SOUTH SUDAN

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- **The resumption of oil production in 2013 was projected to improve the economic outlook of the country with GDP rising as much as 40% but civil strife is casting a shadow over the prospects for economic recovery and development.**
- **For the short term, the priority is re-establishing peace and security and seeking to address the causes of conflict. All the country's social indicators remain troubling.**
- **The country's integration in global and regional value chains remains very limited due to institutional and infrastructure constraints.**

Overview

A strong rebound during the first half of fiscal year 2013/14 seemed possible but recent unrest has cast a shadow over the prospects for economic recovery and development. Based on the existing oil production profile and expected growth in non-oil sectors, such as agriculture, construction and services, GDP percentage change was expected to pick up to 40% by the end of FY 2013/14, following two years of strong economic contraction (after independence in 2011). However, the recent civil strife cast a shadow over the prospects for economic recovery and development. Oil production and associated investments remain the key drivers of growth but civil strife has seen the production of oil cut in half. In FY 2013/14, about 70% of government revenues are derived from oil and the sector contributes over 60% of GDP in terms of direct exports, as well as associated investments[1]. Given the current political situation, the anticipated increases in government expenditure starting in January 2014 will not be possible. A projected 11% jump in inflation in the second half of 2013/14 will be mainly due to the depreciation of the South Sudanese Pound (SSP) and volatility in supply of basic goods due to insecurity. In the medium term however, if the civil war that started in December 2013 is resolved and order and security restored, South Sudan has the potential to grow its GDP by as much as 7%-8% per year.

Since 2012, macroeconomic stability, long-term fiscal sustainability and economic growth have been elusive amidst severe economic, fiscal and political crisis. The dispute with Sudan led to the shutdown of oil production in January 2012 creating a large fiscal gap and a substantial deficit in the balance of payments. To close the fiscal shortfall, the government resorted to drawing down government reserves, contracted internal and external debts, and instituted large spending cuts by nearly 40% in real terms. It also put into place reforms to increase non-oil revenues. As a result of the austerity measures, the economy contracted by about 21% and 28% in 2011/12 and 2012/13 respectively. During the same period, the overall fiscal balance deteriorated, the current account balance collapsed from 9% to 19.9% of GDP, and external reserves were depleted to less than 1.5 months' worth of imports. External debt increased from zero to 6.6% of GDP, domestic arrears accrued to about USD 150 million or 5% of total public spending for FY 2013/14 and the government had to borrow about USD 1.5 billion from domestic commercial banks and oil companies on short-term maturity of one year or less.

In the short and medium term, the country faces considerable challenges. The latter concern six key economic areas, notably *i*) political instability and inter-tribal conflicts; *ii*) poor infrastructure; *iii*) over dependence on oil production; *iv*) strong import dependence with virtually no manufacturing or commercial agricultural base or services sector; *v*) extremely low human capital with one of the world's lowest adult literacy levels at 27%, high poverty levels, and troubling health and sanitation indicators; and *vi*) a large pastoralist, non-formal economy, with 83% of the population living in rural areas. While addressing each of the above challenges is a pressing need, the achievement of internal political stability and peaceful coexistence with Sudan seem fundamental for the development of the country.

Recent developments and prospects

The resumption of oil production will boost growth in FY 2013/14. Due to the resumption of oil production, GDP growth is expected to rebound by 40% by the end of FY 2013/14. The price level, which had declined by 11% as of the end of June 2013, is expected to increase to about 11% in the second half of 2013/14. This inflationary push is due to increases in government expenditure from SSP 555 million equivalents to USD 187 million to SSP 930 million per month, equivalent to USD 314 million. In 2014/15, if a peaceful resolution to current civil war is sustained, the economy is expected to continue growing, with a positive overall fiscal balance of 1.4%, a current account surplus of about 4.9% and a positive overall net balance of borrowing of 1.4 billion SSP.

