How to Fast-track Public Financial Management in South Sudan: Urgent Fiscal Reforms and Macroeconomic Performance

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Abstract

The paper uses a review-based research methodology to distill key challenges, identify international best practices, discuss ways to fastrack Public Financial Management (PFM) reforms and ensure effective interagency coordination in South Sudan. It presents the implementation of the PFM through the prism of prisoners' dilemma and calls for arriving at optimal outcomes. It finds that while the PFM reform agenda is progressing in South Sudan, since reinvigorating it in 2020 during the pandemic, there exists room to improve interagency coordination, strengthen the transparency, and budgeting cycles, among others. The paper concludes by drawing lessons from the international best practices and proffering options to accelerate the implementation of the PFM Reform Strategy, with implications to enhance broader macroeconomic performance.

Key Words: *South Sudan, Public Financial Management Reforms, Accountability, Efficiency.*

** **Disclaimer**: The paper draws from a draft prepared initially for presentation during the South Sudan Policy Dialogue on August 9, 2022, in Juba, focusing on how to fastrack PFM reforms. It thus complements an Economic Cluster Working Group Series intended to enhance economic management and dialogue on critical issues in South Sudan. Relatedly, I am also grateful to many colleagues for their useful comments on earlier drafts. Nonetheless, the views presented here are those of the author and do not necessarily represent the views of any affiliated institutions.*

1. Introduction and Rationale

Public Financial Management (PFM) involves budgeting, financing, expenditure management, accountability, reporting, and auditing (Reichel, 2001). The principal objective of the PFM reforms is to improve citizens' lives through better management of public money. Pradhan (1996) argues that the composition of public expenditures is designed with the objectives to finance a mix of goods and services, ultimately maximizing social welfare. Government units usually raise and allocate resources, with each unit required to have an operational budget, which links specific spending objectives with their associated costs. Thus, PFM reform agenda focuses on improving efficiency and accountability, with reformists prioritizing enhanced market-based management.

PFM reforms have been espoused worldwide, with Europe and America leading, followed by Asia, and Africa, closely behind. Following the end of cold war, focus has shifted to raising spending efficiency and managing public purses to achieve government priorities. South Sudan, like the rest in Sub-Sharan Africa, has joined the fray, starting with Public Financial Management Accountability Act in 2011 (PFMAA). After signing the Revitalized Peace Agreement in 2018, the government formed governance structures in 2020 to guide PFM Reform Strategy (PFMRS).

It bears repeating that resource-producing countries are quite diverse and display different approaches to managing revenues and windfalls from petroleum—based products. If well-managed, oil resource revenues tend to represent a big economic opportunity for resource-producing countries. If imprudently managed, resource curse is the endgame, indicating that often, countries endowed with oil or other natural resource wealth fail to grow more rapidly than those without resources (Frankel, 2010). This suggests that countries with strong PFM frameworks are likely to escape the curse, while those with poor or lack of strong PFM measures, are likely to suffer (see Dabán, & Hélis, 2010). This delineation indicates that structural and fiscal reforms have implications for macroeconomic performance, including on public debt, current balance, and GDP.

The problem in South Sudan is straightforward. Its current PFM practices are considered inadequate. Everyone, including the government, public and development partners, agrees that South Sudan's PFM measures need to be strengthened through established PFMRS structures. Therefore, the objectives of this short paper are to outline challenges associated with the PFM reforms and offer options to reinvigorate implementation. The paper raises two questions: (i) What is the status of the PFM implementation and how can the PFM reform agenda be fast-tracked?

The paper proceeds in sections. Section 2 links PFM reforms to development objectives; Section 3 examines the status of the PFM progress; Section 4 discusses PFM in the context of prisoner's dilemma; Section 5 outlines ways to fast-track economic reforms and strengthen inter-agency coordination. Section 6 covers policy implications of the PFM Reforms on the Macroeconomic Performance; Section 7 concludes the paper and proposes a few policy recommendations.

2. Priority PFM Functions as Contributing to Specified Development Objectives

Governments face severe and prolonged capacity constraints and may be unrealistic to expect achievement of best practice in the foreseeable future (Welham, Krause, & Hedger ,2013). Yet, there are four commonly desired development objectives that are often thought to be supported to some degree by certain PFM functions (see Table 1).

