

Common Statements for the G-6 in discussions with the RSS.

To date, the government has acknowledged there will be a reduction in revenue due to the oil shutdown, but that the country has financial reserves and it will be able to "get thru" the coming crisis, as 80% of the population is completely outside of the cash economy in any case. The country has been at war since 1983, and war for another one - three years will not matter. The common refrain is "The decision has been made. We will live with it. We will make it thru this."

On February 28, the MOFEP launched the 2012-2013 budget process. There they clearly laid out the macroeconomic challenges presented by the draconian reduction in public revenue, while calling on spending agencies to "focus on priorities", achieve "efficiency in operations", and pursue "value for money" to ensure that "every south Sudanese pound spent will benefit citizens". However, it is apparent from the information we currently have, that while the government has reserves to support expenditures thru the next 3-6 months, there doesn't appear to be financing available to support the planned budget after that time. Apart from vague, somewhat hollow guidance, there were no concrete directions or priorities for planning agencies. As it stands, it does not appear that any agency (spending unit) is seriously planning for the impending crisis. Agencies are not re-prioritizing or restructuring their budgets. There has simply been a fiat, uniform cut of approximately 26%.

The two recent missions from the World Bank and the IMF produced some very stark projections. The conclusions have been shared with the government, but donors are concerned that a deeper understanding of the economics of the decision to stop oil production and the real impacts of the loss of revenue are not fully internalized by different leaders. The reality of the situation is that if the authorities severely ration foreign reserves, with the Central Bank supplying only about \$50 million per month on the market, as appears to be the current situation, the reserves could last several months. However, what they don't know or underestimate is the severe implication of that policy on rapid, high inflation and exchange rate depreciation, as import needs are estimated to be between \$2 -3 billion per year.

The G-6 therefore have formulated the following straight forward common messages to ensure we provide a coherent and cohesive voice as we attempt to work with the government over the next period.

- 1.) We appreciate the fact the government has made the decision to cease oil production. However, we are concerned about the potential impact on governmental operations and on south Sudan more generally. The anticipated gap between the government's expenditures and non-oil revenue, even with planned revenue increases cannot be met.

We donors are not in a position to fill the fiscal gap created by the sudden loss of government revenues.

- 2.) Further, as this situation continues, we will be unable to support the kind of programs you asked for and we have planned for. We anticipate a reorientation of our programs to protect the vulnerable, focused on life saving interventions. We cannot additionally implement the aid strategies that have been agreed upon.
- 3.) As part of our efforts to realign, we will need an engaged partner and for the government to do its part to continue to build capacity and the basic systems necessary to manage the affairs of South Sudan.
- 4.) South Sudan made commitments to its people for transparency and accountability, responsible oil revenue management, and human capital development. These promises are neutralized by the current standoff with the Republic of Sudan, and we are concerned about the ability of South Sudan to build the institutions and capacity necessary for economic progress under the current budgetary situation. Collectively, there is a need to develop an accelerated approach to resolve outstanding issues, most important the issue of oil production and exports.

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