Executive Board Minutes 22/72-1

July 29, 2022–10:00 a.m.

Republic of South Sudan—2022 Article IV Consultation

Documents: EBS/22/68, and Cor. 1, and Sup. 1, and Sup. 2

Staff: Hobdari, AFR; Gray, SPR

Length: 53 minutes

ISSUED: May 8, 2023
APPROVAL: May 15, 2023

CEDA OGADA
Secretary

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[1] Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary "gray" or "buff" statements by Executive Directors and staff's responses to Directors' technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair's "sense of the meeting" or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF's Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors agreed with the thrust of the staff appraisal. While welcoming the projected medium-term economic recovery, they noted the negative short-term outlook and large downside risks due to external shocks and Russia's invasion of Ukraine, political uncertainty, and extreme flooding that is exacerbating an already high level of food insecurity. In this context, they underscored the importance of advancing the implementation of the 2018 peace agreement as well as of continuing prudent macroeconomic policies to maintain economic stability and debt sustainability while enhancing social spending, implementing governance and transparency reforms, and building resilience.

Directors welcomed the reforms implemented under the Staff Monitored Program (SMP) including improvements in macroeconomic management and the exchange market liberalization reforms, which have led to the unification of exchange rates and restored price stability. To sustain these reforms, they encouraged the authorities to establish the needed safeguards including replenishment of international reserves, maintaining steady reserve money growth, and gradually expanding the central bank's toolkit and capacity. Furthermore, Directors encouraged the authorities to press ahead with their plan to address the issue of undercapitalized, non-systemic, banks. AML/CFT reforms in coordination with the Financial Action Task Force are also important.

Directors encouraged the authorities to consolidate the gains under the SMP by keeping money growth stable and managing public finances prudently. They noted the delays in the implementation of public finance management reforms and encouraged the authorities to re-double efforts to safeguard the integrity of the budget process and debt management, including avoiding the recurrent accumulation of salary arrears. To that end, Directors urged the authorities to enhance transparency and accountability in the management of public finances, especially in relation to the use of oil revenues. These include publishing regularly budget implementation reports, establishing mechanisms to ensure that spending is consistent with the approved budget, and protecting budgeted expenditures—most notably public sector salaries. Directors also urged the authorities to complete the audit of all outstanding external loan agreements and guarantees and to publish the results of the audit as targeted under the SMP. Directors noted that the authorities have indicated their intention to apply for an ECF alongside the final review of the SMP. While some Directors welcomed such a request, most Directors agreed that discussions about such a program would require satisfactory completion of the SMP and demonstrated capacity to implement a UCT-quality program, with a few Directors emphasizing the need for further progress on governance safeguards to monitor the use of funds.

Directors agreed on the importance of financial and CD support from the international community and development partners in light of the very difficult humanitarian situation, significant fiscal gaps to address the country's development needs, and limited implementation capacity. They welcomed the closer IMF engagement, particularly through IMF CD support. Directors were also encouraged by the authorities' commitment to pursue economic reforms with a view to unlocking further support from donors and the international community.

It is expected that the next Article IV consultation with the Republic of South Sudan will be held on the 12-month cycle.

EXECUTIVE BOARD DECISION

The Executive Board took the following decision:

Republic of South Sudan—2022 Article XIV Consultation

1. The Fund takes this decision in concluding the 2022 Article XIV consultation with the Republic of South Sudan.

2. The Republic of South Sudan continues to maintain a measure that gives rise to a restriction on the making of payments and transfers for current international transactions under the transitional arrangements of Article XIV, Section 2. The measure maintained under Article XIV, Section 2 is the imposition of absolute ceilings on the availability of foreign exchange for certain invisible transactions (travel, remittances for living expenses of students and families residing abroad, transfers of salaries by foreign workers). The Fund encourages the Republic of South Sudan to eliminate the measure maintained under Article XIV, Section 2 as soon as its balance of payments position permits. (EBS/22/68, 07/20/22)

Decision No. 17306, adopted
July 29, 2022

EXECUTIVE BOARD ATTENDANCE[2]

G. Gopinath, Acting Chair

Executive Directors	**Alternate Executive Directors**
I. Mannathoko (AE)	
	M. Sidi Bouna (AF), Temporary
	L. Herrera (AG)
	A. Grant (AP)
	R. Velloso (BR), Temporary
Z. Zhang (CC)	
	J. Romero (CE)
	F. O'Brolchain (CO)
	H. Azal (EC)
A. Buisse (FF)	
	H. Koh (GR), Temporary
	C. Amarasekara (IN)
	M. Massourakis (IT)
	M. Kashima (JA)
	K. Osei-Yeboah (MD), Temporary
	P. Al-Riffai (MI), Temporary
	D. Tevdovski (NE), Temporary
	A. Marcussen (NO)
	A. Biriukov (RU), Temporary
	T. Abalala (SA), Temporary
	F. Mochtar (ST)
	T. Abdygulov (SZ), Temporary
	C. Clapham (UK), Temporary
	C. Westphal (US), Temporary

G. Bauche, Acting Secretary
L. Briamonte, Summing Up Officer
D. Alcantara, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

Also Present
African Department: A. Alfi, R. Celaya, C. Ferrero, N. Hobdari, G. Jenkinson, C. Pattillo, R. Yamada, R. Zymek. Communications Department: E. Graf, T. Mossot. Finance Department: N. Ferreira Souza Sobrinho, A. Manzanera Escribano. Legal Department: Q. Li,

[2] For countries in each constituency, please see the Constituency Codes in the annex.

L. Pedersen, R. Sykes. Monetary and Capital Markets Department: M. Kitonga. Strategy, Policy, and Review Department: T. Atashbar, W. Gray. World Bank Group: F. Raad. Executive Director: A. Andrianarivelo (AF), S. Bhalla (IN), A. BinZarah (SA), P. Jennings (CO), R. Lim (ST), M. Mohieldin (MI), P. Moreno (CE), A. Mozhin (RU), D. Palotai (EC). Alternate Executive Director: A. Alhosani (MI), M. Alrashed (SA), L. Dresse (NE), M. El Qorchi (MD), A. Guerra (CE), C. Just (EC), W. Nakunyada (AE), R. N'Sonde (AF), S. Potapov (RU), C. Roman (FF), B. Saraiva (BR), F. Sylla (AF), V. Vumendlini (AE). Senior Advisors to Executive Directors: A. Abdullahi (AE), E. Cartagena (CE), M. Choueiri (MI), Patterson C. Ekeocha (AE), J. Garang (AE), E. Hagara (EC), J. Rojas (CE), C. Sassanpour (MD), L. Smith (CO), N. Thiruvenkadam (IN). Advisors to Executive Directors: N. Abu Bakar (ST), F. Al-Kohlany (MI), R. Bah (AF), G. Basutli (AE), C. Becker (AP), I. Bustillo (AG), S. Dash (IN), J. Essuvi (AE), R. Fayez (MI), D. Hamzah (MI), T. Krahnke (GR), V. Lankester Campos (CE), C. Mastrapasqua (IT), M. Merhi (MI), R. Moral Betere (CE), A. Nainda (AE), I. Ogihara (JA), A. Olhaye (AF), B. Slettvag (NO), Y. Yang (CC), , F. Lopez (CE), L. Albisson (FF).

DISCUSSION RECORD[3]

The Acting Chair (Ms. Gopinath):

The last Article IV consultation with South Sudan, a fragile post-conflict state, was in May 2019. Since then, the authorities have embarked on important reforms, including steps to stabilize the economy and liberalize the foreign exchange (FX) market, under a Staff-Monitored Program (SMP) since April 2021. They have made some progress on public financial management (PFM) and governance reforms, albeit slowly.

Given a challenging global economic environment and a difficult humanitarian situation due to worsening food insecurity, the challenge for the authorities is to sustain the macroeconomic and FX reforms and accelerate the governance and transparency reforms initiated under the SMP. The Fund will also support South Sudan's reform efforts through tailored policy advice and stepped-up capacity development (CD). The focus will be to put the macroeconomic reforms initiated under the SMP on a sustainable footing and to support further governance and transparency reforms.

We will also step up engagement to build capacity in key areas and deliver in-person technical assistance (TA), which has yielded tangible benefits in fragile state cases. I am very pleased to see Directors' support for this strategy in the gray statements.

Ms. Mannathoko:

On behalf of the South Sudan authorities, I thank the Acting Chair and also Directors for the thoughtful gray statements and the valuable policy advice and recommendations that we will promptly convey to the authorities.

I want to take this opportunity to address two points.

First, it is worth noting that the reforms that the authorities have undertaken so far under the SMP include some difficult measures that can be especially challenging to implement in such a fragile context. Many upper-credit tranche (UCT) programs, even some Article IV countries, have struggled to implement exchange rate unification, monetary policy reforms, yet South Sudan managed this on an SMP, with no supportive balance of payments financing under difficult conditions. We see this as a clear demonstration of the authorities' strong commitment to reform and their determination to rebuild systems and restore macroeconomic balance.

[3] Edited for clarity.

They have delivered satisfactory performance overall on the SMP and are continuing with reforms in this vein. They are not resorting to monetary financing and have not resorted to external borrowing since the FX reforms started, and they are working on removing multiple currency practices, among other things—all in this difficult environment. We hope the Board can be supportive with a UCT program that will help establish and maintain macroeconomic stability in the face of the shocks they keep facing, including climate shocks.

The authorities look forward to deeper engagements with the Fund upon completing the SMP later this year, after the final review. They see this as an engagement that would lead to a UCT-quality arrangement that will help them sustain the progress they are making, and help them secure support under the Resilience and Sustainability Trust to address the growing challenges related to climate change, climate change impacts, and climate shocks.

The country has a demonstrated balance of payments need and the capacity to repay the Fund while ensuring its debt sustainability. The authorities have also established a track record of reform and are trying to entrench systems that will ensure prudent policies. We hope for a supportive stance from the Board once the staff negotiate the program.

The peace-building efforts continue and the authorities continue to make progress. Whenever challenges occur, they are straightforward. They confront the challenges and find solutions. The president approved a road map last week that has now been presented to the political parties for their inputs and comments. Ultimately, the parties will decide whether to hold elections at the end of next year or to extend the coalition a bit more, but regardless, economic reforms will continue on the technical front.

The staff representative from the African Department (Mr. Hobdari):

I thank the Directors for the thoughtful advice in their gray statements and for supporting the analysis and the staff appraisal in the Article IV report for South Sudan.

Directors will have seen the written responses we have provided for some of their questions. In this oral intervention, I would like to address some of the questions related to the future Fund engagement and how we are going to operationalize the strategy laid out in the Country Engagement Strategy (CES).

First, there is great appreciation at the highest level in Juba, including from President Kiir, for the financial support of the Fund provided through two Rapid Credit Facilities (RCFs) and also the Special Drawing Rights

(SDR) allocation that took place in August last year. This support provided a lifeline to the authorities when they were hit by the sharp decline in oil prices that decimated their revenues, and it provided them with resources to clear some of their arrears and also to support the reserve buildup.

At the same time, the authorities took advantage of the fiscal space created by these disbursements to introduce important FX market reforms that have been able to unify the exchange rates in the market, removing significant pre-reform distortions for multiple exchanges. This is a significant achievement in any context, as Ms. Mannathoko said, but especially in a fragile state, and which had evaded the authorities since independence in 2011.

The closer Fund engagement with South Sudan since the pandemic has established trust on both sides, and this has been underpinned by the good coordination with development partners on the ground, with which we are in regular contact. As a result, we see increased traction on both the policy advice the staff provides and also the TA recommendations from our experts on the ground.

As mentioned by the Acting Chair, our future engagement with South Sudan will be guided by the strategy laid out in the CES. Let me emphasize the issues about policy advice and CD.

As the Acting Chair mentioned, the focus will be on sustaining the macroeconomic reforms that had been initiated under the SMP. This includes continuing the prudent monetary and fiscal policies introduced under the SMP, consolidating the FX market reforms, implementing the governance and transparency reforms that were started—especially those targeted for the next review of the SMP. As mentioned in the report, these include the publication of the audit that was agreed as part of the second RCF, the completion of the external debt audit, starting a regular publication of revenue mobilization and budget implementation reports, and implementing the recommendations of the safeguards assessment.

On CD, as the Acting Chair mentioned, the staff has started to step up our engagements. The Fund has been providing a lot of TA over the last year, but the additional resources provided by the new strategy adopted by the Fund for fragile states has provided room for us to add a number of experts that can support South Sudan. We can immediately add at least one or two more long-term experts who can provide in-person advice, which has been productive in other difficult situations similar to South Sudan.

The Acting Chair (Ms. Gopinath):

The point staff made about the success on the exchange rate reforms—that was a big lift. Also, in terms of bringing down inflation, the success they have had is impressive.

Mr. Zhang:

As we have already issued a gray statement, I will limit my comments to the following points.

First, despite the challenging economic environment, the South Sudanese authorities have made progress to restore macroeconomic stability. Their track record so far under the SMP is promising, especially in stabilizing the economy, reducing distortions in the FX market, and initiating governance reforms. Therefore, we see merit in a UCT-quality program and welcome the authorities' intention to apply for the Extended Credit Facility (ECF). We also encourage staff to engage in discussions with the authorities about such a program.

Second, we believe that showing respect and promoting dialogue, rather than exerting pressure or inflicting punishment, is the best way to elicit cooperation and improvements in governance. In this regard, we call for the international community to show further solidarity in creating a favorable environment for the country to improve economic management and attract foreign investment and financial support, leading to greater economic resilience and a strong recovery.

We note with regret that China is the only country to provide bilateral official financial support to South Sudan. We call on other countries to also provide the authorities with urgently needed financial support, especially at a time when international grants are decreasing.

Mr. Velloso:

We have issued a comprehensive gray statement, agreeing with the thrust of the staff appraisal, and have taken note of the staff's recommendation to conclude the second SMP review. Let me now briefly highlight a few points for emphasis that are relevant for today's discussion.

The war in Ukraine has brought new challenges to South Sudan. Sharply higher global food prices are leading to a rapid deterioration in the living standards of the population—already largely food-insecure—enhancing further the drivers of fragility. This challenging situation is compounded by low domestic and external buffers, declining oil production, and the diminished availability of external assistance.

Continued efforts to promote good governance and transparency are, therefore, critical to increase donors' willingness to provide financial assistance to South Sudan and to enhance the effectiveness of the resources made available to the country. Prudent fiscal and monetary policies and a steadfast implementation of structural reforms are needed to promote sustainable, inclusive growth. We commend the authorities on their efforts to implement the reform agenda and take positive note of the good traction of staff's advice, as shown by the uptake of many of the 2019 Article IV recommendations. This bodes well for the future.

Having said that, we missed a clear indication of the authorities' inputs and stance toward the CES, although we appreciated the inclusion of the clear roles for the Fund, including modalities to best deliver TA. Hopefully, CES updates will be clearer in that regard.

We wish the authorities continued success in the implementation of the SMP and stand ready to consider South Sudan's request for an ECF in the future. An ECF would be better suited to support South Sudan's efforts to address structural challenges and would help to mobilize additional donor support. We share the staff's view that the ECF would need to be carefully calibrated to ensure that it plays a catalytic role.

Let me conclude by saying that we were a bit disappointed by the staff's rather bureaucratic answer to our question on whether ECF program discussions would start at the time of the last SMP review. We strongly encourage staff to go the extra mile in trying to bring an ECF for Board consideration at the earliest possible time.

Mr. Westphal:

We issued a comprehensive joint gray statement, so I will just make a few points for emphasis.

The implementation of the 2018 peace agreement and transition to an elected government are critical. We urge the authorities to make tangible progress on setting up institutions and mechanisms to allow for elections to be held as soon as possible.

