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REPUBLIC OF SOUTH SUDAN
ELIGIBILITY FOR IDA-ONLY BORROWING STATUS

Abbreviations and Acronyms

AfDB	African Development Bank
CFRCR	Corporate Finance and Risk Management-Credit Risk
CIF	Consolidated Investment Fund
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
GDP	Gross Domestic Product
GNI	Gross National Income
GoSS	(Autonomous, pre-independent) Government of Southern Sudan
GRSS	Government of the Republic of South Sudan
HIV	Human Immunodeficiency Virus
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
MGDs	Millennium Development Goals
BoSS	Bank of South Sudan
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPG	Public and Publicly Guaranteed
PV	Present Value
SOEs	State-Owned Enterprises
SSDP	South Sudan Development Plan
WDI	World Development Indicator

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I. INTRODUCTION

1. **This note informs the Executive Directors of Management’s decision to grant South Sudan access to IDA resources as an IDA-only country.** This decision is in line with IDA’s eligibility rules and would permit the Bank to assist South Sudan in pursuing national development goals, improving human well-being, and building sustainable institutions and systems as a newly independent state. The following note presents: (i) background information, including a country profile and an overview of the economy; and (ii) considerations for IDA eligibility.

II. BACKGROUND

Country Profile

2. **South Sudan emerged as a new nation in 2011, hopeful but bearing the scars of five decades of nearly continuous civil wars that extended from 1955 to 1972 and 1983 to 2005.** The conflict in South Sudan was characterized by extended periods of famine and the loss or displacement of a large fraction of the population. Up to 2 million people were killed between 1983 and 2005, while over 4 million people are estimated to have been displaced. South Sudan’s current population, estimated at 8.6 million people, is overwhelmingly young – approximately 72 percent of the population is under the age of 30 and over half is under the age of 15.¹ A key legacy of the civil wars is tremendous underinvestment in human capital. The marks of the conflict are evident in high levels of child mortality in data going back to 1984, the large number of “missing men” in their 20s and 30s in the population pyramid, and low levels of school attainment among South Sudanese adults, 75 percent of whom have never attended school.

3. **South Sudan’s economy is dominated by oil and to a lesser extent by flows of development and humanitarian assistance.** Based on statistics from the Government of the Republic of South Sudan (GRSS), the per capita Gross Domestic Product (GDP) of South Sudan in 2011 was equivalent to US\$1,859, which is higher than its East African neighbors. The relatively high GDP per capita figures can largely be explained by oil production. Gross National Income (GNI) per capita was lower at US\$1,513, reflecting the large income outflows to oil production companies. Per capita nominal GDP in current US dollars grew at around 24 percent in 2011, reflecting the full appropriation of oil flows from fields on its territory after independence, which are estimated to earn around US\$3-4 billion yearly in net exports proceeds. However, as discussed in more detail later in the note, oil production is currently at a standstill following the interruption of oil production in January 2012, which will entail a radical reduction of South Sudan’s GDP in 2012, by as much as 50 percent. Moreover, current oil reserve estimates point to a steep decline in production over the next decade, reaching negligible production by 2035. Given the economic disruptions in the country and the significant population displacement, per capita GDP and GNI figures are subject to revisions both on the income side and on the population side. Using the Atlas method, 2011 GNI per capita was estimated at US\$1,220 based on DEC population projections for South Sudan (see table 2 in section III).

¹ Key Indicators for Southern Sudan. Southern Sudan Centre for Census, Statistics and Evaluation. Quoted in South Sudan Transition Trust Fund (World Bank, 2011).

4. **Livelihoods are concentrated in low-productivity, unpaid agriculture and pastoralism.** Roughly 85 percent of the workforce is engaged in non-wage work, chiefly in agriculture. Even with substantial progress in schooling, it is likely that low productivity agriculture and pastoralism will continue to be the dominant livelihoods in the foreseeable future.

5. **Despite South Sudan's great resource wealth, its population is one of the poorest in Africa, due to decades of neglect and war.** Some 50.6 percent of the population in South Sudan lives below the national poverty line, with generally worse outcomes for households headed by women. Poverty rates are substantially lower in urban areas, where 24.4 percent are below the poverty line, compared to 55.4 percent in rural areas. The poverty map of South Sudan shows wide variations across the country. Poverty rates are by far the lowest in the northernmost counties of the Upper Nile, which are connected by road to the relative prosperity of Khartoum. The poorest counties are those in Warrap, Unity, and Northern Bahr El Ghazal, which were among those most affected by the conflict. During the South Sudan Experimental Phone Survey conducted just before the independence referendum, two-thirds of South Sudanese said they expected their living conditions to be better in twelve months' time, reflecting the high expectations set in motion by independence. These expectations have yet to be realized.