Table 1: PFM Functions and Development objectives

Development Objective	**Priority PFM Functions Identified as Contributing to Development Objectives**
Macroeconomic stability	• Timely and reliable fiscal and financial information • A basic understanding of overall debt position of the government • An awareness of key risks to the fiscal position of the government
Efficient resource allocation	• Timely and reliable fiscal and financial information • A well-structured budget preparation process
Service delivery	• Regular payments of salaries/wages to staff engaged in delivering services • Beyond salaries, the PFM functions to be prioritized will depend on the nature of the priority public service sectors chosen
State building	• Basic budgeting for expenditure control and execution ability • Regular and timely payment of public sector salaries • Understanding of structure of revenue base and options for future expansion

Source: Welham, Krause, & Hedger, 2013.

These functions are interlinked and should not be approached in isolation. PFM systems that support effective fiscal management and a debt strategy aimed at sustainability can contribute to an improved macroeconomic situation by avoiding unsustainable deficits. PFM reforms in fragile states tend to have a positive outcome on a broader macroeconomic stability through improved budget execution and overall control of deficits and debt (See Welham et al, 2013).[1] PFM systems cannot automatically translate into making correct decisions concerning macroeconomic stability. They take some time and do so through several distinct channels. Some of the later pathways include providing right information to budget decisionmakers on government's expenditure positions, debt sustainability, and fiscal risks such as those associated with state owned enterprises.

3. The Status of the PFM Reforms and Urgent Actions Needed

The South Sudanese authorities have noted the centrality of the PFM reforms, as Section 2 highlights. The identification of the 11 PFM priorities (see Technical Appendix for further elaboration) speaks volumes about this importance. While the implementation is ongoing, the progress has been a bit slower than conceived about three years in 2020, during the height of the pandemic. Figure 2 provides a glimpse into the progress implementation, with some items completed and more pending action.

[1] The literature indicates that factors such as competitive elections and ideologically coherent governments, and other political factors, are causally related to strong finance ministries.

Table 2: Status of the PFM Reform Priorities in South Sudan, as of December 2022

Reform Description	Goal	Status
Implement a Treasury Single Account (TSA)	Consolidate government funds	In progress. All GoSS oil revenues are now sold by the Crude Oil Marketing Committee since the previous oil advance contracts have been renegotiated into USD loan contracts with oil cargoes used as collateral. The GoSS has requested a full list of general government bank accounts in BoSS with balances. A report has been provided by the BoSS in physical form. The bank account structure has not been analyzed, indicating that some bank accounts that should be incorporated into the TSA have not been identified.
Strengthen cash management	Enhance spending efficiency	In progress. The Cash Management Committee (CMC) was established one year ago and only had one meeting since then. The Cash Management Unit (CMU) has been provided 2 staff dedicated for work with CMU.The cash plan for FY2021/22 has not been updated and the expenditures have not been reviewed based on the cash plan. A preliminary annual cash plan on monthly basis for FY2022/23 has been developed by the mission together with CMU based on the Resource Envelope approved by the Council of Ministers.
Relocate Loan Committee to MoFP	Strengthen debt management	Completed. The committee has been relocated to MoFP, but it is yet to internalize the process of assessment, approval, and recording of acquired loans.
Review, verify, and clear all arrears	Stay current on obligations	Pending. Plans are underway to take this step forward.
Review and verify loans and contracts collateralized or guaranteed against crude oil	Strengthening financing modalities	Completed. The authorities published a report containing stock of external debt in June 2021 on the MoFP website. A contract to audit the debt report was also signed with a reputable external auditor, Ernest & Young. Their comprehensive report of stocktake of national debt and advances was published in December 2022.
Strengthen the Anti-Corruption Commission (ACC) and Audit Chamber (external auditor)	Strengthen governance	Pending. National Audit Chamber continues to improve its training and staffing, though more support is needed.

Establish a Public Procurement and Asset Disposal Authority (PPADA)	Entrench procurement culture	Completed. The PPADA Board of Directors has been appointed in January 2023, and efforts to operationalize it are ongoing, outside the R-ACSS framework.
Rollout electronic payroll using biometric system	Manage wage bill	In progress. Salaries for MoFP employees are paid through bank accounts, but for some government staff, salaries are still paid in cash. Discussions are ongoing to involve the Ministry of Labor and Public Service to assist in rolling out such endeavor.
Strengthen Fiscal and Financial Allocation Monitoring Commission (FFAMC)	Achieve allocation efficiency	Pending.
Strengthen macro-fiscal framework (Not in R-ARCSS)	Enhance forecasting	In progress.
Strengthen the budget process and budget credibility (Not in the R-ARCSS)	Improve resource management	In progress.

