

COUNTRY FOCUS REPORT 2024

SOUTH SUDAN

Driving South Sudan's Transformation

The Reform of the Global Financial Architecture





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The preparation of this report was led by Désiré Vencatachellum, Senior Director, Country Economics Department (ECCE), with Marcellin Ndong Ntah (Lead Economist, ECCE) as the project management Lead, IT support from Abir Bdioui (Consultant, ECCE), and administrative support from Tricia Effe Baidoo (Team Assistant, ECCE). South Sudan report was prepared by Mr Flavio A. Soares da Gama, (Principal Country Economist, ECCE), and Mr. David Thiang (Macroeconomist, ECCE/COSS) under the guidance of Mr Edward Sennoga (Lead Economist for East Africa).

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Peer-review comments were received from Admit Wondifraw Zerihun, Macroeconomist from the Country Economics Department; John Herbert Ainembabazi, Senior Research Economist from the Macroeconomics Policy, Forecasting and Research; and Jerry Kwame Ahadjie, Chief Minerals Officer from the Macroeconomics Policy, Forecasting and Research. Dr Joseph Atta-Mensah, Senior Fellow from Africa Centre for Economic Transformation, acted as an external reviewer.

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ACRONYMS AND ABBREVIATIONS

AEO African Economic Outlook
AfDB African Development Bank

ACFTA African Continental Free Trade Agreement
AFOLU Agriculture, Forestry and Other Land Use
AIDI Africa Infrastructure Development Index

ALSF African Legal Support Facility

AMVAT Agricultural Markets, Value Addition and Trade Development Project

ARII African Regional Integration Index

CFR Country Focus Report
COVID-19 Coronavirus Disease 2019
CPI Corruption Perceptions Index
DFIS Development Finance Institutions
DMPF Debt Management Policy Framework

DPs Development Partners

DRM Domestic Revenue Mobilization
DSA Debt Sustainability Analyses
EAC East African Community
ECI Economic Complexity Index
FAO Food and Agriculture Organization

FDI Foreign Direct Investment

GDFA Global Debt Financial Architecture

GDP Gross Domestic Product
GFA Global Financial Architecture

GFA
Global Fragility Act
GNI
Gross National Income
GoSS
Government of South Sudan
HIPC
Heavily Indebted Poor Countries
International Monetary Fund

kWh kilowatt hours

Information and Communications Technology

ILO International Labour OrganizationMDBs Multilateral Development Banks

MII Mo-Ibrahim Index

M-SMEs Micro and Small to Medium Enterprises

MTIS Medium-Term Implementation Strategy (2022-25)

NHBS National Household Budget Survey 2021

NDC Nationally Determined Contribution

NDS National Development Strategy
NRA National Revenue Authority

ODA Overseas Development Assistance

PFM Public Financial Management
PPP Public Private Partnership
PSI Private Sector Investment

RNDS Revised National Development Strategy

SDGs Sustainable Development Goals
SDPs Support of Development Partners
SNRA South Sudan Revenue Authority
SSHF South Sudan Humanitarian Fund

SSP South Sudan Pound

TAAT Technologies for African Agricultural Transformation

TI Transparency International
TSA Treasury Single Account

TVET Technical and Vocational Education, and Training
UNHCR United Nations High Commissioner for Refugees

UNICEF United Nations Children's Fund

USD United States Dollar

YED Youth Enterprise Development

WB World Bank

EXECUTIVE SUMMARY

Macroeconomic Performance and Outlook

- South Sudan's real Gross Domestic Product (GDP) contracted by an estimated 0.4 percent in 2022/23 from a contraction of 2.9 percent in 2021/22, reflecting the easing of several economic challenges resulting from the spillover effects of the conflict in Sudan amid persistent flooding. The conflict in Sudan has increased the cost of oil production and aggravated the humanitarian situation, considering the fact that South Sudan relies on Sudan's oil pipelines.
- The main downside risks to the outlook include:
 - Political instability and increased regional conflicts, particularly the persistent conflict in Sudan, put a significant pressure on South Sudan's economy through its impact on the costs of production and oil revenues, and inflation due to disruptions of food supply.
 - Persisting conflicts in Sudan, resulting in a decline in revenue collection, could lead to monetization of the fiscal deficit, and external borrowing with negative effects on public debt.
 - o Climate shocks manifested through persistent flooding and its effects on the agriculture sector, affected by limited investment and food security, is another downside risk to South Sudan's economy.

