

## Preliminary Narrative Report on the Utilization of RCF Funds

March 15, 2021

### I. Background and the Context of the Request for the Rapid Credit Facility

The Government of the Republic of South Sudan (GRSS) had applied for and negotiated emergency financing under the Rapid Credit Facility (RCF) with the IMF. A total amount equivalent to SDR 36.9 million (about US\$ 52.2 million or 15% of the quota) was approved by the IMF Board on 11<sup>th</sup> November 2020 and disbursed two days later to the GRSS' account. The purpose of the RCF was to support the government's response to the negative socioeconomic impact of the COVID 19 pandemic in the country. The economy of South Sudan is heavily dependent on oil; hence the economy has been hit by the drop in global oil prices, with real GDP projected to fall to between -2.5 to 3.2 per cent in 2020. It is expected that the fiscal deficit will rise to 8.2% of GDP in FY 20/21, despite governments efforts to streamline expenditure. Oil revenues are expected to decline to 13.5% of GDP in FY 20/21 from 18% in FY 19/20. At the same time, tax revenues are expected to shrink further to 1.3% of GDP in FY 20/21 from 2.5% of GDP in FY 19/20.

GRSS initiated the discussions with the IMF on a possible RCF to address the huge financing gap in the FY 2020/2021 Budget. This was in addition to a PFM reform program that would, hopefully, unlock access to a larger pool of donor resources in the medium term.

In October 2020, the GRSS decided from among other priorities that the RCF would be used to clear part of the 5 months (June – October 2020) of salary arrears at the national level and transfers to states. The Ministry of Finance and Planning initiated the opening of a separate Bank Account in the Bank of South Sudan dedicated for the RCF funds and created a special fund code in IFMIS to track expense against RCF funds and to report to the Public Financial Management (PFM) Oversight Committee (OC).

### II. Narrative on the Use of the RCF Proceeds

This report provides a narrative of the utilization of the RCF funds as follows:

1. The **NCBA BANK KENYA PLC, Nairobi, Kenya**, was the correspondent bank in which the USD equivalent from IMF would be credited. On October 4, 2020 a separate account was also opened for the Ministry of Finance and Planning (MoFP) in both USD and SSP currencies in the Bank of South Sudan (BoSS) dedicated for the RCF funds. Upon receipt of this payment from IMF, the Bank of South Sudan will transfer the USD equivalent of **XDR 36,900,000** to the Ministry of Finance Account (RCF Account) at the Bank of South Sudan (BoSS). On 11<sup>th</sup> November 2020, the amount of **USD 52,328,252.72** was disbursed by IMF in Washington. It was credited to BoSS Account in Nairobi on 13<sup>th</sup> November 2020. The same amount was then credited to the Ministry of Finance RCF (USD Acct) at the Bank of South Sudan on the 15<sup>th</sup> November 2020.

2. The Memorandum of Understanding between the MoFP and the BoSS was signed between the two parties on the 4<sup>th</sup> of October 2020. This MOU stipulated that the International Monetary Fund (IMF) is expected to consider a disbursement for the Republic of South Sudan under the Rapid Credit Facility (RCF) in the total amount equivalent to SDR 36.9 million (about US\$ 52.2 million or 15% of the quota). The funds received by the Republic of South Sudan under the RCF will be used for direct budget financing. The MoU further clarifies that the Letter of Intent (LOI) accompanying the Republic of South Sudan's disbursement under the RCF includes a commitment for the MoFP and the BoSS to establish a framework that clarifies the responsibilities for timely servicing of the related financial obligations to the IMF. Both the MoFP and BoSS shall act in accordance with relevant laws and regulations while agreeing to follow the framework on the modalities of the repayment of IMF financing and servicing of any related costs:

**3. Table 1: Amount converted from USD into SSP**

S/No	Date	Amount in USD	Rate	Amount (In SSP)
1.	26 <sup>th</sup> Nov 2020	40,325,000	174.07430	7,019,546,147.50
2.	13 <sup>th</sup> Dec 2020	5,300,000	174.47270	924,705,310.00
	<b>Total</b>	<b>45,625,000</b>		<b>7,944,251,457.50</b>

The amount received by MoFP from the sale of FX to BoSS was Seven Billion Nine Hundred Million Forty-Four Million Two Hundred Fifty-One Thousand Four Hundred Fifty-Seven and 50/100 SSP. This amount was deposited into the MoFP RCF (SSP Account) in BoSS.

