Currency and Exchange Rates

Currency unit = South Sudan Pound (SDG)
US$ 1 = SDG 3.5 (As of September 5, 2011)
Government Fiscal Year (FY): January 1 – December 31

List of Abbreviations

AFS    Annual Financial Statements
CIFA   Country Integrated Fiduciary Assessment
FAPRO  Financial and Accounting Procedures Ordinance
GoSS   Government of Southern Sudan
GRSS   Government of the Republic of South Sudan
HRMIS  Human Resource Management Information System
IFC    International Finance Corporation
IFMIS  Integrated Financial Management Information System
IPPDR  Interim Public Procurement and Disposal Regulations
IPSAS  International Public Sector Accounting Standards
LICUS  Low Income Countries Under Stress
MoFEP  Ministry of Finance and Economic Planning
MoLPS  Ministry of Labor and Public Service
MoFTI  Ministry of Finance, Trade and Industry
NBGS   Northern Bahr el Ghazal State
NGO    non-government organization
OECD-DAC Organisation of Economic Cooperation and Development-Development Assistance Center
PEFA   Public Expenditure and Financial Accountability
PFM    public finance management
PPU    Procurement Policy Unit
SDG    Sudanese pound
SMoFEP State Ministry of Finance & Economic Planning
SPLA   Sudan Peoples’ Liberation Army
SPLM   Sudan Peoples’ Liberation Movement
SRA    State Revenue Authority
SSEPS  Southern Sudan Electronic Payments System
SSLA   Southern Sudan Legislative Assembly
SSPAR  South Sudan Procurement Assessment Report
UNDP   United Nations Development Programme
USAID  United States Agency for International Development
USD    US dollar
South Sudan
Integrated Fiduciary Assessment

Volume 1

Main Report

WORLD BANK
Operational Core Services
Africa Region

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Executive Summary

Conceptual Framework for This CIFA

The purpose of this Country Integrated Fiduciary Assessment (CIFA) is: (i) to assess the quality of public finance management and procurement systems in South Sudan; and (ii) to then determine the extent of fiduciary risk posed to domestic and external taxpayers by the government’s use of their funds through these systems. South Sudan has great potential for further increases in living standards, but achieving them will require large improvements in public services, both in access and in quality. In turn, public finance management (PFM) and procurement systems need to be strengthened in order to improve public services; this will require linking spending more tightly to policy objectives and strengthening the operational efficiency of expenditures. In sum, strengthened PFM and procurement systems are not an end in themselves but, rather, the necessary means to achieving the ultimate objective: improved service delivery in South Sudan.

This CIFA will be used by the Government of the Republic of South Sudan (GRSS) and by the country’s state governments to inform their design or reforms of PFM and procurement systems and, in the case of development partners, to inform their design or revision of technical and financial assistance programs and projects in support of the reforms.

This CIFA integrates a number of reports prepared during 2011 for these purposes:

- Assessment of the PFM systems of the GRSS and four state governments (Northern Bahr el Ghazal State or NBGS, Jonglei State, Unity State, and Western Equatoria State), using the Public Expenditure and Financial Accountability (PEFA) Framework. The assessments were the first to be carried using the PEFA Framework.

- Assessment of the procurement systems of the same governments in the form of a South Sudan Procurement Assessment Report, which was prepared using the baseline indicators (as well as compliance and performance indicators) system of the Organisation of Economic Co-operation and Development (OECD) Development Assistance Committee.

Progress in PFM and Procurement Reforms and Remaining Challenges

Reforms to PFM and procurement systems have been taking place since the Comprehensive Peace Agreement in 2005, which ended decades of conflict that had resulted in an almost complete erosion of public services. However, the reforms are far from complete, and challenges remain. The emphasis has been on “getting the basics right”
in terms of planning and budgeting, revenue administration, budget execution (including procurement), internal controls, and accounting and reporting systems. The Ministry of Finance and Economic Planning (MoFEP) has driven the process, the initial focus being on GoSS. The four state governments that were assessed are still in the early stages of reform, with Western Equatoria State somewhat ahead of the others. Progress has been identified as follows.

Planning and Budgeting (Performance Indicators 5, 11, 12)

**Much progress has been made in developing robust planning and budgeting systems.** The budget preparation is divided into a strategic phase and an estimation phase. In the strategic phase, objectives and priorities are reviewed and decisions are made on re-prioritisation and intersectoral allocation of available fiscal space. The budget is organized on a program basis, which shows the linkage between policies and spending. A budget calendar is in place and largely adhered to, and a budget call circular, issued at the beginning of the estimation phase, contains spending ceilings within which spending agencies must fit their budget submissions.

At the time of the PEFA assessment, the budget preparation process was being streamlined using a database format in place of a spreadsheet format, and the budget classification system was being rationalized to clarify the hierarchical linkages between the program and administrative structures.

**Challenges are these:**

- **To increase the political ownership of the budget.** Although the reformed system appears sound on paper, in practice the strategic phase is partly a paper exercise, since the political leadership has little involvement in establishing priorities. With South Sudan now managing its oil revenues directly and earning these in larger quantities than before, it is now more important than ever for politicians to exert leadership in stipulating spending priorities. A practical recommendation would be for the Council of Ministers to be fully involved during the strategic phase and be responsible for setting the indicative budget ceilings in the planning and budgeting process.

- **To have spending agencies prepare strategic plans.** Strategic plans would enable closer linkages between spending and policy objectives and priorities. The national development plan currently under preparation would provide the basis for the preparation of such plans.

To anchor the budget within a medium-term perspective. Doing so would provide a forward-looking perspective to budgeting, given that public services are delivered on a multiyear basis.
Revenue Administration (Performance Indicators 13, 14, 15)

**Strengthening is still in its early stage.** A tax law was approved by the South Sudan Legislative Assembly (SSLA) in 2009, which, in principle, provides for a robust tax administration system. Due to a technicality, the law has yet to be published and thus is still not fully in effect.

*The main achievement so far has been taxpayer education campaigns* at both the central government level and, in some states, at the state level—particularly in NBGS, which, along with Western Equatoria State, has its own Revenue Authority (Unity and Jonglei states fall under the GoSS Tax Law). The concept of a unique Taxpayer Identification Number system, essential to strengthening compliance with tax registration and declaration requirements, is getting off the ground. A tax audit system, essential for self-assessment, particularly in relation to corporate income tax, is nearing the operational stage at the GRSS level.

*Tax collection systems are in place, but given the lack of transparency and the less-than-robust control systems, leakage is a significant risk.* The largely manual system of controls mandated under the Government of Sudan’s 1995 Financial & Accounting Procedures Regulations provided an elaborate system that in principle guarded against such leakage, but the robustness of that system has diminished since the Comprehensive Peace Agreement. The division of tax collection responsibilities between GRSS and the state and county governments, despite considerable debate on the subject, is highly non-transparent, resulting in taxpayers being taxed multiple times at jurisdictional boundaries. The economic costs are considerable in terms of both the financial burden and the transaction-time burden they place on taxpayers.

Budget Execution and Cash Management (Performance Indicators 4, 16, 17, 19, 20 & SSPAR)

*The introduction of an integrated financial management information system (IFMIS) at the GoSS level in 2008 should have strengthened budget execution, in principle, but in practice it has not.* The controls in IFMIS that guard against overcommitting expenditures relative to approved budget and cash availability are not being used; instead, IFMIS is being used mainly to generate budget execution reports on the basis of data input from outside the system. Spending agencies attempt to get access to as much of their approved budget as possible as early in the year as possible. Reallocations within and between spending agencies take place during the year, even though much of the expenditure has already been committed according to the approved budget. Expenditure commitments are entered into that are not budgeted for, the most notorious example being the large food grain contracts entered into in 2007. Procurement planning, when it is done, is hardly being used as an effective planning and management tool. If the manual-based Financial & Accounting Procedures Ordinance had still been in place, this situation might not have arisen.
The result has been a cash rationing system, due to insufficient revenues to fund expenditures -- even though revenue performance has generally been higher than budgeted revenues -- and accumulations of arrears. Including the outstanding payments liabilities arising from the food grains/dura contracts, pending payments outstanding at the end of 2010 amounted to more than 100 percent of 2010 expenditure, and a significant proportion of those outstanding payments dated back more than one year. The cash rationing system has also negatively affected planning for efficient budget execution, since neither spending agencies nor prospective suppliers have a high degree of confidence that the financial resources will be available for making payments.

The cash constraints have been exacerbated by the only partial operation of the Centralized Payments System and underlying ‘Payments Procedures’ that were established in 2007, under which MoFEP pays suppliers directly above specified thresholds. Instead, some spending agencies have succeeded in having funds released into their bank accounts before they actually needed them; the cash rationing system provides an incentive for this behavior, but at the same time the liquidity situation is made worse for other budget institutions.

The procurement system is highly non-transparent, and it is unlikely to be providing best value for money for spending agencies during the budget execution process:

- The legal and regulatory framework is weak. A procurement law still is not in place, although one has been drafted, and procurement is being regulated through the Interim Public Procurement and Disposal Regulations (IPPDR) issued in 2006. These regulations contain many good features, including the stipulation of open competition as the preferred procurement method, but they are not comprehensive and do not have legal force. A comprehensive procurement bill that addresses a number of the problems with the IPPDR has been prepared, but at the time the PEFA assessments and SSPAR were being written this bill still had not been enacted. Moreover, many issues are left to regulations that are as yet unformulated. Ideally, the regulations should be prepared and submitted to the SSLA alongside the draft act. The Procurement Policy Unit in MoFEP has not been able to exert its oversight and regulatory authority. Enactment of the public procurement bill would

- The draft procurement bill mentioned above, though sound in many areas, nevertheless omitted some issues that should be addressed. (Detailed comments on the draft bill are contained in sections is 4.2.6 and 4.2.7 of Volume 3.)

- The institutional framework for procurement and procurement management capacity is weak. This is a major reason both for the lack of a cohesive framework governing procurement operations in spending agencies and for a high proportion of procurement being conducted through the single-source method. Due to a lack of legal force and weak capacity, the Procurement Policy Unit in MoFEP has not been able to exert its oversight and regulatory authority. Enactment of the public procurement bill would
greatly help the Procurement Policy Unit or its successor exert its authority. Furthermore, the institutional framework for procurement in spending agencies is deficient, with **unclear division of responsibilities between procurement units and other departments in the agencies.**

- **Capacity limitations abound, both in terms of management in spending agencies and in terms of technical procurement and contract management capacity.** Capacity is gradually being built, partly through useful institutions such as the Government Accountancy Training Center, but shortages of skilled managers and staff (including staff in other PFM functions such as accountants) continue.

- **Private sector participation in the procurement market is still in its early stages.** Achieving value for money in procurement is easier if a functioning private sector is in place. However, the domestic private sector faces many constraints that inhibit its efficiency and ability to bid for government procurement contracts: poor infrastructure leading to high transport costs, duplication in tax payments due to different levels of government imposing the same taxes, weaknesses in the legal framework, and difficulties in accessing credit due to an underdeveloped financial system.

- **Mistrust between the public and private sectors is deep-seated.** Spending agencies are afraid of being deceived, as has happened on some occasions (e.g., contractors have disappeared with down payments provided to them, with no work having been performed). The private sector is justifiably concerned about the lack of transparency in the procurement system and in the PFM system as a whole and about the associated level of corruption. A major reason for concern is long delays in payment for completed work; the delays are due to cash shortages in government arising from deficiencies in the budget execution systems.

- **The public procurement system lacks integrity and transparency.** In addition to the budget execution deficiencies indicated above, the lack of integrity and transparency is due to four additional causes:

  (i) Very little information is available to the public on procurement operations, even on contract awards. This is partly because, in the absence of an effective oversight authority, limited systems are in place to collate procurement operation data and report to the Procurement Policy Unit.

  (ii) An independent complaints adjudication body is lacking. The Procurement Policy Unit, which is the last port of call for prospective suppliers to raise questions about transparency in selecting contractors, is not independent, since it is part of the procurement system.

  (iii) Internal and external audit systems are still in the early stages of development.
(iv) The South Sudan Anti-Corruption Commission lacks prosecutorial powers.

Payroll Controls (*Performance Indicators 18, 20*)

*Controls over the payroll have strengthened over the last two years through the introduction of an IT-based electronic payroll processing system (Southern Sudan Electronic Payments System) and Human Resource Management Information System, but the accuracy of personnel records is an issue.* Payroll and human resource management are the responsibility of the finance and human resource departments in each spending agency, and coordination between them is reasonable, while the Ministry of Labor and Public Service provides an independent check between its data files and the personnel records of spending agencies. Cooperation between that ministry and the MoFEP is also reasonable in ensuring consistency between the payroll and the Human Resource Management Information System (they are not yet linked). Nevertheless, the personnel records are not necessarily accurate; people may be on the payroll even if they are not working, as the geographically dispersed nature of some ministries with large numbers of staff (e.g., health and education) makes it difficult for the head offices in Juba to keep track of the staff situation.

The accuracy of the personnel records is improving at both levels of government, as a result of the Southern Sudan Electronic Payments System and Human Resource Management Information System, but monitoring of attendance is an issue. The Human Resource Management Information System is being rolled out at state government levels, supported by the establishment of state-level ministries of labor and public service. The central Ministry of Labor and Public Service believes the number of “ghost” workers has fallen sharply over the last two years and that remaining inaccuracies are minor in scope. The biggest challenge now is not so much identifying whether people are on the payroll when they shouldn’t be, but identifying whether people are actually working when they should be working and not taking unauthorized absences. Line ministries are therefore being encouraged to maintain daily attendance records.

Non-payroll Controls (*Performance Indicators 20, 21*)

*In addition to controls not working well in relation to expenditure commitments and use of the Centralized Payments System, as indicated above, they are also not working well in terms of accounting, reporting, some aspects of revenue collection and real asset management.*

Controls over provision of information by spending agencies to MoFEP on their bank account balances are not in place. Spending agencies do not provide information to MoFEP on the balances held in their bank accounts and do not provide bank reconciliation statements either. GRSS revenue and expenditure records are therefore only partly being reconciled with bank balance data.
Controls over accounting for petty cash are not complied with. A major area of non-compliance with accounting and reporting requirements is the accounting for the use of petty cash by spending agencies. Each month, spending agencies are provided with a cash advance up to a specified limit (SDG 80,000) and can use this to purchase goods and services with a value no greater than SDG 4,000 provided that the use of this is accounted for and reported to MoFEP at the end of each month. The advance can then be retired and regularized as expenditure. In the absence of such accounting and reporting, MoFEP is supposed to withhold the next monthly tranche. In practice, however, MoFEP disburses the next month’s tranches without satisfactory accountability. In the notes to the Annual Financial Statements (AFS) prepared by MoFEP, a large proportion of the use of petty cash is simply reported as expenditure of petty cash without indicating what it is actually used for; in other words, advances are simply treated as expenditures.

Controls over accounting for use of conditional grants have only recently been imposed. Another major area of non-compliance is the lack of accountability for the use of conditional grants to state governments, which comprise about half of all GRSS transfers to states; conditional grants are provided by spending agencies (education and health in particular). The bulk of these grants is for payments of salaries, the remainder being for non-wage recurrent and capital expenditure. The grants are conditional upon policy-related actions being undertaken, but up until February 2011, GoSS spending agencies were not enforcing these conditions. Since then a monitoring mechanism has been established under the auspices of a newly (July 2010) established State Transfers Monitoring Committee, jointly chaired by MoFEP and the Ministry of Labor and Public Service. State governments are required to submit monthly reports on the use of the conditional grants received by them. Only two states, one of which was Western Equatoria State, complied with the first set of reports, which covered April 2011.

Controls over accounting for revenue collection have been insufficient. First, the quality of the data with regard to oil revenue (accounting for 98 percent of GRSS’s revenue) is suspect due to source data not being available, apart from the information prepared by the Oil Petroleum Unit in Khartoum, which may not reflect the true situation.

Second, spending agencies are supposed to deposit all revenues (mainly non-tax) into bank accounts held in MoFEP and state government equivalents, but in practice this is not happening and there is leakage. The extent is difficult to determine, but anecdotal examples provided to the assessment teams indicate it is significant. The revenue collected, mainly in cash form, might not be deposited in the required bank accounts, either because it is retained by the collector or because it is deposited in bank accounts not sanctioned by MoFEP or by state government equivalents. The collection and declaration system is less rigorous than it used to be prior to the Comprehensive Peace Agreement, when the 1995 Financial & Accounting Procedures Ordinance provided a rigorous multistage manual form-based system that tracked revenue collection starting with its receipt from the payer to its deposit into a
bank account controlled by MoFEP or state government equivalents. The chain is longer in most cases, where revenue collection is contracted out to the private sector.

