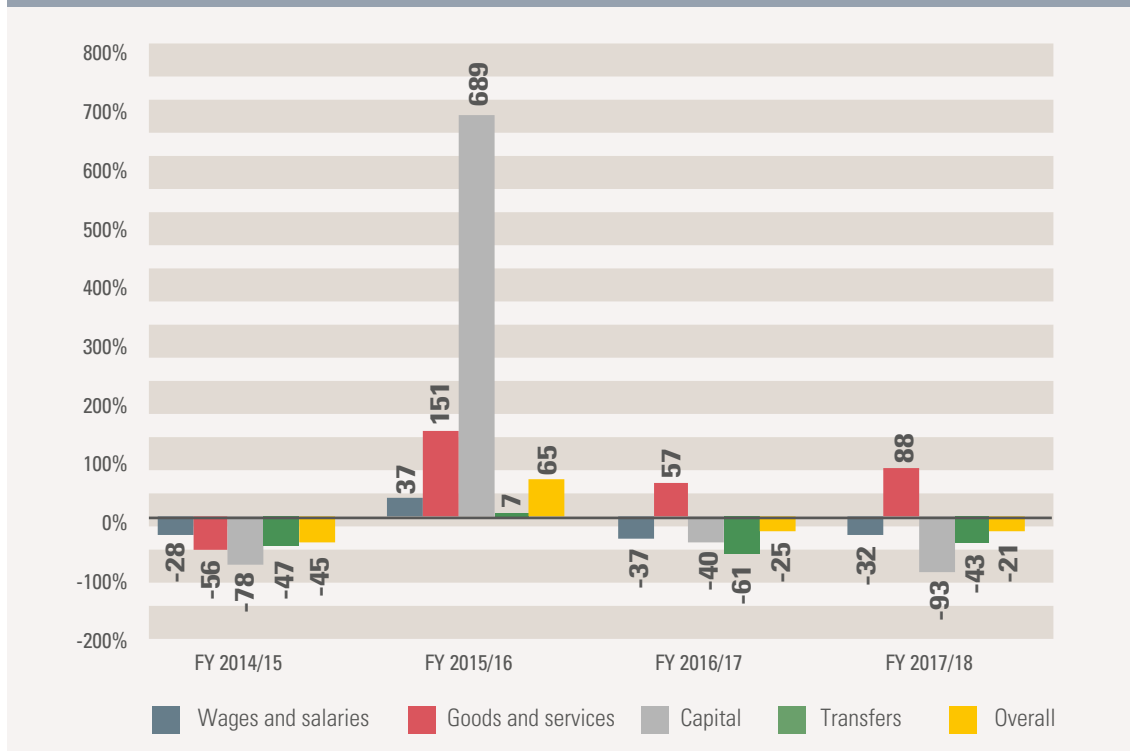

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Figure 13: Budget credibility in select ministries, FY2014/15–2017/18 (deviation from amount approved, %)