To reduce the prospects of a prolonged fragility trap that is described in the CES, it will be critical that the government of South Sudan improves its ability to serve its people. This will require strong actions on governance, PFM, and debt transparency. We also urge the authorities to increase budgetary social spending and eliminate salary arrears.

Before considering any Fund programming with financing, we would expect the following, among other things.

First, the implementation of the full set of recommendations in the auditor general's report regarding the use of funds under the first RCF, including the strengthening of internal controls at ministries, departments, and agencies to ensure the better monitoring of disbursed funds.

Second, the completion of a proper investigation of the discrepancies in the use of RCF funds.

Third, the publication of the audit report on spending, financed by the second RCF, and the audit on external debt and guarantees.

Fourth, meaningful progress toward the implementation of reforms at the Bank of South Sudan to address the weaknesses identified under the safeguards assessment.

Ms. Marcussen:

We issued a comprehensive gray statement with Ms. Medearis and Mr. Trott, and I would like to emphasize a few points, focusing mostly on a potential ECF request. I thank both Ms. Mannathoko and Mr. Hobdari for their comments on this point, also noting that this seems to be the right time to be having this discussion, ahead of any proposal.

I would like to recognize the progress made at the start of the SMP and in relation to the second RCF disbursement, notably, the successful implementation of the FX reform package, as well as the publication of the audit for the spending under the first RCF. However, we are disappointed to note that reform efforts largely seem to have stalled, in particular, for PFM. We are deeply concerned about the severe remaining weaknesses in the budget implementation process, cash management, and fiscal transparency.

South Sudan ranks very last on Transparency International's corruption ranking for 2021, with a deteriorating score. The national budget for financial year 2021/22 was not approved until March this year, with no budget execution report published since October 2020. This means that there is not any public information on how public funds have been used, including the large oil revenues. Moreover, despite the establishment of a cash management unit and committee, we have yet to see that cash management practices have improved in a meaningful way.

In this context, we take note of the authorities' intention to apply for an ECF, but we are not convinced that the authorities have the capacity or the commitment to implement a UCT-quality program at this point. A premature

Fund-financed program risks only burdening the country with additional senior debt, without benefiting the people of South Sudan or promoting long-term economic development. Therefore, we believe that significant progress to improve PFM and fight corruption is needed before a program request for South Sudan is brought to the Board. I would echo the concrete points made by Mr. Westphal.

Importantly, the Board should be informed about the use of the two RCF disbursements, as well as on the measures to address the recommendations in the audit reports, both on RCF spending and on external debt and guarantees. We support the extension of the SMP and strongly urge the authorities to use this time wisely and ensure timely progress on reforms.

Finally, we regret the late circulation of the Board documents on this point, especially given the importance of close interaction with our authorities and representatives in Juba on this important item.

Mr. Al-Kohlany:

We issued a comprehensive gray statement, where we broadly agreed with the thrust of the staff report. We would like to emphasize the following three main points.

To break the downward spiral of conflict, fragility, food insecurity, and weak growth, we encourage South Sudan, with the help of the Fund and the international community, to focus on the following.

The authorities should maintain prudent fiscal practices to build fiscal space and to finance priority spending. For instance, it will be crucial to ensure that there are well-targeted and robust social safety networks that can help protect the vulnerable and efficiently use scarce resources. The authorities should rebuild FX reserves to preserve the gains achieved in eliminating the significant distortion in FX market; strengthen and build resilience in the agriculture sector and its linkages to increase food production and access, and to support livelihoods; invest in climate-resilient infrastructure; advance structural reforms by investing in health and human capital; and improve transparency and governance to strengthen the business environment.

Second, throughout the rule of the Fund, development partners, and the international donor community are crucial. The current global environment places added pressures on South Sudan. Capacity development, TA, and financial support to fragile and conflict-affected states (FCS), like South Sudan, are necessary to escape the downward spiral of fragility. It will also be important to follow the Fund's SMP engagement with a UCT program to further entrench and advance necessary fiscal, monetary, and structural reforms, as well as to catalyze additional resources to support South Sudan's macroeconomic stabilization and reform efforts.

Mr. O'Brolchain:

We issued a gray statement expressing broad support for the completion of this review, so I will make a few points for emphasis.

South Sudan's fragility and significant vulnerability to internal and external shocks necessitates close Fund engagement. We therefore welcome the annex summarizing the staff's engagement strategy. In this context, measures to promote gender equality, inclusion, and improved social outcomes for women and youth are also crucial, especially given the high incidence of gender-based violence and elevated youth unemployment.

Further, as stressed by Mr. Buissé and colleagues, improving public governance and the institutional capacity of the country remains paramount. Capacity building and reform implementation must be well-calibrated, given the authorities' weak absorptive capabilities. Extending the SMP should also facilitate this close engagement and support the authorities' completion of outstanding commitments.

While a UCT-quality program would assist in anchoring medium- to longer-term reforms and targets, as well as catalyze additional funds, we agree with staff that the authorities should first implement the reforms agreed under the SMP to achieve a successful conclusion. Here, we would reflect Mr. Westphal and Ms. Marcussen's comments, and note Ms. Mannathoko's comments also in this respect.

We join Ms. Marcussen, Mr. Ronicle, and Ms. Medearis in urging the authorities to implement the necessary reforms to advance the implementation of the 2018 peace agreement, which is critical for political and economic stability.

Mr. Massourakis:

We have issued a gray statement, so I will make some additional comments.

First, we note with concern that South Sudan is one of the poorest countries in the world and that 70 percent of the population currently suffers acute food insecurity, including because of rising global food prices. Continued conflicts compounded by recurrent natural disasters related to climate change, have eroded agricultural harvests, further exacerbating the humanitarian crisis. The international community provides for most of South Sudan's social spending, most of which is for food and nutritional needs.

However, the risk of shrinking donor support, amid the declining aid budgets, is high. In this context, Fund engagement through a program may help in securing more donor support. In the near term, the risk might also be mitigated by the adoption of temporary fiscal measures to enhance food security. Nevertheless, over the medium to long term, there may not be any alternative to investing in agriculture and human capital.

Second, we note that the inadequate level of basic infrastructure is among the main vulnerabilities experienced by South Sudan, and timely investment in resilient infrastructure is of the utmost importance. At the same time, we urge the authorities to review spending on South Sudan's road infrastructure program, using the Fund's TA, to ensure that projects are implemented at a faster pace and deliver value for money.

Ms. Clapham:

I would like to thank staff for the papers and the excellent engagement with our team in country.

We issued a joint gray statement with Ms. Marcussen and Ms. Medearis, so I wanted to make a few points for emphasis.

We welcome the rising public sector wage bill as a sign that the authorities are increasingly taking responsibility for essential services, including health and education, and clearing salary arrears. This is particularly critical given the deteriorating humanitarian situation. We remain concerned, however, about budget implementation and PFM, and encourage the authorities to continue to make progress to improve transparency and to ensure that cash gets to where it is needed. We fully support the staff's call for a review of the road building program and see this as a potential route for offsetting the expensive public sector salaries coming onto the budget.

We urge the authorities to implement the Financial Action Task Force (FATF) action plan. Technical assistance is lined up to support this endeavor, including from my own authorities, but currently, the financial intelligence unit (FIU) is not in a position to receive such support. We strongly urge the authorities to bring the FIU to full operational capacity with adequate resources and the leadership to conduct its supervisory functions.

Ultimately, we continue to see a path toward the much-needed UCT-quality program and toward an improved relationship with donors, but I do want to emphasize that it is a narrow one. We urge the authorities to continue to honor the reform commitments they have made, and in particular, to avoid a destabilizing return to monetary financing. I would echo the point made by Ms. Marcussen, that we are also concerned that reforms seem to have slowed, and Mr. Westphal, on the concrete steps that we will need to see ahead of approving an ECF program.

Ms. Koh:

The authorities are to be commended for having achieved considerable progress toward macroeconomic stabilization, despite the unfavorable external conditions and ongoing domestic fragilities. More than 10 years ago, the people of South Sudan voted for their independence. In the following years, the country set out on a journey to become a sovereign state, with functioning public institutions to reduce its dependence on oil and build an economy that improves the livelihoods of the people.

Institution and state building, as we have extensively discussed in the context of the FCS strategy, does not happen overnight or within 10 years, but it hinges on the authorities' ownership and the determination of decision makers to turn things to the better.

Going forward, it remains of utmost importance to avoid any backtracking of reforms. The authorities must convincingly press ahead with a full implementation of their reform commitments that strengthen governance and enhance transparency. I will not repeat what Mr. Westphal, Ms. Marcussen, and Ms. Clapham said with regard to the sectors.

It is encouraging that the authorities plan to submit their membership to the Extractive Industries Transparency Initiative.

Let me close by noting that the case of South Sudan has been a good guidepost in the development of the Fund's FCS strategy. To echo Mr. Hobdari, staff has been making full use of the Fund's toolkit, anchoring reforms under an SMP, complementing Fund advice with CD and TA, and sequencing Fund engagement, with the ultimate goal of reaching an ECF arrangement. Like other speakers, we believe that staff should only move ahead with working on an ECF once verifiable progress under the SMP is confirmed and conditions for a full-fledged UCT program are there.

We look forward to further engaging with the authorities on their journey toward inclusive and sustainable growth.

Mr. Sidi Bouna:

We have expressed support for the completion of the second review of the SMP in our gray statement, on the basis of the authorities' strong performance, as reiterated by Ms. Mannathoko and also confirmed by other Directors. We would like to add a few comments.

First, on fiscal policy, we take note of the improving fiscal revenues and the efforts to refrain from monetary financing of the deficit. We urge the authorities to also further strengthen debt management and welcome the clearance of arrears on the transitional financial arrangement, which will help create additional fiscal space.

Second, on the financial sector, we believe that pursuing reforms in this sector will be critical to ensure financial stability through strengthening the banking supervision and enhancing bank resolution expertise, with the assistance of the Fund and development partners.

Third, on structural reforms, we emphasize the importance of accelerating the pace of governance reforms. This will be key for boosting the private sector development and attracting FDI.

Finally, we reiterate our full support for a tailored CES with South Sudan to address fragility. We look forward to more focused surveillance, lending, and CD under this strategy, to help the authorities overcome fragilities and enter a path of more sustainable and inclusive development. We agree with what Ms. Mannathoko said, as well as other Directors, that a number of major policy reforms have already been implemented under the SMP, despite the difficult economic conditions. Like Mr. Velloso, we look forward to rapid progress toward an ECF.

The staff representative from the African Department (Mr. Hobdari):

We thank Directors for the productive and engaging discussions. We fully agree with the diagnosis and also on what lies ahead for the authorities and what would create the conditions for further Fund engagement.

Just to answer to Mr. Velloso in terms of the process, I apologize for not being clearer on the response. What we meant to say is that, to the extent that the authorities implement the reforms under the SMP that are laid out for the next review and the performance is satisfactory, this can create the basis for having an ECF at the same time. Depending on what progress is made, there is technically a possibility that, as in many other cases, at the end of the SMP, South Sudan could have an ECF.

There are many things that go into getting into an ECF—establishing a track record, having assurances that the authorities can implement UCT conditionality, capacity to repay the Fund, balance of payments needs. But we are not discussing those now because we all know what a new program implies.

In terms of process, we are not going to delay having a discussion on an ECF if the authorities, together with us, move toward implementing the reforms that are laid out and on which there is full agreement for the next SMP review.

In terms of what needs to be done to get there, I fully agree with many of the things that Ms. Marcussen, Mr. Westphal, and Ms. Clapham mentioned. They are the same ones that are laid out in our report, where we say that the performance so far under the SMP has been promising, and further reforms—and we listed all of those in the staff report, from safeguards assessments, to completing the audit that was agreed under the second RCF, to completing the audit for external debt—all of these are important elements. We will communicate the importance of these to the authorities, and I am sure Ms. Mannathoko and her office will transmit the Board's views to the authorities to urge them to do these things as soon as possible and then move to the next step if possible.

We can get into a discussion on a potential program later, once we see progress. What we are going to do—together with our team and other functional departments that are supporting many of these reforms through TA—is to move those reforms ahead.

We have been in close contact with many of the development partners on the ground, so we are on the same page about what the challenges are. But in a fragile state we have to be careful when determining what is sufficient. Given the fact that they are last in transparency, we are not going to move them to the front of the list anytime soon. But we have to make sure that we make progress and that they provide assurances that there are safeguards for the resources being provided by the Fund and also safeguards, or at least assurances, that they are moving ahead with reforms to achieve the objectives that a typical Fund program has.

Let us have this conversation down the road with many of the development partners with which we have regular contact. We will follow up with the authorities on many of these things, which are envisaged in the SMP, and then take stock after a few months, toward the end of the timeline for the SMP.

Ms. Mannathoko:

On behalf of our authorities, I thank Directors for supporting the conclusion of the Article IV consultation but also the extension of the SMP to November, to allow the authorities to complete the key structural benchmarks, some of which we have been discussing. I also want to thank staff for the hard work, the constructive engagement during the consultations, and for their commitment to helping the country progress.

As noted in our buff statement, the pandemic and spillovers from the Russian war in Ukraine are weighing heavily on the country, exacerbating pre-existing challenges and even moving toward reversing the progress they were making after the war and before the pandemic.

The authorities see the UCT program as playing a critical role, providing them with the backing. They see their ability to push through reforms as having been of the essence, even in terms of catalyzing support from the international community, in addition to the support that is needed on the humanitarian side to curb the crisis and support the country build resilience, because we saw the agricultural impacts from climate change, and this feeds into lower welfare and poverty.

One of my colleagues was talking about how South Sudan is one of the poorest countries globally.

I am from Botswana and if you look at what was written about Botswana 50 years ago, there was a similar narrative as South Sudan today—how it is one of the poorest countries in the world with almost no institutions.

No matter how dire things might look, engagement with the international community and sustained progress can make a difference. Botswana now is an upper middle-income country and is aspiring to high-income status over the next couple of decades. I am very optimistic.

Directors also encouraged fiscal prudence. I want to assure colleagues that the authorities will continue efforts in revenue mobilization and reducing reliance on oil and non-concessional financing, but they are also working to improve budget discipline and transparency. This is very important. We will highlight to the authorities that this has been raised at the Board and that Directors emphasized the importance of an accelerated push in this regard.

The authorities also recognize the importance of improving the overall budget process. We also hope that they will be able to get the focused, concentrated PFM assistance from the World Bank and the Fund. It will just target the specific aspects that can make a difference because the authorities want to continue to build credibility with international partners and development partners.

They also accept the need to reprioritize some resources that were earmarked for road investments, reprioritizing them to other pressing needs and social spending, in line with recommendations.

On monetary policy, they are committed to keeping money supply growth under control, to effective reserve money targeting, while building FX reserves from low levels. They aspire to build them up to at least four months' import cover. They also agree that effective communication is important in monetary policy to better manage public expectations.

On the financial sector, we will also work to ensure that banks are adequately capitalized. The central bank will focus on implementing the safeguards assessment's recommendations. We will urge them and will highlight that it was cited in the Board meeting. We will also encourage the authorities to accelerate the FIU and implement the FATF reforms in a timely manner.

On structural reforms, the authorities see the essential role that these reforms play. They note the criticality of staff's continued tailored support to them—a well-sequenced, integrated country engagement through the CES and CD strategy—to help them push the structural reforms through as quickly as possible, especially in the context of the specific challenges that fragility brings, which sometimes requires more innovative solutions, and sometimes requires second-best solutions.

In conclusion, I thank the mission chief, Mr. Hobdari, and his team for the productive discussions with the authorities and their commitment to helping South Sudan progress. The authorities continue to value the Fund's advice and see it as a critical complement to their reform efforts and a way to help them push through difficult measures.

