Sudan Debt Dynamics: Status Quo, Southern Secession, Debt Division, and Oil—A Financial Framework for the Future

Benjamin Leo

Abstract

The people of Southern Sudan are scheduled to vote in a referendum on whether to remain unified with the central government in Khartoum or break away to form a new, fully independent country. While the Khartoum government remains committed to a unified Sudan, all indications suggest that the Southern Sudanese will vote for secession by an overwhelming majority. Khartoum's willingness to accept the potential losses remains unclear. Many suspect that its ultimate actions will depend, at least in part, upon the resolution of key outstanding issues, such as oil and debt. This paper contributes to ongoing discussions about the role of Sudan's $35 billion in external debt obligations – both for a unified Sudan and a possible Southern secession. First, it examines Sudan's existing debt dynamics and the potential eligibility for traditional debt relief and multilateral debt relief initiatives. Second, it outlines potential options for dividing Sudan's external debt obligations in the event of a Southern secession. Third, it estimates external indebtedness ratios under each debt division scenario and the potential relevance of traditional debt relief treatments. Lastly, the paper provides an indicative roadmap for clearing Sudan's loan arrears of $30 billion and potentially securing comprehensive debt relief in the future.

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We call for the forgiving of the debts of Sudan according to the same standards applied to the least developed countries. . . . This will help fight the trend that leads to confrontations and destabilization.

—Ali Osman Taha, Vice President of Sudan[1]

We are now asking what is it that they want to release Abyei? They have told us that they want something from us and they want something from the Americans.

—Pagan Amum, Secretary-General of the Sudan Peoples' Liberation Movement[2]

I. Overview

In early 2011, Sudan will face a pivotal defining moment in terms of self-determination, territorial integrity, security, and engagement with the international community. The people of Southern Sudan are scheduled to vote in a referendum on whether to remain unified with the central government in Khartoum or break away to form a new, fully independent country. While the Khartoum government remains committed to a unified Sudan, all indications suggest that the Southern Sudanese will vote for secession by an overwhelming majority. If this comes to pass, the respective Sudanese governments in Khartoum and Juba will face countless challenges, such as defining new national borders, sharing oil wealth, and dividing national assets and liabilities. All of these issues are fraught with peril due to their inherent complexities and the stakes involved. For Khartoum, a Southern secession would mean the potential loss of the overwhelming majority of proven oil reserves, 50 percent of government revenues, and 20 percent of the nation's population. Furthermore, the resulting decline in Khartoum's export revenues will further impact its foreign reserve holdings – coffers which are already under heavy strain from the recent financial crisis and high oil price volatility. Khartoum's willingness to accept these potential losses remains unclear. Many suspect that its ultimate actions will depend, at least in part, upon the resolution of key outstanding issues, such as oil and debt.

This paper attempts to make a modest contribution to ongoing discussions about the role of Sudan's $35 billion in external debt obligations – both for a unified Sudan and a possible

[1] 18 October 2010 interview, see http://aawsat.com/english/news.asp?section=3&id=22714.
[2] See http://news.yahoo.com/s/afp/20101026/wl_africa_afp/sudanreferendumabyeisouth.

Southern secession. First, it examines Sudan's existing debt dynamics and the potential eligibility for traditional debt relief and multilateral debt relief initiatives. Second, it outlines potential options for dividing Sudan's external debt obligations in the event of a Southern secession. Third, it estimates external indebtedness ratios under each debt division scenario and the potential relevance of traditional debt relief treatments. Lastly, the paper provides an indicative roadmap for clearing Sudan's loan arrears of $30 billion and potentially securing comprehensive debt relief in the future.

There are several key analytical takeaways from this paper, including:

(1) *Traditional debt relief will have a dramatic impact on debt sustainability prospects*. Bilateral and commercial creditors account for nearly 90 percent of Sudan's external debt obligations. Given this, a traditional Paris Club debt treatment under Naples terms would significantly reduce Sudan's debt ratios. However, securing such debt relief will require coordinated action to also clear loans arrears to the international financial institutions.

(2) *Heavily Indebted Poor Country (HIPC) Initiative debt relief is not a foregone conclusion*. Sudan's external debt ratios potentially could be below the respective HIPC debt-to-exports and debt-to-revenue thresholds following a traditional Paris Club debt treatment and clearance of loan arrears to the World Bank, IMF, and African Development Bank. At the same time, HIPC eligibility will play an important role in terms of facilitating access to specific assistance mechanisms, such as exceptional arrears clearance support. If Sudan does eventually qualify for HIPC assistance, a significant amount of external debt would still remain on its books even after debt relief.

(3) *Despite being a potential security flashpoint, the disputed region of Abyei will have almost no impact on external debt dynamics under a Southern secession scenario*. Following a 2009 border ruling, Abyei's importance in terms of oil production (and exports and government revenues by extension) declined significantly.

(4) *Different external indebtedness indicators present contradictory pictures about debt sustainability prospects under a Southern secession scenario*. Based upon regional GDP estimates, NPV debt-to-GDP ratios paint a vastly different picture than export- and revenue-based indicators. This is driven by Southern Sudan's overwhelming economic dependence upon oil exports and Khartoum's more diversified economy. Stakeholders will need to factor these issues into potential debt division and debt relief options.

(5) *Income per capita levels potentially could present complications under a Southern secession scenario.* Securing "IDA-only" status is a prerequisite for HIPC Initiative eligibility and, by extension, exceptional arrears clearance support. According to regional GDP estimates, both Southern Sudan and Khartoum likely will have per capita income levels that exceed IDA's respective GNI-based threshold by a wide margin. As a

result, the World Bank's determination of their creditworthiness and UN determination of Least Developed Country status would become key factors for determining "IDA-only" status.

(6) *Sudanese authorities should expect a long and difficult path to clearing unsustainable debt obligations*. The arrears clearance and debt relief processes are challenging under the best of circumstances. Sudan's unique social, political, security, and economic situation will make the process even more daunting. Sudanese authorities should expect the process to take *at least* three to four years – especially if they pursue HIPC Initiative assistance.

While this paper outlines specific analytical findings, several important caveats are required. First, there are key gaps in data availability. For instance, there are no publicly available statistics for sub-national GDP or exports. Moreover, information delineating the ultimate geographic beneficiary of past loans is largely lacking. This information is central to either dividing external debt obligations or determining the sustainability of external debt ratios. Moreover, external debt obligations and indebtedness ratios are based on end-2009 figures. In reality, final determinations will be based upon currently unavailable end-2010 data. Given this, all figures and simulated outcomes presented in this paper should be considered purely indicative. Ultimately, the World Bank, IMF, and other stakeholders will need to work closely with the Sudanese authorities to provide more concrete, authoritative figures and findings. However, the analysis provided should contribute to a more informed discussion amongst all Sudanese debt stakeholders.

II. IFI ENGAGEMENT – HISTORICAL OVERVIEW

World Bank: Since 1958, the World Bank has provided loan assistance to Sudan totaling $1.52 billion.[3] Funding has largely concentrated on infrastructure (railways, port facilities, and power) and agriculture (see appendix I for the complete list of projects). The World Bank's hard-loan facility – the International Bank for Reconstruction and Development (IBRD) – provided only 11 percent of the relevant financing for these programs. Between 1958 and 1977, the IBRD committed $166 million for eight development projects. The World Bank's concessional financing facility – the International Development Association (IDA) – provided the remaining 89 percent, or $1.35 billion.

The World Bank suspended its lending program in 1993 after the Sudanese government went into arrears on loan repayments. It restarted engagement in the mid-2000s as part of the international community's efforts to promote recovery and reconstruction after the destructive decades-long civil war in the South. Currently, the World Bank administers two multi-donor

[3] See www.worldbank.org/sudan for additional details.

trust funds (MDTF) in Sudan.[4] As of mid-2010, the two MDTFs had approved 36 projects totaling roughly $770 million.[5]

<u>African Development Bank</u>: The African Development Bank (AfDB) Group began lending operations in Sudan in 1971. Since then, the AfDB has approved 32 development operations with cumulative disbursements of UA 291.5 million ($452 million).[6] Like the World Bank, it suspended lending operations in 1993 due to the accumulation of loan repayment arrears. The AfDB completed a revised Country Dialogue Paper (CDP) in 2009 – which outlined a loan arrears clearance framework, plans for restoring Sudan's external debt sustainability, and preparing ground for the resumption of normal operations. According to the AfDB Group, it has approved only three small development programs since the country fell into arrears. These programs include: (1) Emergency Assistance to Stop the Spread of Avian Flu (UA 347,000); (2) Capacity Building for Poverty Reduction and Good Governance (UA 9.6 million); and (3) Emergency Relief Assistance to Khartoum State for Schools Affected by Flood ($1 million).[7]

<u>International Monetary Fund</u>: The IMF has provided three stand-by agreements to Sudan over time (1982, 1983, and 1984).[8] Under these agreements, the IMF approved SDR 458 million in potential lending – of which, Sudan drew SDR 260 million (see appendix II for details). The IMF suspended lending operations in July 1984 due to the accumulation of loan repayment arrears. Since the mid-late 1990s, the IMF has played a multifaceted role in Sudan. It has provided policy advice through staff-monitored programs (SMPs) to promote macroeconomic stability as well as extensive technical assistance and training to strengthen institutions and capacity.[9] The current SMP (July 2009–December 2010) focuses on crisis prevention by maintaining macroeconomic stability and building foreign exchange reserves. In addition, the program aims to raise non-oil revenues through tax policy and revenue administration reforms.

<u>Loan Arrears Accumulation</u>: As noted above, the Sudanese government has been in continuous arrears to the IFIs and Paris Club creditors for many years. Over time, Sudan's arrears have grown substantially due to the continued accumulation of penalties and accrued interest. As of June 2010, IFI arrears had reached over $2.4 billion. The IMF accounts for $1.54 billion (SDR 990 million); the World Bank, $612 million; and the African Development Bank, $264 million.[10]

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[4] For each trust fund, the World Bank receives guidance from an Oversight Committee, which includes the relevant Government and donor representatives. The United Nations is an observer to the two Oversight Committees.
[5] See World Bank, *The World Bank Report to the Southern Sudan Multi-Donor Trust Fund Administrator* and *The World Bank Report to the National Sudan Multi-Donor Trust Fund Administrator*, August 2010.
[6] Source: African Development Bank. See http://www.afdb.org/en/countries/east-africa/sudan/ for additional details.
[7] The AfDB also has allocated UA 4.5 million under its Fragile States Facility for technical assistance and capacity building. As of writing, approval by the AfDB Executive Board was pending.
[8] IMF (2010), *Sudan: Article IV Consultation - Staff Report; Debt Sustainability Analysis; Staff Statement; Public Information Notice on the Executive Board Discussion; Statement by the Executive Director*.
[9] For details on IMF technical assistance programs, see annex I of IMF Country Report No. 10/256.
[10] IMF (2010), *Review of the Fund's Strategy on Overdue Financial Obligations*.

With respect to the IMF, principal arrears account for nearly SDR 255 million ($395 million) and interest arrears total the remaining SDR 736 million ($1.14 billion).[11]

Figure 1 – Total Arrears, as of June 2010 *(in millions)*[12]

Currency	IMF	World Bank	AfDB	Total
SDR	990	394	170	1,555
USD	1,537	612	264	2,413

Source: IMF

IFI arrears will continue to accumulate in the coming years as additional principal and interest payments come due. For example, Sudan will owe IDA nearly $260 million in debt service payments between 2010 and 2015.[13] Figure 2 below outlines estimated IDA debt service payments falling due over time. This continued accumulation demonstrates the need to clear Sudan's arrears as quickly as possible and to build a financial buffer into any relevant cost projections.

Figure 2 – Estimated IDA Debt Service Payments *(USD Millions, Nominal)*

Year	Principal	Charges	Total
2010	17.4	2.6	20.1
2011	42.2	6.2	48.4
2012	42.3	5.9	48.2
2013	42.3	5.5	47.9
2014	42.3	5.2	47.5
2015	42.3	4.9	47.2
2010-2015	*229.0*	*30.3*	*259.3*
2016-2037	*621.9*	*37.5*	*659.4*
TOTAL	**850.9**	**67.9**	**918.7**

Source: World Bank, Estimated Debt Service Database

III. SUDAN DEBT ACCUMULATION: HISTORICAL OVERVIEW

Through the 1970s, Sudan generally maintained low and stable levels of external debt ($385 million in 1970 and $1.6 billion in 1975). However, its debt burden grew substantially over the ensuing ten-year period – with obligations reaching over $9 billion by 1985. Roughly 20 percent of this debt was owed to bilateral Paris Club creditors; 30 percent to multilateral institutions; and 30 percent to non-Paris Club bilateral creditors.[14] In addition to new loans – debt service and

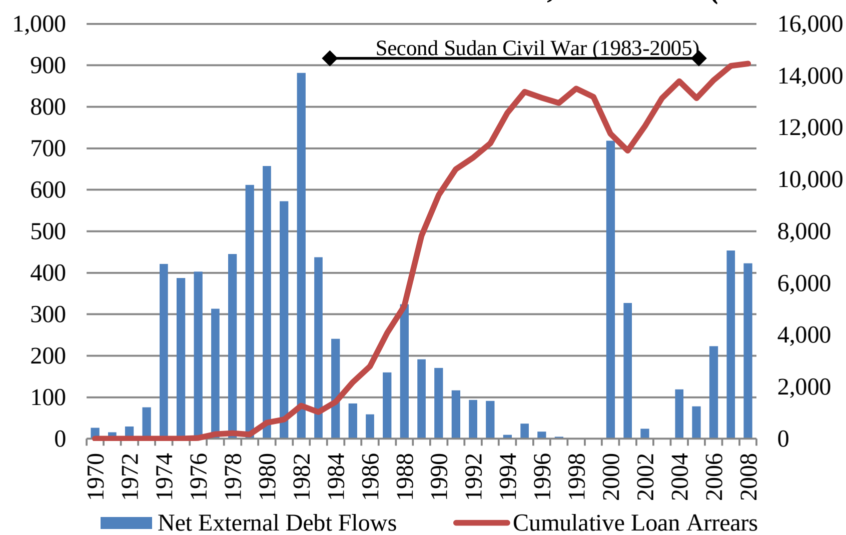
[11] As of June 2010, Sudan's IMF arrears equaled nearly 584 percent of its IMF quota.
[12] This implies an exchange rate of 0.64286 SDRs per 1 USD. Alternative exchange rates would provide different USD-denominated figures.
[13] These figures reflect balances as of May 31, 2009.
[14] Medani Mohmed Ahmed (2010), "External Debts, Growth and Peace in the Sudan: Some Serious Challenges Facing the Country in the Post-Conflict Era," in *Social Science Research Network - Working Paper Series*, page 8.

interest arrears caused debt stocks to compound rapidly. As debt servicing became more costly, Sudan's terms of trade declined and left the country with even greater external financing needs.

Domestic Causes of Debt Accumulation: Poor exchange rate policies in the 1970s and 1980s fed directly into the debt problems; policies that incentivized import-reliance instead of export-driven growth. High inflation rates contributed to economic instability and low economic growth, while foreign direct investment remained scarce in the volatile economic environment. Meanwhile, the second civil war in Southern Sudan (1983 to 2005) absorbed precious financial resources. Also during this time, numerous droughts hurt the economy's relatively large agricultural sector.

External Causes of Debt Accumulation: Two oil price shocks occurred in the late 1970s and early 1980s, causing a buildup of 'petro-dollars' in oil-producing nations – money which eventually flowed into many low-income countries. Global anti-inflation efforts in creditor countries resulted in higher interest rates and faster-accruing interest levels for indebted countries. Additionally, the drying up of concessional credits in the 1980s (following the debt crises in many Latin American countries) forced Sudan to resort to 'harder' lending terms (shorter term maturities and higher interest rates).[15]

Figure 3 – Net External Debt Flows and Loan Arrears, 1970-2008 *(Current USD Millions)*[16]



Source: World Bank, Global Development Finance database

IV. CURRENT DEBT DYNAMICS

General Overview: According to the IMF and World Bank, Sudan currently is in "debt distress". As of end-2009, Sudan's public and publicly guaranteed (PPG) external debt stood at roughly

[15] *Ibid*.
[16] Net debt flows are calculated as loan disbursements minus principal repayments. Loan arrears are the sum of principal and interest arrears (presented in cumulative terms). These figures do not capture the totality of Sudanese loan obligations and arrears accumulation. However, they illustrate the general timing trends behind the accumulation of Sudan's unsustainable debt burden.

$34.7 billion in net present value (NPV) terms – up from approximately $15 billion in 2000.[17] The majority of the recent increase was due to the further accumulation of arrears to Paris Club and non-Paris Club creditors as well as sizable new loans from Arab creditors, China, and India.

Figure 3 – External Debt by Creditor Classification, end-2009 *(USD Millions)*

Creditors	External Debt (Nominal)	External Debt (NPV)	In Arrears
Multilateral Creditors	**5.3**	**4.6**	**2.9**
World Bank	*1.5*	*1.2*	*0.6*
International Monetary Fund	*1.6*	*1.6*	*1.6*
African Development Bank	*0.5*	*0.4*	*0.3*
European Investment Bank	*0.1*	*0.1*	*0.1*
International Fund for Agricultural Development	*0.1*	*0.1*	*0.0*
Other Multilateral	*1.5*	*1.2*	*0.3*
Paris Club Creditors	**11.2**	**11.2**	**11.0**
Pre-Cutoff	*9.3*	*9.4*	*9.4*
Post-Cutoff	*1.9*	*1.9*	*1.7*
Non-Paris Club Bilateral Creditors	**13.3**	**13.0**	**10.5**
Pre-Cutoff	*9.2*	*9.2*	*9.2*
Post-Cutoff	*4.1*	*3.8*	*1.3*
Commercial Banks	**4.5**	**4.5**	**4.5**
Suppliers	**1.4**	**1.4**	**1.4**
TOTAL	**35.7**	**34.7**	**30.3**

Source: Bank of Sudan

In relative terms, Sudan's external debt is approximately: (i) 64 percent of the country's gross domestic product; (ii) 426 percent of annual export receipts; and (iii) 423 percent of government revenues.[18] Sudan's external debt ratios exceed those deemed sustainable for "poor performing" countries under the World Bank/IMF Debt Sustainability Framework (DSF) as well as the Enhanced HIPC Initiative threshold (see figure 4 below).[19] The respective DSF thresholds are utilized to gauge the probability that a respective country will experience debt distress over time. In contrast, the HIPC Initiative threshold largely is used to determine the extent of debt relief required (i.e., not necessarily determine sustainability). In 2009, Sudan's new debt service totaled only 9 percent of exports. However, this only reflects what Sudan paid to creditors – not the total amount actually due.[20] In contrast, Sudan has failed to fully repay the majority of its

[17] IMF and World Bank (2010), *Sudan: Article IV Consultation - Staff Report; Debt Sustainability Analysis; Staff Statement; Public Information Notice on the Executive Board Discussion; Statement by the Executive Director*.
[18] *Ibid*. All ratios are based on 2009 figures. According to the most recent IMF and World Bank debt sustainability analysis, the IMF projects a 39.9 percent increase in Sudan's exports in 2010. As a result, Sudan's external debt-to-exports ratio is projected to decline to approximately 323 percent (from 426 percent).
[19] The World Bank/IMF Debt Sustainability Framework determines "sustainable" debt levels based upon the performance level of recipient governments. The underlying premise is that poorly governed countries are more likely to become debt-distressed at lower external indebtedness levels. Performance levels are based upon the World Bank's and African Development Bank's Country Policy and Institutional Assessments (CPIA), which evaluate countries according to 16 policy categories. A "poor performing" country is defined as having a CPIA score of less than 3.25 (out of 6). In operational terms, IDA and AfDF compare these debt distress thresholds against current and projected debt ratios to determine risk classifications. In turn, these classifications determine whether a country should receive grants, loans, or a combination of the two. As of 2009, Sudan has a CPIA score of 2.5 – which classifies it as a "poor performing" country.
[20] IMF and World Bank (2010), *Sudan: Article IV Consultation - Staff Report; Debt Sustainability Analysis; Staff Statement; Public Information Notice on the Executive Board Discussion; Statement by the Executive Director*.

debt obligations. Instead, the Sudanese government has mobilized scarce public resources to repay new obligations falling due for selected creditors – largely those that have continued to provide new loan financing.