Prior to the current civil war, the country had initiated a number of reforms. If peaceful conditions can be restored, social services delivery and infrastructure investment are priorities in the FY 2013/14 budget. The oil production shutdown and the austerity measures in FY 2012/13 invariably entailed large welfare costs for the population, particularly the poor. It also led to a hold on the implementation of high priority infrastructure projects. With the gradual increase in oil revenue anticipated at the approval of the FY 2013/14 budget, the country's financial situation was projected to improve and the budget for FY 2013/14 specifically increases resources available for social service delivery by SSP 487 million, equivalent to USD 164 million and infrastructure by SSP 741 million, equivalent to USD 250 million. The achievement of these projections will depend on the level of disruption to the oil sector.

A law for the management of oil revenues has been finalised and is waiting for the president's signature. The Petroleum Revenue Management Bill (PRMB) 2012 makes a significant contribution towards more credible and transparent management of oil revenues and towards ensuring that public expenditure is insulated from the inherent volatility of oil revenue. In this regard, the bill provides for the creation of stabilisation and future generation funds. The PRMB includes provisions that seek to prevent corruption and mismanagement, by demanding the publication of contracts, ensuring the regular release of production and revenue data, and requiring that all oil agreements be awarded through a competitive, public process. Moreover, the PRMB includes important provisions on how revenues are to be collected, managed, audited, reported and transferred from the central government to the state and community level. However, PRMB also raises contentious issues that if unaddressed could hinder its effectiveness. These include the transfer of 25% of oil income to the Petroleum Revenue Savings Funds and future generation fund; prohibiting use of the Petroleum Revenue Savings Funds, which is said to crowd out current investment; and the transfer of net income to petroleum producing states and local communities, particularly given the lack of clarity as to what the bill means for local communities.

A comprehensive tax reform is being implemented. In order to diversify revenue sources and increase efficiency of collection, the government has embarked on an ambitious tax reform programme, which is expected to help increase non-oil tax revenues from SSP 700 million to SSP 1.4 billion. In particular, the Taxation Amendment Act of 2012 authorised the implementation of a sales tax on imports, increased the excise tax rate on alcohol and tobacco products, as well as on vehicles. An advance payment system of income tax at the time of importing goods into South Sudan has also been implemented. The government has also implemented a centralised tax collection agreement through an improved relationship with the states. The compliance of the latter with the centralised agreement has made it easier and faster for goods and services to travel throughout South Sudan. In addition, the Taxation Amendment Act of 2012 also authorised the imposition of a state excise tax as a percentage of the national excise tax. Furthermore, government is in the process of improving the system for collection and tracking of revenues through the implementation of a pilot programme enabling taxpayers and importers to deposit their tax and customs payments directly to commercial banks coupled with the creation of a single treasury account. The arrangement requires that all revenue-generating government agencies remit collections to the single treasury account.

Macroeconomic policy

The macroeconomic and fiscal outlook for South Sudan remains uncertain in the short and medium term. In the wake of the oil shut down, the country succeeded in maintaining a fairly reasonable level of macroeconomic stability in line with the objectives of the South Sudan Development Plan (SSDP). In the past two financial years, the government has consistently implemented a tight monetary and fiscal policy and continued to do so in the first half of FY 2013/14. Budget execution has been largely on target, non-oil revenues have doubled, consumer prices have fallen, foreign exchange rates, particularly those on the parallel market, have been stable, and the level of debt has remained under control. However, the external stability of the country has been severely compromised by the drawdown of foreign exchange reserves to support government operations during the oil shut down period. Moreover, the welfare costs of the oil shut down have been substantial. In the medium term, notwithstanding the resumption of oil production to full capacity, government will continue to face tight financial constraints due to its commitment to rebuild foreign exchange reserves, to pay accumulated arrears and to service its debt. In addition, the civil war that ensued in December 2013 due to infighting within the ruling party, Sudan People's Liberation Movement (SPLM), will impact negatively on the economic outlook of the country.

Fiscal policy

In a difficult political, security and economic context the government has implemented a responsible fiscal policy. However, the government has been faced with specific fiscal challenges, which complicated fiscal management. These include volatile and unpredictable revenue inflows from oil, almost total dependency on oil as a revenue source, and an increase in fixed costs as a share of the budget due to the shutdown of the pipeline. In the first year of independence, the government's failure to control expenditure triggered strong inflation. Based on this experience and the need to respond to the oil shut down, in FY 2012/13, the government implemented a tight fiscal policy and has continued to do so in the first six months of FY 2013/14, keeping government monthly expenditure at SSP 555 million. In January 2014, the government planned to increase monthly expenditure to SSP 930 million, as revenues for oil stabilised, but this has not been possible due to the civil unrest in the oil-producing states.