Source: Author's compilation, 2022.

As the figure above shows, the progress has been mixed, with many of the PFM reform priorities not completed or pending due to capacity constraints. Yet, PFM reforms can be painful but necessary evil to increase transparency and, accountability over the use of resources. We start the Section 4 with the presumption that the donor community refuses to make a commitment to South Sudan because it cannot be sure the funding will be put to good use.

4. The PFM Reforms as Prisoner's Dilemma

The classic prisoner's dilemma symbolizes a situation where there is a single-play game, while communication between the players is not allowed. Ultimately, defect is a dominant strategy in this game, and defect-defect becomes the equilibrium outcome. Given that classic prisoner's dilemma has broad applications in real life, we can probe the implementation of the PFM reforms and donor support in South Sudan, as an iterated prisoner's dilemma. Therefore, in the absence of donor engagement and given the apparent indifference of some policymakers to do anything to bring about improved livelihoods, we are at a stalemate. This situation is a form of a Prisoner's Dilemma game (a collective-action problem) in which no one wants to make the first move. The country is reluctant to use oil revenue to support development because it does not believe that the donor community will step up with a collaborative program. And the government sees no reason to improve budget (PFM) management because it fails to see any benefits of doing so. After all, meaningful reforms will bring lots of "political agitation and resistance" within the bureaucracy, with no obvious payoffs to the folks in power.

Something must be done to break this impasse. The South Sudanese authorities and the public must see PFM reforms as the ***sine qua non*** (necessary condition) activity that will break the logjam. Serious actions on the PFM reforms will draw in the donor community. The government should not stand in the way (by NOT engaging in PFM reforms) of the donor community stepping up its assistance. PFM reforms are not just some dreams of accountants and noisy foreigners. They are necessary first step for getting South Sudan on a feasible program of enhanced livelihoods. Only this way can development get underway in South Sudan.

5. How to Fast-track Economic Reforms, and Strengthen Inter-Agency Coordination

PFM reforms remain a sensitive subject in a fragile context. In practice, it is likely to be an important impediment to reforms, especially for self-serving actors who have an incentive to obstruct reforms. For the first agency to implement transparency or governance reforms, it is likely that it may invite trouble since everyone has an incentive to wait for everyone else to make the first move, which is akin to a Prisoners' Dilemma. Here, the role of leadership and IFIs become key. Therefore, to fastrack PFM reforms in South Sudan, five options need to be weighed, namely:

First, the leadership, starting from the top, needs to stay on message emphasizing prudence, probity, and accountability, with implications to ensure consistency and fiscal discipline.

Second, the interagency working group needs to be revived, with membership from the Bank of South Sudan, National Revenue Authority, Customs, Ministry of Petroleum, National Bureau of Statistics, and National Audit chamber. Effective working groups can improve coordination of data and consolidate views among oficials regarding resource management.

Third, the PFM Oversight Committee should remain as an avenue through which development partners can influence and help the authorities ensure fiscal discipline, and allocational efficiency.

Fourth, all the PFM organs, especially the Secretariat, need to be always staffed and incentivized through provision of adequate office space, allowances, and airtime. While the current organs of the PFMRS, including the Secretariat continue to work harder, efforts are needed to improve their incentives and workstation. Such improved incentives and space will allow the Secretariat to focus and deal with PFM agenda and delivery.

Finally, prioritization, and hierarchy of reforms need to be central. Simple and immediate tasks should get attention, while long-term issues such as fiscal rules, or fiscal responsibility laws, could be tackled later when sufficient experienced has been gained. It is true some long-term PFM reform priorities cannot wait indefinitely until an experience is gained; some learning by doing is warranted. Experience from other countries indicate that establishing internal controls before implementing internal audit or perfecting cash accounting before moving to accrual system is key in achieving successful PFM outcomes (see Allen, 2018). The PFM reforms can be sequenced vertically or horizontally (Allen, 2018; Schick, 1990). Bulgaria and Guatemala, for example, are among countries that have heeded the mantra "basic first approach," which produced results (Bietenhader, & Bergmann, 2010).