Figure 4 – External Debt Ratios versus Respective World Bank/IMF Debt Sustainability Framework Thresholds for "Poor Performing" Countries

	Debt-to-GDP	Debt-to-Exports	Debt Service-to-Exports
Sudan	**64%**	**426%**	**9%**
DSF Thresholds	30%	100%	15%
HIPC Threshold	-	150%	-
DSF Differential	*34%*	*326%*	*-6%*
HIPC Differential	-	*276%*	-

Source: IMF and World Bank

Paris Club: According to the Bank of Sudan, Paris Club creditors held roughly $11.2 billion in outstanding claims on Sudan – of which, $11 billion were in arrears. Of this, $862 million was for development assistance loans and the remainder for non-concessional loans.[21] Pre-cutoff debt obligations to the Paris Club totaled $9.3 billion, or one-quarter of Sudan's external debt. To date, Paris Club (and other) creditors have not completed debt reconciliation exercises in cooperation with the respective Sudanese authorities. As a result, the final outstanding claim figures may change based upon the outcome of these data validation processes.

Non-Traditional Creditors: Given the cessation of traditional donor funding, such as the IFIs and Paris Club member countries, non-traditional creditors have played an increasingly important role over the last two decades. According to the Bank of Sudan, the government has contracted over $2 billion in new lending from non-traditional creditors since 2004 (see figure 5 below).[22] Of these creditors, the Arab Fund for Social and Economic Development (i.e., Arab Fund) provided roughly $530 million. China and India were the second and third largest creditors – providing nearly $380 million and $320 million, respectively. However, these Bank of Sudan figures are significantly lower than aggregate borrowing figures reported by the IMF and World Bank. For example, the recent IMF Article IV report noted that Sudanese borrowing totaled $906 million in 2008 from non-traditional creditors. In contrast, the Bank of Sudan quarterly review documents reported only $426 million in new borrowing. As such, the non-traditional creditor figures above should be viewed solely as illustrative. In this context, they are helpful for identifying the most important non-traditional creditors.

[21] Paris Club (2010), *Amounts Due to Paris Club Creditor Countries by Foreign Sovereign and Other Public Debtors as of 31 December 2009.*
[22] Bank of Sudan quarterly *Economic and Financial Statistical Review* reports between 2005 and 2010.

Figure 5 – New Borrowing, Non-Traditional Creditors *(USD Millions)*

Creditor	2005	2006	2007	2008	2009	2005-2009
Multilateral Agencies	**130.8**	**154.3**	**178.7**	**183.3**	**137.2**	**784.4**
Arab Monetary Fund	15.7	-	-	-	-	15.7
Arab Fund for Economic and Social Development	81.1	116.7	134.1	128.0	72.8	532.6
Islamic Development Bank	25.6	27.6	31.1	43.1	49.2	176.7
OPEC	1.5	4.1	2.3	1.3	5.0	14.3
Arab Countries	**84.9**	**93.6**	**169.1**	**123.5**	**70.1**	**541.3**
Abu Dhabi Fund	21.7	37.3	51.9	15.7	16.4	143.0
Kuwaiti Fund	15.3	22.3	37.6	78.9	30.3	184.4
Oman	23.1	0.6	-	-	-	23.7
Saudi Fund	24.8	33.4	79.6	29.0	23.4	190.2
Other Bilateral Creditors	**6.7**	**28.7**	**244.5**	**130.0**	**298.5**	708.4
China	2.4	18.0	132.8	22.2	202.2	377.7
India	4.3	6.7	102.5	107.8	95.5	316.8
Turkey	-	4.0	9.2	-	0.8	13.9
TOTAL	**215.5**	**270.8**	**581.2**	**425.9**	**495.6**	**1,989.0**

Source: Bank of Sudan

Commercial Debt Exposure: As of end-2009, Sudan had nearly $6 billion in exposure to commercial creditors. Of this, $4.5 billion was owed to commercial banks and $1.4 billion was related to supplier credits. To date, four commercial creditors have pursued legal judgments against Sudan totaling $133 million in claims.[23] Of these, two court judgments have been awarded in favor of the creditors – totaling approximately $102 million. Commercial creditor litigation has been a serious problem in several other HIPCs as well - such as Liberia, Democratic Republic of Congo, and Republic of Congo (see appendix III for additional details).

Potential Impact of Traditional Debt Relief and IFI Arrears Clearance: Absent debt relief, Sudan's external debt burden will remain unsustainable over the medium- to long-term. However, the application of a traditional Paris Club treatment (i.e., Naples terms) would greatly reduce Sudan's external debt ratios.[24] Assuming that all bilateral and private creditors participate in a 67 percent NPV reduction of eligible pre-cutoff debt[25], Sudan's outstanding external debt obligations would decline from $34.7 billion to approximately $19.3 billion in NPV terms.[26] In relative terms, this would equal roughly 188 percent of annual exports.[27] If Sudan qualifies for IFI arrears clearance support, its external debt ratios would decline further. Assuming the

[23] The commercial creditors include: (1) Pomgrad Split (*domiciled in Serbia*); (2) Habib Bank Limited (*domiciled in Pakistan*); (3) Namco Anstalt (*domiciled in Switzerland*); and (4) Africa Alfa Fund (*domiciled in Dubai*).
[24] See appendix IV for additional details on Naples terms treatments.
[25] This analysis assumes that the cut-off date would coincide with the Enhanced HIPC Initiative cutoff date of end-2004. However, the current Paris Club cut-off date for Sudan is January 1, 1984. Respective creditors could decide to utilize a different cut-off date for debt obligations, which would impact the size of traditional debt relief.
[26] In practice, it is unclear whether non-traditional creditors that have continued to provide new loans – such as China and India – would agree to a Naples terms treatment. Moreover, this assumes that Paris Club creditors are willing to apply the NPV reduction to loan arrears.
[27] Consistent with HIPC Initiative methodology, this figure is based upon a three-year moving average of national exports.

clearance of $2.4 billion in World Bank, IMF, and African Development Bank arrears, then Sudan's NPV debt-to-exports ratio would fall to approximately 165 percent.

Figure 6 – Estimated Impact of Traditional Debt Relief and IFI Arrears Clearance
(USD Billions, NPV)

Creditors	Before Naples Treatment	After Naples Treatment	After IFI Arrears
Multilateral Creditors	**4.6**	**4.6**	**2.2**
World Bank	*1.2*	*1.2*	0.6
International Monetary Fund	*1.6*	*1.6*	0.1
African Development Bank	*0.4*	*0.4*	0.1
European Investment Bank	*0.1*	*0.1*	0.1
International Fund for Agricultural Development	*0.1*	*0.1*	0.1
Other Multilateral	*1.2*	*1.2*	1.2
Paris Club Creditors	**11.2**	**5.0**	**5.0**
Pre-Cutoff	*9.4*	3.1	3.1
Post-Cutoff	*1.9*	1.9	1.9
Non-Paris Club Bilateral Creditors	**13.0**	**6.8**	**6.8**
Pre-Cutoff	*9.2*	3.0	3.0
Post-Cutoff	*3.8*	3.8	3.8
Commercial Banks	**4.5**	**1.5**	**1.5**
Suppliers	**1.4**	**1.4**	**1.4**
TOTAL EXTERNAL DEBT *(NPV)*	**34.7**	**19.3**	**16.9**
Exports (3-yr avg)	10.3	10.3	10.3
Government Revenues	8.5	8.5	8.5
NPV Debt-to-Export Ratio	**338%**	**188%**	**165%**
NPV Debt-to-Revenue Ratio	**409%**	**228%**	**199%**

Source: Bank of Sudan, IMF, World Bank, and author calculations

V. DEBT DIVISION SCENARIOS

Assuming that Southern Sudan votes to secede during the 2011 referendum, the Governments of Sudan, Southern Sudan, and their creditors will need to determine how to divide existing external debt obligations.[28] There are a number of potential debt division approaches, such as: (1) final beneficiary principle; (2) population-weighted; and (3) GDP-weighted. Historically, creditors largely have utilized the final beneficiary principle in the event of a debt apportionment scenario. For unallocated debt obligations (i.e., budget support or IMF program assistance), governments and creditors typically use a hybrid approach. In this regard, the dissolution of the Socialist Federal Republic of Yugoslavia (SFRY) provides an illustrative case study.[29] The Bangladeshi secession from Pakistan in 1971 provides another potentially relevant historical example for broader debt division issues.

[28] Under customary international law, the successor nation remains liable for external debt obligations in the absence of an agreement with the newly independent nation to divide the respective obligations.

[29] In the event of a Southern Sudan secession, it is unclear whether international institutions will deem Sudan to be 'dissolved', as was the case of the SFRY. However, the SFRY debt-division example will remain useful even in the event that Khartoum retains the post-referendum status of 'continuing state'.

Yugoslavia Case Study: At the end of 1991, the medium- and long-term debt of the SFRY totaled nearly $16 billion (see figure 7 below). By 1992, the SFRY had dissolved into five independent successor states: Serbia and Montenegro (FRY), Slovenia, Bosnia and Herzegovina, Macedonia, and Croatia.[30] The majority of SFRY debt was already allocated to specific states prior to the dissolution (see appendix V for additional details). According to the agreement reached among the successor states, these pre-allocated debts were accepted by each republic according to the territory in which the final beneficiary was located.[31]

Figure 7 – Total SFRY Debt at End-1991[32]

Republic	World Bank	IMF	Bilateral	Commercial	Other Multilateral	Private	Total
Bosnia-Herzegovina	450	-	415	643	100	317	1,925
Serbia & Montenegro	1,212	-	1,509	1,142	272	1,366	5,501
Macedonia	157	-	210	195	78	210	850
Slovenia	147	-	358	466	378	408	1,757
Croatia	169	-	660	880	130	325	2,164
Allocated	2,135	-	3,152	3,326	958	2,626	12,197
Unallocated	-	683	1,000	1,000	-	1,100	3,783
Total	**2,135**	**683**	**4,152**	**4,326**	**958**	**3,726**	**15,980**

The remaining $3.78 billion of total SFRY debt was classified as unallocated (not traceable to any specific successor state). The World Bank and IMF were given the principal role in determining the distribution of unallocated assets and liabilities among the successor states. In December 1992, they devised a formula by which to divide the unallocated debts (see figure 8). This breakdown (known as the 'IMF Key') used a number of criteria, such as republics' contributions to the federal budget, export earnings, and percentage of total SFRY population and territory.

Figure 8 – Unallocated Debt Division Approach, SFRY

Republic	Share
Bosnia	13.20%
Croatia	28.49%
Macedonia	5.40%
Slovenia	16.39%
FRY	36.52%

Source: IMF

Bangladesh Case Study: In 1971, Bangladesh (formerly East Pakistan) declared independence from Pakistan. By August 1972, the newly independent state had been admitted as a member of

[30] By 1992, Slovenia and Croatia had declared independence and Bosnia Herzegovina and Macedonia had voted for independence. In 2003, the remaining Federal Republic of Yugoslavia became Serbia-Montenegro.
[31] Carsten Stahn, "The Agreement on Succession Issues of the Former Socialist Federal Republic of Yugoslavia," *The American Journal of International Law* 96, no. 2 (2002): page 392.
[32] Ana Stanic, "Financial Aspects of State Succession: The Case of Yugoslavia," *European Journal of International Law* 12, no. 4 (2001): page 758.

the IMF and World Bank. Pakistan was classified as the 'continuing state'; and therefore, retained its membership of both institutions. Also in 1972, Bangladesh began to negotiate its potential assumption of pre-liberation debt with the World Bank and other bilateral creditors. Initially, Bangladesh succeeded in reactivating funding for ongoing projects that were inherited from the Pakistan period. However, Bangladesh refused to assume debt obligations beyond those absolutely necessary to restart carefully-selected projects. Bangladesh also was unwilling to negotiate debt issues unless questions of asset division were addressed as well.

At the time, Bangladesh's aggressive negotiating stance likely was rooted in the lack of legal precedence on debt division matters. In a March 1973 World Bank office memo on East Pakistan (Bangladesh) debt, the Bank's general counsel claimed that, "the State that has lost even a substantial portion of its territory remains liable for all debt it had contracted prior to that loss."[33] Up until that point, no clear customary rule had emerged. As a result, Pakistan remained liable for debt obligations in the absence of an apportionment agreement with Bangladesh. Nonetheless, donor countries and creditors insisted that Bangladesh assume all debt that could be traced to projects within its borders. Meanwhile, Pakistan imposed a moratorium on debt service payments for outstanding external debt and subsequently had much of it rescheduled. However, Bangladesh retained its strong stance – in a March 1973 conference on reconstruction assistance, the country's officials outright refused any grants that were conditional upon their assumption of debt.

Despite the ongoing debt attribution disagreements, donors pledged unconditional aid to assist Bangladeshi reconstruction through June 1974. However, they made it clear that any assistance beyond this date would be contingent upon a satisfactory solution to the debt division issue. With Bangladesh in the middle of food and exchange rate crises in mid-1974, it had little choice but to accept the creditors' demands. Despite this, the terms were quite favorable for Bangladesh: the United Kingdom, West Germany, and the Netherlands converted their loans into grants, while the US, Japan and the World Bank renegotiated their loans on IDA terms. In the end, Bangladesh accepted roughly $350 million of liabilities – less than one-third of the original figure proposed by the World Bank.[34]

<u>Final Beneficiary Principle</u>: As noted above, creditors have largely accepted division of debt scenarios based upon the geographic region that benefited from the loan activity.[35] In the case of Sudan, this would require an exhaustive loan-by-loan analysis – including program expenditures by geographic region. Currently, detailed information is unavailable for nearly all creditors. However, the World Bank Group provides loan-specific documentation on its external website.[36] The breadth of documentation ranges from extremely detailed information for more recent

[33] Nurul Islam, *Making of a Nation: Bangladesh - an Economist's Tale* (Dhaka: The University Press, 2003).
[34] *Ibid*.
[35] The IMF is an exception to this loan beneficiary provision approach. IMF loans are provided to respective central banks and ostensibly, provide benefits to the entire country through increased international reserves and liquidity.
[36] See www.worldbank.org/sudan for project-specific details.

programs to short overview language (typically several paragraphs long) for older programs. Based upon available documentation, a rough loan-by-loan division could suggest the following: (1) Khartoum (66 percent); (2) Southern Sudan (2 percent); and (3) unallocated (32 percent). For the unallocated World Bank loans, publicly available information was inadequate to either identify the ultimate geographic beneficiary or the relative share of each. For indicative purposes, several rudimentary adjustment options are utilized to apportion these unallocated debt obligations – all unallocated obligations pass to Khartoum, unallocated obligations are divided based upon each region's share of the total population, or unallocated obligations are divided according to a simplified 'IMF Key' formula.[37] Based upon these approaches, the World Bank loans ultimately could be divided as follows:

Figure 9 – Final Beneficiary Estimates, World Bank-Based Scenario *(USD Millions)*

	Available Information		Khartoum Adjustment		Population-Based Adjustment		Weighted Adjustment	
Country Attribution	**Loan Allocation**	**% of Total**	**Loan Allocation**	**% of Total**	**Loan Allocation**	**% of Total**	**Loan Allocation**	**% of Total**
Khartoum	1,004	66%	1,483	98%	1,387	91%	1,309	86%
Southern Sudan	36	2%	36	2%	132	9%	210	14%
Unallocated	480	32%	0	0%	0	0%	0	0%
TOTAL	1,519	100%	1,519	100%	1,519	100%	1,519	100%

Source: World Bank Project Documents, Author's Judgment and Calculations

If these World Bank-based debt division estimates were applied to Sudan's *total* NPV external debt obligations, then Khartoum could assume between roughly $30 billion and $34 billion in post-secession obligations. For its part, Southern Sudan's external debt obligations could total between $0.7 billion and $4.7 billion.[38]

Population-Weighted Division: According to the most recent Southern Sudan Census, its population totaled nearly 8.3 million in 2008.[39] At the same time, Sudan's total population (including Southern Sudan) was 39.2 million.[40] Based upon these figures, Southern Sudan accounts for 21 percent of the nation's total population.[41] If these population-weighted debt division estimates were applied to Sudan's total external debt obligations, then Southern Sudan could assume roughly $7.3 billion in post-secession obligations. For its part, Khartoum's external debt obligations could total $27.4 billion in NPV terms.[42]

[37] This assumes that Khartoum accounts for 79 percent of Sudan's current population. The "weighted reallocation" approach utilizes the basic IMF Key approach. For this analysis, an un-weighted formula of population, exports, and geographic territory is deployed. Based on this approach, Khartoum would assume approximately 63.7 percent of unallocated debt obligations and Southern Sudan roughly 36.3 percent.
[38] Based upon end-2009 external debt obligation figures.
[39] Source: Southern Sudan Centre for Census, Statistics, and Evaluation (2009), *Statistical Yearbook for Southern Sudan 2009*, page 2.
[40] Sudan Central Bureau of Statistics (2009), *5th Sudan Population and Housing Census – 2008*.
[41] Both the Southern Sudan and national census results have been contested by the respective governments in Khartoum and Juba. While this analysis utilizes these results for calculation purposes, there may be further discussions about population statistics in the future.
[42] Based upon end-2009 external debt obligation figures.

GDP-Weighted Division: As of October 2010, there are no official sub-national GDP estimates for either Khartoum or Southern Sudan. In the absence of such authoritative figures, a number of data sources and a standard expenditure model (see appendix VIII for details) are utilized to calculate indicative estimates. Based upon these estimates, Khartoum's GDP share would range between 79 percent and 80 percent depending on whether Abyei ultimately maintained its union with Khartoum or seceded along with Southern Sudan. As a result, Khartoum's estimated external debt obligations could total between \$27.6 billion and \$27.7 billion. For its part, Southern Sudan's external debt obligations could range between \$7.0 billion and \$7.1 billion.

Summary: Based upon the aforementioned debt division approaches, Khartoum's estimated external debt obligations could range between \$27.4 billion (population-weighted) and \$34 billion (final beneficiary approach). Southern Sudan's debt obligations could range from \$0.7 billion (final beneficiary approach) to \$7.3 billion (population-weighted). These figures assume a uniform distribution share across different creditor classifications.

Estimated External Indebtedness Ratios: The methodology for dividing exports and government revenues between Khartoum and Southern Sudan has an important impact on external indebtedness ratios, such as NPV debt-to-exports and NPV debt-to-revenues. Similar to regional GDP estimates, there are no publicly available official sub-national figures for exports. Given this, we have estimated regional export figures for Khartoum and Southern Sudan (see appendices VII and VIII for methodological details). For this exercise, sub-national exports and government revenues are estimated *as if Khartoum and Southern Sudan already were two separate entities.* For instance, the analysis assumes that all oil pumped from wells in Southern Sudanese territory should be attributed to Southern Sudan's exports. Conversely, revenues are calculated on the basis that government oil proceeds would have gone to the government of the region in which they are located. The methodology largely focuses on estimating exports and government revenues derived from production in oil blocks located in Southern Sudan and Abyei County (along with its surrounding areas).[43] Then, those estimates are simply subtracted from total annual national figures to derive an estimate for Khartoum – including scenarios whereby Abyei remains unified with Khartoum or secedes with Southern Sudan.

Box 1: Abyei County – Background Information and Relevance for Debt Issues

As set forth in the Comprehensive Peace Agreement (CPA), Abyei County is slated to hold its own plebiscite in January 2011. In the vote, residents will determine whether Abyei remains unified with Khartoum or joins a (potentially) newly independent Southern Sudan. The highly contentious region is located at the borders of Southern Kordofan (Northern state) and Northern Bahar El Ghazal (Southern state). Oil concession areas (blocks) 1, 2, and 4 are located in and around Abyei County's borders.

[43] This methodology assumes that oil accounts for roughly 99 percent of Southern Sudanese exports.

