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WEEKLY REVIEW

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Resumption of Oil Production in South Sudan

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If there was any news that South Sudanese were waiting for it was this particular one news about the resumption of the production of oil. It looks like the desperation had reached its epic when some of the top officials in the Government of South Sudan punched the air with their fists shouting "we have survived". The announcement of the shutdown of the oil production by the Council of Ministers in January 2012 was received with mixed reactions. That was evident in the two scenarios that played themselves out right after the announcement. Some people took to the streets in Juba and the capitals of the nine other States of South Sudan chanting support for the decision while others quietly expressed their disapproval of the decision, suggesting that the shutdown was poorly conceived. The second group includes some international development partners who advocated for the production to continue while Juba used diplomatic means to resolve the stalemate with Khartoum. The supporters of the shutdown relied upon historical resilience.

Barely three months after the oil shutdown, the whole nation started to feel the resultant pinch of economic hardships. Salaries of civil servants were no longer coming regularly and the monthly allowances that used to cushion up the low salaries of the civil servants were discontinued. The dollar appreciated against the South Sudanese pounds and was in unprecedented shortage, forcing the market into an abrupt shock; prices rose; and the purchasing power weakened. As well, violent crimes increased, with armed robbery becoming the order of the day. News about common citizens and business people being shot dead injured, and/or robbed were making headlines on almost daily basis. In a sense, these consequences are attributable to the economic hardships facing the nation.

In an attempt to remain financially viable, the government introduced austerity measures known as "Kostirity", after the name of the national Finance Minister, Hon. Mr. Kosti Manibe, who led the intervention. Before the oil shutdown and the introduction of the austerity measures, the Government of South Sudan was challenged to reduce overspending at the national level and increase spending at the grassroots levels (Mayai, 2012: Sudd Institute).

This week, the Sudd Institute takes a critical look at crucial issues that the Government of South Sudan needs to consider before earnings from oil sales hit the bank accounts. This is important because prudent management is required in order to avoid future financial difficulties and to evade missed opportunities of the CPA era. Part of this article is devoted to practical advice on the macroeconomic, structural, and social policy programs upon which the money earned from the oil should be spent so as to stimulate development, reduce abject poverty, support private sector growth—all to engender stable South Sudan.

With the resumption of the production of oil, it is important that the government thinks of how to use this income so as to initiate sustainable economic development and bring about stability in South Sudan. The security of this nation will continue to be a challenge if the nation's economy remains in shambles. In order to adequately address and mitigate internal as well as external security threats, the country needs to use some of oil earnings to strengthen the capacity of its security organs. Therefore, this is the time that the country's economic planning department needs to develop concrete and sustainable national economic vision towards which the oil revenue would be appropriately channeled. As well, this economic vision should take into consideration the diversification of the economy of South Sudan to avoid exclusive reliance on oil only. Diversification of the economy of South Sudan would require taking the decision to allocate the income from the sales of the oil to develop the agricultural sector, construct all weather road networks and other supportive infrastructures throughout the country, develop the industrial and manufacturing sector of the economy, and develop national manpower resources to support economic growth.

The diversification within the oil economy itself is crucial if South Sudan wants to make the best out of its oil industry. The oil sector at the moment is seriously underdeveloped, making the crude oil an only form of sale. Failing to refine crude oil locally to meet local and regional demand for refined products represents a missed opportunity to support economic growth and create jobs for the citizens. Diversification of the oil economy sector will reduce the cost of production and transportation of locally manufactured goods and services. Locally manufactured goods would require manpower and marketing network, suggesting the need for more advanced human resource training and provision of transport and communication infrastructures and power supply—all of which should be facilitated by oil earnings. In addition, diversification of the oil economy can assist South Sudan to compete in the regional economy by selling its refined oil and related products in the regional markets.

Principally, the economic situation of South Sudan is not different from that of other countries. This is because every economy is built on the principles of supply and demand. And any other factor falls either on the facilitative or prohibitive side of the economic environment that can be managed by putting in place regulatory mechanisms. The real difference between the economy of South Sudan and the other economies is that South Sudan has not invested in production and infrastructure, let alone consumer goods and services. An economy in which people only consume but do not produce is considered dead. For a successful and thriving economy, in the short-term, South Sudan MUST quickly strike the balance between how much it can import and produce in order to close the existing market gaps. While in the long-term, South Sudan should target producing surplus in consumer goods and services in order to meet the demand of its domestic consumption, and sell its surplus finished products to both the regional and other international markets.

The private sector in South Sudan does not also want to be left without benefiting from the resumption of the oil production. Buoyed by the fact that the government has declared that the private sector must drive economic development in South Sudan, business owners, both national and international, have started to renew their commitments to support the development of the economy of South Sudan. However, for the private sector to be an effective partner in economic development, it must be able to attract foreign direct investments into the country. And the government on the other hand must be able to provide security for the investments made by the private sector by putting in place appropriate investment laws, give investors right to own property and access to legal services and justice system and institutions that are transparent and fair in handling court cases related to investments. The international investors, who have established businesses in South Sudan at the moment are doing so by taking great risks and, in the process, raise profit margins on their investments.

