

# BUDGET 2014/15

Responding to the crisis by fostering peace and stability, without delaying necessary reforms

The 2014/15 budget was prepared as the security situation required additional spending and caused a reduction of the government's revenue base. To respond to this difficult situation, the main focus of the budget lies on fostering stability and keeping government running. But the 2014/15 budget has also been prepared with the ambition to overcome the challenging circumstances, continue fiscal decentralisation and improve budget management and fiscal sustainability.

Recognition of the effects of the crisis is reflected partly in oil revenue projections (SSP 8,899 million) far below full capacity. Non-oil revenue projections are more positive at a level of SSP 2,654 million. Grants from donors (SSP 158 million), as well as new commercial and concessional loans (SSP 3 billion and 278 million, respectively) are lower than last year as a result of the crisis and the shift in support by development partners. The government will be required to make loan repayments in the amount of SSP 3,711 million in 2014/15. As such loan payments will exceed new loans by SSP 433 million. These projections imply an overall resource envelope available for spending of SSP 11,279 million for 2014/15.

On the expenditure side the budget has been conceived around six building blocks. The first three building blocks ensure government is kept running and stable. The hardship faced by government employees following consecutive austerity budgets in 2012/13 and the first half of 2013/14 has become untenable, and therefore allowances have been restored to their pre-austerity levels. The restoration of allowances will increase salary expenditures by 24% to SSP 4,413 million [building block 1]. Similarly, block transfers will be fully restored to pre-austerity levels, and recently introduced service delivery transfers will be continued. Continuing these transfers in the current circumstances emphasizes the government's commitment to advance fiscal decentralisation and improve service delivery at the local level. In all, transfers will increase by 9% to SSP 2,475 million [building block 2]. Increased salary and transfer budgets are complemented by a rise in the budget for operating expenditures by 21% to SSP 2,346 million [building block 3].

Building Blocks 4 and 5 acknowledge the difficulties South Sudan has experienced in executing previous budgets and the added degree of uncertainty about revenue projections in the current situation. Building Block 4 establishes an Arrears Fund of SSP 800 million to catalogue and begin to pay off contractual obligations that were entered into before July 1st 2014 and meet a number of eligibility criteria. Further acknowledging the fact that the current instability may result in spending pressures which

**In response to the crisis the budget was conceived around six building blocks:**

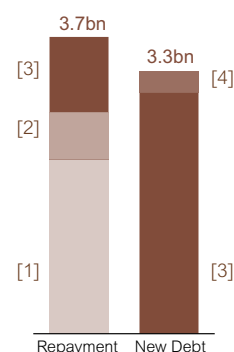
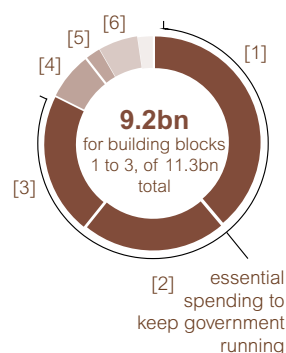
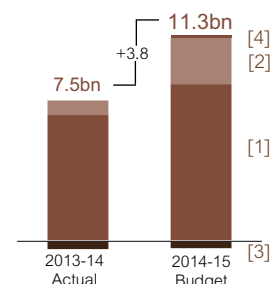
1	Salaries	KEEP GOVERNMENT RUNNING
2	Transfers	
3	Basic Operating Costs	
4	Arrears Fund	IMPROVE BUDGET EXECUTION
5	Emergency Contingency Fund	
6	Investments in Peace and Reconstruction	PEACE BUILDING

Where resources come from	SSPm
[1] Net Oil revenue	8,899
[2] Non-oil revenue	2,654
[3] Net Financing	(433)
[4] Grants from Donors	158
<b>Total resources</b>	<b>11,279</b>

How resources are spent	SSPm
1 Salaries	4,413
2 Transfers	2,475
3 Basic Operating Costs	2,346
4 Arrears	800
5 Emergency Contingency	250
6 Priority capital investments	727
Interest Payments/ Other	268
<b>Total Spending</b>	<b>11,279</b>

Total Debt Operations 2014/15 (SSPm)		
	Repayment	New debt
[1] BSS Loans	2,186	0
[2] Treasury Bills	573	0
[3] External Loans (commercial)	952	3,000
[4] External Loans (donor projects)	0	278
<b>Total</b>	<b>3,711</b>	<b>3,278</b>

Agency spending by sector and chapter (SSPm)	Total					Share
	Salaries	Operation	Capital	Transfers/ other	Total	
Accountability	91	195	5	0	291	3%
Economic Functions	95	141	128	27	391	3%
Education	110	158	0	335	604	5%
Health	58	228	2	151	439	4%
Infrastructure	27	35	356	0	418	4%
Natural Resources	67	82	7	210	367	3%
Public Administration	398	423	54	8	884	8%
Rule of Law	387	301	76	783	1,546	14%
Security	3,140	724	100	5	3,969	35%
Social / Humanitarian	38	60	0	0	98	1%
Contingency/ Arrears/ Interest	0	250	800	260	1,310	12%
Block transfers	0	0	0	964	964	9%
<b>Agency spending</b>	<b>4,413</b>	<b>2,596</b>	<b>1,527</b>	<b>2,743</b>	<b>11,279</b>	<b>100%</b>



cannot be anticipated in advance, Building Block 5 establishes an Emergency Contingency Fund of SSP 250 million to enable the government to respond to national emergencies.

