Republic of South Sudan

Debt Management Policy Framework and Medium-Term Implementation Strategy (2022- 2025)

MINISTRY OF FINANCE AND PLANNING

MAIN REPORT

Friday K. Ohuche, ***Ph.D. Fmnes, Isnie, Mnaee (Consultant)***

With Support from African Development Bank Funded NORMA Project

AUGUST , 2023

Table of Content

Table of Content 2
List of Tables 4
List of Figures 4
Abbreviations and Acronyms 5
Executive Summary 7
SECTION ONE **14**
1. **INTRODUCTION, PURPOSE AND STRUCTURE OF THE REPORT** 14
1.1 Introduction 14
1.2 Purpose of the Review 14
1.3 Structure of the Report 15
SECTION TWO 16
2. REVIEW OF CURRENT DEBT MANAGEMENT POLICY FRAMEWORK 16
2.1 Review of Current Debt Management Policy Framework (2021-2023) 16
2.2 Overview 16
2.3 Policy Objectives 17
2.4 Guidelines for Debt Sources and Costs 18
2.5 Risk Management Guidelines 18
2.6 Policy Implementation Measures 19
2.7 Legal Framework for Debt Management 20
2.8 Institutional Arrangements and Debt Management Committees 22
2.9 Objectives of Public Debt Management 27
SECTION THREE 29
3. **METHODOLOGY AND STRUCTURE OF THE REPORT** 29
3.1 Methodology 29
SECTION FOUR 31
4. **EXISTING PUBLIC DEBT PORTFOLIO ANALYSIS** 31
4.1 Current Debt Financing Strategy 31
4.2 Structure of External Debt as at December 31, 2022 33
4.3 Structure of Domestic Debt as at December 31, 2022 35
4.4 Costs and Risks Profile of the Public Debt Portfolio 36
4.4.1 Interest Rate Risks 36
4.4.2 Refinancing Risk 37

4.4.3 Foreign Exchange Risk ... 38
SECTION FIVE ... 39
5. MACROECONOMIC ENVIRONMENT AND SOURCES OF FUNDING ... 39
5.1 Macroeconomic Operating Environment and Sources of Funding ... 39
5.2 Fiscal Policy ... 39
5.3 Monetary, Financial, and Exchange Rate Policies ... 40
5.4 Sources of Financing ... 41
5. 4.1 External Sources ... 42
5.4.2 Domestic Sources ... 44
SECTION SIX ... 45
6. FORMULATION OF ALTERNATIVE DEBT STRATEGIES ... 45
6.1 Alternative Debt Strategies ... 45
6.2 Debt Strategy 1: Baseline – Existing Debt Financing Policy ... 45
6.3 Debt Strategy 2: Debt Relief – Debt Rescheduling ... 46
6.4 Debt Management Strategy 3: Strategy (2) plus Domestic Debt Market Development ... 50
6.5 The Preferred Strategy – Strategy 3 ... 51
6.6 Targets for Public Debt Consistent with the Preferred Strategy ... 52
SECTION SEVEN ... 54
7. **IMPLEMENTATION OF DEBT MANAGEMENT STRATEGY AND DEBT TRANSPARENCY** ... 54
7.1 Implementation of the Debt Management Strategy ... 54
7.2 Borrowing Plan ... 54
7.3 Debt Transparency ... 55
7.4 Concluding Remarks ... 55

List of Tables

Table 1: Current Debt Financing Strategy.. **32**

Table 2: External Debt by Creditor Category....................................... **34**

Table 3: Domestic Debt Outstanding...**35**

Table 4: Costs and Risks Indicators of GSS debt portfolio........................**36**

Table 5: Percentage Distribution of External Debt................................43

Table 6: Projected Costs and Risk Indicators of Debt after Rescheduling...49

Table 7: Public Debt Management Strategy and Targets by end-2025...... 52

List of Figures

Figure 1: Structure of Total Debt by Category...................................33

Figure 2: Composition of the External Debt by Creditor.......................**35**

Figure 3: Redemption profile of Total Public Debt...............................38

Figure 4: Projected Redemption of Total Debt after rescheduling..**50**

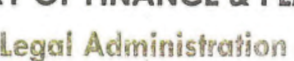
Abbreviations and Acronyms

ADF	African Development Fund
Afreximbank	African Export-Import Bank
AT	Analytical Tool
ATM	Average Time-to-Maturity
ATR	Average Time-to-Refixing
BSS	Bank of South Sudan
BSSA	Bank of South Sudan Act
Bps	Basis Points
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DMA	Debt Management Agency
DMBs	Deposit Money Banks
DMS	Debt Management Strategy
DMPS	Debt Management Policy Support
DRI	Debt Relief Initiative
DSA	Debt Sustainability Analysis
EXIM	Export-Import
FDI	Foreign Direct Investment
FX	Foreign Exchange
GDP	Gross Domestic Product
GSS	Government of South Sudan
HIPC	Highly-Indebted Poor Countries
ICM	International Capital Market
IDA	International Development Association
IMF	International Monetary Fund
LIBOR	London Inter-Bank Offer Rate
MFP	Ministry of Finance and Planning
MTDS	Medium-Term Debt Management Strategy
MTEF	Medium-Term Expenditure Framework
NDS	National Development Strategy
NLA	National Legislative Assembly
NPV	Net Present Value
PFMA	Public Finance Management and Accountability Act
PPG	Public and Publicly Guaranteed
PRMA	Petroleum Revenue Management Act

RSS	Republic of South Sudan
SOEs	State-Owned Enterprises
SSP	South Sudan Pounds
TFA	Transitional Finance Arrangement
USD	United States Dollar
WAC	Weighted Average Cost
WB	The World Bank

REPUBLIC OF SOUTH SUDAN

MINISTRY OF FINANCE & PLANNING



9/4/2024

Hon. Undersecretary for Planning
Ministry of Finance and Planning

Subject: Ministerial Order for Formation of Debt Management Policy Framework and Medium Term Implementation Strategy 2022-2025

It is understood that the Honourable Minister intends to issue a ministerial order for debt management policy framework following a report on the review of debt management policy framework for the Republic of South Sudan 2022-2025 by a consultant called Friday K. Ohuche, PhD and we have ben asked to draft the order.

The report referred to shows that after reviewing debt strategies I,2 and 3, the consultant recommended Strategy 3, which is debt relief strategy, for adoption.

This being the case, our opinion is that if the Ministry has accepted the report, the matter does not require a ministerial order in a legislative form, as intended. The honourable Minister can just make a decision for endorsement of the report and adopting debt management strategy 3 as recommended.

Best regards

Counsel General
Filberto Mayuot Mareng
Head of Legal Administration
Ministry of Finance and Planning

MINISTRY OF FINANCE & PLANNING
Office of Legal Administration
REPUBLIC OF SOUTH SUDAN

REPUBLIC OF SOUTH SUDAN
MINISTRY OF FINANCE & PLANNING
The Minister

REF: RSS/MoFP/J/M/06/2024/02 **3rd June 2024**

TO WHOM IT MAY CONCERN

Subject: Endorsement of the report on Debt Management Policy Framework and medium -Term Implementation strategy 2022-2025

After perusal of the report on debt management policy frame work and medium -term implementation strategy **2022-2025** submitted by Consultant Friday K. Ohuche, PhD dated July 2023, the report is hereby endorsed and Debt Management Strategy 3, Which is debt relief, is adopted as recommended by the consultant as a working document until South Sudan Debt Management Legal frame work is developed.

Please accept, the assurances of my highest regards and consideration.

REPUBLIC OF SOUTH SUDAN OFFICE OF THE MINISTER 03 JUN 2024 THE MINISTER MINISTRY OF FINANCE & PLANNING

Hon. Eng. Awow Daniel Chuang
Minister,
Ministry of Finance and Planning
Cc:

- 1st Undersecretary, Ministry of Finance and planning
- File.

Executive Summary

This Report presents a reviewed Debt Management Policy Framework for the Republic of South Sudan (2022-2025). The Debt Policy Framework is usually a policy document that guides decision making in considering reforms needed to strengthen the quality of public debt management in a country. To effectively implement the policy and its recommendations, the report also presents a revised Medium- Term Debt Management Strategy (2022-2025) that will deliver on the policy objective as recommended in the Policy Framework.

The main objective of public debt management policy generally is to ensure that the financing needs of the Government and its debt service obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. Other objectives of public debt management would include[1]: the need to ensure that both the level and rate of growth of public debt are sustainable in a wide range of circumstances; the need for decision makers to be aware of the costs and risks associated with the debt levels; the need to highlight the implications of poorly structured public debt portfolio on the economy; and, the need to develop a functional and stable domestic debt market to facilitate the orderly growth of the financial system.

The current review of Debt Management Policy Framework (DMP, 2022-2025) of the Republic South builds on the first review issued in September, 2012 and the second, revised in November 2020. The observations in the current review shows that most of the policy issues observed in the first and second review still subsists. These include that the objectives were not comprehensive enough given that the development of the domestic securities market, which is a key objective of public debt management, was excluded; in terms of sources of and cost of loans, it relied on the PFMA Act, which limited economic development financing to concessionary sources; it also accepted the enshrinement of debt burden limits in the law, a situation that denied the government of flexibility and adaptability; although genuinely concerned about risk management, it undesirably excluded guarantees and PPPs from the options available for development financing, and, it implicitly assumed that the important policies it recommended could be implemented without an agency focally dedicated to that responsibility.

The current review navigated some of these challenges and made observations and recommendations that will guide effective implementation of the debt Management policy going forward. The recommendations are as follows:

[1]For further reading please see: https://www.imf.org/external/np/mae/pdebt/2000/eng/index.htm

Based on the recommendations the Medium- Term Debt Management Strategy (2022-2025) was revised albeit acting within constraints imposed by the existing Debt Management policy framework. Alternative Debt Management strategies were thus revised and a preferred strategy recommended for adoption by the Fiscal Authorities

Review of Alternative Debt Management Strategies

A. **Baseline Debt Management Strategy indicates** that the existing debt financing policy of the country are mostly enshrined in the PFMA Act, which provides that all loans must be concessional and that the Government will obtain the best possible terms from bilateral lenders and draw from the concessional windows of multilateral financial institutions. The Government could not avoid commercial financing in the context of the fiscal pressure they faced. Even though the statute provided that debt must not exceed 20% of GDP, and debt service payments must stay below 5% of budget revenue, it was more or less observed in the breach.

A review of the public debt management operations of the country show that the Government did not fully follow the broad guidelines stipulated in the extant laws and the criteria stipulated therewith due largely to socio-economic and political circumstances beyond its control. South Sudan is a young fragile, post-conflict country. Fragile states have characteristics that substantially impair their economic and social performance. These include weak governance, limited administrative capacity, humanitarian crises, persistent social tensions and debt crisis[2].

The debt unsustainability usually comes at a very high cost as it restricts access to funds from multilateral and bilateral institutions, as well as donors because none of them is willing to lend or relate with countries with arrears of debt. This may have compelled the country to embark on cash for oil as part the effort to find resources to fund acute humanitarian crisis. The fact that the later came at a high cost to the country is underscored by the resolve of the authorities to limit the

[2] IMF: The Fund's Engagement in Fragile States and Post-Conflict Countries—A Review of Experience—Issues and Options, 2008

contracting of new debts (external and domestic), especially oil-related debt or oil advances as much as feasible.

Nonetheless, best practice requires that the statute regulating public debt management should stipulate the broad guidelines under which public debt managers would operate, while the details of such operations would be outlined in operational documents, such as Debt Management Framework and MTDS that would be subject to relevant approvals and review from time to time. Accordingly, the existing baseline debt management policy cannot be recommended. More importantly, the PFMA Act and other relevant laws are required to be amended to allow for the implementation of this MTDS.

B. Debt Strategy 2: Debt Relief – Debt Rescheduling

Given the revenue profile of the country and the huge financing needs, coupled with the challenges of Covid-19, only an external support in the form of debt relief, debt restructuring or rescheduling can return the country to the path of fiscal and debt sustainability. It is common for post-conflict countries with External Debt arrears to face severe difficulties in accessing much needed funds as the international community is not usually willing to lend or donate to countries in arrears on debt. Re-establishing a working institutional relationship between a highly indebted war-affected country on the one hand and the multilateral institutions on the other hand is thus crucial for resolving a debt crisis. Though the issue of how to deal with countries in arrears is not yet well established and cases are treated on their merit, normalizing debt relations in a post-war setting generally requires six steps[3].

