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**REPUBLIC OF SOUTH SUDAN**

**SYSTEMATIC COUNTRY DIAGNOSTIC**

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**Country Department, Eastern Africa-3 (AFCE3)  
Africa Region**



## Abbreviations and Acronyms

AES	Alternative Education System	IFMS	Integrated Financial Management System
AfDB	African Development Bank		
ANC	Ante-Natal Care	IGAD	Intergovernmental Authority on Development
ANC	African National Congress (South Africa's Ruling Party)	ITNs	Insecticide Treated Nets
Bpd	Barrel per Day	JICA	Japan International Cooperation Agency
BSS	Bank of South Sudan		
CANS	Civilian Administration for the New Sudan	LCs	Letters of Credit
CCM	Chama Cha Mapinduzi (Tanzania's ruling party)	LICs	Low Income Countries
CCSS	Coordinating Council for Southern Sudan	LQAS	Lot Quality Assurance Sampling
CPF	Country Partnership Framework	MDTF	Multi-Donor Trust Fund
CAMP	Comprehensive Agricultural Master Plan	M&E	Monitoring and Evaluation
CHWs	Community Health Workers	MoPMI	Ministry of Petroleum, Mining and Industry
COMESA	Common Market for Eastern and Southern Africa	NBFI	Non-Bank Financial Institution
CPA	Comprehensive Peace Agreement	NBHS	National Baseline Household Survey
CPIA	Country Policy and Institutional Assessment	NGO	Non-Governmental Organization
CPI	Consumer Price Index	NTDs	Neglected Tropical Diseases
DfID	UK Department for International Development	ODA	Official Development Assistance
DDR	Disarmament, Demobilization and Re-integration	PFM	Public Financial Management
DTIS	Diagnostic Trade Integration Study	PRMA	Petroleum Revenues Management Act
EAC	East African Community	QER	Quality Enhancement Review
EITI	Extractive Industries Transparency Initiative	SSA	Sub-Saharan Africa
FAO	Food and Agriculture Organization of the United Nations	SPLA	Sudan People's Liberation Army
GDP	Gross Domestic Product	SPLM	Sudan People's Liberation Movement
GNI	Gross National Income	SSCCSE	Southern Sudan Centre for Census, Statistics and Evaluation
GER	Gross Enrollment Rate	SSEC	South Sudan Electricity Corporation
GESP	General Education Strategic Plan	SHHS	Sudan Household Health Survey
GoS	Government of Sudan	SSHS	Southern Sudan Household Survey
HFS	High Frequency Survey	SSP	South Sudanese Pound
HIPC	Heavily Indebted Poor Countries	SSR	Security Sector Reform
ICT	Information and Communication Technologies	SCD	Systematic Country Diagnostic
IDPs	Internally Displaced Persons	TA	Technical Assistance
IFC	International Finance Corporation	TTL	Task Team Leader
		UNDP	United Nations Development Program
		WDR	World Development Report
		WFP	World Food Program
		WHO	World Health Organization

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The table below identifies team members representing each of these units, GPs, and CCSAs, with specific knowledge of, and experience in, South Sudan who played an important role in providing expert input throughout the SCD process. We are very grateful for their generosity in providing us with substantive inputs, knowledge, and advice.

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## EXECUTIVE SUMMARY

i. **The combination of South Sudan’s historical and geographical isolation, extreme fragility to conflict, oil dependence, and extremely low socio-economic conditions represents a formidable and almost unique development challenge.** One of the largest countries in the region—roughly the size of France—South Sudan is landlocked and shares borders with six countries. It has a population of about 11 million people covering 65 ethnic groups and speaking some 32 different languages, making it among the least-densely populated countries in Sub-Saharan Africa (SSA) (less than one tenth of the population density of Uganda). South Sudan gained independence on July 9, 2011 after a six-year transitional period that ended decades of war between the Government of Sudan and the Sudan People’s Liberation Movement (SPLM). Enjoying tremendous international support, South Sudan received about US\$1 billion in Official Development Assistance annually from 2005-2013. Four years after independence, South Sudan remains one of the world’s most conflict-affected and fragile countries, and has not been able to emerge from cycles of violence. Although oil production places South Sudan in the lower middle-income group, it has some of the lowest social and infrastructure access indicators in the world.

### **E 1: South Sudan: A Huge Basic Needs Deficit**

<p><i>Majority lack education and skills with high levels of unemployment, especially among youth</i></p> <ul style="list-style-type: none"> <li>• Adult illiteracy levels are high at around 72 percent</li> <li>• Primary completion rate of 29 percent with significant regional disparities</li> <li>• Only about 19 percent of girls completing primary school</li> </ul>
<p><i>Extremely low health indicators</i></p> <ul style="list-style-type: none"> <li>• Maternal mortality: 2,054 per 100,000 births</li> <li>• Under 5 mortality: 106 per 1,000 live births</li> <li>• High levels of under-nutrition and food insecurity in children and women</li> </ul>
<p><i>Low Infrastructure base</i></p> <ul style="list-style-type: none"> <li>• Lowest road density in Africa and less than 2 percent of the primary network is paved (compared to 72 percent average for LIC)</li> <li>• Less than 2 percent of the population has access to electricity</li> <li>• Access to piped water is non-existent and 75 percent of the population has no access to sanitation facilities</li> </ul>
<p><i>Significant gaps in service delivery access and quality, despite some recent improvements</i></p> <ul style="list-style-type: none"> <li>• Over 30 percent of the population lacks access to safe water</li> <li>• Only 15 percent has access to improved sanitation facilities</li> </ul>

ii. **The Republic of South Sudan emerged from decades of conflict in 2011 as the world’s newest independent country.** Its conflict with Sudan over border issues and oil transit fees in 2012 (and more recently, the outbreak of civil war in December 2013 that morphed into an inter-ethnic conflict) suggests that South Sudan is prone to a cycle of violence. The breakdown of peace talks between rival factions led by the President and the former Vice-President, in spite of the efforts and engagement of regional and international leadership, is a reflection of the complex nature of the drivers of conflict and fragility in the country. While the immediate driver of the

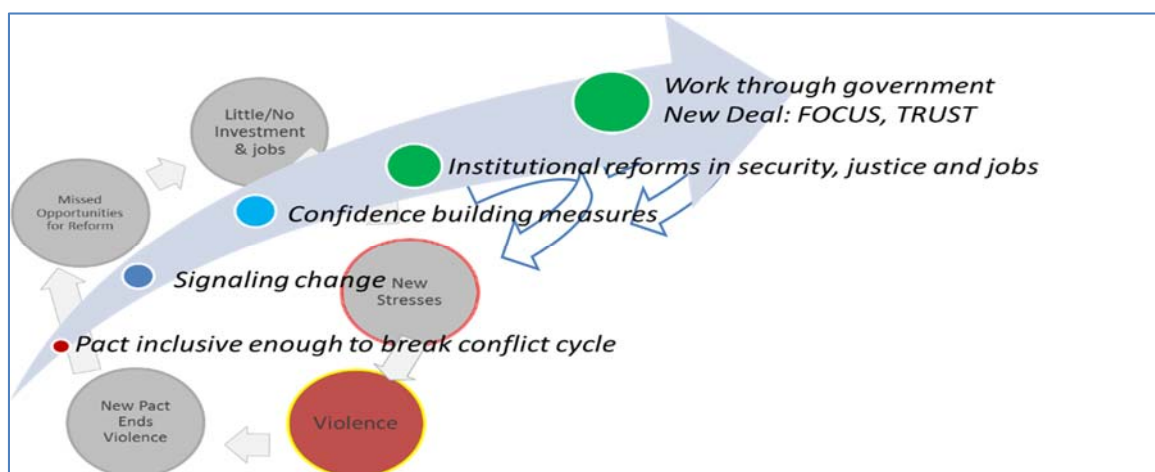
ongoing conflict is a power struggle between the President and former Vice-President, the crisis was driven primarily by the absence of a durable social and political compact between the elites and the communities, on which to build a state. The recent Compromise Peace Agreement provides renewed hope and opportunity to address the root causes of the conflict, build a more inclusive political base, and take forth longer-term development.

iii. **In an extremely fragile country like South Sudan, reducing extreme poverty is closely linked to finding paths out of recurrent cycles of conflict and fragility.** With more than half of the population living in extreme poverty, the World Bank Group's twin goals coincide in South Sudan. Hence, the SCD focuses primarily on poverty reduction. Despite the overall high levels of extreme poverty in South Sudan, there is some notable spatial variation in the incidence of poverty. The SCD builds on the 2011 World Development Report (WDR) analytical framework. Central to the process is the need to build legitimate institutions for security, justice, and jobs. Furthermore, there is a need to support conflict-resilient livelihoods and services by both state and non-state actors. Finding such a path is difficult, usually imperfect, and can take many years. Breaking out of these recurrent cycles is possible through a combination of:

- a) Measures to emerge from acute phases of conflict;
- b) Measures that reduce the likelihood of falling back into conflict and/or strengthen the country's resilience as it undergoes another crisis; and
- c) Structural and institutional measures that consolidate the state and deliver on the development and poverty reduction agenda.

The framework takes into account different time frames, recognizing that at any point in time the required actions involve a blend of measures, which can have an impact in the short, medium, and long term.

## E 2: Breaking out of Conflict and Fragility Traps through Institutional Development

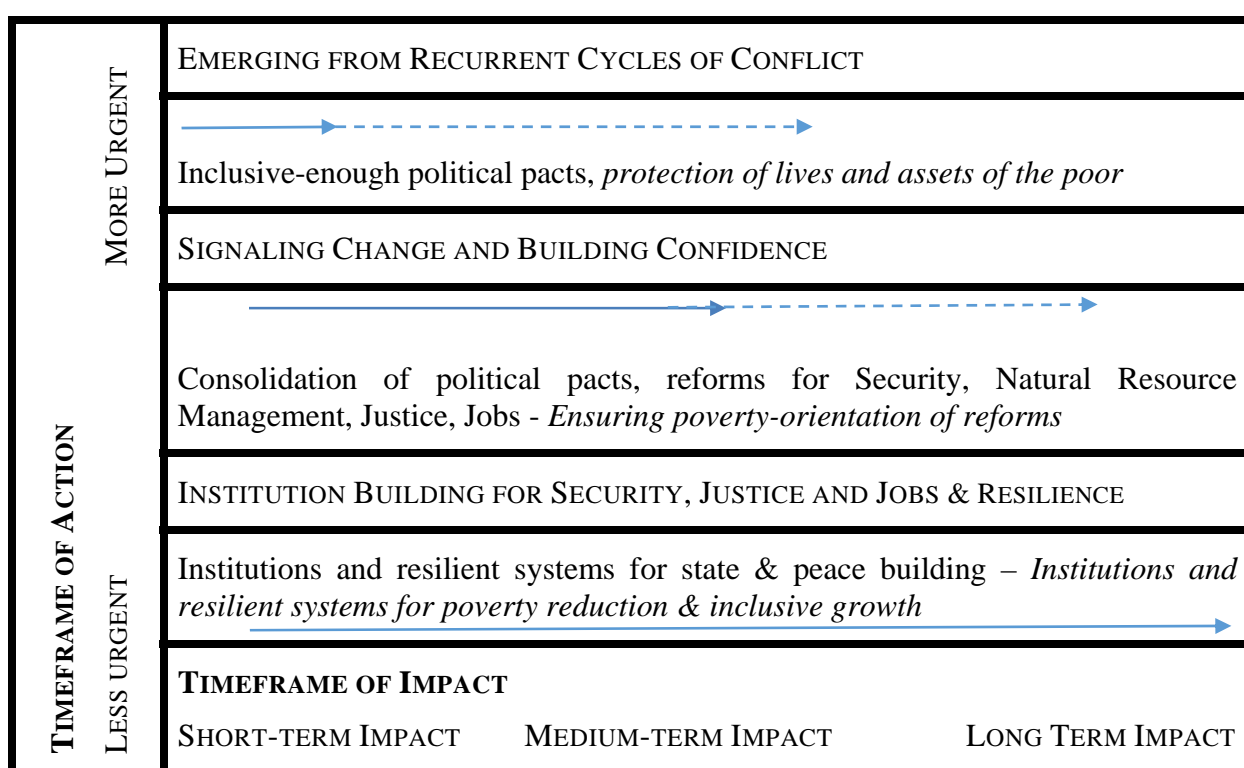


iv. **The analytical framework clearly integrates the focus on poverty reduction into each component of the WDR framework.** It recognizes that at each stage, the political and security



conditions have an impact – either positive or negative – on poverty, while changing economic conditions feed into the political and security parameters. During the early phase of emerging from active conflict, the poverty reduction focus relates to the protection of civilians as well as the protection of key assets and infrastructure of the poor, as it is expected that some forms of small-scale fighting will continue in the immediate term. During the consolidation phases, progress on poverty reduction is mainly predicated on ensuring that the critical reforms shaping the future of the country have a strong poverty-reduction and equity angle. As the process to strengthen institutions takes root, the country can increase its focus on the institutional and structural issues that underpin poverty reduction, both through the delivery of essential social services, the jobs/livelihood/growth agenda, and the equity/vulnerability agenda. Interim solutions along the way may need to leverage existing formal and semi-formal institutions that have been resilient in times of conflict.

### E 3: Schematic Analytical Framework



v. **The analytical framework helps to identify and sequence a cascading set of constraints, solution areas, and a first cut in terms of prioritization.** As South Sudan is one of the world's most fragile countries and faces a huge needs deficit, identifying a few binding constraints is neither meaningful nor possible. The country faces a set of complex and overlapping constraints. The proposed framework suggests that the identification of key constraints for South Sudan will rely on the country-specific stress factors that have historically driven conflict, as well as on the salient features of South Sudan's poverty, economic, and social profile. Although not strictly sequential, the three elements of the analytical framework derived from the 2011 WDR

provide a hierarchy of urgency, which is relevant in the context of the high level of violence and fragility in South Sudan, and is critical in ensuring a supportive environment through which peace can take hold. The framework also provides a first order filter to identify broad priority areas, in terms of both constraints and solution areas, going forward. Within the broad priority areas, the South Sudan fragility assessment is used to prioritize specific policy areas, in particular those related to security and justice, in an effort to prevent an immediate relapse back to conflict. Information on the distribution of poverty across economic, social, and spatial dimensions, as well as the specific macro profile of South Sudan, is used for a second-order prioritization of interventions with the largest impact on poverty reduction to ensure peace dividends to the people.

vi. **The following table summarizes the SCD findings related to country specific constraints and corresponding solution areas across the priority themes identified through the analytical framework.**

**T 1: Summary of Identified Constraints and Solution Areas**

<b>EMERGING FROM RECURRENT CYCLES OF CONFLICT</b>		
<b>FACTORS THAT DRIVE CONFLICT &amp; FRAGILITY</b>	<b>COUNTRY SPECIFIC CONSTRAINTS</b>	<b>SOLUTION AREAS</b>
<ul style="list-style-type: none"> <li>• Unstable political pacts</li> <li>• International tensions</li> <li>• Conflict-induced asset loss by the poor</li> <li>• Conflict-induced macroeconomic instability</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of SPLM internal democracy</li> <li>• Unresolved issues with Sudan</li> <li>• Displacement and loss of lives and assets</li> <li>• Vulnerability of oil revenues to conflict</li> </ul>	<ul style="list-style-type: none"> <li>• Regional mediation and peer pressure</li> <li>• International engagement with both countries</li> <li>• Sustained and modernized humanitarian effort</li> <li>• Macro policy Technical Assistance and short-term financial support</li> </ul>
<b>SIGNALING CHANGE AND BUILDING CONFIDENCE</b>		
<b>FACTORS THAT DRIVE CONFLICT &amp; FRAGILITY</b>	<b>COUNTRY SPECIFIC CONSTRAINTS</b>	<b>SOLUTION AREAS</b>
<b><i>Signaling change</i></b> <ul style="list-style-type: none"> <li>• Unstable political settlement</li> <li>• Contestation over large national resources</li> </ul>	<ul style="list-style-type: none"> <li>• Narrow, unstable, elite-based political deals</li> <li>• Discretionary, distortive and opaque oil management</li> </ul>	<ul style="list-style-type: none"> <li>• Inclusive Constitutional agreement</li> <li>• Implementation of credible oil revenue management oversight system</li> </ul>
<b><i>Building Confidence</i></b> <ul style="list-style-type: none"> <li>• Militarization of society</li> <li>• Lack of Reconciliation</li> <li>• Bleak economic opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of successful DDR program</li> <li>• Inter-communal violence and grievances</li> <li>• Sustained food insecurity &amp; unemployment</li> </ul>	<ul style="list-style-type: none"> <li>• Parallel security sector reform and DDR program</li> <li>• Reconciliation at national and community levels</li> <li>• Selected livelihood programs - prioritized, simple, build on track record</li> </ul>

INSTITUTION BUILDING FOR SECURITY, JUSTICE, AND JOBS & RESILIENCE		
FACTORS THAT DRIVE CONFLICT & FRAGILITY	COUNTRY SPECIFIC CONSTRAINTS	SOLUTION AREAS
<b><i>Lack of Security Sector Reforms</i></b>	<ul style="list-style-type: none"> <li>• Large and ethnically fragmented army</li> </ul>	<ul style="list-style-type: none"> <li>• Security sector reform: professional national army; pension system, comprehensive DDR program</li> </ul>
<b><i>Weak Justice Systems and Rule of Law</i></b>	<ul style="list-style-type: none"> <li>• Widespread impunity for violence</li> </ul>	<ul style="list-style-type: none"> <li>• Build credible justice system – clarify role of customary law</li> </ul>
<b><i>Weak Institutions for Jobs/Livelihoods/Resilience</i></b> <ul style="list-style-type: none"> <li>• The oil and mining sector</li> <li>• Agriculture and livestock development</li> <li>• Urban labor-intensive sectors</li> <li>• National infrastructure systems</li> <li>• National social services delivery systems to build Human Capital</li> <li>• Institutional foundation for a dynamic and competitive private sector</li> </ul>	<ul style="list-style-type: none"> <li>• Dutch disease, governance issues</li> <li>• Low productivity, low commercialization</li> <li>• Issues with land regime and urban infrastructure</li> <li>• Low infrastructure stock, weak capacity to manage</li> <li>• Low human capital, weak capacity to provide services, nutritional deficit due to food insecurity</li> <li>• Weak investment climate environment, limited regional integration, war economy</li> </ul>	<ul style="list-style-type: none"> <li>• Appropriate macro framework, strengthen public administration</li> <li>• Strengthen smallholder-based agriculture and develop large scale commercial farms</li> <li>• Land and urban planning policies</li> <li>• Three track approach – maintenance and rehabilitation of existing infrastructure; identification of fast track delivery models; develop least cost master plans</li> <li>• Work with non-state providers; strengthen social accountability and community oversight; support selected programs with multiplier effects; develop long-term service delivery systems</li> <li>• Policy and regulatory environment for private sector development; trade integration</li> </ul>

vii. **Nine main overarching themes for poverty reduction in South Sudan that emerge from this analysis, premised on an inclusive enough political pact, have been identified based on the following criteria:**

- Cross-cutting: solution areas that are systemically important across several categories and time frames.
- Foundational: solution areas that are a prerequisite with respect to several other solution areas.

- Traction & Impact: solution areas which have strong traction with the Government and broader public opinion in South Sudan and the potential to have quick impact on the ground.

### *Cross-cutting*

viii. **Security sector reform has been identified as a major solution area with respect to many constraints and across many time frames.** Review of the security sector and its reform is emphasized in the recent Compromise Peace Agreement as a key prerequisite to ensuring a supportive environment upon which peace can be established. It not only has major impact on peace and security, but would also be one of the most critical elements to create the fiscal space necessary to support social and infrastructure services and investments. Progress in this area will be critical both in the short to medium term to stabilize the country's political environment, and in the longer term to contribute to nation building and economic development. However, security sector reform will pose a significant financial burden on the government, and would require support from the international community if it is to be successful.

ix. **Macroeconomic and oil revenue management is another critical cross-cutting area, and is also recognized in peace agreements as imperative for economic growth and prosperity.** It has an impact on the political and economic governance underpinning political stability, and it can be an important signal to all stakeholders about the credibility of new political pacts, particularly for development partners who continue to be wary of engaging with the government without tangible commitment by the authorities to the peace deal and economic reforms. It has a major impact on the macroeconomic environment for private sector growth, through a stable environment and a competitive exchange rate, and it will be critical to channel the appropriate amount of resources towards infrastructure and human capital investments.

x. **Establishing systems that support the continuous institutional development of core administrative capacity in Government is a prerequisite that cuts across most long-term institutional development areas.** Basic capacity in public financial management, procurement, policy and planning, regulation, and monitoring and evaluation in central government agencies and core service delivery ministries is a recurrent theme, and has become central following the peace deal in terms of ensuring continued stability and longer term development. It affects the country's ability to achieve most objectives in developing sound security and justice sectors, but also across all development areas from social sector and infrastructure, to private sector environment.

### *Foundational*

xi. **Without meaningful progress on justice and reconciliation, it is difficult to contemplate how the long and complex nation building and development agenda can be realistically envisaged.** Although justice and reconciliation may not appear as a large "sector", in the case of South Sudan they seem to underpin the possibility of the country to hold together in a

coherent and constructive way. Without tangible and sustained progress on these issues, as mandated in the peace agreement, it is unrealistic to expect that political pacts or security solutions can, by themselves, make South Sudan a viable country.

xii. **Improving agricultural productivity of subsistence farmers will have a direct impact on food security, higher incomes, and poverty reduction.** It provides the basis for building the long-term economic competitive advantage of South Sudan in agriculture. With an abundant resource endowment for agriculture and livestock, large regional markets, and a predominantly poor population engaged in mixed farming and herding activities, improvements in the productivity of agriculture through the introduction of new technology (albeit within low levels of infrastructure) would be central to both poverty reduction and longer term economic growth prospects. In the short to medium term, it is likely to have a strong effect on improved food security and nutrition.

xiii. **Developing human capital and skills seems critical to address multiple dimensions of South Sudan's challenges, including low capacity, youth unemployment, and a shared national identity.** The challenge will be how to achieve tangible results in a reasonable time frame, given the very low health, nutrition and educational status of the population, which is further impaired by the impact of the conflict. The low capacity of the Government, itself partially the product of a missing middle of administrative and technical cadres, represents a difficult chicken-and-egg problem.

#### *Traction and Impact*

xiv. **Improving roads connectivity** is a long standing priority of the Government that has support of several donors. Within the sector, an early focus on maintenance and on connecting surplus agricultural areas to markets could have major positive effects. Prioritization of major corridors and associated feeder and rural roads will contribute to the creation of non-oil based agriculture as a source of jobs and livelihoods.

xv. **Trade integration through East African Community (EAC) accession** has the potential to entrench investment climate reforms. Given the substantial capacity and political constraints to implement legal and regulatory reforms, and the risk of institutional mimicry, engaging early in regional trade integration with the EAC would provide a mechanism that helps to build institutions and adopt regulations. For South Sudan, regional agreements provide the opportunity to improve regulations and supervision where regulatory agencies face substantial skill and capacity constraints. Adoption of regional rules reduces the scope for private sector interests to gain control of national regulation and reduces regulatory heterogeneity with neighboring countries. Moreover, committing to regional cooperation strengthens the credibility of the reform process, while also providing access to markets for South Sudan's agricultural goods.

xvi. **Individual or community-based wealth sharing transfers** can be an efficient way to transfer resources at the grassroots. Given the weak track record of the Government in service delivery, there is growing interest among domestic and international stakeholders in mechanisms

that can transfer resources directly at the grassroots level, giving households or communities the choice on how to best use them. One such program is the government-owned local grant program. Another alternative would be a universal transfer of part of the oil revenues as a wealth-sharing mechanism, which could be used by households to improve food security and access health and education. Such programs will be an integral part of a more comprehensive social protection framework that provides the pathway from humanitarian assistance to sustainable development.

## I. COUNTRY CONTEXT

1. **The Republic of South Sudan emerged in 2011 from decades of conflict as the world's newest independent country, with huge state and peace building challenges, and extreme institutional and socio-economic deficits.** South Sudan became independent on July 9, 2011 after a six-year transitional period that followed the signing of the 2005 Comprehensive Peace Agreement (CPA). The CPA ended decades of war between the Government of Sudan (GoS) and the Sudan People's Liberation Movement (SPLM). The SPLM formed the Government of the new country, based on the results of elections held in 2010. South Sudan joined the World Bank Group in April 2012.<sup>1</sup> More recently, the country experienced large-scale conflict in December 2013, and after nearly two years of fighting, the warring factions agreed to sign a Compromise Peace Agreement in August 2015.

2. **South Sudan is a low population density and landlocked country that is highly dependent on oil production, but is also endowed with other abundant natural resources.** One of the largest countries in the region, roughly the size of France, South Sudan shares borders with 6 countries; its most direct access to the sea is through Mombasa in Kenya, and Port Sudan in Sudan. Its population of about 11 million people covering 65 ethnic groups that speak some 32 different languages makes it among the least densely populated countries in Sub-Saharan Africa (SSA) (less than one tenth of the population density of Uganda). Large areas of the country enjoy good rainfall and have fertile soils, and more than half of its land area is suitable for crop production. The country is also blessed with numerous water bodies that provide opportunities for sustainable irrigation and fish production. South Sudan has substantial forest cover, estimated at about 29 percent of the land area, with immense possibilities for sustainable exploitation of wood and non-wood forest products, as well as wildlife that could enable the development of a tourism industry.

3. **Four years after independence, South Sudan remains one of the world's most conflict-affected and fragile countries, and has been unable to emerge from cycles of violence.** Its conflict with Sudan over border issues and oil transit fees (and more recently the outbreak of internal violence in December 2013 that morphed into an inter-ethnic conflict) suggests that South Sudan is trapped in a cycle of violence. The breakdown of peace talks between rival factions led by the President and the former Vice-President in spite of efforts and the engagement of regional and international leadership reflects the complex nature of the drivers of conflict and fragility in the country. While the immediate driver of the current conflict is a power struggle between the President and former Vice President, the crisis is driven primarily by the absence of a durable social and political compact between the elites and the communities on which to build a state. Furthermore, violent conflict at the local level cannot be separated from the wider armed conflict and politics of the country, with local disputes reflecting competition for representation at the center. Internal and external stresses ranging from weak governance and political institutions, social and ethnic tensions, poor human rights and insecurity, lack of economic opportunities, and

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<sup>1</sup> See Annex 3 for a more comprehensive background of the history of South Sudan.



contestation over natural resources underpin fragility in South Sudan (see details in paragraphs 7-18). The 2015 Compromise Peace Agreement provides hope and opportunity to address these root causes of conflict and fragility, build a more inclusive political base, and take forth longer-term development.

4. **Although oil production places South Sudan in the lower middle-income group, the country has some of the lowest social and infrastructure access indicators in the world.** South Sudan's per capita income of US\$1,081 in 2013 compares favorably with that of most neighboring countries in East Africa. However, almost half of its population lives in poverty and a similar share of the population faces some form of food insecurity, with almost a fifth of the population facing crisis level of food insecurity. South Sudan faces a huge basic needs deficit, with some of the worst social outcomes in the world and extremely low levels of physical infrastructure, making the path to development challenging even without the recurrent outbreaks of conflict. About 72 percent of the adult population is unable to read, write, or do basic numeracy. There is a strong gender bias with only one in four women having access to education. A weak health system contributes to poor health outcomes, with the under five-mortality rate estimated at 106 per 1000 live births: 78 percent higher than the global average. Endemic diseases like malaria are a further burden to South Sudan's overstretched health system. Similarly, physical infrastructure levels are only a fraction of the

#### **Box 1: South Sudan: A Huge Basic Needs Deficit**

*Over half the population lives below the national poverty line (51 percent)*

*Majority lack education and skills with high levels of unemployment, especially among youth*

- Adult illiteracy levels are high with around 72 percent of the population unable to read, write, and do basic numeracy; more primary school-aged children out-of-school than in school; primary completion rate of 29 percent with significant regional disparities; and only about 19 percent of girls completing primary school.

*Extremely low health indicators*

- Maternal mortality: 2054 per 100,000 births
- Under five mortality: 106 per 1,000 live births
- High levels of under-nutrition and food insecurity in children and women.

*Low infrastructure base*

- Lowest road density in Africa and less than 2 percent of the primary network is paved (compared to 72 percent average for LICs)
- Less than 2 percent of the population with access to electricity  
Access to piped water is non-existent and three quarters of the population has no access to a sanitation facility.

*Significant gaps in service delivery access and quality despite some recent improvements*

- Over 30 percent of population lacks access to safe water and only 15 percent has with access to improved sanitation facilities.

*High levels of vulnerability*

- 92 percent suffered some form of shock in last five years (e.g. floods, drought)
- 36 percent are food insecure

*Nascent formal institutions, weak PFM, and extremely low public administration capacity, widespread corruption*

regional average and an estimated US\$1.4 billion of investment is needed annually for the next ten years to plug the infrastructure deficit. Institutions are nascent and administrative capacity remains extremely weak (see Box 1). The country ranks 5<sup>th</sup> from the bottom on the Corruption Perception Index.

5. **The combination of historic and geographic isolation, extreme fragility to conflict, oil dependence, and extremely low socio-economic conditions represents a formidable and almost unique development challenge.** It is in this context that the SCD adopts the fragility framework from the 2011 WDR on Conflict, Security, and Development to identify key binding constraints as well as priority solution areas for poverty reduction and shared prosperity. The priority solution areas will be particularly important in the early days of peace and for longer term development as the Government and international partners work to establish a constructive and supportive environment upon which peace and stability can take hold.

6. **The remainder of the report is structured as follows.** Chapter II provides the necessary background on South Sudan's key development challenges, including the fragility dimension, the socioeconomic aspects, as well as poverty and vulnerability issues. Chapter III constitutes the analytical core of the report. It sets out, in section 1, the analytical framework and prioritization criteria used for the diagnostic; section 2 identifies a selected numbers of critical constraints aligned with the chosen analytical framework; for each identified constraint, section 3 then discusses policies and programs that can address these constraints; finally, section 4 provides some synthesis by briefly discussing some of the overarching themes emerging from the analysis. The last chapter describes the consultative process that accompanied the preparation of the report.