Local investors seem to have problems accessing capital to invest in economic venture due to lack of access to loans from the banks. This is so partly because local investors are more likely to lack collateral to access bank loans, leading to high interest rates. The government needs to put in place policies and regulations to encourage investment in local entrepreneurs. Alternatively, the government can try out various models of local private sector development. It can start by investing in productive economic sectors and later invite the local private sectors to buy shares in the sectors or privatize them altogether. By providing support to the local private sector, the government will be, indirectly, creating jobs for local citizens and controlling capital flight and mitigating the negative impact of over-reliance on foreign investors. The government needs also to regulate the local private sector so that it is not turned into channels for swindling public revenues.

Investment by the private sector should go beyond the retail businesses in foreign manufactured goods. The investors have got to venture into the extracting and processing of other natural resources like cement, iron ores and sheets, fruits processing, manufacturing, and timber, just to mention a few.

Public finance management and accountability are two areas that require the undivided attention of the government when oil revenue starts coming. The government in South Sudan is a big spender and as all big spending institutions do, it has to put in place rigorous procurement and financial management systems, procedures and regulations – in short the government needs to put in place a strong internal control mechanism. Public procurement procedures have to be established and respected. Employing good practices in processing, financing, and managing, contracts on the basis of identified deliverables ensures that South Sudan gets the value for oil money spent on public projects. The government needs to strengthen accountability for public money by introducing detailed periodic financial reporting and verification systems. Requirements like submitting quarterly financial and narrative reports on government contracts and conducting on-site-verification of work in progress will reinforce a culture of positive accountability. The oversight functions of the National and State Legislative Assemblies need to be exercised so that public money is properly spent.

Lack of strong financial oversight, accountability and political will are to blame for the huge misappropriations of public funds in the period before the shutdown of oil. As a result, billions of dollars of public money disappeared unaccounted for.

The other issue is that the government needs to consider building the capacity of trading institutions to support economic growth. The professionalization of government institutions in terms of rules, regulations, skills and attitudes is central to enhancement of economic activities. Simple things like opening the customs and immigration offices at the border as early as 6 am in the morning and the staff in those institutions work in an efficient manner can go a long way in encouraging economic activities at the border.

The majority of the citizens of South Sudan are yet to figure out how they are going to benefit from the resumption of the oil production. Though this is public revenue, little have the majority adequately accessed it in the preceding periods. This suffices to suggest that the resumption of the oil production is not going to put enough money in the pockets of every single South Sudanese. But the oil money should be used to create jobs for South Sudanese people.

The government needs to use the revenue from the oil to develop skills of the people in South Sudan to benefit from the economic boom resulting from the oil sector. It also needs to come up with youth empowerment programs by constructing technical and vocational training centers in all the states. The technical and vocational training centers will provide the skills for the youth in management, engineering, accounting and other economically useful skills that the country sorely needs. Improvement in the quality of the national universities and increase in the number of these universities in the country to offer higher learning opportunities for the youth are imperative to the long-term economic growth of the country. The number and quality of learning facilities offering basic education should also get sufficient attention of the government. The health sector should also get sufficient budget to provide quality health services to the citizens. Direct government investment in the construction and provision of quality health services is essential for the economic prosperity of the country. Investing in national health insurance schemes for both the citizens and foreign workers can also yield handsome economic rewards.

The rebellions and tribal conflicts in the country, including the emerging highway robberies need to be controlled so that economic activities can take place in all parts of South Sudan. Because it is only by equipping citizens with skills needed in economic development, given adequate and quality health services and living in a relatively stable environment can a country experience sustainable economic development.

In conclusion, the news that the oil production has started is indeed good but, given the experience before the oil shutdown in January 2012, the people of South Sudan need a lot more than being sweet-talked into all being well when the oil money starts coming home. They need direct, real basic services. The economic planners in the country need to come up with macroeconomic, microeconomic, structural and social programs that address core issues and challenges facing economic growth in the country. If one thing is assured in economic development, it is the challenges, which are supposed to be overcome and not to serve as a source of excusing widespread service-delivery failure. Regardless of whatever economic challenges the government of South Sudan faces, it has to deliver on its promises of improving the living conditions of South Sudanese. Improvement in the living standard of the people of South Sudan can be achieved when the government has a clear vision of how it wants to improve the economy of this country (the country's Development Plan is very deficient on service delivery aspects). The economic development plan of the government has to include how to industrialize the country, encourage manufacturing and production of goods and services and build the manpower resource base to support economic growth. The government needs to come up with guidelines, procedures, systems and regulations to manage the petrodollars effectively. And it also needs to build the capacity of trade facilitation institutions by providing facilities, equipment, skills and enhancing attitudes to support the country's economic activities.

About Sudd Institute

The Sudd Institute is an independent research organization that conducts and facilitates policy relevant research and training to inform public policy and practice, to create opportunities for discussion and debate, and to improve analytical capacity in South Sudan. The Sudd Institute's intention is to significantly improve the quality, impact, and accountability of local, national, and international policy- and decision-making in South Sudan in order to promote a more peaceful, just and prosperous society.

About the Author

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