The Acting Chair (Ms. Gopinath):

I very much appreciate Ms. Mannathoko's first point, which is that while there is a lot that needs to be done, we should remain hopeful and look forward to the reforms being implemented.

The Republic of South Sudan is an Article XIV member. It continues to maintain an exchange restriction under transitional arrangements of Article XIV. The decision is approved.

The Republic of South Sudan also maintains an exchange restriction subject to Fund approval under Article VIII, Section 2(a), as identified in the staff report. No decision is proposed.

The 2022 Article IV consultation with the Republic of South Sudan is hereby concluded.

I thank all Directors for their support for the Fund's engagement strategy with South Sudan and for their constructive feedback during this meeting.

We are encouraged to hear from Ms. Mannathoko that the authorities are strongly committed to the reforms initiated under the SMP that have stabilized the economy, liberalized the FX market, and started to address governance challenges.

That said, the challenges are quite significant under the current global economic environment and the very large humanitarian and food security needs. Robust and stepped-up support from donors and development partners will be critical to enable South Sudan to implement the envisaged reforms and consolidation of peace.

The Acting Chair (Ms. Gopinath) adjourned the discussion.

ANNEX

- Gray Statements
- Staff’s Responses to Executive Directors’ Technical Questions
- Constituency Codes

Statement by Ms. Mannathoko and Mr. Garang on Republic of South Sudan
Executive Board Meeting
July 29, 2022

I. Introduction

1. Our South Sudanese authorities appreciate the candid discussions with Fund staff during the Article IV and second Staff-Monitored Program (SMP) review missions. They broadly share staff's assessment and policy recommendations.

2. Since re-engaging with the Fund in 2020, the authorities have been focused on rebuilding economic systems and establishing a reform track record. Extremely difficult reforms have already been undertaken under the SMP, which, alongside two Rapid Credit Facility (RCF) disbursements and the general SDR allocation, helped the authorities restore some macroeconomic stability and unify exchange rates, ending a long-standing system of multiple exchange rates. Successful exchange rate reforms ensured the authorities were able to minimize disruption and sustain the reform outcomes, with the benefit of important technical support and guidance from the MCM Department and mission staff. The authorities managed to complete these reforms under especially difficult conditions. They found the SMP provided vital support for their macroeconomic reform and stabilization efforts, building a track record of sound policy, and providing an important bridge towards a future Fund-supported program, which is key to catalyze concessional support and grant resources. They request that discussions for the final SMP review be combined with negotiations for an Extended Credit Facility (ECF).

3. South Sudan is one of the poorest countries in the world, with extremely high poverty rates where 70 percent of the population currently suffer acute food insecurity in the wake of rising global food prices. Three years of climate shocks with severe flooding have also eroded agricultural output further compromising livelihoods and exacerbating the humanitarian crisis.

4. A timely UCT program later in the year is critical to stem further macroeconomic deterioration, and we hope the Board can be supportive in this regard. The authorities have advanced in the implementation of Fund recommendations and continue to deepen their engagement with the Fund. They desire a UCT program to enable them to safeguard macroeconomic stability and deepen their reform agenda in line with their revised National Development Strategy (NDS) 2021-2024, which aims to consolidate peace and revive the economy.

5. The authorities have continued to make significant progress in the implementation of the Revitalized Peace Agreement and while capacity constraints have slowed some measures, the authorities are now working towards the population census and draft constitution that are needed ahead of 2023 elections. Key milestones of the Agreement that have been achieved include formation of State and National Governments and the Transitional National Legislative Assembly (TNLA), a unified command structure in the National Army, and improved security in the country, among others. The Political Parties and Elections Bills are with Cabinet ahead of their submission to the TNLA, along with the

political roadmap that charts the way forward. Meanwhile the authorities continue to ensure that any risks to the peace agreement are addressed, and measures are taken to reduce uncertainty and create a conducive environment for investment and growth. They intend to hold elections by end-2023 after conducting the census.

II. Recent Economic Developments and Outlook

6. The pandemic and climate change impacts (specifically floods) have reversed the recovery achieved under the 2018 Revitalized Peace Agreement, with real GDP now estimated to have contracted by 5 percent in FY2020/21 (after growing by 13.2 percent in FY2019/2020). While the recent increase in the global oil price implies a boost to economic output, a third consecutive year of severe flooding caused losses in oil production. Going forward, two more years of recession are projected in an economy that is already under significant economic and social strain.

7. Following successful exchange rate unification, inflation has declined significantly from 43.5 percent in 2021 to about 2 percent in 2022, benefitting from tight monetary conditions and relative stability in the exchange rate. More recently, however, high oil and food prices present upside risks to inflation. The current account balance is expected to improve despite a rising import bill, reflecting the positive impact on the trade balance of the increase in oil prices. International reserves remain low, and the authorities are making greater efforts to build FX reserve buffers despite constrained inflows.

8. The economy remains open as the people of South Sudan adjust to life with COVID. South Sudan has so far had a comparatively low case-load and fatality rate. Nevertheless, recognizing that there is some undercounting, the authorities plan to accelerate vaccinations with goal of reaching herd immunity. Currently, only a small percentage of the population is fully vaccinated. As South Sudan benefits from the COVAX facility, the focus is now on overcoming severe logistical challenges that are hampering the distribution of vaccine doses.

III. SMP Performance

9. All quantitative targets under the SMP for end-October 2021 have been met, except for the clearance of domestic salary arrears, where corrective measures have been taken with a view to clearing them by August 2022. In line with SMP commitments, the authorities have refrained from monetary financing of deficits for the past 2 years, kept reserve money growth well within the ceiling of 6 percent between March and October 2021, and maintained a stable, unified exchange rate while eliminating a system of multiple currency practices. Given the removal of nearly all foreign exchange restrictions, market participants can now buy and sell foreign exchange at market clearing exchange rates.

10. The authorities remain committed to expenditure rationalization and improving budget execution. The FY2021/22 budget was approved by the national assembly (TNLA) in March 2022, marking the first time that South Sudan has had a Parliament-approved budget since the end of the civil war in 2018. The draft budget for FY2022/23 has already been submitted to TNLA for approval and is consistent with the authorities' commitment to fiscal prudence and the objective of supporting sustainable and inclusive growth without reliance on non-concessional external financing.

11. The authorities are undertaking significant measures to strengthen Public Financial Management (PFM), with partners' support, including under the SMP where notably, fiscal management has been strengthened through the establishment of a Cash Management Unit (CMU) at the Ministry of Finance and Planning (MoFP). The CMU is developing a preliminary annual cash plan on monthly basis for FY2022/23 based on the resource envelope approved by the Council of Ministers, with assistance from Fund TA. The debt stock as of December 2021 was also published on the MoFP website by amounts, currency, and creditor, as a prior action for the second SMP review. The MoFP also issued a circular to Ministries, Departments, and Agencies (MDAs) to formalize payment of salaries of their staff through bank accounts (rather than in cash) as of July 1, 2022; and progress is being made towards implementing the Treasury Single Account (TSA).

12. To ensure prudent debt management, the authorities are operationalizing the reconstituted MoFP Loan Committee (LC). In line with the legal framework set out in the Constitution and the PFM Act of 2011, the LC will be responsible for approving any external debt contracts before they are sent for final approval to the Cabinet of Ministers and the National Assembly, as per the responsible borrowing guidelines. This new framework will help to ensure more robust recording and disclosure of debt regardless of the source agency.

13. Staff has extended the SMP through November 30, 2022, to allow for verification by the independent international auditor of the published stock of external debt and guarantees as of December 2021.

IV. Macroeconomic Policies

The authorities' goal is to pursue prudent macroeconomic policies that ensure stability and debt sustainability, while enhancing social spending, improving governance, and building resilience, including with infrastructure investments that support adaptation to withstand natural disasters and that help diversify the economy.

Fiscal Policy and Debt Management

14. Fiscal policy is focused on maintaining macroeconomic stability and debt sustainability while mobilizing domestic revenue and reenforcing budget discipline. Higher revenues reflecting firming global oil prices and a significant improvement in the collection of non-oil revenue by the National Revenue Authority, are providing fiscal space to meet priority spending. The authorities will continue to phase out exemptions, digitalize collections, and increase customs rates in line with East Africa Community commitments, while enhancing the efficiency of spending on road investments.

15. With oil prices expected to be higher than projected over the medium term, the authorities plan to save part of the windfall revenues in the Future Generation and the Oil Revenue Stabilization Funds, in line with the Petroleum Act 2012. They are also committed to increasing priority social spending, while enhancing human capital development, but note that debt service costs leave them with limited space to maneuver. They cleared the Transitional Financial Arrangement with Sudan and are working to bring the associated share of receipts onto the national budget to create more fiscal room.

Monetary, Exchange Rate, and Financial Sector Policies

16. The authorities continue to implement reserve money targeting, which has helped bring inflation down to single digit levels, and they will refrain from any new monetary financing of the deficit. They will continue to implement this framework, in line with SMP commitments, while conducting regular foreign exchange auctions to maintain a market clearing rate and publishing auction data on the Bank of South Sudan (BoSS) website in a timely manner, to foster confidence among market participants.

17. Active liquidity management continues, helping to contain inflation. The authorities have introduced a new term deposit facility as a first step in expanding the monetary policy toolkit and will refine the auction mechanism and terms of the facility to ensure a viable means of managing liquidity. They are also considering introducing BoSS bills, as an added liquidity management instrument, and plan to strengthen coordination with the MoFP to improve their capacity for liquidity monitoring and forecasting, to better track market developments and effectively respond to them.

18. The authorities continue to work to ensure financial sector stability, improve bank supervision, and increase financial inclusion. This includes plans to promote adequate capitalization of domestic banks, be it through raising capital, finding new investors, mergers, applying for voluntary liquidation, or enforcing liquidation where justified. Given limited experience with bank resolution, the authorities have requested urgent technical assistance in this area from the IMF, and a mission is scheduled for August 2022. Going forward, the authorities also plan to reduce the current heavy reliance on cash for transaction purposes and will pursue relevant measures, including increased use of the banking system in settling government obligations.

19. The BoSS has now published audited financial statements up to 2020 and will proceed to enforce the timely publication of audited financial statements by commercial banks. A risk-based supervision policy has been drafted and will be approved by the BoSS Board of Directors, by end-2022. The publication of quarterly Financial Soundness Indicators will help to strengthen financial sector transparency.

20. The BoSS is committed to implementing the 2021 IMF safeguards assessment recommendations. Reforms have been initiated with a view to fully addressing the recommendations in the second half of 2022. They are developing a detailed strategy to tackle remaining vulnerabilities. Measures include finalizing and publishing the FY2021/22 audited financial statements, signing a MoU with the Auditor General to ensure the timely appointment of an international external audit firm for audits of FY2022/23 onwards, co-sourcing of internal audit services, and strengthening currency operations, among others.

Structural Reforms and Capacity Development

21. The authorities share staff's concern on the need for investment in climate resilient infrastructure given the country's vulnerability to climate shocks and the need to prevent agricultural land degradation, and support food security. The authorities will need donor support, including to unlock climate financing as a complement to support engagement under the Resilience and Sustainability Trust (RST). Measures are also needed to

advance economic diversification and broaden sources of growth to non-oil sectors such as agriculture. In the meantime, the people of South Sudan need further urgent humanitarian support as they work with the staff to leverage the CES to address the underlying drivers of economic fragility.

22. Work is also underway to strengthen transparency in the management of oil resources. To this end, the authorities plan to select by end-September 2022, an internationally recognized auditor to certify the annual financial reports of Nilepet, starting with the 2022 annual report. They have also committed to publish the audit reports on Nilepet' s website, and on a government website. By end-September 2022 a membership application will also be submitted to the Extractive Industries Transparency Initiative (EITI). Quarterly reports on the oil sector and public financial audited reports will be published on a government website.

23. As they continue to pursue improved governance, and transparency, the authorities have implemented their commitments under the RCF letter of intent and ensured transparency in the use of COVID-related resources. The Auditor General (AG) has completed the audit of spending financed from disbursements under the first RCF and the results were posted online. The authorities are now implementing the audit recommendations. The AG is also expected to complete the audit of the second RCF in July 2022. The authorities' debt stock has been published, and they aim to publish the report of the independent auditor that is verifying the external debt stock by mid-November 2022. Relatedly, the recent SDR allocation was prudently used, with $184 million allocated to bolster FX reserves, while $150 million was devoted to supporting the budget.

24. To strengthen the credibility of the financial system, the authorities are implementing AML/CFT reforms in coordination with the Financial Action Task Force (FATF). They have applied for membership in the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and have been approved as an observer. In August 2022, the ESAAMLG delegation is due to assess whether the country meets requirements to join as per the MoU with ESAAMLG. Importantly, the authorities have established the Financial Intelligence Unit and will continue to strengthen its functions and technical expertise, including by hiring new staff. To address the legal issues in the FATF Action Plan, they will work closely with the technical assistance team from the IMF Legal Department. The country is committed to the Action Plan agreed with FATF and expect to be removed from the grey list upon satisfactory completion of requirements under the Action Plan.

25. The authorities appreciate the technical assistance support on PFM reforms, revenue mobilization, revenue administration, operationalizing the money targeting framework, liquidity forecasting, and macroeconomic statistics. Traction of CD has improved and in-person technical assistance delivery, provided through a longer-term program of hands-on support activities, has delivered tangible benefits. As such, the authorities express a strong preference for this approach.

V. Conclusion

26. Our South Sudanese authorities reaffirm their commitment to pursuing prudent macroeconomic policies needed to ensure macroeconomic stability and to lay a strong foundation for sustainable inclusive growth. They value Fund engagement and look

forward to deepening relations with the Fund, including with an ECF program later this year that they hope the Board will support, to anchor their current efforts to ensure external balance, support the recovery, raise medium-term growth, and catalyze donor support.

Statement by Mr. Hosseini and Mr. Osei Yeboah on Republic of South Sudan
Executive Board Meeting
July 29, 2022

We thank staff for the well-focused reports and Ms. Mannathoko and Mr. Garang for their informative Buff statement. We broadly agree with the staff assessment and support the completion of the Article IV consultation and the second review of the Staff-Monitored Program (SMP).

We underscore that continued adherence to the Revitalized Agreement on the Resolution of Conflict in South Sudan (R-ARCSS) is critical to restoring macroeconomic stability and boosting inclusive growth. Amid fragility, the recent global shocks set back promising economic recovery that was stimulated by the peace agreement. That said, the authorities have demonstrated strong ownership of the policies underpinning the SMP and used the two disbursements under the Rapid Credit Facility (RCF) to address immediate social and development spending needs.

Prudent growth enhancing fiscal consolidation is key to build buffers and help the authorities lay the foundations for priority social investments and foster debt sustainability. While we note the strong revenue performance for 2021, we think further revenue measures would provide scope to reduce the financing need for FY 22/23, particularly leveraging the prevailing high oil price environment. We commend the authorities' adherence to no monetary financing and non-concessional borrowing given the high risk of debt distress from the DSA. Additionally, the authorities should strengthen the institutional framework for debt management and prioritize PFM reforms to improve spending efficiency. Even so, urgency should be placed on covid-related expenditure and investments in education to strengthen capacity development and catalyze the national transformation strategy geared toward poverty reduction. We encourage the Fund to provide the authorities with the necessary capacity development to strengthen their weak administrative and human capacity.

Sustaining monetary and financial sector reforms remain vital to support central bank autonomy, build reserves and preserve the exchange rate unification initiative. We welcome the good use of the authorities' SDR, allocating 55 percent to boost reserves and their steadfast monetary discipline which has kept money growth subdued and stabilized prices. We see more work ahead on the financial sector regulatory front to bolster banks' capitalization and reinforce the economy's resilience to future shocks. Promoting financial inclusion and improving access to credit would aid the authorities' agenda for an enabling and thriving small and medium private enterprises.

