South Sudan

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- South Sudan's economy remains fragile and underdeveloped. Fledgling government institutions, poor infrastructure, weak internal cohesion (as well as inter-ethnic conflict) and post–secession disputes with Sudan are potentially severe constraints to growth.
- Economic growth prospects for 2012 look uncertain and depend on how soon the interruptions in oil production, caused by the dispute with Sudan on oil transit fees, end.
- The country depends heavily on oil and needs to develop a broader economic base as oil production is projected to decline in the coming years unless production is increased through additional investment in existing oilfields or new discoveries.

  Youth unemployment is high in South Sudan. Insufficient labour demand, lack of skilled labour supply, absence of a coherent government policy, and the lack of a sound legal and regulatory framework limit the absorption of youth by the labour market.

Overview

The Republic of South Sudan became Africa's 54th nation on 9 July 2011, as it officially became independent following a historic referendum on self-determination held on 9 January 2011. Southerners voted overwhelmingly for total separation from Sudan.

South Sudan's economy performed well in 2011 thanks to favourable oil prices, higher levels of donor support following independence, and a notable increase in Foreign Direct Investment (FDI), especially from East Africa and China.

However, economic growth has recently been severely constrained by the conflict about oil transit fees with Sudan. At the time of printing, oil shipments to Sudan via pipeline are interrupted, in retaliation over a disagreement on very high transit fees; the loss of revenue due to this closure amounts to nearly 100% of government income. In the first quarter of 2012 South Sudan took austerity measures by slashing its budget spending by 35% to face the drying up of oil revenues.

All of this makes it difficult to create conditions for diversified, inclusive and sustainable economic growth. Public administration must be improved at all levels, as public service provision is very poor or non-existent in most parts of South Sudan. Moreover, the majority of civil servants have not received any formal training for years because of the prolonged civil conflict.

Despite these constraints South Sudan reached several milestones in its pursuit of economic growth and development in the five years following the signing of the Comprehensive Peace Agreement (CPA).

These include: the development of the Government of South Sudan growth strategy (2010-12); the aid co-ordination strategy; the 2011-12 South Sudan development plan (SSDP) and the medium term capacity development strategy (MTCDS). South Sudan has also developed seven critical core functions of government: executive leadership; fiduciary management; rule of law; public administration; natural resources (petroleum issues); natural resources (food security) and basic services.

There is no policy on youth employment *per se*. However, the Ministry of Youth and Sports attends directly to youth matters while the Ministry of Labour, Public Service and Human Resources Development has a specific policy governing vocational training, the South Sudan vocational training policy, 2008. Some of the youth employment programmes include technical, vocational education and training; apprenticeships and business plan competition. A number of challenges constrain youth employment: skills mismatches; absence of a coherent government policy; legal and regulatory framework; weak information flow between employers and employees; and a poor work ethic among some youth.

Recent Developments & Prospects

South Sudan's economy is fragile and underdeveloped. The government's experience in terms of macroeconomic management is limited, largely owing to the concentration of this function in Khartoum during the pre-independence period. Since its independence in July 2011, the government has devoted substantial efforts to creating the conditions for achieving robust economic growth.

In August 2011 the South Sudan National Bureau of Statistics (NBS) published figures for South Sudan's nominal gross domestic product (GDP) in 2010, the last year before independence. According to these estimates, nominal GDP amounted to SSP 30.5 billion (South Sudanese pounds), equivalent to USD 13.2 billion (US dollars). By this measure, South Sudan's economy belongs to the group of middle-sized economies of the region and its nominal GDP amounted to 78% of Uganda's GDP, 57% of Tanzania's GDP and 42% of Kenya's GDP. Per capita GDP (in current prices) amounted to USD 1 546 in 2010, much higher than in these countries. Since foreign investors and the northern government received a large portion of the oil revenue, however, South Sudan's nominal gross national income (GNI) per capita was, in fact, almost 40% smaller than its nominal GDP per capita but still 26% higher than in Kenya, 86% higher than in Tanzania and twice as high as in Uganda.

The oil sector is the largest contributor to GDP, both in terms of direct value-added and associated investment and support to the services industry. Oil exports accounted for 71% of GDP. Real GDP growth reached 22.2% in 2010 and it is estimated to have amounted to 25% in 2011. The prospects for 2012 are, however, highly uncertain and depend on the resolution of the dispute with Sudan over oil transit fees.