The steps are the existence of an internationally recognized government; establishment of domestic political will to normalizing relations and build up some minimal managerial capacity for debt management; debt reconciliation; formally re-establish its relations with the IMF and other international donors and their agencies to start building some trust; development of a national debt management policy and commencement of

[3] Patricia Alvarez-Plata and Tilman Brück; External Debt in Post-Conflict Countries, 2006

its implementation; and entering into negotiations for debt relief with creditors. The relevant steps required to resolve debt distress, which directly relate to public debt management are the domestic political will to normalizing relations and build up some minimal managerial capacity for debt management; debt reconciliation exercise; and, the development of a national debt management policy or framework and implementation of same.

Incidentally, these three steps, that is, the need to build managerial capacity for public debt management by South Sudan have been highlighted, baseline debt data that would facilitate debt reconciliation has been computed, while the debt management policy has also been drafted as part of the tasks towards the development of this MTDS.

Debt relief can come in different forms ranging from increasing the repayment period while not providing any financial concessions through to outright debt cancellation. Debt relief may take the forms of rescheduling, refinancing, buy back and debt cancellation[4] or forgiveness. Two of these, debt rescheduling and debt forgiveness, are of interest in the development of a debt strategy for the RSS.

Debt rescheduling involves agreeing new repayment terms that shift debt repayment and debt service into the future, lowering the payments in the short-run. Debt can be rescheduled by private creditors and by official bilateral creditors; multilateral organizations do not reschedule debt because of the high grant elements in the loans. All IDA-related loans are usually given under the most favorable terms – very low debt service cost (about 1.05 percent), significant grace periods (10 years) and long amortization periods (30 years). Debt rescheduling does not decrease the net present value of the debt stock. It might even increase the gross sum of the future flows of interest paid.

Debt forgiveness or cancellation involves a write-off of some portion or all of the debt. It is simply erased from the books, with the creditors taking the loss on their

[4] International Debt Cancellation and the Question of Global Justice: A Case-Study of Nigeria; Aniago Wilfred Onyekachi, May 2006

balance sheets. Debt can be forgiven by private, bilateral and multilateral creditors and donors and each of these may act individually or they may be coordinated. Multilateral lenders have forgiven debt for example as part of the HIPC initiative[5]. Unless South Sudan is considered for debt forgiveness or cancellation as was done for countries like Liberia by multilateral financial institutions and development partners under the HIPC and/or post-conflict fragile state initiatives, the country would have to take the route of debt rescheduling to return to sustainability.

This is based on the fact that 87.33 percent of South Sudan's External Debt portfolio as at December 31, 2022 was owed to commercial creditors under oil-related transactions. The basic assumptions under Strategy 2 are as follows:

i. The public finance management reforms initiatives, especially with respect to fiscal consolidation and resource mobilization progress smoothly;
ii. Crude oil production and prices do not fall below 25.66 million barrel per year and US$35 per barrel on the average, respectively as stated in the FY 2021/2022 Resource Envelope;
iii. There are no changes to the existing interest rate structure for outstanding External Debt stock;
iv. The outstanding stock of the oil-related commercial debts of US$1,700.48 million will be rescheduled by amortizing it equally for a minimum of 5 years (2022 – 2025); and,
v. The outstanding Domestic Debt are securitized as follows:
    a) 20 percent into Treasury Bills of 1 year and interest rate of up to 7 percent;
    b) 30 percent into GSS Bond of 3 years and interest rates of up to 8.5 percent; and,
    c) 50 percent into GSS Bond of 5 years and interest rate of up to 11 percent.

[5] External Debt in Post-Conflict Countries, 2006

C. Debt Management Strategy 3: Strategy (2) plus Domestic Debt Market Development

This strategy incorporates the development of the domestic debt market through the commencement of issuance of short-term Government securities for the financing of budget deficits into Strategy 2. It assumes that debt relief, at least in the form of debt rescheduling of existing oil-related commercial External Debt, which would enable the country to start meeting its External Debt Service obligations is being negotiated and would be granted. Secondly, it assumes that access to external commercial funding beside grants and donations for humanitarian operations would remain minimized until the country's debt returns to sustainable levels. Thirdly, it presupposes that existing Domestic Debt as at the end of 2025 would have been securitized following, which a Sovereign Yield Curve for Government securities would have been established to facilitate the pricing of new issuances.

Whilst negotiation with external creditors are on-going, the Government could take deliberate steps to jumpstart securities issuance in the local market. Provided that steps are taken to implement the various public debt management reform initiatives, such as the enactment of Debt Management Agency Act that would lead to the establishment of Debt Management Agency and amendment of existing legislations impeding the growth of sound debt management practices. It would also include the approval of the Debt Management Framework by the Governments. The implementation of the recommendations would lead to the restoration of investor (local and foreign) confidence and attract investments into the money and capital market segments of the financial system. These are required to ensure the success of Government securities' issuances.

D. The Preferred Debt Management Strategy – Strategy 3

Strategy 3, that is, debt relief - at least in the form of debt rescheduling - plus the development of the domestic debt market – **is the preferred Debt Management Strategy and is hereby recommended for South Sudan,** based on all the foregoing observations, analyses and interpretations.

The advantages of Strategy 3 include the following:

i. It will reduce the overstressed liquidity indicators of the External Debt portfolio, especially the External Debt Service to Revenue ratio to about 5.94 percent from 33.02 percent, and thereby create fiscal space that would help the Government to meet other critical funding needs;
ii. It will give or open new funding opportunities for the country as the country would now be able to meet up with its debt service obligations as they fall due. Access to new funding would facilitate job creation, poverty reduction and growth.
iii. Strategy 3 would enable the country to lay the foundation for the development of the domestic debt market and create alternative source of funding different from external sources. A functioning domestic debt market would help to increase the rate of savings and investments, as well as capital formation in the country and ultimately economic growth and development.
iv. By subscribing to the development of the domestic securities market and other reforms, the GSS would be sending a clear signal to creditors and investors that in the medium-to-long term, the country wants to advance from dependence on aid to dependence on diversified trade and investment. This posture would encourage them to grant debt relief and other forms of support to RSS.

Whereas, the practicability of Strategy 3 would depend on the willingness of the oil-related external commercial creditors to accept to reschedule their debts under the terms and conditions outlined – rescheduling of the debts into an amortization over 5 years at the minimum, and with existing interest rates as the maximum – much will depend on the GSS's acceptance and implementation of the various public debt management reform initiatives proposed herewith.

SECTION ONE

INTRODUCTION, PURPOSE AND STRUCTURE OF THE REPORT

1.1 Introduction

The Revised National Development Strategy (R-NDS) of South Sudan sets out the objectives and goals of the development of South Sudan in the medium term of three years as follows: (a) strengthen institutions for transparency, accountability and inclusive governance,(b) achieve faster macroeconomic stability and lay foundation for the diversification of the economy, (c) Build critical infrastructure for sustainable development, including roads, energy, public buildings and broad band capability, (d) increased support to the social sector for human capital development and protect the vulnerable population, to leave no one behind and (e) mainstream gender in all development policies and programmes and empower women and youth as drivers of growth and nation-building.

The R- NDS estimates the cost of financing the strategy in the medium term of three years (2021-2024) to be about US$7.2 billion. Year 1 will cost about US$ 2.2 billion, while Year 2 and 3 will cost US$2.48 billion and US$2.55 billion respectively. Financing sources for the medium-term strategy include mobilization of domestic resources through taxation, efficient management of oil resources, effective mobilization of non-oil resources, enhanced systematic promotion and incentivsation of the private sector to finance some domestic projects and programmes, improved Diaspora remittances and the enhancement of fiscal space and pubic investments in critical infrastructure to spur sustainable growth.

However, despite the realistic nature of these projections, financing South Sudan's strategic development will present significant fiscal challenges in the context of recent domestic and international economic and financial crises. For instance, the locust invasion of 2014 and the Covid-19 pandemic mounted severe pressure on oil receipts and domestic resource mobilization that distorted projected fiscal targets in the period under review. Therefore, borrowing to fill the fiscal gap created by the foregoing crises become imperative to address the consequent widening fiscal deficits that resulted. Consequently, a debt management policy and debt management strategy were.

1.2 Purpose of the Review

The debt management policy framework which covered between 2021-2023 will elapse by the end of 2023. The underlying assumptions in both macroeconomic and fiscal projections would have elapsed requiring new assumptions and inputs to keep it progressively fit for purpose. External economic shocks such as the COVID 19 Pandemic and its global impact on energy and commodity exports which South Sudan heavily relies upon for budgetary revenues had been replaced by Russia-Ukraine War which disrupted global supply chains and mounted pressure on critical supply of industrial raw materials globally. South Sudan macroeconomic

and fiscal developments and the experiences garnered from implementation of the current debt management policy framework needs to be updated in the context of legal frameworks, institutional arrangements, debt management objectives and debt portfolio Risk Management framework.

Debt Management Policy Frameworks provides the critical policy direction in the development and implementation of Medium- Term Debt Management Strategy (MTDS). Current MTDS for South Sudan was developed to cover 2021-2024. Hence, as the Debt Management Policy Framework is undergoing review, it was necessary also to review the current Medium-Term Debt Management Strategy along with it to ensure that macroeconomic variables and sources of funding for the Debt Strategy are current. Based on the foregoing, formulation of the alternative debt management strategies can then draw from current data to ensure effective implementation of approved Debt Management strategy and its accompanying debt transparency initiatives. Therefore, the Medium-Term Debt Management Strategy (2021-2024) was updated and presented in this review as South Sudan Medium- Term Debt Management Strategy (2022-2025)

1.3 Structure of the Report

This Report is structure as follows:

SECTION ONE: Introduction, purpose of the review and structure of the report .

SECTION TWO: Review of current debt Management Policy Framework.

SECTION THREE : Scope and Methodology of the Review .

SECTION FOUR : Existing Public Portfolio Analysis.

SECTION FIVE: Macroeconomic Environment and Sources of Funding .

SECTION SIX: Formulation of Alternative Debt Strategies

SECTION SEVEN: Implementation of Debt Management Strategies and Debt Transparency

SECTION TWO

REVIEW OF CURRENT DEBT MANAGEMENT POLICY FRAMEWORK

2.1 Review of Current Debt Management Policy Framework (2021-2023)

The Debt Management policy framework for South Sudan was developed for 2021-2023. Therefore, by end of 2023 its contents and policy recommendations would require a review and update. To be able to provide policy guidance for the development of the Debt Management strategy 2022 -2025, the debt policy framework requires an update on its objectives and strategy, main macroeconomic assumptions, legal framework, institutional arrangements, and portfolio risk management framework.

The existing Debt Management Policy (DMP) of the Republic South Sudan was issued in November, 2020. It was divided into Seven (7) main sections, namely:

1. Introduction
2. Review of existing debt Management Policy
3. Legal Framework for Public Debt Management
4. Institutional arrangements, Roles of MDAs and Debt Management Committee
5. Public Debt Management Objectives and Strategy
6. Public Debt Portfolio Risks Management Framework
7. Summary of Recommendations

The key provisions of each of the sections are discussed and reviewed hereunder with a view to determine their adequacy or otherwise so as to make appropriate recommendations.

2.2 Overview

The introduction highlights the concept of debt management which was the process of establishing appropriate policy and executing strategy for managing government debt in order to raise the required amount of funding, achieve its risks and cost objectives, and meet any other sovereign debt management goals the Government may have set, such as developing and maintaining and efficient market for government securities.

The Objective of Debt Management Policy is to ensure that the financing needs of the Government and its best service obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. Other objectives of public debt management policy would be

a. The need to ensure that both the level and rate of growth of public debt are sustainable in a wide range of circumstances
b. The need for decision makers to be aware of the costs and risks associated with the debt levels
c. The need to highlight the implications of poorly structured public debt portfolio on the economy; and
d. The need to develop a functional and stable domestic market to facilitate the orderly growth of the financial system.

The achievement of these broad- based public debt management objectives would require a set of policies, procedures and strategies- otherwise know as framework-that would guide the process

The policy framework covers both domestic and external public debt and other categories of functional claims on the government, such as contingent liabilities, contractual arrears and judgement debts or penalties. It focuses on general principles applicable to a broad range of countries at different stages of development and with various institutional structures for national debt management. The framework should not be viewed as set of binding practices in public debt management, depending on the specific conditions and objectives aspirations of the particular country.

2.3 Policy Objectives

The three (3) main objectives of the DMP were as follows:

i. Helping to finance accelerated national development and progress towards the Millennium Development Goals, through the priority projects of the South Sudan Development Plan;
ii. Keeping the costs and risks of debt as low as possible; and thereby,
iii. Keeping debt levels sustainable over the medium- to long-term, to ensure that debts can be repaid, in turn reinforcing macroeconomic stability and growth.