The extent of the use of these manual forms varies somewhat from state to state, but in the main only Form 15 is still used in the form of a receipt slip provided by the collector to the payer. Even in this case, the form is in duplicate only, thus limiting the extent of the audit trail. In Ethiopia, in marked contrast, forms tend to have numerous carbon copies. In South Sudan, in some cases not even Form 15 is used, a receipt being issued with no copy retained by the collector. The PEFA assessment teams witnessed this situation on more than one occasion in the context of paying airport departure tax, when no receipt was provided, even on request, or only a photocopy of a non-sequentially numbered receipt was provided.

*Controls over real assets are inadequate.* Controls over government-owned real assets are not strong; creating a risk of misuse. The use of government-owned vehicles is a prime example, as anecdotally indicated to the PEFA assessment teams. It is reportedly routine for an outsider to enter the property of a spending agency, tow a vehicle away, and then continue to use the vehicle with a GoSS license plate on it, thereby avoiding annual vehicle license fees.

Deficiencies in compliance with regulations related to internal controls reflect the weak institutional environment, which tends to preclude the enforcement of regulations. Strengthening this environment will take time due to capacity constraints and insufficient political will to enforce regulations. With independence now having been achieved, it may become easier for political leadership and will to be exercised in this regard.

*Internal audit function development is still in its early stage.* The internal audit system in the modern sense – institutionally separate from the operational sections of spending agencies, directly reporting to the under-secretary and focusing on systems rather than individual transactions – is beginning to emerge. In most cases until now, even at MoFEP itself, internal auditors have been part of the budget execution function, checking proposed financial transactions (i.e. pre-audit function). Capacity constraints have hindered development of the internal audit function, with spending agencies placing higher priority on developing budget execution (including procurement and accounting) functions, although IT-related capacity constraints have been hindering both. An exception, however, is the Western Equatoria State, where greater emphasis than in other states has been placed on developing internal audit capacity; nevertheless, Western Equatoria State itself also faces severe capacity constraints to executing its budget and handling its accounting/reporting functions.

*Accounting and reporting systems are improving but face challenges.* At the GRSS level, AFS are prepared, but with a considerable time lag. The time lag increased for a while when GoSS took over from the accounting agency firm contracted to perform accounting functions for 2005-07, but it has significantly decreased since 2009. At the time of the validation workshop for the PEFA and **SSPAR** (September 5, 2011) MoFEP had completed the AFS for 2008-09 and submitted them to the auditor general, and was working on the compilation of
the 2010 AFS. The increase in the speed of AFS preparation is mainly due to technical assistance and the roll-out of IFMIS. The AFS notes where accountability is lacking, particularly in connection with revenue collection and use of petty cash. Preparation of AFS has not yet begun at the state level, though the advent of IFMIS may make this possible for 2011.

As noted under “Budget Execution and Cash Management” above, the accounting function is hampered through:

- The underlying expenditure and payments liabilities data being generated outside IFMIS through manual systems, and then being fed into IFMIS for the purposes of reporting and accounting, instead of being generated directly by IFMIS through the controls on budget execution;
- MoFEP having incomplete knowledge of bank account reconciliation due to lack of full access to spending agency bank account balance data and to full information on the expenditures of spending agencies financed by their bank balances; and
- AFS’s failing as yet to meet the International Public Sector Accounting Standards—although AFS’s are being prepared according to General Accepted Accounting Practices (GAAP)—since information on donor agency-funded expenditure is not yet included in AFS’s; this situation is expected to improve due to the activities of the Aid Coordination Unit in MoFEP and the recent establishment of an Aid Information Management System.

At the state government level, none of the state governments visited had prepared any AFS’s, although aided by the roll-out of IFMIS that began in late 2010 they might be able to prepare them for 2011. Bank account reconciliation has been rudimentary, and in-year budget performance reporting has largely been absent, partly because of doubts about the accuracy of expenditure data. The situation is expected to improve as IFMIS is rolled out and with the help of UNDP officers stationed at state-level ministries of finance and economic planning.

**Transparency and Comprehensiveness Issues**

The greater the transparency and comprehensiveness of fiscal and budgetary operations, the more confident are stakeholders (comprising the public, the legislature, and donor partners) that they are being given the full story in terms of revenues and expenditures on public services and the greater is their ability to hold governments to account.

*Budget documentation is reasonably transparent, in particular in connection with the program/activity structure that underpins the budget. The scope for improvement is considerable, however, particularly in the form of explanatory narrative.*

*Comprehensiveness of the budget in terms of coverage of total public expenditure is reasonable. All revenue collected and all spending from it is supposed to be reflected in the annual budget, although control weaknesses mean that this is not always the case. The area*
where information is most lacking is donor agency spending, which is a significant part of total public spending. Planned and actual donor spending is not reflected in GRSS budgets and budget performance reports, although it is reflected in the accompanying donor Budget Books (Blue Books). Unity State, alone among the four states assessed, includes information on planned donor spending in its budget documentation.

*Transparency is almost completely lacking in terms of budget execution reports, annual financial statements, and external audit reports.*

**External Oversight**

*Effective external oversight of public finance has been limited to date.* The capacity of the Audit Chamber has strengthened gradually since the Comprehensive Peace Agreement. Its effectiveness was held back, however, through the lack of a long-serving auditor general. The current auditor general took up his position only in July 2010. The backlog of unaudited AFS’s is being reduced – the 2009 AFS’s were submitted to the Audit Chamber in mid-2011, but at the time of the PEFA assessment no audited AFS’s had been submitted to the South Sudan Legislative Assembly (SSLA). The Audit Chamber has not yet prepared any routine stand-alone audit reports of individual spending agencies, although it has prepared some reports on specific topics at the request of spending agencies. Nor has it audited any state government AFS’s. The effectiveness of SSLA oversight is significantly diminished by the absence of any State Legislative Assembly debate regarding audited AFS’s and audit reports of spending agencies and by the absence of published reports.

*The SSLA indicated to the PEFA assessment team that its capacity requires considerable strengthening if it is to play its oversight function effectively.* The legislature’s two standing committees in charge of scrutinizing draft annual budgets and audit reports – the Committee for Economy, Development and Finance and the Public Accounts Committee -- are in place, and are very enthusiastic about being able to exercise their functions effectively, but the capacity of their members needs substantial strengthening. This situation is even more acute at the state level: some state legislative assemblies had only come into existence in early 2010. The State Legislative Assembly for Northern Bahr-el-Ghazal indicated great enthusiasm for carrying out its functions, but its capacity was also weak.

**Planned PFM Reforms**

The GRSS is fully aware of the various issues outlined above and, at the time of the PEFA assessments, was taking these steps to resolve them:

- *Enacting the draft Public Finance Management & Accountability Law.* The law was still in draft form three years after the original draft had been prepared. The absence of a law hindered the ability of MoFEP to enforce the Centralized Payments System (as laid out in the 2009 Payments Procedures), so that nearly all payments due were paid by MoFEP rather than MoFEP releasing cash to the spending agencies so that they
could make the payments themselves, with the risk that they would not. The absence of a law also made it more difficult for MoFEP to enforce the requirement that spending agencies provide it with monthly bank balance statements and deposit any of their own revenues earned into MoFEP’s bank account. This limited MoFEP’s ability to conduct efficient cash management and prepare comprehensive AFS’s. Since the completion of the PEFA reports in September 2011, the Public Finance Management & Accountability Law has in fact been enacted.

- **Further rolling out IFMIS to spending agencies and using IFMIS to control budget execution.** Only 8 out of 56 agencies had been hooked up to IFMIS to date, and only on a read-only basis. IFMIS is being used to control budget execution by, among other things, (i) establishing expenditure commitment controls to ensure consistency with approved budgets and projected cash availability (on the basis of cash flow forecasting, which is also to be strengthened); and (ii) setting monthly cash expenditure limits, based on (i). Such actions had been indicated at the Joint Assessment Mission conference in 2008 and were reflected in the annual Appropriations Acts, but none had actually been implemented. Implementing these measures would greatly ease the task of replacing the current cash rationing system, with all its inherent disadvantages, by an orderly cash management system that would assure the timely and predictable availability of cash resources when needed for executing the approved budget.

- **Enforcing monthly accountability** for (i) the use by spending agencies of petty cash advanced to them each month by MoFEP and (ii) the use by state governments of the conditional transfers provided to them by GRSS-level spending agencies.

- **Reemphasizing (by MoFEP) the need for spending agencies to comply fully with the Interim Public Procurement and Disposal Regulations in treating open competition as the default method of public procurement.**

At the time of the PEFA validation workshop on September 5, no progress had been made by GRSS in implementing the above measures, which it had informed the assessment team would be implemented during April and May, although, as referred to above, the draft Public Finance Management and Accountability Law has since been enacted. The run-up to independence on July 9, 2011, had hindered the implementing of such measures.

**Fiduciary Risk Assessment and Suggested Mitigation Measures**

Fiduciary risk is the risk that funds are not used for the intended purpose, do not achieve value for money and/or are not properly accounted for. The risk is both

- to those providing the funds; in the case of South Sudan, this means domestic and external taxpayers, the latter mainly comprising the residents of countries providing funds to donor agencies and international financial institutions; and

- to the recipients of the public services, not all of whom are taxpayers, who may suffer if services are not delivered as expected; for example, clean water and sanitation not
being provided as expected due to something going wrong in PFM, to the detriment of peoples’ health and thus their livelihoods.

The risk to donor agencies arises not only when such agencies channel their funds through country PFM and procurement systems but also when they use their own systems. Even if they use their own systems due to deficiencies in country systems, the success of their projects/programs still relies partly on how well country systems are performing, since government inputs are still required to make the projects/programs work (e.g., staff for donor-constructed schools and maintenance of roads accessing donor-funded schools and health centers) and to increase the chances of sustainability. Moreover, donor systems require the use of local human resources, as government systems also require. Attracting human resource capacity away from government systems by paying higher salaries and providing better working conditions may accentuate country system deficiencies.

The PFM components that present great fiduciary risk (as implied by low PEFA ratings and OECD Development Assistance Center procurement-related ratings) and are of high priority to address are indicated below in approximately descending order of priority. The priority order is based on both time priority and logical sequencing. The discussion below focuses on GRSS, but is generally applicable to state governments as well. Further strengthening of budget preparation and donor practices, although desirable, is not an immediate urgent priority in terms of fiduciary risk and therefore not elaborated on below, but it is reflected in the proposed PFM and Procurement Reform Action Plans, outlined in the next section. Strengthening the transparency and comprehensiveness of budgetary operations is important, but it will largely be the outcome of the mitigation measures suggested below.

**Budget Execution Systems (Performance Indicators 2, 4, 16, 19, 20 and SSPAR)**

*Non Procurement Systems: These are clearly not operating properly, notwithstanding the establishment of IFMIS, whose budget execution control features are not being used.* The credibility of the budget is low, as represented by budget outcomes per spending agency differing significantly from approved budgets, despite favorable revenue outcomes, and by large build-ups of payment arrears. The fiduciary risk to all stakeholders through the misuse of their funds is high. *The principal risk mitigation measures are these:*

- Enact a PFM law, facilitating the measures recommended below;

- Use the budget execution control features of IFMIS; expenditure commitments requests and payment authorization requests are entered into the system and rejected if inconsistent with the approved budget (in terms of unencumbered appropriations balances and projected cash availability, derived from a cash flow forecasting that should be developed);

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1 The draft Public Finance Management and Accountability Law was in fact enacted in late 2011, after the PEFA/SSPAR validation workshop in September.
• Roll out IFMIS to spending agencies not yet covered by the system, and enable it so users can enter commitments and payments requests rather than just using it on a read-only basis;
• Establish an expenditure commitment control system, on the basis of the cash-flow forecasting system, with projected month-end cash balances, and establish associated quarterly budget allocation and monthly cash expenditure limits, as already provided for in the Appropriations Acts; and
• Enforce the Payments Procedures so that all non-personnel-related payments above the petty grant thresholds are made directly to suppliers by MoFEP.

Public procurement systems: These are not functioning in a way that ensures value for money. Procurement is one of the PFM areas most prone to corruption, and indeed instances of corruption have occurred, facilitated by the weaknesses in the system. The regulations in the IPPDR, which stipulate open competition as the preferred procurement modality, are not complied with; single sourcing is the prevalent modality. The IPPDR regulations were supposed to be superseded by a procurement law consistent with international standards and providing for a legal authority to perform the procurement oversight function. After years of delay, a law has been drafted and is now being finalized for presentation to the SSLA, but it has yet to be enacted. The system is completely nontransparent: information on procurement operations is unavailable and an independent complaints mechanism is lacking. Procurement capacity is improving, assisted by donor-supported training programs, but it is still weak.

Fiduciary risk is therefore high. Risk mitigation measures are of high priority and should include the following:

• Enactment of the draft procurement law and, more or less simultaneously, drafting of supporting regulations;
• On the basis of the above, strengthening of the procurement oversight functions and the institutional and managerial frameworks in procurement entities;
• On the basis of the above, collaborative establishment by the procurement regulatory body and procuring entities of a systematic way to collate and publicize data on procurement operations; and
• Establishment of an independent complaints mechanism.

Accounting and Reporting System (Performance Indicators 7, 17, 23, 24, 25)

A sound recording, reporting, and accounting system can help to highlight areas of fiduciary risk in the budget execution system and thus inform the design of risk mitigation measures. Such a system is not yet in place in South Sudan, partly because the budget execution system itself has not been generating data of the quality needed for sound accounting and reporting.
The system is also undermined by:

- lack of timeliness in preparing bank reconciliation statements;
- nonavailability to MoFEP of data on the bank account balances held by spending agencies and associated nonavailability of spending agency bank reconciliation statements (or even knowledge of whether these are compiled);
- insufficient accounting by spending agencies for the use of petty cash advances from MoFEP and for the collection and use of nontax revenue;
- insufficient accounting by state governments for the use of conditional grants; and
- delays in preparing annual financial statements.

**Fiduciary risk is therefore high** in the sense that a system is not in place to detect wasteful, fruitless, and perhaps fraudulent spending. **Mitigation measures include the following:**

- The measures already identified above in relation to budget execution;
- Enactment of a PFM law as a prerequisite for all the other measures (in fact, enacted in late 2011);
- In-year budget performance reports, to include expenditure commitments (i.e., contracts, purchase orders) and the balance still outstanding;
- The publicizing of in-year budget performance reports;
- Enforcement by MoFEP of requirements that spending agencies provide at least monthly information to MoFEP on their bank balances and also provide bank reconciliation statements;
- Eventual establishment of a Treasury Single Account system;
- Enforcement of requirements regarding the use of petty cash and conditional grant accountability;
- Tightening up of the recording and receipting system with regard to the collection of nontax revenues by spending agencies, the deposit of these revenues into spending agency and MoFEP bank accounts, and the use of these revenues.

**Revenue Administration System (Performance Indicators 7, 13, 14, 15) (excluding non-tax revenue collection systems, discussed above)**

**Deficiencies in revenue administration systems imply fiduciary risk in terms of foregone revenues.** These deficiencies comprise both leakages from the system—that is, collected revenue not ending up in government bank accounts and not being spent according to approved budgets—and failure to bring all potential taxpayers into the tax net. Their result is that spending programs are not financed to the degree they could be and, therefore, have lower chances of success.

In South Sudan, a base has been established through the 2009 Taxation Act and the issuing of unique Taxpayer Identification Numbers. However, coverage of Taxpayer Identification Numbers still has some way to go, including the development of linkages with other
registration systems (e.g., business licences), the establishment of tax audits, and resolution of the problem of multiple taxation systems at inter-jurisdictional boundaries. GRSS now has the extra challenge of successfully taking over the tax functions of the now-defunct Government of National Unity.

*Fiduciary risk is high. Risk mitigation measures include the following:*  
- Finalization of the new taxation act that takes into account the new taxation responsibilities of GRSS;  
- The institutional strengthening implied by the new responsibilities (e.g., for customs offices at international borders);  
- Further roll-out of Taxpayer Identification Numbers and strengthening of linkages to other registration systems;  
- Putting the tax audit function into operation; and  
- Resolution of the issue of multiple taxation at inter-jurisdictional boundaries.

Establishment of a semi-autonomous revenue authority has been proposed by GRSS based on perceived efficiency gains, but such an authority would need to be accompanied by a strict accountability framework. The establishment of the Uganda Revenue Authority in the late 1990s without a robust accountability framework was marked at first by widespread corruption in its operations, creating a worse situation than prior to its establishment.

