



HESPI

# Public Financial Management Practice in the Government of the Republic of South Sudan

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# OUTLINE

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- 1) BACKGROUND AND THE MACROECONOMY**
- 2) SCOPE AND OBJECTIVE OF THE ASSESSEMENT**
- 3) THE PEFA ASSESSMENT METHODOLOGY**
- 4) RECENT BUDGET APPROPRIATION EXPERIENCE**
- 5) ASSESSMENT RESULTS**

# 1. Background and the Macro economy...

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- ❑ South Sudan is home for 12 million people (in 2016) with annual population growth of 3-4 percent.
- ❑ Chronic political and economic volatilities since its independence in 2011.
  - Oil shutdown in 2012 (dispute with Sudan over transit fees)
  - outbreak of civil war in December 2013
  - a peace agreement ( august 2015)
  - another round of conflict erupted in July 2016
  - In absolute terms the South Sudanese GDP was 15 billion in 2011 and that later oscillated between 8 and 10 billion throughout 2012-15.

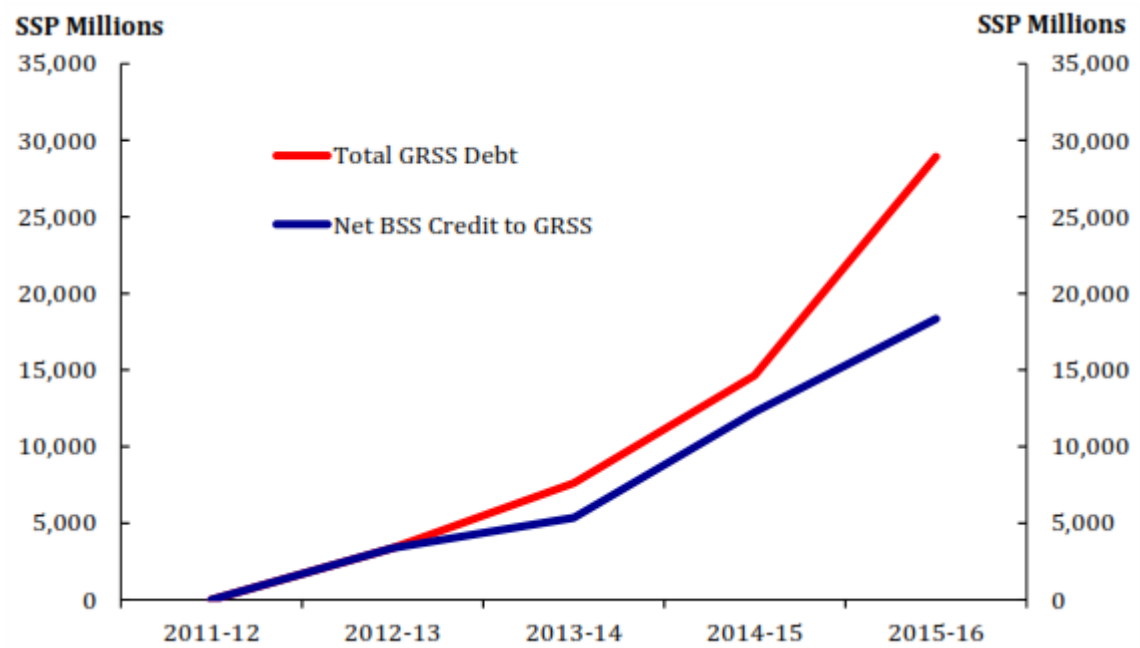
## Background and the Macro economy...

