

SOUTH SUDAN'S EXISTENTIAL FISCAL CRISIS AND POSSIBLE REMEDIES

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Abstract

This brief discusses key fiscal practices which should be addressed urgently to save South Sudan from chronic economic disasters. After many years of war with successive repressive regimes in Khartoum, South Sudan attained independence in 2011. The young nation immediately faced challenges in creating institutions and operating them in an environment of weak enforcement and compliance. Lack of robust coordination among key institutions of economic governance, weak oversight institutions encourage mismanagement of resources with impunity which partly accounted for the onset of the 2013 conflict. To provide steady resource needed for reconstruction and sustainable development investment and mitigate fiscal crises, the government of South Sudan needs to implement strategies conducive of healthier public finances, including expenditure control to avoid overspending, pruning agency-shopping and improving tax collections through administrative reforms. Building institutions is not a spontaneous act but rather a contextual endeavour, which exacts both time and resources.

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1 Introduction

Before Sudan attained independence in 1956, Southern Sudan (a region then) waged a war against Khartoum, capital city of Sudan, starting from 18 August 1955 (D'Agoot, 2013). This first civil war would continue until March 1972 when a peace accord was signed in Addis Ababa, Ethiopia. Southern Sudan enjoyed a relative peace from 1972 through 1983.

However, Khartoum reneged on some key texts of the Addis Accord and that led Southerners to wage another war starting in 1983 which would later conclude through long series of negotiations, culminating in what is popularly known as the Comprehensive Peace Agreement (CPA) signed in Kenya on 9 January 2005 between the Government of Sudan (GoS) and Sudan People's Liberation Movement/Army (SPLM/A). One key protocol in the CPA was a Referendum option to be held at the end of six years of interim period. In an internationally monitored referendum, Southern Sudanese chose to part ways with what they saw as an oppressive regime on 9 January 2011. Because Khartoum made unity unattractive, "The Land of Great Abundance" as South Sudan national anthem states, declared independence on 9 July 2011.

Issues of good governance, equity in development, rule of law, observance of budget appropriations acts, economic diversification, attention to public opinions, developing viable financial sector, policy stance on financial inclusion, and enforcement of public procurement policy, have fallen through the cracks in Juba, capital city of South Sudan. For these reasons and many more, Government cannot raise enough revenue internally because it has limited options: its financial market is nonexistent and banking sector is thin and shallow (Garang, 2015a). Critics consider these banks as "advanced" foreign exchange bureaus because majority of them depend on remittances and transfer services.

Years after independence, South Sudan continues to greatly endure many yet avertable fiscal deficiencies (National Audit Chamber, 2011a,b). Serious mismanagement of public finances, especially the flagrant disregard to Appropriations Acts is largely manifested. To watchers of fiscal dominance in South Sudan, fiscal malfeasance or fiscal irresponsibility has been a theme throughout postwar period (Garang, 2015b).¹

Overspending of one government agency reduces the resources available to other agencies and hinders their ability to fulfill their mandate.

Fiscal malfeasance, which impedes enforcement of government policies, comes in many forms. It takes on the shape of horizontal imbalances among spending agencies and sectors. (National Audit Chamber, 2012) The Third Quarter Report for 2014/2015, for instance, continues to exhibit such divergence. (MoFEP, 2015) Report that Security sectors overspent their approved budgets, while other agencies are forced to underspend is real. Researchers across the methodological divides have discovered acute fiscal malfeasance in South Sudan. This has made it difficult to implement any approved budget.

Despite attempts made to restrain such practices, habituated inertia proved impervious to change (Garang, 2015b). Regardless of war or peacetime, Government agencies have consistently ignored the Public Finance Management and Accountability Act, 2011 (PFMAA 2011) (Government of the Republic of South Sudan, 2011).

