



GOVERNMENT OF REPUBLIC OF SOUTH SUDAN

2014/2015 BUDGET SPEECH

Presented to the National Legislature

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INTRODUCTION

- 1 Right Honourable Speaker, Honourable Members of the National Legislature, in accordance with article 88 (1) of the Constitution, please allow me to present the 2014/15 draft national budget to you.
- 2 As required by the Public Financial Management and Accountability Act, this draft budget proposal is accompanied by the draft Appropriation Bill for 2014/15, the draft Financial Bill for 2014/15 and a statement of the overall indebtedness of the Government of the Republic of South Sudan.

CONTEXT OF THE 2014-15 BUDGET

- 3 Mr Speaker, Sir, when I presented the 2013/14 Budget to you last September, we were emerging from a period of prolonged fiscal austerity. We had been able to survive the austerity effects of the oil shutdown through judicious use of our limited resources, including domestic loans and oil advances, but these efforts required significant sacrifices across the board and came at the expense of our development expenditures. Last September, our hope was that the resumption of oil production would allow us to lift austerity and to resume development spending in the second half of the financial year.
- 4 Unfortunately, as you know, an entirely unforeseen set of circumstances overtook us in December 2013. The crisis that unfolded has sent shockwaves through the nation, caused untold suffering and come at a significant economic cost.
- 5 Mr Speaker, Sir, at a macro level, our economy is weathering the crisis. Initial uncertainty led to volatility in the exchange rate and prices in January 2014, but through prudent macroeconomic management, we have managed to keep the exchange rate stable and avoided a return to high levels of inflation. However, the crisis has severely impacted on economic activity. Oil production has been affected, trade has been interrupted, and hundreds of thousands of households are unable to plant their crops for the coming season.
- 6 The crisis has both reduced the revenues available to us, and forced us to re-focus our immediate priorities away from development, towards security and emergency relief. In February of this year, this House approved a Supplementary Budget which re-allocated funds away from non-essential capital expenditures to security and a

contingency fund for emergencies. This focus will need to continue in the coming financial year.

- 7 Mr Speaker, Sir, in 2014/15 we will use our limited resources to maintain security, keep Government running and provide core services. However, we will also make efforts to pay down our debts and pay off some of our arrears, so that our finances remain on a sustainable footing. We will also support a few carefully selected investments to underpin our peace and reconstruction efforts.

REVIEW OF 2013/14

- 8 Before I lay out my plans for 2014/15 in detail, let me give you an overview of our revenues and expenditures during the current financial year, and the challenges we have faced.
- 9 When I presented the budget to you last September, we expected our net oil revenues to amount to six billion nine hundred and seventy two million pounds (SSP 6,972 million) for the financial year, after catering for our obligations to Sudan and oil-producing States and communities. Non-oil revenues were expected to amount to one billion nine hundred and sixty seven million pounds (SSP 1,967 million), and we expected that we would be able to raise almost one and a half billion pounds in net new financing and grants from donors.
- 10 These estimates enabled you to approve a budget which contained nine billion five hundred and sixty three million pounds (SSP 9,563 million) in agency spending and a reserve of five hundred million pounds (SSP 500 million) for arrears repayments.
- 11 Mr Speaker, Sir, you may recall that we anticipated that oil production would take a number of months to return to full capacity. The budget was therefore conceived in two distinct halves. In the first half of the year, we would continue to operate under austerity conditions, managing within a monthly limit of five hundred and fifty five million pounds (SSP 555 million) per month. In the second half, as oil flows resumed in full, we intended to lift austerity and increase monthly spending to nine hundred and eighty million pounds (SSP 980 million) per month if resources allowed.
- 12 Mr Speaker, Sir, the outturns that are tabled in the draft budget book show that our expenditures amounted to three billion four hundred and thirty two million pounds (SSP 3,432 million) in the first half of the year. This amounts to an average of five

hundred and seventy two million pounds (SSP 572 million) per month. Although our oil revenues performed slightly better than expected, our non-oil revenue collections were just under half the estimated level. We also did not manage to raise the amount of external new loans expected, and instead relied on two advances of five hundred and fifty million pounds each (SSP 550 million) from the Bank of South Sudan, to enable us to pay November and December salaries. At the same time, the oil companies started recouping the advances they had provided to us during the oil shutdown.

13 Mr Speaker, Sir, management of the budget became considerably more difficult at the start of the second half of the year, as fighting disrupted oil production in Upper Nile and caused the total shutdown of production in Unity, interrupting our flow of oil revenues. The crisis also prevented us from improving our non-oil revenue performance, as trade was badly affected and our revenue collecting units were disorganised by desertions. At the same time, the expenditure needs of the army and the security services increased rapidly, even though there was uncertainty over the actual number of personnel who remained on the Government payroll.

