SOUTH SUDAN

ONE YEAR AFTER INDEPENDENCE:

Opportunities and Obstacles for Africa's Newest Country

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SOUTH SUDAN'S FIRST ANNIVERSARY: PROGRESS, CHALLENGES AND PROSPECTS

John Mukum Mbaku and Jessica Elaine Smith

Introduction

On July 9, 2012, South Sudan will celebrate its first anniversary as an independent and sovereign state. The January 2011 referendum effectively ended the prolonged, violent confrontation between the Republic of Sudan and the territories that would ultimately gain independence as South Sudan. This development marked an important stage in the implementation of the Comprehensive Peace Agreement (CPA). In addition to regulating relations between the two feuding parties from 2005 to 2011, the CPA also implemented the framework for the creation of two separate nations. Despite the success of the CPA in guiding South Sudan's path to independence, the young nation must now address a myriad of challenges related to its domestic policies as well as continued hostilities with the Republic of Sudan.

As international observers applauded the CPA's success, the people of South Sudan also celebrated the birth of their nation with high expectations. Independence brought with it hope for a better future and the opportunity to build a united developmental state. Revenue from valuable oil resources, which were a primary source of the conflict between the two nations, gave South Sudan the opportunity to invest in the development of its natural and human resources. Additionally, formal separation was expected to end the long-standing conflict with the Republic of Sudan. However, these expectations were tempered by the many restraints that came with establishing conditions for sustained economic growth and improving the delivery of public goods and services.

After many years of brutal civil war, South Sudan emerged with extremely poor infrastructure and a population with limited human capital. More importantly, the country was born with weak institutions that were not suited to the delivery of sustainable economic growth and development. Finally, while the people of South Sudan were largely united in the war against Khartoum, the country is to a large degree ethnically fragmented, with each group seeking to maximize its own objectives—a process that has significantly weakened the ability of the government to work toward national integration.

South Sudan's first year of independence has been fraught with major challenges, like the continuing struggle with the Republic of Sudan over their common border. These conflicts have become top priorities for the country, impeding the ability of the government to concentrate on economic growth and human development.

The Africa Growth Initiative (AGI) at the Brookings Institution has been following developments in South Sudan in order to offer independent policy proposals that can translate into sustainable economic growth and development, effective delivery of public services, and the building of institutions for a united and peaceful nation. This collection of policy briefs seeks to highlight some of the important issues that have affected South Sudan during the country's first year of independence and identify policy areas that both South Sudan and the international community must emphasize in order to enhance the nation's ability to achieve peace, economic growth and human development. It is important to note that many of the policy recommendations offered by the various briefs are similar even though each brief was based on independent analysis. This is due primarily to the fact that many of the issues faced by South Sudan lend themselves to similar solutions.

Basic Services in South Sudan. Kevin Watkins from Brookings Center for Universal Education examines service delivery in the country since independence and makes recommendations on how the Government of

South Sudan (GoSS) can make sure that it provides its citizens with the services that they need to ensure continued improvements in human development. He cautions that delays in human development, most of which are likely to come from either poor or opportunistic provisions, have extremely high costs.

Future Engagement between South Sudan and the Republic of Sudan. Mwangi S. Kimenyi discusses the key issues of border demarcation, nationality and the oil pipeline. Kimenyi stresses the urgency of resolving these outstanding issues.

Efficient and Equitable Natural Resource Management. John Mukum Mbaku and Jessica Elaine Smith suggest ways in which South Sudan can enhance the equitable and efficient allocation of its natural resources, minimizing the "resource curse", and use its enormous resources to promote sustainable economic growth and development. They emphasize that the government must manage the oil sector as one part of a greater transparent, comprehensive program to develop a well-integrated national economy and reject the colonial-era Nile Waters Agreements.

Managing Ethnic Diversity. Julius Agbor and Olumide Taiwo provide insight into how South Sudan can deal with violent ethnic mobilization by focusing on the need to strengthen sub-national governments and provide a comprehensive process to define property rights. They argue for respect for traditional institutions (e.g., village or tribal councils) and encourage the government to engage all citizens in the construction of the country's laws and institutions.

Making Federalism Work in South Sudan. As the Republic of South Sudan moves from a transitional constitution to a more permanent framework for governance, a debate about whether to use a unitary or federal system is building. Mwangi S. Kimenyi assesses both governance systems and shows how a unitary governmental system has failed many African nations in the past. He urges South Sudan to retain, strengthen and deepen federalism, and significantly improve allocations to the states.

The Anti-Corruption Agenda. John Mukum Mbaku and Jessica Elaine Smith contend that the key to effective public financial management is budgeting. Specifically, they advise the government to maintain budget comprehensiveness and to make certain that civil servants and political elites are well-constrained by the law to minimize corruption and waste.

South Sudan's Quest for Regional Integration. South Sudan's economy is relatively small and extremely underdeveloped. Access to markets, especially in the East Africa region, is critical for the country's growth and development. Anne W. Kamau describes South Sudan's eligibility for joining the East African Community (EAC) and outlines the short- and long-run costs and benefits of joining the community.

BASIC SERVICES IN SOUTH SUDAN: AN UNCERTAIN FUTURE

Kevin Watkins

Framing the Issue

As South Sudan prepares to mark its first anniversary of independence, hopes for accelerated progress in human development have given way to resignation. Military tensions over disputed border areas have reignited fears of renewed conflict with the Republic of Sudan. Conflicts within South Sudan continue to cause large-scale displacement. Meanwhile, Africa's newest country—and one of its poorest—is heading toward a bout of enforced austerity, with budgets adjusting to a catastrophic loss of oil revenues. What does all of this mean for the fragile gains in human development made since the end of the civil war, and what are the prospects for the future?

The answer to these questions remains uncertain. Much will depend on how the Government of South Sudan (GoSS) manages the acute fiscal pressures that will emerge over the next two to three years, should the oil crisis remain unresolved. Tough choices will have to be made between competing priorities. Donors will also face challenges. South Sudan urgently needs predictable, long-term aid financing to transform the current fragments of basic service provision into credible national systems that are accessible and affordable for all citizens. Having taken somewhat tentative steps in this direction, donors will have to adapt their strategies to an economic and political environment that is less conducive to poverty reduction.

What's at Stake?

For the people of South Sudan, the human costs of delayed progress in human development will be enormous. This is a country with the highest maternal mortality rate in the world. It ranks fourth in global deaths from malaria and suffers some of the world's highest child death rates. Many of these indicators could be rapidly improved through low-cost interventions. Yet 60 percent of the population has no access to health care and just one in five children are immunized. Fewer than one in five births are attended by skilled health personnel (DFID 2011).

The situation in education is equally dire. UNESCO points out that South Sudan is at the bottom of the international league table for basic education. Around 1 million children—half of the primary school age population—are out of school. The net enrollment rate for girls is just 37 percent. In a country with a population the size of Sweden, fewer than 400 girls make it to the last grade of secondary school. There are desperate shortages of classrooms and books—and just one qualified teacher for every 117 students (UNESCO 2011).

Overcoming these immense human development deficits is not just about building physical infrastructure. Teachers and health workers have to be trained. Administrative systems have to be developed, along with an effective public finance management system. In the case of South Sudan, the challenge is less one of post conflict reconstruction than of constructing national systems from scratch.

The Government of South Sudan and Donor Coordination

Much has been achieved over the seven years that have passed since the Comprehensive Peace Agreement. The government has developed an overall planning framework—the South Sudan Development Plan 2011–2013—along with sectoral strategies for health, education and other basic services. However, public finance management systems remain weak and budget allocations have not been well-aligned with the goals set for basic services. One reason for this is the very high share of the budget allocated to security (28 percent in 2011) and the low shares directed to areas such as education and health (7 percent and 4 percent respectively in 2011).

The aid architecture for basic services has evolved over the years in a somewhat fragmented and haphazard fashion. South Sudan is a major recipient of development assistance, with commitments reaching $1.2 billion in 2010. Around 40 percent of aid is provided on a bilateral basis, with the remainder provided by multilateral agencies or through pooled funds. No development assistance is provided in the form of budget support (GoSS 2010). The largest donor, the United States, currently operates through projects entirely outside of the pooled funds, while most other major donors combine pooled funding with bilateral projects as shown in **Table 1**.