The aim of structural reforms should strengthen macroeconomic stability and boost economic diversification. In that regard, hastening the pace of reforms to promote transparency and good governance would be instrumental in boosting the business climate, attracting FDIs and addressing the overly reliance of the economy on oil exports. We welcome the authorities' stated commitment to implement the recommendations of the safeguard assessment that identified risks to the Bank of South Sudan's internal controls, among other things the publication of audit reports. We think incorporating green and gender initiatives in the authorities' transformational agenda is crucial for private sector-led inclusive growth and economic resilience.

Statement by Mr. Massourakis and Ms. Mastrapasqua on Republic of South Sudan Executive Board Meeting July 29, 2022

We thank staff for their interesting report and Ms. Mannathoko and Mr. Garang for their insightful Buff statement. South Sudan is a fragile post-conflict state, with a high vulnerability to climate and natural disasters. The COVID-19 pandemic and recent devastating floods have negatively impacted the economic recovery taking hold after the 2018 Revitalized Agreement on the Resolution of Conflict in South Sudan and exacerbated the country's humanitarian crisis. The economy remains heavily reliant on oil, with consequent high exposure to oil price fluctuations. Off-budget support from the international community has helped support social spending but it is set to decline. Sustained investment and technical assistance from the Fund are key to addressing the country's complex development needs. Given the overall performance and authorities' commitment to the program objectives, we support the authorities' request for the completion of the second review of the SMP. We share the thrust of the staff's appraisal and provide the following comments:

- **We welcome the authorities' commitment to continuing the implementation of prudent macroeconomic policies to maintain economic stability and debt sustainability.** We urge the authorities to step up efforts to close the fiscal financing gap while, at the same time, refraining from new non-concessional borrowing and resumption of monetary financing. Amid the risk of declining donor support, we also invite the authorities to reprioritize public expenditure towards increased social spending, especially for nutrition, health, and education. We agree with staff that establishing a fiscal anchor to guide fiscal policy might help reduce the risk of debt distress in the medium term. Completing the reform of public financial management and strengthening the institutional framework for debt management will also be paramount for boosting inclusive economic growth.

- **We commend the authorities' efforts to restore exchange rate and price stability.** Abolishing the multiple exchange rate system, removing FX restrictions, and tight controlling of money supply have helped create a more stable economic environment for the private sector and restore South Sudan's credibility with donors. We invite the Bank of South Sudan (BoSS) to enhance financial sector monitoring and regularize data publications. We also call on the BoSS to expand its set of monetary policy instruments and enhance its communication strategy, also with help from the Fund's Technical Assistance. We note that the financial inclusion rate in South Sudan remains low compared to the average for Sub-Saharan Africa and Low-Income Countries, and we call for leveraging technology to optimize limited resources and accelerating digitalization.

- **We urge the authorities to address governance vulnerabilities and enhance transparency and discipline in budget execution.** We appreciate the authorities' efforts to strengthen the AML/CFT framework and increase budget transparency, and we strongly call for building on the progress achieved and keeping up the pace of reform implementation. We invite the authorities to fully engage with the Fund's Technical Assistance to exit the FATF grey list. We appreciate the country's approval as observer to the Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG) and its commitment to undergo an evaluation. We, furthermore, encourage the authorities to promote green and gender initiatives to facilitate private sector-led growth.

Statement by Mr. Herrera and Ms. Bustillo on Republic of South Sudan Executive Board Meeting July 29, 2022

We thank staff for the report and Ms. Mannathoko and Mr. Garang for their helpful Buff statement.

We support the completion of the second review under the Staff Monitored Program (SMP). Alongside financial and technical support from the IMF and the general SDR allocation, the authorities' implementation of prudent fiscal and monetary policies and foreign exchange market reform have helped restore macroeconomic stability. Going forward, we encourage the authorities to continue making progress in the implementation of the Revitalized Peace Agreement and advancing reforms which, jointly with support of international development partners, are critical to address South Sudan's humanitarian and economic challenges and worsening food insecurity. In this regard, we welcome the authorities' intention to apply for an Extended Credit Facility alongside the final review of the SMP.

Continued efforts are needed to manage public finances prudently. While revenue performance for 2021 was strong, improved revenue mobilization remains key to create room for increased spending on nutrition, health, and education. Additionally, we encourage the authorities to prioritize public finance management reforms to improve spending efficiency and strengthen the debt management framework. To this end, the Buff statement's assurance of the authorities' efforts to improve recording and disclosure of debt is welcome, as increased transparency of the public accounts will help maintain credibility and donor support. We are glad to see that South Sudan's debt is sustainable but note that there is a high risk of debt distress in the near term. We therefore encourage the authorities in their efforts to build fiscal and reserve buffers from oil revenue windfalls.

We commend the Bank of South Sudan's (BSS) commitment to cease monetary financing of the fiscal deficit and to implement reserve money targeting, which has helped bring inflation down. In addition, we take positive note of the authorities' reforms to the system of multiple exchange rates which have eliminated distortions and fostered confidence among market participants. In line with this, like staff, we believe that close coordination between the BSS and the Ministry of Finance and Planning is needed to support macro-sustainability. In this respect, we are encouraged to learn from the Buff statement about plans to strengthen coordination to improve capacity for liquidity monitoring and forecasting to help track market developments and respond to them. Furthermore, we encourage the BSS to continue improving transparency and banking supervision, including to address the undercapitalization of domestic banks. To this end, we welcome the Fund technical assistance (TA) on bank resolution taking place in September 2022.

On reforms, we encourage the authorities in their efforts to address the underlying sources of economic fragility, including vulnerabilities to climate change and agricultural land degradation which remain critical to improve the well-being of the population. Relatedly, we are encouraged to learn from Ms. Mannathoko and Mr. Garang about the efforts to strengthen governance and transparency, including in the management of oil resources which will enhance more equitable growth prospects.

Finally, we appreciate Annex VI on capacity development (CD) and the increase in CD activities. We welcome the assessment that TA traction could improve in the future and underscore the importance that, given absorptive capacity constraints, TA remains focused on South Sudan's most critical needs.

With these remarks we wish the people of South Sudan success in their future endeavors.

Statement by Ms. Koh and Mr. Krahnke on Republic of South Sudan
Executive Board Meeting
July 29, 2022

We thank staff for an informative report and Ms. Mannathoko and Mr. Garang for their helpful Buff statement. **We broadly agree with the staff's assessment.** South Sudan has achieved considerable progress towards macroeconomic stabilization under the SMP despite unfavorable external conditions and ongoing domestic fragility. We welcome the extension of the SMP inter alia to support the country in its important efforts to complete an external audit of the public debt stock. Going forward, steadfast implementation of prudent policies including a consistent implementation of PFM reforms will remain of utmost importance. Any backtracking on reform commitments should be avoided. Moreover, increasing the Covid-19 vaccination rate from currently low levels would help build resilience against future flare-ups of the pandemic.

We encourage the authorities to further diversify the economy and boost productivity in the agricultural sector to reduce dependence on international food aid. We take positive note of staff's outline of the Country Engagement Strategy for South Sudan and agree with the principles for macroeconomic stabilization and governance (see Annex I).

We welcome the unification of the multiple-currency system achieved under the SMP and encourage the authorities to continue supporting a unified exchange rate. Further build-up of foreign exchange reserves from currently low levels, to achieve coverage of at least four months of imports over time, would be important to increase resilience.

We look forward to the timely completion of all governance commitments regarding Covid-19 spending made at the time of the RCF disbursements. The preparation of a draft audit report by the Auditor general is a welcome step in this regard and we await its publication in August 2022. *Could staff provide some preliminary information on findings from the report?* Improving transparency and achieving reliability of public financial management process more generally will also be an important cornerstone to attract international investment and donor support to meet the country's large development needs.

We second staff's emphasis on addressing significant deficiencies in debt management practices, which appears particularly important to lower risks for debt sustainability while also making good use of scarce fiscal resources for urgent development needs. In this context, we call on the authorities to press ahead with governance reforms, including the full and timely implementation of PFM reforms such as the Treasury Single Account. *As regards the latter, we would welcome further elaboration by staff on the progress made thus far.*

We encourage the authorities to swiftly implement the remaining commitments from the FATF action plan and work towards a timely removal from the FATF grey list.

Joint Statement by Ms. Grant, Ms. Kashima, Mr. Mochtar, Ms. Abu Bakar, Mr. Becker, and Ms. Ogihara on Republic of South Sudan
Executive Board Meeting
July 29, 2022

We thank staff for the comprehensive report and Ms. Mannathoko and Mr. Garang for their informative Buff statement.

South Sudan's fragile economy is susceptible to internal and external shocks, with Russia's war against Ukraine adding to uncertainty. Notwithstanding some implementation delays, we welcome the encouraging progress by the South Sudanese authorities in implementing critical reforms under the program, despite the multiple challenges and overlap of crises the country is facing. Steadfast resolve to satisfactorily complete the Staff Monitored Program (SMP) is critical to restore macroeconomic stability, catalyze support from international development partners and lay the groundwork for a possible Extended Credit Facility (ECF) program. Against this backdrop, **we support the completion of the second review of the SMP and the request by the authorities for an extension of the SMP until November 2022**. We would like to offer the following comments for emphasis.

We encourage the authorities to consolidate gains from fiscal windfalls to support the most vulnerable, secure debt sustainability, and accumulate reserves. On the revenue side, we welcome the increase in non-oil revenue on the back of strengthened collection efficiency. We encourage the authorities to continue efforts in revenue mobilization to reduce reliance on oil revenue and non-concessional financing. On the expenditure side, fiscal reforms to improve budget discipline and transparency should be accelerated to enhance macroeconomic management and build credibility with international development partners. We caution against over-reliance on volatile oil revenues to finance the 20 percent increase in public salaries, which could risk more instances of payment arrears in the future. We also encourage the authorities to prioritize expenditure to ensure adequate government spending for education, healthcare and productive investment to enhance inclusive and sustainable growth. Furthermore, the authorities should urgently strengthen their debt management framework and improve central oversight on external loans and information sharing between government agencies. *Can staff elaborate on the external loan channeled through the National Investment and Development Bank (NIDB) and signed before the SMP?*

We encourage the authorities to continue to build on initial progress to strengthen governance and anti-corruption frameworks. It is necessary to strengthen fiscal transparency and accountability of oil revenue management. We also strongly encourage the authorities to strengthen the Financial Intelligence Unit's resources and capacity to deal with AML/CFT issues. We also join staff in encouraging the authorities to engage fully with Technical Assistance providers to address AML/CFT issues, including establishing legal and institutional frameworks to facilitate South Sudan's swift exit from the FATF grey list. Given the tenuous nature of Correspondent Banking Relationships (CBRs), compliance is important to maintain access to the international payments system. *Could staff comment on the engagement that they have had with the authorities on CBRs during recent missions?*

South Sudan is highly susceptible to natural disasters and climate change, with severe floods hampering agricultural production and people's access to essential services. Significant resources are needed to invest in climate adaptation and mitigation, including to minimize interruption to agricultural development. We note that the authorities have expressed interest in the RST. However, the fragility and development needs of South Sudan appear to preclude access to the required accompanying UCT program in the near-term. We therefore positively note the well-designed CD strategy, especially with respect to data provision for surveillance. These efforts should continue to support the authorities as they move closer towards eligibility for a Fund supported lending program such as the ECF. *How likely is it that the prerequisites for a program can be met by the end of the SMP later this year?*

Lastly, we underscore the importance of staff's continued and tailored support to the authorities, through a well-sequenced and integrated country engagement and CD strategy. We appreciate the detailed CD strategy in Annex VI and encourage staff to continue to engage with the authorities to improve absorptive capacity, which is a key risk to CD activities. We urge staff to continuously review and update the strategy to reflect priorities and the authorities' absorption capacity. *We welcome the staff's reflections on providing CD and how the budget augmentation for FCS engagement as well as external financing is supporting South Sudan.*

Statement by Mr. Potapov and Mr. Biriukov on Republic of South Sudan
Executive Board Meeting
July 29, 2022

1. We thank staff for the comprehensive report on South Sudan. Our appreciation also goes to Ms. Mannathoko and Mr. Garang for additional clarifications provided in their helpful Buff statement. **We broadly concur with staff's appraisal and support the completion of the second review of the Staff-Monitored Program (SMP).**

2. **The authorities deserve credit for strong commitment to meeting program objectives.** According to staff, most of the goals have been met even despite slower-than-expected progress. The removal of FX restrictions and tight control of the money supply have made the domestic economic environment more predictable. In this respect, **we see merit in an extension of the SMP until November 2022** to allow for the completion of the final structural benchmark and finalization of the FY2022/23 budget preparations.

3. **Prudent management of public finances remains essential for the authorities to further capitalize on the recent gains.** Revenue mobilization efforts should be combined with reduction of operating expenses to close the projected fiscal gap for FY2022/23. In particular, South Sudan's road infrastructure program needs to be reviewed. We support staff's proposal to develop a formal fiscal anchor to shield spending from oil prices volatility.

4. **Reserve money targeting remains an appropriate monetary framework for South Sudan.** Notably, the inflation outlook has improved drastically. We encourage the authorities to improve coordination between the central bank and Ministry of Finance and Planning to ensure a stable functioning of the local FX market and prevent excessive volatility.

5. **We welcome further efforts to strengthen governance and improve the business environment.** The authorities need to keep up the pace of reforms to attract interment and financial support from abroad. We note that the Financial Intelligence Unit has been established yet remains marginally operational and severely under-resourced. Financial flows from the oil sector also require enhanced transparency.

6. **We look forward to South Sudan's deeper engagement with the Fund.** A full-fledged economic program will strengthen macroeconomic stability and lay a strong foundation for sustainable inclusive growth. Prior to that, the authorities need to mitigate risks to a potential ECF from the currently weak debt management practices, as appropriately highlighted by staff.

7. With these comments, we wish the authorities of South Sudan every success in their future endeavors.

Statement by Mr. Bevilaqua, Mr. Cayemitte, and Ms. Florestal on Republic of South Sudan
Executive Board Meeting
July 29, 2022

We thank staff for the report and Ms. Mannathoko and Mr. Garang for their helpful BUFF statement. We agree with the thrust of the staff appraisal and take note of staff's recommendation to conclude the second SMP review based on the overall robust performance.

South Sudan has been impacted by consecutive shocks that are threatening macroeconomic stability. The COVID-19 pandemic and floods had a depressing effect on the country's nascent recovery, with important losses in agricultural and oil production. Arrears accumulated and monetary financing of the budget increased, leading to a sharp exchange rate depreciation and higher inflation. We take positive note that inflation has recently subsided with the restoration of monetary discipline and convergence of the official and parallel exchange rates.

Despite recent increases in international oil prices, South Sudan's near- and medium-term outlook is fraught with uncertainty. Domestic oil production is projected to continue declining in 2022 while higher import prices are threatening to increase the BOP financing gap. Sharp increases in global food prices due to the war in Ukraine are leading to a rapid deterioration of the living conditions of the population—already largely food insecure—enhancing further the drivers of fragility. This challenging situation is compounded by low domestic and external buffers and the declining availability of external assistance. The authorities' continued efforts to promote good governance and transparency are therefore fundamental to increase donors' willingness to provide financial assistance and to enhance the effectiveness of the resources available.