**Internal audit and external oversight (Performance Indicators, 21, 26, 27, 28)**

*Progress has been made in establishing internal audit functions (in the modern sense of overseeing internal control systems) and an external audit function, but establishment is still in its early days.* This does not necessarily represent a fiduciary risk issue, since the areas of risk are the systems that the internal audit function oversees. If these systems are still in the process of being established, as is the case in South Sudan, the priority should be to complete the establishment of these systems and then focus (possibly in parallel, capacity constraints permitting) on building internal audit functions to oversee these systems. Skilled human resources are in short supply in South Sudan and therefore should be deployed where they are most needed. In the context of PFM, this means deploying accountants and specialists in IT, procurement, and taxation to where they are most needed, namely in the areas of budget execution, accounting, procurement, and revenue administration areas.2 In the meantime, as internal audit capacity is developed, the external audit function can play a pivotal role in assessing the robustness of internal audit systems. As indicated below, this function too needs strengthening.

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2 In South Africa, for example, focus on developing internal audit functions did not start until after the basic PFM systems had been developed on the basis of the decision in the mid-1990s to de-concentrate PFM responsibilities to line ministries.
The Audit Chamber has completed some audit reports and the audit of the 2005 and 2006 AFS’s of GRSS. Subsequent to the PEFA assessment field work in April 2011, these were submitted to SSLA on an ‘informal’ basis, that is, not for deliberation but just to keep them informed. The Audit Chamber is close to completing the audit of the 2007 and 2008 AFS’s, and its timeliness in preparing audits is improving. However, its crucial role in helping to lower fiduciary risk has been undermined in the following ways:

- Audited entities have not followed up on the recommendations contained in the audit reports;
- Until very recently, the SSLA had not received any audit reports from the Audit Chamber and therefore was not in a position to review them and apply pressure for follow-up by the auditees;
- The audit reports were not publicized, thus denying other stakeholders (e.g. the public, civil service organizations, and donor agencies) the opportunity to exert pressure by demanding that spending agencies improve those PFM and procurement systems that the Audit Chamber has found to be defective.

An effective Audit Chamber and SSLA would help to lower the extent of fiduciary risk in GRSS PFM and procurement systems. Mitigation measures should therefore aim to address the bullet points identified above. These would also include further strengthening of capacity in the Audit Chamber and the building of capacity in the SSLA’s Committee for Economy, Development and Finance and in its Public Accounts Committee.

**PFM and Procurement Reform Action plans**

The matrix below summarizes the areas of risk that are of high priority to address, suggested risk mitigation measures, and an Action Plan for implementing these measures.

An indicative timeline for implementing the measures recommended above is depicted below (Table 2). Budget preparation systems (Recommendation 7) are relatively robust in comparison with budget execution and accounting systems, so strengthening them is of lower priority than attending to Recommendations 1-6. Because strengthening budget execution systems facilitates strengthening of reporting and accounting systems, following a logical sequence Recommendation 3 can start later. Strengthening PFM systems facilitates strengthened transparency and comprehensiveness, and strengthening measures can therefore be in logical sequencing.
<table>
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<tr>
<th>Risk Area</th>
<th>Risk</th>
<th>Mitigation Measure</th>
<th>Action Plan</th>
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</table>
| 1. Budget execution system (PEFA Performance Indicators 2, 4, 10, 16, 19 & 20 and SSPAR) | Low budget credibility: (i) budget outcomes per spending agency significantly differ from the approved budgets and there is a large buildup of payments arrears; and (ii) procurement systems are weak and nontransparent. As a result, there is a high risk of wasteful spending/low value for money and public services not being delivered as planned. | 1.1. Enact the PFM law.  
1.2. Establish a cashflow forecasting system and then an expenditure commitment control system and associated quarterly budget allocation and monthly cash expenditure limits system, and incorporate these into IFMIS.  
1.3. Roll out IFMIS to spending agencies not yet covered, and enable it for users to enter commitments and payments requests.  
1.4. Enforce the ‘Payments Procedures’ so that all non-personnel-related payments above the petty grant thresholds are made directly to suppliers by MoFEP, following the Centralized Payments System.  
1.5. Enact the draft procurement law and obtain the Council of Ministers’ timely approval of supporting regulations.  
1.6. Strengthen the oversight functions of the Procurement Policy Unit and the institutional and managerial frameworks in procurement entities with regard to procurement.  
1.7 Ensure that the Procurement Policy Unit and procuring entities work together to organize a systematic way of collating and publicizing data on procurement operations.  
1.8 Establish an independent complaints mechanism. | MoFEP, state government equivalents, major spending agencies, and development partners should establish a committee as soon as possible to assess the desirability and feasibility of implementing the proposed risk mitigation measures, taking into account capacity and political economy constraints. Specifically, the committee should:  
1.1. Assess whether the new Public Finance Management and Accountability Law satisfactorily addresses the risk areas identified above and determine the content of the regulations needed to support the Public Finance Management and Accountability Law.  
1.2. Determine the specific measures that need to be taken by MoFEP to establish the proposed systems and incorporate them into IFMIS. The measures should include the associated detailed administrative and organizational steps that need to be undertaken, their logical order, and the management/staff responsible for implementing them. A Gantt chart would be useful.  
1.3. Determine whether higher priority should be given to rolling out IFMIS to all central government spending agencies prior to further roll-out at the state level, and whether FreeBalance is the most suitable IFMIS to use at the state level. As per item 1.2 above, determine the specific measures that need to be taken for further roll-out.  
1.4. Assess the issues constraining enforcement of the Payment Procedures, including whether the new Public Finance Management and Accountability Law is sufficient in itself for enforcement or whether further measures are required.  
1.5. Review the draft procurement law and identify what needs to be done, if anything, to strengthen it, including the drafting of supporting regulations, taking into account the observations of the SSPAR. This is the prerequisite for the actions below.  
1.6. Determine how to strengthen the procurement oversight functions and the institutional and managerial frameworks in procurement entities with regard to procurement; the prerequisite is the enacting of a procurement law and the drafting and approval of supporting regulations.  
1.7 & 1.8. The committee should provide direction on implementing the |
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<th>Risk Area</th>
<th>Risk</th>
<th>Mitigation Measure</th>
<th>Action Plan</th>
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<td>2. Recording, reporting and accounting systems (Performance Indicators 22-25)</td>
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<td>2.1. (Carry out the measures already identified above in relation to budget execution.)</td>
<td>MoFEP, state government equivalents, major spending agencies &amp; development partners should establish a committee (which could be the same committee as under item 1 above) to decide on the precise measures needed to strengthen the recording, reporting, and accounting systems and to define the process steps that should be taken.</td>
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<td>2.2. Include within the in-year budget performance reports both expenditure commitments and the balances still outstanding; also, publicize the reports once their quality has been improved.</td>
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<td>2.3. Have MoFEP enforce the requirement that spending agencies provide it, at least monthly, with information on their bank balances and with bank reconciliation statements.</td>
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<td>2.4. In time, move to a TSA system.</td>
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<td>2.5. Enforce the use of petty cash and conditional grant accountability requirements.</td>
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<td>2.6. Tighten up the recording and receipting system for spending agencies’ collection of non-tax revenues, the deposit of these revenues into spending agency and MoFEP bank accounts, and the revenues’ use.</td>
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<td>2.7. Establish controls over the use of government-owned real assets by developing an asset register and procedures for permitting and monitoring use.</td>
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<td>3. Revenue administration (Performance Indicators 13-15)</td>
<td>- There is revenue leakage. - Revenue is forgone due to the tax net failing to capture all potential taxpayers. Foregone revenues imply</td>
<td>3.1. Finalize the 2009 taxation act, taking into account the new post-independence responsibilities. 3.2. Achieve the institutional strengthening implied by the new responsibilities (e.g., customs offices).</td>
<td>MoFEP (Taxation Directorate), state government equivalents, major spending agencies, and development partners should establish a committee to decide upon the precise measures needed to strengthen the revenue administration systems and to define the process steps that should be taken.</td>
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<td></td>
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<td></td>
<td>The first priority is to enact a new taxation law and prepare and approve</td>
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<td>Risk Area</td>
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<td>Action Plan</td>
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<td>fewer public services being delivered than possible.</td>
<td>3.3. Further roll-out Taxpayer Identification Numbers and strengthen linkages to other registration systems.</td>
<td>supporting regulations, taking into account both the issues that prevented the announcement of the 2009 Taxation Act and the new post-independence taxation responsibilities of GRSS.</td>
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<td>- Private sector development is hindered by burden of tax and time wastage arising from multiple taxation at inter-jurisdictional boundaries.</td>
<td>3.4. Make the tax audit function operational.</td>
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<td>3.5. Resolve the issue of multiple taxation at inter-jurisdictional boundaries.</td>
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<td>4. Payroll control</td>
<td>- Wasteful expenditures are made due to people being paid who shouldn’t be paid.</td>
<td>4.1. Continue the project to clean up personnel records.</td>
<td>Mitigation Measures 4.1 and 4.2 are already underway.</td>
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<td>(PIPerformance Indicator -18)</td>
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<td>4.2. Implement second phase of the Southern Sudan Electronic Payments System.</td>
<td>4.3. MoFEP and Ministry of Labour and Public Services should develop an attendance control and monitoring system.</td>
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<td>4.3. Introduce attendance control and monitoring systems.</td>
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<td>5. Internal audit</td>
<td>- Ability to reduce fiduciary risk is undermined.</td>
<td>5.1. The SSLA/Audit Chamber should emphasize to heads of spending agencies the need to follow up on the recommendations contained in the audit reports.</td>
<td>MoFEP, the under-secretaries of key line ministries, the Audit Chamber, the Committee for Economy, Development and Finance, the Public Accounts Committee, and donor partners should establish a committee to determine how to implement the mitigating measures.</td>
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<td>(Performance Indicator 21) and external scrutiny (Performance Indicators 26-28)</td>
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<td>5.2. The Audit Chamber should submit audit reports to the SSLA for review.</td>
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<td>5.3. The SSLA should publicize the audit reports after review.</td>
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<td>5.4. With donor assistance, strengthen the capacity of the Committee for Economy, Development and Finance and the Public Accounts Committee.</td>
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<td>5.5. Build up internal audit capacity, taking into account capacity constraints in budget execution, procurement and (underpinning</td>
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<tr>
<td>Risk Area</td>
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<td>Mitigation Measure</td>
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</table>
| **6. Planning & budgeting systems**  
(Performance Indicators 5, 11, and 12) | - Budgets might not adequately reflect policy objectives and priorities and the lowest costs for achieving these. | 6.1. Prepare Budget Sector Plans that reflect political input from the Council of Ministers, increasing the political ownership of the strategic prioritization of resource allocation.  
6.2. MoFEP should continue its project to incorporate budget preparation into a database system and to rationalize the budget classification system.  
6.3. MoFEP should continue its project to introduce a macro-fiscal framework and strengthen strategic planning.  
6.4. MoFEP should prepare a Forward Spending Estimates framework to give budgeting a stronger medium-term perspective. | Mitigation Measures 6.1 and 6.2 are already underway.  
6.3. MoFEP should organize a task force consisting of representatives from the planning and budgeting departments of MoFEP and spending agencies. |
| **7. Transparency**  
(Performance Indicators 6, 7, 10, and 19) | - Nontransparency creates risk of wasteful planned and actual spending. | 7.1. Strengthen the transparency and comprehensiveness of budget documentation, particularly at the state level (such as by including donor assistance).  
7.2. In a timely manner, publicize budget performance reports, contract awards, audited annual financial statements, and audit reports on spending agencies. | 7.1. State governments should prepare systems for obtaining information on planned and actual donor spending and incorporating this into their budget preparation processes.  
7.2. This Mitigation Measure will be enabled (i.e., as part of a logical sequencing) by the actions listed above. |
Table 2. PFM Reform Action Plan Timeline

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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<tbody>
<tr>
<td><strong>1. Reform budget execution systems.</strong> MoFEP should establish a PFM and procurement reform oversight committee, which should agree on reform measures and process steps and implement Mitigation Measures 1.1.-1.4 listed in the matrix above.</td>
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<td><strong>2. Reform procurement systems.</strong> See Procurement Reform Action Plan below.</td>
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<tr>
<td><strong>3. Reform recording, reporting, and accounting systems.</strong> The Oversight Committee should implement Mitigation Measures 3.1-3.7 listed in the matrix above.</td>
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<td><strong>4. Strengthen revenue administration.</strong> MoFEP should establish a reform oversight committee to oversee the implementation of recommended mitigation measures 4.1-4.5 listed in the matrix above.</td>
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<td><strong>5. Strengthen payroll control.</strong> (i) Continue with the project aimed at improving the accuracy of personnel records; (ii) Implement the second phase of the Southern Sudan Electronic Payments System; and (iii) Introduce a strengthened attendance control system.</td>
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<td><strong>6. Strengthen external scrutiny.</strong> MoFEP should organize the establishment of an oversight committee for implementing recommended Mitigation Measures 6.1-6.5 listed in the matrix above.</td>
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<tr>
<td><strong>7. Strengthen planning &amp; budgeting systems.</strong> Continue introducing the database system for budget preparation and prepare forward spending estimates as a means of introducing a medium-term perspective to budgeting (Mitigation Measures 7.1.-7.3).</td>
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<td><strong>8. Strengthen transparency.</strong> (i) Improve the transparency of budget documentation at the state level; (ii) Increase the amount of fiscal information available to the public (Mitigation Measures 8.1, 8.2).</td>
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Note: Red shading= high priority; yellow shading= medium priority.

Chapter 6 of Volume 3 (SSPAR) includes a detailed Procurement Reform Action Plan. The plan lists short, medium, and long-term recommendations for improving procurement performance in South Sudan through legal reform, institutional reform, private sector
development, and the strengthening of procurement control and oversight functions. The recommendations are listed below along with a suggested timetable, according to priority.

**Table 3. Procurement Reform Action Plan Timeline**

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tbody>
<tr>
<td>1. Strengthen the Procurement Reform Task Force.</td>
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<td>2. Issue procurement legislation and supporting documents.</td>
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<td>3. Ensure adequate procurement planning.</td>
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<td>4. Clarify the role and strengthen the capacities of the PPU.</td>
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<td>5. Develop a central procurement information and monitoring system.</td>
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<td>6. Ensure that procuring entities at the GRSS level have sufficient capacities.</td>
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<td>7. Ensure that procuring entities at the state and country levels have sufficient capacities.</td>
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<td>8. Encourage the participation of businesses by creating a business-friendly environment for procurement.</td>
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<td>9. Introduce procedural procurement checks in the Audit Chamber.</td>
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<td>10. Institute procurement investigations in the South Sudan Anti-Corruption Commission.</td>
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<td>11. Enable the internal control mechanism to become operational.</td>
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<td>12. Establish a formalized inter-agency cooperation among accountability institutions in procurement.</td>
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<tr>
<td>13 Strengthen PPU’s (or their successors’) independence and role in complaints handling and strengthen the South Sudan Anti-Corruption Commission to enable it to review appeals by bidders.</td>
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</table>

**Priority Levels:**
- **High priority**
- **Medium priority**
- **Low priority**
Limiting the implementation of the proposed PFM and procurement reform measures listed above are capacity and political economy constraints. Skilled politicians, managers, and technical staff are required in order to design and implement PFM and procurement systems and to establish supportive administration and institutional structures. In a postconflict country, such skilled people tend to be in even more limited supply than in non-conflict countries, and they are also required by the private sector. The supply of such people can increase through capacity building programs, but the delivery of these programs is itself capacity constrained as well. Strengthening educational institutions can result in increased supply, although this too takes time.

The supply of skilled personnel will also be constrained by the strength of incentives to join the civil service including pay, working conditions, and promotion prospects. Such incentives have to be weighed against the employment alternatives available in the private sector, among NGOs, and among official development partners.

Political economy factors also influence the pace of reform, and they are probably important in the South Sudan context. For example, enforcing open competition as the default procurement modality, executing the budget using the controls embedded in IFMIS, and eliminating multiple taxation at inter-jurisdictional boundaries may all go against politically powerful vested interests.

The scope of this CIFA did not cover these issues in depth, but undoubtedly they are important in designing and reformulating PFM and procurement reform programs and action plans, and they may be worthy of further study. Therefore, the first priority listed in the PFM Reform Action Plan is to establish a high-level committee led by MoFEP that will elaborate all the steps necessary to implement the PFM and procurement reform measures, taking capacity and political economy constraints fully into account. Addressing these constraints head-on is itself a fundamentally important measure for mitigating fiduciary risk.

