South Sudan Economic Monitor

Towards a Jobs Agenda

FIFTH EDITION
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Macroeconomics, Trade and Investment Global Practice

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ABBREVIATIONS

AfCFTA	African Continental Free Trade Area
LIPW	Labor Intensive Public Works
AfDB	African Development Bank
MOFP	Ministry of Finance and Planning
AML	Anti-Money Laundering
MSSMEB	Multi-Sectoral Minimum Expenditure Basket
AY	Annual Year
NGO	Non-Governmental Organization
BSS	Bank of South Sudan
OCHA	Office for Coordination of Humanitarian Affairs
CFT	Combating Financing of Terrorism
OPEC	Organization of the Petroleum Exporting Countries
CFSAM	Crop and Food Security Assessment Mision
PIM	Public Investment Management
CLIMIS	Crop & Livestock Market Information System
PFM	Public Finance Management
CPI	Consumer Price Index
POC	Protection of Civilians
DDR	Disarmament, Demobilization, and Reintegration
PV	Present Value
DSA	Debt Sustainability Analysis
QNB	Qatar National Bank
EAC	East African Community
RCF	Rapid Credit Facility
EMDE	Emerging Market and Developing Economy
SMP	Staff Monitored Program
EOR	Enhanced Oil Recovery
SSA	Sub Saharan Africa
FAO	Food and Agriculture Organization of the United Nations
SSP	South Sudanese Pound
FDI	Foreign Direct Investment
TFA	Transitional Financial Arrangement
FCS	Food Consumption Score
UN	United Nations
FSNMS	Food Security & Nutrition Monitoring Survey
UNHCR	United Nations High Commissioner for Refugees
GDP	Gross Domestic Product
UNMISS	United Nations Mission in South Sudan
GoSS	Government of South Sudan
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
GRADE	Global Rapid Post Disaster Damage Estimation
USD	United States Dollar
IDA	International Development Association
WASH	Water, Sanitation and Hygiene
IDP	Internally Displaced Person
WEO	World Economic Outlook
IMF	International Monetary Fund
WFP	World Food Program
IPC	Integrated Food Security Phase Classification
FY	Fiscal Year

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EXECUTIVE SUMMARY

State of the economy

After contracting by an estimated 5.4 percent in FY2020/21, South Sudan's economy is projected to grow by 1.2 percent in FY2021/22, with a rebound of growth in services and trade supported by improving macroeconomic conditions and relative peace. In addition, high frequency indicators point to a strong rebound in the growth of private sector credit and in cross-border trade, with the receding impact of pandemic-related restrictions imposed last year. Despite these positive developments, the economic outlook is clouded by production bottlenecks in the oil sector and devastating flooding incidents that have impacted an estimated 7.5 percent of the population (850,000 people). In the agriculture sector, flooding has had a significant impact on crop and livestock production, with estimated losses of 38,000 tons of cereals (4.3% of 2020 net cereal production) and 800,000 livestock according to FAO estimates. Given that agriculture remains the most important provider of employment in South Sudan, these developments are expected to have significant impacts on livelihoods.

The food deficit has widened significantly in recent years, reflecting increased food requirements in the context of the low levels of productivity of the agricultural sector. The overall cereal deficit was projected to reach around 465,610 metric tons in 2021, equivalent to about 35 percent of the overall food requirement for the year. While this deficit has narrowed over the year, standing at four percent below the estimated deficit of 482,500 metric tons in 2020, it was still four percent higher than the average figure recorded over the previous five years. These unmet food requirements have contributed to record-high levels of food insecurity throughout the country, especially in areas where conflict and flooding have recently affected crops and livestock. Years of conflict, climate shocks and displacement have degraded productive capacity, markets, road infrastructure, and the social and economic institutions that supported agriculture.

Floods and outbreaks of conflict in certain areas of South Sudan have taken a heavy toll on South Sudanese, destroying livelihoods and precipitating a humanitarian crisis. In 2021, flooding incidents affected an estimated 850,000 people in 33 out of 78 counties across nine of the country's 10 states, causing severe damage to already limited and underdeveloped infrastructure. At the same time, communities in parts of the country have been affected by intensified localized conflict, particularly in Western Equatoria (Tambura) and Warrap (Greater Tonj). These concurrent shocks have resulted in a new wave of displacements, disrupting livelihoods and challenging the ability of the humanitarian sector to respond effectively. This has exacerbated food insecurity and worsened the already dire living standards in affected communities.

The shocks that have afflicted South Sudan over the year have been accompanied by a collapse of service delivery. The delivery of social services and infrastructure has been affected by these concurrent shocks, resulting in extremely low levels of access, particularly outside urban areas. With IDPs among the most severely affected, a large proportion of people in this group do not have adequate access to safe water and sanitation infrastructure and face barriers in accessing healthcare services. Food insecurity is particularly high among IDP populations, with only 17 percent of households in the Juba IDP facilities and 40 percent in Bentiu recording an acceptable food consumption score. In the Greater Pibor Administrative Area, the violence has resulted in the destruction of critical infrastructure, including boreholes (often the only source of water), schools, markets, and shelters, and in the loss of livestock as a result of raiding. These developments have negatively impacted livelihoods and jobs and resulted in sustained high levels household vulnerability.

As a result of the ongoing macroeconomic reform process, South Sudan's foreign exchange and inflation rates have stabilized. Following the gradual liberalization of the foreign exchange market that commenced in April 2021, the premium between the official rate and the parallel rate has been virtually eliminated. At the same time, the monetization of the fiscal deficit has ceased since September 2020. With these developments, inflation continued to decline in the second half of 2021, reflecting improved exchange rate stability and greater monetary and fiscal discipline. With the high inflation recorded in the recent past being recognized as one of the major constraints on business activities at all levels, it is expected that the reduction in inflation will play a positive role in promoting recovery. With the authorities having maintained their commitment to macroeconomic stabilization efforts, they have established the initial foundations to enable them to set forth on the long and challenging path to the implementation of their wider economic and public financial management reform program.

The overall FY2020/21 budget deficit is estimated to have narrowed to about 6.9 percent of GDP, down from an estimated 9.8 percent in FY2019/20. South Sudan's fiscal position has benefited from higher-than-projected oil revenues, improved domestic revenue mobilization, and fiscal consolidation efforts. The impact of the decline in oil production on budget revenues has been offset by an increase in prices, with oil revenue standing at an estimated 26.6 percent of GDP in FY2020/21, up from 25.5 percent in FY2019/20. At the same time, expenditure declined to an estimated 38.5 percent of GDP in FY2020/21, down from 39.3 percent in FY2019/20, reflecting lower financial transfers to Sudan, adjustments to operating expenditures, and the under-execution of the capital budget.

South Sudan is at high risk of debt distress, with total public debt estimated to stand at 59.5 percent of GDP at the end of FY2020/21. The risk of debt distress has increased, despite the new SDR allocation partly used for debt management and debt-carrying capacity remains rated as weak. With relatively few counterparts accounting for most of South Sudan's gross external debt, around 63 percent of total loans were highly non-concessional in FY2020/21. Moreover, South Sudan's debt to commercial creditors is collateralized against oil revenue receipts. Domestic debt, estimated at US$ 627 million (12.6% of GDP), is mostly in the form of loans from the central bank. Systems for recording and monitoring debt are weak, with relevant ministries, departments and agencies having inadequate analytical capacity and suboptimal coordination between them.

Following the gradual liberalization of the foreign exchange market that commenced in April 2021, the premium between the official rate and the parallel rate has been virtually eliminated.

The balance of payments benefited from lower import demand and reduced financial transfers to Sudan, with the current account deficit narrowing to an estimated 5.5 percent in FY2020/21 from 20.3 percent in FY2019/20. The trade deficit narrowed to an estimated US$ 333 million (6.7% of GDP) in FY2020/21 from US$ 602 (12.3% of GDP) in FY2019/20, with merchandise imports declining by 8.3 percent from US$ 3.690

billion in FY2019/20 to an estimated US$ 3.383 billion in FY2020/21, reflecting the impact of the pandemic, which constrained government consumption and investment and delayed private sector investment, particularly in the oil sector. Oil revenue receipts declined by an estimated 1.3 percent, going down from US$ 3.061 billion in FY2019/20 to US$ 3.021 billion in FY2020/21. The strong recovery in oil prices in the second half of the financial year, following their collapse following the advent of the pandemic, played a role in averting a steeper decline. At the same time, transfers to Sudan declined to an estimated US$ 169 million in FY2020/21, down from US$ 492 million in FY2019/20. As a result of these factors, the current account deficit improved to 5.5 percent of GDP in FY2020/21, from the figure of 20.3 percent recorded during the previous year.

The economic outlook is cautiously positive. With a projected growth rate of 1.2 percent in FY2021/22, South Sudan's economy is expected to record a mild economic recovery following the estimated contraction of 5.4 percent in FY2020/21, reflecting a rebound of growth in services and trade. In the medium term, the economy could grow by 3.5 - 5.0 percent if the peace process holds, the economic management reform program is successfully implemented, and global and regional economic recovery does not falter. However, this outlook is clouded by a high degree of uncertainty due to several factors, including those related to the still uncertain peace process, oil sector developments, climatic shocks, future path of the COVID-19 pandemic, and a weaker global economic context, all of which could exert negative pressure on the projected recovery. In an adverse scenario in which these downside risks materialize, growth could be as low as 2.5 percent in FY2022/23.

Towards a Jobs Agenda

With a projected growth rate of 1.2 percent in FY2021/22, South Sudan's economy is expected to record a mild economic recovery following the estimated contraction of 5.4 percent in FY2020/21, reflecting a rebound of growth in services and trade.

As South Sudan looks to build stability, better jobs should take center stage. Armed conflict, natural disasters, and the COVID-19 pandemic have profoundly disrupted livelihoods in South Sudan. As the authorities seek to consolidate peace, there is an opportunity now to continue on the road to economic recovery. In this process, paying attention to jobs is key: economies that create opportunities are more stable and investment projects that create jobs can also hope to foster positive attitudes toward the peace process.

With South Sudan's enormous investment needs and limited resources, it is crucial to identify the most significant opportunities to support better jobs. While South Sudan receives substantial oil revenue and development assistance, the prospects of foreign investment remain distant. Investment needs far exceed the available resources. In a high risk, high cost, and low demand business environment, public investment can play a key role in facilitating recovery. These public investments can lower costs (notably in transport), raise returns (notably in agriculture), and sustain demand by ensuring public-sector salaries are paid. To deploy the limited available resources well, it is essential to understand which investments are most likely to make a real difference in the lives of South Sudanese workers.

Initiatives to support jobs during recovery must begin with a realistic understanding of what a job means to most workers. Jobs policy is never a matter of 'one size fits all.' In South Sudan, most jobs involve low-productivity self-employed or household work in agriculture and services, with typical incomes in the range of US$ 2 per day. In rural areas, jobs are tied to subsistence agriculture and other vulnerable livelihood models, while in urban areas, they mostly involve own-account or household work in agriculture (37% of all jobs) or services, almost always commerce and basic personal services (46%). The goal of jobs policies at the early stages of recovery should be to broadly increase the productivity of these common activities, including through measures to harness the potential for higher returns in food sector value chains.

Years of violence, natural disasters, and economic crisis have had severe impacts on virtually all forms of economic activity. Between 2013 and 2018, 380,000 people are reported to have died as a result of armed conflict. Since then, destructive floods have become an annual event. At present, more than a third of the population remains forcibly displaced; more than half experience acute food insecurity; and poverty has reached unprecedented levels. Even in towns, almost all job activities have been affected, with a survey conducted in 2019 showing that a half of all households in towns could no longer engage in a previously important economic activity. Of the 4,000 businesses surveyed, precisely two reported that their operations had not been negatively affected by conflict. With improved stability, up to an estimated one million displaced workers may begin returning to their communities. While integrating large returnee groups into local labor markets may create opportunities in moving towards sustainable livelihoods for the country, it will also involve huge challenges.

In general, young workers have reasonable expectations regarding jobs and are open-minded towards available activities, particularly in agriculture. The willingness of young South Sudanese to take advantage and build from the limited opportunities available to them has significance for the achievement of both political stability and economic recovery. Young workers have realistic expectations regarding available incomes. Even in urban areas, they hold positive attitudes towards work in agriculture, with more youth currently active in the sector saying that they would rather do better in agriculture than shift to a different activity. This is particularly important considering the large proportion of the population that derives their livelihood from the food sector currently and the significant potential for the future competitiveness of the sector. While a large proportion of the young continue to aspire to obtain employment in the public sector, the proportion expressing hopes of this kind has declined since the last assessment in 2014.

With few thriving firms, jobs programs must seek out unconventional ways to support productive employment, including in household businesses active in promising value chains. South Sudan's established business sector is far from what one would wish it to be. It provides little employment and has little engagement in value chains that have strong potential for growth, with most jobs in commerce and basic services. Hence, it is important to consider even unconventional opportunities to build on business activities in productive sectors. Household activities in processing and artisanal production may present such an opening: they employ far more workers than established businesses in the food sector and manufacturing and may be similarly productive. Secondly, given that foreign-owned businesses are already integrated into broader labor and product markets, they could be encouraged to play a greater role.

Surveyed households, market traders, and businesses consistently report that insecurity, a lack of funding, low demand, and poor roads are the key factors constraining their activities. With the poor state of South Sudan's economy, people face a wide range of challenges in their endeavors to make a living, regardless of whether they work in their households, casual businesses, or more established businesses. Despite a multitude of obstacles, however, businesses, traders, and households all tend to agree that the most significant challenges they face relate to lack of funding for their activities, low demand (including as a result of inflation), bad and dangerous roads, and the direct impact of insecurity.

South Sudan's critical development challenge remains to consolidate peace and find a way to use its oil revenue to develop a sustainable economy. In addition to consolidating peace and building stability, South Sudan's fundamental development challenge is to transition from taking economic policy decisions with a view to managing conflict to making policy for development and good job opportunities. Improved security is the single most important condition for a recovery in job opportunities. At the local level, improved security would relieve many of the constraints facing workers and businesses. Secondly, oil revenues continue to provide a large income stream, with the effective management of these revenues vital for the transition to development-oriented policy. The Government has formulated a clear reform agenda, and it must be engaged.

Given the pervasive toll of conflict, second-best measures and gradual changes have a role to play during the early stages of recovery, aligned with a peacebuilding process. Little in the economy today is as it should be, and the level of capacity and resources is very low. In their endeavors to support jobs, it is therefore particularly important for the Government and development partners to maintain a realistic view of the measures that are both possible and effective in the immediate term, and to allow for some second-best measures until more sustainable approaches become viable For instance, at the policy level, while the reform of public financial management systems will take time to accomplish, partial success in reducing payroll arrears or gradual increases in agriculture investment can make a substantial difference. At the program level, prospects for supporting the emergence of a formal, high-productivity private sector are remote – but effective support to household businesses can broadly raise revenues. Such actions can promote early recovery and, despite their short-term horizon, lay the groundwork for increasingly ambitious and sustainable reforms.

The government could implement a number of policy measures to curb inflation, revive demand and ease fees, all of which could make a real difference for jobs in the short term. The transformation of macro-fiscal management that is required to set South Sudan on the path toward sustainable growth and better jobs will take political will and effort, sustained over a long period of time. Yet, there are significant opportunities to take first reform steps that, while far from perfect, can make a concrete difference in improving the conditions of South Sudan's workers. Key short-term measures to create better conditions for local markets, small business and livelihoods include: (i) continuing efforts to limit the monetization of the deficit and curbing inflation pressure, (ii) clearing domestic arrears to rebuild market demand and redirecting some resource revenue toward domestic consumption; and (iii) easing fees in markets and at checkpoints and paying security forces transparently through the payroll.

An effective jobs support program would invest in immediate livelihood support, the recovery of modest business activities, and the revival of markets. An effective program for jobs in recovery should operate on three levels: First, it should support the recovery of production in agriculture through provision of inputs and assistance to producer groups and of temporary income support through Labor Intensive Public Works (LIPW) or cash transfers. Secondly, following progress towards the achievement of local stability, jobs support should invest significantly in areas where there is the most potential for broad-based productivity gains in business activities by supporting individual, household, and co-operative productive activities through cash grants and complementary psycho-social support. Thirdly, to facilitate the recovery of markets and rural-urban linkages, investments in rural feeder roads are a high priority, together with measures to promote local procurement and support to aggregators through the UN system.

PART 1:

RECENT ECONOMIC DEVELOPMENTS

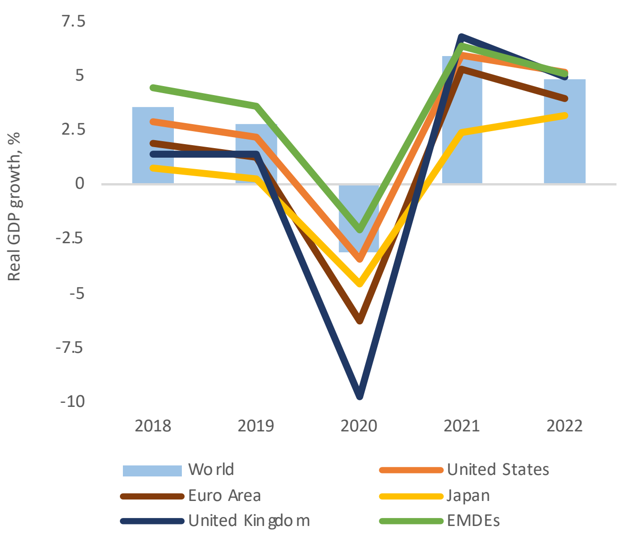
1.1 Global and regional economic developments

Despite a resurgence of the COVID-19 pandemic and continued supply bottlenecks, the global economy showed strong signs of recovery in 2021. Following an estimated contraction of 3.1 percent in 2020, the global economy is estimated to have grown by 5.5 percent in 2021, 0.5 percentage points lower than previously forecasted, before moderating to 4.1 percent in 2022 (see Figure 1). Among advanced economies, the downward revision to global economic growth forecasts reflects supply disruptions, softening consumption, and shortages of key inputs. The outlook for low-income developing countries reflects worsening pandemic dynamics, particularly in cases where the rollout of vaccination programs has lagged and where policy support has been limited. Beyond 2022, global growth is projected to moderate to approximately 3.2 percent over the medium term. The output of advanced economies is forecast to exceed pre-pandemic medium-term projections, reflecting sizable anticipated further policy support in the United States. By contrast, persistent output losses are anticipated for the emerging market and developing economy countries, due to slower vaccine rollouts and generally less policy support than in the advanced economies. The emergence of the Omicron variant (B.1.1.529) of the SARS-CoV-2 virus and the potential emergence of other variants creates additional uncertainty for the global outlook.

Following a large slump in 2020, global energy prices have rebounded strongly, with the world economy continuing on its path to recovery from the pandemic. Global oil prices rallied in the second half of 2021 to reach their highest level in seven years after OPEC and its allies declined to accelerate plans to increase crude oil production, snubbing calls to implement measures to address the growing global energy crunch. Europe and Asia have been affected by tight energy supplies that have pushed natural gas and coal prices to the highest level on record, with oil prices also rising steadily with the recovery from the pandemic. Before the emergence of the Omicron variant, US oil benchmark West Texas Intermediate increased to a level in excess of US$ 78 a barrel in October 2021 for the first time since 2014, while Brent crude rose to US$ 82 a barrel for the first time in three years (see Figure 2), following the OPEC+ group's decision to increase production only gradually, by 400,000 barrels a day each month, despite a growing deficit between supply and demand. Oil prices are expected to average at US$ 74/bbl in 2022 before declining to US$ 65/bbl in 2023 as global production recovers.

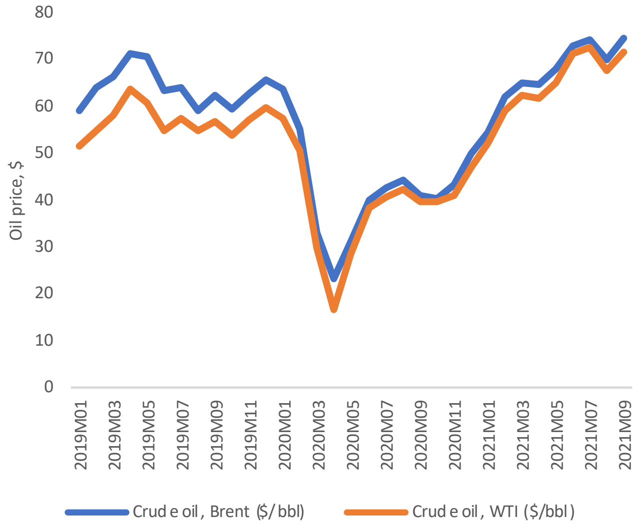
Sub-Saharan Africa recorded an economic growth rate of 3.5 percent in 2021, supported by increased commodity prices, a relaxation of stringent pandemic measures, and a recovery in global trade. However, economic recovery in the region remains fragile, with the slow pace of the rollout of vaccination programs continuing to expose it to the impacts of emerging strains of the coronavirus. With Sub-Saharan Africa recording a growth rate of 3.5 percent in 2021, it is forecast that this could increase to 5.1 percent in 2022 and 5.4 percent in 2023 if the rollout of vaccination programs is intensified. By contrast, a slower than expected implementation of these programs could impede the relaxation of pandemic-related restrictions and otherwise result in disruptions to economic activity. Under this scenario, it is projected that the regional growth rate would reach only 2.4 percent in 2023. It should also be noted that there is significant variation in the rates of recovery between countries within the region. It is estimated that Angola, Nigeria, and South Africa, the largest economies in the region, have emerged from the 2020 recession, growing at 0.4 percent, 2.4 percent, and 4.6 percent respectively. Excluding these three countries, the other economies in the SSA region are recovering at a faster rate, at 3.6 percent in 2021. It is projected that the regional economic growth rate will stand at 3.6 percent in 2022 and 3.8 percent in 2023.

Figure 1: Global Economic Developments



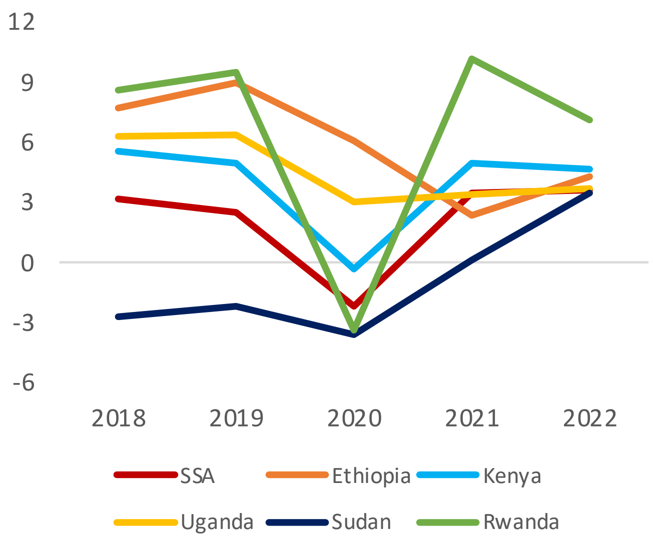
Source: World Bank

Figure 2: Global oil price developments



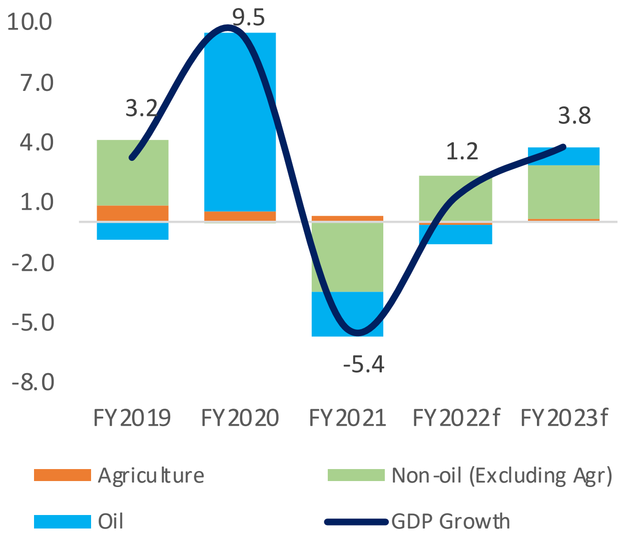
Source: World Bank

Figure 3: Regional Economic Developments



Source: World Bank – Global Economic Prospects, January 2022

Figure 4: South Sudan Growth Contributions



Source: World Bank staff estimates

While South Sudan's regional peers are positioned for reform and stabilization, political developments in Sudan and Ethiopia could drag on economic growth. Regional economies will benefit from improving global economic prospects, with an anticipated recovery in the trade and tourism sectors. At the same time, a number of countries have taken advantage of the pandemic to address long-standing structural impediments to growth by implementing politically challenging reforms, creating improved conditions for the achievement of sustained long-term growth. Examples of such reforms include Sudan's exchange rate unification initiative and the liberalization of the telecommunications sector in Ethiopia. Kenya's economic growth rate is projected to rebound from -0.3 percent growth in 2020 to 5.0 percent in 2021, reflecting improvements in the construction, education, information and communication, and real estate sectors. Similarly, Uganda's economy is projected to grow by 3.4 percent in 2021, with the impact of additional waves of the pandemic and associated lockdowns having impeded an even more rapid recovery. In Rwanda, the economy is estimated to have grown by 10.2 percent in 2021, the highest rate in the region. However, these projections are subject to significant downside risk. In particular, recent political developments, particularly the coup d'état in Sudan and ongoing conflict in Ethiopia, could weaken or even reverse the expected economic gains in the region.