## II. FRAMING SOUTH SUDAN'S DEVELOPMENT CHALLENGES

### 1. FRAGILITY

*The relative peace between 2005 and 2012 was built on an unsustainable model that tried to accommodate but did not address the root cause of the country's complex and multi-layered fragility. The fault lines collided with the 2013 civil war, and a new, more courageous approach will be needed, especially now that a peace agreement has been signed, which however will be reliant on the best leadership the country can offer.*

7. **South Sudan's political settlement has led to narrow elite capture of the state.** The 2005 CPA gave the SPLM a dominant political position and turned the SPLA into the dominant armed group. The 2005 Interim Constitution initiated the process of relative concentration of power in the Executive, which further increased through the revisions made to the 2011 Transitional Constitution. The expectation that a polity like South Sudan, fragmented and deeply affected by decades of armed conflict, could transition to peaceful competitive politics at independence was unrealistic, particularly given the narrow window of time for preparation between the January 2011 referendum and the July 2011 independence. The resulting elite capture of the state has created a fractious and self-serving political leadership, beset by infighting and the constant need for co-optation through the sharing of rents – including positions and other material

benefits, which has gradually excluded a broader section of the political establishment. The Transitional Government of National Unity, as well as the power sharing arrangements, mandated within the recent peace deal provide a new opportunity to address political grievances and build a more inclusive and equitable political base, going forward.

8. **The onset of the crisis in December 2013 is the most recent expression of these internal tensions and reflects the range of complex, interlocking factors.** Events in December 2013 catalyzed into escalating violence in an expression of long-held grievances between senior political leaders within the SPLM. These grievances are rooted in the history of the civil war that contributed to the rupture of the SPLA in 1991 and remained latent during the process of state formation in the post-CPA period. Internal tensions within the SPLM have been increasing, in part due to perceptions of reduced space for deep debate or dissent from the dominant policy narratives.

9. **Tangible progress on security, justice, political, and accountability institutions has been sorely lacking.** Some critical early decisions created a very large and poorly integrated security sector, which has had negative spillover effects on other areas, such as investing sufficiently in civilian capacities and institutions for service delivery. Additionally, the “big tent” security approach meant that the police service, fire brigade, wildlife protection services, and prison services were formed and staffed with former fighters, with little regard for the skills required in those services. Although there has been some progress since the CPA in building core state institutions that were absent at the time of independence, these efforts are still very nascent. A justice system had to be newly created out of a prior opposition to efforts by Khartoum to impose increasingly Islamic-based justice, while grappling with the challenges of combining modern and traditional forms of justice.

10. **High expectations among the population for significant change and development following the cessation of war and newfound independence remain unfulfilled.** These expectations for a “peace dividend” have yet to be met, thereby contributing to increasing frustration and tension. An agreement on a permanent Constitution has been difficult to achieve following independence in 2011; elections scheduled for July 2015 were delayed and the government has extended its mandate by another three years. With 59 percent of the South Sudanese believing government corruption is worsening, and 75 percent dissatisfied with government’s efforts to tackle corruption, the lack of accountability of the ruling elite has taken is worrisome.

11. **The SPLA, renamed the South Sudan Armed Forces (SSAF) after independence, has remained a collection of localized militias led by an ethnic coterie of generals.** After the CPA, in order to retain its dominant position, the SPLA absorbed the diverse militia and even welcomed rebels who left the Sudanese army. This ‘big-tent’ approach, which has sought to incorporate various interests and potential opposition groups through rent-sharing, has often frustrated those who fought for South Sudan’s independence and led to conflict within the ruling party. The result is a bloated army, much of whose budget must go towards salaries (80 percent) rather than investments in military professionalism, training, infrastructure, facilities, equipment or social services. The Government of South Sudan initialized a policy to professionalize and downsize the

military and national organized forces. It outlined the need to reduce the military salary burden on the state and instead contribute to the more productive allocation of financial and human resources. However this program was in a nascent stage when the internal conflict erupted in December 2013. At this time, the proposed Strategic Defense and Security Review, and subsequent reform efforts in the peace agreement could serve as a mechanism to address some of these challenges, but would need to integrate lessons learned from previous interventions.

12. **Military and arms proliferation among civilians is a continuous threat to communities as disarmament initiatives have been largely ineffective.** The current influx of arms to the communities during the present fighting has seen arms used by civilians in cases of armed robbery, murder, inter-communal violence, and cattle rustling, etc. This poses a major barrier to return to a more durable peace and the realization of human rights, equality, poverty reduction and socio-economic development. Continued shipments of arms to both the Government and the rebels, as well as the use of child soldiers, will make disarmament, demobilization and re-integration (DDR) even more difficult and costly in the future. Reform of the SPLA is a massive challenge, but without real action to address the security issues that matter to citizens, state-society relations are unlikely to improve.

13. **The conflict in South Sudan over the last 50 years has resulted in a highly fractured society; challenging conditions for consensual and effective governance to emerge.** Prior to independence, the main factor that bound together the many ethnic groups that coexist in South Sudan was a shared perception of dominance and oppression from the North. Finding a national identity that goes beyond opposition to the north has proved extremely difficult. Lack of progress on governance has exacerbated ethnic tensions, while human rights abuses by soldiers and police have deepened social divisions. The recent violence of December 2013 has increased the spread of ethnic and tribal identity as a default position. This trust deficit amongst members of society underlines the importance of systems and processes in which people have confidence and that can provide a base for resilience, but also makes them particularly difficult to initiate.

14. **Several decades of conflict have left a legacy of past experiences that help to legitimize violence.** Collective memories help to draw people into each successive wave of violence, and make any new conflict spread fast and escalate in terms of brutality and lethality. What other communities think of a specific group, and how each group sees itself in relation to the state and to its neighbors, strongly influences the behavior of each group and informs their political, economic, and identity universes. The militarization of the population, particularly the youth, for whom violence can present a lucrative employment opportunity by joining one of the many factions, has upended the traditional family, widened intergenerational divides, undermined hierarchies and resilience, and eroded cohesion and coping mechanisms.

15. **Inter-communal violence, rebel movements, and local militia pose a continuing security challenge.** These dynamics intersect with youth mobilization, and localized and nationalized grievances, and are intrinsically ethnic and communal in nature. Perpetrators of violence have an understanding of the weaknesses of the justice and security sectors that allow for impunity. Exclusionary policies by the government permit ethnic identity, rather than national

policy interests, to influence decision making. A further dimension is that ethnic narratives are constructed on masculine identities of heroism and bravery. In this way, the diverse ethnic composition of South Sudan risks posing a challenge to the state, as history continues to repeat itself in the absence of the explicit management of exclusion, national unity, and collective identity.

16. **South Sudan's local conflicts also stem from contestation over natural resources.** Inequitable access to land and water resources is a major cause of continued violence in South Sudan. The return of refugees and internally displaced persons (IDPs) has created social and economic tensions with relation to land rights where there is unclear or contested ownership of family plots of land, especially in the urban and semi-urban areas. Conflict over land is also translating itself into occupational conflict between farmers and pastoralists and between pastoralists in the form of inter-communal violence and cattle raiding. These conflicts are often exacerbated by floods and droughts, which are common and may become more frequent due to increased climate variability. These types of local level disputes and tensions have often escalated into armed conflict with the aid of the proliferation of small arms. A prolonged conflict, such as the one experienced by South Sudan, typically gives rise to the “economy of war” about which very little is known. It is likely that there are existing informal agreements governing the current distribution of assets that bear no similarity to transparent ownership and governance practices that allow the private sector to thrive. Although the ongoing conflict has become part of the normal operating environment, it has been a critical factor influencing where businesses are located and impacted their ability to attract employees. The ongoing conflict has also had a dampening effect on the appetite of large foreign investors.

17. **The presence of a very poor, unemployed, and disempowered male youth population with few marketable skills also represents a significant threat to peace and stability in South Sudan.** In addition, crime is prevalent and increasing, according to official crime statistics collected by the NPSS, existing safety and security reports<sup>2</sup>, and other qualitative data. However, different areas experience different types of crime and not all areas in South Sudan have experienced the same increases in crime. Furthermore, youth are associated with higher levels of crime and young males make up the highest proportion of both victims and perpetrators in South Sudan<sup>3</sup>. South Sudan's population is primarily young, undereducated and underemployed, and as such, the probability of youth getting involved in criminal activities or violence is very high. This is a challenge as increasing levels of crime and violence pose a threat both to long-term social development and to economic growth.

18. **The geopolitics of East Africa and the Horn of Africa are complex with many of South Sudan's regional neighbors having an influence on its stability.** South Sudan's relationship with Sudan remains a critical tension point, as a number of unresolved issues surrounding security, borders, and economics have the potential to unravel the relative stability achieved after the March

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<sup>2</sup> OSAC 2013, 2014

<sup>3</sup> Rolandsen and Breidlid 2013, Sommers and Schwartz 2011, WB 2014

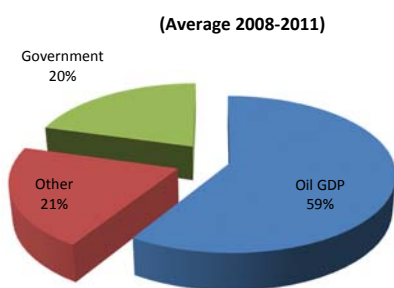
2013 agreement. The recent civil conflict in South Sudan has also re-ignited proxy or direct engagement in active conflicts by some regional powers.

## 2. MACROECONOMIC AND GROWTH PERFORMANCE

*South Sudan has struggled to manage its macroeconomic situation in face of the combined challenges of oil dependence, conflict, low accountability, and weak institutional and policy capacity. The situation has been exacerbated by the sharp decline in the international price of oil, the country's main source of government revenue and foreign exchange. The 2015 Compromise Peace Agreement proposes specific interventions towards reforms aimed at correcting some of the imbalances, but will require significant assistance by the international community in order to be successful.*

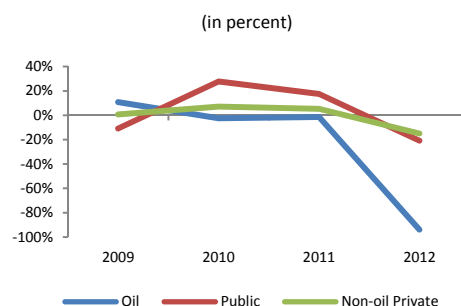
19. **South Sudan's economy is driven by petroleum related activities.** Oil production represents about 60 percent of GDP (Figure 1) and 98 percent of exports. Oil revenue accounts for 98 percent of government revenue. Growth of the economy is heavily dependent on the oil sector and the non-oil private sector growth averaged only 4 percent in the years before the oil shut-down (Figure 2). On the demand side, government expenditures, which are almost entirely oil financed, drive growth. The heavy dependence on oil led to a growth collapse in 2012, with demand components most dependent on oil contracting sharply, including imports (Figure 3). Currently exploited oil reserves will be depleted in about 15 years, but production, and with it the oil revenue, is expected to decrease substantially already in 2020 because of natural declines at maturing fields. As of January 1, 2013, South Sudan had approximately 1.14 billion barrels of proven reserves, according to the Ministry of Petroleum (MoPMI).

**Figure 1: Composition of GDP**



Source: National Bureau of Statistics and authors' calculations

**Figure 2: Growth of GDP**

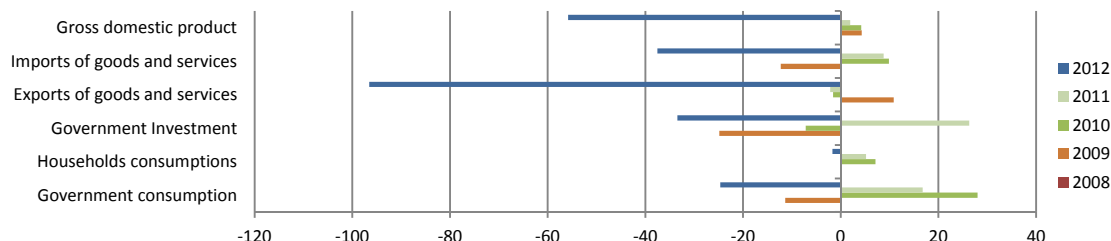


Source: National Bureau of Statistics and authors' calculations

20. **Government expenditures have been driven by the large available oil revenue rather than by approved budgets.** There is a systematic lack of expenditure control, especially in some of the security and central government agencies. Availability of resources, rather than approved budget and ceilings, drove expenditures in the past years (Figure 4 and Figure 5). As a result, there is little accumulation of savings and oil revenue has been mainly used to finance recurrent

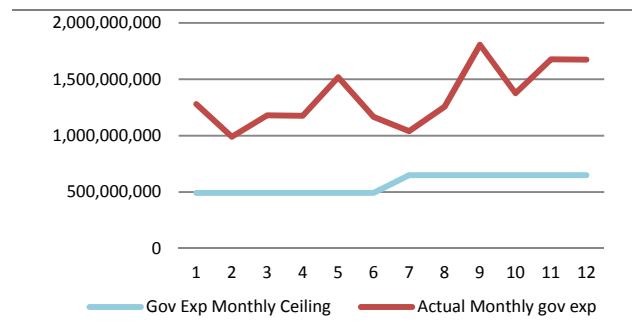
expenditures, predominantly salaries (Figure 6). In the meantime, capital investments trended down (Figure 7), and the share of the budget to finance health and education dropped to below 10 percent in the fiscal year 2012/13.

**Figure 3: Decomposition of South Sudan's GDP growth**



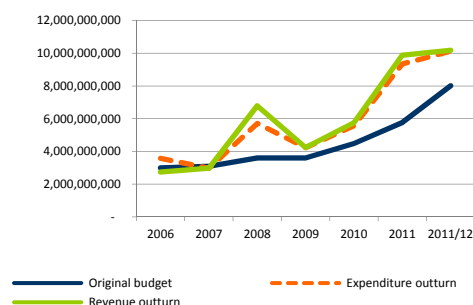
Source: National Bureau of Statistics and authors' calculations

**Figure 4: Systematic overspending of the budget in 2011 (South Sudanese Pounds)**



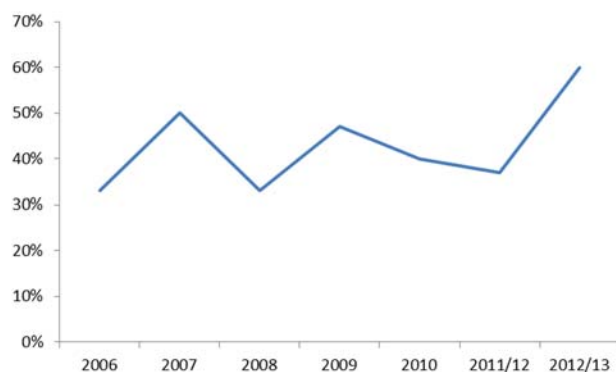
Source: Ministry of Finance and authors' estimates

**Figure 5: Original budget, revenue and expenditure outturn from 2006 to 2011/12**



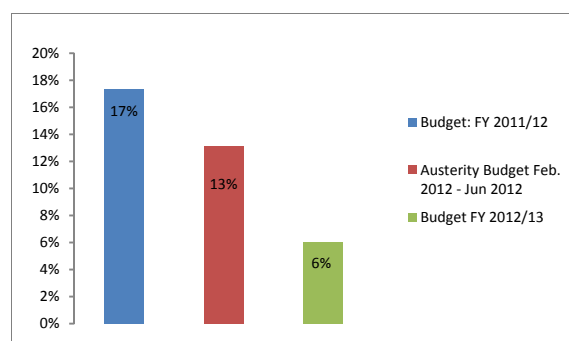
Source: Ministry of Finance and authors' estimates

**Figure 6: Wage Bill share in total expenditures (percent)**



Source: Ministry of Finance and authors' estimates

**Figure 7: Share of capital expenditures in total expenditures (percent)**



Source: Ministry of Finance and authors' estimates

21. **A dual exchange rate system has fueled rent-seeking behavior and introduced economic distortions.** South Sudan has a dual exchange rate with a fixed official rate of 2.96 SSP for US\$1 and a volatile parallel market exchange rate fluctuating between 10 SSP to 13 SSP for US\$1. The dual exchange rate regime unduly favors economic actors that have privileged access to foreign currency and the official rate. Letters of Credit (LCs) are used in South Sudan to allocate USD at the official rate to importers.<sup>4</sup> The LCs are based on a credit line from Qatar National Bank to the Bank of South Sudan (BSS), which in turn allocates US\$ at the official rate to importers of essential goods and services in the form of LCs.<sup>5</sup> The main benefitting ministries are Ministry of Trade for food products, Ministry of Health for drugs and Ministry of Petroleum (through Nilepet) for fuel. From April 2014 to April 2015, US\$590 million was allocated in the form of LCs. There are allegations of possible misuse of the LCs, which are being investigated by the National Legislative Assembly Committees. Under the circumstances, the existence of the dual exchange rate situation not only makes domestic production less competitive with respect to imports but also does not support foreign direct investments through the banking system. It impedes activity in the private sector, as nearly every business, from manufacturing to hospitality, to retail and agribusiness, relies heavily on imports either as inputs to production or as inventory. The dual nature of the exchange rate also creates uncertainty as to the future value of the currency, and as to which firms have access to which exchange rate, and thus deters investment in tradable goods and services.

22. **Macroeconomic stability has been compromised following each episode of conflict escalation.** The dispute between South Sudan and Sudan in 2012 led to oil shutdown and border closure. Without large-scale refineries in place, South Sudan exports the crude oil via pipelines in Sudan through Port Sudan. The oil shutdown and border closure caused large shocks to the macroeconomic environment in South Sudan with a collapse of GDP and government revenues, a depletion of foreign currency and an increase in food prices (Box 2). Tensions were defused in 2013 and both countries signed an agreement in Addis Ababa regarding the resumption of oil exports and border trade to help restore peace. Given the relatively short duration of this crisis, GDP gradually recovered from its collapse; and the Government started to regain fiscal balance and to replenish foreign reserves.

**Box 2: Macro-economic and fiscal impact of the oil shutdown and border closure**

- **GDP.** GDP dropped by 50 percent, largely due to the oil shutdown as oil share in is around 60 percent.
- **Prices.** The dispute led to a near complete closure of the Sudan-South Sudan border and thus shut down an important source of key staples for much of the country. This increased prices – especially for food products in geographically isolated areas in the northern states of South Sudan.
- **Budget.** The lack of oil revenues rendered government expenditures unsustainable, forcing cuts in spending. This caused a contraction of the economy as a whole, which affected people’s ability to purchase food in markets.
- **Foreign Currency.** The collapse of oil exports depleted foreign exchange, weakening the domestic currency. This compromises the amount of food the country can afford to import, affecting food prices.

<sup>4</sup> The breakdown is as follows: (i) *Phase One (April - June 2014)*: USD 91 million, without Nilepet and 7 States; (ii) *Phase Two (July - Sept. 2014)*: USD100 million, without Nilepet & 7 States; (iii) *Phase Three (Oct - Dec 2014)*: USD124 million, including 10 States, but without Nilepet; and (iv) *Phase Four (April 2015)*: USD125 million, without Nilepet.

<sup>5</sup> BSS repays Qatar National Bank every three months.



23. **Economic crisis reemerged with the renewed conflict in December 2013, this time within the borders of South Sudan.** Oil production, which averaged 326,000 barrels per day (bpd) in 2011 and averaged only around 100,000 bpd for the full year 2013 (following resumption in June 2013), declined significantly in 2014 to an estimated 160,000 bpd. The conflict has already left profound marks on the macro and fiscal position with reduced GDP, increases in prices and renewed fiscal pressures (Box 3). Real GDP is expected to drop by 8 percent in 2014/15, from an increase of 31 percent in 2013/14. The projected decline reflects the combination of weak oil production and contraction of non-oil activity in relation to heightened insecurity and the displacement of people, which has particular implications for the agricultural sector.

**Box 3: Macro-economic and fiscal impact of the internal conflict in South Sudan**

- **GDP.** Lower oil production, loss of assets and livelihoods opportunities, and destruction of market infrastructure are estimated to cost 15 percent of South Sudan's potential GDP.
- **Prices.** While prices have remained broadly stable in less affected areas, prices in towns targeted by the military action increased considerably, like Malakal, Upper Nile State, showing an average increase of 32.6 percent within two months since the onset of the conflict.<sup>6</sup>
- **Budget.** Net government oil revenue is projected to decrease by around 25 percent. Purchase of military equipment, the cost of running military operations, and compensation for damages caused by the conflict are likely to put pressure on public expenditures. As a result, the fiscal balance is expected to swing from a small surplus to a deficit of around SSP 3 billion (US\$1 billion at official exchange rate).

24. **The recent oil price decline has compounded South Sudan's macroeconomic woes.** The decline in oil prices is exacerbating the fiscal tensions generated by limited oil production. With the Brent price falling to US\$65-55 per barrel in the first half of 2015, the net government oil revenue has dropped by around two-thirds. Most of the shortfall has been financed through monetization of the deficit by borrowing from the Central Bank. The lower oil revenues have also reduced international reserves, limiting the ability of the Central Bank to sustain the official pegged exchange rate at SSP 3 per US\$. As a consequence of these fiscal and monetary developments, the parallel market exchange rate depreciated sharply from 3.8 SSP in late May 2014 to 5.5 SSP for 1 US\$ in late December 2014, and further to around 9-10 SSP in late May 2015. This has fed into inflation, which started on an upswing in the last two months of 2014, mainly driven by higher food prices, and is estimated to have surged to over 100 percent on yearly basis in May 2015. Experience from previous oil shutdowns has shown that high inflation combined with reduced income could have dramatic impacts on poverty<sup>7</sup>.

25. **With limited access to external borrowing, South Sudan is facing severe restrictions on its imports of goods and services.** With an oil price of US\$65 per barrel, the current account of the balance of payments is likely to deteriorate sharply from a surplus at US\$1.1 billion (8 percent of GDP) to a deficit of around US\$1.4 billion (12 percent of GDP). This relatively large deficit represents a major threat of external imbalance given the low level of foreign exchange reserves. In particular, South Sudan's US\$1 billion imports of food are therefore at risk, which

<sup>6</sup> High Frequency Survey (HFS) conducted by NBS in collaboration with the World Bank.

<sup>7</sup> Following the oil shutdown, the parallel SSP/US\$ exchange rate depreciated from SSP 3.6 in January 2012 to SSP 5.3 in July 2012 (current rate is about 8.5 (April 2015). Inflation increased by 39 percent from April to May 2012 and averaged 47 percent in 2012.

is particularly worrying since the food deficit in South Sudan is concentrated during the hunger season from April to October. Humanitarian food assistance is therefore expected to be critical in the second half of 2015.

26. **The 2015 Compromise Peace Agreement also poses significant financial burden on the Government if it is to be successfully implemented.** While it can be expected that peace will provide some fiscal space (with increased oil production and economic activities), and bring opportunities for external borrowing and reduce pressure on security related expenditures, it also brings with it a number of immediate costs. Some of these costs include the salaries of opposition forces, increased public service expenditures, reconstruction costs in conflict-affected states, and substantial DDR efforts. For example, it is estimated that absorbing an additional 50,000 forces would cost upwards of SSP 720 million per year in salaries alone, excluding costs associated with feeding and other upkeep. Similarly, providing DDR to 150,000 military personnel would cost over US\$500 million, based on the findings from the 2013-14 DDR pilot. Furthermore, the 2015 Compromise Peace Agreement anticipates that Government will provide US\$250 million for the reconstruction of conflict-affected areas during the life of the transitional arrangements. These costs alone amount to almost US\$1 billion, whilst there will also be sizeable ongoing humanitarian needs until IDPs are resettled, as well as costs associated with the increased size of Government.

### 3. POVERTY, LIVELIHOODS AND VULNERABILITY

#### POVERTY

*Extreme poverty in South Sudan is massive, and entrenched in low productivity, abyssal levels of human capital, lack of infrastructure access and institutional capacity. Poverty has been on the increase as a result of the conflict and economic shocks of the past 3 years.*

27. **Half of the population in South Sudan struggles to meet their basic needs and survive amidst conditions of abject poverty.**<sup>8</sup> Based on the National Budget Household Survey conducted in 2008/9, 51 percent of the population lives in extreme poverty. Average per capita consumption in South Sudan is 100 South Sudanese Pounds (SSP) per person per month (equivalent to about US\$1 per day) and the poor, on average, consume only about US\$0.39 per capita per day. However, even the non-poor on average consume less than US\$2 a day which underlines the pervasiveness of poverty and vulnerability in South Sudan. World Bank estimates suggest that conditions have further deteriorated, especially over the past year, and that the 51 percent extreme poverty rate should be considered a lower-bound. With more than half of the population living in extreme poverty, the World Bank Group's twin goals of poverty reduction and

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<sup>8</sup> The reported poverty numbers are based on a national poverty line of 72.9 SSP per person per month. At market exchange rates at the time of the survey (April-May 2009), this was equivalent to US\$32 per person per month, or just over US\$1 per person per day. The standard practice of the World Bank for international poverty comparisons is to use a US\$1.25-a-day poverty line, calculated using not market exchange rates but 2005 purchasing power parity (PPP) exchange rates. PPP exchange rates reflect country-specific costs-of-living and can differ substantially from market exchange rates. There is no existing estimate of the PPP exchange rate for Southern Sudan.

improved shared prosperity of the 40 percent bottom of the income distribution, coincide in South Sudan.

28. **South Sudan is a country with lots of poor, no middle class, and a very small elite class.** Despite the overall high levels of extreme poverty, there is some notable spatial variation in the incidence of poverty. While only 16 percent of the population lives in urban settlements, the urban poverty rate of 24 percent is significantly lower than the 55 percent extreme poverty rate observed in rural South Sudan.<sup>9</sup> Extreme poverty incidence also varies widely across states, with the highest rate of 76 percent in Northern Bahr El Ghazal and the lowest rate of 26 percent in Upper Nile (Figure 8). The three states with highest extreme poverty levels – Northern Bahr El Ghazal (76 percent), Unity (68 percent), and Warrap (64 percent) – are located close to the border with Sudan. While these states were not the site of the heaviest fighting before 2005, they were substantially isolated by the conflict and remain largely unconnected to relatively prosperous areas. On the other hand, the relatively prosperous State of Upper Nile not only has economic activity related to oil production, it has also been historically well connected to the relative prosperity in Khartoum. The Gini coefficient for South Sudan is 46 percent (compared to 30 percent in Ethiopia and 48 percent in Kenya), which is a reflection of the overall low levels of per capita consumption rates. Despite significantly different poverty levels in rural and urban areas, the level of inequality is about the same in the rural (44 percent) and the urban areas (32 percent). In other words, with 68 percent of the population living on less than US\$2 a day, it is not surprising that the Gini coefficient is on the moderate side. The ratio of average per capita consumption of the poor (bottom 50) to the top 5 percent is 1 to 10. Compared to the Gini, this is perhaps a more informative indicator of inequality in South Sudan.

29. **Poverty rates correlate highly with education.** Three out of four household heads have no formal education and 72 percent of the adult population cannot read, write, or do basic calculations, severely affecting economic productivity and growth prospects. Girls are particularly vulnerable as they are often married at a very early age. In many of the pastoral and tribal cultures, education is perceived to some extent as a challenge to existing norms and values, contributing to a vicious inter-generational cycle of poverty and low education levels among women. Poverty rates are highest for those living in households whose head has no education or only some primary education. Poverty rates are much lower for households where the head has more education. In rural areas, where a majority of the poor live, only 30 percent of the population can read and write as opposed to around 50 percent among urban populations. Very low levels of education also have adverse impacts on the economy and the overall health of the population. The low literary rates as well as the lack of business skills and training are also damaging to private sector prospects, as they are associated with low levels of entrepreneurial initiative, poor employability, and a vast skills mismatch. Many companies therefore, rely on foreign labor, but the related costs are significant. Without boosting education levels it will be difficult to reduce poverty, improve the

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<sup>9</sup> Overall, 84 percent of the population in South Sudan lives in rural areas. The largest rural population (as a percentage of the state's population) is in Jonglei, where 94 percent of the population is rural (Figure 9). The least rural state is neighboring Western Bahr El Ghazal, where 53 percent of the population is rural.

health and welfare of the population, and ensure that investments generate employment and shared prosperity among the South Sudanese people.

30. **Female-headed households are among the most economically vulnerable**, with a higher incidence of poverty (57 percent) compared to households headed by men (48 percent)<sup>10</sup>. They are particularly common in rural areas, as men have left to find employment in urban spaces or to fight in conflicts. Since the outbreak of violence in December 2013 it is expected that there will have been a rise in the number of female-headed households, as men have been killed or joined armed groups. This has left a large number of women responsible for securing food, water, and firewood. Conflict has disrupted agricultural production and markets. In combination with the already diminished size of plot managed by women and their broader lack of access to land and productive resources, this has contributed to widespread food insecurity. Customary land tenure restricts the ability of women to own land independently of their husbands or male relatives, which has serious implications for widows, divorcees, and single women. That has, in turn, forced many women to spend days gathering food in the forest or walking to the nearest town in order to bring food back to their families. During these searches, women have often been the targets of attempted rape or subject to other violent attacks.

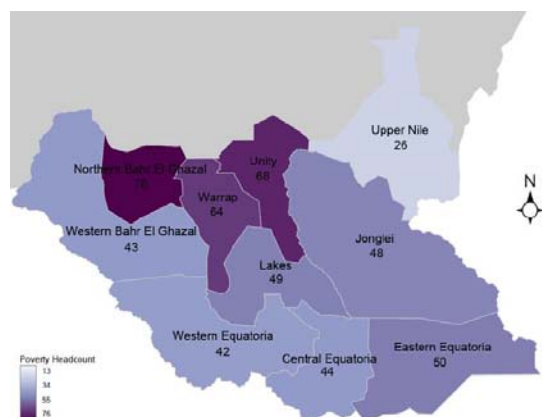
31. **Poverty in South Sudan is concentrated in areas that have medium-to-high agricultural potential**. The spatial distribution of poverty from the perspective of agro-ecological zones shows that poverty is unevenly distributed among the seven zones (Figure 8). The Western and Eastern Flood Plains have the highest number of poor people among the agro-ecological zones of South Sudan. Almost half of the country's poor live in these two regions, which collectively include populations in Northern Bahr el Ghazal, Warrap, Unity, Jonglei, and Upper Nile States. A 2012 World Bank agricultural study<sup>11</sup> that estimated the crop potential of each zone confirmed that the Greenbelt has the highest potential, but that the Eastern Flood Plains and the Western Flood Plains also show relatively promising (medium) agricultural potential. This potential in these states gives hope of reducing poverty if fully tapped, and represents a promising source of resilience in terms of livelihood opportunities.

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<sup>10</sup> Oxfam 2013.

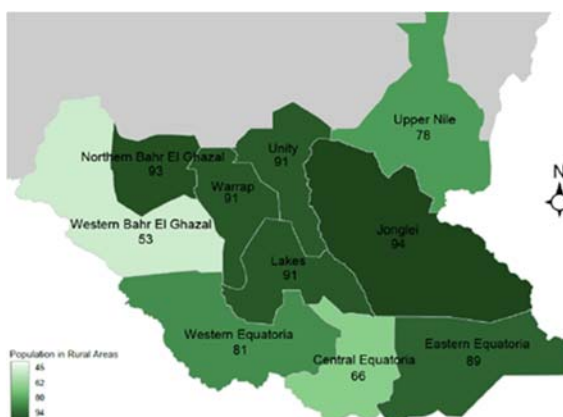
<sup>11</sup> World Bank 2012.