The heavy reliance on oil and absence of any countercyclical facility to deal with exogenous shocks results in volatile government revenues and unstable expenditures. Thus, the current economic policy discussion is focused on the need for balanced growth and the strengthening of the non-oil sectors that are crucial to achieve sustainable and inclusive growth. This is even more relevant in light of the risk of declining oil production.

In this context, the agricultural sector is viewed as an additional engine of growth, which would not only allow South Sudan to diversify its economy away from oil dependence in the medium term, but also reduce poverty and food insecurity. South Sudan's agriculture is based on livestock and a wide range of crops such as grains, fruit, vegetables, coffee and tea. But agricultural production has remained far below its potential and the region has in the past been a net importer of agricultural products. To increase agricultural production, the productivity of farms will have to improve. That means better transport infrastructure, agricultural technology and support services including financing. In the past, agricultural production has also been constrained by insecurity in many rural areas as well as by the increasing rural-urban migration of young people.

Achieving sustainable and equitable economic growth in South Sudan will thus depend on the government's ability to create the conditions that will allow for a more diversified economy, investment in alternative sources of growth, and improved agricultural and rural development. Clearly, these conditions include peace and stability, policy and regulatory frameworks, and a prioritisation of investment plans.

Macroeconomic Policy

Fiscal Policy

Prior to independence on 9 July 2011, the economy of South Sudan was managed by the central government in Khartoum, although there was some degree of regional autonomy as per the CPA provisions. Thus the regional government had limited exposure and experience in macroeconomic management. This lack of technical capacity is made worse by South Sudan's lack of historical macroeconomic data. To address these challenges, the country's National Development Plan 2011-13 outlines the actions intended to achieve macroeconomic stability and sustainable broad-based economic growth.

South Sudan's public sector is almost entirely dependent on oil revenues. In the years before independence, oil revenue amounted to around 98% of total revenue and this is also the case in the approved budget for 2011 (Table 1).

The government of South Sudan (GoSS) has introduced fiscal rules with a view to institutionalising savings and achieving a sustainable level of government spending. As an initial strategy, the Ministry of Finance and Economic Planning (MoFEP) started implementing a within-year fiscal rule in 2011 in the form of quarterly cash limits. This has contributed to smoother government spending over the financial year by putting a ceiling on the level of monthly government spending. It is also expected to, keep inflation under control, increase the predictability of public spending resources and improve budget execution relative to budgeted allocation. In terms of fiscal performance, in spite of an initially planned balanced budget, a surplus of around 3.5% of GDP should be observed in 2011. For 2012, however, the fiscal position is expected to deteriorate as oil revenues are expected to fall sharply following interruptions in oil production as a consequence of the conflict with Sudan.

Monetary Policy

Following independence, the GoSS introduced its own currency (the South Sudanese pound) and adopted a managed floating exchange rate policy. The underlying principle is that market forces will determine the exchange rate, with the central bank occasionally intervening to prevent large fluctuations away from the desired level with respect to the US dollar and other foreign currencies.

However, despite the government's controls, the divergence between the official rate and that in the illegal but thriving black market has increased in recent months. It is currently estimated that the black market value of the South Sudanese pound in Juba is around 20% lower than the official rate.

After relative price stability in 2010, with consumer prices rising on average just by around 1%, inflation soared to 47% in 2011, according to the NBS. The higher inflation was mainly driven by food prices, which have a weight of 69% in the consumer price index. Some other prices also increased sharply, such as for transport, health services and household equipment. In February 2012 the consumer price index declined by 3.5% from its peak in January but was still 42% higher than a year earlier and almost 20% higher than the 2011 average.

Economic Cooperation, Regional Integration & Trade

Before secession, South Sudan's major trade was with the north of the country. Following independence, and the subsequent mounting of tensions, cross-border trade between South and North came to a halt with adverse effects on the economy of the new state.