1.2 Real sector developments

After contracting by an estimated 5.4 percent in FY2020/21, it is projected that South Sudan's economy will grow by 1.2 percent in FY2021/22, with floods and bottlenecks in the oil sector constraining a more rapid recovery. South Sudan faced significant headwinds in FY2020/21, with the pandemic, floods, and flareups of subnational conflict significantly affecting economic activities. In terms of volume, oil production is estimated to have declined by 5.9 percent, with average daily production levels declining from 170,000 to 160,000 barrels. This decline was due to the impact of floods and to the delays, resulting from the pandemic, on new investments to replace exhausted wells. Non-oil GDP is estimated to have contracted by 5 percent, with a widening exchange rate premium, high inflation, and tight credit conditions constraining economic activity in the first half of the fiscal year. For workers and businesses, this contraction has been reflected by wide-spread declines in income (see below). Nevertheless, it is projected that the economy will grow by 1.2 percent in FY2021/22 (see Figure 4), with a rebound of growth in services and trade supported by improving macroeconomic conditions and relative peace. However, the FY2021/22 economic outlook is subject to significant downside risks related to production bottlenecks in the oil sector, with dwindling production due to limited new investments. This decline highlights the need for South Sudan to diversify its economy.

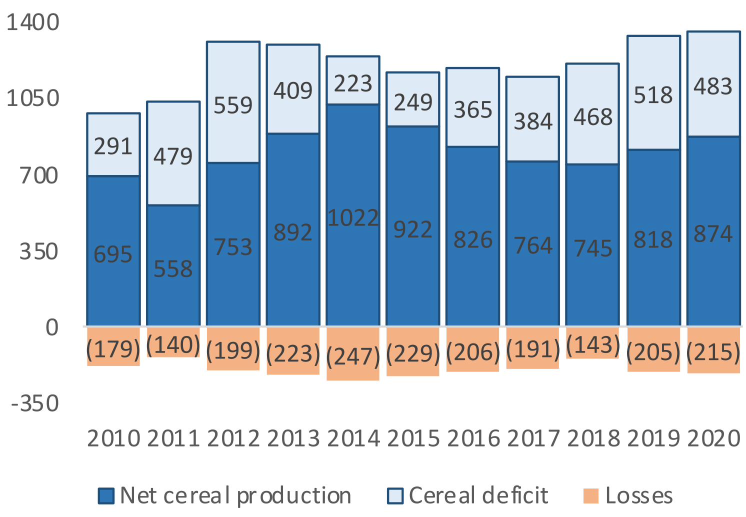
The performance of South Sudan's agricultural sector has been impacted by climate shocks and conflict in parts of the country, affecting the livelihoods of a major part of the population. Climate shocks, including those related to flooding and droughts in certain regions, have disrupted the recovery in agricultural production, potentially exacerbating food insecurity across the country.

The performance of South Sudan's agricultural sector has been impacted by climate shocks and conflict in parts of the country, affecting the livelihoods of a major part of the population. Climate shocks, including those related to flooding and droughts in certain regions, have disrupted the recovery in agricultural production, also potentially exacerbating food insecurity across the country. Prior to the floods in 2021, agricultural production had recorded significant improvements for at least three years, with the return of relative peace in parts of the country since 2018 supporting increases both to the area of land under cultivation and production, albeit from very low bases. The area of land under cultivation increased by 5.3 percent, going up from 882,000 hectares in 2018 to 929,000 hectares in 2019, and then by a further 6.3 percent, to 987,500 hectares, in 2020 (FAO, 2021a). However, the floods inundated a significant proportion of this agricultural area, leading to losses in the order of 38,000 tons of cereals and 800,000 livestock in the period from May to December 2021 (FAO, 2021b). At the same time, flareups of conflict in parts of the country, particularly in the states of Western Equatoria and Warrap, led to mass population displacements, significantly affecting farming activities in these areas. Agriculture remains the mainstay of livelihoods for South Sudanese households, including in towns, with shocks to agricultural production resulting in broad welfare losses.

South Sudan loses substantial quantities of agricultural produce due to gaps in post-harvest handling and storage, with only very limited opportunity for value addition. Production and consumption have been affected by a lack of post-harvest handling, storage, and agro-processing facilities. The FAO estimates that more than 20 percent of agricultural produce is lost due to the absence of storage facilities (Figure 5), with these losses contributing to food insecurity. Due to the lack of storage facilities, farmers often have no option other than to sell their produce when prices are low. To put these challenges in perspective, eliminating the cereal losses experienced in 2020 would have reduced the cereal deficit by as much as 45 percent. To address these constraints, policymakers should strive to develop a Warehouse Receipt System and an associated warehouse receipt policy, together with interventions to facilitate low-cost storage options at the individual farmer and farmer-group levels (World Bank, 2021).

Sudan's food deficit has widened significantly in recent years, reflecting both increased food requirements and low levels of agricultural productivity. In 2021, the overall cereal deficit was projected to reach around 465,610 metric tons, equivalent to about 35 percent of the overall food requirement for the year which is estimated at 1.34 million tonnes (FAO, 2021a). While this deficit is 4 percent lower than that estimated for 2020, which stood at 482,500 tonnes, it is still 4 percent higher than the average figure recorded for the previous five years. The unmet food requirements contribute to record-high levels of food insecurity throughout the country, particularly in areas where conflict and flooding have affected crops and livestock. The protracted conflict, economic crisis, climate shocks and population displacements have degraded productive capacities, markets, road infrastructure, and the social and economic institutions that supported agriculture, in addition to creating a major humanitarian crisis.

Figure 5: Cereal production, thousand MT

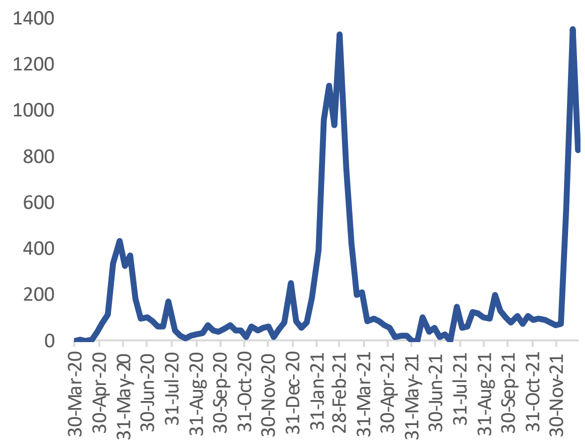


Source: CLIMIS and FAO

While the number of new COVID-19 infections begun to increase since December 2021, the impact on the economy is expected to be less severe than with previous waves. While the health impact of the pandemic in South Sudan was relatively contained in 2021 compared to elsewhere in the region, the number of new infections increased rapidly starting in December 2021, indicating that South Sudan had entered a third wave of the pandemic (Figure 6). By 3 January 2022, the cumulative number of recorded COVID-19 cases had risen to 15,152, up from the 12,517 cases reported at the end of the first week of November 2021. While most of these cases have presented as mild or asymptomatic, the World Health Organization notes unconfirmed reports of widespread community transmission of COVID-19-like sicknesses (WHO, 2021). However, testing capacity continues to be constrained by the high costs of PCR test kits, although other, less expensive rapid diagnostic tools are now being progressively used. To enforce public compliance with pandemic mitigation measures, South Sudan's National Taskforce on COVID-19 announced new restrictions on 21 December 2021 through the issuance of Public Order No. 16/2021. Despite the recorded increase in case numbers, however, the impact on the economy is expected to be limited, with the authorities seeking to avoid stringent lockdown measures.

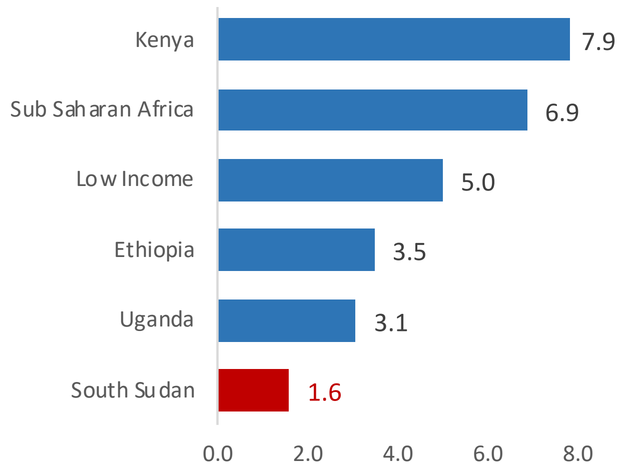
Progress in the implementation of the national COVID-19 vaccination program has been slow. The authorities launched a national vaccination program in March 2020, at which point they received 132,000 AstraZeneca COVID-19 vaccines through the Covax initiative. By 31 December 2021, 269,000 COVID-19 dozes had been administered, with 182,000 fully vaccinated individuals, equivalent to approximately 1.6 percent of the population (Figure 7). In the implementation of its vaccination program, South Sudan faces significant supply issues, with the number of doses allocated through COVAX initiative (732,000) sufficient to cover only around 5.2 percent of the population, making it challenging for the authorities to achieve their target of vaccinating 40 percent of population. Additionally, inadequate capacity and logistics remain significant barriers to the vaccination roll out. A timely and efficient rollout of the vaccination program would play a strong role in reducing deaths and preventing further outbreaks, supporting initiatives to build resilience and enabling a more rapid recovery of the country's non-oil sectors. At the same time, the firm implementation of rational public health measures, including social distancing, the use of face masks, and effective testing and contact tracing, is still necessary.

Figure 6: Evolution of new weekly COVID-19 cases in South Sudan



Source: World Health Organization: https://Covid19.who.int/

Figure 7: Fully vaccinated persons in selected countries, % of population (December 2021)



1.3 Living standards and access to services

In 2021, South Sudan experienced severe flooding for the third consecutive year since 2019. As of November 2021, more than 850,000 people (7.5% of the population) have been affected by flooding in 33 out of 78 counties across nine of the country's 10 states since May (UNOCHA, 2021). The floods have had particularly severe impacts in the states of Jonglei, Unity and Upper Nile, with more than three out of four households directly affected by the disaster in these states. The impact has been particularly severe in Jonglei, where wetlands and tributaries of the White Nile have overflowed with the earlier-than-usual arrival of seasonal rains. These floods have weighed heavily on South Sudan's already vulnerable population, with widespread disruptions to livelihoods, access to services, and humanitarian programs. At the same time, floods have precipitated displacement and are likely to exacerbate an already dire food insecurity situation across the country.

In addition to destroying crops, pasturelands, and other assets, floods have led to an increase in waterborne and malarial diseases. Reports from across the country have indicated an upsurge in malaria cases, with the rainfall and vegetation creating good breeding conditions for malaria-bearing mosquitoes. According to available data, malaria is the leading cause of morbidity in South Sudan, accounting for 20 to 40 percent of all health facility visits and for 30 percent of hospitalizations. About one-third of South Sudan's population relies primarily on surface water to meet basic needs, with a minimal reliance on utility-provided water. Even in urban areas, over half the population engage in open human waste disposal, with the rate at 80 percent in rural areas. In the context of inadequate household access to safe water, sanitation, and hygiene facilities, increased rainfall and flooding has resulted in outbreaks of diarrheal diseases across the country. At the same time, there has been an upsurge of cases of reptile invasions, with increased hospitalizations due to snake bites of particular concern.

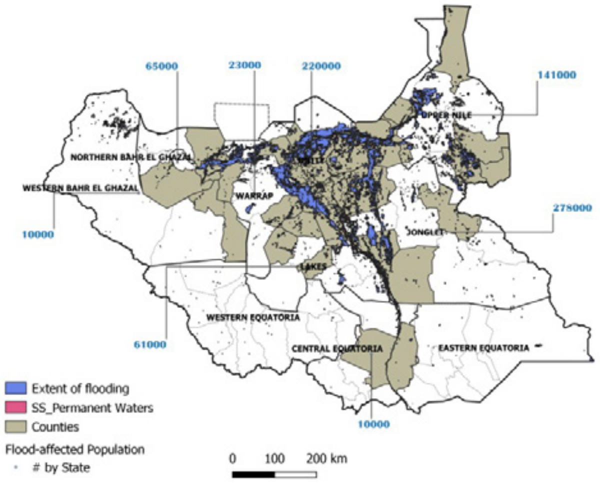
The impact of the floods is likely to lead to an increase in the prices of food and basic commodities. The MSSMEB cost remains above the median levels in areas affected by floods, including in parts of Jonglei, Unity, and Central Equatoria states.

Flooding has impacted living standards in affected areas, placing significant strain on household-level resilience and coping capacities. Flooding has been particularly intense in areas that already experienced high levels of food insecurity and conflict, exacerbating pre-existing hardships (Maps 1-6). With floods driving a new wave of displacement, living standards have deteriorated. Among the affected populations, constraints on access to water, sanitation, and hygiene (WASH) infrastructure are of particular concern. At the same time, the impact of the floods on agricultural production, transport infrastructure, and market functionality is likely to lead to an increase in the prices of food and basic commodities. As such, the cost of the multi-sector survival minimum expenditure basket (MSSMEB), which represents the minimum culturally-adjusted group of items required to support a six-person household for one month, remains above the median levels in areas affected by floods, including in parts of Jonglei, Unity, and Central Equatoria states, despite an overall downward trend in areas not affected by the floods (REACH, 2021a).

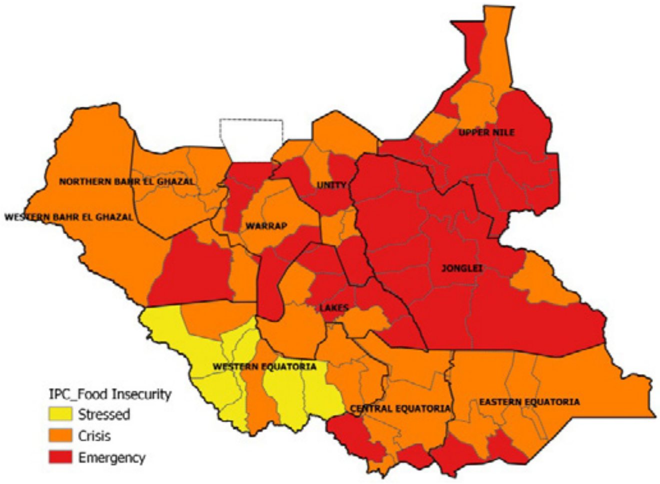
Recent flooding events are indicative of the longer-term climate risks facing South Sudan. The 2021 floods have been the worst recorded for more than half a century, weighing heavily on South Sudan's already vulnerable population. However, an analysis of rainfall trends over the past six years indicates that the flooding events in 2021 were not the result of above-normal rainfall in that year, but rather are the manifestation of a trend that has been apparent since 2018 (Figure 8). Higher than normal rainfalls in 2018, 2019, and 2020 in a number of regions have broken the ability of the natural environment to absorb water, resulting in the devastating flooding in 2021, even though the rainfalls in that year were considerably less than the average for the previous three years. In addition, higher-than-normal water levels in the upstream of the Victoria Nile and in the Great Lakes, including Lake Albert, also contributed to the severe flooding observed in 2021 (REACH, 2021b). At the same time, decreasing rainfalls combined with temperature increases in the Eastern and Southern regions of the country could reduce the availability of water for agriculture, thus impacting crop production, livelihoods, and jobs. In addition, land degradation is jeopardizing the productivity of the most heavily cultivated areas of the country. These climate changes require farmers to adapt to changing conditions, which in turn requires the provision of support for water management and crop adaptation initiatives.

The concurrent shocks, including those related to flooding, conflict, and food insecurity, have precipitated population displacements in recent periods. As of November 2021, it was estimated that there were approximately 2 million IDPs in South Sudan, a 25 percent increase from the figure of 1.6 million recorded at the end of September 2020 (UNOCHA, 2021). At the same time, according to the latest available data, the number of IDPs recorded by the International Organization for Migration (IOM) more than doubled, going up from 184,787 in 2019 to 388,722 in 2020. Natural disasters were the main causes for displacement in 2020, with floods accounting for the largest share (54%), followed by communal violence (32%), and conflict (13%). In the state of Western Equatoria, hostilities between rival organized armed groups resulted in at least 200 deaths and the displacement of more than 80,000 people in Tambura County over the period from June to October 2021 (USAID, 2021). In Warrap State, insecurity and flooding in Greater Tonj have resulted in major population displacement and prevented vulnerable populations from practicing agriculture, with heighted insecurity related to cattle rates, leaving highly vulnerable groups without access to livestock products and cash (REACH, 2021c).

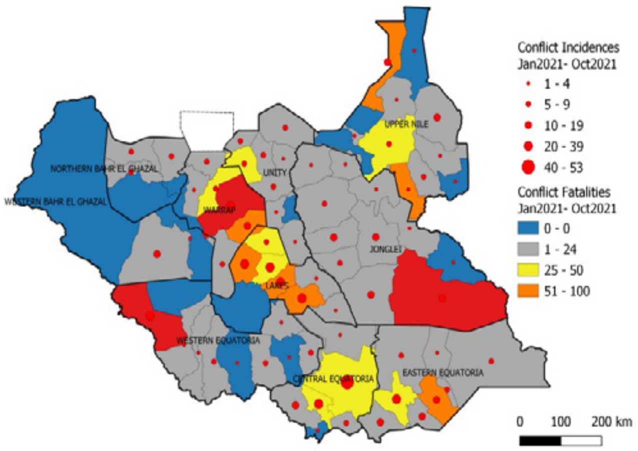
Map 1: Extent of flooding



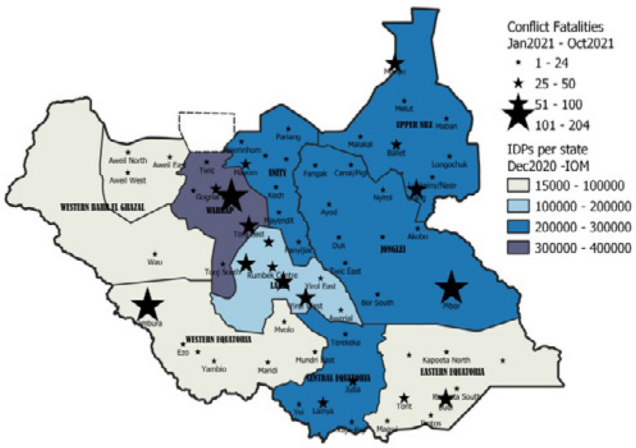
Map 2: IPC Food insecurity Sep 2020 – Jan 2021



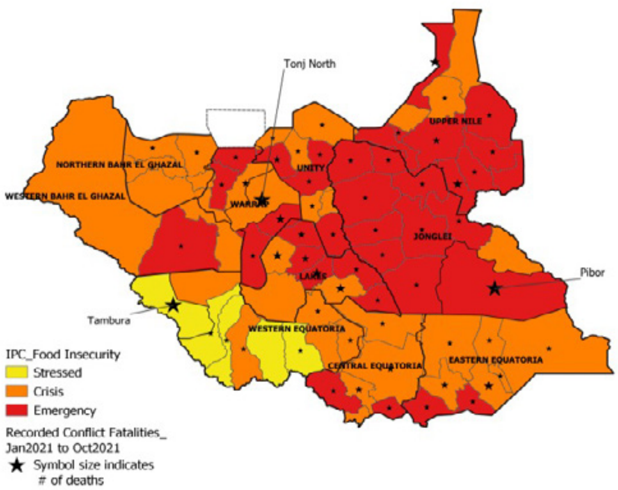
Map 3: Conflict hotspots Jan 2021 to Oct 2021



Map 4: Conflict and displacement 2021



Map 5: Conflict and food security



Map 6: Flooding, access, and prices

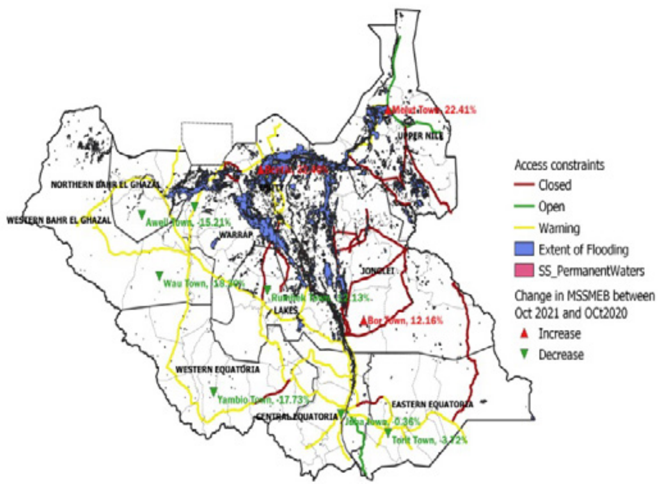
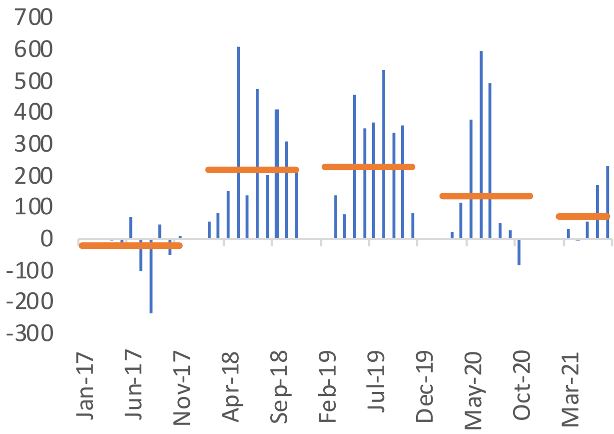
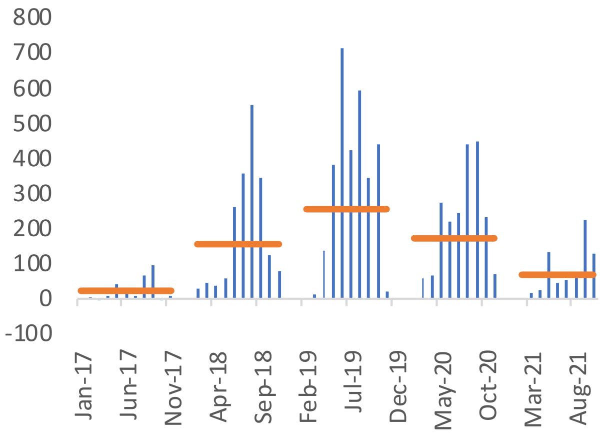