In 2008, after continued disagreement over the region's fate, Khartoum and Southern Sudan agreed to submit the Abyei partition issue to the Permanent Court of Arbitration (PCA). In July 2009, the PCA reduced the size of Abyei's territory. The tribunal determined the major oil fields of Unity (in block 1)[44] and Heglig (block 2) to be *outside Abyei's boundaries* and instead located in Unity state (Southern Sudan) and Southern Kordofan (Khartoum), respectively.[45] A large portion of block 4 and its only major oilfield (Diffra) remain inside the redefined Abyei County borders. However, production from Diffra has been steadily declining and now only accounts for roughly 3 percent of production in the consortium of blocks 1, 2, and 4.[46] A map of Abyei's current official borders and the major oilfields is shown in appendix XIII.

While the PCA placed these major oilfields outside of Abyei County's jurisdiction, its fate is still significant for Khartoum and Southern Sudan. Even under the new borders, Abyei is still located in Sudan's most productive oil region. Therefore, prospects for further discovery potentially remain high.[47]

Based upon the aforementioned sub-national export estimates, Khartoum's external debt ratios would remain unsustainable under all of these debt attribution options. By contrast, Southern Sudan would remain below the HIPC NPV debt-to-exports and NPV debt-to-revenues thresholds under all debt apportionment options. However, its NPV debt-to-GDP ratio would exceed the DSF threshold of 30 percent under the population- and GDP-weighted options.[48]

[44] Historically, block 1 has accounted for 60 percent to 70 percent of production among the three blocks (1, 2, and 4). Source: World Bank (2009), "Sudan: The Road toward Sustainable and Broad-Based Growth," (Washington: Poverty Reduction and Economic Management Unit, Africa Region, The World Bank, 2009), page 64.

[45] For more details, see the Abyei case on the PCA's website: http://www.pca-cpa.org/showpage.asp?pag_id=1306. Although the new locations of the fields remained outside of the tribunal's jurisdiction, it's retraction of Abyei's borders returned the unallocated territory to the Northern and Southern states.

[46] Sudan Ministry of Finance, "Government of Southern Sudan Oil Revenue Share" reports, 2007-2008. Available online at: http://www.mof.gov.sd/topics_show_E.php?topic_id=1.

[47] Comprehensive seismic data for Abyei County is not yet available and concrete estimates are not readily available on a field-by-field basis.

[48] This assumes that Southern Sudan would be classified as a "poor performing" country. However, the World Bank has not prepared a CPIA score – which would determine this classification.

Figure 10 – Estimated External Debt Ratios, by Division Scenario *(USD Billions, NPV)*

	(1)			(2)	(3)	
	Final Beneficiary				GDP-Weighted	
Region	**Khartoum Adjustment**	**Population Adjustment**	**Weighted Adjustment**	**Population-Weighted**	**Abyei → Khartoum**	**Abyei → South**
Khartoum	**34.0**	**31.7**	**30.0**	**27.4**	**27.7**	**27.6**
Multilateral Creditors	*4.5*	*4.2*	*4.0*	*3.6*	*3.7*	*3.7*
Paris Club Creditors	*11.0*	*10.2*	*9.7*	*8.8*	*8.9*	*8.9*
Non-Paris Club Bilateral	*12.7*	*11.9*	*11.2*	*10.3*	*10.4*	*10.4*
Commercial Banks	*4.4*	*4.1*	*3.9*	*3.6*	*3.6*	*3.6*
Suppliers	*1.4*	*1.3*	*1.2*	*1.1*	*1.1*	*1.1*
Exports *(Abyei → Khartoum)*	4.1	4.1	4.1	4.1	4.1	-
NPV Debt-to-Exports	**821%**	**765%**	**724%**	**661%**	**668%**	-
Exports *(Abyei → South)*	4.0	4.0	4.0	4.0	-	4.0
NPV Debt-to-Exports	**848%**	**790%**	**747%**	**683%**	-	**689%**
Revenues *(Abyei → Khartoum)*	6.5	6.5	6.5	6.5	6.5	-
NPV Debt-to-Revenues	**525%**	**489%**	**463%**	**423%**	**428%**	-
Revenues *(Abyei → South)*	6.4	6.4	6.4	6.4	-	6.4
NPV Debt-to-Revenues	**532%**	**496%**	**469%**	**428%**	-	**432%**
GDP *(Abyei → Khartoum)*	43.2	43.2	43.2	43.2	43.2	-
NPV Debt-to-GDP	**79%**	**73%**	**69%**	**63%**	**64%**	-
GDP *(Abyei → South)*	43.1	43.1	43.1	43.1	-	43.1
NPV Debt-to-GDP	**79%**	**73%**	**69%**	**63%**	-	**64%**
Southern Sudan	**0.7**	**3.0**	**4.7**	**7.3**	**7.0**	**7.1**
Multilateral Creditors	*0.1*	*0.4*	*0.6*	*1.0*	*0.9*	*0.9*
Paris Club Creditors	*0.2*	*1.0*	*1.5*	*2.4*	*2.3*	*2.3*
Non-Paris Club Bilateral	*0.3*	*1.1*	*1.8*	*2.7*	*2.6*	*2.6*
Commercial Banks	*0.1*	*0.4*	*0.6*	*0.9*	*0.9*	*0.9*
Suppliers	*0.0*	*0.1*	*0.2*	*0.3*	*0.3*	*0.3*
Exports *(Abyei → South)*	6.3	6.3	6.3	6.3	-	6.3
NPV Debt-to-Exports	**11%**	**48%**	**76%**	**117%**	-	**113%**
Exports *(Abyei → Khartoum)*	6.1	6.1	6.1	6.1	6.1	-
NPV Debt-to-Exports	**11%**	**49%**	**77%**	**119%**	**114%**	-
Revenues *(Abyei → South)*	3.9	3.9	3.9	3.9	-	3.9
NPV Debt-to-Revenues	**18%**	**78%**	**122%**	**189%**	-	**183%**
Revenues *(Abyei → Khartoum)*	3.8	3.8	3.8	3.8	3.8	-
NPV Debt-to-Revenues	**18%**	**79%**	**125%**	**193%**	**185%**	-
GDP *(Abyei → South)*	11.0	11.0	11.0	11.0	-	11.0
NPV Debt-to-GDP	**6%**	**27%**	**43%**	**66%**	-	**64%**
GDP *(Abyei → Khartoum)*	11.0	11.0	11.0	11.0	11.0	-
NPV Debt-to-GDP	**6%**	**27%**	**43%**	**67%**	**64%**	-

Source: Bank of Sudan, IMF, World Bank, author estimates and calculations

VI. IMPACT OF TRADITIONAL DEBT RELIEF – POST SECESSION SCENARIO

Prior to possible consideration of Enhanced HIPC Initiative assistance, bilateral and commercial creditors first would be expected to provide traditional debt relief. This entails a Paris Club debt rescheduling on Naples terms, which equals a 67 percent NPV reduction for eligible pre-cutoff debt claims.[49] Other bilateral and commercial creditors would be expected to provide comparable treatment for their pre-cutoff claims.

The data used in the following debt analysis is current as of end-2009. At the time of publication, end-2010 data from the World Bank, IMF, and the Sudanese authorities was not yet available. In addition, this analysis focuses principally on debt-to-export ratios. For Sudan, these ratios largely act as the binding constraint for debt relief eligibility. However, revenue- and GDP-based ratios also are included in data tables for reference purposes. Importantly,

[49] As noted previously, this analysis assumes that the cut-off date would coincide with the Enhanced HIPC Initiative cutoff date of end-2004. In practice, Paris Club creditors would either utilize the existing 1984 cut-off date or determine a different cut-off date to achieve a target NPV debt reduction for Sudanese debt obligations.

traditional debt relief will be closely linked with the clearance of IFI loan arrears. Additional details on arrears clearance and debt relief processes are contained in sections VIII and IX.

Following a Naples term debt treatment, Khartoum's external debt-to-exports ratio would remain highly unsustainable under all of the debt division and Abyei scenarios – both in terms of HIPC Initiative and World Bank/IMF Debt Sustainability Framework thresholds. If Abyei secedes along with Southern Sudan, then Khartoum's ratios could range between roughly 380 percent and 470 percent depending on the debt division scenario. They would be modestly lower and still unsustainable, if Abyei decides to remain unified with Khartoum. This largely is due to two factors: (1) Khartoum would assume the majority of external debt obligations; and (2) Khartoum would lose a significant percentage of its export base to Southern Sudan.

As noted above, Southern Sudan would have a sustainable external debt load under every debt division scenario. As such, the Paris Club may decide upfront that Southern Sudan's debt is sustainable and does not require a debt treatment. In other words, a traditional debt relief treatment for the South is not a foregone conclusion despite the broader international political environment. Putting this aside momentarily, Southern Sudan would have sustainable external debt ratios under every debt division option following a traditional Naples term debt treatment. Its NPV debt-to-exports ratio could range anywhere from 5 percent to roughly 70 percent, respectively, after traditional debt relief. However, its NPV debt-to-GDP ratio could remain above the DSF threshold of 30 percent under some debt division options.

Figure 11 – Estimated Impact of Traditional Debt Relief *(USD Billions, NPV)*

	Final Beneficiary			(2)	GDP-Weighted	
Region	**Khartoum Adjustment**	**Population Adjustment**	**Weighted Adjustment**	**Population-Weighted**	**Abyei → Khartoum**	**Abyei → South**
Khartoum	**18.9**	**17.6**	**16.7**	**15.2**	**15.4**	**15.4**
Multilateral Creditors	*4.5*	*4.2*	*4.0*	*3.6*	*3.7*	*3.7*
Paris Club Creditors	*4.9*	*4.6*	*4.3*	*3.9*	*4.0*	*4.0*
Non-Paris Club Bilateral	*6.7*	*6.2*	*5.9*	*5.4*	*5.5*	*5.4*
Commercial Banks	*1.5*	*1.4*	*1.3*	*1.2*	*1.2*	*1.2*
Suppliers	*1.4*	*1.3*	*1.2*	*1.1*	*1.1*	*1.1*
Exports *(Abyei → Khartoum)*	4.1	4.1	4.1	4.1	4.1	-
NPV Debt-to-Exports	**457%**	**426%**	**403%**	**368%**	**372%**	-
Exports *(Abyei → South)*	4.0	4.0	4.0	4.0	-	4.0
NPV Debt-to-Exports	**472%**	**440%**	**416%**	**380%**	-	**384%**
Revenues *(Abyei → Khartoum)*	6.5	6.5	6.5	6.5	6.5	-
NPV Debt-to-Revenues	**292%**	**273%**	**258%**	**235%**	**238%**	-
Revenues *(Abyei → South)*	6.4	6.4	6.4	6.4	-	6.4
NPV Debt-to-Revenues	**296%**	**276%**	**261%**	**239%**	-	**241%**
GDP *(Abyei → Khartoum)*	43.2	43.2	43.2	43.2	43.2	-
NPV Debt-to-GDP	**44%**	**41%**	**39%**	**35%**	**36%**	-
GDP *(Abyei → South)*	43.1	43.1	43.1	43.1	-	43.1
NPV Debt-to-GDP	**44%**	**41%**	**39%**	**35%**	-	**36%**
Southern Sudan	**0.4**	**1.7**	**2.6**	**4.5**	**3.9**	**3.9**
Multilateral Creditors	*0.1*	*0.4*	*0.6*	*1.0*	*0.9*	*0.9*
Paris Club Creditors	*0.1*	*0.4*	*0.7*	*1.5*	*1.0*	*1.0*
Non-Paris Club Bilateral	*0.1*	*0.6*	*0.9*	*1.4*	*1.4*	*1.4*
Commercial Banks	*0.0*	*0.1*	*0.2*	*0.3*	*0.3*	*0.3*
Suppliers	*0.0*	*0.1*	*0.2*	*0.3*	*0.3*	*0.3*
Exports *(Abyei → South)*	6.3	6.3	6.3	6.3	-	6.3
NPV Debt-to-Exports	**7%**	**27%**	**42%**	**72%**	-	**63%**
Exports *(Abyei → Khartoum)*	6.1	6.1	6.1	6.1	6.1	-
NPV Debt-to-Exports	**7%**	**27%**	**43%**	**73%**	**64%**	-
Revenues *(Abyei → South)*	3.9	3.9	3.9	3.9	-	3.9
NPV Debt-to-Revenues	**11%**	**43%**	**68%**	**116%**	-	**102%**
Revenues *(Abyei → Khartoum)*	3.8	3.8	3.8	3.8	3.8	-
NPV Debt-to-Revenues	**11%**	**44%**	**69%**	**118%**	**103%**	-
GDP *(Abyei → South)*	11.0	11.0	11.0	11.0	-	11.0
NPV Debt-to-GDP	**4%**	**15%**	**24%**	**41%**	-	**36%**
GDP *(Abyei → Khartoum)*	11.0	11.0	11.0	11.0	11.0	-
NPV Debt-to-GDP	**4%**	**15%**	**24%**	**41%**	**36%**	-

Source: Bank of Sudan, IMF, World Bank, author estimates and calculations

VII. Alternative Outcomes – Debt Division and Relief

While many historical debt division cases have employed a final beneficiary principle, the respective stakeholders (Khartoum, Southern Sudan, and creditors) could decide to pursue alternative debt apportionment approaches for political and security reasons. These approaches could take a number of different forms. This paper lays out a few potential options whereby Southern Sudan could decide to assume increasing amounts of external debt obligations. This is predicated upon existing relationships with different creditor groups and the assumption that Southern Sudan may be able to secure debt relief more readily than Khartoum. Southern Sudan would need to consult extensively with the respective creditors to gauge their intentions and willingness to provide future debt relief. In this context, Southern Sudan – as well as Khartoum – likely will request assurances that creditors would provide traditional debt relief or HIPC Initiative assistance (as appropriate under each option). While this is a rational tactic given the significant risks entailed, creditors may be unwilling or unable to provide concrete commitments upfront.

<u>Alternative Option #1 – Paris Club</u>: In the first option, Southern Sudan could decide to assume all existing Paris Club obligations. Based on end-2009 figures, this would entail approximately $11.2 billion in NPV terms – or roughly one-third of Sudan's total existing external debt obligations. For Khartoum, this option would equal roughly 60 percent of potential traditional debt relief and Enhanced HIPC Initiative assistance for a unified Sudan.[50]

As noted previously, pre-cutoff Paris Club claims total nearly $9.4 billion. The remainder of nearly $1.9 billion relates to post-cutoff date claims, which would be ineligible for a traditional Naples term treatment.[51] Prior to a traditional debt treatment, Southern Sudan potentially could have an unsustainable debt burden (roughly 180 percent of exports). Following a Naples term treatment, Southern Sudan's NPV debt-to-exports ratio (approximately 80 percent) would fall below the Enhanced HIPC Initiative threshold of 150 percent. Under this option, Khartoum's NPV debt-to-exports ratio would be classified as unsustainable – with or without Abyei. Moreover, its ratio would remain above the Enhanced HIPC Initiative threshold even after a traditional Naples term treatment (roughly 290 percent).

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[50] Assuming that Sudan remained unified and qualified for debt relief assistance under the Enhanced HIPC Initiative, it could receive up to $19.3 billion in debt cancellation according to author calculations. This includes debt relief provided both through traditional debt treatments and the HIPC Initiative. Therefore, the 60 percent figure is calculated simply as $11.2 billion divided by the $19.3 billion in potential HIPC process relief.

[51] Paris Club creditors could forgive post-cutoff debt obligations on a case-by-case basis. However, this analysis assumes that Paris Club creditors simply would apply a NPV reduction of 67 percent for all pre-cutoff claims.

Figure 12 – Debt Division, Ratios, and Traditional Debt Relief *(USD Billions, NPV)*

	Paris Club → Southern Sudan		
Region	*Pre-Naples Treatment*	*Post-Naples Treatment*	*Post-IFI Arrears*
Khartoum	**23.5**	**14.3**	**11.9**
Multilateral Creditors	*4.6*	*4.6*	*2.2*
Paris Club Creditors	*0.0*	*0.0*	*0.0*
Non-Paris Club Bilateral	*13.0*	*6.8*	*6.8*
Commercial Banks	*4.5*	*1.5*	*1.5*
Suppliers	*1.4*	*1.4*	*1.4*
Exports *(Abyei → Khartoum)*	4.1	4.1	4.1
NPV Debt-to-Exports	**566%**	**345%**	**287%**
Exports *(Abyei → South)*	4.0	4.0	4.0
NPV Debt-to-Exports	**585%**	**356%**	**296%**
Southern Sudan	**11.2**	**5.0**	**5.0**
Multilateral Creditors	*0.0*	*0.0*	*0.0*
Paris Club Creditors	*11.2*	*5.0*	*5.0*
Non-Paris Club Bilateral	*0.0*	*0.0*	*0.0*
Commercial Banks	*0.0*	*0.0*	*0.0*
Suppliers	*0.0*	*0.0*	*0.0*
Exports *(Abyei → South)*	6.3	6.3	6.3
NPV Debt-to-Exports	**179%**	**80%**	**80%**
Exports *(Abyei → Khartoum)*	6.1	6.1	6.1
NPV Debt-to-Exports	**183%**	**82%**	**82%**

Source: Bank of Sudan, IMF, World Bank, author estimates and calculations

Alternative Option #2 – Paris Club plus Multilateral: Under this approach, Southern Sudan could decide to assume all existing Paris Club and most multilateral obligations (e.g., international financial institutions plus European Investment Bank). Khartoum would assume the remaining multilateral obligations (namely, Arab institutions) along with non-Paris Club bilateral and commercial claims. For Southern Sudan, this would entail the assumption of roughly $14.6 billion in external debt obligations – or approximately 40 percent of Sudan's total existing obligations. This option would equal roughly 75 percent of potential traditional debt relief and Enhanced HIPC Initiative assistance for a unified Sudan.

Prior to a traditional debt treatment, Southern Sudan could have an unsustainable debt burden – with or without Abyei (see figure 13 below). Following a Naples term treatment, its NPV debt-to-exports ratio likely would fall below the Enhanced HIPC Initiative threshold (roughly 135 percent). As with alternative option #1, Khartoum's NPV debt-to-exports ratio would be classified as unsustainable – with or without Abyei. Following a traditional Naples term treatment, Khartoum's ratio would remain well above the Enhanced HIPC Initiative threshold (roughly 270 percent). Under this approach, Khartoum would require additional debt relief through the HIPC Initiative or ad hoc agreements.

Figure 13 – Debt Division, Ratios, and Traditional Debt Relief *(USD Billions, NPV)*[52]

Region	Paris Club + Multilateral Creditors → Southern Sudan *Pre-Naples Treatment*	*Post-Naples Treatment*	*Post-IFI Arrears*
Khartoum	**20.1**	**10.9**	**10.9**
Multilateral Creditors	*1.2*	*1.2*	*1.2*
Paris Club Creditors	*0.0*	*0.0*	*0.0*
Non-Paris Club Bilateral	*13.0*	*6.8*	*6.8*
Commercial Banks	*4.5*	*1.5*	*1.5*
Suppliers	*1.4*	*1.4*	*1.4*
Exports *(Abyei → Khartoum)*	4.1	4.1	4.1
NPV Debt-to-Exports	**484%**	**263%**	**263%**
Exports *(Abyei → South)*	4.0	4.0	4.0
NPV Debt-to-Exports	**500%**	**271%**	**271%**
Southern Sudan	**14.6**	**8.4**	**6.0**
Multilateral Creditors	*3.4*	*3.4*	*1.0*
Paris Club Creditors	*11.2*	*5.0*	*5.0*
Non-Paris Club Bilateral	*0.0*	*0.0*	*0.0*
Commercial Banks	*0.0*	*0.0*	*0.0*
Suppliers	*0.0*	*0.0*	*0.0*
Exports *(Abyei → South)*	6.3	6.3	6.3
NPV Debt-to-Exports	**234%**	**134%**	**96%**
Exports *(Abyei → Khartoum)*	6.1	6.1	6.1
NPV Debt-to-Exports	**239%**	**137%**	**98%**

Source: Bank of Sudan, IMF, World Bank, author estimates and calculations

Alternative Option #3 – Paris Club, Multilateral, and Commercial: Third, Southern Sudan could decide to assume all existing Paris Club claims, most multilateral obligations, as well as commercial bank claims. Khartoum would assume the remaining multilateral obligations along with non-Paris Club bilateral and supplier credit claims. For Southern Sudan, this would entail the assumption of roughly $19.1 billion in external debt obligations – or approximately 55 percent of Sudan's total existing obligations. Importantly, this option would nearly equal potential traditional debt relief and Enhanced HIPC Initiative assistance for a unified Sudan.