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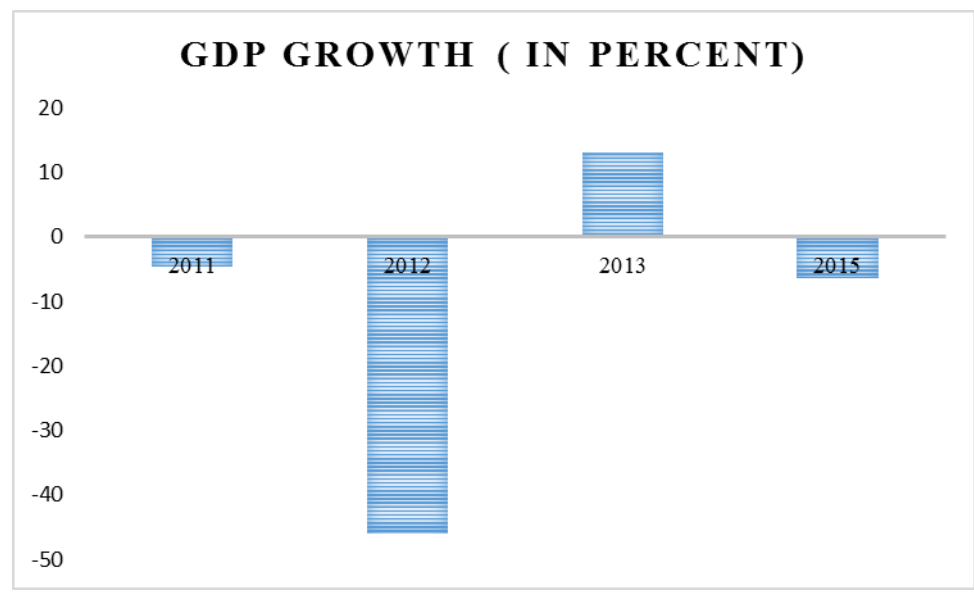
- Monetization of the fiscal deficit led to strong money growth, high inflation and drastic exchange rate depreciation.
- The current account deficit that was 7 percent of GDP in 2014 had suddenly skyrocketed to reach 34 percent in 2015.
- The military expenditure was between 5 and 10 percent of GDP for 2011-14, and grew to 13 percent in 2015.
- Values of export that was 66 percent of GDP in 2011 had dropped to 9.78 percent in 2015 for the obvious reason of fall in global oil prices and decreased in production.
- The government has massively relied on deficit financing from the Bank of South Sudan/BSS (the central bank).

# Background and Macro economy...

### Trends in GRSS Debt Position



Source: MoFP (2016)



WDI, World Bank (2016)

## Background and Macro economy...

Indicators	2011	2012	2013	2014	2015	2016
Gross Savings (% GDP )				-9.4	-42	
Gross Capital Formation (% GDP)	9.5	11.2	10.6	10	11	
Resource Gap				-20	-53	
Final Consumption Expenditure (% GDP)	52	124	111	104	137	
HH Final Consumption Expenditure ( % GDP)	39	101	86	80	101	
External balance on goods and services (% of GDP)	39	-35	-22	-14	-48	
CPI Inflation	47	45	-0.04	3	50	381
Broad Money (% GDP)	9.2	21.5	16.6	20	46.3	

Source: WDI, World Bank (2016)

## 2. Scope and Objective of the Assessment

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### Scope:

- In 2011, The World Bank had conducted a National and subnational PEFA assessments for South Sudan
- the current assessment is a successor
- And covers budgetary central government
- 2014/15, 2015/16, and to a certain extent 2016/17 have been received.
- It also covered some PFM aspects since the independence of South Sudan in 2011.

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## Objectives:

- gives a perspective on the economic environment surrounding public finance operations of the GRSS;
- analyzes budget planning and implementation and how they are intertwined;
- examines the governments control system that resources are well mobilized and channeled to their intended destinations;
- assesses the extent to which policy-based strategy and planning are used to integrate public finance with overall national policy directions;
- assesses the extent of transparency and accountability in terms of access to information, reporting and audit



### 3. The PEFA Assessment Methodology

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- the Public Expenditure and Financial Accountability (PEFA) program was initiated in 2001 by seven international development partners: The European Commission, International Monetary Fund, World Bank, and the governments of France, Norway, Switzerland, and the United Kingdom.

## PEFA DOES :

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- PEFA focuses on assessing **the extent to which the PFM system is an enabling factor** for achieving policy outcomes.

## PEFA DOES NOT:

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- measure every factor affecting PFM performance, such as the legal framework or human resource capacities
- involve fiscal policy analysis
- Policy Effects on reducing poverty or other goals or whether value for money is achieved in service delivery.
- provide recommendations for reforms or make assumptions about the potential impact of ongoing reforms on PFM performance.