Figure 8: Rainfall: MM above 2016-month level

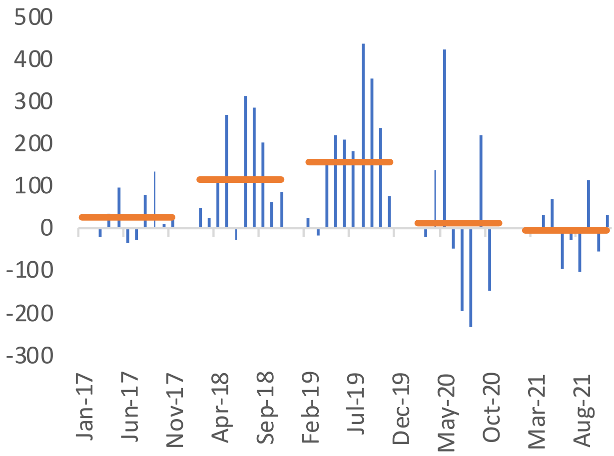
Warrap



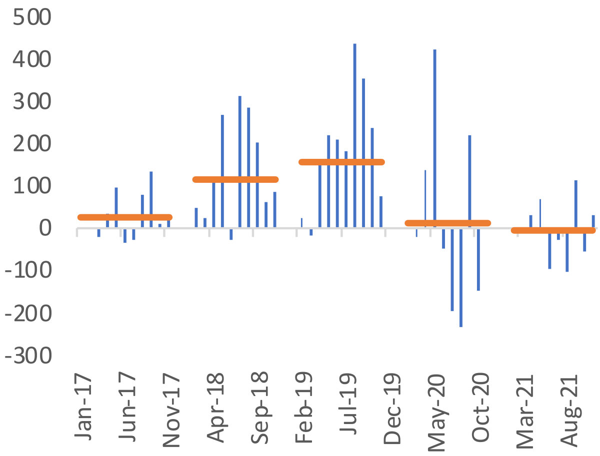
Northern Bahr El Ghazal



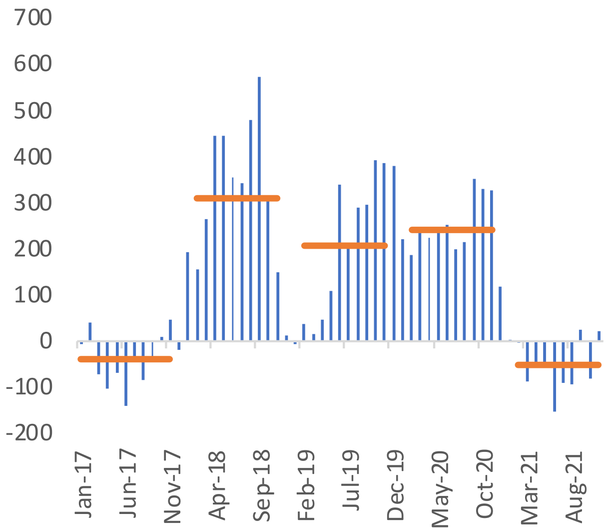
Western Bahr El Ghazal



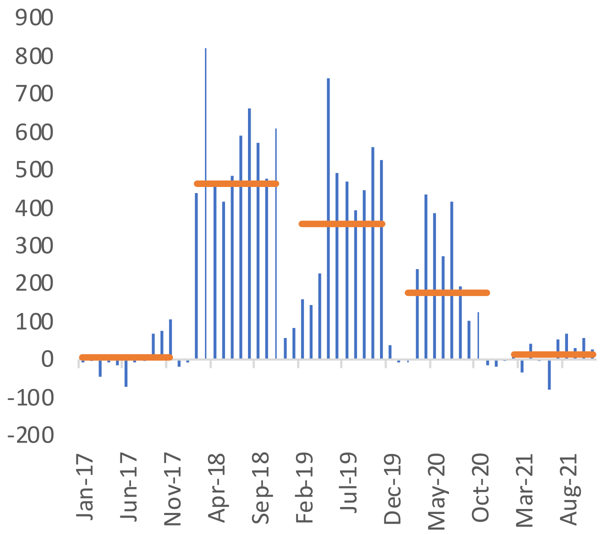
Lakes



Eastern Equatoria



Western Equatoria



Source of data: FAO/CLIMIS online databases: https://climis-southsudan.org/agromet/rainfall_data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While the number of conflict events and fatalities was lower in 2021 than in 2020, the risk of flareups remains high. Incidents of inter-communal violence declined significantly in 2021, with the number of fatalities in the ten months to October 2021 (2,134) 23 percent fewer than in the same period in 2020 (1,638). However, as recent developments in the states of Western Equatoria (Tambura) and Warrap (Greater Tonj) show, the risk of intermittent but intense flareups of violence remains high. The persistence of subnational conflict across many states has disrupted supply chains, affected local economies, and constrained humanitarian activities. In 2021, over the period from June to August, the United Nations reported 164 incidents related to humanitarian access, including 22 ambushes and 25 lootings. As of 1 September 2021, six aid workers had been killed in South Sudan in 2021 (UNHCR, 2021).

The persistence of violence in parts of the country has been accompanied by the destruction of social infrastructure and the collapse of service delivery. The delivery of social services and the construction and maintenance of infrastructure have been impacted by flareups of violence in the affected areas, limiting access to these facilities almost exclusively to urban households. In the Greater Pibor Administrative Area, the violence resulted in the destruction of critical service infrastructure, including boreholes (often the only source of water), schools, markets, and shelters and to the loss of livestock of parades (REACH, 2021c). While the violence subsided in the second half of 2021, flooding destroyed many households' remaining assets, including livestock, as well as disrupting market activities and supply routes. These developments have resulted in high levels of food insecurity and have exacerbated vulnerability at the household level.

Internally displaced populations experience significant service delivery gaps which impacts their quality of life. A significant proportion of IDPs do not have adequate access to safe water and sanitation infrastructure and healthcare services, with a high level of food insecurity. For example, in Bentiu IDP Camp, only 20 percent of households have access to safe and timely water supply; while nearly one of households in Juba IDP camp (49%) have to travel for more than one hour to collect water. While access to healthcare services is high across IDP sites, the limited availability of medicines and discrimination have been cited as significant constraints on healthcare service delivery among the IDP population. At the same time, food security indicators show that large proportions of these populations experience inadequate food consumption, with only 17 percent of households in Juba IDP facilities and 40 percent in Bentiu recording acceptable food consumption scores. Table 1 below describes access to basic services in terms of key service delivery indicators among IDP populations across South Sudan in December 2020.

Table 1: IDP access to basic services, %

	IDP site			
	Juba	Bentiu	Malakal	Wau
Sufficient access to safe and timely water	23.6	20.0	47.8	33.1
Need more than one hour to collect water	48.7	36.1	35.0	2.6
Improved latrine (shared communal or private)	78.2	76.9	35.5	46.8
Access healthcare services when needed in the past six months	64.3	87.7	85.2	65.9
Access to healthcare services within one hour on foot	92.7	86.3	88.8	75.1
• Lack of medicines as a main barrier to access	26.9	8.2	9.0	25.5
Households with acceptable food consumption score	16.6	40.2	77.5	51.6
Received humanitarian assistance	37.4	73.0	76.5	8.1
Children school attendance in previous year	79.9	79.2	65.6	76.1

Source: IOM's Displacement Tracking Matrix (IOM DTM), August 2021

1.4 Exchange rate and inflation developments

Following the gradual liberalization of the official exchange starting in April 2021, the premium between the official rate and the parallel rate has been virtually eliminated. As a result of the implementation of the Bank of South Sudan's exchange rate policy reforms, which involved an auction-based gradual adjustment toward a market-determined exchange rate, the gap between the parallel and official rates has virtually ceased to exist. The nominal USD/SSP exchange rate appreciated to an average of 418 in November 2021, up from 620 in March on the parallel market. At the same time, the official USD/SSP exchange rate depreciated to an average of 413 in November 2021, down from 186 in March (Figure 9). With these developments, the spread between the parallel and the official exchange rates declined to approximately 1 percent in November, down from around 233 percent in March 2021. The ongoing exchange rate policy reform initiative is part of a wider reform process that is intended to facilitate macroeconomic stabilization and to improve public financial management.

Inflation continued to decline in the second half of 2021, reflecting greater exchange rate stability and improved monetary and fiscal discipline. According to official data, the 12-month inflation rate declined from 46.8 percent in January 2021 to 5.8 percent in October 2021 (Figure 10). The decline in the cost of non-food items has been the largest contributor to reduced inflation, with food inflation going down at a much slower rate, declining from 67.5 percent in January to 11.3 percent in August. In fact, non-food inflation has continued to decline since January 2021, effectively reaching negative levels between January and September 2021. These developments largely reflect greater exchange rate stability and improved monetary and fiscal discipline. With inflation a major concern for both formal and informal businesses, the reduced price pressures may help to stimulate a recovery in market activity.

With receding inflation and exchange rate pressure, the inflation rate for the minimum expenditure basket has continued to decline. The year-on-year change in the cost of the MSSMEB, which represents the minimum culturally adjusted set of items required to support a six-person household for one month, has declined from a peak of 93 percent in March to -12.1 percent in December. During the same period, the year-on-year change in the cost of the food basket declined from a peak of 102 percent in March to -17.5 percent in December 2021. These developments are consistent with greater exchange rate stability and falling inflation. If sustained, these factors will have a positive impact on the living standards of the poorest households, with a large proportion of these households having been affected by the recurring shocks described above, including flooding, outbreaks of violence, and those related to the pandemic.

Figure 9: Exchange rate developments

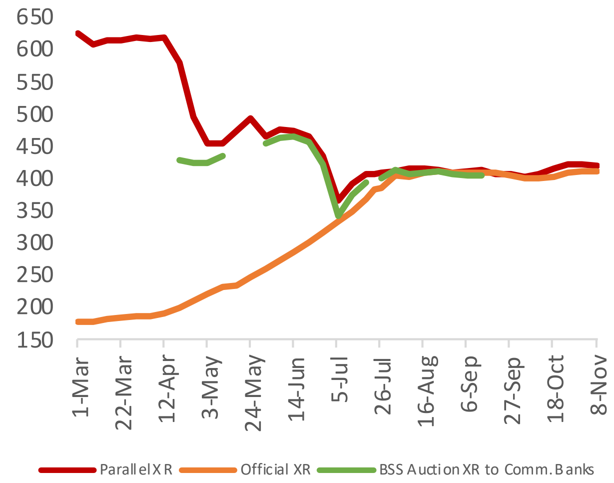
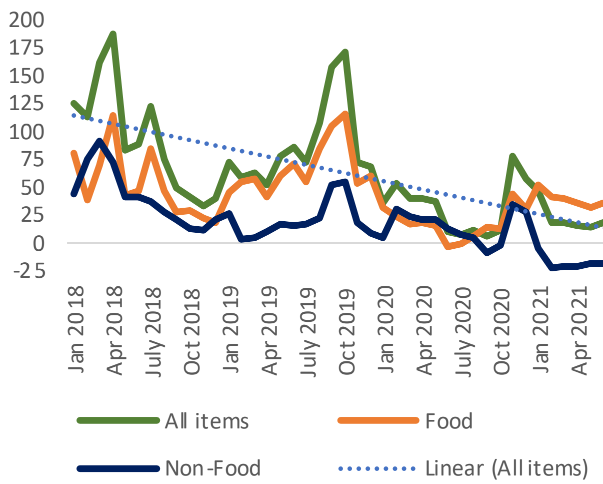
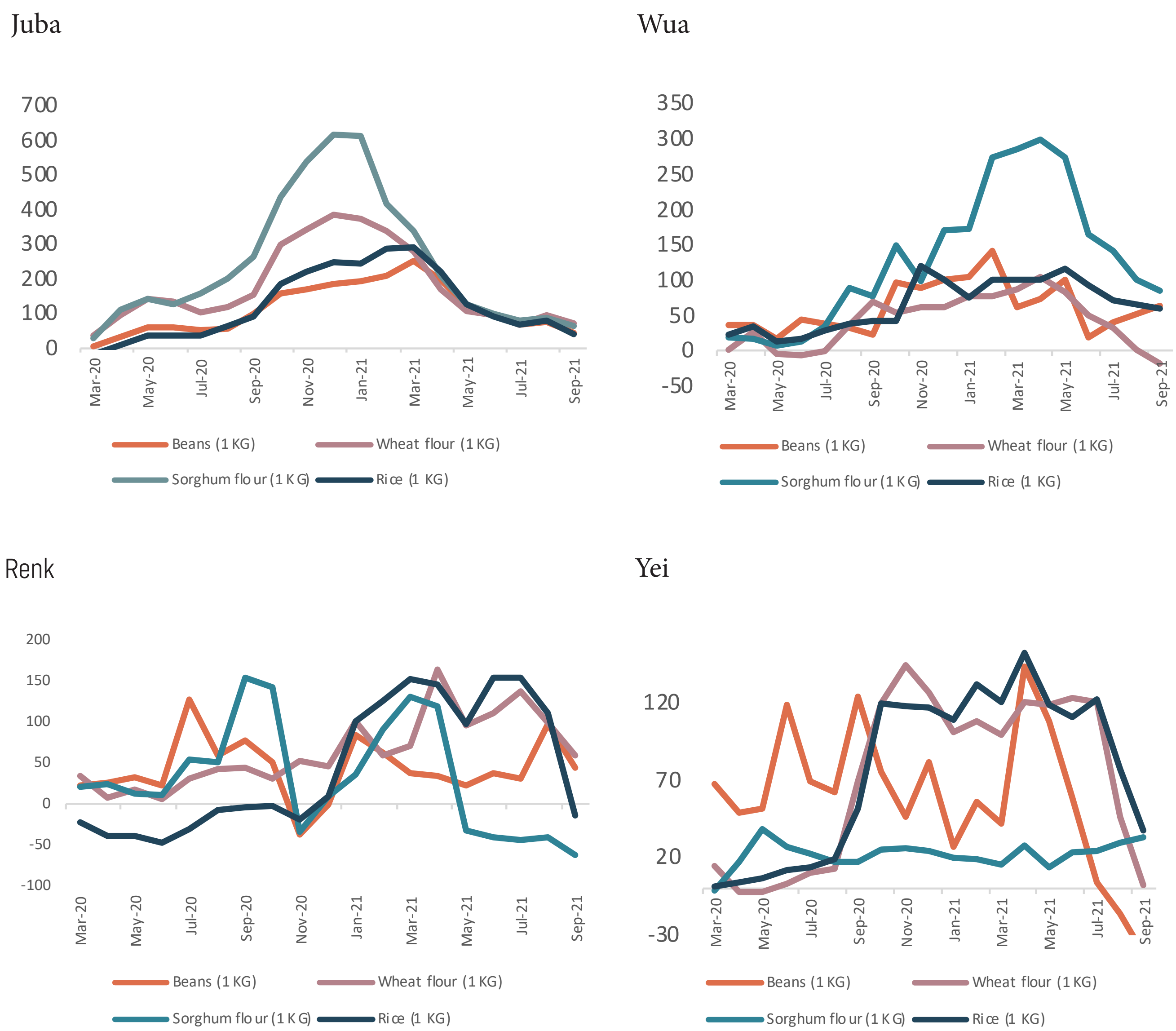


Figure 10: Inflation developments



Source of data: South Sudan authorities

Figure 11: Food price developments in selected towns across South Sudan (y-o-y changes, %)



Source of data: FAO/CLIMIS online databases: https://climis-southsudan.org/markets

Box 1

The IMF completed the first review of the Staff-Monitored Program

The IMF approved a nine-month Staff Monitored Program (SMP) on 30 March 2021. The SMP was implemented in combination with a disbursement of US$ 174 million (50% of quota) through the Rapid Credit Facility (RCF) to address urgent BOP challenges and to establish a track record towards an upper-credit tranche financial arrangement. This followed an earlier disbursement through the RCF in November 2020 of US$ 52 million (15% of quota), which was the first ever financial disbursement from the IMF to the Republic of South Sudan.

The SMP is intended to support the implementation of the Government's current reform program. The authorities are committed to a reform program that prioritizes the modernization of the country's economic and public financial management systems. The SMP aims to foster greater transparency within government operations; to strengthen governance; and to reduce vulnerabilities. Specifically, the SMP includes a package of measures with a focus on strengthening governance and facilitating the emergence of the conditions necessary for strong, inclusive growth through measures to restore fiscal discipline, to reduce debt vulnerabilities, to implement a rules-based monetary policy framework, and to eliminate distortions in the foreign exchange market.

The SMP has achieved broadly satisfactory results. The IMF completed and approved the first review of the program on 18 October 2021. The review focused on reforms aimed at sustaining the recent gains towards achieving macroeconomic stability and exchange rate unification and continuing governance reforms. Supported by the RCF disbursements and the strong recovery of oil prices, the economic reforms implemented under the SMP have helped to ease the adverse impact of the pandemic and to address a history of weak macroeconomic governance. In particular, the exchange rate has stabilized, price levels have started to decline, and the government has substantially reduced salary arrears. While the authorities implemented the reforms targeted under the structural benchmarks, two quantitative targets were missed, with the first relating to the ceiling on cash deficit of the central government and the second to the ceiling on contracting or guaranteeing non-concessional borrowing.

With the successful implementation of economic reforms supported by the SMP, the authorities have established a basis for a potential ECF request at the end of the SMP. The authorities' achievements under the SMP, especially in terms of stabilizing the economy, reducing distortions in the FX market, and initiating governance reforms, indicate significant progress. Nevertheless, a number of significant steps still need to be taken. In particular, the authorities need to implement measures to (i) sustain fiscal and monetary discipline to consolidate gains in macroeconomic stabilization; (ii) consolidate foreign exchange market liberalization reforms by bolstering reserves and expanding the set of available monetary instruments; (iii) strengthen debt management and oversight; (iv) deepen public financial management reforms; and (v) strengthen the anti-corruption and AML/CFT frameworks. A sustained commitment to the implementation of these reforms will improve the government's credibility with donors and may lead to increased access to concessional financing.

Source: IMF (2021)

While at the national level, pressure on food prices has continued to decelerate, there have been considerable variations between different markets around the country. Following the pandemic-related food price spikes last year, the prices of basic food items have stabilized, with nominal price decreases reported for some items in markets across the country. One factor driving these reduced pressures is the stabilization of the exchange rate, with the exchange rate reform process eliminating the premium and ushering in a period of relative stability. Consequently, the year-on-year increase in the prices of unprocessed beans in Juba declined from 250 percent in March 2021 to 44 percent in September 2021. Similarly, the year-on-year change in the prices of sorghum flour in Juba prices declined to 65 percent in September 2021, down from 338 percent in March 2021 (Figure 11). These developments may reflect improved cross-border trade between South Sudan and its regional neighbors. While this trade all but collapsed at the height of the implementation of the pandemic -related restrictions, it recovered strongly during the second quarter of FY2021 (Figure 15). Another factor supporting trade recovery was the appreciation of the local currency. However, food prices remain susceptible to intermittent spikes due to localized violence and conflict-related food supply disruptions, as has recently occurred when truckers from Kenya and Uganda suspended food stuff deliveries due to security concerns along the Nimule-Juba highway.

Food price movements in locations outside Juba vary between regions, possibly indicating weak market integration. Food price volatility tends to be higher in markets outside the capital, possibly indicating that they are subject to different location-specific market forces. Figure 11 shows recent developments with the prices of four main food items (beans, wheat flour, sorghum flour, and rice) in four locations (Juba, Wau, Renk, and Yei). While pressure on prices has declined greatly since April 2021, there are visible differences in trends across locations. Specifically, food prices in Juba not only follow smoother paths, they are also more reflective of broader macro-trends, particularly the parallel exchange rate movements and cross-border trade flows. Various factors, including inefficient connectivity and insecurity along major trade routes, could explain the weak market integration in South Sudan. Non-integrated markets lead to inefficiencies, as producers are unable to determine what is appreciated in other markets, and are therefore unable to make the best possible production decisions.

1.5 Fiscal policies and developments

The overall FY2020/21 budget deficit is estimated to have narrowed to about 6.9 percent of GDP, down from 9.8 percent in FY2019/20. South Sudan's fiscal position benefited from higher-than-projected oil revenue, improved domestic revenue mobilization, and at least partially successful fiscal consolidation efforts. The impact on budget revenue impact of declines in the production of oil was offset by higher prices, with oil revenue increasing to 26.7 percent of GDP (SSP 253.4 billion) in FY2020/21, up from 25.5 percent of GDP (SSP 201.1 billion) in FY2019/20.

The authorities have intensified efforts to increase non-oil tax revenues. The total value of collected non-oil tax revenue increased from an estimated 4 percent of GDP (SSP 31.8 billion) to about 5 percent of GDP (47.6 billion) in FY2020/21, reflecting the authorities' efforts to expand the tax base and to enforce compliance. Specifically, collected sales tax was more than budgeted projections (18%), as was excise duty (48%) and business profit tax (46%). In addition, the FY2021/22 Finance Bill outlines a number of measures to improve domestic revenue, including: phasing out tax exemptions; a gradual adjustment of the customs valuation exchange rate[1] ; expanding the digitalization of the tax collection system; and continuing the adjustment of custom duty rates towards the levels recorded by the East African Community.

1 In December 2021, the National Revenue Authority directed that the exchange rate applied to all customs duties and taxes must be consistent with the prevailing daily Bank of South Sudan reference exchange rate.

Table 2: Distribution of non-oil revenue

	FY2020/21 (Budget)		FY2020/21 (Estimate)		FY2021/22 (Budget)	
	Bn SSP	% GDP	Bn SSP	% GDP	Bn SSP	% GDP
Non-oil revenue	44.41	4.67	47.57	5.00	58.25	2.60
Non-oil tax revenue	42.81	4.50	47.49	4.99	55.50	2.48
PIT	21.02	2.21	19.91	2.09	22.56	1.01
Sales Tax	5.68	0.60	6.69	0.70	9.37	0.42
Excise duty	6.79	0.71	10.06	1.06	10.57	0.47
Business Profit Tax	4.92	0.52	7.20	0.76	5.39	0.24
Customs Duty	4.42	0.46	3.63	0.38	7.61	0.34
Other non-tax revenue	1.60	0.17	0.09	0.01	2.75	0.12

Source: South Sudan Authorities, World Bank estimates

Public expenditure pressures were largely contained, despite the impact of the pandemic and of increased investment outlays on infrastructure. On the expenditure side, the fiscal position benefited from large adjustments to operating expenditure, which declined from 10.5 percent of GDP in FY2019/20 to 6.6 percent in FY2020/21. Over the same period, the value of South Sudan's financial transfers to Sudan declined from 10.4 percent (SSP 81.7 billion) to 5.9 percent (SSP 52.2 billion). Thus, while capital spending increased from 3.8 percent of GDP (SSP 29.8 billion) to 5.5 percent of GDP (SSP 52.1 billion) over the period, total current spending in proportion to GDP declined from 35.6 percent in FY2019/20 to 33.1 percent in FY2020/21. With these developments, total expenditures declined from 39.4 percent of GDP in FY2019/20 to 38.6 percent in FY2019/20.

Capital spending has been driven by a renewed focus on infrastructure development projects. With this focus, capital spending is expected to remain high, with a budget allocation equivalent to 10.3 percent of GDP (SSP 230.4 billion) in FY2021/22. The increase in the capital budget has in large part been driven by increased spending on roads infrastructure, operationalized through an oil-for-roads arrangement, following the approval of a daily allocation of 10,000 oil barrels for this purpose (World Bank, 2020a). With few prospects for foreign direct investment, increased public capital expenditure may play a vital role in encouraging a revival in domestic investment. Continued attention to capital investment can thus contribute meaningfully to recovery. However, capital spending is still affected by limited absorption, leading to under-execution and increased fiduciary risks. Although capital expenditure outturns reached 3.6 percent of GDP by the end of FY2019/20, this is still well below the budgeted figure of 14.8 percent, reflecting underlying weaknesses in public investment management. Over the longer term, public investment management could be strengthened by the adoption of an indicative reference multi-year expenditure framework, consistent with South Sudan's national development strategy.