14 Faced with these challenges, we took a number of actions. First, under the guidance of the Crisis Management Committee, we organised for January salary payments to be paid by committee, to ensure that money was only paid to personnel who remained on the Government payroll, particularly in the Organised Forces and the Army. As you are aware, this exercise brought its own risks and challenges, but it did enable us to ensure that pay reached those for whom it was intended.

15 Second, we prepared a Supplementary Budget which acknowledged the reality of the conditions we were operating under, and reallocated funds from development expenditures to security and a contingency fund for emergencies. I thank you again for your support and cooperation in approving this budget in response to the crisis.

16 Third, we took the decision to restore allowances back to their pre-austerity levels from January 2014, as initially anticipated in the budget, because we felt that compounding the crisis with austerity would only make matters worse for our people.

17 Fourth, we negotiated a rolling overdraft with BSS, whereby they provide us with five hundred and fifty million pounds (SSP 550 million) each month to help with the payment of salaries and State transfers. BSS then recoups the equivalent amount

from our oil revenues as they flow in. This arrangement does not bring us any net new financing as such. It also does not meet our current salary and transfer needs in full, particularly in light of the continued increases in personnel in the army and Organised Forces and the restoration of allowances to their pre-austerity levels. However, it at least provides some certainty with regard to the availability of funds each month.

18 And finally, we arranged access to some additional financing, by drawing advances of four hundred million dollars (USD 400 million) against oil sales, using the CNPC facility that was established during the oil shutdown, and by selling one hundred million pounds (SSP 100 million) in Treasury Bills. These borrowings have enabled us to make provisions for essential operating expenses, particularly in the army and Organised Forces. Nonetheless, other Spending Agencies have remained severely limited in their operating capacities, and we have been unable to make any real headway in paying off our numerous outstanding contractual obligations.

19 Mr Speaker, Sir, the going has been rough. From January to March, our expenditures averaged six hundred and fifty million pounds a month (SSP 650 million), even though our needs have far exceeded this. We have not been able to pay salaries within the calendar month. But salaries and State transfers have remained a top priority for my ministry. We do our best to ensure that these payments are made before anything else goes out, as we know that government employees at both central and State level crucially depend on them. As of now, all Agencies have been paid up to the end of April, and payment for May is ongoing.

20 We are also proud that we were able to progress with our efforts to improve services at the local level, the crisis notwithstanding. Several new service delivery transfers for counties and service delivery facilities have been started in the last months covering health, education and water. Ensuring that more resources and services reach communities all over South Sudan is one of our main policy goals, and we are committed to continuing with this agenda. We believe it is essential that those States that are currently peaceful continue to realise development gains despite the current crisis, and that transfers continue to be equitably distributed amongst all ten States.

PRIORITIES FOR 2014-15

- 21 Mr Speaker, Sir, the situation that we face is difficult. But I do not wish to hide behind it, and attribute all the economic and budgetary challenges we face to the current crisis. The crisis has exacerbated, rather than created, many of the problems underlying the effective management of our budget. These include poor mobilisation of non-oil revenues, bad procurement practices, arrears accumulation, weak budget discipline and an excessively large payroll.
- 22 This is perhaps not the most conducive moment for wholesale reform, but I still believe that with the help of this House, there are a number of things we can do in the coming financial year to lay the foundations for stronger budget management and greater fiscal sustainability. I have shaped my budget proposals accordingly.
- 23 Mr Speaker, Sir, let me first turn to the issue of fiscal sustainability, and the need to reduce our dependence on oil revenue. Since 2006, the Government has received over nineteen billion dollars (USD 19 billion) in oil revenues, but collected the equivalent of less than one billion dollars (USD 1 billion) in non-oil revenues. Time and again, we have discussed the need to improve our non-oil revenue collections, in order to reduce our oil dependency and put our finances on a more sustainable long-term footing. This issue is becoming ever more crucial, as our oil revenues are projected to diminish significantly by 2020, as our existing oil wells become exhausted. However, our progress in increasing our non-oil revenue has been painfully slow.
- 24 I believe the problems we face in increasing our non-oil revenues exist at two levels. First, we do not collect all the revenues we could collect. Our tax rates are low relative to other countries in the region, and our tax base is narrow, relying on relatively few sources of taxation and just a few tax payers. Our tax administration capacity is weak. Second, not all the revenues that are collected by a variety of Government agencies are remitted to the Ministry of Finance.
- 25 As requested by the House Committee on Finance and National Economy, and as required by the Public Financial Management Act, I am tabling before you today for the first time a Financial Bill which sets out proposals for taxes, fees and other levies for the coming financial year.

