South Sudan's Peace Agreements

An Economic Perspective on Peacebuilding

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1. Introduction

South Sudan is only one of many countries striving to resolve social conflicts and build peace – even if it is an extreme one, having only two years of peace as an independent state. Regrettably, its experience of failing to build durable peace is not singular. One positive result of its late coming to statehood gives it the advantage of being able to reflect and build on lessons of these efforts elsewhere.

One of the lessons is that there are economic roots to conflicts that have to be addressed to build a sustainable peace. Solutions need economic elements for success, but this is not well appreciated. Where peace agreements does not include economic considerations, they are in danger of breaking down sooner or later. Sustainable peace can only be achieved if the basis for welfare creation is laid.

Although the Revitalized Agreement on the Resolution of Conflict in South Sudan (R-ARCSS) has economic elements (as the 2005 Comprehensive Peace Agreement (CPA) did), it does not seem to be based on a thorough understanding of the economic situation of the country. Before reviewing the R-ARCSS and in order to set a framework, this article will look at lessons from peace building elsewhere, with a focus on economic elements and the economic record of South Sudan over its first years as an independent state. This will create the basis of an informed review and discussion of the provisions of the R-ARCSS. In conclusion, the paper will suggest some recommendations for the way forward.

2. Lessons From Economic Peace-Building

Conflicts are an unfortunate part of the development process. Violent conflicts and economic development influence each other: On the one hand, violent conflicts reduce or altogether derail economic development. Conversely, economic growth and development reduce the risks of violent conflicts. While stagnant economies provide the basis for dissatisfaction and conflicts, a growing economy creates increased individual welfare and an interest in maintaining stability.

However, the economic aspects of conflict and peace have only come relatively late into focus, and economic science has only belatedly given attention to this topic.[1] While the literature is expending rapidly, there are still many open questions where researchers disagree. Nevertheless, some broad findings emerge – all of which are very pertinent to South Sudan.

The quality of governance and of state administration is usually poor. In this context, it is not adequate to attempt reform across a broad front. Rather, a few policy areas that are politically as easy as possible and yield rapid pay-offs should be targeted.[2]

Post-conflict countries are highly dependent on financial aid (in addition to technical aid) to finance reconstruction. However, despite promises, aid is not safely predictable, but subject to yearly changes according to home policies in donor countries. This complicating factor increases the importance of building up the ability to mobilize domestic resources. In the context of poor governance, the productivity of investments, public or private, is low. Massive investments and high spending should wait until financial management and accountability are strengthened.

Many conflict-prone countries, including South Sudan, are highly dependent on another rent: mineral rent, in particular from oil. Like aid, mineral incomes fluctuate, are subject to changes in prices that are internationally set and have been largely unpredictable, in particular for oil. Furthermore, they are based on declining natural resources, and so increasingly these resources will need to be replaced by non-oil production and by non-oil exports.

Business and the organisations representing firms should be integrated in the peace building process from early on.[3] Only a growing economy with an increasing number of productive jobs can ensure sustainable peace. Because it takes time to build on the private sector on a large scale, it is useful to engage early. It has to be noted that the private sector is very heterogeneous: It includes small and large, domestic and foreign, producing and non-producing entities. Furthermore, in conflict countries, the private sector is part of the conflict economy i.e., some entrepreneurs gain from conflict.

Addressing the grievances over resources that played a role in the war should be prioritized. In South Sudan these include land ownership, oil revenues, lack of investment in certain areas. Social policy is relatively more important and macroeconomic policy is relatively less important in an immediate post-conflict environment. Specifically, policies for social inclusion are vital. Although education and health investment have only long-term impacts, their signal effects are important.

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The build-up and reform of institutions (including rules and organisations) is a vital part of peace building. The nature, structure and character of organisations, laws, regulations and rules must be appropriate to the circumstances and capabilities of conflict and post-conflict countries. That means in particular that the so-called "best practices" of rich countries are often not appropriate, with goals and standards often being over-ambitious. Often organisations looking like first world bodies, but not functioning, have been erected.[4] Either these institutions do not work, or they function very differently if transplanted into low- and middle-income economies.[5] In the context of poor post-conflict countries, the copying of other countries' institutions can only be done to a limited degree. Instead, local circumstances are vital and to some degree, 'the wheel has to be reinvented.'[6]

In general terms, conflicts and their resolution should not be regarded as matters of management, but of social and political conflict that are part of the longer-term development process. The most important part of this process is the building of institutions. Success in economic as well as political

1 Blattman, Christopher and Edward Miguel. 2010. "Civil War", Journal of Economic Literature, 48, 1, 3-57

2 Collier, Paul, et al, 2003, Breaking the conflict trap. Civil war and development policy, World Bank and Oxford University Press

3 Mac Sweeney, Naoise, 2008. Private Sector Development in Post-Conflict Nations. A review of current literature and practice, Cambridge UK: Donor Committee for Enterprise Development

4 Pritchett, Lant, 2012, South Sudan as a disruptive innovator in state building, International Growth Centre, Country Office Juba, 10 Dec.