The draft FY2021/22 National Budget and accompanying financial and appropriation bills were presented in parliament on February 2, 2022. This is the first time in two years that a national budget has been read in parliament. While cabinet deliberated and passed the FY2020/21 budget on 24 September 2021, its approval was delayed pending the reconstitution of the requisite parliamentary committees. The budget envisages total revenues of SSP 647 billion (28.8% of GDP) and expenditures of SSP 621 billion (27.7% of GDP). Nevertheless, the budget has a financing gap of SSP 40.3 billion (1.8% of GDP), despite an SDR allocation of SSP 60 billion (2.7% of GDP). The financing gap arises out significant debt repayments to Afrexim Bank, QNB, Sahara Energy, Nasdec and China Exim Bank that total to SSP 143 billion (6.4% of GDP). The FY2021/22 budget focuses on measures to improve infrastructure and to facilitate the emergence of a more conducive investment climate to achieve economic diversification and to reduce South Sudan's dependence on oil. In addition, the budget has increased allocations to the social sectors, with education and health both receiving nominal increases in proportion to the value of the budget.

Table 3: Government fiscal operations, % of GDP

	FY2018/19	FY2019/20	FY2020/21	FY2021/22	FY 2021/22
	(Estl)	(Estl)	(Estl)	(Budget)	(Proj)
Total government revenue	31.8	29.5	31.6	28.8	30.0
Oil revenue	27.9	25.5	26.6	26.2	26.8
Non-oil tax revenue	3.9	4.0	5.0	2.6	3.2
Grants	0.0	0.0	0.0	0.0	0.0
Total government expenditure	32.8	39.4	38.6	27.7	32.5
Recurrent spending	31.9	35.6	33.1	17.4	28.4
Wages and salaries	3.4	4.6	8.0	3.7	4.0
Interest	0.5	2.0	2.4	2.0	2.0
Capital spending	0.9	3.8	5.5	10.3	4.1
Primary balance	-0.5	-7.8	-4.5	3.1	-0.5
Overall balance (cash)	-1.0	-9.8	-6.9	1.1	-2.5
Variation arrears	2.4	-3.4	0.0	0.0	0.0
Overall balance (accrual)	-3.5	-6.5	-6.9	1.1	-2.5
Statistical discrepancy	-2.4	18.8	3.8	0.0	0.0
Financing	5.8	25.2	10.7	-2.9	-2.9
Domestic (net)	6.0	3.6	3.0	0.8	0.4
Net credit from the central bank	0.8	5.6	3.0	0.8	0.4
Net credit from commercial banks	2.7	1.3	0.0	0.0	0.0
Foreign (net)	-0.1	21.7	7.7	-3.7	-3.4
Disbursement	8.3	33.8	10.7	2.7	3.0
Amortization	-8.4	-12.1	-3.0	-6.4	-6.4
Financing gap	0.0	0.0	0.0	1.8	5.4

Source: South Sudan Authorities, International Monetary Fund, World Bank estimates

The FY2021/22 budget includes a fiscal surplus equivalent to 1.1 percent of GDP, reflecting a large fiscal adjustment from an estimated fiscal deficit of 6.9 percent realized in FY2020/21. While the budget envisages lower revenue in GDP terms, which declines to 28.8 percent in FY2021/22 from 31.6 percent in FY2020/21, this will be accompanied by a large fiscal adjustment that will reduce total government expenditure to 27.7 percent of GDP in FY2021/22 from 38.6 percent in FY2020/21. This adjustment arises out of lower budgeted transfers to Sudan, which decline to 2.8 percent of GDP FY2021/22 from 10.6 percent in FY2020/21. At the same time, recurrent expenditures are expected to remain contained, despite a one-off doubling of nominal salaries contained in the FY2021/22 budget. Moreover, the fiscal position may benefit from under execution of the investment budget, with capital expenditure projected to decline to 4.1 percent of GDP in FY2021/22 from an estimated 5.5 percent in FY2020/21. Nevertheless, the fiscal outlook could deteriorate further if the fiscal adjustment does not materialize with the overall fiscal deficit reaching 2.5 percent of GDP, reflecting higher outlays on operating expenses.

The FY2021/22 budget doubles the nominal wage bill relative to FY2020/2021. The increase in the wage bill is intended to mitigate the impact of the erosion in the value of real wages as a result of years of high inflation. Despite this increase, South Sudan's average wage compensation is lower than in most SSA countries, reflecting its relatively large workforce. To put this in context, it is worth pointing out that the average monthly compensation for more than half of all government workers prior to the adjustment stood at less than 5 US$ /month, considerably lower than the international poverty line. While the president had announced that the increase would be met through an allocation of 5,000 barrels of oil per day, the expected nominal wage increase is not expected to have distortionary effects. However, future salary increments of such a magnitude should be considered very carefully to ensure budget congruence. It should be noted that the public payroll plays a significant role in maintaining domestic market demand and is an important lever to enable the government to facilitate a recovery in market activity and domestic investment (see Part 2 of this report).

South Sudan loses significant resources to direct/ mandatory transfers, with net resources available for the budget equivalent to just over one-third of the resource envelop. The FY2021/22 budget estimates that the total value of collected revenue will stand at 28.9 percent of GDP, lower than the estimated 31.7 percent of GDP in FY2020/21, with revenue from oil exports amounting to 26.3 percent of GDP and non-oil revenue amounting to 2.6 percent of GDP. However, transfers to Sudan, including for oil transportation and transit fees, are budgeted to account for an estimated 2.8 percent of GDP. At the same time, allocations to meet South Sudan's debt service obligations, including repayment of oil advances (6.4 percent of GDP), continue to absorb large shares of revenue. Other direct mandatory payments include allocations to the Ministry of Petroleum (0.7% of GDP) and road projects (8.2% of GDP) (see Table 4). While the authorities are intensifying efforts to diversify non-oil revenue sources, expenditure pressures from oil-collateralized loans and off-budget expenditures are offsetting the gains made in the mobilization of non-oil tax revenue. While the Transitional Financial Arrangement (TFA) with Sudan continues to exert significant pressure on the budget (see Table 4), the agreement is set to end in FY2022, which will increase the government's fiscal space.

Table 4: Distribution of revenue

	SSP Billions (budget)	% Total revenue	% of GDP
Total Revenue	647.4	100.00	28.9
Gross oil revenue	589.1	91.0	26.3
Non-oil revenue	58.2	9.0	2.6
Less Direct/Mandatory Transfers			
Financial transfer to Sudan	63.8	9.9	2.8
Transfer to Ministry of Petroleum (3%)	15.8	2.4	0.7
Oil for Roads	184.0	28.4	8.2
Debt service (including repayment of oil advances)	143.2	22.1	6.4
Net revenue to GoSS Treasury	240.6	37.2	8.1

Source: South Sudan Authorities, World Bank estimates

With mandatory or direct transfers consuming a large proportion of the budget, the remaining available resources for social service delivery and human capital development are limited. Direct transfers are expected to absorb close to two-thirds of available budgetary revenue (62.8 percent), severely limiting the resources available for expenditure on critical service delivery and human development needs. A number of sectors have been allocated increased resources under the most recent budget, including education (10.9% of total expenditure), public administration (7.6 percent) and security (7.1 percent). At the same time, the resources for a number of other sectors have been reduced, including health (4.4 percent of total expenditure), agriculture, natural resources and rural development (1.4 percent), and infrastructure - excluding oil-for-road projects (1.6 percent). While capital spending is expected to account for 10.3 percent of budgetary expenditure, South Sudan continues to underinvest in sectors that would have the largest impact on poverty reduction, building resilience, and human capital development, all of which are vitally necessary to create conducive conditions for long-term growth and greater job

Figure 12: Distribution of government revenues, %

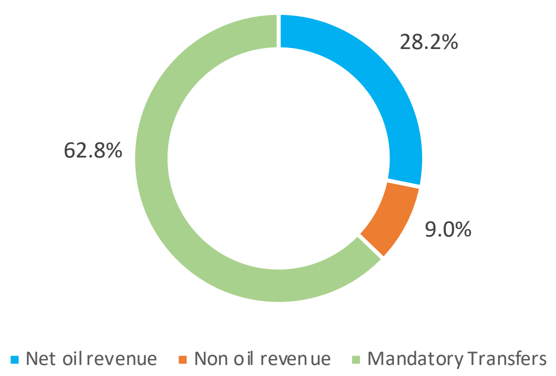
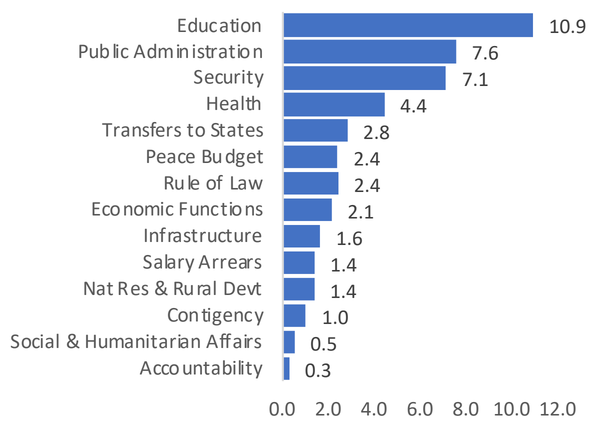


Figure 13: Sector expenditure shares, % of total



Source: South Sudan Authorities

Over the past year, financing has been driven by external borrowing, with a commitment to reduce monetary financing despite increased budgetary pressures. With limited access to external concessional financing, the authorities have often relied on short-term, oil-backed advances and monetary financing to close the financing gap. With the ongoing public financial management (PFM) and economic management reform process, the authorities have committed to reduce reliance on these two sources of financing and to modernize general fiscal management. While the budget includes a primary surplus equivalent to 3.1 percent of GDP, the financing gap is estimated at SSP 40.3 billion (1.8 percent of GDP), despite an SDR allocation of SSP 60 billion (2.7 percent of GDP). At the same time, the authorities have committed to gradually reduce reliance on central bank advances, with net credit from the Bank of South Sudan projected to decline from 3 percent of GDP in FY2020/21 to about 0.4 percent in FY2021/22.

South Sudan's total public debt stock was estimated to stand at US$ 2,958 million (59.5% of GDP) at the end of June 2021. With limited public data, it is difficult to estimate South Sudan's exact debt situation. The latest joint IMF-World Bank Debt Sustainability Analysis update (October 2021) estimated South Sudan's external public debt, including arrears, to stand at US$ 2,958 million (59.5% of GDP) at the end of June 2021. Debt to multilateral creditors amounted to US$ 327 million, with debt to bilateral creditors standing at around US$ 150 million and debt to commercial creditors at around US$ 1,853 million. The Bank of South Sudan (BSS) has an outstanding liability to the QNB of US$ 627 million. As shown in Table 4, relatively few counterparts account for most of South Sudan's gross external debt. In FY2020/21, around 63 percent of total loans (QNB: 18%; Afrexim: 22%; oil advances: 23%) were highly non-concessional.

South Sudan's debt to commercial creditors is collateralized against oil revenue receipts. Commercial debt amounted to US$ 1,853 million (37.3% of GDP), of which US$ 525 million was owed to AFREXIM bank, US$ 652 million to Qatar National Bank, and US$ 676 to oil companies. Debt is collateralized when the creditor has rights over an asset or revenue stream in cases where the borrower defaults on payment obligations. This entails a borrower granting liens over specific existing assets or future receivables to a lender as security against payment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. In South Sudan, commercial oil-collateralized debt is usually contracted through off budget and non-transparent deals that complicate budget management.

Domestic debt is mostly in the form of loans from the central bank. The total value of domestic debt was estimated to stand at US$ 627 million (12.6% of GDP) at the end of FY2020/21. Prior to the COVID-19 crisis, South Sudan's domestic debt was low, at less than 10 percent of GDP. The government ceased monetary financing in late 2017, which helped to lower inflation and to stabilize the exchange rate. However, the COVID-19 crisis triggered a decision to reengage in some monetary financing, resulting in domestic debt increasing by around 5 percentage points in FY2019/20. Following a resolution by the cabinet, there has been no further monetary financing of the budget since September 2020. While there are no arrears on domestic debt instruments, the authorities are faced with domestic arrears related to salaries and goods and services[2]. The authorities' PFM reform strategy includes the review, verification, and clearance of all other arrears.

South Sudan remains at high risk of debt distress for both external and overall public debt. Since the last assessment conducted in March 2021, the risk of debt distress has increased, despite the new SDR allocation partly used for debt management. This increased risk reflects the discovery of higher outstanding oil advances that were contracted in 2018 but not reported to the Ministry of Finance and Planning (MOFP) and thus not included in the March 2021 debt sustainability analysis (DSA). The latest DSA conducted in October 2021 identified temporary breaches in three out of seven debt indicators (debt service-to-revenues ratio of external public debt; debt service-to-exports ratio of external public debt; and present value of debt-to-GDP ratio of overall public debt) under the baseline scenario, which assumes positive developments in the macro-fiscal framework. These breaches suggest a high risk of external and overall public debt distress. However, external and overall public debt indicators are expected to return to levels below respective thresholds from 2026/27 onwards, contingent on robust oil prices; the authorities' continued commitment to the policy adjustments necessary to cap the deficit over the medium term together; and increased concessional financing.

Domestic debt is mostly in the form of loans from the central bank. The total value of domestic debt was estimated to stand at US$ 627 million (12.6% of GDP) at the end of FY2020/21.

2 While the authorities had made progress on clearance of salary arrears by using part of the IMF RCF financing, the estimate of salary arrears was four months of salaries by 31 December 2021.

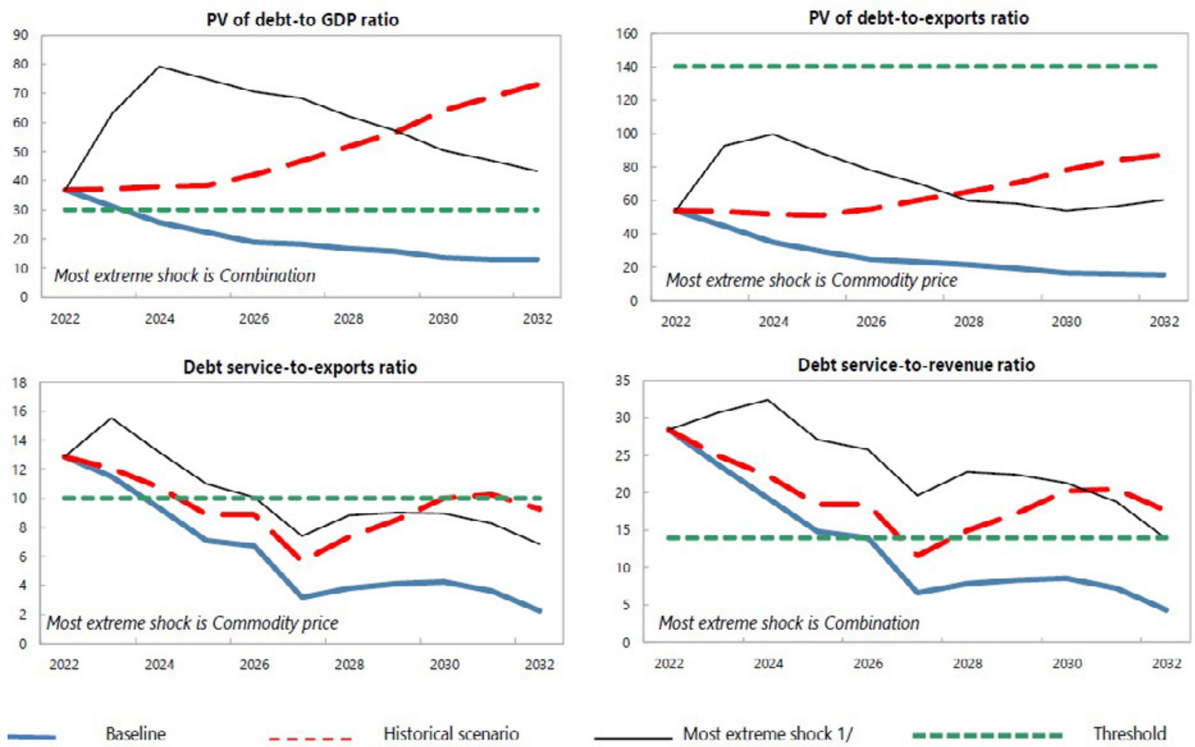
Table 5: Decomposition of public debt by creditors (millions of US Dollars)

	FY2018/19		FY2019/20		FY2020/21	
	Amount	**Share (%)**	**Amount**	**Share (%)**	**Amount**	**Share (%)**
Multilateral						
IDA	53	3.7	79	4.0	82	2.8
AfDB	28	2.0	28	1.4	19	0.6
IMF	0.0	0.0	0.0	0.0	227	7.7
Bilateral						
China EXIM Bank	150	10.5	143	7.3	150	5.1
Commercial						
QNB	627	44.0	627	32.7	652	17.7
AFREXIM	0	0.0	379	19.4	525	22.0
Oil advances	338	23.7	99	5.1	676	22.9
Domestic	229	16.2	596	30.5	627	21.2
Total debt outstanding	**1,424**	**100**	**1952**	**100**	**2,958**	**100**
External debt to GDP ratio	1,196	26.7	1,355	28.3	2,330	47
Domestic debt to GDP ratio	229	6.0	596	12.5	627	13
Total Public debt to GDP ratio	**1,424**	**32.7**	**1,952**	**40.8**	**2,958**	**60**

Source: South Sudan Authorities, IMF, and World Bank

South Sudan's external and overall debt levels are sustainable, despite the increased risk of debt distress. Under the new baseline, South Sudan's debt remains assessed as sustainable, albeit with a high risk of debt distress in the case of both external and overall public debt. In the baseline of the previous DSA, there are temporary breaches in terms of two out of seven debt indicators (debt service-to-revenues ratio of external public debt in FY2020/21 to FY2023/24; and present value of debt-to-GDP ratio of overall public debt in FY2020/21). These breaches lead to a high risk of debt distress. In the baseline of the current DSA, despite significantly higher oil prices and the use of a portion of the new SDR allocation to reduce the fiscal financing gap, the higher stock of oil advances breach the threshold in terms of the debt-service-to-revenue ratio and the overall public debt to FY25/26. Risks to this assessment are tilted to the downside, including in relation to the implementation of the government's policy adjustment initiative; limited access to concessional loans; and oil price volatility. Another major risk relates to the sustainability of the relative peace and security in the country, with the situation in South Sudan remaining fluid and with conflict persisting across the country, despite recent positive political developments.

Figure 14: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios



Joint IMF-World Bank Debt Sustainability Analysis (update, October 2021)

1.6 Trade and external sector developments

The current account deficit is estimated to have narrowed to 5.5 percent of GDP in FY2020/21, down from 20.3 percent in FY2019/20, reflecting weaker import demand. The trade deficit narrowed to an estimated US$ 333 million in FY2020/21, down from US$ 602 million in FY2019/20. These developments reflect a decline in import demand, with merchandise imports going down by 8.3 percent from US$ 3.690 billion in FY2019/20 to an estimated US$ 3.383 billion in FY2020/21, largely due to pandemic-related disruptions to government consumption and investment and to delayed private sector investment, particularly in the oil sector. Oil exports declined by an estimated 1.3 percent, going down from US$ 3.061 billion in FY2019/20 to US$ 3.021 billion in FY2020/21. The strong recovery in oil prices in the second half of the FY, following their collapse following the advent of the pandemic, played a strong role in averting an even steeper decline. At the same time, transfers to Sudan declined to an estimated US$ 169 million in FY2020/21, down from US$ 492 million in FY2019/20. Gross international reserves increased to US$ 172.5 million (equivalent to about 0.5 months of imports) at the end of FY2020/21, up from US$ 47.9 million (equivalent to about 0.1 months of imports) at the end of FY2019/20. Going forward, the current account is expected to benefit from the completion of financial transfers to Sudan in FY2022/23.

Trade between Uganda and South Sudan has continued its strong recovery, following an earlier collapse due to COVID-19-related cross-border movement restrictions, which affected both formal and informal cross-border trade. South Sudan's informal imports from Uganda collapsed in the first half of 2020, with traders struggling to comply with COVID-19 guidelines, including requirements to obtain and present a negative COVID-19 test certificate. However, data from the Bank of Uganda show that the recovery that commenced in the second half of 2020 has continued into

2021. In the six months to September 2021, the total value of imports from Uganda was estimated to stand at US$ 272 million, 22 percent higher than the figure of US$ 224 million recorded during the six-month period to March 2021, and 54 percent higher than the figure of US$ 174 million realized in the six-month period to September 2020. During this time, the value of formal imports increased by 20 percent, going up from US$ 192 million during the six-month period to March 2021 from US$ 230 million during a six-month period to September 2021. At the same time, the value of informal imports, which account for about 15 percent of South Sudan's total imports from Uganda, increased by 31 percent from the US$ 32 million recorded in the six-month period to March 2021 to US$ 42 million in the six-month period to September 2021. Despite these developments, however, trade between the two countries continues to be affected by sporadic disruptions, with security concerns along major trade routes continuing to affect the movement of persons and goods.

South Sudan's exports to Uganda, which surged during the pandemic in FY2019/20, moderated in FY2020/2021. South Sudan's exports to Uganda increased dramatically during the pandemic, going up from US$ 7 million in FY2018/2019 (July 2018-June 2019) to US$ 83 million in FY2019/2020 (July 2019-June 2020). This surge reflected an increase in monthly exports from US$ 0.16 million in April 2020 to US$ 54 million in May, before declining to US$ 22 million in June. Thereafter, Sudan's exports to Uganda started to decline more steeply, going down to US$ 5.5 million in July and to US$ 2.5 million in August, with the average level standing at US$ 0.76 million in the 12-month period to September 2021. Overall, South Sudan's exports to Uganda totaled US$ 14.92 million in FY2021, more than double the figure recorded in the pre-pandemic period (see Figure 16). Pearls, precious stones, metals, and iron and steel together accounted for 97 percent of South Sudan's exports to Uganda in 2020.

South Sudan has deepened its commitment to regional collaboration, with the government entering into agreements related to the free movement of persons with Kenya, Sudan, and Uganda. The government of South Sudan announced the abolition of entry visa requirements for Ugandan citizens effective as of 4 October 2021, reciprocating Uganda's decision to waive visa requirements for South Sudanese nationals. These developments are consistent with the provisions of the East Africa Community Treaty and follow an earlier easing of visa requirements between South Sudan and Kenya which came into effect in July 2021. At the same time, the South Sudan authorities reached an agreement with Sudan regarding the reopening of border crossings between both countries at the beginning of October 2021. The two sides also agreed to continue discussions related to trade, economic free zones, banking, and transit arrangements, building on the 2012 bilateral agreement that covers a range of issues, including oil transit fees, trade and movement over the border, and border delineation. Despite these developments, however, South Sudan is one of few African countries that, as of 31 December 2021, had not yet ratified the protocol for the establishment of the African Continental Free Trade Area (AfCFTA), the largest free trade area in the world, connecting 55 countries and 1.3 billion people (see Box 2).

1.7 Financial sector developments

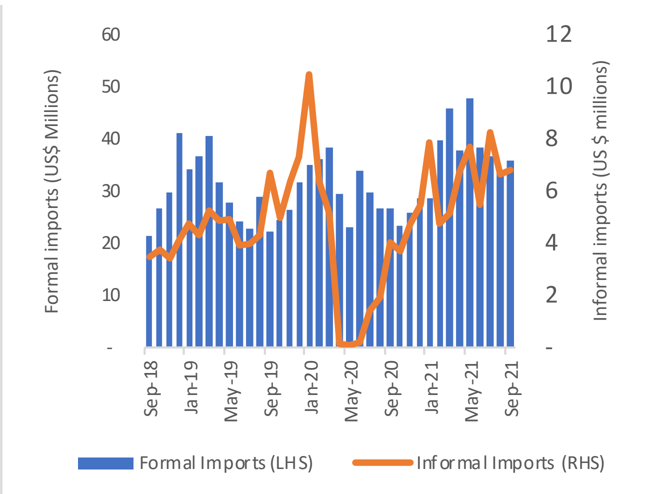
In South Sudan, financial intermediation is weak, with limited access to finance remaining as a major constraint on firm-level competitiveness, resilience to shocks, and economic growth. The National Bureau of Statistics' Integrated Business and Enterprise Survey (2019) indicate that 44 percent of sampled firms reported having an SSP checking account, with 10 percent having a foreign currency account. However, in general, businesses do not use the formal system to access finance, with very few of them taking out formal loans, even in the case of large firms. At the time of the survey, only about 3 percent of firms had taken a bank loan over the previous three years, with this proportion increasing to only 6% in the case of large businesses. A large proportion of survey respondents stated that they covered losses from shocks through loans or gifts from family and friends (67%) or by using earnings or cutting salaries (30%). A mere 7 percent said they had borrowed from a bank, with the proportion not being significantly higher in the case of large firms.