Security   Public administration   Education   Health   Humanitarian
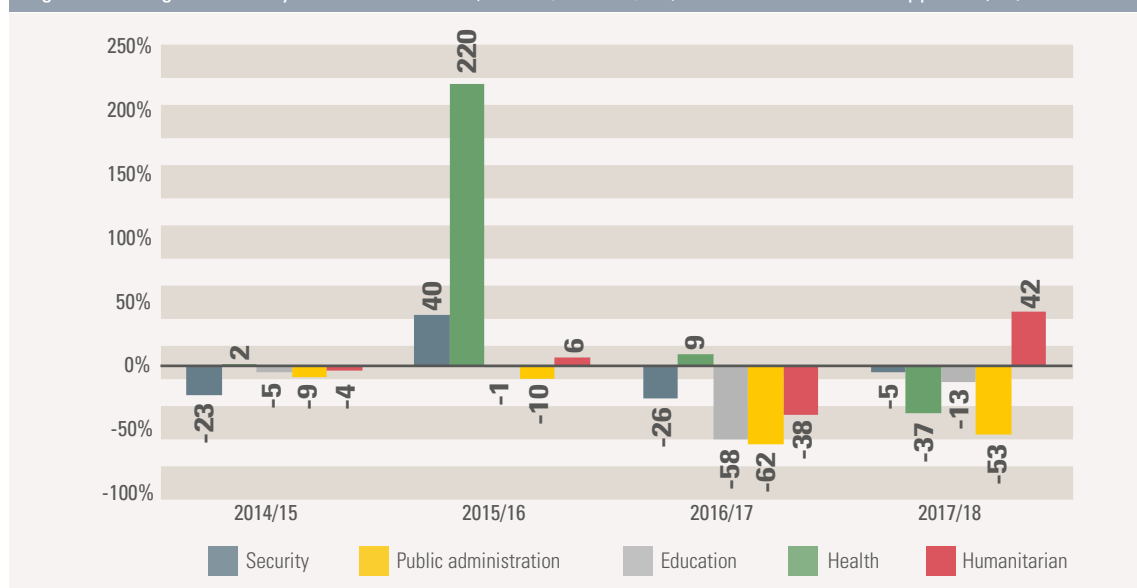
Source: Budget books FY2014/15–2018/19

Figure 14: Budget credibility by economic classification, FY2014/15–2017/18 (deviation from amount approved %)

Source: Budget books FY2014/15–2018/19

overspending in FY2015/16 was associated with the accountability, public administration and security sectors, and is indicative of the high military expenditure before the July 2016 civil conflict.

Overspending by some priority sectors has constrained the government's ability **to pay salaries and wages and disburse block grants**[29] **to states.** As a result, the government has carried forward three months of national salaries, five months of state transfers and 12 months of embassy salaries into the FY2018/19 budget as arrears. The total arrears amount to SSP 17.4 billion or 21 per cent of the current budget.

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29 A block grant provides federal money to state and local governments for general areas of social welfare, rather than for specific programmes, allowing grant recipients more freedom to choose how to use the funds.

Key Takeaways: Budget Credibility and Execution

> The government's budget is characterized by low credibility, largely driven by poor revenue forecasting and collection, and lack of adherence to formal budget planning processes.

> Overspending by priority sectors such as public administration and security mean that social sectors are not receiving the funds allocated to them, which is preventing vital support from reaching vulnerable populations, including women and children.

Section 5. Financing the National Budget

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The national budget is mainly financed through revenues from the oil sector. Revenues have been adversely affected by low oil production due to conflict, recent lower global prices, and payments of tariffs and arrears to Sudan and other oil companies. Net repayments of advances to oil companies in previous years significantly affected the FY2017/18 resource envelope (SSP 46 billion). The net oil revenues proposed to fund the FY2018/19 budget are SSP 72 billion or roughly 73 per cent of the proposed resource envelope, which amounts to an almost three-fold increase from the previous fiscal year (in FY2017/18 oil revenue contributed around 60 per cent of all resources to the national budget at SSP 25.8 billion) (Figure 15).

However, the outlook for greater production could improve over the near term and, hence, positively affect revenue flows. Russia and South Africa have recently agreed to oil exploration projects in the country, and production is expected to rise to 270,000 barrels per day (bpd) (up from just over 140,000 bpd) by the end of 2019. The