**Conclusion and Next Steps**

This CIFA was prepared on the basis of the PEFA assessments and SSPAR, which were prepared prior to national independence, in April-July 2011. Some updating was incorporated in the final drafts after the validation workshop on September 5, 2011, but this was still only a short time after independence, so new developments in the area of PFM and procurement may have emerged since then.

The proposed next steps, to be initiated as quickly as possible, are these:

i. The donor partners should obtain information on any developments that may have occurred in the areas of PFM and procurement since the September 5, 2011, workshop, that are not reflected in this CIFA.

ii. The World Bank and other development partners should enter into a dialog with GRSS with regard to the proposed risk mitigation measures and action plans outlined above.
This dialog should be undertaken as a matter of urgency in order to tackle the weaknesses in PFM and procurement systems that have been identified by this CIFA and to determine how development partners can support mitigation. The issues are well known, and development partners already assisting GRSS in addressing them are entering the second phase of their programs (e.g., the USAID Economic Governance project, which has provided considerable assistance, is about to enter its second phase). Nevertheless, it would be useful to enter such a dialog in order to reach unambiguous agreement on the risk mitigation measures that need to be taken and the associated Action Plan that should be implemented.
## Summary of PEFA and SSPAR Ratings

### Table 4. GRSS PEFA Ratings

<table>
<thead>
<tr>
<th>A. Credibility of the Budget</th>
<th>Overall</th>
<th>i</th>
<th>ii</th>
<th>iii</th>
<th>iv</th>
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<tbody>
<tr>
<td>PI-1 Aggregate expenditure out-turn compared to original approved budget</td>
<td>M1</td>
<td>D▲</td>
<td>D▲</td>
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<tr>
<td>PI-2 Composition of expenditure out-turn compared to original approved budget</td>
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<td>D+</td>
<td>D</td>
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<tr>
<td>PI-3 Aggregate revenue out-turn compared to original approved budget</td>
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<tr>
<td>PI-4 Stock and monitoring of expenditure payment arrears</td>
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<table>
<thead>
<tr>
<th>B. Comprehensiveness and Transparency</th>
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<tr>
<td>PI-5 Classification of the budget</td>
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<td>PI-6 Comprehensiveness of information included in budget documentation</td>
<td>M1</td>
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<td>PI-7 Extent of unreported government operations</td>
<td>M1</td>
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<td>D</td>
<td>B</td>
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<tr>
<td>PI-8 Transparency of intergovernmental fiscal relations</td>
<td>M2</td>
<td>C+</td>
<td>B</td>
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<td>PI-9 Oversight of aggregate fiscal risk from other public sector entities</td>
<td>M1</td>
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<td>PI-10 Public access to key fiscal information</td>
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<td>PI-11 Orderliness and participation in the annual budget process</td>
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<td>PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting</td>
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<tr>
<th>C (ii) Predictability and Control in Budget Execution</th>
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<td>PI-13 Transparency of taxpayer obligations and liabilities</td>
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<td>PI-14 Effectiveness of measures for taxpayer registration and tax assessment</td>
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<td>C</td>
<td>D▲</td>
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<td>PI-15 Effectiveness in collection of tax payment</td>
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<td>PI-16 Predictability in the availability of funds for commitment of expenditures</td>
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<td>PI-18 Effectiveness of payroll controls</td>
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<td>Performance Indicator</td>
<td>Description</td>
<td>Rating</td>
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<td>ii</td>
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<td>PI-19</td>
<td>Competition, value for money, and controls in procurement</td>
<td>D</td>
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<td>D</td>
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<tr>
<td>PI-20</td>
<td>Effectiveness of internal controls for nonsalary expenditure</td>
<td>D+</td>
<td>C</td>
<td>C</td>
<td>D</td>
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<tr>
<td>PI-21</td>
<td>Effectiveness of internal audit</td>
<td>D▲</td>
<td>D▲</td>
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<td>C (iii) Accounting, Recording and Reporting</td>
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<td>Timeliness and regularity of accounts reconciliation</td>
<td>M2</td>
<td>D</td>
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<tr>
<td>PI-23</td>
<td>Availability of information on resources received by service delivery units</td>
<td>M1</td>
<td>D▲</td>
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<td>PI-24</td>
<td>Quality and timeliness of in-year budget reports</td>
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<td>C+</td>
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<td>Quality and timeliness of annual financial statements</td>
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<td>D+</td>
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<td>C (iv) External Scrutiny and Audit</td>
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<td>PI-26</td>
<td>Scope, nature, and follow-up of external audit</td>
<td>M1</td>
<td>D+</td>
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<tr>
<td>PI-27</td>
<td>Legislative scrutiny of the annual budget law</td>
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<td>C+</td>
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<tr>
<td>PI-28</td>
<td>Legislative scrutiny of external audit reports</td>
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<td>D. Donor Practices</td>
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<td>D-1</td>
<td>Predictability of direct budget support</td>
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<tr>
<td>D-2</td>
<td>Financial information provided by donors for budget, reporting on project, and program aid</td>
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<td>C</td>
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<tr>
<td>D-3</td>
<td>Proportion of aid that is managed by use of national procedures</td>
<td>M1</td>
<td>D</td>
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</table>

PI= Performance Indicator; NR = Not rated (due to lack of data); NA = Not applicable (because of circumstances explained in the text). Notes: Columns i, ii, iii, and iv represent dimensions—or subindicators—that address key elements of the PFM process. The dimensions and their scores are discussed in Chapter 1, Section 1.1 of Volume 2. An upward arrow indicates that progress is being made but is not yet enough to justify a higher rating.
Table 5. State Government PEFA Ratings

<table>
<thead>
<tr>
<th>PI</th>
<th>Description</th>
<th>NBGS</th>
<th>Unity State</th>
<th>Jonglei State</th>
<th>Western Equatoria State</th>
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<td>PI-1</td>
<td>Aggregate expenditure out-turns compared to original approved budget.</td>
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<td>NR</td>
<td>NR▲</td>
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<td>NR</td>
<td>NR</td>
<td>NR▲</td>
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<tr>
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<td>Aggregate revenue out-turn compared to original approved budget</td>
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<td>Transparency of taxpayer obligations and liabilities</td>
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<th>Scope, nature and follow-up of external audit</th>
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<th>NBGS</th>
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<th>Western Equatoria State</th>
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<tr>
<th>D-1</th>
<th>Predictability of Direct Budget Support</th>
<th>M1</th>
<th>NBGS</th>
<th>Unity State</th>
<th>Jonglei State</th>
<th>Western Equatoria State</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<p>| D-2 | Financial info provided by donors for budget, reporting on | | | | | |</p>
<table>
<thead>
<tr>
<th>Note: Shaded areas represent M2 scoring methodology</th>
<th>NBGS</th>
<th>Unity State</th>
<th>Jonglei State</th>
<th>Western Equatoria State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project, programme aid</td>
<td>M1</td>
<td>D (i) D</td>
<td>D+ (i) C</td>
<td>D (i) D</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(ii) NA</td>
<td>(ii) D</td>
<td>(ii) D</td>
</tr>
<tr>
<td>D-3 Proportion of aid that is managed by use of national procedures</td>
<td>M1</td>
<td>D</td>
<td>D</td>
<td>D</td>
</tr>
<tr>
<td>HLG-1 Predictability of transfers from Federal Government to regions</td>
<td></td>
<td>A</td>
<td>A</td>
<td>NR (i) A</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(ii) NA (iii) NR</td>
</tr>
</tbody>
</table>

Note: NBGS = Northern Bahr el Ghazal State.
NR = Not rated, as data not available. NA = Not applicable under the current situation.
An upward arrow indicates that progress is being made but is not yet enough to justify a higher rating.

The percentage distribution of the ratings for GRSS and the state governments are charted below. Indicators that are not rated due to the unavailability of data are rated as D for the purposes of compiling the charts. Over 65 percent of the ratings are D and D+: GRSS, 65.2 percent; Jonglei State, 82.7 percent; Unity State, 72.4 percent; Western Equatoria State, 70 percent; and NBGS, 67.8 percent. Over 13 percent of the ratings are C and C+: GRSS, 24.1 percent; NBGS, 21.4 percent; Unity State, 17.2 percent; Western Equatoria State, 16.7 percent; and Jonglei State, 13.7 percent. PFM performance in Jonglei State appears not to be as good as in the other states, while Western Equatoria State appears to be the best performing state. The A ratings for NBGS and Unity State refer to the high predictability of transfers from GRSS; the A rating would probably also apply to Jonglei State and Western Equatoria State, but the information wasn’t available. Figures 1 and 2 illustrate the general distribution of the ratings for GRSS and for the state governments as a group.

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3 Some PEFA assessments convert the alphabetical ratings to numbers (e.g., 4 for an A, 1 for a D) and derive average numerical scores for core dimensions. As noted in the PEFA Framework document and a paper published on the PEFA website in 2009 (on issues in making cross country comparisons of PEFA ratings), there are methodological issues in making such conversions, and the practice is discouraged.
The SSPAR ratings are numerical, ranging from zero to three. As elaborated in Volumes 2 and 3, the ratings for South Sudan are clearly very low. Table 6 shows two kinds of rating: (i) Baseline Indicators (BLIs), which present a ‘snapshot’ comparison of the systems in place against international standards, and (ii) Compliance (Comp.), which assesses the performance of the system in place in actual daily operations. For each indicator, Table 6 shows the rating as a percentage of the maximum possible score.

Under BLI, the highest score is achieved in Pillar 1 for the Legislative and Regulatory Framework. The compliance ratings are even lower than the BLI ratings, an example being non-compliance with the IPPDR (as represented under Pillar 1). The ratings are summarized below:
Table 6. SSPAR Ratings: Baseline Indicator and Compliance

<table>
<thead>
<tr>
<th>Pillar</th>
<th>SSPAR Indicator</th>
<th>BLI %</th>
<th>Comp. %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Overall Rating for Pillar</td>
<td>39.6</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Indicator 1. Public procurement legislative and regulatory framework achieves the agreed standards and complies with applicable obligations.</td>
<td>45.8</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Indicator 2. Existence of implementing regulations and documentation.</td>
<td>33.3</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>Overall Rating for Pillar</td>
<td>13.8</td>
<td>20.4</td>
</tr>
<tr>
<td></td>
<td>Indicator 3. Public procurement system is mainstreamed and well integrated into the public sector governance system.</td>
<td>16.7</td>
<td>11.1</td>
</tr>
<tr>
<td></td>
<td>Indicator 4. Country has a functional normative/regulatory body.</td>
<td>16.7</td>
<td>16.7</td>
</tr>
<tr>
<td></td>
<td>Indicator 5. Existence of institutional development capacity.</td>
<td>8.3</td>
<td>33.3</td>
</tr>
<tr>
<td>3</td>
<td>Overall Rating for Pillar</td>
<td>23.1</td>
<td>3.7</td>
</tr>
<tr>
<td></td>
<td>Indicator 6. Country’s procurement operations and practices are efficient.</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Indicator 7. Public procurement market is functional.</td>
<td>33.3</td>
<td>11.1</td>
</tr>
<tr>
<td></td>
<td>Indicator 8. Existence of contract administration and dispute resolution provisions.</td>
<td>11.1</td>
<td>0</td>
</tr>
<tr>
<td>4</td>
<td>Overall Rating for Pillar</td>
<td>12.2</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Indicator 9. Country has effective control and audit systems.</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Indicator 10. Appeals mechanisms are efficient.</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Indicator 11. Access to information is good.</td>
<td>0</td>
<td>NA</td>
</tr>
<tr>
<td></td>
<td>Indicator 12. Country has ethics and anticorruption measures in place.</td>
<td>23.8</td>
<td>0</td>
</tr>
</tbody>
</table>

**Pillar 1:** BLI rating of 1.2 (i.e., 40 percent of maximum score), compliance rating of zero. IPDDR is a valid starting point as a legal framework, but supporting documents are lacking and processes and procedures are not clearly defined. Most of the procedures stipulated in the IPDDR are not followed in practice; some states even refer instead to the legal framework of Sudan.

**Pillar 2:** BLI rating of 0.4 (i.e., 13.8 percent of maximum score), compliance rating of 0.5. The financial management and the capacity and set-up of key institutions for procurement operations are not well established and are considered to be poor. The slightly higher rating for the
compliance indicator is explained by the partial adherence to procurement planning exercises and the functions handled by procurement institutions.

**Pillar 3: BLI rating of 0.8, compliance rating of 0.1.** Dialogue takes place between the public and private sector in South Sudan. The Chamber of Commerce has been established and is operational. However, the private sector faces considerable constraints, such as difficult access to credit. Also, the procedures and processes in procurement operations are not well established. The low compliance score reflects issues such as shortcomings in procurement files, the handling of the procedures and the informal delegation of authority. In general, the private sector is very immature and underdeveloped in its ability to meet the demands of the public sector. On the positive side, the private sector has participated in discussions concerning the relevant legislation.

**Pillar 4: BLI rating of 0.5, compliance rating of 0:** Control mechanisms have not been effectively established. The appeals system is only partially established, and access to procurement information can be difficult to come by. The fight against corruption faces many obstacles. On the positive side, many of the required institutions, such as the Audit Chamber and the Southern Sudan Anti-Corruption Commission, have been established and are on their way to becoming operational and effective. The compliance score confirms that even though institutions and initiatives have been formally established, oversight, integrity, and accountability measures are still at a disturbingly low level.

The cobweb chart below summarizes the assessment. The score at the center is zero and increases towards the outside in increments of 0.5, ending at 3.0.
Chapter 1. Introduction

1.1. Relevance, Objective, Scope, Methodology, and Process of This CIFA

The efficient, transparent allocation and use of public resources are fundamental to any successful effort to improve governance and reduce poverty in South Sudan. The periodic analysis of PFM systems (including procurement) and capacity building efforts is therefore justified in order to determine what strengthening measures, if any, are desirable in order to reduce fiduciary risk for both domestic and external stakeholders.

Relevance

This CIFA is timely for two reasons. First, because PFM and procurement reforms have been ongoing in South Sudan for a few years, it would appear time to take stock and assess how well the PFM and procurement systems are performing.

Second, South Sudan’s achievement of independence on July 9, 2011, is a very significant event that is having a major impact on the amount of revenues that GRSS can earn, as it now has full ownership of the oil fields within its territory. Multilateral donors, such as the World Bank, can now start to operate in South Sudan. Efficient and effective use by GRSS of the extra financial resources available to them requires robust PFM and procurement systems. Moreover, development partners are committed, by virtue of the Paris Declaration and Accra Accord, to make use of GRSS’s PFM and procurement systems as much as possible. Development partners therefore want to assess the fiduciary risk to them of using these systems, and this means, first, assessing the systems, and second, working closely with GRSS to adjust existing reform programs if necessary and/or prepare new programs, in order to reduce risks.

Objectives of a CIFA

A CIFA has two objectives. First, it aims to identify the strengths and weaknesses of the public financial accountability and procurement arrangements so that any risks these may pose to the use of public funds can be assessed, mitigated, and managed.

Second, a CIFA aims to develop a shared understanding of the current state of PFM and procurement systems among all stakeholders (including government at the national and state levels and development partners), allowing for a proper focus on the design and implementation of programs to address any weaknesses identified in these systems.
Scope of this CIFA

This CIFA assesses the PFM systems at both the GRSS level and the state government level. State government expenditure makes up a significant proportion (about 40 percent) of total public expenditure in South Sudan, due to the expenditures assigned to the states, which include responsibility for delivering most basic services. The bulk of state resources derive from fiscal transfers from GRSS, so both GRSS and development partners intending to use country PFM and procurement systems want to be assured that their funding will be used efficiently for purposes reflected in well-prepared budgets.

Four States – Northern Bahr el Ghazal (NBGS), Unity State, Jonglei State, and Western Equatoria State – were selected for both the PEFA assessments and the SSPAR. (Originally, Jonglei was not on this list, but it was added because the planned visit to Unity State had to be cancelled for security reasons; instead, Unity State government officials met the assessment team in Juba).

The PEFA assessment teams were also scheduled to visit a sample of counties within each state, since counties are also responsible for delivering some public services and they receive most of their funding from both state governments and GRSS. For various logistical and administrative reasons, in the end it was only possible to visit one county, Aweil West in NBGS. This may appear to be a very small sample, but on the other hand, the state government PEFA assessments revealed considerable similarity in PFM and procurement performance among the states. It would not be surprising if counties also display a certain amount of similarity. Thus, the inability to assess PFM systems in a larger sample of counties should not constitute a valid reason for putting off PFM and procurement reform until a larger sample is assessed.