While credit to the private sector rebounded strongly in 2021 after the pandemic-related disruptions in 2020, the level of financial intermediation remains very limited. Lending to the private sector increased in real terms by 55 percent in September 2021 compared to the same period in the previous year. However, private sector credit growth tends to be volatile, with a high degree of reluctance by banks to lend in a risky and uncertain environment. While the South Sudan banking sector is generally small, with limited financial intermediation, discussions with industry representatives indicate that macroeconomic stabilisation, with a reduced spread between the official and parallel exchange rates and with lower inflation, has been critical in driving private investment and demand for credit over the past few months.

Loans for building and construction, transport and household services, and real estate sectors are driving the recovery in private sector credit growth, albeit from very low levels. Outstanding credit to the building and construction sector increased by 103 percent in real terms in September 2021 compared to the same period the previous year, reflecting growth in the construction sector, albeit from very low levels. Consistent with these developments, credit to the real estate sector grew by 55 percent in real terms over the same period. Over the same period, credit to the transport and household sectors grew by 116 percent. These three sectors, which accounted for 51 percent of total nominal private sector credit to the private sector, have been driving the recovery in private sector credit growth. By contrast, combined private sector credit to both domestic and foreign trade declined by 14 percent, highlighting the potential persistence of supply chain disruptions in the context of subnational conflict and recurrent flooding[3].

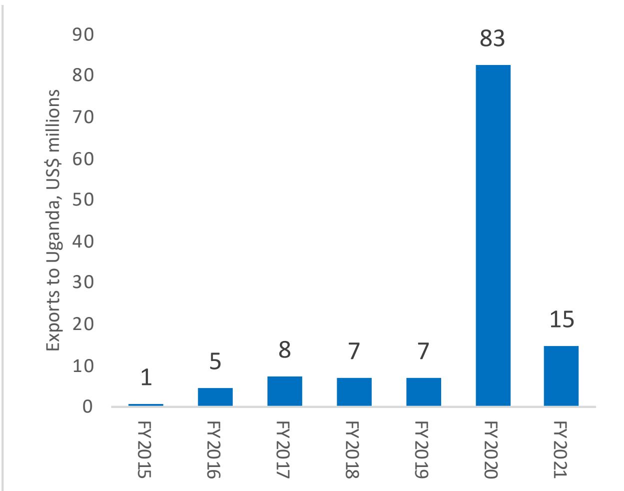
The banking sector in South Sudan appears to face significant risks around solvency, liquidity, asset quality and FX and sovereign exposure. The key source of risk arises from very high exposure to FX loans to the government; loans which do not appear to be serviced for long, even while interest income continues to be shown as accrued thereby artificially boosting income and capital. A vast majority of the assets (almost 80%) are concentrated in FX loans to the Government and FX balances at the BSS. All exposures to the Government are classified as performing, although the exposures have not decreased in the past years, which indicates that no repayments of principal were made.

Figure 15: South Sudan imports from Uganda



Source: Bank of Uganda

Figure 16: South Sudan exports to Uganda



3 Trade has been disrupted by persistence of subnational conflict, including roadside ambushes, as well as the impact of flooding on transport and market access.

Table 6: The current account (Millions of dollars, % GDP in parentheses)

(Millions of dollars)	2017/18	2018/19	2019/20	2020/21
			Estimate	Estimate
Current account balance (% GDP)	-343	-294	-994	275
	(-9.8)	(-6.3)	(-20.3)	(-5.5)
Balance of goods (% GDP)	150 (4.3)	226 (4.8)	-602 (-12.3)	-333 (-6.7)
Exports of goods	2,568	3,103	3,088	3,050
o/w Oil	2,552	3,086	3,061	3,021
Imports of goods	-2,418	-2,877	-3,690	-3,383
Balance of services (% GDP)	-675 (-19.3)	-707 (-15.1)	-648 (-13.2)	-660 (-13.2)
Income (% GDP)	-594 (-17.0	-719 (-15.4)	-576 (-11.7)	-566 (-11.3)
Current transfers (% GDP)	776 (22.2)	906 (19.4)	832 (17.0)	1,284 (25.7)
General government	0.0	0.0	0.0	0.0
Workers' remittances	53	58	77	81
Financial transfers to Sudan	-409	-335	-492	-169
Other sectors	1,132	1,183	1,247	1,372
Memoranda items				
Nominal GDP (USD millions)	3,491	4,665	4,900	5,000
Gross foreign reserves (USD millions)	33	31	48	173
In months of imports	0.2	0.1	0.1	0.5

Source: International Monetary Fund, World Bank Estimates

Box 2

The African Continental Free Trade Area (AfCFTA) offers opportunities for diversification and growth

With African leaders launching leaders the African Continental Free Trade Area (AfCFTA) in May 2019, the corresponding agreement provides a framework for the liberalization of trade in goods and services. Once it is fully implemented, it is expected to cover all 55 African countries, which together account for a GDP of an estimated US$ 3.4 trillion and a population of more than 1.3 billion. In terms of population, the AfCFTA will be the largest free-trade area in the world. Trade under the AfCFTA commenced on 1 January 2021.

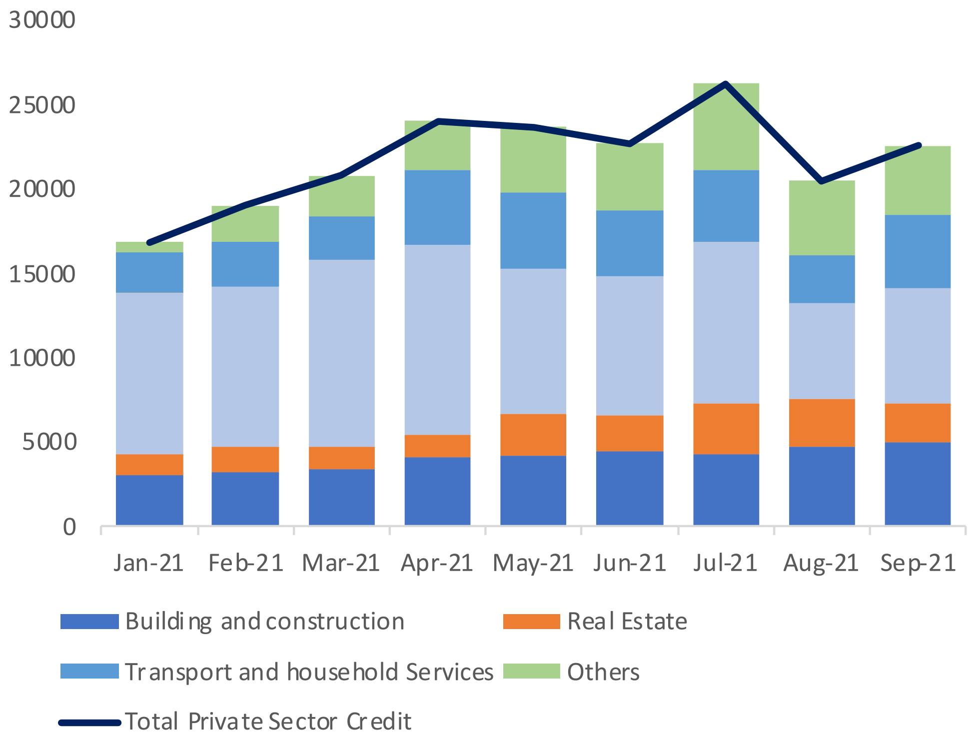
The scope of AfCFTA is large, with the potential to lift 30 million people out of extreme poverty (World Bank (2020b). The agreement will reduce tariffs between member countries and cover policy areas such as trade facilitation and services, as well as regulatory measures such as sanitary standards and technical barriers to trade. The full implementation of AfCFTA would reshape markets and economies across the region and boost output in the services, manufacturing, and natural resources sectors. Increased intraregional trade would add about US$ 60 billion to African exports and support ongoing diversification efforts (IMF, 2020). With the disruptions to the global economy resulting from the COVID-19 pandemic, the creation of this fast regional market is a major opportunity to enable African countries to diversify their exports, to attract foreign direct investment, and to accelerate economic growth.

As of December 2021, South Sudan was one of few African countries that had not yet ratified the protocol for the establishment of the AfCFTA, potentially resulting in it missing out on some of the expected benefits from increased trade liberalization. While South Sudan is already a member of the East African Community (EAC), ratifying the AfCFTA would facilitate access to larger, diversified, and more sophisticated markets, thereby promoting its own diversification efforts and increasing its resilience to terms of trade and global supply chain shocks.

Outside the oil sector, South Sudan has a limited range of readily exploitable assets that could enable it to achieve greater diversification. A reconstruction of South Sudan's trade data shows that the total estimated value of its exports stood at US$ 1.6 billion in 2019, with oil accounting for 96 percent of this value. Consequently, South Sudan is one of the least diversified and most oil-dependent countries in the world. However, among South Sudan's official non-oil exports, a number of commodities and products stand out as having the potential to play a strong role in the achievement of diversification, particularly live animals, meats, hides, edible vegetables and fruit, oil seeds, wood and wood products, cotton, and non-oil minerals. In 2019, South Sudan exported live animals worth US$ 107,000; oil seeds (US$ 294,000); and wood products (US$ 9.6 million). Other exports included meats, fish, dairy, and articles of apparel and textiles. The government could promote these products to build a more diversified and competitive export sector.

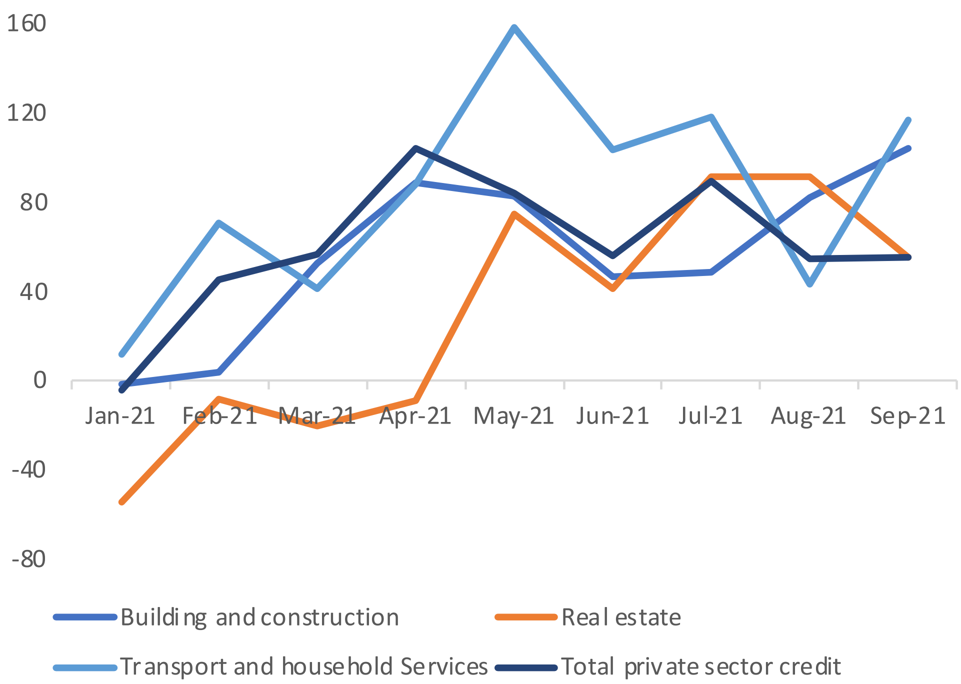
Deepening regional trade arrangements, including with the EAC, and the AfCFTA would support the achievement of greater diversification, job creation, and improved resilience, thus sustaining future growth. However, to realize these benefits, reforms are needed to improve the business environment, to reduce bureaucratic barriers, and to strengthen regulations in key sectors.

Figure 17: Bank lending to the private sector, million SSP



Source: Bank of South Sudan

Figure 18: Real Private Sector Credit Growth, % (y/y real terms)



Source: Bank of South Sudan:

Note: Nominal credit growth is deflated by CPI

ECONOMIC OUTLOOK AND RISKS

1.8 The economic outlook is cautiously positive

South Sudan's economy is forecast to grow by 1.2 percent in FY2021/22, with challenges in the oil sector and the impact of floods constraining a more rapid recovery. This projected growth rate represents a 1.6 percentage point reduction from the forecast presented in the June 2021 Economic Update, reflecting the impact of flooding on both the oil and non-oil sectors. In the oil sector, production is projected to decline by 2.5 percent from 160,000 bpd in FY2020/21 to 156,000 bpd during FY2021/22, with floods continuing to disrupt economic activity. At the same time, oil production has peaked in some blocks, requiring new investment to ramp up production. Consequently, prospects for increasing oil production to pre-war levels depend on the use of enhanced oil recovery techniques both with existing oil wells and with those developed in the future. The authorities are actively seeking new investments, with the Ministry of Petroleum recently launching its first oil licensing round in 2021, placing up to 14 blocks up for exploration. In the agricultural sector, floods have inundated agricultural fields; destroyed livestock, infrastructure, and transport routes; reduced market functionality; and caused the loss of human lives in affected areas. The FAO estimates losses in the order of 38,000 tons of cereals and 800,000 livestock in the period from May to December 2021 (FAO, 2021b).

High-frequency indicators point to the gradual recovery of South Sudan's non-oil economy. Private sector credit rebounded strongly in 2021, recovering from the pandemic-related disruptions in 2020. In particular, loans to the building and construction, transport and household services, and real estate sectors are driving the recovery in private sector credit growth. However, private sector credit growth to both domestic and foreign trade remains weak, highlighting the potential persistence of supply chain disruptions related to subnational conflict, incessant flooding, and the pandemic. At the same time, trade between Uganda and South Sudan has continued its strong recovery, following an earlier collapse due to pandemic-related cross-border movement restrictions. In the six-month period to September 2021, the total value of imports from Uganda was estimated to stand at US$ 272 million, 22 percent higher than the figure of US$ 224 million realized during the six-month period to March 2021 and 54 percent higher than that of US$ 174 million realized during the six-month period to September 2020.

Beyond FY2021/22, South Sudan's economy is expected to grow by an average annual rate in the range of 3.5 - 5.0 percent, supported by recovery in the non-oil sector, higher oil prices, and strong global recovery. If successful, the ongoing PFM reforms could create opportunities for the achievement of more rapid and inclusive growth going forward. Inflation is expected to decline gradually, benefiting from improved fiscal and monetary discipline, exchange rate market liberalization, and deepening PFM reforms. At the same time, a strong global recovery would support inward FDI and remittances. South Sudan will also benefit from higher oil prices, which will support stronger export growth and increased expenditure revenue. Increased oil revenues could be used to support economic diversification, leading to a more inclusive and resilient recovery. Consequently, the economy could grow by 3.8 percentage points in FY2022/23. Over the medium-term, growth may average around 5 percent, with developments in the non-oil sectors and a recovery in consumption being the main contributing factors.

The fiscal deficit is expected to narrow to about 2.5 percent of GDP, reflecting higher than budgeted non-oil revenue and the impact of fiscal consolidation efforts. The fiscal deficit may improve to 2.5 percent of GDP in FY2021/22 from an estimated 6.9 percent in FY2020/21, reflecting the authorities' efforts to expand the non-oil tax base and a fiscal adjustment that may lead to lower current spending. Non-oil tax revenue is performance is projected at 3.2 percent of GDP in FY2021/22, higher than the 2.6 percent of GDP contained in the FY2021/22 budget, reflecting the National Revenue Authorities' efforts to expand the tax base and the implementation of a range of measures to reform its tax revenue collection functions.

In addition, oil revenue is expected to increase to 26.9 percent of GDP in FY2021/22, higher than the 26.3 percent envisaged in the budget. Expenditures are expected to remain contained, despite a one-off doubling of nominal salaries mandated in the FY2021/22 budget. At the same time, fiscal consolidation will benefit from lower than planned investment expenditures, with outturns of about 4.1 percent of GDP, lower than the 10.3 percent projected by the authorities at the start of the fiscal year. Going forward, the fiscal situation is expected to gradually improve as South Sudan completes the payment of financial transfers to Sudan in FY2022/23, with these projected to absorb a large share of revenue, estimated at 10.3 percent of GDP in FY2021/2022. Nevertheless, the impact of the ongoing flooding may alter the fiscal outlook if the decrease in oil production is not offset by higher oil prices.

The current account is expected to narrow to -3.5 percent of GDP in FY2021/22, from -5.5 percent in FY2020/21. The trade balance is expected to narrow to an estimated deficit of -0.2 percent of GDP (US$ 11 million) in FY2021/22, from -6.7 percent of GDP (US$ 333 million) in FY2020/21. These developments reflect lower import demand growth for capital projects and reduced investment in key sectors as the economy struggles to recover. At the same time, the export sector will benefit from higher oil revenues, following a strong recovery of oil prices in international markets during FY2021/22. In addition, the current account will benefit from the completion of the financial transfer to Sudan by FY2022/23. Over the medium term, the trade balance will deteriorate as import demand recovers and with the anticipated slow recovery of domestic oil production.

Table 7: Economic Outlook (annual percentage changes unless stated otherwise)

	FY2018/19	FY2019/20	FY2020/21	FY2021/22	FY2022/23
		(Est)	(Est)	(Proj)	(Proj)
GDP at constant market prices	3.2	9.5	-5.4	1.2	3.8
Oil	10.7	27.5	-5.9	-2.5	2.6
Non-oil	0.0	0.8	-5.0	3.5	4.4
Agriculture	9.9	6.0	3.9	-1.3	2.1
Non-oil industry and services	-1.5	0.0	-6.6	4.4	4.9
Inflation (average)	121.6	33.3	43.1	16.0	8.0
Exchange rate, official (SSP /US$, Avg)	152.4	161.0	190.2	415.0	464.6
Exchange rate, market (SSP /US$, Avg)	251.1	310.2	517.7	425.0	--
Memorandum items					
Oil production (millions of barrels)	49.1	62.1	58.4	56.9	58.4
Nominal GDP (SSP billions)	711.1	789.0	951.0	2,241.2	2,553.5

Source: South Sudanese Authorities; World Bank staff estimates

Box 3

The Impact of Flooding on South Sudan

South Sudan has experienced persistent flooding due to heavy rainfalls that commenced in May 2021 and that have continued through to December 2021. Flooding is a regular occurrence during the rainy season, with this season typically lasting April until October/November. However, seasonal rainfall patterns have become increasingly erratic in recent years, with South Sudan experiencing more prolonged and intense rainy seasons. As a result, since 2019, South Sudan has been affected by three consecutive years of severe flooding, with devasting impacts on physical assets and on peoples' lives and livelihoods. In some areas, the extent of the population affected and the destruction and damage experienced is reportedly the worst since 1962. Nine out of ten States of the country have been affected, including low-lying areas of the National capital, Juba, in Central Equatoria. The number of individuals affected has continued to increase throughout this period, going up from around 31,000 affected as of 11 June to between 800,000 and 1.2 million as of 15 December (around 7 to 10% of the country's population).

The most severely affected state is the Upper Nile, followed by Warrap, Eastern Equatoria, and Jonglei. The number of people affected is greatest in the States of Jonglei, at between 278,000 and 456,000, and Unity at between 176,000 and 188,000, followed by Northern Bahr el Ghazal and Upper Nile. In terms of the ratio of those affected to total population, the states of Jonglei (28% of the population) and Unity (21%), where damage to agricultural crops was also particularly severe. Across the country, floods have claimed the lives of more than 30 people, with about 10 deaths resulting from snake bites associated with the flooding.

The value of the damage caused directly by the floods is estimated at US$ 671 million, according to analysis based on a World Bank Global Rapid Post Disaster Damage Estimation (GRADE)[4]. The most severely impacted states in terms of damages are Jonglei (US$ 256.4 million) and Unity (US$ 117.8 million), which together account for more than half of total damages, followed by Warrap (US$ 94.2 million) and Upper Nile (US$ 64.8 million). Approximately 210,000 buildings have been affected by flooding, with the value of this damage estimated to stand at US$ 312 million, accounting for nearly half (46.5%) of the total. Just under half of these buildings (101,000) are estimated to have experienced severe damage. Damages to the agriculture sector[5] are estimated at US$ 233.5 million, or 34.8 percent of total damages. Production damages occurred due to the inundation of rainfed and irrigated cropland used to the cultivation of cereal, sorghum, and of land for mixed agricultural use. It is also estimated that floods killed or displaced more than four million livestock (cattle, sheep, goats). Infrastructure-related damages are estimated to stand at US$ 125.4, or 18.7 percent of the total. In total, 3,464 km of primary, secondary, and tertiary roads were affected by floods, severely disrupting accessibility, connectivity, and the delivery of much needed humanitarian aid to flood-affected areas. Seventy health facilities have been affected by the floods, with 20 storage facilities reportedly damaged. In addition, extensive flood damage has been reported to water, sanitation, and hygiene-related community infrastructure, including boreholes and water points.

Flooding has also affected oil production, altering the fiscal and growth outlook. Oil production is estimated to have declined by 5.9 percent in FY2021 and is projected to decline by a further 2.5 percent in FY2022 due to the impact of floods on production and to that of the pandemic on new investments to replace exhausted wells. Consequently, GDP growth estimates have been revised downwards, from -4.1 percent to -5.4 percent for FY2020/21, and from 2.6 percent to 1.2 percent in FY201/2022. At the same time, the fiscal deficit could deteriorate to 2.5 percent of GDP in FY2021/2022 if these risks fully materialize, significantly diverging from the budgeted 1.9 percent, reflecting lower budgetary revenue and higher expenditure due to the authorities' need to implement and oversee a response to the crisis.

4 For more on GRADE, see: https://www.gfdrr.org/en/publication/methodology-note-global-rapid-post-disaster-damage-estimation-grade-approach
5 Agriculture includes crop, livestock and agricultural capital.

1.9 Risks to the outlook remain heavily tilted to the downside

The economic outlook is clouded by a high level of uncertainty. Risks to the outlook are tilted to the downside, with these downside risks including those related to adverse climatic shocks, the slow rollout of the COVID-19 vaccination program, oil price volatility, the implementation of reforms, the escalation of hostilities and subnational violence, and a weaker global economic context, all of which could exert negative pressure on the projected recovery. In an adverse scenario in which these downside risks manifest, growth could be as low as 2.5 percent in FY2022/23 (Figure 19).

Climatic shocks continue to pose downside risks to livelihoods, living standards, and export earnings, with these having the potential to derail a nascent economic recovery. As recent events show, South Sudan's economy is particularly vulnerable to extreme climatic events, including flooding and drought. In recent months, floods in parts of the country have disrupted agricultural livelihoods, with the destruction of crops and livestock exacerbating food insecurity in affected areas. At the same time, floods have contributed to a new wave of displacements, with households in affected areas often needing to seek safety on higher ground. In the oil sector, floods have precipitated a 2.5 percent reduction in production, potentially leading to a loss of revenue to the order 0.6-1.0 percent of GDP. At the same time, despite its significant agricultural potential, South Sudan has not achieved food self-sufficiency since 2009, resulting in high levels of food insecurity that have frequently reached crisis levels in a number of sub-national jurisdictions. Thus, a renewed focus on building resilience, including through measures to support better water management, the implementation of climate-smart farming practices, and the use of more resilient seed varieties, is vitally necessary. With the security situation improving, the authorities should also focus on facilitating the achievement of a year-round agricultural cycle that could result in improved household production and productivity.