Notwithstanding an unfavorable macroeconomic environment largely brought about by the conflict from 2013 through 2015 and later in July 2016, poor fiscal management, particularly, overspending persists. Crucially, fiscal malfeasance could prove a hurdle in the implementation of the Agreement on

¹This Period starts from 2005 when CPA was signed through implementation of ARCISS in 2016.

the Resolution of Conflict in South Sudan (ARCISS) in an environment of large secular spending, threatening arrears and a much squeezed resource envelope.² Putting in place a robust system of public financial management (PFM) is a distant reality as the newly constituted Transitional Government of National Unity (TGoNU) takes form while economic outlook appears uncertain.

In charting a way forward, answers to pertinent and persistent questions must be sought: what are the pressing fiscal crises in South Sudan? What can be done to address these issues after formation of long-awaited TGoNU and following spate of conflict on July 2016?

The overarching objective of this paper is to: (i) identify urgent fiscal crises, (ii) recommend policy options and in the process, (iii) contribute to fiscal prudence in South Sudan.

The brief proceeds as follows. Section II covers the genesis of fiscal crises in South Sudan; Section III examines five fiscal crises that demand immediate attention; Section IV outlines why these issues matter. Finally, Section V takes a critical look at what can be done and concludes.

2 Genesis of fiscal crisis

After independence in 2011, disagreements with Khartoum led to the shutdown of oil in 2012 and that dealt a huge blow to a petro-dollar economy of South Sudan. And since misfortunes never come singly, another disagreement within the SPLM led to internal conflict on 15 December 2013, further wreaking havoc on the economy in addition to shattering innocent lives. Finally, national revenues shrunk due to falling global oil prices and weakening oil production in South Sudan – as some wells were destroyed at the resumption of the conflict in July 2016. All the three counter factors are depicted in the

following schematic (see Figure 1).

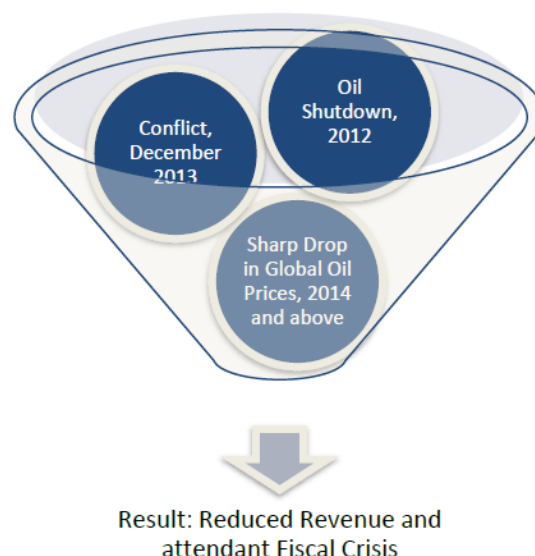


FIGURE 1: South Sudan economic crisis originating from the triple crises

Stated differently, anyone sympathetic to fiscal plight of South Sudan would point to a history of liberation as the lone culprit and what others refer to as “curse of liberation” (Deng, 2012). But at the moment, the culture of impunity reigns high because former warlords are in charge of national affairs; salaries are not paid on time because civil servants lack voice, singular dependence on oil revenue has hampered efforts to raise more domestically, certain militant institutions spend intensely (Garang, 2015b) and macroeconomic uncertainty sends inflation hovering over 730 percent by August 2016 (National Bureau of Statistics, 2016).

Let us now turn to what we consider as five pressing fiscal problems.

3 Five urgent fiscal problems

There are many chronic economic problems hounding South Sudan. Some are macro in nature, including recurrent fuel shortage, runaway inflation and fiscal deficit while some are administrative or micro in nature, including fiscal malfeasance and overlaps over which agencies or public institution collects

²In real terms, the 2016/2017 budget pales in comparison to, say 2014/2015 or 2015/2016 budget.

which taxes. Without laboring to classify these in detail, the brief considers the following as contributing to fiscal difficulties in South Sudan:

1. Fiscal malfeasance;
2. Secular cumulative expenditure arrears in the public sector;
3. Agency-shopping;
4. Poor revenues collection;
5. Non-diversification of the Economy

The next sections provide supporting evidence that illustrates how each of the above issues is a fiscal crisis.