**Figure 8: South Sudan poverty headcount by state**



Source: Poverty Profile (World Bank, 2011)

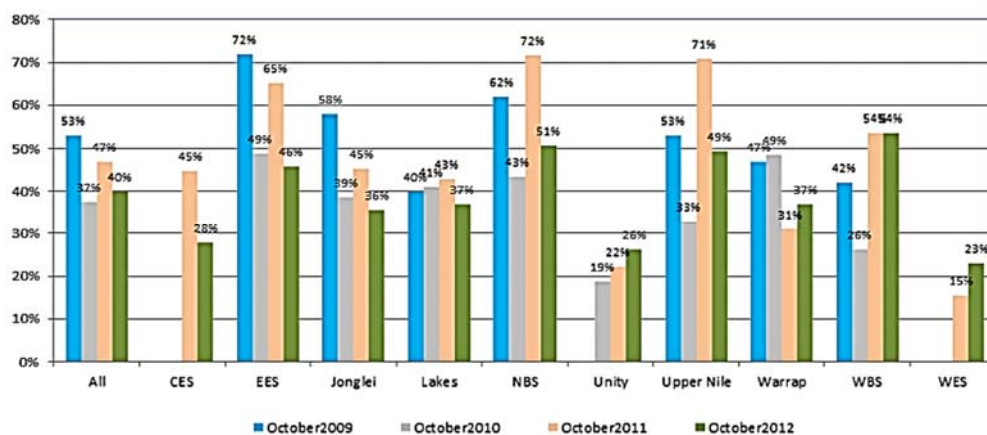
**Figure 9: Percentage of rural population per state in South Sudan**



Source: Poverty Profile (World Bank, 2011)

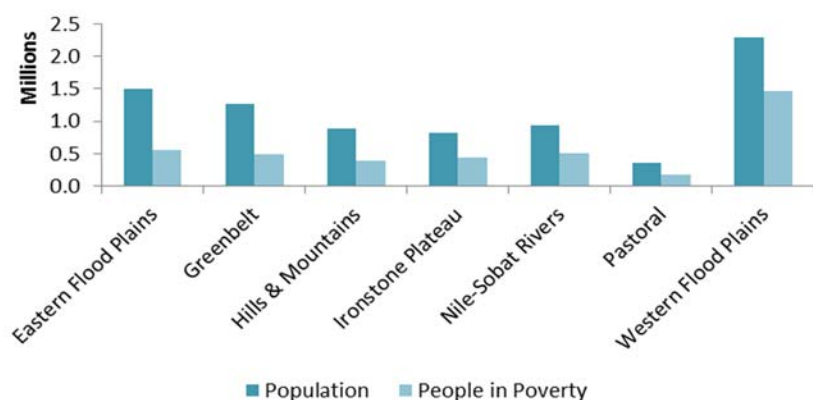
32. **Despite the agricultural potential, the rural population has been continuously affected by food insecurity in the last few years.** Nationally, between 40 percent and 53 percent of households were food insecure between 2009 and 2012 (Figure 10). In excess of 70 percent of households were affected by severe food insecurity in 2009 in Upper Nile, Eastern Equatoria, and Northern Bahr el Ghazal, which are most exposed to extremes of weather (drought and flood) than Western and Central Equatoria states. Predicted changes in climate, both in terms of more intense rainy seasons as well as hotter and dryer dry seasons, could heighten future food insecurity nationally. This implies that farmers across most of the country cannot meet their basic food requirements from own production, nor do they tend to have enough income to purchase food surplus produced elsewhere. Significant food surpluses are only experienced in some parts of the Greenbelt, specifically in Western Equatoria. However, poor road conditions and lack of transportation prevent the surplus food from reaching other food insecure parts of the country.

**Figure 10: State-level prevalence of moderate and severe food insecurity, 2009 to 2012**



Source WFP/FAO Crop and Food Security Assessment Mission to South Sudan, February 2013

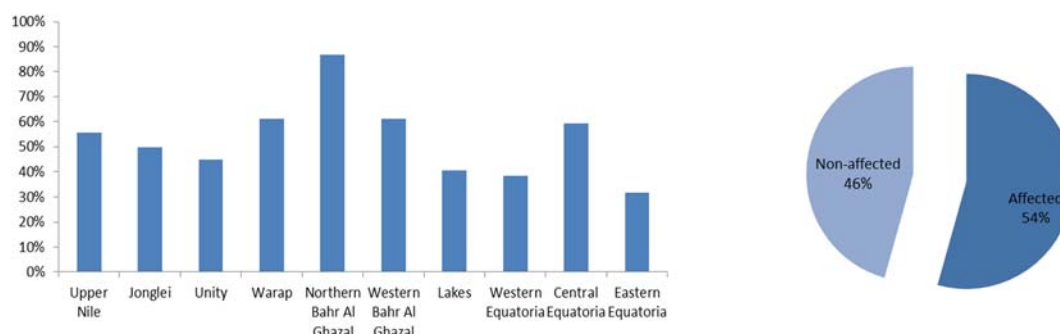
**Figure 11: Population and poverty by livelihood zones**



*Source: Jobs & Livelihood Report (World Bank, 2014)*

33. **The oil shutdown and border closure in 2012 is estimated to have affected almost 40 percent of the population.** The shock increased prices especially in those states that had historically been supplied by Sudan (Figure 12). The price increase affected 3.8 million people (40 percent of the population) and led to an additional 310,000 people slipping into poverty. In addition, the shock enlarged the gap separating the poor from attaining minimum subsistence levels by at least 180 million SSP from 1.42 billion SSP to 1.6 billion SSP.

**Figure 12: Affected population, which lost at least 10 percent of consumption by the oil-shutdown, by state and nation-wide.**



*Source: Impact of Conflict on Food Security and Poverty (World Bank, 2014).*

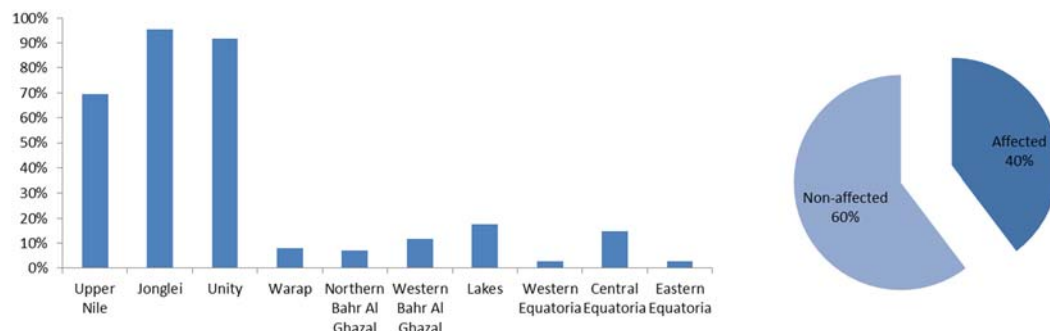
34. **More recently, the internal conflict has potentially affected consumption of 2.7 million people.** The conflict exacerbated insecurity leading to a loss of harvest in the conflict-affected areas as well as massive displacement. As of mid-2014, there were 1.4 million South Sudanese internally displaced by the conflict that had erupted in Juba in December 2013.<sup>12</sup> The violence that spread across the country also affected Jonglei state, as well as Unity and Upper Nile states, where the majority of the displaced are staying. Food prices also increased with peaks observed in the most conflict-affected states, with a nearly fourfold increase in prices of staple foods.<sup>13</sup> While households relying on markets for food suffer mainly from an increase of food prices, subsistence

<sup>12</sup> UNHCR 2015

<sup>13</sup> FAO 2014

farmers are less affected by market price changes but depend on their harvest. Estimates indicate that 2.7 million people (28 percent of the population) are affected by at least 10 percent of consumption losses (Figure 12).<sup>14</sup>

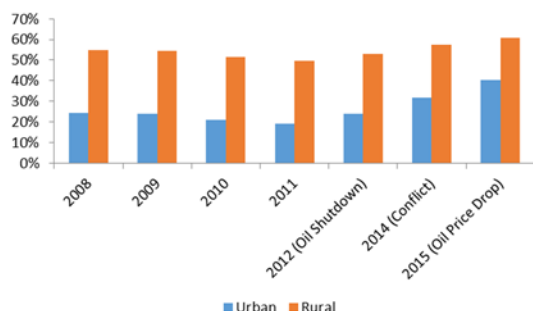
**Figure 13: Affected population by the internal conflict, by state and nation-wide**



*Source: Impact of Conflict on Food Security and Poverty (World Bank, 2014)*

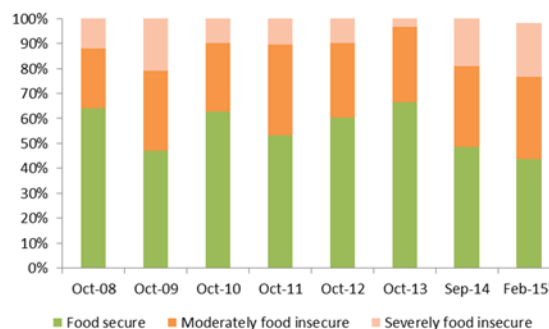
35. **Both shocks as well as the recent oil price decline further exacerbated poverty.** Even though the oil shutdown and border closure is treated as a transient shock on poverty, the ongoing internal conflict as well as the oil price decline increases poverty sharply (Figure 13). In addition to an increase in poverty, the depth of poverty also increased as many already poor households are adversely affected by the shocks.

**Figure 14: Simulated changes in poverty from 2009 to 2011 as well as the impact of the three shocks (oil shutdown, conflict, and oil price decline) on poverty, by urban and rural**



*Source: Impact of Conflict on Food Security and Poverty (World Bank, 2014)*

**Figure 15: Food insecurity from 2008 to 2015. \* indicates projection**



*Source: Integrated Food Security Phase Classification, September 2014 Analysis (and previous years)*

36. **The shocks further increased food insecurity from traditionally already high levels.** From 2013 to projections for 2015, the food insecure population increased while among the food insecure population the level of food insecurity further deteriorated; mainly due to the current

<sup>14</sup> Affected households are defined as households, which suffer from a loss of consumption of at least 10 percent.

conflict despite a good harvest in 2014. As of February 2015, 2.5 million people, or about one fifth of the population, were in either Crisis or Emergency levels of food insecurity, more than double the number recorded in December 2013, when the fighting broke out. A further 3.9 million people are in a state of food security Stress, and likely to slip further down the rankings should livelihood support, security, and markets fail.<sup>15</sup> The projections do not include the impact of the oil price decline on food availability. Thus, food insecurity in 2015 is likely to be higher than projected. The lack of food is a major hindrance for delivering social services (like health and education), improving nutrition levels in young children, and sustaining economic productivity as families will primarily be focused on getting food on the table.

37. **In the absence of a coherent national social protection system, external partners have stepped in, providing much needed support.** Development partners and international NGOs financed safety net spending even before the most recent conflict, with the majority of funds directed towards emergency food support. Spending on Social Safety Nets (SSNs) in South Sudan in 2012 was estimated at US\$345 million, entirely funded through donor support, and representing 5.6 percent of the country's 2011 GDP. The World Food Program (WFP) bears the brunt of this burden, with its food transfers in 2012, including emergency distribution, school feeding, and food-for-work programs covering nearly 2.5 million individuals at a cost of US\$342 million. Other forms of SSNs for instance direct cash transfers, remain insignificant with only 0.1 percent of the overall budgetary allocation.<sup>16</sup> Safety net coverage varies geographically, with recent estimates suggesting that the average population covered in each state is 53 percent overall, although with significant disparities between states. A further imbalance concerns the urban/rural divide, with the focus largely on rural areas even though there are a large number of extremely vulnerable groups living in urban areas too.

## LIVELIHOODS

*Since the CPA, the population of South Sudan, in its majority, has not experienced tangible improvements in livelihoods, or even in the prospects of improving its economic conditions. While a number of interventions and investments have contributed positively to the country's economic potential, they have not been able to fundamentally unlock the country's economic potential in the face of a highly distorted macroeconomic environment and weak policies in productive sectors.*

38. **Two out of three households in South Sudan rely on agriculture as the main source of livelihood.** The 2008 Census identifies three broad livelihood areas: urban, rural agriculture, and rural animal husbandry. The rural agriculture area is the largest, comprising over 70 percent of households. About 23 percent of households are classified as urban and about 5 percent of households are in the rural animal husbandry area. Although South Sudan has tremendous potential for agricultural production, which could provide resilience-critical livelihood opportunities, it

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<sup>15</sup> FAO 2015

<sup>16</sup> Borgarello, A. & Figazzolo, L. 2013. "Diagnostic Report of Social Safety Net Interventions in South Sudan," World Bank, Washington, DC.



remains under-developed as the country extends its reliance on oil. Decades of sustained conflict destroyed rural infrastructure networks, including roads, markets, and storage facilities, and impeded transfers of knowledge and technology. Despite the abundance of natural resources, and enormous agricultural potential, with 70 percent of the land area suitable for crop production, less than 4 percent is under cultivation.<sup>17</sup> Insecure property rights, conflicts among farmers as well as between farmers and pastoralists, the ongoing violence, and the structural and logistical barriers faced by farmers in accessing markets, have also contributed to the weakness in agricultural production. As such, production is focused on low-input, low-output subsistence agriculture, rather than production for markets.<sup>18</sup> Given its scope for expansion of cultivation, there is broad recognition that South Sudan is uniquely positioned to both strengthen smallholder-based agriculture and develop larger scale commercial farms. Improved farming practices and better inputs are central to achieving higher yields, while market access is a key element to commercializing agriculture and transitioning away from purely subsistence farming.

39. **Unclear land tenure, access, management systems, and demarcation complicate efforts to stabilize agricultural production and food security.** Decades of civil war destroyed the customary and statutory systems that allocated land rights and ensured that landholders could use their land to secure livelihoods, as a key to food security and resilience. Upon independence, the country inherited little in terms of functional land administration systems. Land has historically played a key role in mobilizing combatants, and has been used to justify violence at state and local levels. Overlapping and competing tenure systems and claims are rooted in decades of conflict, and exacerbated by competition between militarized groups of pastoralists and agriculturalists. As a consequence of poorly defined mandates, non-existent legal and policy frameworks and instruments for land management, and understaffing, the system of land administration in South Sudan today is unclear as to land rights, and their application, and has inconsistent planning and land administration procedures.<sup>19</sup>

40. **Crop-farming and horticulture is the main income activity.**<sup>20</sup> Most people work in crop-farming and horticulture (29 percent), followed by other service activities (14 percent) and household activities, as employers or in services-producing activities of households (14 percent). For the urban population most people are active in services (33 percent) and only 6 percent in farming. Farmers are most active in crop-farming and horticulture (40 percent), while cattle keepers are engaged in animal husbandry (31 percent). Detailed delineation of economic activities reported by persons who worked in the last 12 months and are older than 14 years of age, are shown in Table 1.

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<sup>17</sup> International Fund for Agricultural Development 2007

<sup>18</sup> African Development Bank Group 2013

<sup>19</sup> Marongwe 2013

<sup>20</sup> The characteristics of the population with respect to a number of employment variables are based on data and classifications from the 2008 NBS Census and National Budget Household Survey 2009. Given the limitations of the statistical sources, the results have to be taken with much caution, and serve mainly to give a sense of overall orders of magnitude rather than provide accurate measures of the variables under consideration. Currently, World Bank conducts a High Frequency Survey in South Sudan collecting updated data for consumption and employment. First results are expected to be available by December 2015.

41. **Livestock is central to the economy and social fabric in South Sudan.** As the main source of livelihood for a substantial proportion of the population, livestock defined broadly as cattle plus small ruminants is critical for resilience, food security, and the economic well-being of much of the population. In a country with around 11 million people, there is a similar number of cattle, plus a similar number of goats, and a similar number of sheep, with estimated asset value of US\$2.2 billion — the highest per capita holding in Africa. While the term “livestock” is often used to refer only to “cattle”, excluding smaller animals, all livestock, and particularly smaller animals, play an important role in food security, nutrition, and resilience. In some marginalized communities, for instance, milk and meat constitute 30 percent, 40 percent, and 65 percent of the diet in a normal year for the Dinka, Nuer and Taposa respectively.<sup>21</sup> Cattle is a symbol of wealth and status; they represent the main asset for herders and can be sold outright or bartered for grain, used for dowry, and on special occasions, slaughtered for meat. While cattle in South Sudan is used mainly as social capital, and is not central as a form of food production, small ruminants are an important source of food security. Communities who keep livestock also grow crops in a closely linked agro-pastoral production system.

42. **Conflict and civil war have disrupted traditional migration routes and disease patterns, sparking fresh violence and undermining cohesion.** Displacement has also contributed to rising tensions between pastoral groups and farmers, as well as between different pastoralist groups over competition for land for grazing and access to water. The movement of livestock along unusual migratory routes in order to flee violence has placed herders on a collision course with farmers, and has had tremendous implications for social stability. Pastoral mobility has also been hindered by land fragmentation. Finally, cattle rustling and theft has been increasing in frequency, blamed on a number of factors including wide inequalities between groups of people, poverty and exclusion, the absence of livelihood alternatives, the increasing bride price, concepts of masculinity, the proliferation of arms, impunity, and increasing pressure on land.<sup>22</sup>

43. **Fishing is a primary source of livelihood for about 12 percent to 15 percent of the population.**<sup>23</sup> Fish is a key source of protein for the population. Most of the fish produced is dried or smoked since there are no facilities to transport fresh product to markets. Although no assessment of the fish resource has been carried out yet, the Comprehensive Agricultural Plan for Agriculture (CAMP) has recently estimated that above 200,000 tons could be sustainably harvested, yet that only about 143,000 tons are caught annually. This is equivalent to a per capita consumption of about 17 kg per year, which is in line with other fish-rich countries in Africa. Nevertheless, the fact that some 57,000 tons of sustainable catch remain unexploited is a major lost opportunity that could be either consumed domestically or exported within the region. Some dried fish is exported to the neighboring countries, but the fresh fish export to Sudan via the Nile has stopped during the war.

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<sup>21</sup> Fielding et al., 2000

<sup>22</sup> Kircher. I 2013

<sup>23</sup> Rapid Water Sector Needs Assessment, 2012

44. **Forest resources play an important role in the livelihoods of the rural people.** South Sudan is an exporter of timber (mostly teak) and it is estimated that timber contributed around US\$400 million to the economy in 2011<sup>24</sup>. These statistics may not include non-timber products, the most important of which is firewood. Use of firewood is important at household level for cooking while sale of firewood and charcoal can be a source of income to small farmers, although this practice does contribute to environmental degradation. Many poor families sustain their livelihood from the forestry sector, particularly when crops fail or security deteriorates, through hunting and food gathering such as fruits, vegetables, mushrooms and honey. Non-food commercially important products e.g. shea nut, resins and gums are regularly collected and sold by farmers.

45. **Water resources development and management can support a transformation for South Sudan's rural people to reduce poverty, overcome food insecurity, and improve the quality and security of livelihoods.** South Sudan is a water rich country, yet water is unevenly distributed and the country suffers for both droughts and floods. The Sudd, a vast wetland formed by the White Nile, is one of the world's largest wetlands. Its vegetation created such a barrier to navigation that to find the source of the Nile required overland expeditions to avoid it. Water resources can contribute to develop irrigated agriculture, fisheries, livestock, hydropower energy, navigation, and drinking water supply. Present irrigated agriculture is insignificant—only about 2,000 ha located in the Renk scheme in Upper Nile State. Four other public irrigation schemes exist but they are derelict and largely dysfunctional. Securing water for livestock, mainly cattle, in the dry season, is a major problem and a source of serious social conflict. Indeed the country faces significant challenges to develop the use of its water resources, including but not limited to agreements with riparian countries along the Nile.

46. **The impact of climate change could have a significant impact on rural livelihoods.** Changes in weather patterns have resulted in a reduction in rainfalls by 10-20 percent and increase in temperatures by more than 1 degree C, since the mid-70s.<sup>25</sup> Changes in weather patterns are expected to result in reduced water availability, accelerated desertification and soil erosion processes, irregular rainfall, damage from droughts and floods, and higher risk of pest and disease outbreaks. In light of the overwhelming dependence on agriculture as a source of livelihood, these trends expected to exacerbate existing household vulnerabilities and overwhelm existing coping mechanisms.<sup>26</sup> Even though South Sudan currently has large endowments of arable land and water resources, these environmental disaster risks are significant and need to be carefully managed to avoid derailing ongoing development efforts. Degrading ecosystem services can cause friction between competing forms of land use and competition for resources within land use sectors. Despite these risks, environmental management frameworks at the state and country level are either non-existent or minimal.<sup>27</sup> These nascent institutions have been weakened by a deficit of

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<sup>24</sup> Global Forest Watch.org – Country Profile, South Sudan

<sup>25</sup> Tiitmamer. N 2015

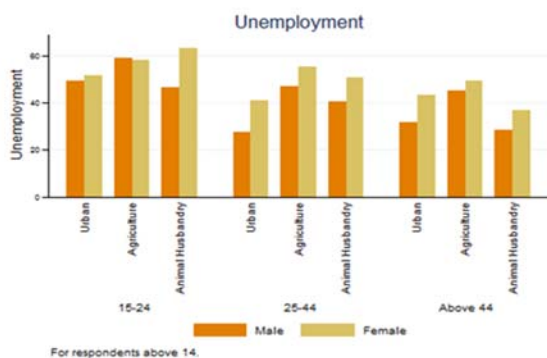
<sup>26</sup> Deodatus. F 2012; Oxfam 2013

<sup>27</sup> Oxfam 2013

technical knowledge, financial resources, and the Government's low priority ranking of environment and climate change issues.<sup>28</sup> The unregulated exploitation of natural resources and extraction of oil can also exacerbate existing environmental impacts and affect the livelihoods of the communities who rely on the land for a living.<sup>29</sup>

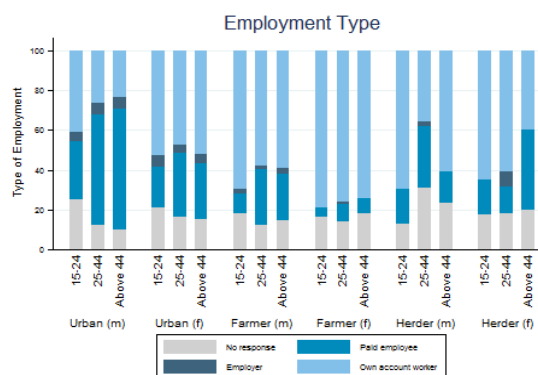
47. **Urban employment weighs slightly in favor of paid employees while rural areas rely more on own-account workers.** In urban areas, most people are paid employees (42 percent) or own account workers (38 percent, including unpaid workers (Figure 16 and Figure 17). The pattern changes for rural households, which have a majority of people working as own account workers. In more detail, only 15 percent of the population in agricultural areas is paid employees but 69 percent are own-account workers including unpaid workers. Cattle keeping areas have a larger fraction of paid employees (22 percent) and a lower fraction of own-account workers (52 percent). The gender bias is most pronounced in the urban population where significantly more women are own-account workers as this includes unpaid family workers.<sup>30</sup> Concurrently, there is evidence that both in the informal and formal sector, including teachers, that service and construction sector jobs are taken by Ugandans and Kenyans, indicating a growing gap for semi-skilled and skilled workers.

**Figure 16: Unemployment rates for male and female population categorized by area and age**



Source: Jobs & Livelihood Report (World Bank, 2014)

**Figure 17: Type of employment categorized by group, gender and age**



Source: Jobs & Livelihood Report (World Bank, 2014)

48. **For the working-age population, there is a pronounced gap in female labor force participation rates across the three livelihood areas.** Particularly in urban areas, female labor force participation rates are relatively low, at around 40-60 percent. While the gender gap is reduced for farmers, it is more pronounced for cattle keeping areas (Figure 17). The most active population is clearly in the age group of 25-44 followed by people above 44. Labor force

<sup>28</sup> Tiitmamer. N 2015

<sup>29</sup> African Development Bank Group 2012

<sup>30</sup> Also the animal husbandry section of the table shows stark differences within the gender comparison but those are likely to be driven by the low sample size in this section manifesting in many zero entries.

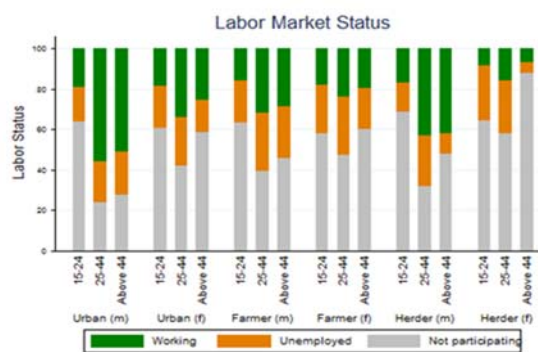
participation rates are the lowest in the 15-25 age group because many in this group are still enrolled in primary school. In rural areas, the labor force participation of the older population (above 25) is about 10 percentage points lower in agricultural areas and about 15-20 percentage points lower in cattle keeping areas compared to urban areas. There is a strong gender bias since the labor force participation ratio for women is in most cases only half of the ratio for men in the age groups above 24.

**Table 1: Employment by sector with at least 1 percent participation and region for people above the age of 14**

Main activity of work during the last 12 months	Urban	Agriculture	Animal Husbandry	Total
No response	12.6	11.5	18.8	12.2
Animal husbandry	0.8	3.1	31.0	3.6
Crop-farming and horticulture	6.4	40.3	5.2	28.6
Fishing	0.6	1.2	3.9	1.1
Forestry	1.2	1.2	0.4	1.1
Construction	2.9	0.6	0.0	1.3
Wholesale & retail trade, repairs	5.2	1.5	3.6	2.7
Financial and insurance activities	2.0	0.7	1.9	1.1
Administrative and support service	3.3	1.5	3.3	2.1
Public administration	5.3	1.5	2.1	2.7
Defense	9.4	3.5	4.2	5.3
Education	5.1	3.1	3.0	3.7
Human health and social activities	3.5	2.0	2.6	2.5
Other service activities	23.0	10.4	7.0	14.0
Activities in households	10.4	15.8	6.7	13.8
Total	100	100	100	100

Source: *Jobs & Livelihood Report (World Bank, 2014)*

**Figure 18: Labor Market Status by region, age and gender with 'working' defined as work for at least 1h in the last 7 days**



Source: *Jobs & Livelihood Report (World Bank, 2014)*

49. **There are significant barriers to increased women's participation in income generating activities.** These include a heavy domestic burden with insufficient options for childcare and support, illiteracy and lack of formal education, insufficient opportunities for technical training and business skills development, lack of access to financial services, and lack of access to factors of production including land, markets, and inputs such as seeds and tools. Although there is recognition of the tremendous contribution women can make to the economy, they face considerable obstacles in terms of registering their businesses, accessing finance, and training. The social and cultural attitudes to women in business are gradually changing but the societal preference is that women take "white collar" jobs. With respect to land, the 2009 Land Act explicitly articulates a women's right to own and inherit land. At the same time, however, issues related to inheritance, acquisition and ownership of land are most commonly referred to customary courts for determination. Given the apparent gender bias in customary courts toward men, women often find themselves with limited to no access to land or property.<sup>31</sup> Denied such property rights, women lack access to productive resources necessary for subsistence and livelihood activities. Lack of access to land can also impact access to financial services since land often serves as collateral for micro-lending.

50. **Women are more often unemployed than men.** About 50 percent of urban 15-24 year olds are unemployed, which is slightly lower than in agricultural areas. Male unemployment is

<sup>31</sup> UNHCR 2011.

similarly low in cattle keeping areas, while female unemployment in these areas is staggeringly high at more than 70 percent. Although the unemployment rate decreases among 25-44 year olds in urban areas to 33 percent, a strong gender bias exists against female employment for all areas in this age group. The unemployment rate for the above-44 age category is similar to that of the younger age groups, except in cattle keeping areas where unemployment rates for men fall to 20 percent.

51. **Informality is prevalent in South Sudan's private sector.** With the national rate of employment at 11.5 percent (10.8 percent for men and 12.2 percent for women),<sup>32</sup> the bulk of the population engaged in non-wage activities is part of the informal and/or subsistence economy. In 2012, it was estimated that up to 80 percent of non-oil economic activity takes place in the informal sector, which has grown “exponentially” since 2005.<sup>33</sup> As highlighted in a recent Clingendael report (2014), “In an economy where cash is king and capital is cows, looking at the formal sector overlooks the majority of economic exchanges taking place on daily basis.”<sup>34</sup> Little is known about the informal economy in South Sudan but it is assumed to be better developed than the formal one, relatively agile and therefore resilient to the waves of crisis that the country is experiencing. While the country's informal sector is not as well knit or established as the informal sectors through the rest of the sub region, its competitive advantage lies in the way the different parts of the network are linked. Traders and entrepreneurs in the informal sector maintain links with the informal sectors of neighboring countries. These “translocal” networks give South Sudan's informal economy much of its resilience to economic shocks.<sup>35</sup> Informal businesses span a range of activities, from gold mining to trading. Pro-poor growth requires developing a better understanding of the existing dynamics in the informal economy, its key challenges, as well as the steps needed to promote formalization.

52. **Despite some significant progress on a number of regulatory reforms, the investment climate is still weak.** Some businesses are content with informal status, but many would prefer to have the opportunity to expand and grow, through better access to finance, proper registration, and reforms of the regulatory compliance costs (for example, the necessary social protection given to their employees) that would minimize the costs for firms that decide to formalize. Since the CPA, South Sudan has established a basic legal, regulatory and institutional framework to enhance enterprise growth, enacting nineteen laws and putting in place eight business-related institutions to kick start business development both inside and outside Juba. A total of 23,000 businesses have been registered, from a baseline of zero. However, high regulatory compliance costs and layers of bureaucracy are among key obstacles to formalization. A number of critical pieces of the regulatory framework are also still missing, especially as concerns competition, public procurement and PPP.

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<sup>32</sup> African Development Bank Group 2012

<sup>33</sup> Twijnstra. R 2012.

<sup>34</sup> Hutton, Lauren. 2014. South Sudan: From Fragility at Independence to a Crisis of Sovereignty.” Clingendael: Netherlands Institute for International Relations.