As with option 2, Southern Sudan's NPV debt-to-exports ratio would exceed the Enhanced HIPC Initiative threshold (see figure 14 below). Following a Naples term treatment, its ratio could still remain slightly above this threshold (roughly 160 percent). Clearing IFI arrears would reduce Southern Sudan's debt ratios further. However, this step likely would be predicated upon Southern Sudan securing HIPC-eligible status – which would allow access to special arrears clearance financing mechanisms. Given the proximity of Southern Sudan's debt ratios to the HIPC threshold, then additional scrutiny should be given to the underlying debt obligation figures and ratios if the relevant stakeholders decide to explore this option. Khartoum's NPV debt-to-exports ratio would remain well above the HIPC threshold of 150 percent after a Naples term treatment by its respective creditors (approximately 230 percent).

[52] Assumes that IFI arrears clearance for Southern Sudan would total $2.4 billion.

Figure 14 – Debt Division, Ratios, and Traditional Debt Relief *(USD Billions, NPV)*

Region	Paris Club + Multilateral + Commercial → Southern Sudan		
	Pre-Naples Treatment	*Post-Naples Treatment*	*Post-IFI Arrears*
Khartoum	**15.6**	**9.4**	**9.4**
Multilateral Creditors	*1.2*	*1.2*	*1.2*
Paris Club Creditors	*0.0*	*0.0*	*0.0*
Non-Paris Club Bilateral	*13.0*	*6.8*	*6.8*
Commercial Banks	*0.0*	*0.0*	*0.0*
Suppliers	*1.4*	*1.4*	*1.4*
Exports *(Abyei → Khartoum)*	4.1	4.1	4.1
NPV Debt-to-Exports	**376%**	**227%**	**227%**
Exports *(Abyei → South)*	4.0	4.0	4.0
NPV Debt-to-Exports	**388%**	**234%**	**234%**
Southern Sudan	**19.1**	**9.9**	**7.5**
Multilateral Creditors	*3.4*	*3.4*	*1.0*
Paris Club Creditors	*11.2*	*5.0*	*5.0*
Non-Paris Club Bilateral	*0.0*	*0.0*	*0.0*
Commercial Banks	*4.5*	*1.5*	*1.5*
Suppliers	*0.0*	*0.0*	*0.0*
Exports *(Abyei → South)*	6.3	6.3	6.3
NPV Debt-to-Exports	**306%**	**158%**	**120%**
Exports *(Abyei → Khartoum)*	6.1	6.1	6.1
NPV Debt-to-Exports	**312%**	**161%**	**122%**

Source: Bank of Sudan, IMF, World Bank, and author calculations

Contradictory Indebtedness Ratio Findings: Due to Enhanced HIPC Initiative guidelines and eligibility thresholds, the preceding options are assessed largely in terms of NPV debt-to-exports ratios. However, long-term debt sustainability analyses (DSAs) also will take into account other external indebtedness ratios, such as NPV debt-to-GDP. Interestingly, GDP-denominated debt ratios paint a vastly different picture than export-based ratios. This is driven by Southern Sudan's undiversified economy and overwhelming dependence upon oil exports.[53] In contrast, Khartoum has a more diversified economic base – including a relatively large agricultural sector.

Under the alternative options outlined above, Southern Sudan's NPV debt-to-GDP ratio would range between 45 percent and 70 percent *even after* traditional debt relief and clearance of IFI loan arrears (see appendix IX). In other words, while export-based ratios may suggest a sustainable debt burden, GDP-denominated ratios would paint a potentially more problematic outlook. The opposite is true for Khartoum. Export-denominated ratios would suggest a highly unsustainable external debt burden. However, its NPV debt-to-GDP ratio would range between roughly 20 percent and 30 percent after traditional debt relief. This is below the maximum level considered sustainable under the World Bank/IMF Debt Sustainability Framework for "poor performing" countries (30 percent).

[53] Depending on whether Abyei remains unified with Khartoum or secedes, Southern Sudan's exports would have equaled between roughly 47 percent and 48 percent of its GDP. Exports would only have equaled approximately 6 7 percent of Khartoum's GDP.

VIII. ARREARS CLEARANCE PROCESS AND IFI REENGAGEMENT

The arrears clearance process is complicated and based on a precise sequencing of incremental actions. At best, it is arduous and time consuming. The complex, volatile nature of Sudan's political environment and the plethora of debt apportionment options pose additional challenges. While each respective institution or body (World Bank, African Development Bank, IMF, and Paris Club) has its own specific policies and requirements, inter-institutional coordination will play a critical role in successfully dealing with Sudanese loan arrears. This section briefly lays out each organization's arrears clearance process and policies below – while noting the inter-linkages among them.

IFI Membership Status: Before initiating a formal arrears clearance process, the respective Sudanese government(s) would need to be members of the respective IFIs. In the event of a Southern secession, a formal ruling would be required to determine whether Khartoum represents the continuing state (i.e., Bangladesh-Pakistan example) or whether there would be a complete dissolution of Sudan (i.e., the Yugoslavia example).[54] Under the dissolution scenario, both Khartoum and Southern Sudan would need to become new IFI members before considering potential arrears clearance issues. For the continuing state scenario, only Southern Sudan would need to gain IFI membership status. Given the potential complications posed by loan arrears, Southern Sudan may prefer to complete the respective membership processes before formally assuming any IFI debt obligations (i.e., Bangladesh approach).[55] Importantly, new membership would entail a broad range of requirements, such as capital contributions and parliamentary approvals.[56] As such, this step potentially could require a significant amount of time.[57]

World Bank: IDA utilizes two general approaches for arrears clearance operations – both of which require formal approval by the World Bank Board of Directors. First, IDA can utilize a recipient country's regular allocation to clear World Bank Group arrears.[58] Second, the World Bank can provide an "exceptional arrears clearance grant" – assuming that the respective government(s) is eligible for the HIPC Initiative. This entails the provision of a bridge loan by a donor, which in turn would be repaid with the proceeds of the exceptional IDA grant. Alternatively, Southern Sudan and/or Khartoum potentially could qualify for IDA's exceptional post conflict assistance.[59] Such assistance would be significantly larger than otherwise provided under IDA's normal performance-based allocation system. As such, these exceptional post-

[54] Successor state examples include: Russia (USSR) and Indonesia (East Timor).
[55] Following the Bangladesh precedent, Khartoum likely would remain liable for ongoing IFI debt service payments until Southern Sudan assumed responsibility for the debt obligations.
[56] By illustration, see appendix X for IDA Articles of Agreement language on new membership and initial subscriptions.
[57] In the case of Bangladesh, this step took well over a year.
[58] While non-accrual status (i.e., existence of payment arrears) disqualifies countries from utilizing their regular allocation for development programs, they may use it for arrears clearance operations.
[59] For additional details, see IDA (2009), *IDA's Exceptional Allocation: A Review of the Implementation Experience with Lengthened Phase Out*.

conflict allocations may be large enough to cover either all or a significant percentage of existing World Bank arrears. However, this approach would present opportunity costs since IDA's funding for development programs in Sudan would be reduced by a commensurate amount.

Eligibility Criteria: To qualify for exceptional arrears clearance support, recipient countries must meet IDA's basic income and creditworthiness criteria. In addition, the World Bank will work closely with the respective Sudanese government(s) to establish a track record of performance on macroeconomic and development-related reform measures. In this context, Sudan will need to meet four key additional conditions: (1) commitment to implement a medium-term reform program endorsed by the World Bank; (2) performance under an IMF program; (3) an agreed financing plan to clear other IFI arrears simultaneously; and (4) eligibility for the HIPC Initiative (as noted above).[60] As shown above, the outcome of respective debt division negotiations will have a material impact on HIPC Initiative eligibility and, by extension, access to exceptional arrears clearance support.

Available Funding: Under the 15th IDA Replenishment, shareholders agreed to earmark $1.1 billion to finance arrears clearance operations for Zimbabwe, Cote d'Ivoire, Liberia, Sudan, and Togo. Moreover, the Replenishment Agreement stipulates that any unused arrears clearance resources would carry over to the IDA-16 period (2011-2013).[61] According to IDA donor governments, the 16th IDA Replenishment will ensure adequate resources for Sudanese arrears clearance operations. However, there may be a shortage of arrears clearance funding if Zimbabwe moves forward ahead of Sudan. In this event, additional resources may need to be mobilized for a Sudanese operation.

Repayment Capacity and Financing Needs: IDA staff will conduct an assessment of Southern Sudan's and/or Khartoum's repayment capacity to determine the appropriate volume and concessionality of exceptional IDA resources required to clear all outstanding arrears. This assessment would be carried out in close cooperation with the IMF and African Development Bank. In general, it will address three issues: (1) domestically available resources[62]; (2) debt sustainability concerns[63]; and (3) financing gap projections.

African Development Bank: As of June 2010, Sudan's arrears to the AfDB Group totaled approximately $260 million. The AfDB's Fragile States Facility (FSF) currently is the institution's central vehicle for arrears clearance and reengagement with countries emerging

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[60] In practice, the World Bank can agree to a sequential arrears clearance approach on a case-by-case basis. This approach requires mutual agreement among all relevant IFIs (IMF and AfDB).
[61] World Bank (2008), *Additions to IDA Resources: Fifteenth Replenishment*, page 40.
[62] Under the domestic resource pillar, IDA will consider: (i) international reserves relative to imports; (ii) any limitations to utilizing reserves to repay external arrears; (iii) fiscal account projections; (iv) level of domestic capital market development to absorb a new issuance of government bonds; and (v) government net deposits in the banking system and Reserve Bank.
[63] The World Bank and IMF would prepare updated forward-looking debt sustainability analyses to determine future financing terms after arrears have been cleared.

from conflict or crisis. The FSF operates as an autonomous financing entity within the AfDB Group and receives earmarked funding through African Development Fund (AfDF) replenishments (i.e., donor member countries). It also can receive resources out of the AfDB's net income. The FSF has three support pillars: (1) arrears clearance; (2) supplementary financing; and (3) capacity building support.

Arrears Clearance Pillar: The FSF's Arrears Clearance Pillar provides partial funding for clearing AfDB Group arrears, which helps to facilitate reengagement and normalization with the Bank. As a general rule, the recipient country must provide up to one-third of the financial resources required to clear all outstanding arrears. Donors may provide contributions on behalf of the recipient country to meet this requirement. The FSF provides the remaining two-thirds of the required financing. However, the FSF has flexibility to adjust the burden-sharing arrangement to reflect country repayment capacity and extenuating circumstances.

Eligibility Criteria: There are several staged criteria that determine country eligibility for FSF support. To access the supplementary financing window, a country must: (1) meet conditions for consolidating peace and security; (2) have experienced significant economic damage as a result of conflict or crisis; (3) improve macroeconomic conditions and debt management practices; (4) pursue sound financial management and business climate policies; and (5) increase transparency and accountability of financial management systems. Additional eligibility criteria apply to arrears clearance resources, including: (1) respect for the AfDB's preferred creditor status[64]; and (2) eligibility for HIPC Initiative debt relief. The AfDB Board of Directors must formally approve country eligibility for FSF support.

Available Funding: According to donor governments, the 12th AfDF Replenishment will ensure adequate resources for Sudanese arrears clearance operations.[65] This earmark will be sufficient to clear Sudan's outstanding arrears. As with IDA, there will be a shortage of arrears clearance funding if Zimbabwe (another protracted arrears case) moves forward ahead of Sudan. In this context, AfDF funding is available on a first-come, first-serve basis. Given this, there is the possibility that additional resources may need to be mobilized.

<u>IMF</u>: As of June 2010, Sudan's IMF arrears totaled SDR 990 million ($1.54 billion). Given the size of Sudan's obligations, it likely will have to pursue more traditional arrears clearance routes. This entails a third-party bridge loan, which is paid off simultaneously through a new Extended Credit Facility (ECF) loan or a grant mobilized through internal IMF resources or donor governments. This approach involves several related steps. First, the IMF requires the clearance

[64] This includes servicing new maturities on all outstanding AfDB Group loans or at least repayments on the relative level provided to other IFIs. If needed, the AfDB permits bilateral donors to provide these repayments on the country's behalf.

[65] For consistency with other SDR-denominated figures, this implies an exchange rate of 0.64286 SDRs per 1 USD. Alternative exchange rates would provide different USD-denominated figures. The AfDF Board of Directors is scheduled to approve the final AfDF-12 agreement in mid-December.

of official bilateral arrears (either paid off or rescheduled) and that other IFI arrears (World Bank, AfDB) are cleared or programmed to be cleared. Second, the IMF will require credible assurances that the Sudanese government(s) would be able to repay the new PRGF loan (assuming lack of IMF internal resources or donor contributions to finance the operation). To strengthen repayment capacity, a donor country potentially could provide a guarantee to meet any repayment deficits on behalf of the Sudanese government(s).

Available Funding: To date, the IMF has not mobilized external or internal resources to finance an arrears clearance operation. However, according to several IMF shareholders, the institution may have adequate internal resources to clear the large arrears without a new ECF loan. If not, then additional donor resources would need to be mobilized.

<u>Paris Club</u>: The Paris Club is an informal, consensus-based group of creditor countries that are guided by several principles, including:

- *Comparability of Treatment*: The recipient country cannot provide more favorable debt treatment terms to non-Paris Club creditors. Put differently, non-Paris Club creditors (other bilateral creditors, commercial banks, bondholders, etc.) are expected to provide roughly the same (or better) levels of debt service or stock relief.

- *Conditionality*: The Paris Club only negotiates debt restructurings with debtor countries that clearly demonstrate: (a) need for debt relief; and (b) a reform track record under an IMF program.[66] In the case of a long-term debt service (flow) treatment, the Paris Club agreement is divided into multiple phases. The amounts falling due during the first phase are treated immediately upon the agreement's entry into force. Subsequent phases are implemented as agreed conditions are met, such as non-accumulation of new arrears and satisfactory IMF program reviews.[67]

- *Case-by-Case Approach*: The Paris Club makes decisions on a case-by-case basis in order to tailor actions to each debtor country's specific situation.

To clear Khartoum's and/or Southern Sudan's arrears, the Paris Club likely would apply Naples Terms to the rescheduling. This would entail: (1) consolidating existing arrears; (2) rescheduling new payments over a set period of time; and (3) applying a 67 percent reduction of payment obligations in NPV terms. Given the Sudanese government's poor repayment history, careful consideration would be required to prevent any lapses in future repayments. This is especially

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[66] In practice, the recipient country must have a current IMF program, such as a Stand-By, Extended Fund Facility, Poverty Reduction and Growth Facility, or perhaps a non-borrowing program (Policy Support Instrument).

[67] All relevant conditions are included in the Agreed Minutes circulated by the Paris Club Secretariat. The Agreed Minutes are not a legally-binding agreement between the debtor and each Paris Club creditor. They constitute a recommendation to the Paris Club creditor governments and the recipient country to conclude bilateral agreements implementing the provisions of the Agreed Minutes terms.

important as any subsequent Paris Club agreements, such as HIPC debt relief (outlined in greater detail below), would require that Southern Sudan and/or Khartoum stay current on these newly rescheduled repayments.

As noted previously, new and/or preexisting loans by non-traditional creditors – such as Arab agencies, China, and India – may complicate the Paris Club rescheduling process. The comparable treatment principle will require that Southern Sudan and/or Khartoum treat Paris Club creditors in a similar fashion as other creditors. For example, if the Sudanese government continues to maintain debt repayments to non-traditional creditors, then the Paris Club may be unwilling to reschedule and reduce its own claims.

IX. Debt Relief Process

HIPC Initiative: Since the mid-1990s, the HIPC Initiative has functioned as the guiding framework for providing comprehensive debt relief to low-income countries. Originally launched by the World Bank and IMF in 1996, it was later enhanced in 1999 to provide deeper and faster debt relief to a broader set of countries. The HIPC Initiative utilizes debt relief to lower countries' external debt ratios. Under the Original HIPC Initiative (1996-1999), the target was an external debt-to-exports ratio of 200 percent. The Enhanced HIPC Initiative (1999-current) further reduced the target external debt ratio to 150 percent of exports.

Eligibility Requirements: Under the HIPC framework, countries must meet a number of eligibility criteria. First, they must be classified as an "IDA-only" country. This means that the country is below IDA's operational income cutoff (2009 GNI per capita ≤ $1,165) *and* is not eligible to receive market-based loans from the International Bank for Reconstruction and Development (IBRD). Similarly, the country must only be eligible to receive funds from the IMF's Poverty Reduction and Growth Trust (PRGT) and not from the IMF's General Resource Account (GRA).[68] Second, the country must face an unsustainable debt burden after the full application of traditional Paris Club mechanisms (i.e., Naples terms). As noted above, the country must have a NPV debt-to-exports ratio above 150 percent or a NPV debt-to-government revenue ratio above 250 percent.[69] The World Bank and IMF only utilize external debt incurred by end-2004 in determining whether a given country's indebtedness ratios exceed the aforementioned thresholds. Third, the country must begin to establish a track record of reform. Typically, this step requires an IMF upper credit tranche program (e.g., ECF program). However, exceptions have been made to substitute a staff-monitored program (SMP) in order to establish a performance track record. Lastly, it must begin developing a Poverty Reduction

[68] As noted previously, PRGT-based lending is limited to low-income countries and GRA assistance is tailored for middle-income countries.
[69] The NPV debt-to-exports ratio is based on a backward looking three-year average of exports to avoid the impact of excessive annual fluctuations. The second ratio is designed to capture countries where the fiscal burden of external debt is particularly acute. Several countries, such as Guyana, have used this so-called fiscal ratio to secure HIPC eligibility.

Strategy Paper (PRSP), either on an interim- or formal-basis. PRSPs outline the relevant macroeconomic, structural, and social programs that will promote growth and reduce poverty. They also estimate the associated external financing required for effective implementation.

In 2006, the World Bank and IMF Board of Directors closed the list of countries potentially eligible for HIPC relief.[70] At that time, Sudan was "grandfathered" into the initiative – thereby providing it the opportunity to qualify for debt relief assistance in the future. As with arrears clearance operations, a Southern secession would raise a number of HIPC Initiative eligibility issues. If Khartoum represents the continuing state, then it would continue to be eligible for potential HIPC relief.[71] Under this scenario, World Bank and IMF Board of Directors would need to determine Southern Sudan's potential eligibility separately. In this manner, they would need to determine whether it could become eligible through Sudan's current status or whether the HIPC eligibility list would need to be re-opened on a one-off or holistic basis. Under the dissolution scenario, both Khartoum and Southern Sudan would need to become eligible separately for the HIPC Initiative.

Income Per Capita Considerations: As noted above, HIPC Initiative eligibility is based, in part, on countries' respective income per capita levels. Officially, IDA utilizes gross national income (GNI) per capita for operational purposes – including determining "IDA-only" status for recipient countries. Currently, Sudan is defined as an "IDA-only" country despite having a GNI per capita above the IDA operational cutoff ($1,220 versus $1,165).[72] This is due to its classification by the United Nations as a Least Developed Country (LDC).[73] Therefore, it likely would retain its existing eligibility for the HIPC Initiative and, by extension, arrears clearance support in the near term.

However, income per capita levels potentially could become an issue in the event of a Southern secession. Notably, this paper estimates sub-national GDP figures for Southern Sudan and Khartoum as opposed to GNI.[74] Nonetheless, Southern Sudan's GDP per capita could have been roughly $1,300 in 2009 if it had already seceded. Moreover, Khartoum's GDP per capita could

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[70] World Bank (2006), *Initiative for Heavily Indebted Poor Countries – Issues Related to Sunset Clause*.

[71] This assumes that Khartoum meets the other HIPC Initiative eligibility criteria, such as unsustainable external debt ratios and a track record of satisfactory performance.

