

# INTERNATIONAL MONETARY FUND

## **Eligibility to Use the Fund's Facilities for Concessional Financing— Republic of South Sudan**

Prepared by the Strategy, Policy, and Review Department, the Legal Department, and  
the Finance Department<sup>1</sup>  
(In consultation with the African Department)

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### **I. INTRODUCTION**

1. **Having become a Fund member in April 2012, South Sudan can now be considered for PRGT eligibility.** In February 2012, the Executive Board reviewed the framework for eligibility to use the Fund's concessional financing facilities and the list of PRGT-eligible countries.<sup>2</sup> During that review, Directors agreed to maintain the PRGT eligibility framework with a modification of the population threshold used to define small countries. Directors also decided to keep the list of PRGT-eligible countries unchanged. Under the framework to assess PRGT eligibility, decisions on entry onto the list of PRGT-eligible countries can be adopted in the period between reviews. As noted in the staff paper for the 2012 review of PRGT eligibility, given the available data, it was expected that South Sudan would be proposed for entry onto the PRGT-eligibility list after it had joined the Fund. Accordingly, this paper proposes that South Sudan now be added to the list of PRGT-eligible countries.

### **II. BACKGROUND AND SOUTH SUDAN'S ELIGIBILITY TO THE PRGT**

2. **South Sudan gained independence in July 2011 and the country faces huge development challenges.** After decades of civil war, the country's development indicators are among the lowest in the world. There is virtually no domestic production besides oil and subsistence agriculture. Oil accounts for 98 percent of government revenue and virtually all

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<sup>2</sup> See [Eligibility to Use the Fund's Facilities for Concessional Financing](#) and [The Acting Chair's Summing Up—Eligibility to Use the Fund's Facilities for Concessional Financing](#).

exports of goods and services. Economic institutions are weak, capacity levels are very low, and half of the population lives below the poverty line. At the same time, tensions with Sudan have increased after independence. Oil production was suspended in January 2012, and security and humanitarian concerns have escalated since then. At present, South Sudan's external public debt is negligible.<sup>3</sup>

3. **Available information confirms that South Sudan meets the criteria for entry onto the PRGT-eligibility list.** As foreshadowed at the February 2012 review: (i) the country's per capita gross national income, based on the latest available qualifying data, is estimated at US\$984 in 2010,<sup>4</sup> which is below the current operational IDA cutoff (US\$1,195 per capita for FY2013); and (ii) the sovereign does not have the capacity to access international financial markets on a durable and substantial basis.<sup>5</sup> On this basis, a decision to add South Sudan to the list of PRGT-eligible members is proposed for adoption by the Executive Board. The World Bank will be considering South Sudan's IDA eligibility in the near future.

4. **The Fund is committed to support South Sudan in the period ahead.** Over the past year, staff has been providing the authorities with policy and technical advice in a number of areas, including foreign exchange policy and reserve management, central bank organization, public financial management, fiscal revenue, and macroeconomic management. The Fund is also launching an important medium-term program of capacity building in the country, to be supported by a multi-donor trust fund. Adding South Sudan to the PRGT-eligibility list now would ensure the country can, in principle, use concessional Fund resources if the need for Fund financial support were to arise.

### III. FINANCING IMPLICATIONS

5. **The proposed addition of South Sudan to the list of PRGT-eligible countries will likely have a limited impact on the demand for the Fund's concessional resources.** Given South Sudan's relatively small quota (SDR 123 million or about 0.05 percent of total quotas), if the country were to seek financing under the PRGT, the impact on demand projections for PRGT resources would be modest. In addition, South Sudan is not eligible or potentially eligible for debt relief under the HIPC Initiative given that, as a newly created country, it

<sup>3</sup> Moreover, in the context of South Sudan's secession, all obligations to the Fund remained with Sudan as the continuing state. See also [Initiative for Heavily Indebted Poor Countries \(HIPC\) and Multilateral Debt Relief Initiative \(MDRI\) Status of Implementation](#), IMF Policy Paper; November 8, 2011.

<sup>4</sup> World Bank data on South Sudan's per capita GNI using the ATLAS methodology are not yet available (South Sudan is a new country and backward-looking data on the exchange rate are not available). For the purposes of the assessment of South Sudan's PRGT eligibility, staff is using data on South Sudan's per capita GNI that was published by the [National Bureau of Statistics of the Republic of South Sudan](#). This is consistent with the PRGT-eligibility framework, which provides that assessments of per capita GNI will normally be based on World Bank data using the ATLAS methodology, but other data sources may be used in exceptional circumstances, such as when World Bank data on the member's GNI are not available.

<sup>5</sup> For details on eligibility criteria, see [Eligibility to Use the Fund's Facilities for Concessional Financing](#). South Sudan's population is above 1.5 million, and therefore the eligibility criteria for small states do not apply.

cannot meet the HIPC indebtedness criterion which is bound by the end-2004 and end-2010 cut-off dates.<sup>6</sup> Similarly, it is also not eligible for MDRI debt relief which is based on income levels and outstanding debt to the Fund both as of 2004.<sup>7</sup> In any case, South Sudan has no outstanding obligations to the Fund and hence no credits that could be covered by the Fund's participation in the provision of HIPC and MDRI debt relief.

#### **IV. PROPOSED DECISION**

**The following decision, which may be adopted by the majority of the votes cast, is proposed for adoption by the Executive Board:**

In light of the criteria set forth in Decision No. 14521-(10/3), adopted January 11, 2010, the list annexed to Decision No. 8240-(86/56) SAF, shall be amended by adding the Republic of South Sudan to that list.

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<sup>6</sup> See Section III, paragraph 1 (d) of the PRGT-HIPC Trust Instrument requiring a determination of unsustainable debt based on both end-2004 and end-2010 data. For IDA, the end-2004 and end-2010 cut-off dates bind both the income and indebtedness HIPC eligibility criteria, which pose additional constraints to South Sudan's HIPC eligibility.

<sup>7</sup> PRGT eligibility would make South Sudan eligible for PCDR debt relief in the event of an exceptional qualifying catastrophic disaster. South Sudan has presently no outstanding obligations to the Fund that could be covered by Post-Catastrophe Debt Relief (PCDR).