Figure 19: Real GDP growth rate (percent)

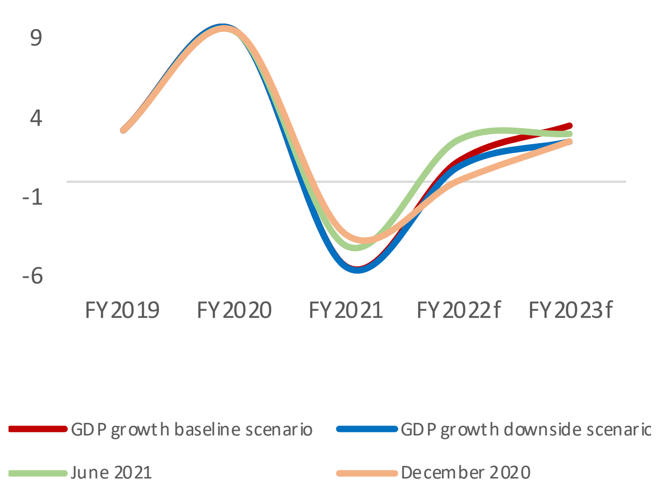
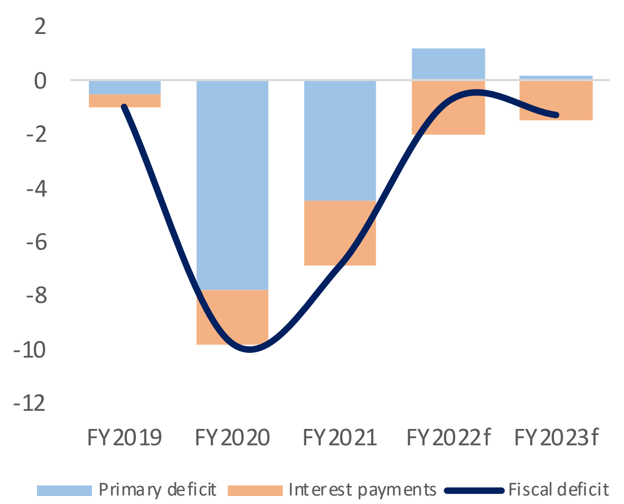


Figure 20: Overall fiscal balance (percent of GDP)



Source: World Bank estimates

Developments in the oil sector could also undermine South Sudan's economic recovery. South Sudan has benefited from the current surge in international oil prices, which have helped to offset revenue losses related to reduced output. However, South Sudan's heavy reliance on the oil sector, which is estimated to account for more than 90 percent of central government revenue and 95 percent of the country's exports, exposes the country to undesirable terms-of-trade shocks. Thus, a decline in oil export revenues would have a severe negative impact on the government's resources, potentially derailing its investment program, which is already grossly underfunded. In addition, lower oil prices may affect sector investment plans, requiring South Sudan to quickly locate alternative sources of growth. In the absence of major new oil discoveries, the known oil reserves could face rapid depletion in the coming years.

The slow rollout of the national vaccination program and the future path of the pandemic adds an additional layer of uncertainty to the outlook. Given its weak health system and inadequate financing and supplies, South Sudan continues to face significant threats related to the COVID-19 pandemic. As of 3 January 2022, the number of confirmed cases in the country stood at 15,152, with 135 deaths, representing a 21 percent increase over a two-month period. With the country's limited testing capacities, it is likely that the actual situation is significantly worse than suggested by the official figures. By 31 December 2021, South Sudan had administered only 269,000 vaccines, with 182,000 full vaccinations (1.6 percent of the population), making it one of the least vaccinated countries in the world. Thus, there is an urgent need to support the national vaccination program, even in the context of dire financing needs and pressure on the budget to implement the peace agreement. This will be critical to avoid resurgences and additional waves of the pandemic, with associated lockdown measures, especially as new variants of the COVID-19 virus continue to emerge on the continent.

The sustainability of the relative peace and security in the country represents a major risk to the outlook, with the situation in South Sudan remaining unsettled and with conflict persisting across the country, despite recent positive political developments. Despite the formation of the national Unity Government in February 2020, the security situation in South Sudan remains highly volatile. A flareup of violence in parts of the country and the slow implementation of key aspects of the peace agreement raise concerns regarding the sustainability of the peace process. The formation of a new, more inclusive parliament more than a year after the Unity Government was established represents the formal fulfillment of a key pending aspect of this process. However, its practical impact on peaceful modes of governance remains uncertain, with a number of critical issues outlined in the peace agreement, including the completion of transitional security arrangements related to the reunification of the armed forces and the DDR, remaining unresolved. A resurgence in the conflict would likely reverse the gains made towards economic recovery and exacerbate the dire macroeconomic and humanitarian situation.

Climatic shocks continue to pose downside risks to livelihoods, living standards, and export earnings, with these having the potential to derail a nascent economic recovery.

Greater support for employment creation is vitally important for the achievement of peace and a resilient and inclusive economic recovery in South Sudan. As the economy recovers from multiple shocks, sustaining the momentum into the medium-term will depend on the government's ability to stimulate the creation of a sufficient number of quality jobs to absorb a young and expanding labor force. However, it must be recognized that progress toward peace is rarely linear, and it is likely that there will be significant variation across the country. Given the toll of conflict, the authorities may need to consider second-best policies that result in only gradual change. Even so, the authorities could take a number of actions to support job creation at different stages of progress, to stabilize the status quo, to boost local recovery, or to facilitate the transition to broader recovery. While the pandemic has affected coping capacities and strained resources, policy actions to mitigate the economic impact of the crisis essentially overlap with those needed to support recovery. The second part of the Economic Monitor discusses the jobs landscape in urban South Sudan and discusses the practical actions necessary for the authorities to facilitate a job-focused economic recovery and peacebuilding process.

PART 2:

TOWARDS A JOBS AGENDA FOR RECOVERY AND PEACEBUILDING

As South Sudan looks to build stability, better jobs should take center stage. Armed conflict, natural disasters, and the COVID-19 pandemic have profoundly disrupted livelihoods at all levels in South Sudan. As the authorities seek to consolidate the peace process and as COVID-19 becomes a more familiar and manageable challenge, there is an opportunity now to continue on the road to a recovery that creates better job opportunities for the poor. Paying attention to jobs is key in peace and recovery transitions: economies that create opportunities are more stable, and investment projects that create jobs can also succeeded at changing the attitudes of beneficiaries toward their society. For details see von der Goltz and Mavridis (2020) for a good summary of the literature; Miguel et al. (2004) for discussions of relationships at the economy-wide level; and Blattman and Annan (2016) for a successful example at the project level.

With enormous investment needs and limited resources, it is crucial to understand what the most important opportunities are for supporting better jobs. South Sudan benefits from important oil revenue streams, with their value estimated at US$ 1.4 billion, or 26.6 percent of GDP, in FY2020/21. While development assistance has declined somewhat, as long anticipated, development partners also continue to provide significant funding, amounting to some US$ 1.4 billion in 2021, or 18 percent of the annual poverty-line income. However, the investment needs far exceed available resources, with an annual poverty gap of US$ 618 million in urban communities and US$ 2.8 billion in rural communities[6], which together amount to nearly half of GDP (von der Goltz & Harborne, 2020). Much work remains to be done for the government's budget to adequately harness the country's resources, even while international assistance is likely to decrease further. In order to deploy these limited resources well, it is essential to understand which investments are most likely to make a real difference in the lives of South Sudanese workers.

While there is an important longer-term reform agenda, the first steps toward recovery deserve attention, too. After conflict and food insecurity as prolonged and pervasive as South Sudan has suffered, the road of recovery is long. Key among reforms that must begin now is the establishment of an effective and transparent budget process that includes oil revenue management, and a realignment of spending priorities toward investment. If successful, the ongoing dialogue on public financial management reforms will support macroeconomic stabilization and strengthen institutions. Such progress is vital in improving the environment for growth, diversification, and better jobs. Yet, while the longer-term reform agenda must be engaged, there are specific challenges and opportunities that relate to the first steps out of an economy shaped by conflict. They relate, for instance, to the process of re-building the confidence of small investors, or the transition from purely humanitarian policy toward policy for development and jobs. This chapter analyzes such first steps toward promoting better jobs.

Early recovery should focus on broad-based improvements in the lives of South Sudanese workers and must find ways to leverage public investment to crowd-in domestic investment. As the following discussion will establish, with pervasive poverty, the key goal at the early stages of recovery must be to broadly raise the productivity of the kind of jobs most South Sudanese hold. In setting out actions toward this goal, it must be acknowledged that attracting even modest foreign investment to South Sudan will be challenging, except in the case of certain niche high-rent industries such as mining that typically provide few jobs. Recovery must instead rely on a gradual recovery of small investments by domestic businesses and households. In a high risk, high cost, and low demand business environment, public investment has a key role to play in encouraging such a recovery. These public investments can lower costs (notably in transport), raise returns (notably in agriculture), and sustain demand by ensuring public-sector salaries are paid.

Even in a depleted economy, towns are centers of economic activity; they offer opportunities to mobilize some resources as well as linkages to rural markets. While South Sudan is still primarily a rural economy, there are good reasons to pay attention to jobs in urban areas. While the long conflict and recurrent natural disasters in South Sudan have affected both urban and rural livelihoods, diversified activities are concentrated in towns, while rural households remain highly dependent on subsistence agriculture. Thus, the towns of South Sudan should be

6 The estimate is based on rural and urban population estimates for 2020 as well as the average per capita poverty gap under the $1.90 poverty line in 2017

the points of entry to revive value chains that go beyond subsistence needs and to crowd-in modest local resources. Further, the country's towns, which together account for 1.3 million workers, or 28 percent of the country's entire labor force, have significant potential to play a role in reviving markets and stimulating agricultural demand, and thus will be a critical asset to supporting recovery in rural areas. Finally, from a practical point of view, towns are the areas where government agencies, civil society, and private businesses have the greatest capacity, and where they can most securely operate.

This chapter discusses jobs in recovery, based on World Bank studies related to jobs in urban South Sudan, investment options in agriculture, and other related analyses. In setting out the case for a jobs-led recovery, this chapter largely draws upon an ambitious assessment of jobs in urban South Sudan published in 2021. The assessment includes studies of jobs outcomes in urban South Sudan (Finn et al., 2020a), the macro environment for jobs (Mawejje, 2020), businesses (Finn & von der Goltz, 2020), and agriculture and markets (von der Goltz et al., 2020) all of which have been synthesized in an overview report (von der Goltz & Harborne,2020). Where no other sources are indicated in this chapter, statistics are drawn from these studies. In addition, this chapter draws from a number of surveys conducted to monitor the impact of the COVID-19 pandemic in 2020 (Finn et al. 2020b), as well as insights collected in a study of investment scenarios for agriculture (World Bank, 2021).

2.1 What does a job look like in South Sudan?

Initiatives to support job creation must begin with a realistic understanding of what a job means to most workers. Jobs policy is never a matter of 'one size fits all.' In any given case, the priority challenges and investment opportunities will depend on the structure of the economy. For instance, in economies that provide a significant number of waged jobs with decent pay but leave large groups unemployed, the focus is on providing new employment for these idle groups. Other economies provide many good job opportunities, but exclude specific groups such as youth or women, so that the goal is to level the playing field and enable broader participation. For South Sudan's economy, however, the key challenge is that the jobs that provide livelihoods to most workers are characterized by very low productivity. In this context, the most compelling goal for jobs policy is to broadly raise the incomes derived from these common activities to improve the living standards of the working poor.

Rural livelihoods remain highly dependent on agriculture and other food sector activities. In rural areas, some 88 percent of all households rely on activities in the food sector for most of their livelihood. While crop agriculture is the largest source of income, about 60 percent of the population also depend on raising livestock for food security and income generation (FAO, 2020). Other sources of rural livelihoods are precarious, including brewing and selling firewood (each reported by eight percent of the households), food aid (seven percent), and hunting and gathering (five percent).

With greater stability, agricultural value chains have significant potential for growth. Due to the economic legacy of war and disasters, South Sudan's agricultural land productivity stood at only US$ 67 per hectare in 2016, amongst the lowest levels in the world and well below the average figure of US$ 103 per hectare recorded by other FCV countries in sub-Saharan Africa (World Bank, 2021). However, with its highly favorable agri-climatic endowments, South Sudan has a proud history of producing a wide range of plant and animal crops both for domestic consumption and export. With greater stability and effective policies, food-sector value chains could provide many productive jobs, both on-farm and off-farm.

Few urban job activities are sufficiently productive to provide a livelihood above the poverty level. In urban South Sudan, more than 70 percent of non-displaced residents, and 90 percent of IDPs in PoC sites live in poverty (under the I$ 1.90 per day poverty line). In none of the towns included in this analysis is the poverty rate below 60 percent. These very high levels of poverty reflect the low productivity of the job activities available to most South Sudanese. In 2019, median incomes and wages in household and market activities stood at around SSP 500-600, or about US$ 2 per day. Likewise, established businesses report a similar median income per worker and day. Low productivity is also reflected in the inability of households to diversify activities and the difficulties youth face in finding work beyond contributing unpaid help to household activities.

For most urban workers, a job is own-account or household work. Most workers are self-employed (46 percent) or support household-run business activities (27 percent). Paid labor accounts for one in four jobs, but not all of these jobs are the kind of salaried work that is often viewed as particularly attractive. Rather, across rural and urban areas, as many as two in three of them are daily labor under difficult conditions (World Bank, 2020a). As is the case in most low-income countries, there is little unemployment for the simple reason that few workers can afford to remain idle. Thus, narrowly defined, the unemployment rate stands at around two percent, increasing to six percent if the definition is broadened to include inactivity due to discouragement.

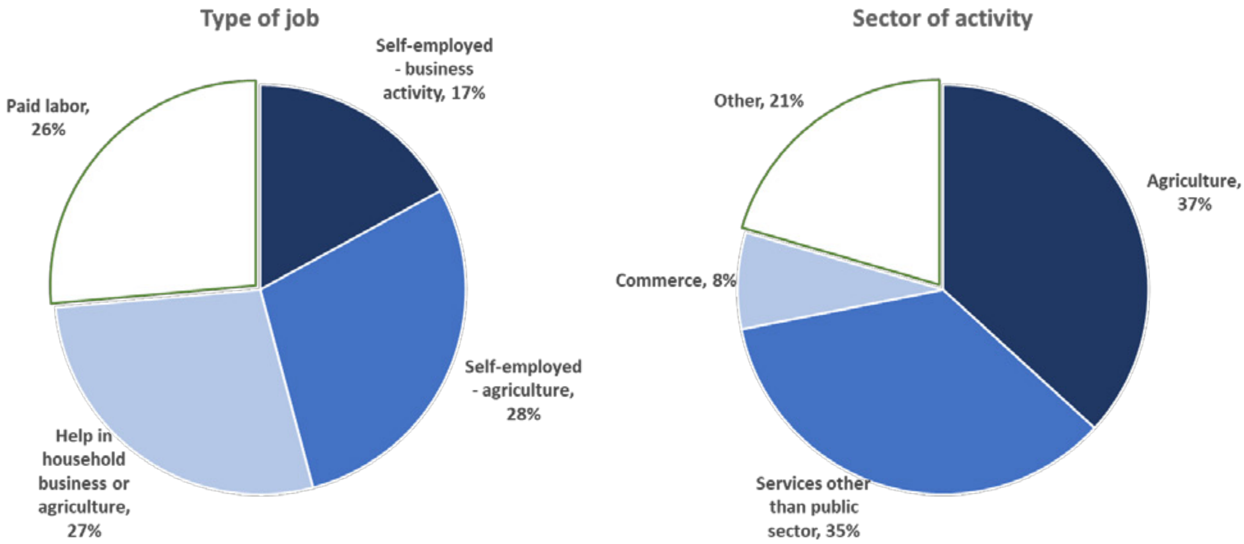
Most jobs are in commerce, basic personal services, and agriculture, even in urban areas. Agriculture is a major source of employment in towns (37 percent of all jobs), second only to services, which employ about half of all workers, mostly in commerce and personal services such as hairdressing, tailoring, repairs, or carrying loads (Figure 21). While comparisons over time are difficult, it is evident that the role of public employment as a source of jobs for urban residents has declined strongly during the conflict, while agriculture has become far more important – but not for the displaced, few of whom have access to land.

Half of all urban households rely on agriculture for most of their income, and more derive their livelihood from work for NGOs and the public sector than are employed in businesses. For those households that engage in agriculture, it is usually their primary source of income (90%). Therefore, while about one in three workers are active in agriculture, half of all urban households rely on agriculture as their primary source of income (50%). Work in commerce and personal services employs the most workers but is more rarely the main source of income (13 percent and 10 percent of households). Finally, a far greater proportion of households rely on the public sector and NGOs (16%) than on waged work at for-profit companies (5%).

There is significant variation between different towns in terms of the composition of job activities, particularly as regards the level of reliance on agriculture rather than commerce and services. Variations in job activities between towns relate largely to local constraints, but also to their respective comparative advantage and the potential – if stability increases – for trade between towns. While the degree of dependence of workers on waged employment is roughly similar across towns, the level of reliance on agriculture varies strongly. Thus, while many workers are actively engaged in agriculture in towns such as Yambio and Rumbek, the proportion is far smaller in Aweil, Juba, or Wau. In towns where agriculture plays a less significant role, casual business activities and services provide more jobs.

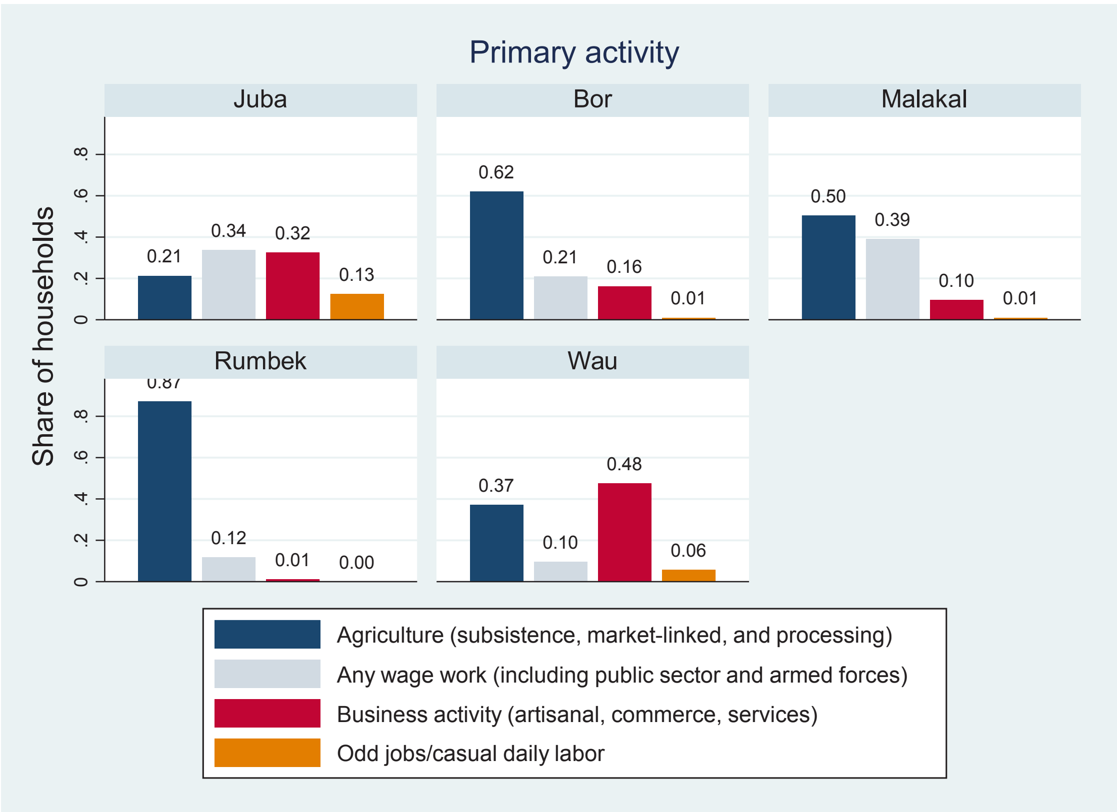
Agriculture is a major source of employment in towns (37 percent of all jobs), second only to services, which employ about half of all workers.

Figure 21: Type of employment and sector of activity among urban workers



Source: von der Goltz, J. and B. Harborne (2020). Jobs, Recovery, and Peacebuilding in Urban South Sudan. World Bank.

Figure 22: The role different job activities play in livelihoods varies by town



Source : Finn et al. (2020a)

2.2 What has been the impact of conflict, displacement, macroeconomic stress, and disaster on markets and jobs?

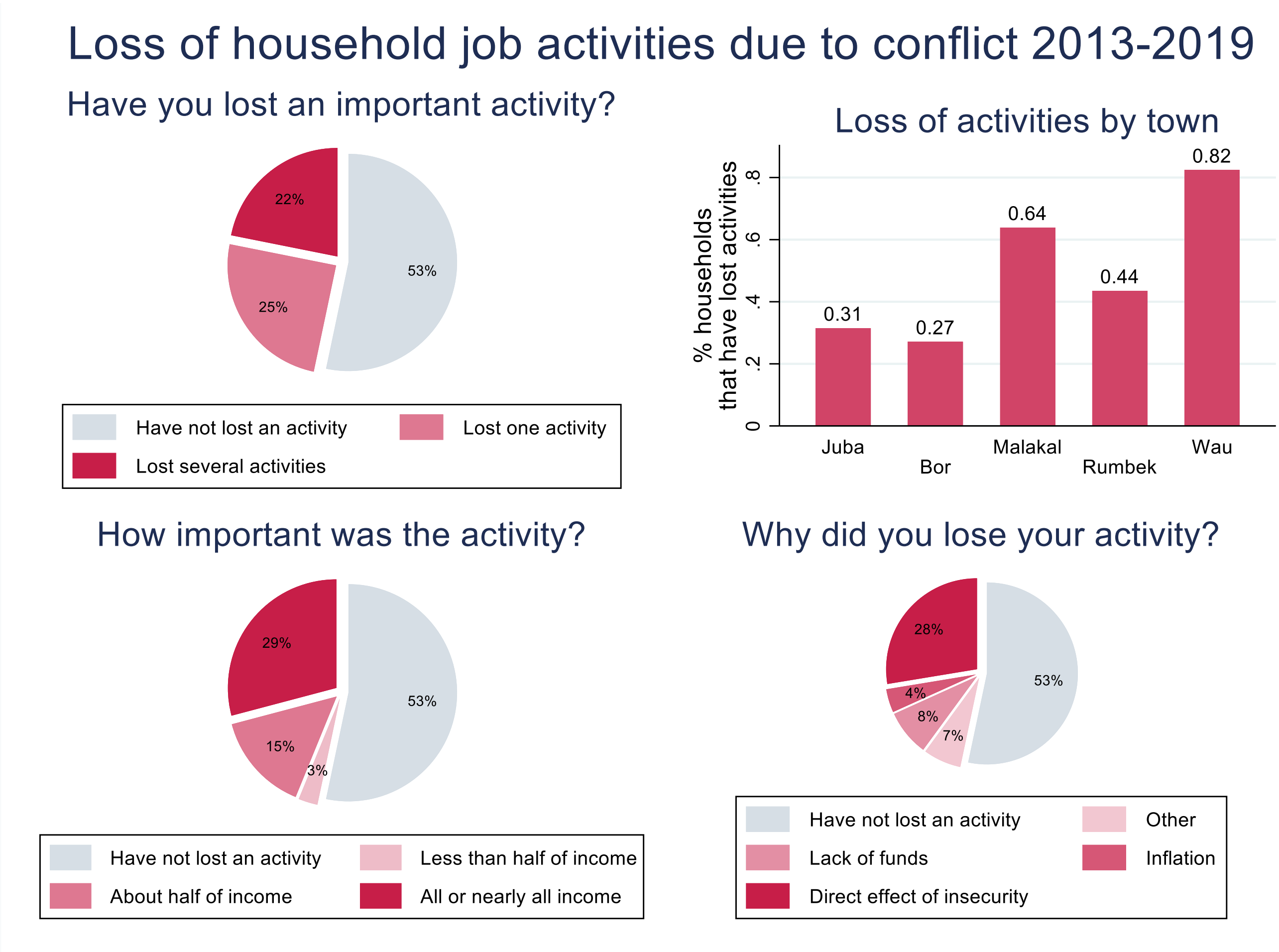
Conflict and natural disasters have left deep traces. Since December 2013, South Sudan has been beset by armed conflict, and a recent study estimates that 380,000 people died between December 2013 and April 2018 due to it (Checchi et. al., 2018). Years of conflict, drought, and floods have taken a dire toll on agricultural production, despite the country's significant agricultural potential. About 7.2 million people experience crisis levels of acute food insecurity or worse (IPC, 2020). These people are among the least resilient and are the most vulnerable to climate shocks. Indeed, in 2019 and 2020, South Sudan experienced both floods and infestations of desert locusts, with severe impacts on the main planting seasons. It is estimated that in 2019, floods led to the loss of 15 percent of agricultural output in affected areas, impacting some 856,000 people and resulting in the displacement of 389,000. In addition, desert locust are reported to have destroyed 20 percent of production outputs on affected lands (World Bank, 2021).