A mix of short-medium- and long-term policies are needed to address South Sudan's macroeconomic challenges and puts the country back on the path of sustained, higher growth.

In the short-term:

- The government should promote local production by supporting smallholder farmers through access to finance and improved seed technologies to adapt to the climate change, which help in addressing the rising food prices.
- The government must sustain governance reforms to improve debt management capacity. Good governance and strong institutional capacity building could help in preventing operations that undermine debt reduction efforts and build buffers to timely reduce debt. Furthermore, there is also a need to avoid the practice of oil advances, as well as implementation of prudent monetary, and fiscal policies for effectively managing debt and preventing its escalation.
- The government must urgently address the exchange rate pressure by allowing the South Sudan Pound (SSP) to adjust as much as possible.

In the medium- to long-term:

- South Sudan should build strong fiscal institutions to efficiently mobilize more domestic resources, while sound public expenditure management would ensure that these resources are used prudently.
- South Sudan should benefit from the reform of the global financial architecture through debt clearance/reduction, since most of its debt composition is bilateral debt with high cost of borrowing.

South Sudan should accelerate structural transformation and prioritize actions that rebuild the resilient economy and sustain rural and urban livelihoods, while boosting employment. The political economy of South Sudan suggests that most conflicts in the country have been over rights to livelihood-generating assets such as land, water, crops, and livestock, i.e., involving agriculture where most of the population derives its livelihood. Thus, skilling and retooling the youth and improved access to credit to help expand employment, especially in agriculture, and the rapidly expanding urban spaces, is critical.

Taking Stock of South Sudan's Structural Transformation Progress

- The main thrust of South Sudan's government economic policy has been rapid structural transformation, but limited progress has been made. At independence in 2011, the country inherited a technologically advanced oil sector that contributed 90 percent of its exports and government revenue, and a subsistence-dominated agriculture sector that sustained the livelihood of 80 percent of the population. However, South Sudan's structural transformation is held back by several factors. The average South Sudanese is currently low-skilled, while for educated young people, there is a skills mismatch between available jobs and their skills profiles.
- A steady structural transformation will require an elevated level of human and physical capital
 accumulation and large-scale infrastructure investment and institutional capabilities. To create
 short-term opportunities for mass employment, it might be necessary for the government to
 embark on public works programs across the country, tailored to suit local needs and with
 the full participation of local communities.

Accelerating structural transformation in South Sudan, a multipronged approach based on the following elements are necessary:

- The South Sudanese government should strengthen economic governance to create fiscal space for the expansion of social services, and other growth-enhancing expenditures. The government needs to pursue efficiency gains through the effective implementation of Public Financial Management (PFM) reforms. This should help reduce leakages that could be repurposed to development financing. This should include cutting-off excessive expenditure on military expenditure, and reduction in public bureaucracies and corruption on the side of expenditure management, while expanding and diversifying revenue sources, especially into non-agriculture sources.
- Scale up investments to build skills and human capital development suited to local content and priorities. This is particularly important within a context of significant institutional capacity gaps. Scaling up investments in education at all levels to build and improve the quality and relevance of technical skills becomes fundamental. For instance, prioritizing investment in science, technology, engineering, and mathematics, agronomists, geologists are a key ingredient to structural economic transformation, and it will also help to increase productivity, and respond to the market demands. A major policy priority could further support to Technical and Vocational Educational Training (TVET) centers.
- Sustain the current peace agreement to attract Foreign Direct Investment (FDI).
 Positive results have been observed in the consolidation of peace efforts to stimulate the national economy since the signing of the agreement in 2018, especially in non-oil revenue collection. The agreement has also allowed the government to significantly cut military expenditure and shift resources towards other key developmental initiatives that include economic development, public administration and transparency, and accountability efforts.