The DMP was primarily hinged on the principles of costs and sustainability, with special emphasis on the limits set in the Public Financial Management Accountability (PFMA) Act of 2011, on the international thresholds for debt sustainability set by the World Bank/International Monetary Fund (IMF) under the Low-Income Countries-Debt Sustainability Framework (LIC-DSF) and on the evaluation of potential risks from future borrowing. The DMP also aimed to draw on international best practice to establish and implement clear methods and structures, and plans for building capacity on debt management. It was developed on the assumption that the Government of the Republic of South Sudan will not issue any domestic debt securities because of the relative underdevelopment of the country’s financial markets.

The domestic debt market in South Sudan remains undeveloped. The initial attempt at issuing treasury bills by the bank of South Sudan was abandoned because the banks could not redeem the bills and this led to accumulation of unsustainable public debt. The objectives for Debt Management policy framework should, as a matter of necessity, include the policy on domestic debt markets development which will enhance the development of domestic securities critical to financing economic growth and development in South Sudan. The Government must should initiate incremental and concerted effort towards the development of domestic debt market that provide opportunity for government to borrow and develop the critical infrastructure with the capacity to spur economic growth and generate the enough cash flow to repay the debt. It has been observed that such self-paying and non- recourse to project financing are essential for stimulating more rapid economic growth, employment and poverty reduction and could be structured to be delivered using special purpose vehicles.

2.4 Guidelines for Debt Sources and Costs

One of the main objectives of the Government under the DMP was to keep the cost of borrowing within the limits set by the PFMA Act, 2011. This meant that all loans must be "on strictly concessional terms". The DMP further prescribed that all loans must have a minimum grant element of 35% which implied that the Government would only contract loans:

i. With very low interest rates (less than 1%);
ii. With long grace periods before they begin to be repaid (over 10 years); and,
iii. With long repayment periods thereafter (over 30 years).

Furthermore, the DMP stated that "in order to comply with the stipulations of the PFMA Act, Government of the Republic of South Sudan (GRSS) will therefore obtain the best possible terms from bilateral lenders such as China and Korea, and draw on the concessional windows of the African Development Bank (AfDB) and the World Bank. It will avoid all commercial financing, including credit lines, revolving facilities and bridging loans."

The PFMA Act 2011 of South Sudan sets a debt burden limit to be 20 percent of GDP and 5 percent of debt servicing as a law. These limits do not represent modern best practice in debt management as it limits the capacity of the country to grow their debts and use same for development even when it has been determined to have enough debt carrying capacity.

2.5 Risk Management Guidelines

The third objective of the DMP was to minimize debt-related risks, namely: Financial Risks; Refinancing Risks; and, Contingent Liability Risk. The strategy of measuring and managing the identified risks included the following:

i. All debts were to be borrowed, as much as possible, on fixed rate terms in order to guard against interest rate risks, which is in line with the legal requirements of borrowing only from concessional sources.
ii. To mitigate currency risks by ensuring that external debts are contracted in the major currencies in which South Sudan keeps its reserves and or receives export earnings.
iii. To ensure that repayment periods are taken into account during loan negotiations so as to reduce the amount of debt service falling due in any one year and at the same time focusing on loans with longer maturity periods as against short-term loans.
iv. To adopt a highly prudent policy aimed at reducing fiscal risks associated with contingent liabilities. The measures put in place to achieve this were as follows:
    a) The Government will not guarantee any borrowings by government entities or private sector borrowers;
    b) On-lending to public entities will be done on the terms equivalent to those provided or insisted on by the lenders (or on commercial terms where the borrower can afford these and the lender does not specify more concessional terms);
    c) Avoid any off-budget arrangements such as Public Private Partnerships (PPP) where private debts might risk becoming Government debts; and,

d) In line with the Oil Revenue Act, the Government will also not use any oil or other resources as collateral, guarantees or repayment methods for debt.

The risk management strategies put in place under the current DMP are in line with best practices, especially with respect to interest rate risks, currency and refinancing risks. However, in the case of contingent liabilities, best practices in public debt management require that the Government establish criteria for granting guarantees, and for recognizing and managing the fiscal risks associated with identified contingent liabilities. This would enable the Government to treat each request for guarantee on its merit. There is need to explore and exploit all on- and off-balance sheet funding options, such as the use of PPP to development critical infrastructure projects that would facilitate economic growth and development.

2.6 Policy Implementation Measures

The final part of the DMP contained the measures put in place to ensure its implementation. These involved strengthening the legal environment and regulations for effective and efficient public debt management; improving institutional arrangements; and building debt management capacity within Government. The legal and regulatory measures included:

i. The issuance of Debt Management Regulations that would aid the implementation of the PFMA Act, including a clear definition of debt and Concessionality, the implementation and updating of this particular DMP, the establishment and working procedures of the Government Financing and Debt Management Committee; the roles of all agencies involved in debt management; and further clarifications of approval processes for debt.
ii. The enactment of a separate debt management law beside the PFMA Act to facilitate the issuance of domestic debt and that would put in place clear debt management objectives, and a clearer legal framework for domestic borrowing, contingent liabilities, and auditing of debt management.
iii. Need to streamline the process of debt reporting.
iv. Establish a strong structure for coordinating macroeconomic policy and development planning to facilitate resource mobilization and allocation. This would be achieved through the setting up of a Government Financing and Debt Management Committee comprised of all the agencies involved in mobilizing government financing, and with a mandate to coordinate the design and implementation of financing policies, and to make technical recommendations to the Minister of Finance and Economic Planning for approvals of financing proposals.
v. Need to establish a Debt Management Directorate in the Ministry of Finance and Economic Planning (MoFEP) that would be responsible for the core technical work related to debt management and which will also serve as the Secretariat to the Government Financing and Debt Management Committee.
vi. Continuous capacity building initiatives with special focus on debt reporting, loan negotiation, conduct of debt sustainability and risk analysis. It also included the building of robust public debt management systems, processes and capacity in the MoF&P and in other agencies involved in debt policy and management, such as

the Office of the President, Ministry of Foreign Affairs and International Cooperation, Bank of South Sudan, and Parliament, as well as line ministries and other agencies as appropriate.

The absence of functional Public Debt Management constrained the implementation of most of these recommendations which would have enhanced the implementation of these measures, or at the minimum laid a foundation for the growth of public debt management practices in the country. More importantly, the very grave development-oriented initiatives captured in the implementation measures required that there be a focal institution to drive the process; hence, the imperative of establishing a Debt Management Agency (DMA) with adequate powers and capacity

2.7 Legal Framework for Debt Management

This section discusses the legal framework for public debt management in South Sudan as provided for in various legislations. These legal and regulatory provisions, prescribe public debt issues such as authority to borrow and approval process for new borrowing, amongst others. There has not been a change in the legal framework for debt Management in South Sudan from the 2021-2023 policy framework. The overlapping and conflicting roles of the legal institutions remain as identified and the recommendations for reform remains the same.

A. The Republic of South Sudan Transitional Constitution, 2011

The Republic of South Sudan Transitional Constitution makes extensive provisions for the regulation of public debt management in the country. It specifies that the NLA shall have power to approve all the borrowings (including the sources of borrowing), and guarantees by the Government of South Sudan. The Constitution prioritized debt service payment obligations by making it a first line charge on Government revenue and authorized the NLA and State Assemblies to make laws that would regulate public debt at both tiers of Government.

In furtherance of the powers conferred on it, the NLA has made several laws dealing with different aspects of public debt management in the country. These include the Public Finance Management and Accountability Act, 2011; the Bank of South Sudan Act, 2011; and the Petroleum Revenue Management Act, 2013.

The provisions of these laws fall short of the legal provisions that would engender best practices in public debt management in South Sudan. Therefore, it is recommended that the Government of South Sudan enacts a public debt management law that would vest the power to manage the country's debt on a semi-autonomous Government Agency. The statute would also repeal the clauses identified in the aforementioned Acts that are capable of hindering the development of public debt management in the Republic.

B. Public Finance Management and Accountability Act, 2011

The PFMA Act empowers the Ministry of Finance to undertake several public debt management operations, especially in relation to borrowing for the purpose of financing the budget deficit. Amongst other provisions, it identifies the reasons for borrowing by the

Government; stipulates that all debt service shall be a charge on the Consolidated Fund and shall be incorporated in the budget resource estimate of the financial year in which it falls due, as a draw down on Government resources; and empowers the Undersecretary of the Ministry of Finance to establish and maintain, within the Ministry, a centralized system of debt recording, which details all outstanding debt stock and debt service obligations of the Government.

There are several provisions in this PFMA Act that are not conducive to public debt management operations, especially those that bring the fiscal authorities under the purview of monetary authorities, thereby creating an avoidable conflict of interest conditions for the Central Bank. The establishment of a semi-autonomous Debt Management Agency and the repeal of the identified clauses would correct the anomaly.

C. The Bank of South Sudan Act, 2011

This Act makes provisions that would enable the Bank of South Sudan, the apex monetary authority of the Republic, to perform the traditional public debt management functions required of Central Banks. These functions include acting as the Fiscal Agent of the Government in its securities issuance activities, granting of liquidity status to Government securities, maintaining a discount window for holders of Government securities and collaborating with fiscal authorities during introduction of new debt instruments into the market.

However, like the PFMA Act, there are provisions in the Bank of South Sudan Act that compels the fiscal authorities to consult the Bank during budget preparation, as well as when borrowing to fund the budget deficit. These provisions would give rise to conflict of interest on the part of the monetary authorities and would ultimately hinder the development of public debt management in the country, whilst creating conditions for untidy monetary management.

D. Going Forward: Proposed Debt Management Agency Bill

A public debt management law is required to institutionalize debt management policies and practices in the country. The proposal is for the Government to enact a law that will establish an autonomous Debt Management Agency located, preferably at the Presidency (for political visibility) or at the Ministry of Finance. It should have a Supervisory Board with the Vice President as Chairman and comprised of the Minister in charge of Finance (as Vice Chairman), the Governor of Bank of South Sudan and the Minister in charge of Justice. The Director-General of the Agency will also be a member and would serve as Secretary of the Board.

The Agency shall be solely responsible for managing South Sudan's public debt. The proposed law would empower the Agency to, amongst others:

i. Determine borrowing limits and advise government on how to fund its financing gap;

ii. Set guidelines on domestic and external borrowing by the various tiers of Government and their agencies; and,
iii. Manage the public debt portfolio and perform all related ancillary functions, including determining the level of contingent liabilities and making recommendations on how them should treated.

2.8 Institutional Arrangements and Debt Management Committees

This section discusses the Institutional Arrangement for public debt management in the Republic of South Sudan; the roles of other Ministries, Departments and Agencies (MDAs) and other bodies in public debt management; and Public Debt Management Committees.

This section presents in a snapshot the Organizational Framework of the DMA, the apex institution directly responsible for public debt management in the country.

A. Debt Management Agency and its Supervisory Board

At the apex of the Institutional Arrangement for public debt management framework in the Republic is an autonomous DMA which has the statutory mandate to manage the public debt portfolio of the National Government of South Sudan, including external and domestic debt, as well as contingent liabilities. As stated under the Legal Framework (Chapter Three), the DMA shall be headed by a Supervisory Board comprised of the following statutory members:

i. The Vice-President of the Republic of South Sudan who shall be the Chairman;
ii. The Minister of Finance and Economic Planning who shall be the Vice-Chairman;
iii. The Minister in charge of the Ministry of Justice;
iv. The Governor of the Bank of South Sudan;
v. The Director-General of the Agency who shall be the Secretary to the Board.

The functions of the Supervisory Board would include the following:

i. approve policies, strategies and procedures to be adopted by the Agency for the achievement of its objectives;
ii. review, from time to time, the economic and political implications of domestic and external debt management strategies;
iii. appoint, as and when necessary, technical committees comprised of persons with requisite technical competence from the private or public sector to advise the Agency on such matters as may be determined from time to time; and,
iv. perform such other functions as may, from time to time, be necessary to achieve the objectives of the Agency.

B. Functions of the DMA

The functions and powers of the Agency include the following:

i. maintain a reliable database of all loans taken or guaranteed by the Republic of South Sudan or any of their agencies;

ii. prepare and submit to Government a forecast of loan service obligations for each financial year;
iii. prepare and implement a plan for the efficient management of South Sudan's external and domestic debt obligations at sustainable levels compatible with desired economic activities for growth and development; and participate in negotiations aimed at realizing those objectives;
iv. verify and service external debts guaranteed or directly taken by the various Governments of the Republic of South Sudan as their agencies;
v. on agency basis, service external debts taken by State Governments and any of their agencies: where such debts are guaranteed by the National Government;
vi. set guidelines for managing Government financial risks and currency exposure with respect to all loans;
vii. advise the Government on the re-structuring and re-financing of all debt obligations;
viii. issue and manage Government debts publicly issued by the Republic of South Sudan upon such terms and conditions as may be agreed between the Government and the Agency;
ix. issue, from time to time, guidelines for the smooth management of the public debt of the country; and,
x. do such other things which in the opinion of the Board relate to the management of the domestic and external debts of the Government.