Long years of conflict have created a turbulent macro-fiscal environment, with profound implications for jobs. Since the beginning of the conflict, real non-oil GDP has fallen by more than a third (37%). At the same time, prices have increased 60-fold, with annualized inflation rates reaching to as high as 550 percent. The currency has depreciated nearly one hundred-fold, and with little access to US$, currency has been traded for years in the parallel market. South Sudan's oil wealth still accounts for most revenue and nearly all exports, and with spending oriented toward security management, there is no transparency on revenue, and the budget process remains weak.

Most urban job activities have been affected by conflict. Even among urban households that have not suffered displacement, around half (47 percent) have lost at least one important job activity since the beginning of conflict in 2013. In a large proportion of cases (29 percent), households have lost their primary activity. Among 4,000 businesses surveyed in 2019, precisely two reported that they had not been affected by the conflict in some way. Real wages have fallen for half of all urban workers (52 percent), as has time at work, and a greater proportion of workers now report that they would like to work longer hours than before the conflict. Among market traders, 44 percent had not been in business for more than one year in 2019, reflecting the degree of disruption to the economy in general and to agricultural value chains in particular, caused by violence, loss of assets, and risk.

The COVID-19 pandemic led to a widespread and often dramatic drop in incomes. While the pandemic has disrupted the working lives of urban South Sudanese, it has rarely caused them to end or pause their job activities (Finn et al., 2020b). Thus, fewer than one percent of established businesses (0.3 percent) and about one in seven market traders (15 percent) explained that they had stopped their activities during the early months of the pandemic. At the same time, however, most businesses (81 percent), and about half of all market traders (59 percent) and urban households (50 percent) explained that they had lost income through the pandemic. The declines in revenue were often substantial. More than half of all businesses (59%) reported having lost at least half of their income, while among households that rely on non-farm business income for their livelihoods, 20 percent said that they had lost all of their income. With the multitude of shocks South Sudan has experienced, it is difficult to discern through which mechanisms the pandemic has affected livelihoods. It is likely that it has exerted its impact through a combination of the drop in oil revenue and remittances early in the pandemic, a temporary decline in demand from market closures and movement restrictions, and supply chain disruptions due to border closures.

Figure 23: Conflict has had a pervasive impact on jobs in towns

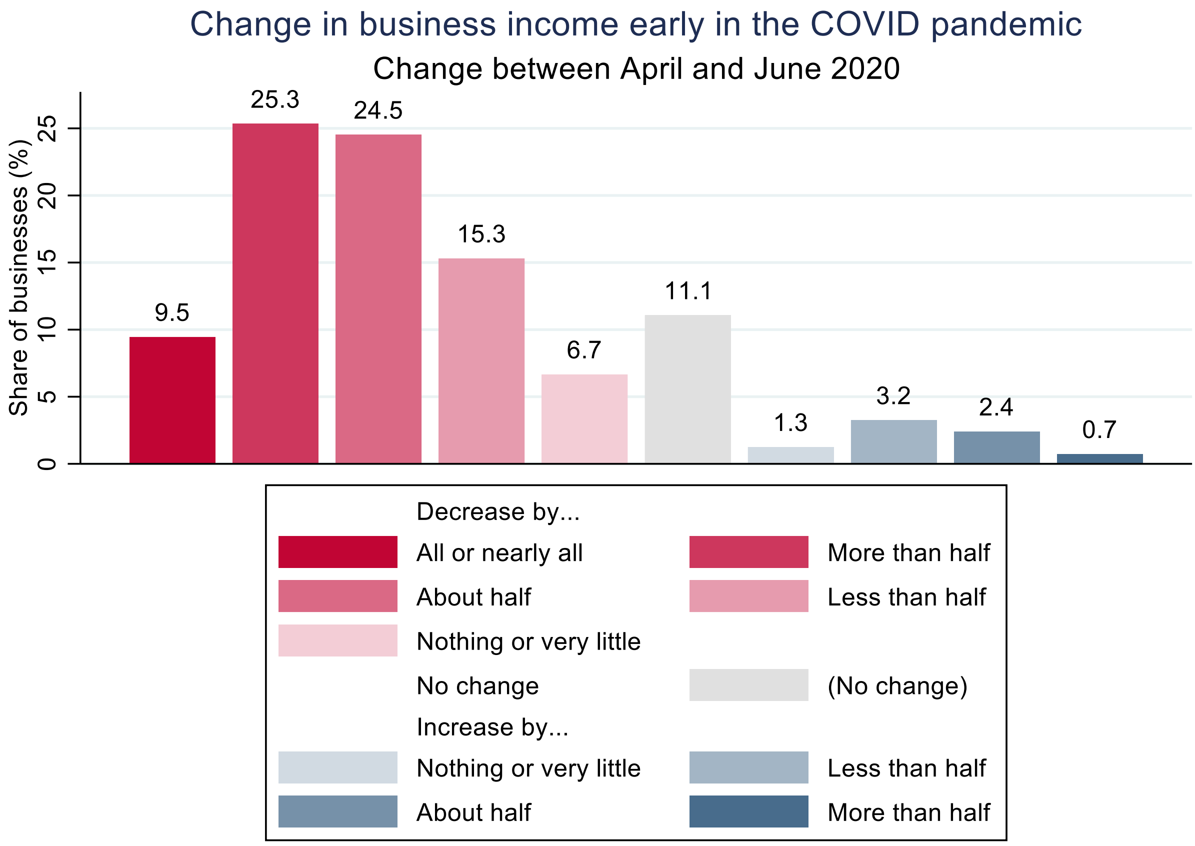


Source: World Bank staff calculations based on Youth Jobs Survey (2019).

Reintegrating South Sudan's two million IDPs, some 2.3 million refugees, and members of armed groups into the labor market will pose a major challenge. As of November 2021, nearly 4.3 million people had been forcibly displaced, representing about a third of the country's population, with women and children accounting for 85 percent of the total.[7] Many of those affected have suffered repeated displacements. While about 2.3 million have fled to neighboring countries in search of safety, two million continue to be internally displaced within South Sudan, an increase from the figure of 1.7 million recorded in March 2021, with the increase reflecting the impact of both conflict and flooding.[8] The displaced have suffered much, and lost networks, funds, land, and tools. A large proportion have also lost their connection to the labor market: fewer than half of IDPs of working age and fewer than one in five refugees work (42 percent and 19 percent.

7 United Nations Population Fund (UNFPA), 2019 figures.
8 UN OCHA, South Sudan Humanitarian Snapshot, November 2021. Also see: UNHCR, South Sudan data portal. Sudan and Uganda host the majority of South Sudanese refugees, with 811,452 and 857,268 registered in each country, respectively. IOM, Displacement Tracking Matrix: Mobility Tracking Round 6 (November 2019).

Figure 24: business income declined steeply with the COVID pandemic and measures to contain it



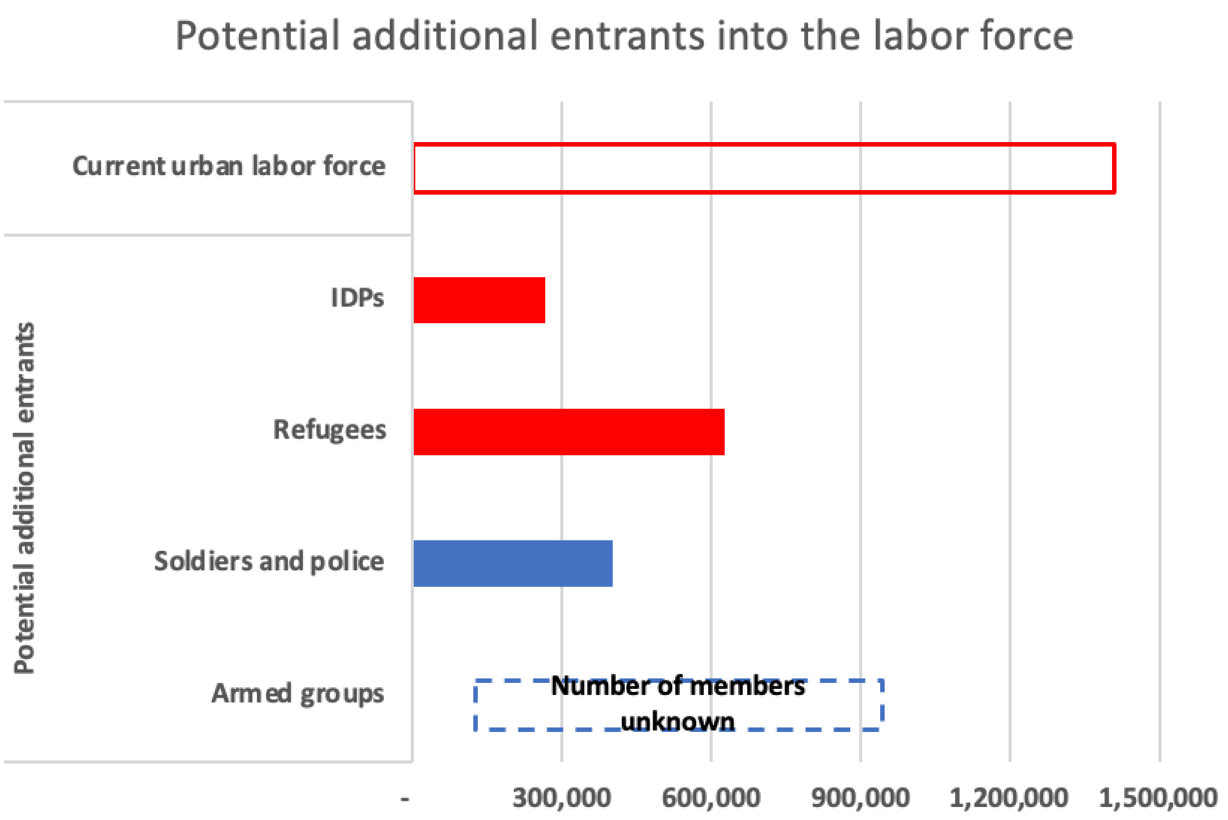
Source: World Bank staff calculations based on Business Monitoring Survey (2020).

More than one million currently displaced workers may eventually hope to rejoin the urban job market. Many factors may influence the number of the displaced that may eventually look for jobs in South Sudan's labor market, including the high share of IDPs already settled in towns outside of PoC sites, the unusual age structure of the displaced, and the fact that a majority are uncertain about whether they intend to return to their home communities. However, the majority of those surveyed state that they would like to resume their pre-displacement employment. Accounting for these considerations, it was estimated that as of 2020, between 1.1 million and 1.3 million of displaced people who do not currently work in South Sudan may eventually look for jobs. In addition, there are currently 400,000 soldiers and police on the government's payroll and among former opposition armed groups, and only around one in four young soldiers state that they hoped to remain in the armed forces. Enabling these individuals to seek work in towns or rural communities will present a major development challenge.

The work experience and expectations of the displaced do not necessarily match well with the most common activities in their host communities. Returnees seeking to rejoin the work force may have profiles and expectations that are not an easy match for the labor markets open to them. For instance, 43 percent of IDPs at the Juba PoC camp report that before their displacement, they were heavily dependent on wage and salaried work for their incomes. This is well above the proportion among the non-displaced urban population in Central Equatoria (25%). Thus, meeting their expectations or providing acceptable alternatives may not be easy. Conversely, 45 percent of IDPs in Wau have a background of work in agriculture, a far higher proportion than among urban residents in the state of Bahr el Ghazal (11%). While these different backgrounds and expectations may enable the new entrants to find work that is complementary to that of the established workforce, it could also be an obstacle to them in finding jobs. With these as yet unanswered questions, further analysis is needed.

Labor force growth is moderate but adds to the challenge of providing productive-enough opportunities. With scarce data and with the high rate of forced displacement, it is difficult to meaningfully project labor force growth. ILO models suggest an average annual growth rate of about 1.7 percent over the past decade. This is a moderate rate of increase, well below the rates of around three percent recorded in both Ethiopia and Kenya (Farole et al., 2021). While South Sudan's growth would translate to an increase in the number of workers by nearly 80,000 workers each year, the return of displaced groups could have a far greater impact on the labor force. However, it is still worth noting that the projected annual increase in the number of workers, even without factoring in the return of displaced workers, is greater than the total number of urban workers currently employed by established businesses and NGOs. This will exacerbate the challenges related to providing a sufficient number of productive job opportunities.

Figure 25: A significant challenge and opportunity could result from pressure to re-integrate displaced workers and some members of the security forces.



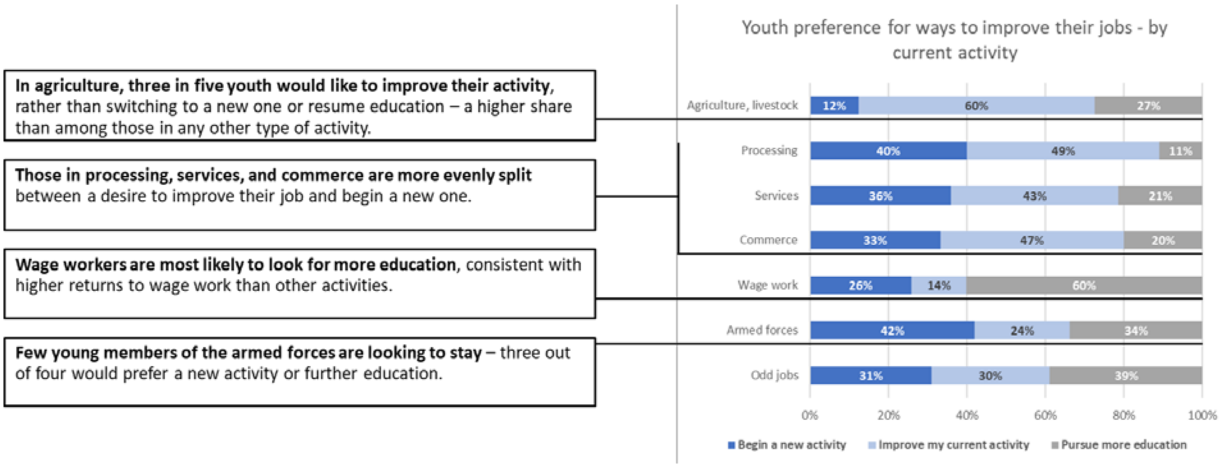
Source: Finn et al. (2020a)

2.3 What do young South Sudanese expect of a job?

Young workers know what incomes they can expect from available activities, and expectations of public sector employment have reduced. In the short term, most workers in South Sudan will be limited to low-productivity, low-income job activities. The extent to which young workers, in particular, are willing to build from such limited opportunities will be important not only for economic recovery, but also for political stability. In survey responses, young workers show realistic expectations regarding the incomes they can expect (around US$ 2-3 per day) from commonly available job activities. This contrasts with the situation before the most recent wave of conflict, when unrealistic wage expectations were viewed as a significant obstacle to competitiveness.[9] Far more young workers (59 percent) still expect to someday work for the government than can ever realistically hope to be hired. However, only eight percent now expect such a job to materialize within a year, compared to 42 percent of survey respondents in 2014.

Youth are reasonably open-minded regarding the modest job activities available. Most young workers have at least a mildly favorable view of common job activities, such as work in agriculture, in the market, in construction, or in casual services. Indeed, most say they would like to do better in their current activities. The exceptions are the lucky few who already hold wage jobs, with a large proportion of these stating that they hope to resume their education. Similarly, a large proportion of those currently serving in the armed forces stated that they hoped to shift to other professions.

Figure 26: Attitudes of young workers toward common activities



Source : Finn et al. (2020a)

Despite the promise food sector value chains hold, jobs in processing are currently seen as a last resort or a source of small cash revenues. Focus group respondents vividly recall the diverse food sector value chains that existed in South Sudan before conflict broke out. However, with the reduced and impoverished range of products in the market today and with the low purchasing power of consumers, those who remain active in processing tend to view their work either as a last resort in the absence of better opportunities or as a means to earn some cash income to complement subsistence agriculture. As one survey respondent in Torit stated: "at that time before the conflict, we were cultivating every crop like sesame, sorghum, and many more other crops that we were cultivating." However, the respondent added that after many had been displaced from their lands into towns due to conflict: "we were unable to cultivate enough food crops because there was a shortage of land, so we resorted to brewing alcohol for survival" (von der Goltz et al., 2020). Only one in four surveyed households active in processing states that they derive most of their income from these activities. These disillusioned views of a sector with significant potential to provide good jobs vividly illustrate the challenges related to reviving markets in South Sudan to enable broad groups of workers to raise their incomes.

9 World Bank, 2014. Republic of South Sudan: Jobs and Livelihoods.

With stabilization and investment, the production and processing of both staple crops and higher-value commodities have significant potential to expand and to provide productive job opportunities. A recent World Bank analysis assessed the investment options to support a recovery of agriculture (World Bank, 2021. It points out that there is significant potential not only in staple crop production (sorghum, maize, cassava, beans, groundnuts), but also in cash crops such as fruit and vegetables, shea butter, sesame and sunflower seeds, coffee, tea, gum Arabic, and honey. The cultivation of these has significant job creation potential, both in primary production and in processing, without the need for large capital investment at least in the early recovery stages. Opportunities also exist in fisheries and livestock, although focus group respondents point to the security concerns related to owning even a modest number of livestock.

The majority of young workers engaged in agriculture would rather do better in their current activity than shift to another job. Among young urban workers, three in five (60 percent) of those who are currently active in agriculture would like to improve the results of their current activities, rather than switching to alternative activities or resuming education. This is a higher proportion than among those engaged in any other activities. Similarly, half of all young workers (51 percent) agree with the statement that "Agriculture is as good or better a job than others," with the respondents being particularly likely to agree if they had experience in agriculture (58%) and in working with draught animals or machinery (64%). While these figures do not indicate a universal interest in agriculture, they give some cause to hope that even in towns, a significant proportion of urban youths would be interested in working in this sector and could hence benefit from a recovery in food sector activities.

2.4 What opportunities are there to rebuild the weakened entrepreneurial sector?

With few thriving firms, jobs programs must seek out unconventional ways to support productive employment, including in household businesses active in promising value chains. South Sudan's established business sector is far from what one would with it to be. It provides little employment and has little engagement in value chains that have strong potential for growth. However, there are some unconventional entry points to support job growth. Firstly, attention could be paid to the potential of household level businesses involved in artisanal work and food sector processing. Household workers in these activities have valuable skills, and even small investments could result in significant productivity gains. Secondly, given that foreign-owned businesses are already integrated into both labor and product markets, they could be encouraged to play a greater role. Finally, while businesses cannot rely on demand from UN agencies and NGOs in the longer term, in the short term, these actors could play a role in reviving market demand and encouraging investment through local procurement.

Established businesses and NGOs employ only about six percent of the urban labor force. Together with NGOs, businesses that are at least modestly established[10] employ about six percent of the labor force in towns, accounting for around 72,000 workers in total. The one partial exception from this limited role is Juba, which accounts for two-thirds of all workers in businesses (66 percent), and where established businesses and NGOs provide about one in four jobs. At 57,000, the number of workers employed by established businesses is only slightly greater than the number of civil servants, which is reported to be about 50,000 (excluding the security services).

While it is difficult to assess the extent of non-household employment in casual household business activities, it is likely to contribute significantly more jobs than established businesses. While there are no reliable estimates of the extent of employment in more casual business activities, a back-of-the-envelope calculation illustrates the importance of its role. Around 26 percent of urban workers say they engage in some paid work for

10 Whether a business is 'established' is expressed in survey data as the business having a separate place of business from the owner's household and a business name.

others outside the household, of whom around six percent are employed by NGOs and established businesses, with an additional 5 percent working as public servants or in the security services (Finn et al., 2020). Thus, up to 15 percent of urban workers may be employed by casual businesses, substantially more than work for established businesses. A recent analysis in Somalia similarly found that household businesses provide ten percent of all jobs, more than the seven percent employed in established businesses. Similarly, in South Sudan, an important category of casual employers, market traders, employ on average between each three of them two workers from outside their families, in addition to family helpers. Nor do these jobs appear to be less productive than many in established businesses: workers in the market can expect to be paid about SSP 600 (US$ 2) per day, which is roughly similar to the going rate for unskilled workers and with revenue per worker reported by established businesses.

Most of the largest established employers are NGOs or cater to the international presence, while a 'missing middle' of medium-sized businesses reflects the risks attached to investment. A closer look at the largest established employers in South Sudan reveals the extent to which conflict has shaped the economy. The top ten employers provide between them 15 percent of all jobs in established businesses and organizations; the two largest are security firms, while the other eight are NGOs. Of the 47 employers with at least 100 workers (which together account for 23 percent of all jobs in established businesses and organizations), approximately half are NGOs. The commercial businesses among these relatively large employers include five security firms and five banks or money transfer companies, with three hotels, three medical providers, and three trading companies. The great majority (72%) of established businesses are microenterprises with no more than three workers, with the median business employing three. Thus, there is a 'missing middle,' with a lack of medium-sized businesses, a recognized indication of limited growth opportunities.

Even by the standards of a low-income, fragile country, South Sudan's established businesses include very few involved in manufacturing. Commerce and basic services account for 88 percent of jobs in established businesses (see Figure 27). By contrast, only about eight percent of workers are active in manufacturing, processing of agricultural goods, or construction. Juba is home to the largest community of manufacturing businesses. Beyond the capital, there are sizeable communities of agribusiness workers in Renk, with its long tradition of commercial and mechanized agriculture, and of manufacturing workers in Wau and Rumbek.

