

THE ANTI-CORRUPTION AGENDA: USING PUBLIC FINANCIAL MANAGEMENT TO BUILD CREDIBLE INSTITUTIONS

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Framing the Issue

For any government, credible institutions are built by effective public financial management and the key to the latter is budgeting. Like other governments, the Government of South Sudan (GoSS) must manage scarce public resources efficiently and allocate them in a socially equitable manner. The national budget is the primary mechanism in which the GoSS can ration scarce public resources among all the agencies that provide citizens with critical public goods and services. Although mechanisms for effective public financial management in the country are still under construction and are somewhat weak, the country has shown movement in the right direction. This is evidenced by the fact that the GoSS has made budgeting a key program area in its most recent development plan, the South Sudan National Development Plan 2011–2013. More evidence that South Sudan is making progress on its effort to manage public resources efficiently is the recent adoption of the Medium-Term Expenditure Framework to deal with unexpected changes in macroeconomic conditions, such as the loss of significant revenues from oil and rapidly declining foreign reserves (Ministry of Finance and Economic Planning 2012). The target deadline for a published budget using the framework is June 2012.

What's at Stake?

In response to the loss of a bulk of government revenues, mostly from the oil sector, the Ministry of Finance and Economic Planning has released an austerity budget that has reduced allocations in virtually all public sectors. In presenting the budget to the parliament in March 2012, the minister of finance and economic planning, Kosti Manibe Ngai, stated that there would be cuts in overall government spending, ranging from 10 percent in allocations to the Ministry

of Defense to 85 percent in allocations to the South Sudan Reconstruction and Development Fund, Local Government Board, Employees, Justice and Public Grievance Chambers (GoSS 2012). These budget reductions could make it much more difficult for the GoSS to provide essential public goods and services, especially to vulnerable populations, such as refugees returning from the Republic of Sudan and unemployed youth in urban centers.

One of South Sudan's most important objectives regarding public finance management is for the GoSS to significantly improve the country's Public Expenditure and Financial Accountability assessment (PEFA) scores. PEFA assessments are conducted by the World Bank to determine and improve the status of recipient countries' public expenditure and financial management systems. Currently, the assessment remains incomplete and, in its initial PEFA assessment, the World Bank stated that South Sudan published only 50 percent of its expenditures. The GoSS has been reluctant to release information on oil revenues, supposedly because of security concerns. It has blamed the now defunct Government of National Unity (GNU) for sparse information in the most recent audit report (fiscal years 2005/2006) to the South Sudan Legislative Assembly. The GNU was the government for the interim period before independence, when South Sudan was an autonomous region known as "Southern Sudan," but was still part of the Republic of Sudan. The government of the autonomous southern region excluded some of its non-oil revenue from the balance sheets as well. The Sudan Public Expenditure Review (2007), which includes autonomous Southern Sudan, commented that some sources of government revenue appeared to be off-budget, including non-tax income for ministry services, police registration fees and travel taxes. More recently, the

U.K.'s Department for International Development reported similar results in a fiduciary risk assessment to the GoSS in January 2012, stating that expenditures did not correlate with the policy priorities of the country's National Development Plan (NDP). Additionally, considerable in-year reallocations have occurred and the cash management systems have not been adhered to.

Other activities listed by the NDP to improve budgeting include enacting key financial management legislation, improving state allocation and monitoring, and effectively confronting corruption within the GoSS. During the March austerity budget speech, the minister of finance announced that the Public Financial Management Bill would be enacted into law. However, that legislation is as yet to be posted on the GoSS website for public review. Thus, it is difficult to determine how effective it will be or if it is even being implemented. Additionally, according to the NDP, the GoSS has yet to devise and implement a comprehensive anti-corruption program. However, a partial anti-corruption plan that requires civil servants and politicians to declare their assets is underway. So far, according to NDP baseline reports, only about 26 percent of civil servants and political elites have completed official forms declaring their assets. However, a recent article in the *Sudan Tribune* shows that more public officials are making efforts to comply with the law regarding asset declarations (Sudan Tribune 2012).

In an effort to minimize corruption and financial malfeasance in the public sector, the GoSS has also created expenditure limits and plans to launch an electronic public financial management system, as well as improve tax revenue collections. In fact, recent tax revenue collection upgrades have already reportedly led to a 40 percent increase in non-oil revenue, according to the *News Agency of South Sudan* press release on April 27, 2012. The central government's transfer of public funds to states, a key area for the mismanagement of funds, has been given high priority according to the NDP matrix. By 2012, the GoSS expects to be able to perform at least one monitoring visit to each of the 10 states to ensure that funds have been properly distributed and used. Yet, under the listed sub-activities for state monitoring of government transfers, the construction of a headquarters building is given the first priority and has the largest cost allocation, not the required monitoring visits.

Despite these efforts, the GoSS needs to provide a comprehensive anti-corruption program that is more closely tied into public finance improvement targets, such as meeting the indicators on the PEFA assessment. This program should be one that relies on effective legal constraints against civil servants and politicians, as well as competition in economic and political markets, with regular elections that allow citizens to remove corrupt politicians from power.

The GoSS must be given credit for building a Public Financial Management System from scratch. As the 2007 World Bank Public Expenditure Review Synthesis Report for Sudan (the inclusive Sudan, under the GNU) reported, the former Sudanese Peoples' Liberation Movement administration, the organization from which the GoSS evolved, oversaw only \$100,000 in funds (World Bank 2007). Now the GoSS is a multi-sector government that has since 2011 collected hundreds of millions of U.S. dollars in oil revenues. With increased public revenues, also comes increased risk of bureaucratic corruption and financial malfeasance. Nevertheless, governments, even those in their embryonic stages of development such as the GoSS, must be accountable to the people and the constitution. This is necessary in order to minimize bureaucratic and political corruption and other forms of malfeasance in the management of public resources.