Office of the Director-General

The Director-General will serve as the Secretary of the Supervisory Board and be responsible for the day-to-day management of the Agency. The Director-General should be a non-partisan officer of the Government and shall be appointed by the President on the advice of the Supervisory Board. The Heads of Departments and other heads of specialized Departments and Units, such as the Support Department and Internal Audit Unit shall report directly to the Director-General.

C. The Organizational Structure of the DMA

The Organizational Structure of the DMA would depend on the level of operation or volume of activities being carried out. At the minimum and in line with sound practices in public debt management, the DMA' Organizational Structure should be divided into Front, Middle and Back Offices plus a Support Department all of which shall be headed by a senior management staff.

The Front Office is the DMA's interface with the market and other stakeholders. It is responsible for the analysis and efficient execution of all portfolio transactions (issuance of securities and guarantees, loan negotiation, assets and liabilities management, development and introduction of new products, investor relation, etc.) consistent with the debt management policy and strategy of the Government. It is usually comprised of two constituent sections, namely: Portfolio Management and Market Development Sections.

The Middle Office is responsible for policy formulation, debt sustainability analysis and development of debt management strategy. It also undertakes debt portfolio and statistical analysis, economic research, risk management and task compliance and

assessment. The Middle Office would also handle such functions like maintaining relation with rating agencies and other multilateral financial institutions in the areas of debt management capacity building. The goal of the Middle Office is to ensure that the public debt portfolio is kept at sustainable levels compatible with the overall macroeconomic goals of the country. The Middle Office may further be divided into two Sections: Policy and Strategy; and, Statistics, Analysis and Risk Management Sections

The Back Office is responsible for record keeping and debt service. It involves the day-to-day paperwork and record-keeping associated with debt contraction, settlements and financial transactions. Specifically, the Back Office establishes and manages the public debt database. The Back Office may be further divided into the Debt Recording and Debt Settlement Sections

The Support Department provides ancillary services, which include Human Resources and Administration, Information Communication Technology, Finance and Account, Legal Services and Procurement.

D. Roles of MDAs and other Institutions in Public Debt Management

Like other Government establishments, the DMA in the discharge of its statutory mandate collaborate with other Ministries, Departments and Agencies (MDAs of the Government and private sector institutions. The points of interface with each of these bodies are briefly discussed below.

The Ministry of Finance

In addition to the Minister performing the statutory public debt management functions enshrined in the DMA law, officers of the Ministry also contribute to public debt management operations in the following ways:

i. Leads the loan negotiation team with respect to external borrowings (multilateral and bilateral).
ii. Issue mandate to the bank of South Sudan for the externalization of the External Debt Service payments.
iii. Collaborate with the DMA in the development and introduction of new securities into the domestic money and debt market.
iv. Participates in the conduct of annual Debt Sustainability Analysis (DSA) and development of Medium-Term Debt Management Strategy (MTDS) Workshops during which the Ministry provides historical revenue and expenditure data. The data would also include budget and projected revenue and expenditure estimates as approved in the Medium-Term Expenditure Framework and the underlying assumptions.
v. Provide information on official Aids and Grants.
vi. Provide information on the development priorities of the Government
vii. Provides other Fiscal Policy inputs and data on the External Borrowing Plan of the Government.

Bank of South Sudan

Beside acting as the Fiscal Agent to the Government on securities issuances in the domestic market, granting of liquidity status and maintaining a discount window for all Government securities, the Bank also performs the following public debt management functions:

i. Collaborates with the DMA in the development and introduction of new debt instruments into the domestic money and capital market.
ii. Provides secondary market information on holders of Government Securities by Investor Category by virtue of its role as Fiscal Agent of the Government.
iii. A strategic partner to the DMA for market development initiatives.
iv. Implements the externalization of the External Debt Service payments being the Banker to the Government.
v. Participates in the conduct of annual DSA and MTDS Workshops during which the Bank would provide guidance on the Monetary Policy stance of the Government, especially with respect to interest and exchange rates projections, inflation expectations and Balance of Payments (BOP) data.
vi. The Bank provides similar perspectives during public debt management engagements with international investors.

Statistics Office

Participates in the conduct of annual DSA and development of MTDS Workshops. The Statistics Office will provide historical national income data, GDP and other relevant macroeconomic data during the exercises.

Ministry of Justice

i. Participates in all loan negotiations.
ii. Provides Legal Opinion for external borrowings.
iii. Reviews and clears all legal documents required for external borrowing in the International Capital Market.
iv. Participates in public debt management engagements with international investors, especially where actual borrowing is involved.

Stock Exchange

i. Provide platform for listing and trading of Government Securities, which enhance secondary market liquidity of Government Securities.
ii. Provide secondary market data to the DMA which are required for market planning and research.
iii. Provide platform for engagement with relevant domestic investors and market operators.
iv. Strategic partners to the DMA for market development initiatives.

E. Debt Management Committees

This section highlights the level of coordination and collaboration between public debt management, fiscal and monetary authorities which are necessary for achieving overall macroeconomic stability.

a. Fiscal and Monetary Policy Coordination

Effective public debt management would require coordination and collaboration between and amongst several MDAs of the GRSS. This is necessary for continuous sensitization, harmonization and clarification of Government policies with public debt management initiatives in order to achieve overall macroeconomic stability. In this regard, it is necessary to establish a Monetary and Fiscal Policy Coordinating Committee (MFPCC) and other relevant Committees that would facilitate exchange of information between the DMA and other MDAs.

With respect to the MFPCC, the recommendation is to ensure that distinct agencies are vested with powers to perform fiscal and monetary functions of the GRSS to avoid conflict of interest and distortions in macroeconomic and financial policies of the Government. Be that as it may, high level coordination between fiscal and monetary authorities is vital to the achievement of financial sector stability and economic growth. The practice is to locate the Committee in the DMA which has the mandate for public debt management because the discharge of its mandate has far reaching implications for both fiscal and monetary operations of the Government.

The members of the Committee would be drawn from the following MDAs: the DMA, which serves as its Secretariat; Ministry of Finance, including Budget, Treasury and Revenue Departments (where these functions are not performed by separate MDAs); the Bank of South Sudan; the agency in charge of public Pensions; the agency or Department in charge of National Planning; the Statistics Office; and other relevant MDAs.

The meetings of the Committee are usually scheduled and could also be adhoc to deliberate on critical macroeconomic developments, as and when they arise.

b. Fiscal and Liquidity Assessment Committee

The Fiscal and Liquidity Management Committee should be located at the Bank of South Sudan and would be comprised of Departments in the Bank that have responsibilities for Monetary Policy formulation, Banking Operations and Monitoring and Financial Markets Development. Beside the DMA, members would include key MDAs that have responsibility for revenue generation, such as the Petroleum Ministry and the Ministry of Finance, including the Treasury Department. MDAs in charge of Budget formulation and Internal Revenue collection are key members of the Committee. The Committee is required to meet on weekly basis to review the liquidity position of Government in terms of actual revenue and expenditure, and then make relevant projections to determine the net Government's cash injection into and withdrawal from the system.

c. Cash Management Committee

The Cash Management Committee is a high-level Committee located at the Ministry of Finance and headed by the Minister in charge of Finance. Membership would include the DMA, the Bank of South Sudan, Departments with responsibilities for Internal Revenue collection, including the Ministry of Petroleum, the Budget Department and the Treasury. The Committee meets monthly to review the cash flow of the Government, consider and approve recommendations on resource allocation.

2.9 Objectives of Public Debt Management

The DMA, at its various stages is required to pursue short, medium and long-term public debt management objectives which would, amongst others, include the following:

i. Building and maintaining a diversified and sustainable public debt portfolio.
ii. To set appropriate risk benchmarks, such as Average Term-to-Maturity (ATM) and Average Term-to-Refixing (ATR) for the domestic debt portfolio.
iii. Development of the domestic debt market for issuance of Government securities.
iv. Introduction of new money and capital market debt instruments into the domestic debt market.
v. Establishment of a Sovereign Benchmark Yield Curve that would enable other securities issuers access the market.
vi. Work with other stakeholders to establish a secondary market for trading of Government securities.
vii. Develop the retail end of the market for Government securities.
viii. Ensure transparency in all securities issuance operations to enhance investor confidence.
ix. Explore and exploit the use of Off-Balance Options to meet Government's developmental financing needs.
x. Pro-actively identify and manage the risks associated with on-lent loans.
xi. Develop and implement initiatives aimed at instituting best practices in public debt management at the sub-national levels of Government with a view to ensuring the Total Public Debt Portfolio of the country remain sustainable levels.
xii. Opening of access to the external securities market to meet government and private sector financing needs.

A. Scope of Public Debt Management

The scope of public debt management operations covers the financial (explicit and implicit) obligations of the GRSS – domestic as well as external. These would include all categories of domestic debt obligations, such as those arising from securities issuances or securitized Government debts; loans from commercial banks and other financial institutions (where available); contractual and salary arrears; judgement debts; guarantees; and other forms of contingent liabilities.

The external debts obligations refer to all public and publicly guaranteed loans of National and State Governments obtained from creditors outside the Republic of South Sudan and would include loans obtained from multilateral financial institutions; bilateral loans; debt services arrears and penalties (if any); warrants; export credit loans and guarantees; and, trade credits and arrears. It would also cover commercial loans from international banks and other lenders, as well as Government securities issued in the international capital market.

2.10 Debt Management Strategy

The Debt Management Strategy sets out strategies for meeting Government's financing requirements in the short to medium term at minimal cost and low risks with a view to maintaining a sustainable public debt portfolio. The aim is to ensure that borrowing

activities support the refinancing of maturing public debt obligations, the execution of the budget plan and other financial operations of the Government, including development of other non-debt financing options and establishing a prudent debt portfolio mix. The debt strategy, which must incorporate the development of the domestic debt market as a prime objective, seeks to ensure the following with respect to the debt portfolio mix:

i. Balance in terms of short, medium and long-term debts in order to obtain lengthened maturity profile of the debt portfolio (Refinancing Risk and Maturity Profile) – Average Term to Maturity (ATM) and Average Time to Refixing (ATR);
ii. Balance between external and domestic debt composition (Cost of Debt) – Interest Rate Risk;
iii. Balance between fixed and variable rate debts (Cost of Debt) – Interest Rate Risk; and,
iv. Balance in terms of currency composition with respect of external debt (Foreign Exchange Risk).

The standard procedure for establishing the debt management strategy is for the DMA to develop a Medium Term Debt Management Strategy (MTDS) to cover a specific period of time, usually 3 years. The Strategy shall be evaluated annually or as the need arises in order to incorporate new development in public debt management. The process involves:

i. The ascertainment of Government's financing needs;
ii. The identification of the sources of borrowing (external and domestic) to meet those needs;
iii. The evaluation of the costs and risks associated with each of the options considered and setting of relevant targets, such as ratio of external to domestic debt; ratio of short to long-term debt instruments, ATM and ATR;
iv. Seeking high level approval, usually by the Council of Ministers) of the recommendations thereto; and,
v. Implementation of the approved Debt Strategy.

A. Sub-national Debt Management Strategy

The DMA shall take strategic initiatives aimed at developing public debt management capacity at the sub-national levels of Government. Though the constituent States in the Republic may have fiscal autonomy, the Republic has only one economy. Fiscal stress in any State of the Republic will have contagion effect on the entire economy. Thus, it is imperative for the DMA to take and exercise responsibility for coordination and ensure that the Total Public Debt of the country is kept at sustainable levels by helping sub-national develop capabilities in sound public debt management practices for overall public debt sustainability and macroeconomic stability.

SECTION THREE

METHODOLOGY AND STRUCTURE OF THE REPORT

The MTDS covers the main obligations of the GSS, of which it has full control, consisting of the government external and domestic debt. Information on the Debts of State-Owned Enterprises (SOEs) and contingent liabilities of the GSS were not available, and therefore, could not be included in the analysis.

3.1 Methodology

Data availability remains a major challenge in preparation of Debt Management strategy, though this is the problem of all low- income countries and South Sudan is not an exception. In view of the significant weaknesses in data availability (which is generally the case with baseline studies of fragile economies), corroborated by the IMF in its Debt Sustainability Analysis (DSA) Report on South Sudan, published in November, 2020 in, which the IMF stated that the country is an oil-dependent, low-income, post-conflict fragile state and that access to data remains a constraint, despite the authorities' efforts to improve the availability of data[6], this MTDS is essentially foundational (Baseline), using the data available.