Donor fragmentation is a serious concern. There are over 20 active donors in both health and education, supporting various projects with an average value of $2-3 million. Given the limited capacity of government agencies, there are inevitable problems in coordination. To some degree, pooled funding has helped to address these problems. There are five major pooled funds supporting basic service provision or capacity-building. This includes the Multi-Donor Trust Fund (MDTF), which operates under the auspices of the World Bank (PriceWaterHouseCoopers 2011). Another pooled funding source is the Basic Services Fund (BSF), which was created by the United Kingdom's Department for International Development (DFID) but is now supported by Norway and the Netherlands and chaired by the GoSS (Dew Point 2010). Donors account for well over 80 percent of overall financing for basic services. The multiple sources of donor funding are illustrated in **Figures 1 and 2**.

Pooled funds have a checkered record. The MDTF has been characterized by very slow rates of disbursement and operational inefficiency, prompting a recent U.K. parliamentary report to question whether DFID should continue to channel bilateral aid through the World Bank in South Sudan (House of Commons International Development Committee 2012). By contrast, evaluations of the (considerably smaller) BSF have been very positive (Brown 2011). Both of these pooled funds expire at the end of 2012, raising questions about what, if anything, will replace them. Given the fact that the BSF is the single largest source for the provision of primary health care

Table 1: Top 12 Donors in South Sudan (2010) (US$)

	Donor Country	Total Funding	Total Expenditures	% Funding to Pooled Funds	% Committed Funds Spent
1	USA (inc. OFDA)	410,387,132	320,410,980	0%	78%
2	European Union (inc. ECHO)	118,910,898	100,952,701	19%	85%
3	Netherlands	101,937,552	67,019,952	68%	66%
4	UK	102,519,606	81,136,664	76%	79%
5	Norway	100,614,484	73,376,945	45%	73%
6	Canada	57,400,040	38,926,748	37%	68%
7	Denmark	50,252,585	30,005,750	10%	60%
8	Japan	37,082,761	19,077,074	0%	51%
9	Sweden	34,945,696	27,626,658	60%	79%
10	Global Fund	28,030,537	23,411,251	0%	84%
11	Spain	20,851,879	16,957,942	65%	81%
12	Germany	20,127,454	9,074,037	18%	45%
#	*Other Donors*	196,688,471	152,322,310		
Total:		1,279,749,094	960,299,010		

Source: GoSS Ministry of Finance and Economic Planning, 2010

Figure 1: Donors to the Education and Health Sector (2011 Commitments as a Percentage of Total Funding)

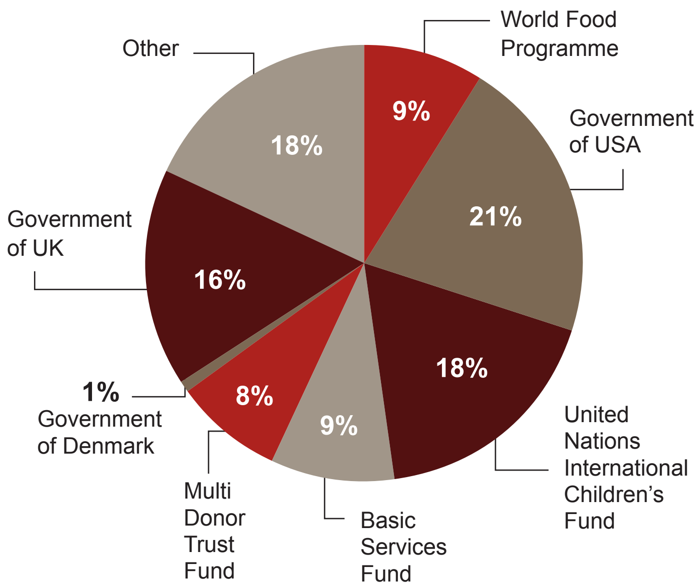
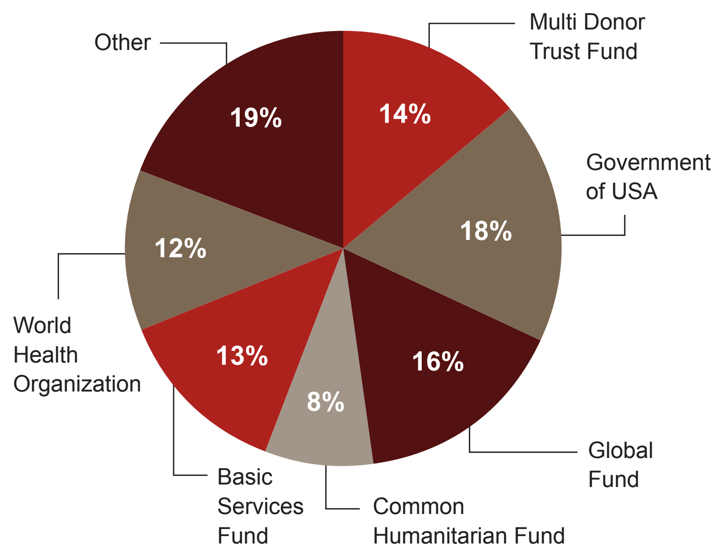


Figure 2: Donors to the Health Sector (2011 Commitments as a Percentage of Total Funding)



Source: GoSS Ministry of Finance and Economic Planning, 2010

and a significant funder in education in South Sudan, uncertainty over the future is a major concern.

Early indications are that basic services will bear the brunt of budget adjustments. With an allocation of at least one-half (and probably more) of the budget, defense and security have been earmarked. Meanwhile, the share of the budget allocated to basic services has been cut from already desperately low levels. The projected share of the 2012 budget earmarked for education has fallen from 7 percent to 5 percent, while the share for health has been cut from 4 percent to 2 percent. Because many pooled funding projects are co-financed, there is a risk that the withdrawal of the GoSS's contribution will lead donors to place support on hold.

How should donors react to the fiscal crisis? Britain has already signaled an intention to shift aid away from long-term development assistance and toward humanitarian aid. Parts of the aid budget for health and education have already been trimmed. There are also concerns that DFID will withhold support for the pooled fund for health due to come into operation in 2012—a fund that it has previously championed. Other donors, including Britain's two 'troika' partners—Norway and the United States—are committed to continuing long-term development assistance, though there are concerns that the deteriorating aid environment will diminish support for South Sudan. That would be a tragedy for the country and its people—and a lost opportunity to build a more resilient peace.

Policy Recommendations

The international community should be far more actively engaged in creating conditions for conflict resolution, notably by putting in place strategies for demilitarizing disputed border areas and curtailing aggression on the part of the Republic of Sudan. While the GoSS's decision to cut-off oil exports was understandable in the light of what were clearly provocative measures authorized by Khartoum, an interim negotiated settlement would be clearly be a preferable option.

Beyond the overwhelming imperatives of avoiding war and resolving the oil dispute, five key policy priorities suggest themselves:

- ***Ruthless prioritization***. Both the GoSS and donors need to reassess financing strategies for basic services. In the education sector, plans for the construction of state-of-the art schools and teacher training colleges should be put on hold. These are highly capital-intensive investments that are incompatible with new budget realities. Spending aimed at supporting community-based classroom construction, short courses for teacher training, and low-cost provision in conflict-affected areas should take priority. Similarly, health sector interventions should prioritize the training and support of child and maternal health care workers and inputs.

- ***Avoid precipitate action***. Capacity-building and basic service provision are not activities that can be switched on and off without significant costs, human and economic. While donors need to prepare for humanitarian emergencies, this should not be at the cost of long-term development financing.

- ***Strengthen pooled funding***. With the existing pooled funds reaching the end of their life-cycle, new mechanisms have to be put in place to provide continuity. These mechanisms should draw on lessons derived from the mistakes of the MDTF and the best practices on the BSF. Alongside the pooled fund for health, donors should urgently develop plans for a pooled fund in education. One proposal, drawn up by the former British prime minister, Gordon Brown, has called on the World Bank and the Global Partnership for Education to provide $180 million in cofinancing a wider pooled fund aimed at getting 1 million children into school by 2016.

- ***Build the public finance management system***. Ultimately, improved aid effectiveness will require more aid to be channeled through the GoSS's budgets. Large-scale budget support is not a realistic project in the short-term. The GoSS has drawn up proposals for an innovative aid instrument—the Local Service Support Aid Instrument—through which aid would be directed through the intergovernmental fiscal transfer system to fund basic services at the facility level. This is a proposal that merits donor support, initially on a pilot basis.

- ***Convert oil wealth into human capital***. Reaching a resolution of the oil crisis is by far the most effective way of maintaining the revenues needed to strengthen basic service provision. However, oil wealth is finite and revenues are projected to decline rapidly from around 2016. It is crucial that the GoSS develops a strategy for exploiting oil revenue to strengthen the human capital base of the country.