6. Policy Implications of the PFM Reforms on the Macroeconomic Performance

PFM reform is a never-ending endeavor. It is not just a box-ticking exercise but rather a continuous process. Pursuing a structural fiscal reform agenda, including the PFMRS and strengthening governance, remains key to enhancing the efficiency of public spending and improving the business environment for private sector-led inclusive growth (See Garang, 2015).

From the theoretical arguments, fiscal and PFM reforms have a bearing on economic performance. Accountability over the use of resources, efficiency in paying salaries on time, minimizing public wastes, and allocating resources properly have a bearing on macroeconomic indicators, including GDP, current accounts, inflation, public debt, and exchange rate. Therefore, economies always strive to undertake effective structural reforms to improve growth outcomes.

The current weak PFM practices in South Sudan predate independence and unless the systems are continuously strengthened, South Sudan will continue to lag peers in the region. Therefore, the need for strong PFM reforms and adherence to international best practices, including by starting with basics, sequencing reforms, demonstrating ownership, and providing leadership, is warranted.

7. Conclusion and Policy Recommendations on the PFM Reforms in South Sudan

This paper has revealed that PFM reforms are key because they have a bearing on other aspects of the economy and public service delivery. Considering the preceding discussions, the findings reveal that efficient service delivery and effective poverty reduction presuppose a well-functioning PFM system. For the case of South Sudan, there is a political will at the top but more on-the-groundwork is needed to improve PFM functions and service delivery, while supporting achievement of other desired macroeconomic outcomes. The paper, therefore, identifies five recommendations to enhance economic and PFM reforms in South Sudan.

First, strengthening interagency coordination through reviving working groups, and incentivizing PFM secretariat and administrators is warranted.

Second, the MoFP should continue to strengthen the functions of the various organs, and specific PFM measures such as cash management, budgeting, and forecasting, among others.

Third, PFM reform measures, including cash management, budgeting, and forecasting, must be prioritized, this way difficulty reforms are tackled last.

Fourth, strong leadership is needed beyond MoFP. This includes the role of the presidency, cabinet, states, and across MDAs, among others.

Finally, donor support remains critical in the furtherance of the PFM reforms in South Sudan underscoring the centrality of Troika in the Oversight Committee. The authorities should also watch out against copying and pasting external blueprints.

In short, importance of the basics first, leadership, and ownership cannot be overemphasized regarding the PFM reform priorities and resultant outcomes.

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Technical Appendix

A. Scan of the Literature

A1. On the International Best Practices and Principles of the PFM Reforms

Many authors frame PFM systems around achieving objectives of aggregate discipline, allocative efficiency, and operational efficiency (see, for example, Campos & Pradhan 1996; Schick 1998). They see PFM systems as directed at achieving maximum value for money in the delivery of services. The PFM is thus regarded as "instrumental" or a "means to an end" in the achievement of broader development objectives: macroeconomic stability, efficient resource allocation, and service delivery (Welham, Krause, & Hedger ,2013). "Better payments systems and efficient cash management ensure timely payments, including for wages, transfers to subnational governments, operations, and investments" (World Bank, 2012, p. 51).

From the international best practices, the following elements stand out in the PFM literature:

First, leadership is key. This underscores the role of a strong political and technical commitment, with clear communication and coordination of reform. This also presupposes a widening group of reform leaders who manage fears, expectations, and differences of opinions on PFM processes. Second, the need for policy space for developing appropriate reforms is central**.** It is argued that a thorough understanding of the country context, and a focus on the system functionality or operation is required. Third, teams, and organisations that experiment and take risks, cross-examining both the problem and then propose solutions is regarded essential. Finally, PFM reform is expected to be adaptive, iterative, and inclusive processes. This underscores the need for robust monitoring, learning by doing, and aiming for impactful adaptation.

Regarding principles of the PFM reforms, divergence of views is the game in town. According to Wal (2014),[2] countries should focus on about 18 principles: namely: define the problem; develop a PFM Strategy but remain flexible; in most cases, say no to the "big bang;" agree on what constitutes" basic PFM reforms; approach with care! beware of the allure of "best practices;" deal with ongoing PFM Reforms: do not ignore nontechnical factors; recognize strengths and limitations of the Ministry of Finance; look beyond the Ministry of Finance; ensure That accountants and economists work as team; develop feedback loops; manage the Risk of Failure; life happens; mind the gap; manage the donors and their consultants; remember communication matters; and appreciate diversity in fragile and Conflict-Affected States (FCS). These 18 principles indicate the need for proper coordination and appreciating the notion that no one size fits all as well as the centrality of involving all stakeholders for the PFM reforms to bear fruits.