(PEFA, 2016, pp 11-12).

# 4. Recent Budget Appropriation Experience/ 2017/18

## SOUTH SUDAN

South Sudan Appropriated Budget for 2017/18 (% share)

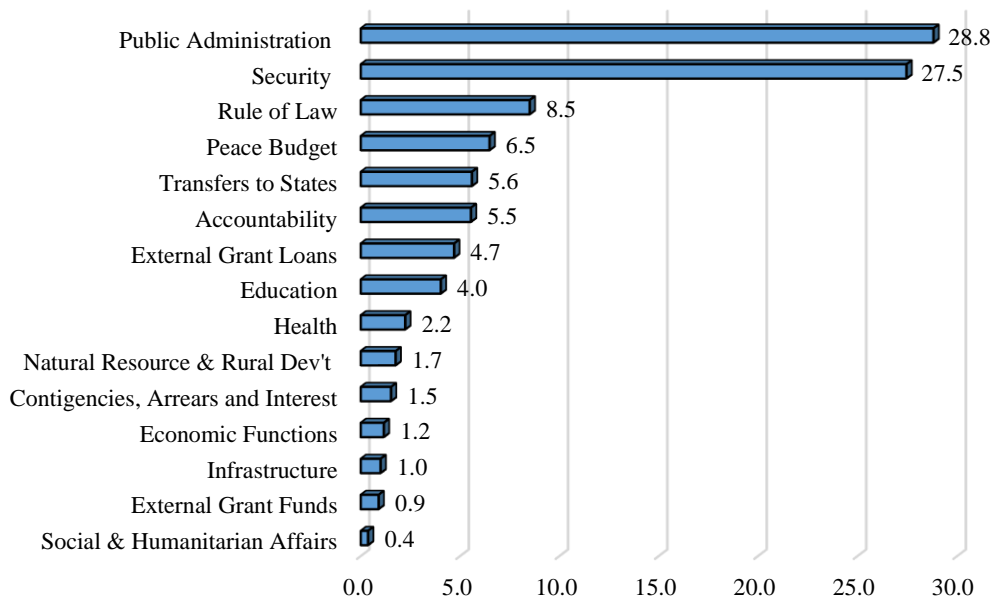
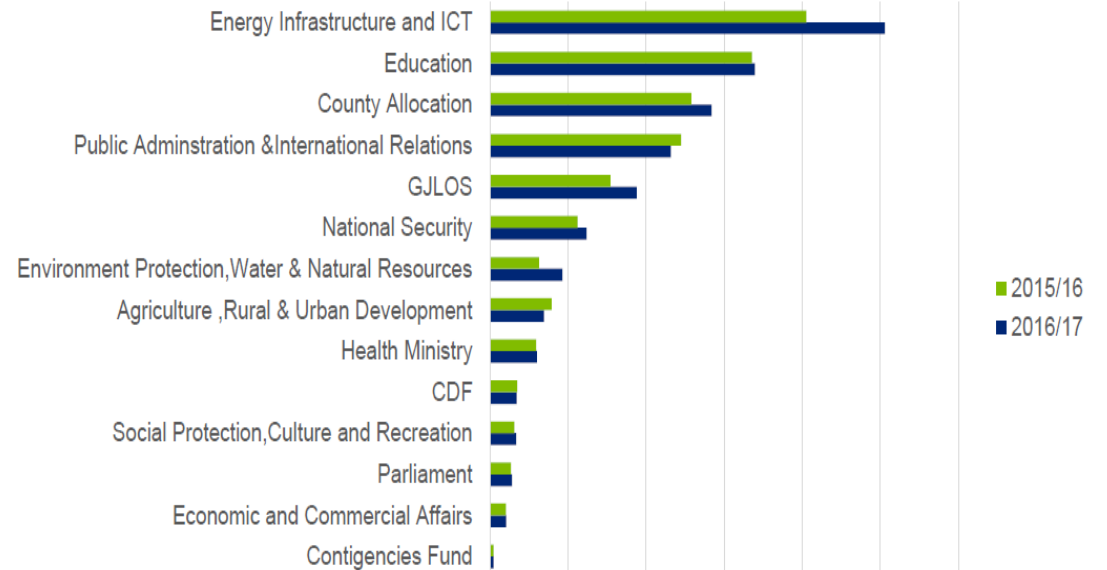