Prudent fiscal and monetary policies and steadfast implementation of structural reforms are needed to promote sustainable inclusive growth. We commend the authorities on their efforts to implement the reform agenda and take positive note of the good traction of staff's advice, as shown by the uptake of many of the 2019 Article IV recommendations. However, additional efforts are still needed. At the fiscal level, increasing expenditure efficiency and better cash planning are paramount. Like staff, we believe that developing robust mechanisms to build fiscal and international reserve buffers from oil revenue windfalls and strengthening the institutional framework for debt management would be critical. Also, we see merits in staff's recommendations to phase out exemptions, align tariff rates with the EAC, and gradually value imports at the market exchange rate. We take positive note of the authorities' commitment to keep money growth under control and welcome the convergence process of the official and parallel exchange rates.

Efforts to strengthen the banking system and deepen financial access should be accelerated. We support staff's recommendations to reaffirm the central bank's supervisory authority by completing, inter alia, the work on risk-based supervision and on the long-standing issue of undercapitalization. Also, we welcome the authorities' commitment to merge or liquidate undercapitalized banks and strongly support their request for IMF TA on bank resolution.

We welcome the succinct Country Engagement Strategy (CES) underlying staff's analysis and recommendation and calling for sustained domestic and multilateral efforts but, at the same time, missed a clear indication of the authorities' inputs into and stance on the CES. We also appreciate the inclusion of clear roles for the Fund, including on modalities to best deliver TA (considering limited absorptive capacity) and timely international support. We also note that the CES emphasizes the importance of unlocking project support. *Here, we wonder whether staff is perhaps cautioning against general budget support and whether the World Bank's IDA budget grant experience would be related to such a stance. Staff comments would be appreciated.*

Finally, we wish the authorities continued success in the SMP implementation and stand ready to consider in due course South Sudan's request for an ECF. In our view, a longer-term financial program would be better suited to support South Sudan's efforts to address the country's structural challenges and help to mobilize additional donor support. We share staff's view that the ECF would need to be carefully calibrated to ensure that it plays a catalytic role. *We wonder whether there might be any impediments to combining the last SMP review with the start of ECF negotiations as suggested in the BUFF statement. Staff comments would be welcome. We would also appreciate additional information on staff's current thinking on the possible use of RST resources (on top of ECF financing) to address risks posed by climate change and the pandemic.*

Statement by Mr. Binzarah and Mr. Abalala on Republic of South Sudan
Executive Board Meeting
July 29, 2022

We thank staff for the informative report and Ms. Mannathoko and Mr. Garang for their helpful Buff statement. We note with concern that economic growth in South Sudan remains sluggish on the back of the pandemic and devastating floods. Nonetheless, we are encouraged to learn that the macroeconomic policies and reforms underpinning the SMP, supported by two disbursements under the RCF have helped restore macroeconomic stability and eliminate the multiple exchange rates. We stress that maintaining political stability through continued implementation of the Revitalized Agreement on the Resolution of Conflict of South Sudan (R-ARCSS) is critical to achieve the program objectives and unlock further support from the international community. Addressing the causes of fragility, as elaborated in the Country Engagement Strategy, should remain the focus of the policy reforms. Against this backdrop, we broadly agree with staff appraisal and recommendations and would like to make the following comments.

We support the authorities' request for completion of the second review of the SMP and staff's proposal to extend the program to end-November 2022. We welcome the satisfactory performance under the program and encourage the authorities to advance their efforts to meet all the quantitative targets and structural benchmarks in a timely manner. Here, we are reassured by the authorities' commitment to the program. Further, the extension of the SMP should allow for the completion of the final structural benchmark and continued close coordination between staff and the authorities on the FY2022/23 budget and PFM reform program. We also take note that sizeable balance-of-payment gaps are foreseen over the medium term, and hence support the discussion on a potential ECF following the conclusion of the SMP.

Structural fiscal reforms are key to help South Sudan achieve macroeconomic and debt sustainability. We stress that prudent fiscal policy including better cash planning and strengthened institutional framework for debt management are warranted to reduce financing needs and help maintain adequate external buffers. In this vein, we welcome the authorities' commitment to refraining from monetary financing of the fiscal deficit as well as from non-concessional borrowing. Here, we see merit in the proposed adjustment of the ceiling on net credit to the central government by the BoSS to allow for on-lending of part of SDR allocation to be used for budget purposes.

We take positive note that restored monetary discipline has stabilized prices. We agree that the current monetary framework is appropriate with room for enhancement that requires stepped-up efforts to improve the implementation of the framework. The regular FX auction is a useful tool to help price discovery in the FX market. Effective communication is another important tool of monetary policy to better manage public expectations. Safeguarding financial stability remains important during these challenging times. We therefore support the authorities' request for IMF technical assistance to help address the long-standing issue of undercapitalization of the banking sector and look forward to concrete outcomes of such engagement.

Reforms to address corruption and safeguard the integrity of the budget process, including through improved PFM and governance frameworks, should continue. In this connection, we take positive note of the progress on the implementation of the Auditor General's report recommendations regarding the use of the first RCF disbursement. Moreover, we urge the authorities to move expeditiously to address the high risks of the BoSS identified by the safeguard assessment. Among others, this would be critical to help mobilize additional concessional financing, especially in view of the current credibility gap with donors. Going forward, continued close engagement with the Fund with adequate TA support would be important.

We note with concern that South Sudan is one of the most vulnerable countries in the world to natural disasters with serious socio-economic implications. We agree that South Sudan should enhance its resilience to climate change through investment in adaptation infrastructure, as staff rightly indicate in the report. We recognize that the authorities share staff assessment and recommendations; however, they highlight that limited fiscal space with the already large financing needs constitute a major constraint. This highlights the importance of adequate support from the international organizations as well as the timely delivery of the climate financing pledges made by developed economies to help developing nations including South Sudan mitigate and adapt to climate change. *Here, Staff comments are welcome.*

Statement by Mr. Mohieldin, Mr. Alhosani, and Ms. Al-Riffai on Republic of South Sudan
Executive Board Meeting
July 29, 2022

We thank staff for their informative report and Ms. Mannathoko and Mr. Garang for their helpful Buff statement. The pandemic and natural disasters have unwound South Sudan's economic recovery that followed the 2018 peace agreement. However, and despite an environment of extreme fragility and a grim humanitarian situation, the authorities, under the Staff Monitored Program (SMP) have showed commitment to the program's objectives and implemented difficult reforms that have helped to stabilize the economy, reduce distortions in the FX market and establish a track record of reform implementation. **We support the completion of the second review and the request by the authorities for an extension of the SMP until November 2022.** We broadly support staff appraisal and have the following comments to make.

It will be crucial for the authorities to sustain their efforts to improve debt management and oversight.

It will be important to continue to rationalize expenditure, mobilize domestic resources, enhance social spending whilst maintaining debt sustainability. To that end, we commend the authorities on their commitment and efforts to; stop the monetary financing of the deficit, continue to improve non-oil revenue collection, phase out exemptions, and their intention to save part of the windfall oil revenues in the Future Generation and the Oil Revenue Stabilization Funds. It will be important to build a well-targeted and robust social safety net to protect the vulnerable. *Here we would appreciate if staff can provide detail on the plans and timeline envisaged to build a social safety net.*

We commend the authorities on their success of removing significant FX market distortions which have helped unify the exchange rate and bring down inflation. We encourage them to continue to implement reserve money targeting and refrain from going back to the monetary financing of the deficit. We also take positive note of the measures aimed at expanding their monetary policy toolkit to better manage liquidity in the system. We are concerned about the two-week foreign reserve cover. Though we concur with staff on the policies needed in the medium and long term to shore up South Sudan's FX position, we worry that in light of the challenging global environment, maintaining fiscal discipline and refraining from central bank financing in the short term may not be enough to preserve and expand upon the progress made to stabilize the FX market. We missed some details in the staff report on how the authorities can build their FX reserves in the short to medium term under such challenging circumstances, *staff comments are welcome*.

The Bank of South Sudan (BoSS) should continue to sustain the efforts to strengthen the banking sector, ensure the stability of the financial sector and increase financial inclusion. Here we welcome the Fund's technical assistance overall in that regard. We encourage the authorities to continue publishing the audited financial statements of the BoSS and advance work required to publish the audited financial statements of commercial banks.

In light of South Sudan's limited capacity as an FCS, a continuous and well-sequenced capacity development strategy is crucial for the success of the authorities' stabilization and reform efforts. As with other FCS, in person TA delivered through a longer-term program of hands-on activities would indeed deliver the best results. We found the Annex (VI) on the schedule of CD/TA activities helpful. However, we would have liked to see all of the CD/TA activities planned, including those planned by development partners that would help the authorities achieve the program targets. In an FCS, coordination with other development partners is crucial for the success of the Fund's engagement.

We encourage the authorities to sustain their structural reform agenda momentum to promote transparency and enhance economic efficiency. The measures taken to improve the governance framework are necessary and welcome. To that end, we also welcome the measures taken to strengthen the credibility of the financial system by working to implement AML/CFT reforms in coordination with the Financial Action Task Force (FATF).

South Sudan's challenges remain significant, and a lot more needs to be done to help the authorities build upon the successes made under the SMP. We favorably note the authorities' request for an Upper Credit Tranche program which would indeed help the authorities appropriately address South Sudan's significant macroeconomic challenges and allow them to deepen their reform agenda. *We would appreciate staff comments on the timing of the authorities request to combine the last review of the SMP with discussions around an Extended Credit Facility*.

Statement by Mr. Zhang and Ms. Yang on Republic of South Sudan
Executive Board Meeting
July 29, 2022

We thank staff for the insightful report and Ms. Mannathoko and Mr. Garang for the informative Buff statement. Despite the challenging economic environment, the South Sudanese authorities have made progresses to restore macroeconomic stability. We support the completion of the Article IV Consultation and the second review of the Staff-Monitored Program (SMP). We broadly agree with staff's appraisal and would limit our comments to the following for emphasis.

We encourage the authorities to accelerate the implementation of the R-ARCSS. Although there are some positive developments, the implementation of the R-ARCSS remains slow, selective and behind schedule. Uncertainty on the timing of the planned elections and continued violent conflicts are sources of concern. The humanitarian situation remains dire, with displacements and food insecurity reaching unprecedented levels. Against this backdrop, accelerating the implementation of the R-ARCSS and advancing peace progress are imperative to pave the way for economic recovery and social stability. In the meantime, sustained supports from international communities are critical. *Given that South Sudan is facing the risk of shrinking donor support, could staff comment on the effect of lifting sanctions on donor support mobilization?*

Prudent fiscal and monetary policies are required to restore economic stability and debt sustainability. We take positive note that the authorities have taken encouraging steps to reforming macroeconomic governance and restoring exchange rate and price stability. While the authorities published a report on their known external debts as of December 2021, the discovery of another previously undisclosed loan incurred prior to the start of the SMP highlights the continued need to improve debt management and oversight. We commend the authorities for refraining from monetary financing of the deficit and non-concessional borrowing to close the fiscal financing gap, meanwhile, the authorities should prioritize PFM reforms to improve spending efficiency. We agree with staff's assessment that reserve monetary targeting remains appropriate for South Sudan for the time being, and highlight that the undercapitalization of the banking sector should be promptly addressed. The low financial inclusion rate requires further efforts.

Accelerating structural reforms and improving governance are essential to help South Sudan exit fragility. Strengthening governance and enhancing transparency are critical for South Sudan to improve economic management and attract foreign investment and financial support. South Sudan is a heavily oil-dependent country, the authorities should use the proceeds from higher oil revenues to enhance the resilience of South Sudan's economy, while diversification away from reliance on oil will be critical for long-term external stability and sustainable economic growth. In this regard, investing in human capital and infrastructure will help to boost growth potential and create diversification opportunities. Against the backdrop of the surging food prices and food shortage, it is particularly important for the authorities to increase investments in the agriculture sector.

Finally, we congratulate staff for a very insightful Country Engagement Strategy, which provides guidance on the Fund's engagement with South Sudan over the medium and long term. We encourage the Fund to keep playing an important role in providing technical assistance to support South Sudan's reform agenda.

With these remarks, we wish the authorities every success in their policy endeavors.

Statement by Mr. Dresse and Mr. Tevdovski on Republic of South Sudan
Executive Board Meeting
July 29, 2022

We thank staff for the well-focused report and Ms. Mannathoko and Mr. Garang for their informative Buff statement. **We agree with the thrust of the staff appraisal**. The staff rightly focuses on the measures to help South Sudan tackle the manifold causes fragilities affecting the country, as identified in the Country Engagement Strategy. Despite facing multiple shocks, the authorities have taken encouraging steps under the Staff Monitored Program (SMP) and have eliminated a long-standing system of multiple exchange rates. However, the need to strengthen governance and further increase the transparency of government operations remains urgent. Given South Sudan's climate change vulnerability, the economy also requires structural transformation. **We support the completion of the second review of the SMP and its extension, given the authorities' commitment to meet program objectives.**

We welcome the reform progress so far. However, steadfast completion of the SMP is critical to restore macroeconomic stability, catalyze support from international development partners and lay the groundwork for a possible Extended Credit Facility (ECF). We welcome that the authorities have continued to refrain from monetary financing and new external borrowing. We support the extension of the SMP to end-November and the inclusion of new quantitative targets and structural benchmarks. The discovery of an undisclosed loan incurred prior to the start of the SMP is a stark indicator of the need to improve debt management and oversight. The publication of the final audit report on spending financed by the second RCF, and the completion of the independent external audit of all underlying contracts and documentation related to external borrowing is a necessity.

Strengthening governance and enhancing transparency are key for South Sudan. We note the deterioration of the country's relative position in the Corruption Perception index since the 2019 Article IV consultation. Governance reforms are progressing but concrete achievements are needed. The authorities need to engage fully to exit the FATF's grey listing as soon as possible. Transparency in the management of oil revenues, including publication of all signed oil production sharing agreements and quarterly publication of a report on the oil sector will limit the possibilities for corruption and rent seeking. The authorities should implement all recommendations arising from the audit of the expenditures financed by the RCF.

The authorities should avoid a recurrence of arrears on domestic salaries, as recommended by staff, and need to seek to create fiscal room to raise social spending. Further efforts to increase revenue mobilization, as well as improvement of spending efficiency are needed. *Could staff comment on the possible second-round effects from the proposed 20 percent salary increase?* We support the recommendation to establish a fiscal anchor to guide fiscal policy, including robust mechanisms to build fiscal and reserve buffers from oil revenue windfalls.

South Sudan should enhance its resilience through structural transformation. We welcome the staff's analysis regarding the need to address climate change. The increased frequency and impact of floods in the last few years underlines the need for investment in resilient infrastructure. Protecting and developing agriculture can help alleviate food insecurity and reduce reliance on oil revenues. Given the limited fiscal space, the authorities' cooperation with development partners can be key in fostering a more productive agricultural sector, as well as investment in human health and capital.

We highlight the importance of adequate data provision for the Fund's surveillance. We note that most official macroeconomic data have significant shortcomings, despite extensive Fund technical assistance. We encourage the authorities to improve data availability and quality, since it is a precondition for adequate surveillance and policy design.

Statement by Mr. Sylla, Mr. Sidi Bouna, and Mr. Olhaye on Republic of South Sudan
Executive Board Meeting
July 29, 2022

We thank staff for the comprehensive report and Ms. Mannathoko and Mr. Garang for their insightful Buff statement.

We welcome the authorities' commitment to the Staff Monitored Program (SMP) and sound program performance. **On this basis, we support, the completion of the second review of the SMP.**

South Sudan's macroeconomic and social stability remains fragile. The combination of Covid-19 pandemic, devasting floods, and lingering conflicts in some states regrettably derailed the economic recovery and elevated vulnerabilities. Despite these multiple shocks, we commend the authorities for preserving the Revitalized Agreement on the Resolution of Conflict in South Sudan (R-ARCSS), critical to state building, improving social cohesion and enabling economic reforms - essential for paving the way to macroeconomic stability. Notwithstanding, we note that downside risks are high, including higher international food prices and potential resurgence of COVID-19. Against this backdrop, we broadly support staff's appraisal and policy recommendations and will raise a few points for emphasis.