- 26 The Financial Bill serves two purposes. Firstly it 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. Secondly it sets out the tax, fee and levy rates that have been used as the basis for non-oil revenue estimates in 2014/15 Budget. This contributes to the transparency of the budget process we envisaged when passing Public Financial Management & Accountability Act in 2011.
- 27 The Financial Bill clearly shows that both our tariff structure and our system of revenue collection are in need of major overhaul. There are no fewer than twenty-two central Government agencies responsible for the collection of various fees and licenses. The result is that there are too many sources of potential leakage from the Treasury. Moreover, for both domestic and foreign investors, the administrative costs of dealing with multiple revenue collectors are potentially very high, which can only decrease the attractiveness of South Sudan as an investment destination. It is now widely accepted in policy circles that the ease of doing business is an important determinant of economic growth.
- 28 We need to streamline our revenue administration to maximise our collections, minimize leakages and reduce the cost of doing business. We have already taken steps in the right direction through the proposal to establish the South Sudan Revenue Authority. I will work with the Ministry of Justice to ensure that the Revenue Authority Bill is submitted to you in the coming months. In the meantime, I will endeavour to engage the support of our development partners so that our revenue staff are well trained and equipped to carry out their functions.
- 29 Mr Speaker, Sir, I believe that if South Sudan can gain entry to the East African Community, we will go a long way to addressing some of the current deficiencies in our tariff structure. Membership of the East African Community requires adoption of a common external tariff at rates that are significantly higher than the rates we currently levy in South Sudan, as well as the modernisation of our revenue policy. We have seen the way that membership of the East African Community, coupled with establishment of a professional Revenue Authority, has already yielded significant benefits for other countries in the region. Burundi, for example, has increased its revenue collections by over 80% in a period of just four years.

- 30 Mr Speaker, Sir, let me now turn to my priorities on the expenditure side of the budget. As you know, as a Government, we have a very poor track record in executing our budget as planned, in spite of all the provisions of the Public Financial Management and Accountability Act. There are a number of reasons for this.
- 31 Firstly, Agencies routinely enter into commitments for which funds are not available, and then present them to the Ministry of Finance for payment. In circumstances where Government has a legally binding contract, and when a good or service is said to have been delivered, it is very hard for the Ministry of Finance to deny the validity of the obligation and refuse payment. The pressure brought to bear to pay the contractor is just too great.
- 32 Second, we often face expenditures during the financial year that were not anticipated at the time of the budget. In some cases, this is simply due to poor budgeting practices, and should not be allowed, although many times my Ministry is put under intolerable pressure to accept them. But in other cases, it can be a result of events that could not have been anticipated at the time of the Budget, but to which Government nonetheless has to respond – for example, natural disasters, epidemics or insecurity.
- 33 Mr Speaker, Sir, in my approach to the formulation of the 2014/15 budget, I have tried to find ways to address these problems, so that they do not destabilise budget execution to the extent experienced in the past. As I explained to the Committee on Finance and National Economy in March, Budget preparation for 2014/15 was conceived around six building blocks. The purpose of these building blocks was threefold. First, to set aside allocations for expenditures that are essential for keeping Government running. Second, to cater in advance for the unknown expenditure obligations that we know will inevitably emerge during the course of the year. Third, to enable allocation of any remaining resources to areas of political priority, particularly as regards the capital part of the budget.
- 34 Three building blocks fall into the category of essential expenditures for keeping Government running - Salaries, State Transfers and Basic Operating Costs. A further two building blocks cater in advance for the unanticipated expenditures which could otherwise destabilise budget execution. These are the Arrears Fund and the Emergency Contingency Fund. The final building block of new capital expenditures acts as the residual within our allocations. This means that we only make money

available for new capital expenditures once we have catered for all the other building blocks.

35 Mr Speaker, Sir, this approach enabled me to facilitate an informed discussion within the Council of Ministers as to how to allocate the budget in line with our needs and our strategic priorities, within the limits of our available resources. In particular, the Council understood the reasons for the limited level of funds available for new capital expenditures next financial year. Given our resource constraints, we first have to cater for the obligations that are essential for keeping Government running.

36 The Council also understood the magnitude of the problem we face with arrears. I do not have a reliable estimate, but I believe that due to the poor contractual discipline which has prevailed in Government to date, our current arrears may well run into billions of pounds. As you can appreciate, these arrears have a sizeable negative impact on our reputation, not to mention the functioning of our private sector. Council therefore understood that we need to make a sizeable start in paying off these arrears, before we enter into new contractual obligations.

37 Council took a political decision on how the remaining limited funds for new capital expenditures should be allocated – namely to investments related to security and transport, as well as to one or two Agency-specific needs in information and environment. This decision was a collective one, and means that no other Agencies will receive allocations for new capital expenditures from GRSS resources next financial year. If they have existing contractual obligations that require payment, they will be submitted for payment under the Arrears Fund.

38 Mr Speaker, Sir, I hope this approach will take us some way to improving the credibility of our budget execution. But it will not be sufficient on its own. My Ministry will need to work closely with the Ministry of Justice in order to ensure that Spending Agencies do not enter into new contracts for which they have no budgetary allocation. Likewise, I need your support in improving the quality of our procurement practices. In this regard, it is my sincere plea that you prioritise the Procurement Bill that is currently before you for immediate passage, so that my Ministry has greater powers to ensure that contracts are awarded competitively, to credible suppliers, on the basis of value for money, and within the limits of available resources.