Methodology

The PEFA Framework methodology and OECD Development Assistance Center methodology are used to assess PFM and procurement system performance at both the GRSS and the four state governments. The assessment of Aweil West county was not conducted using the PEFA methodology, partly because of lack of time (only 2 hours were available), and also because the lower the level of government, the less relevant the PEFA scoring methodology becomes. The lower relevance is due to the fact that it is more difficult to apply standardized scoring criteria at that level and also because of the greater likelihood of capacity constraints.

Process

This CIFA was prepared periodically during December 2011 and January 2012 by a consultant (Peter Fairman) on the basis of the following.

GoSS PEFA assessment

The fieldwork and assessment were conducted in Juba in April 2011 through meetings with MoFEP and line ministry staff (from the ministries of Health, Education, Agriculture and Forestry, and Transport and Roads); the auditor general and the head of the Audit Chamber;
representatives from the SSLA’s Committee for Economy, Development and Finance and the Public Accounts Committee; the executive director of the South Sudan Anti-Corruption Commission; the head of the Chamber of Commerce and Industry; and representatives from donor agencies (World Bank, UNDP, USAID, Multi-Donor Trust Fund, Joint Donor Team, and NGO Forum).

Senior management in MoFEP, led by Oboy Ofilang Itorong (director general, Planning and Budget Directorate) established a task force consisting of representatives from key government agencies, including the Audit Chamber, the Anti Corruption Commission, MoFEP (Directorate of Planning and Budget, Accounts, Aid Coordination, Procurement, and Revenue), the Centre for Census, Statistics and Evaluation, the Ministry of Labour and Public Service, and the University of Juba. These officers were supported in the consultation, as necessary, with other government agencies and local governments in making the assessments according to the dimensions and indicators in the framework.

Prior to the assessment work, the team conducted an inception workshop on April 14, 2011, at which it explained the PEFA methodology. The workshop was attended by representatives from GoSS and Western Equatoria State and development partners and was chaired by the undersecretary for finance in MoFEP. Similarly, the team conducted a debriefing workshop on April 28, 2011, at the end of its fieldwork.

The first draft of the report was submitted to the World Bank in June 2011. Subsequent comments, including those from the PEFA Secretariat, GRSS, auditor general and development partners, were incorporated into the report, a validation workshop was held in Juba on September 5, 2011, and the final draft was submitted to the Bank later in September 2011.

State government PEFA assessments
The field work for state government PEFA assessments was conducted in June, 2011. Peter Fairman led the same four-person team, but the team was split up in order to visit three of the states—Western Equatoria, NBGS, and Jonglei-- while the government staff from Unity State met the team in Juba with their documents due to ongoing conflict in that state. Meetings were also held with UN volunteers assisting Ministry of Finance, Trade and Industry through the UNDP’s support program in the states visited.

The first drafts of the reports were submitted to the Bank by mid-July, and then the same process was followed as for the GoSS PEFA.

SSPAR
The SSPAR study was conducted by five consultants from Ramboll (based in Denmark). The field work was conducted during May and June 2011, overlapping with the state government PEFA assessment. The team visited the same institutions as the PEFA team did, though with more emphasis on the Procurement Policy Unit as well as the Ministry of Commerce and Supply. For logistical reasons, the team was able to visit only one state (Jonglei). Information about procurement in other states was obtained by phone (Western Equatoria) or from the
representatives of other states visiting them in Juba (NBGS and Unity). Their first draft report was submitted to the Bank in July 2011, and the same process was followed as for the PEFA assessments (i.e., validation workshop in Juba on September 5 followed by finalization of the report later that month).

Separate draft action plans for the PFM performance indicators and for the procurement pillars are incorporated in this report for consideration by the government. Attachments in Volume 2 of the report provide the PEFA PFM Performance Assessment Report, in the form of an integration of the GoSS and state government PEFA assessments, and a summary of the SSPAR. Volume 3 of the report presents the full SSPAR. For reasons of space, the five individual PEFA assessment reports are not included, but are available upon request.

The CIFA mission is grateful for the cooperation it received from the Government of the Republic of South Sudan, Western Equatoria State, Northern Bahr El Ghazar State, Jonglei State, and Unity State, and from all the development partners and organizations visited. In particular, the team would like to thank the members of the government task force at both the central and state levels.

**Structure of the Remainder of This Report**

The remaining chapters of this volume cover background information and key issues for PFM and procurement. Volume 2 covers the Public Finance Management Assessment for South Sudan, based on the PEFA Framework. Volume 3 reports on the South Sudan Procurement Assessment, which was based on OECD Development Assistance Center methodology.
Chapter 2. Background Information

2.1. General

At the time of the PEFA assessment and SSPAR, Southern Sudan was a semiautonomous part of Sudan managed by the Government of Southern Sudan (GoSS) as part of the Government of National Unity that included both GoSS and the Government of Sudan. GoSS had been established in 2005 after a Comprehensive Peace Agreement brought to an end 22 years of conflict between the Government of Sudan and the Sudan People’s Liberation Movement. Southern Sudan became the independent country of the Republic of South Sudan on July 9, 2011, following a referendum held in January 2011. Box 2.1 contains some key statistics and indicators.

Box 2.1. South Sudan: Key Statistics and Indicators

- Population: 8.26 million
- Area: 644,329 sq. km.
- More than half (51%) of the population is below the age of 18; 72% of the population is below the age of 30
- 83% of the population is rural
- 27% of the adult population is literate
- 51% of the population live below the poverty line
- 78% of households depend on crop farming or animal husbandry as their primary source of livelihood
- 55% of the population has access to improved sources of drinking water.


Perhaps uniquely for a post-conflict government, GoSS in 2005 had immediate access to millions of dollars’ worth of domestic oil resources with which to fund its budget. However, the Joint Assessment Mission report prepared by the World Bank, UN, Government of Sudan, and Sudan People’s Liberation Movement in 2005 noted that the entire public service had to be built up virtually from scratch. Key ministries had very few technical staff whose skills were suited to modern fiduciary systems. Poor local infrastructure (including transport and housing), prefabricated offices, weak IT capacity, and limited communication only compounded these problems. Therefore, in view of the huge infrastructure and public service needs of the war-devastated country, the Joint Assessment Mission recommended that the core PFM functions be contracted out to international firms for at least the first two years until capacity was built.4

4 See F. Davies, “Contracting out Core Government Functions and Services in Southern Sudan,” Chapter 3 in Partnership for Democratic Governance Contracting Out Government Functions and Services, Emerging Lessons from Post-Conflict and Fragile Situations (OECD, 2009).
Formal and informal practices that existed both before and during the conflict shaped what was possible for systems development at the start of the peace. In 2005, GoSS drew on staff from both the Southern Sudan Coordinating Council, which administered territories controlled by the Government of Sudan in the South during the conflict, and the Civil Administration of New Sudan, which covered the areas held by the rebel Sudan People’s Liberation Army. The 1995 Financial & Accounting Procedures Ordinance (of the Republic of Sudan) provided a basis for PFM.

**The Four State Governments**

The state governments have similar characteristics in their demographics and governance structures as for the country as a whole. Background information on the states is contained in Annex A of Volume 2. All the states have had security problems, particularly Unity and Jonglei states (very recent security problems, reflecting in part inter-tribal rivalries, have received attention in the international media).

### 2.2. Legal Context of PFM

**At the GRSS Level**

The basis for the legal framework until July 2011 was the 2005 Interim Constitution of Southern Sudan. The constitution’s key sections concern the annual budget, supplementary budgets, final accounts and accounting practices, revenue raising, borrowing, external audit function, and the judiciary. A new Transitional Constitution came into effect on July 1, 2011. The provisions covering PFM were broadly unchanged on the expenditure side, but some changes were made on the revenue side, reflecting the new responsibilities of GRSS in managing oil, customs, and VAT revenues. (Details on these provisions are provided in Chapter 2 of Volume 2).

The only laws covering public finance currently in place are the annual Appropriations Acts and the 2009 Taxation Act. The very detailed and comprehensive 1995 Financial Accounting Procedures Ordinance, which covered the whole of Sudan, is now only partially observed. A Public Finance Management and Accountability bill was prepared in 2007, but at the time of the PEFA/SSPAR validation workshop on September 5, 2011, it had yet to be enacted. At the time of the drafting of this CIFA, it was learned that the bill has in fact been enacted. Indirectly related to public finance is the South Sudan Anti-Corruption Commission Act (2009), as elaborated on below under “Institutional Framework.”

At the time of this workshop, a long overdue public procurement bill was due to be presented to the SSLA to supersede the 2006 IPPDR, which until then had been the only regulatory framework covering procurement. The IPPDR was supposed to be an interim measure only, providing a generally sound set of procurement regulations and stating that open competition was the preferred procurement method. As discussed in more detail in the accompanying volumes (in Volume 3, Chapter 4, and in Volume 2, under Performance Indicator 19), the implementation of IPPDR has been beset with issues.
The Audit Chamber bill was signed by the president as a provisional order in January 2011 and, at the time of the PEFA assessment and SSPAR, was before SSLA for consideration and passage into law; this was still the case at the time of the PEFA/SSPAR workshop on September 5, 2011. When the bill is enacted, the major function and duties of the Audit Chamber will be very similar to those of any auditor general’s office following International Organisation of Supreme Audit Institutions (INTOSAI).

**Legal framework for taxation**

The Personal Income Tax Act of 2007 covered only personal income tax. This was superseded by the 2009 Taxation Act, which included personal income tax, business taxes, and levies on small and medium-size businesses, and excise duties on luxury consumables. Due to some technical deficiencies with the 2009 act, however, it was not announced, resulting in problems of implementation, since supporting regulations could not be prepared. For example, without such regulations, more discretion was provided to tax collectors than would otherwise have been the case, and the Appeals Board could not be established.

Taxes administered by the Government of National Unity and not covered by the PEFA assessment included personal income tax levied on the Government of National Unity staff working in Southern Sudan, value-added tax, business taxes and levies on corporate enterprises (i.e., large enterprises), excise tax, and duties other than those covered by GRSS.

Prior to independence on July 9, 2011, very little work had been done to integrate the two sets of taxes under one tax law and to prepare the systems necessary for administering them. An assessment made by USAID in 2010 on the future customs administration functions of GoSS identified many challenges: the lack of a comprehensive development and acquisition plan or strategy for GRSS border infrastructure/equipment; inadequate process of revenue collection, poor accounting and exemptions procedures and controls; insufficient focus on border enforcement/security: insufficient use of IT; and an adequate ethics program amongst others.\(^5\)

Section 17 of the 2009 Taxation Act provides for “Coordination of Tax Collection Administration and Tax Rates with the National and State Governments.” Such coordination has been noticeably absent, as indicated by the lack of clarity in the division of tax collecting functions between GoSS, state governments, and county governments. The result has been a multiplicity of tax collection points at jurisdictional boundaries (e.g., the border between Southern Sudan and Uganda as well as the Juba city boundary) and associated efficiency losses due to both the additional tax burden on road users and the amount of time it takes to go through all the collection points.

\(^5\) USAID, “Customs Assessment: Strengthening the Customs Service of Southern Sudan” (November 29, 2010).
The issue of tax collection was raised in the “GRSS Growth Strategy, 2010-2014” (January 2010) and in the Minister of Finance’s 2010 Budget Speech and was supposed to be addressed during 2010 (e.g., checkpoints should only be for security and not for collecting revenue). The issue had still not been addressed at the time of the PEFA assessment. More branches of the Bank of South Sudan, where revenues could more easily be directly deposited rather than being collected, would help to address the issue, but this would take time.

At the PEFA workshop, held on April 28, 2011, the director of the Revenue Department of MoFEP indicated that a simplified, more transparent system was being prepared and would be reflected in an amended taxation law. At the PEFA/SSPAR validation workshop on September 5, 2011, it was learned that amendments to the 2009 Taxation Act were currently being prepared, mainly to reflect the post-July 9 situation in which GRSS now has authority over all taxes. Whether these amendments will take care of the jurisdictional issue remains to be seen.

At the State Level

For the most part, the legal framework in the states mirrors that at the GoSS level. Following the ICSS, each state prepared its own interim constitution, more or less the same as for GoSS. The same is true for state-level appropriations acts, which reproduce those passed at the GoSS level almost word for word. In NBGS and Unity State, 2011 was the first year when appropriations acts were in place, since state legislative assemblies did not convene until 2010. Many counties (including Aweil West, in NBGS, which was visited by the PEFA assessment team) did not yet have legislative assemblies. Unity State still does not have its own tax administration system but follows the 2009 Taxation Act. Western Equatoria State, NBGS, and Jonglei State established their own taxation acts in late 2010/early 2011. Western Equatoria State and NBGS created separate semiautonomous revenue authorities in 2010 and 2011, respectively (e.g., NBGS passed a Revenue Authority Act and accompanying tax acts in 2011). In terms of procurement, all the states follow the IPPDR.

County administrations are governed by the Local Government Act, which is administered by the Local Government Board in Juba.

2.3. Institutional Framework for PFM

Administrative Framework

The central government comprises 56 spending agencies (various ministries, commissions, authorities, offices, and chambers, as well as the South Sudan Electricity Corporation and the South Sudan Legislative Assembly). These are aggregated into 10 sectors: Accountability, Economic Functions, Education, Health, Infrastructure, Natural Resources, Public Administration, Rule of Law, Security, and Social and Humanitarian Affairs.

The MoFEP comprises the following directorates: Taxation, Planning and Budgeting, Accounts, Procurement, Internal Audit, and Finance and Administration. Under each directorate fall a
number of departments (e.g., a budget department). Two undersecretaries form the head of the administration hierarchy: the Undersecretary for Finance and the Undersecretary for Planning; they report to the Minister of MoFEP.

Line ministries appear to have rational structures with responsibilities divided into directorates, the most important being the Planning and Budgeting Directorate and the Finance and Administration Directorate. They also have internal audit Directorate reporting to the undersecretary (as discussed in Volume 2 under Performance Indicator 21).

State governments have approximately the same administrative structure, with fewer spending agencies and fewer functions, the functions being the same for each state. As elaborated in Volume 2 under Performance Indicator 8, they receive both unconditional (block) and conditional transfers from the GRSS central government, split roughly 50:50. With the exception of oil-rich Unity State, the bulk of their financial resources have been in the form of these transfers. While Unity State receives 70 percent of its resources from such transfers, it also receives substantial resources from other sources.

Under each state government fall a number of county governments. All sectoral and PFM functions tend to come under the Commissioner’s Office, rather than being divided between different spending agencies.

**Functional Framework**

**Planning and budgeting**

Upstream PFM functions have improved considerably since 2005, and annual budgets are now more closely linked with GRSS strategic objectives and priorities. Considerable technical and financial assistance was provided initially by UNDP, through its Support for Economic Planning Project, and later by USAID and the Overseas Development Institute. A medium-term costed development plan is being developed; once in place, it will facilitate a closer linkage and incorporate a formal M&E framework.

Budget preparation is supported by a MoFEP-led planning process that requires spending agencies to submit budget sector plans; this process represents the strategic phase of budget preparation, following a budgetary practice common in many countries. The budget sector plans lay out sector objectives and priorities, an indicative resource envelope, estimates of costs per spending agency for the coming year based on costs in the current year, and guidelines and templates supporting budget sector plan preparation. Given the high dependency on oil revenue, the planning and budgeting process includes a scenario that takes into account swings in oil prices: each spending agency may indicate additional resource allocations (up to 15 percent of the current year’s budget) to go to its two highest priorities in the event of higher-than-forecast oil prices.
Budget sector plan preparation is carried out under the auspices of Budget Sector Working Groups, whose membership includes donors who may also be co-chairs; MoFEP has prepared guidelines for effective donor participation in the 2011 budget preparation process.

Currently, political input into the strategic phase of budget preparation is not provided by the Council of Ministers. In some countries, the strategic phase commences with the Council of Ministers or its equivalent reviewing strategic priorities, such as a review that informs the budget sector plan preparation.

Following a joint review of the budget sector plans by MoFEP and the spending agencies, MoFEP draws up proposed spending ceilings for each agency to be incorporated into the Budget Call Circular. The spending ceiling amounts are sent to the Council of Ministers for discussion and approval, following which the Budget Call Circular is sent out to the spending agencies, which then begin their detailed budget estimations. This constitutes the second phase of budget preparation. The Budget Call Circular is accompanied by formal Excel-based guidelines and templates. Following a discussion of budget submissions with MoFEP, the draft budget is prepared by MoFEP and submitted to the SSLA upon the Council of Ministers’ approval.