<sup>35</sup> Twijnstra. R 2012

## VULNERABILITY

*The long history of violence has left a significant proportion of the population vulnerable across a broad spectrum of issues related to displacement, crime, domestic and gender-based violence, and lack of economic opportunities. If people are to have confidence in the peace process and become effective agents of peace, it is imperative to improve their welfare and strengthen their resilience.*

53. **Displaced communities are not homogenous and vulnerability varies across sub-groups.** It was estimated in early 2015 that there are more than 1.5 million IDPs and more than half a million refugees.<sup>36</sup> Insecurity and lack of access to land, services, or livelihood opportunities have complicated the pursuit of durable solutions and have often resulted in multiple phases of displacement. Within the displaced are a number of subgroups that are more vulnerable than others, including the high proportion of female headed-households, the elderly and children. There are also those who have fled more extended distances from social and kinship networks. A striking feature of the current crisis in South Sudan is the significant number of women and children among refugee populations in neighboring countries. According to the International Rescue Committee, there are reported cases of men being turned away at borders by parties to the conflict, leaving women and children to cross into the refugee context on their own. Women and children account for over 90 percent of South Sudanese refugees in Gambella in Ethiopia and over 85 percent of new arrivals in Kiryandongo, Uganda.<sup>37</sup>

54. **IDPs, particularly women and children, are vulnerable both on the way to and inside protection sites.** It is presumed that those living in more remote areas away from more formal protection or support networks experience higher levels of violence. Protection camps or sites are often insecure and unplanned, with informal housing structures that have no locks on doors or latrine facilities, increasing opportunities for violence. Protection sites are overcrowded with little security, oversight or privacy, further increasing risk of assault.<sup>38</sup> The outbreak of violence in December 2013 is reported to have further aggravated incidence of violence against women and girls, including reports of targeted mass rapes.<sup>39</sup> A number of field assessments by humanitarian organizations catalogue a range of violations including accounts of rape, abduction, mutilation of sexual organs, forced marriage, sexual exploitation and abuse, sexual harassment, and sexual slavery.<sup>40</sup>

55. **Large numbers of refugees and returnees are living in vulnerable urban settings.** The exponential and unplanned growth of cities, accompanied by growing numbers of poor and vulnerable urban dwellers, has put pressure on water and energy infrastructure. It has contributed to creating environments that are ill suited to mitigate against and cope with the effects of climate change. The national strategic response to accelerated urbanization has been weak, with urban

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<sup>36</sup> UNOCHA 2015.

<sup>37</sup> IRC 2014.

<sup>38</sup> IDMC 2014.

<sup>39</sup> Care International 2014

<sup>40</sup> IRC 2014

planning processes at the state level “unrealistic and non-participatory.”<sup>41</sup> Furthermore, policies relating to IDPs fail to account for the positive contribution that displaced populations can make to long-term peace and stability. The increase in land values in recent years has pushed the urban poor further from the center and towards the periphery, where services and jobs are even scarcer.

56. **Conflict-affected displacement has forced many people to abandon their land, productive assets, and options for livelihoods.** Displaced populations have lost significant household and productive assets, even as the duration of displacement is unclear. Lack of clarity around the end of the conflict has implications for livelihoods recovery, and even in periods of short displacement, the impacts on the household have been significant and include loss of crops and livestock, as well as seeds for following seasons. The conflict, lack of adequate seeds and tools, as well as the seasonal flooding stand to hinder the agricultural period, and prolong the period of food insecurity.<sup>42</sup>

57. **Domestic and gender-based violence has been a significant source of vulnerability for women even before the onset of the current crisis.** According to statistics collected by the SSNPS, the five major crimes reported to police are grievous harm, housebreaking, murder, theft, and rape, with rape accounting for 5 percent of all these crimes. Focus group interviews have revealed that women and girls in South Sudan consider sexual and gender-based violence to be one of the major problems they face. Patriarchal cultural practices persist in South Sudan, including polygamy, wife inheritance, early and forced marriages, abduction, high bride wealth, and ghost marriages. Domestic violence is widespread and generally treated as an accepted practice for disciplining one’s wife. Domestic violence has also likely worsened as well in the context of conflict: the continuing militarization of South Sudan and of Sudanese masculinities, combined with war-related trauma, the absence of viable income generating opportunities and high rates of alcohol abuse, have negatively influenced the treatment of women, particularly at home. Rape has been used as a mechanism to initiate marriage while circumventing high bride prices.

58. **People in urban and rural settings are becoming more vulnerable to acts of violent crime.** Currently, South Sudan ranks as one of the most violent countries in sub-Saharan Africa with a homicide rate of 16 per 100,000 inhabitants, while overall crime levels also indicate an upward trend. The overall increases in crime mask the reality of markedly high heterogeneity in terms of the type and magnitude of crime across municipalities, counties, and states. For instance, states like Jonglei have experienced a significant increase in cattle raiding, while there has been a rise in property crime in Central Equatoria. High levels of frustration, depression, and anxiety, in conjunction with kinship and community changes, render the population vulnerable to political and criminal exploitation.<sup>43</sup> Although crime and violence affects the entire population, young males appear to be the most vulnerable population group. Higher population density is also associated with higher levels of overall crime. For the urban youth especially, political, economic, and social marginalization combined with widespread unemployment, limited education

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<sup>41</sup> Pantuliano, S et al 2011

<sup>42</sup> World Food Program 2014

<sup>43</sup> Pantuliano, S et al 2011



opportunities, the disintegration of support networks, and general disenfranchisement and frustration, can make the growing gang culture in cities an attractive means of securing an income, gaining upward mobility and a sense of social inclusion.

#### 4. HUMAN DEVELOPMENT

*The end of the long civil war had allowed some progress in reversing the impact of neglect and conflict on human capital and skills in South Sudan. In the face of limited allocation of Government's financial resources to the social sectors, and weak administrative capacity, international assistance has been a major provider of health and education services. With the recent conflict, many of the gains have been lost, and the country continues to experience extremely low health and education outcomes. Peace now provides an opportunity to scale up efforts and get back on-track, but significant assistance will be required.*

#### EDUCATION

59. **Education levels are extraordinarily low, with only 30 percent of the population in rural areas able to read, write, and do basic numeracy.** Literacy is generally highest for 15-24 year olds but differs strongly between the different livelihood groups (Figure 19). Only around 50 percent of the urban population can read and write. A strong gender bias shows that the female population is less literate with the most pronounced difference in the age group of 15-24. Generally, labor force participation does not differ between literate and illiterate people. However, unemployment is smaller by a few percentage points for literate workers especially in urban and agricultural areas. In general, younger age groups have higher rates of primary education, as do urban populations, in relation to rural populations, whereas secondary and post-secondary education is observed very rarely, and then, mainly among the older, urban population.

60. **Educational outcomes are extremely low and unequally distributed.** Primary school gross enrollment rate (GER) is estimated at 72 percent and about one million children of primary school age are out of school,<sup>44</sup> and only one in every four children completes 6 years of primary education. There are considerable regional disparities across the different states in South Sudan. Western Equatoria, Upper Nile, and Central Equatoria have the highest levels of primary enrollment with a primary GER above 90 percent. Lakes, Jonglei, Warrap, and Eastern Equatoria all have a primary GER below 60 percent. These states also have the lowest adult literacy rates. In addition to regional disparities, there is evidence of disparities along area of residence (urban-rural), gender, and income. Children living in the urban areas are 33 percentage points more likely to ever enroll in grade 1 than those living in the rural areas. Boys are 13 percentage points more likely to ever enroll in grade 1 than girls, while children from the richest quintile are 32 percentage points more likely to enroll in grade 1 than those from the poorest quintile.<sup>45</sup> Thus while progress

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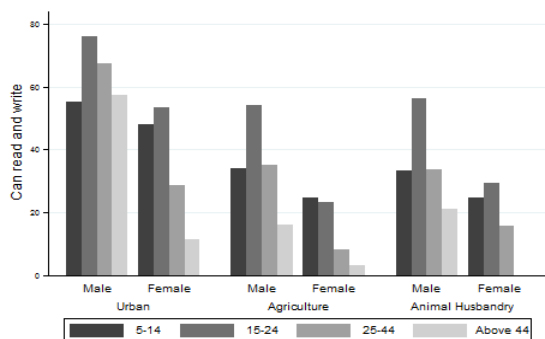
<sup>44</sup> About 925,000 of these live in the rural areas (World Bank 2012).

<sup>45</sup> World Bank 2012.

has been achieved in getting children into first grade, most of these children, especially girls, drop out before acquiring basic numeracy and literacy skills. This is in part due to very poor learning conditions, lack of qualified teachers, and instruction in mother tongue and English (with the majority of teachers mastering neither and many educated in Arabic).

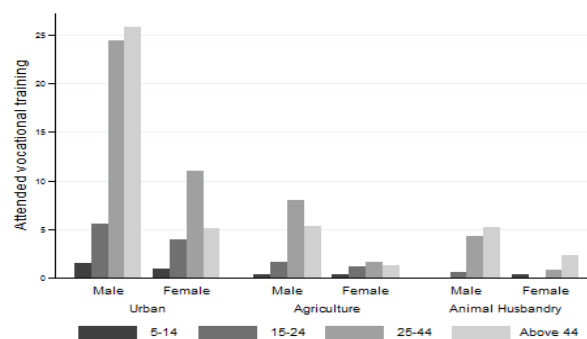
61. **Opportunities for vocational training are better in urban areas.** In urban areas, about 17 percent of 25-44 year olds, and a similar proportion of those in the above-44 age category, attended vocational training with a strong gender bias in favor of males that becomes more pronounced among the older segments of the population. Moreover, the percentage of 15-24 year olds that attended is 5 percent. In rural areas in comparison, the average attendance across male and females is consistently below 5 percent for any group, with a persistent gender bias in favor of males.

**Figure 19: Percentage of literate (reading and writing) people for different livelihood and age groups**



*Source: Staff calculations based on Census 2008 and NBHS 2009*

**Figure 20: Vocational training for different livelihood and age groups**



*Source: Staff calculations based on Census 2008 and NBHS 2009*

62. **Women and girls suffer from high barriers to access to education.** While almost half of men have some form of formal education, only one in four women has access to formal education.<sup>46</sup> Several variables are associated with low enrollment and high drop-out rates in South Sudan. In pastoralist communities, social pressures to work in cattle camps, complete domestic duties, and marry early in life are barriers to attending school<sup>47</sup>. In particular, girls are discouraged from attaining an education so they can fulfill household obligations<sup>48</sup>.

63. **The current environment of violence and conflict is a major deterrent to youth education.** For young men, living under protracted conflict increases the opportunity cost of going to school. Joining an armed group becomes a source of livelihood that many see as a preferable alternative to studying.<sup>49</sup> In many cases it is also perceived to be part of their responsibility to protect the community. As a result, local community security groups are mainly comprised of young men of school-going age. Meanwhile, rampant crime and violence in situations of conflict

<sup>46</sup> South Sudan Statistical Yearbook 2011.

<sup>47</sup> ILO 2013.

<sup>48</sup> UNICEF 2008.

<sup>49</sup> Leonardi 2007.

deter girls from venturing out of their community to attend school. Young girls are at high risk of various types of crime and violence, especially gender-based violence, which is reported to be one of the most widespread forms of violence in the country. Crime and violence against girls are as prevalent in urban areas as in rural settings.

64. **Increasing primary enrollment has led to growing demand for secondary education and skills, and to a lesser degree, tertiary education.** The five currently functioning public universities are in a phase of recovery and suffer from fractured organizational structures,<sup>50</sup> oversized enrollment, few and poor quality academic staff, limited financing, and inadequate equipment and facilities. Secondary education strongly increases participation in the labor force and employment, although post-secondary education only increases participation in the labor force and employment for men. At the same time the lack of qualified South Sudanese workers in the labor market is an early indication that once investments begin to flow this shortage will become more pronounced. Thus early attention to developing the entire education system, including teachers, will be strategic if economic and social development and employment for South Sudanese is to be secured.

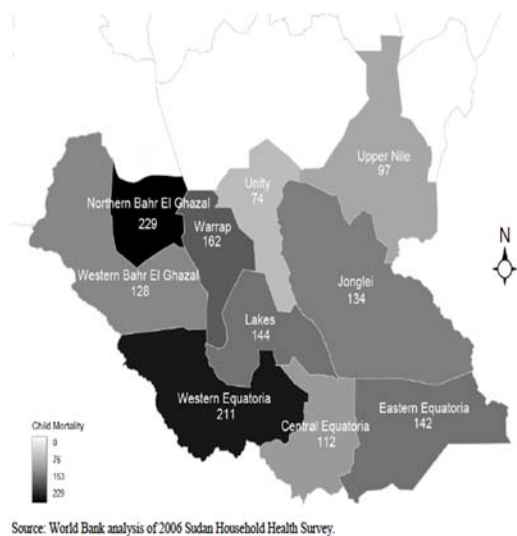
## HEALTH

65. **Health outcomes in South Sudan are among the worst in the world.** Child mortality rates are high and vary considerably by state. Childhood mortality and morbidity remain high, and though latest data suggest that under-five mortality is declining, it is currently estimated at 106 per 1000 live births (2010 SSHS), a decline from 135 per 1000 live births (2006 SSHS). Infant mortality is estimated to be 75 per 1000 live births (SSHS 2010); a decline from 102 per 1000 live births (2006 SSHS). High rates of childhood malnutrition, with underweight prevalence of 28 percent (2010 SSHS) down from 33 percent (2006 SHHS), and low coverage of immunization rates approximated at 17 percent of under-fives fully immunized (SHHS 2006), all contribute to high rates of infant and child mortality. In comparison, under-five mortality levels for South Sudan are 25 percent higher than those in Sudan and 78 percent higher than the global average. Maternal mortality ratio is also among the highest in the world, estimated to be 2,054 per 100,000 live births (2006 SSHS), in part as a result of poor access to health services prior to delivery. Skilled health personnel attend to few women during labor (10 percent) and most deliveries occur at home (81 percent of births: SSHS 2010; 78 percent: 2011 LQAS). Chronic malnutrition has adverse and negative effects on a child's cognitive and non-cognitive learning abilities and has been shown to affect long term earning and poverty levels. Thus reducing malnutrition level will be a longer-term strategic requirement for reducing poverty levels.

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<sup>50</sup> Because of the civil unrest, three functioning public institutions moved their operations to Khartoum from the late 1980s until their relocation back in South Sudan in late 2010. With the independence of South Sudan, all post-secondary education was formally brought under the supervision of the ministry.

**Figure 21: Under-five mortality rates by state in South Sudan**



Source: Staff analysis of 2006 Sudan Household Health Survey

**66. Endemic diseases pose a heavy burden on South Sudan's health system.** South Sudan has a heavy burden of malaria, which is estimated to account for 20-40 percent of all health facility visits and 30 percent of hospitalizations (2012). Additionally, there is a strong correlation between heightened climate variability and increases in the frequency, intensity and spread of malaria epidemics. Indeed, one great threat posed by climate change is that it might facilitate a spread of

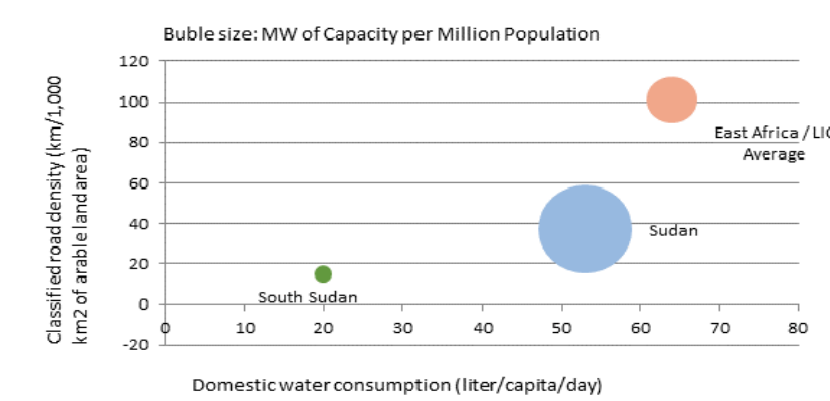
malaria disease to areas previously not prone to the disease. There is positive trend in household ownership of Insecticide Treated Nets (ITNs), which expanded rapidly between 2006 and 2010 from 27-42 percent. A number of preventable or treatable Neglected Tropical Diseases (NTDs) are endemic to South Sudan, including Onchocerciasis, Trachoma, Lymphatic Filariasis, Schistosomiasis, Leprosy, Buruli Ulcer and Kalar Azar. HIV/AIDS prevalence is believed to be low due to past isolation of South Sudan from neighboring high prevalence regions but could increase given low rates of awareness about the infection and prevention.

**67. A weak health system contributes to poor health outcomes.** The health care system is overstretched with needs that are barely covered by the public budget. Health services cover a small proportion of the population; only 40 percent of the population is able to access healthcare within a 5km radius. The health system faces numerous challenges including lack of qualified human resources at all levels of the health system since most of the staff running health facilities are HIV/AIDS Community Health Workers (CHWs) who have limited technical skills. There are significant challenges in management of pharmaceuticals due to lack of qualified personnel to implement policies especially at State Ministries levels; lack of an effective supply chain management and storage system at all levels; a weak pharmaceuticals information system to inform decision makers in planning and financing; and insufficient budget allocations to cover pharmaceutical needs. The limited budgets allocated to critical areas is partly a product of ineffective financing and budgeting which remains top down, neither operational nor evidence-based. Financial disbursements to lower levels are slow; funds for salaries and recurrent costs at state and county level are scarce.

## 5. INFRASTRUCTURE

*Despite sizeable investments in infrastructure in the years after the CPA, South Sudan's infrastructure base remains among the lowest in the world. Infrastructure constraints are pervasive and have a freezing effect on private sector activity, while the lack of connectivity contributes to the fragmentation and isolation of large parts of the country.*

**Figure 22: Selected infrastructure indicators for South Sudan**



### TRANSPORT

68. **Road transport is by far the dominant and most important mode for the movement of people and goods in South Sudan.** It accounts for over 90 percent of traffic movements. Road transport services are provided by private sector enterprises based mainly in the neighboring countries. River, rail and air transport systems are all inadequate. However, river transport plays an important complementary role during the rainy season in providing access to the northeastern part of South Sudan, especially from Bor to Malakal, where the road alignment passes through one of the world's largest swamplands.

69. **The road sector in South Sudan is one of the worst in Africa constrained by an absence of roads and by the overall poor quality of roads.** South Sudan's road density is the lowest in Africa at only 15 km per 1000 square km of arable land. There are an estimated 19,000 km of roads in South Sudan (no proper inventory exists) and about 4,000 of these have been rehabilitated to all weather roads, though lack of maintenance has made this rehabilitation unsustainable. Most roads are gravel or earth and are in poor condition, making much of the road network impassable for half of the year during the rainy season. If climate predictions of increased intensity of short periods of rain and more frequent floods are accurate, the condition of South Sudan's road network will only become worse. A total of 192 km of interurban roads are paved in South Sudan – less than 2 percent. This requires goods to be transported using multi-modal means, which are not well developed in South Sudan adding to the cost of transport. A World Bank study estimates that 16 percent of the total cost of production in the food and beverage sector in South Sudan is due to transport costs, which are passed on to the consumer. Freight traffic rates are as high as US\$0.20 per ton-kilometer, four times the lowest costs on the continent (South Africa).

The sheer lack of roads maintenance fund at national and states level makes it hard to sustain the existing and new road construction.

70. **The roads along the regional corridors leading to the port of Mombasa, the lifeline for regional trade, are dilapidated.** Transit times along the regional corridors are inordinately long and transportation costs are prohibitively high. As a result of very poor road quality, inefficiencies at terminals and other logistical bottlenecks, South Sudan's corridors record among the slowest moving traffic in the world. The measure used is the implicit corridor velocity, which is the total distance traveled divided by the total time taken to make the trip, including time spent stationary at ports, border crossings and other stops. For South Sudan, the implicit velocity is about 6.4km/hr, which is among the slowest even for landlocked African countries. The transit transport agenda is challenging, given that the main logistics and trade bottlenecks along the east African transit corridors and South Sudan custom posts (Nadapal, Nimule, and Kaya) are infrastructure and non-tariff barriers related such as informal payments, excessive checkpoints, and cargo security. Customs services in South Sudan are currently based on manual systems and lack the human and other resources needed to deliver modernized services but several improvement programs are underway. Currently, South Sudan is interested in harmonizing its customs systems and establishing One Stop Border Posts.

71. **In terms of river transport, the White Nile is the major river, connecting South Sudan in the south with Uganda and in the north with Sudan.** Historically, goods flowed predominantly southward along the Nile from Khartoum to Juba. However, the importance of river transport has declined since South Sudan gained independence and started looking more towards the port of Mombasa. Now, goods mostly arrive via land transport from Kenya and Uganda. Major constraints to the development of river transport include the overall limited demand, weak waterway management, inadequate maintenance dredging, minimal existing navigation aids, the prevalence of small and inefficient vessels, as well as poor port facilities and cargo handling services. To meet service priorities and provide reliable alternatives to road transport to the population living in the north-eastern part of South Sudan, which is predominantly covered by the world's largest swamp, emphasis needs to be placed on improved management of river courses and spot dredging of navigable channels; provision of adequate navigation aids; comprehensive upgrading of the main river ports, including Juba, Bor and Malakal Ports, installation of cargo handling facilities and docking facilities

72. **Agricultural producers are greatly impeded by South Sudan's fragmented and poor transport infrastructure.** Without proper transportation, farmers are denied access to domestic and regional markets, in effect locking them into a subsistence production cycle. It is estimated that about 7,000 km of road improvements are needed to provide rural accessibility. In addition, 2,500 km of national and regional network upgrades are needed to develop the transport backbone of the country and 1,800 km are needed to meet regional connectivity needs. Weak sector institutions, however, hinder South Sudan's ability to effectively and efficiently implement road programs, including maintenance. In addition, the high unit costs of construction impede expansion of the road network, a function of an underdeveloped local construction sector, high

cost of construction materials, which are imported, political instability, conflict, and weak institutional capacity.

## **WATER AND SANITATION**

73. **Access to safe water and sanitation is poor in South Sudan cutting across the urban-rural divide and between the rich and poor.** About one-third of South Sudan's population relies on surface water as its main source, but with a minimal reliance on utility provided water. Access to piped water is almost nonexistent and even in urban areas there is a heavy reliance on boreholes, which in many cases do not provide safe access to water. Three quarters of the population do not have access to any type of sanitation facility, which is twice the rate of other East African low-income and resource rich countries. Even in urban areas, over half the population is forced to defecate in open areas, while the rate is 80 percent in rural areas. Estimates suggest that the urban population in capital cities increased at a rate of 15 percent per year from 2008 to 2012 suggesting that even greater investment and attention will be required to improve water and sanitation performance in urban areas, while not neglecting rural areas. Underdeveloped utilities also transfer what ought to be public sector costs to private businesses. While the operational performance of urban water utilities in South Sudan is not high, its performance is on par with comparable countries in the region and provides a foundation for improving access rates in urban areas. Investment needs in the sector are estimated at over US\$300 million annually to meet benchmarks set by the MDGs.

## **ELECTRICITY**

74. **The market for electricity is hugely underserved in South Sudan.** Only 2 percent of the population has access to electricity. The long standing supply deficits and poor quality of power supply results in most households and businesses relying on alternative fuels. For lighting, about 50 percent of the population uses firewood as their primary source; 20 percent depend on kerosene or other similar material; and 2 percent use captive power (generators). Of the remaining population, 27 percent do not have access to lighting sources, and only 1 percent has access to grid electricity. Suppressed demand could exceed 1,500 MW in the coming decade. Meanwhile current installed capacity is only 22 MW.

75. **The poor state of the sector is impacted by the grossly underdeveloped energy chain and weak institutions and capacity.** There is no transmission backbone or any interconnected grid network. The supply system consists of three isolated distribution networks in the commercial centers of Juba, Wau, and Malakal, amounting to a total of about 15km of 11 kV lines plus some minor electrified areas. Generation capacity is unreliable and outages are more common than availability. The deficit of capacity in the sector results in poor efficiency, low billing, and poor revenue collection, as well as high commercial losses of 30-40 percent. Rebuilding institutions, therefore, is among the top priorities.

76. **The sector is characterized by a poor regulatory regime and weak regulatory capacity.** The challenges facing this sector are exacerbated by the lack of an Electricity Act, the absence of a sector regulator, and the limited autonomy of the utility company, South Sudan

Electric Corporation (SSEC).<sup>51</sup> Furthermore, low technical, financial and managerial capacity of SSEC to run a bigger power system is a concern, given its current difficulties with running even a small 25MW network. Lastly, the Government's plan to implement and manage a new/expanded power system in the absence of a modern national grid may not be a properly sequenced approach.

## INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

77. **Estimates of South Sudan's access to ICT services indicate very low levels of penetration.** Mobile penetration at about 12 subscribers per 100 people is about half that of other parts of Africa. More recent (2013) estimates put cell phone penetration at 25 percent, or about 2.8 million SIM cards, well below the average on the continent. Internet usage is also low with an estimate of 7 users per 100 people, and less than 1 percent of the population owns a computer. Fixed line subscriptions in 2011 were 2,200 but they fell to zero in 2013 when the fixed line operator Sudatel, withdrew from the market.

78. **Costs for ICT services are high and quality is poor.** Mobile networks are in their infancy in South Sudan and as a result users often use multiple SIM cards to address intermittent service and poor interconnection. Internet connection speeds are slow and connectivity poor as modems link to the Internet via the mobile phone networks. There are four mobile operators in South Sudan, of which two were issued nationwide licenses by the Sudanese Government in Khartoum and the other two operators were issued licenses by the Government of Southern Sudan before independence. The GRSS has not yet issued formalized licenses, creating uncertainty among operators and constraining investment, especially as fees paid to the Sudanese Government in the North are unlikely to be recovered. South Sudan has yet to connect to the undersea cable, which would decrease the cost of ICT services, but there are plans to facilitate this connection. South Sudan would need around 330 km of fiber optic cable to reach the nearest point of presence on the Kenyan side of the border and around 200 km to reach the nearest fiber on the Ugandan side of the border to establish a strong ICT backbone as a foundation for development of the sector. The former is currently being financed by the World Bank, under the South Sudan – East Africa Regional Transport, Trade and Development Facilitation (SS-EARTTDF) Program while the latter is seeking funding from China EXIM Bank.

## 6. GOVERNANCE AND INSTITUTIONS

*The state and institution-building process in South Sudan started in 2005, but remains incomplete. Weak governance is both a consequence and a cause of low development and fragility in South Sudan. In the context of significant oil rents, the formation of the public sector was to a significant extent driven by patronage and the need for cooptation of former/potential fighters rather than by an institutional building perspective. Poor governance negatively affects the ability of the new state to deliver social services, provide security for citizens, manage public investments, or to encourage agricultural and other private sector growth.*

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<sup>51</sup> The SSEC is not an independent body but a department of the Ministry of Electricity.



*It will be critical to implement reforms aimed at improving governance, as mandated in the peace deal.*

79. **Basic legal and institutional frameworks exist in South Sudan and are enshrined in the 2009 Local Government Act.** This supports the Constitution in setting out a three-tiered government (national, state, and local) each with an elected legislature and executive (state and national elections were last held prior to independence in 2010; local elections have not yet formally taken place). In spite of the recent austerity, the Government has provided regular transfers to local government in health, education, and water sectors for operations and maintenance, and for setting up county offices. The Government has made efforts to clarify the assignment of specific service delivery functions between these tiers of government, with the counties as the frontline service providers. Over the coming years, there is a need to build on existing institutional structures. Strong and stable subnational government can act as a cushion during times when the national government is unstable and act as a form of resilience at subnational levels.

80. **There is a predominance of military and organized forces that exert significant power in decision making.** The armed forces as well as the four organized forces (police, wildlife, prison, and fire guards) combined, far outstrip the number of civilian employees in post-independence South Sudan. Key decision-making remains closely linked to military command through the relationship between the SPLA and the SPLM. The high degree of social fragmentation, both along ethnic and linguistic lines as well as between various sub-groups, poses considerable challenges to establishing a state monopoly of violence in South Sudan. Community-level conflict is highest among cattle-keeping groups and is linked to practices of cattle rustling. Political leadership in South Sudan has involved the co-optation of numerous groups, leading to a bloated security forces, as well as significant elite rent seeking. This has overstretched available fiscal resources and squeezed fiscal resources dedicated to social service provision, and infrastructure development.

81. **Access to the formal justice system is scarce despite the establishment of legislative, judicial, and executive government bodies at the national level, as well as in the state capitals.** The constitution guarantees the independence of the judiciary but also provides that key appointments are made directly by the President; in practice, the executive branch influences it. The personal and historical relationships that developed during the civil war outweigh the legal framework that protects the judiciary's independence, as the justice system, long underdeveloped, ground to a halt during the December 2013 conflict. There is little information on the efficiency and transparency of the judiciary, which is not surprising given that South Sudan is a young state with a long history of limited modern development. Traditional courts, led by traditional leaders, still dominate in rural areas.

82. **The national justice system lacks the capacity to undertake accountability proceedings, particularly those involving politicians and military figures.** There is some recent optimism that the military justice system of the SPLA might have some capacity to try mid-to low-ranking soldiers; however, there are reservations regarding the system's ability to try mid-to high-

level SPLA actors, given the complexity of political and ethnic dynamics in the latest cycle of violence.<sup>52</sup>

83. **Some progress was made on institutional development from 2005 to late 2013 despite a very challenging environment.** With assistance from donors as well as own resources, Government buildings were established and equipped in the national capital and successively also at state and county levels. A structure for the civil service and basic rules and processes for public financial management (PFM) were put in place. Despite extensive donor support to PFM in South Sudan, there are still substantial areas of weakness. Areas in need of action include the enactment of appropriate laws, in particular for allocating the National Revenue Fund; strengthening accountability and accounting capacities as well as domestic resource allocation; prioritizing spending and tracking expenditures of government agencies, to avoid budget overruns; and complying with procurement laws.<sup>53</sup> Initial monitoring systems capturing levels and locations of service delivery were developed in particular in the education and health sectors. This process has remained affected by distortions, such as hiring of non-qualified staff, and various forms of corruption and rent-allocation, e.g. as part of procurement processes, licensing, and the granting of tax exemptions; while reformers within Government have sought to bring about better governance. The initial progress made was reflected in ratings by the Worldwide Governance Indicators, which registered improvements across four out of six dimensions of governance between 2011 and 2012.

84. **South Sudan's weak governance institutions have been unable to shield it from the resource curse.** According to international indicators, South Sudan is one of the five most corrupt countries in the world as of 2013. The country ranks 5<sup>th</sup> from the bottom on the Corruption Perceptions Index published by Transparency International. A number of other post-conflict countries (including Afghanistan, Iraq, Syria, and Haiti) make up the bottom of international comparisons on corruption. A particular challenge in South Sudan has been that the scale of funds being managed by the Government accelerated very rapidly from 2005 onwards, as the CPA gave it control over half of the oil resources of united Sudan, with a peak of SSP10 billion (US\$3.4 billion at the official exchange rate) reached in 2011/12. The combination of weak nascent institutions and large new fiscal revenues from oil led to massive misuse of funds – according to alleged amounts on a sizable scale.<sup>54</sup> Moreover, South Sudan 'inherited' poor governance legacies and practices from Sudan, which itself scores very low across comparative governance indicators. The Government has committed to join the Extractives Industries Transparency Initiative (EITI).