[72] World Bank, *2010 World Development Indicator database.* Figures are for 2009. "IDA-only" status means that Sudan would receive standard loan and grant terms as opposed to so-called "hardened" or "blend" terms – which entail loans with a shorter amortization period. In that event that a country's GNI per capita exceeds the operational cutoff for two consecutive years, then IDA would *consider* hardening lending terms for new loans. This decision would incorporate other non-income factors, such as debt sustainability concerns.

[73] To qualify for *graduation* from LDC status, a country must meet specified thresholds for two of the following three criteria: (1) GNI per capita cutoff (current graduation cutoff is $1,086); (2) human resource capacity (as measured by the Human Assets Index); and (3) economic vulnerability (as measured by the Economic Vulnerability Index). Moreover, the respective country must meet these thresholds in two consecutive triennial reviews conducted the UN Committee for Development Policy. See www.unohrlls.org for additional details.

[74] The main difference between GDP and GNI is that the latter includes income received from other countries (e.g., interest and dividends) less similar payments made to other countries.

have been approximately $1,360.[75] Since these estimates exceed IDA's GNI per capita threshold for "IDA-only" status ($1,165) by a wide margin, the relevant stakeholders will need to carefully examine the other factors for determining "IDA-only" status (and HIPC Initiative eligibility), such as LDC classification and creditworthiness. It is unclear whether the United Nations would need to revisit Khartoum's existing LDC classification in the event of a Southern secession. Given Southern Sudan's projected income per capita levels, it would not be classified as a LDC.[76] Lastly, the World Bank would need to determine Southern Sudan's and Khartoum's overall creditworthiness. These two latter issues likely would become the key factors for determining "IDA-only" status.

Interim Debt Relief (HIPC Decision Point): Once becoming HIPC-eligible, a country must meet a series of performance criteria before receiving interim debt service relief. First, the country must establish a track record of macroeconomic stability. Historically, the IMF and World Bank required sustained performance for 18 months.[77] More recently, the time requirement has been reduced for many countries – sometimes as short as six months. Second, the country must have a satisfactory PRSP in place. This could take the form of an Interim PRSP, PRSP preparation status report, full-PRSP, or PRSP-Annual Progress Report (APR). Lastly, the respective country must clear any outstanding arrears to the World Bank, IMF, and African Development Bank.

After this, World Bank and IMF staff will complete a formal loan-by-loan sustainability analysis to determine the country's indebtedness level and the amount of debt relief required to lower its external ratios to sustainable levels. The World Bank and IMF will determine a 'common reduction factor' required by all creditors to bring Southern Sudan's and/or Khartoum's external debt-to-exports ratio(s) to 150 percent.[78] Therefore, the Paris Club and other non-multilateral creditors would be required to implement another debt treatment to implement the common reduction factor (on top of the Naples terms treatment). Multilateral creditors, such as IFIs, would only apply the common reduction factor to their existing loans under the HIPC

[75] See appendix VIII for details. Overall, these estimates would suggest a *national* GDP (aggregating both Southern Sudan and Khartoum) of approximately $54.2 billion in 2009 – or roughly $1,348 per capita. By comparison, the IMF's 2010 Article IV report estimates that national GDP totals $54.6 billion – or roughly $1,398 per capita. According to the World Bank's *2010 World Development Indicator* database, Sudan's GDP per capita is $1,293. The differential between World Bank and IMF estimates is driven by the usage of different population figures. The IMF uses official figures from the Sudanese government (39.1 million), which also are used in this paper. The World Bank figures are based on a population estimate of 42.3 million.

[76] To qualify as a LDC, a respective country must meet *all* three of the aforementioned criteria (income per capita, human resource capacity, and economic vulnerability). While Southern Sudan likely would meet the human resource capacity and economic vulnerability criteria, its income per capita would exceed the *qualification* threshold (currently about $900).

[77] According to the 2010 IMF Article IV Review (page 17), Sudan's performance under successive staff-monitored programs over the last 12 years has "been generally good."

[78] HIPC debt relief calculations are based upon the most recent data for the year immediately prior to the decision point (e.g., the HIPC decision point reference date). This reference date typically is different than the Paris Club cut-off date and the end-2004 cut-off date to determine potential HIPC Initiative eligibility.

Initiative.[79] Lastly, the World Bank and IMF Board of Directors must formally decide that the country should begin receiving interim debt service relief on a provisional basis (HIPC Decision Point status).

Irrevocable Debt Relief (HIPC Completion Point): To qualify for irrevocable debt relief, the respective country must meet additional performance criteria. First, it must continue to maintain macroeconomic stability under an IMF-supported program, such as an ECF for one year. Second, the country must implement key structural and social reforms as agreed at the HIPC Decision Point. Lastly, the country must implement the PRSP satisfactorily for one year. At this point, the World Bank and IMF Board of Directors formally consider and approve irrevocable debt relief (HIPC Completion Point status). The HIPC framework also includes a "topping-up" provision by which additional debt relief can be applied in exceptional cases to offset exogenous factors that have fundamentally changed the country's economic circumstances, such as unexpected commodity price movements that severely impact export earnings.

Prospective Time Requirements: Historically, completing the HIPC Initiative process has taken considerable time. Four recent post-completion point countries, which required IFI arrears clearance operations, took an average of 50 months to complete the HIPC process. Liberia navigated the complex process the fastest (30 months) followed by the Central African Republic (31 months). Importantly, first lining up these IFI arrears clearance agreements often took *at least* an additional year. For example, Liberia did not conclude its IFI arrears agreement until nearly two years after the Sirleaf Administration took office. Given this, the Sudanese government(s) should anticipate *at least* a three- or four-year process for clearing loan arrears and completing the HIPC process.

Figure 15 – HIPC Initiative, Duration of Recent Country Recipients[80]

Country	Arrears Clearance	Decision Point	Completion Point	Months
Liberia	Dec-07	Mar-08	Jun-10	30
Cote d'Ivoire	Apr-08	Mar-09	-	30+
Haiti	Jan-05	Nov-06	Jun-09	53
C.A.R.	Nov-06	Sep-07	Jun-09	31
Togo	May-08	Nov-08	-	29+
Afghanistan	2002-2003	Jul-07	Jan-10	83

Source: IMF and World Bank

<u>Multilateral Debt Relief Initiative</u>: In 2005, G-7 nations took the additional step of forcing the World Bank (IDA), African Development Bank (AfDF), and IMF to cancel 100 percent of their

[79] IFI arrears clearance operations do not impact the level of debt relief committed at the HIPC Decision Point. The grant element embedded in IFI arrears clearance is counted toward their contribution to HIPC Initiative debt reduction (and therefore added to the NPV of existing debt at the Decision Point reference date).
[80] World Bank and IMF (2010), *Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation*.

remaining debt claims outstanding on the world's poorest countries. Through the Multilateral Debt Relief Initiative (MDRI), HIPCs stand to receive up to $60 billion in debt relief over time. To date, 30 countries have already seen the cancellation of nearly $36 billion of debt obligations.[81] MDRI eligibility is intertwined with the HIPC Initiative. Countries automatically receive 100 percent cancellation of eligible debt obligations upon reaching HIPC Completion Point.[82] In this manner, there are no additional eligibility requirements for MDRI debt relief assistance. If Khartoum and/or Southern Sudan complete a standard IMF arrears clearance process (bridge loan to clear arrears that subsequently is paid off with a new ECF loan), then the new IMF loan would be ineligible for MDRI relief. This could have a significant impact on the overall level of MDRI debt relief provided and resulting external debt ratios.

<u>Non-Traditional Creditors</u>: Under the HIPC Initiative, non-traditional creditors – such as Arab agencies, China, and India – are expected to provide comparable debt relief. This includes both traditional debt relief prior to HIPC assistance as well as follow-on HIPC relief (i.e., common reduction factor). To date, the share of debt relief provided by non-Paris Club bilateral creditors has been low – between 34 and 39 percent of expected levels.[83] Moreover, several multilateral creditors have actually delivered only small amounts of their HIPC commitments. By illustration, the Arab Fund for Economic and Social Development – which is one of Sudan's largest creditors – has provided only 4 percent of its HIPC debt relief commitments for other low-income countries (see figure 16 below for creditor-specific examples).

In the case of Sudan, non-traditional creditors account for roughly 40 percent of total outstanding external debt obligations. Given this, lack of creditor participation would have a significant impact on Southern Sudan's or Khartoum's long-term debt sustainability prospects. Nonetheless, the Khartoum government generally has enjoyed close relations with many non-traditional creditor agencies. Relatedly, the Arab League has issued several statements over the years committing to help address Sudan's heavy debt burden.[84] Depending on the ultimate debt division scenario, these relationships may have a positive impact on non-traditional creditor participation.

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[81] World Bank and IMF (2010), *Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation*, page 42.
[82] Under MDRI, countries receive 100 percent debt relief on all remaining debt obligations (following HIPC relief) prior to operable cutoff dates. The cutoff dates for eligible disbursed and outstanding debt are: (1) IDA – December 31, 2003; (2) AfDF – December 31, 2004; and IMF – December 31, 2004. Debt that is contracted and/or disbursed after these cutoff dates is ineligible for MDRI relief.
[83] World Bank and IMF (2010), *Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation*.
[84] For example, see http://siteresources.worldbank.org/INTSUDAN/Resources/Arab_League.pdf.

Figure 16 – HIPC Relief from Non-Traditional Creditors *(USD Millions, NPV)*

Non-Traditional Creditor	Committed	Delivered	% Delivered
Abu Dhabi Fund (UAE)	131	0-3	0-2
Arab Fund for Economic and Social Development	309	14	4
India	43	5-30	11-69
Saudi Fund	266	98-154	37-58
China	405	225-273	56-68
Kuwait Fund	449	275	61
Oman	2	2	100
Islamic Development Bank	142	144	102
Turkey	*N/A*	*N/A*	*N/A*
Arab Monetary Fund	18	*N/A*	*N/A*
OPEC	257	*N/A*	*N/A*

Source: World Bank and IMF

Commercial Creditors: Debt restructuring or relief from commercial creditors is a process that depends on the respective exposure profiles. The so-called "London Club" has been the traditional forum for commercial debt re-schedulings and relief treatments when banks are the main holders. It is an even more informal "club" of creditors formed on an ad hoc basis when requested by the debtor country. Although it sounds similar to the Paris Club, it does not have fixed members and the committees are dissolved once a deal is struck. In this sense, the London Club is less of an actual institution than an occasional meeting for all commercial sovereign debt holders to collectively negotiate restructuring with country officials. Like the official creditor groups, commercial creditors have typically sought comparability of treatment (no creditors can be treated differently from each other, including official creditors) and often use Paris Club terms as a benchmark.[85] London Club negotiations have usually required 90-95 percent compliance to reach final agreement. The combination of potentially large (and often uncooperative) numbers of bondholders and the near-unanimity required to reach an agreed settlement means that commercial creditor negotiations can be time-consuming.[86]

IDA Debt Reduction Facility: The World Bank Executive Board established the Debt Reduction Facility (DRF) in 1989 to buy back debts owed to external, commercial creditors – at steep discounts – through grant funding to eligible governments. The Facility has played a significant role in reducing commercial debt exposure in low-income countries. To date, it has supported 22 buy-back operations in 21 IDA-only countries.[87] These operations have removed roughly $4.5 billion of commercial debt principal and more than $3.5 billion of associated interest arrears and penalties. As a result, it has helped to reduce the risk of non-concessional creditors taking advantage of bilateral and multilateral debt relief (so-called "free riding"), which has the effect

[85] In part, this reflects the Paris Club's insistence on comparability of treatment for all non-multilateral creditors.
[86] London Club negotiations with Poland took more than a decade. More recently, Nigeria was able to conclude a buyback agreement with its commercial creditors in less than one year.
[87] World Bank (2004). *Debt Reduction Facility for IDA-Only countries: Progress Report, Support to the HIPC Initiative, and Proposed Enhancements*.

of improving debt repayment capacity. In this manner, litigating creditors – often called "vulture funds" – derive the benefits from debt relief without having to pay anything for it.

Eligibility for Debt Reduction Facility support requires: (1) IDA-only status; (2) highly-indebted status; (3) satisfactory performance under a medium-term adjustment program (i.e., an IMF staff monitored program); and (4) satisfactory implementation of a debt management strategy. Only external commercial debt with a sovereign guarantee is eligible for Facility buy-back operations.[88] To date, the average haircut for commercial creditors has been roughly 90 percent on Facility buy-back operations. In April 2009, Liberia secured a Facility-supported buy-back deal retiring $1.2 billion in commercial claims, which included a 97 percent haircut for creditors.

X. CONCLUSION

Sudan faces a critical crossroads in its relatively brief national history. The stakes associated with the upcoming referendum in Southern Sudan are very high in terms of national security, self-determination, and engagement with the international community – including financial creditors. This paper aims to contribute to ongoing discussions about the role of debt in Sudan – both for a unified Sudan and a possible Southern secession. Under a potential Southern secession, debt sustainability will depend upon a number of related and complex factors, such as wealth sharing, debt division, and oil production projections. Moreover, the paucity of reliable official data in several critical areas (ex – sub-national GDP and exports) presents important obstacles to presenting authoritative outcomes under distinct options.

Despite these challenges, this paper provides several key takeaways for consideration by the relevant stakeholders:

(1) *Traditional debt relief will have a dramatic impact on debt sustainability prospects*. Bilateral and commercial creditors account for nearly 90 percent of Sudan's external debt obligations. Given this, a traditional Paris Club debt treatment would significantly reduce Sudan's external debt-to-exports and debt-to-revenue ratios.

(2) *HIPC Initiative debt relief is not a foregone conclusion*. Depending on future export growth performance, Sudan's external debt ratios could be sustainable following a traditional Paris Club debt treatment and clearance of IFI loan arrears. At the same time, HIPC eligibility will play an important role in terms of gaining access to specific assistance mechanisms, such as exceptional arrears clearance support.

(3) *Despite being a potential security flashpoint, Abyei will have a very modest impact on external debt dynamics under a Southern secession scenario*.

[88] Eligible debt includes medium- and long-term non-collateralized debts owed to external commercial creditors and short-term debt of similar nature that have been in longstanding arrears.

(4) *Income per capita levels potentially could present complications under a Southern secession scenario.* Securing "IDA-only" status is a prerequisite for HIPC Initiative eligibility and, by extension, exceptional arrears clearance support. Both Southern Sudan and Khartoum likely will have income per capita levels that exceed IDA's respective GNI-based threshold by a wide margin. As a result, the World Bank's determination of their creditworthiness and Khartoum's LDC status would become key factors for determining or maintaining "IDA-only" status.

(5) *Different external indebtedness indicators present contradictory pictures about debt sustainability prospects under a Southern secession scenario*. NPV debt-to-GDP ratios paint a vastly different picture than export- and revenue-based indicators. Stakeholders will need to factor this apparent contradiction into potential debt division and debt relief options.

(6) *Sudanese authorities should expect a long and difficult path to clearing unsustainable debt obligations*. Sudanese authorities should expect the process to take *at least* three to four years – especially if they pursue HIPC Initiative assistance.

Appendix I

World Bank: Historical Project List by Project Commitment, Sector, and Primary Regional Beneficiary[89]

PROJECT NAME	APPROVAL DATE	CLOSING DATE	PROJECT COST	IBRD LOAN COMMITMENT	IDA LOAN COMMITMENT	TOTAL WB COMMITMENT	GRANT AMT	MAJOR SECTOR	PRIMARY BENEFICIARY
Support to Reintegration of Ex-combatants and Special Needs Groups	24-Mar-10	30-Jun-11	40.0	0.0	0.0	0.0	40.0	Health	Southern Sudan
Southern Sudan Umbrella Program for Health System Development	5-Mar-10	N/A	63.0	0.0	0.0	0.0	63.0	Health	Southern Sudan
Southern Sudan Road Maintenance Project	16-Feb-10	30-Jun-11	40.0	0.0	0.0	0.0	40.0	Infrastructure (Transportation)	Southern Sudan
Southern Sudan - Water Supply and Sanitation Project	22-Jan-10	N/A	30.0	0.0	0.0	0.0	30.0	Infrastructure (Water)	Southern Sudan
Revitilizing the Sudan Gum Arabic Production and Marketing	10-Jul-09	30-Jun-11	10.0	0.0	0.0	0.0	7.0	Agriculture	Southern Sudan
South Sudan Adolescent Girls Initiative	5-Jun-09	N/A	2.2	0.0	0.0	0.0	2.2	Education	Southern Sudan
South Sudan Gender Support & Development Project	22-May-09	29-Jun-11	10.0	0.0	0.0	0.0	5.0	Agriculture	Southern Sudan
Basic Education Project	12-May-09	30-Jun-11	15.0	0.0	0.0	0.0	15.0	Education	Unallocated
Abyei Start Up Emergency Project	1-May-09	30-Jun-11	6.0	0.0	0.0	0.0	6.0	Public Administration	Unallocated
Southern Sudan Emergency Food Crisis Response Project	3-Oct-08	30-Sep-11	5.0	0.0	0.0	0.0	5.0	Agriculture	Southern Sudan
Public Service Reform, Decntralization and Capacity Building	11-Sep-08	30-Jun-11	5.1	0.0	0.0	0.0	2.6	Public Administration	Sudan (Khartoum)
Blue Nile Start-Up Emergency Project	3-Dec-07	30-Jun-10	15.3	0.0	0.0	0.0	7.3	Infrastructure (Transportation)	Sudan (Khartoum)
South Sudan MDTF - HIV/AIDS Project	6-Nov-07	30-Jun-11	36.8	0.0	0.0	0.0	15.8	Health	Southern Sudan
Support to Agriculture and Forestry Development Project	6-Nov-07	31-Mar-11	18.0	0.0	0.0	0.0	10.0	Public Administration	Unallocated
Improving Livestock Production and Marketing Project	29-Aug-07	30-Aug-11	20.0	0.0	0.0	0.0	8.0	Agriculture	Unallocated
South Kordofan State Emergency Project	25-Jun-07	30-Jun-10	14.7	0.0	0.0	0.0	7.9	Agriculture	Sudan (Khartoum)
Sudan Microfinance Development Facility Project	22-May-07	30-Jun-11	20.0	0.0	0.0	0.0	10.0	Finance	Unallocated
Sudan New Unified National Currency Project	22-May-07	30-Dec-08	165.8	0.0	0.0	0.0	40.8	Public Administration	Unallocated
South Sudan MDTF - Private Sector Development	10-May-07	30-Jun-11	11.1	0.0	0.0	0.0	6.8	Finance	Southern Sudan
Institutional and Human Development in South Sudan	7-Nov-06	31-Dec-10	13.7	0.0	0.0	0.0	8.2	Public Administration	Southern Sudan
Sudan MDTF - Livestock and Fisheries Development Project	7-Nov-06	15-Dec-10	29.7	0.0	0.0	0.0	7.7	Agriculture	Unallocated
South Sudan MDTF - Justice Support Project	7-Nov-06	31-Dec-10	13.3	0.0	0.0	0.0	5.3	Public Administration	Southern Sudan
Sudan MDTF - Decentralized Health System Development Project	30-Oct-06	30-Jun-11	19.0	0.0	0.0	0.0	6.0	Health	Unallocated
Rural Water Supply and Sanitation	27-Oct-06	31-Mar-11	30.0	0.0	0.0	0.0	15.0	Infrastructure (Water)	Unallocated
National Emergency Transport Rehabilitation Project	28-Aug-06	30-Jun-11	137.2	0.0	0.0	0.0	43.5	Infrastructure (Transportation)	Unallocated
Fifth Population Census of Sudan	8-May-06	30-Jun-09	95.7	0.0	0.0	0.0	34.4	Public Administration	Unallocated
Multidonor Rehabilitation Education Project	30-Mar-06	31-Mar-11	127.2	0.0	0.0	0.0	25.5	Education	Unallocated
Southern Sudan Umbrella Program for Health System Development	23-Mar-06	30-Jun-10	225.0	0.0	0.0	0.0	75.0	Health	Southern Sudan
North Sudan Capacity Building of the National Judiciary	27-Feb-06	30-Jun-09	13.0	0.0	0.0	0.0	13.0	Public Administration	Sudan (Khartoum)
Core Fiduciary Systems Support Project	21-Feb-06	30-Jun-11	11.2	0.0	0.0	0.0	5.6	Public Administration	Unallocated
Sudan MDTF - National: Technical Assistance Facility	17-Jan-06	31-Jan-10	5.0	0.0	0.0	0.0	5.0	Public Administration	Unallocated
Sudan MDTF -Transport and Infrastructure Development Project	12-Dec-05	30-Dec-10	150.0	0.0	0.0	0.0	50.0	Infrastructure (Transportation)	Unallocated
Community Development Fund	10-Dec-05	30-Jun-11	30.0	0.0	0.0	0.0	30.0	Education	Unallocated
Juba Rapid Impact Emergency Project	23-Nov-05	31-Mar-10	27.5	0.0	0.0	0.0	20.0	Public Administration	Southern Sudan
Sudan Nuba Mountain Post Conflict Fund	15-Apr-04	N/A	1.5	0.0	0.0	0.0	1.5	Health	Sudan (Khartoum)
Emergency Drought Recovery Project	25-Jul-91	30-Sep-93	26.0	0.0	16.0	16.0	0.0	Infrastructure (Water)	Unallocated
Khartoum - Port Sudan Road Rehabilitation Project	5-Dec-89	31-Mar-94	82.2	0.0	82.2	82.2	0.0	Infrastructure (Transportation)	Sudan (Khartoum)
Emergency Flood Reconstruction Project	4-May-89	31-Oct-93	75.0	0.0	75.0	75.0	0.0	Agriculture	Unallocated
Southern Kassala Agricultural Project	8-Nov-88	30-Sep-95	20.0	0.0	20.0	20.0	0.0	Agriculture	Sudan (Khartoum)
Railway Project (05)	5-Apr-88	30-Jun-94	35.0	0.0	35.0	35.0	0.0	Infrastructure (Transportation)	Sudan (Khartoum)
Agricultural Rehabilitation Program Project (03)	22-Dec-87	31-Dec-92	85.0	0.0	85.0	85.0	0.0	Agriculture	Unallocated
South Kordofan Agricultural Project	22-Dec-87	31-Dec-94	19.7	0.0	19.7	19.7	0.0	Agriculture	Sudan (Khartoum)
Power Project (04)	5-May-87	30-Jun-93	38.0	0.0	38.0	38.0	0.0	Infrastructure (Power)	Sudan (Khartoum)
Public Enterprise & Economic Management Project	5-May-87	31-Dec-95	9.0	0.0	9.0	9.0	0.0	Public Administration	Sudan (Khartoum)
Agricultural Research, Extension and Training Project	3-Dec-85	30-Jun-93	22.0	0.0	22.0	22.0	0.0	Agriculture	Sudan (Khartoum)
Western Savannah Project (02)	3-Dec-85	30-Jun-93	10.6	0.0	10.6	10.6	0.0	Agriculture	Sudan (Khartoum)

[89] The primary regional beneficiary reflects the author's judgment based upon existing World Bank project summaries and documents. Green indicates Southern Sudan; blue, Khartoum; and yellow, unallocated.