The future economic development of South Sudan would benefit from close economic co-operation with Sudan, born of the realisation that geographical and cultural proximity creates interdependence. However, institutions to advance economic co-operation need to be developed. As a landlocked country South Sudan also depends on its other neighbouring countries for external trade. South Sudan became a member of the Common Market for Eastern and Southern Africa (COMESA) in October 2011 and has begun the application process to become a member of the East African Community (EAC). By joining the EAC, South Sudan would bring to the community its oil wealth, minerals and huge agricultural potential. Yet the country will face many challenges as an EAC member. Its application comes at a time when all five existing members have undertaken major reforms, including the establishment of a customs union and a common market.

Uganda is South Sudan's major trading partner in terms of cross-border trade. According to Uganda's National Bureau of Statistics, imports from Uganda increased from USD 60 million in 2005 to USD 635 million in 2008. By contrast, exports from South Sudan to Uganda during the same period remained limited, accounting for less than 10% of those from Uganda to South Sudan. The rapid growth in imports from Uganda stalled in 2009 and imports even declined in 2010 owing to increased insecurity at the border.

The cross-border trade between Uganda and South Sudan is largely in the hands of households headed by women and is often their only source of income.

Debt Policy

The Republic of South Sudan has not yet formulated a debt policy nor does it have a debt management unit. However, the government has expressed its commitment to develop and implement a debt policy to prevent taking on excessive debt that is not consistent with the overarching goal of macroeconomic stability and long-run fiscal sustainability. According to the National Development Plan, the government intends to use short-term borrowing to cover regular monthly fluctuations in revenues. The government has indicated that saving part of oil revenue is crucial to ensure sufficient foreign exchange reserves to protect the economy from external shocks. Over the medium term, oil revenue should be sufficient to cover public spending so that the public sector debt requirement should remain low. In any case, the domestic financial market is likely to remain too shallow for some time to fund domestic borrowing without causing significant “crowding out” of already limited private sector lending. But in the short term the decrease in oil revenues due to the interruption of oil production will put substantial pressure on South Sudan’s development financing needs and increase the likelihood of the country needing external commercial and/or bilateral loans on non-concessional terms.

Negotiations on external debt are one of the outstanding post-independence issues within the framework of preliminary agreements between South Sudan and Sudan. However it is expected that South Sudan will not be encumbered with huge debts in the immediate future. The two sides have agreed, in principle, to the so-called “Zero Option”. It proposes that Sudan will assume all the debt – provided that there is joint outreach by both countries and that debt relief is granted by international organisations within two years, failing which the debt will be apportioned between the two countries.

Economic & Political Governance

Private Sector

Following Sudan's independence in 1956 and before the signing of the CPA, commercial activity in South Sudan was dominated by Northern Sudanese. In the post-CPA period, nationals of neighbouring East African Countries from Uganda, Kenya, Ethiopia, Eritrea and Somalia have gradually replaced Northern Sudanese. South Sudanese businessmen are almost non-existent despite substantial government efforts to engage them in meaningful entrepreneurial activities. The private sector component in the government's Growth Strategy and Vision 2040 underscores the need for encouraging and nurturing local entrepreneurship with a view to broadening growth and employment opportunities. Focus is also on changing the strong tendency of educated people in South Sudan to see the public sector as the only economic activity they can undertake.

Basically all formal businesses in South Sudan are small and medium sized enterprises (SMEs). SMEs dominate all sectors of the economy, including retail and wholesale trade, construction, hotels and restaurants, and transport and communication. SMEs are highly diversified in terms of ownership, type of enterprise, number of employees, capital investment and stage of development.

The number of registered businesses in Juba has grown exponentially from 471 in 2006 to 8 894 in 2010. This situation, however, is by no means representative of the country, as formal business activity outside the capital remains extremely limited (*The Business Registry,* Ministry of Legal Affairs and Constitutional Development, Government Data, December 2010).

There are numerous constraints for private sector development in South Sudan: political insecurity, weak government institutions, weak rule of law and high levels of corruption, lack of physical infrastructure, limited access to land, access to finance, multiplicity of taxes, lack of input and output markets, and a lack of skilled workers and well-educated managers.

According to the World Bank *Doing Business* Report, in 2008 the number of new registrations was highest while fewer companies registered in 2009 and 2010, as oil prices fell and uncertainty grew over the outcome of the national elections and the referendum in January 2011. Most of the newly registered firms are operating in the trading sector, which offers relatively high returns.

