



Government of Southern Sudan

Revenue, Transparency and Pro-Poor Spending

Sudan Consortium
Paris, March 10, 2006



Presentation Outline

- 1. Introduction**
- 2. Main Sources of Revenue**
- 3. Budget Development in 2005**
- 4. Budget Outlook for 2006**
- 5. Looking Ahead**



1. Introduction: Budget Context

- ✿ Introducing budget culture after more than 20 years of prolonged conflict
- ✿ Enormous costs of war
- ✿ High expectations
- ✿ Limited capacity at all levels of government
- ✿ Uncertainty of resource envelope
- ✿ Reliance almost wholly on oil revenues
- ✿ But opportunity to take charge of own future, break circle of violence and embark on a journey of sustained peace and development



Overall Goal of Economic Development

The budget development process has been guided by the overall goal of economic development strategy as defined in Article 40 (1) of the Interim Constitution of Southern Sudan:

“The overall goal of economic development strategy in Southern Sudan shall be:

- (a) the eradication of poverty;
- (b) attainment of the Millennium Development Goals;
- (c) guaranteeing the equitable distribution of wealth;
- (d) redressing imbalances of income; and
- (e) achieving a decent standard of life for the people of Southern Sudan”



2. Sources of Revenue

The main sources of revenue for GOSS, as specified in the Interim Constitution of Southern Sudan, include:

- ✚ Oil revenue from oilfields in Southern Sudan (50%) and Abyei area (42%)
- ✚ Non-oil Revenue (11 sources) including 50% of national non-oil revenue collected in Southern Sudan
- ✚ External development financing (CBTF and MDTF)



3. Budget Development in 2005

- ✿ **Preparation started during the pre-interim period with technical team from SPLM and Southern Sudan Coordination Council.**
- ✿ **Consultative process involving all spending agencies and development partners.**
- ✿ **Originally intended to cover period of July 2005 – December 2005 after the formation of GOSS.**
- ✿ **Presented to Southern Sudan Legislative Assembly by end of November and unanimously approved in December.**
- ✿ **JAM was used as basis for prioritizing 2005 expenditure**



GOSS Accounts 2005: Revenue (\$ 000)

Total Revenue	648,029
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Of which oil revenue	798,400
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Oil Revenue Stabilization	A/C
70,300	

Less Oil revenue outstanding
(80,600)

Less Direct Expenditure	
(118,835)	Less Bank Charges
(21,500)	

Actual Oil Revenue Received	647,765
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Non-oil Revenue/Income
264



(b) GOSS Accounts 2005: Expenditure (\$ 000)

Total Public Expenditure **188,671**

Of which Personnel **23,801**

Travel and Visits
7,619

Military and Security
17,767

Training
763

Banks Charges and Exchange Costs
10,020

Operational Expenditure
16,461

Capital Expenditure **3,835**

States' Personnel
80,675



(c) GoSS Accounts 2005: Balances (\$ 000)

Total Balances
459,358

Of which Advances **5,055**

Letters of Credit **2,465**

Bank and Deposits
488,138

Less Unity State 2%
Oil Revenue Deposit
(36,300)



→ Challenges during 2005

- ✚ Lack of clarity of the GoSS oil revenue share.
- ✚ Multiple authorizing authorities (SSCC, SPLM, GNU and GOSS) and the consequent problems of reconciliation of accounts in 2005.
 - ✓ GNU still incurring expenses on behalf of GOSS
- ✚ Size of Civil Service and Payroll not established.
- ✚ Ad hoc cash management resulting in opening various bank accounts and high transaction costs (bank charges and forex)

→ **Commitment to Remedial Measures and Next Steps:**

To fulfill our commitment not only to account for 2005 but also to establish a sound basis for financial management system so as to ensure transparency and accountability, we will urgently establish and formalize necessary systems and capacity



4. 2006 Budget: Context

- Most levels of government have been established and expenditure needs are growing rapidly.
- More participatory and policy driven budget ceilings.
- Several technical advisers in place, with exposure to best international practices.
- Based on projected 2006 resources (oil revenue US \$1.3 billion and US\$4 million non-oil revenue) plus expected external development assistance.
- GFS (government financial and statistics) system and thematic linkages to be used to classify spending



2006 Budget: Preparation

- ✿ Budget allocations across sectors have been guided by GoSS's development priorities, JAM framework, spending needs, capacity and GOSS counterparts obligations (MDTF FPP).
- ✿ Budget framework and ceilings cleared by Council of Ministers and circulated to all spending agencies.
- ✿ Training imparted to officials of spending agencies on budget preparation.
- ✿ Expected to be finalized and presented to Parliament during March 2006
- Budget year for 2006, April – December; for 2007, fiscal and calendar years will be fully aligned.