3.1 Fiscal malfeasance

Fiscal malfeasance takes different forms, including asset grab, a situation in which Government officials take properties such as cars or computers upon relief from their public portfolios. Spending on items not budgeted for and improperly reconciling accounts at the end of the year are some of this malady. The National Audit Chamber Report illustrates this further in 2011, the most recent year available. Out of total payroll cost totaling to \$ 14.5 million, \$ 1.9 million was paid without any record of equivalent services rendered in return (See [National Audit Chamber, 2011a](#), p. 47). These discrepancies in the audits have often led the Auditor General to issue his opinion in a sizzling tone, maintaining that the Financial Statements of the Government do not represent true and fair financial position of institutions in any fiscal year. However,

there have been no requisite actions to address such malpractices and correct course.

Misappropriation of public resources, just by way of example, could be deduced from the ways in which selected agencies are permitted to overspend while others under-spend. A critical scrutiny of the budget, for example, tells that the public administration, rule of law and security spending, for example, exceed by wide margins their quarterly approved budget in the fiscal year 2014/2015.

Indeed, fiscal malfeasance can also be inferred from the way in which agencies disregard Appropriation Acts through over-spending own budget (see [Table 1](#)).

[Table 1](#) can be read as follows: 5,523% means that, in 2006, MoFEP spent 55.23 times its annual budget. This represents US \$ 298,799,822 of overspending. Overspending or under-spending varies from year to year or from one agency to another. This paper just chooses one example in 2006 to illustrate the point.

While many overspend, few agencies such as public health underspend their annual budgets (see [Table 2](#)). Health is important and if it is underfunded, then it is a serious obstacle to human capital formation. Moreover, insufficient spending on health suggests that the ability of the MoFEP to spend more than initially budgeted comes at least in part from its ability to divert funds that were earmarked for other purposes.

While [Table 1](#) shows fiscal indiscipline in

TABLE 1: Signal of fiscal indiscipline (in USD)

| Government Agency | Budget 2006 | | Difference (2)-(1) | |
|-------------------------------|--------------|-----------------|--------------------|-----------|
| | Approved (1) | Expenditure (2) | Amount | Share (%) |
| MoFEP | 5,409,945 | 304,209,767 | 298,799,822 | 5,523 |
| MoEWCT | 3,831,926 | 29,965,960 | 26,134,034 | 682 |
| Local Government Board | 1,053,140 | 8,130,994 | 7,077,854 | 672 |
| SS Relief Commission | 4,991,150 | 30,695,564 | 25,704,414 | 515 |
| SS Human Rights Commission | 168,045 | 875,789 | 707,744 | 421 |
| Council of Ministers | 4,260,968 | 21,868,236 | 17,607,268 | 413 |
| Min. Tele and Postal Services | 1,796,219 | 7,611,268 | 5,815,049 | 324 |

Source: [National Audit Chamber \(2011b\)](#)

Note: SS stands for Southern Sudan; Tel refers to telecommunications and Min refers to Ministry while MoEWCT stands for Ministry of Environment, Wildlife Conservation and Tourism. Finally, MoFEP stands for Ministry of Finance and Economic Planning.

TABLE 2: GoSS budget to actual expenditure, December 31, 2007 (Amount in USD)