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FUTURE ENGAGEMENT BETWEEN SOUTH SUDAN AND THE REPUBLIC OF SUDAN

Mwangi S. Kimenyi

Framing the Issue

South Sudan was born out of a divorce that culminated from a clearly non-consensual marriage. For decades, the people of the South and North lived in a state of war as the South sought to separate from a union it considered oppressive and that disadvantaged its people. The demand for autonomy from the North was evidenced by the overwhelming support in the referendum that led to the creation of South Sudan. The people of South Sudan expected that the dissolution of the union would end many years of conflict between the two nations. However, now after almost one year since the separation, the post-divorce relations between the two Sudans are on a downward trend; one that could easily result in escalation of war. Without good relations, the high expectation of a better future will remain a mirage. In fact, unless the recurring disputes are resolved amicably and soon, it will be hard to talk about development in South Sudan at all.

It should not be a surprise that relations between the two nations are deteriorating, due to several key outstanding issues. First, the civil war was a bitterly contested battle that left deep scars on both sides. The prolonged conflict greatly eroded the trust between the people of the North and those in the South, which in turn has reduced the probability of a negotiated settlement when disagreements occur. Unfortunately, these two countries seem to approach all their dealings with suspicion and mistrust. Second, not all the sources of the irreconcilable differences that led to the split in the first place were resolved before the separation. It is like a divorce that is hurriedly put together before the parties have agreed on how to share marital property, as well as deal with outstanding debts and the raising of children. Put simply, before the independence of South Sudan, the two countries had not reached an agreement on how to address issues that would continue to tie them together even after the separation. Finally several external actors, whose interests do not necessarily align with those of either South Sudan or the Republic of Sudan, have complicated the situation and contributed to the hardening of the positions taken by the two countries.

What's at Stake?

Three key issues stand as the most important sources of discontent between the two nations: border demarcation, nationality, and the use of the oil pipeline.

Border Demarcation

The Comprehensive Peace Agreement (CPA) guided the relations between the two countries from the end of war to the referendum for secession. The established framework for secession included the issue of border demarcation, specifically in highly contested areas. Unfortunately in their eagerness to gain independence, the southern Sudanese states that would become the sovereign state of South Sudan did not insist on full resolution of all issues associated with their independence from the Republic of Sudan. Among the issues left unresolved was the border between South Sudan and the Republic of Sudan. According to John Campbell of the Council on Foreign Relations in Washington, D.C., nearly 20 percent of the border between South Sudan and the Republic of Sudan remains to be demarcated. Abyei, Southern Kordofan (which contains the disputed Heglig oil field) and the Blue Nile regions are three of nine heavily contested border sites—and both countries are fighting for the control of these areas due to the amount of oil, mineral, and arable land resources they hold (USIP 2010).

As the saying goes, good fences make good neighbors. For neighboring nations to live in peace, it is critical that there be mutual recognition and respect of the boundary that separates their territories. For South Sudan and the Republic of Sudan, the border remains contested and has been the main factor defining the relationship between the two nations. Since the referendum, there have been numerous episodes of hostilities propagated by both countries and each has undermined the sovereignty of the other through continued support of rebels in the opposing territory. With former South African President Thabo Mbeki as mediator, the two sides finally agreed to meet in April 2012 for talks to resolve border-related conflicts and settle on a permanent boundary. However, negotiations were suspended when violence erupted in several border regions, resulting in the capture by South Sudan armed forces of an oil field at Heglig in the Republic of Sudan. South Sudan has since retreated and removed its troops from the Heglig oil fields, which account for 75 percent of all oil produced in the Republic of Sudan (Deutsche Welle 2012). At the time of this report, negotiations have resumed and representatives from both countries are participating in African Union-sponsored talks in Addis Ababa. Unless the issue of fully adjudicating the border is resolved in the near future, the prospects of moving South Sudan toward a positive developmental trajectory are dim.

Nationality

The other major unresolved issue that continues to adversely impact harmonious relations between the two Sudans pertains to the resolution of nationality. According to the International Organization for Migration (IOM), "a[n] estimated 4 million Southern Sudanese were displaced during the civil war, IOM has tracked over 2.5 million returning to South Sudan since 2005, with over 360,000 returning in 2011 alone." Leaders from Juba and Khartoum initialed the Four Freedoms Agreement [FFA] in March 2012. The FFA would give citizens of both countries the freedom of residence, freedom of movement, freedom to undertake economic activities and freedom to acquire and dispose of property in either country. However, finalization of the deal stalled and Khartoum mandated that South Sudanese nationals currently resident in the Republic of Sudan must leave the territory by April 2012. According to a Government of South Sudan (GoSS) press release (May 6, 2012), Khartoum, under pressure from the IOM, extended the deadline for the mandated exodus of South Sudanese to May. Returnees trapped in Kosti, a city near Khartoum, are excluded from the deadline because the two governments have settled on a different return migration strategy for them. The IOM called the movement of the South Sudanese a "massive logistical challenge," which requires providing for the transportation and sanitation of the displaced persons. The GoSS has committed $50 million to repatriation of South Sudanese citizens in coordination with the FFA.

These countries will need to deal with the issue of nationality and establish conditions for continuous engagement. As neighbors, they will benefit by establishing protocols that make it easy for the people from the two nations to cross the border in order to engage in trade, cultural exchanges and other mutually beneficial activities. According to the IOM, the returnees on both sides of the border are opening up new trade routes and driving demand in both countries. Peaceful engagement will lead to economic benefits for the Republic of Sudan and South Sudan.

The Oil Pipeline

Oil accounts for as much as 98 percent of South Sudan's public revenue. In addition, it is a significant contributor to the country's gross domestic product and the major basis of its current struggle with the Republic of Sudan. Since independence, all of South Sudan's oil has been transmitted through pipelines belonging to the Republic of Sudan, where it is also prepared and exported. In January 2012, South Sudan shut down all oil production and refused to use pipelines and port facilities belonging to the Republic of Sudan to prepare and ship its oil to overseas markets. They took this action to protest what South Sudan believed were exorbitant transport fees charged by the Republic of Sudan for the use of the latter's pipelines, as well as rumors that the Republic of Sudan was stealing South Sudan's oil. South Sudan has rejected both the African Union's and the Republic of Sudan's offers to resolve the stalemate (Financial Times 2012). The loss of revenues from the exported oil has forced the South Sudanese government to develop and implement a 3.45 billion South Sudanese Pound (SSP) austerity budget, which, according to Finance Minister Kosti Manibe Ngai, will result in significant cuts in government expenditure, including critical areas such as agriculture, local government development, education and health. The bulk of government revenues in the austerity budget are earmarked for defense purposes (GoSS 2012).

The pipeline shutdown has greatly exacerbated already bad relations between the two countries and will cost the two nations a great deal. The lost oil receipts are expected to cause depreciation of the SSP, increase inflation and result in a depletion of oil reserves. Socially, inflation is likely to lead to food insecurity even for individuals who only participate partially in the cash economy. This is due to the fact that domestic food production only accounts for 53 percent of local consumption, with imported food items accounting for the rest (GoSS 2011). Having access to oil revenues is crucial to both countries and it is in their best interest to resolve the dispute. Although the bulk of known oil reserves are in South Sudan, the pipeline through the Republic of Sudan will remain vital to South Sudan for the foreseeable future. Although the GoSS has started plans for the construction of an alternative pipeline through Kenya, this is not a simple matter and will take years before it is actually operational. Even as border issues are negotiated, reaching an agreement on the pipeline is of utmost urgency.

Policy Recommendations:

The very survival of South Sudan is intractably tied to friendly relations with its neighbor to the north. Thus, the following policy suggestions are vital to success:

- ***The two Sudans must continue negotiations.*** It is in the best interest of the two nations to maintain peace and establish mutually beneficial interactions. The divorce was inevitable but so is the need for continuous engagement. Unfortunately, the leadership's behavior in both countries over the past year has been largely uncompromising as both have taken hard and sometimes irrational positions. In the process, both governments are undermining their countries' prospects for development. The peace dividend that was expected to benefit both nations, especially South Sudan, is being squandered at a very high rate.

- ***Other nations can help as third party mediators, but the impetus is left to the Sudans.*** There is no question that the CPA has achieved remarkable success, but this success can be negated if the issues discussed here are not resolved. The CPA is a classic example of the remarkable power of negotiations, even between parties with differences that may appear irreconcilable. There are already various ongoing efforts to bring both countries to a negotiated settlement but these need to be ratcheted up and, like the CPA, should engage more players with the African Union taking the lead. For example, the U.N. Security Council has unanimously, with unexpected votes from the People's Republic of China and the Russian Federation, approved a resolution that threatens economic and diplomatic measures against South Sudan and the Republic of Sudan if further violence occurs. However, the key players remain South Sudan and the Republic of Sudan—the two must accept the reality that only give and take can bring forth durable resolution to these contentious issues.