39 Finally, Mr Speaker, Sir, before I turn to a detailed explanation of our budgetary allocations for next year, let me explain a little further about the Arrears and Emergency Contingency Funds. The rules governing both Funds are established in the Appropriation Bill that I am laying before you today.

40 Section 4 of the Appropriation Bill sets out the rules governing the Emergency Contingency Fund. It defines the expenditures that are eligible for consideration under the fund, and sets out the process for approving payments against it. Approval will be required by the Council of Ministers before this fund is used, and reports must be made to the Assembly within three months, as required by the Public Financial Management and Accountability Act. The Fund will enable the Government to make payments to deal with the consequences of epidemics and unforeseen acts of nature or war which could not have been anticipated at the time of preparing the National Budget. It cannot be used for any other purpose. The existence of an appropriated allocation to the Contingency funds means we can meet these emergency needs without destabilising other budget allocations.

41 Section 5 of the Appropriation Bill sets out the rules governing the use of the Arrears Fund. It defines an arrear, establishes the legal basis for validity, and identifies types of claims that are not eligible for payment through the Fund. These include claims related to delivery of goods and services before 2006, claims relating to contracts entered into by State Governments, claims for war damages, Dura claims that have not been approved by the Council of Ministers and this House, and claims relating to salaries and other benefits of Government officials. Any payment from the fund exceeding one million pounds (SSP 1 million) must be approved by the Council of Ministers.

42 Mr Speaker, Sir, as already mentioned, I believe that our current arrears run into billions of pounds. They are likely to involve hundreds, if not thousands, of contracts. The task of receiving all arrears claims and assessing them for validity and eligibility is likely to be beyond the capacity of my Ministry to manage. Moreover, it is likely to bring with it considerable political pressure, particularly from well-connected suppliers. I therefore propose to seek independent audit support for the validation exercise, and will be seeking support from our development partners to this end.

RESOURCE ESTIMATES FOR 2014/15

- 43 Mr Speaker, Sir, let me now turn to the resource estimates for financing the 2014/15 Budget.
- 44 Our gross oil revenues are expected to amount to twelve billion seven hundred and eighty million pounds (SSP 12,780 million). These estimates assume that production in the Upper Nile fields will increase from one hundred and eighty thousand barrels per day at the start of the year to two hundred and twenty thousand barrels per day at the end of it. They also assume a resumption in production in our Unity fields, starting at five thousand barrels per day, and rising to forty thousand barrels per day by the end of the year.
- 45 Mr Speaker, Sir, as you know, we are required to pay twenty five percent of our oil revenue to the Government of Sudan, to cover oil tariff and transit fees, and to meet our obligations under the Transitional Financial Arrangements between our two countries. Under the terms of the Petroleum Revenue Management Act, we are also required to pay a further five percent of our oil revenues to oil producing States and communities. The Petroleum Revenue Management Act also requires us to set aside twenty five percent of our oil revenues for the Oil Revenue Stabilisation Fund and the Future Generations Fund.
- 46 Mr Speaker, Sir, when all these obligations are catered for, only forty five percent of our gross oil revenues remain available to us to finance the budget. Given the difficult circumstances we currently face, I consulted with the Council of Ministers on the way forward. The Council decided that our contributions to the Oil Revenue Stabilisation Fund and the Future Generations Funds should be deferred, to enable sufficient funds to be available to finance the budget. The net oil revenue available to finance the budget is therefore estimated at eight billion eight hundred and ninety nine million pounds (SSP 8,889 million).
- 47 Our estimate for non-oil revenues for next financial year amounts to two billion six hundred and fifty four million pounds (SSP 2,654 million). Sales tax, excise duties and customs duties together account for one billion four hundred and fifty million pounds (SSP 1,450 million) of this estimate, while the remainder is expected to come from Personal Income Tax, Business Profit Tax and other Government revenues, including fees and licenses.

48 Mr Speaker, Sir, given that this financial year our outturn level of non-oil revenue collections will amount to no more than one billion pounds, you will recognise that our estimate for next financial year is ambitious. However, we believe that if we make a significant investment in our revenue administration capacity, coupled with your support in passing the Revenue Authority Bill and revising our tax rates, it is achievable.

49 Mr Speaker, Sir, in summary, total Government revenues from oil and non-oil sources are estimated to amount to eleven billion five hundred and fifty three million pounds (SSP 11,553 million) next financial year. However, out of this, three billion seven hundred and eleven million pounds (SSP 3,711 million) will be required to repay domestic loans and oil advances. In order to offset the negative impact these repayments will have on our budget financing next financial year, we intend to borrow a further three billion pounds from the oil companies, in effect rolling our obligations over until such a time as our budget is on a more sustainable financial footing.