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[2] See Wal, H. (2014). 18 Key Principles of PFM Reform. Retrieved: PFM blog: 18 Key Principles of PFM Reform (imf.org).

Vega (2015)[3], on the other hand, identifies six principles underpinning the PFM reforms. These principles include democratic consent, which means no taxation without representation; equity, indicating government should be equitable when raising taxes and spending them; and transparency, denoting that what governments do with taxes should be a public knowledge. The last three include probity, urging complete honesty when dealing with public money; prudence, which argues that stewards should not take undue risks with public resources; and accountability-stewards should always account for resource use regularly through audits and legislative reviews.

From the above discussion, one can group PFM common practices under three rubrics: (i) deliberative approach, (ii) resource consideration approach, and (iii) state capability approach.

National Deliberative Approach
PFM can become second nature if there are policy commitments. Experience shows that countries should not attempt to drive reforms through imposing external "blueprint solutions," especially if those are deemed inappropriate to local context (Lawson, 2015). There should be an understanding that there is no one size fits all solutions to PFM challenges. Further, there are no short cuts to PFM reforms, and above all, state has an active role in achieving development outcomes, especially on PFM reforms through multi-generational dimension.

State Capability Approach
In some cases, state systems may not exist, or PFM systems are weak or lacking altogether. State has got to build those, including by building human capacity, and observing hierarchy of PFM reforms underpins "getting the basics right" philosophy (see Alan Schick). The latter classification has been codified into a reform process known as platform approach.

Resource Consideration Approach
Development partners are increasingly looking to the existence of a public expenditure and Financial Accountability (PEFA) assessment as a precondition for budget support. To this end, PFM is both a mean to manage resource, and an outcome engineered process through medium-to long-term approach. These need resources both from the states and partners, hence the origin of conditionality. To this end, effective budget hinges on the effective PFM systems.

It can be argued that PFM reforms are commonplace in the region, with South Sudan neighbors, including Kenya, showing robust PFM systems. In Kenya, for example, the PFM Reform Strategy 2018-2023 is anchored in the Medium-Term Plan 2018-2022, with focus on transparency accountability, predictable cash for service delivery, value for money in procurement and public investment, accurate reporting, audit, and oversight functions. Notwithstanding the advance nature in Kenya, areas needing improvements exist, including the need to ensure cash reliability for service delivery, addressing rising costs of funding, and overcoming limited fiscal space.

B. History of the PFM in South Sudan and Overview of Macroeconomic Developments

B1. History of the PFM in South Sudan and the 2018 Revitalized Peace Agreement

[3] https://prezi.com/yx5bli8jubte/six-principles-of-public-financial-management/

Following the independence in 2011, South Sudan passed the PFMAA 2011. From the conflict in 2013-2018, PFM issues were peripheral to policymakers. This, however, changed in 2018 following the signing of the Revitalized Agreement on the Resolution of the Conflict in South Sudan (R-ARCSS), especially the need for a prudent resource management, including the PFM issues. Consequently, and based on earlier recommendations by the IMF and the R-ARCSS, the Minister of Finance & Planning (MoFP) issued a Ministerial Order No.3 of April 17, 2020, establishing a governance structure to guide the PFMRS. The governance structure consists of three parts, namely: PFM Oversight Committee, PFM Technical Committee, and PFM Reform Secretariat. The Minister of MoFP and one of the Troika ambassadors co-chair Oversight Committee (OC). Furthermore, at the request of the Minister of MoFP, a team from IMF Fiscal Affairs Department held a workshop in Juba on June 2- July 2, 2020, to provide continued advice to the authorities on the development of the PFMRS, the macro-fiscal framework, cash management, and expenditure arrears. The MoFP identified 11 PFM priorities (see Table A1).