The Debt Statistics for South Sudan as identified by the DSA of December 2020 clearly classifies the country as being debt distressed which constrains further borrowing and debt servicing comfort. The fact that the country is already under debt distress based on the DSA as at the end of December 2020 and the non-inclusion of any form of Government's borrowing for deficit financing in its 2020/2021 National Budget Plan, means that Government's financing needs for the fiscal year 2020/2021 and projected borrowing in the National Development Strategy (NDS) are zero. Furthermore, the lack of sources of borrowing in the Government's fiscal framework and market-based debt instruments make the use of a standard MTDS Analytical Tool, which depends largely on the classical scenarios of current and future financing requirement in the Medium Term, for the development of alternative quantitative debt management strategies, not feasible. The MTDS generic Analytical Tool is essentially designed for countries who meet these requirements.

This completion exercise of the MTDS will build on previous efforts and simply update current baseline and trend statistics. This MTDS would be limited to the analysis of the baseline public debt and other relevant macroeconomic data for, which information is available. Therefore, a Baseline MTDS is sufficient at this early stage of public debt management in the country. A classical MTDS would be feasible upon the implementation of the various public debt management initiatives recommended herewith. Consequently, this MTDS was developed using the MTDS Template of the Data Export facility of the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS version 2.3) and the **Costs and Risks Indicator Template** of the World Bank/IMF MTDS

[6] International Monetary Fund's staff report, November 2020.

Analytical Tool to derive the costs and risks indicators in the current public debt portfolio and in the alternative debt management strategies.

SECTION FOUR

EXISTING PUBLIC DEBT PORTFOLIO ANALYSIS

This section presents the analysis of public debt as at December 31st 2022. It also features the current debt financing policy, the structure of external and domestic debt, costs and interest rate, exchange rate and refinancing risks profile of the public debt portfolio in South Sudan.

4.1 Current Debt Financing Strategy

Substantially, current debt financing strategy follows the guide provided by the PFMA Act 2011, however, the strategy is wont to change in the context of current fiscal developments. South Sudan's current debt financing policy is broadly expressed in the Public Finance Management and Accountability (PFMA) Act 2011, Bank of South Sudan (BSS) Act 2011, Petroleum Revenue Management Act (PRMA) 2013 and in the Debt Management Policy Support (DMPS) report of the Debt Relief International (DRI). These currently serve as useful guide for borrowing activities of the MFP and in its relationships with creditors and investors in oil-related transactions, as well as other stakeholders.

Some provisions of the PFMA Act have been breached to accommodate emergency situations such as the period of the Covid 19 pandemic and developments in the global energy demand and supply conditions. As indicated in the DMPS7, the Government established guidelines for borrowing costs in the PFMA Act[2]. The Act, amongst others, provide that all loans must be concessional and that the Government will obtain the best possible terms from bilateral lenders and draw from the concessional windows of multilateral financial institutions. The Government is to avoid all commercial financing, including credit lines, revolving facilities and bridging loans. The PFMA Act also indicates that debt must not exceed 20% of GDP, and debt service payments must stay below 5% of budget revenue.

Subsequent to the enactment, some of the strategies put in place to minimize potential future risks from debt, include:

a. Insist on loans with fixed rather than variable interest rates;

b. Maximize the proportion of debt in the same currency as its reserves and exports (US$);

c. Maximize the repayments period for all loans to reduce debts falling due simultaneously

d. Government will not guarantee any borrowing by Government entities and private sectors borrowers;

e. Non use of oil (or other resources) as collateral guarantees or repayment for debt unless it was an emergency

[2]. it is important to note that the provisions of PFMA 2011 largely draw from the Transition constitution which prioritized political stability and reflected such in their public financial management policies.

f. On- lend debts contracted for other public entities on equivalent or commercial terms; and,

g. Avoid any off-budget arrangements where private debts risk would fall back on the

A review of the public debt management operations of the country shows that the Government has not fully followed the broad guidelines stipulated in the extant laws and the criteria stipulated therewith due largely to socio-economic and political circumstances beyond its control. As the political environment becomes more stable, there is need to develop a clear-cut debt management strategy that would guide the borrowing operations of the Government.

The debt management strategy would outline the costs and risks implications of alternative debt financing strategies in line with best practices. It will help the debt managers to understand the interplay of forces in the financial market and provide policy makers with the relevant information required to make choices amongst several debt financing options that may be available after due consideration of the costs and risks trade-off.

Table 1 presents the outcome of the Government's current debt financing policy based on the existing public debt portfolio as at December 31, 2020. It indicates that 77.26 percent of debt finance was sourced from external sources, while 22.74 percent came from domestic sources.

Table 1: Current Debt Financing Strategy as at December 31 ,2022

Sources/Instrument	Amount (US$ Million)	% of Total	% by Source
EXTERNAL SOURCES	2,050.14	83.77	100
IDA	104.21	3.21	4.08
IMF	226.90	8.16	11.06
ADF	18.54	0.25	0.14
China EXIM	127.08	4.13	6.37
Afroexim 1	173.89	6.02	9.58
Afroexim 2	196.42	6.93	0.44
Afroexim 3	11.39	0.54	7.18
Sahara Energy	128.71	4.20	6.27
Qatar National	585.08	22.65	35.87
NASDEC	421.39	16.01	21.85
Trade Bank	52.78	1.13	2.57
National Investment Bank	3.00	0.88	0.82
DOMESTIC SOURCES	426.91	16.23	100
Bank of South Sudan	426.91	16.23	100
Total	2,477.06	100.00	

Source; From data supplied by the Ministry of Finance and Planning

A further breakdown reveals that financing from concessional (multilateral and bilateral) sources constituted 11.62 percent up from 9.78 percent of the Total Public Debt,

commercial (oil-related) 42.86 percent and that the Domestic Debt of 16.23 percent was held solely by the BSS. The high proportion of commercial External Debt (63.99%) relative to concessional External Debt (36.01%) poses significant risk in terms of cost of debt service. The percentage composition of the total debt stock was 83.77 percent and 16.23 percent for External Debt and Domestic debt, respectively (Figure 1).

Figure 1: Structure of Total Public Debt by Category as at December 31, 2022

Source: Computed from information supplied by MFP

Furthermore, the fact that all the stock of Domestic Debt outstanding in the public debt portfolio was held by the BSS shows, firstly that the Government has been under monetary financing for its fiscal operations, a practice that is highly inflationary and secondly, the absence of a functional Government domestic securities market. Therefore, there is need to make deliberate effort to develop the market with a view to subjecting the domestic borrowing operations of the Government to market discipline.

4.2 Structure of External Debt as at December 31, 2022

The GSS's Total External Debt stock was US$2,505.21 million as at December 31, 2022. The External Debt stock presented in Table 2.2 comprised:

i. Concessional Multilateral Loans of US$98.03 million from International Development Association (IDA), International Monetary Fund and African Development Fund (ADF) of the African Development Bank, has increased from 5% in the previous report to 18.52 percent of the stock;

ii. Concessional Bilateral Loan of US$150 million from China Export-Import Bank, slightly dropped from 7.66 percent in the previous strategy to 7.19 percent of the outstanding stock; and,

iii. Commercial debt, all of which are Oil related transactions dropped from US$1,711.39 million to US$1,700.48 from sundry creditors, which represent 74.29 percent of outstanding External Debt stock as at December 31, 2022

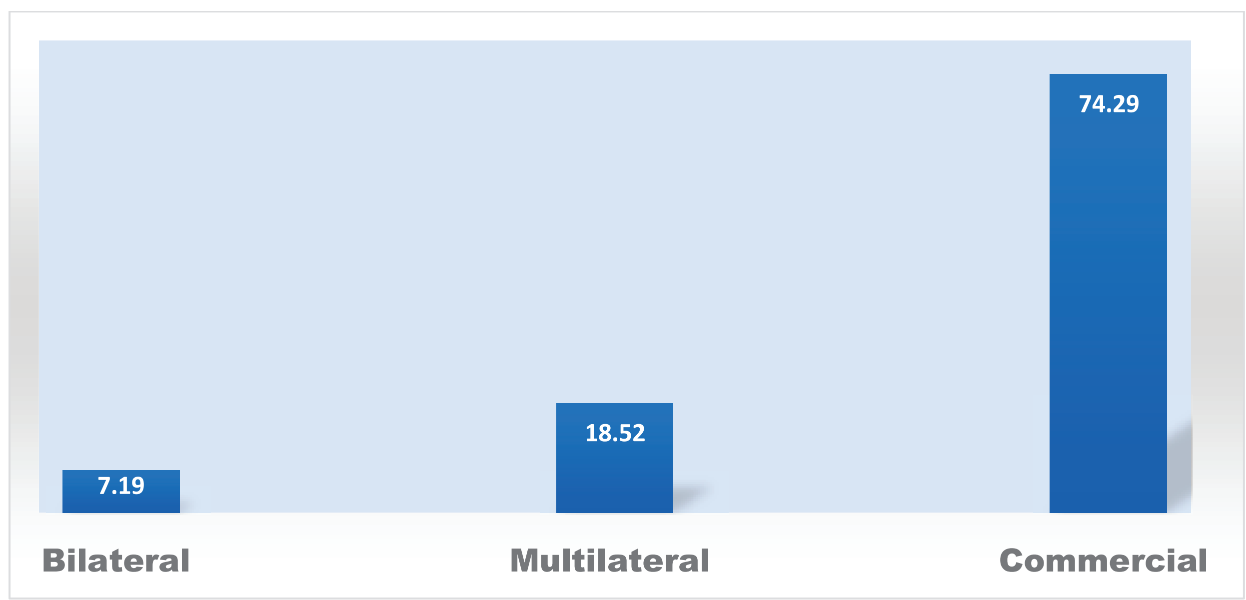
Furthermore, the high proportion of external commercial debt relative to concessional debt in the public debt portfolio indicates a higher level of debt service burden (Figure 2.2). There is need to develop a debt strategy that would aim to maximize the available envelopes at the concessional windows, which are cheaper than commercial debts. Essentially, the GSS needs to develop a definite public debt portfolio-mix strategy.

Table 2: External Debt by Creditor Category as at December 31, 2022

Creditor Category	Total	% of Total
MULTILATERAL		
World Bank Group		**18.52%**
IDA	104.21	
African Development Bank Group		
ADF	18.51	
IMF	226.90	
SUB-TOTAL	**349.62**	
BILATERAL		
Export-Import Bank of China	127.08	**7.19%**
SUB-TOTAL	**127.08**	
COMMERCIAL		
OIL RELATED DEBT		
Qatar (Qatar National Bank)	585.08	**74.29%**
Sudan (TFA)	0.00	
Sahara Energy Loan	128.71	
Trinity Energy Loan	0.00	
Afrieximbank Loan	381.70	
SUB-TOTAL	**2,050.21**	
GRAND TOTAL	**2,059.21**	**100.00%**

Source: Computed from Data from MoFP.

Figure 2. Composition of the External Debt by Creditors Category as at December 31, 2022



Source: Computed with Data from MoFP

4.3 Structure of Domestic Debt as at December 31, 2022

The Total Domestic Debt stock of SSP426,915.17 million outstanding as at December 31, 2022 presented in Table 2.3 was held by the Bank of South Sudan (BSS). The borrowings were in the form of Advances (SSP424,997.74 million). There was no direct foreign currency borrowing in dollars, BSS's Capital Restoration (SSP1,917.37 million). There were no overdrafts in local and foreign currency during the period under review. These represent 99.55 percent, and 0.45 percent, of the Domestic Debt stock, respectively.

Table 3: Domestic Debt Outstanding as at December 31, 2022

Mode of Borrowing	Amount	Percentage of Total
Advances from BSS	424, 997,799,745.75	99.55%
Borrowing from BSS in USD	0	0
BSS's Capital Restoration (Series AX1-AX27)	1,917,373,479.74	0.45%
Overdrafts from BSS (SSP & USD)	0	0
TOTAL	**426,915,173,225.49**	100.00%

Source: Computed with Data from Bank of South Sudan.

4.4 Costs and Risks Profile of the Public Debt Portfolio

In terms of the implied cost of debt, Table 2.4 indicates that the Weighted Average Cost (WAC) of the Total Public Debt portfolio was 8.02 percent as at December 31, 2022, up from 7.03 percent as at December 31, 2020. The WAC of the External Debt was 6.17 percent, while that of Domestic Debt was 10.08 percent. This meant that Domestic Debt was relatively more expensive than External Debt by about 206 basis point.