50 Mr Speaker, Sir, next financial year we will also be fortunate to receive four hundred and thirty six million pounds (SSP 436 million) from our donor partners, through a mix of grant and loan financing. The details are incorporated in the individual budget estimates of the relevant agencies.

51 Mr Speaker, Sir, to be clear, this financing is for projects that are to be managed or implemented directly by Government agencies. A number of donors will also be providing support to the humanitarian and development needs of South Sudan through third party implementers. Many of these projects are known to us, and details are provided in the National Budget Plan and Annual Donor Book. We are very grateful for their support at this difficult time. However, since this money does not flow through Government, we do not reflect it in our resource envelope or budget appropriations.

52 Mr Speaker, Sir, in summary, taking all of the above into account, the estimated resources available for financing next year's budget will amount to eleven billion two hundred and seventy eight million pounds (SSP 11,278 million). This translates into a monthly spending limit of nine hundred and forty million pounds (SSP 940 million).

RESOURCE ALLOCATIONS FOR 2014-15

53 Mr Speaker, Sir, I propose to allocate the resources available for funding next year's budget as follows. Two hundred and sixty million pounds (SSP 260 million) will be set aside to cater for interest payments on our outstanding debts. Eight hundred million pounds (SSP 800 million) will be allocated to the Arrears Fund. Two hundred and fifty million pounds (SSP 250 million) will be allocated to the Emergency Contingency Fund. Nine billion five hundred and thirty two million pounds (SSP 9,532 million) will be allocated to Government Agencies from Government's own resources, while four hundred and thirty six million pounds (SSP 436 million) will be allocated to Government Agencies for projects financed by our development partners.

54 In terms of budget chapters, four billion three hundred and seventy eight million pounds (SSP 4,378 million) will be allocated for the salaries of Government employees, including the Army and the Organised Forces. This is the single largest chapter, and accounts for thirty nine percent of the overall budget. Two billion four hundred and seventy million pounds (SSP 2,470 million) will be allocated to State transfers. Two billion six hundred and eighty five million pounds (SSP 2,685 million) will be allocated to use of goods and services, otherwise known as operating costs. One billion four hundred and seventy six million pounds (SSP 1,476 million) will be allocated to capital expenditures, including the Arrears Fund and support from our donor partners. Two hundred and sixty eight million pounds (SSP 268 million) will be allocated to other expenditure, primarily interest costs. A detailed breakdown of expenditure classifications by chapter can be found on page 512 of the budget book.

55 Mr Speaker, Sir, as you can see, the bulk of our budget is allocated to salaries, operating costs and State transfers. Only thirteen percent of our budget is allocated to capital, and that includes support from our donor partners and the arrears fund. This is not how we would wish it to be. However, as I have explained, in these difficult times we have to focus our efforts on maintaining security and keeping Government running at all levels. If our revenues increase over time and we reduce our arrears, we hope that we will be able to devote more of our budget to the development of South Sudan in future years. We also hope that at some point, once peace is consolidated, we will be able to increase our capital expenditures by reducing our payroll costs through a far-reaching demobilisation programme for the army and Organised Forces, something we did not achieve before independence.

56 Nonetheless, in spite of our current constraints, I am pleased that almost a quarter of our budget is allocated to State transfers. The block grant, which amounts to nine hundred and fifty five million pounds (SSP 955 million), will enable State governments to finance their running costs and support County development. The conditional transfers, which amount to one billion five hundred and fifteen million pounds (SSP 1,515 million) will, amongst other things, cater for teachers and health workers salaries, as well as the costs of the Organised Forces at State level. In addition, they will support the costs of education, water and health service delivery, by providing capitation grants to primary schools and operating transfers to county education, health and water departments. Support will also be provided for the development of eight counties in four States through the Local Government Service Delivery Project which is co-funded by the World Bank and Denmark. The States are Lakes, Western Equatoria, and, if conditions allow, Jonglei and Upper Nile.

57 Mr Speaker, Sir, we are putting in place measures to ensure that the funds transferred to States and counties are spent effectively. I request the support of my colleagues at the state and county level to ensure these measures are implemented and that funds are monitored. I am grateful to the EC, which is planning to support capacity development at the county level across the ten States in support of this agenda.

58 Mr Speaker, Sir, let me now turn to our sectoral allocations. For the sake of time, I shall present the figures rounded to the nearest million pound, but exact figures can be found in the budget book. The Accountability sector will receive three hundred and two million pounds (SSP 302 million). This comprises two hundred and sixty eight million pounds (SSP 268 million) from Government own resources for salaries and operating costs, as well as thirty three million pounds (SSP 33 million) from the World Bank for statistics development and institutional strengthening at County level. The Accountability Sector comprises a wide range of activities, and next year, its budget allocations are expected, among other things, to enable the opening up of border posts for Customs, preparations for the National Census, the conduct of external audits, and investigation of corruption allegations.