Figure 15: Sources of government finances FY2018/19

World Bank loan
1%

Non-oil sector
26%

Oil sector
73%
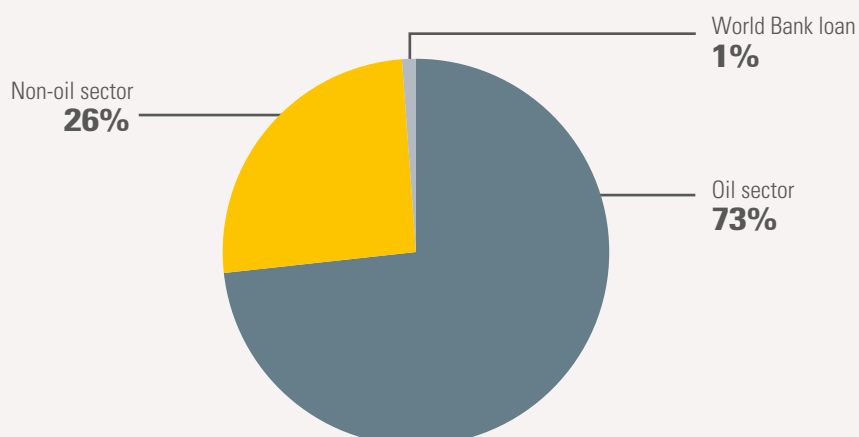
Source: Budget Speech FY2018/19, MoFP

Figure 16: Government revenue projections, 2012–2020, SSP billions (projections start in 2017)
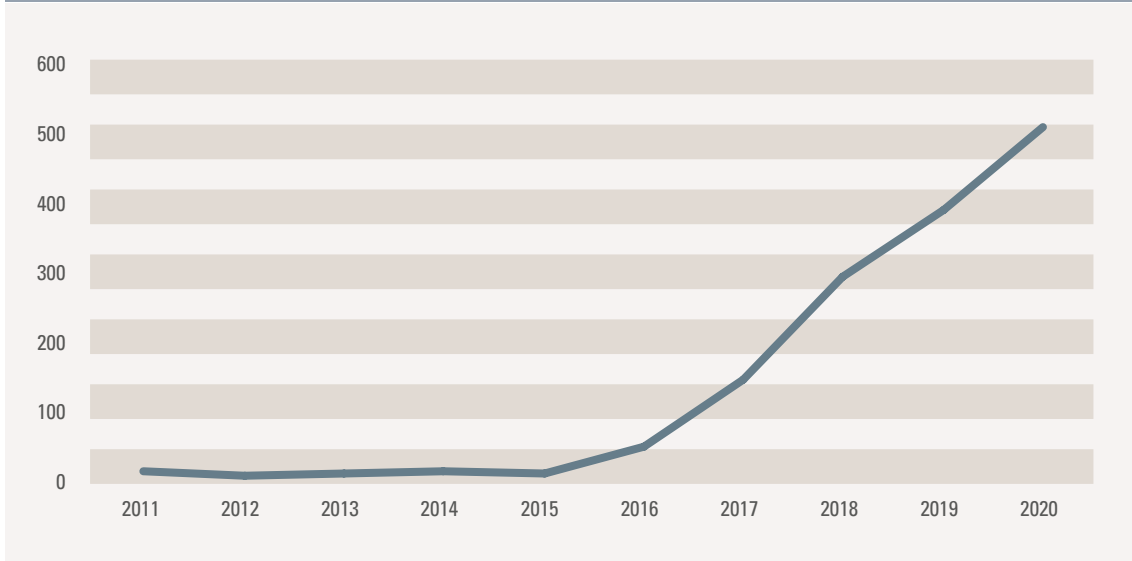
Source: IMF, World Economic Outlook Database, October 2018

current expectation is that output will return to pre-conflict levels of 350,000 to 400,000 barrels per day by mid-2020.[30]

The non-oil sector, in contrast, accounts for around one-quarter of revenue flows to the government. As with the oil sector, the non-oil sector also faces revenue collection challenges. In addition, the non-oil sector, including agriculture and natural resources, remains unexploited for revenue potential. Nonetheless, the government projects non-oil revenues to be SSP 25 billion in FY2018/19. This generous estimate reflects improvements in revenue collection due to the implementation of public financial management (PFM) measures included in the Taxation Amendment Act 2016 and proposed in the 2018/19 Financial Bill, notably the rise in excise duties on motorcycles (150 per cent), alcohol (50 per cent) and tobacco (25 per cent).