4.4.1 Interest Rate Risks

The Average Time-to-Refixing (ATR), is a measure of weighted average time until all the principal payments in the debt portfolio become subject to a new interest rate. The public debt portfolio may be exposed to interest risk if resources are not available to redeem it and, thus, it has to be rolled over. The ATR of the total public debt portfolio was a meagre 2.10 years (Table 2.4), while that of the External Debt was 2.42 years, which means that a high proportion of the External Debt may require interest rate re-set within 3 years, and thereby expose the country to higher funding cost assuming rates in the market are not favorable.

The ATR of Domestic Debt was one (1) year. This also means that all the local currency debts were due for repayment and are subject to new interest rates if they are to be refinanced with new debt. Overall, interest rate risk in the public debt portfolio was significantly high because almost all of the outstanding public stock debt will mature within a period of 2 years. The inability to re-fix or repay the debt as and when due could trigger debt default, which would undermine Government's credit rating and hamper the ability to access further borrowing. The economic consequences are usually very high in the absence of debt relief and/or debt restructuring.

Table 4: Costs and Risks Indicators of GSS's Total Debt Portfolio as at December 31, 2022

Risk Indicators		External Debt	Domestic Debt	Total Debt
GSS's Total Public Debt (US$ Million)		2,050.21	426.91	2,477.05
NPV of Debt as a % of GDP		44.23	11.32	55.55
Weighted Average Cost of Debt (%)		6.17	10.08	8.02
Interest Rate Risk	Average Time-to-Refixing (Yrs.)	2.42	1.00	2.10
	Fixed Rate Debt (% of Total)	13.46	100	31.46
Refinancing Risk	Average Time-to-Maturity (Yrs.)	2.77	1.00	3.36
	Debt Maturing within 1 yr.	62.04	100.00	72.00

	(% of Total)			
Foreign Exchange Risk	FX Debt (% of Total)			78.36
	FX Debt (% of Reserves)			4,627.32

Source: computed with Data from MoFP

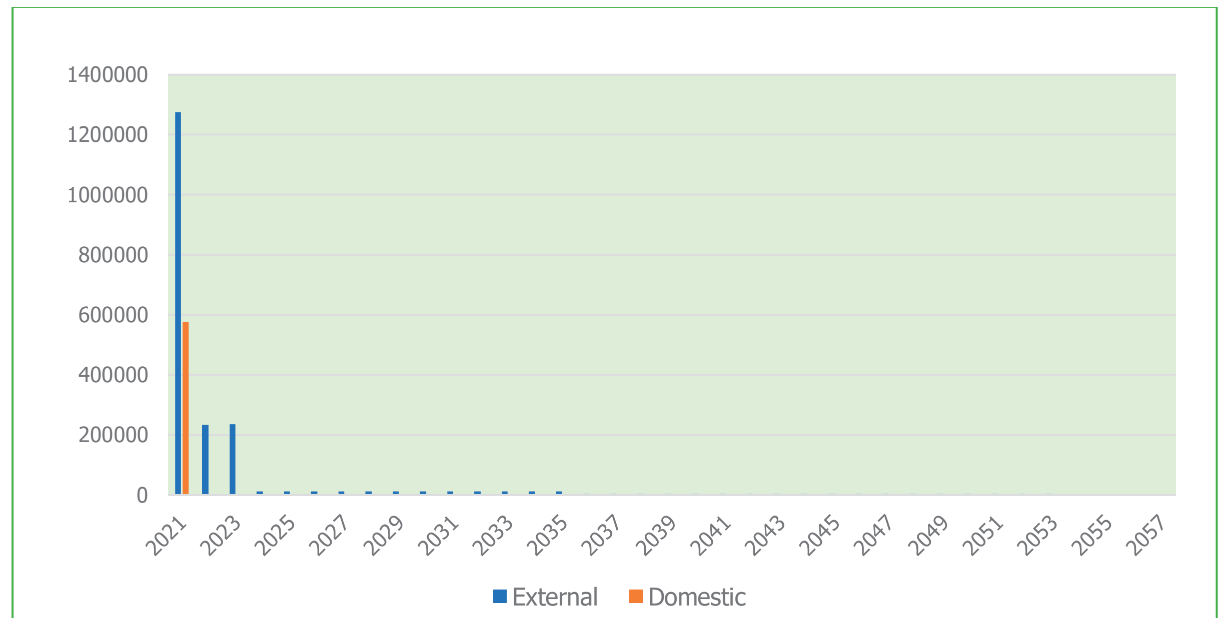
Furthermore, only 31.46 percent of the Total Public Debt was on fixed interest rate, which meant that 68.54 percent was on Variable Rate. This supports the assertion that the country's risk on cost of debt is very high.

4.4.2 Refinancing Risk

Refinancing Risk refers to the possibility that the country would not be able to replace maturing debt obligations with another debt when required. This risk is measured by examining the share of debt maturing within 1 year, the Average Term to Maturity (ATM) and the Redemption Profile of the debt portfolio. The Average Time-to-Maturity of the country's Total Public Debt as at December 31, 2022 was 3.36 years, while the proportion of Total Public Debt maturing within 1 year was as high as 72 percent (Table 2.4). The entire Domestic Debt portfolio had matured and in arrears, while as much as 65.06 percent of the External Debt was due for repayment within 1 year.

Typically, concessional debt and bilateral debt have long ATM. The ATM of the concessional and bilateral loans in the GSS External Debt portfolio as at December 31, 2022 was 3.36 Years. However, the huge ratio of Oil-related debt of 86.54 %, which is already in arrears, compared to the 13.468% concessional and bilateral debt in the External Debt portfolio compressed the ATM of the External Debt to 2.36%. Similarly, the ATM of the total public debt portfolio was affected by the Oil-related debt and the short tenured domestic debt in the public debt portfolio. All the Refinancing Risk indicators point to the fact that the country's public debt portfolio is facing significant high Refinancing Risk given the proportion of debt maturing within one year (72%). South Sudan would require debt relief or rescheduling to mitigate the risk in the short term to medium term in order to return to the path of debt sustainability (Figure 3).

Figure 3: Redemption Profile of Total Public Debt as at December 31, 2022



Source: compiled from data from MoFP

4.4.3 Foreign Exchange Risk

Foreign Exchange (FX) Risk measures the ability of the country to meet its External Debt obligations based on the relative size of the foreign currency denominated debt as a percentage of Total Public Debt, as well as the size relative to the level of the country's external reserves. Table 4 show that FX risk was relatively high because 78.36 percent of the outstanding Total Public Debt as at end of December 31, 2022 was denominated in foreign currency, the US Dollars. It means that high volume of foreign exchange would be required by the country to meet its External Debt obligations as they fall due. External Debt as a percentage of external reserves is extremely high and depicts lack or insignificant reserves level as at December 31, 2022

SECTION FIVE

MACROECONOMIC ENVIRONMENT AND SOURCES OF FUNDING

5.1 Macroeconomic Operating Environment and Sources of Funding

The macroeconomic environment for public debt management in South Sudan has been fragile and volatile. The challenges in the public debt portfolio are reflection of these realities, which the Government acknowledged and is working to reverse. As stated in the Revised National Development Strategy[8] (R-NDS) in the medium term, the authorities have been working on expenditure reorientation away from military spending towards infrastructure and other growth enhancing expenditure. This was intended to help in paying down public debt, while simultaneously cutting back on borrowing in order to reduce debt overhang.

5.2 Fiscal Policy

The Government's fiscal policy stance aims to support attainment of low inflation and a stable exchange rate through substantial decline in budget deficit and borrowing. The decision to adopt strict fiscal rules, which are directed at limiting the budget deficit and current government spending, were said to be critical in unlocking private sector investment that would facilitate employment generation, poverty reduction, economic growth and development. Against the backdrop of limited or no borrowing, Government intends to finance its development initiatives through:

i. Reallocation of resources between public sectors – from low priority areas to high priority areas;
ii. Mobilizing domestic public resources through taxation;
iii. Investments financing by private businesses in the country;
iv. Foreign Direct Investment, especially in the oil sector; and,
v. Development partners, donations, private endowments and remittances.

According to the MFP[9], the National Budget Plan for 2021/2022 was prepared as a tool for the implementation of the R-NDS 2021-2024. The original overall objectives of the Strategy before the onset of Covid-19 pandemic were to consolidate peace and stabilize the economy. These have now been expanded to include combating Covid-19 and its aftermath. The fact that the country depends on crude oil exports as the main source of Government revenue – accounting for about 99 percent of foreign exchange earnings and

[8] South Sudan National Development Strategy (2018 – 2021)
[9] National Budget Plan, Fiscal Year 2020 – 2021.

more than 90 percent of total government revenues – has made the economy highly vulnerable to exogenous shocks.

The Budget Plan indicated that the country's economy was stabilizing after several years of contraction and had begun to show signs of recovery. The economic recovery process was spurred by Revitalized Agreement for Resolution of Conflict in South Sudan(R-ARCSS) Based on this positive economic outlook, the African Development Bank reports that GDP growth contracted an estimated 2.9 percent in 2021/2022 after contracting 4.9 percent in 2020/2021.

The African Development Bank in its African Economic Performance projects an estimated 2.9 percent contraction in 2021/2022, after contracting 4.9 percent in 2020/2021.However, South Sudan was expected to remain in recession in the worst-case scenario in 2022/2023, with real GDP projected to contract by 0.4 %, but will rebound to growth of 4.6 percent in 2023/2024 driven by increased domestic oil production and higher global oil prices. Oil production declined to 156,000 barrels a day in 2021/2022 from 2020/2021 after several oil fields were damaged by flood. Agriculture which contributed -0.1 percentage point was also affected by floods and drought. On the demand side, the contraction was driven by net exports ((-1.3 percentage points) . Tight Monetary policy and reduced monetization of the fiscal deficits reduced inflation to an estimated 0.9 percent

According to the report, the outlook indicated that oil sector is expected to drive growth on the supply side and private consumption and investments are projected to do so on the demand side. Inflation is expected to increase to 16.5 percent in 2022/2023 and 10.9 percent in 2023/2024, reflecting higher food prices. Notwithstanding, the fiscal deficits is projected to narrow to a surplus of 3.0 percent of GDP . China might resume its oil demand from South Sudan and this could improve revenues and narrow the current account balance to a surplus of 7.0 percent of GDP in 2022/2-23 and 6.6 percent in 2023/2024, reflecting higher oil export revenues. Improved oil revenue and moderated public spending may moderate fiscal deficits and reduce the pressure to increase borrowing in 2021/2022. This is because the government relies heavily on oil revenues and oil-collateralized loans to finance the budget, which comes with hefty cost to the government.

5.3 Monetary, Financial, and Exchange Rate Policies

The BSS kept the implementation of Foreign Exchange Auctions introduced in April 2021 on the backdrop of the rapid depreciation of the South Sudanese Pound (SSP) and high inflation. According to the Bank, this measure, amongst others, has helped in the past to

address the economic shocks brought about by low international oil prices and other externalities, which led to considerable fiscal imbalances and constrained financial system performance. By this and other measures, the Bank has moved from its accommodating stance to tighten its monetary policy in order to withdraw the excess liquidity from the market (arising salary payment of about SSP 15 billion: a new injection of cash equal to about 31% of the Currency-In-Circulation) and harmonize the difference in exchange rates, while stabilizing market prices. To attract foreign exchange inflows, a higher level of market flexibility would be required. This would help to rebalance the exchange rate of the SSP in the parallel market with a market premium as high as 200 percent[10].

The banking system in South Sudan remains weak and undercapitalized. The BSS suspended the recent regulation of higher minimum paid-up capital for commercial banks that would have stabilized the banking system. Meanwhile, the Government has continued to rely on advances and overdrafts from the BSS to meet its fiscal needs, a practice that has continued to fuel inflationary pressure. Going forward, the BSS would have to work to strengthen the banking system by encouraging mergers and acquisition through the development of medium to long-term monetary policy frameworks that would attract capital into the sector. On this, the authorities need to tap on the experiences of other countries that have developed their financial system through the establishment of a Bond Market Steering Committee and other relevant capital and money market related committees, if it is not already doing so.

5.4 Sources of Financing

The existing public debt portfolio indicates that the country borrowed from both external and domestic sources to meet its debt financing needs. The composition of the outstanding Public Debt Stock as at December 31, 2022 was 83.77 percent and 16.23 percent for External Debt and Domestic Debt, respectively. The Debt Sustainability Analysis (DSA) on RSS conducted for Afrieximbank by Abraham Strategies Limited, as at the end of December 2020 indicates that the country is under debt distress conditions. The adverse macroeconomic environment led to debt default and accumulation of arrears, thereby making access to new financing highly difficult. Impliedly, the Government has no borrowing space and is unable to attract new borrowings from external sources.