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EFFICIENT AND EQUITABLE NATURAL RESOURCE MANAGEMENT: USING TRANSPARENCY TO AVOID THE RESOURCE CURSE

John Mukum Mbaku and Jessica Elaine Smith

Framing the Issue

On its official website, the Government of South Sudan (GoSS) acknowledges its significant endowments of natural resource wealth. The new nation, nevertheless, admits that this abundance is one of the primary causes of the many years of violent confrontation experienced with the Republic of Sudan. The independence and emergence of a sovereign South Sudan in July 2011, a byproduct of the 2005 Comprehensive Peace Agreement (CPA), occurred before many key issues between the two countries had been conclusively resolved.

A significant amount of South Sudan's natural resources, especially oil deposits, are located along the disputed border with the Republic of Sudan. Hence, foremost among policy issues critical to effective natural resource management in South Sudan is the demarcation of a permanent border between the two countries, a process that should help determine ownership of these resources and allow both countries to proceed with their development plans. Thus, until the boundary problem is definitively resolved, policy initiatives in South Sudan will continue to be held hostage by the conflict over the border and ownership of the resources located in the region.

The key natural resource policy initiatives created by the GoSS thus far are focused on oil extraction, water and land. Most of the natural resource management policy was created in the interim period before independence from 2007–2011, which has caused some difficult challenges for property rights in the new nation. Current natural resource management in South Sudan requires some finesse and polishing to avoid further conflict and the so-called "resource curse." These countries often focus all their policy efforts on the development of the abundant non-renewable resource (e.g., oil) and neglect all the other sectors that are critical for balanced and sustainable economic development.

What's at Stake?

Oil is garnering much attention because it was, before the January oil shutdown, the source of a majority of South Sudan's public revenue, a primary contributor to the country's gross domestic product, and nearly the entire basis of the current struggle with the Republic of Sudan. To avoid becoming trapped by the resource curse, South Sudan must manage its oil resources as part of a comprehensive plan to develop a well-integrated national economy. In such an economy, oil will be only one of several well-developed sectors (e.g., manufacturing, agriculture, transportation, finance, retailing, etc.) and not the entire focus.

The overarching policy recommendation for managing extractive resources has been for South Sudan to commit to the Extractive Industries Transparency Initiative (EITI), which is the global standard for openness and transparency in the management of natural resource revenues. On December 21, 2011, President Salva Kiir Mayardit announced that the GoSS will implement the EITI. However, this announcement was recently opposed by the actions of the parliament of South Sudan, which voted in April 2012 against allowing the public to have access to contracts and other information related to the country's oil industry.

While oil production in South Sudan has earned significant attention, effective water resource management is also paramount to regional security. The GoSS created its Water Policy Framework in 2007 and stated that a more clearly defined version would be produced by the end of the first quarter of 2011 (GoSS 2009). South Sudan announced its intention to join the Nile Basin Initiative (NBI) in September 2011, only two months after independence. This swift announcement indicates the priority granted to water, especially that from the Nile River, in the new country's development plans. The NBI is a coalition of riparian states that have been working for nearly 10 years toward a more equitable allocation of Nile waters. The NBI has had little success getting Cairo and Khartoum to accept its framework for equitable allocation of Nile waters. Despite an uncertain legal environment, South Sudan has also announced plans to construct a hydroelectric power dam at Wau in Western Bahr el Ghazal State. The status of South Sudan's membership in the NBI, as well as that of the Wau hydroelectric dam is unclear and no press statements have been made since September 2011 to clarify the situation. The design and implementation of a comprehensive water policy is critical, not only for water governance, but also for regional security and the effective management of other sectors of the economy that depend on water such as agriculture, sanitation and transportation.

In order to reach agricultural development targets, the GoSS intends for land management to be governed by the Land Act of 2009. The Land Act explicitly outlines the types of community consultations that are legally required before any land can be leased or sold (Heegde, Martijn, Hilhorst, and Porchet 2011). Shortly after independence, however, the transitional government of the autonomous Southern Sudan region initiated and implemented a policy that encouraged and promoted foreign direct investment. The policy resulted in so-called "land grabs" or sale of land by political elites without using the consultative and participatory approach expressly required by the 2009 Land Act (Deng and Mittal 2011). In fact, since independence, there has been an unusual interest in land acquisition, especially by foreign companies and investors and the GoSS is now actively trying to reverse these "land grabs" (BBC 2011).

This July, South Sudan will reach its one year anniversary as a sovereign nation. In order for the government to provide citizens with the efficient and equitable management of the country's huge endowments of natural resources, the administration needs to adjudicate South Sudan's borders with the Republic of Sudan and create clear and transparent processes for the internal management of resources, which must include making certain that its rights as a riparian state to the Nile River are respected.

Due to sour relations with the Republic of Sudan, parliamentarians have been reluctant to disclose revenues from the extractive industries. They claim that openness and transparency will create significant challenges for the young country. However, as South Sudan's civil society has already recognized an opaque approach does not augur well for efficient and equitable management of the country's oil revenue. Conducting government operations in an open and transparent manner also improves the likelihood that government activities will foster policies that reflect the values, interests and aspirations of the country's relevant stakeholder groups. Perhaps more important is the fact that openness and transparency in government activities significantly improves how citizens judge the respectability and legitimacy of their government. It is only through an open and transparent process that the government can hope to achieve an allocation of oil revenues that will be judged and accepted by citizens as socially equitable.

While the battle over the border oil fields rages, the demands on South Sudan's water infrastructure continue to rise. According to rough estimates by Issac Liabwel, undersecretary at the Ministry of Water and Irrigation in Juba, "...about 47 percent of people outside the main towns have access to clean water supply, and only 6 to 7 percent have sanitation. Including the towns, it's probably a bit higher—about 50 percent for water supply and 10 percent for sanitation" (Nield 2011). South Sudan has many rivers, but water is unequally distributed throughout the country. To make matters worse, internally displaced persons from the war for independence and other conflicts with the Republic of Sudan have added significant strain to the country's existing water supply sources. In fact, some of the violent ethnic mobilizations that are currently occurring in the country are related to competition for access to water, not only for use in domestic activities, but also in agriculture and cattle grazing.

Meanwhile, the GoSS has not abandoned its plan for national self-sufficiency in foodstuff production and its desire to turn South Sudan into the breadbasket of the region. The type of large-scale farming that is envisaged by the GoSS requires adequate access to water as well as well-specified and enforced land tenure rights. In regards to water use in the Nile region, South Sudan has the potential to play a very influential role in the management of the entire Nile River Basin. Although the Nile has 10 riparian states, only two, the Republic of Sudan and Egypt, have legislative control over water use. These legislative agreements are the 1929 Anglo-Egyptian Agreement and the 1959 Bilateral Agreement between Egypt and Sudan, which are collectively referred to as the Nile Waters Agreements. The 1959 Bilateral Agreement between Egypt and Sudan was not designed with the consultation or participation of the other riparian states and left only 10 percent of the Nile Water unallocated. Until this legislation is clarified, the construction of the hydroelectric facility at Wau directly conflicts with the language of the 1959 Bilateral Agreement to "do no harm" to the Nile's water flows.

In regards to land tenure rights in South Sudan, the 2009 Land Act has failed to clearly establish an effective property rights scheme. Now, the GoSS wants to reverse land purchases that were either undertaken without its approval or without full and effective local consultation and participation, and return these real properties to customary possession. Because the austerity budget has significantly reduced funding to subnational governments, it is difficult for these governing bodies to develop and implement local land use policies as well as assist in enforcing the provisions of the 2009 Land Act.

Policy Recommendations

For the coming year, the following policy recommendations would help to strengthen existing structures for effective and equitable management of natural resource endowments in South Sudan:

- ***Comply with the Extractive Industries Transparency Initiative.*** Contrary to the current approach, which calls for oil revenues to be allocated in secret, public availability of oil contracts and transparent allocation of oil revenues will minimize corruption and public financial malfeasance. This latter strategy will significantly improve the efficient allocation of public revenue, helping the economy as well. Hence, in the area of natural resource management—especially the allocation of oil revenue—the government should strictly comply with the Extractive Industries Transparency Initiative.