4. As a mechanism for good tracking procedures of the expenditures against RCF funds, MoFP created a separate Fund Code in the IFMIS dedicated for recording and tracking expenditures against the RCF funds in the system.

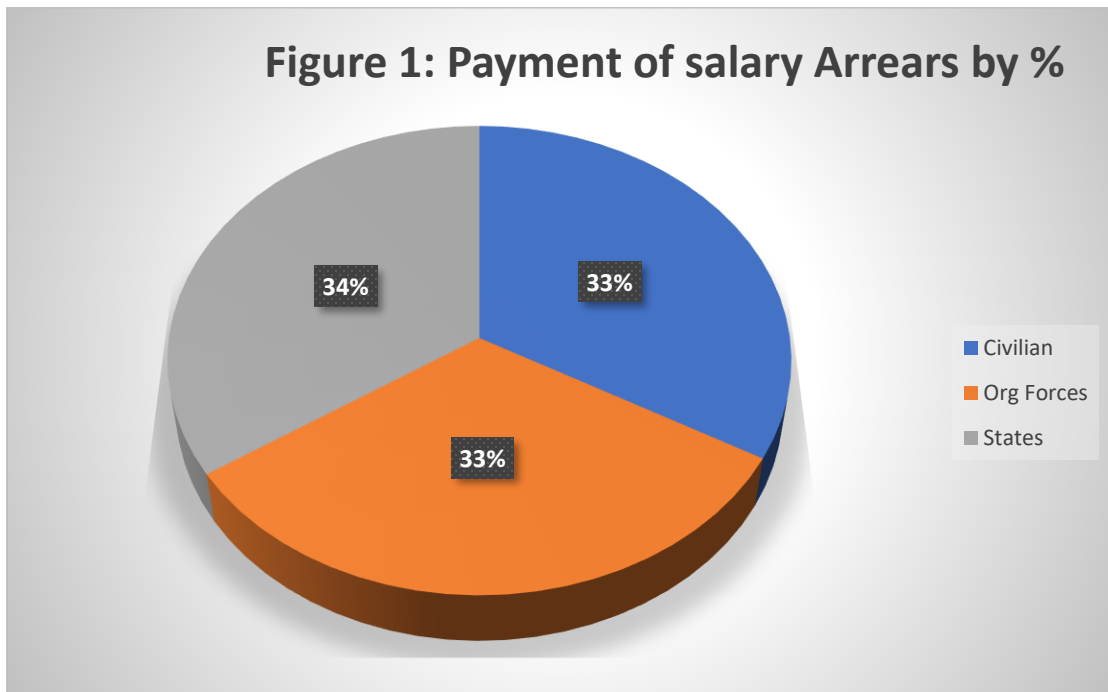
**5. Table 2: Payment of Salary Arrears as a share of RCF**

S/No	Item description	Amount (in USD)
1.	Amount sold to BoSS to pay domestic salary arrears in SSP	45,625,000.00
2.	Amount used to pay salary arrears to diplomats (USD) in Foreign Missions	5,993,664.48
	<b>Total amount for paying salary arrears (SSP &amp; USD)</b>	<b>51,618,664.48</b>

- One month of salary arrears was paid to foreign missions (diplomats).
- The share of RCF used for payments of salary arrears to diplomats in USD is 12%
- Two months of salary arrears were paid for domestic government workers.
- The share of RCF used to pay salary arrears for domestic government workers in SSP is 88%.
- A total of USD 51,618,664.48 million of the RCF funds has been used for paying salary arrears constituting 98.6%.

6. **Table 3: Summary of two months (June & July 2020) salary arrears (In Bns SSP)**

S/No	Category	Amount (In SSP)	%
1.	Civil servants	2,511,375,854.00	33.2
2.	Organized Forces	2,450,071,305.00	32.4
3.	Transfers to States	2,598,160,545.98	34.4
4.	<b>Total</b>	<b>7,559,607,704.98</b>	<b>100</b>



- The total payments for two months amounted to about **7,560 billion SSP**.
- Of this, about **4,961 billion SSP** was used for paying central government employees, which constitutes about 65%.
- **SSP 2,511 billion** was used for paying Civil servants, which constitutes 33%.
- Approximately **SSP 2,450 billion** was used for paying Organized Forces, which constitutes about 32%.
- The remaining **2,598 billion SSP** was used for paying transfers to States, which constitutes about 34%.