| Sector | 2007 Budget | Total Expenditure | Margin |
|---|---------------|-------------------|-------------|
| Accountability | 19,775,000 | 35,400,108 | -15,625,108 |
| Economic Functions | 43,500,000 | 19,269,698 | 24,230,302 |
| Education | 111,750,000 | 115,610,917 | -3,860,917 |
| Health | 85,500,000 | 33,339,498 | 50,160,502 |
| Infrastructure | 308,795,074 | 91,367,675 | 217,427,399 |
| Natural Resources and Rural Development | 58,750,000 | 54,249,549 | 4,500,451 |
| Public Administration | 65,051,965 | 116,382,596 | -51,330,631 |
| Rule of Law | 97,815,846 | 127,563,016 | -29,747,170 |
| Security | 554,773,060 | 591,268,429 | -36,495,369 |
| Social & Humanitarian Affairs | 17,900,000 | 18,804,669 | -904,669 |
| Transfers to State | 124,000,000 | 206,360,674 | -82,360,674 |
| Reserves | 48,849,555 | - | 48,849,555 |
| Discrepancies/suspense | - | 114,937,078 | - |
| Total | 1,534,460,500 | 1,524,553,907 | 124,843,671 |

Source: **National Audit Chamber (2007)**.

Note: As depicted above, health and other less militant agencies turn to spend less than originally allocated; figures with negative sign shows overspending.

2006, Table 2 also demonstrates the same in subsequent years, including 2007. But owing to so much revenue coming from oil years after CPA and before conflict in 2013, education sector, unusually overspent in that year, and so are militant agencies such as public administration, rule of law and security sectors.

3.2 Late payments in the public sector

In fiscal year 2015/16, public employees, except the army, have not been paid on time their salaries for three months (March, April, and May 2016; the first payments for these salaries came on 28 June 2016). Late payment of salaries has been a norm rather than exception, though it got worst this year due to lack of liquidity (**Sudan Tribune, 2016**). The looming economic crisis has led other professional bodies such as judges or doctors to contemplate closure when they failed to plead with MoFEP to raise resources to pay them. Five public universities have also closed, citing salary arrears, unpaid medical allowances and other gratuities. They reopened later after settlement of some past salaries; staff medical arrears are yet to be settled.

History of paying salaries late in South Sudan can be traced back to 2012. Imprudent shutdown of oil production in 2012 gave birth to austerity measures, locally known as Kosterity in reference to Kosti Manibe, the finance minister at the time (**Akongdit and Mohamed, 2012**). The Oil shutdown hastened habits of paying salaries late to public service employees. By popular account, oil shut down in 2012 was a deliberate plan by the Government of South Sudan because it could not agree with Khartoum over transit fees. Thinking shutdown would force Khartoum to lower transit fees, Juba made a strategic mistake.

However, South Sudan saw the need to start production and it made efforts to renegotiate with Khartoum hiatus. After signing the September 2012 Cooperation Agreement with Khartoum, South Sudan turned on the oil tap and economic situation improved a little bit. Hence, salaries came on time for most of 2013 when oil production resumed.

Nevertheless, economic situation deteriorated once again with the onset of conflict in December 2013 and that set in motion

another chapter of late payments. So even with TGoNU in place, salaries are delayed. This fiscal crisis has already caused low morale, and absenteeism, which can be conjectured to mean low productivity in the public sector.

In other words, late payments of salaries have become another Achilles' heel to South Sudan productivity. It is a fiscal problem that calls for an urgent rectification.

3.3 Agency-shopping

Simply defined, agency-shopping refers to a situation in which the same function, including credit allocation to private sector, food security, or infrastructure projects, gets assigned to different government agencies. Take for instance, the case in which foreign exchange bureaus used to receive large sums of hard currencies from Bank of South Sudan (BSS) with an express aim to lend to the public to meet demand in priority areas. Such was a normal allocation intended to enhance economic activity. However, the government imposed upon the Central Bank an artificial exchange rate that gave significant benefits to those who were allocated funds at that rate and sell them to economic operators at the market rate. This arrangement got terminated later when some agents colossally abused the system to enrich themselves. By hoarding hard currency and engaging in spot trading (buying and selling dollars

by currency dealers) at parallel market, receiving or qualifying agents failed to meet the market demand.