[10] IMF staff report, November 2020.

The Government's FY 2021/2022 Resource Envelope projected Total Resources Available at SSP1.3 Trillion and Total Spending at SS218,191 billion. However, there is no provision for new borrowing in the fiscal year even though it projected a budget deficit of SSP120,465 billion about 13.42 percent of GDP. In other words, the Government did not indicate any source of new financing. This underscores the fact that the Government has no borrowing space. Given the precarious economy conditions, it is trite to say that only a debt relief, at least in the form of debt rescheduling can ameliorate the severe fiscal stress of the country and restore it to the path of growth and stability. It would help to free up resources needed for development initiatives, open up access to new financing and attract local and foreign investors into the economy of South Sudan.

5. 4.1 External Sources

The sources of external financing in the current debt portfolio were as follows:

a) International Development Association (IDA)
b) African Development Fund (ADF)
c) China Export-Import Bank (EXIM)
d) African Export-Import Bank (Afreximbank)
e) Qatar (Qatar National Bank)
f) NASDEC
g) Sahara Energy Limited
h) Trade Bank
i) National Investment Bank

The External Debt portfolio of the country as at the end of December 2022 was mainly made up of commercial oil-related debts with ATM of total portfolio of 2.87 years. Table 5 presents the percentage distribution of the External Debt stock as at end of December 2022 by source, average interest rates, grace period and tenors obtainable.

Table 5: Percentage Distribution and Features of External Financing Sources as at December 31, 2022

S/N	Creditor	% of External Debt	Interest Rate	Grace Period	Tenor	Concessionality
1.	**IDA**	4.08	1.05	9	39	High
2.	**ADF**	11.06	0.08	10	40	High
3.	**IMF**	0.14	N/A	NA	N/A	High
4.	**China EXIM**	6.37	2.0	5	20	Medium
5.	**Afreximbank 1**	9.58	Variable	Nil	5	Nil
6.	**Afroeximbank 2**	0.44	Variable	¤ 1yr	3	Nil
7.	**Afroeximbank 3**	7.18	Variable	Iyr	-	Nil
8.	**Qatar**	6.27	6.5	Nil	1	Nil
9.	**NASDEC**	35.87	Nil	Nil	4	Nil
10.	**Sahara**	21.85	N/A	N/A	N/A	N/A
11.	**Trade Bank**	2.57	Variable	Nil	2	Nil
12.	**National Bank**	0.82	8	-	1yr	Nil
13.	**Bank of SS**	100	N/A	NA	NA	NA
Total		**100**				

Source: Compiled from information supplied by the MFP

Notes: N/AV = Not Available; *3 Months LIBOR, Margin of 7.5%; **3 Months LIBOR +a Margin

The multilateral (IDA and ADF) and bilateral (China EXIM) sources contributed just 4.08 percent and 6.37 percent to the total External Debt portfolio, respectively while crude oil-related commercial debts contributed the remaining 84.58 percent. Beside the multilateral windows whose commitments to the country are beyond economic considerations, access to financing from the remaining sources may no longer be available given that the country is currently in arrears of debt service obligations to the creditors. Regrettably, it also means that new external sources of financing may not be available for the same reason. On the other hand, the Government is committed to avoiding oil related debt transactions as part of its medium-term fiscal consolidation strategy, which means that the hitherto major source of external financing is no longer attractive to the authorities.

5.4.2 Domestic Sources

In the absence of a functional banking and financial system, and in particular, domestic debt market, the authorities have relied mainly on advances and overdrafts from the BSS to fund Government operations in accordance with extant laws. Consequently, all the outstanding Domestic Debt as at the end of December 2022 was held by the BSS. As stated earlier, although the Government did provide for new borrowings in the FY 2021/2022 Resources Envelope to finance the deficit, constrained macroeconomic operating environment, limited funding options and the additional fiscal pressure imposed by Covid-19 would mean that resort to monetary financing is almost inevitable. The option of monetary financing is also reinforced by the limited internal resource mobilization capacity both in terms of revenue generation and collection. By implication, net monetary financing of the deficit would remain with downside risks on exchange rate and inflationary pressure.

The authorities would need to prioritizes the consolidation, of the banking and financial system with a view to developing the domestic debt market, and by extension alternative sources of domestic funding for the Government and other economic agents. A market-based funding would subject the fiscal authorities to market discipline, eliminate the conflict of interest associated with monetary financing and exchange rate management, as well as the price stability mandate of the BSS.

Meanwhile, the outstanding Domestic Debt owed the BSS, which have fallen due and in arrears could be consolidated and securitized into short, medium and long-term debts, mainly targeted at private investors, with option to refinance at maturity. This option would invariably spread out the maturity profile of the Domestic Debt and eliminate the existing refinancing risk in the domestic debt portfolio. The securities could be sold in the open market with a view to developing a Sovereign Yield Curve for Government securities that will serve as pricing reference for other issuers in the economy. There are experienced professionals in the continent, who can assist the RSS to accomplish this milestone, while efforts are being made to establish a professional Debt Management Agency that would conduct such exercise in the future. This would help to jumpstart the development of a domestic debt market for Government securities with attendant high multiplier effect on the growth of the banking system and overall financial system stability.

SECTION SIX

FORMULATION OF ALTERNATIVE DEBT STRATEGIES

6.1 Alternative Debt Strategies

Based on the analysis of the existing debt financing policy and public debt portfolio as at December 31, 2022 in the foregoing Chapters, it seems obvious that South Sudan has very little or no room for formulation of alternative debt strategies and simulation of same as done using the classical WB/IMF MTDS Analytical Tool, for the following reasons:

i. Although the R-NDS 2021-2024 has provisions for borrowing to finance the development strategy, the 2021/2022 national budget plan with which the Strategy is being implemented did not provide for new borrowings;
ii. The country intends to transfer the sum of the SSP 97.7 billion to pay off the debt owed Sudan under the TFA which involves substantial decrease in available resources for development but will create fiscal space for the implementation of the R-NDS in the future.
iii. Sudan South projected to borrow the sum of SSP 52.5 billion out of which SSP20.9 billion will be from commercial sources while the balance will be of SSP 31. 6 billion will be come from Credit from IMF Rapid Credit Facility which will be used to pay salary arrears.
iv. Debt management will be guided by the constitutional mandate of ensuring that the servicing of public debt will not place an under burden on future generations'
v. The BSS is the only source of domestic financing – although this is in line with local laws, it is contrary to sound public debt management operations and should not be encouraged.

Consequent upon the above prevailing conditions, the country could only so far operate along the module-through option, which the baseline strategy represents.

6.2 Debt Strategy 1: Baseline – Existing Debt Financing Policy

As stated in Section Two, the existing debt financing policy of the country are mostly enshrined in the PFMA Act, which provides that all loans must be concessional and that the Government will obtain the best possible terms from bilateral lenders and draw from the concessional windows of multilateral financial institutions. The Government could not avoid commercial financing in the context of the fiscal pressure they faced. Even though

the statute provided that debt must not exceed 20% of GDP, and debt service payments must stay below 5% of budget revenue, it was more or less observed in the breach. .

A review of the public debt management operations of the country show that the Government did not fully follow the broad guidelines stipulated in the extant laws and the criteria stipulated therewith due largely to socio-economic and political circumstances beyond its control.

South Sudan is a young fragile, post-conflict country. Fragile states have characteristics that substantially impair their economic and social performance. These include weak governance, limited administrative capacity, humanitarian crises, persistent social tensions and debt crisis[11]. The debt unsustainability usually comes at a very high cost as it restricts access to funds from multilateral and bilateral institutions, as well as donors because none of them is willing to lend or relate with countries with arrears of debt. This may have compelled the country to embark on cash for oil as part the effort to find resources to fund acute humanitarian crisis. The fact that the later came at a high cost to the country is underscored by the resolve of the authorities to limit the contracting of new debts (external and domestic), especially oil-related debt or oil advances as much as feasible.

Nonetheless, best practice requires that the statute regulating public debt management should stipulate the broad guidelines under which public debt managers would operate, while the details of such operations would be outlined in operational documents, such as Debt Management Framework and MTDS that would be subject to relevant approvals and review from time to time. **Accordingly, the existing baseline debt management policy cannot be recommended. More importantly, the PFMA Act and other relevant laws are required to be amended to allow for the implementation of this MTDS.**

6.3 Debt Strategy 2: Debt Relief – Debt Rescheduling

Given the revenue profile of the country and the huge financing needs, coupled with the challenges of Covid-19, only an external support in the form of debt relief, debt restructuring or rescheduling can return the country to the path of fiscal and debt sustainability. It is common for post-conflict countries with External Debt arrears to face severe difficulties in accessing much needed funds as the

[11] IMF: The Fund's Engagement in Fragile States and Post-Conflict Countries—A Review of Experience—Issues and Options, 2008

international community is not usually willing to lend or donate to countries in arrears on debt. Re-establishing a working institutional relationship between a highly indebted war-affected country on the one hand and the multilateral institutions on the other hand is thus crucial for resolving a debt crisis. Though the issue of how to deal with countries in arrears is not yet well established and cases are treated on their merit, normalizing debt relations in a post-war setting generally requires six steps[12].

The steps are the existence of an internationally recognized government; establishment of domestic political will to normalizing relations and build up some minimal managerial capacity for debt management; debt reconciliation; formally re-establish its relations with the IMF and other international donors and their agencies to start building some trust; development of a national debt management policy and commencement of its implementation; and entering into negotiations for debt relief with creditors. The relevant steps required to resolve debt distress, which directly relate to public debt management are the domestic political will to normalizing relations and build up some minimal managerial capacity for debt management; debt reconciliation exercise; and, the development of a national debt management policy or framework and implementation of same.

Incidentally, these three steps, that is, the need to build managerial capacity for public debt management by South Sudan have been highlighted, baseline debt data that would facilitate debt reconciliation has been computed, while the debt management policy has also been drafted as part of the tasks towards the development of this MTDS.

Debt relief can come in different forms ranging from increasing the repayment period while not providing any financial concessions through to outright debt cancellation. Debt relief may take the forms of rescheduling, refinancing, buy back and debt cancellation[13] or forgiveness. Two of these, debt rescheduling and debt forgiveness, are of interest in the development of a debt strategy for the RSS.

[12] Patricia Alvarez-Plata and Tilman Brück; External Debt in Post-Conflict Countries, 2006
[13] International Debt Cancellation and the Question of Global Justice: A Case-Study of Nigeria; Aniago Wilfred Onyekachi, May 2006

Debt rescheduling involves agreeing new repayment terms that shift debt repayment and debt service into the future, lowering the payments in the short-run. Debt can be rescheduled by private creditors and by official bilateral creditors; multilateral organizations do not reschedule debt because of the high grant elements in the loans. All IDA-related loans are usually given under the most favorable terms – very low debt service cost (about 1.05 percent), significant grace periods (10 years) and long amortization periods (30 years). Debt rescheduling does not decrease the net present value of the debt stock. It might even increase the gross sum of the future flows of interest paid.

Debt forgiveness or cancellation involves a write-off of some portion or all of the debt. It is simply erased from the books, with the creditors taking the loss on their balance sheets. Debt can be forgiven by private, bilateral and multilateral creditors and donors and each of these may act individually or they may be coordinated. Multilateral lenders have forgiven debt for example as part of the HIPC initiative[14]. Unless South Sudan is considered for debt forgiveness or cancellation as was done for countries like Liberia by multilateral financial institutions and development partners under the HIPC and/or post-conflict fragile state initiatives, the country would have to take the route of debt rescheduling to return to sustainability.

This is based on the fact that 87.33 percent of South Sudan's External Debt portfolio as at December 31, 2020 was owed to commercial creditors under oil-related transactions. The basic assumptions under Strategy 2 are as follows:

vi. The public finance management reforms initiatives, especially with respect to fiscal consolidation and resource mobilization progress smoothly;

vii. Crude oil production and prices do not fall below 25.66 million barrel per year and US$35 per barrel on the average, respectively as stated in the FY 2021/2022 Resource Envelope;

viii. There are no changes to the existing interest rate structure for outstanding External Debt stock;

[14] External Debt in Post-Conflict Countries, 2006

ix. The outstanding stock of the oil-related commercial debts of US$1,700.48 million will be rescheduled by amortizing it equally for a minimum of 5 years (2022 – 2025); and,

x. The outstanding Domestic Debt are securitized as follows:

d) 20 percent into Treasury Bills of 1 year and interest rate of up to 7 percent;

e) 30 percent into GSS Bond of 3 years and interest rates of up to 8.5 percent; and,

f) 50 percent into GSS Bond of 5 years and interest rate of up to 11 percent.