5 North, Douglass C. et al., 2013, In the shadow of violence. Politics, economics, and the problems of development, Cambridge University Press

6 Pritchett, Lant, 2012, South Sudan as a disruptive innovator in state building, International Growth Centre, Country Office Juba, 10 Dec.

development depends primarily on improving institutions.[7] However, helping a weak government build a strong military and police force is no panacea for development problems. In many cases, it allows greater repression and extraction of rents from opponents, hindering development. From this angle, peace agreements only have a chance if they provide a transformative perspective i.e., contribute to the process of moving from purely personal rule to a more institutionalized nature of development.

3. Record of Economic Development: A False Start

From the perspective developed above, how has South Sudan fared since its independence? The result of the five-year pre-independence period under the CPA had already been, at best, disillusioning.[8] Many new laws, regulations and organisations had been created, often modelled after "best practices" from higher-developed countries with, in many cases, no adaptation to the local context. The skills and available capabilities did not allow their effective functioning. Too many initiatives were started in parallel, instead of prioritizing and sequencing. As a result, high sums were wasted and the pre-independence period of 2006-11 was largely a missed chance for state-building. Responsibility lies with both policy makers and the donor agencies.

The following section looks at the record since independence.[9] Economic growth fluctuated sharply, mainly determined by the oil price and level of oil production. Following the total shut down in oil production in 2012, that year's growth rate plummeted to -46.1 percent. Subsequent to agreement with Sudan on the terms of oil wealth sharing, oil production resumed, and growth returned to positive figures from 2013, reaching a high of 22.2 percent in 2014 according to the National Accounts.[10] In the following years the rate of growth declined, approximating zero (0.3 percent in 2016), reflecting underlying unresolved structural problems and unresolved political conflicts.[11] Sudan attained 2.9 percent growth over the same five-year period, despite suffering heavily from the shock of losing much of its oil income.

Although most people still work in and live on agriculture, the sector contributed just 8.7 percent of GDP (2012)[12] at least, as most agricultural production is of a subsistence character. Manufacturing production is in its infancy, contributing 4.5 percent of GDP. The remaining industrial sector, including electricity, gas, steam and air conditioning supply, water supply and sewerage, and construction, make up 22.6 percent of GDP.[13] The biggest sector is services, including trade, transport, telecommunication, security, public administration and others.

Private consumption continues to be the most important demand category, covering more than half of GDP. Government consumption expanded from 20.1 percent of GDP at independence to 32.1 percent in 2015.[14] This is of concern, as it has not been accompanied by improved public services. Also worrying is the decreasing amount and share of investment, reflecting the deteriorating business environment and continuing political crisis. Between 2011 and 2015 annual investments halved: from 16.2 percent to 7.8 percent.[15]

Government expenditure constitutes a high and rising share in GDP compared to other African countries: it rose from 37.5 percent in 2014 to 57.4 percent in 2016. During the same period, total revenue and grants increased from 29.1 percent to 35.6 percent. With unadjusted spending, the overall fiscal deficit increased rapidly from 3 percent of GDP in 2013/14 to 31 percent in 2015/16.[16]

This resulted in an increasing debt burden. According to

7 North, Douglass C. et al., 2013, In the shadow of violence. Politics, economics, and the problems of development, Cambridge University Press

8 Abdel Rahim, Asha, and Dirk Hansohm, Macroeconomic policy formation in South Sudan: Building fiscal management, in: African Development Perspectives Yearbook, Vol. 17: Macroeconomic Policy Formation in Africa - Country cases, 69-105

9 The following is based on UNECA (2018)

10 UNECA, African Development Bank, African Union, 2017, Africa Statistical Yearbook, https://www.afdb.org/en/documents/document/african-statistical-yearbook-2017-95662/

11UNECA, African Development Bank, African Union, 2017, Africa Statistical Yearbook, https://www.afdb.org/en/documents/document/african-statistical-yearbook-2017-95662

12 UNECA (2018), p. 6

13 UNECA (2018), p. 6

14 National Bureau of Statistics (NBS), 2017, Release of South Sudan GDP estimates for 2016, http://www.ssnbss.org/sites/default/files/2017-10/Final%20GDP%202016.pdf