The 2013/14 approved budget totals SSP 9.2 billion, representing an increase of 37% compared to the budget ceiling for 2012/13. The budget priorities for FY 2013/14 focus on improving social service delivery in rural areas; rapid development of infrastructure to support economic development; and job creation in the agricultural and non-oil sectors of the economy. However, due to costs incurred by the oil producing companies during the oil shut-down and delays in reaching full production, the expected oil revenue will probably not be sufficient to pay for all the expenses and financial obligations in 2013/14. The financing gap, already estimated at 4.7 billion SSP, is expected to increase due to disruptions in oil production. Whatever financing ensues will require new borrowing and a continuation of austerity measures.

The structure and financing of the budget raise a number of challenges and issues that will warrant the attention of decision makers. First of all, the country will continue to borrow from non-concessionary sources because concessional financing is constrained. This will increase interest payments and crowd out spending on service delivery and infrastructure. Second, 58% of the budget is allocated to operating costs and salaries compared to only 15% for investment, thus providing only limited funds to address the country's infrastructure gap. Third, the budget projects an increase in non-oil revenue from SSP 70 million (equivalent to USD 24 million) to over SSP 100 million (equivalent to USD 34 million) per month, but without proposing any improvements in the accountability of the revenue collecting agencies or in meeting their budget requirements. Fourth, budget execution is very low and the government has not put forward measures for enhancing the efficiency of execution of the budget. Hence, it is unclear whether the public funds can be efficiently absorbed. Finally, the absence of a multi-year perspective in fiscal planning and expenditure policy makes it a challenge to achieve an alignment of budgeting with the medium-term planning process.

Monetary policy

On the whole, the monetary policy in the country is not yet well developed. This is mainly because of human and institutional challenges within the Central Bank and the level of development of the financial sector. The principal and most effective monetary instrument available is foreign exchange rate rationing. Commercial banks are required to report substantial transactions in foreign currency, and there are ceilings with respect to the supply of foreign currency to nationals. Since independence, the government's official policy with regard to the management of foreign exchange is the implementation of a "fixed peg" to the US dollar (USD). The official exchange rate has been established at 2.95 SSP per USD. Yet, for most of 2013, the rate on the parallel market amounted to 4.2-4.5 SSP per USD. Initial attempts to reform the foreign exchange market and to unify the official and parallel exchange rates in November 2013 were not successful due to resistance from powerful interest groups that benefit from the rents generated by the current system.

Inflation had stabilised before the current civil unrest, but is bound to resurface. At the peak of the oil crisis in May 2012, annual inflation reached 80%, as the SSP depreciated and the costs of imported goods increased. With the resumption of oil production and greater stability of the South Sudan Pound inflation fell to 7.2% between September 2012 and September 2013. However, the implementation of the post austerity budget with its increased fiscal outlays that is being implemented since January 2014 and the effects on the civil strife on supply of goods and services is likely to raise inflation to about 11% and above. Moreover, the effects of the civil war may put further upward pressure on inflation, due to supply constraints and hoarding.

The external position of the economy looks fragile. The foreign exchange reserve position of the country was severely affected by the recent instabilities occasioned by the shutdown of oil production and export infrastructure, which created large budget and balance of payment deficits. Given the need to continue financing government programmes, foreign exchange reserves became one of the major sources of financing for the government, and those reserves fell to the value of about 1.5 months of imports in June 2013. This level of reserves is very low and a key priority, for FY 2013/14 and in the medium term, should be to rebuild foreign exchange reserves to a more comfortable level.

Economic co-operation, regional integration and trade

Based on available estimates, South Sudan had a positive trade balance in 2012/13. Total exports amounted to about SSP 12 billion (about USD 4 billion), with oil exports accounting for over 90% of the export value. The country's principle trading partners were China (72%), Japan (21%), and the USA (6%) for exports, and China (25%), the USA (23.2%), Pakistan (22.3%), and Uganda (13.3%) on the import side.