## 7. Distribution of RCF Proceeds by Sectors in the Civil Services

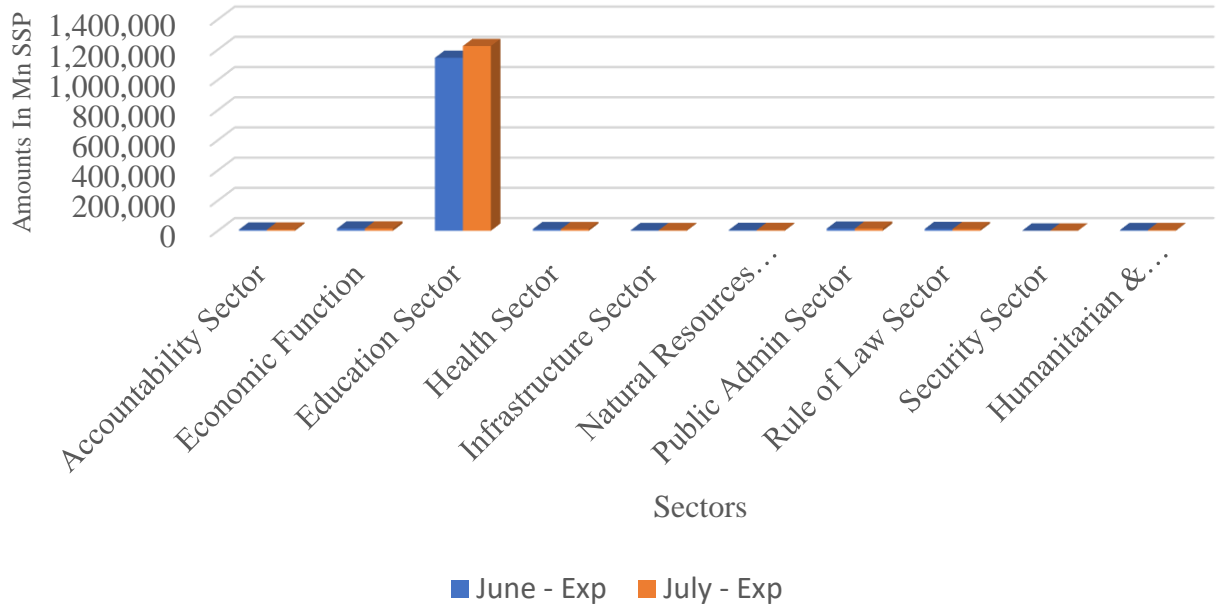
**Table 4: Summary distribution of RCF Funds by Sectors in the Civil Service (In Bns SSP)**

Sector	June - Exp	July - Exp	%
Accountability Sector	7,228	7,458	0.6
Economic Function	14,553	14,616	1.2
Education Sector	1,145,156	1,223,016	94.3
Health Sector	10,822	10,580	0.9
Infrastructure Sector	3,862	3,896	0.3
Natural Resources Sector	4,751	4,734	0.4
Public Admin Sector	13,935	13,993	1.1
Rule of Law Sector	11,374	10,730	0.9
Security Sector	838	843	0.1
Humanitarian & Social Welfare	4,351	4,434	0.3
	<b>1,216,871</b>	<b>1,294,300</b>	<b>100</b>