Following its debate of the budget, SSLA indicates its approval in the form of the Appropriations Bill. This is a summarized version of the budget estimates, showing the total appropriation ceiling for each spending ceiling, disaggregated into spending ceilings for each chapter: salaries, operating costs, and capital expenditure. The bill becomes law with the President’s signature.

The budget documents are comprehensive and of a high quality and are publicly available to the extent that they can be found on the GRSS website (http://www.GRSS-online.org). ‘Budget at a Glance’ documents have also been published since 2007, facilitating greater understanding of the budget by the layman.

**Budget execution, cash and debt management, reporting and accounting**

Budget execution begins with spending agencies preparing proposals to purchase the inputs necessary for the delivery of services, consistent with the ceilings specified in the annual Appropriations Act. Contracts proposed by each spending agency require prior confirmation from MoFEP if they exceed SDG 40,000 for goods, SDG 100,000 for works or SDG 20,000 for consultancy services, to ensure that sufficient funds are available from the balances against each agency’s budgetary appropriation. After receiving confirmation, such contracts then require the signature of the Minister of Legal Affairs and Constitutional Development. ⁶

A centralized payments system is supposed to have been in effect since 2007, as outlined in MoFEP’s “Payments Procedures,” but in practice it has been only partially in effect. Payments of SDG 4,000 and above are made by MoFEP on the basis of approved payments request forms

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⁶ Sections 6 (1) and 6 (2) of the 2009, 2010 and 2011 Appropriations Acts.
submitted by spending agencies. Payments are supposed to be made directly to vendors, except for salaries, allowances (including travel allowances), and incentives, which are paid into spending agency bank accounts. In many instances, however, MoFEP transfers funds directly into spending agency accounts. In those cases, it does not have the means to check whether the agency has in fact paid the vendor, since it does not have access to the agency’s bank statements (it is attempting to gain such access but is hampered by the lack of a PFM Act). In some instances, MoFEP releases funds to spending agency accounts in advance, excluding petty cash fund advances, thus exacerbating liquidity issues.

Payments below SDG 4,000 are effected from the petty cash funds of the respective spending agencies. MoFEP replenishes the PCF of each spending agency with SDG 100,000 each month (of which SDG 20,000 is set aside for the Minister’s Office), in theory (though not in practice) on the condition that the spending agency accounts for the expenditure of the previous tranche of funding.

MoFEP records approved payment requests and payments, including the monthly petty cash advances to spending agencies and the expenditures from them, and send monthly budget execution reports to the spending agencies. The accuracy of these reports has considerably improved since 2008, prior to which payments requests were often charged to the wrong line or to the reserve.

MoFEP’s payment and petty cash advance procedures indicate the steps involved for processing payments requests. These procedures have been in place since 2008, when MoFEP took over the responsibility from the Government Accounting Agent.

Financial resources have not always been available to meet all payment requests following their approval by MoFEP (for reasons discussed in Chapter 3). As a result, in 2008 MoFEP established a Cash Management Committee to ration cash for making payments in an orderly and prioritized manner, with monthly salaries and transfers to states receiving the highest priority.

The bulk of payments are now made through deposits into bank accounts rather than through the use of cash. The transition to this method started in 2007, through an announcement from the Minister of Finance (in the 2008 Budget Speech) that suppliers should open bank accounts so that MoFEP could pay them through bank transfer or check. The states were also informed that they could not continue to receive transfers in physical cash form and that they should make use of the banking system. Starting in 2008, wage and salary payments to classified staff have also been been made through deposit into their bank accounts.

Until now, the IFMIS has mainly been used to generate reports and financial statements rather than as an expenditure control tool; the MoFEP is therefore missing out on a key benefit of using an IFMIS. The processes of expenditure commitment, receipt of goods and services procured, receipt of invoices, preparation of payments requests, and payments have all been processed semi-manually outside IFMIS. Greater control, accuracy, and timeliness would be achieved if the IFMIS were used to execute these processes. A problem preventing this has been the difference in complexity between the detailed budget estimates, which form the basis of
payments request forms, and the Appropriations Act, which specifies the amount of control at the chapter level only and which the IFMIS expenditure control process is configured for.7

To date, the IFMIS has been established in eight spending agencies, although only on a read-only basis. These agencies have online access to up-to-date information in IFMIS and are now receiving training on how to use it. The IFMIS is currently being rolled out to state governments as well, because it was decided that the first focus should be on spending agencies at both central and state government levels that have primary responsibility for providing basic services. This might not have been an advisable strategy, however, since spending agencies without access to the IFMIS are apparently acquiring their own IT systems for PFM, resulting in duplication.

The opinion of the PEFA assessment mission was that it might have been better to roll out IFMIS first to all GRSS spending agencies, establish connectivity between each of these to MoFEP, and then consider rolling out to state governments, where power and connectivity issues are worse. Alternatively, the assessment mission advised, a simpler IT-based system could be implemented at the state government level.

Balances in MOFEP-owned bank accounts held in the Central Bank of South Sudan are not yet linked with the IFMIS, but linkage is expected by the end of 2011, enabling real-time reconciliation of MoFEP bank accounts.

Elaboration on all of the above is provided in Volume 2, Chapter 3, under Performance Indicators 16, 17, 20, 22, 24, and 25. Volume 2 also discusses budget execution control processes and issues connected with payroll management (Performance Indicator 18) and non-payroll internal control systems (Performance Indicator 20).

**Procurement**

The procurement system is described and assessed in Volume 2, Chapter 3, under Performance Indicator 19 and in Volume 3 (SSPAR).

**Tax system**

The tax system is administered by the Taxation Directorate in MoFEP. Development of the tax system is still in its early stages, as described in detail under Performance Indicators 13-15 in Chapter 3 of Volume 2.

**Internal and external audit**

Internal audit units have been established in many spending agencies, but their functionality in determining whether internal control systems are working adequately is only at an early stage of development. The external audit function, in the form of the Audit Chamber, has been

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7 The standardized Payments Request form is shown at the end of the “Payments Procedures”, prepared by MoFEP in 2009. For each spending agency, a payments request is made for each activity (6 digits) at sub-line item level (five digits).
developing since 2005. The institutional framework for the internal and external audit functions are described in Volume 2, Chapter 3, under Performance Indicators 21 and 26.

**Sub-national governments**

Progress has been made in decentralization, particularly since 2009, and a significant portion of the GRSS budget is transferred directly to the 10 states in the form of block grants. These are based on a very simple formula (one-tenth of the budget to each), one that cannot address horizontal imbalances but relays a notion of ‘fairness’ to the state governors. States also receive assistance through a number of conditional grants. Recent census and household data will underpin preparation of an equalizing grant-transfer formula.

The mechanisms for ensuring that the conditions attached to conditional grants were being met have been less than robust, despite MoFEP’s stated intentions (referred to in the 2009 Budget Speech) to ensure accountability for the spending of grants. A States Monitoring Transfers Committee was established in December 2010 with a view to ensuring that the conditionalities were being met. This is elaborated in Volume 2, Chapter 3, under Performance Indicator 8.

**Donor assistance**

With support from UNDP’s Support for Economic Planning Project, MoFEP prepared an aid strategy in 2006 to help ensure that donor assistance to GoSS was used as effectively as possible. The strategy was approved by the Council of Ministers in late 2006 in a document entitled “GRSS Aid Strategy, 2006-2010.” The aid strategy is based on six principles: alignment, coordination, predictability, harmonization, institutional development, and mutual accountability.

An Aid Coordination Unit was established in MoFEP with assistance from Support for Economic Planning. Through this assistance, an aid coordination advisor was located, the Inter-Ministerial Project Appraisal Committee was established, and an Aid Information Management System was procured and installed. The Aid Information Management System reports on a large component of donor assistance through the *Donor Budget Book* and the reporting mechanisms established under the Multi-Donor Trust Fund. (Elaboration is provided in Volume 2 under Indicator D-2.) An Annual Development Aid Review provides an evaluation mechanism. Currently, an Overseas Development Institute fellow and a donor coordination team (Joint Donor Team, part of the Multi-Donor Trust Fund) assist the Aid Coordination Unit.

A large number of NGOs are operating in Southern Sudan, particularly at the state level. The NGO Forum (met by the assessment team) believes that its members are coordinating their activities well with state governments. For example, they follow GRSS guidelines in supporting schools and health clinics, and they participate in Budget Sector Working Groups. The assessment team’s first impressions when conducting the PEFA assessments at the state government level during June were that collaboration is indeed quite good, although, with the exception of Unity State, this did not translate into planned NGO expenditures being reflected in budget documentation.
The impressions of the Joint Donor Team, interviewed by the assessment team, were that co-
ordination by GRSS of NGO activities could be strengthened, particularly in the case of the
ministries of education and health. The Joint Donor Team was also of the opinion that NGOs
could coordinate better among themselves. At the time of this assessment, a bill providing for
strengthened GRSS oversight of NGOs was being prepared.

**Corruption issues**

Corruption is a major issue in South Sudan, as recognized by, among others, the South Sudan
Anti-Corruption Commission and the Chamber of Commerce, Industry and Agriculture.
According to the Joint Assessment Mission report of March 2005, corruption was not a serious
issue at that time but, the report found, it could become a serious issue as a result of large
influxes of both oil revenues and aid following the Comprehensive Peace Agreement, unless
safeguards and systems were put in place first. In principle, strong governance systems,
including a strong PFM system, would reduce the opportunities for corrupt practices.
Unfortunately, these have not been put in place to a sufficient extent, and corruption has indeed
become a serious issue.

The procurement process is one of the major areas where corruption appears to arise. For
example, advances to contractors have been paid under roads and airport construction contracts
with little evidence since of work actually having been completed. GRSS no longer makes down
payments, but the downside of this is liquidity problems for bona fide contractors, particularly in
a country where the banking system is still developing.

Another area where corruption may be prevalent is revenue collection, the opportunities arising
from: (i) an insufficient number of Central Bank of South Sudan branches where taxes can be
paid directly by the taxpayer rather than via a tax collector; and (ii) the proliferation of tax
collection points at inter-jurisdictional boundaries, as noted under ‘Legal Framework’ above and
in the SSPAR (Volume 3, Chapter 3). Absence of proper accounting systems for the collection
of non-tax revenue by spending agencies and for reconciling assessed tax revenue due with
revenue actually ending up in MoFEP’s accounts, combined with an inability or unwillingness
to monitor spending agency bank accounts, also indicate opportunities for corruption. As noted
in the SSPAR, “corruption remains a huge challenge in South Sudan.”

To help counter corruption, the South Sudan Anti-Corruption Commission was established in
2009 through the Southern Sudan Anti-Corruption Commission Act of that year (based on ICSS
Article 147), although it only became fully functional in 2010. The commission’s headquarters
are in Juba, but it has offices in each state. The Southern Sudan Anti-Corruption Commission’s
operations are guided by its Southern Sudan Anti-Corruption Strategy and Action Plan 2010-14,
edorsed by the Council of Ministers in December 2009. The commission has conducted a
number of sensitization workshops nationwide as well as technical workshops on systems audit
and risk assessment.

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8 Joint Assessment Mission Sudan, “Framework for Sustained Peace, Development and Poverty Eradication,” Volume 1, p. 32
(March 18, 2005).
The Southern Sudan Anti-Corruption Commission considers itself hampered by its enabling legislation, which does not provide the power to arrest anyone for alleged corrupt activities. The commission has to use the court system to prosecute anyone. Although several corruption allegations have been submitted to the commission, which has investigated many of them, only one case has gone to court to date, the outcome of which is still pending. The legislation also does not provide for any penalties for noncompliance, for example noncompliance with the requirement that senior civil servants declare their assets and liabilities (using a form developed by the commission in 2009). A further weakness is that lower-level staff, for example tax collectors, are exempt from this requirement. Further constraints are insufficient funding, a tendency (as with other spending agencies) for much of the funding to arrive late in the year, a shortage of qualified staff, partly due to insufficient remuneration levels, and limited English speaking capabilities.

The Southern Sudan Anti-Corruption Commission can help to fight corruption, but even if it is well facilitated it is unlikely to be able to do the job on its own as long as effective governance systems – PFM, public administration, and legal/judicial – are not in place. Strengthening PFM and procurement systems is therefore critical to the fight against corruption.

At the State Level

As with the legal framework, the institutional framework largely mirrors that of GRSS. MoFEP issued “Planning Guidelines for States and Counties” in May 2010, ”Payment Procedures” in February 2011, and “Conditions For Use, Release and Reporting on Transfers to States in Fiscal Year, 2011” in April 2011 to all states. The IFMIS was established in state level ministries of finance in late 2010/early 2011. The South Sudan Electronic Payment System was rolled out in 2010, except in NBGS, which continued to use the electronic Easy Pay system that it had already established. The number of spending agencies at the state level tends to be lower, because of the smaller populations.

The institutional structures of the state-level ministries of finance (Ministry of Finance, Trade and Industry in NBSG, Unity State and Western Equatoria State, and the State MoFEP in Jonglei) broadly mirror those of the GRSS. Unity State also has Commerce and Supply Department and an Investment Authority Cooperation Department.

2.4. Role of Donors in the Reform Process

Building Up Civil Service Capacity

A public service policy and manual were prepared in 2008 (as described in Volume 2, Chapter 3, under Performance Indicator 18), partly on the basis of a survey of public service personnel conducted in 2006, funded by the multi-donor-supported/World Bank administered Low Income
Countries Under Stress program. The Government Accountancy Training Center was established in 2008 and has been conducting training in PFM since, financed by the multi-donor supported/UNICEF administered Capacity Building Trust Fund and by the Low Income Countries Under Stress Fund.

**Strengthening the Legal Framework for PFM**

A PFM bill was drafted in 2007 (the African Development Bank funded an expert) but had yet to be enacted as of time of the assessment. It has gone through a number of versions. One issue apparently has been a difference of opinion among donors. Some espouse a PFM law modeled on those established in other post-conflict economies, such as Kosovo. Others espouse a British-style PFM law, modeled on those in place in East African countries, particularly nearby Uganda, given the influence of the former British colonial presence in Sudan, which extended into Southern Sudan, and given the steady pace of PFM reform in Uganda. Another issue may be politically based. MoFEP staff argue that a PFM law is a prerequisite for proposed reforms to budget execution, reporting, and accounting systems. But some of these reforms may upset vested interests (e.g., the requirement in the draft law for spending agencies to declare their month-end cash balances to MoFEP).

The regulations of the IPPDR were drawn up in 2006, with funding from the African Development Bank, emphasizing a de-concentration of procurement administration to spending agencies and the use of competitive procurement methods. The intention was that a Procurement Bill would be drafted and enacted in order to give legal force to the regulations. A bill was in fact drawn up (with support from USAID) but has not yet been enacted. Vested interests may be a factor as well, since nontransparent single-source procurement methods have been the norm.
Ongoing activities under the Deloitte project are (i) strengthening of revenue forecasting and establishment of a macro-fiscal framework; and (ii) fine-tuning and rationalizing the budget classification framework and linking it to budget preparation through a database system – currently being prepared – rather than through an Excel-based system (described in Volume 2, Chapter 3, under Performance Indicator 11).

**Strengthening Budget Execution Systems**

Supported initially under the Multi-Donor Trust Fund-funded Core Fiduciary Systems Support Project (established in 2005) and then by the USAID-funded Sudan Core Institutions Project, a Centralized Payments System was put in place during 2007 accompanied by Payments Procedures and an IFMIS was established. The IFMIS was initially established in MoFEP alone in 2005 under the Core Fiduciary Systems Support Project. The budget execution functionalities of the IFMIS are not being fully used, and budget execution, including the procurement process, is beset with problems. Strengthening measures agreed to under the Mutual Accountability Matrix drawn up under the 2009 Juba Compact have yet to be implemented.

A de-concentrated procurement system was established, supported first through the first Low Income Countries Under Stress grant with two advisors during 2005-08, who helped to establish the Procurement Policy Unit in MoFEP, and subsequently through the USAID project. The system was based on the IPPDR that came into effect in 2006, but a Procurement Law is still not in place.

On the positive side, the payroll management system has been strengthened significantly through the development and roll-out of the South Sudan Electronic Payment System, funded by the Capacity Building Trust Fund through Booz and Company. The Human Resource Management Information System has been strengthened through Deloitte’s assistance under the USAID-funded Core Institutions Project (see Volume 2, Chapter 3, Performance Indicator 18).