2019 revenues projected to more than double

Despite the ongoing unfavourable economic situation across the country, total revenue is projected to increase two-fold. The IMF estimates that revenues will rise from SSP 145 billion in 2017 to SSP 292 billion in 2018 (Figure 16). Due partly to the devaluation of the SSP as well as the implementation of PFM measures in the non-oil sector, the IMF also projects total revenue to rise in 2019 to SSP 388 billion (or a 33 per cent increase from 2018).

Donor support significant but needs to go on-budget

The government relies very heavily on continuously rising ODA to deliver basic services. In 2017, total ODA was estimated at US$2.2 billion, which was an increase of 37 per cent from 2016 when it stood at US$1.6 billion (Figure 17). In 2017, ODA was almost seven times larger than the national budget (Table 1); the FY2017/2018 budget stood at SSP 46 billion which equates to approximately US$299–US$350 million.[31]

However, despite the large volume and overall importance of ODA to the economy of the country, it is mainly off-budget.

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30 Reuters, South Sudan to return to pre-war oil production levels by mid-2020: Minister, 10 February 2019, <www.reuters.com/article/us-south-sudan-oil/south-sudan-to-return-to-pre-war-oil-production-levels-by-mid-2020-minister-idUSKCN1PZ09W>, accessed 27 February 2019.

31 Conversion rate US$1 = SSP 130.26, <https://ssp.currencyrate.today/usd> and US$1 = SSP 153.96, <https://tradingeconomics.com/currencies> as of 21 February 2019.

Figure 17: Foreign aid trends, 2000–2017 (in per capita and millions of current US$)

Total received (left axis)   Per capita value (right axis)
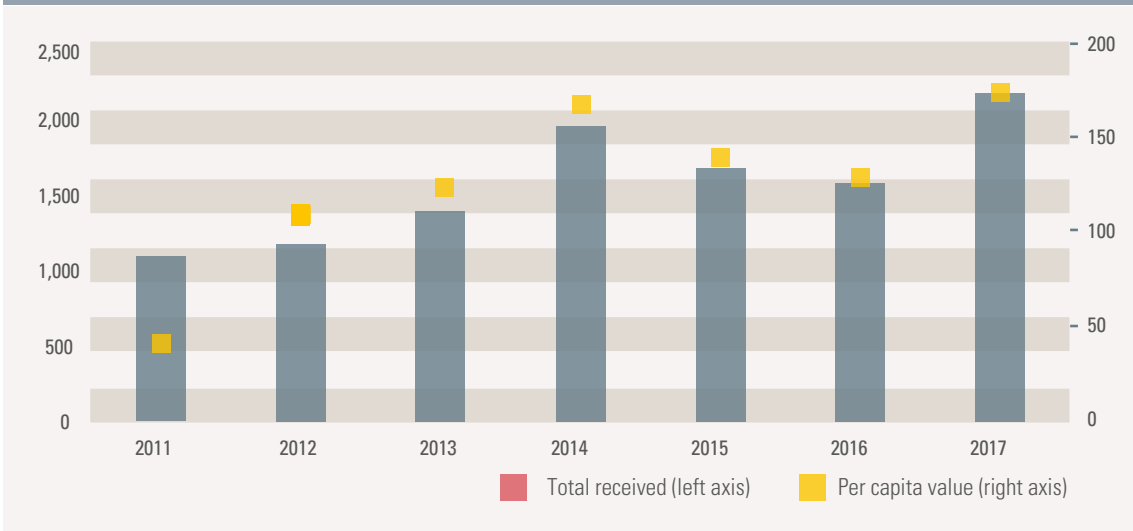
Source: World Bank, World Development Indicators database, January 2019

This means that almost all aid flows are not disbursed through the national treasury and managed through the government's existing payment systems, but rather channelled to humanitarian and development partners as project-based support. This undermines national systems and capacity, negatively affects budget planning processes and also likely contributes to the duplication of services (i.e. wastage).

The World Bank has begun to shift its aid on-budget. In 2019, the World Bank Local Governance and Service Delivery Project (LOGOSEED) is providing more than US$1.1 billion directly to the government through block grants for programme development, community engagement and institutional strengthening.