Pursuing growth-friendly fiscal consolidation premised on improving macroeconomic stability and debt sustainability while expanding social protection measures are warranted. The authorities' improvement of fiscal revenue and reduction of the deficit is welcome. Although budget outlays were greater than envisaged, we commend the authorities from refraining from monetary financing of the deficit and non-concessional borrowing. In this regard, it will be important to strengthen expenditure controls and cash management and, we welcome the planned establishment of a Public Procurement and Asset Disposal Authority (PPADA). Strengthening debt management will be essential to preserve debt sustainability and reduce debt vulnerabilities. We positively note from Ms. Mannathoko and Mr. Garang's buff statement that the authorities have cleared the Transitional Financial Arrangement with Sudan, which will contribute to creating much needed additional fiscal space, especially needed to boost social spending. In this connection, Fund capacity development will be indispensable.

Building on monetary and financial sector reforms will be critical to expand reserves, reinforce exchange unification and ensure financial sector stability. We call for strengthening liquidity monitoring and forecasting by the Bank of South Sudan (BoSS) and *would appreciate staff's comments on the status of operationalizing the Liquidity Working Group.* The undercapitalization of the banking sector is concerning. The authorities' plans to seek investors, pursue mergers and enable voluntary liquidation are steps in the right direction. To this end, strengthening banking supervision and enhancing bank resolution expertise will be important, and we encourage the Fund to provide timely TA and capacity development to the BoSS. Equally concerning is the low level of financial inclusion. We urge the authorities to take steps to boost financial inclusion and expand access to credit which will facilitate a more vibrate and active private sector.

It is imperative the authorities make progress to address governance and structural frailties to boost economic diversification and resilience to climate change. In this connection, accelerating the pace of transparency and good governance reforms will help strengthen macroeconomic stability, reduce dependency on the oil sector, unlock greater FDIs, boost private sector development and enhance sustainable economic development outlook. Moreover, given South Sudan's elevated climate-related risks, that dampens development of the largely untapped critically vital agricultural sector, we urge greater climate adaptation measures and technologies. *In this respect, has South Sudan accessed the UN Green Climate Fund or other similar climate related funds and if not, to what extent can Fund TA assist the authorities in this area?*

We commend staff for rolling out Country Engagement Strategies (CES) as part of the Fund approved Fragile and Conflict-Affect States (FCS) Strategy and for South Sudan been among the first participants. We fully support the development of enhanced tailored Fund engagement for FCSs such as South Sudan and took note of the sources of fragility identified by staff in the CES. We remain hopefully that through this new mechanism – surveillance, capacity development, and lending will be more focused and aid the authorities to tackle the sources of fragility and enter a path of more sustainable and inclusive development. In this connection, we support Ms. Mannathoko's call for "*longer-program of hands-on support activities*" and we look forward to closer engagement between the authorities and the Fund, with the aim to enter into a ECF program later this year. *Staff's comment is welcome on next steps to mainstreaming CES's findings in IMF's future engagement with South Sudan.*

With these comments, we wish the South Sudanese authorities all the success.

Statement by Mr. Azal and Mr. Hagara on Republic of South Sudan
Executive Board Meeting
July 29, 2022

We thank staff for the informative set of reports, and Ms. Mannathoko and Mr. Garang for their helpful Buff statement. South Sudan is a fragile, post-conflict state that, in recent years, has been severely impacted by the COVID-19 pandemic and a series of floods. Against the backdrop of the overall progress with reforms under the Staff-Monitored Program, we welcome staff's recommendation to complete the second review, and staff's proposal to extend the program to end-November 2022. At the same time the authorities need to build further on that progress and continue with reforms, as well as the peace process. We broadly agree with staff's recommendations and would like to offer following comments.

While we welcome the authorities' commitment to debt sustainability, South Sudan remains in high risk of debt distress. In addition, South Sudan needs to increase spending in many developmental areas, including in education, health, nutrition, social, and climate. Against that backdrop and in view of the risk of reduced donor funding, we strongly encourage the authorities to re-prioritize some oil resources earmarked for road investment, considering value-for-money if possible. Spending efficiency should be further strengthened through the increased control of budget execution, as well as public procurement. *We note that public salaries continue to substitute standard social protection mechanisms. We would welcome staff's update on the progress with the development of a cash transfer program through the South Sudan Safety Net Project.* On the other hand, South Sudan remains heavily dependent on volatile oil revenues. Non-oil revenue mobilization hence remains key to support the financing of critical expenditure. *We wonder, to what extent can staff's proposed revenue mobilization measures reduce South Sudan's reliance on oil revenues?*

Monetary discipline and the elimination of multiple exchange rates served South Sudan well in containing inflation. We welcome that the authorities have kept money growth under control recently, and have successfully transitioned to a unified exchange rate, which has remained broadly stable after the unification. In turn, inflation has declined from the early-2021 highs to very low levels in March 2022. Nevertheless, we note that inflation is expected to rise again as high commodity prices feed into the domestic market. We encourage the authorities to adhere to prudent monetary and exchange rate policies.

Governance reform efforts remain of utmost importance. We welcome some progress with governance reforms, particularly in public financial management. Nevertheless, we strongly encourage the authorities to build on that progress further and in broader areas to promote South Sudan's prospects in economic management, attracting investment and financial support from abroad. We encourage the authorities to work closely with the Fund and other technical assistance providers to support their efforts in AML/CFT and to exit the Financial Action Task Force's grey list earliest possible.

Statement by Mr. Jennings, Mr. O'Brolchain, and Ms. Smith on Republic of South Sudan Executive Board Meeting July 29, 2022

We thank staff for the comprehensive reports, and Ms. Mannathoko and Mr. Garang for the useful buff statement. We broadly agree with staff's appraisal and **support the conclusion of the Article IV and the second review under the Staff Monitored Program (SMP).** We would like to highlight the following.

The authorities are to be commended on their strong program performance and commitment and are strongly encouraged to accelerate efforts on outstanding public financial management (PFM) reforms. We are pleased to note that the policies implemented under the SMP, as well as the two disbursements under the Rapid Credit Facility (RCF), have assisted in the restoration of macroeconomic stability and elimination of long-standing multiple exchange rates. **We support staff's decision to extend the SMP until November 2022**, with a view to making more progress on the final structural benchmark and sustaining close engagement on the FY2022/23 budget and PFM reform program.

We positively note the authorities' interest in an Extended Credit Facility (ECF), which should help them to further advance necessary fiscal, monetary and structural reforms, as well as catalyze additional resources. We agree that advancing such discussions should be predicated on the successful completion of the SMP and an assessment of the authorities' capacity to implement a UCT-quality program *and would welcome staff's initial assessment in this regard.*

Although South Sudan's debt is assessed as sustainable, the risk of debt distress remains high. **We strongly encourage the authorities to strengthen the institutional framework for debt management and reporting, especially in the context of the recently disclosed oil advances and external loan which were arranged to prior to the formalization of the SMP.** The authorities' publication of a report on their known external debts as of December 2021 is a welcome step. We look forward to the validation of the report's content by an independent auditor, as well as the authorities' upcoming engagement with the Fund for TA to improve institutional decision making on debt, debt recording and developing a debt management strategy. Access to highly concessional funding is also needed for the authorities to accomplish necessary development objectives while improving sustainability. This will require sustained improvements in governance and anti-corruption to build the trust of creditors and donors, as well as a commitment to the 2018 peace agreement. *Can staff provide an update on the authorities' peace-building process?*

We commend the authorities on keeping money supply growth under control through effective reserve money targeting. The authorities should continue to avail themselves of Fund assistance to enhance the monetary policy toolkit, as well as advance efforts to address the undercapitalization of the banking sector. We note from Annex V the low commercial bank penetration in South Sudan and that only 4.7 percent of adult women have access to formal financial services. We encourage the authorities to continue to prudently leverage digitalization to improve financial inclusion.

Joint Statement by Ms. Marcussen, Mr. Ronicle, Ms. Medearis, Mr. Trott, Ms. Clapham, Mr. Slettvag, and Mr. Westphal on Republic of South Sudan
Executive Board Meeting
July 29, 2022

We want to thank staff for their report and Ms. Mannathoko and Mr. Garang for their Buff statement. South Sudan is facing a dire economic and humanitarian situation due to the effects of the pandemic and Russia's invasion of Ukraine, climate-related shocks, slow implementation of the peace agreement, and very limited government capacity to deliver services and collect revenue. While higher oil prices have provided some relief, the sharp rise in global food prices risks exacerbating the humanitarian crisis, and we appreciate staff's upfront analysis on the spillovers from Russia's invasion of Ukraine in this regard. While the authorities have made some progress under the SMP, notably with the exchange rate reform, we are concerned about remaining severe weaknesses in the budget implementation progress, poor implementation of the recommendations from the Safeguards Assessment, and slow progress on PFM reforms. In this context, engagement on a financed program for South Sudan is premature. We therefore agree with staff on extending the SMP to end-November considering the delays on of key reforms and urge the authorities to ensure timely progress, also in order to demonstrate the necessary capacity and commitment to implement a potential UCT program. We broadly agree with the main policy priorities as laid out in the Country Engagement Strategy and stress that these policies will need to be complemented with institutional reforms to strengthen governance and transparency. Looking forward, we agree with Staff's view that strong reform implementation is necessary to build credibility with donors and unlock concessional financing.

We urge the authorities to implement the necessary reforms to advance the implementation of the 2018 peace agreement (R-ARCSS). The political stability and macroeconomic outlook in South Sudan depend critically on the implementation of the R-ARCSS, and we regret that progress so far has been slow and piecemeal. We are concerned that elections without a clear implementation plan for the peace agreement will not be credible and urge the authorities to begin the process of setting up institutions and mechanisms to allow for elections to be held as soon as possible. Greater political stability will be key to promoting foreign investment sorely needed in the South Sudanese economy.

We commend the authorities for successfully implementing the FX reform and welcome reported discontinuation of monetary financing. We welcome that the authorities have maintained prudent control over the growth of money as well as refrained from engaging in monetary financing of the government, which contributed to a significant reduction in inflation. Moreover, the abolishment of the longstanding system of multiple exchange rates in August 2021 was a significant step in the right direction, allowing firms and households to buy and sell foreign currency at predictable and competitive rates. We welcome the authorities' commitments to maintain the stance on these reforms and urge them to honor these commitments to avoid a destabilizing return to monetary financing and multiple exchange rates.

We support staff's call for the authorities to review its road building program and prioritize social spending. To this aim, we urge the authorities to continue engaging with the IMF on TA/CD, prioritizing PFM reforms to ensure better execution of the budget. We welcome the formalization of previously off-balance public sector pay and recognize that absent other transfer mechanisms, public salaries are the only poverty reducing tool in the face of higher inflation. At the same time, the expected rapid rise in the public wage bill has negative implications for available resources for other areas of the budget, particularly as the issue of incurring salary arrears remains a persistent challenge for the authorities. Moreover, we note that just under half of the Government's declared oil revenues for the first half of the financial year went to road building, without showing much progress on construction or upgrading, and encourage the authorities to explore if there is room to re-prioritize some resources earmarked for road investment to other pressing investment needs and social spending. We support staff's call for the authorities to develop a mechanism that uses oil revenue windfalls to build fiscal and reserve buffers.

We are deeply concerned about recently disclosed external obligations through the National Investment and Development Bank (NIDB), which is symptomatic of major weaknesses in the debt management framework. We underscore staff's recommendation for the authorities to follow the legal framework in the Constitution and the PFM Act of 2011, including the approval of any external debt contract by the Loan Committee before being sent to the Cabinet and the National Assembly. This is a macro-critical area that requires significant strengthening and strict implementation of the legal framework should be a pre-condition for a future funded IMF program. *What can staff tell us about NIDB and this newly discovered lending? (e.g., when was the bank founded, who are its shareholders, how much was the loan for and for what purpose was it made?)*

Risks to external debt distress are very high, underscoring the need for further governance reforms to unlock concessional financing. We note the DSA estimates a financing gap starting in FY2022/23, projected through the medium-term, and assumes it will be filled with non-concessional loans of 5 percent interest rate. Noting the forecast for rapidly rising global interest rates, we wonder if this is underestimating the interest rate for non-concessional debt considering GoSS credit risk profile. *We welcome staff's comments.* Furthermore, the DSA says that the payment of the Transitional Financial Arrangement (TFA) with Sudan is completed as of February 2022. Yet GoSS has "continued to transfer the same amount of crude oil to Sudan as before but is not getting paid", accumulating total credit of about US$246 million with Sudan. *Is it correct to say that staff is treating these payments as debt owed by Sudan to GoSS? How realistic is it to assume that these debts will be repaid?*

We are concerned about remaining severe weaknesses in the budget implementation, and inadequate progress on reforms to strengthen cash management and improve fiscal transparency. In addition, the Bank of South Sudan (BoSS) has shown minimal progress in addressing significant weaknesses inventoried during the Safeguards Assessment, including problems with internal controls, legal compliance, financial reporting, and internal audit. South Sudan is consistently ranked as among the most corrupt countries and competition for state resources continues to fuel conflicts in the country. The IMF's engagement with South Sudan must take this reality into account and insist on strong safeguards to prevent misuse and ensure that funds benefit the people of South Sudan. In this regard, while we welcome that the authorities are working to implement some of the recommendations in the Auditor General's report regarding the use of funds under the first RCF, we believe that the IMF should insist on the following before any IMF program is brought to the Board: 1. Implementation of the full set of recommendations in the Auditor General's report regarding the use of funds under the first RCF, including the strengthening of internal controls at ministries and MDAs to ensure better monitoring of disbursed funds. 2. Completion of a proper investigation of the discrepancies in the use of USD 16 million (of USD52 million). 3. The publication of the audit report of spending financed by the second RCF and the audit on external debt and guarantees. 4. Meaningful progress towards implementation of reforms at the BoSS to address weaknesses identified under the Safeguards Assessment. *Could staff give an assessment of the work to implement the recommendations in the audit report on spending financed from the first RCF?* Significant progress in addressing recommendations in all three audit reports will be critical to limit the risks related to longer term IMF engagement.

The authorities should accelerate the efforts to implement the FATF action plan and strengthen its capacity and expertise to deal with AML/CFT issues. We urge the authorities to bring the Financial Intelligence Unit (FIU) to full operational capacity with adequate resources, expertise and leadership to conduct its supervisory functions. We encourage the authorities to conduct a National Risk Assessment and the necessary legislative review of the AML/CFT Act, and to work closely with ESAAMLG to continue progress on reforms.

Statement by Mr. Peter and Mr. Abdygulov on Republic of South Sudan
Executive Board Meeting
July 29, 2022

While hard hit by the heritage of the civil war, the pandemic, and floods in the last three years, the Republic of South Sudan has maintained relative macroeconomic stability since the previous review of the Staff Monitored Program (SMP). Under the SMP, monetary financing was discontinued, public spending and revenue were brought into alignment, and an FX reform successfully abolished a long-standing system of multiple exchange rates. However, the economy remains exceptionally reliant on oil, which accounts for over 90 percent of government revenue. Fiscal and external imbalances remain considerable. Reserves are nearly depleted, and inflation is high. We broadly concur with the staff appraisal and recommendations and offer the following comments.