85. **South Sudan has seen a steady rise in the number of civil society organizations with varying degrees of influence.** For many decades during the conflict, the church was the only

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<sup>52</sup> American Bar Association 2014

<sup>53</sup> African Development Bank Group 2012

<sup>54</sup> In the absence of convictions the actual amounts cannot be confirmed. The most publicly visible scandal to date has been a purchasing scheme for grain. In 2008/09, South Sudan procured grain for its National Grain Reserves; but allegedly a significant share of deliveries were signed off but not actually received, while other grain was delivered but not paid for, and further parts were damaged en route with affected companies claiming compensation. In addition, funding was provided for grain stores and was disbursed without actual building of the stores. According to public reports, the overall losses to government amounted to 2bn USD, i.e. almost equivalent to total government revenue for 2008.

significant civil society actor, aside from the SPLA/M.<sup>55</sup> A number of organizations have emerged over the last decade, including women's associations, media organizations, and unions, with estimates putting the number of human rights organizations alone at around five hundred.<sup>56</sup> The influence of these groups remains unclear as yet, even though they have participated in political processes, including drafting the new constitution. After the signing of the CPA in 2005, many activists from women's organizations took on senior positions within the Government. Although this meant a greater decision-making role for women, and voice, it deprived the fledgling women's movement of its leadership.<sup>57</sup> In addition to the proliferation of civil society organizations, many ethnic groups possess robust internal structures, headed up by traditional leaders who are respected for their decision-making prowess. Today, the church maintains its pre-eminent standing among civil society organizations, and the authority of its leaders at the local level surpasses that of political leaders. International NGOs continue to provide much of the essential service provision within the country, including health and infrastructure.<sup>58</sup>

86. **A transformational improvement in governance in South Sudan is unlikely in the foreseeable future and is rare among countries that have been affected by extended and recurrent conflict.** A positive realistic scenario would be re-entering a trajectory of gradual and uneven gains, while a negative scenario would entail significant backsliding. While it remains unlikely that the governance and security situation declines to levels seen in Somalia, a very low level trajectory could emerge and persist for some time if either a new political settlement cannot be agreed, or if such a settlement leads to near constant deadlock in decision making and to requiring continuous significant rent-allocation to a number of elite stakeholders from various groups. If a sufficiently sustainable political settlement can be found, a process of gradual institutional gains could resume; and this would facilitate other development efforts.

## 7. DEVELOPMENT ASSISTANCE AND EFFECTIVENESS

*Development assistance for South Sudan has been relatively high on a per-capita basis, with humanitarian assistance accounting for around half of it. The aid architecture in South Sudan reflected concerted efforts by Government and Development Partners at implementing the emerging best practices in aid effectiveness for fragile states. For a number of reasons, the gains achieved have not been proportionate with the massive investment in the aid resources and architecture for South Sudan.*

87. **Official Development Assistance (ODA)<sup>59</sup> to South Sudan averaged around US\$1 billion a year from 2005 to 2013, with a peak of almost US\$2 billion in 2012.** In per capita

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<sup>55</sup> Bertelsmann Stiftung 2014

<sup>56</sup> Bertelsmann Stiftung 2014

<sup>57</sup> Oxfam 2013

<sup>58</sup> Oxfam 2013

<sup>59</sup> It is important to note that ODA does not comprise all the external resource flows – or cost to the international community – related to South Sudan. In addition to ODA, the United Nations Mission to South Sudan carries a cost of about US\$900m per year. There are also substantial private charity flows that are not captured in ODA data. Furthermore, military assistance and foreign policy spending on South Sudan are additional to ODA figures. At the same time, ODA is not equivalent to funds 'reaching the ground' – for example, a share of funds is related to administrative

terms, aid has fluctuated between a low of US\$59 in 2008 and a high of US\$150 reached in 2012. Lower figures are reported for 2006 to 2010, which may in part be related to the fact that not all ODA flows for those years are captured. In per capita terms, ODA to South Sudan has been higher than the average for LICs, and also somewhat higher than the average for fragile and conflict affected countries. According to available data (which is incomplete), humanitarian assistance has accounted for around 50 percent of all ODA to South Sudan since 2005. The largest donor to Southern/South Sudan has been the United States.

88. **A significant share of the population has depended on aid – for the provision of basic services, especially health; and also for food security.** In 2011, about 10 percent of the population was estimated to be food insecure; since the renewed conflict in December 2013, this share is estimated to have risen to 2.5 million – 3 million or about a quarter of the population. For 2014, the UN issued a call for US\$1.8 billion – i.e. about 3 times the amounts spent on humanitarian assistance the previous year.<sup>60</sup> This translates to an estimated US\$474 per person.

89. **The aid architecture in South Sudan started with a growing international recognition of the importance of aid effectiveness, and resulted in a greater pooling of aid resources.** The beginning of the CPA period coincided with the adoption of the Paris Declaration on Aid Effectiveness (2005). South Sudan effectively became one of the pilots for the emerging efforts at strengthening aid effectiveness in fragile states. The initial main platform for coordination was the Joint Assessment Mission (JAM), carried out by the World Bank and UNDP in 2004-05. A central recommendation was to establish a Multi-Donor Trust Fund as a core aid delivery mechanism. Around the same as the MDTF, several other common pools were established, including the Common Humanitarian Fund (CHF) - with an entirely humanitarian focus; a Basic Services Fund (BSF) - a faster-disbursing mechanism for social services delivery; an SRF - a mechanism to channel development funding through the UN system; and a Capacity Building Trust Fund (CBTF) – a fund to get rapid capacity building support to Government. The Government adopted an Aid Strategy for 2006-2010, setting out key principles and coordination structures, and emphasizing the importance of Government ownership in decisions over the allocation of aid, and the need to limit project proliferation.

90. **Following independence in July 2011, Government and development partners worked towards the adoption of a New Deal Compact for South Sudan.** The Government adopted a South Sudan Development Plan and a related new Aid Strategy. Efforts at closer co-ordination were interrupted by the political crisis surrounding the oil shutdown. Once the shutdown was resolved, preparations began in 2013 for the development of a New Deal Compact, accompanied by a range of on-budget funding instruments under the umbrella of an IMF program. The New Deal Compact, integrating the agreed six peace and state building goals together with key elements of the IMF program, was due to be signed when the civil conflict erupted in December 2013.

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overheads, and salaries of expatriate staff (of donor agencies, implementers such as INGOs and contractors), insurance companies, etc. Also, as absorptive capacity for aid was limited (see below), there were significant gaps between allocations and actual spending.

<sup>60</sup> OCHA South Sudan 2014

91. **Only limited gains were achieved from the massive investment in the aid resources and architecture for South Sudan.** ODA humanitarian assistance supported the basic needs of a large part of the population. Access to health and education services increased significantly, although from a low base, mainly thanks to aid agencies provision. Also, as already noted, some progress in the development of basic institutions was achieved, which if continued, would have led to gradual gains in terms of state building. However, as noted in a number of evaluations of aid effectiveness in South Sudan, these results are modest compared to the lack of progress on livelihoods and infrastructure access for the majority of the population, large scale misappropriation and mismanagement of the country's oil wealth, and the fracturing of the political and security environment that led to the December 2013 conflict.

92. **Evaluations of aid effectiveness tend to stress that insufficient attention was paid to conflict prevention<sup>61</sup> through DDR, youth employment programs, and security sector reforms.** Although both local consultations and the international experience on fragile states consistently put issues of reconciliation, social and political cohesion, and security reform as top priorities, the incentives and instinct of Development Partners was to prioritize more traditional areas of development assistance. Aid agencies were keen to support core state institutions at the central level, social services delivery, and roads. And there was insufficient attention to areas outside of Juba.

93. **Development assistance continued unabated in the face of massive mismanagement of oil resources.** Immediately after the CPA, a 'division of spheres' emerged between the Government and developing partners, with greater collaboration only in selected areas. In particular, the Government's significant resources were allocated to a ballooning security sector, as well as dissipated through diversion and corruption. Donor funding focused on more traditional development assistance, such as the health sector, which remained over 60 percent donor funded.<sup>62</sup> The unconstrained flow of resources to the unreformed security sector, and to the political elite fed the fractious patronage system in both the political sphere and the army. Development partners could have reached a clearer vision on how to support State – and Peace-Building in a context of significant governance shortcomings – even though such shortcomings should be expected in a post-conflict, resource rich environment; and to develop aid coordination efforts accordingly.

94. **Rigid institutional practices of development agencies limited the effectiveness and timeliness of aid delivery in a difficult context.** Development agencies found considerable challenges, especially initially, in dealing with a difficult operational environment. For instance, the World Bank-administered MDTF was very slow disbursing during its initial years (US\$150 million out of over US\$700 million total allocated were disbursed during the first three years), due both to weak GRSS capacity to deal with the procurement rules, and to internal administrative rigidities to deal with the difficult operational environment. Until 2011 many bilateral donors did not have substantive representation in Juba, but were based in Khartoum, and operated remotely

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<sup>61</sup> Bennett et al. 2010

<sup>62</sup> Bennett et al. 2010

or through the Joint Donor Team. The use of humanitarian agencies to build roads by development partners also created significant sustainability problems in that sector.

95. **In practice, the intended aid architecture resulted more in formalistic adherence to processes than in effective cohesion and ownership of the development assistance.** In particular, it failed at limiting the debilitating proliferation of projects and other well-intentioned donor initiatives. A partial success was that a significant share of allocated donor resources was captured in budget plans, growing from US\$400 million to US\$719 million in 2010. An Inter-Ministerial Committee tried to play its role in appraising donor projects, and donor resources that were coordinated with government, but quickly became overwhelmed by the number of projects to review, and itself happened too late, essentially after project design was already concluded, rather than at an earlier, strategic stage. The proliferation of projects and development initiatives stretched the already thin government capacity, created multiple layers of technical assistance in the same recipient agencies, overlapped different approaches and donor priorities, and created a number of perverse incentives in the relationship among donors as well as within Government.

96. **Following the recent CPA, development partners are now re-evaluating their engagement in support of the implementation of the peace deal.** Since the outbreak of the conflict in December 2013, many of the development partners have shifted their assistance to humanitarian aid, while continuing funding for essential basic service provisions. Following the peace deal, there has been renewed discussions related to the ways in which development partners can best support the government in its efforts to implement the agreement, although it seems uncertain that extensive assistance in terms of financial aid would be forthcoming in the immediate term of the peace deal.

### III. PATHWAYS OUT OF FRAGILITY AND POVERTY

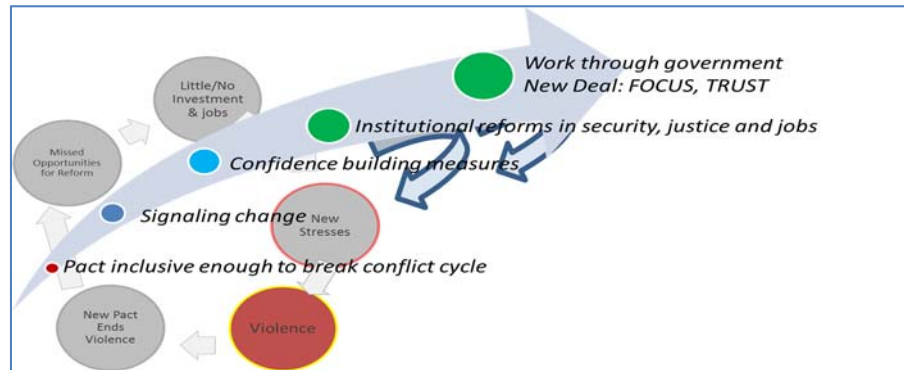
#### 1. ANALYTICAL FRAMEWORK AND PRIORITIZATION

97. **In an extremely fragile country like South Sudan, reducing extreme poverty is closely linked to finding paths out of recurrent cycles of conflict and fragility.** With more than half of the population living in extreme poverty, the World Bank's twin goals coincide in South Sudan. Hence, the SCD primarily focuses on poverty reduction. Conflict and violence harm the lives of citizens both physically and psychologically, while leading to the destruction of assets, livelihoods and human capital, directly exacerbating poverty. In addition, conflict and violence all but prevent the allocation of scarce political, financial, and human resources towards development. In these circumstances, poverty reduction cannot be achieved without finding sustainable paths out of fragility and conflict.

98. **The SCD builds on the fragility framework from the 2011 WDR on Conflict, Security, and Development.** As noted earlier, South Sudan is locked in a conflict trap. While there are parts of the country that are not directly engaged in active conflict, the underlying drivers of fragility and instability are deep rooted across the country. Breaking out of these recurrent cycles is possible through a combination of (a) short-term measures to emerge from acute phases of conflict; (b)

medium-term measures that reduce the likelihood to fall back into conflict and/or strengthen the country's resilience as it goes through another crisis; and (c) long-term structural and institutional measures that consolidate the state and deliver on the development and poverty reduction agenda. Central to the whole process is the ability to build legitimate institutions for security, justice and jobs. Finding such a path is difficult, usually imperfect, and can take many years.

**Figure 23: Breaking out of conflict and fragility traps through institutional development**



99. **The SCD tightly integrates the focus on poverty reduction into the 2011 WDR analytical framework.** Although the WDR framework is predicated mostly on political and security conditions, these interact in complex ways with the social and economic dynamics. At each stage, the political and security conditions have an impact, positive or negative on poverty, while the changing economic conditions feed back into the political and security parameters. The analytical framework of the SCD clearly integrates these interactions between poverty and the WDR approach, by explicitly incorporating the focus on poverty reduction into each component of the WDR framework. It helps to identify and sequence a cascading set of constraints as well as serving as a basis for prioritization.

100. **Emerging from the phase of acute conflict and violence requires political pacts that are inclusive-enough, that credibly commit all parties to end violence and that have a strong reform focus.** Quickly restoring confidence in collective action before delving into institutional transformation is important for such a pact to hold. This is even more imperative in the context of tenuous and fledgling Peace Agreement that is the current reality of South Sudan. This requires political and security pacts, which are inclusive-enough to be credible and stabilize the situation, creating the conditions for working on more sustainable solutions.

101. **In the early phase of getting out of conflict, the poverty reduction focus relates to the protection of civilians, as well as the protection of key assets and infrastructure of the poor.** The protection of human lives is, undeniably, paramount in the humanitarian response during an active conflict, as well as immediately following a peace agreement. These efforts should be accompanied by protection of livelihood assets like seeds and tools as well as infrastructure. Among these two, priority should be given to protection of livelihood assets, as these are fundamental for the recovery of households from conflict that will allow them to engage in

economic activities. In addition, household assets for economic activity render households more resilient against future stresses.

102. **In order to consolidate the initial political pacts, the leadership needs to broaden its legitimacy by signaling change and implementing tangible confidence building measures.** In the immediate term following the peace deal, it will be important to ensure that people enjoy peace dividends such that they are invested in continued peace and stability. While institutional reforms will take time, the leadership can identify selected measures, which can be implemented in the short to medium term, and signal the ability of the new political pact to commit to change and to offer tangible confidence building measures to the broader constituencies in the country.

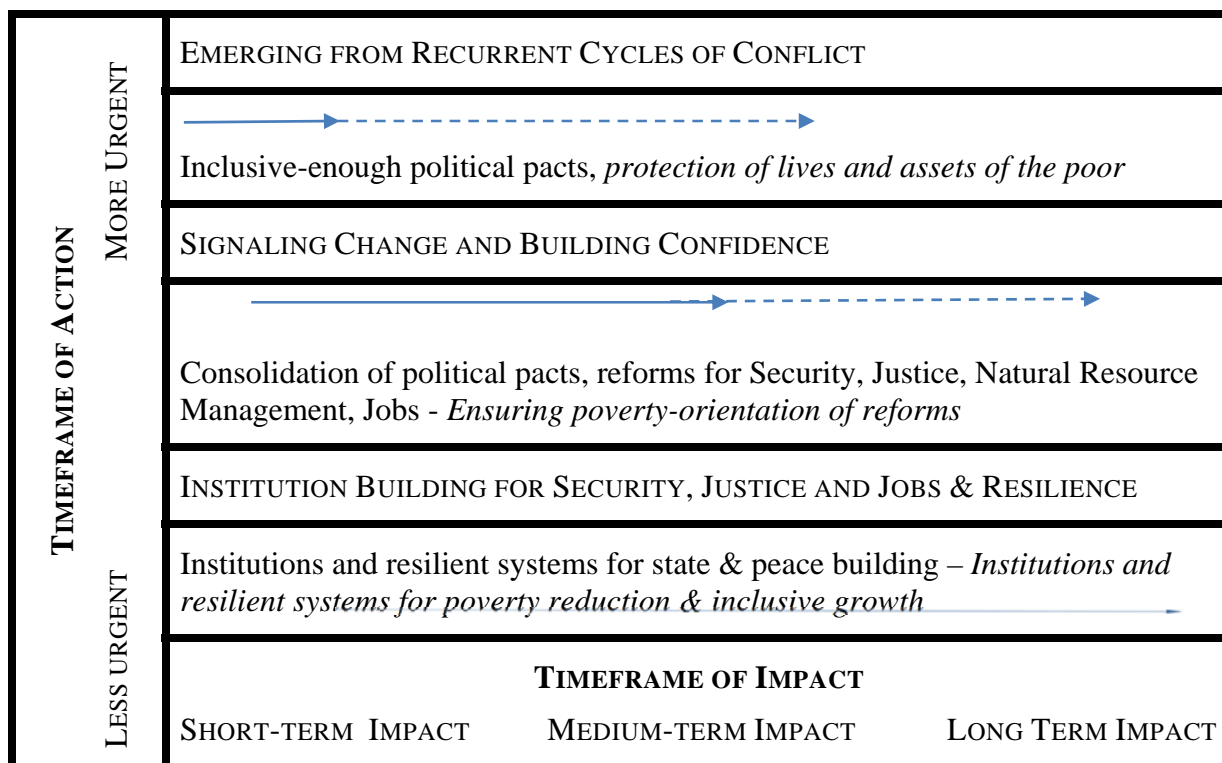
103. **In the consolidation phases, progress on poverty reduction is mainly predicated on making sure critical reforms that will shape the future of the country have a strong poverty-reduction and equity angle.** In this phase, the remaining instability factors and weak institutions make solid and immediate progress on poverty reduction highly unlikely. However, the selected reforms and choices made in this phase, beyond building confidence and stabilizing the political situation, have the potential to shape the future prospects for poverty reduction. Making these choices with a strong focus on ensuring the equitable provision of assets and opportunities to the broad population is therefore critical.

104. **For peace to take hold and a development agenda to be implemented, serious efforts must be undertaken to develop legitimate institutions and carry out structural reforms for security, justice, and jobs, while addressing the most urgent needs by leveraging conflict-resilient livelihoods and service provision.** The likelihood of conflict escalation increases when institutions (state, markets, communities, and other social arrangements) fail to provide basic security, justice, and economic opportunities in an equitable manner. Building institutions is a long term endeavor even in countries that are not burdened by violent conflict and insecurity. In the case of South Sudan, which started from a position of almost non-existent institutions, the process is expected to be even longer. In the meantime, some progress on poverty reduction can be obtained by building on livelihoods and service delivery models that have proved resilient and that leverage existing formal and semi-formal institutions.

105. **As the process to strengthen institutions takes root, the country can increase its focus on the institutional and structural issues underpinning poverty reduction, both through the delivery of essential social services, job/livelihood/growth agenda, and the equity/vulnerability agenda.** As fragile countries start building or re-building institutions that provide the resilience against falling back into conflict, those institutions can provide the basis for a comprehensive approach to poverty reduction, at a different pace depending on available capabilities and starting points. Due to its history of neglect and long civil war, South Sudan starts with very little institutional capital, therefore the institution building strategies need to be articulated in a phased and realistic way, and interim solutions may need to leverage existing informal or semi-formal systems, while the institutions are still immature. At the same time, the investment in South Sudan's institutions since the CPA has suffered from the recent conflict, but has not been washed away completely, providing some basis for the future.



**Figure 24: Schematic Analytical Framework**



106. **The analysis is sensitive to different time frames, recognizing that at any point in time, the required actions involve a blend of measures that can have impacts in the short, medium, and long term.** The selected analytical framework allows for a country to be positioned on a transition path out of conflict and fragility, and thus helps determine the urgency of a set of measures at any point of time. However, the various stages of the analytical framework do not translate into a rigid sequential set of actions. First, travel along the path is not linear and is likely to witness several occurrences of new crises, so countries might find themselves returning to the same stage at different points in time. Second, measures that take more time in terms of impact also need to be initiated at an early stage in order to achieve a sustainable progression along the path. Third, measures may differ on the basis of their spatial dimensions with an intention to distinguish between geographical areas that are experiencing continued violence, those faced with inflows in IDPs, and those with relative stability (the latter potentially creating islands of opportunity for more advanced interventions). Thus, the concerted response to fragility includes different components with impacts in different time horizons and spatial dimensions.

107. **The analytical framework also provides a first cut in terms of prioritization.** Although not strictly sequential, the three categories of the analytical framework derived from the 2011 WDR provide a hierarchy of urgency, which is relevant in the context of the high level of conflict and fragility in South Sudan. The framework also provides a high-level filter to identify broad priority areas, both in terms of constraints and solution areas.

108. **Within the broad priority areas, a second-order prioritization, cognizant of country-specific characteristics, is carried out based on South Sudan's fragility, poverty and macro**

**profiles, as well as feasibility considerations.** The South Sudan fragility assessment is used to prioritize specific policy areas, in particular those related to security and justice. Information on the distribution of poverty across economic, social and spatial dimensions, as well as the specific macro profile of South Sudan, are used to prioritize interventions with the largest impact on poverty reduction. Finally, considering the huge gap between needs and capacity in a fragile governance context, solution areas try to articulate a realistic strategy to address the feasibility and implementation constraints, both within the various areas and in a cross-cutting manner.

109. **The SCD findings related to country specific constraints and related solution areas across the priority areas identified through the analytical framework are presented in the following table and discussed in detail in the remainder of the Chapter.**

**Table 2: Summary of Identified Constraints and Solution Areas**

EMERGING FROM RECURRENT CYCLES OF CONFLICT		
FACTORS THAT DRIVE CONFLICT & FRAGILITY	COUNTRY SPECIFIC CONSTRAINTS	SOLUTION AREAS
<ul style="list-style-type: none"> <li>• Unstable political pacts</li> <li>• International tensions</li> <li>• Conflict-induced asset loss by the poor</li> <li>• Conflict-induced macroeconomic instability</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of SPLM internal democracy</li> <li>• Unresolved issues with Sudan</li> <li>• Displacement and loss of lives and assets</li> <li>• Vulnerability of oil revenues to conflict</li> </ul>	<ul style="list-style-type: none"> <li>• Regional mediation and peer pressure</li> <li>• International engagement with both countries</li> <li>• Sustained and modernized humanitarian effort</li> <li>• Macro policy Technical Assistance and short-term financial support</li> </ul>
SIGNALING CHANGE AND BUILDING CONFIDENCE		
FACTORS THAT DRIVE CONFLICT & FRAGILITY	COUNTRY SPECIFIC CONSTRAINTS	SOLUTION AREAS
<b><i>Signaling change</i></b> <ul style="list-style-type: none"> <li>• Unstable political settlement</li> <li>• Contestation over large national resources</li> </ul>	<ul style="list-style-type: none"> <li>• Narrow, unstable, elite-based political deals</li> <li>• Discretionary, distortive and opaque oil management</li> </ul>	<ul style="list-style-type: none"> <li>• Inclusive Constitutional agreement</li> <li>• Implementation of credible oil revenue management oversight system</li> </ul>
<b><i>Building Confidence</i></b> <ul style="list-style-type: none"> <li>• Militarization of society</li> <li>• Lack of Reconciliation</li> <li>• Bleak economic opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of successful DDR program</li> <li>• Inter-communal violence and grievances</li> <li>• Sustained food insecurity &amp; unemployment</li> </ul>	<ul style="list-style-type: none"> <li>• Parallel security sector reform and DDR program</li> <li>• Reconciliation at national and community levels</li> <li>• Selected livelihood programs - prioritized, simple, build on track record</li> </ul>

INSTITUTION BUILDING FOR SECURITY, JUSTICE, AND JOBS & RESILIENCE		
FACTORS THAT DRIVE CONFLICT & FRAGILITY	COUNTRY SPECIFIC CONSTRAINTS	SOLUTION AREAS
<i><b>Lack of Security Sector Reforms</b></i>	<ul style="list-style-type: none"> <li>• Large and ethnically fragmented army</li> </ul>	<ul style="list-style-type: none"> <li>• Security sector reform: professional national army; pension system, comprehensive DDR program</li> </ul>
<i><b>Weak Justice Systems and Rule of Law</b></i>	<ul style="list-style-type: none"> <li>• Widespread impunity for violence</li> </ul>	<ul style="list-style-type: none"> <li>• Build credible justice system – clarify role of customary law</li> </ul>
<i><b>Weak Institutions for Jobs/Livelihoods/Resilience</b></i> <ul style="list-style-type: none"> <li>• The oil and mining sector</li> <li>• Agriculture and livestock development</li> <li>• Urban labor-intensive sectors</li> <li>• National infrastructure systems</li> <li>• National social services delivery systems to build Human Capital</li> <li>• Institutional foundation for a dynamic and competitive private sector</li> </ul>	<ul style="list-style-type: none"> <li>• Dutch disease, governance issues</li> <li>• Low productivity, low commercialization</li> <li>• Issues with land regime and urban infrastructure</li> <li>• Low infrastructure stock, weak capacity to manage</li> <li>• Low human capital, weak capacity to provide services, nutritional deficit due to food insecurity</li> <li>• Weak investment climate environment, limited regional integration, war economy</li> </ul>	<ul style="list-style-type: none"> <li>• Appropriate macro framework, strengthen public administration</li> <li>• Strengthen smallholder-based agriculture and develop large scale commercial farms</li> <li>• Land and urban planning policies</li> <li>• Three track approach – maintenance and rehabilitation of existing infrastructure; identification of fast track delivery models; develop least cost master plans</li> <li>• Work with non-state providers; strengthen social accountability and community oversight; support selected programs with multiplier effects; develop long-term service delivery systems</li> <li>• Policy and regulatory environment for private sector development; trade integration</li> </ul>

## 2. KEY CONSTRAINTS

110. **The analytical framework helps to identify and sequence a cascading set of constraints as opposed to identifying a few constraints which by themselves can unlock poverty reduction in South Sudan.** As the “Country Context” section has made clear, South Sudan is among the most deprived and fragile countries in the world. Establishing sound institutions and crafting appropriate policies to address the country’s set of complex and overlapping constraints, including vulnerability to conflict (exacerbated by governance and elite

capture issues), very low levels of human and physical capital, high oil dependence and geographical isolation is likely to require a long and multiple series of steps. The analytical framework provides first-order criteria to prioritize and sequence those steps. Under each category of the analytical framework, the identification of binding constraints for South Sudan will rely on the country-specific stress factors driving conflict, as well as on the salient features of South Sudan's poverty, economic, and social profiles.

## **EMERGING FROM RECURRENT CYCLES OF CONFLICT**

111. **The first set of constraints are discussed under four main sub-categories:**

- (i) Unstable domestic political pacts;
- (ii) International tensions;
- (iii) Conflict-induced assets loss by the poor; and
- (iv) Conflict-induced macroeconomic instability.

112. **The lack of *inclusive and legitimate polity* within the SPLM party appears to be the major constraint for a credible and inclusive-enough political settlement in South Sudan.** The narrow elite capture of political power is one of its main fragility drivers (paragraph 7), and a key issue that would need to be addressed in the immediate term if peace is to be sustainable. The SPLM party has been the dominant and most legitimate political arena of the new country since the CPA. The crisis of the political settlement has therefore, translated into heightened grievances within the ruling SPLM party, due to exclusion along ethnic lines, nepotism, lack of democracy in decision-making, and corruption. This in turn has been a main factor that undermined its internal legitimacy and that of core state institutions. The 2015 Compromise Peace Agreement provides for a Transitional Government of National Unity with power sharing arrangements which, if implemented effectively, can help in addressing historical grievances and building a more inclusive and representative political platform.

113. **A number of serious unresolved issues with Sudan could potentially stoke tensions again between Sudan and South Sudan.** South Sudan's relationship with Sudan remains a critical tension point. While South Sudan's relationship with Sudan has improved since the Addis agreements in September 2012 and March 2013, tensions remain. On the political front, the status of Abyei and progress on demarcation more generally is the most sensitive issue that remains to be addressed. On the economic front, the oil agreement will expire in 2016 and will have to be renewed. These oil negotiations might be complicated by the expiry of the zero option on debt with Sudan and the recent sharp decline in the price of oil which, given a fixed payment to Sudan, imposes a significant financial burden on South Sudan.

114. **Conflict-induced assets loss by the poor constrains their livelihood options.** In phases of acute conflict, destruction of human capital, such as nutrition deficits, disrupted school attendance, lack of health services, as well as loss of physical capital such as loss of seeds, agricultural implements, and critical infrastructure, have lasting impacts on the livelihoods of the poor. In the current context in South Sudan, and in light of a tenuous and fragile peace deal, the most urgent issues are the protection of internally displaced populations, and coping with food

insecurity and nutrition deficits for the whole population. Human capital losses due to interruptions of health and education services are also a key constraint, calling for an innovative focus on the provision of alternative social safety nets.

115. **Conflict-induced macroeconomic instability affects political stability and adversely impacts the poor through inflation tax and other policy responses.** The extreme dependence of South Sudan's economy on oil entails that instances of conflict tend to have a major impact on macroeconomic stability, as the highly localized oilfields become the natural focus of confrontation. This has proved true in the recent conflict, and has also been exacerbated by the concurrent sharp decline in international oil prices, creating an extremely precarious macroeconomic environment. The fiscal constraints entailed by lower oil revenues translate into lower wages for the security forces and the urban population, while the balance of payment impact tends to manifest itself through exchange rate devaluation feeding into higher price inflation. These economic pressures can have a dramatic effect on political stability, and also have potential important impact on poverty, through the inflation tax, and other policy responses, such as the rationing of foreign exchange.

## **SIGNALING CHANGE AND BUILDING CONFIDENCE**

### **Signaling change**

116. **The key constraints to signaling change in the context of the narrow elite capture of political power and its close association with the control over oil resources in South Sudan are discussed under the following sub-categories:**

- (i) Unstable political settlements; and
- (ii) Contestation over large national resources.