6. **Social and infrastructure access indicators in South Sudan are dramatically poor, particularly for women, but have shown some improvement since the 2005 Comprehensive Peace Agreement (CPA).**² The most recent estimate of under-five mortality is 105 deaths per 1,000 live births, a decline from 135 per 1000 in 2006. The maternal mortality ratio -- 2,054/100,000 live births -- is among the highest in the world. Only 27 percent of the population is literate, and the net primary enrollment rate of 41.3 percent, although it is more than double the rate at the time the CPA was signed, is still dramatically lower than in its neighbors. Only 16 percent of the female population over 15 is literate, compared to 40 percent for men. Access to improved infrastructure services is minimal: 80 percent of the population has no sanitation facilities, 55 percent lacks access to safe water, and 86 percent uses firewood as the primary cooking fuel. Road density is only 15 km per 1,000 km² of arable land area—well below the average for the rest of Africa. Less than 5 percent of the existing 3,500-4,000 kilometers of roads can be considered in good condition, to the extent of being inaccessible during the rainy season.

7. **Perception surveys, including those conducted by the Southern Sudan Anti-corruption Commission (SSAC), rank corruption as a critical challenge for the new country.** The high dependence on oil, which accounts for 98 percent of government revenue, poses a range of governance challenges. Indeed, the combination of vast oil revenues and the lack of financial management controls in South Sudan create the context for growing perceptions

² The main provisions of Sudan's 2005 Comprehensive Peace Agreement (CPA) included: (i) creation of a semi-autonomous region of Southern Sudan, within an overall federal structure, that also included substantial transfers of powers from national to state level; (ii) democratic elections nationwide in 2009, based on a new census and electoral roll; (iii) a referendum in the South in 2011, on whether the region should retain its semi-autonomous status, or progress to full independence; (iv) the establishment of a Government of National Unity (GoNU) for the country as a whole, and a Government of Southern Sudan (GoSS); (v) a wealth sharing protocol, building on the emergence of oil as a major source of revenue; and (vi) establishment of two multi-donor trust funds (MDTFs), one for Southern Sudan, and one for other areas of the country affected by the conflict, to finance reconstruction and development activities.

that corruption may have increased in the post-CPA period. The Government of the Republic of South Sudan (GRSS) also faces tremendous challenges in delivering basic services, given limited institutional capacity, a highly dispersed rural population and a long rainy season that makes much of the country inaccessible by land for much of the year.

8. The World Bank Group's engagement with South Sudan since 2005 is summarized in Annex 1.

Recent Economic Developments

9. There were no reliable statistics on aggregate economic activity prior to independence. However, the National Bureau of Statistics (NBS) of South Sudan released its first nominal GDP and GNI figures for 2010 shortly after independence in July 2011 and has now issued a revised series for GDP from 2008 to 2011. NBS estimates nominal GDP in 2011 at South Sudanese Pounds (SSP) 54.2 billion (US\$19.2 billion) and GNI per capita at US\$1,513. Annual GDP growth for 2011 is estimated at 1.9 percent after two years of growth at above 4 percent.

10. Massive oil revenues and aid inflows during the CPA period provoked a surge in the current account balance. The current account balance is estimated to have increased from 5.7 percent in 2010 to about 13 percent in 2011. The trade surplus of South Sudan in 2010 was US\$5.2 billion and has increased to US\$7.2 billion in 2011 due to increased oil revenues from the Southern oil fields after independence. However, exports from South Sudan are virtually negligible except for oil, and the country relies on its revenue from oil exports to finance the sizable imports.

11. Total GRSS revenue was US\$3.1 billion in 2010 and increased to US\$3.6 billion in 2011. Expenditure has broadly followed oil revenues amounting to about one fifth of GDP in 2010. There was a sharp jump in government spending in 2011, and GRSS signals that spending will remain at these levels. Continued high government spending levels would necessitate a costly fiscal adjustment in the medium term.

12. Fiscal management will have to effectively manage the extreme dependence on oil. South Sudan is the most oil-dependent country in the world, with 98 percent of government revenues related to the oil sector. Given the anticipated decline in oil reserves in the next two decades, a medium-term framework to ensure fiscal sustainability and stable public expenditures is essential. Historically, government revenue has risen and fallen in tandem with oil prices and pro-cyclical spending policy has injected nearly all oil revenues into the economy through current government expenditures, regardless of whether revenue exceeded or fell short of expectations. The resulting expenditure volatility has handicapped development efforts, as the burden of adjustment has fallen disproportionately on capital and operating expenditures.