Figure 1 South Sudan Appropriated Budget for 2017/18 (% share)

## KENYA



2016 Deloitte & Touche (2016)

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- Resources are not well aligned to development priority sectors.
  - Huge chunk of budget allocation for the public administration and security sectors.
  - The social and economic development sectors account only very small share
- The Maputo and Malabo declarations categorically stated that 10% of the national budget should be allocated to the Ministries of agriculture in Africa. However, MAFS currently is allocated only about 0.14% of the budget.
  - Public expenditure on education as percent of GDP remained below 2 percent of GDP for all the years 2011-2016.

## Budget allocation for Agriculture in other East African Countries (2014/15)

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<b>Country</b>	<b>Budget allocation</b>
Tanzania	7.2 percent
Uganda	6.5 percent
Rwanda	6.2 percent
Kenya	5.8 percent

Source: Eastern Africa Farmers Federation (EAFF) (2015)

## Economic Classification and the dominance of salary

- The wages and salary
- The falling capital expenditure

Republic of South Sudan - 2014/15 and 2015/16 Expenditure Estimates by Item				
	Items by Chapter	14/15 Enacted Budget	14/15 July-Dec outturns	15/16 Approved Budget
Source:				
Consolidated Fund				
21	Wages and Salaries	39.12	52.94	51.33
22	Use of Goods and Services	21.89	18.42	15.71
23	Transfers	21.87	22.27	26.26
24	Other Expenditure	2.37	1.62	1.01
28	Capital Expenditure	10.88	4.65	2.50
Source:				
External Grant Funds		0.00	0.00	0.00
22	Use of Goods and Services	0.73	0.00	0.66
23	Transfers	0.00	0.00	0.06
28	Capital Expenditure	0.68	0.00	0.48
Source:				
External Loan Funds		0.00	0.00	0.00
22	Use of Goods and Services	0.40	0.00	0.50
23	Transfers	0.08	0.01	0.08
28	Capital Expenditure	1.99	0.08	1.39
Overall Total		100.00	100.00	100.00

# Uganda/2017

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Table 2-4: Budget allocations by economic classification

Actual budgetary allocations by economic classification (as a percentage of total expenditures)			
	2012-13	2013-14	2014-15
Current Expenditures	73.7%	75.1%	76.7%
→ - Wages and salaries	13.0%	13.6%	13.1%
- Goods and services	18.5%	19.4%	22.5%
- Interest payments	8.3%	9.4%	11.2%
- Transfers	28.0%	28.4%	27.1%
- Others	5.8%	4.3%	2.9%
→ Capital Expenditures	26.3%	24.9%	23.3%

Source: Ministry of Finance, Planning and Economic Development

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## Pillars of PEFA covered in the assessment:

- **Budget reliability:** is budget implemented as intended.
- **Transparency of public finances:** Is PFM comprehensive, consistent, and accessible to users. Comprehensive budget classification, transparency of all government revenue and expenditure,
- **Policy-based fiscal strategy and budgeting:** if the fiscal strategy and the budget are prepared with due regard to fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.
- **Predictability and control in budget execution:** if resources are obtained and used as intended.
- **Accounting and reporting:** If produced, maintained, & disseminated at appropriate times.
- **External scrutiny and audit:**



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## 5. Assessment Results

## 5.1 Budget Reliability

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<b>INDICATORS</b>	<b>DIMENSIONS</b>
1. Aggregate expenditure outturn	1.1 Aggregate expenditure outturn (PI-1)
2. Expenditure composition outturn	2.1 Expenditure composition outturn by function (PI-2.1) 2.2 Expenditure composition outturn by economic type(PI-2.2) 2.3 Expenditure from contingency reserves (PI-2.3)
3. Revenue outturn	3.1 Aggregate revenue outturn ((PI-3.1) 3.2 Revenue composition outturn (PI-3.2)