PROJECT NAME	APPROVAL DATE	CLOSING DATE	PROJECT COST	IBRD COMMITMENT	IDA COMMITMENT	TOTAL WB COMMITMENT	GRANT AMT	MAJOR SECTOR	PRIMARY BENEFICIARY
Power Rehabilitation Project	27-Aug-85	30-Jun-93	30.0	0.0	30.0	30.0	0.0	Infrastructure (Power)	Sudan (Khartoum)
Drought Recovery Program Project	20-Jun-85	30-Jun-88	20.0	0.0	20.0	20.0	0.0	Agriculture	Unallocated
Stock Route Project	16-Oct-84	31-Dec-92	5.5	0.0	5.5	5.5	0.0	Agriculture	Sudan (Khartoum)
Petroleum Technical Assistance Project	31-Jul-84	30-Jun-92	12.0	0.0	12.0	12.0	0.0	Infratructure (Extractive Industries)	Sudan (Khartoum)
Sugar Rehabilitation Project	27-Jun-84	31-Dec-93	60.0	0.0	60.0	60.0	0.0	Agriculture	Unallocated
Education Project (03)	20-Mar-84	30-Jun-88	15.4	0.0	15.4	15.4	0.0	Education	Sudan (Khartoum)
Highway Project (03)	20-Mar-84	31-Dec-92	16.0	0.0	16.0	16.0	0.0	Infrastructure (Transportation)	Sudan (Khartoum)
Gezira Rehabilitation Project	16-Jun-83	31-Dec-95	80.0	0.0	80.0	80.0	0.0	Agriculture	Sudan (Khartoum)
Agricultural Rehabilitation Program Project (02)	16-Jun-83	30-Nov-86	50.0	0.0	50.0	50.0	0.0	Agriculture	Unallocated
Port Project (02)	20-Apr-82	30-Jun-88	29.0	0.0	25.0	25.0	0.0	Infrastructure (Transportation)	Sudan (Khartoum)
Agricultural Services Project (01)	12-Jan-82	30-Sep-89	18.0	0.0	18.0	18.0	0.0	Agriculture	Sudan (Khartoum)
Western Savannah Project (01)	6-Oct-81	30-Jun-86	13.0	0.0	13.0	13.0	0.0	Agriculture	Sudan (Khartoum)
Technical Assistance Project (02)	28-May-81	1-Mar-87	6.0	0.0	6.0	6.0	0.0	Public Administration	Sudan (Khartoum)
Blue Nile Pump Scheme Rehabilitation Project	26-Mar-81	30-Sep-90	32.0	0.0	32.0	32.0	0.0	Agriculture	Sudan (Khartoum)
White Nile Pump Scheme Rehabilitation Project	26-Mar-81	31-Dec-87	35.0	0.0	35.0	35.0	0.0	Agriculture	Sudan (Khartoum)
New Halfa Irrigation Rehabilitation Project	15-May-80	30-Jun-89	40.0	0.0	40.0	40.0	0.0	Agriculture	Sudan (Khartoum)
Power Project (03)	17-Apr-80	31-Dec-87	65.0	0.0	65.0	65.0	0.0	Infrastructure (Power)	Sudan (Khartoum)
Agricultural Rehabilitation Program Project (01)	25-Mar-80	31-Mar-83	65.0	0.0	65.0	65.0	0.0	Agriculture	Unallocated
Southern Region Agricultural Rehabilitation Project (02)	8-May-79	30-Jun-84	15.0	0.0	15.0	15.0	0.0	Agriculture	Southern Sudan
Highway Project (02)	6-Mar-79	31-Dec-84	41.0	0.0	41.0	41.0	0.0	Infrastructure (Transportation)	Sudan (Khartoum)
Agricultural Research	29-Jun-78	31-Dec-87	15.0	0.0	15.0	15.0	0.0	Agriculture	Sudan (Khartoum)
Mechanized Farming Project (03)	18-May-78	31-Mar-85	16.0	0.0	16.0	16.0	0.0	Agriculture	Sudan (Khartoum)
Livestock Marketing Project	23-Mar-78	31-Dec-86	25.0	0.0	25.0	25.0	0.0	Agriculture	Sudan (Khartoum)
Port Project (01)	23-Mar-78	30-Jun-83	22.0	0.0	22.0	22.0	0.0	Infrastructure (Transportation)	Sudan (Khartoum)
Railway Project (04)	28-Jun-77	31-Dec-82	20.0	12.0	8.0	20.0	0.0	Infrastructure (Transportation)	Sudan (Khartoum)
Savannah Development Project	31-May-77	30-Jun-84	17.0	0.0	17.0	17.0	0.0	Agriculture	Sudan (Khartoum)
Domestic Aviation Project	15-Jun-76	30-Nov-81	29.0	20.0	9.0	29.0	0.0	Infrastructure (Transportation)	Sudan (Khartoum)
Technical Assistance Project (01)	17-Feb-76	31-Mar-82	4.0	0.0	4.0	4.0	0.0	Public Administration	Sudan (Khartoum)
Industrial Bank of Sudan Project (02)	28-Oct-75	31-Dec-80	7.0	0.0	7.0	7.0	0.0	Finance	Sudan (Khartoum)
RAHAD IRRIG. II	26-Jun-75	N/A	20.0	0.0	20.0	20.0	0.0	Agriculture	Sudan (Khartoum)
Power Project (02)	22-May-75	30-Jun-81	23.0	0.0	23.0	23.0	0.0	Infrastructure (Power)	Unallocated
Education Project (02)	29-Apr-75	30-Jun-83	10.0	0.0	10.0	10.0	0.0	Education	Southern Sudan
Southern Region Agricultural Rehabilitation Project (01)	28-May-74	31-Dec-79	10.7	0.0	10.7	10.7	0.0	Agriculture	Southern Sudan
Port Study / Railway / River Transport Study / Training	8-Jan-74	30-Sep-80	24.0	0.0	24.0	24.0	0.0	Infrastructure (Transportation)	Sudan (Khartoum)
Industrial Bank of Sudan Project (01)	13-Nov-73	30-Jun-79	4.0	0.0	4.0	4.0	0.0	Finance	Sudan (Khartoum)
Rahad Irrigation Project	6-Mar-73	31-Dec-82	42.0	0.0	42.0	42.0	0.0	Agriculture	Sudan (Khartoum)
Highway Maintenance Project	1-Aug-72	30-Jun-80	7.0	0.0	7.0	7.0	0.0	Infrastructure (Transportation)	Unallocated
Mechanized Farming Project (02)	25-Apr-72	31-Dec-80	11.3	0.0	11.3	11.3	0.0	Agriculture	Sudan (Khartoum)
Mechanized Farming Land Clearance Project	30-Jul-68	31-Dec-72	5.0	5.0	0.0	5.0	0.0	Agriculture	Sudan (Khartoum)
Education Project (01)	24-Jun-68	30-Jun-79	8.5	0.0	8.5	8.5	0.0	Education	Unallocated
Power Roseires Khartoum Transmission System Project	15-Jan-68	31-Dec-73	24.0	24.0	0.0	24.0	0.0	Infrastructure (Power)	Sudan (Khartoum)
Railway Project	27-Dec-65	31-Dec-72	31.0	31.0	0.0	31.0	0.0	Infrastructure (Transportation)	Unallocated
Roseires Irrigation and Soil Surveys Project	14-Jun-61	31-Dec-71	32.5	19.5	13.0	32.5	0.0	Agriculture	Sudan (Khartoum)
Managil Irrigation Project	17-Jun-60	30-Jun-64	15.5	15.5	0.0	15.5	0.0	Agriculture	Sudan (Khartoum)
Expansion of Railways and Water Transport Facilities Project	21-Jul-58	30-Jun-64	39.0	39.0	0.0	39.0	0.0	Infrastructure (Transportation)	Unallocated
TOTAL	-	-	-	**166.0**	**1,352.9**	**1,518.9**	**668.0**	-	

Source: World Bank country website (www.worldbank.org/sudan) and author judgment and calculations

Sudan: Historical Overview of Financial Transactions with the IMF

	General Resources Account			Poverty Reduction and Growth Trust			Total		
	Purchases		Charges	Loans		Interest	Purchases and Loans		Charges and
Year	Disbursements	Repurchases	Paid	Disbursements	Repayments	Paid	Disbursements	Repayments	Interest Paid
2010	0	3,252,510	0	0	0	0	0	3,252,510	0
2009	0	6,885,539	0	0	0	0	0	6,885,539	0
2008	0	41,441,681	0	0	0	0	0	41,441,681	0
2007	0	39,186,468	0	0	0	0	0	39,186,468	0
2006	0	18,330,907	50,151	0	0	0	0	18,330,907	50,151
2005	0	19,142,483	299,640	0	0	0	0	19,142,483	299,640
2004	0	21,110,437	0	0	0	0	0	21,110,437	0
2003	0	18,734,741	343,775	0	0	0	0	18,734,741	343,775
2002	0	16,991,416	714,420	0	0	0	0	16,991,416	714,420
2001	0	41,085,422	605,199	0	0	0	0	41,085,422	605,199
2000	0	41,087,656	119,377	0	0	0	0	41,087,656	119,377
1999	0	27,611,697	4,930,898	0	0	0	0	27,611,697	4,930,898
1998	0	42,150,152	766,267	0	0	0	0	42,150,152	766,267
1997	0	25,467,603	10,957,124	0	5,165,815	0	0	30,633,418	10,957,124
1996	0	24,516,837	8,104,744	0	0	169,362	0	24,516,837	8,274,106
1995	0	22,955,575	8,369,410	0	2,984,215	0	0	25,939,790	8,369,410
1994	0	24,687	181,272	0	0	0	0	24,687	181,272
1990	0	1,045,140	14	0	0	0	0	1,045,140	14
1989	0	0	10,933,165	0	0	0	0	0	10,933,165
1988	0	0	22,506	0	0	167,522	0	0	190,028
1987	0	0	10,199,875	0	0	0	0	0	10,199,875
1986	0	0	17,840,734	0	0	0	0	0	17,840,734
1985	0	4,916,667	34,598,687	0	0	0	0	4,916,667	34,598,687
1984	20,000,000	16,306,369	5,156,450	0	0	169,725	20,000,000	16,306,369	5,326,175
TOTAL	**20,000,000**	**432,243,987**	**114,193,708**	**0**	**8,150,030**	**506,609**	**20,000,000**	**440,394,017**	**114,700,317**

Source: IMF

HIPCs: Commercial Creditor Litigation (as of end-2008)

HIPC Debtor	Creditor	Domicile of Creditor	Court Location	Status of Legal Action	Original Claim	Amount Claimed by the Creditor	Judgment for the Creditor
I. Completion-Point HIPCs							
Ethiopia	Kintex-Bulgaria	Bulgaria	Russia	Ongoing	8.7	8.7	-
Honduras	Bago Laboratories	Argentina	Honduras	Ongoing	1.5	1.5	-
Sierra Leone	Industrie Biscoti	Italy	-	Ongoing	9.0	9.0	-
Uganda	Iraq Fund for International Development	Iraq	Uganda	Ongoing	6.0	6.4	-
Zambia	ABSA Limited of South Africa	South Africa	Zambia	Ongoing	95.0	95.0	-
Congo, Dem. Rep. of the	FG Hemisphere	USA	France	Ongoing	44.0	118.0	-
	Frans Edward Prins Rootman	Israel	South Africa	Judgement awarded	12.5	43.5	43.5
Congo, Rep. of	Groupe Antoine Tabet (GAT)	Lebanon	Switzerland and France	Ongoing	126.0	91.9	-
	Berrebi	France	France	Ongoing	2.1	6.0	-
	Commisimpex	Rep. of Congo	France	Ongoing	83.6	733.5	-
							-
III. Potentially Eligible HIPCs							-
Sudan	Pomgrad Split	Serbia	Sudan	Judgement awarded	0.4	0.4	44.1
	Habib Bank Limited	Pakistan	UK	Judgement awarded	101.9	101.9	101.9
	Namco Anstalt	Switzerland	Sudan	Ongoing	4.6	5	-
	Africa Alfa Fund	Dubai	Dubai	Ongoing	26.2	0	0
TOTAL	-	-	-	-	**521.5**	**1,220.8**	**189.5**

Source: World Bank and IMF (September 2009), Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation, p5

Paris Club - Naples Terms[90]

History: In December 1994, Paris Club creditors agreed to implement a new treatment approach for the debt obligations of the poorest countries. These new terms, called "Naples terms", granted two substantial enhancements with respect to London terms that may be implemented on a case-by-case basis:

- For the poorest and most indebted countries, the level of cancellation is at least 50 percent and can be raised to 67 percent of eligible non-ODA credits. In September 1999, Paris Club creditors agreed that all Naples terms treatments would carry a 67 percent debt reduction in NPV terms.

- Stock treatments may be implemented on a case-by-case basis for countries that have established a satisfactory track record with both the Paris Club and IMF and when there is sufficient confidence in their ability to fulfill the debt agreement stipulations.

Eligibility: Eligibility for the Naples terms is assessed on a case-by-case basis, taking into account: (1) macroeconomic performance track record with the Paris Club and the IMF; (2) high level of indebtedness; (3) "IDA-only" status; and (4) low GDP per capita.

Claims Treatment: Under Naples Terms, non-concessional and concessional debt claims are treated through different approaches:

Non-ODA Credits: Non-concessional credits are cancelled to a 67 percent level based upon one of the following options:

- Debt Reduction Option: 67 percent of the claims treated are cancelled (after possible topping-up), the outstanding part being rescheduled at the appropriate market rate (23 years repayment period with a 6-year grace and progressive payments);

- Debt Service Reduction Option: Treated claims are rescheduled at a reduced interest rate (33 year repayment period with progressive payments).

ODA Credits: Concessional credits are rescheduled at an interest rate at least as favorable as the original concessional credit interest rate (40 years with 16-year grace and progressive repayment). As a result, this approach delivers a NPV reduction of the claims since the original

[90] See www.clubdeparis.org.

concessional rate is smaller than the appropriate market rate. The NPV reduction varies from one country to another depending on the original interest rate of the claims.

The Yugoslavia Precedent, Relevant External Debt Treatment Agreements

Slovenia: After the dissolution of the SFRY, Slovenia became the first successor state to finalize debt agreements with both Paris Club and London Club creditors. Slovenia's high level of foreign exchange reserves and comparatively low debt service ratio allowed it to avoid debt forgiveness or rescheduling measures.[91] Furthermore, Slovenia agreed to pay back all of its arrears on Paris Club debt accumulated from the pre-independence period.

Croatia: In 1995, Croatia and Paris Club creditors agreed on a standard rescheduling of debt – whereby arrears of $100 million were to be repaid in ten semi-annual installments between 1996 and 2000. Croatia also reached an agreement with London Club creditors in 1996. Under this agreement, Croatia assumed slightly more than their calculated share of SFRY's total London Club debt. This agreement later resulted in the rescheduling of Croatia's London Club debt.

Former Yugoslav Republic of Macedonia (FYRM): In 1999, Paris Club creditors granted a deferral of all arrears and current maturities (due during the following year) to the FYRM over a 5 ½ year period (with a one-year grace period). These terms were intended to offset the effects of the Kosovo crisis. Macedonia received no forgiveness on its Paris Club debt obligations. Macedonia accepted its share (as determined by the IMF Key) of London Club debt and subsequently signed a deal to reschedule these payments.[92]

Bosnia and Herzegovina: In 1998, Bosnia became the only former Yugoslav republic to sign an agreement with Paris Club creditors under Naples terms, effectively cancelling 67 percent of non-ODA credits and restructuring both ODA and non-ODA credits over 40 years (16 year grace period) and 23 years (6 year grace period), respectively.[93] In addition, Bosnia and Herzegovina received a non-concessional deferral of short-term debt and post-cutoff date debt, including $815 million of arrears.[94] Bosnia and Herzegovina also agreed to take on its share of SFRY debt from London Club creditors, albeit slightly less than was determined by the IMF Key. This debt was subsequently rescheduled in concordance with multiple bond issuances.

Serbia and Montenegro (FRY): In 2001, Paris Club creditors agreed to a two-step deal with the FRY. First, 100 percent of Paris Club debt contracted before 2001 was deferred. Second, 51 percent of Paris Club debt would be cancelled (and up to 67 percent, if FRY's payment track record remained satisfactory). This agreement cancelled roughly $3 billion (out of a total $4.5

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[91] In addition, Slovenia took on more than its proposed share of London Club debt (as determined by the IMF key).
[92] Mojmir Mrak, ed. *Apportionment and Succession of External Debts: The Case of the Sfr Yugoslavia*, Succession of States (Hague: Kluwer,1999).
[93] Details on the 1998 Bosnia/Paris Club agreement are available at http://www.clubdeparis.org/.
[94] Doris C. Ross, Harmsen, Richard T., *Official Financing for Developing Countries*, vol. 27, World Economic and Financial Surveys (Washington: International Monetary Fund, 2001), page 39.
See IMF Article IV Report (March 2002) for further details.

billion) owed to Paris Club creditors.[95] Serbia and Montenegro also completed a complex rescheduling deal with London Club creditors in 2004.[96]

[95] Full Paris Club press release available at http://www.clubdeparis.org/sections/communication/archives-2001/yougoslavie-republique/viewLanguage/en/downloadFile/PDF/pr0.pdf.
[96] For full details, see http://www.nbs.rs/export/internet/english/40/40_3.html.