Financing Structural Transformation in South Sudan

 A reformed global financial architecture will help in providing access to new and sustained sources of climate finance. South Sudan will require about USD100 billion for the

- implementation of Nationally Determined Contribution (NDC) interventions and strategies over a period of 10 years. Foreign Direction Investment (FDI), remittances, and Overseas Development Assistance (ODA) have been the major sources of financing to climate change. Of these three, ODA, mostly to humanitarian, is the most significant, averaging USD1.5 billion per year.
- The government should ensure political stability to attract private investors, whilst developing
 appropriate policies (including on the energy sector), institutions, and programs like risk
 mitigation measures to mobilize sustainable infrastructure investment. Furthermore,
 engagement and co-financing initiatives between Development Financial Institutions (DFIs),
 Multilateral Development Banks (MDBs), and the private sector are critical to share risks and
 financing green projects.

Mobilizing resources at scale and on affordable terms for the financing of structural transformation in South Sudan will require the following policy reforms:

- To accelerate and benefit from the scale of low-cost concessional financing, South Sudan should improve transparency and strengthen its tax administrations to combat illicit financial flows, and reform tax policies to enhance domestic resource mobilization. Creating an oil account for future generation will also support the country's long-term development efforts. South Sudan's debt management capacity should also be strengthened. In doing so, it will also help the country to add its voice in the matter, and benefit from the reform.
- South Sudan should create conditions to leverage private sector financing for transformation.
 To achieve this objective, the government should ensure political stability whilst developing
 appropriate policies including in energy; institutional strengthening and programs like risk
 mitigation measures to mobilize sustainable infrastructure investment. Furthermore, there is
 a need to build the technical capacity structuring of climate projects. Reforms could embed
 mechanisms for portfolio-based approach toward Private Sector Investment (PSI) rather
 than project based.
- South Sudan creates policies to greening its GDP. The country possesses significant natural assets, but the value of these externalities is not fully captured in the measurement of the country's GDP. This could be done by enforcing a mandatory requirement to reinforce methods of natural capital accounting. Furthermore, using international agreements on climate change and biological diversity to finance higher returns from the substantial endowments of natural assets in the region that can serve the global goals in these areas.
- South Sudan could add its voice through the African Union in making the governance of the Global Fragility Act (GFA) more inclusive to enhance Africa's participation. Nonetheless, South Sudan should make efforts to implement growth-enhancing policies, which will help to boost its economic size.
- South Sudan should implement reforms to strengthen and deepen the financial sector, to improve access to emergency financing facilities. In doing so, it will create buffers against external shocks.
- The reform of the Global Debt Financial Architecture (GDFA) is paramount for South Sudan since the required actions will facilitate restructuring of the country's existing debt as well as avoiding the further build-up of unsustainable debt. The reform also represents an opportunity for South Sudan to benefit from debt relief.

GENERAL INTRODUCTION

South Sudan achieved independence in 2011 and looked to the future with optimism but had inherited a legacy of severe socio-economic fragility. Two years later, in 2013, a civil war erupted, forcing 2.3 million people to seek refuge in neighboring countries, while another 2 million people were internally displaced. Food insecurity became rife in a country heavily dependent on humanitarian assistance. Moreover, the establishment of a revitalized government of national unity in 2020 did not trigger the desired dividend of growth because of the combined effects of weather shocks, the COVID-19 pandemic, and multiple shocks on the economy. More recently, the ongoing fighting in Sudan, through which South Sudan's oil (the main driver of economic growth) is piped for export, poses serious risks of increased instability and the spread of violence in the region.