13. Tensions between South Sudan and Sudan escalated in early 2012. With the failure to reach agreement on outstanding issues, including oil transit fees, in late January 2012 South Sudan decided to halt oil production. There have also been continued border clashes between the two countries with bombings and in April the advance of South Sudan troops into the area of

Heglig from which 50 percent of Sudan's current oil production flows, before the troops withdrew two weeks later.

14. **In August 2012, South Sudan and Sudan reached an agreement on the transport and transit fees related to the use of the pipelines and the payment of compensatory financing.** The date of resumption of oil shipment through the pipelines remains uncertain, as the negotiations on use of the pipelines are also linked to progress between the two countries with respect to border demarcation and remaining disputed areas. GRSS expects oil revenue would gradually resume by March 2013, but would reach a level corresponding to full oil production capacity only in September 2013.

15. **After a period of high volatility, the macroeconomic situation has become more stable.** In the months following the oil shutdown, a wide gap opened between the official exchange rate (at SSP2.95 for US\$1) and the parallel market exchange rate (which reached SSP5.4 in end-June 2012). Year on year inflation neared 80 percent in May 2012. In August 2012, the National Legislation approved an austerity budget for fiscal year 2012/13 amounting to SSP6.6 billion, which reduced expenditure by 34 percent in nominal terms compared to the budget outturn for FY2011/12. The implementation of the austerity budget has contributed to stabilize the parallel market exchange rate at SSP4.2 for US\$1. Prices also stabilized and year on year inflation fell to 21.5 in October 2012.

16. **At the time of independence, South Sudan had no official external debt.** In the latest negotiations on issues outstanding at the time of South Sudan's independence, South Sudan and Sudan have confirmed the "zero option" on debt issues, whereby Sudan would recognize its continued responsibility for all external debt, as the continuing Republic of Sudan. However, in doing so it would have two expectations that: (i) both governments would undertake a joint outreach to the creditors to move the HIPC process forward as promptly as possible, and (ii) the international community would respond by giving a "firm commitment" to debt relief in the form of achieving the HIPC Decision Point within two years. South Sudan currently has only limited domestic debt, contracted in the last 6 months for a total amount equivalent to around US\$250 million at a fixed interest rate of 3 percent, with one year maturity. Currently, there is limited capacity for debt management in South Sudan. The GRSS Minister of Finance and Economic Planning intends to create a debt management unit, with the help of technical assistance provided by the IMF and the World Bank. The Central Bank of South Sudan is undergoing a major transition from being a branch of the Central Bank of Sudan in Khartoum (prior to independence) towards a central bank in its own right. Several aid agencies and the IMF are currently advising about the new structure of the bank, but implementation is not yet in full swing.

The Authorities' Program

17. **GRSS published its South Sudan Development Plan (SSDP) in August 2011 following a largely locally owned process focused on articulating a shared national development vision for the country.** With its comprehensive scope, however, the SSDP lacks a sufficiently focused set of costed priorities – see Annex 2. The Bank assisted this process by

providing input on key priorities, which are derived from a series of Policy Notes developed by the Country Team. The GRSS is currently considering how to revamp this plan in light of events in 2012. The SSDP informed the preparation of the Bank's Interim Strategy Note which is due for discussion by Executive Directors on February 28, 2013. The authorities are currently exploring with the IMF the possibility of access to their Rapid Credit Facility to support an IMF Staff Monitored Program, partly in response to events in 2012. A proposal is expected to come forward for approval in early 2013.