Planned Allocations for 2006

Sector	GOSS Budget Expenditure Share %	GOSS Allocation (\$ millions)	Expected Co-Financing by MDTF (\$ millions)
Accountability	1.5	15.6	4.3
Economic Functions	1.4	15.0	15.0
Education	13.3	140.0	
Health	10.5	110.0	33.0
Infrastructure	29	305.0	50.0
Justice, Law and Order	6.5	68.6	20.0
Natural Resources and Rural Development	5.8	61.2	15.0
Public Administration	1.1	12.1	12.5
Security	20.9	220.0	0.0
Social Services	0.9	9.0	0.0
Transfers to States	9.1	95.2	0.0
Recovery-related			33.1
Reserves		252.42	
Total		1,304	180.9



Budget Strategy for 2006

- ✿ Infrastructure, health, agriculture and education are clear priorities, alongside the need to improve security on the ground.
- ✿ Substantial transfers to States and local government (unconditional and conditional grants).
- ✿ Provision for reserves to cater for future cost of pension benefits, uncertainties in flow of oil revenue and limited current absorptive capacity.
- ✿ The low absorptive capacity of most spending agencies, which poses challenges in implementing development activities, taken into account.



5. Looking Ahead: GOSS Commitments to improve public financial management in 2006

- Working with National Petroleum Commission and the Oil Joint Committees to improve the clarity and predictability to the flow of resources from oil revenue
- A public finance bill to be prepared and submitted to the Parliament for approval.
- Procurement law (now in draft), rules and regulations for GoSS and MDTF funds
 - Contracts structured so as to provide incentives for contractors to fully mobilize at the beginning of the dry season and to finish their work by the end of dry season.
- Procurement and external audit agents in place (tender underway).
- **Setting up a comprehensive pay-roll and payment systems, for both the civil service and army.**



GOSS Commitments to Improve Public Financial Management in 2006

Capacity building, training and staffing, particularly in public financial management and for critical posts (undersecretaries and director level) and critical core spending agencies.

Account and audit 2005 public expenditure and harmonize and reconcile accounts.

- KPMG has been contracted to assist not only in accounting for 2005, but also in helping to establish a sound system.

- ✿ Establish a Treasury Single Account where all revenues and expenditures of the GOSS can be transparently consolidated and accounted for.
- ✿ Formalize strategy and rules with respect to reserves and reserve management and to ensure transparency in allocations and expenditure.
- ✿ Regular public expenditure review and pro-poor spending and report regularly to public and Parliament on public expenditure.



GOSS Commitments to Improve Public Financial Management in 2006

➤ **With assistance from IMF, compile (monthly) and publish (quarterly) fiscal reporting data (economic and financial classification) according to GFSM.**

➤ **Ensure full accountability of public officials and decision-making:**

- **Adopt a code of conduct and conduct of business (a draft is ready) for the Cabinet to ensure transparent public resource management.**
- **Establish and operationalize Southern Sudan Audit Chamber.**
- **Establish Fiscal and Financial Allocation and Monitoring Commission.**
- **Establish Anti-Corruption Commission and**
- **Support supervisory role of Parliament and facilitate establishment of effective media and civil society to ensure access to public information.**



GOSS Reserves Strategy and Rules

- **Southern Sudan is unique among low income post conflict situations in terms of the amount of domestic resources available.**
- **Need to build up some financial reserves given downside risks of virtually total dependence on oil and the desire to avoid local taxes that inhibit private sector development.**
- **Expected inverse relation between capacity to manage and spend, and resource availability – focus now on establishing sector programs that can be expanded to scale.**
- **Accumulation of reserves so far also reflects the especially unusual nature of 2005 – in particular that the GOSS was not established until September, that civil service not yet created, which affected the pace of putting development programs in place, and that the flow of funds was very unpredictable (and concentrated in the latter part of the year).**



GOSS Reserves Strategy and Rules

Commitment now is to:

- **Establish clear procedures – for accumulation, and drawdown of reserves.**
- **Select one or two global financial organizations, through a competitive process, to manage GOSS reserves.**
- **Regularly publish accounts related to reserves management.**

GOSS External Development Financing Trends and Plans, 2005 – 2006 (\$ millions)

	2005	2006
GOSS poverty reducing expenditure	106.7	792.9
JAM estimated external support	263	530
Externally financed recovery/development:		
<i>MDTF Southern Sudan</i>	70	180.9
Bilateral Programmes (preliminary figure)	138.4	NA
Work-plan development and recovery	78.3	76.5
<i>Work Plan: Humanitarian component</i>	328.3	562.95
Total JAM needs (\$ millions)	608	1,290




Looking Ahead: Why is External Support Critical?

The value-added of development assistance planned for 2006 and 2007 is not mainly the actual dollars, though that is critical

The key potential contribution of development assistance is in helping the GOSS to establish robust sectoral programs that can expand to scale to bring much needed technical assistance to ministries and to support transparency and good fiduciary standards for large contracts.

- Example of infrastructure, co-financed by the MDTF enabled joint design of \$770 million three-years program, with the GOSS providing the vast bulk of resources, but the WB and partners contributing urgently needed technical advice and design capacity as well as systems for sound procurement of large contract.**



Looking Ahead: Scaling up Development with External Support

- ✿ Increasing focus on pro-poor spending with about 55% of 2006 budget directed to pro-poor activities
- ✿ Donor disbursements were constrained in 2005 and expected to accelerate in 2006 and should refocus towards development
- ✿ Development assistance rising significantly in 2005 and 2006, but running below JAM projections both in per capita and absolute terms
- Requesting \$300 million to support 2006 budget and to reach a target of at least \$37 per capita as an average external development support in 2006