117. **Without an agreement on a new constitutional framework, South Sudan is unlikely to consolidate whatever short-term political pacts may be agreed to end the internal conflicts.** Since independence, South Sudan's political settlement has been weak, primarily based on narrow and contested elite pacts along ethnic lines, while failing to build a more stable and inclusive political framework. The constitutional process, which was supposed to move the country from its provisional constitution to a new more stable political order, has been slow and ultimately inconclusive, reflecting the inability of the elites to find a mutually-agreeable compromise and to open up the political space more broadly. The Compromise Peace Agreement now provides a fresh opportunity to build consensus on power-sharing arrangements and includes broad parameters for the development of a broad based permanent constitution.

118. **Consolidation of political pacts has little chance of success without addressing the need for an accountable and equitable management the oil resources.** Mismanagement of oil resources has manifested itself in rampant corruption, a distorted and non-transparent exchange rate regime, and has fed a bloated and ineffective public sector, starving the provision of basic service delivery. The lack of significant progress on establishing effective institutions of accountability, especially around oil revenues, has contributed to alienation of a large part of the

population and has fed mistrust among political elites, while diverted resources may have a role in fueling the conflict.

### **Building Confidence**

119. **The key constraints to building confidence in the political process are discussed under the following sub-categories:**

- (i) Militarization of society;
- (ii) Lack of reconciliation; and
- (iii) Bleak economic opportunities.

120. **The absence of well-designed medium-term DDR program limits the level of confidence in the security sector reform.** The almost total lack of security sector reforms in the years of relative calm after the CPA has been identified in Chapter II as a major factor behind continuous threats to physical and economic security, and has also been seen as a missed opportunity to put the security sector in South Sudan on a more stable and affordable path. Since 2011, the Government of South Sudan has been developing a new nationally led and owned DDR program, incorporating lessons from the CPA DDR process. The World Bank contributed to the design of the renewed national DDR program, which was being piloted 2013-2014. Because of the changed security environment and the emergence of new fighting forces, this program requires a renewed approach which accounts for all potential beneficiaries and aligns them with the appropriate programming be it Security Sector Reform (SSR) for SPLA, DDR for SPLA-IO, Child-DDR for the Children Associated with Armed Forces (CAAF), community based approaches for the Women Associated with Armed Forces (WAAF) or programming for conflict-affected youth. It is important to note however that SSR and DDR will require significant financial assistance in the current context of peace, as it is estimated that combined, it will cost close to US\$750 million to absorb additional forces and provide DDR to military personnel.

121. **Conflict-induced insecurity is a major factor behind the reluctance of the private sector companies to invest in South Sudan.** It influences the geographic focus of their activities and their ability to attract employees into certain roles. At the same time, ongoing violence and insecurity has become part of the normal operating environment for many businesses. Those that have had a brush with the conflict-affected areas have reported loss of assets or income as a result. The reluctance of large foreign investors to enter the market since late 2013 has constrained growth and progress on efforts to diversify the economy. There are some chances that investments will accelerate in the short to medium term in the oil rich regions of Upper Nile with the advent of peace. However, on-going insecurity and poor infrastructure will continue to impede private sector engagement in those areas. The South Sudan Investment Conference (co-sponsored by the Government of South Sudan and IFC in 2013) helped the public and private sectors to narrow down priorities for investments, including PPPs in infrastructure, agriculture, and hotel industry, highlighting opportunities for diversification away from oil related investments. However, the recent conflict has shifted the focus and the limited resources to political and humanitarian investments, resulting in shrinking private sector development and investments.

122. **Inter-communal violence and grievances are long-standing problems undermining South Sudan's national cohesion.** Inter-communal grievance have long historical origins, often as a result of contestation and conflict over natural resources, and have tended to self-perpetuate over the years. More recently, the ethnic card has been played by elite politicians in the patronage system that has developed in the army and civilian public service since the CPA. These problems have taken a new nation-wide dimension with the recent conflict, as the violent conflict that erupted in December 2013 immediately took a dramatic ethnic dimension that has further fractured communities along tribal lines. Without initiating a process of healing between communities in South Sudan and strengthening their dispute management skills, both at the national and local level, it is difficult to contemplate how the country could cement durable political settlements, and create the basic conditions for development.

123. **Lack of economic opportunities and improved livelihoods undermine broad-based government legitimacy.** The lack of economic opportunities has been cutting across most segments of South Sudan society. It has been acute in the rural areas, where the majority of the population lives, as food insecurity has remained prevalent notwithstanding the country's huge agricultural potential. The youth have been particularly affected by the lack of jobs and economic opportunities in both rural and urban areas. Government employment in the military or civil service has been seen as providing the only potential livelihood opportunities, and has led to the creation of large patronage networks, as well as a culture of dependency and predation among the youth.

124. **Slow improvements in connectivity, particularly roads, have created a sense of isolation in the country.** While many post-CPA donor-supported programs have endeavored to construct and rehabilitate roads, most roads have deteriorated after one or two rainy seasons, due to inadequate design, poor implementation of quality/standards and lack of maintenance. As yet there is no system of road maintenance in the country. South Sudan's ICT market is still underdeveloped, and the mobile phone penetration rate is one the lowest in the continent. All this has contributed to keep the country fragmented and sustained the sense of fragmentation/isolation of the country. It has also hampered economic development, especially the potential development of domestic agricultural markets.

#### **INSTITUTION BUILDING FOR SECURITY, JUSTICE, JOBS/LIVELIHOODS, AND RESILIENCE**

125. **Development of institutions that can promote sustained security sector reform, promotion of legitimate justice, and tangible material improvements in terms of jobs/livelihoods take a very long time in fragile and conflict-affected situations.** Addressing this agenda is indispensable for countries to sustainably escape from fragility and conflict, and also to create the capabilities for designing and implementing credible development policies and programs across the board. Therefore, institution building efforts need to be initiated selectively and gradually in parallel to addressing constraints that are more short-term in nature.

126. **The inability of the state to provide minimal levels of citizen safety and justice has created a climate of insecurity that reinforces a vigilante culture, and an overwhelming sense**

**of impunity.** Analyses of the continued insecurity in South Sudan link it to several factors: (i) significant erosion of the authority of the elders and of social norms protecting the vulnerable; (ii) inadequate police protection; (iii) balance of political power between local groups and their patrons at the central government; and (iv) lack of a justice system that can hold perpetrators of violent crimes to account. Absence of rule of law reflected in insecurity, impunity, and lack of accountability have been cited as major weaknesses in South Sudan. While social and ethnic differences and tensions got exacerbated during the latest crisis; the absence of a mechanism/platform to engage the vast plurality of ethnic groups in the country and relative exclusion of a large plethora from access to power, natural resources, jobs, assets, livelihoods underpin the fragility of South Sudan. There is need to unpack the inclusive processes much better and to create platforms and forums to ensure participation of civil society groups including academics, researchers, national and international NGOs, and CBOs in the policy dialogue and priority setting for the country.

**127. The main economic constraints to sustainably improving livelihoods and creating jobs with a view to consolidate peace and achieve strong poverty reduction can be usefully categorized as constraints on the product/output side and on the factor/input side:**

- On the product side, the main issue is seen as the economic management of the country's natural resources, including the development of the ecosystem – regulatory and enabling environment; and transport, ICT, trade, and other connectivity infrastructure - to optimize their value, in order to support economic diversification in sectors where South Sudan can build competitive advantages, sustain improved livelihoods, and create jobs.
- On the factor side, the main constraints are the very low stocks of physical, human, and institutional capital (including financial institutions and markets) to support broad-based private-sector growth.

*Product side*

**128. The management of the oil and mining sector is likely to remain a dominant factor in determining South Sudan's long-term economic growth prospects.** Oil dominates South Sudan's economy, and, although proven oil reserves are limited, improved efficiency as well as new discoveries could increase future output levels. Also, early indications are that South Sudan is endowed with a rich potential in minerals. While the oil and mining sector has limited capacity to create a large number of jobs directly, it can prevent the development of sustainable livelihoods and jobs in other sectors of the economy with higher labor-intensity and poverty-reduction potential. The constraints to the good use of the oil and mining potential include:

- Lack of appropriate macro-economic management to allow the development of labor-intensive sectors of the economy (Dutch disease);
- Lack of sound governance mechanisms to avoid elite capture of the resources, and promote productive investment of the natural resources proceeds; and



- Lack of good environmental management to avoid negative spillovers for other contiguous activities of nearby communities.

129. **Unlocking South Sudan's comparative advantage in agriculture and livestock is key to reducing poverty and improving livelihoods.** As detailed in Chapter II, a large majority of the population in South Sudan lives from subsistence agriculture, while poverty is concentrated in areas that have medium-to-high agricultural potential. Key constraints to the development of a competitive agricultural and livestock sector include both cross-cutting issues, and sector-specific issues. Some of the macro constraints to the long-term development of the sector include appropriate exchange rate management, adequate supporting infrastructure (physical, financial and market), trade integration and regional market access, improved tax and regulatory environment, rule of law and enforcement of contracts, access to finance, transfer of relevant training and technologies, and deepening of relevant skills. These cross-cutting constraints are discussed separately. The constraints of a more sector-specific nature include the following and will be prioritized using a value chain approach:

- *Low productivity due to lack of access to/adoption of improved technologies.* Both crop and livestock productivity is very low, even compared to regional neighbors. Improving access to inputs and technologies, as well as extension and veterinary services, will be critical. Access to market for agricultural products, both in terms of infrastructure and value chain, remains a critical bottleneck to securing resilience of rural communities. Basic numeracy and literacy skills are critical for improving productivity and adapting new technologies.
- *Agricultural land.* A recent land report<sup>63</sup> highlighted a number of legal and regulatory issues with respect to agricultural land. The absence of land titling and clarity on land policy are a major impediment to investment in medium to large scale agriculture. The terms and conditions under which land belonging to the state or communities can be leased are highly arbitrary and vary greatly from one contract to another. In addition, securing transhumance of pastoral communities can have great impact on improving their livelihoods and assets resilience, while preventing future conflicts because of establishment of new commercial farms on traditional livestock corridors. Experience in neighboring countries has shown that mapping and legal demarcation of these routes, associated with the provision of services along them (water, veterinary services, etc.) can contribute to increased resilience and stability.
- *Gendered division of labor in agriculture and livestock.* Men and women often perform separate roles in agriculture, but women often end up with more tasks and spend more time working, and are often excluded in key decisions, especially about use of income. Features of these differentiated gender roles vary across regions and communities. This role comes with further responsibilities for all domestic chores in the household and

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<sup>63</sup> (World Bank, 2014)

extended families. In the case of surplus production, women sell the produce at the market but men take control of the income.

130. **The main sources of jobs in urban areas for the majority will be in the informal private sector, particularly construction and services.** Unlocking this potential is constrained by lack of land titling provisions for urban development and industrial activities, by the absence of a land registry and cadastral system, and by a challenging investment climate. Municipalities also lack the financial and administrative ability to roll out core urban infrastructure programs that could sustain productive employment in the urban economy. Finally, restrictive labor regulations and practices, coupled with an entitlement culture of many youth, limit the incentives to recruit South Sudanese in the business sector.

131. **The dual exchange rate and businesses' inability to either afford to purchase foreign currency or access it altogether is a major constraint for nearly every business in South Sudan.** The structure of the local economy is such that nearly every business – from manufacturing to hospitality to retail to agribusiness – relies heavily on imports either as inputs to production or as inventory. Nearly 90 percent of firms use material inputs or supplies of foreign origin.<sup>64</sup> The situation is expected to improve only when exports, preferably diversified, resume and begin to generate stable inflows of foreign currency. Until that time, unifying the foreign exchange regime and introducing transparency to the way in which foreign currency is allocated are paramount for private sector development.

#### *Factor Side*

132. **South Sudan's poor roads and connectivity pose especially big challenges for the private sector and in particular for the development of agriculture beyond the current subsistence mode.** Poor road networks, underdeveloped rail and air transport, as well as low telecommunications and IT penetration all either shut out the producers and consumers from certain markets completely or impose prohibitive transaction costs on doing business in certain areas and sectors. Agriculture in particular is severely constrained by very poor access to domestic and regional, not to mention global, markets which contributes to discouraging commercial agriculture and locking the farmers into a subsistence production cycle. The connectivity challenges and low mobile and Internet penetration contribute to constraining the environment for private sector growth. The Communications Act warrants additional work to address these and other challenges related to the sector development.<sup>65</sup> The telecoms sector also suffers from severe shortage of foreign currency which makes it difficult for operators to refurbish equipment or expand, either from internally generated cash or debt finance, as they receive a large portion of their revenues in local currency which they are unable to convert to US Dollars.

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<sup>64</sup> World Bank (2014). "South Sudan Enterprise Survey 2014", World Bank.

<sup>65</sup> According to the World Bank's draft paper "ICT Sector Support – Regional Communications Infrastructure Program APL-4 (RCIP-4)(30 November 2012), "the Communications Act falls short of international best practice in a number of areas, notably the lack of clear independence of the regulator and the unclear process for issuing new licenses."

133. **Access to electricity further constrains the development of the private sector, limiting opportunities for job creation and poverty reduction.** Poor access to power forces companies to set up their own generators resulting in very high costs for manufacturing companies in particular. According to South Sudan Enterprise Survey 2014, 58.6 percent of firms identify access to electricity as a major constraint (exceeding the SSA average of 44 percent), with nearly three quarters of firms owning or sharing a generator and relying on it for the majority of their electricity. Nearly 90 percent of business owners indicate that the poor state of the sector and lack of electricity is the biggest obstacle they have to doing business in South Sudan. An estimated 93 percent of commercial consumers resort to expensive self-generation or have standby plants. The resulting high costs and productivity losses are a major hindrance to growth and industrialization.

134. **The business environment is constrained by inadequate policy and regulatory framework.** Despite the progress made so far, a lot needs to be done to develop, strengthen and consolidate policies, laws and institutions necessary to create a competitive, low cost environment able to support an equitable and vibrant private sector driven economy, to create jobs and shared prosperity, especially outside Juba. The absence of infrastructure maintenance policy and fund is a key obstacle to sustainable infrastructure development, especially roads. Furthermore, the gap between having legislation in place and seeing it properly implemented must be eliminated and awareness among business with regard to latest reforms should be enhanced. In terms of specific policy areas, registration difficulties (high registration fees and multiple registrations for companies) and the need to strengthen registries outside of Juba, numerous taxes and fees associated with different business processes, challenges related to land leases and use of alternative collateral (and their impact on agriculture and access to credit) are among the most prominent. Tax rates for example are identified as a major constraint by 45 percent of firms, while business licensing and permits negatively impact over 30 percent of the firms (far exceeding SSA average of 18 percent).<sup>66</sup> The absence of the PPP Law, Public Procurement Law, and Competition Law constrain the introduction of PPP structures in the economy.

135. **Access to finance is an important constraint faced by nearly every business with the exception of the largest companies.** The financial sector is poorly regulated, predominantly undercapitalized, with limited skills and capacity as well as poor corporate governance practices. The flows of credit to the economy are stifled by the banks' reluctance to lend in the absence of collateral. Banks cannot take land as security since there are no property titles to land, while other forms of collateral have not emerged. There is no framework for foreclosure in case of default. Only 7 percent of firms have a bank loan or a line of credit (compared to nearly 25 percent for SSA as a whole), with equal difficulties in accessing working capital finance as well as in financing longer term investments. These challenges are linked to stringent application requirements, lack of appropriate collateral, and high interest rates. Some banks and NBFIs are attempting to target particular segments of borrowers such as women entrepreneurs or farmers (Savings and Credit Cooperatives and Village Savings and Loan institutions provide financing options in some rural areas) but the financing needs of the private sector are far from being met. Meanwhile, MSMEs

do need access to finance to expand but the lack financial literacy or record-keeping skills, in addition to difficulties with collateral, prevents them for accessing loans. The fact that some of the companies operate in the informal economy further restricts their ability to benefit from bank financing. Conversely, poor credit culture among firms' own customers, where instances of non-payment for goods and services are fairly commonplace with limited recourse available. Lastly, the absence of coins in the economy prevents businesses from adjusting their prices in increments smaller than 1 SSP, potentially creating an opportunity for mobile money solutions in due course.

**136. Low levels of human capital make private and public sector development a challenging undertaking.** Low literacy rates among the local population as well as the lack of business skills or training in specific trades are associated with low levels of entrepreneurial initiative, poor employability, and a vast skill mismatch. Most people in the labor force have limited familiarity with how a market economy operates. Skilled labor is more expensive in South Sudan compared to neighboring countries because of the shortage of a local skilled labor force.<sup>67</sup> The Government's attempt last year to ban foreign labor shows a forthcoming challenge on this front that will need to be addressed. Demographic projections indicate that around 250,000 youth will enter the labor force each year on average until 2025. The analysis conducted for the Jobs & Livelihoods report concluded that for the urban youth, the combination of low skills, distorted attitudes to work, and inflated expectations of government jobs represent a most formidable challenge to job creation. Urban unemployment is high for the youth (15-24), with a rate of about 50 percent. The combination of very low skills, a culture of dependency by the youth, and unrealistic expectations of public sector jobs create a powerful blockage to dynamic engagement in the labor market. Low skills also constrain the ability to develop a cadre of capable civil servants. Social services provision relies overwhelmingly on international assistance. For health and education, the 2011 budget appropriated only 8-4 percent, respectively, of total expenditure, and for the two sectors together, only 6 percent was in fact actually disbursed, meaning that the actual exaction halved the already low budget allocation.

**137. Government administrative capacity for sector policy design, regulation, and delivery is weak, and will severely constraint the roll out of nation-wide systems of social and infrastructure service delivery over the next decades.** As mentioned in Chapter II, some gradual progress in building core state administrative functions was achieved in eight years from the CPA to the outbreak of the most recent conflict in late 2013. Such progress was however uneven, and it did not quite lead to the level of capacity to roll out major national delivery systems for infrastructure or social service. In particular, Government at both the national and state level mostly did not acquire the capacity to design viable sector strategies and policy effectively, to regulate the private sector in the provision of services, or to manage public resources to deliver universal public services. Strategies to develop national infrastructure and social delivery services

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<sup>67</sup> According to the World Bank (South Sudan; Jobs and Livelihoods Report, April 30, 2014) "For professional services, for instance, South Sudan's average wages for professionals, such as engineers, accountants, etc. are almost 80 percent above the COMESA average."

will need to address both the need to gradually build this capacity, and to find, in the interim, delivery models that are compatible with the lack of such capacity.

### 3. PROPOSED SOLUTION AREAS

138. **The SCD proposes policies and development programs to address key constraints identified under each category of the analytical framework.** This section presents proposed policies and programs that match directly with the identified constraints, following the structure of the analytical framework. The next section will then provide additional prioritization of solution areas by discussing a subset of key thematic areas.

#### EMERGING FROM RECURRENT CYCLES OF CONFLICT

139. **To improve internal democracy and cohesiveness of the SPLM, creating the conditions for a credible interim political pact, mediation and peer pressure from regional African States will continue to be critical.** The January 2015 Arusha agreement on the reunification of the SPLM, brokered by Tanzania's ruling CCM party, with support from South Africa's ANC party, showed the important role that African political institutions with similar historical and ideological references to the SPLM have to promote workable political arrangements within South Sudan's ruling party. Meetings between some former political detainees and President Kiir, mediated by President Museveni of Uganda, also demonstrate the influence of regional leaders on the process. Continued mediation support by the IGAD Plus group solidified the influence regional and international leaders can have in facilitating peace and reaching a sustainable political pact and consensus around power-sharing arrangements (see Box 2 for lessons from international experience).

140. **In the context of the narrow elite capture of abundant oil resources, and the military bent of top leaders, incentives to reach a negotiated agreement have been difficult, but a Compromise Peace Agreement has finally been reached.** The slow progress of the mediation efforts has led some to suggest that more pressure, including possible sanctions needs to be applied to improve the incentives to achieving a political settlement. Ongoing fighting, which have signaled possible violation of the peace agreement, means that such measures may still be necessary to continue to put pressure on spoilers to abide by the agreement. However, regional cooperation is critical if sanctions are to be effective. Compliance and successful enforcement will depend on the will and participation of South Sudan's neighbors.<sup>68</sup> The unintended consequences of sanctions risk complicating efforts to ensure effective implementation of the peace deal. As was seen in the example of Zimbabwe, there is the danger that government officials may use sanctions as a pretext to drum up nationalist fervor, and cast blame on foreign countries for South Sudan's troubles.<sup>69</sup> Those targeted by sanctions may strengthen repression measures, or increase the diversion of state resources.

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<sup>68</sup> Kisiangani. E 2015

<sup>69</sup> Kisiangani. E 2015

141. **Ensuring that civil society has a stronger voice in the establishment of political pacts could ensure a higher likelihood that the broader interest of society would be considered in designing political pacts.** This can be done through various channels including consultations, advocacy, and direct engagement in negotiations. South Sudan boasts a small but vibrant intellectual and professional class, both within and outside the SPLM, which has in the past felt excluded by the highly centralized nature of political decisions in the country. In fact, some of the most coherent civil society contributions have come from outside the peace process, including from the South Sudan Law Society, the Sudd Institute, and the Development Policy Forum.

142. **Faith-based groups can also play a meaningful role by engaging in an informal or parallel dialogue and reconciliation process between warring parties.** Indeed, a reconciliation process led by the Church-based Committee for National Healing, Peace, and Reconciliation was underway even before the crisis.<sup>70</sup> Respected religious leaders may play key third-party roles such as convening or mediating, as in the case of church representatives in Jonglei, who have been useful in making inroads for peace.<sup>71</sup> The New Sudan Council of Churches worked with donors and other partners to facilitate the 1999 Wunlit Nuer-Dinka Reconciliation Conference (Wunlit), which offers a model for community level institutions and processes for reconciliation, justice, and peace. Although not perfect, it represents an example of a traditional reconciliation model and could offer some lessons.<sup>72</sup> Various reconciliation rituals helped to build trust in the process; however, it failed to yield long-lasting results.<sup>73</sup> Experience from South Africa is also valuable in the context of religious leaders helping to ensure that any reconciliation process is protected and prioritized.

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<sup>70</sup> Lyman. P et al 2014

<sup>71</sup> Wilson. J 2014

<sup>72</sup> American Bar Association 2014

<sup>73</sup> American Bar Association 2014

#### **Box 4: Emerging from recurrent cycles of conflict: Implications of international experience for South Sudan**

The current conflict in South Sudan reflects deep fissures in society and even the momentum of independence was not enough to provide widespread legitimacy to the political settlement. In recent years, international support to post-conflict political settlements has been organized around three modalities: encouragement of transitional unity governments; national dialogues leading to often-elaborate constitutional drafting; and administrative capacity building. These elements have been seen, for example, in the Central African Republic, Libya, and Yemen. However, despite their appealing logic, each element of this approach has pitfalls:

- Unity government formation can descend into disputes about the allocation of jobs to factions rather than design of consensus decision-making mechanisms.
- Constitutional drafting may bring contentious issues to the table for resolution when the political system is least able to handle them (e.g. revenue-sharing) or when there is no capacity to implement the agreed solution, which then drains trust.
- There is insufficient evidence to give operational guidance to administrative capacity building programs in terms of priority and impact.

In fact, it is precisely when trust in the political settlement is weakest that each of the above modalities may be the most difficult to implement. This has been overcome in some instances by the emergence of a strong leader who reestablished central authority and created enough space for growth and poverty reduction to acquire momentum. Given that the “strong leader” model would struggle to get started in South Sudan, are there other approaches, which could broaden the current personality-based political deals?

In societies with persistent ethnic or sectarian power struggles, the common prescription of an “inclusive-enough” coalition can be quite demanding. One highly structured form of such a settlement is the so-called *consociational* system of community-based political representation with each community having formal veto powers over significant policy areas. As a result, the community’s influence is less vested in one person, opening the space for competition within the community as to who can most effectively operate within the system to protect their interests. Examples include Bosnia and Herzegovina, Lebanon, pre-1974 Cyprus, and Northern Ireland. While the track record of these systems is limited, that record reflects the complexity of the underlying situation and the associated risks. For example, in Lebanon, the community vetoes have become permanent features not just of major policy decisions but also routine operational and administrative matters, severely eroding state capacity. The system also failed to unify control of the security sector, which remains a major point of tension in domestic politics. Nevertheless, civil conflict has been staved off for two decades despite serious internal and external pressures, pointing to underlying resilience of the political settlement despite frustrations with some of its consequences.

The experience of complex and protracted political settlements also illustrates the important role of external partners. These partners can play an explicit or tacit role as mediators in or guarantors of a peace agreement, whether to all domestic parties or on behalf of a particular group. By this means, partners can provide some of the trust that is missing from the political system until it can be accumulated by domestic players over time. While IGAD has played such a role in South Sudan, this external encouragement has not been enough to overcome internal rivalries, especially when driven by contested control of natural resources. Given the inevitability of a link between oil revenues and conflict, internationally sponsored oil revenue oversight and reconciliation mechanisms might be warranted in the future to alleviate constraints emerging from conflict in South Sudan (as was done in Iraq and Libya).

Finally, the priority administrative capacity needs in state-building should be responsive to the vulnerabilities of the political settlement. For fragile resource-rich countries, strengthening the transparency of natural resource rent flows is critical. This begins with EITI-type reforms but extends to clarity on the correspondence between natural resource revenues received and as reported in the budget, and how those revenues are spent. Given the huge incentives for export revenue diversion arising from a dual exchange rate system, mechanisms to improve governance around monetary and exchange operations are critical to instilling public confidence in the macroeconomic framework.

**143. Proactive regional and international diplomacy and economic support to Sudan would help diffuse potential contestation over oil rents and border demarcation.** The expiry of the oil transit agreement in 2016, as well as continued unresolved issue from the

Comprehensive [sic] Peace Agreement on border demarcation and the status of the border town of Abyei have the potential to flare up tensions again between Sudan and South Sudan. African Union mediation has been at the forefront of diplomatic efforts to help the parties address these issues in the past, and will be needed to continue the effort on a more permanent solution. International economic help to secure Sudan economic transition from its oil dependency would also help ease the tensions, in particular with reference to the stalled HIPC process for Sudan.

144. **In the short run, humanitarian efforts need to continue to save lives, and protect key assets of the poor.** Humanitarian assistance has been critical in helping the people of South Sudan cope with the crises, and safe access to beneficiaries needs to be granted by all parties in conflict. Humanitarian assistance can, however, perpetuate a dependence trap, and create a number of broader negative incentives on political settlements. A dual track approach would enable balance between humanitarian and development needs, as well as the realities of conflict versus relative peace. It would allow for short term humanitarian efforts to save lives and safe access to beneficiaries, as well as the longer-term objective to create an integrated social protection system in a well-defined and agreed timeframe.

145. **In a context of recurrent crises, there may be a need to focus on more predictable and flexible modalities of humanitarian food and health aid, and look for a spatially differentiated approach in more peaceful areas.** Based on effective targeting of beneficiaries, and more sustainable delivery systems, these alternative modalities can both support poverty reduction in the medium term, and be adapted to respond flexibly to emerging crises. Such system could include cash for work programs, and alternative delivery mechanisms for basic health and education in high-risk areas. Cash-based public works programs can provide short-term employment, while supporting community empowerment and building social cohesion. International experience from other fragile and conflict affected countries demonstrates the importance of building on existing institutional mechanisms to support the introduction (in Liberia and Sierra Leone) and scale up (in Yemen) of public works in a fragile context. Targeting mechanisms and tailoring programs towards the needs of the most vulnerable helps to enhance program participation and correctly allocate benefits. Even with the ongoing conflict, there may be scope for longer term efforts at enhancing livelihoods and improving basic services in relatively more peaceful regions of South Sudan, to complement humanitarian aid. Such an approach would enable unlocking of specific economic and social opportunities in certain parts of the country.

146. **The macro-economic instability generated by South Sudan's political and conflict crises requires careful handling by the authorities, and policy and financial support from the international community.** The economic and fiscal dependence on oil translated into a high vulnerability of the macroeconomic conditions to security and political crises, as the oil resources easily become a major focus of conflict. In 2014/15, the macroeconomic impact of the conflict is compounded by the oil price shocks. Furthermore, there is also a need to accommodate the fiscal costs associated with the renewed political settlement. Inappropriate short-term policy responses to these shocks can include the buildup of arrears, monetary financing go of the budget with



corollary inflation and currency depreciation, non-transparent sales of national assets, which in turn can contribute to further destabilization of the political situation. Timely provision of policy advice and associated financial support is critical in shoring up the short-term macro-economic instability, while putting the basis for longer-term macroeconomic reforms. Such external financial and policy support however seems to be much less forthcoming given skepticism over political will and commitment to credible reforms by the authorities in the days following the peace agreement. In view of the fragile political settlement, a prudent fiscal policy that is able to accumulate some fiscal savings can create needed adjustment buffers if crises hit.

#### **SIGNALING CHANGE AND BUILDING CONFIDENCE**

147. **A credible constitutional reform fully owned by South Sudanese stakeholders is necessary to consolidate temporary political pacts into a broader and more stable political settlement.** Following the signing of the peace agreement, it is urgent to finish work on constitutional reforms so that the country can be governed on the basis of rules that reflect the fundamental values and aspirations of the people of South Sudan. The country was in the process of reviewing its constitution at the time of the outbreak of conflict in December 2013. A year into the review in early 2013 however, little was publicly known about the process, which remained the preserve of “an exclusive select few,” and the wider public had had little or no involvement in crafting the constitution.<sup>74</sup> The process needs to be resumed, as mandated by the 2105 Compromise Peace Agreement, and facilitation and technical assistance from international partners may be needed to ensure broader representation of all segments of society, and a good understanding of underlying technical issues. International advisors and experts can play a role in the constitution-making process as a means of complementing national expertise and robust civil society engagement. To be successful and go beyond being a merely technical exercise, the constitutional reform process needs resources and support. As demonstrated in the 2011 referendum in South Sudan, the body drafting the constitution also needs to win the trust and respect of local and international partners, and possess the ability and gravitas to walk the line between independence from the executive and cooperation with the government.<sup>75</sup> Where constitutional reform is not owned and driven by domestic actors, it risks being held up by delays and losing credibility.

