Critiquing Key Novelties and Weaknesses: A Review of South Sudan FY2014/2015 Budget

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1. Introduction

The Finance Minister, Honorable Aggrey Tisa Sabuni, introduced to the South Sudan National Legislative Assembly (NLA) the FY2014/2015 budget on 2 July 2014.[2] While the budget has been passed on 12 August 2014, it is imperative that a critical appraisal of the building blocks constituting the FY2014/2015 is made. From the prevailing discussions—through online chitchats, local radio debates and terse captions in print media—a segment of the public has been prodding tough concerns. Some of these questions boil down to simple macroeconomic goals about price stability, job creation, economic growth and debt sustainability, namely:

(i) To what extent will this budget enhance the wellbeing of present and future generations?
(ii) Is South Sudan mortgaging the future of her children through oil advance sales?
(iii) What are the distributional effects of the FY2014/2015 budget?
(iv) What has been done or should be done to raise non-oil revenues to close budget shortfall?
(v) What trade–offs have been made through the recently approved budget?

For all purposes and intents, the FY2014/2015 budget has already received mixed reactions from all corners. For instance, some Members of Parliament (MPs) hailed it for bringing to light a few novelties while some critics disapproved it for a number of reasons, including allocating trifling share to investments in peace and reconstruction. Although the budget has been passed, this review provides a summary of the headline numbers, the dissection of the so-called building blocks, the macroeconomic environment surrounding oil forecasting, the government's fiscal policy and broader policy agenda concerning tax administration and national indebtedness

The review proceeds as follows. Section II highlights a number of headline numbers, Section III appraises what I consider innovations or novelties in the current budget plan, Section IV

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[2] Due to disruption of economic activities, including oil production stoppage, trade intermission and households missing out on planning season, this budget is only envisioned to achieve its bare minimum goal of maintaining security, keeping government running and providing core services as well as paying down some debts and arrears.

discusses the major weaknesses in the budget, Section V outlines emerging challenges, and Section VI concludes the review.

2. Headline Numbers

While the space and time will not allow us to give a full recital of the details of the approved budget, we find it pertinent to highlight the following figures:

(i) The budget for FY2014/2015 is SSP11.279 billion, which is about $3.8 billion if we take the official exchange rate of $1/2.96SSP or $2.51 billion if we use the parallel market rate of $1/SSP 4. 5 (See Table 2). This budget is an increase (in nominal terms) of 8% by SSP 0.876 billion over the FY2013/2014 budget, which was SSP10.403 billion.

(ii) Grant financing declines by 45% from SSP350 million in FY2013/2014 to SSP192 million in FY2014/2015 budget. This could have made significant impacts. Key infrastructure project such as the Nimule-Juba road benefited from Grant financing.[3]

(iii) Net oil revenues are forecasted to increase by 31% to SSP 8.9 billion from SSP 6.8 billion in the FY2013/2014 budget. This will depend on the improvement of the security situation, especially in Upper Nile.

(iv) A number of new loans (see Table 1) are in the budget, including (i) USD 10 million World Bank loan for **South Sudan Health Repaid Results;** (ii) USD 21 million World Bank for **Safety Net and Skills Development;** (iii) USD 80 Million loan for **South Sudan-East Africa Regional Trade and Development Facilitation Program**; and (iv) USD 150 Million **China Exim Bank loan for Juba Airport.**

(v) As of July 2014, South Sudan debt position stands at SSP7.8 billion, including interest payments. But when one puts into consideration all arrears, "One can expect total indebtedness to exceed SSP10.0 billon."[4] This level of indebtedness translates to 89% of the FY2014/2015 budget. This means that if the debt was to be paid in full during FY2014/2015, for every $100 that South Sudan earns, $89 would pay for the loans while only $11 is left to cater for the national priorities. However, debt repayment is scheduled over several years, ranging between 3 (commercial terms) to 40 (concessional terms) years. [5]

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[3] Grant financing, means aid or development assistance from international development partners, e.g. United States Agency for International Development (USAID).

[4] See National Budget Plan: Financial Year 2014/2015, p. 29.

[5] There must be a debt strategy and the government should also try the domestic market that has so far remained a cash economy by introducing Treasury bills (to close short term gaps) and government bonds

Table 1: New Loans for the FY 2014/2015

Amount In Millions USD ($)	SSP	Lender	Maturity (In Years)	Terms (In %)
10	30	World Bank	40	0.5-0.75
21	62	World Bank	40	0.5-0.75
80	237	World Bank	40	0.5-0.75
150	444	China Exim Bank	15	LIBOR + 3.5
1000	2,962	Oil Companies	Advance oil sale	Terms not given

Source: Draft National Budget Plan: Financial Year 2014/2015, p. 16, Table 7.

The question is, of course, why would we leave out maturity dates and terms for the oil advance sales? Is it because no one is really in charge of public borrowing because many spending agencies or line ministries within the government are involved in negotiating these loans?