## Budget Reliability...

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### *PI-1. Aggregate expenditure outturn*

Actual aggregate expenditure that deviates significantly from the original, approved budget undermines fiscal discipline and the ability of governments to control the total budget

- 2011/12 and 2012/13 was good at “B” ( range 90 – 110 %).
- 2014/15 and 2015/16 the score fall to “D” (< 115 %).

year	Total Expenditure outturn(PI-1)	Score
2011/12	111.2%	B
2012/13	102.2%	
2014/15	117.7%	D
2015/16	165.3%	

## Budget Reliability...

### **PI-2. Expenditure composition outturn**

variance in expenditure composition.

- Reallocation of resources from one spending agency to another and from one economic class to another is a serious challenge to the GRSS.
- A composition variance greater than 15 % is enough to be scored “D”.

Expenditure composition outturn:

By function:

year	composition variance ( PI-2.1)	Score
2011/12	40.3%	
2012/13	38.5%	D
2014/15	30.8%	
2015/16	43.4%	D

by Economic Classification

2011/12	16.7%	D
2012/13	56.1%	
2014/15	12.1%	C or D
2015/16	38.4%	

## Budget Reliability...

### ***Dimension 2.3. Expenditure from contingency reserves***

- This dimension measures the average amount of expenditure actually charged to a contingency vote over the last three years.
- If there are no contingency funds in the budget, no accounting for or official reference to contingency expenditures this would meet the requirements for an 'A' score as there is no expenditure charged to a contingency.

A: Actual expenditure charged to a contingency vote was on average less than 3% of the original budget.

C: Actual expenditure charged to a contingency vote was on average more than 6% but less than 10% of the original budget.

year	contingency share (PI-2.3)	SS's Score
2011/12	11.2%	D
2012/13	No contingency reported	A
2014/15	-22.8%	A
2015/16	No contingency reported	A

## South Africa's Experience in Aggregate Expenditure outturn

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	2010/11	2011/12	2012/13
Primary original expenditure estimates	746,785	812,345	879,977
Primary expenditure outturn	738,914	812,063	873,284
Aggregate expenditure deviation	7,871	282	6,693
Aggregate expenditure deviation, %	1.1%	0.03%	0.8%

## Budget Reliability...

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### *PI-3. Revenue outturn*

uses the **M2 (AV)** method

- Dimension 3.1. Aggregate revenue outturn
- Dimension 3.2. Revenue composition outturn
- The indicator focuses on both domestic and external revenue, which comprises taxes, grants, and other revenues including those from natural resources.
- Revenue forecasting should be a two-stage process: (i) a macroeconomic forecast; and (ii) forecast of the main sources of revenues

## Budget Reliability...

### Dimension 3.1. Aggregate revenue outturn

- In 2014/15, it was only possible to realize half of the estimated revenue.
- This was reverted in 2015/16 that the outturn was higher than the initial estimates by 65 percent. **Due to high inflation rate during the year**

year	total revenue deviation	Score
2014/15	51.6%	D
2015/16	165.1%	

- <C: Actual revenue between 92% and 116% of budgeted revenue in at least two of the last three years.

### Dimension 3.2. Revenue composition outturn

accuracy of forecasts of the revenue structure and the ability of the government to collect the amounts of each category of revenues as initially intended.

C: Variance in revenue composition was less than 15% in two of the last three years.??

year	Revenue composition variance	Score
2014/15	12.6%	C/D
2015/16	88.2%	



## 5.2 Transparency of public finances

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### PI-4. Budget classification

- The GRSS's budget classification to a large extent has followed the **Government Financial Statistics /GFS standards-3 digits**.
- There are **both administrative/functional and economic classification of budgets**. This is true for both the revenue and expenditure sides.

**Score = B**

### PI-5. Budget documentation

**The Basic elements are:** 1. Forecast of the fiscal balance; 2. budget plan and outturn presented in same format; 3. data for revenue and expenditure is according to the main heads of the classifications used

The GRSS PFM fulfills the first two and most part of the last. The only additional elements (besides the basic elements listed above) included in the GRSS's is the Debt stock. There are **no medium term fiscal forecasts; no analysis of fiscal risks; no presentation of budget implication of new policy initiatives** etc.