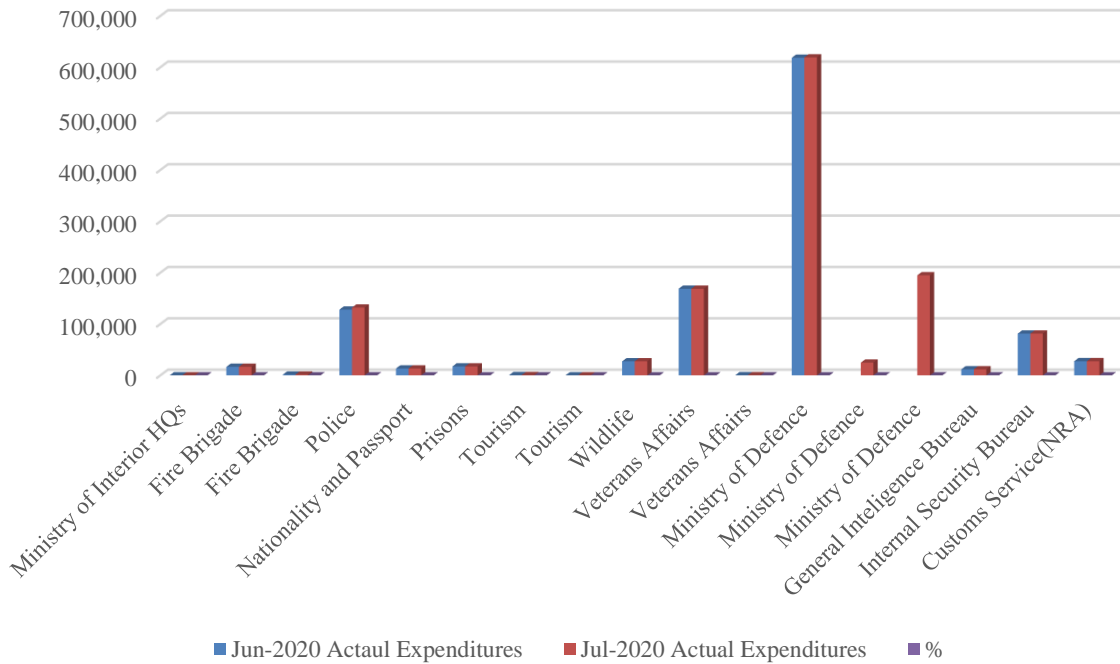
8. Education Sector took the largest share of the RCF distribution representing about 94%. This resulted from the Cabinet decision to increase a given university lecturer's salary by almost ten times their previous salary. This has led higher Education to get the highest allocation on salary in the government budget. Education Sector is followed by the Economic Function Sector representing about 1.2%, followed by Public Administration Sector which is about 1.1%. (See also bar graph below).

9. Reference to the excel spreadsheets for central government civil servants indicates some blank cells on the actual payments' columns. This gap is primarily because staff under this category are still consolidated and have not completed their appointment process with Ministry of Public Service and Human Resources Development. Therefore, they are working either as consultants and are paid under contractual obligations rather than through the electronic payroll system. It must be noted that staff in this category were not paid from the RCF resources.

**Figure 2: Distribution of RCF Funds by Sectors**



**Figure 3: Distribution of RCF to Organized Forces**



**Table 5: Summary Distribution of RCF Proceeds to Organized Forces by Agency (In Bn SSP)**

<b>Agency</b>	<b>Jun-2020 Actual Expenditures</b>	<b>Jul-2020 Actual Expenditures</b>	<b>%</b>
Ministry of Interior HQs	141	141	0.01
Fire Brigade	16,618	16,618	1.36
Fire Brigade	1,489	1,489	0.12
Police	128,086	132,058	10.62
Nationality and Passport	13,323	13,413	1.09
Prisons	17,429	17,429	1.42
Tourism	414	414	0.03
Tourism	103	103	0.01
Wildlife	27,388	27,388	2.24
Veterans Affairs	168,628	168,628	13.77
Veterans Affairs	227	234	0.02
Ministry of Defense	618,361	619,117	50.51
Ministry of Defense		24,798	1.01
Ministry of Defense		194,822	7.95
General Intelligence Bureau	11,776	11,776	0.96
Internal Security Bureau	81,326	81,326	6.64
Customs Service (NRA)	27,505	27,505	2.25
<b>Grand Total</b>	<b>1,112,813</b>	<b>1,337,259</b>	<b>100</b>

- Ministry of Defense received the highest share of the RCF funds to Organized forces about 59%.
- This was followed by Veterans Affairs which constitutes about 14%.
- The South Sudan Police Service came third with about 11%.

## 10. The number of employees that benefited from RCF

**Table 6: Central Government Workforce that benefited from the RCF by Sectors**

Sectors	Categories of employees	Total Workforce	%
Accountability	Civilians	760	0.2
Economic	Civilians	10,772	2.3
Education	Teachers and other personnel	9,443	2.0
Health	Health Workers and other personnel	5,597	1.2
Infrastructure	Civilians	1,437	0.3
Natural Resources	Civilians	9,907	2.1
Public Administration	Civilians	7,971	1.7
Rule of Law	Organized Forces and other personnel	61,991	13.2
Security	Organized Forces	358,171	76.5
Humanitarian	Civilians	1,981	0.4
<b>Total</b>	-	<b>468,030</b>	<b>100</b>

- The total workforce in the central government is 468,030.
- Of this, 358,171 are organized forces in the security sector which constitute 76%.
- The Organized Forces in the rule of law (mainly Police, Prisons and civil defense constitutes 61,991, which is about 13%.
- The remaining 47,868 are civilians from other sectors about 10%.