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Figure 18: General government gross debt, 2012–2020, as % of GDP
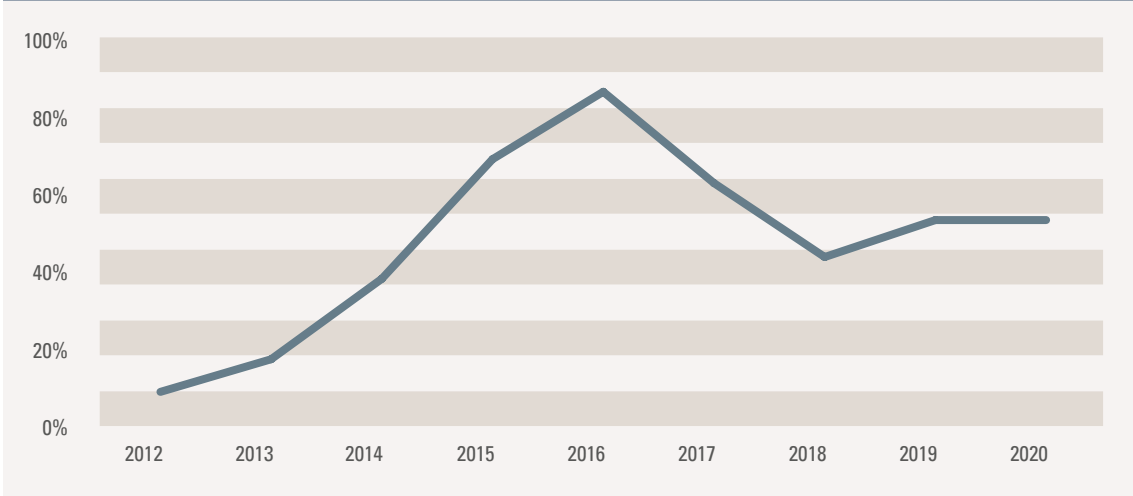
Source: IMF, World Economic Outlook Database, October 2018
Note: Estimates begin after 2017.

Continued borrowing is needed

General government gross debt remains high and is on the upswing once again. Total debt reached nearly 90 per cent of GDP in 2016 (Figure 18). However, it declined over the next two years and was projected at SSP 276 billion in 2018 (or 44 per cent of GDP). The latest projections indicate that debt levels will increase in 2019 to around 53 per cent of GDP.

The government instituted PFM reforms to control its domestic and international debts[32] by improving the management and use of public funds. However, given the size of the fiscal deficit, the government will continue to borrow from oil companies, the World Bank and China to cover spending during FY2018/19.

32 Government debt includes borrowing from commercial banks, domestic arrears, direct borrowing and recapitalization claims from the Bank of South Sudan, outstanding oil advances and external loans to the World Bank and China.

Key Takeaways:
Financing the National Budget

The government budget is mainly financed by oil revenue (about 75 per cent), which remains volatile due to global price fluctuations and the impact of the civil war on production.

> Most oil revenue is lost to compensation agreements and other oil-related expenses, whose actual value is further eroded by inflation.

> The non-oil sector remains unexploited for revenue potential.

> South Sudan relies heavily on ODA support, which remains larger than the size of its recent budgets, including the FY2018/19 budget.

> Despite the significance of ODA to the economy, it is mainly off-budget and channelled to humanitarian efforts, thus not supporting the institutional development of the social sectors.

> Donors are strongly encouraged to move funding on-budget so that it is a transparent resource within the PFM system, to strengthen planning, institutional capacity and long-term development.

Section 6.
New Developments in PFM

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The Government of South Sudan introduced several PFM reforms in FY2017/18 to strengthen budgeting processes and improve social sector investments. This year, government repeated its commitment to improve the management and use of public funds, expand the tax base, align public expenditure to available resources and limit borrowing from the Central Bank.