15 National Bureau of Statistics (NBS), 2017, Release of South Sudan GDP estimates for 2016, http://www.ssnbss.org/sites/default/files/2017-10/Final%20GDP%202016.pdf

16 UNECA (2018), p. 7

IMF figures,[17] external debt rose from 4.2 percent of GDP in the fiscal year 2013/14 to 38.7 percent in 2016/17 (projected). Expenditures on wages and salaries constituted an increasing share of government expenditure. While they were one third in 2011, they became more than half (51.3 percent) of all expenditure in 2015.[18] Recurrent expenditures dominated total expenditure: compared to 83.5 percent in 2011, they were 96.8 percent in 2016.[19] With limited access to external financing, deficits were primarily financed through discretionary central bank financing and accumulation of arrears.

Oil production plays an important role in the country's economy. It contributes more than half of GDP, 95 percent of exports, 90 percent of government revenue, and a significant share of private sector employment (albeit with a high share of foreign labour).[20] As mentioned above, instead of spending more than was being earnt and accumulating debt, a portion of the oil resources should have been saved for the future. However, oil incomes declined significantly due to the combined effect of low prices (a decline of more than half) and reduced production (less than half compared to 2011/12). Low oil revenue, weak non-oil revenue mobilisation, and increasing security-related expenditure caused the deficit to increase rapidly.

Domestic credit increased from South Sudanese Pound (SSP) -3,273 million in 2011 to SSP 18,181 million in 2015. The large majority of this is a claim on the public sector. The spread of an average of 12.5 percent between lending and deposit rates reflects limited competition between financial institutions.[21]

From September 2011 until December 2015, the country's exchange rate was pegged to the US$ at 2.96 SSP/US$). Foreign exchange earnings earnings from oil (by far the most important) was sold to the central bank (Bank of South Sudan: BSS) at the official rate. The BSS allocated the foreign exchange to economic agents at this rate. While meant to ensure the supply of essential goods, the allocations were prone to being captured by rent seekers who benefited from the large difference between official and parallel market rates.

As oil revenues fell and the parallel market rate rose from SSP 4/US$ in mid-2014 to SSP 17/US$ by late 2015, with the result that the official exchange rate became increasingly unrealistic. In December 2015, the BSS switched to a floating exchange rate system in order to eliminate the parallel rate. Under the new system, the BSS supplies foreign exchange through market-based auctions, and commercial banks are free to determine the rate with customers. While this system initially managed to reduce the spread between the two rates, excessive monetary expansion and a shortage of foreign exchange connected with the security crisis have continued to exert a downward pressure on the exchange rate. The scarcity of foreign exchange has increased difficulties with importing food and contributed to inflationary pressures.

The high fluctuations and secular trends of the current account balance reflect the severe economic problems the country has faced since independence. The current account balance and its core, the trade balance, went from strongly positive in 2011 to negative in the following years. This reflects mainly the sharp contraction of oil income through reduced world market prices and reduced production.

South Sudan drafted a development-oriented trade policy document in 2011 that is liberal, outward looking and with a focus on private sector promotion. However, the institutional weakness of the trade ministry restricts its ability to implement much of the policy. In practice, trading across borders is about the most difficult globally (rank 178 out of 190 in Ease of Doing Business report).[22]

Social development in the country has been significantly constrained by insecurity, drought, and the continuing political and economic crisis. Since the outbreak of violent conflict in 2013, there have been large numbers of internal displaced persons (almost two million at present) and even more refugees (currently more than two million), mainly in Sudan, Ethiopia and, more than half, in Uganda (UNHCR 2017).[23] This makes Uganda the country hosting the largest number of refugees on the African continent. South Sudan faces high levels of poverty. According to the national pover-

17 IMF, 2017, World Economic Outlook, October, Washington

18 IMF, 2017, World Economic Outlook, October, Washington

19 IMF, 2017, World Economic Outlook, October, Washington

20 UNECA (2018), p. 7

21 UNECA (2018), p. 8

22 World Bank, 2017, World Development Indicators, https://data.worldbank.org/indicator/

23 UNECA (2018), p. 11

ty line, half of the population are poor (50.6 percent; 2009).[24] The poverty gap is 33.3 percent. This measure reflects the depth of poverty as well as its incidence. The poorest 20 percent of the population only account for 3.9 percent of national income. However, overall inequality is moderate with a Gini coefficient of 46.3 (0 representing perfect equality and 1 perfect inequality). Nevertheless, the country is more unequal than its neighbours.