59 The Economic Functions sector will receive three hundred and ninety nine million pounds (SSP 399 million), of which three hundred and twenty six million will come from Government own resources, and seventy three million pounds (SSP 73 million) from donor partners. One hundred and thirteen million pounds (SSP 113 million) has

been allocated for the Fula rapids power project, using financing from the African Development Bank, the Government of Norway and Government own resources. Twenty four million pounds (SSP 24 million) will be provided as conditional transfers to support water services at State and County level. Seven million pounds (SSP 7 million) will be provided by the World Bank to support private sector development. The remainder of the sector allocations are for salaries and operating costs, to enable the institutions in the sector to carry out their policy and service functions.

60 The Education Sector will receive six hundred and twenty two million pounds (SSP 622 million), all of it funded from Government own resources. The Sector will provide State transfers to pay the salaries of over twenty eight thousand teachers at State level, provide capitation grants to up to 2,800 primary schools, and support State and County education departments. It will provide direct support to the functioning of universities and provide teacher training. The Education Sector does not receive any donor financing directly through the budget, but we are grateful for the support of off-budget projects such as the Girl's Education South Sudan Project, funded by the UK, which is providing capitation grants to 145 secondary schools, in tandem with the primary capitation grants provided through the budget.

61 The Health Sector will receive four hundred and fifty one million pounds (SSP 451 million), of which three hundred and ninety seven million pounds (SSP 397 million) will come from Government own resources, supplemented by fifty four million pounds (SSP 54 million) from the World Bank for health service delivery in Upper Nile and Jonglei States. Other donors are supporting health service delivery in the other eight States through off-budget mechanisms. These include the Health Pooled Fund which is supported by the UK, Australia, Canada, Sweden and the EC, and the Health Systems Strengthening project funded by USAID. The Health Sector will provide State transfers to pay the salaries of over nine thousand health workers at State level, support State and County health departments, and provide operating expenses for State hospitals. It will also provide direct funding for the three national teaching hospitals.

62 The Infrastructure sector has a total budget of three hundred and ninety three million pounds (SSP 393 million), of which one hundred and fifty eight million pounds (SSP 158 million) will come from Government own resources, and two hundred and thirty five million pounds (SSP 235 million) will come from development partners.

Government will make ninety million pounds (SSP 90 million) from its own resources available to support capital investments in key priority roads. The details are provided on page 229 of the budget book. The World Bank will also provide forty eight million pounds (SSP 48 million) to commence work on the Kapoeta-Narus section of the Juba-Nadapal Road, and thirty six million pounds (SSP 36 million) for rural roads. Juba airport will be rehabilitated using a one hundred and fifty million pound loan (SSP 150 million) from China.

63 The Natural Resources and Rural Development sector will receive three hundred and sixty three million pounds (SSP 363 million), of which three hundred and thirty eight million (SSP 338 million) will come from Government own resources, and the remainder from donor funds. The Natural Resources sector will pay the salaries of over sixteen thousand wildlife staff at State level. It will also support the salaries and running costs of State agriculture and livestock departments. The World Bank will provide nine million pounds (SSP 9 million) for a safety net and skills development project to support 25,000 vulnerable households in Jonglei, Central Equatoria, Eastern Equatoria and Warrap States, and sixteen million pounds (SSP 16 million) for emergency food crisis response. A number of other donors will support the Natural Resources and Rural Development Sector through off-budget projects, for example the EC Improved Food Security and Income for Rural Smallholders project that supports agricultural development in Greater Bahr el Ghazal States.

64 The Public Administration Sector will receive eight hundred and twenty two million pounds (SSP 822 million), all of which will be funded from Government resources, apart from eight million pounds (SSP 8 million) from the World Bank for institutional capacity development. The sector will fund the salaries and operating costs of key Government institutions, including the Office of the President, the National Legislative Assembly, the Ministry of Cabinet Affairs, the Ministry of Foreign Affairs, the Constitutional Review Commission and the National Elections Commission. The sector also has a capital allocation of thirty six million pounds (SSP 36 million) for vehicles and construction in the Office of the President and the Ministry of Foreign Affairs.

65 The Rule of Law Sector has an allocation of one billion five hundred and seventy three million pounds (SSP 1,573 million), entirely funded by Government resources. The sector will pay the salaries of over 19,000 personnel at central government level, and

make transfers to States to pay more than 53,000 personnel at State level, primarily for the Police, the Prisons Service and the Fire Brigade. It has three hundred and thirteen million pounds (SSP 313 million) allocated to operating costs, and a further ninety six million pounds (SSP 96 million) allocated to capital. These new capital allocations will be used to construct police posts and other infrastructure, primarily in the States affected by conflict.

66 Mr Speaker, Sir, the Security Sector has an allocation of three billion nine hundred and seventy million pounds (SSP 3,970 million), which accounts for thirty five percent of our entire budget. The bulk of this will be used to pay salaries of the army and the veterans, but we have also made an allocation of seven hundred and twenty five million pounds (SSP 725 million) for operating costs and one hundred million pounds for new capital expenditures.