3. Three Novelties in the Draft Budget as "Tisaparency?"

As someone who had served before as First Undersecretary for Budget and Planning and later as an Economic Advisor to the President, the Finance Minister knows the essence of presenting to parliament all required documents and as is customary in East Africa. Three innovations were made in this year's budget. It is the basis upon which we must applaud Hon. Sabuni for endeavoring to produce a document, which was never delivered before since 2005: Financial Bill as of June 2014.[6] This was the first time in the history of the Republic of South Sudan that such a document was produced and presented to the National Legislature alongside the Draft Budget Plan and Appropriation Bill. Therefore, in what I call "Tisaparency," Hon. Aggrey Tisa, brought to parliament various rates, fees and charges as they are without modification. By presenting things as they are charged or levied by various government agencies involved in collecting such fees, taxes or levies, the Minister, thereby, achieves modicum of fiscal transparency, hence the coinage of "Tisaparency."

Furthermore, the Minister in question pleaded with the NL committee on the Economy, Development, and Finance to scrutinize these taxes and rates such that by the end of the day, the august house is in a position to increase some rates or decrease others depending on what makes

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(for longer term financing) to capture excess resource in the banking system. In particular, government bonds are an effective instrument to address domestic arrears.

[6] Laws of South Sudan: Financial Bill, 2014/2015.

economic sense. After all, some rates in the FY2014/2015 Financial Bill are too low while others are too high, hence the call for adjustment.

The second innovation and for which we should applaud Hon. Tisa is the simplified presentation of the budget into six (6) building blocks. The latter gives a pithy summary of the resource allocations.

Third, there is also some clarity on how to spend the Emergency Contingency fund. One such innovative clause states that "Spending from Emergency Fund shall be authorized by a resolution arising from a meeting of the Council of Ministers at which the Minister of Finance and Economic Planning is in attendance" and it goes on to add that "Individual expenditures from the Emergency Contingency Fund shall not exceed thirty million South Sudanese Pounds (SSP 30,000,000).[7] While it is one thing to make claims, it is another to stick to what is laid down. Whether the government will observe these strict guidelines or whether these innovations will remain in the book just to hoodwink the public is another question. The proof of the pudding, of course, is absolutely in the eating.

4. What are the Major Weaknesses of the FY2014/2015 Approved Budget?

My arguments in this section are based on Table 2 below. Frugality, strict budget planning & execution, economic diversification agenda and cautious optimism have not been part of the budget narratives in South Sudan from the Comprehensive Peace Agreement (CPA) era through oil shutdown in 2012. The issues of path dependence and persistence of bad practices, I would argue, continue to affect the budget, including the present one. Therefore, despite the "Tisaparency" and attendant innovations, the FY2014/2015 budget suffers from the following key Achilles' heel:

(i) It is unfortunate that salaries make up about 40% of the overall budget (see Table 2). A regional comparison tells that South Sudan is spending more on salaries and in contradiction to the mantra "taking towns to people in the rural areas." How can you take "towns to people in the rural areas" when nothing goes to development while conspicuous consumption is surging? It is manifest from Table 2 that consumption (C) is given a priority over investment (I). A look at the various components of the gross domestic production (GDP) will make this point succinctly clear. For simplicity, GDP = C + I + G + (X-M), where C is private consumption (i.e. final household consumption), I is investment (by firms and households, e.g. new buildings, new machinery, etc.), G is government expenditure (e.g. salaries of government employees, construction of new

[7] Laws of South Sudan: Appropriation Bill, 2014/2015, June 2014, p. 5.

public goods, such as roads, bridges, new office buildings, etc.), X denotes exports of goods and services, and M is import of goods and services. Although consumption (C) by households has a positive bearing on the domestic production, the problem with this is that consumption in South Sudan is by elites in the urban areas and it happens not to be broad-based. Second, this kind of consumption is mostly spent on imports (M) of goods and services, leading to trade imbalances. In other words, South Sudan imports nearly everything and exports nothing except oil, hence, the difference between exports and imports (X-M) is in the negative.

Table 2: Building Blocks Budget Allocations of All Fund Sources

S/N	Spending Category	Allocations (in SSP Millions)	As % of Resource envelope[8]
1	Salaries	4,378	38.8
2	Transfers to States and Counties	2,470	21.9
3	Basic Operating Costs	2,704	24.0
4	Arrears	800	7.1
5	Emergency Contingency Fund	250	2.2
6	Priority Investments in Peace & Reconstruction	676	6.0
Grand Total		11,279	100

Source: Draft National Budget Plan: Financial Year 2014/2015, Table 9, p. 17

(ii) While arrears are said to be paid from the allocated SSP800 million, the Minister himself admits that no one really knows the magnitude or totality of arrears because too many '"VIPs", and unscrupulous spending agencies, waste money in hotel payments by committing the government to contractual obligations before the fund gets approved.[9] While this vice is identified, there are no real policies in place to correct these budget execution anomalies, and so these resources will go to "rat holes" without filling them. Not even the MoFEP has come up with a serious fiscal policy to curb such incensing foible in the planning and execution of the budget. The size and treatment of arrears is a concern. The government should assess all arrears and set a plan to clear them over a period of time and adopt a policy to stop accumulating them;

[8] These percentages, estimated to one decimal place, are author's own computations.