Table A1: PFM Reform Priorities in South Sudan, 2020-2022

Reform Description	Goal
Implement a Treasury Single Account (TSA);	Consolidate government funds
Strengthen cash management	Enhance spending efficiency
Relocate Loan Committee to MoFP	Strengthen debt management
Review, verify, and clear all arrears	Stay current on obligations
Review and verify loans and contracts collateralized or guaranteed against crude oil	Strengthening financing modalities
Strengthen the Anti-Corruption Commission (ACC) and Audit Chamber (external auditor)	Strengthen governance
Establish a Public Procurement and Asset Disposal Authority (PPADA)	Entrench procurement culture
Rollout electronic payroll using biometric system	Manage wage bill
Strengthen Fiscal and Financial Allocation Monitoring Commission (FFAMC), and	Achieve allocation efficiency
Strengthen macro-fiscal framework (Not in R-ARCSS)	Enhance forecasting
Strengthen the budget process and budget credibility (Not in the R-ARCSS)	Improve resource management

Source: PFMRS, 2022.

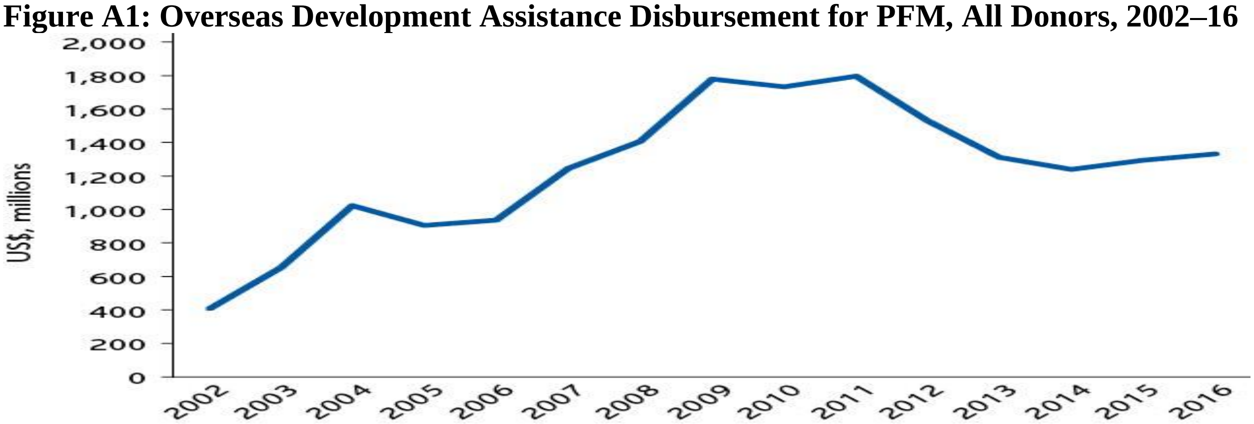
Challenges notwithstanding, the modest progress made and commitment to sign on to the PFM reforms proved useful during the pandemic. It supported the need for a prudent resource management, which has become an area of interest for international financial institutions (IFIs) in recent years. Broadly, conditionality by IFIs over structural and PFM reforms have also come to gain prominence (Woods, 2000). The IMF work on governance dates to 1997 when the Executive Board approved the Governance Policy. It was revised again in 2018 under the *Framework for*

Enhanced Fund Engagement on Governance (IMF, 2018). So, when the pandemic struck in 2020, the Fund urged countries to commit to several reforms in their letters of interests (LOIs), including a commitment to publish audit reports and beneficial ownership of those companies which won procurement contracts. The Fund came to popularize the idea of "spend but keep the receipt," which the Managing Director has been highlighting in her speeches at international platforms.

Conditionality, either from the IFIs or partners, has aimed to strengthen the PFM system in aid-recipient countries to help ensure the use for the purposes intended (DFID, 2009). There is a marked shift in conditionality today. Previously, aid was going toward budget support during the MDG era, with funds going directly to a recipient government accounts, and were executed using internal allocation, procurement, and accounting systems. To meet aid conditionalities today, countries are urged to develop action plans to bolster systems for public expenditure management. In due course, several tools have emerged, with diagnostics tools, for instance, focusing on specific elements of the PFM system, including the World Bank's Debt Management Performance Assessment (DeMPA) and the International Monetary Fund's Tax Administration Diagnostic Assessment Tool (TADAT) and Public Investment Management Assessment (PIMA).

Global available data indicates that donors have been providing substantial financial support to PFM. Data from the OECD's Development Assistance Committee database, for example, indicates such an uptick in disbursed funds for PFM activities, trebling from US$406 million in 2002 to US$1.3 billion in 2016 after peaking at about US$1.8 billion in 2011 (see Figure 1). While we do not have data, South Sudan has also received some support on the PFM reforms. The recent announcement by the World Bank (2022) to support South Sudan with $34 million was notable, with expectations to strengthen key institutions, strengthen cash management, and PFM outcomes.