Oil Analysis Methodology

This section provides a comprehensive overview of our oil sector analysis methodology. It focuses on two main components: (1) current and historical data sources; and (2) the oil production and price projection model. The data in this report was collected from a wide array of sources in order to mitigate any potential biases from national governments and ministries, multinational and national oil conglomerates, and international NGOs.

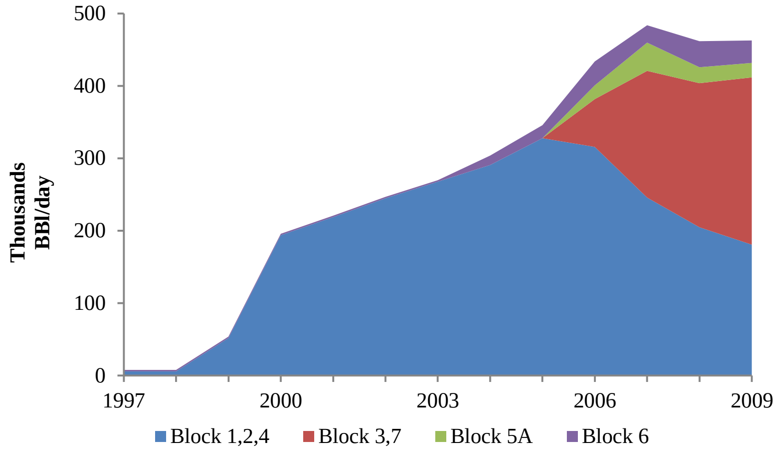
Oil Reserve Estimates: Sudan is divided into roughly 25 oil concession areas (so-called blocks). Each block is appropriated to a consortium of oil companies and/or state-run enterprises. Overall, oil drilling and operations are dominated by a few large firms – namely China National Petroleum Corporation (China), Petronas (Malaysia), ONGC Videsh (India), and Sudapet (Sudan). According to the most recent information, the majority of Sudan's confirmed reserves are located in blocks 1, 2, and 4 (which are aggregated for reporting purposes) and blocks 3 and 7 (also grouped together). Blocks 1, 2, and 4 have been online since 1999. Blocks 3 and 7 began commercial production in 2006.

Although oil discoveries and explorations continue in Sudan, there remains debate over the total level of the country's proven reserves. Three estimates place Sudan's total reserves between five and seven billion barrels.[97] While drilling success rates in Sudan have been relatively high (roughly 60 percent), comprehensive seismic data is not available for unexplored areas and some experts are skeptical about the production capacity of the remaining unexplored blocks.[98]

Historical Oil Production: In addition to holding the bulk of reserves, blocks 1, 2, 4, and blocks 3 and 7 account for the majority of existing production. Block 6 produces crude for domestic refining and use only. In the past, blocks 1, 2, and 4 have accounted for the majority of higher quality Sudan oil output. However, recently blocks 3 and 7 have emerged as the largest oil producing areas. The other blocks currently producing oil in smaller quantities are 5A and 6.

[97] BP Statistical Review (2010), Oil & Gas Journal (2009), and World Oil (2007).
[98] According to the World Bank, success rates were 58 percent for around 400 exploratory and appraisal wells.

Current & Historic Oil Production by Concession Area, 1997-2009[99]



Oil Revenue: Gross oil revenues are determined and allocated through a multi-step process. First, they are divided between oil concession operators and the Sudanese government (Khartoum). In this step, individual concession area contracts determine the proportion awarded to each party. These contracts vary depending on actual output per concession area. In any given year, the total share awarded to the government is roughly:[100]

- Blocks 1, 2, and 4 – 66 percent
- Blocks 3 and 7 – 55 percent
- Block 5A – 43 percent

Resulting government portions are then allotted to an Oil Revenue Stabilization Account (ORSA) and, in some cases, to the specific oil producing region. Finally, the remaining government revenues are divided between the Sudanese central government (Khartoum) and the Government of Southern Sudan (GoSS). The Comprehensive Peace Agreement (CPA) states that these revenues should be split equally among the two parties.[101] The agreement requires that the Sudanese Ministry of Finance publish an annual report of the earnings delivered to GoSS.

Geographic Distribution of Oil: The precise geographic coordinates of Sudan's oil reserves and production are critical on the eve of the upcoming referendum given that each block's affiliation (with Khartoum or Southern Sudan) could determine the ultimate destination of its revenues. Blocks 3 and 7 (in Sudan's Melut Basin) are indisputably in a Southern state (Upper Nile). Block 5A also is in a Southern state (Northern Bahar El Ghazal). Due to their location near the North-South border, the placement of blocks 1, 2, and 4 is more complicated.

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[99] Data collected from Sudanese Petroleum Corporation website (www.spc.sd). Also, see World Bank (2009), "Sudan: The Road toward Sustainable and Broad-Based Growth."
[100] Figures are taken from Explanatory Note on the 2008 Sudan Budget. See www.mof.gov.sd/img/e1985.pdf.
[101] Revenues are split 50/50, except in the case of oil from the Abyei region, which is described in the following paragraph.

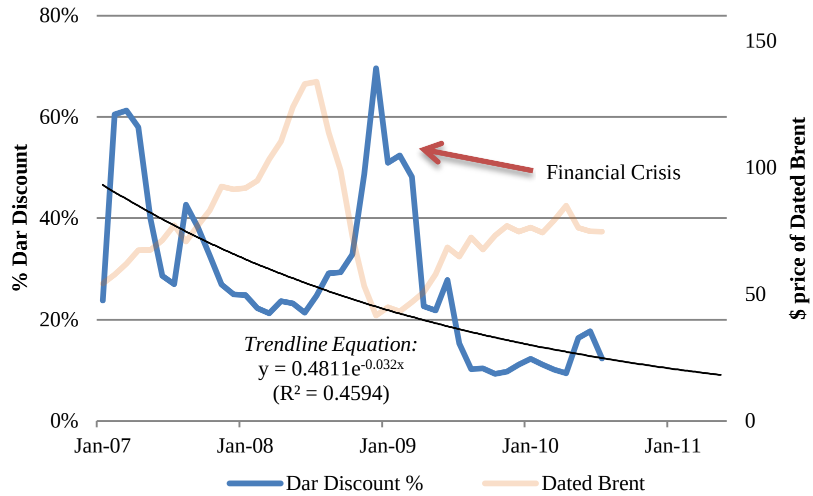
The oil in blocks 1, 2, and 4 lies in the Muglad Basin – Sudan's longest-producing and most profitable oil region. Parts of the three concession areas lie across the South (Eastern Bahar El Ghazal, also known as Unity State), the North (Southern Kordofan), and Abyei County (a district with special administrative status). In the wake of a 2009 arbitration agreement, roughly 60 percent of oil production in these areas now lies in Southern territory, 37 percent in Northern territory, and only 3 percent in Abyei. For more details, see "Box 1: Abyei County – Background Information and Relevance for Debt Issues".

Sudanese-Specific Crude Prices: Sudanese crude oil prices are determined on a transaction-by-transaction basis according to their type and quality. Oil fields in Sudan produce three different blends – Nile Blend (blocks 1, 2, 4, and 5A), Dar Blend (blocks 3 and 7), and Fula Blend (block 6). Fula is only refined for local consumption and is not of sufficient quality for export. Dar and Nile Blends are both exported via pipelines to Port Sudan on the Red Sea. Because of their lower quality (in comparison to light, sweet crudes), Sudanese crudes trade at a discount (per barrel) to benchmark world oil prices. For the purposes of this paper, historic Nile and Dar Blend price and discount data have been collected from multiple sources.[102]

Dar Blend (Blocks 3 and 7): Dar prices are discounted to Dated Brent, which is a light benchmark crude found in the North Sea. By comparison, Dar Blend is a lower quality, heavier, acidic crude with a high arsenic content. Given this, it requires specially-equipped refineries. Given these attributes, Dar Blend fetches a lower price on the global market. However, Dar's discount has been decreasing steadily since 2006 given the establishment of additional refining capacity (see graph below).[103] The trend potentially could accelerate if American and European companies with high refining capabilities resumed purchases of Sudanese oil in the event of a Southern Sudan secession.

[102] Sources: the Sudanese Ministry of Finance, Sudapet, Platts Oilgram report, and Reuters data on individual tenders.
[103] There have been plans to retrofit the Port Sudan refinery to process Dar Blend. There have also been rumors of a new refinery that would be built in Kenya, which would have these capabilities. However, these plans remain in the planning stages and are long-term ventures.

Price Discount of Dar Blend versus Brent Blend Benchmark, 2007-2010[104]



Nile Blend (Blocks 1, 2, 4, and 5A): Nile Blend is more comparable to higher quality crudes. It trades at a small (or sometimes negative) discount to Minas Blend, which is a Malaysian crude with similar attributes. Minas is a high-quality blend and is traded on world markets – its prices are strongly correlated with global crude oil prices (coefficient of 0.996). Nile Blend discounts have remained steady over the past ten years.

PROJECTION METHODOLOGY

Although it is not directly relevant to the findings of this paper, we have created a forecasting model to project dynamic scenarios in future years. In post-referendum negotiations, this model could be a resource for simulating longer-term revenue, export, and debt sustainability scenarios. Our model uses the aforementioned current and historical data, in part, to project future Sudanese crude production and prices. In light of the significant global market volatility, our model presents multiple oil price and economic growth scenarios. Furthermore, it accounts for varying proportions of each concession area's contribution to Sudan's overall oil output.

Total Sudan Oil Production Projections: There is significant debate over Sudan's projected oil production for the coming years. Various sources (including the World Bank) predict that Sudan oil production will peak around 2012 and decline steadily afterwards. However, this methodology uses production projections that are based on the U.S. Department of Energy's (DOE) *International Energy Outlook 2010*. The DOE's Energy Information Administration (EIA) utilizes an 'International Energy Module' to determine both supply and demand information along with the resulting world crude price projections. The EIA's supply curves are based on: (1) historical market data; (2) supply and demand balance; and (3) current investment

[104] Data collected from Reuters and Platt's Oilgram weekly price reports. Interestingly, a spike in the Dar discount occurs during the financial crisis of 2008-2009 simultaneously with a large drop in world crude prices and market uncertainty/volatility.

trends in exploration.[105] These prices and quantities also integrate with those calculated for the United States via EIA's National Energy Modeling System (NEMS). Based upon these factors, the EIA projects Sudanese production under five different scenarios (as described below).[106]

Sudan - Total Oil Production Projections (Millions of bbls per day)

Year	Reference	High Economic Growth	Low Economic Growth	High Oil Price	Low Oil Price
2008	0.5	0.5	0.5	0.5	0.5
2015	0.5	0.6	0.5	0.6	0.5
2020	0.6	0.6	0.5	0.6	0.6
2025	0.7	0.7	0.6	0.6	0.6
2030	0.8	0.9	0.7	0.8	0.7
2035	0.9	1.1	0.7	0.9	0.8

Sudan Oil Production Projections – EIA Scenarios

Scenario	Description
Reference	Baseline economic GDP growth (2.4 percent), world oil price, and technology assumptions
High Oil Price	Real GDP grows at 3.0 percent, other assumptions same as reference case
Low Oil Price	Real GDP grows at 1.8 percent, other assumptions same as reference case
High Economic Growth	More pessimistic assumptions for economic access to non-OPEC resources and OPEC behavior than in Reference Case. Other assumptions same as Reference case
Low Economic Growth	More optimistic assumptions for economic access to non-OPEC resources and OPEC behavior than in Reference Case. Other assumptions same as Reference case

Source: EIA (2010)

Oil Production Projections per Block: EIA projections only apply to Sudan oil production on a country-wide level. However, of relevance to this particular exercise are the projected production figures *per concession area*, as each block's location (and production) will have specific importance in the event of a potential Southern secession. For future research and analysis, the model will be able to project different scenarios for increasing or declining production of each field (in relation to other concession areas.)

Oil Price Projections: The model uses the EIA's average price projection of 'imported crude oil', which is an average of all crude oil imported by American refiners.[107] Based on historical

[105] "International Energy Outlook," (Washington: Energy Information Administration, Department of Energy, 2010), page 196.
[106] Economic growth scenarios are based on US economic growth and its ability to influence both US and world oil prices. Oil price scenarios take into account OPEC behavior and availability of non-OPEC resources.
[107] According to the EIA, the only other comparable long-term price projections are published by IHS Global Insight. EIA's *International Energy Outlook 2010* report compares its own projections with IHS projections. While

prices, we expect that the 'imported crude' price will strongly correlate with the price of benchmarks for Dar and Nile Blends (Dated Brent and Minas, respectively.) The EIA uses the same five cases (as described above) to illustrate possible future prices in the crude oil market.

Based upon EIA global price projections, the model then applies discount estimates to determine Sudanese crude price projections. A recent study concluded that oil price differentials exhibit strong evidence of stabilizing tendencies, often after a period of instability.[108] Therefore, for Nile Blend prices, we assume a constant discount of 5.5 percent compared to Midas crude – representing the average monthly discount level over the last six years. For the Dar Blend, we expect that its discount relative to Brent will continue on a downward trend compared over time – partly based upon expected advances in refining capacity. However, the model applies a discount floor of 7 percent, which reflects the underlying quality differential between Dar and Brent.[109]

Pipeline Costs: The Sudanese oil fields discussed in this paper are located roughly one thousand miles from the Port Sudan shipping terminal. Thus, Sudan is heavily dependent on its pipelines (the two longest in Africa) which are owned by the respective joint operating companies.[110] Given the pipeline length (and required capital investment), transportation cost estimates range between $4 and $6 per barrel.[111] Pipeline costs have been incorporated into our model, and revenue projections reflect a constant cost per barrel of approximately $7. Depending on the outcome of the January referendum, pipeline fees imposed by the Khartoum government could serve as a means of revenue transfer between the North and an independent Southern Sudan. However, export figures for both Khartoum and Southern still would be calculated irrespective of any revenue sharing agreement.

New Partnerships and Points of Export: As noted above, Southern Sudan is dependent on Khartoum for all oil transport and exports. However, media reports suggest that Chinese oil companies operating in Kenya and Uganda may be considering plans for new refineries and/or shipping terminals in these respective countries. Such development would take significant time, resources, and political will. However, the incentives for the Government of Southern Sudan to explore other export avenues are very high. Due to the uncertainties of future pipeline plans, the model assumes that any oil produced in Southern Sudanese territory will continue to travel via pipeline to the Port Sudan shipping terminal.

IHS predicts that world oil prices will be slightly lower than EIA's estimates, the two methodologies are comparable.

[108] Bassam Fattouh, "The Dynamics of Crude Oil Price Differentials," *Energy Economics* 32, no. 2 (2010).

[109] For more information on deriving discounts for each blend of crude, see World Bank Note #275 http://rru.worldbank.org/documents/publicpolicyjournal/275-bacon-tordo.pdf

[110] "Sudan: The Road toward Sustainable and Broad-Based Growth," page 58.

[111] "Sudan's Oil Industry: Facts and Analysis," (European Coalition on Oil in Sudan, 2008).

Another aspect that may impact Sudan's oil output is its recovery factor – the proportion of total oil contained in the reservoir that is expected to be produced commercially. Greater investment in Sudan's oil industry could lead to an increase in the recovery factor from 26 percent (its current rate) towards 35 percent (the world average). Such an increase would greatly boost Sudan's remaining proven reserves.

Export and Government Revenue Methodology

Regional export data is not publicly available for Southern Sudan. Therefore, in order to calculate regional debt-to-export ratios, the analysis uses IMF, Bank of Sudan, and oil production data (shown in appendix VI) to estimate export figures. As noted earlier in the paper, end-2009 data is used in lieu of (currently unavailable) end-2010 figures.

Two possible scenarios are simulated for the plebiscite of Abyei County, a vote to determine whether the region will join a new Southern Sudan or remain a special administrative district of the North.[112]

Exports if Abyei → Khartoum: The first scenario assumes that Abyei voters will choose to remain united with the Khartoum government. In this case, Southern Sudan's exports will equal the value of oil output from Blocks 3, 7, and 5A, and **56 percent** of exports from Blocks 1, 2, and 4. The formula below takes into account:

- Each block's share of total Sudan oil production
- The relative prices of Dar (Blocks 3 and 7) and Nile (Block 5A) crude variants
- The share of oil exports as a percentage of total Sudan exports
- The share of oil exports as a percentage of Southern Sudan exports

The equation for calculating exports for Southern Sudan (without Abyei) is

$$\frac{\left(\frac{Prod.\,3{,}7}{Total\ prod.}*\frac{\$P\ Dar}{\$P\ Nile}*\frac{oil\ exp}{total\ exp}*\$IMF\ exports.\right)+\left(\frac{Prod.\,5A}{Total\ prod.}*\frac{oil\ exp.}{total\ exp.}*\$IMF\ exports\right)+\left(\mathbf{0.56}*\frac{Prod.\,1{,}2{,}4}{Total\ prod.}*\frac{oil\ exp.}{total\ exp.}*\$IMF\ exports\right)}{\frac{GoSS\ oil\ exports}{GoSS\ total\ exports}},$$

where "Prod. 3,7", "Prod. 5A", and "Prod. 1,2,4" are production from Blocks 3 and 7, Block 5A, and Blocks 1,2, and 4, respectively. "$P Dar" and "$P Nile" are the average yearly spot prices of Dar Blend and Nile Blend, respectively. "oil exports/total exports" is the share of oil exports relative to Sudan's total exports. Finally, "$IMF exports" is the total export amount for Sudan, which is taken from the 2010 Article IV report. To determine Khartoum's total exports, Southern exports are simply subtracted from Sudan's estimated total exports.[113]

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[112] According the Comprehensive Peace Agreement, this vote is scheduled to take place on the same day as the referendum vote in Southern Sudan. As noted in appendix VI, Abyei production accounts for 3 percent of production in blocks 1, 2, and 4 (thus, less than 1 percent of total Sudan production.)

[113] The method of first calculating Southern Sudan's exports stems from the fact that its export base is highly concentrated on the oil sector. Khartoum has a more robust non-oil export industry.

Exports if Abyei → Southern Sudan: The second scenario assumes that Abyei voters will choose to join an independent Southern Sudan. In this case, Southern Sudan's exports will equal the total value of oil output from Blocks 3, 7, and 5A, along with **59 percent** of exports from Blocks 1, 2, and 4.

As in the previous scenario, Khartoum's total exports are calculated by subtracting Southern Sudan's exports from total national exports.

Government Revenues

- *Southern Sudan*: Similarly to export figures, revenue calculations take into account (a) each oil concession area's proportion of overall production and (b) the proportion of oil revenues to total Sudanese revenues. Oil revenues are assumed to account for 98 percent of all GoSS revenues (as they have in recent years).

- *Khartoum*: As in previous calculations, Southern Sudan revenues are subtracted from total Sudan revenues (as reported in the IMF Article IV report).

2009 Regional GDP Calculation Methodology

Methodology: Currently, there are no official figures for the regional GDP of either Northern or Southern Sudan. In the absence of such figures, we have derived our own estimates by using a number of reliable data sources and a standard expenditure model. The equation used to estimate the respective regions' GDP is:

$$Y = C + I + G + (EX - IM)$$

The individual components of the equation have been calculated as follows:[114]

Household Consumption Expenditure (C):

- *Southern Sudan:* In a 2008 survey, Southern Sudan's Centre for Census, Statistics and Evaluation (SSCCSE) estimates private monthly consumption for Southern Sudan at 100 SDG per capita.[115] This average is further broken down by state; numbers which are multiplied by state populations to calculate GDP for the Southern region[116] In order to calculate *2009* consumption data, we assume that Southern Sudanese household consumption changed at the same rate (between 2008 and 2009) as did overall Sudan household consumption.[117]

- *Khartoum*: Sudan's Central Bureau of Statistics estimates private monthly consumption for the North at 148 SDG per capita.[118] However, the full survey (including a state-by-state breakdown) is not readily available to the public. Therefore, in order to more accurately estimate per capita consumption figures, we subtract the previously-calculated Southern Sudan consumption from total Sudanese consumption, as reported by the World Bank's Global Financial Statistics (GFS) database.