- ***Increase civil society participation in governance.*** Many Africans do not trust their governments and feel that their leaders conduct their operations in secret, do not provide civil society with information about public activities, and impose policies on local communities that are irrelevant to the problems that they face daily. Transparency enhances the ability of stakeholder individuals or groups to understand how public policies regarding the management of natural resources are made and why certain conclusions are reached. This is a viable way for South Sudan to minimize the likelihood that ethnic and religious groups who feel marginalized by any specific allocation of resources (e.g., water) will resort to violent or destructive mobilization. Unfortunately, South Sudan's once vibrant civil society has undergone a brain drain as members have left their organizations to fill roles in the GoSS administration. A concerted rebuilding of civil society organizations is needed to place appropriate checks on the GoSS.

- ***Join the Nile Basin Initiative and reject all colonial-era Nile agreements.*** The decision by the GoSS to promote self-sufficiency in foodstuff production and turn the country into the breadbasket of the east and central Africa region is a good policy strategy for creating a diverse economy. However, that policy cannot be accomplished by relying entirely on rain-fed agriculture. A comprehensive water policy that includes improved access to the waters of the Nile River is needed for self-sufficiency in agriculture and must be achieved through collaborative, equitable cooperation with all riparian states. The most effective way for South Sudan to manage access to the waters of the Nile River is for the GoSS to expressly reject, as soon as possible, the Nile Waters Agreements as colonial-era anachronisms that do not belong to modern international watercourse law. If South Sudan joins the Nile Basin Initiative it should insist on increased cooperation between all Nile river basin states, including the free flow of data and information. South Sudan would strengthen the Nile Basin Initiative if it insisted on negotiations through a democratic process to produce a regionally-based legal and institutional framework for Nile governance.

- ***Clarify and strengthen current legislation with participatory processes.*** Likewise, South Sudan land rights policy must allow the participation of current small-holder farmers in designing land use legislation to prevent exploitative land grabs on behalf of political elites. The GoSS needs to engage its people in a community-based reform process to review the interim "land grabs" and produce property rights schemes that reflect all of the country's relevant stakeholders' objectives for the long-term equitable use of their resources.

While it is true that South Sudan has a huge endowment of natural resources, effectively translating these resources into the wealth that it needs to deal with poverty and deprivation demands that both the government and the people work together to provide themselves with necessary laws and institutional structures. These institutions must guarantee the just rule of law—the existence of such a governance system would ensure that no one, even individuals who serve in the government, is above the law. Adherence to such a system would significantly minimize the ability of those in power to engage in corruption, rent seeking and other growth-inhibiting behaviors, as well as help the country avoid the natural resource curse.

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MANAGING ETHNIC DIVERSITY

Julius Agbor and Olumide Taiwo

Framing the Issue

Since gaining independence in July 2011, South Sudan has experienced many interethnic conflicts over resources, underscoring the need for well-defined property rights as well as a strategy for conflict anticipation and resolution. In an environment where land rights are not well-specified and a huge amount of small arms are in circulation, violent conflict over grazing rights becomes pervasive. For example, violence broke out between the Murle and Nuer ethnic groups only a month after independence. This particular episode resulted in the killing of 600 Nuer people, the kidnapping of children and the slaughter of tens of thousands of cattle (Gettleman 2012). It appears that, for now, interethnic conflict is concentrated in Jonglei State, where the Murle and Lou Nuer have a long history of revenge attacks against each other primarily over cattle. However, the long civil war introduced weapons to these groups, and arms have made these attacks increasingly deadly. Unfortunately, the central government in Juba has not done enough to prevent these types of violent confrontations.

The Transitional Constitution of South Sudan, while focused on state-building, has been silent on important considerations such as the establishment and protection of farmers' grazing rights, indigenous mechanisms for people to amicably settle their disputes and more importantly, an institutional framework for conflict anticipation, prevention and resolution. The only provision of the constitution that connects with conflict in some form is Article 149, Chapter VII, which provides for the creation of an independent demobilization, disarmament and re-integration commission. However, this commission is intended to be backward-looking as it is aimed at dealing with the consequences of the past war. Nowhere in the constitution is there any anticipation of future ethnic conflicts. The inadequacies of the transitional constitution seem to have been catered for in the 2011–2013 South Sudan Development Plan, which notably provides for the creation of county-level consultative peace platforms. However, these efforts have not yet materialized

What's at Stake?

The right to graze cattle and other animals on communal fields is central to the interethnic conflict in South Sudan. During the rainy season, groups occupying flooded lowlands are forced to flee to upland areas, putting the migrating groups and their livestock in conflict with upland residents. Since property rights over grazing lands are neither well defined nor complete, ownership is realized only through capture. Also, rivalry over possession and use has created significant tension between groups (GoSS 2011). For example, a group may claim the right to own and use a piece of grazing land because it is their ancestral territory; yet, another group may claim the right to graze their livestock on that same piece of land because they have accessed and occupied it and hence have actual possession of it.

The formation and strengthening of sub-national governments (especially local governments)—the level of government at which effective institutions to address conflicts could be developed—has been hampered by austerity measures. For example, operational and capital budgets of government agencies have been cut by more than half in the recent budget cycle, leaving virtually no resources available for the central government in Juba to undertake a comprehensive system of consultation with the various local communities. According to Finance Minister Kosti Ngai's austerity budget speech, massive budget cuts of 85 percent were "being made on South Sudan Reconstruction and Development Fund, Local Government Board, Employees[,] Justice and Public Grievance Chambers" (GoSS 2012). This does not bode well for the establishment and maintenance of a unified and peaceful South Sudan.

Policy Recommendations

As a young country, South Sudan should be careful not to make the same mistakes that cost thousands of innocent lives in Africa. The provision of mechanisms for the anticipation and peaceful resolution of conflict needs to be done in tandem with the demobilization, disarmament and reintegration activities. In line with efforts to achieve internal peace, the following policy recommendations are offered:

- ***Revisit the issue of property rights***. The GoSS, in consultation with the various local communities, must undertake a comprehensive process to define property rights over land resources and create the appropriate legal mechanisms to enable people to participate in land markets. However, because much of the land in the country is owned communally, what must be emphasized at first is not necessarily private ownership of land resources but the development of effective property rights regimes that are well-specified, context-specific and enforceable.

- ***Integrate traditional institutions into conflict resolution mechanisms***. Ethnic groups in South Sudan, like in other parts of Africa, have long employed traditional institutions (e.g., village or tribal councils) to resolve conflicts. As part of the nation-building project, South Sudan should carefully examine these traditional institutions and incorporate them into its constitutionally mandated legal and judicial institutions in ways that are consistent with the Universal Declaration of Human Rights (UDHR) and other international treaties and conventions.

- ***Insist on participatory and inclusive approaches to institutional reforms***. Ultimately, all citizens, regardless of their social status, should be allowed to participate in the construction of their country's laws and institutions. Currently, former President of South Africa Thabo Mbeki is leading African Union-sponsored negotiations to end recent conflict between South Sudan and the Republic of Sudan. South Africa's constitution was compacted through a famously participatory and inclusive process. If South African expertise was extended beyond peace negotiations to include constitutional support, the GoSS could develop a process that effectively engages all relevant stakeholders regardless of their educational background, employment status, religious or ethnic affiliation, social or political status, and income or wealth status. Through such a process, South Sudan can secure for itself a constitution that reflects its values, traditions and cultures, and provides its population with an appropriate foundation to build institutions for organizing their private lives, resolving conflict, and regulating their socio-political interaction.

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MAKING FEDERALISM WORK IN SOUTH SUDAN

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Framing the Issue

The Republic of South Sudan is comprised of three provinces—Bahl el Ghazal, Equatoria and Greater Upper Nile, which are subdivided into 10 states: Northern Bahr el Ghazal, Western Bahr el Ghazal, Warrap, Lakes (Bahr el Ghazal); Unity, Upper Nile, Jonglei (Greater Upper Nile); and Western Equatoria, Central Equatorial (which contains Juba, the national capital) and Eastern Equatoria (Equatoria). The Transitional Constitution of South Sudan, which was enacted in 2011, prescribes a *decentralized* system of governance with three levels of government: "(a) the national level, which will exercise authority in respect of the people and the states; (b) the state level of government, which shall exercise authority within a state, and render public services through the level closest to the people; and (c) local government level within the state, which shall be the closest level to the people" (The Transitional Constitution of the Republic of South Sudan 2011).