**Score = C** (Budget documentation fulfills at least 3 basic elements)

### 5.3 Policy based fiscal strategy and budgeting

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This pillar is about whether the fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

#### Macroeconomic and fiscal forecasting

- When revenue from oil was promising, the size of the deficit and borrowing was limited to less than five percent (5%) of national budget. (Øystein and Nicki 2017). It then grew almost out of control. About 72 percent of domestic financing comes from direct financing of the Bank of South Sudan (BSS).
- Domestic debt (40 percent of GDP as of June 2016) was nearly double the size of the external debt (28 percent of GDP).
- **no evidence of macroeconomic and Fiscal forecasting** Thus, the GRSS's score for this macroeconomic forecast dimensions is "D".

## **Policy based fiscal strategy and budgeting (cont...)**

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## Policy based fiscal strategy and budgeting (cont...)

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### Reporting on fiscal outcomes

- monthly, quarterly, annual budget and outturn reports available online.
- Although with some delays, the GRSS submits to the national assembly and publishes with the annual budget a report that describes progress made and provides an explanation of the reasons for any deviation from the objectives and targets set.
- The report also sets out actions planned by the government to address any deviations, as prescribed in legislation.
- Hence the GRSS's score for this dimension is "A".

## Policy based fiscal strategy and budgeting (cont...)

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### Budget preparation process ( respondents views):

- The pre-budget consultation is only with spending agencies (the private sector, the business community, and public interest groups are not consulted. )
- MoFP initiate the process where it asks spending agencies prepare budgets based on their plans and the available resource envelope (ceilings) issued by MoFP.
- Respondent from line ministries said : the budget planning process is not done in a transparent manner because budget allocations are done arbitrarily and are not based on plans submitted by line ministries and agencies.

Score=C

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Three broad stages of budgeting need to be there:

- a) a top-down stage that defines and communicates to each ministry the financial resources available;
- b) a bottom-up stage in which the ministries formulate their spending program proposals, within the spending limits; and
- c) a stage of iteration, negotiations, and reconciliation to produce a draft budget that is internally consistent and within the aggregate resources available

## Budget submission to the legislature

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- While the laws stipulate earlier start of budget processes and start of approval of budget well before the budget year,
- the budget submission to the legislature for the last three years show no adherence to this. (29th of June 2015 for 2015/16 FY; October 2016 for 2016/17 FY, and on 30th of June 2017 for the 2017/18 FY)
- C: The executive has submitted the annual budget proposal to the legislature at least one month before the start of the fiscal year in two of the last three years.
- **The GRSS's score for this dimension is "D".**

# Policy Based Budgeting Experience in Ethiopia

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- A Macroeconomic and Fiscal Framework (MEFF) sets the main sectoral allocations and regional subsidy, which is approved by the Council of Ministers.
- Budget institutions (BIs) are given recurrent and capital expenditure ceilings within which to prioritize their programs and sufficient time to complete their detailed estimates.
- The process of preparation and approval closely follows the budget calendar:
- Parliament approves the budget before the start of the budget year
- Budgeting is carried out within a three-year rolling framework. Debt sustainability analysis is undertaken annually and now covers domestic debt as well as external debt.
- Major sectors such as education, health and roads have medium-term strategic plans.



## 5.4 Predictability and Control in Budget Execution

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- The overall budget process has excessive limitations in Credibility, Comprehensiveness and Transparency.
- It is not credible because, when the agency submits their budget request, the Ministry of Finance and Planning only disbursed funds for salaries (chapter 1) and nothing for operating expenditures, capital expenditures and others, arguing there is no money.
- It is not transparent as month of the budget goes to only a few agencies such as those in the security sector.

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- In an attempt to control revenue inflows from the major source (oil), a Petroleum Revenue Management Act (PRMA) was enacted in 2015 but has only been partially implemented.
  - The PRMA includes provisions to prevent corruption and mismanagement and to ensure proper use of funds in the future.
  - The PRMA stipulates that oil revenue should flow through specific accounts and that utilization of the resources must go through the budget. It also prescribes prudent financial management guidelines, including for the investments of saved funds and on auditing requirements. (IMF, 2017).