148. **Without a strong reform focus, particularly related to oil management, sustainability of the political pact will remain tenuous.** Transparent management of oil revenues, as agreed through the peace deal, will provide a strong signal supporting the legitimacy of the state around shared objectives of nation-building and socio-economic development. Transparent and effective use of oil resources could do much to signal a new and developmental course for South Sudan. Effective and accountable utilization of oil revenues imply the development and strengthening of core institutions for effective economic governance along the lines of the recently passed Petroleum Revenues Management Act (PRMA). From a macro-fiscal perspective, implementation of the PRMA would imply the creation and rigorous management of an oil price fund and a future generation fund. In the context of high dependence of government revenue on oil exports, these

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<sup>74</sup> Diing Akol. Z 2013

<sup>75</sup> Lyman. P et al 2014

firm fiscal rules would allow to delink current public expenditures from current revenue, which with the permanence of a distorted exchange rate system have undermined the country macro-economic stability. From an accountability perspective, the PRMA implementation would provide a number of technical implementation tools, principally focused around oil revenue verification and disclosure. These should be complemented by empowering national oversight institutions, such as the Oil Verification Body, the Audit Office, Legislative Assembly, or the Anti-corruption Commission. Further channels of oversight by Civil Society and Development partners would also help strengthen the systems. The Liberia GEMAP mechanism is an example of enhanced international community oversight of expenditures, in a bid to combat widespread corruption.<sup>76</sup> Finally implementing strong expenditure commitment and payment control embed in the current IFMS system would strengthen the integrity of the downstream spending process.

149. **Addressing the security issues through the critical transitional arrangements mandated by the Peace Agreement, will be one of the most important confidence building measures.** The 2015 Compromise Peace Agreement mandates several security mechanisms to ensure permanent ceasefire and transitional security arrangements. These mechanisms allow for the permanent ceasefire within 72 hours of signing, and the withdrawal of all non-South Sudanese forces from South Sudan with 45 days. It also calls for the immediate release of all prisoners of war. Furthermore, it mandates that all forces in the conflict areas to be assembled and cantoned within 30 days of the signing to enable screening, registration and/or disarmament, where they will receive food, shelter and medical care. There will be a Joint Military Ceasefire Commission to oversee the cantonment. Ultimately, the warring armies will come under a ‘Unified Command’ within 18 months. It will be imperative to ensure that these measures are implemented properly if security and safety is to be ensured following peace. A complementary measure could be to introduce a viable SSR downsizing and a parallel DDR program for all those combatants that have been recruited into the fighting against the government (that are not re-incorporated into the SPLA after peace talks), a child DDR program, Wounded Heroes, WAAF and recently mobilized youth fighters programming. On an agreed basis, Government forces falling outside the SSR guidelines such as those with less than five years tenure in the SPLA could be considered within the DDR program. Finally, strong support to enhanced basic policing in areas at high risk of inter-communal violence and crime should also be addressed.

150. **Confidence building will also require strong progress on reconciliation through appropriate institutions of transitional justice.** Restorative justice relies on institutions along the lines of South Africa’s Truth and Reconciliation Commission (TRC) that gives reparation and rehabilitation to victims, and amnesty in the case of confession and responsibility. An open question is the role that retributive justice, particularly with respect to major human right violations, should play in the process of national reconciliation. Retributive justice includes the International Criminal Court, or a hybrid, or mixed tribunal with both Sudanese and international judges and staff, that represents a short, or medium term forum by which to hold high-level perpetrators accountable for atrocities and human rights violations. Such models have been

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<sup>76</sup> Lyman. P et al 2014

deployed in Sierra Leone, Bosnia, and Cambodia. The peace agreement sets forth broad parameters for transitional justice and reconciliation, and mandates the establishment of the Commission for Truth, Reconciliation and Healing, Hybrid Court for South Sudan, and Compensation and Reparation Authority. However, any attempt at transitional justice would have greater credibility and be more likely to be effective if it has strong legitimacy, ownership of the people, and involvement from civil society organizations. Ratification of the selected model by the National Legislative Assembly would bestow on it broad-based legitimacy.

151. **Efforts aimed at transitional justice following the 2015 Compromise Peace Agreement will have to be aligned with on-going processes and institutions, such as the National Platform for Peace and Reconciliation (NPPR).** Launched in April 2014, the NPPR consists of three national bodies working on peace and reconciliation. It has faced growing opposition amidst significant distrust among civil society members who regard it as a government-led process.<sup>77</sup> However, there is confidence among some international NGOs and civil society organizations that the institution will gain credibility in the wake of international support and engagement. As such, proposed institutions under the Compromise Peace Agreement, such as the Commission for Truth, Reconciliation and Healing, Hybrid Court for South Sudan, and Compensation and Reparation Authority, should ensure that they are aligned with existing processes and institutions also aimed at transitional justice and reconciliation. For example, South Africa's Institute for Justice and Reconciliation (IJR), launched as a successor to the TRC, has been brought on to provide assistance to one of the three bodies of the NPPR in a bid to pave the ground for national and grassroots reconciliation. The consultation process will involve county conferences, state conferences, and finally, a 2016 National Reconciliation Conference, with the IJR facilitating the training of peace mobilisers and sharing experiences from the TRC. It has been suggested to include a truth-seeking and documentation project in the mandate of the NPPR.<sup>78</sup>

152. **Assemblies of tribal elders can also facilitate national reconciliation.** These assemblies of elders have been activated in Afghanistan and in Somalia among other countries, with varying degree of success. The traditional justice sector has an important role to play in overcoming inter-communal violence, as it provides a mechanism for dialogue and for reaching agreements. Although the citizenry trusts this institution, it needs to be reformed. The major strength lies in the ability of traditional authorities to respond to changing social dynamics, but this remains embedded in exclusive hierarchies, which are geared towards maintaining a specific form of order and organization. Traditional practices could also provide inspiration for models to achieve local level reconciliation. Dinka chiefs use persuasion to resolve disputes, in a process whereby disputants are allowed a public hearing and all parties are allowed to speak. Rather than to deduce right or wrong, the idea is to reconcile adversaries. A ceremony of reconciliation follows a final settlement.<sup>79</sup> The Missiriya too, keep community interests at the forefront in seeking to restore harmony and balance to society.

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<sup>77</sup> American Bar Association 2014

<sup>78</sup> American Bar Association 2014

<sup>79</sup> Wilson. J 2014

153. **In addition to these conversations on the possible national level reconciliation processes, a conscious effort to support local level community to community reconciliation processes is needed.** This can build on traditional structures but also newly created structures of local governments at the County, Payam and Boma are crucial to provide inclusive and safe space dealing with atrocities and impacts of the conflict and support reconciliation in a socially and culturally appropriate manner. Also, there needs to be clarity on the bridging the national and local processes to move away from ethnic and tribal identity as default positions.

154. **South Sudan's demographics, paired with its FCS status, require especially close attention to sustainable job creation through the selective partnership – particularly in these early stages – with the private sector.** Private sector development plays an important role in post-conflict environments by helping to absorb unemployed youth, demobilized soldiers, and returning migrants and refugees. The private sector, working in conjunction with the public sector, is instrumental in putting into place a rules-based system that transcends political and ethnic divisions. Involvement in private sector activities helps to adopt longer-term planning horizons. Finally, stimulating competition, reducing corruption, and enforcing transparent practices, good governance and equal access to resources contributes to addressing the fundamental causes of the conflict. Increased competition in the petroleum and telecommunications sectors in particular would be very beneficial for South Sudan. The choice of partners in this environment of acute elite capture would need to be carried out with great care and attention to the due diligence processes. This would help ensure that the already fragile situation is not exacerbated, and that the interventions reach their intended beneficiaries and have sustainable broad-based impacts.

155. **On the jobs/livelihood front, building confidence will require a few selected programs that can quickly enhance perceptions of economic opportunities for key constituencies, particularly the predominant subsistence farmer population and the growing unemployed urban youth.** To achieve tangible impact in relatively short time frame, livelihood programs will need to be highly prioritized, institutionally simple, and as much as possible, built on pre-existing programs and a successful track record. While such programs will not radically change the economic conditions of the majority of South Sudanese, they can potentially create a renewed sense of economic opportunity that can help stabilize the country and build the longer-term development and poverty reduction strategies. The following major programs meet the just mentioned criteria:

- A basic road maintenance program focused on critical segments of the main roads linking areas of high agricultural potential with domestic markets, as well as sustaining continued humanitarian support. To enhance marketability of existing domestic agricultural production, rehabilitation of the road that connect Western Equatoria with Juba should be given top priority. In order to provide basic intra-regional and intra-state access there will be a need to provide all weather access by repairing and maintaining the core road network (about 2,700 km) and improving navigability of the Juba-Malakal reach.

- Expanding existing yields-enhancement programs of providing packages of improved seeds, local post-harvest storage, and improved agricultural practices to area of medium to high agricultural potential and high poverty density can also have tangible impact in a two to three year horizon.
- For urban youth, simple self-employment programs, based on self-selection and small grants, with complementary technical, entrepreneurial, and life skill support have shown to be very effective both in South Sudan and neighboring countries.
- Scale up of existing local grant programs that allow communities to select small infrastructure that benefits the community. The existing local government program provides grants directly to Counties for the implementation/rehabilitation of small-scale infrastructure at the Payam and Boma level in the health, education and water sectors. These community projects are prioritized and selected by communities themselves through a participatory process. Projects such as this have proven to be effective for showing tangible impact in remote areas in a conflict affected contexts.
- A rural youth program for conflict-affected youth incorporating trauma counseling and agrarian job training. Trauma-related mental health disorders can pose barriers to participation in community life, income generation and peacebuilding activities. In combination, support to enhance livelihood opportunities is required to sway disenfranchised youth away from resorting to violence.

#### **INSTITUTION BUILDING FOR SECURITY, JUSTICE AND JOBS / LIVELIHOODS & RESILIENCE**

156. **Transforming the military from a collection of tribal militias into a professional national army is critical for South Sudan.** Domination of the military by the two ethnic groups is a recipe for insecurity in the future. The military needs to re-structure away from ethnic lines into a force under strong civilian control. International experience indicates that this kind of institutional development takes a long time to be implemented in post-conflict and fragile states. A realistic and sequential approach will therefore be needed and can only be achieved through a Security Sector Reform (SSR) program.

157. **The military will also require a reduction in numbers through a pensions system and a comprehensive DDR-type programs.** The military has been used as a peace fund to absorb militias under a big tent. This strategy has worked for some time, but has also shown its limits. As reforms are carried out to professionalize the army, the focus has to be on other way to buy in militias and military personnel. This could include old age and disability pensions for the military, the creation of a reservist status, and broad-based DDR programs. Carefully laying down the options and associated fiscal cost of a long-term restructuring of the military can support the process by providing a clear roadmap to all stakeholders. Creating a common source of funding for DDR and SSR activities, and mandating both in peace agreements, would also encourage integrated programming and tie in all warring parties.<sup>80</sup>

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<sup>80</sup> McFate. S 2010

158. **A key priority in the development of a credible justice system is the need to clarify and leverage the role of customary law in the administration of criminal justice.** The majority of civil and criminal cases in South Sudan are adjudicated by customary courts and society as a whole. Citizens frequently express preference for negotiated, flexible settlements, which account for the particulars of a dispute as opposed to the rigid application of written laws. The country will lack for the foreseeable future the human resources necessary to make a Western-style common law system effective in addressing the justice needs of the community. This implies the need to strengthen the legitimacy and capacity of local chiefs to dispense justice, but also a dialogue on clarifying the interface with a more formal system, especially to handle cases where the traditional systems fall short of internationally accepted standards of human rights, particularly with respect to the protection of women and children. The development of a modern justice system, including strengthening alternative dispute resolution system, will have a key role with respect to commercial law of medium and large formalized enterprises.

159. **Concerning rule of law, there is a need to implement a community-policing model in the entire nation.** Community policing manifests differently depending on context however, depending on whether the focus is on state police or policing practices by a more plural set of authority structures. Informal justice and policing systems have been largely neglected by most development assistance, and despite drawbacks, they do have some benefits. Non-state policing providers can at times attract greater support from the local population than state police.<sup>81</sup>

160. **Appropriate management of the oil and mining sector, and their proceeds, will be critical to ensure sustainable job growth throughout the economy.** Oil and minerals are likely to continue dominate the economic landscape of South Sudan. Although proven oil reserves are limited, improved efficiency as well as new discoveries could increase future output levels. Also, early indications are that South Sudan is endowed with a rich potential in minerals. To avoid Dutch disease, it will be necessary to implement an appropriate macroeconomic mix of fiscal, monetary and exchange rate policies that ensure that labor-intensive sectors in which the country has a comparative advantage remain competitive, while savings generated by the natural resources are invested in productive human and physical capital, including employment of South Sudanese. To ensure that public investments are effective, strengthening public investment management in central ministries and in core sector ministries will also be important. Key to address the governance challenges will be setting up institutions that can deliver a high level of accountability in the management of oil and mineral resources. To build a capable central administration and skilled workers to be employed in the extractive industries will require improving the education system and quality of post-primary graduates.

161. **Given its exceptional endowment in land and water, South Sudan has the potential to become one of the bread and meat baskets of the sub-region, with agriculture and livestock becoming the engines of improved livelihoods and poverty-reduction.** Agriculture is expected to play a central role in improving livelihoods and promoting food security as well as stimulating

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<sup>81</sup> Denney, L. and Jenkins, S 2013

new sources of growth. There is a broad-based recognition that South Sudan is uniquely positioned to both strengthen smallholder-based agriculture and develop larger scale commercial farms, given ample area for expansion of cultivation. A few priority policies and programs to initiate the transformation of the sector include: (a) improve yields to bring the majority of subsistence farmers to a positive agricultural surplus; (b) invest in rural and regional roads; (c) adopt a competitive exchange rate for agriculture; (d) reduce transaction costs implied by intra-state taxation and road blocks; (e) initiate the process of regional trade integration by negotiating free trade access for agricultural goods into regional markets; and (f) invest in core elements of an animal health system that increase productivity and facilitate export. PPPs in both agriculture and infrastructure sectors can be an important contributor to spurring large-scale commercial initiatives and provision of low skilled jobs. In particular, PPPs may be appropriate for a number of government schemes in agriculture that are in need of rehabilitation and modernization.

162. **Creating jobs for the growing urban population, mainly youth, will depend mainly on managing urbanization to support the productivity of the informal sector, mainly in service activities.** In the informal urban sector, the prevalence of youth with limited skills determines a natural target of interventions to support and expand livelihoods. It is well understood that critical urban infrastructure, such as transport, telecoms, electricity, and water, helps leverage the agglomeration efficiencies of cities, and boost productivity of urban workers, in particular in the informal sector.<sup>82</sup> Land and urban planning policies are critical in enabling the expansion of the construction sector.<sup>83</sup> Both construction and urban infrastructure directly generate significant jobs in the construction sector<sup>84</sup>, especially for unskilled workers. The challenge is to identify elements of an urban management and infrastructure agenda, which can be rolled out in a realistic time frame. A lot of work is needed to manage employment and salary expectations, while maintaining positive outlook among the population and equipping it with the skills that are appropriate for the demands of the emerging private sector-based economy.

163. **The dynamism and resilience of local and foreign MSMEs, despite a multitude of challenges they face, is remarkable and can be leveraged even in the shorter term.** MSMEs are established in a variety of sectors, such as retail, construction, services, and hospitality and at least in Juba all see strong demand for their goods and services as the primary motivation and scope for expansion and job creation. Even in the climate of economic uncertainty they seem to have the ability to adapt and remain active but all agree that the operating environment has ample room for improvement. Providing them with access to finance and skills/capacity enhancement can be a fruitful interim strategy.

164. **Certain types of investment and economic activity may be more resilient to higher-risk, conflict-affected environments and as such may become vehicles for delivery of key services and addressing some of the binding constraints.** Such sectors (i) are less reliant on

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<sup>82</sup> World Bank, *Harnessing Urbanization to End Poverty and Boost Prosperity in Africa*, Sustainable Development Series, 2013

<sup>83</sup> Fox, Shoenesen, *Household Enterprises in Sub-Saharan Africa*, World Bank 2013

<sup>84</sup> On the importance of the construction sector in FCS, see Paul Collier *State-building, Job Creation, Investment Promotion, and the Provision of Basic Services*, PRISM 2 No4, 2014, p.25.

established regulatory institutions, infrastructure, or human capital; (ii) have relatively high price elasticity of demand, comparatively simple financing structures, modest investment requirements and short cost recovery periods; or (iii) are accompanied by meaningful revenue flows to the government.<sup>85</sup> Telecoms, and especially mobile telephony, typically fall into this category and are often the first infrastructure subsector to attract investment flows once the conflict ends. Transport, energy and water investments typically follow 5-7 years after the end of the conflict.<sup>86</sup> Outside infrastructure, microfinance, extractives, and off-grid electricity have some of the required characteristics to attract earlier investments in FCS. IFC's operational work seems to confirm these research findings. Specific country examples include Somalia, Afghanistan and Iraq, where access to mobile phones grew rapidly following the end of active conflict or during conflict in more stable parts of the country. From 2007 to 2013, a growing share of new MFI investments went to countries classified as "moderately unstable" or "unstable" in the Global Peace Index.<sup>87</sup> In Cambodia, microfinance was able to develop in the absence of key institutions or comprehensive banking regulations. Similarly, off-grid/micro-grid electricity drove the development of electricity provision in Cambodia in the post-conflict years. The World Bank Group will closely monitor the dynamics in these sectors in South Sudan to understand how best to support their development if early opportunities emerge. At the same time, work should continue on improving the regulatory environment, such as the clarity of telecom licensing, without which many investors will be reluctant to engage.

**165. South Sudan's infrastructure deficit is so large and Government capacity to develop national infrastructure systems so weak that the SCD would suggest a three-track approach that balances institutional development with alternative faster delivery mechanisms.** Setting up large complex national systems infrastructure that can handle the design, financing, construction, regulation, operation, and maintenance of national networks requires time, capacity and political consistency. A realistic approach would therefore include a number of parallel tracks: (i) an early focus on maintenance and rehabilitation of existing infrastructure to get the highest impact in the short term; (ii) rapid identification of a number of fast-track infrastructure delivery models that can have a significant impact in the medium-term, even if at a higher unit cost, which may include off-grid and private-sector driven alternative, as well as selected self-standing, high-impact infrastructure projects, including regional interconnections; (iii) initiating a long-term effort to develop least-cost infrastructure master plans, with clear sequencing of investment and strategic choice on sector structure, as well as build the capacity of key infrastructure ministries on policy, planning, procurement, and regulation and supervision. This last point require building core administrative capacity, as well as creating the necessary fiscal savings for large infrastructure investment.

**166. With the restoration of peace and security, the strategic objective of the transport sector is to prioritize the major corridors and associated feeder and rural roads.** The transport

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<sup>85</sup> Kenny, 2003; Araya, Schwartz, Andres, 2013

<sup>86</sup> Araya, Schwartz, Andres, 2013

<sup>87</sup> ResponseAbility, 2013



sector is expected to contribute to the creation of a non-oil based agriculture focused economy and employment for the youth of South Sudan, which calls for the provision of efficient regional and intra-state corridors, as well as availing all season rural roads for access to agriculture areas. This will require investing on the upgrading of about 1700 km of priority regional and inter-state corridors, critical feeder roads and the Juba – Malakal reach in the coming 5 to 10 years, starting the year peace and stability is restored. The priority road corridors include: (i) the east-west corridor (N2) serving the six states habited by more than sixty percent of the population of South Sudan, namely the corridor stretching from Nadapal (Kenya – South Sudan border) to Awel and serving the people living in the States of Eastern Equatoria, Central Equatoria, Lakes Warrap, Western Bahr El-Gazal, and Northern Bahr El-Gazal. This will also establish the most cost effective regional corridor for South Sudan; (ii) Marid - Yambio; (iii) Juba- Bor; and (iv) Juba – Yei – Kaya. This will have to be carried out in a balanced manner with the rehabilitation of a core network of feeder roads to provide access to market to productive agricultural areas and urban communities is essential as well. Taken together this may require improving another 3,700 km of secondary and feeder roads in rural areas, and a further 900 km in urban areas.

167. **The investment on the priority regional and inter-state corridors will need to be supported by reliable river transport services between Juba and Malakal.** This is the plausible alternative transport system to provide access to the population living in the North-Eastern part of South Sudan through reconstruction of the river ports and providing navigational aid. Given the prevailing cargo volumes, investments could be relatively modest for improvements along the rivers. Still, emphasis needs to be placed on targeting improvements to meet service priorities and provide reliable alternatives to road transport. The core needs include: improved management of river courses and dredging of navigable channels; provision of adequate navigation aids; comprehensive upgrading of Juba Port, installation of cargo handling facilities and docking facilities. For river movements, dredging critical spots and providing navigation aids along the 927 km of the Nile River between Juba and Malakal should take priority; this would require public expenditures of about US\$16 million annually in the medium term. Port facilities improvements at various sites should be done in accordance with potential growth demand but will also be of a modest scale and may best be done by the private sector.

168. **The longer-term effort entails investing in institution building.** Priority should be given to strengthen the South Sudan Roads Authority (SSRA) and make it responsible for the improvement and maintenance of the road network. SSRA should also be provided with adequate technical assistance (TA) and training in the areas of road asset management, planning, contract management, safeguards management, and corporate management. The States Physical Planning and Infrastructure Ministries should currently focus on maintenance of feeder roads and upgrading of urban roads, being supported by TAs during the formative five years. The Ministry of Transport, Roads and Bridges (MTRB) should continue focusing on its mandate of policy making and strategic planning for the transport sector. The river transport investment management will rely on the strengthened capability of MTRB's River Transport Directorate, which calls for creating project management capacity in addition to handling inland water navigation services planning

and administration through intensive TA and training. The South Sudan Customs Services should be strengthened to facilitate cross border movement of traffic.

169. **Establishing a mechanism for sustainable flow of funding for Road Maintenance is important.** There is a consensus to establish a Road Maintenance Fund that would generate resources from fuel levy, donor support, and government budget. The immediate action required in this regard is the setting up of the revenue collection and administration arrangements and legal framework. In the meantime, development partners could establish a maintenance financing pool to be administered by a trustee or adopt corridors and carry out maintenance works.

170. **While grid extension to all parts of the country remains a long-term goal, incorporation of off-grid solutions in parallel is a viable and cost-effective way of providing modern energy services to many parts of South Sudan.** These products and services are not only useful in off-grid areas but are also useful to those within the grid-connected areas unable to afford a connection or those who experience unreliable and poor quality of service. Development of off-grid energy access can use a mix of public and private sector approaches, but would require supportive policies, institutional arrangements, and legal and regulatory frameworks. Under the Electricity Act, provisions could be made (such as a Rural Electrification Agency) focusing on enabling conditions (such as licensing and tariff frameworks) for distributed mini-grid development, as well as promotion of investments in solar lighting of public institutions and market based approaches (such as the Lighting Africa initiative to promote solar portable appliances) for off-grid products and services.

171. **Long-term development of the electricity grid can be based on South Sudan's large hydropower potential.** Hydropower, solar energy, wind power, and biomass are the main potential sources of renewable energy in South Sudan. The country is endowed with a number of potential hydropower sites, all situated on the White Nile and estimated at up to 3,000MW, which could provide energy needs and energy security for the country.<sup>88</sup> The challenges that could hinder small hydropower development include technical and ecological issues, as well as issues of accessibility and the remoteness of the sites. In the absence of modern national grid, the Government's plan to implement and manage a new and expanded power system will need to follow a sequenced approach. A priority project, already in advanced design phase, is the Fullah Rapids 40MW hydropower plant, which could provide Juba with reliable and affordable electricity. The long-term institutional development of the sector will have to be built around a Least-Cost Master Plan of the energy sector, and the strengthening of the ministries capacities as well as the establishment of credible regulatory bodies.

172. **More analysis of trade-offs between infrastructures sub-sectors is needed to provide further prioritization of solutions areas.** Given the huge challenge to provide infrastructure services, a deeper analysis of potential trade-offs between sub-sectors may help achieve better sequencing of interventions. For instance, given the time and effort to build a national road network in such a large country, which is crossed by the Nile, a major and mostly navigable river, looking

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<sup>88</sup> African Development Bank Group 2012

at the trade-off and complementarity between road and fluvial transport might allow considerable insight in faster transport delivery models. An ongoing Road and River Transport Strategy Note by the World Bank is looking into this issue. Research has also pointed to interesting trade-off between rural roads and telecom, suggesting that telecom connectivity significantly reduces the impact of poor rural roads, as it reduces the “physical” search cost of agricultural traders.

**173. The challenges of building traditional national health, education, and social protection systems in South Sudan are daunting, and a multi-track approach balancing institutional building with reliance on existing community and private sector capabilities will be needed.** The approach includes: (i) strengthening the ability of government and international community to work with non-state providers to quickly expand access to social services, with government in an oversight and contracting role; (ii) strengthening local social accountability and state-level oversight to ensure quality and equitable coverage; (iii) supporting selected self-standing projects which may have a multiplier effect, such as nutrition interventions, alternative education program for selected target groups, training of local administrative and technical cadres, etc.; and (iv) developing realistic, fiscally sustainable and sequenced plans for long-term service delivery systems.

**174. The education system needs to play a central role in building national unity and reconciliation.**<sup>89</sup> While a vast majority of primary and secondary schools have public ownership, government spending on education has been low and to date, the private sector has not made inroads in the education sector of South Sudan. Only an estimated 4 percent of primary schools and about 20 percent of secondary schools are privately owned.<sup>90</sup> The absence of private sector investment is predicated on the low purchasing power on target households as well as the absence of internationally acceptable standards, curricula, and qualified teachers. Facing budgetary constraints as well as limited capacity, the government and the international community need to work with the non-state providers (private sector, NGOs, CBOs, faith based organizations) to step up education spending and provide increased access and correct inequalities in the distribution of recurrent spending across states. Strengthening local social accountability mechanisms at the community level will need to take place in parallel with enhanced partnerships with non-state actors for the provision of education services. Also the ability of the Ministry of Education, at the federal and state level will need to be enhanced to drive reform, and incorporate non-state providers’ contributions into the overall plan for sector development. South Sudan can look to Mozambique in this regard where in 1994, following the country’s 20-year civil war, gross enrollment in primary school was 50 percent and net enrollment below 40 percent. Infrastructure was largely decimated; schools in rural areas were virtually absent; teachers were scarcely qualified to teach. The government overcame its enormous education deficit by focusing on achieving universal primary education through expanding the infrastructure network, and improving efficiency of resource use. By 2003, gross enrollment was up at 100 percent at the lower

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<sup>89</sup> The Escuela Nueva school program in Columbia contributed to the resolution of the conflict in Columbia and helped boost small land holders/farmers productivity.

<sup>90</sup> Based on a 2009 Status Report on the Education Sector.

primary level, and at 57 percent at the upper primary level. By allocating an average of 20 percent of revenue, or 5 percent of GDP, to the education sector, the government significantly increased the number of schools. With support from donors and stakeholders, the government enacted reforms to boost enrollment and retention and completion rates among the most vulnerable populations: girls and children in rural areas. These included provision of free textbooks, the reduction in direct costs for households, increased funding at the school level, a new curriculum, and semiautomatic promotion between grades.<sup>91</sup>

175. **The role of non-government providers is also key in the health sector.** Given the current limited capacity of the government to deliver the most basic of health services, an option that has been adopted in the sector in the short term is sub-contracting of non-government providers who have the experience in coordinating and delivering services in hard to reach areas. In the medium term, this is an approach that will continue to constitute a significant proportion of service delivery in partnership with Government at the local level. It is not expected and neither is it always desirable that the Government should be able to fully take over the responsibility for all health service delivery needs. The options to be pursued by the Government in the long term, will evolve and must include a thorough evaluation of the role of Government in service delivery and how to best ensure universal access to health care – whether it be delivered by the public or private sectors or a mix of the two. These choices are usually determined by history, cultural and political considerations, and it will be a debate for the long term on how the country needs to shape its health care delivery system. In the healthcare sector, specific attention should be given to the constraints related to regulatory and licensing framework as well as cross-cutting issues of financing and skills. Partnerships between government and private health care providers should be examined as an opportunity to increase effectiveness of service delivery and reduce costs, particularly given the need to reduce fiscal spending on health.

176. **More analysis of trade-offs among social sub-sectors is needed to provide further prioritization of solutions areas and explore innovative ways to achieve impact.** Given the relatively large government oil resources, it might be conceivable to implement a universal wealth transfer in a way that is not too taxing on capacity, on the assumption that that households would use these funds to increase food consumption and health and education expenditures. Initial simulations show that the cost to bring all the population out of poverty through a targeted cash transfer would have been US\$500 million in 2010/11. An untargeted universal scheme would be more costly but the amounts are still only a proportion of the overall oil revenue and humanitarian spending in South Sudan. Another trade-off to analyze would be the one between health& nutrition and education, and whether prioritizing one sub-sector in South Sudan can have a strong spillover effect on the other.

177. **Improving the policy and regulatory environment for the private and financial sector is also likely to require a sequenced approach that combines formal regulatory progress, with progress on implementation and enforcement.** To reduce uncertainty and ensure that the

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<sup>91</sup> Fox et al 2012

operating environment for private sector development is clear, stable, and transparent, it will be important to implement key laws including the Companies Act and the Insolvency Act, and to enact the Insurance Bill, Competition Bill, and adopt the Land Act (Regulations). Similarly it will be important to clarify land and land titling provisions for rural, urban, and industrial activities, as well as establish a land registry and cadastral system. This clarification is necessary to reduce uncertainty and facilitate longer-term investments by enabling entrepreneurs to be able to acquire land, verify ownership, and mortgage land. Meanwhile, changes in the structure and level of fees are needed to reduce the cost of starting a business in South Sudan. And it will be important to clarify, simplify and stabilize the entire tax regime (direct and indirect taxes and for various levels of government) so these costs are predictable for investors and entrepreneurs. The Insolvency Act and the Microfinance Institutions Bill will be important for deepening and broadening financial services, as will effective bank supervision. Leasing arrangements, mobile banking, warehouse receipts, and partial credit guarantee systems can also help. Establishment of appropriate courts and a dispute settlement mechanism will contribute to a transparent and predictable regime but will also contribute to peace building through enhancement of negotiation and mediation skills thus building a culture of peaceful dispute settlement. In order to reduce businesses' reliance on imports and the resulting need access to foreign currency, private sector development should be supported through provision of and improvement entrepreneurship skills, promotion of technology transfer, and development of an industrial base for the key sectors. Establishing a strong Intellectual Property Regime and appropriate industrial policies and a legal framework will be key in developing the industrial sector and transferring of appropriate technology.

**178. Trade integration with other countries in East Africa and the Horn will be critical to access regional market and develop South Sudan's competitiveness, by removing regulatory and institutional barriers to trade, improving access to imported inputs and skills, and by increasing market access for potential South Sudanese exports.** The landlocked status of the country highlights its strong dependence of the neighbors for reliable flows of goods and services and the need not only to improve the regulatory environment and infrastructure domestically but also address the constraints across the wider region, including through the use of harmonized solutions. Collaboration with business and farmer associations across the region in order to share best practices and develop joint solutions may also be considered. Regional integration would ensure that future exports from South Sudan would not be penalized by tariffs, which would increase with the degree of processing of the products, as those applied by the EAC. Trade in the regional markets would also reduce South Sudan's disadvantage to exports to overseas markets, compared to countries with lower transport costs. Close collaboration with Kenya and Uganda is necessary to ensure that infrastructure, good transit policies, regulations, and institutional arrangements would also facilitate future exports to the global markets. South Sudan's access to regional trade agreements and institutions needs to be carefully managed through a gradual process of integration to avoid costly mistakes for the economic development of the country. Finally, greater exposure to and the need to compete with the private sector from neighboring countries may encourage the South Sudanese companies and elites to adopt the rules-based approaches that tend to govern private sector operations at the regional level.