The GoSS is heading in the right direction, in terms of prudent budgeting, especially if it remains on schedule to produce a budget using the Medium-Term Expenditure Framework (MTEF). Ideally, the MTEF links policymaking to planning and budgeting and provides budgeting with a medium-term perspective. It also effectively constrains policy choices in order to enhance long-term development. This approach to budgeting should increase the ability of the government to respond to changes in macroeconomic conditions, expected revenues, program needs and the government's spending policies. The GoSS otherwise may be tempted to deviate from the principles elaborated in the economic and financial plan.

The introduction of expenditure limits, electronic management and improved tax revenue systems provide evidence that President Salva Kiir Mayardit's administration is working toward increased public accountability. However, baseline indicators in the NDP state that no cash management systems

are currently enforced. The NDP target for 2012 is for 75 percent of GoSS agencies to adhere to quarterly spending limits. Implementation of electronic systems will help enforce this target by enhancing the ability of spending units to produce timely reports of their activities instead of waiting until the end of the month or quarter. The use of such technologies should minimize the ability of government agencies to malinger, deviate from their budgets or create deficits. Tax revenue collections will also benefit from the shift to e-systems since taxation is another area of government operations that is burdened by corruption in virtually all African countries. Unless South Sudan's tax collectors are forced to operate in a more accountable and efficient manner, they, like their counterparts in the rest of Africa, are likely to manipulate the system to enrich themselves. Although, the austerity budget speech of 2012 reported evidence of tax revenue streamlining and significant improvements in tax collections.

Despite these actual and proposed improvements to the public finance system, the GoSS's commitment to transparency in public operations remains an area of concern. Especially troublesome are the PEFA findings that the GoSS continues to maintain off-budget accounts. In addition to the failure to provide the public with adequate information on oil revenues, the GoSS has not been providing effective monitoring of the allocations to states. No public institution, no matter its mission, must be allowed to maintain off-budget accounts. Failure to maintain budget comprehensiveness can prevent the government from devoting public resources exclusively to meeting societal priorities, makes it extremely difficult for the government to have full legal control of public resources, and significantly constrains the government's ability to operate in an accountable and transparent manner. The South Sudan parliament currently wants to maintain extra-budgetary funds (EBFs) and exclude oil revenue from the national budget. It is critical for South Sudan to avoid EBFs and report oil revenues to ensure that budgetary comprehensiveness is maintained. The fact that the GoSS has prioritized monitoring and effective allocation at the state level shows an initial commitment to significantly improve its budgeting process and to uphold development priorities. However, the austerity budget contains significant reductions in allocations for the development of sub-national governments. Instead, the NDP has committed more money to the con-

struction of facilities for the central government in Juba and significantly less for monitoring and helping bring the government closer to the people through the creation and maintenance of subnational governmental units.

Policy Recommendations

South Sudan has made significant progress in managing the country's public resources. However, much remains to be done and, with the help of the international community coupled with full and effective consultation of the country's relevant stakeholders, the GoSS should be able to significantly improve its ability to efficiently manage public finances. In order to continue to improve public financial management, the GoSS needs to consider the following policy priorities:

- ***Deal effectively with corruption and rent seeking.*** Corruption and rent seeking are the two most important problems associated with budgeting and public financial management. The GoSS must continue to put in place mechanisms to minimize these growth-inhibiting behaviors. The first step in attacking weak spots in the current public finance management system is for the GoSS to facilitate the completion of the Public Expenditure and Finance Accountability assessment conducted through the World Bank. Weaknesses and challenges identified by the assessment should be used as a roadmap for improvements in order to make the system more efficient and effective. The GoSS can use the PEFA to help it meet the targets created by the NDP.
- ***Maintain prudent budgeting principles.*** The GoSS should not deviate from its plan to use the MTEF to produce a budget by June 2012. Strict adherence to this timeline is especially important in light of the recent austerity measures and South Sudan's tenuous relations with the Republic of Sudan. Even with the need for heightened security, the GoSS needs to maintain budget comprehensiveness and report all revenue—from oil and non-oil sources. Current efforts to hold government agencies accountable via electronic management systems and expenditure limits must remain a priority. Deviations from the development plan and expenditure limits or the mainte-

nance of off-budget accounts could have catastrophic results for the economy and for the government's ability to make progress toward building credible institutions in South Sudan.

- ***Insist on public participation.*** Allowing citizens at the local level to have input into how public resources are allocated can minimize corruption and significantly improve public financial management. Since elites in Juba are unlikely to be familiar with or have accurate information on economic and social conditions in the rural areas, a decentralized form of allocation is preferable. However, while a decentralized system of allocation is considered more efficient, it can create unplanned liabilities for the central government. The GoSS needs to demonstrate to its citizens that it is making progress on creating laws and institutions that can effectively constrain local political jurisdictions and prevent them from abusing their authority to borrow and spend on behalf of their constituents.
- ***Maintain fidelity to the national development plan.*** For the GoSS, improved comprehensiveness in the design and implementation of public finance policies would significantly increase the people's trust in and acceptance of their government and the credibility that this creates augurs well for national security. To its credit, South Sudan has in place a realistic economic plan on which to base its budget, even if it could stand some polishing. What is critical, however, is that the GoSS should not be tempted to deviate from the principles elaborated in the NDP because of recent changes in its political economy—notably, the country's confrontation with the Republic of Sudan over the border and the subsequent loss in oil revenues.

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