Owing to an underdeveloped and post-conflict environment with weak market mechanisms in South Sudan, rent-seekers elegantly devised other ways to abuse public resources. They conceived, for example, of a new scheme in the name of a letter of credit (LC). BSS initially managed this line of credit because providing liquidity is its mandate. Whereas BSS used to be the only agency responsible of creating money, it however, must do so without depressing the interest rate and while keeping inflation low. This creates a discipline of its own regarding the volume of money in the economy.

Nevertheless, when tiered rent-seekers hotly contested the LC arrangement, the Ministry of Trade, Industry and Investment (MTII) in South Sudan assumed allocation role. The Executive, in all these trials, took upon itself the role of managing credit facility. The same activity was eventually returned to BSS upon learning that the LC system has allegedly failed in the hand of MTII.

Through this process of finding the "appropriate" agency to direct foreign exchange to the real economy, South Sudan lost millions of dollars to unscrupulous market players. There is nothing substantial to show for even after spending close to \$1 billion

TABLE 3: Sampled allocation of credit lines in South Sudan, 2012-2015

| Name of Institution | Credit Facility (in \$) | |
|---|-------------------------|------------------|
| | Qatar National Bank | Stanbic CFC Bank |
| Ministry of Trade, Industry and Investment | 357,256,059 | 80,000,000 |
| Ministry of Petroleum and Mining | 155,525,719 | 80,000,000 |
| Ministry of Health | 38,000,000 | 20,000,000 |
| Ministry of Housing and Physical Planning | 38,000,000 | 20,000,000 |
| Ministry of Agriculture, Forest, Coop. & RD | 30,000,000 | |
| Former Ten States of South Sudan | 132,000,000 | |
| South Sudan Beverages and Factories | 24,500,000 | |
| Two Special Administrative Areas | 8,000,000 | |
| Sum | 793,281,778 | 200,000,000 |
| Grand Total (from QNB & CFC Stanbic) | 993,281,778 | |

Source: [National Audit Chamber \(2015\)](#).

Note: Coop. & RD stand for Cooperative and Rural Development. Jonglei, Unity and Upper Nile States received 30 million dollars each; 7 states got 6 million dollars each. Second, Table 3 depicts all government agencies or institutions that used to receive LC with intent to meet demand for hard currency.

through the LC system (see Table 3).

Despite the fact that companies have received allocation to import, a number of these agents failed to deliver goods as agreed. For instance, the data on the LC from the Ministry of Health indicated that 11 companies which received the LC in amount of \$3.4 million to import pharmaceuticals have failed to supply the drugs as required by the terms of the Letters of Credit.

The Government realigned exchange rate in December 2015 and it so happened that the same market players got involved. After exchange rate realignment or floating of South Sudanese pound in December 2015 (Bank of South Sudan, 2015), the same rational agents devised double dipping: getting allocation from various commercial banks and ending up selling dollars on black market or repatriating capital abroad. In other words, the same agents are shopping across the system to fleece state of its scarce resources (Garang, 2016).

In all, a sizable number of firms or agents have received credit but they failed to deliver what they were paid for. These failures show the extent to which economic actors have used government agencies as instruments for defrauding the state in South Sudan.

3.4 Poor revenues collection

Dominance of the oil sector in South Sudan economy has been unquestionable (See Basnett and Garang (2015) and Table 4).

TABLE 4: Dominance of the oil sector in the South Sudan economy (in % of Total Export)

| | 2009 | 2010 | 2011 | 2012 |
|-----------------|------|------|------|------|
| Non-oil exports | 3 | 3 | 2 | 22 |
| Oil exports | 97 | 97 | 98 | 78 |

Source: Basnett and Garang (2015); MoFEP (2015)

Note: Only percentages are provided; no real volumes given.

When oil was shut down in 2012, its share over total exports declined to 78 percent. This was followed by an economic downturn measured by GDP growth (see Figure 2).