Table 1. South Sudan: Selected Key Economic Indicators

	2008	2009	2010	2011
<u>Income and Economic Growth</u>				
GDP (current LC, billions)	31.9	27.4	34.5	54.2
GDP growth (annual %)	..	4.3%	4.2%	1.9%
Oil GDP		11.1%	-2.1%	-1.0%
Non-oil GDP		-2.7%	11.7%	5.0%
GDP per capita growth (annual %)	..	-1.5%	-0.4%	-1.7%
Private Consumption growth (annual %)	..	0.1%	7.1%	5.6%
Gross Fixed Investment (% of GDP)	14.0%	14.1%	10.8%	10.4%
GDP per capita (current US\$)	1,700.4	1,246.7	1,504.9	1,858.8
GNI per capita (current US\$)	1,044.6	923.2	967.4	1,513.4
<u>Prices and exchange rate</u>				
Inflation, consumer prices (annual %, end of year)	12.8%	2.2%	12.8%	65.6%
Inflation, consumer prices (annual %, period average)	..	5.0%	1.2%	47.3%
Nominal Exchange Rate (period average)	2.09	2.31	2.30	2.83
Real Exchange Rate Index (1998=100)
<u>Fiscal</u>				
Revenues (% of GDP)	21.3%	15.5%	16.7%	18.8%
<i>Of which</i> oil	20.9%	15.1%	16.3%	18.2%
Expenditures (% of GDP)	17.9%	15.5%	16.2%	17.7%
Current (% of GDP)	12.4%	11.8%	13.0%	14.2%
<i>of which</i> wages	5.9%	7.2%	6.4%	6.5%
Capital (% of GDP)	5.5%	3.7%	3.2%	3.5%
Overall Fiscal Balance after grants(% of GDP)	3.4%	0.0%	0.5%	1.1%
<u>External Accounts</u>				
Export real growth (% , yoy)	0%	11%	-2%	-1%
Import real growth (% , yoy)	0%	-18%	15%	4%
Merchandise exports (current US\$ millions)	10,267	7,377	9,662	12,440
of which: main export (i.e. oil)	10,086	7,176	9,409	12,222
Merchandise imports (current US\$ millions)	4,640	3,960	4,438	5,212
Services, net (current US\$ million)	-1,127	-1,064	-1,193	-1,213
Net factor income (current US\$ million)	-5,887	-3,076	-5,347	-3,563

Source: South Sudanese Authorities and staff estimates.

* LC (local currency) refers to Sudanese Pound until July 2011 and to the South Sudanese Pound from that date.

III. THE CASE FOR ACCESS TO IDA RESOURCES

18. **The criteria for eligibility to access IDA resources are: (i) relative poverty and (ii) lack of creditworthiness for market-based borrowing.** IDA supports the world’s poorest countries in their efforts to boost economic growth, decrease poverty and improve the living conditions of people. Management assesses relative poverty in relation to the IDA operational cutoff. For the 2013 fiscal year the operational cutoff is set at a level of Gross National Income (GNI) per capita of US\$1,195 in 2011, reflecting that this information is only available with a lag. On the other hand, creditworthiness is reflected in a country’s ability to access IBRD funding. In line with IDA’s focus on delivering results, eligible countries should also demonstrate the capacity to implement sound policies to promote growth and reduce poverty. Although country performance is not an explicit eligibility criterion for access to IDA resources, performance factors influence the determination of the size of the IDA allocation.

Income and Social Indicators

19. **Using the World Bank Atlas method of calculation, South Sudan’s 2011 GNI per capita is US\$ 1,220, which falls narrowly above the 2013 IDA operational cut-off.**³ This figure is different from the GNI per capita figure in Table 1, because for IDA purposes it is necessary to ensure the calculation uses a method that is comparable across all members. Although on this basis South Sudan’s GNI per capita is higher than that of neighboring countries in East Africa (see Table 2), it is noteworthy that up to half of the estimated per capita income reflects the country’s oil revenues. Roughly half of the population has consumption levels below the national poverty line of 100 Sudanese Pounds (SDGs) per month per person. According to 2010 estimates from the National Baseline Health Survey (NGHS), the average poor person consumed 39 SDGs per month compared to 163 SDGs per month for the non-poor.⁴

Table 2: GDP and GNI Per Capita, 2011

	GDP US\$ millions	GDP per capita Current US\$	GNI per capita, Atlas method Current US\$
South Sudan	19,169	1,859	1,220
Burundi	2,326	271	250
Ethiopia	31,709	374	400
Kenya	33,621	808	820
Rwanda	6,377	583	570
<i>Source: South Sudan National Bureau of Statistics, World Development Report 2012, and World Bank staff estimates.</i>			

20. **GDP and GNI are estimated to have contracted substantially in 2012, compared to the level reached in 2011.** Due to the disagreement with the Government of Sudan related to the use of the oil pipeline, the Government of South Sudan decided to shut down oil production

³ The GNI per capita using the Bank Atlas method is calculated using official GDP figures released in by the South Sudan National Bureau of Statistics, factor income estimates from IMF, and DEC population projections for South Sudan.

⁴ Poverty in Southern Sudan: Estimates from NBHS (2010) in “Key Indicators for Southern Sudan.” (Southern Sudan Centre for Census, Statistics and Evaluation). December 2010.

in January 2012. As a result, 2012 GDP is estimated to have contracted by 50 percent compared to 2011. Oil production would resume only gradually in 2013. Therefore, GNI per capita in FY12 and FY13 is not expected to exceed the IDA operational cutoff. Absent new discoveries and new investment, oil production is also expected to decline after 2014-15.