According to the constitution, while the national government has far-ranging powers, states also have broad executive and legislative rights giving them a fair degree of self-governance. In many respects, the transitional constitution is fairly progressive with respect to devolving decision making authority to appropriate levels of government. This is especially true in relation to service delivery, which is primarily the function of states. Even the lowest unit of government—the local level—is expected to undertake many functions that enhance broad citizen participation, the hallmark for good governance. Furthermore, the constitution also recognizes traditional authority and lays a good foundation for a decentralized federal system of governance.

What's at Stake?

As the country prepares to write a new constitution to replace the transitional one, a debate is emerging about the merits and demerits of unitary and federal systems. For example, in a *Sudan Tribune* opinion editorial, Isaiah Abraham makes a strong case for a reversion to a unitary state, and argues that "economically, federalism hurts poor states and most of the time, it encourages unnecessary competition and selfishness. In another word, it breeds inequality and we don't want it happen in our land. Some states are rich while others could be left behind" (Sudan Tribune 2012). Such arguments suggest an inclination to weaken the decentralized structures in favor of a unitary state. Unfortunately, Africa's post-independence experiences with unitary state structures have been disastrous. In fact, unitary systems have instead produced the same dreaded results that Abraham attributed to federalism—high levels of inequality, marginalization of vulnerable groups (e.g., women, rural inhabitants, ethnic minorities, and the urban poor) and the promotion of policies that have made corruption and rent seeking endemic. Unitarism concentrates power in the center and enhances the ability of the ethno-regional groups that control the central government to maximize their interests and values at the expense of other citizens, especially those which are not politically well-connected (Kimenyi and Meagher 2004).

There is often a strong motive for ruling political elites to concentrate powers in the central government. Concentration of power enhances the ability of political elites to redistribute income and wealth in their favor and their supporters' favor, usually at the expense of the larger majority. As has been the case for many African countries during most of the post-independence period, the common tendency for leaders has been to create strong unitary states. Additionally, those countries that had some form of decentralized governance structures before independence, often had post-independence rulers that abolished such systems, arguing that they were not effective instruments of governance and economic development.

These leaders saw the unitary system as the best institutional arrangement to unite the diverse ethnic and religious groups that inhabited their countries. But, the results of the strong unitary African states are well known—abuse of power, high levels of corruption and financial malfeasance, oppression of minority and other vulnerable groups, regional inequalities, and so on. In addition, many groups that came to view themselves as disenfranchised and deprived by the existing system of governance resorted to destructive mobilization in an effort to improve their participation in economic and political markets and to minimize further marginalization. The results were brutal civil wars and extremely high levels of political instability.

South Sudan is a very large country with a population estimated at slightly over 8 million with complex ethnic diversity. There are about 60 different ethnic groups of varying sizes currently residing in South Sudan, making diversity management particularly important (UNOCHA 2010). In addition, effectively delivering public goods and services in such a varied and complex environment presents many challenges. To deal effectively with the immense human development obstacles that the new country faces, it must design and implement governance structures in which the civil servants and political elites are accountable to both the citizens and the constitution. Such governance structures must also allow for broad participation of the citizenry in social, political and economic affairs.

Only a decentralized system would bring these desired outcomes in South Sudan. The lesson from other highly heterogeneous countries is that decentralized governance is best suited in dealing with diversity, improving the delivery of services, and entrenching participation and accountability (Kimenyi 1997). As the experiences of other African nations have shown, concentration of power in the center is associated with a whole range of outcomes that undermine unity and development. For this young nation, a major focus must be the strengthening, and not the weakening, of the decentralized federal system. Actions that weaken sub-national governments are likely to create a volatile situation, as some population groups will be marginalized and deprived.

There are several advantages of a decentralized system of governance for a country like South Sudan. First, decentralization, especially if it is guaranteed by the constitution, brings government closer to the people and makes it relevant to their lives and the problems that they face. Second, decentralization enhances the ability of the people at the local level to participate in the design and implementation of policies affecting their lives. This is especially critical given the fact that the people at the local or community level have more information about demand and supply conditions in their communities than those in Juba, and hence are able to help the government adopt policies that significantly enhance the efficient and equitable allocation of public resources. Third, decentralization increases competition in government provision and therefore enhances government efficiency. Fourth, decentralization improves accountability since civil servants and political elites are forced to work closely with those who provide the resources (i.e., tax payers) that pay their salaries and support their activities. Finally, decentralization enhances the ability of local communities to maximize their values and thus minimizes the conflict that often arises when some groups are forced to sacrifice their traditions and cultures in favor of some national value dictated by those groups that control the central government.

Policy Recommendations

As South Sudan prepares to move from its transitional constitution to a permanent framework of governance, the new nation should focus on strengthening the federal system. Already, there are concerns that the centralization of power in Juba is marginalizing some groups and is creating corruption and wasteful allocation of scarce public resources. Currently, the country's states and their constituent local governments are not really constitutionally functional entities. The people of South Sudan must resist temptations to concentrate power in the national government at the expense of state and local levels of government. Important policy actions should include:

- ***Prioritize data mapping***. Currently essential information to implement a decentralized system efficiently is not available. It is therefore critically important that the GoSS prioritize the undertaking of a comprehensive data mapping exercise that should include the gathering of up-to-date information on the characteristics of the states such as population, resources, economic activities, the economy and the state of service delivery.

Such data would assist in the designing of an effective system of intergovernmental transfers.

- ***Focus on capacity building for civil servants.*** Probably the most serious constraint to implementing a decentralized system of governance in South Sudan is the lack of administrative capacity at the national, state and local levels. The country urgently requires trained personnel to manage the public sector. Thus, a priority for the Government of South Sudan and its development partners would be to invest heavily in capacity building. Several capacity training modalities should be investigated, with a view to identifying models that are cost effective and appropriate for the country.

- ***Increase revenues for state governments***. One key aspect of strengthening the system is to ensure that state entities receive a share of the natural resource revenues so that they can provide essential services. Resource transfers to the states are critical, but this will require South Sudan and the Republic of Sudan to agree on the issue of oil shipment as soon as possible.

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THE ANTI-CORRUPTION AGENDA: USING PUBLIC FINANCIAL MANAGEMENT TO BUILD CREDIBLE INSTITUTIONS

John Mukum Mbaku and Jessica Elaine Smith

Framing the Issue

For any government, credible institutions are built by effective public financial management and the key to the latter is budgeting. Like other governments, the Government of South Sudan (GoSS) must manage scarce public resources efficiently and allocate them in a socially equitable manner. The national budget is the primary mechanism in which the GoSS can ration scarce public resources among all the agencies that provide citizens with critical public goods and services. Although mechanisms for effective public financial management in the country are still under construction and are somewhat weak, the country has shown movement in the right direction. This is evidenced by the fact that the GoSS has made budgeting a key program area in its most recent development plan, the South Sudan National Development Plan 2011–2013. More evidence that South Sudan is making progress on its effort to manage public resources efficiently is the recent adoption of the Medium-Term Expenditure Framework to deal with unexpected changes in macroeconomic conditions, such as the loss of significant revenues from oil and rapidly declining foreign reserves (Ministry of Finance and Economic Planning 2012). The target deadline for a published budget using the framework is June 2012.

What's at Stake?

In response to the loss of a bulk of government revenues, mostly from the oil sector, the Ministry of Finance and Economic Planning has released an austerity budget that has reduced allocations in virtually all public sectors. In presenting the budget to the parliament in March 2012, the minister of finance and economic planning, Kosti Manibe Ngai, stated that there would be cuts in overall government spending, ranging from 10 percent in allocations to the Ministry of Defense to 85 percent in allocations to the South Sudan Reconstruction and Development Fund, Local Government Board, Employees, Justice and Public Grievance Chambers (GoSS 2012). These budget reductions could make it much more difficult for the GoSS to provide essential public goods and services, especially to vulnerable populations, such as refugees returning from the Republic of Sudan and unemployed youth in urban centers.

One of South Sudan's most important objectives regarding public finance management is for the GoSS to significantly improve the country's Public Expenditure and Financial Accountability assessment (PEFA) scores. PEFA assessments are conducted by the World Bank to determine and improve the status of recipient countries' public expenditure and financial management systems. Currently, the assessment remains incomplete and, in its initial PEFA assessment, the World Bank stated that South Sudan published only 50 percent of its expenditures. The GoSS has been reluctant to release information on oil revenues, supposedly because of security concerns. It has blamed the now defunct Government of National Unity (GNU) for sparse information in the most recent audit report (fiscal years 2005/2006) to the South Sudan Legislative Assembly. The GNU was the government for the interim period before independence, when South Sudan was an autonomous region known as "Southern Sudan," but was still part of the Republic of Sudan. The government of the autonomous southern region excluded some of its non-oil revenue from the balance sheets as well. The Sudan Public Expenditure Review (2007), which includes autonomous Southern Sudan, commented that some sources of government revenue appeared to be off-budget, including non-tax income for ministry services, police registration fees and travel taxes. More recently, the

U.K.'s Department for International Development reported similar results in a fiduciary risk assessment to the GoSS in January 2012, stating that expenditures did not correlate with the policy priorities of the country's National Development Plan (NDP). Additionally, considerable in-year reallocations have occurred and the cash management systems have not been adhered to.