South Sudan is in negotiations to join Burundi, Kenya, Rwanda, Tanzania and Uganda as a member of the East African Community. The negotiations are in the first of three phases, and no fixed timeline for their completion has been established. There is a strong political will behind the application for EAC membership, but the country would need to build significant capacity in trade policy making and customs administration to comply with EAC commitments and benefit from regional integration. While it will also need to negotiate lengthy implementation time frames in areas such as tariff reduction that give the government policy space as well as special treatment given its fragile status. It has also engaged with the European Union (EU) concerning special relations based on ACP (African, Caribbean and Pacific states) agreements, since Europe is a useful market for its agriculture, and is also a member of the Common Market for Eastern and Southern Africa (COMESA) since 2011. Membership in the regional bodies can also be a key avenue to access technical assistance for reforms in areas such as trade facilitation, addressing non-tariff measures, improved border management, improved Sanitary and Phyto-Sanitary (SPS) and Technical Barrier to Trade (TBT) facilities and measures, improving public financial management, macroeconomic policy and conflict resolution.

Debt policy

The country has no debt management strategy yet. As a result of the loss of oil revenue and the need to finance government expenditure, the government has accumulated domestic and external short term financing. Consequently, the new nation that had no debt stock at independence now has, as of the end of FY 2012/13, a debt stock amounting to USD 1.25 billion. This included an USD 450 million oil advance, USD 150 million and SSP 900 million advances from the Bank of South Sudan, and SSP 1 billion borrowed from domestic commercial banks. All debt contracted by the government was of a maturity of one year or less, with interest rates spanning from 3% to 7%. For FY 2013/14, the government plans some additional, concessional borrowing to finance selected infrastructure projects. The government started to develop a debt management framework two years ago. The legal framework for public borrowing is clearly defined by the constitution but the required oversight, policy and monitoring structure are not operational yet.

Economic and political governance

Private sector

Government policy recognises the importance of the private sector in developing the country. One of the government's main objectives, as stated in the SSDP 2012-14 is to diversify the economy and double the amount of non-oil revenue by creating a more conducive business environment for the private sector. To this end, the regulatory framework and the rule of law are slowly being enhanced to provide the certainty and predictability the private sector needs to invest and create jobs. A total of 47 business environment-related laws have been enacted, but many of the regulatory mechanisms are not in place to implement and enforce these laws. The government has also streamlined the entry process for investors by establishing the One Stop Shop Investment Centre (OSSIC), which offers a single point of contact for investors for all necessary approvals and permits.

The business and investment climate in South Sudan is still one of the most constrained in the world. The World Bank report *Doing Business* ranks South Sudan 186th in 2013, out of a total of 189 countries. In fact, the country has regressed in most indicator areas, although its overall distance from the frontier has improved. The main problem areas in the business environment are: *getting electricity* (184), *trading across borders* (187), *getting credit* (180), *protecting investors* (184), *registering property and accessing land* (183) *and starting a business* (140). The standing of the country with regard to the ease of doing business implies that there is a high regulatory burden imposed on the private sector. In addition to the regulatory burden, the following are some key constraints to private development: *i*) the poor state of the judicial system characterised by a lack of effective courts and enforcement mechanisms to apply laws in a transparent, predictable and consistent manner; *ii*) access to credit – only 1% of households having a bank account[2] and businesses are not able to access credit because of strict collateral-based lending criteria, high interest rates (18%-23%), and the shortage of financial services outside the main urban centres; *iii*) poor connectivity within the country, most roads are impassable in the rainy season, the only paved trunk road being the 192km Juba-Nimule road; *iv)* the literacy rate of those 15 years and above is only 27%; *v)* the land tenure system comprising private, community and public land adds to insecurity of land rights and promotes disputes between landowners and businesses.

Financial sector

The financial sector in South Sudan is shallow, under-developed, over-populated by financial investments, and largely cash-based. There were 26 commercial banks, 79 Forex bureaus, 12 multilateral financial institutions and 10 insurance companies active in South Sudan in 2013. Over 80% are foreign owned. Adherence to the Basel core principles is limited and the quality of risk management in financial institutions is poor. Moreover, with regard to the supervision of banks, the capacity of the central bank to oversee the existing banks is very weak, implying that the health of the financial system cannot be ascertained with confidence. In fact, only two officers currently man onsite supervision, while a single officer is in charge of offsite supervision. To improve the situation, the central bank needs to enforce implementation of the available licensing procedures and also re-enforce its capacity to undertake both on site and off site supervision with a view to improving compliance.