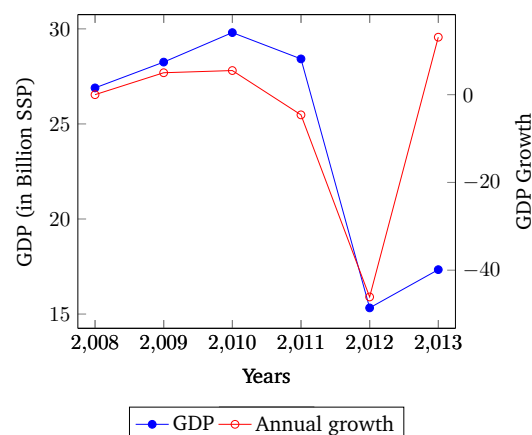


FIGURE 2: Oil shutdown and impact on South Sudan GDP

When oil could not generate enough revenue, insufficient effort was made to collect taxes and customs. This dichotomy has left a wide fiscal gap. The IMF Mission stated in its June 2016 Press Release that if nothing is done, fiscal deficit could reach close to \$1.1 billion or 25% of GDP in the fiscal year 2016/2017 budget (IMF, 2016).

Second, there is also a blurring line between what states collect and what national government should collect.³ The presence of this gray area increases the likelihood of misappropriation of tax proceeds, and could dampen the nation ability to finance budget and other development projects.

3.5 Non-diversification of the economy

Majority of the South Sudanese depend on agriculture as a main source of livelihood yet the government has not invested in agriculture as a potential source of employment, aggregate demand and social development

³South Sudan adopts federal system of governance; the number of states increased from 10 in 2015 to 28 now and counting.

(See [SPLM, 2012](#)). Although agriculture could sustain health through improved nutrition with further implications such as absorbing abundant labor and permitting cost-saving throughout the country, the sector remains largely neglected and undeveloped. When oil reserves is projected to be exhausted in two decades ([Government of the Republic of South Sudan, 2011](#)), the country must have a reliable economic base given its endowment in natural resources such as land and rivers, including Nile River. South Sudan ought to invest in its agricultural sector which already supports a sizable share of its population because 78 percent of the population depends on agriculture or animal husbandry for livelihood ([Southern Sudan Centre for Census Statistics and Evaluation, 2009](#)). Likewise large majority of South Sudan, 83 percent, lives in rural areas per the last census in 2008.

Of course, barriers to investment in agriculture include poor crop yield, political uncertainty which discourages foreign direct investment and poor land rights or contestability in land administration.

4 Implication of these problems

First, fiscal malfeasance impedes enforcement of government policies and has made it difficult to implement any approved budget. Weathering fiscal shocks has already proven difficult (See [Basnett and Garang, 2015](#); [Byaruganga, 2015](#)). Expenditures of the security sector and allied vocal spending agencies have starved other essential government activities. To curtail fiscal malfeasance, it is necessary to challenge the culture of impunity that permeates the government agencies.

Other scholars such as [Codato \(2006\)](#) and [Crescenzi \(2006\)](#), for instance, have argued that transition incurs uncertainty and it can lead to instability. It is possible a ruling party or opposing groups play such sort of games with different payoffs. It is likely that

some of those games repress certain groups and that breeds uncertainty. Hence, it is understandable that this type of behavior increases during this type of period, yet, it should be a cause for concern.

Second, agency-shopping deprives the economy off scarce foreign exchange and essential imports for both consumption and production purposes. The paper has already shown that LC was provided but ended up having no or little impact on the economy because such resources were diverted through agency-shopping.

Third, late salaries and cumulative arrears in the public sector have led to significant loss in worker's morale and by extension caused absenteeism. It thus places an immeasurable dent on productivity. Universities went on strike because professors, students and administrative staff have not been paid salaries for three months in a row ([Xinhua, 2016](#)). We must add that this increases social discontent with political leadership and managers of the economy.

Fourth, lack of economic diversification has already made South Sudan vulnerable to oil and other external shocks. Attempts to diversify the economy have been talked about but not in practice. Other sources of income and value-chain such as, timber, fishing, tourism and cassava growing, must be identified and scaled up as soon as possible ([Government of the Republic of South Sudan, 2014](#)).

