



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

SOUTH SUDAN

Strengthening Budget Execution

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High-Level Summary Technical Assistance Report Fiscal Affairs Department

South Sudan: Strengthening Budget Execution

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: Public financial management reforms in the Government of South Sudan are proceeding within a challenging environment as the post-civil war recovery remains fragile. As a result, the Ministry of Finance and Planning faces significant challenges in preparing realistic budgets and enforcing disciplined budget execution. To strengthen budget execution, the key areas requiring reform include strengthening processes for the management of expenditure and controlling commitments; improving fiscal reporting to ensure it is timely, accurate, and comprehensive; and improved cash management, particularly through implementing a Treasury Single Account. The Government has requested the assistance of a Fiscal Affairs Department Resident Public Financial Management Advisor who has been appointed and will support several reforms to budget execution, cash management, and fiscal reporting.

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Background

Public Financial Management (PFM) reforms in the Government of South Sudan (GoSS) are proceeding within a challenging environment as the post-civil war recovery remains fragile. The deadlines for key reform milestones of the Revitalized Agreement on the Resolution of Conflict in South Sudan (R-ARCSS) of September 2018 are now extended to 2024, which includes economic and PFM reforms.

Due to the difficult political and economic environment, the Ministry of Finance and Planning (MoFP) faces significant challenges in preparing realistic budgets and executing the budget with discipline, leading to severe cash shortages resulting in cash rationing and the accumulation of expenditure arrears.

The authorities requested the IMF scale up its technical assistance provided from the Fiscal Affairs Department and East Africa Regional Technical Assistance Center, through the placement of a resident PFM advisor in Juba. The IMF team visited Juba as the FAD Resident PFM Advisor assumed his duties on July 17, 2023, to review the progress of reforms to budget execution and cash management, liaise with development partners, and finalize the terms of reference for the new adviser.

Summary of Findings

Strengthening budget execution. The provisions of the Public Finance Management and Accountability Act, 2011 (PFMAA 2011) provide a sound foundation for expenditure control, however, in the absence of PFM regulations and procedures to guide ministries, departments and agencies (MDAs), the legal provisions are not enforced in practice. Expenditure controls are weak, largely due to poor commitment controls and payment procedures that have led to a build-up of a considerable stock of expenditure arrears. MDA spending limits are based on budget estimates rather than cash availability, and a cumbersome and error prone paper-based payment process is followed. A large amount of oil revenue is earmarked, and the administration costs for tax revenues is high, constraining the government's ability to allocate these funds to development priorities. The Integrated Financial Management Information System (IFMIS) already includes the modules that will facilitate improvements, such as revenue recording and expenditure commitment, and there is a commitment of the authorities to better utilize the existing functionalities of the IFMIS to help strengthen expenditure controls and fiscal reporting,

Cash Management and Treasury Single Account. Some progress has been made in improving cash planning and establishing a Treasury Single Account (TSA), however challenges persist. These challenges include: the cash plan is not being used effectively to inform the decisions made by the Cash Management Committee; the accuracy of cash forecasts and timeliness is weak; and the narrow scope of the TSA, as defined in the memorandum of understanding with the Bank of South Sudan, does not allow the government to fully benefit from cash pooling.

Fiscal reporting and transparency. In-year fiscal reports are prepared, albeit often with significant delay and not in full compliance with legally mandated in-year reporting requirements. Annual financial statements have not been prepared since 2011, however, steps have been made to resolve the backlog with the support from development partners. The newly launched MoFP website is a good development and an opportunity to make further progress in enhancing fiscal transparency.

PFM Reform Strategy and Capacity Development. The GoSS has endorsed a PFM Reform Strategy Concept Note and Roadmap, which communicates its commitment to the PFM reform priorities defined in the R-ARCSS and in line with the FAD advice. While some progress has been made in implementing these reforms, the pace of reform has been variable and slower than expected, and the MoFP needs to further build its human resource capacity to successfully implement the desired PFM reforms.

Summary of Recommendations

The report includes recommendations to strengthen budget execution processes. These include preparing and adopting supporting PFM regulations, procedures, and additional guidance for MDAs to implement the expenditure control mechanism, as provided for in the PFMAA 2011. These procedures could include using the cash plan to inform cash limits on monthly/quarterly MDA expenditure, rather than setting limits based on budget estimates; redesigning the commitment control and payment process and enforcing expenditure controls through the IFMIS' in-built functionality; gradually expanding the coverage of the IFMIS, starting with key spending agencies; and strengthening the agreement with the Bank of South Sudan. A dedicated team should be assigned to prepare and regularly update the cash plan and align budget releases with the projected cash flow forecasts in the IFMIS, thus aligning commitments with cash availability.

To strengthen fiscal reporting, the report recommends that the MoFP should develop and adopt fiscal reporting forms and regulations to operationalize the PFMAA 2011 and specify the requirements for quarterly, semi-annual, and annual reports. The IFMIS should be used to record all financial transactions and support the preparation of regular fiscal reports.

The authorities should continue closely monitoring their existing PFM reform priorities and consider initiating consultations for developing a medium-term PFM reform strategy. The latter should focus on a small number of priority areas that are well sequenced and reflect the government's reform capacity.

The Terms of Reference for the Resident PFM Advisor were agreed and will focus on supporting the authorities' efforts in strengthening budget execution and expenditure controls, fiscal reporting and other priority objectives as identified and discussed during the mission and laid out in the technical report.