Financial Sector

The financial sector in South Sudan is extremely underdeveloped with low geographic coverage. It is characterised by a weak regulatory framework, poor infrastructure (including telecoms) and limited management capacity.

There are eight commercial banks in the country. The only locally owned bank is the Agricultural Bank of Sudan. Foreign banks, notably Kenyan and Ugandan banks thus play an important role in the banking sector. Non-bank financial institutions that offer loans are even scarcer. Banking services are mostly limited to foreign exchange, bank transfers and remittance services. Only a handful of banks provide loans, trade finance and savings accounts. There are six insurance companies in South Sudan. Some investment banks, foreign exchange bureaux, finance companies and leasing companies also operate in the country. There is no stock exchange in South Sudan.

Microfinance opportunities and needs are plentiful in South Sudan. The North-South civil war had a large influence on the need for the microfinance industry. As of 2009, only about 6 000 people had bank accounts (0.075% of the population), and there were only 21 297 microfinance borrowers (Melody Atil, *Expanding the Provision and Impact of Microfinance in South Sudan,* April 2009). While there are several small microfinance institutions, there are three main ones that are licensed by the Bank of South Sudan: the Bangladesh Rural Advancement Committee (BRAC South Sudan); the Rural Finance Initiative (RUFI) and the Sudan Microfinance Institution (SUMI). High concentration in the microfinance market increases financing costs and thus the cost of doing business in South Sudan.

Public Sector Management, Institutions & Reform

MoFEP is responsible for budgetary and financial management. It has achieved significant success in "upstream" areas, focusing on planning and budget preparation. But it is still in a fledgling stage and faces many challenges, notably improving quantity and quality of staff and equipment, improving fiscal reporting and financial management. Furthermore, there are still serious weaknesses in "downstream" areas of budget execution and accountability. Budget execution is not consistent with budget allocations; commitment controls, and monitoring and evaluation need to be strengthened. A legislative framework for public financial management (PFM) also needs to be approved. Despite efforts to enhance domestic accountability and transparency, more needs to be done as corruption is considered to be extensive. Given the significant amount of oil resources it would also be desirable for South Sudan to endorse the Extractive Industries Transparency Initiative (EITI) as many other African (and also non-African) countries have done.

Natural Resource Management & Environment

South Sudan is faced with a number of environmental problems, including the unregulated exploitation of natural resources; climate change; predation as a result of the two decades of conflict; large numbers of returnees; and extraction of oil. All these factors play a part in destroying the natural resource base of South Sudan and compromising the livelihoods of the communities that depend largely on the land and its resources for a living.

The government has recently drafted an environmental policy to mitigate some of the above threats including charcoal production, poaching and logging, all of which constitute potential triggers for renewed conflict within South Sudan. The South Sudan Legislative Assembly is addressing matters of environmental concern as a cross-cutting issue in the exercise of its scrutiny of legislation and oversight functions. The government will continue to ensure that development is sustainable through enforcing environmental and social impact assessments for all development programmes and projects, ratifying beneficial multilateral environmental treaties, conventions and agreements, and promoting inclusive participation, access to information and good governance in sustainable natural resources management and environmental protection.

Political Context

There are significant challenges to political stability, including recent hostilities and military operations involving South Sudan and Sudan in several areas, including the Abyei Area, Southern Kordofan and Blue Nile. There is no agreement on some key post-secession issues, including oil and border demarcation. Under the Comprehensive Peace Agreement signed in 2005, a referendum was supposed to be held in Abyei and popular consultations in Blue Nile and South Kordofan. The referendum on the status of Abyei is yet to be held owing to the absence of an agreement on who is eligible to vote. The negotiations over oil being held under the auspices of the African Union High Level Implementation Panel (AUHIP) have ended in a stalemate while rivalries over cattle, land and water among the different ethnic groups continue unabated. The impasse over oil is indeed a recipe for renewed conflict with Sudan while the internal conflict will derail the government’s efforts at delivering the peace dividend.

Social Context & Human Development

Building Human Resources

School enrolments have risen spectacularly in South Sudan since 2000. As a result, the primary school gross enrolment rate (GER) increased from an estimated 21% in 2000 to 72% in 2009. Enrolments at the secondary level have also doubled since 2005. The primary completion rate is still very low at only 26% for grade 6 and 8% for grade 8, thus the greater emphasis on vocational training centres for the majority of primary school drop-outs.