After setting aside SSP 260 million for the payment of interest charges, the budget allocates the remaining balance of SSP 727 million to Building Block 6, for investments in peace and reconciliation. The Council of Ministers decision of May 9th earmarked this expenditure for investments in the security and infrastructure sectors and has instructed the relevant spending agencies to prepare their prioritisation plans, to be approved by Council of Ministers.

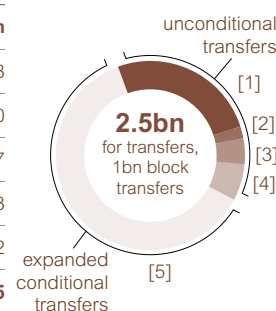
Just over 13% of the budget has been allocated to capital expenditure, including the arrears fund. This is a result of necessity rather than choice. In these difficult times the focus has to remain on maintaining security and keeping Government running at all levels. As revenues increase over time and arrears are reduced, the intention is to devote more of the budget to the development of South Sudan in future years. Furthermore, the hope is that once peace is consolidated, more capital expenditures will be made available by reducing payroll costs through a far-reaching demobilisation programme for the army and Organised Forces, something that has not been achieved since independence.

As outlined in the budget speech, the Ministry of Finance has made, and will continue to make significant efforts to improve tax policy and administration. Exemplary is the proposed Financial Bill which is the first of its kind in South Sudan. It aims to rationalise tax policy in a single document, improving the transparency of the budget process and the governments revenue administration. In addition the government is preparing a Revenue Authority Bill, seeking to streamline tax administration, reduce leakages in tax collection and minimize transaction costs for citizens, businesses and investors. Coupled with improved tax policy and administration, the option of harmonising external tariff rates to those of the East African Community is likely to raise significant revenues as the South Sudan rates are currently relatively low. The expected effects of these planned reforms explain the rise in non-oil revenues projections in this budget.

Transfers to states and counties have increased to a total of SSP 2475 million, excluding the 5% of net oil revenues that oil producing states and communities will receive. SSP 963 million of transfers are unconditional block grants with spending at the full discretion of the recipient state, county or service delivery unit, while the remaining transfers are conditional.

Significant changes to the transfers include an increase in the State Block Grant by SSP 86 million to SSP 653 million, fully restoring it to pre-austerity levels; an increase in conditional salary transfers by SSP 171 to restore housing allowances for organized forces in the states to pre-austerity levels; an increase in conditional salary transfers by the Ministry of Health of SSP 23 million to introduce infection allowances for primary health workers and reduce the disparity between government employed primary health workers and those employed by NGOs; and an increase of 15m in operating transfers to community public health units as well as hospitals in the states.

Transfer Summary	SSPm
[1] State Block Grants	653
[2] County Block Grants	50
[3] Sales Tax Adjustment Grants	107
[4] Local Development Grants	153
[5] Conditional Transfers	1,512
<b>Total Transfers</b>	<b>2,475</b>



Education, Health, Water and Local Government Transfers <sup>1</sup> to improve local service delivery	SSPm
<b>Education transfers</b>	<b>335</b>
Conditional Salary Transfers for Teachers	227
Capitation grant for primary schools	60
County and State Education Departments Operating Grants	48
<b>Water transfers</b>	<b>25</b>
Salary grant for County Water Units	12
Operating grant for County Water Units	13
<b>Health transfers</b>	<b>151</b>
Conditional Salary Transfers for Health Workers	81
State and County Health Department Operating Grants	60
State and County Hospital Operating Grants	10
<b>Block Transfers for Counties</b>	<b>50</b>
New grant to support core administrative functions	50
<b>Local Government Development Grants</b>	<b>153</b>
County Development Grant for local infrastructure	144
Pilot of Payam Development Grant in selected Counties	9

Proposed Regulation to improve Public Financial Management in South Sudan to be passed in 14/15
<b>Financial Bill</b>
Brings together in a single piece of legislation the relevant provisions of the Taxation Act 2009, the Taxation (Amendment) Act 2011, the Taxation (Amendment) Act 2012, the Customs Services Act 2013, and the various fees and licenses charged by Government agencies. It sets out the tax, fee and levy rates that have been used as the basis for non-oil revenue estimates in the 2014/15 Budget. The bill aims to contribute to the transparency of the budget process as well as the governments revenue administration.
<b>Revenue Authority Bill</b>
Aims to centralise revenue collection under one authority in order to improve collection rates, increase transparency and cut bureaucracy, as well as improving the ease of doing business and helping to fight corruption.
<b>Procurement Bill</b>
Aims to ensure that contracts are awarded competitively, to credible suppliers, on the basis of value for money, and within the limits of available resources.

For further information materials please consult the Website of the Ministry of Finance and Economic Planning: [www.grss-mof.org](http://www.grss-mof.org)

Questions regarding the budget can be directed at Albino Chol Thiik, Director General of Budget

Notes: 1) This table is a summary of transfers to the service delivery agencies [Ministry of General Education and Instruction, Ministry of Health, Ministry of Water Resources and Irrigation] and local governments. It includes [2] County Block Grants, [4] Local Development Grants, and highlights from [5] Conditional Transfers shown in the Transfers Summary table at the top of this page.