**Strengthening Reporting and Accounting Systems**

Annual financial statements were prepared by KPMG (funded by the Multi-Donor Trust Fund through the Core Fiduciary Systems Support Project) until 2008, when GoSS took over responsibility. As noted in Volume 2, Chapter 3 (Performance Indicator 25), preparation has not been timely, though timeliness is improving. The IFMIS is being used to prepare in-year budget performance reports, whose timeliness is now improving (Performance Indicator 24). Not using the full functionalities of the IFMIS in budget execution control has complicated the preparation of timely and accurate reports and accounts. A bank account reconciliation module has yet to be established in the IFMIS and delays in the preparation of bank reconciliation statements have been long, though the situation has improved in recent months (Performance...
Indicator 22). Strengthening measures agreed to under the Mutual Accountability Matrix drawn up under the 2009 Juba Compact (e.g., monthly accounting for the use of petty cash) have yet to be implemented.

Strengthening Revenue Administration

A Tax Administration Law was drafted with external assistance (from USAID) and enacted in 2009. It has yet to be announced, however, due to some technical and legal issues that were later identified. USAID is now providing technical assistance to revamp the law in line with GRSS’s new responsibilities for managing oil revenues, customs duties, and value-added tax, previously under the responsibility of the Government of National Unity. The Norwegian Government is providing assistance with oil revenue management. Notwithstanding a USAID-funded report prepared in 2010 on the need to start planning well ahead for the take-over of these responsibilities, very little planning in fact took place.

Establishing Internal Audit (Performance Indicator 21)

Development of a modern internal audit function that is ex-post systems oriented has been underway for some time, with assistance provided through the Low Income Countries Under Stress and Capacity Building Trust funds. The function is only just getting off the ground. This is not surprising, since building internal audit capacity takes time in itself (internal auditors first require appropriate academic qualifications and then training) and also because it takes time to build up the capacity of the civil service to develop and maintain the internal control systems that become the internal audit function’s focus.

Establishing External Audit and Legislative Oversight Functions (Performance Indicators 26-28)

The capacity of the Audit Chamber has gradually been strengthened since 2005 through assistance from PKF (funded by the Multi-Donor Trust Fund through the Core Fiduciary Systems Support Project). The turnover of auditors general has helped make the development of the external audit function slower than anticipated, but the situation appears to be improving since a new Auditor General took office in July 2010. Delays in approving an external audit bill may be another factor; a bill was placed before the SSLA in January 2011 but had yet to be enacted as of September 1, 2011.

Legislative oversight functions are still in their early stages of development, particularly in terms of scrutiny of external audit reports, in part because such reports are only just beginning to be provided to the SSLA. The Committee of Economic Development and Finance and the Public Accounts Committee, at both GRSS and state levels, would probably benefit from technical assistance to strengthen their capacity.
Institutional Factors Supporting Reform Planning and Implementation

The obvious question arising from the above description of PFM reforms is, Why have the upstream planning and budgeting systems been strengthened so much more rapidly than the downstream areas of PFM? The answer appears to be twofold.

First, the technical assistance provided to support strengthening the upstream areas may have been more substantial and more focused, the strengthened systems being more tailor-made and modeled on the experience in East African countries, particularly Uganda, and also more closely aligned to the pace of capacity development. The amount of external support was indeed substantial, starting off with support from UNDP and Overseas Development Institute fellows (all under multiyear contracts and sitting side by side with their counterparts in MoFEP) and then from Deloitte and Overseas Development Institute fellows. In contrast, the amount of hands-on technical assistance provided in the downstream areas was relatively small, with only one expatriate accountant (contracted by Deloitte) working side-by-side with counterparts in the Finance Directorate.

Second, strengthening upstream areas may be easier, since it is not as IT-intensive as the strengthening involved in downstream areas, the amount of change management is less, and vested interests opposed to change may be fewer.

In principle, PFM reforms have the greatest chance of success if they have strong political backing, are coordinated and managed through a high-level body comprising senior management in the finance ministry and line ministries, and reform goes hand-in-hand with reforms in public administration, civil service, and the legal system. Coordination with donor agencies is important to ensure government ownership of reforms and to guard against wasteful overlapping of donor-funded projects. Currently, the coordination and management of PFM reform appears insufficient, although the coordination of donors is improving as a result of the Aid Coordination Unit in MoFEP and the development of an aid management IT model (both assisted by Overseas Development Institute fellows and the Joint Donor Team).

In most countries, and definitely in South Sudan, the ultimate binding constraints to the pace of PFM reform are institutional and human resource capacity, so PFM reforms need to be carefully prioritized and sequenced.
2.5. Budget Performance and Structures

At the GRSS Level

Tables and charts showing budget performance and functional and economic classifications of the budget are contained in Volume 2, Chapter 2. Macroeconomic performance data are not available.

Table 2.1 shows actual expenditure exceeding budgeted expenditure by large margins, the excess being financed by revenues in excess of budgeted amounts. Revenues and expenditures grew rapidly prior to 2008 as well: actual revenue and expenditure amounted to SDG 1870 million and SDG 452 million (equivalent of the USD amount) respectively in 2005. Borrowing was zero, as GoSS had no access to loan facilities.

The large oil-based revenues have enabled public expenditure per capita per year of about $250 – a considerable sum when compared to $61 per capita per year in Sierra Leone during 2008.\(^{13}\) Given the enormous post conflict investment needs, government planners have prioritized the use of these resources as follows: first, security; second, roads, primary health care, and basic education; and third, water and production.\(^{14}\)

| Table 2.1. Budget Performance, GoSS/GRSS level (in SDG millions), 2008-2011 |
|-----------------|--------|---------|--------|--------|--------|--------|--------|
|                 | Bud.\(^a\) | Act.\(^a\) | Bud. | Prov.\(^a\) | Bud. | Prov. | Bud. |
| Revenue         | 3,464  | 6,790   | 3,658  | 4,240  | 4,503  | 5,757  | 5,767  |
| Oil\(^b\)       | 3,312  | 6,671   | 3,413  | 4,122  | 4,402  | 5,630  | 5,656  |
| Non-oil         | 152    | 119     | 245    | 118    | 101    | 127    | 111    |
| Expenditure\(^c\) | 3,428  | 5,713   | 3606   | 4,235  | 4,483  | 5,576  | 5,767  |
| Salaries        | 1,647  | 1,873   | 1840   | 1,977  | 2,179  | 2,206  | 2,433  |
| Operational     | 770    | 1,453   | 899    | 165    | 80     | 1,057  | 544    |
| Transfers to states & Multi-Donor Trust Fund | 156 | 774 | 1,090 | 1,233 | 1,224 | 1,531 |
| Capital         | 855    | 1,612   | 868    | 1,002  | 990    | 1,091  | 1,258  |
| Balance         | 36     | 1,077   | 52     | 5      | 20     | 181    | 0      |


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**Memo item:**

- Transfers to states: 638, 1,154, 1090, 1,228, 1,219, 1,527
- % expenditure: 11.2, 25.7, 21.9
- Block grants: 453, 439, 543
- Conditional grants: 185, 651, 676

**Transfers to Multi-Donor Trust Fund:**

- 156, 136, 146, 0, 5, 5, 4

Source: GRSS budget documents.

Notes:
- b. Oil revenues are net of direct expenditures debited by Government of National Unity.
- c. Exchange rate losses refer to losses on oil revenue transfers.
- d. Revenues and expenditures accounted for on a cash basis; unpaid approved payments requests are excluded from expenditures. The balance does not necessarily imply accumulation or de-cumulation of cash reserves due to possible inaccuracies in the recording of revenues and expenditures, as noted in Performance Indicator 24; for example, the positive balance in 2008 appears too high.

However, the downside of dependence on oil-based revenue is fluctuations in revenue performance due to fluctuations in global oil prices, particularly during 2008-09. In order to try and reduce oil-price-induced fluctuations in government expenditures, GoSS worked with the Government of National Unity to put in place an oil revenue stabilization account mechanism. This had some success, though there were control problems at times. GoSS also endeavored to increase the proportion of non-oil-based revenue to total revenue from very low levels, but without success.

**Functional and economic classification of the budget**

The largest sectors are security, public administration, infrastructure, and rule of law. The education and health sectors are relatively small, partly because of the responsibilities of the state governments in these areas. Salaries are the largest component of GoSS expenditure, averaging about 42 percent of total expenditure from 2006 to 2010, and are budgeted to remain at 42 percent in 2011. Operational expenditure, including transfers to the states, has averaged about 35 percent of total expenditure (also in the 2011 budget), with capital expenditure averaging about 23 percent (22 percent in the 2011 budget).
At the State Level

Budget structures and outcomes have been similar in all four states. Detailed tables illustrating this may be found in Volume 2, Annex A. The main characteristics may be described as follows.

*Budget outcome* data are not available, partly due to data quality problems, as indicated by all the state governments interviewed.

*State legislative assemblies* are a recent development, not coming into existence until 2010 in the cases of NBGS and Unity State. The budgets for 2011 were the first ones meaningfully reviewed by the state legislative assemblies of these two states.

*Fiscal transfers* comprise over 90 percent of state government financial resources in the case of NBGS, WES and Jonglei State, and about 70 percent of Unity State, which receives substantial oil revenue.

*Tax revenues* average about 80 percent of total state government revenues. Tax revenues are shared 60:40 between county and state governments, the county taking 60 percent. Personal income tax revenues are by far the largest (at least 50 percent) of all tax revenues collected. Such revenues were budgeted to increase sharply in 2011 in Western Equatoria State due to strengthening revenue administration.

*Wage and salary expenses* are by far the largest component of expenditures: 62 percent in NBGS, 54 percent in Unity State, 75 percent in Jonglei State, and 67 percent in Western Equatoria State. Capital expenditures and transfers to counties comprise 10-15 percent of total expenditure, GRSS-level governments financing some capital expenditures directly.

*The public administration and rule of law sector* comprise 39-57 percent of total expenditure, by far the largest of the six sectors. Education comprises 10-15 percent of expenditure, while the proportions taken up by the accountability and economic development; health; natural resource and social development; and physical infrastructure sectors vary somewhat among the states, each is usually smaller than the education sector. Allocations for health and education appear low, but this is because of the large involvement of donors in these sectors, the capital spending of GRSS, and a higher percentage of expenditure on health at the county level financed by transfers from state governments.

Expenditures in the 2011 budgets were about 25 percent higher than the year before due to a large budgeted increase in conditional grants. At the county level, capital expenditures were budgeted to increase significantly in 2011, due to a budgeted increase in the capital grant transfer from GRSS.
Chapter 3. Key Issues for PFM and Procurement

The issues outlined below are approximately in order of priority, the highest priority being the strengthening of the budget execution system, including the procurement system. This order also applies to the ideal sequencing in addressing these issues, since (for example) strengthening the budget execution system would also help in addressing other high priorities, in particular the strengthening of accounting and reporting systems and the strengthening of the transparency of the budget.

3.1. Credibility of the Budget: Budget Execution

Ideally, all public services budgeted to be delivered should be delivered and paid for on time through the budget execution process, but this is clearly not happening at the GoSS level. Budget outcomes differed from approved budgets by large negative margins for many spending agencies during 2008-10. Large stocks of payments arrears were outstanding at the end of each year, owing to a cash rationing regime that limits payments to suppliers to the amount of cash available. This is despite revenue outcomes exceeding budgeted amounts by large margins each year, though fluctuations in global oil prices may have caused temporary cash shortages, particularly the sharp decline in late 2008/early 2009 and delays by Government of National Unity in releasing oil revenues to GoSS. A very visible manifestation of the cash rationing regime is large numbers of line ministry representatives frequently crowding the offices of the MoFEP, following up on their payments requests.

The reasons for this state of affairs lie in the budget execution process, which is not working as it should.

- Upon budget approval, spending agencies tend to try to commit their budgets as quickly as possible, regardless of revenue receipts being a steady stream during the year.
- Some spending agencies, the politically powerful ones in particular, succeed in obtaining extra budget allocations during the year, financed in part from reduced allocations to other spending agencies, even though these may have already entered into expenditure commitments on the basis of their approved budgets.
- Some spending agencies enter into spending commitments that are not even covered by their approved budgets, the most notorious example being the food grains/dura contracts entered into in 2007.
- Instead of MoFEP paying suppliers directly, as required under the Central Payments System established a few years ago, it has tended to release funds into spending agency bank accounts, leaving it up to the agencies to pay the suppliers. This has run the risk of the agencies not paying the suppliers on time or spending the money on other things. In some
instances, reputedly, the MoFEP releases funds into spending agency bank accounts even before spending commitments are entered into, thereby exacerbating liquidity issues.

- Facilitating the above has been: (i) the bypassing of the IFMIS as an instrument of budget execution control (expenditure commitments and payments requests should be processed through IFMIS, rather than, as has been the case, processed outside IFMIS and then being recorded in IFMIS after the fact) and the slow roll-out of IFMIS (which covers only 8 out of 56 spending agencies); and (ii) the absence of an expenditure commitment control system linked to projected cash availability based on a cashflow forecasting system.

Under agreements made between GoSS and development partners a few years ago, GoSS undertook to develop an expenditure commitment control system linked to projected cash availability based on a cashflow forecasting system, all resulting in a system of quarterly budget allocation and monthly cash expenditure limits. The annual Appropriations Acts explicitly refer to this system. The PEFA assessment team was informed that such a system would be in place by May 2011 (after the end of the field work), but as of September 5 (PEFA/SSPAR validation workshop) it still was not in place. This is perhaps understandable, given the transition process to statehood, and development partners, particularly under the large USAID-funded project in MoFEP, are apparently moving ahead to put in place a sound budget execution system.

**At the State Level**

The situation at the state government level appears not to be as bad, although data on pending payments are not compiled, so it was unclear to what extent payments arrears accrue. The bulk of financial resources comes from GRSS in the form of fiscal transfers, and the monthly provision of these has tended to be reliable, since GRSS has placed high priority on the timely release of funds. Furthermore, well over 50 percent (up to 75 percent in some cases) of state level expenditures are for wages and salaries, which have to be paid on time. Political factors also presumably argue for timely provision of funds in accordance with approved budgets. *(Performance Indicators 2, 4, 16, and 20).*

### 3.2. Credibility and Transparency of the Public Procurement System

As indicated by the PEFA assessment and the SSPAR, the procurement system appears not to be functioning well, running a high risk that value for money is not being delivered and fraud is being perpetrated. The interim IPPDR, though not ideal, provided a reasonably sound basis for the functioning of a credible and transparent procurement system providing value for money. Open competition was the preferred procurement modality. The institutional and managerial framework, however, did not evolve so that open competition would be the preferred modality. The Procurement Policy Unit in MoFEP was supposed to oversee the functioning of the system, but it has lacked the powers to do so, while the institutional and management framework in procuring entities (spending agencies) was not sufficiently in place, partly due to capacity constraints, with procurement and contract management expertise being in short supply.

The defects in the budget execution system have added to the problem, as expenditure commitment control systems have been working imperfectly. Meanwhile, unpredictability in the
availability of financial resources has led spending agencies to procure at short notice, deterring the use of open competition.

The outcome has been a procurement system that lacks credibility in delivering value for money and in transparency. Most procurement is conducted through single-sourcing methods, and instances of corruption have occurred. Circulars issued by MoFEP, exhorting spending agencies to adhere to the provisions of IPPDR (the latest was April, 2011) tend to be ignored, partly because procurement legislation is not in place. Minimal procurement information is available to the public, for example, contract awards are not published. The spending agencies themselves do not systematically collate data on procurement operations, so the Procurement Policy Unit, which is supposedly the oversight unit, has very little idea of what is going on.

A high priority for addressing this situation is the enactment of procurement legislation. This would fill the legal void. Legislation was supposed to be in place some time ago, but at the time of the PEFA/SSPAR, it was still not in place, though it had been prepared (and was a sound piece of legislation in the eyes of the SSPAR team that was able to briefly look at it). It was soon to be submitted to the SSLA.

Other priorities are continued capacity building efforts, resolution of the budget execution problems, continued development of the internal audit function in ministries, and strengthening of the environment for the domestic private sector. The ability of the private sector to participate in the procurement market is constrained by a nonsupportive legal framework, deficient infrastructure – still reflecting the ravages of the civil war -- high transportation costs, partly due to an onerous tax regime (discussed further below), and difficult access to credit due to the financial services industry’s early stage of development.