Disparities in school participation rates are quite substantial in South Sudan. The widest disparities are associated with the urban-rural and rich-poor dimensions, but there are also strong gender disparities. The chance of completing the eight-year primary cycle is currently 30% for boys but only 17% for girls. Regional disparities are also very wide.

The Alternative Education System (AES) is the second largest part of the education system, with more than 200 000 students (equal to approximately 18% of primary school enrolment) offering learning opportunities to children and adults who either never acquired formal education or who have attended school but dropped out and are not likely to re-enrol. It offers a variety of learning programmes, including some targeted to the active and demobilised forces of the Sudan Peoples' Liberation Army (SPLA) and other security forces.

In the area of health, the government has formulated a health policy to address high morbidity and mortality, improve disease prevention and promote health care delivery with an emphasis on primary health care. Infant mortality in South Sudan is one of the highest in the world with 102 per 1 000 live births; the under-5 mortality rate is 135 per 1 000 live births; maternal mortality rate is 2 054 per 100 000 live births. Only 17% of children are fully immunised. Overall, 55% of the population have access to improved sources of drinking water – 67% of the urban population compared with 53% of the rural population; and 80% of the population does not have access to any toilet facility.

A study on adult HIV prevalence in South Sudan puts the rate at 3.1%; given an estimated population of 10 million, that translates into 124 000 adults living with HIV/AIDS. The government has started to address the HIV/AIDS epidemic through the formation of the South Sudan AIDS Commission.

Poverty Reduction, Social Protection & Labour

Based on the 2009 Southern Sudan Household Survey, 50.6% of Southern Sudanese are poor, living on less than USD 2.0 per day. The poverty gap is 24%. This measure is an estimate of the average shortfall in consumption relative to the poverty line. There are stark regional disparities in basic health services, food security, water and sanitation. Internal displacement of civilians has resulted in chronic food insecurity in parts of the country. Poverty has been exacerbated by the rise in the prices of basic commodities arising from the imposition of multiple taxes and the recent increase in food prices. South Sudan is in the bottom five countries for 11 of the 22 MDG indicators for which there are data.

Following independence, the government of South Sudan has put in place a National Development Plan with a focus on social and human development. The plan emphasises the role of infrastructure, basic education and primary health services as well as the importance of a vibrant agricultural sector for achieving inclusive growth. In parallel, the government has also prepared a growth strategy emphasising pro-poor and broad-based growth. Implementation of these policies, however, has been hampered by security needs. The security sector receives 26% of the budget. Education and health together receive a mere 11% while infrastructure receives only 13%.

Gender Equality

Traditional norms, values and ethics govern the lives of people in the communities of South Sudan. As a result of this social construct, women and girls are disadvantaged. It was against this background that the government formulated a gender policy, which includes recommendations to the Ministry of Gender, Social Welfare and Religious Affairs on the process and way forward. The goal is to ensure that the ministry develops an internal strategic plan and an inclusive national gender policy. The gender policy framework recognised the need to mainstream gender in specific sectors. As a sign of the commitment to gender equality, the constitution stipulates that at least 25% of public officials at all levels of government will be women. The president of Southern Sudan went even further in his inauguration speech, after his popular election in 2010, and made provision for 31% participation of women in the South Sudanese parliament. It is expected that the new government will sign and ratify major international conventions relating to gender equality, including the Convention on the Elimination of all forms of Discrimination Against Women (CEDAW) of 1996, and the Optional Protocol to the Convention on the Elimination of all Forms of Discrimination Against Women of 2000.

Thematic analysis: Promoting Youth Employment

There is no specific policy on youth employment *per se*. However, the Ministry of Youth and Sports attends directly to youth matters while the Ministry of Labour, Public Service and Human Resources Development has a specific policy governing vocational training, the South Sudan Vocational Training Policy of 2008. The broad objective of this policy is to develop a cadre of trainees in various practical skills and knowledge for the labour market and self-employment and to meet changing technical demands for the socio-economic advancement of the people of South Sudan.

In terms of the youth development agenda, a unit in the Ministry of General Education and Instruction co-ordinates youth and adult education targeting those who have missed schooling at the right age. A range of NGOs and faith-based organisations complement these efforts. The Ministry of Gender, Child and Social Welfare also has a fully fledged directorate dedicated to youth issues.