Other activities listed by the NDP to improve budgeting include enacting key financial management legislation, improving state allocation and monitoring, and effectively confronting corruption within the GoSS. During the March austerity budget speech, the minister of finance announced that the Public Financial Management Bill would be enacted into law. However, that legislation is as yet to be posted on the GoSS website for public review. Thus, it is difficult to determine how effective it will be or if it is even being implemented. Additionally, according to the NDP, the GoSS has yet to devise and implement a comprehensive anti-corruption program. However, a partial anti-corruption plan that requires civil servants and politicians to declare their assets is underway. So far, according to NDP baseline reports, only about 26 percent of civil servants and political elites have completed official forms declaring their assets. However, a recent article in the *Sudan Tribune* shows that more public officials are making efforts to comply with the law regarding asset declarations (Sudan Tribune 2012).

In an effort to minimize corruption and financial malfeasance in the public sector, the GoSS has also created expenditure limits and plans to launch an electronic public financial management system, as well as improve tax revenue collections. In fact, recent tax revenue collection upgrades have already reportedly led to a 40 percent increase in non-oil revenue, according to the *News Agency of South Sudan* press release on April 27, 2012. The central government's transfer of public funds to states, a key area for the mismanagement of funds, has been given high priority according to the NDP matrix. By 2012, the GoSS expects to be able to perform at least one monitoring visit to each of the 10 states to ensure that funds have been properly distributed and used. Yet, under the listed sub-activities for state monitoring of government transfers, the construction of a headquarters building is given the first priority and has the largest cost allocation, not the required monitoring visits.

Despite these efforts, the GoSS needs to provide a comprehensive anti-corruption program that is more closely tied into public finance improvement targets, such as meeting the indicators on the PEFA assessment. This program should be one that relies on effective legal constraints against civil servants and politicians, as well as competition in economic and political markets, with regular elections that allow citizens to remove corrupt politicians from power.

The GoSS must be given credit for building a Public Financial Management System from scratch. As the 2007 World Bank Public Expenditure Review Synthesis Report for Sudan (the inclusive Sudan, under the GNU) reported, the former Sudanese Peoples' Liberation Movement administration, the organization from which the GoSS evolved, oversaw only $100,000 in funds (World Bank 2007). Now the GoSS is a multi-sector government that has since 2011 collected hundreds of millions of U.S. dollars in oil revenues. With increased public revenues, also comes increased risk of bureaucratic corruption and financial malfeasance. Nevertheless, governments, even those in their embryonic stages of development such as the GoSS, must be accountable to the people and the constitution. This is necessary in order to minimize bureaucratic and political corruption and other forms of malfeasance in the management of public resources.

The GoSS is heading in the right direction, in terms of prudent budgeting, especially if it remains on schedule to produce a budget using the Medium-Term Expenditure Framework (MTEF). Ideally, the MTEF links policymaking to planning and budgeting and provides budgeting with a medium-term perspective. It also effectively constrains policy choices in order to enhance long-term development. This approach to budgeting should increase the ability of the government to respond to changes in macroeconomic conditions, expected revenues, program needs and the government's spending policies. The GoSS otherwise may be tempted to deviate from the principles elaborated in the economic and financial plan.

The introduction of expenditure limits, electronic management and improved tax revenue systems provide evidence that President Salva Kiir Mayardit's administration is working toward increased public accountability. However, baseline indicators in the NDP state that no cash management systems are currently enforced. The NDP target for 2012 is for 75 percent of GoSS agencies to adhere to quarterly spending limits. Implementation of electronic systems will help enforce this target by enhancing the ability of spending units to produce timely reports of their activities instead of waiting until the end of the month or quarter. The use of such technologies should minimize the ability of government agencies to malinger, deviate from their budgets or create deficits. Tax revenue collections will also benefit from the shift to e-systems since taxation is another area of government operations that is burdened by corruption in virtually all African countries. Unless South Sudan's tax collectors are forced to operate in a more accountable and efficient manner, they, like their counterparts in the rest of Africa, are likely to manipulate the system to enrich themselves. Although, the austerity budget speech of 2012 reported evidence of tax revenue streamlining and significant improvements in tax collections.

Despite these actual and proposed improvements to the public finance system, the GoSS's commitment to transparency in public operations remains an area of concern. Especially troublesome are the PEFA findings that the GoSS continues to maintain off-budget accounts. In addition to the failure to provide the public with adequate information on oil revenues, the GoSS has not been providing effective monitoring of the allocations to states. No public institution, no matter its mission, must be allowed to maintain off-budget accounts. Failure to maintain budget comprehensiveness can prevent the government from devoting public resources exclusively to meeting societal priorities, makes it extremely difficult for the government to have full legal control of public resources, and significantly constrains the government's ability to operate in an accountable and transparent manner. The South Sudan parliament currently wants to maintain extra-budgetary funds (EBFs) and exclude oil revenue from the national budget. It is critical for South Sudan to avoid EBFs and report oil revenues to ensure that budgetary comprehensiveness is maintained. The fact that the GoSS has prioritized monitoring and effective allocation at the state level shows an initial commitment to significantly improve its budgeting process and to uphold development priorities. However, the austerity budget contains significant reductions in allocations for the development of sub-national governments. Instead, the NDP has committed more money to the construction of facilities for the central government in Juba and significantly less for monitoring and helping bring the government closer to the people through the creation and maintenance of subnational governmental units.

Policy Recommendations

South Sudan has made significant progress in managing the country's public resources. However, much remains to be done and, with the help of the international community coupled with full and effective consultation of the country's relevant stakeholders, the GoSS should be able to significantly improve its ability to efficiently manage public finances. In order to continue to improve public financial management, the GoSS needs to consider the following policy priorities:

- ***Deal effectively with corruption and rent seeking***. Corruption and rent seeking are the two most important problems associated with budgeting and public financial management. The GoSS must continue to put in place mechanisms to minimize these growth-inhibiting behaviors. The first step in attacking weak spots in the current public finance management system is for the GoSS to facilitate the completion of the Public Expenditure and Finance Accountability assessment conducted through the World Bank. Weaknesses and challenges identified by the assessment should be used as a roadmap for improvements in order to make the system more efficient and effective. The GoSS can use the PEFA to help it meet the targets created by the NDP.

- ***Maintain prudent budgeting principles***. The GoSS should not deviate from its plan to use the MTEF to produce a budget by June 2012. Strict adherence to this timeline is especially important in light of the recent austerity measures and South Sudan's tenuous relations with the Republic of Sudan. Even with the need for heightened security, the GoSS needs to maintain budget comprehensiveness and report all revenue—from oil and non-oil sources. Current efforts to hold government agencies accountable via electronic management systems and expenditure limits must remain a priority. Deviations from the development plan and expenditure limits or the maintenance of off-budget accounts could have catastrophic results for the economy and for the government's ability to make progress toward building credible institutions in South Sudan.

- ***Insist on public participation***. Allowing citizens at the local level to have input into how public resources are allocated can minimize corruption and significantly improve public financial management. Since elites in Juba are unlikely to be familiar with or have accurate information on economic and social conditions in the rural areas, a decentralized form of allocation is preferable. However, while a decentralized system of allocation is considered more efficient, it can create unplanned liabilities for the central government. The GoSS needs to demonstrate to its citizens that it is making progress on creating laws and institutions that can effectively constrain local political jurisdictions and prevent them from abusing their authority to borrow and spend on behalf of their constituents.

- ***Maintain fidelity to the national development plan***. For the GoSS, improved comprehensiveness in the design and implementation of public finance policies would significantly increase the people's trust in and acceptance of their government and the credibility that this creates augurs well for national security. To its credit, South Sudan has in place a realistic economic plan on which to base its budget, even if it could stand some polishing. What is critical, however, is that the GoSS should not be tempted to deviate from the principles elaborated in the NDP because of recent changes in its political economy—notably, the country's confrontation with the Republic of Sudan over the border and the subsequent loss in oil revenues.