## 5.5 Accounting and Reporting

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- Authorities have taken measures to require all revenue to be immediately transferred from government accounts in commercial banks to the treasury account, and
- established a Cash Management Committee.
- devised a short-term reform program in late 2016 to jumpstart the restoration of PFM integrity.
- The planned measures by then included;
  - registration of all civil servants (including military) on payroll system;
  - completion of payroll audit and removal of ghost workers;
  - establishment of a Treasury Single Account (TSA) structure;
  - enactment of the Public Procurement Bill (IMF, 2017).
- Some of the recent budget and financial management and resource utilization reform efforts include improvisation of : Charter of Accounts; Payment procedures; Quarterly Macro-fiscal reports; Establishment of Revenue Authority; Amendment of Audit Chamber Act 2011

## 5.6 External Scrutiny and Audit

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- Auditing was supposed to be every year but the Audit Chamber has not been able to deliver as planned for short of skilled manpower.
- Besides financial audits, there are also performance audits. For instance, Juba Teaching Hospital performance audit has just been concluded. There is an ongoing performance audit in Juba City Council. The performance audit is based on the three Es: Economy, Effectiveness and Efficiency.
- All the public institutions including the Ministry of Defense are audited and the reports published after reviewed and approved by the National Assembly.
- However, the audit reports for the security institutions have never been approved for publication by the parliament. At the moment,
- the National Audit Chamber does not have a website. Copies of the audit reports are not available online.
- The Audit Chamber has recommended punitive measures in its past audit reports. In regards to budget indiscipline, there have been no punitive measures taken against some of the spending agencies.

# Summary of all scores

Overview of the scores of the PEFA indicators

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
<b>Pillar I. PFM-OUT-TURNS: Budget reliability</b>							
PI-1	Aggregate expenditure outturn	M1	D	x	x	x	D
PI-2	Expenditure composition outturn	M1	D	A	C	x	D
PI-3	Revenue outturn	M1	D	D	x	x	D
<b>Pillar II. Transparency of public finances</b>							
PI-4	Budget classification	M1	B	x	x	x	B
PI-5	Budget documentation	M1	C	x	x	x	C
<b>Pillar IV. Policy-based fiscal strategy and budgeting</b>							
PI-14	Macroeconomic and fiscal forecasting	M2	D	D	D	x	D
PI-15	Fiscal strategy	M2	D	C	A	x	C+
PI-16	Medium-term Perspective in expenditure Budgeting	M2	D	D	D	C	D
PI-17	Budget preparation process	M2	D	C	D	x	D+

# Uganda/2017

PFM Performance Indicator		Scoring Method	Dimension Ratings				Score
			i.	ii.	iii.	iv.	
<b>Pillar I: Budget reliability</b>							
PI-1	Aggregate expenditure out-turn		A				A
PI-2	Expenditure composition out-turn	M1	C	D	A		D+
PI-3	Revenue out-turn	M2	B	A			B+
<b>Pillar II: Transparency of public finances</b>							
PI-4	Budget classification		A				A
PI-5	Budget documentation		B				B

# South Africa

**Table 0.1 Overall summary of PFM Performance Scores - 2014 Assessment**

PFM Performance Indicator (PI)		Scoring Method	Dimension Ratings				Overall Rating
A. PFM-OUT-TURNS: Credibility of the budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A				A
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	A	A			A
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A				A
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	B			B+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	A				A
PI-6	Comprehensiveness of information included in budget documentation	M1	A				A

# Some of the challenges and points of discussions

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- The imbalance between budget and outturn
- The variance in composition
- The misalignment of budget with national priorities
- The lack of independence of the BSS
- Missing legal and technical apparatuses such as the MTEF and the macroeconomic framework
- Lack of diversification in revenue sources
- Political commitment and capacity issues
- Limited control by the legislative body and lack of enforcement of the recommendation of audit reports
- Limited transparency and comprehensiveness of budget activities
- And others



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Thank You