21. Despite recent gains in selected indicators, South Sudan will not achieve the Millennium Development Goals (MDGs) by the 2015 target date (see Table 3). In the education sector, primary school enrollments in South Sudan quadrupled from 0.3 million students in 2000 to 1.4 million in 2009 –an impressive and important achievement, but enrollment has remained at that level since. A sizable segment of the youth population has not had access to formal education and recent World Bank analysis suggests that the education system will need dramatic expansion to accommodate out of school youth – estimated at 50 percent of the school age population.⁵ Improving quality and expanding education access, particularly for girls, are important priorities going forward. Access to information on the health sector in South Sudan is relatively limited.⁶ A 2011 World Bank policy note on the health sector notes that reducing mortality rates for mothers and young children will call for intensified focus on primary health care and effective post-conflict health reconstruction in partnership with country authorities, development partners and non-governmental service providers.⁷ However, the maternal mortality rate is the highest in the world, and less than 13 percent of pregnant women receive pre-natal care. Despite improvements, still 46 percent of children do not receive any vaccination.

22. Women continue to play a range of important roles in South Sudan, though gender disparities in economic, educational and health outcomes are notable. Women's participation in government expanded in the CPA period, and South Sudan's constitution mandates at least 25 percent representation for women in all levels of government. Women are also highly represented as traders and owners of microenterprises and small businesses in the informal sector, accounting for roughly 50 percent of the sellers on average in local markets and up to 80 percent in some cases.⁸ However, many indicators of women's socio-economic status are poor. Female literacy rates in South Sudan are very low, and a sizable gender disparity in literacy is also evident in the younger population: fewer than 30 percent of young women between the ages of 15 and 24 are literate compared to 55 percent of young men.⁹ South Sudan's maternal mortality ratio of 2,054 per 100,000 live births is among the highest such rate in the world. As noted earlier, female-headed households fare worse than those headed by men, with an average of 7 people in each private household.¹⁰ The South Sudan Gender Symposium in December 2011 in Washington, DC outlined peace and development priorities for the

⁵ South Sudan Education Policy note.

⁶The *Southern Sudan: HIV Epidemic and Response Review Report* (World Bank, 2011) discussed the difficulty of assessing health outcomes in the country: "The prolonged civil war meant that the establishment of regular sentinel surveillance has been limited. There is little historical data, and it is only in the last few years that the number of antenatal surveillance sites has been increased. What data does exist still covers only a fraction of the total population – only 30 percent of the population has access to health care, a smaller proportion of women seek antenatal care or deliver in health facilities, large parts of the country remain inaccessible by road, and it would be dangerous to make too many national generalizations on what is basically still very site-specific data."

⁷ Leonard S. Rubenstein. Post-Conflict Health Reconstruction: Search for a Policy.

⁸ World Bank Policy Note on Financial and Private Sector Development, 2011.

⁹ National Baseline Household Survey (2009). Southern Sudan Centre for Census, Statistics and Evaluation (SSCCSE).

¹⁰ Southern Sudan Centre for Census, Statistics and Evaluation (SSCCSE).

country’s women, with emphasis on four key action areas: (i) double adult women’s functional literacy to 25 percent by 2014; (ii) improve women’s access to low-interest loans; (iii) expand women’s access to markets and target women in agriculture investments; and (iv) focus 50 percent of Community Development Funds (financed by oil revenues) on women’s health, education, economic and physical security.¹¹

Table 3: The Millennium Development Goals in South Sudan: Tracking Progress

Goal 1: Eradicate poverty and hunger	Poverty is widespread, with over 50 percent of the population living below the poverty line in South Sudan.
Goal 2: Achieve universal primary education	Net enrollment in primary school was 46 percent in 2010, but far fewer children complete eight years. The qualified teacher to student ratio stands at 1:117.
Goal 3: Promote gender equality and empower women	Girls make up only 36.9 percent of primary enrollment (2009) and over 20 percent more men than females were reported to be literate among adults and youth. A positive development is that 34 percent of all seats in the South Sudan Legislative Assembly are held by women.
Goal 4: Reduce child mortality	The most recent estimate of under-five mortality is 105 deaths per 1,000 live births, a decline from 135 per 1,000 in 2006.
Goal 5: Improve maternal health	South Sudan has one of the highest maternal mortality rate in the world – 2,054 per 100,000 live births. This represents a 1 in 7 chance of a woman dying during her lifetime from pregnancy related causes. Currently, there is only one qualified mid-wife per 30,000 people.
Goal 6: Combat HIV/AIDS, malaria and other diseases	HIV prevalence among the population aged 15-24 years was 3.1 in 2006. In South Sudan, malaria is considered hyper-endemic.
Goal 7: Ensure environmental sustainability	55 percent of the population has access to improved sources of drinking water, but 38 percent must walk for more than 30 minutes one way to collect drinking water.
Goal 8: Develop a global partnership for development	Progress on this goal is important for tackling extreme oil dependence.
<i>Source: UNDP, “The Millennium Development Goals in South Sudan” and World Bank estimates.</i>	