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SOUTH SUDAN'S QUEST FOR REGIONAL INTEGRATION

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Framing the Issue

Over the past year, South Sudan has made considerable efforts to participate in the global economy by applying for membership to strategic international and regional bodies, including the East African Community (EAC)—a regional intergovernmental organization consisting of Kenya, Uganda, Tanzania, Rwanda and Burundi. South Sudan made the application against a backdrop of envisaged economic benefits from trade and commerce that it hopes to gain from having access to a much larger market (140 million people). In addition, it expects to be able to take advantage of the community's existing infrastructure (especially airports, railways, land roads and seaports) to improve its access to regional and global markets in order to increase trade. Despite the recent changes in the country's macroeconomic conditions, including a significant reduction in oil revenues and violent interethnic conflicts, South Sudan has not suspended its application to join the EAC. Nevertheless, while integration looks appealing, it also comes with costs. For one thing, South Sudan is likely to lose income from tariffs imposed on imports from EAC member-countries and its domestic producers would face significant competition from the EAC's more experienced exporters.

In establishing the EAC, member countries sought to provide themselves with a structure that would enhance their ability to trade with each other, as well as participate more effectively in the global economy (EAC 2007, Article 5). The primary objective of the EAC is to develop a single market in East Africa anchored on free internal and external trade. South Sudan's eventual integration into the EAC will benefit not only South Sudan, but also other members of the community (Mkinga 2012). For example, South Sudan is endowed with a significant amount of natural resources, which include oil, minerals, water, forests and rich agricultural lands, and the Government of South Sudan (GoSS) has also indicated that it is interested in establishing the type of large-scale commercial farming that could turn South Sudan into the breadbasket of the region. Success of this ambitious project could help reduce the region's dependence on food imports and significantly improve food security (UNECA 2011).

Joining the EAC is a great long-term plan for South Sudan. However, the macroeconomic conditions on the ground are on a perturbing path. With the stoppage of oil production, which accounts for as much as 98 percent of South Sudan's budget revenue, the economic situation is likely to worsen (Stearns 2012). According to South Sudan's Finance Minister Kosti Manibe Ngai, "there is a possibility of depreciation of the South Sudan pound, leading to expensive imports and spilling to high levels of domestic inflation" (GoSS 2012). This would make it difficult for South Sudan to meet any macroeconomic convergence criteria for the EAC. The outcome could be increased poverty levels and the failure of the government to maintain spending on critical areas such as the delivery of basic human services.

What's at Stake?

Becoming a member of a regional trading bloc portends many benefits, but also comes at a cost. Some South Sudanese citizens have expressed concerns about potential lost jobs, revenue, business and industry to the more developed nations of the EAC. The literacy rate is only 27 percent in South Sudan, compared to Kenya, Uganda and Tanzania at 87 percent, 73 percent and 72 percent respectively (UNDP 2012). Agriculture employs about 80 percent of the labor force and domestic industries are still in their embryonic stages of development (UNFAO 2008). Moreover, the EAC intends to eventually adopt a single currency, harmonize fiscal and monetary policies, and ultimately evolve into a political federation. This implies a loss of autonomy in such areas as the design and implementation of fiscal and monetary policies, as well as the ability to carry out other political duties independently from all the other EAC member countries.

Although South Sudan stands to benefit significantly from membership in the EAC, especially in the long run, it must evaluate its application carefully to make certain that this is indeed the appropriate time to seek membership.

The decision to admit South Sudan into the EAC is a function of the EAC heads of state, who are expected to decide on this issue during their November 2012 Summit. In a previous EAC summit communiqué, the EAC heads of state "expressed concern about the ongoing conflict between the Republic of Sudan and South Sudan and appreciated the role partner states have played in resolving the conflict in the Sudan." A committee was charged with visiting South Sudan and establishing whether South Sudan meets the criterion for membership according to Article 3 (3) of the EAC Treaty, which sets the conditions for membership. Such conditions include "(a) acceptance of the Community as set out in the Treaty; (b) adherence to universally acceptable principles of good governance, democracy, the rule of law, observance of human rights and social justice; (c) potential contribution to the strengthening of integration within the East African region; (d) geographical proximity and interdependence between it and the Partner States; (e) establishment and maintenance of a market driven economy; and (f) social and economic policies being compatible with those of the Community."

South Sudan is in a good position to have its application for membership in the EAC approved. First, South Sudan has the potential to contribute significantly to the strengthening of integration within the East African region. South Sudan is a neighbor to most of the EAC states and its government has indicated in its development plans that it is interested in establishing and maintaining a market-driven economy. In addition, the government is continuing its efforts to establish a governance system based on the rule of law and respect for human rights and social justice. Second, South Sudan shares historical and cultural links with virtually all EAC members.

The EAC has made significant progress toward integration during the last 12 years of its existence. The *customs union* and *common market* are already in place and the East African Monetary Union protocol is currently being negotiated by a High Level Task Force and is expected to be signed by the heads of state by December 2012 (EAC e-Newsletter 2012). Preparations are ongoing to introduce a single currency, a process that will be accompanied by or undertaken in conjunction with the harmonization of monetary and fiscal as well as welfare policies. Considering the progress that has already been made in the EAC, the question to ask is whether South Sudan is ready to be absorbed into a larger, more developed and complex market. The harmonization of fiscal, monetary and welfare policies could make it very difficult for South Sudan to undertake the types of policies that target vulnerable groups within its borders. Harmonization compels members to surrender authority over certain public policies. Given that South Sudan is likely to be the poorest country in the community, the government should seriously consider the fact that membership may deprive it of the ability to solve problems unique to its economy. For example, the type of fiscal discipline required to achieve macroeconomic convergence in the EAC could be detrimental to efforts to strengthen South Sudan's fragile economy—an economy suffering from more than 50 years of neglect by Khartoum, as well as the destructive effects of more than 30 years of civil war. Since South Sudan is likely to have the weakest economy in an expanded EAC, it might be necessary for the GoSS to seek assistance from the community. South Sudan must protect its vulnerable populations, as well as develop domestic productive capacity in order to enhance the country's ability to compete effectively.

Policy Recommendations

South Sudan needs to make certain that this is the right time to join EAC and prepare itself to participate gainfully if membership is granted, or withdraw until a time when they are economically strong enough to become a member. Some policy suggestions to enhance South Sudan's participation in the EAC are offered below:

- ***Examine macroeconomic policies required to meet the criteria for integration.*** The GoSS has the challenge of implementing macroeconomic policies that support economic growth and the creation of wealth—some of the more immediate policies to enhance growth include providing opportunities, especially in the rural areas, for human capital formation; helping rural farmers gain access to urban markets so that they can sell their output and secure necessary inputs for their farms; providing opportunities for entrepreneurs to obtain credit; and generally securing the peace in order to create an enabling environment for investment. In joining the EAC, South Sudan also agrees to meet the necessary macroeconomic convergence criteria and therefore would have to maintain low inflation and budget deficits, as well as high economic growth rates. This is likely to be a serious challenge for a nation that is currently building an economy devastated by years of brutal civil war. Further, the macroeconomic situation resulting from the closure of oil production—slow economic growth, the depreciated South Sudanese pound, and high inflation—makes it difficult for South Sudan to meet the criterion necessary for full integration.

- ***Build appropriate infrastructures and institutions***. Infrastructure plays a central role in trade and cultural exchanges between regions both domestically and internationally. South Sudan lacks roads and communication infrastructure—it currently has only 100 kilometers of paved roads (IMF 2011). Providing itself with effective and fully functioning infrastructure, as well as appropriate governmental institutions to enhance trade, is key to South Sudan's ability to extract benefits from its membership in the EAC. Another case in point, is the farm-to-market roads access. South Sudan's predominantly rural agricultural sector will not be able to participate fully in the trade opportunities offered by EAC membership. Thus, South Sudan must secure the necessary revenues for infrastructure development, which requires the GoSS to resolve any issues with oil production and resume production as soon as possible. Perhaps, more important is the fact that South Sudan's economy does not currently generate enough tax revenue to adequately finance all of the government's planned development projects.

- ***Ensure a peaceful environment to facilitate trade***. Regional integration offers a wide array of benefits for South Sudan, especially in the long run. Nevertheless, for these benefits to be realized, South Sudan needs to promote the peaceful coexistence of ethnic groups to enable them to engage in productive activities and trade. The government should ensure that universally acceptable principles of good governance are adhered to by all ethnic and government institutions; it must ensure that democracy and the rule of law are practiced, and human rights and social justice are observed. Unless South Sudan provides itself with an internal peaceful environment that will facilitate trade, it is not likely to benefit from membership in the EAC.

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