Figure A1: Overseas Development Assistance Disbursement for PFM, All Donors, 2002–16



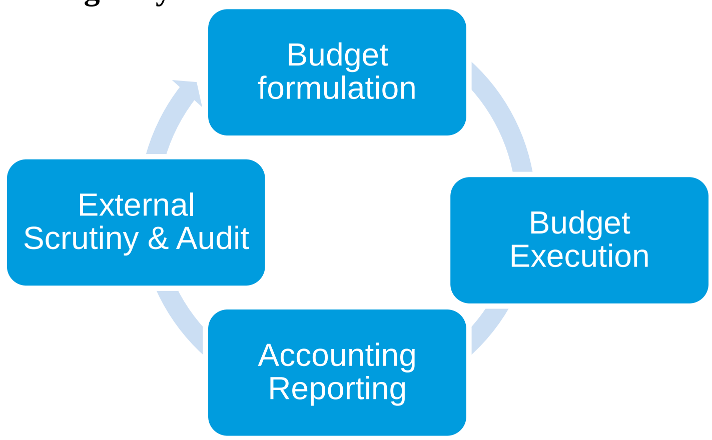
Source: Kirsten et al., 2019.

PFM reforms have become important across the board, with the literature providing some evidence. First, there is strong evidence displaying a relationship between better PFM performance and better perceptions of corruption. Second, PFM reforms are becoming part of an effective anticorruption campaigns among countries, which underpin the increased attention to these issues. Finally, some analyses show that countries that plausibly enforce penalties for noncompliance collect significantly more taxes on average than those that they do not (Kristensen, 2019).

C. Budget Cycle and the PFM Reforms

Annual budget cycle links to PFM safeguards, especially as the authorities strive to ensure that public expenditure is well planned, executed, accounted for, and overall scrutinized based on certain benchmarks (Welham, Krause, & Hedger, 2013).

Figure A2: Annual Budget Cycle



Source: Author's Compilation, 2022.

Figure A2 indicates that PFM involves distinctive phases, including budget formulation, which is prepared in accordance with government fiscal policies, strategic plans, and robust macroeconomic frameworks and fiscal projections. Next comes budget execution, falling within a system of effective standards, and internal controls, while mindful about the need to ensure resources are obtained and deployed as intended; accounting and reporting, noting that accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision making, management, and reporting needs. Finally, element of external security and audit remain key to annual budget cycle. Therefore, public finances are independently reviewed, with the executive expected to implement recommendations for improvement.

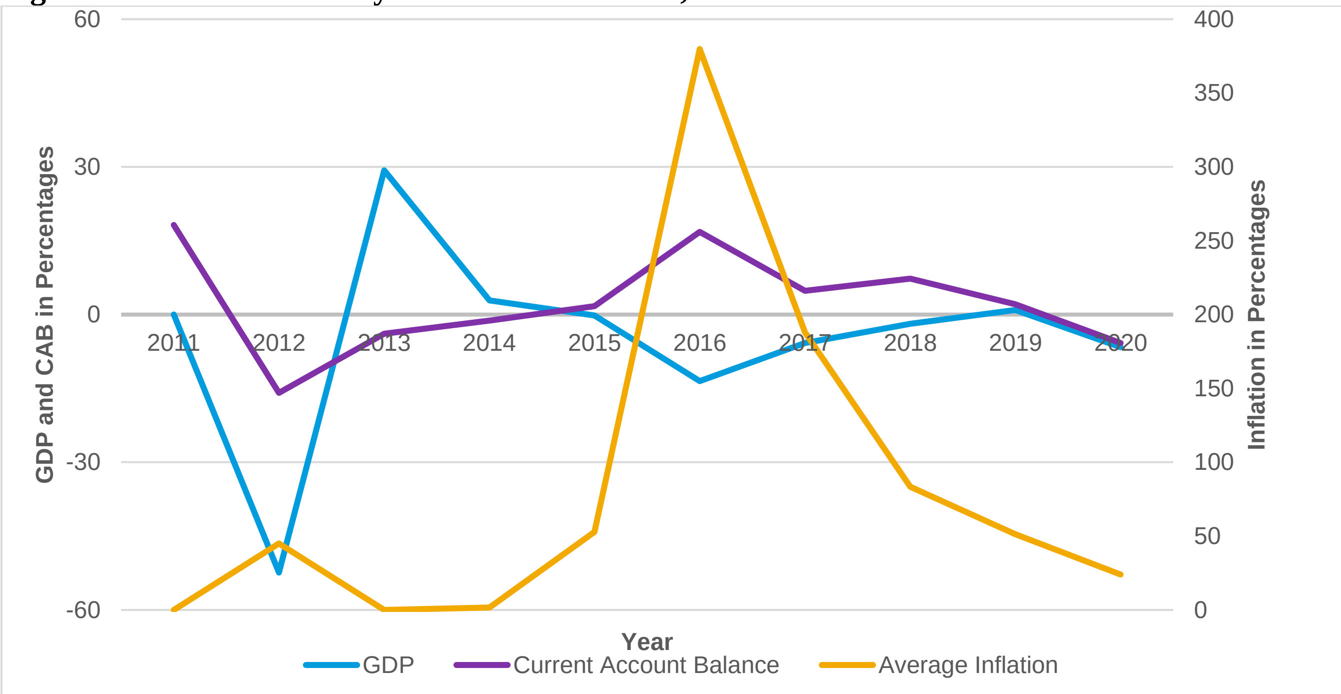
Budgeting in public financial management is essential to provide necessary framework to control costs within the governmental units. It does so by ensuring that costs do not exceed the allocated funds (Speklé, & Verbeeten, 2014). Where cost exceeds revenue, prudent debt management is called for, including responsible borrowing. While South Sudan has a theoretical understanding of the budget cycle, the challenge lies in the implementation, especially when budget is not passed on time and salaries delayed for months in recent years.