23. **The dependence of the majority of the population on agriculture and grazing for its livelihood underscores the importance of improved management of agricultural resources and environmental sustainability.**¹² A large segment of the population faces food insecurity, with roughly one-quarter of the population dependent on food aid according to a recent World Bank policy note on agriculture and rural development. The note highlighted the immediate need to address food insecurity as well as to strengthen institutional capacity for longer-term recovery and growth of the agriculture sector. The impacts of climate change -- including recurrent drought – point to the importance of environmental sustainability as a key long-term development issue in South Sudan, which is rich in biodiversity and forestry resources. In the

¹¹ South Sudan Gender Symposium Women’s Statement. December 13, 2011. UN Women and Inclusive Security.

¹² As noted in the 2006 Livelihoods Profile of South Sudan, traditional livelihood systems in the country include a combination of cattle rearing, crop production, fishing, wild food collection, hunting, and trade. Southern Sudan Centre for Census, Statistics, and Evaluation in “Southern Sudan Environmental Threats and Opportunities Assessment” USAID, 2007.

past, there has been evidence of a complex relationship between environmental management and conflict in the country: conflict has contributed to unsustainable resource exploitation, under-investment and lack of governance, while competition for natural resources such as oil, gas, water and land has been a focus of conflict.¹³

24. **As a post-conflict country, South Sudan faces a range of vulnerabilities and stress factors that are common to fragile situations.** Findings from a public opinion poll in September 2011 suggested that the most important problems facing South Sudan were crime and security; health; and food shortage.¹⁴ At the same time, 59 percent of the poll's respondents held that security in South Sudan had somewhat improved or greatly improved over the last year. Establishing physical security and socio-economic stabilization will be fundamental for progress towards meeting the high expectations of the population following independence.¹⁵ To this end, inclusive national coalitions along with the multidisciplinary support of international partners will be needed in support of strong government leadership.

Creditworthiness

25. **South Sudan is not considered creditworthy for IBRD lending.**¹⁶ IBRD creditworthiness analysis considers a country's growth prospects and risks over a medium- to long-term horizon, with a focus on structural factors that would play a role in shaping longer-term prospects, while taking into account recent economic developments and short-term factors that may heighten immediate risks of lending. IBRD also considers the strength and robustness of a country's key institutions (especially important in most cases is a robust and credible Central Bank), the stability of its political situation and a country's track record of timely payments to its creditors. Based on the most recent creditworthiness assessment, South Sudan is not currently considered creditworthy for IBRD lending.

IV. CONCLUSION

26. **Based on the above considerations, Management considers South Sudan to be eligible for IDA financing on IDA-only credit terms.** Although South Sudan GNI per capita narrowly exceeds the IDA eligibility cutoff for 2011, GDP and GNI are likely to decrease substantially in 2012 and only partly recover in 2013. Development needs are enormous, as about half of the population is poor, most of the population is illiterate and access to health care and social services is very limited. As such, South Sudan has a compelling need for access to IDA resources starting in FY13. IDA partnership with South Sudan presents a historic opportunity to support the new nation in addressing its development challenges and pursuing national aspirations for a sustainable and prosperous future. The IDA16 Replenishment agreement includes enhanced support for fragile countries, and the IDA16 special themes of gender, crisis response, climate resilience and fragile countries are also highly relevant for the

¹³ Sudan Post-Conflict Environmental Assessment, 2007. United Nations Environmental Programme.

¹⁴ Survey of South Sudan Public Opinion, September 6-27, 2011.

¹⁵ In particular, the 2011 World Development Report on Conflict, Security and Development highlights the importance of transforming the institutions focused on citizen security, justice, and jobs.

¹⁶ An assessment of South Sudan's creditworthiness was provided in the South Sudan Transition Trust Fund (SSTTF) report.

partnership with South Sudan. An Interim Strategy Note has been submitted for Board discussion on February 28, 2013.

Annex 1: The World Bank Group's Engagement with South Sudan Since 2005

1. **Sudan's 2005 Comprehensive Peace Agreement (CPA) mandated a Multi-Donor Trust Fund for Southern Sudan (MDTF-SS)**, and at a Donor Conference in Oslo, April 2005, the World Bank was asked to administer it. By September 30, 2012, more than US\$525 million had been disbursed from the US\$548.6 million paid into the fund by 14 donors and the World Bank, and all activities under the trust fund closed by December 30, 2012.