There are also alarming signs of hunger. Almost half of the population are presently reported to be severely food insecure.[25] Only massive humanitarian assistance has avoided a human catastrophe thus far. In the last quarter of 2017, 4.8 million people – about 45 percent of the population – were reported to be severely food insecure. This is 1.4 million more than at the same time the year before.[26] The harvest season has not brought much relief to the local population, as the country's greenbelt has been ravaged by fighting. A massive humanitarian response helped to stop famine in parts of the country but the food security situation was expected to further deteriorate in 2018 (5.1 million severely food insecure in the first quarter). More than 1.1 million children under five were forecast to be malnourished in 2018.

Despite the progress made, the country's health indicators are still worse than the African averages and of most of its neighbours. For instance, South Sudan's neonatal mortality rate of 39.6 (2014) improved by 40 percent compared to 1993, but still compares to an African one of 29.[27] Infant mortality rate fell by more than half in the twelve years and stands now at 11 percent higher than that of the African average.

> ***... women occupy less than 10 percent of leadership positions at the local government level.***

Due to its stark neglect, educational achievements had been minimal before the peace agreement of 2005. Next to health, the education sector was a key intervention focus of foreign aid.

South Sudan's pre-primary gross enrolment ratio almost doubled between 2011 and 2015 but is still less than half of the sub-Saharan African average. Its primary gross enrolment ratio actually declined by 24 percent between 2011 and 2015, while the secondary gross enrollment ratio only improved by 5.5 percent in the same period.[28]

According to UNICEF's State of the World's Children report (2016),[29] South Sudan's literacy rate is 27 percent, compared to a 60 percent sub-Saharan African average. The average rate of Eastern and Southern Africa is 67 percent, 82 percent for least developed countries (LDCs),[30] and 91 percent for the global average (all for 2009-14). South Sudan is left far behind its neighbours and the region and is thus ill prepared to build a society in which wealth is well-distributed.

The country faces major policy challenges. While development of human resources has been a priority since the end of civil conflict in 2005, resources were focused on primary education and basic health, to the neglect of higher education and research. However, without an educated elite and sufficient technical and managerial skills the country will not be able to develop vital market and non-market institutions to improve governance and move up the technological ladder. The strengthening of the position of women would also have large society-wide benefits. South Sudan still needs to cultivate those institutions needed for modern economic development.[31]

Although women make up half of the country's population, they play a limited role in public life and their economic contribution is largely invisible. More importantly, their role is clearly inferior in the traditional moral and legal codes. The government of independent South Sudan intends to change this situation and to empower women through affirmative action. However, a recent study shows that women occupy less then 10 percent

24 World Bank, 2017, World Development Indicators, https://data.worldbank.org/indicator/

25 UNOCHA, 2017, Humanitarian Bulletin South Sudan, Issue 17, 17 November

26 UNOCHA, 2017, Humanitarian Bulletin South Sudan, Issue 17, 17 November

27 World Bank, 2017, World Development Indicators, https://data.worldbank.org/indicator/

28 World Bank, 2017, World Development Indicators, https://data.worldbank.org/indicator/

29 UNICEF, 2016, State of the World's Children report, New York, June

30 Least developed countries are low-income countries that are confronting severe structural impediments to sustainable development, and the classification is done based on each country's level of development as measured by per capita gross national income (GNI)

31 Abdel Rahim, Asha, and Dirk Hansohm, 2015, Higher education in South Sudan, in: Sudan Studies Association Bulletin, Vol. 33 No. 1, Summer, pp. 48-55

of leadership positions at the local government level. The causal structural factors of gender discrimination include low education levels, economic dependency, gender-based violence, and other systematic factors.

In sum, despite some progress in a few areas, the general orientation of economic progress during the first years of independence has been negative and problematic, and has included:

- insufficient and declining growth (rising growth would be necessary as a basis for peaceful development);
- no structural change to non-oil sectors, such as agriculture, where most people work;
- a concentration of attention on Juba to the neglect of rural areas;
- a rising public sector, often in bloated bureaucracies, instead of a developing private sector with productive employment that adds welfare, rather than subtracting from it;
- declining governance and public sector efficiency;
- declining business conditions;
- no attention on social policies (except by donors);
- rising public deficits and rising debt, instead of saving up oil resources for investing at a time of sound public management capabilities;
- concentration of resources on the military, while insecurity has increased;
- a multitude of institutions, sometimes with overlapping authorities, who are, however, not functioning because of a lack of resources and lines of authority.