D. Evolution of South Sudan Macroeconomic Performance and PFM Challenges

D1. Overview of South Sudan macroeconomic Indicators, 2011-2022

Notwithstanding the previous legacy of war (1983-2005), South Sudanese economy witnessed a deterioration in macroeconomic indicators, including GDP, inflation, and current account balance (see Figure A3) during the phase of its internal conflict (2013-2018). The reader must note that this brief is just stating the recent developments in South Sudan, without claiming or suggesting that the low performance is due to unsuccessful PFM reforms in the study period.

Figure A3: South Sudan key Economic Indicators, 2011-2020



Source: IMF WEO, 2021.

The internal conflict has also worsened financial indicators during the study period (see Table A2).

Table A2: South Sudan's Indicators of Financial Development and Inclusion, 2013-2021

Indicator	Year								
	2013	2014	2015	2016	2017	2018	2019	2020	2021
M2/GDP (as %)	26	35	74	187	325	474	454	825	1,282
Account Holders ('00,000)	2.1	3.3	4.5	4.9	5.2	5.2	6.8	..	..
Household Borrowers ('000)	9.0	14.1	10.2	7.7	4.5	3.7	3.7	..	..
Banks	26	27	28	28	27	27	26	30	31
Banking Branches	61	88	72	75	65	61	65	94	86
Number of ATMs	44	67	65	54	32	31	43	50	49
MFIs	8	7	7	7	7	7	7	7	7
Forex Bureaus	-	96	96	-	76	-	44	64	64
Insurance Firms	-	-		-	-	-	-		36
Mobile Money	-	-	-	-	-	1	2	3	4

Source: Bank of South Sudan; Author's compilation, 2021.

Note: *While most data here—total borrowers, ATMs, bank branches, forex bureaus—show deterioration and support the central argument of the effects of war on financial inclusion, a few exceptions exist, including account holders, which almost tripled this period, partly due to population growth.*

E. Typical Challenges with the Reform Process in South Sudan and Elsewhere

This section covers unique situations in South Sudan, such as its cash-dependent culture, high dependence on oil money, which attracts vested interests and corruption, and induce salary arrears. Broad, political economy challenges, with weak PFM make it easier for elites/vested interests to divert public resources for private gain and have an incentive to obstruct PFM reforms.

The main risks to implement the PFM reforms include, for example, lack of technical capacity and financial resources, political pressure, and risks such as fragmentation that delay or halt progress. Consequently, much of external support was executed through third party mechanism, indicating that donor community has been largely absent in PFM reforms, until recently when the PFMRS was formed in 2020 and the engagement with IMF through Staff-Monitored program and two disbursements under the Rapid Credit Facility (RCF).