Fifth, poor revenues collection has also made it difficult to finance budget. The fiscal year 2016/2017 budget, for example, is 40 percent short of the resource. Such is the fiscal deficit that has to be financed through other means, including selling treasury bills or securing loans from domestic or external sources.

In summary, points 4 and 5 are connected in the sense that a resilient public finance should be able to draw revenues from several

sectors. While lack of economic diversification cannot be attributed to poor public finance alone, it is reasonable to argue that a sound fiscal policy should foster diversification of the economic activities through targeted incentives.

5 Policy options

After several years of war with successive repressive regimes in Khartoum, South Sudan faced challenges in creating institutions able to provide steady resource needed to implement strategies conducive of sound public finances. This brief identifies five fiscal practices which impede the government ability to support the economy: agency-shopping, fiscal malfeasance, irregular revenues collection, non-diversification of economy, and late payment of salaries in the public sector.

To correct these fiscal problems, the brief highlights the following five policy recommendations:

1. Fighting fiscal malfeasance by holding agencies accountable for misuse of scarce public resources. This can be achieved by reforming and strengthening institutions such as Anti-corruption Commission and National Audit Chamber.
2. Curbing agency-shopping and assorted rent-seeking activities to salvage Government from insolvency and to build policy credibility by requiring competitive bidding for government services and by holding agency-shoppers accountable of their actions;
3. Paying salaries on time because doing the contrary impacts on morale, efficiency and productivity;
4. Providing strong incentives for the private sector and individuals (to distinguish the macroeconomic from the administrative measures) to diversify the economy from too much dependence on oil; diversify toward agriculture, fishing, timber and tourism industry;

5. Improving on non-oil revenue collection and equally warranting a clarity on which level of Government collects what taxes.

A strong political will is needed to enforce those recommendations and foster a culture of fiscal discipline in the management of scarce public resources. However, unfavorable macroeconomic environment such as falling global oil prices, the oil shutdown and recurrent conflicts, will further reduce the appetite for those reforms in the future. These suggest that implementing those recommendations is a logical thing to do. Otherwise, fiscal misconducts can perpetuate furthering of low productivity growth which will continue to undermine the macroeconomic stability and development in years to come.

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L'Afrique des Idées

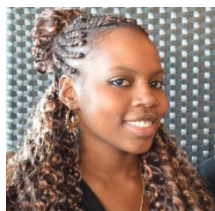
L'Afrique des Idées est un think-tank indépendant. Sa vocation est de mener des analyses et d'élaborer des propositions novatrices sur des sujets économiques, politiques et culturels liés à l'Afrique. Fondée en 2011 sur une approche basée sur l'afro-responsabilité, L'Afrique des Idées a pour ambition de s'imposer parmi les cercles de réflexion leaders en Afrique et en particulier dans l'espace francophone.

Un concept moteur : L'Afro-responsabilité

Afin de favoriser une meilleure compréhension des problématiques africaines, une réappropriation par les jeunes africains du discours sur l'Afrique et un engagement socio-économique porteur de croissance inclusive et durable, L'Afrique des Idées promeut le concept fort et innovant d'Afro-Responsabilité. Ni «afro-optimisme», ni «afro-pessimisme», l'«afro-responsabilité» répond à une logique différente: mieux comprendre les défis auxquels fait face le continent africain afin d'œuvrer à ce qu'il puisse les relever.

L'afro-responsabilité est sous-tendue par une conviction forte : dans un environnement complexe et en pleine mutation, le continent africain a besoin d'espaces d'échanges d'idées avec des jeunes de divers horizons, capables d'exprimer des avis équilibrés et des recommandations concrètes, puis de les partager avec le plus grand nombre.

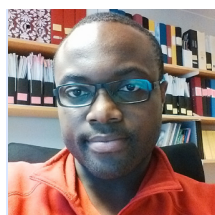
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