Government Consumption Expenditure (G):

[114] Sudanese pounds are converted into US Dollars when necessary at the average 2009 exchange rate of 2.33 SDG/USD.
[115] Found online at: http://www.goss-online.org/magnoliaPublic/en/Independant-Commissions-and-Chambers/Center-for-Census--Statistics-and-Evaluation/mainColumnParagraphs/0/content_files/file/Poverty_Southern_Sudan.pdf
[116] Population figures obtained from Sudan Census 2009.
[117] According to World Bank GFS figures, household consumption declined roughly 10 percent between 2008 and 2009.
[118] Found online at: http://www.norway-sudan.org/News_and_events/Statistics-Norway-supports-the-National-Baseline-Household-Survey-/.

- *Southern Sudan:* The 2009 and 2010 GoSS budgets provide an extensive breakdown of all government expenditures.[119] These figures do not include GoSS transfers to individual Southern states. The subcomponents of government expenditure are salaries and operating expenditures.

- *Khartoum:* Khartoum government expenditures are calculated by subtracting GoSS expenditures from Sudan's total government consumption as reported by World Bank's GFS database.

<u>Gross Domestic Fixed Capital Formation / Investment Expenditure (I)</u>:

- *Southern Sudan:* Given the lack of data on regional investment figures, the methodology assumes that foreign aid in Southern Sudan accounts for a significant portion of total investment expenditure. GoSS publishes an annual donor book with project-by-project information for all donors and recipients, including both pledged and disbursed aid amounts.[120] This simplifying assumption may produce a downward bias since it would not capture non-aid investments, such as those in the oil and construction sectors. Government capital investment (as outlined in the 2010 GoSS budget) also is added to total investment expenditures.

- *Khartoum:* To calculate gross investment expenditures in the North, Southern Sudan investment is subtracted from the total national investment figure included in the World Bank's GFS database.

<u>Exports of Goods and Services (EX)</u>:

- Oil exports for Southern Sudan and Khartoum are calculated using the methodology from the preceding appendix VII.[121]

<u>Imports of Goods and Services (IM)</u>:

- *Southern Sudan*[122]: Imports are calculated via a two-step method: (1) total Sudan imports are allocated to Khartoum and Southern Sudan according to each region's share of

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[119] GoSS Budgets available at: http://www.goss-online.org/magnoliaPublic/en/ministries/Finance/Annual-Budgets.html.
[120] Actual 2009 expenditures (as published in the GoSS 2010 budget) are only available from January-June 2009. Calculations assume that totals for the year will be double those of the first six months of the year.
[121] Exports are defined as any good or service produced within the region's specific borders.
[122] Considering the lack of regional or state-based data (most notably in import data), the only viable method for calculating Southern Sudan imports is according to consumption data (per region) and population data.

Sudan's total population (approximately 79/21); and (2) imports for the South are adjusted downwards to reflect lower rates of monthly private consumption.[123]

- *Khartoum*: To calculate imports to Northern states, Southern Sudan imports are subtracted from Sudan's total national imports, as found in the 2010 IMF Article IV report.

[123] Total Sudan imports are taken from the IMF Article IV report. According to respective household surveys, consumption rates in the South are approximately one-third lower than those in the North. Therefore, we assume that imports (per capita) will follow the same proportions. Furthermore, we assume that the large majority of imports are consumable goods – which may not accurately reflect the import composition profile in Sudan.

	SOUTHERN SUDAN		KHARTOUM		TOTAL	
GDP Component	**SDG**	**USD**	**SDG**	**USD**	**SDG**	**USD**
Private Consumption Expenditure	9,018,379,814	3,870,549,277	64,270,099,958	27,583,733,888	73,288,479,773	31,454,283,164
Government Consumption Expenditure	3,232,616,268	1,387,388,956	18,168,376,990	7,797,586,691	21,400,993,258	9,184,975,647
Salaries	*1,977,349,566*	*848,647,882*				
Operating	*1,255,266,702*	*538,741,074*				
Total Investment Expenditure	2,550,271,157	1,094,536,977	29,707,056,678	12,749,809,733	32,257,327,835	13,844,346,710
Foreign Aid	*1,548,233,656*	*664,477,964*				
Government Capital Investment	*1,002,037,501*	*430,059,013*				
Total Domestic Expenditure	14,801,267,240	6,352,475,210	112,145,533,625	48,131,130,311	126,946,800,865	54,483,605,521
Exports of Goods and Services						
Abyei --> Southern Sudan	12,309,969,909	5,283,248,888	6,865,411,099	2,946,528,369	19,175,381,008	8,229,777,257
Abyei --> Khartoum	12,103,181,599	5,194,498,540	7,072,199,409	3,035,278,716	-	-
Total Final Expenditure						
Abyei --> Southern Sudan	27,111,237,149	11,635,724,098	119,010,944,724	51,077,658,680	146,122,181,873	62,713,382,778
Abyei --> Khartoum	26,904,448,838	11,546,973,750	119,217,733,035	51,166,409,028	-	-
Imports of Goods and Services	(1,382,593,780)	(593,387,888)	(18,487,646,220)	(7,934,612,112)	(19,870,240,000)	(8,528,000,000)
TOTAL GDP						
Abyei --> Southern Sudan	25,728,643,369	**11,042,336,210**	100,523,298,504	**43,143,046,568**	126,251,941,873	**54,185,382,778**
Abyei --> Khartoum	25,521,855,059	**10,953,585,862**	100,730,086,814	**43,231,796,916**	-	-
GDP/Capita						
Abyei --> Southern Sudan		$1,301		$1,360		$1,348
Abyei --> Khartoum		$1,290		$1,363		$1,348

Alternative Debt Division Scenarios: Debt Ratios Before and After Traditional Debt Relief and IFI Arrears Clearance

	Paris Club → Southern Sudan			Paris Club + Multilateral Creditors → Southern Sudan			Paris Club + Multilateral + Commercial → Southern Sudan		
Region	*Pre-Naples Treatment*	*Post-Naples Treatment*	*Post-IFI Arrears*	*Pre-Naples Treatment*	*Post-Naples Treatment*	*Post-IFI Arrears*	*Pre-Naples Treatment*	*Post-Naples Treatment*	*Post-IFI Arrears*
Khartoum	**23.5**	**14.3**	**11.9**	**20.1**	**10.9**	**10.9**	**15.6**	**9.4**	**9.4**
Multilateral Creditors	*4.6*	*4.6*	*2.2*	*1.2*	*1.2*	*1.2*	*1.2*	*1.2*	*1.2*
Paris Club Creditors	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Non-Paris Club Bilateral	*13.0*	*6.8*	*6.8*	*13.0*	*6.8*	*6.8*	*13.0*	*6.8*	*6.8*
Commercial Banks	*4.5*	*1.5*	*1.5*	*4.5*	*1.5*	*1.5*	*0.0*	*0.0*	*0.0*
Suppliers	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*
Exports *(Abyei → Khartoum)*	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
NPV Debt-to-Exports	**566%**	**345%**	**287%**	**484%**	**263%**	**263%**	**376%**	**227%**	**227%**
Exports *(Abyei → South)*	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
NPV Debt-to-Exports	**585%**	**356%**	**296%**	**500%**	**271%**	**271%**	**388%**	**234%**	**234%**
Revenues *(Abyei → Khartoum)*	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
NPV Debt-to-Revenues	**362%**	**221%**	**183%**	**310%**	**168%**	**168%**	**240%**	**145%**	**145%**
Revenues *(Abyei → South)*	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4
NPV Debt-to-Revenues	**367%**	**223%**	**186%**	**314%**	**170%**	**170%**	**243%**	**147%**	**147%**
GDP *(Abyei → Khartoum)*	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2	43.2
NPV Debt-to-GDP	**54%**	**33%**	**27%**	**46%**	**25%**	**25%**	**36%**	**22%**	**22%**
GDP *(Abyei → South)*	43.1	43.1	43.1	43.1	43.1	43.1	43.1	43.1	43.1
NPV Debt-to-GDP	**54%**	**33%**	**28%**	**46%**	**25%**	**25%**	**36%**	**22%**	**22%**
Southern Sudan	**11.2**	**5.0**	**5.0**	**14.6**	**8.4**	**6.0**	**19.1**	**9.9**	**7.5**
Multilateral Creditors	*0.0*	*0.0*	*0.0*	*3.4*	*3.4*	*1.0*	*3.4*	*3.4*	*1.0*
Paris Club Creditors	*11.2*	*5.0*	*5.0*	*11.2*	*5.0*	*5.0*	*11.2*	*5.0*	*5.0*
Non-Paris Club Bilateral	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Commercial Banks	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*4.5*	*1.5*	*1.5*
Suppliers	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Exports *(Abyei → South)*	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3
NPV Debt-to-Exports	**179%**	**80%**	**80%**	**234%**	**134%**	**96%**	**306%**	**158%**	**120%**
Exports *(Abyei → Khartoum)*	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
NPV Debt-to-Exports	**183%**	**82%**	**82%**	**239%**	**137%**	**98%**	**312%**	**161%**	**122%**
Revenues *(Abyei → South)*	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
NPV Debt-to-Revenues	**290%**	**129%**	**129%**	**378%**	**217%**	**155%**	**494%**	**255%**	**193%**
Revenues *(Abyei → Khartoum)*	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
NPV Debt-to-Revenues	**296%**	**132%**	**132%**	**296%**	**132%**	**132%**	**296%**	**132%**	**132%**
GDP *(Abyei → South)*	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
NPV Debt-to-GDP	**102%**	**45%**	**45%**	**133%**	**76%**	**54%**	**173%**	**90%**	**68%**
GDP *(Abyei → Khartoum)*	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
NPV Debt-to-GDP	**103%**	**46%**	**46%**	**134%**	**77%**	**55%**	**175%**	**90%**	**68%**

IDA Articles of Agreement – Article II (New Membership and Initial Subscriptions)

Section 1. Membership

(a) The original members of the Association shall be those members of the Bank listed in Schedule A hereto which, on or before the date specified in Article XI. Section 2 (c), accept membership in the Association.

(b) Membership shall be open to other members of the Bank at such times and in accordance with such terms as the Association may determine.

Section 2. Initial Subscriptions

(a) Upon accepting membership, each member shall subscribe funds in the amount assigned to it. Such subscriptions are herein referred to as initial subscriptions.

(b) The initial subscription assigned to each original member shall be in the amount set forth opposite its name in Schedule A, expressed in terms of United States dollars of the weight and fineness in effect on January 1, 1960.

(c) Ten percent of the initial subscription of each original member shall be payable in gold or freely convertible currency as follows: fifty percent within thirty days after the date on which the Association shall begin operations pursuant to Article XI, Section 4, or on the date on which the original member becomes a member, whichever shall be later; twelve and one-half percent one year after the beginning of operations of the Association; and twelve and one-half percent each year thereafter at annual intervals until the ten percent portion of the initial subscription shall have been paid in full.

(d) The remaining ninety percent of the initial subscription of each original member shall be payable in gold or freely convertible currency in the case of members listed in Part I of Schedule A, and in the currency of the subscribing member in the case of members listed in Part II of Schedule A. This ninety percent portion of initial subscriptions of original members shall be payable in five equal annual installments as follows: the first such installment within thirty days after the date on which the Association shall begin operations pursuant to Article XI, Section 4, or on the date on which the original member becomes a member, whichever shall be later; the second installment one year after the beginning of operations of the Association, and succeeding installments each year thereafter at annual intervals until the ninety percent portion of the initial subscription shall have been paid in full.

(e) The Association shall accept from any member, in place of any part of the member's currency paid in or payable by the member under the preceding subsection (d) or under Section 2 of Article IV and not needed by the Association in its operations, notes or similar obligations issued by the government of the member or the depository designated by such member, which shall be non-negotiable, non-interest bearing and payable at their par value on demand to the account of the Association in the designated depository.

(f) For the purposes of this Agreement the Association shall regard as "freely convertible currency":

> (i) currency of a member which the Association determines, after consultation with the International Monetary Fund, is adequately convertible into the currencies of other members for the purposes of the Association's operations; or
>
> (ii) currency of a member which such member agrees, on terms satisfactory to the Association, to exchange for the currencies of other members for the purposes of the Association's operations.

(g) Except as the Association may otherwise agree, each member listed in Part I of Schedule A shall maintain, in respect of its currency paid in by it as freely convertible currency pursuant to subsection(d) of this Section, the same convertibility as existed at the time of payment.

(h) The conditions on which the initial subscriptions of members other than original members may be made, and the amounts and the terms of payment thereof, shall be determined by the Association pursuant to Section I (b) of this Article.

Section 3. Limitation on Liability

No member shall be liable, by reason of its membership, for obligations of the Association.

Sudan: IFI Arrears Clearance and Debt Relief Process

Preparatory Work & Analysis

(1) Southern Sudan referendum results
(2) Abyei referendum results
(3) Compile all existing debt obligations
(4) Audit debt claims for accuracy and status
(5) Complete updated IMF/World Bank debt sustainability analysis
(6) Complete loan apportionment agreement *(if applicable)*
(7) Complete wealth sharing agreement *(if applicable)*

Pre-Eligibility Requirements

(1) Become IFI member *(if applicable)*
(2) Secure HIPC country eligibility *(if applicable)*
(3) IMF Staff-Monitored Program(s)
(4) Clear IFI debt arrears
(5) Traditional debt treatment (Naples Terms)
(6) Begin Interim PRSP preparation
(7) Initiate IDA Debt Reduction Facility discussions

HIPC Decision Point Eligibility *(if applicable)*

(1) Complete Interim PRSP
(2) Satisfactory IMF Agreement performance
(3) Paris Club Agreement
(4) IFI Board approval for interim HIPC Relief (conditional debt service relief)
(5) Initiate IDA Debt Reduction Facility negotiations

HIPC Completion Point Eligibility *(if applicable)*

(1) Satisfactory IMF Agreement performance
(2) PRSP implementation for one-year
(3) Achieve IMF/WB structural reform triggers
(4) Final Paris Club Agreement
(5) IFI Board Approval for Completion Point (irrevocable debt stock relief reducing NPV debt/export ratio to 150%)

Multilateral Debt Relief Initiative *(if applicable)*

(1) Automatic 100% cancellation of remaining eligible IDA, AfDF, and IMF obligations

Regular IDA and AfDF loans/grants resume

U.S. Sanctions Concerning Sudan

The United States and many other countries have imposed extensive trade and financial sanctions against the Government of Sudan since the 1990s. In the U.S., existing sanctions are based upon a patchwork of executive orders and legislative acts. Moreover, the U.S. has named Sudan as a state sponsor of terrorism – which entails additional, overlapping financial penalties.[124] Overall, multiple layers of economic sanctions against Khartoum must be removed by the U.S. executive and legislative branches prior to bilateral debt relief. Removing these measures also likely will be required for multilateral arrears clearance and potential debt relief operations (i.e., HIPC Initiative).

Legislative Sanctions: Under the Sudan Peace Act of 2002 and Comprehensive Peace in Sudan Act of 2004, U.S. Executive Directors to World Bank, IMF, and African Development Bank are directed "to vote against and actively oppose any extension by the respective institution(s) of any loan, credit, or guarantee to the Government of Sudan." While this language does not explicitly include debt forgiveness grants, the general spirit of the law would cover these activities.

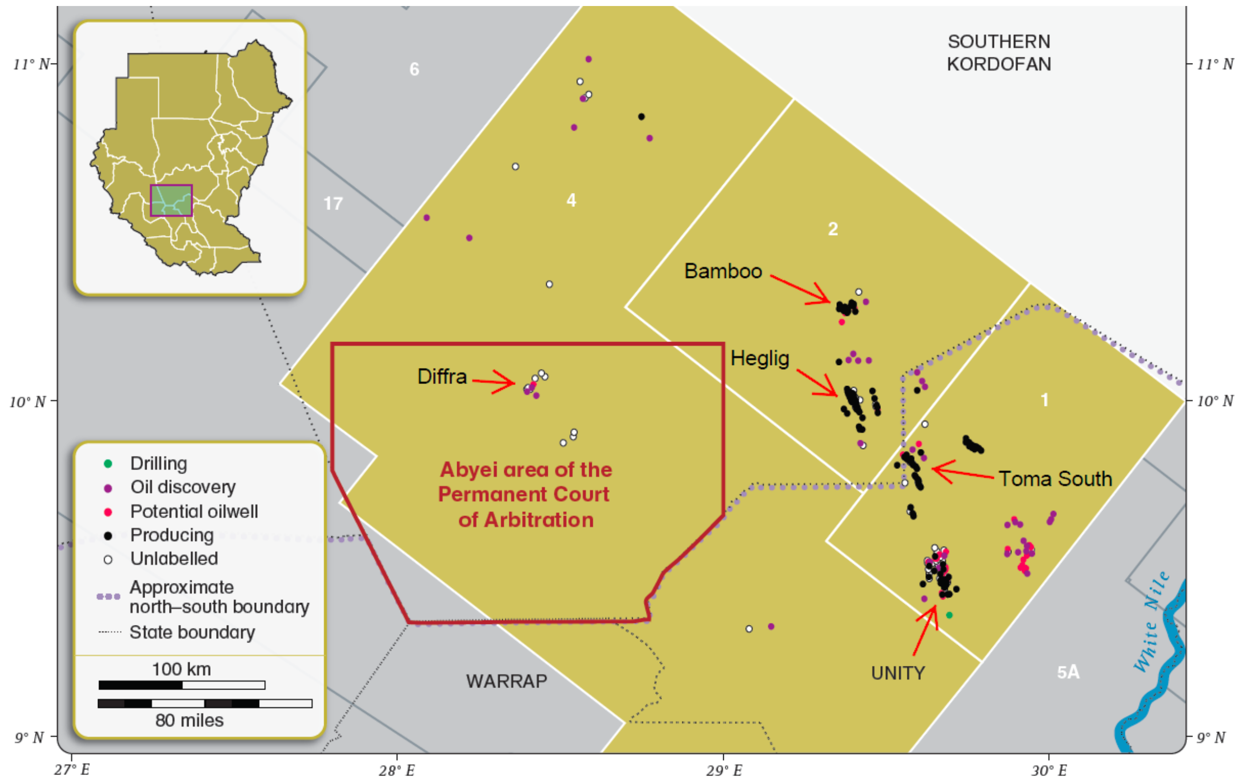
Executive Sanctions: The U.S. Treasury's Office of Foreign Asset Control (OFAC) is the principle actor responsible for enforcing executive orders regarding sanctions on Sudan.[125] In 1997, President Clinton issued Executive Order 13067 (EO 13067), which imposed a trade embargo against the territory of Sudan and a total asset freeze against the Government of Sudan. In 2006, President Bush issued Executive Order 13400, which expanded EO 13067 to block the property of certain persons connected with the conflict in Darfur. Later that year, President Bush issued Executive Order 13412, which named exempt states/areas of Sudan (South Kordofan state, Nuba Mountains, Blue Nile state, Abyei, and Darfur), and excluded the Government of Southern Sudan from the certain types of restrictions. EO 13412 also prohibits all transactions by U.S. persons relating to Sudan's petroleum industries irrespective of the region.

With regards to financial transactions, the executive orders prohibit all financial dealings with Sudan (excluding the Specified areas) including the performance by any U.S. person of any financing contract in support of an industrial, commercial, public utility, or governmental project in Sudan. The executive orders allow financial transactions with banks in the specified areas, provided that the Government of Sudan does not have an interest in the transaction, and that payments are not routed through any banks outside of the specified areas. In 2007, a general

[124] For additional details, see U.S. Department of State (2009), *Country Reports on Terrorism 2009* (http://www.state.gov/s/ct/rls/crt/2009).
[125] Full details of current sanctions are available on OFAC's Sudan website: http://www.ustreas.gov/offices/enforcement/ofac/programs/sudan/sudan.shtml

license was issued to expand the exemption relating to official business of the U.S. government to include contractors and grantees of the U.S. Government and United Nations (including the World Bank Group and International Monetary Fund,) subject to certain requirements set forth in the regulations.

Major Oilfields in Relation to Abyei (as defined by the Permanent Court of Arbitration)[126]



[126] Source: Global Witness 2009, author labels for oilfields.