This Country Focus Report (CFR) for South Sudan assesses the economic transformation progress made since independence. Furthermore, the report explores the financing mechanism for structural transformation within the context of the Global Financial Architecture (GFA). In doing so, chapter 1 reviews South Sudan's recent macroeconomic performance and outlook, while chapter 2 takes stock of South Sudan's structural transformation progress. Chapter 3 discusses financing structural transformation in South Sudan: the need for reforms of the international financial architecture.

MACROECONOMIC PERFORMANCE AND OUTLOOK

Key Messages

- South Sudan's real GDP contraction slowed down to an estimated 0.4 percent in 2022/23 from a contraction of 2.9 percent in 2021/22, reflecting the easing of several economic challenges resulting from the spillover effects of the conflict in Sudan amid persistent flooding. The oil sector was the main driver for a slow growth contraction, due to improved oil prices. The agriculture sector production remained stagnant, largely due to the damage from recent devastating floods. On the demand side, the slow growth contraction was driven by revival of net exports, due to improved oil prices, despite a lower oil production.
- South Sudan's macroeconomic performance requires a closer monitoring. Inflation is estimated to have risen from 15 percent in 2021/22 to 16.5 percent in 2022/23, due to supply chain disruptions owing to the war in Sudan. The fiscal deficit improved from 6.6 percent of GDP in 2021/22 to 4 percent of GDP in 2022/23, driven mainly by a decline in total expenditure from 29 percent of GDP in 2021/22 to 24 percent of GDP in 2022/23. The current account balance is estimated to have improved from a deficit of 1.4 percent of GDP in 2021/22 to a surplus of 7.0 percent of GDP in 2022/23, reflecting improved oil export revenues.
- Social indicators are a concern. According to the National Household Budget Survey 2021 (NHBS), the population living below the poverty line, using the consumption approach, increased from 51 percent in 2011 to 82 percent in 2022. According to the United Nations High Commissioner for Refugees (UNHCR), about 2 million people were internally displaced in December 2023, and an estimated 537,779 refugees are fleeing the war in Sudan. South Sudanese accounted for 83 percent of the returnees.

The main downside risks to the outlook include the following:

- Political instability and increased regional conflicts, particularly the persistent conflict
 in Sudan, put a significant pressure on South Sudan's economy through its impact
 on the costs of production and oil revenues, and inflation due to disruptions of food
 supply.
- Persisting conflicts in Sudan, resulting in a decline in revenue collection, could lead to monetization of the fiscal deficit and external borrowing with negative effects in public debt.
- Higher commodity prices, resulting from disruption of food supply, could further increase inflation, worsening poverty indicators. A potential tight monetary policy could hold back growth in the private sector credit and impede private sector development, and job creation.

 Climate shocks that manifested through persistent flooding and its effects on the agriculture sector, affected by limited investment and food security, is another downside risk to South Sudan's economy.

A mix of short-medium and long-term policies are needed to address South Sudan's macroeconomic challenges and puts the country back on the path of sustained, higher growth.

In the short-term:

- The government should promote local production by supporting smallholder farmers through access to finance and improved seed technologies to adapt to the climate change, which help in addressing the rising food prices.
- The government must sustain governance reforms to improve its debt management capacity. Good governance and strong institutional capacity building could help in preventing operations that undermine debt reduction efforts and build buffers to timely reduce debt. Furthermore, there is also a need to avoid the practice of oil advances, as well as implementation of prudent monetary, and fiscal policies for effectively managing debt and preventing its escalation.
- The government must urgently address the exchange rate pressure by allowing the SSP to adjust as much as possible.

In the medium- to long-term:

- South Sudan should build strong fiscal institutions to efficiently mobilize more domestic resources, while sound public expenditure management would ensure that these resources are used prudently.
- South Sudan should implement structural reforms and policies to accelerate economic diversification, transformation, and strengthen the export sector, as well as fiscal consolidation when the budget deficit increases pressure on the exchange rate.
- South Sudan should create and enable an environment to attract private capital and scale up external financial flows by ensuring a lasting peace as a key pre-condition.
- South Sudan should benefit from the reform of the Global Financial Architecture (GFA)
 through debt clearance/reduction, since most of its debt composition is bilateral debt
 with high cost of borrowing.
- South Sudan should accelerate structural transformation and prioritize actions that rebuild its resilient economy and sustain rural and urban livelihoods, while boosting employment. The political economy of South Sudan suggests that most conflicts in the country have been over rights to livelihood-generating assets such as land, water, crops, and livestock, i.e., involving agriculture where most of the population derives its livelihood. Thus, skilling and retooling the youth and improved access to credit to help expand employment, especially in agriculture, and the rapidly expanding urban spaces, are critical.