**Procurement systems at state government levels are not yet developed.** Many officials met by the PEFA assessment and SSPAR teams were not familiar with IPPDR, and some had not even heard of it. This situation does not necessarily mean that procurement systems are not functioning properly; rather, it largely has to do with the relatively limited amount of procurement that occurs at the state level. GRSS-level line ministries, through the conditional grants system, tend to procure major capital items on behalf of state governments. NGOs operating directly in the states also procure equipment to donate to spending agencies (e.g., computers in the State Ministry of Education in NBGS). *(Performance Indicator 19 and SSPAR).*

**3.3. Accounting and Reporting Issues**

**The accounting and reporting situation has improved but still leaves much to be desired.** Sound accounting and reporting are essential components of a well-functioning PFM system, in the interests of transparency and accountability to stakeholders in/for the use of public funds.
At the time of the PEFA assessment, bank reconciliations performed by MoFEP were backlogged by several months, although MoFEP was nearing completion of a major catch-up exercise by the time of the validation workshop on September 5, 2011.

Spending agencies have not been submitting their bank reconciliation reports to MoFEP, and it is unclear whether they even perform bank reconciliations. MoFEP does not have automatic access to spending agency bank account information and appears reluctant to request information. MoFEP officials strongly emphasize that a PFM law needs to be in place to enable it to obtain access. Although a law was drafted in 2007 as one of the PFM reform measures mutually agreed between GoSS and development partners, no law is yet in place.

In-year budget performance reports are not yet being prepared on a regular and timely basis. The information in the reports should be useful to management in MoFEP and spending agencies, and ideally, in the interests of transparency, the reports should also be publicized. Because IFMIS is not used as an instrument for budget execution, it cannot generate the data that would provide the basis of budget performance reports. Instead the data are prepared semi-manually, leading to errors. For example, the MoFEP sends monthly statements to spending agencies containing information on payments requests submitted to it, whether approved/not approved and paid/not yet paid (pending), as well as information on the remaining balance of approved appropriations. Spending agencies compare these to their own records and tend to find discrepancies.

Spending agencies are supposed to surrender their collection of own source non-tax revenue to MoFEP, or at least inform MoFEP about this and demonstrate that the receipts of such revenue and the spending from them are reflected in their approved budget. MoFEP suspects that this obligation is not always respected (revenue collection accounting issues are discussed below in Section 3.4).

Spending agencies have not been satisfactorily accounting for the expenditures they make from the petty cash advances provided monthly by MoFEP, as required by the 2009 Petty Cash Procedures issued by MoFEP. As noted in the annual financial statements prepared by MoFEP for 2008, a large proportion of the advances are simply accounted for as “advances.” MoFEP periodically stipulates that monthly replenishment of advances is conditional upon the submission of accountability statements from the spending agencies—‘no accountability, no replenishment.’ The last time it made this stipulation was early in 2011. However, the stipulations appear to be substantially ignored. MoFEP staff indicated to the PEFA assessment team that a PFM law needs to be in place in order for MoFEP to give force to the Petty Cash Procedures.

Spending agencies at state government levels also have not been accounting satisfactorily for their expenditures of conditional grants provided by GRSS-level spending agencies. However, under the auspices of a States Transfers Monitoring Committee established in December 2010 under the leadership of MoFEP and the Ministry of Labor and Public Services, since April 2011 state governments have been required to submit monthly reports as a condition for receiving the next conditional grant installment. At the time of the state government PEFA assessments in
June 2011, only one set of accountability reports had been received and only one state (Western Equatoria State) had complied satisfactorily.

The preparation of annual financial statements by MoFEP has significantly lagged behind the time deadlines stipulated in the ICSS. This is due to (i) the hiatus between the ending in 2008 of the post-Comprehensive Peace Agreement agency arrangements and the take-over by MoFEP of the accounting function; and (ii) the semi-manual way in which budget execution has been conducted (rather than through IFMIS) and the resulting data recording errors that have arisen. At the time of the PEFA assessment, preparation of the 2009 statements had only just started.

The situation described above mainly applies to GRSS. The situation at the state government level is considerably worse in most respects. Data issues abound (the state ministry of finance officials who met with the assessment team tended to have significant doubts as to the quality of the data underlying the budget performance reports prior to 2011). The introduction of IFMIS in late 2010/early 2011 might help in this regard. Thus, none of the state governments assessed had prepared any annual financial statements. (*Performance Indicators 17 and 22-25*)

3.4. Revenue Administration Issues

The development of a robust tax administration is still in its early days. The Taxation Act dates back only to 2009 and, due to some legal technicalities, it had not even been announced at the time of the PEFA assessment. Nevertheless, as reported under PEFA Performance Indicators 13-15, some progress has been made:

- The Taxpayer Identification Number system is being rolled out, including in Western Equatoria State and NBGS, which now have their own revenue authorities and tax administration acts.
- A tax audit system has been developed at the GRSS-level, though, at the time of the PEFA assessment, it was not yet operational.

GoSS appears not to have been fully ready at independence to take over the administration of those taxes that had fallen under the Government of National Unity’s mandate. MoFEP announced at the PEFA/SPPAR validation workshop on September 5 that work had begun, with assistance from USAID, to amend the Taxation Act to provide for these responsibilities and also to address. (No preparation had been made to address customs administration issues, despite advice from a USAID team a year earlier to start planning for the takeover of these responsibilities immediately). A further issue that hopefully is being addressed is the multiple taxation collection points at international and domestic inter-jurisdictional boundaries, resulting in the same taxes being collected by different jurisdictions, at substantial burden to taxpayers in terms of business costs and time wastage.

This CIFA recommends that development partners closely monitor the situation, as the IFC is probably already doing. As discussed in Section 2.2 above, private-sector development in South
Sudan—crucial for economic development—faces a number of constraints, the tax system being one of them, so addressing tax administration issues that significantly impact private-sector development should be accorded high priority. Naturally, solving the inter-jurisdictional taxation issue would require strong high-level political support, since political factors are the main reason for the issue in the first place. (*Performance Indicators 7 and 13-15*)

3.5. Internal Audit and External Oversight Issues

The internal audit function (in the sense of overseeing the strength of internal control systems) is still in an early stage of development. Capacity constraints, combined with the capacity issues constraining the development of accounting, budget execution, procurement, and IT capacity – all necessary for the development of robust internal control systems that the internal audit function is supposed to oversee – have impeded the development of the internal audit function. The competing demands on skilled manpower resources with related skill sets raises this issue: whether development of the internal audit function should receive the same time priority as the development of the basic functions (accounting, procurement, etc.) necessary for effective PFM, or whether it should receive less emphasis until these basic functions have been strengthened to an acceptable level. In the interim, the external audit function could be used to assess the strength of internal control systems.

The external audit function has been in operation for a few years and, with the assistance of the company contracted to execute the function and to build audit capacity, now has significant audit capabilities, but significant issues remain to be addressed. Since a new Auditor General took office in July 2010, the auditing of annual financial statements and spending agencies has speeded up, and the Audit Chamber has started to investigate specific compliance issues (e.g., spending agencies attempting to carry forward end-of-year cash balances instead of surrendering them to MoFEP).

Issues that Remain To Be Addressed

*Ensuring that spending agencies actually address the issues raised by the Audit Chamber in its audit report.* This is not happening yet, and absence of effective follow-up negates the usefulness of the external audit function.

*Ensuring that audited annual financial statements and spending agency audit reports are submitted to the SSLA for review.* A fundamental purpose of the SSLA is to demand accountability for the use of public funds, in terms of both operational efficiency and their consistency with policy objectives and priorities. The audit function is a vehicle in this regard, but the ultimate responsibility for demanding accountability is the legislature. At the time of the assessment, no audit reports had been submitted to SSLA. The assessment team was informed at the validation workshop on September 5, 2011, that the audited 2005 and 2006 annual financial statements had been “informally” shared with SSLA, though it is not clear what this means. Both the Committee for Economy, Development and Finance and the Public Accounts
Committee are clearly very enthusiastic at being able to exercise their oversight functions effectively, and both want technical assistance from donors in this regard. Ideally, in the interests of full transparency, the SSLA should agree to the publication of audit reports.

3.6. Payroll Management Issues

Payroll control appears to have strengthened significantly through the establishment and roll-out, including to states, of the South Sudan Electronic Payroll System and the Human Resource Management Information System, with strong support from development partners (USAID and Capacity Building Trust Fund). The incidence of ghost workers appears to have fallen sharply as a result.

Issues That Remain to Be Addressed

Updating personnel records held in spending agencies and monitoring work attendance. Due to the geographic dispersion of service delivery units employing thousands of people and the impacts still remaining from civil war-related disruptions, personnel records may not be 100 percent accurate yet. Consequently, the Human Resource Management Information System data files and therefore the payroll may not be 100 percent accurate. The time gap between staff leaving the civil service, unclassified staff in particular and personnel records being updated accordingly may still be significant, even at GRSS ministry headquarters in Juba. Attendance monitoring is such that unauthorized absences from work during the day and unauthorized delays in returning to work from leave may go un-detected, representing another version of the ‘ghosts’ issue.

Cleaning up personnel records and establishing Human Resource Management Information System in the states. Under the same USAID project, work is already underway to clean up personnel records and establish Human Resource Management Information System in state ministries of Labor and Public Service, which themselves are in the process of being established. (One ministry had just been established in NBGS, as discovered during the PEFA assessment team’s visit there). A second phase of the Southern Sudan Electronic Payments System is currently being prepared.

3.7. Planning and Budget Preparation Issues

In terms of PFM reform, the most progress has been made in strengthening planning and budgeting at both the GRSS and state levels, with considerable assistance from development partners. The strengthened systems, which incorporate a strategic phase to budget preparation, linked to strategic plans, appear now to be well bedded down at the GRSS-level. An important project underway at MoFEP, with USAID support, is the streamlining of the budget preparation process through migration to a database system, which would be less cumbersome than the Excel-based system currently being used. Along with this are some adjustments being
made to the budget classification system to more clearly show the role of Directorates in implementing programs and associated activities. The introduction of the strengthened systems at the state level is more recent, and their use is still somewhat of a paper exercise, but effectiveness is expected to grow as the systems bed down.

To help maintain aggregate fiscal discipline, a macro-fiscal framework is being prepared in MoFEP with development partner assistance.

An important problem is the lack of political involvement at the GRSS level during the strategic phase. The sector ceilings indicated in the Budget Strategy Paper (the end-product of the strategic phase) are derived with little political input. With South Sudan now directly managing its oil resources and receiving a much larger quantum of revenues from them, it is more important than before that political leadership be fully exercised in determining the strategic allocation of budgetary resources. This means, in the first instance, that the Council of Ministers should exert ownership of the Budget Sector Plan.

Although it is not an urgent priority, the introduction of a medium-term perspective to the budget preparation process would be useful, since provision of public services clearly has a medium-term dimension. A first step would be the preparation of forward spending estimates for two to three years ahead, showing the costs of continuing to provide public services at their current levels. These would serve as the starting point for the next year’s budget preparation. Of fundamental importance, they should include capital expenditures already firmly committed to, and for which funding is already identified, as well as future recurrent costs implied by completed or soon-to-be completed capital projects, including those being funded and implemented directly by development partners. (Performance Indicators 11-12)

3.8. Transparency of Donor Practices

**Donor practices are reasonably transparent at the GRSS level.** Donor expenditure plans and actual expenditure are incorporated into the budget documentation through the donor Budget Book (also known as the Blue Book). This has come about by virtue of the coordination of many donor activities by the Multi-Donor Trust Fund and the Joint Donor Team, the operations of the Aid Coordination Unit in MoFEP, and the establishment of the Aid Information Management System in the Aid Coordination Unit. Coordination could be improved between donors and MoFEP if senior management in MoFEP played a more pro-active role in managing donor aid.

With the exception of Unity State, donor practices are less transparent at the state level, in terms of information on planned and actual donor spending appearing in budget documentation. However, this is mainly because annual budgets approved by the state-level SSLAs are a relatively new development—in fact, only in 2011 in the case of NBGS—and because much of the official donor aid is at the GRSS level rather than the state level. Much of the state-level donor aid is through NGOs, whose aid tends not to be reported in budget documentation. Nevertheless, at least in NBSG, they discuss priorities with state governments and coordinate with them in order to avoid wasteful duplication. Also— again at least in the case of NBGS—they purchase equipment (e.g., computers) for government offices.
Though this is not an immediate priority, donor practices could be made more transparent if (i) planned donor spending – and estimated spending for the current year – were incorporated directly into the GRSS budget documentation under each spending agency rather than appearing in a separate document, and (ii) donors used the GRSS budget classification system, at least in terms of broad economic classification (i.e., not at the detailed line-item level).

Another issue is that development partners are not yet using GRSS’s PFM and procurement systems (hence a D rating for PEFA D-3, which assesses the proportion of aid that is managed by use of national procedures). This is hardly surprising, given the state of these systems and the urgent priority of quickly addressing South Sudan’s pressing infrastructure and public service needs following the Comprehensive Peace Agreement. However, at some point in the medium term, depending on the speed and depth of improvement in PFM and procurement systems, GRSS and development partners should give serious thought to the provision of development assistance through the use of country systems. (Performance Indicators 7, D2-D3).

### 3.9. Comprehensiveness and Transparency Issues

The greater the comprehensiveness and transparency of the budget, the more meaningful are annual budgets as an expression of government policy intent and the greater the ability of the public and the legislature to understand the budget and hold the executive branch to account. Most issues have already been raised above, but they are repeated here in order to bring them under one heading. The issues below refer specifically to GRSS, but are also applicable to state governments.

*The execution of the budget is not transparent.* Deficient controls are the main reason for the non-transparency of the mechanisms for entering into expenditure commitments, procuring goods and services, and adjusting budgets during the year. Addressing these deficiencies through the continued roll-out of IFMIS and its use as the budget execution control instrument, combined with enforcement of compliance with IPPDR in making open competition the preferred procurement modality should receive **high priority**. (Performance Indicators 2, 4, 16, 19, and 20)

*In-year budget performance reports are of suspect quality.* The continued roll-out of IFMIS and the its greater use as a budget execution control instrument will help to strengthen the quality, timeliness, and overall credibility of reports (Performance Indicator 24) and strengthen the justification for making the reports available to the public (Performance Indicator 10). This is a **high priority issue**.

*Spending agency bank accounts are not transparent.* Spending agencies have not been submitting information on their bank balances and bank reconciliation statements to MoFEP, but submitting information on both is necessary to achieve efficient cash management and accountability. Ideally, a Treasury Account System will eventually be in place. **This is a high priority issue** (Performance Indicators 17 and 22).
Annual financial statements (AFS’s) are prepared with a long time lag. Timely preparation of AFS’s by the government, followed by their timely external audit, legislative review of audit reports, and ultimately their publication are key components of the accountability framework that are not yet being met satisfactorily. High priority should continue to be given to the continued roll-out of IFMIS and the continuation of capacity building efforts (including in the Audit Chamber and SSLA), combined with continued development partner support. (Performance Indicators 25-28).

Spending agencies appear to be retaining a portion of non-tax revenues collected instead of depositing them in MoFEP accounts and spending them on items not included in approved budgets; High priority issue (Performance Indicators 7 and 15).

Much of the development partners’ spending is reflected in budget documentation, but transparency and comprehensiveness could be strengthened if it were reflected in the GRSS budget documentation rather than in the separate donor Budget Book and if GRSS’s budget classification system were used, at least at the broad economic classification level. This is a medium-term priority issue. (Performance Indicator 7, D2).

3.10. Underlying Governance Challenges

The governance challenges in South Sudan are formidable, not surprisingly given the country’s postconflict situation. In political terms, the country is still trying to come together. A number of different ethnic groups worked together during the conflict years, but longstanding rivalries between them have been resurfacing, sometimes in the form of violence. In public administration, public finance management and legal terms, systems are still being built, the pace being slow due to widespread capacity constraints, also the product of the years of conflict. The deficiencies in these systems, combined with large revenue inflows mainly based on oil, have contributed to reputed high levels of corruption in the country.

The subject of governance challenges is a study in itself, and it is not possible to go into great depth on the subject in this CIFA. Other African countries also have governance issues, so South Sudan is not unique. Nevertheless, the issues are serious. Strengthening public administration, public finance management, and legal systems will help to improve governance, but the strengthening efforts themselves are capacity constrained and may face resistance from those benefiting from the existing system.

The South Sudan Anti-Corruption Commission was established in 2007 to lead the fight against corruption. Its hands are partly tied due to its lack of prosecutorial authority, and its effectiveness so far in resolving the cases brought before it has been very limited (only one case has been resolved out of about 15 submitted to it). This is perhaps not so surprising, since the commission is addressing symptoms of a problem rather than the problem itself, which is underdeveloped governance systems. In terms of decisions over the allocation of funds and the opportunity costs associated with the expenditure of funds, strengthening systems should arguably have higher priority than strengthening SSAC.