2. The Bank commenced a robust program of knowledge and analytical products (AAA). It also prepared an Interim Strategy Note for Sudan¹⁷ approved in March 2008, which outlined how the Bank Group would support the CPA. This support was structured around the following three pillars:

- a. ***Improving governance***, by i) building public sector capacity, specifically in statistics, census, introduction of a new currency, and fiscal decentralization and ii) public sector accountability, through strengthened public financial management and greater citizen involvement in monitoring government performance;
- b. ***Increasing access to basic services*** in health, education, water supply and HIV/AIDS prevention, with an emphasis on the marginalized groups, including women, and the conflict-affected and displaced; and
- c. ***Encouraging sustainable, diversified (non-oil), pro-poor growth*** by i) supporting a more enabling policy environment for private sector development in terms of the policy environment and provision of credit to small entrepreneurs; ii) encouraging agricultural and livestock development; and iii) developing infrastructure, particularly in transport.

3. **The MDTF-SS achieved significant progress in building basic project management capacity in ministries, which it worked with to design and implement projects addressing the welfare of the population.** Tangible progress was achieved in providing access to clean water and hygiene training, building schools and delivering textbooks, supporting farmer groups, and providing vocational training and assistance to microenterprises, and rehabilitating government buildings. Essential drugs are now available in more than 70 percent of supervised health care facilities and the foundations for systematic national health coverage are being laid. A program to train teachers for the regular school system and for alternative educational programs, is underway. Over 1000 kilometers of all-weather road have been constructed. Diversification of the economy and private sector development were advanced through pilot projects to entrepreneurs. Introduction of improved technologies and training supported improvements in agricultural productivity. MDTF-SS programming promoted the economic empowerment of women in all ten states by providing start-up grants to women entrepreneurs and community organizations working with women to expand their economic opportunities.

4. **MDTF-SS has also made some progress in building supervision and implementation capacities in core government bodies and line ministries.** The result was a better operational

¹⁷ IDA Interim Strategy Note for the Republic of Sudan, March 20, 2008, Report Number 43036-SD.

environment that over time resulted in the improved the performance of the MDTF-SS portfolio. This capacity was built through the MDTF-SS financed Core Fiduciary Systems Support project, the External Audit Agent project and the Procurement project, all of which supported the Ministry of Finance and Economic Planning (MoFEP). The capacity that was built, however, has not been fully consolidated, and the MDTF-SS closure could trigger a setback.

5. Public policy and sector strategy were enhanced by a Country Economic Memorandum, a Public Expenditure Review, a Poverty Profile, and several sector reports.

Of particular note have been the Poverty Study and support provided to the South Sudan Centre for Census, Statistics and Evaluation on census, statistical capacity and the use of innovative techniques for opinion polling. In the recent Country Integrated Fiduciary Assessment, the Bank is working with the government and other donors to help build public finance management systems. Some progress has been made in “upstream” areas such as planning and budgeting, underpinned by multi-stakeholder Budget Working Groups. The Education Status Report and studies in health, transport, water and agriculture have provided guidance on how to improve access to services.

6. Notable IFC work in the CPA period included the establishment of all four of International Finance Corporation’s (IFC) Advisory Services Business Lines (Investment Climate, Access to Finance, Public Private Partnerships Advisory, and Sustainable Business Advisory).

Accomplishments include an Investment Climate Assessment and a *Doing Business in Juba, 2011* report defining priorities for building a policy environment for private sector development and enhancing financial intermediation. IFC also supported the overall legal and regulatory framework through an Investment Promotion Act and a series of other laws that established the modern legal and regulatory framework needed to encourage private investment. IFC was instrumental in setting up a South Sudan Investment Authority and a fully functional business registry that had registered over 12,500 entities by end of 2010. To encourage robust policy dialogue, IFC helped establish the South Sudan Business Forum, which facilitated over five key policy decisions during its first phase and set up 5 Working Groups within the Forum to provide a platform for the Chamber of Commerce to participate in the policy dialogue. Finally, IFC launched a program for small and medium enterprise (SME) development and access to finance to improve capacity and competitiveness of emerging SMEs.

7. The Bank has taken full ownership of important lessons from the MDTF-SS regarding problems that should have been anticipated and even avoided.