Public sector management, institutions and reform

The public financial management systems of the country are still weak and fiduciary risks are substantial due to weaknesses in the overall Public Financial Management (PFM) systems largely attributable to infancy of the country. However, reports indicate that there is some positive trajectory and PFM reforms are being implemented to address the deficiencies. These include: the use of the Integrated Financial Management Information System (IFMIS); the introduction of the South Sudan Electronic Payments System (SSEPS), which has improved the accuracy and control of wage and salary payments process for most public service employees at both central and state governments; and the enactment of the Public Financial Management and Accountability Bill and the Taxation Act. Furthermore, the 2011 Public Expenditure and Financial Accountability (PEFA) assessment indicates that: *i*) a robust budget classification/coding system has been used in formulating the budget to allow for expenditure to be tracked by sector, spending agency, activity, and department/unit, *ii*) the audit backlog has reduced to one financial year, *iii*) the development and of the PFM manuals states have been developed and *iv*) a comprehensive tax reform is also under way.

With regard to oversight, the Audit Chamber Bill has not yet been enacted although the backlog of audits has been reduced to one year. That said, the scope, nature and follow-up on external audits are still less than satisfactory due to capacity weaknesses within the Audit Chamber and the committee of National Assembly that is responsible for scrutinising the audit report and budget. The National Audit Chamber is currently faced with challenges relating to capacity (staff numbers, knowledge and skills) and the lack of a legal framework that would give the office the necessary financial and operational independence.

South Sudan faces many governance and corruption challenges after decades of political turmoil, unrest and civil war. Administrative capacity is low and systems of checks and balances are weak. The South Sudan Anti-Corruption Commission (SSACC) was established in 2007, but its effectiveness in resolving corruption-related cases brought before it has been limited due to weaknesses in the existing judicial system. Yet, the Sudanese government and people recognise that corruption is a major issue that permeates all sectors of the economy. In fact, a perception survey conducted by the South Sudan Anti-Corruption Commission in 2011 concluded that 96% of respondents felt that corruption was common, with 97% seeing it as a "serious" or "very serious" problem. This represents a slight increase compared with the survey from 2007. In addition, a 2012 Transparency International report also indicates that 66% of those surveyed have paid a bribe for at least one of the following services: education, judiciary, police, medical, utilities, land services, registry and permit services, and tax revenue.

The fight against corruption requires strong legal frameworks, sustainable institutional governance systems and above all, political will; all these are still embryonic. The political leadership of the country has to show commitment to fight this vice and also allow for the emergence of alternative political voices and independent media to emerge. There is already a draft of a Non-Governmental Organisation bill (NGO 2013) that would allow civil society to check the excesses of government. It was formerly called the Voluntary and Humanitarian Non-governmental Organisations Bill. It was discussed in a public hearing on 29 November 2013 but its fate is uncertain given the recent political and ethnic violence in the country.

Natural resource management and environment

Environmental governance and the attendant institutions are still very weak. With respect to the regulatory framework, the South Sudan National Environmental Policy has been drafted to achieve sustainable development and a specialised ministry has been created to manage the environment. This policy aims, among other things, to address the current state of environmental degradation as manifested in widespread pollution by the oil industry, increasing loss of biodiversity due to over-exploitation of forests, inadequate environmental sanitation associated with urban sprawl, and desert encroachment southwards. It should, however, be noted that the delay in the finalisation of the policy will affect the passage of the bill, the completion of orders, regulations, standards, criteria, measures, mapping, registers, and prescriptions as mentioned in the bill. Based on the aforementioned, the achievement of adequate environmental governance is urgent due to the effects of climate change and the increasing pressures on the environment caused by the resettlement of people returning to South Sudan after the war.