11. The transfer to each state for the payment of salary arrears during June and July 2020 is provided below:

**Table 7. Transfers by State & Administrative Area, June 2020 (In Mns SSP)**

Code	State	June 2020 Estimates	June 2020 Actual Payments	Variance
10200	Central Equatoria	163,746,081.28	134,255,339.06	29,490,742.22
10300	Eastern Equatoria	99,609,181.92	96,356,671.98	3,252,509.94
10400	Jonglei	188,831,636.11	179,071,489.96	9,760,146.15
10500	Lakes	131,505,116.94	127,203,826.02	4,301,290.92
10600	Northern Bhar el Ghazal	133,804,058.53	128,433,710.25	5,370,348.28
10700	Unity	105,049,780.18	99,440,664.50	5,609,115.68
10800	Upper Nile	171,383,211.37	165,213,511.48	6,169,699.89
10900	Warrap	132,027,669.62	127,023,917.34	5,003,752.28
11000	Western Equatoria	110,266,396.46	104,461,281.67	5,805,114.79
14000	Western Bhar el Ghazal	62,485,906.56	55,480,561.21	7,005,345.35
14100	Boma Administrative Area	35,462,940.63	34,270,323.26	1,192,617.37
12900	Ruweng Administrative Area	33,556,984.03	30,880,441.76	2,676,542.27
11200	Abyei Administrative Area	16,925,750.39	16,988,534.50	(62,784.11)
	Salary Difference	17,130,912.00		17,130,912.00
	Pension	30,739,365.00		30,739,365.00
	<b>G. Total</b>	<b>1,432,524,991.02</b>	<b>1,299,080,272.99</b>	<b>133,444,718.03</b>

**Table 8. Transfers by State & Administrative Area, July 2020 (In Mns SSP)**

Code	State	July 2020 Estimates	July 2020 Actual Payments	Variance
10200	Central Equatoria	163,746,081.28	134,255,339.06	29,490,742.22
10300	Eastern Equatoria	99,609,181.92	96,356,671.98	3,252,509.94
10400	Jonglei	188,831,636.11	179,071,489.96	9,760,146.15
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	Salary Difference	17,130,912.00	0.00	17,130,912.00
	Pension	30,739,365.00	0.00	30,739,365.00
	<b>G. Total</b>	<b>1,432,524,991.02</b>	<b>1,299,080,272.99</b>	<b>133,444,718.03</b>

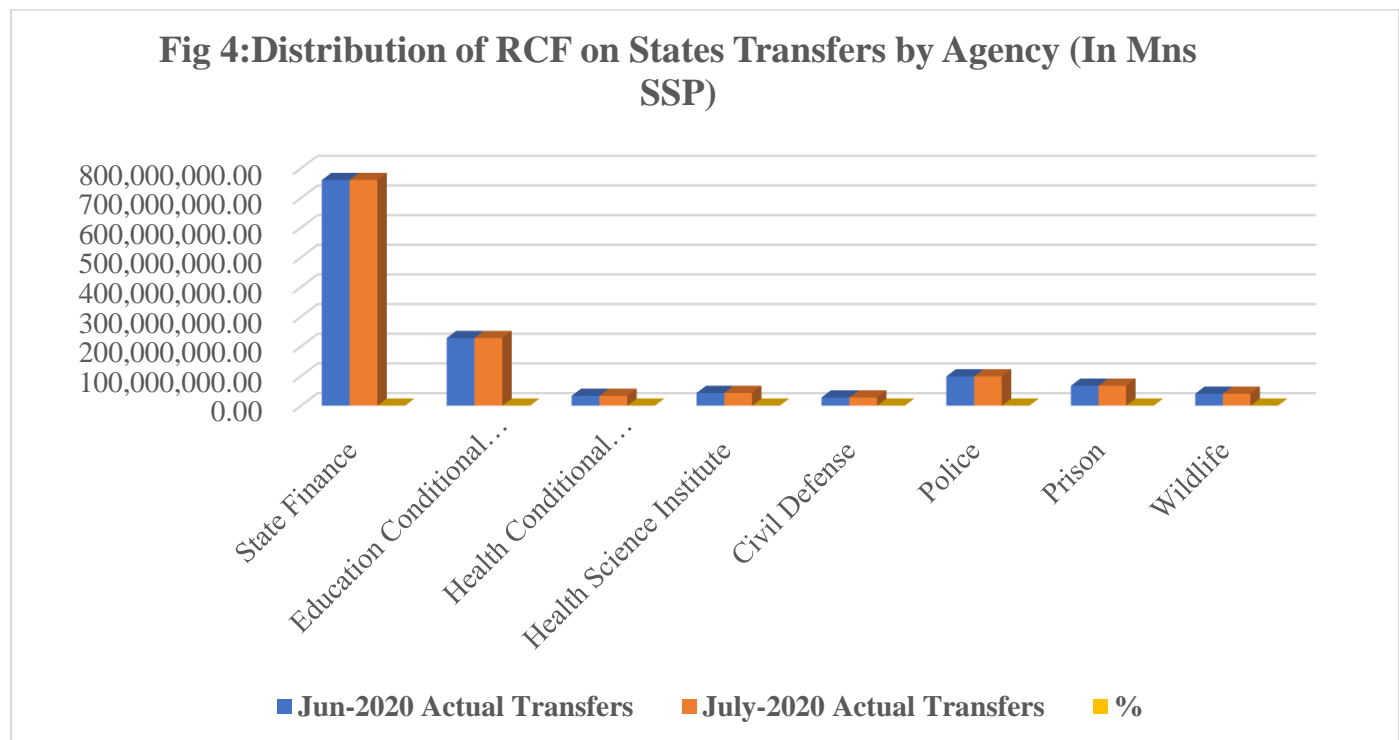
12. In Table 9 below, State Ministry of Finance caters for the whole state government institutions, including State Parliament, among others, and takes about 59% of the transfers to states. This is followed by conditional Education transfers which constitutes about 18%. Police service constitutes about 8% and the conditional Health transfers and the Health Science Institutes is the fourth position with about 6% of the state's transfers.