And when problems arose, they should have been addressed more quickly. The Bank has taken steps to ensure that this experience will not be repeated. Although the Bank and its partners were well aware at the start of the CPA of Southern Sudan’s extremely weak human and institutional capacity and the almost total absence of physical infrastructure, the extent of the challenge was nonetheless underestimated. Weak capacity, logistical difficulties, especially outside Juba, and the absence of reliable private contractors willing to operate in Southern Sudan’s difficult setting, had considerable effects on the cost and timeliness of development interventions. Like other donors, the Bank also faced difficulties and delays in mobilizing staff on the ground with the appropriate skills and experience. A further weakness was the lack of a strong and effective trust fund communications strategy to link with GRSS, development partners and the population at large. An effective communications strategy would have pointed to less visible but key

achievements, especially in capacity and institution building, and helped in setting realistic expectations on the time and effort it takes to create institutions from scratch and build national ownership of development efforts. From the start and throughout the CPA period, the Bank made a conscious choice to support state-building as an overriding priority. This has meant accepting the inevitable medium-term trade-offs in terms of speed and effectiveness during the transition, in exchange for the longer-term objective of ensuring greater state capacity and sustainability of development efforts. Despite start-up problems and logistical difficulties, the MDTF-SS has been effective in creating a strong foundation for longer-term development and made a good start in the painstaking and long-term process of building the capacity of state institutions.

8. A South Sudan Transition Trust Fund (SSTTF), administered by the International Development Association (IDA), was authorized by the Executive Directors in June 2011¹⁸ as a means to enhance the World Bank's support to South Sudan in the period between the country's independence on July 9, 2011 and its membership in the affiliates of the World Bank Group, which was achieved on April 18, 2012. The SSTTF aims to ensure continuity in the Bank's support for South Sudan's considerable development challenges and its new transition phase. US\$75 million funding for SSTTF came from a transfer of net income from the International Bank for Reconstruction and Development (IBRD). In establishing the SSTTF, Executive Directors agreed that once South Sudan became eligible for IDA resources, their allocation under IDA 16 will be adjusted for the total amount of early assistance committed through the Trust Fund.

9. The World Bank has used lessons from the MDTF-SS and the framework of the 2011 World Development Report on Conflict, Security and Development to inform the design of the three operations that are now under implementation, having been approved for financing from the SSTTF, and which between them exhaust the fund. The projects, which were approved by Executive Directors, are for Rural Roads¹⁹ (US\$38 million), Health Rapid Results²⁰ (US\$28 million), and Private Sector Development²¹ (US\$9 million). Through these projects, the World Bank is helping deliver timely and critical interventions that will help improve the lives of poor people in quick and practical ways.

¹⁸ *Memorandum to the Executive Directors on the Establishment of a South Sudan Transitional Trust Fund, and the Proposed Transfer of IBRD Surplus to the SSTTF*, (R2011-0127) World Bank, May 25, 2011.

¹⁹ *South Sudan Rural Roads Project* (IDA/SecM 2012-0237; Report 65330).

²⁰ *South Sudan Health Rapid Results Project* (IDA/SecM 2012 – 0203; Report 67535).

²¹ *South Sudan Private Sector Development Project* (IDA/SecM 2012-0002; Report 65802).

Annex 2: The South Sudan Development Plan (2011-2013)

The South Sudan Development Plan (SSDP) is organized under four pillars -- governance, economic development, improved access to basic social services and security.

Priority programs under the *governance pillar* will address weaknesses in the public administration and build the capacity of oversight institutions in a way that increases accountability, transparency and the broad participation of diverse groups in government. Specific activities include drafting a new constitution, strengthening parliament's oversight capacity, revising civil service recruitment, and strengthening public financial management.

The *pillar on economic development* calls for diversifying rural economy and improving infrastructure, particularly roads. A new Land Act will help clarify land rights to encourage private investment and reduce risks of conflict, and will be complemented by efforts to improve agricultural productivity. Constraints to private sector development, including access to finance, would be tackled, and efforts taken to improve management of the oil sector.

The *pillar on social and human development* calls for rapidly expanding quality health services throughout the country, increasing school enrollment (especially for girls) and teacher training, all of which will require innovative partnering arrangements with Non-Governmental Organizations (NGOs) or private providers, with the government providing oversight and regulation.

The *fourth pillar, conflict prevention and security*, recognizes that security is a basic prerequisite for the other pillars. This pillar will include a comprehensive national program to address demobilization of ex-combatants and restructure military and security forces, and improve access to justice and dispute resolution systems.

The seven cross-cutting issues of environment, gender equality, youth employment, capacity-building, human rights, HIV/AIDS, and corruption are addressed throughout the SSDP and intrinsic to many of the programs.

The annex to the SSDP identifies three sets of quantified priorities: (i) deepening peace building and improving security, (ii) rural transformation to improve livelihoods, and (iii) improving and expanding educational and health services (see Annex 3 of the SSDP for priority program areas).