67 Finally, the Social and Humanitarian Affairs Sector has an allocation of one hundred and ten million pounds (SSP 110 million), funded entirely from Government resources. It will be used to support salaries and operating expenses in the sector, enabling the sector to undertake its policy and advocacy functions in support of gender mainstreaming, youth development and protection of vulnerable groups. Our donor partners also provide considerable humanitarian support, and have increased their assistance in this time of crisis. The UN estimates that over one billion six hundred million dollars (USD 1,600 million) has been provided this year alone. However, their assistance is not channeled through Government agencies.

68 Mr Speaker, Sir, I have completed my overview of our budget allocations by Sector, and now wish to turn to the issue of loans.

GOVERNMENT LOAN POSITION AND REQUEST FOR LOAN APPROVALS

69 Mr Speaker, Sir, you have heard me refer to various loans throughout my speech. Article 182 (1) of the Constitution and Section 37 of the Public Financial Management And Accountability Act require Government borrowing to be approved by the Assembly. Section 48 (1) of the Public Financial Management and Accountability Act requires the Minister of Finance at the time of submitting the Budget to present to the Assembly information relating to the total indebtedness of the Government.

70 Mr Speaker, Sir, Government borrowing is a fairly recent phenomenon in South Sudan, occasioned by the fiscal constraints caused by the oil shutdown and the current crisis. Nonetheless, in entering into these borrowings, I do not believe that the provisions of the Constitution and the Public Financial Management and Accountability Act have been fully adhered to in all cases.

71 I therefore wish to make good this situation by presenting you today with a provisional statement on the overall indebtedness of Government, as required by the Public Financial Management and Accountability Act.

72 Mr Speaker, Sir, the details of the total indebtedness of Government are annexed to this speech. Let me summarise them here. At the start of the current financial year, total Government indebtedness amounted to six billion five hundred and ninety million pounds (SSP 6,590 million). Out of this, the equivalent of one billion nine hundred and seventy five million (SSP 1,975 million) was owing against advances from the oil companies, while four billion six hundred and fifteen million was owing domestically, to the Bank of South Sudan and domestic commercial banks.

73 Mr Speaker, Sir, during the course of the current financial year, we received a further five billion and eighty nine million (SSP 5,089 million) in new loan disbursements, drawing on the facilities established during the oil shutdown and our rolling overdraft from the Bank of South Sudan. However, we have also repaid four billion one hundred and ten million pounds (SSP 4,110 million) to the oil companies and the Bank of South Sudan. Therefore, on a net basis, our borrowings this year have amounted to nine hundred and eighty million pounds (SSP 980 million).

74 As of today, our total indebtedness is provisionally estimated at seven billion eight hundred and two million pounds (SSP 7,802 million) including interest. This is a lot of money for a young nation, and it excludes the money we owe as a result of contractual arrears, because we do not currently have a reliable arrears estimate. When arrears are taken into account, you can expect our total indebtedness to exceed ten billion pounds.

75 Mr Speaker, Sir, most of the loans we have entered into have been provided on commercial terms, and require fairly immediate repayment. You will see in the budget that I have already provided three billion seven hundred and eleven million (SSP 3,711 million) for loan repayments next financial year.

- 76 The situation we face is not an easy one. We desperately require additional financing to help us bring peace and development to our nation, and there are many business people out there offering to bring us loans on commercial terms, backed by sovereign guarantees.
- 77 Mr Speaker, Sir, these offers may seem attractive to a nation in need, but I can see danger lurking round the corner. If we do not exert control over our borrowings, we could end up in severe financial problems fairly quickly. Many of the loan proposals we are receiving require fairly immediate repayment coupled with guarantees against our oil revenues. If we took all of them on, I can assure you that we would soon have no money flowing into the Treasury with which to pay salaries, as our oil revenues would be guaranteed against our debts.
- 78 I have therefore pledged to His Excellency the President that I will only source 'good' loans to finance our budget and our development projects. This means loans that are offered at reasonable interest rates, and for which repayment will be made over a period of several years. I also pledge to you that I will abide by the Constitution and the Public Financial Management and Accountability Act, and present all proposed new borrowings to you for approval.
- 79 On this basis, consistent with the resource envelope I have presented to you today, I hereby wish to request your approval for the following loans to support the expenditures laid out in the 2014/15 Budget.
- 80 Ten million dollars (USD 10 million) from the World Bank for the South Sudan Health Rapid Results Project, which is supporting health service delivery to over 3 million households in Jonglei and Upper Nile State. This loan will provide additional financing to an already existing project grant.
- 81 Twenty one million dollars (USD 21 million) from the World Bank for the Safety Net and Skills Development Project. The project will provide access to income opportunities and temporary employment to 25,000 poor and vulnerable households in Jonglei state, Warrap state, Eastern Equatoria state, and Central Equatoria state.
- 82 Eighty million dollars (USD 80 million) from the World Bank for the South Sudan-East Africa Regional Transport Trade and Development Facilitation Program. This project

will tarmac the Kapoeta-Narus section of the Juba-Nadapal Road, lay fibre optic cables and facilitate trade and institutional development.