There is a lack of reliable information and data on the environment and limited research capacity. Field data on natural resources and ecosystem services is scarce in South Sudan. Due to the long period of war, data collection stalled and existing data sources were lost. To quantify impacts of land use and environmental changes, it is necessary to gather data over extended time intervals, preferably spanning several decades. This is a major constraint to environment planning; policy development and regulation require urgent attention, if sustainable development is to become a reality.

Political context

The political situation in the country remains fragile. Following a cabinet reshuffle in mid-July 2013, the stability of the ruling party, which is the only political voice, has hung in the balance and there are continuing North-South tensions over the supply of oil and the ownership of certain disputed territories. Sustainable political settlements are elusive with several continuing internal ethnic conflicts and inter-party disagreements. Militia are operating in some parts of the country. Indeed, in December 2013, the political differences within the party culminated into civil war that now threatens to reverse the progress registered so far toward achieving social cohesion. Dealing with the civil war, whose origin is tribal, will be challenging, but critical for the future of the country. Furthermore, there are continued challenges with regard to reforming the justice and security sectors. The capacity of the judiciary, its independence and the fairness of its rulings are questioned particularly regarding political cases. This is seen as one of the causes of the failure to resolve the political differences with the SPLM that have now culminated into civil war. Secondly, the security sector has yet to professionalise and become accountable to the civilian organs of government.

The fate of the disputed oil-producing region of Abyei represents one of the most sensitive and divisive post-secession issues between Sudan and South Sudan. The territorial boundaries of Abyei remain contested and have the potential to reignite hostilities between the affected tribes of Arab Misseriya and the Christian Ngok Dinka with dire social, security and economic consequences. A planned referendum on Abyei, to be simultaneously conducted with the one that led to the independence of South Sudan in 2011, failed to take place amid disagreements between Khartoum and Juba over who was eligible to participate in the vote. The African Union (AU) subsequently brokered a deal whereby the long delayed referendum was to be conducted in October 2013 but Khartoum later insisted on a further deferral in favour of the creation of an interim administration. Khartoum's intransigence and the apparent role of the AU have generated deep-seated anger in Abyei. Further, South Sudan's recent dismissal of a cabinet minister from Abyei in October 2013 coupled with the visits of Sudan President Omar Al Bashir to Juba has accentuated the anger. The unilateral referendum of late October 2013 by the Ngok Dinka voting to join South Sudan is of no immediate consequence but could become a symbolic act of defiance towards Sudan and South Sudan as well as the AU. Lastly, if the threat by the Khartoum-aligned Misseriya tribe to organise its own referendum in response to the unilateral vote by the Ngok Dinka is implemented, it may degenerate into a fully blown tribal conflict with the potential of also involving Sudan and South Sudan. The Abyei situation represents a "knife edge" problem, which will not go away anytime soon and has the potential to negatively affect the relationship between Sudan and South Sudan anytime. Given the interdependency between the two countries, the Abyei situation increases the uncertainty with regard to oil production and exports, security, and the economic outlook for both countries in the short to medium term.

Social context and human development

Building human resources

Resource constraints and institutional weaknesses pose a serious challenge to the accumulation of human capital. While the country has made progress with regard to achieving Millennium Development Goals 2 (universal primary education), 4 (child mortality), 5 (maternal health) and 6 (HIV/AIDS), none of them will met by 2015. South Sudan has had a very long history of instability, which invariably affects the provision of social services and the quality of human resources. In fact, the country has the worst social indicators in the world. The situation has not been helped by the recent shut down of oil production and exports, to which the government responded by cutting expenditure by 40%, adversely affecting the social sector. Moreover, although government policies with regard to building human resources are adequately focused on achieving universal education at the basic level, increasing participation at other levels of education, improving the quality of education at all levels and the health of population, its institutional capacity and spending are inadequate to achieve the desired outcomes. It is estimated that about 70% of social services in the country are delivered by non-governmental organisations, which the government has little or no capacity to regulate.

The provision of health and nutrition services is limited and the financial burden of illness, especially for the poor, is still very high. The current policies and funding of government only permit limited access to essential health and nutrition services although there are some improvements in health indicators. According to the MDG report 2012, in 2011, infant mortality rate was 75 per 1 000 live births compared to 102/1 000 in 2006; less than five mortality rate was 105 per 1 000 compared to 135 per 1 000 live births in 2006; maternal mortality rate was 1 989 per 100 000 compared to 2 054 per 100 000 live births in 2006 and 26% of children were fully immunised against measles compared to 17.3% in 2006. In addition access to anti-malaria treatment has increased to 51% compared to 47% in 2006 while the proportion of the population with access to improved water improved to 68.7% compared to 55% in 2006.