Household activities in processing and artisanship provide far more manufacturing employment than do established businesses. Due to the small size of the established manufacturing and processing sector, there is a much larger base of jobs in productive activities in household-based employment. Thus, there are an estimated 4,000 jobs in established businesses active in manufacturing and agribusiness throughout South Sudan. Manufacturing accounts for an estimated 1,625 of these jobs, and agribusiness and forestry activities, for the balance. By comparison, we estimate that household activities employ about 76,000 family workers in processing, and 10,000 in artisan production (full-

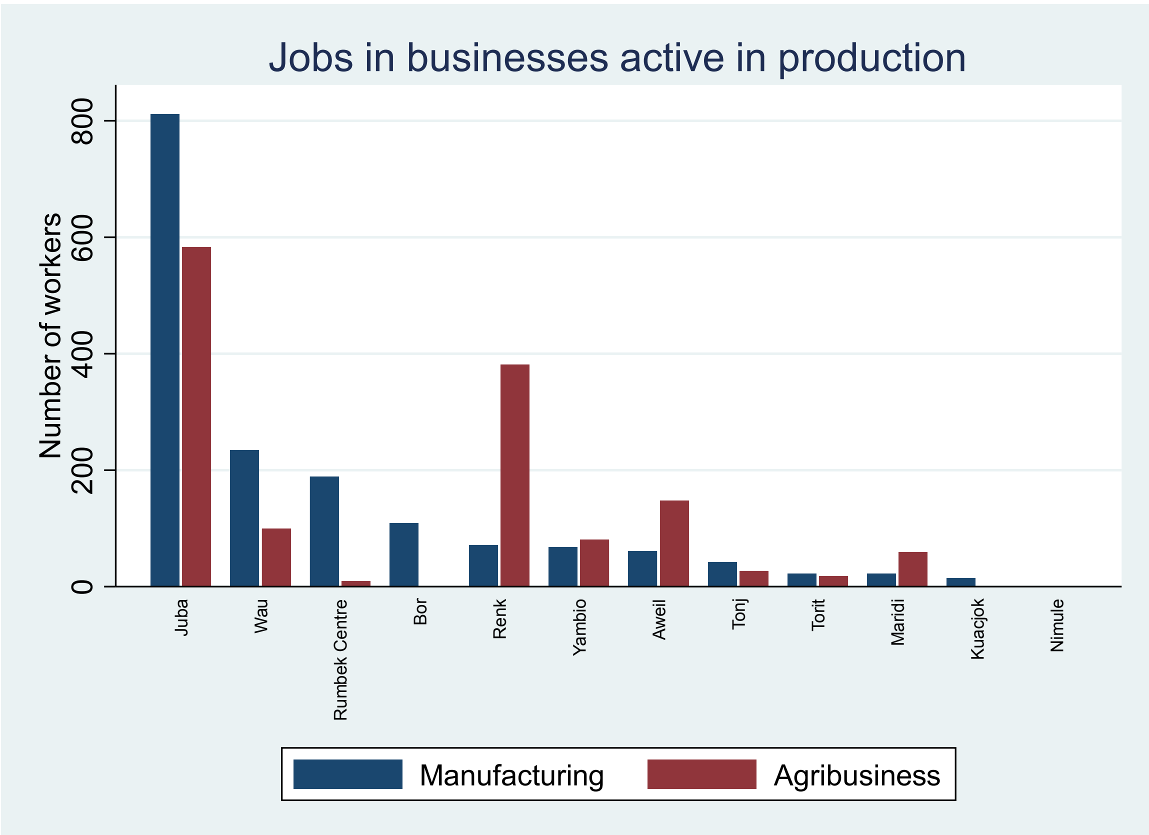
Commerce and basic services account for 88 percent of jobs in established businesses. By contrast, only about eight percent of workers are active in manufacturing, processing of agricultural goods, or construction.

time equivalent). While the available business income data does not enable a comparison of the levels of productivity between these different types of businesses at the sector level, it bears repeating that overall revenue per worker in established businesses (across activity types) is very similar to revenue in household-based activities. Jobs support initiatives should thus take note of the fact that household activities currently involve an order of magnitude more workers in value chains with a potential for productivity increases.

With the profound disruptions to the economy resulting from decades of conflict and instability in South Sudan, NGOs have taken on an important role as employers. There are an estimated 400 NGOs or other aid organizations operating in the country, compared to nearly 14,000 established businesses. However, these entities typically are much larger than for-profit businesses. They employ 18 workers at the median and 37 workers on average. This compares to two at the median and four at the mean for established businesses. Therefore, NGOs account for an estimated 15,000 jobs, compared to 57,000 in for-profit businesses.

Foreign-owned enterprises provide nearly half of all jobs in established businesses, employing far more South Sudanese than foreign nationals. Foreign-owned businesses, which are nearly always operated by nationals of South Sudan's neighboring countries, provide nearly half (47%) of all jobs in established businesses. Out of the foreign business owners interviewed in a 2019 survey, 80 percent employed South Sudanese workers, employing three times as many South Sudanese workers (about 15,000) as foreign nationals (about 4,500, excluding owners) (Finn and von der Goltz, 2020). It is particularly noteworthy that so many foreign-owned businesses hire local workers, given how small the typical foreign-owned business is. At the median, they employ just one worker in addition to the owner, as compared to two workers in addition to the owner in the case of South Sudanese-owned firms.

Figure 27: Established businesses offer few jobs in production.



Source: Finn and von der Goltz (2020).

Foreign-owned businesses and aid agencies contribute significantly to the demand for goods and services, especially outside of Juba. Since aid agencies and foreign businesses have a large presence in South Sudan, it is welcome news that the data show that they contribute significantly to demand for goods and services from South Sudanese suppliers, rather than remaining insulated from local value chains. Thus, foreign businesses and NGOs are estimated to account for around two thirds of all spending on non-capital goods and services by established businesses. Perhaps even more importantly, about half of foreign businesses that use agricultural inputs source them locally (54 percent), although those who re-sell consumer goods are (unsurprisingly) less likely to source them from South Sudan (22%).

2.5 There are many business obstacles, but there is also a clear hierarchy

Surveyed households, market traders, and businesses consistently report that insecurity, a lack of funding, low demand, and poor roads are the key factors constraining their activities. With the poor state of South Sudan's economy, people face a wide range of challenges in their endeavors to make a living, regardless of whether they work in their households, casual businesses, or more established businesses. Despite the panoply of obstacles, however, businesses, traders, and households all tend to agree that the most significant challenges they face relate to lack of funding for their activities, low demand (including as a result of inflation), bad and dangerous roads, and the direct impact of insecurity. While there was a variation between responses in different towns in terms of the extent to which they emphasized each of these four constraints, they consistently ranked them above other obstacles.

Poor macroeconomic and fiscal management is one of the main root causes for all of these key constraints. The macroeconomic and fiscal environment is not kind to the large majority of workers striving to make a living through small business activities and self-employment. In terms of the World Bank's CPIA index of governance, South Sudan receives a score of 1.5 for governance and 1.24 economic management, both among the lowest scores in sub-Saharan Africa. Despite the recent slow-down in inflation, cumulative years of price hikes have eroded purchasing power and hence demand. Oil revenue has recovered with the increase in global prices after Covid, but continues to be diverted as well as poorly invested, with little expenditure on infrastructure or human capital, both of which could support jobs. While public sector salaries have been doubled in nominal terms since the beginning of the FY2021/22 budget year, they remain low in real terms, with an accumulation of arrears further depressing demand.[11]

In a high-risk, low-demand environment, very few households or businesses can consider taking loans. It should be emphasized that when entrepreneurs say they face 'poor access to funding,' this is not the same as 'poor access to finance.' In South Sudan's difficult economic environment, even small investments that have good prospects for a strong pay-off face considerable risks. In consequence, almost all businesses rely on their limited own and family funds for their activities, and hardly anyone takes loans. This is true even for established businesses: while two in five (44 percent) have a bank account, barely any take out formal loans, even among large firms. Specifically, only three percent of established businesses have taken out a bank loan over the past three years, with the proportion rising to 6 percent in the case of large established businesses (see Figure 28). Instead, the majority of businesses state that they cover losses from shocks through loans or gifts from family and friends (67%) or by using their earnings or cutting salaries (30%) (see Figure 29). Similarly, few market traders (11 percent) say they would finance large purchases through formal loans. Rather, most would rely on their own savings (81%) or borrow from family, friends, neighbors, or colleagues (31%). The implication of this understandable reluctance to take on debt for the design of jobs support programs is that in the short term, the most credible means to encourage investment may be to offer grant funding, rather than through measures to encourage borrowing.

With few opportunities to access funding, young workers are often forced to defer their own income-generating activities until they have saved sufficient funds. As is often the case in low-income, fragile economies, poor access to funding means that it is difficult for young workers to commence their own income-generating activities. Thus,

11 Arrears are estimated at 5 months of salaries as of November 2021

in the case of market stall owners, older operators tend to generate far greater revenues, with those older than the median earning on average nearly twice the returns of those below the median. While this discrepancy may in part reflect the benefits of greater experience, it is likely that the older operators' ability to invest in their businesses is an important factor.

Figure 28: Business access to banking and loans

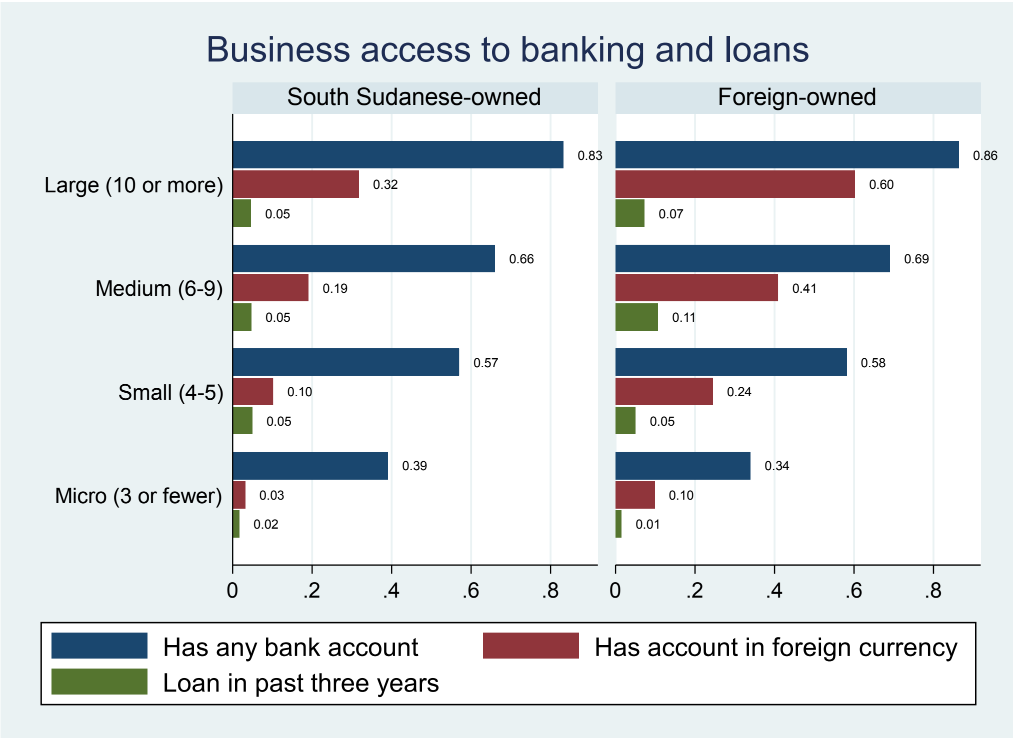
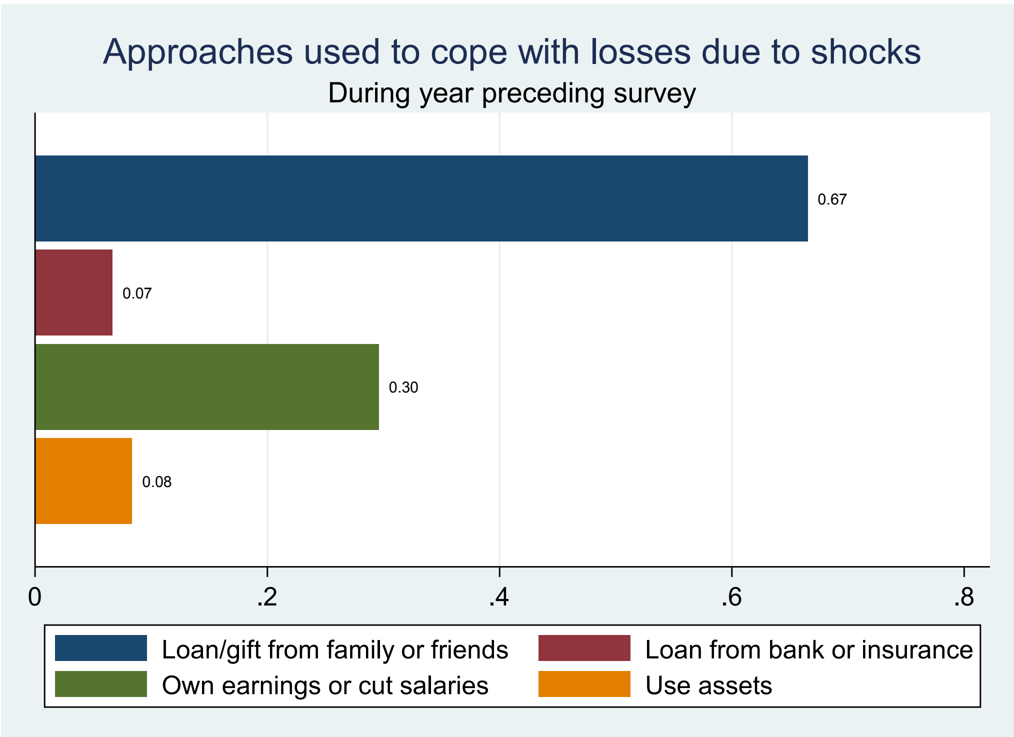


Figure 29: How businesses cope with shocks



Constrained market demand exacerbates the risks related to investment decisions. The activities of household business, market traders and established businesses alike suffer from weak demand. Thus, when surveyed during a period of greater stability in the autumn of 2019, market traders explained that while the increased stability had resulted in a rebound in supply in the market, consumer demand had not increased commensurately. Among those who sell agricultural products, around one in four said they made few or no sales on a typical day, with an additional 42 percent stating that they sold less than half of what they could offer. At the same time, almost all of the surveyed market traders stated that they faced many direct competitors, as is to be expected given the low degree of product diversification.

Low purchasing power, high inflation, and the large public salary arrears are all factors contributing to the depressed market demand. Conflict has driven many households into poverty and eroded the purchasing power of most customers in the markets. Indeed, most businesses (73 percent) reported that the decline in demand had been the most significant of the adverse consequences resulting from inflation for them. In addition, surveyed market traders stated that the public sector salary arrears have limited the contribution the government payroll makes to demand for goods and services. For instance, in 2019, a trader in Aweil argued in 2019 that "… the government doesn't even give out salaries. No salaries, but [public servants] need salaries for the market. […] The government is the salaries, so the market cannot work." A processor in Bor agreed: "… yes, customers are always available, but some do not have cash due to the delay in salaries for months. The issue of money delay is also hindering our businesses."

Limited market integration further constrains possibilities to find customers. Even while customers in their local markets are cash-strapped, producers at all levels also struggle to access broader markets. With a large proportion of productive activity centered on food sector value chains, the aggregation of agricultural products is a particularly important case in point. While some aggregation continues, it remains limited by the difficulty, cost, and risk of taking products to market. Thus, between three and four in every five traders of agricultural products say that there are aggregators who are active in procuring the products they sell. However, most market stalls sell a mix of local and imported goods, and traders tend to argue that while local products can compete in terms of transport cost and price, their poor quality and limited availability constrains local sourcing. Similarly, while many farmers who lack aggregation opportunities do take their own goods to market, they report concerns related to the physical dangers they face on the road, point to the difficulty of moving goods in an economy in which only one in seven rural residents live within 2km of an all-season road, as well as the risk of investing in transporting goods and being unable to find customers to sell to (World Bank, 2021).

In this context, the pandemic has tended to exacerbate already severe market obstacles, rather than creating new ones. Follow-ups were conducted with previously surveyed businesses and traders in June 2020, after the first peak of the pandemic. While businesses and traders flagged the same constraints that they had earlier, they stated that they had become more difficult to navigate. For example, the pandemic resulted in a further decline to already depressed demand due to a resurgence of inflation, the downturn in overall business activity, and reduced purchases from Government, NGOs, and the UN. In June 2020, 73 percent of surveyed business owners stated that since the advent of the pandemic, this further decline in demand had negatively impacted their businesses, as did 58 percent of market traders. On a positive note, a greater proportion of respondents (44%) stated that there had been an improvement in the security situation than those that stated that there had been a deterioration (28%).

2.6 A feasible agenda for jobs in early recovery

South Sudan's critical development challenge remains to consolidate peace and find a way to use its oil revenue to develop a sustainable economy. In addition to consolidating peace and building stability, South Sudan's fundamental development challenge is to transition from taking economic policy decisions with a view to managing conflict to making policy for development and good job opportunities. Greater security is the single most important condition for a recovery in job opportunities. At the local level, improved security would relieve many of the constraints facing workers and businesses. Secondly, oil revenues continue to provide a large income stream, accounting for 27 percent of GDP, 90 percent of government revenue, and nearly all exports. The effective management of these revenues is vital for the transition to development-oriented policy. The Government has formulated a clear reform agenda, and it must be engaged. This process must begin by managing budgets more transparently and reorienting public spending away from crisis response and towards investments that support the emergence of productive sectors and value chains.

Given the pervasive toll of conflict, second-best measures and gradual changes have a role to play during the early stages of recovery, aligned with a peacebuilding process. Conflict has taken a heavy toll on household job activities, value chains, markets, and businesses, with macro-economic management in a very poor state. Little in the economy today is as it should be, and the level of capacity and resources is very low. In their endeavors to support jobs, it is therefore particularly important for the Government and development partners to maintain a realistic view of the measures that are both possible and effective in the immediate term, and to allow for some second-best measures until more sustainable approaches become viable. The remainder of this section outlines a set of modest policy and programmatic actions to promote early recovery. Despite their short time horizon, the goal of these proposed actions is to lay the groundwork for increasingly ambitious reforms, spanning the arc toward a sustainable policy framework.

The government could implement a number of policy measures to curb inflation, revive demand and ease fees, all of which could make a real difference for jobs in the short term. The transformation of macro-fiscal management that is required to set South Sudan on the path toward sustainable growth and better jobs will take political will and effort, sustained over a long period of time. Yet, there are significant opportunities to take first reform steps that, while far from perfect, can make a concrete difference in improving the conditions of South Sudan's workers. Key short-term measures to create better conditions for local markets, small business and livelihoods include:

(i) continuing efforts to limit the monetization of the deficit and curbing inflation pressure,

(ii) clearing domestic arrears to rebuild market demand and redirecting some resource revenue toward domestic consumption; and

(iii) easing fees in markets and at checkpoints and paying security forces transparently through the payroll.

Short-term priorities for program-level jobs support must take into account the kind of jobs most workers hold, the opportunities in the economy to increase incomes, and the obstacles workers face. Effective jobs support in recovery must ask what is a worthwhile and feasible goal to aim for, given what a job currently means for South Sudanese workers. Based on the evidence discussed in this chapter, this goal should be to broadly raise the currently very low productivity of the self-employed and household-based jobs on which most South Sudanese rely. Secondly, support must consider opportunities for investment to spur broad-based productivity growth. Here, the evidence suggests that public investment should lead in encouraging small domestic investment, with a focus on agriculture and broader household business activities in food sector value chains and artisanal production. Thirdly, measures to support jobs must be based on a full understanding of the key constraints affecting jobs in South Sudan. As the surveys cited earlier in this chapter make clear, the most important of these constraints are insecurity and poor roads, access to funding, and low and uncertain market demand.

An effective jobs support program would invest in immediate livelihood support, the recovery of modest business activities, and the revival of markets Based on the jobs challenges in South Sudan and international experience in providing jobs support, an effective program for jobs in recovery should operate on three levels (Figure 30).

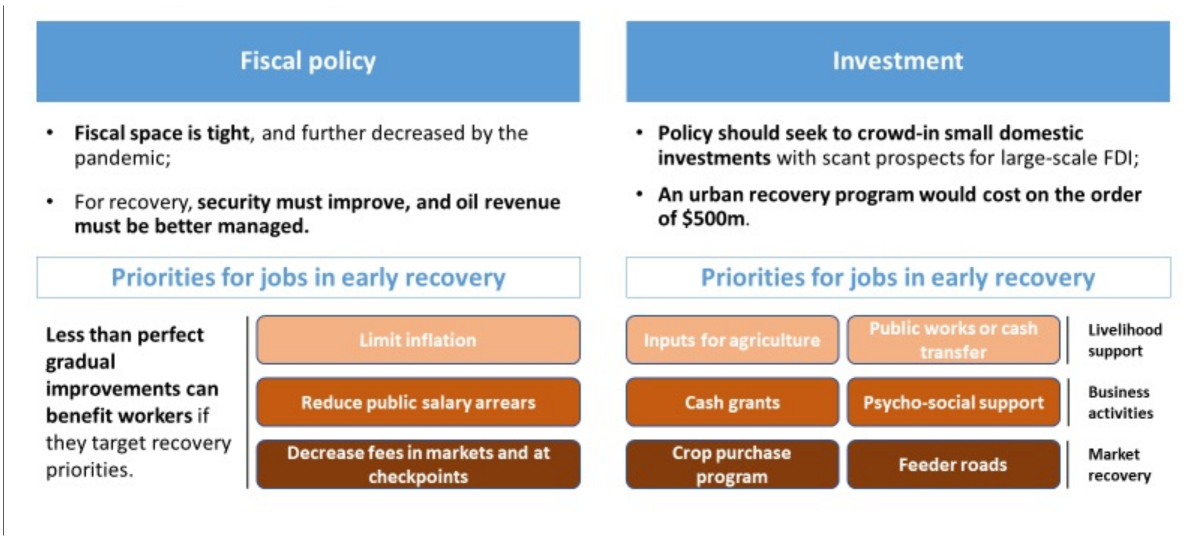
(i) **Immediate livelihood support:** Firstly, jobs support should encourage the recovery of production in agriculture through the provision of inputs and assistance to producer groups and provide temporary income support through LIPW or cash transfers. As noted, support for agriculture can build on a broad base, with many young urban workers active in the sector and open towards remaining in.

(ii) **Recovery of business activities:** Assuming some progress toward local stability, jobs support should invest significantly in areas where there is the most potential for broad-based productivity gains in business activities, by supporting individual, household, and co-operative productive activities through cash grants and complementary psycho-social support. At the current early stages of recovery, the market environment for producers and the operating environment for development partners are likely to remain exceptionally difficult.

In support modalities, global experience suggests that simplicity is important. Thus, it may be better to provide small unconditional grants rather than subsidized loans or larger matching grants, with the requirements for beneficiaries to conduct a simple 'reality check' on business ideas, rather than to devise and submit elaborate plans. Cash grant support could emphasize food sector and artisanal value chains. These areas offer a key opportunity for recovery, given that they already provide meaningful employment; they have the potential for productivity growth; and there are opportunities to crowd-in some small investments. However, given the general dearth of investment in business activities, it is also worth considering that good returns can reasonably be expected even in areas such as personal services and other activities where productivity gains are usually difficult to achieve.

(iii) **Market revival:** To facilitate the recovery of markets and rural-urban linkages, investments in rural feeder roads are a high priority. An ongoing World Bank assessment examines the manner in which such investments could be prioritized to address particularly binding transport constraints, while maintaining the goal of broadly investing, in line with peacebuilding goals. Further, given that only very few farmers and traders currently sell at capacity, it is worth asking whether UN agencies and humanitarian organizations could further increase their emphasis on local procurement, following pathbreaking early investments by WFP. This could play an important role in reviving production. By engaging with aggregators of agriculture products such local procurement efforts can also play a positive role in reinvigorating market intermediation. However, in an inflation-prone environment, it is important to ensure that they do not inadvertently promote unsustainable price rises.

Figure 30: There are effective fiscal policy and investment options for jobs support



Source: World Bank staff, based on von der Goltz and Harborne (2020).

Important investment opportunities and needs remain, especially in grant support to household business activities and in psycho-social support. A costing of program-level support suggests that an investment of about US$ 0.5 billion could significantly advance urban recovery (von der Goltz and Harborne, 2020). Such an investment could result in sustainable increases to the incomes of around 250,000 households, thereby encouraging additional investments from households and businesses and opening markets for rural producers. This sum is equivalent to ten percent of South Sudan's expected oil revenue plus a seven percent increase in ODA, sustained for three years. While development partners are already providing significant support, some priority investments for jobs in recovery remain unfunded. With partners seeking to move away from the provision of purely humanitarian assistance to development support, greater investments are needed to support household market activities and other casual businesses. This investment opportunity deserves attention, especially given the encouraging international evidence related to the effectiveness of cash grants to households and to the potential of psycho-social support to enable households to build their abilities to improve their livelihoods in the market.

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