#### 4. TOP PRIORITY THEMES

179. **Synergies across the three categories of the analytical framework, as well as the vastness of the longer-term agenda, warrant further consolidation of the main themes.** To this effect, the following criteria are proposed to identify the overarching thematic areas, all premised on an inclusive enough domestic political pact:

- Cross-cutting: solution areas which are systemically important across several categories and time frames.
- Foundational: solution areas that are a prerequisite with respect to several other solution areas.
- Traction & Impact: solution areas which have strong traction with the government and broader public opinion in South Sudan and the potential to have quick impact on the ground.

##### *Cross-cutting*

180. **Security sector reform has been identified as a major solution area with respect to many constraints and across many time frames.** It has a major impact on peace and security, but would also be one of the most critical elements to create the fiscal space necessary to support social and infrastructure services and investments. Progress in this area will be critical both in the short to medium term to stabilize the country's political environment, and in the longer term to contribute to nation building and economic and private sector development. However, security sector reform itself will also pose a significant financial burden on the government, and would require support from the international community if it is to be successful.

181. **Macroeconomic and oil revenue management is another critical cross-cutting area, and is also recognized in the peace deal as imperative for economic growth and prosperity.** It has an impact on the political and economic governance that underpins political stability, and it can be an important signal to all stakeholders about the credibility of new political pacts, particularly for development partners who continue to be wary of engaging with the government without tangible commitment by the authorities to the peace deal and economic reforms. It has a major impact on the private sector growth, through a stable macroeconomic environment and a competitive exchange rate. Macroeconomic and oil revenue management will be critical to channel the appropriate amount of resources towards infrastructure and human capital investments.

182. **Establishing systems that support the continuous institutional development of core administrative capacity in Government is a prerequisite that cuts across most long-term institutional development areas.** Basic capacity in PFM, procurement, policy and planning, regulation, and M&E in central government agencies and core service delivery ministries is a recurrent theme which affects the country's ability to achieve most objectives, both in developing sound security and justice sectors, as well as also across all development areas, whether social sector, infrastructure, or business environment. As such, it has become a central issue in the peace agreement in terms of ensuring continued stability and longer term development.

## *Foundational*

183. **Without meaningful progress on justice and reconciliation, it is difficult to contemplate how the long and complex nation building and development agenda can be realistically envisaged.** Although justice and reconciliation may not appear as a large “sector”, in the case of South Sudan it seems to underpin the possibility of the country to hold together in a coherent and constructive way. Without tangible and sustained progress on these issues, it is unrealistic to expect that political pacts or security solutions can, by themselves, make South Sudan a viable country.

184. **Improving agricultural productivity of subsistence farmers will have a direct impact on food security, low skilled job creation, higher incomes and poverty reduction.** It provides the basis for building the long-term economic competitive advantage of South Sudan in agriculture. With an abundant resource endowment for agriculture and livestock, large regional markets, and a predominantly poor population engaged in a mix of farming and herding activities, improvements in the productivity of agriculture through the introduction of new technology (albeit within low levels of infrastructure) would be central to both poverty reduction and longer term economic growth prospects. In the short to medium term, it is likely to have strong effect on improved food security and nutrition. Over a longer term, the sector could attract private sector investment, including FDI, and become the engine for private sector development and formal job creation in rural areas.

185. **Developing human capital and skills in particular seems critical to address multiple dimensions of South Sudan’s challenges, including low capacity, youth unemployment, and a shared national identity.** Every aspect of South Sudan’s development prospects are affected by the very low health, nutrition, and educational status of the population, which is further impaired by the conflict. The low capacity of the government, itself partially a result of a missing middle of administrative and technical cadres, represent a difficult chicken-and-egg problem. The phased approach to improving access to health and education described in this report, together with well-targeted youth skills and employment schemes, could go a long way starting to address the issue. Valuable lessons can also be learned from the successes of Mozambique in the late 1990s.

## *Traction and Impact*

186. **Improving roads connectivity** is a long standing priority of the government of South Sudan. Several donors are also engaged in supporting the government. Within the sector, an early focus on maintenance and on connecting agricultural areas to markets could have major positive effects and help to remove bottlenecks for private sector development. Prioritization of major corridors and associated feeder and rural roads will contribute to the creation of non-oil based agriculture as a source of jobs and livelihoods. The market access issues can be addressed through a combination of public and private investments under PPP structures.

187. **Trade integration through EAC accession** has the potential to entrench investment climate reforms. Given the substantial capacity and political constraints in implementing legal and regulatory reforms, and the risk of institutional mimicry, engaging early in regional trade

integration with the EAC would provide a mechanism that helps to build institutions and adopt regulations. For a small economy such as South Sudan, regional agreements provide the opportunity to improving regulations and supervision where regulatory agencies face substantial skill and capacity constraints. Adoption of regional rules reduces the scope for the capture of national regulation by private sector interests and reduces regulatory heterogeneity with neighboring countries. Moreover committing to regional cooperation strengthens the credibility of the reform process, while also providing access to markets for South Sudan's agricultural goods.

188. **Individual or community-based wealth sharing transfers** can be efficient ways to transfer resources at the grassroots. Given the weak track record of the government since the CPA in service delivery, there is growing interest among domestic and international stakeholders in mechanisms that can transfer resources directly at the grassroots level, giving households or communities the choice on how to best use them. One such program is the government own local grant program. Another alternative would be universal transfers of part of the oil revenues as a wealth-sharing mechanism, which could be used by households to improve food security and access health and education. Such programs will be an integral part of a more comprehensive social protection framework that provides the pathway from humanitarian assistance to sustainable development.

## IV. CONSULTATIONS AND TEAM COMPOSITION

### 1. CONSULTATIVE PROCESS

189. **The consultative process within the Bank Group was complemented by extensive consultations with external partners.** Formal consultations with the Government of South Sudan, United Nations, representatives of civil society, the private sector, and Development Partners were held in March/April 2015. These were complemented with more informal consultations with key stakeholders to allow for greater in-depth and on-going discussions throughout the SCD process. The consultations were critical in strengthening the analysis of the SCD, as well as providing a platform for open and frank dialogue between a wide range of actors on the opportunities and challenges facing South Sudan. The process focused on raising awareness of the SCD process, sharing the approach and findings, and soliciting feedback, and took the form of bilateral meetings, small roundtables, and workshops. Discussions revolved around strategic key issues such as the methodology, analysis, and role of the various stakeholders in development dynamics, as well as prioritization and sequencing of different development approaches and reform activities. In addition to the broader discussion on the causes of violence and conflict, exchange of ideas around opportunities and challenges in key areas of relevance to specific stakeholders (i.e., jobs and livelihoods, food security and agricultural production, market, and infrastructure, etc.) were also part of the wider consultative process.

190. **The World Bank Group private sector consultations for South Sudan Systematic Country Diagnostic were coordinated by IFC and held on 28-30 April 2015.** The participants included the South Sudan Chamber of Commerce, micro, small and medium businesses and associations spanning a range of sectors, farmers and representatives of the farmers' union, women



entrepreneurs, representatives from the financial sector, including banks, microfinance institutions and insurance companies, local and foreign businesses, as well as government representatives from the Directorate for Private Sector Development. Over a hundred participants attended the private sector consultations over the course of three days. IFC and the World Bank were joined by members of the donor community and international financial institutions, such as the IMF, USAID, and the Embassy of the Netherlands. The discussion focused on role of the private sector in achieving the twin goals, main opportunities as well as key obstacles to private sector development.

## 2. TEAM COMPOSITION

<b>Global Practice / Cross Cutting Area/ Unit/ Role</b>	<b>Team Member</b>
Governance	Verena Fritz, Museme Munira Issa
Poverty	Utz Pape, Johan Mistiaen
Urban, Rural & Social Development	Varalakshmi Vemuru, Zishan Faiza Karim, Stavros George Stavrou, Alexandra Burrall Jung, Verena Phipps, Martin Onyach-Olaa,
Transport and ICT	Tesfamichael Nahusenay Mitiku, Muhammad Zulfiqar Ahmed, Timothy John Charles Kelly
IFC	Oksana Nagayets, Patricia Wycoco, Manuel Moses, Zahia Lolila , Frank Douamba
Fragility, Conflict & Violence	Alexandre Marc
South Sudan CMU	Yousra Abdelrahman, Santa Maria Aguti
Social Protection & Labor	Endashaw Tadesse Gossa, Nadia Selim
Energy & Extractives	Rahul Kitchlu
Agriculture	Maurizio Guadagni
Health Nutrition & Population	Anne Margreth Bakilana
Finance & Markets	Yoko Doi, Michael Corlett
Trade & Competitiveness	Andres F. Garcia
Program Leaders	Nicola Pontara, Dean Cira
Peer Reviewers	Joel Hellman, Kevin Carey
Task Team Leaders	Preeti Arora, Paolo Zacchia

## ANNEX 1. EXISTING ANALYTICAL WORK AND DATA

1. **Notwithstanding important limitations regarding statistical data, several reports and studies, covering a wide range of sectors, have been prepared in the last few years – by the Bank and other partners.** The SCD will use the analysis from these studies and identify gaps in data and knowledge that will need to be filled to inform government and donor programs in the medium to long term. This section highlights some of the existing work that is particularly relevant for the SCD. A more comprehensive bibliography is provided at the end of the concept note.
2. **National accounts data is anchored in 2008 and subsequently estimated.** In 2008, the National Budget Household Survey (NBHS) provided first estimates of consumption in South Sudan. The sample frame was derived from the first (and latest) Census in 2008. Consumption data, fiscal data including most importantly oil revenues as well as trade data, was used to estimate national accounts resulting in GDP estimates. Production estimates are based on the Business Survey 2010. For previous as well as subsequent years, national accounts are estimated based on crude growth assumptions for most sectors and updated fiscal data and trade statistics.
3. **The World Bank is currently preparing a Country Economic Memorandum for South Sudan.** The main objective of the Country Economic Memorandum on Inclusive Growth for South Sudan is to define a policy framework of economic diversification, which will drive the use of oil revenue. As the largest share of revenue from oil accrues to the government, the government will need to define how much of this revenue will need to be saved and how much used. Of this last portion, how much should finance the needed investment in human and physical capital and how much should be spent on current consumption or transferred to the population as a way to reduce poverty. The government will need to decide on where to invest to help diversify the economy and create jobs. The Country Economic Memorandum aims to help answer these key questions.
4. **Regional integration and trade is covered by a World Bank report, a DTIS, and a drafted policy framework by the Ministry of Trade.** The World Bank report mirrored trade data from neighboring countries of South Sudan to derive comprehensive estimates for trade broken down by origin/destination and low-level HS codes. Based on the analysis of the trade data, the report estimates cost and benefits from joining COMESA and EAC; and a regional integration strategy is derived towards the objective of economic diversification and accompanied by recommendations for an effective exchange rate management. Under the lead of UNDP, a Diagnostic Trade Integration Study (DTIS) was conducted based on the dataset compiled by World Bank. The study has a broader scope including trade facilitation and institutional capacity development. The Ministry of Trade drafted a trade policy framework, which is currently discussed among Ministries and selected development partners including the World Bank. The private sector strategy policy paper was prepared which is now guiding PSD programming. The main focus of the strategy is on MSMEs, trade logistics, taxation and private investments.
5. **A Poverty Assessment analyzed poverty in South Sudan based on data from 2008.** The NBHS conducted in 2008 was used to estimate a poverty line and arrive at poverty estimates. A

poverty profile published by the National Bureau of Statistics and a poverty assessment by the World Bank analyses the poverty data. For subsequent years, World Bank poverty estimates are available but rely on assumptions from the national account estimates as well as uniform growth rate across all households. The impact of the two conflicts (border closure and military conflict) as well as the oil price decline was also simulated in a World Bank policy note, but is heavily dependent on assumptions.

6. **Initial analytic work on governance and public sector capabilities has been carried out by the World Bank.** This includes a political economy assessment of institutions and incentives, focusing on the national government (2012), a note on the development of the public/civil service (2014), a note on intergovernmental relations (revised draft 2014), and an initial PEFA assessment (2012). These assessments address important governance dimensions, including leadership, incentives, and elite configurations, the civilian public administration, the intergovernmental system, and public financial management and procurement; and indicate what initial gains have been made, as well as key gaps, bottlenecks and opportunities as well as the risks inherent in the overall political economy situation. There has not yet been an assessment of governance dimensions of natural resource management in South Sudan, and initial assessments undertaken in 2011-12 will eventually need to be updated as the situation has evolved. A political economy chapter is being prepared as part of the Country Economic Memorandum and will highlight key linkages between the governance dynamics and inclusive growth.

7. **World Bank's High Frequency Survey is due to collect new household consumption data by early 2015.** Based on the newly developed rapid consumption methodology,<sup>92</sup> the first wave of the expanded High Frequency Survey will collect nationally representative household consumption data as well as household characteristics in accessible areas in South Sudan. This will facilitate additional analytical products including an updated poverty profile with a focus on the impact of the conflict. Additional policy notes are currently planned by World Bank to provide a comprehensive analysis of the impact of the conflict on individual households, on displaced households as well as on vulnerable groups like adolescent girls.

8. **World Bank produced a Jobs & Livelihoods report recommending strategies to secure sustainable livelihoods for the urban and rural population.** The report provides a snapshot on economic livelihoods separated by rural and urban population. Based on the snapshot and an analysis of existing programs, their scalability and successes, the report derives policy trade-offs and gives suggestions for short- and medium-term policies and programs for sustained urban and rural livelihoods. The current status of social safety nets in South Sudan is analyzed by a policy note prepared by World Bank; cumulating in a proposal for a dual track strategy for the development of a comprehensive social safety net in South Sudan. An additional note is currently being prepared by World Bank to analyze the costs and the impact on poverty of different targeting schemes.

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<sup>92</sup> Measuring Household Consumption and Poverty in 60 Minutes: The Mogadishu High Frequency Survey, Pape & Mistiaen (forthcoming).

9. **Labor statistics in South Sudan are of low quality; but an analysis of job creation was conducted by World Bank.** Labor statistics are derived from the NBHS but lack credibility due to difficulties in administering the questionnaire's labor module and a limited comprehension of key concepts including 'work' and 'job'. Based on World Bank's private sector program, the friction between jobseekers and enterprises in South Sudan was analyzed. The High Frequency Survey will provide nationally representative labor statistics for accessible areas in South Sudan.
10. **Health policies are informed by collected data; but data gaps still exist.** Various data have been collected through surveys conducted in the last few years including the LQAS 2011, HFS 2013; SHHS 2010 and another LQAS is planned for 2015. In addition, there has been strong contribution by the Bank and other partners in strengthening the Health Management Information System, which is increasingly becoming an important source of data in the sector. The Government has increasingly drawn up strategies and key policies in various areas such as in Reproductive health through the National Reproductive Health Strategic Plan or for emergency obstetric and new-born care through the National Assessment for Emergency Obstetric and Newborn Care. Most of these documents and plans are based on data collected through various surveys. The Bank initiated a Health Sector Public Expenditure Review in 2013. In previous years a working paper on Health Financing in Southern Sudan was prepared in 2009. The Bank also prepared a working paper based on the review of the country's HIV/AIDS response in 2011.
11. **South Sudan's education strategy focuses on primary education and is supported by several analytical products.** The "General Education Strategic Plan, 2012-2017 (GESP)" focuses on the expansion of primary school access and equity as well as quality improvement and promotion of adult literacy. It also discussed institutional capacity and funding questions for basic education. The World Bank published a student learning assessment of the Alternative Education System (AES), a diagnostic report on higher education and in 2012 a country education status report.
12. **An assessment of the agricultural potential was published in 2012; further analytical work is inhibited by the lack of an agricultural census.** While the NBHS collected some agricultural data, the module for livestock and agricultural production was deemed mostly unusable. Estimates for the World Bank report utilized parts of the NBHS data and most importantly estimates from FAO/WFP about land coverage, production and livestock. The Ministry of Agriculture is working with different donors and agencies on agricultural development plans including the Comprehensive Agricultural Master Plan (CAMP) with assistance by JICA.
13. **An in-depth study on the Indigenous Peoples in South Sudan: Risks, Resilience and Opportunities is being carried out to bridge the knowledge, documentation, and information gaps of the 65 ethnic groups in South Sudan.** It provides a unique and unprecedented opportunity to partner with indigenous communities in the development process by giving development practitioners better insights and tools to engage with them. Given that South Sudan is largely made up of a population that can be defined as Indigenous, developing a robust understanding of these groups, their geopolitical and social histories, and the challenges they currently face, is an important starting point for culturally sensitive and inclusive development efforts. A shared

understanding of the strengths, sources of risk, vulnerabilities and opportunities of the different ethnic groups will help improve the quality and consistency of interventions, as well as make them more efficient at the operational level, thus reducing transaction costs during preparation and implementation.

14. **A comprehensive action plan published by AfDB outlines key steps towards improved infrastructure in South Sudan.** Through the MTDF, and new operations, the World Bank has created the critical mass that could manage road projects. This cell is still at its infancy and requires long term technical assistance. A Transport Policy was prepared in 2006 for implementation over five years but it was never enforced. Today it stands redundant as a new constitution is in place since independence. In 2013, AfDB published the comprehensive action plan “South Sudan: An Infrastructure Action Plan” detailing next steps towards a strategy for improved infrastructure covering land and water management, roads, electric power, water supply, and sanitation, as well as communication.

## ANNEX 2. SUMMARY OF KNOWLEDGE AND DATA GAPS IN THE SCD

1. **The last Census from 2008 is likely to be outdated.** The Census was conducted while South Sudan was still part of Sudan. It is widely criticized that the derived population numbers were based on political considerations. In addition to strong urbanization flows and returnees from Sudan, the recent conflict from December 2013 further affected population distribution by displacing more than 20 percent of the population. The National Bureau of Statistics plans to conduct a new Census by 2018.
2. **Poverty, employment and national accounts rely on data from 2008/9.** The National Budget Household Survey was conducted in 2008/9 and estimated that 51 percent of the population lives in extreme poverty. With estimates suggesting that conditions have since deteriorated,<sup>93</sup> this can now be considered lower-bound. Food security data, which is regularly collected and updated by FAO and WFP, supports the deterioration of livelihoods in South Sudan. Without updated private consumption data, national accounts must be based on assumptions and are likely to be revised considerably when new data becomes available. Latest employment statistics are derived from the same survey in 2008/9 and have not been updated since. World Bank's High Frequency Survey currently collects consumption data based on a newly developed methodology with results expected in late 2015.<sup>94</sup>
3. **Education and health indicators are derived from surveys in 2006 to 2012.** The most recent data for data for primary school gross enrollment rates is from 2012. Likewise, statistics concerning health indicators are outdated, with figures for maternal mortality dating back to 2006, and data for infant mortality, child mortality and morbidity, and childhood malnutrition, dating back to 2010. The World Bank's High Frequency Survey will deliver updated education data including literacy rates in late 2015. UNICEF currently plans a maternal mortality survey with result available in early 2016.
4. **Data gaps extend to the natural resource base in South Sudan including minerals, oil, fish and livestock.** Early indicators show that South Sudan is endowed with a rich potential in minerals; however comprehensive data is not available. Similarly, the most recent figures on proven oil reserves in South Sudan date back to January 2013. In terms of other resources, there has been no assessment of country's fish resource carried out yet, and current analysis is based on estimates. The number of livestock is estimated but the distribution and productive use of livestock is still unknown despite its large potential.
5. **In contrast to the urban formal sector, only little is known about the informal economy in South Sudan.** The reality on the ground suggests that the informal economy significantly contributes to production in South Sudan. However, no survey yet explicitly captured the informal economy. Data about the formal private sector was delivered by an urban business

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<sup>93</sup> World Bank (2014). "South Sudan: Impact of a Continued Internal Conflict on Food Security and Poverty", World Bank.

<sup>94</sup> Pape, U. & Mistiaen, J. (2015). Measuring Household Consumption and Poverty in 60 Minutes: The Mogadishu High Frequency Survey. World Bank.

survey in 2010 but the situation on the ground has changed considerably especially in the most fragile parts of the country where cities were completely destructed (e.g. Malakal). Along with the informal economy, little is known on the economy of war in South Sudan, whereby the private sector is governed by informal agreements that lack transparency. The perpetuation of this situation has implications, yet unclear, on the evolution and form of the private sector, and has meant companies increasingly rely on foreign workers, which imposes additional – and unquantified – costs.

6. **Policies spurring entrepreneurship, creating jobs, and developing agriculture require more analysis.** The impact of low literacy rates among the local population on the lack of business skills or training, which have been linked to poor levels of entrepreneurial initiative, merits further investigation. Regarding jobs, construction and urban infrastructure directly generate jobs in the construction sector, and as such, there is need to identify the salient elements of an urban management and infrastructure agenda that can be enacted in a time sensitive manner. While the potential of agriculture is well estimated,<sup>95</sup> a myriad of barriers hamper tapping into the potential. A prioritization of bottlenecks to transport agricultural production from high-production to food deficit areas would help to inform policies. Also, an analysis of the potential of PPPs in both agriculture and infrastructure could help to inform how they can contribute to spurring large-scale commercial initiatives, as well as providing low skilled jobs.

7. **A final data knowledge gap is the cumulative cost of conflict**, both in terms of the human toll, in terms of fatalities, as well as the effects of trauma and damage to infrastructure and livelihoods. UNOCHA updates numbers on the IDP and refugee count updated regularly. While it is known that there is at present an influx of arms to the communities, which are used in rebellion, armed robbery, murder, inter-communal violence, and cattle rustling, among other ills, the exact number of arms in circulation is not known, although estimates are available.

8. **Analysis of trade-offs would help to prioritize interventions.** Further prioritization of the solutions areas would benefit from greater analysis and understanding of the trade-offs between infrastructure sub-sectors, and thus achieve more effective sequencing of interventions. More analysis of trade-offs among social sub-sectors would also help to further prioritize solutions areas, and offer innovative ways to achieve impact.

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<sup>95</sup> World Bank (2012). “Agricultural Potential, Rural Roads, and Farm Competitiveness in South Sudan” Report No. 68399-SS.



### ANNEX 3. HISTORICAL BACKGROUND

1. **On July 9, 2011, South Sudan became independent, the newest country to join the world community and the 55th African country.** This outcome is the result of the 2005 CPA that officially ended the second civil war in Sudan, which lasted about 22 years. The CPA also provided for a referendum for the south Sudanese people to decide, after an interim period of six years, whether to live in a political union with (North) Sudan or to break away as an independent country. That referendum was held in January 2011 and an overwhelming majority (almost 99 percent) of southern Sudanese voted for independence. While the country faces serious challenges stemming from the legacy of more than 50 years of conflict and instability, it also has a great development potential based on its natural resource endowments (oil, minerals, and abundant arable land) and its young and energetic population.

#### GEOGRAPHY AND DEMOGRAPHY

2. **South Sudan is a landlocked country in East Africa covering area 644,329 km<sup>2</sup>, roughly the size of France.** It is bordered by Sudan to the North, Ethiopia to the East, Kenya to the South-East, Uganda to the South, the Central African Republic to the West, and the Democratic Republic of Congo to the South-West. It has a population of about 11 million people, which is about one third of the population of France. About half of the population is under the age of 18 and 72 percent is under the age of 30. The population is predominantly rural and can be very broadly classified into groups: the Nilotic and the Bantu. The major ethnic groups include: the Dinka, the Nuer, the Bari, and the Azande.

3. **Given the land area, South Sudan is among the least densely populated countries in Sub-Saharan Africa (SSA) with an average of about 13 people per km<sup>2</sup> (less than one tenth of the population density of Uganda).** The overall average density hides substantial variation among states. Western Bahr El Ghazal has the lowest density 4 persons per km<sup>2</sup>. Central Equatoria, which is home to the capital city, Juba, has the highest population density, twice the national average. Jonglei has the highest population share and Western Bahr El Ghazal has the smallest.

4. **The climate is characterized by two major seasons: a heavy rainy season with high humidity (between April and November) followed by a dry season.** July is the coolest month of the year with temperatures ranging from 68 to 86 F on average while March is the warmest with average temperatures between 73 and 98 F. South Sudan forest provide habitat for a significant wildlife. The protected area of the National Park is known to host the second largest wildlife migration in the world. The country is divided into several ecological zones including: the East savanna, the Northern forest-savanna, the Saharan flooded grasslands (Sudd), the Sahelian savanna, the East African forest, and the Northern Acacia-Commiphora bushlands and thickets. The country is also sufficiently endowed with water resources. The White Nile runs through the country from the Ugandan border. The climatic conditions combined with water resources and good quality soil make 70 percent of the total land area suitable for crop protection. This potential is largely unrealized. It is estimated that less than 4 percent of the total land area is currently cultivated.

## **HISTORY OF NEGLECT AND MARGINALIZATION LEADING TO THE FIRST CIVIL WAR**

5. **The enormous development challenges facing South Sudan today are widely seen as a legacy of political neglect and marginalization that can be traced all the way back to colonial time.** During the Turko-Egyptian rule (1821-1885) the Southern region of Sudan was seen mostly as a resource base providing slaves, ivory, and other natural resource. The economic policies pursued by this administration gave a personal stake in the exploitation and subjugation of the South to certain segment of the Muslim and Arab-speaking population of the North, sowing the seeds of violence and resistance that have plagued the North-South relations ever since.

6. **The Mahdist regime (1885-1898) that ended the Turko-Egyptian rule continued the exploitation and subjugation of the South in collaboration with slave traders.** The battle of Omdurman in 1898 saw the defeat of the Mahdist army by Anglo-Egyptian forces and gave birth to the Anglo-Egyptian Condominium (1898-1955). The policies of the Anglo-Egyptian administration contributed to the widening of the gap between the North and the South. Thus the two parts of the country were administered separately in a manner that reinforced the ethno-cultural and religious differences between the two. The policy promoted two different systems of education. Limited educational opportunities available in the South were provided by missionaries. In general, socioeconomic and political development was promoted in the North at the expense of the South. The Southern Policy of this colonial administration was designed to facilitate the partition of the country at independence so that the South could be integrated in East Africa.

7. **In 1946, a decision was made to abandon the Southern Policy and let the North and the South eventually become a single country.** A year later, a conference was held in Juba to discuss the future form of Government of the united Sudan. It is reported that Southern Sudan sought guarantees to preserve diversity and accelerate socioeconomic development in the South. Furthermore, the southern Sudanese members of Parliament demanded a pledge to a federal form of government in exchange for their support for the declaration of independence. Between the Juba conference and the declaration of independence no progress was made on these issues. Thus, years of neglect and marginalization of the South by various colonial administrations contributed to social polarization between the North and the South, and created fertile conditions for conflict. The first civil war started about four months before independence (in August 1955) following the Torit massacre. The rebellion was led by the South Sudan Liberation Movement and its military wing known as Anyanya who fought for outright secession.

## **FAILURE OF 1972 PEACE ACCORD AND THE SECOND CIVIL WAR**

8. **The first civil war lasted about seventeen years, and ended with the signing of the Addis Ababa Peace Accord in 1972.** The 1972 Peace Accord granted extensive autonomy to the South and ushered a period of relative peace (1972-1983). For most of that period, the economy grew by more than 8 percent on average and the country attracted substantial foreign investment flows part of which was directed to financing post-conflict reconstruction in the South. However, the opportunity created by these positive developments was squandered by socioeconomic mismanagement. Following the peace agreement, special development plans were approved to try

to accelerate economic development in the South and other marginalized regions of the country. However, the implementation was so poor that at the end of the 1977-1983 development plan, there was very little to show for the efforts. Out of the 5,912 primary schools in the country, for instance, only 10 percent were found in the South. A successful implementation of these plans might have helped the cause of peace by giving the South a significant stake in the preservation of peace. To make matters worse, in 1982 reneged on its promises of self-rule for the South by imposing Islamic law on the entire country. These developments fueled widespread disenchantment with the peace process in the South and led to renewed insurgency and a revival of the Anyanya Movement (known as Anyanya II). The insurgency remained low key until formation of the SPLM along with its military wing, SPLA in 1983.

#### **THE CPA AND THE ASSOCIATED INTERIM PERIOD**

9. **The second civil war lasted over two decades and came to an official end on January 9, 2005 with the signing of the CPA.** This marks a turning point in the political history of South Sudan. A series of agreements paved the way for this agreement. Above all, the agreement sought to make peace sustainable and the unity of the country attractive to Southerners by granting the South greater regional autonomy and ensuring that Southerners would participate in the institutions of power at the federal level. The agreement also provided for an interim period of six years (2005-2011) during which oil revenues would be shared equally between North and South Sudan. Furthermore, the CPA guaranteed the right to self-determination for the South to be exercised in a referendum at the end of the interim period. The outcome of the referendum suggests that the CPA may not have been implemented in a way that would have allayed Southerners' fear of continued subordination and marginalization. So they opted for independence.

10. **The seven years following the signing of the CPA have been relatively peaceful in the sense that there has not been a major war between (North) Sudan and South Sudan.** However, a number of unresolved issues continued to fuel tensions between the two countries and kept South Sudan in a state of fragility. The unresolved issues include: oil sharing mechanisms after independence, citizenship and border demarcation, and trade relations. Thus, failure to reach agreement on oil transit fees from the oil fields located in South Sudan through pipelines in (North) Sudan pushed Sudan to confiscate South Sudanese oil. In retaliation, South Sudan shut down production forfeiting close to 98 percent of its revenues and most of its foreign exchange. The oil shutdown triggered a severe balance of payment and fiscal crisis, and an increase in price inflation prompting the Government to adopt austerity measures.

11. **Basic government institutions were established during the interim period (2005-2011).** The Southern Sudan Legislative Assembly (now defunct) ratified a Transitional Constitution just before independence. That Constitution became effective on Independence Day and superseded the interim constitution of 2005. According to this Constitution, the President of the Republic is Head of State, Head of Government, and Commander-in-Chief of the armed forces. The Transitional Constitution also provides for a two-chamber National Legislature comprising

the National Legislative Assembly and the Council of States. Furthermore, the Constitution provides for an independent judiciary with the Supreme Court as the highest body. The President, ten state governors, the Legislative Assembly and state legislative councils were all elected in April 2010. However, the establishment and functioning of these formal institutions have not met the expectations of the people of South Sudan in terms of security, political inclusion, apportioning the oil wealth and shared prosperity.

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