Poverty reduction, social protection and labour

Social protection is a key pillar of the South Sudan Development Plan. Given the increasing evidence that social protection is an effective policy for poverty alleviation, equity promotion, resilience building and inclusive growth; the South Sudan Development Plan (SSDP) identified social protection as a key priority intervention of government. However, the relevant policy and institutional frameworks to ensure the development of an integrated system of social protection mechanisms to reach the most vulnerable populations is yet to be finalised. In terms of human development, the social development indicators of South Sudan are troubling. A substantial share of the population suffers from poor health and/or lacks the necessary skills to pursue a livelihood. Furthermore, the availability of essential services that are vital to changing these and other development outcome indicators is very limited. Therefore, the stock and quality of South Sudan's human capital is compromised, as is its potential contribution to national development.

The dependency burden on the working population is very high. South Sudan has a dependency burden ratio of 104 dependents for every 100 people in the working age group (15-64 years). The burden is even higher for the poor (111) and those in rural areas (107). Moreover, the richest 40% of the population account for 70% of total consumption, while 51% of the population live below the national poverty line. The poor spend almost 80% of their incomes on food. The inequality in income and consumption risks perpetuates poverty and vulnerability in the country by generating an inequality of opportunity. Also of concern is the high level of exposure to physical and livelihood disruptions that South Sudanese suffer. The fragile security situation in the country is a major source of disruption for households and severely affects their livelihoods and access to basic social services.

Gender equality

Women constitute half of the population but are politically under-represented and unable to benefit equally from national wealth. The South Sudan Development Plan (SSDP), in its broad outline, recognises that there is a high correlation between poverty, social vulnerability and gender inequality. Significant disparities exist in favour of men in labour participation, politics, education, health outcomes, business ownership, land tenure, property ownership, and inheritance practices. Formal policies and laws provide for equality in these areas, but enforcement is weak because of capacity issues, financial constraints and the lack of a mechanism for enforcement. The plans and policies currently in place to ensure women's participation in economic activities include the following: *i*) the national plan for action on Combating Gender Based Violence (C/GBV); *ii*) the national policy on women empowerment; *iii*) the national policy for girl's education of 2007; *iv*) the national strategy on Female Genital Mutilation (FGM) of 2008; *v*) the quota system in the general election law of 2008, which guaranteed 25% of the total number of seats for women in the legislative assemblies; and *vi*) the national gender policy. At a political level, women's representation in politics and civil service remains low. To date, women hold only 17% of the 132 state ministerial posts, 10% of governor positions, and 1% of the 82 county commissioner posts. However, at the National Assembly level, female representation has improved from 1 to 25 seats in 2005 and 30 in 2012.

The participation of women at all levels of education is low. At the primary level, for example, the net enrolment for girls is 37.1% compared to 50.8% for boys, the completion rate for girls is only 9.6% compared to 21.3% for boys and the number of female teachers is only 12.3%. Whilst at junior secondary level, gross enrolment ratio for girls is 2.6% compared to 5.6% for boys. At university level, women constitute only 18% of enrolment. Overall, among 14-25 year olds, 55% of males and 28% of females are literate. Based on these differences in educational opportunities, the elimination of gender disparities remains a challenge at all levels. There is thus a need for the government to implement interventions, with a view to eliminating gender discrimination, to target family and cultural tendencies that put female children at a disadvantage.

Thematic analysis: Global value chains and industrialisation in Africa

Developing domestic production and exports in the non-oil sectors is important for South Sudan's drive for industrialisation, yet its participation in global value chains (GVCs) is still in its infancy. South Sudan has great potential in sectors such as mining, agriculture, forestry, livestock, fisheries, energy (except oil) but supply capacity remains severely constrained. As part of Sudan, South Sudan used to be mainly active in the global value chains of gum arabic and crude oil. While gum arabic is still produced in Upper Nile state, the production is no longer part of an international network. Regional and global companies in telecommunications, beverages, and banking have an established presence in South Sudan mainly as retail outlets. Product development in these companies is done outside the country.