Technical Vocational Education and Training (TVET) is a basic programme to promote youth employment. The launching of the Payam Youth Service staffed by a cadre of ten gender-balanced youth volunteers per *payam* (administrative district) is a positive step that relies on the 40% of literate youth (ages 15-24 years) who could transform South Sudan's socio-economic sectors. The Payam Youth Service is a voluntary, community-driven development initiative in which the Ministry of Labour and Human Resource Development will work in collaboration with county government systems in all the ten states of South Sudan. Its objectives are to deliver GoSS priorities for state and county development in the Payam and Boma (the lowest local government levels) using a community-driven approach and to boost livelihoods and stimulate economic growth and development at the grassroots level. The initiative is funded by GoSS to the tune of USD 50 million over a three-year period (2011-13).

Unofficial apprenticeships occur in the fields of carpentry, metal work and vehicle mechanical establishments. These are spontaneous individual efforts by some of the trained entrepreneurs.

The Business Plan Competition (BPC) was initiated to catalyse the entrepreneurship potential of South Sudanese. It was launched in early 2008 when 25 women and 20 men were selected. To start their business, the 45 winners were each awarded a grant of USD 20 000. BPC is meant to promote competition among entrepreneurs for new and pioneering ideas at increasing efficiency and productivity, and to demonstrate to the South Sudan commercial banks that lending to SMEs is an attractive and viable business line.

Further support to young entrepreneurs has been provided under a number of training programmes in multi-service training centres in the main towns of Juba, Wau and Malakal. These centres offer courses that include basic training of three-week short courses; intermediate training, one-year courses; and advanced training, up to a maximum of three years.

Among the factors contributing to youth unemployment, skill mismatches are viewed as particularly serious. Where there are jobs, the youth applicants lack experience or proper qualifications as most have attended private institutions in major cities that lack credible, internationally renowned accreditation. In most cases, the degrees the applicants possess are not in line with government priorities, and thus there is a mismatch of qualifications with the government's priorities in the development agenda. This situation underscores the need to develop a human resource development strategy delineating the areas of priority both for the public and private sectors. Furthermore, there is clearly a need to identify accredited institutions.

In the absence of coherent government policy and a legal and regulatory framework, the few foreign-owned private enterprises tend to single-source skilled labour from their countries of origin. A handful of South Sudanese are normally hired as office messengers, tea-ladies, loaders, sweepers or cashiers.

The flow of information from employers to prospective employees is weak. Job advertisements take up about 10% of space in local daily and weekly newspapers. This is the only major advertising channel. A number of open-air bulletin stands also regularly advertise jobs. However, these are mainly used by non-governmental organisations (NGOs) and a few private sector entities. Some advertisements find their way into the electronic media but these are few and far between. South Sudan has no public service recruitment board.

Employers complain about the youth attitude to work as being utterly poor. This is true especially of the refugee and internally displaced persons, who have been affected by the legacy of donations and food support programmes by international NGOs carried out during the long period of war. Employers further complain that local youth seek high salaries and wages relative to the amount of work they are supposed to perform. Many job seekers equate themselves with the well organised, more experienced and better paid youth from neighbouring countries.

The young people complain about foreign employers as being discriminatory, and domestic employers as uncommunicative. The youth become more disillusioned as much of the private sector employment sector is being dominated by foreign businesses and this problem could become a recipe for conflict if it is not addressed by policies.

The majority of returning youths are from urban centres and are urbanised in their approach to life. Since their arrival in the rural areas following the massive transportation of returnees, more than 80% have left the rural areas where their parents have settled and migrated to urban centres all over South Sudan. This has created another crisis, as most of them have become idlers in the towns they have moved to resulting in the escalation of unemployment and petty crime in the towns. The loss of skills by the youth during the war period has also created a potential to participate in violence and crime. Sources of employment need to be identified for these young people. The government must address the problems of vocational training (VT) and align it with the socio-economic aspirations of the people. This implies developing a VT system imbued with well-established vocational training centres (VTCs), a harmonised VT curriculum, a system of accreditation of certificates and diplomas, and use of English as the official language of instruction and communication.