4. Economic Aspects of R-ARCSS

Experience, in South Sudan and elsewhere, shows that such a problematic record creates the basis for enduring conflict. Does R-ARCSS take account of this status and take steps to address it?

R-ARCSS gives attention to economic issues. In Chapter 4 it deals with resource, economic and financial management.[32] Notable are provisions for:

- transparent and accountable government;
- effective leadership and a commitment against corruption;
- oversight mechanisms, guided by principles of mutual consent in accountability, to control revenue collection, budgeting, revenue allocation and expenditure;
- a medium-term Economic and Financial Management reform programme;
- an independent central bank;
- a quota for women in governance;
- a review audit chamber, anti-corruption commission, and wide range of national legislation, in order to ensure independence;
- a reform of existing economic and public sector financial management institutions to ensure the most transparent and accountable possible public financial management;
- a private sector development strategy that will be implemented.

These formulated intentions address many of the above shortcomings. However, obviously they cannot be taken at face value. In fact, the same or similar institutions were already pres-

32 Revitalized agreement on the resolution of the conflict in the Republic of South Sudan (R-ARCSS), 12. Sept. 2018

ent under the CPA and through the laws, regulations and organisations of independent South Sudan. However, these principles were often blatantly disregarded. For example, although high degree of corruption was known about, the accused were in most cases not prosecuted.

It is important to have a transparent and accountable government. It is, however, not clear how this can be done if there are the same leaders and staff who were there before. A competently, technically staffed, sufficiently resourced, strictly independent Audit Chamber that publishes its audit reports on all public spending regularly is the body to lay the basis for accountable government. There is no need for a parallel corruption commission. But this relies upon effective, resourced staff and a system that takes account of the findings and institutes appropriate follow up actions.

The planned Economic and Financial Management reform programme would need to emphasize a reorientation towards a slimmed down and effective public administration, private and rural development. No sign of such a reorientation is visible. The danger is that the peace agreement will rather strive to continue past priorities of attempting to "buy off" interest groups. The programme does not set a transformative agenda with a view to transform the economy and does not look credible in face of existing skills and institutional capacities. A review of existing bodies, laws and regulations will be important. However, there needs to be awareness that resources are limited, with priorities set and proper sequencing. For example, 35 ministers are mentioned. This is far too many.

... credible monitoring and evaluation mechanisms need to be created. These need to be external and may be best formed by civil society.

The Revitalised Transitional Government of National Unity (R-TGNU) is to be formed by the incumbent TGNU, the Sudan People's Liberation Army/Movement in Opposition (SPLA/M-IO), the South Sudan Opposition Alliance, the former detainees and other political parties. Professional organisations, as for instance the vocal university staff organisations, business associations, farmer and trade unions, and other civil society bodies, are not included. But credible monitoring and evaluation mechanisms need to be created. These need to be external and may be best formed by civil society. Only such organisations, external to the power holders, are able to provide a credible mechanism of monitoring and accountability.

5. Recommendations

The R-ARCSS is another attempt to create peace by bringing together the main power holders and trying to balance their interests.

However, the perspective does not look very promising. It does not seem different from previous agreements, which all failed. In economic terms, it rehashes the same old precipices, and does not provide new ideas. But there is a need for radical, substantial economic reform that addresses the roots of conflict in order to lift the country out of the vicious circle of stagnant development and violence.

As argued above, for post-conflict countries it is important firstly to build up managerial and accountability structures before spending massively. Similarly, for mineral-dependent countries that have limited resources it is important to save much of the gains, rather than spending all immediately. A fund for these limited resources should be created to save much of the resource income for the future – this had actually been planned for the CPA period, but was not implemented. Instead of saving funds, debt was incurred. The same is planned under R-ARCSS. This is both unreasonable and irresponsible.

The saved resources should be spent on nationwide infrastructure (roads, rail, electricity, telecoms, internet). This will reduce the market costs and by itself raise living standards. This is planned, but barely executed. Instead of top-heavy administration that tries to buy off power holders through well-paid jobs for which they are not qualified, a bottom-up approach should be applied. Local development centres should be created in every local council area, including local infrastructures such as primary schools, primary health centres, small administrations, agricultural support centres, internet cafes and post offices.

In addition, the private sector should be promoted. Beyond easing business conditions, small businesses should be promoted, for instance by easing access to credit. This is also planned but has not been executed.

Decentralisation, bringing development closer to the people, is vital. However, the multiplication of states is not an appropriate means to achieve this. On the contrary, the additional state level between central and local government takes away resources from local development. In the context of scarce resources, it would be reasonable to cut out the state level entirely. This would contribute to the necessary replacement of administration by productive jobs.

About the Author

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