Fiscal adjustment and reforms are urgently needed to reduce risks to debt sustainability.
South Sudan's debt is sustainable, but there is a high risk of debt distress. We urge the authorities to continue to refrain from borrowing at non-concessional terms, including oil advances. At present, paying wages and salaries is the most effective way of channeling support to the population. Therefore, we support the staff's recommendation to prioritize these payments, while continuing to work on developing mechanisms to provide targeted support for vulnerable groups and, over time, free fiscal space for other priority spending. In addition, we note the significant pressure that salary payments may put on the current monetary policy. We also note the authorities' significant infrastructure investment push. In this context, we consider that while earmarking resources can be an effective way of ensuring a constant financing flow for longer-term investment plans—including maintenance—too much earmarking can also introduce rigidities that may be disadvantageous in a situation of very limited fiscal space and revenue volatility. Noting the high reliance of the fiscal stance on oil revenues, we also find warranted to design a fiscal rule that would reduce fiscal policy procyclicality and allow to save revenue windfalls.

Significant reforms to improve the effectiveness of monetary policy and banking supervision are needed. We note the progress made toward a market-determined exchange rate and toward eliminating a few multiple currency practices. We urge the authorities to swiftly implement the reforms to increase the central bank's independence and to continue to refrain from monetizing public debt. More efforts are also needed to rebuild international reserves, contain inflationary pressures, and enhance the monetary toolkit. Finally, the central bank needs to improve its liquidity monitoring and forecasting capabilities and institutionalize data sharing with the Ministry of Finance and Planning (MoFP). On the banking sector, the undercapitalization of banks should be addressed promptly by merging or liquidating undercapitalized domestic banks. All these measures will help to secure financial sector stability and limit financial contagion risk. Additional efforts are also needed to broaden financial inclusion.

Governance, transparency, and anti-corruption issues need to be tackled effectively. We note the authorities' progress in (i) establishing the Cash Management Unit (CMU) at the MoFP, (ii) starting the implementation of a Treasury Single Account, (iii) discontinuing the use of nontransparent oil advances for budget financing, (iv) publishing the budget for FY2021/22; and (v) initiating reforms to strengthen the AML/CFT framework. The authorities must continue to work toward strengthening governance and addressing corruption to build credibility and ensure public accountability. Furthermore, the authorities should develop a plan for addressing the recommendations made in the audit report of the second RCF disbursement and then implement all recommendations made by the IMF's safeguard assessment. Additionally, the authorities need to keep up the pace of the reforms necessary to (i) address the legal issues on AML/CFT and (ii) increase the effectiveness of the financial intelligence unit.

Economic diversification is a priority, given the country's high dependence on oil revenue. Therefore, gradual improvements in the investment and business climate combined with selected support to the agricultural sector should be among the top priorities. In this context, we note staff's call for improving the efficiency of road infrastructure investments to create space for investment in other priority areas, such as supporting higher agricultural productivity and building climate resilience in agriculture. Technical assistance on public investment management could help improve investment efficiency.

Last but not least, we note the mixed traction of Fund capacity development (CD), and we encourage the authorities to take full advantage of CD, including to improve data compilation and reporting. The latter will be essential to minimize data dissemination delays and facilitate effective Fund surveillance.

Statement by Mr. Buissé, Mr. Roman, and Mr. Albisson on Republic of South Sudan Executive Board Meeting July 29, 2022

We thank staff for their insightful report and Ms. Mannathoko and Mr. Garang for their helpful Buff Statement. We take note of the second review and the extension of the SMP to November 2022. We share staff's assessment that the SMP's extension will allow more time for the much-needed final audit on spending under the second RCF and independent audit of external borrowing.

Outlook

Despite recent relevant measures to restore macroeconomic stability under the SMP, South Sudan remains in a very fragile economic situation. We note the negative growth forecasts in the short-term but also potential recovery in the medium-term, even if downside risks remain major. As the economy is highly dependent on oil exports, the consequences of the flooding damages on oil fields weigh on growth forecasts. In addition, the country is still facing several issues regarding the peace process and institutional stability, that could be even more fragilized by a deteriorated humanitarian situation, in the aftermath of the global food security crisis. Delays in the Constitution drafting process, and uncertainties surrounding elections in 2023 are also concerning. Therefore, in that context, we encourage the authorities to continue implementing key reforms to maintain macroeconomic stability and tackle the causes of fragility, as stated under the SMP. We also read with great interest the summary of the country engagement strategy in Annex I, which provides valuable insights on the sources and consequences of fragility.

Fiscal policy

As the fiscal gap remains significant, the authorities should strengthen debt management, improve use of oil revenue, and non-oil revenue mobilization. We welcome the non-oil revenue collection rise during FY2021-2022, even if the country remains very reliant on volatile oil-revenue. Therefore, we encourage the authorities to continue implementing measures to increase social spending and modernize and diversify revenue collection, as suggested in staff's report. The authorities' efforts to start improving transparency on oil sector revenue flows and debt management (especially the publication on external debt) are welcome, and we encourage them to go further in strengthening tax administration, establishing a fiscal anchor and developing the legal framework for public debt management and public sector entities, in line with international standards. *Could staff comment on the concrete measures taken and planned by the authorities to improve the management of oil resources, and in particular the implementation of a treasury single account?*

Monetary policy and financial sector

While the monetary framework could be considered as adequate for now, the authorities should quickly improve the banking sector stability. We welcome staff's assessment that reserve money is appropriate and transparent for the moment under the SMP's objectives, but we share that the authorities should continue to improve the monetary framework and expand the monetary toolkits. We also positively note that multiple currency practices and exchange restrictions have been recently removed under the SMP. Nonetheless, we encourage the authorities to improve banking regulation, especially to address the issue of undercapitalization and develop a risk-based supervision policy. Improving the AML-CFT framework will also be paramount, as well as improving safeguards, mostly for BoSS internal control and the quality of financial regulations. *How does staff assess the Financial*

Intelligence Unit and its capacity to be sufficiently independent and operational to address the issues of financial transparency? How to ensure implementation of the FATF action plan?

Structural reforms

Improving public governance and the institutional capacity of the country remains paramount. The authorities should strongly tackle the issue of corruption and enhance transparency in economic management. As expressed by staff, we encourage the authorities to develop and implement a plan for addressing recommendations in the audit report of the second RCF, once published. Lastly, as South Sudan is very exposed to climate risks, we encourage the authorities to invest in infrastructure that can mitigate the impact of climate-related disasters and increase the country's resilience in longer-term (while ensuring
that public investments deliver value for money, and also considering the pressing needs for other investment).

Statement by Mr. Romero Tarazona and Mr. Rojas Ramirez on Republic of South Sudan
Executive Board Meeting
July 29, 2022

We thank staff for the insightful report and Ms. Mannathoko and Mr. Garang for their Buff statement. Given the difficult circumstances, we support the assessment of the Staff Report for the 2022 Article IV Consultation and the authorities' requests for the completion of the Second Review Under the Staff-Monitored Program (SMP), including the staff proposal for the extension of the SMP until the end of November 2022.

We welcome the Fund's capacity-building strategy for the construction of a strong institutional framework, as it is instrumental in supporting the success of the peace agreement. South Sudan is going through a very sensible situation given that more than 70 percent of its impoverished population suffers from acute food insecurity. It is a very fragile post-conflict state with the difficulties of implementing a peace agreement, and it has a very relevant exposure to climate risks and disasters, as materialized in recent floods that affected the agricultural and oil industries. All these particular circumstances, together with the scarring effects of the pandemic and the inflationary pressures of food and energy costs, make it a challenging case. We encourage the authorities to continue working on the implementation of the peace agreement irrespective of the difficult circumstances, including the advances in the census of the population and the draft of the constitution. *We are worried about the identified issues regarding the low traction of the CD as the causes may not change with the physical presence of staff (lack of leadership, weak governance, low morale, and high staff turnover). We would like staff to comment further on this specific matter, the outcome of the discussions with the authorities, and the reasons to think that in the future the traction will improve.*

We have to recognize that advances under the SMP have been instrumental in restoring credibility with the international donor community. We agree that having the independent external audit report on the external borrowing and the publication of the final audit report on the spending financed with the RCF resources will be instrumental in giving a trusting message and thus facilitating the catalytic role of the IMF in this process. We welcome the fact that, due to the compromise of the authorities and the improvements in the management of the economy, there are concrete advances, as it is the case of the US$34 million IDA with the WBG, and we also welcome that such funds will be invested in the PFM reforms, which definitely have huge potential given the specific circumstances of the country and the level of informality, management controls, and accountability. We also welcome the PFM advances, especially regarding the "Cash Management Unit" and the progress in the implementation of the "Treasury Single Account", which are very important tools for efficiency and transparency.

We commend the authorities for continuing with the important advancements under the SMP and welcome the joint discussion of the next review with the negotiation of a UCT program under the Extended Credit Facility (ECF). We concur that this is critical to avoiding macroeconomic deterioration in the future, and it is necessary to count on the determination and compromise of the authorities. **We concur that strengthening the institutional framework for assuring fiscal stability and debt sustainability is fundamental.** We note vulnerabilities and the surge of recurrent fiscal pressures due to severe weaknesses in the budget administration, the budget implementation process, and the limited cash planning as it has been the finding of external obligations through NIDB and the resurgence of salary arrears causing high finance gaps and fiscal instability. As referred to above, we encourage the authorities to continue to advance the Public Finance Management (PFM) reforms under the SMP framework, strengthening cash management and improving fiscal transparency. Furthermore, we concur that it is necessary to enhance revenue mobilization by improving tax collection, phasing out tax exemptions, and implementing custom valuations, tax digitalization, and tariff adjustments. In terms of expenditures, promoting expense efficiency, focusing on social development and priorities, and improving investment efficiency and prioritization in the infrastructure and road program are all priorities. *We understand that authorities are planning to transfer oil additional revenues to the "Future Generation and the Oil Revenue Stabilization Funds," and the recommendation of the staff to use such funds to "reduce the stock of non-concessional debt, build FX reserves, and invest in growth-enhancing infrastructure." Could staff comment on these different approaches and the pros and cons of each of the alternatives?*

We welcome the removal of the foreign exchange restrictions and the authorities' monetary controls, as it underpins price and exchange rate stability and inflation reduction. This should be complemented with the removal of absolute ceilings on the availability of foreign exchange for invisible transactions (remittances). The authorities have tightened monetary growth and stopped financing and new external non-concessional borrowing according to the SMP framework. International reserves remain adequate, but the risk of BOP gaps may increase in the medium term due to the volatility of oil revenues. We note improvements in the Central Bank's (BoSS) capacity and transparency and encourage the authorities to strengthen instruments on liquidity monitoring, forecasting, and public communication. We underscore the necessity of actions to address the banking sector's undercapitalization and improve bank supervision and financial inclusion.

Economic diversification and climate change adaptation are the main pillars of South Sudan's inclusive growth. We concur with staff that promoting public and private investment in infrastructure, agriculture, and market access should be encouraged. Further developing agriculture, investing in human capital, and tailored technical capabilities, improving transparency and governance, and consolidating peace are crucial elements for unleashing productivity.

Statement by Mr. Bhalla and Mr. Dash on Republic of South Sudan
Executive Board Meeting
July 29, 2022

1. We thank Staff for the well-written reports and Ms. Ita Mannathoko and Mr. Garang for their very helpful buff statement. Soon after emerging from the shadow of the conflict-ridden era through the 2018 peace agreement, South Sudan has had to contend with the twin shocks from the pandemic and the collapse in international oil prices. The heavy floods this year have made the situation further worse. The economic impact has been quite severe and the consequent resumption of monetary financing by the authorities has led to sharp exchange rate depreciation and runaway inflation. The RCF programme and improved oil prices has helped with restoring macro-economic stability. However, fresh risks from the conflict in Ukraine threaten the outlook with the surge in global food prices endangering the food insecurity for the largely vulnerable population. We agree with the thrust of the staff recommendations for completion of the second review of the SMP and its extension as programme targets have been broadly achieved and give the following comments.

2. **A prudent macro-economic policy framework is critical to economic stability and debt sustainability.** We have noted the restoration of macro-economic stability under the Staff monitored programme(SMP). Going forward, the right policy mix is important to achieve growth while maintaining macro-economic stability. There is an urgent need to bring in total transparency in the accounting and management of oil revenues including by publishing all production sharing agreements. *Could staff comment on whether the oil revenues are collected in a single public account with full transparency in accounting?* Further, i*n this context, could staff comment on the reasons of the authorities continuing to supply the crude oil to Sudan even after expiry of the Transitional Financial Arrangement (TFA) in February 2022. Is there any purchase agreement or any negotiations on the pricing and payment terms of the additional crude oil being supplied?*

3. At the same time, the fiscal vulnerability emanating from extreme dependence on volatile oil revenues has to be addressed through expansion of the revenue base to other non-oil sectors especially mining and fishery. The current boom in oil revenues should be leveraged to boost investments in the non-oil sectors and also towards building reserves. Expenditures have to be rationalized and prioritized while protecting the social safety net for targeted support to vulnerable population. *In this*

regard, could staff clarify the fiscal impact of the wage increases across the board and the increase in size of armed forces due to the unification? Greater investments in agriculture would be critical to deal with food insecurity and create resilience in the economy.

4. We agree with Staff recommendation for establishing a fiscal anchor to ensure fiscal policy adheres to the glide path and reduces the risks. While currently debt has been assessed as sustainable, there is high risk of debt distress for both external and overall public debt. It's a matter of concern that SOEs debt data is not included in DSA while a significant public debt was not considered while finalizing the SMP in the first round. There is clear need for an efficient debt management framework which ensures debt data recording, monitoring, reporting and disclosure. We are assured that the authorities would henceforth only rely on concessional financing.

5. Monetary policy has to ensure viability of the new exchange rate regime to manage exogenous shocks and maintain financial stability. We appreciate the FX reforms and the abolition of the long-standing system of multiple exchange rates. We also welcome the unification of the official and the parallel exchange rates and monetary policy targeting the reserve money supply. We have noted the staff observation that monetary discipline and the stable exchange rate after unification have arrested inflation. *Could staff comment on whether the drastic reduction in inflation after unification means inflationary expectations are properly anchored as of now or more inflation is expected due to the time lag?* We appreciate the decision of the authorities to avoid monetary financing. We would expect this policy to be institutionalized and centra bank autonomy strengthened, if necessary, through appropriate legislation. *Could staff comment on steps being taken to modernize the monetary policy framework?* The Bank of South Sudan (BoSS) should enforce macro-prudential regulations and enhance supervision of the Banking sector to ensure financial stability.

6. Building a strong social safety net would ensure support for nutrition, education, and health for the large vulnerable population. We note with concern that donor commitments for the World Food programme in 2022 would be half of that of last year. About 70% of the population is food insecure and the expenditure to support the food and nutrition would be much higher considering the surge in prices. *Could Staff comment on the potential of the Fund supported programme in further catalyzing donor financing to mitigate the food insecurity?* Building a strong and vibrant human resource base would not only help the diversification into various sectors through private sector participation but also help modernize the agriculture which is now largely subsistence farming. Prioritizing resource allocation to health and education would be vital to building the skilled workforce of the future. However, considering the resource crunch, a well-designed social safety-net which targets vulnerable population would effectively ensure optimal utilization of scarce resources and encourage more donor support.

7. Reforms to improve governance and transparency would raise the efficiency of resource allocation and utilization and also plug leakages. We welcome the authorities plans to revitalize the governance by bringing more transparency and openness. We encourage all efforts to combat corruption and look forward to a robust AML/CFT regime so that the country can exit the FATF grey list and improve its relative position in the Corruption Perception Index which has taken a slide since the 2019 Article IV Consultations.