83 Mr Speaker, Sir, all these loans have been approved by the World Bank Board, and so all that remains is the approval of this House for them to become effective. All of them will disburse over a number of years, and they will all be repaid on highly concessional terms. The total repayment period for each of them is 40 years. No principal repayments are required in the first ten years – this is known as a ‘grace period’. The charge payable on the withdrawn balance is 0.75% per year, and a maximum 0.5% per year for the un-withdrawn balance.

84 Mr Speaker, Sir, you will not find loans on any better terms than these. So if you are persuaded, as I am, that these loans will contribute to the development of the South, I request you to approve them.

85 Mr Speaker, Sir, I also wish to request your approval for a loan from China for Juba airport. This loan amounts to one hundred and fifty million dollars (USD 150 million), and will be provided by China Exim Bank through a project loan facility that operates at an interest rate of three and a half percent above LIBOR, and has a maximum repayment period of 15 years. The loan will be secured against oil sales.

86 Finally, consistent with the resource envelope, I wish to request that you approve oil advances amounting to one billion dollars (USD 1 billion), to enable us to finance the budget allocations I have presented to you today. The advances will be provided by the oil production companies, for repayment against our oil sales in subsequent financial years.

87 Mr Speaker, Sir, I will, during the course of the financial year, continue to seek ‘good’ loans for financing development projects. In the event that such loans, on favourable terms, are identified, I will present them to you for approval, along with a Supplementary Budget indicating how the borrowed funds are to be allocated.

Conclusion

88 Mr Speaker, Sir, I have taken a lot of your time, but I thought it was important to explain the fiscal constraints under which we are currently operating, and the rationale for our budget allocations. I also wanted to explain the measures I am instituting to strengthen budget execution. The proposed allocations to Arrears Fund

and the Contingency Fund will help us cater for the unanticipated expenditures which could otherwise destabilise budget execution. I also wanted to bring greater transparency to the issue of Government indebtedness and proposed borrowings than has previously been the case.

89 Mr Speaker, Sir, in conclusion, allow me to table the draft 2014/15 National Budget, the 2014/15 Appropriation Bill and the 2014/15 Financial Bill for consideration and approval by this House.

90 I commend it to you. Thank you for your kind attention.

Budget Speech Annex: GRSS debt position

1 - DEBTS OUTSTANDING AS AT 1ST JULY 2013				
External	USD	Euros	SSP	
CNPC	350,000,000		1,036,805,000	
Trafigura	200,000,000		592,460,000	
Norinco	116,873,538		346,214,482	
Total			1,975,479,482	
Domestic				
BoSS Loans (SSP)			1,350,000,000	
BoSS Loans (FX)	71,625,037	24,961,935	286,119,587	
BoSS Recapitalisation Bond			1,917,373,479	
Commercial Bank Treasury Bills			1,061,505,750	
Total			4,614,998,816	
Total Debts Outstanding			6,590,478,298	
2 - LOAN DISBURSEMENTS JULY 2013 - JUNE 2014				
External	USD	Euros	SSP	
CNPC	500,000,000		1,481,150,000	
Total			1,481,150,000	
Domestic				
BoSS Loans (SSP)			3,300,000,000	
Commercial Bank Treasury Bills			120,270,000	
Last Resort Loans			187,837,500	
Total			3,608,107,500	
Total new borrowings			5,089,257,500	
3 - LOAN REPAYMENTS JULY 2013 - JUNE 2014				
External	USD	Euros	SSP	
CNPC	602,535,308		1,784,890,344	
Trafigura	127,770,953		378,495,894	
Norinco	116,873,538		346,214,482	
Total			2,509,600,720	
Domestic				
BoSS Loans (SSP)			1,600,000,000	
Total			1,600,000,000	
Total loan repayments			4,109,600,720	

4 - DEBTS OUTSTANDING AS AT 25th JUNE 2014 (including interest)			
	USD	Euros	SSP
External			
CNPC	256,125,956		758,721,919
Trafigura	77,646,226		230,011,414
Total			988,733,333
Domestic			
BoSS Loans (SSP)			3,141,500,000
BoSS Loans (FX)	73,773,788	25,710,793	286,119,587
BoSS Recapitalisation Bond			1,974,894,683
Commercial Bank Treasury Bills			1,217,229,022
Last Resort Loans			193,472,625
Total			6,813,215,918
Total Debts Outstanding			7,801,949,251
5 - LOANS COMMITTED BUT NOT DISBURSED			
	USD	Euros	SSP
World Bank (LGSDP Project)	50,000,000		148,115,000
Total			148,115,000