Continued PFM reforms: Cognizant of the high-expectations of its citizenry, the government aims to continue with the PFM reforms to achieve a secure and prosperous society as set forth in the South Sudan Vision 2040 development blueprint. Government is also committed to pursue the reform measures outlined in the Economic and Fiscal Stabilization and Recovery Action Plan adopted by parliament in FY2016/17 and the 2009/2012 taxation acts amended in 2016. Government plans to pass the Public Procurement Bill and formulate an internal audit bill to strengthen contractual procedures.

Budget transparency and accountability: The MoFP plans to produce and publish online (and in a timely manner) both monthly and quarterly budget execution reports to enable public finance partners and stakeholders, civil society organizations and the wider public to easily access public budget information. In 2017, for the first time, Open Budget Survey (OBS)[33] findings were disseminated in South Sudan to national partners including the MoFP and the National Legislative Assembly. South Sudan has a transparency score of just five on the Open Budget Index. However, a national action plan for budget transparency was developed, which led to the first ever national budget transparency stakeholders' workshop organized by the MoFP in June 2018. The United Nations Children's Fund (UNICEF) is currently supporting the participation of South Sudan in the 2019 OBS.

Improving the collection and management of non-oil revenues: The government plans to introduce a stamp tracking system for imports (excisable goods) to improve the management of customs and thereby reduce tax evasion. Within three years of implementation, the reforms will enable government to better predict non-oil revenues and increase its capacity to finance salaries and transfers to states through non-oil revenues and lessen dependence on the oil sector. The FY2018/19 Financial Bill also increased the airport departure tax and the sole proprietor personal income tax by 50 per cent each.

Government reform of cash and expenditure management procedures: In FY2018/19 the MoFP plans to establish a cash forecast committee to review past cash flows and prepare quarterly cash projections to promote effective budget management and discipline.

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33 The OBS is the world's only independent, comparative assessment of the three pillars of public budget accountability: transparency, oversight and public participation. Each country is given a score between 0 and 100 that determines its ranking on the Open Budget Index.

The committee will determine the release of operating funds to spending agencies and implement strict measures to ensure spending within budget allocations. The committee will enforce compliance by spending agencies to an integrated financial management information system (IFMIS) such as FreeBalance government IFMIS technology and bring unbudgeted agency requests as supplementary expenditures to parliament for approval.

Government commitment to payment of arrears: Government's current stock arrears stand at billions of South Sudanese pounds and continue to increase as spending agencies agree on new untenable and unjustifiable commitments and obligations. The MoFP therefore plans to establish an arrears management committee to oversee the stock-taking processes of current arrears, develop an arrears clearance plan and recommend measures to prevent the accumulation of new arrears. Genuine arrears will be identified and verified, thereby eliminating those that do not meet these standards.

Other measure include:
• Stabilizing prices by managing inflation;
• Reducing payroll expenses through a demobilization programme that will target the army and organized forces and other spending agencies;
• Removal of fuel subsidies[34] to avoid budget deficit;
• Payment of salaries and transfer funds to states and foreign missions; and
• Piloting the implementation and integration of a biometric data verification system using national identity cards, which will introduce efficiency and reduce payroll-related leakages.

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34 A fossil fuel subsidy is any government action that lowers the cost of fossil fuel energy production, raises the price received by energy producers, or lowers the price paid by energy consumers.

Key Takeaways: New Developments in PFM

The continued implementation of PFM reforms will enable the government to better manage its finances and improve its capacity to plan and deliver public services throughout the country.

> The expansion of the tax base, including for air travel and income taxes, are worthwhile. Government is encouraged to consider expanding the tax base through other sectors, including through the development of agriculture and natural resources.

> Removal of fuel subsidies frees up a significant fiscal space, 21 per cent of the FY2018/19 budget (SSP 17.4 billion). However, the government must assess the potential negative impacts of this reform (i.e. in terms of increased fuel prices), especially on children and the most vulnerable families. Importantly, government needs to redirect the subsidy savings into establishing social services systems, including child protection, education, health, social protection and WASH, to mitigate harmful consequences inadvertently caused by the fuel subsidy reform.