Opportunities exist for South Sudan to enhance its positioning and broaden its participation into further sectors. In the short run, the opportunities to enhance its positioning in existing value chains is limited because of the skill levels required. The skill set required in telecommunications, for example, is not the same as in agriculture. The greatest opportunity South Sudan has is to broaden its participation into further sectors in which it has a comparative advantage. For instance in livestock, it has one of the world's highest number of cattle per capita; in agriculture over 95% (or 428 260 km2)[3] of arable land is uncultivated; in mining, it has rich deposits of major metals, precious stones, energy minerals, and industrial materials including gold; in tourism, national parks cover a vast area; and in forestry it has timber, teak, gum arabic, and shea nut trees[4].

There are substantial barriers that inhibit participation in GVCs, or prevent the country from advancing to higher-value stages. The critical barriers, most of which are binding, that inhibit South Sudan to advance to higher value chain stages are inadequacies in skills, roads and electricity, institutions, and security. These are reflected in the World Bank's report *Doing Business* that ranks South Sudan at 186 out of 189 countries.

In order to achieve gainful participation in international production networks, national policies and strategies need to be more explicit with regard to GVCs. In its two years of existence, a number of polices and plans have been concluded for specific sectors. Value chains as a strategy are implied, but are only explicit in the agriculture sector. Even within the agriculture sector, no comprehensive strategy has been developed to facilitate gainful participation. The agriculture strategy, for instance, identifies cereals, roots and tubers, pulses and oilseeds, beverage crops, fruit trees, and vegetables as strategic crops. Value chains will likely evolve with a more explicit policy focus, which, by raising awareness, will enable more targeted development and South Sudan's meaningful participation in international production networks.

There are three essential strategies to propose. First, in the short run, South Sudan needs to focus on global value chains that are of high value but requiring a low skill set, and not dependent on having a well-developed road and transport infrastructure. For example, gum arabic and shea nut trees are available in 7 of the 10 states. Hides and skins too are available in all the 10 states. South Sudan could usefully invest in a nationwide process to prioritise and develop 4 to 5 value chains that pass this test and create jobs. Second, South Sudan needs to embrace regional economic co-operation to "import" skills and allow itself to move up the value chain. As a producer, South Sudan will have to focus at the bottom of the chain in the short term. In the medium term, South Sudan will climb the chain and "import" skills in the form of economic co-operation to quicken this transition. The development of national value chains, especially for food, will be critical. Regional value chains will dominate global ones, as the county strengthens its ties within the region. In this context, South Sudan will, as a general principle, need to prioritise its national, regional and global engagement in that order. Third, barriers that inhibit participation in global value chains have to be addressed in the medium to long term even within the context of conflict. The efforts to improve road infrastructure, capacity of institutions and security of persons and property will need to be revived quickly. These are binding in most parts of the country. Additional barriers such as the relative absence of a private sector and general low levels of skills and literacy (e.g. only 27% are literate) will have to be addressed too.

Notes

1. The country does not officially publish data on GDP by sector because of lack of information on the agricultural sector that employs about 83% of the population.
2. National Bureau of Statistics (2012). Key Indicators of South Sudan, June 2012.
3. It is estimated that about 70% of the 644 000 square kilometres of South Sudan is arable. Xinshen Diao, Liangzhi You, Vida Alpuerto and Renato Folledo (2012). Assessing Agricultural Potential in South Sudan – A Spatial Analysis Method, Application of Geographic Information Systems, Dr. Bhuiyan Monwar Alam (Ed.), ISBN: 978-953-51-0824-5, InTech, DOI: 10.5772/47938. Available from: http://www.intechopen.com/books/ application-of-geographic-information-systems/assessing-agricultural-potential-in-south-sudan-a-spatial-analysis-method
4. SSDDR & UNDP (2012); "Report on the South Sudan Livelihoods and Economic Opportunities Mapping", South Sudan Disarmament, Demobilisation and Reintegration Commission (RSSDDRC) and UNDP, South Sudan.