[9] The Minister says in his budget speech that "Firstly, Agencies routinely enter into commitments for which funds are not available, and then present them to the Ministry of Finance for payment…the pressure brought to bear to pay the contractor is just too great" (2014/2015 Budget Speech p. 7).

(iii) Just about 22% of the overall budget goes to the states and counties. But what message is this allocation sending to the general public? That the government is indirectly encouraging people to move to towns, especially to Juba the capital of South Sudan where they will likely enjoy close to 80% of GRSS expenditures. Moreover, this allocation is likely to be all for consumption (e.g. salaries and operating cost; see Table 2).

(iv) The budget and accompanying speech fail to seek ways to consolidate powers to borrow. As things stand, it is unfortunate that a number of ministries or agencies have propensities to negotiate their terms of loans on behalf of the government. Such loans tend to have unfavorable repayment schedules, short tern maturities and with middlemen, the so-called "arrangers" reaping where they have sown or siphoning off millions from the national purse. That Hon. Tisa has not bothered in this budget speech to seek or take courage to ask for consolidation of all borrowing options under one authority is an error that may come to haunt this nation in years ahead.[10]

(v) One would think that priority should have been placed on building block number six (6), which pitiably gets 6% of the overall budget. With three states destroyed and a call to maintain peace in others on the rise, 6% is like a drop in the ocean. If the government is serious about peace and reconstruction, this figure should be revised upward. Besides, this is contrary to the logic of "peace through development" principle of the ruling party – Sudan People's Liberation Movement (SPLM). And by giving low priority to investment, especially transformational infrastructure, the FY2014/2015 has ensured that South Sudan is stuck in the fragility trap, which is propelled by resource curse underpinned by crisis of governance.[11]

(vi) The budget relies too much on oil revenues to pick up after resumption of production but then December crisis came along unexpected. Further, a laundry list of issues dogging effective budget management is mentioned without any serious plans on how to address them. I wish that the Minister should have spent some time to advise the National Legislature or take policy actions in his capacity to tackle the problems he identified as "poor mobilization of non-oil revenue, bad procurement practices, arrears accumulation, weak budget discipline and excessively large payroll." There is a little emphasis or no

[10] This statement reads like a chapter on the "underlying factors" of every Latin American debt crisis of the last 70 years. The situation suggests the need to refocus the policy debate on fundamentals: structural reform for growth and, where needed, restructuring of the debt projection. This will require more innovation and political will.

[11] See Deng, et al. (2014). A Conceptual Framework for Resolving the Crisis of Governance and Leadership in South Sudan, a paper Presented in Juba, South Sudan, during Development Policy Forum Workshop, 19 August 2014.

definite solutions to problem on non-oil revenue.[12] The issues of tax multiplicity at point of entry, those tax officials who have deserted the country during the crisis, and customs officials pocketing of these scarce resources hardly get the attention they deserve.

5. Emerging Challenges

Given the fluidity of the current political environment or situation, South Sudan is yet to recover from one of the world's worst man-made disasters, aggravated by poor and decimated infrastructure. By the end of the year, more than a third of South Sudan's population, that is 4 million people will be on the edge of starvation 1.5 million will be internally displaced, and many more will be refugees, if peace agreement is not reached by then. These challenges will require much more investment than has been allocated so far.

6. Conclusion

While "Tisaparency" is apparent in this budget through his innovation in introducing the FY 2014/2015 Financial Bill alongside the number of requirements, the approved budget is, in my view, perpetuating the fragility of South Sudanese state by giving low priority to investment. For instance, little is devoted to development and peace while two-thirds of the budget is allocated to salaries and operation cost, leaving only 22% for the states and counties where the bulk of our population dwells. This is a mismatch between government vision of developing rural South Sudan and spending priorities. Such priorities should have been in peace and reconstruction, social and humanitarian, spending to preserve key economic sectors and solve the capacity gap. Moreover, too much emphasis is put on oil production picking up and if this does not materialize, the outcome will be played differently, maybe taking more oil advance sales or taking unconsolidated loans as has been the case and these have negative consequences on the overall development of the country. Hence, the FY2014/2015 budget is on the one hand an instrument for mortgaging the future of South Sudan, and on the other a vehicle for reinforcing our stay in a fragility trap.

[12] Recall that Hon. Tisa Sabuni promised to raise 90 million South Sudanese pounds (SSP) of oil revenues within 100 days of taking office. It looks like the Minister did not think hard enough about how to achieve that promise or at least what measures should have been put in place to raise non-oil revenue.

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