- Conditional Education transfers and Health conditional transfers are made of conditional states salaries, conditional state operations, conditional county salaries and conditional county operation details are available on a separate excel spread sheet, which will be posted as well.
- From the spreadsheet, it can be seen that more Education conditional salary allocations go to the county than to the states which is about 69% compared to 13% which goes to the state. Similarly, more Education conditional operation goes to the county which is about 17% compared to 1% which goes to the state.
- For Health conditional transfers, the opposite is true as more doctors are relocated at the states level while more teachers are relocated at the county level.



**Table 9: State Transfers by Agencies (In Mns SSP)**

Agency	Jun-2020 Actual Transfers	July-2020 Actual Transfers	As % of Total
State Finance	760,514,917.13	760,514,917.13	58.5
Education Conditional Transfers	228,122,663.00	228,122,663.00	17.6
Health Conditional Transfers	33,363,336.00	33,363,336.00	2.6
Health Science Institute	43,179,477.37	43,179,477.37	3.3
Civil Defense	27,529,736.00	27,529,736.00	2.1
Police	98,940,012.00	98,940,012.00	7.6
Prison	67,170,496.00	67,170,496.00	5.2
Wildlife	40,259,635.50	40,259,635.50	3.1
<b>Grand Total</b>	<b>1,299,080,273.00</b>	<b>1,299,080,273.00</b>	<b>100</b>



### 13. Internal Verification Exercise

Broadly, the National verification follows the following processes:

- Electronic payrolls for civil servants are approved and signed by accounting officer
- They must be certified by Ministry of Public Service & Human Resource Development and stamped; and
- Organized forces have their standard paysheets which are approved by the designated officer for each unit, all in line with our PFM Act 2011 guidelines.

As for the states, there are standard guidelines for each line Ministry making conditional transfers to the states as listed below. Verification teams sent by the MOFP in each state confirmed through bank statements that the funds transferred by the central government had reached the intended beneficiaries at the state and county level.

- I. Ministry of General Education Transfer guidelines
- II. Ministry of Health Transfer guidelines
- III. Ministry of Water Resources Transfer guidelines.
- IV. Block transfer guidelines
- V. Country transfer guidelines

**14. Auctioning of RCF funds by the BOSS.** Whereas the exchange rate at which the MOFP converted into SSP the foreign exchange disbursed under the RCF was about 174 SSP/US\$ (as discussed in paragraph 3 above), the BOSS is auctioning the US\$ proceeds of the RCF at an exchange rate of over 500 SSP/US\$. The difference in SSP is being deposited in a dedicated account at the BOSS, and will be used to reduce the amount of MOFP's overdraft at the BOSS.

### **III. Concluding Remarks**

We have used the RCF resources to pay past wage and salary arrears, considering these are the only viable poverty reducing mechanisms we have in place. The National Audit Chamber will start in April 2021 an audit of the spending summarized above, which is expected to be completed by end-June 2021.