8. Structural reforms remain the key to bring about diversification in the economy and to build resilience to mitigate the risks from climate change and natural disasters. The authority's willingness to embark upon key structural reforms is commendable. Diversification of the economy by encouraging economic activity in the non-oil sectors with active participation of the private sector would lead to a more predictable revenue regime and encourage planned expenditure outlays to promote agriculture and industry which would create the employment opportunities. It would also help transition into a green economy to integrate a resilience into the economy to withstand shocks in future and improve external sector stability**.**

9. Finally, we hope that the political process under the Revitalized Agreement on the Resolution of Conflict in South Sudan (R-ARCSS) the peace process continues to strengthen, and elections are held in time which is extremely critical to macro-economic stability. With this, we wish the authorities all success in their future endeavors.

The Republic of South Sudan

Responses to Technical Questions Posed by Executive Directors in Advance of EBM/22/72—July 29, 2022

Staff's responses to technical questions are below. Broader policy questions including in the areas of exchange rate policy, development strategy, and capacity to repay the Fund will be addressed in staff's intervention at the Board meeting.

Fiscal Policy

1. Is staff perhaps cautioning against general budget support and whether the World Bank's IDA budget grant experience would be related to such a stance?

- Staff is of the view that the decision to provide general budget support should be left to the individual donor/development partner. Currently, there is no general budget support for South Sudan. The first RCF disbursements of November 2020 and part of the second RCF disbursement of March 2021 were for the specific purposes of clearing salary arrears (the other part of the March 2021 RCF was used to boost FX reserves). However, these represented the first on-budget financial support for the authorities from an international organization since the end of South Sudan's civil war. The World Bank's IDA will provide further on-budget support, but currently remains strictly earmarked to support the implementation of governance and PFM reforms.

2. Can staff provide details on the authorities' plans and timeline envisaged to build a social safety net that is well-targeted and robust to protect the vulnerable?

- There is currently no effective government social safety net program in South Sudan. The World Bank manages the South Sudan Safety Net Project (SSSNP) that became effective on May 6, 2020, but its reach is relatively limited. To date, nearly US$17 million has been transferred to 362,843 individuals (55,861 households) from the SSSNP using biometric authentication. The authorities' plan is to take over the SSSNP in the near future and gradually expand its coverage.

3. Could staff comment on the possible second-round effects from the proposed 20 percent salary increase?

- Clearly, there is a direct impact on the budget as there is limited fiscal space to accommodate this increase unless budgeting efficiency improves (e.g., reduce operational expenses and free up some resources). Second round effects, however, are limited as the increase is broadly in line with inflation and is aimed at keeping real wages from falling. Having said that, staff's advice to the authorities has been to undertake a thorough analysis of the public wage bill structure before introducing any further wage increases.

4. To what extent can staff's proposed revenue mobilization measures reduce South Sudan's reliance on oil revenues?

- While reducing reliance on oil revenues is ultimately a medium-term objective, several measures can be taken in the short run to improve non-oil revenues, some of which are already being implemented. This includes improving tax collection and aligning tax rates with other EAC countries. The authorities have also expressed interest in replacing the current sales tax with a value added tax system, which has the potential to increase non-tax revenues.

5. **In light of the forecast for rapidly rising global interest rates, does the staff report and DSA underestimate the interest rate for non-concessional debt considering GoSS credit risk profile?**

- Staff view, agreed with authority, is that highly non-concessional borrowing should be avoided. Hence, the terms of non-concessional borrowing assumed in the DSA takes this into account. Historically, South Sudan's borrowing terms have been costly ranging between 7 to 10 percent. In the DSA, borrowing cost in FY23/24 is assumed to be only 2 percentage points less than the historical lower bound. By then, assuming continued reform implementation, their access to much lower cost credit, under the baseline, should have improved significantly.

6. **Is it correct to say that staff is treating the crude oil that continues to be sent to Sudan without payments as debt owed by Sudan to GoSS? How realistic is it to assume that these debts will be repaid?**

- The stock of overpaid TFA payments is reconciled and agreed with Sudan. Pending agreement between Sudan and South Sudan, the macroeconomic framework for South Sudan does not assume that it will be repaid in the medium term. One option is to use the accumulated credit balance against future payments such as oil transit fees.

7. **We understand that authorities are planning to transfer oil additional revenues to the "Future Generation and the Oil Revenue Stabilization Funds," and the recommendation of the staff to use such funds to "reduce the stock of non-concessional debt, build FX reserves, and invest in growth-enhancing infrastructure." Could staff comment on these different approaches and the pros and cons of each of the alternatives?**

- While the allocation to these funds is based on South Sudan's Petroleum Revenue Management Bill, 2012, authorities had not practically allocated any fund to these accounts since independence. Also, the allocation of such large funds (around 25 percent of gross oil revenues) is not realistic in FY2022/23 given pressing spending needs on several fronts, including to clear expenditure arrears and service external debt.

<u>**Monetary and Exchange Rate Policy**</u>

8. **Can staff comment on the status of operationalizing the Liquidity Working Group at the Central Bank?**

- With assistance from AFRITAC East (AFE), the authorities have drawn up terms of reference that detail the objective, membership and responsibilities of a Liquidity Working Group, to be hosted by BoSS. However, there remain two key obstacles for this group to become operational. First, BoSS needs to begin producing regular liquidity forecasts for the group to discuss. BoSS staff have been receiving technical assistance from AFE on liquidity monitoring and forecasting, where liquidity tables have been developed, but capacity building in this area has progressed slowly and those daily tables are not yet produced. Second, BoSS needs to start receiving cash flow projections from MoFP. While MoFP's Cash Management Unit has begun work on such projections, information sharing has been hampered by so-far limited coordination at the leadership level (specifically, the joint MoFP-BoSS Cash Management Committee).

9. Can staff comment on how do the authorities plan to build their FX reserves in the short to medium term under such challenging circumstances?

- Staff projections allow for a gradual accumulation of FX reserves that would achieve a reserve coverage of 3 months of imports by the end of the decade. This contributes to South Sudan's substantial medium-term financing gaps, alongside the need to increase social spending, service highly non-concessional external debts, and tackle a legacy of payment arrears. The authorities are committed to achieving this path without incurring further non-concessional debts. Therefore, raising FX reserves to adequate levels will require some combination of concessional financing, broadening of the government's revenue base and re-prioritization of expenditures.

<u>Structural Reforms</u>

10. Could staff comment on the concrete measures taken and planned by the authorities to improve the management of oil resources, and in particular the implementation of a treasury single account (TSA)?

- On improving management of oil revenues, as discussed in the staff report, the authorities will i) submit, by end-December 2022, a membership application to the Extractive Industries Transparency Initiative (EITI), and ii) publish, on a government website, a quarterly report on the oil sector, including reconciliation of oil output and revenues, starting from the first quarter of FY2022/23.
- On the TSA, the MoFP requested a full list of general government bank accounts in BoSS with balances. MoFP instructed BoSS to close accounts of MDAs (Ministries, Departments, and Agencies) in USD, though these accounts were only deactivated due to the lack of instructions by MoFP on where to transfer the balances in those accounts. To clarify bank accounts in BoSS to be included in the TSA arrangements, and also to clarify future operational practices of MoFP and BoSS, an MoU is expected to be agreed shortly between them as per recommendations from the TA provided by AFE.

11. Can staff elaborate on the external loan channeled through the National Investment and Development Bank (NIDB) and signed before the SMP? Specifically, when was the bank founded, who are its shareholders, how much was the loan for and for what purpose was it made?

- An interim Board of Directors of the NIDB was approved by BoSS in April 2022 and shareholding comprises South Sudanese private sector investors with a minority share held by the government. The IMF is still awaiting more details on the nature and operations of the NIDB and its transactions with the government. The Minister of Finance has committed to providing full details to the PFM Oversight Committee.

12. Could staff comment on the engagement that they have had with the authorities on Corresponding Banking Relationships during recent missions? How does staff assess the Financial Intelligence Unit and its capacity to be sufficiently independent and operational to address the issues of financial transparency? How to ensure implementation of the FATF action plan?

- Staff has not had discussions with the authorities specifically about correspondent banking in South Sudan. However, as financial institutions are required in FATF recommendations to identify and manage risks with corresponding banking relationships, and given that South Sudan is committed in its AML/CFT action plan to develop a framework for risk-based supervision, staff will follow up on this issue in future missions.
- FIU is intended to play a central role in tracing illicit financial flows through analyzing suspicious transaction reports (STRs) in collaboration with other law enforcement agencies and financial institutions. The authorities recognize the importance of operationalizing it with sufficient technical expertise.
- So far, staff have not had substantial formal interaction with the FIU as the scoping mission under the AML/CFT TA project has not gotten underway (targeted for September). However, informal interaction and advice from other TA partners suggests the FIU does suffer significantly from independence and capacity issues. The full implementation of the FATF Action Plan will require small incremental steps given the lack of national capacity and resources. The launch of the Fund's TA project and subsequent traction may encourage other TA partners to engage.

13. Could staff give an assessment of the work to implement the recommendations in the audit report on spending financed from the first RCF?

- Despite being slow, certain progress has been made in implementation of the recommendations provided in the audit report for the first RCF. For instance, in order to enable systems to pay emoluments for public sector employees through commercial banks, MoFP issued a circular requesting all MDAs to open bank accounts for their employees through which salaries will be paid to them. This is expected to pave the way to ensure clear and adequate policies and controls in place to manage salary payments and to digitize the public payroll to enable more efficient management of payroll issues, which are also recommended in the audit report. In addition, the authorities are working on biometrics identification for all public sector employees with assistance from the World Bank.

<u>**Country Engagement Strategy and Capacity development**</u>

14. We welcome the staff's reflections on providing CD and how the budget augmentation for FCS engagement as well as external financing is supporting South Sudan.

- Since joining AFE in May 2020, South Sudan has benefited from TA from AFE in many areas, including on improving cash management, strengthening the revenue administration, extending the Treasury Single Account, strengthening expenditure control, and improving macroeconomic statistics (national accounts, price, BOP and monetary statistics). Arrangements are being made for TA mission on other areas, including on improving the bank resolution and crisis management, and strengthening the debt management framework. The additional resources made available for CD to fragile states under the recently approved FCS strategy, are creating space to add one LTX on PFM reforms.

15. Can staff comment on "longer-program of hands-on support activities" raised in the BUFF?

- The authorities have expressed a strong preference for in-person CD that enables them to consult regularly with technical experts on how to put technical advice to practical use in their daily environment. Recent experience suggests that such CD achieves greater traction with MoFP and BoSS staff. To reflect this, two upcoming priority TA missions – on bank resolution and on debt management – will be delivered in person. The debt management TA will take the form of a multi-month program of activities, delivered in person by IMF staff, and supported by World Bank long-term advisors on the ground.
- The IMF is also coordinating the appointment of a LTX to support in fiscal issues including PFM and budget implementation.

16. Can staff discuss the reasons for the low traction of CD so far and on ways to increase the traction going forward?

- As discussed in the staff report (¶44), while the traction of CD remains an issue it has improved recently. To improve the CD traction further, the Country Engagement Strategy (Annex I) and Capacity Development Strategy (Annex VI) propose a strictly prioritized approach to CD activities, to avoid overwhelming the authorities. The strategies also envisage a greater share of CD to take the form of regular in-person engagements with technical experts. In-person CD is strictly preferred by the authorities, and recent experience suggests that on-the-ground CD achieves greater traction with MoFP and BoSS staff and tailors technical insights better to the practical challenges faced by the authorities.

<u>**SMP Review and Potential Fund Financing**</u>

17. Does staff see any impediments to combining the last SMP review with the start of ECF negotiations as suggested in the BUFF statement?

- Combining the last SMP review with discussions on a Fund program has happened in other countries. This clearly requires successful implementation of the reforms targeted under the SMP. Other factors, however, include identifying a BOP need and assurances on capacity to repay the fund.

18. Can staff comment on the authorities' capacity to implement a UCT-quality program?

- The reforms implemented so far under the SMP, especially the macro stabilization and FX market reforms, are a promising sign of the authorities' commitment for reforms. Before starting discussions on an UCT-quality program, however, it is important for the authorities to implement the reform agreed under the SMP that would allow for its successful conclusion.

19. Can staff elaborate on the current thinking on the possible use of RST resources (on top of ECF financing) to address risks posed by climate change and the pandemic?

- South Sudan is eligible for the RST, but an ECF (or some other UCT program) would need to be in place prior to any disbursements under the RST.

20. Can staff provide an update on the authorities' peace-building process?

- IMF staff are not best placed to assess the status of peace building operations. We defer to other UN agencies and bilateral partners for assessments in this area. This being said, the general consensus is that progress in the implementation of the Revised Peace Agreement has been slow and there are active discussions over the potential for an extension of the current agreement.

21. Can staff comment on the importance of adequate support from the international organizations as well as the timely delivery of the climate financing pledges made by developed economies to help developing nations including South Sudan mitigate and adapt to climate change?

- Climate change is a global problem that requires a global response. Developing nations and FCSs are particularly vulnerable to the effects of climate change, as they often lack the resources to effectively mitigate and adapt to its impacts. As such, they rely heavily on the support of international organizations and developed economies to help them address climate change. Climate financing can help these countries to access the resources and technologies they need to effectively mitigate and adapt to climate change. Moreover, climate financing can help to build their capacity address climate change effectively and reduce the risk of climate-related disasters. Like many developing nations and FCSs, South Sudan's geography make it particularly vulnerable to the effects of climate change, such as floods and droughts. Climate financing can help to reduce the risk of these disasters by providing funding for early warning systems and disaster preparedness and response plans.

22. Given that South Sudan is facing the risk of shrinking donor support, could staff comment on the effect of lifting sanctions on donor support mobilization?

- Our understanding of the shortfall in donor support is that this is not related to sanctions on South Sudanese individuals. We are aware that WFP in particular have a shortfall of the order of 44 percent of their needs-based plan. This has required the scaling back of targeted areas and the reduction in individual rations. The shortfall has been aggravated by the war in Ukraine which has increased the cost of humanitarian operations, and a reported diversion of humanitarian resources.

23. Has South Sudan accessed the UN Green Climate Fund or other similar climate related funds and if not, to what extent can Fund TA assist the authorities in this area?

- We are not aware of South Sudan making use if the UN Green Climate Fund. To date only limited grants have been accessed to help the capacity of the National Designated Agency. Fund TA is focused on supporting key institutions engaged in macroeconomic policies which could potentially have an important bearing on climate adaptation measures. To date, however, this has not been requested by the authorities.

24. Can staff comment on next steps to mainstreaming CES's findings in IMF's future engagement with South Sudan?

- Staff is already working with the authorities to place the macroeconomic reforms initiated under the SMP on a sustainable footing, and progress priority PFM and governance reforms. The CES identified these steps as preconditions to build economic resilience and increase donor support, thereby opening up space and resources to address South Sudan's broader development needs (CES ¶8). As part of this effort, staff is consulting closely with the authorities in their preparation for the FY2022/23 budget.
- The IMF is also providing TA on bank resolution (to commence in August) and debt management (to commence in September) which will assist the authorities in two areas in which reform is especially urgent. This TA will be provided on the ground, through longer-term, hands-on engagement between the authorities and IMF experts, and collaboratively with the World Bank, reflecting some of the capacity building lessons established in the CES (CES ¶9).
- The TA missions, combined with the extension of the SMP, will provide staff with more opportunities to assess the authorities' readiness for an UCT program. Alongside this, staff will engage with technical experts, development partners and the authorities to devise the conditionality of a possible program that balances risks against catalytic potential, as envisaged by the CES (¶10,11).

CONSTITUENCY CODES

OEDAE
Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF
Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG
Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP
Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC
China

OEDCE
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO
Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC
Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF
France

OEDGR
Germany

OEDIN
Bangladesh, Bhutan, India, and Sri Lanka

OEDIT
Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA
Japan

OEDMD
Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE
Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU
Russian Federation and Syrian Arab Republic

OEDSA
Saudi Arabia

OEDST
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ
Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK
United Kingdom

OEDUS
United States