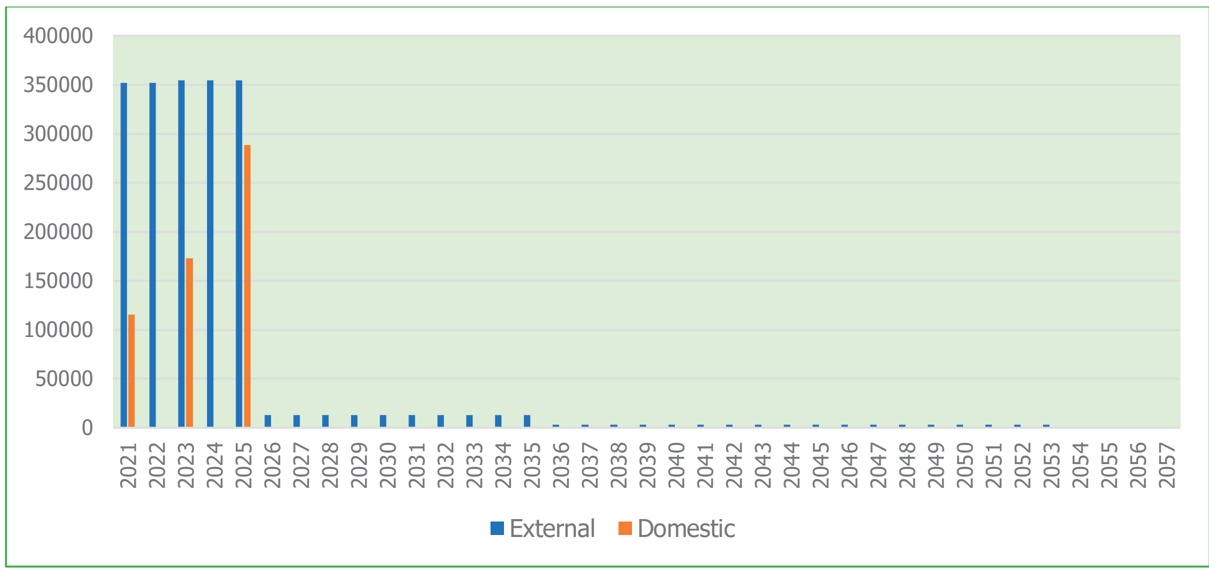
Table 6: Projected Costs and Risks Indicators of GSS's Total Debt Portfolio after rescheduling

Risk Indicators		External Debt	Domestic Debt	Total Debt
GSS's Total Public Debt (US$ Million)		2,0505.21	426.91	2,477.05
NPV of Debt as a % of GDP		44.23	11.32	55.55
Weighted Average Cost of Debt (%)		6.17	10.08	8.02
Interest Rate Risk	Average Time-to-Refixing (Yrs.)	3.12	3.60	3.19
	Fixed Rate Debt (% of Total)	13.66	100.00	32.52
Refinancing Risk	Average Time-to-Maturity (Yrs.)	5.17	3.40	4.24
	Debt Maturing within 1 yr. (% of Total)	19.42	20.00	19.34
Foreign Exchange Risk	FX Debt (% of Total)			78.36
	FX Debt (% of Reserves)			4,627.32

Table 6 presents the projected costs and risks profile of the public debt portfolio under Strategy 2 after rescheduling the current debt portfolio. All other things being equal, the weighted ATR and ATM of the Total Public Debt portfolio would increase from 3.12 years and 3.60 years to 3.19 years and 4.24 years, respectively, after the debt rescheduling exercise. The weighted ATR for External Debt remained at 3.12 years, while ATM rose from 2.77 to 5.17 years. On the other hand, the ATR and ATM of the Domestic Debt rose from 1 to 3.60 years,

respectively. The percentage of Total Public Debt maturing within 1 year dropped significantly from 73 percent to 19.34 percentage. The Redemption Profile of the public debt portfolio spread out the maturities, and thereby reduced the refinancing risk, as well as the debt service burden (Figure 4.1).

Figure 4: Projected Redemption Profile of Total Public Debt after Rescheduling



6.4 Debt Management Strategy 3: Strategy (2) plus Domestic Debt Market Development

This strategy incorporates the development of the domestic debt market through the commencement of issuance of short-term Government securities for the financing of budget deficits into Strategy 2. It assumes that debt relief, at least in the form of debt rescheduling of existing oil-related commercial External Debt, which would enable the country to start meeting its External Debt Service obligations is being negotiated and would be granted. Secondly, it assumes that access to external commercial funding beside grants and donations for humanitarian operations would remain minimized until the country's debt returns to sustainable levels. Thirdly, it presupposes that existing Domestic Debt as at the end of 2025 would have been securitized following, which a Sovereign Yield Curve for Government securities would have been established to facilitate the pricing of new issuances.

Whilst negotiation with external creditors are on-going, the Government could take deliberate steps to jumpstart securities issuance in the local market. Provided that steps are taken to implement the various public debt management reform initiatives, such as the enactment of Debt Management Agency Act that would lead to the establishment of Debt Management Agency and amendment of existing legislations impeding the growth of sound debt management practices. It would also include the approval of the Debt Management Framework by the Governments. The implementation of the recommendations would lead to the restoration of investor (local and foreign) confidence and attract investments into the money and capital market segments of the financial system. These are required to ensure the success of Government securities' issuances.

6.5 The Preferred Strategy – Strategy 3

Strategy 3, that is, debt relief - at least in the form of debt rescheduling - plus the development of the domestic debt market – **is the preferred Debt Management Strategy and is hereby recommended for South Sudan,** based on all the foregoing observations, analyses and interpretations.

The advantages of Strategy 3 include the following:

v. It will reduce the overstressed liquidity indicators of the External Debt portfolio, especially the External Debt Service to Revenue ratio to about 5.94 percent from 33.02 percent, and thereby create fiscal space that would help the Government to meet other critical funding needs;

vi. It will give or open new funding opportunities for the country as the country would now be able to meet up with its debt service obligations as they fall due. Access to new funding would facilitate job creation, poverty reduction and growth.

vii. Strategy 3 would enable the country to lay the foundation for the development of the domestic debt market and create alternative source of funding different from external sources. A functioning domestic debt market would help to increase the rate of savings and investments, as well as capital formation in the country and ultimately economic growth and development.

viii. By subscribing to the development of the domestic securities market and other reforms, the GSS would be sending a clear signal to creditors and investors that in the medium-to-long term, the country wants to advance from dependence on aid to dependence on diversified trade and investment. This posture would encourage them to grant debt relief and other forms of support to RSS.

Whereas, the practicability of Strategy 3 would depend on the willingness of the oil-related external commercial creditors to accept to reschedule their debts under the terms and conditions outlined – rescheduling of the debts into an amortization over 5 years at the minimum, and with existing interest rates as the maximum – much will depend on the GSS's acceptance and implementation of the various public debt management reform initiatives proposed herewith.

6.6 Targets for Public Debt Consistent with the Preferred Strategy

The GSS future borrowing activities, the implementation of the recommended Debt Strategy and the Public Debt performance will be measured against the Public Debt Targets for 2022-2025 as shown in Table 7. The Targets, may be reviewed as and when necessary.

Table 7: GSS's Debt Management Strategy and Targets by end-2025

Debt Management Targets for the period 2022-2025:

Portfolio Composition		Current Levels	2022-2025 Target
	Domestic: External	23:77	Max.70: Min.30
	Domestic Debt Mix: Long: Short	0:100	Min. 75: Max. 25
Risks			
Refinancing	Debt maturing in 1 year as % of total debt	73%	Max. 20%
	Average Time to Maturity (Years)	2.36 years	Min. 10 years
Interest rate	Variable Rate Debt as % of Total Debt	67.48%	Less than 10%

In addition, the following fiscal sustainability ratios will also be monitored.

Fiscal Sustainability			
Solvency Indicators	Total Debt as % of GDP	54.63	35%
	External Debt as % of GDP	42.21	30%
	Domestic Debt as % of GDP	12.42	Not Applicable*

*There is no standard threshold for Domestic Debt/GDP in the WB/IMF framework, apparently because in their view, Domestic Debt is denominated in local currency, which the country has control over. However, it should be calculated and monitored to draw the authorities' attention to the fiscal and other socio-economic risks associated with unsustainable domestic borrowing.

SECTION SEVEN

7. IMPLEMENTATION OF DEBT MANAGEMENT STRATEGY AND DEBT TRANSPARENCY

7.1 Implementation of the Debt Management Strategy

The requirements of sound public debt management practice are that the MTDS should be approved by the highest organ of the executive arm of Government, that is, the Council of Ministers of the GSS and that the MTDS should be published by the authorities – made available to local and global stakeholders. The next steps are to begin internal and external stakeholder engagements and build the necessary consensus that would facilitate the implementation of the legal, institutional and regulatory reform initiatives that have been identified as hampering smooth public debt management operations in the country. These are required to regain the confidence of creditors, multilateral and bilateral institutions, development partners, donors, as well as and local and foreign investors.

The implementation of the recommended DMS, Strategy 3 – debt relief in form of debt rescheduling – would require the appointment of a team or firm of technical, financial and legal advisors that have undertaken such complex assignments in the past, particularly on the African landscape, to hand-hold the Government on the various aspects of the assignment. As earlier indicated, it would also require specifically engaging with the IMF and other relevant multilateral and bilateral agencies with special focus on public debt management for necessary assistance.

7.2 Borrowing Plan

It is expected that the effective operationalization of this MTDS would gradually restore the countries credibility and open access for new borrowing opportunities from external and domestic sources. Whereas, external sources may be limited in the short to medium-term, domestic sources could be readily available with the implementation of the recommendations hereto – beginning with the securitization of existing BSS's debt into short, medium and long-term debts.

Subsequent to that, the annual ensuing borrowing plan should be based on the cash-flow projections, which takes into account likely timing of cash flows across Government's accounts throughout the fiscal year. This would be made possible by Treasury Single Account. It would enable the Government to begin the issuance of securities in the domestic debt market as and when the need arises to meet funding gaps and set the pace for the development of the market. Efforts should be made to attract local and foreign

investors into the market for Government securities through publication of borrowing programmes and regular engagement with market operators.

For the avoidance of doubt every economy needs a developed domestic debt market, where both its public and private sector entities can systematically and predictably access appropriate finance.

7.3 Debt Transparency

The corollary of MTDS in public debt management is Debt Transparency, which is critical for sound borrowing practices and for preserving debt sustainability. Comprehensive information on public and publicly guaranteed (PPG) debt and contingent liabilities is necessary for borrowing countries and creditors to take informed borrowing decisions. Specific areas to enhance Debt Transparency reforms will depend on each country's levels of institutional capacity, debt structures, and policies to disclose information, but could include[15]:

i. Legal, institutional and regulatory framework that clearly defines responsibilities for public debt management;
ii. Publishing and implementing MTDS;
iii. Publishing of periodic debt data Reports;
iv. Publishing of Annual Report and Statement of Accounts of the Debt Agency;
v. Effective information flows and coordination between the different institutions involved in public debt management, including SOEs;
vi. Performing audits of debt management operations;
vii. Strengthening fiscal risk management;
viii. Mobilizing more domestic resources to reduce debt vulnerabilities;
ix. Effective coordination between debt management and other MDAs;
x. Integration of debt management within the broader public finance management framework; and,
xi. High-level government commitment and support for public debt management.

7.4 Concluding Remarks

This work on debt management strategy for the RSS has, in its observations, interpretation of the existing conditions, and recommendations for improvements and

[15] The World Bank Africa Debt Transparency Initiative

solutions, been cognizant of the peculiar challenges of RSS and the need to use every instrument and opportunity available to surmount those challenges and migrate the country into a vista of opportunities. Accordingly, the slant of this debt strategy goes beyond just addressing the classical issues of effective public debt management, as it attempts to serve as a linchpin for stimulating broader economic progress and, therefore, an input into other sectoral policies and strategies, as appropriate.

It has kept in view: that the strategy should be a source of inspiration to the Government and people of RSS to the effect that turnaround is feasible and proximate; that the strategy should be seen as a lever for triggering broader development of institutions and systems necessary for overall economic growth and development, for example, development of the domestic debt securities market; that the strategy should be an instrument for activating private sector investments – local and foreign – through enhancing their perception and confidence in the country; and, that the strategy is an unambiguous announcement to all stakeholders – local and foreign - that the RSS has opened the windows of economic and business opportunities.