Introduction

This chapter aims to present an updated analysis of South Sudan's economic performance for 2023, including mediumterm growth projections over the period from 2024-25. It will assess trends in, among others, key macroeconomic indicators, fiscal and monetary policies, and changes in domestic and international financial flows, investment, and public debt. The chapter will also discuss main downside and upside risks to the outlook and provide policy options to foster high and resilient growth; supporting macroeconomic stability and economic transformation, and deal with shocks that have continued to buffet South Sudan economy.

Section I. Growth Performance

South Sudan's real **GDP** growth contraction slowed down by an estimated 0.4 percent in 2022/23 from a contraction of 2.9 percent in 2021/22, reflecting the easing of several economic challenges resulting from the spillover effects of the conflict in Sudan amid persistent flooding (Annex 2, Table 2). The conflict in Sudan has increased the cost of oil production and aggravated the humanitarian situation, considering the fact that South Sudan relies on Sudan's oil pipelines. Production in the oil sector, which accounts for over 75 percent of GDP and 80 percent of the industry sector's value-added, dropped from 58,986 barrels/day in December 2022 to 49,899 barrels/day in December 2023, as floods damaged some oilfields, partially offsetting the gains from improved global oil prices. The oil sector was the main driver for a slow growth contraction, due to improved oil prices. The agriculture sector production was affected by recent devastating floods. On the demand side, the slow growth contraction was driven by revival of net exports due to improved oil prices, despite a lower oil production.

South Sudan's economic performance is also contingent on good governance, and effective public institutions for policy formulation and execution. Institutional capacity gaps and optimization remains a key constraint to design and implementation of policies. In the absence of transparent and accountable institutions, a substantial part of South Sudan's broad reform effort will remain aspirational, with little possibility of effective implementation and impact to governance, and institutions. The lack of an effective system and increased fiduciary risks have led development partners to refrain from using the country systems to deliver their financial support. However, the government has made strides to prepare economic diversification strategy and the PFM reforms agenda. The goal of these measures is to make public spending transparent and efficient, and fiscal transactions accountable, hence it will eliminate leakages and create more fiscal space for pro-poor spending. In addition, the second national determined contribution remains the main strategic document in addressing the climate change issues, which continues to affect agriculture productivity and oil production.

Section II. Other Recent Macroeconomic and Social Developments

Monetary policy, inflation and exchange rate: The central bank remains committed to sustain its tight monetary policy stance to contain high inflation as outlined in the revised Banking Act, 2011 (amendment bill 2023). The exchange rate fluctuations have been a major driver of inflation. In 2022/23, the local currency (SSP) depreciated by 57 percent against the US dollar due to shortage of foreign currency as well as drought-related domestic supply shortages, leading to a spike in inflation. Consequently, Inflation is estimated to have risen from 15 percent in 2021/22 to 16.5 percent in 2022/23, due to supply chain

South Sudan's growth outlook is contingent on the resolution of conflict in Sudan, which has affected oil exports on which the country is heavily dependent.

disruptions owing to the war in Sudan. Money supply grew by about 72 percent in 2022/23 compared to 47 percent in 2021/22, driven by monetization of the fiscal deficit. High lending rates (averaging 15.7 percent in February 2024) remained a challenge for capital investment.

Fiscal policy and public debt: The fiscal deficit improved from 6.6 percent of GDP in 2021/22 to 4 percent of GDP in 2022/23, driven mainly by a decline in total expenditure from 29 percent of GDP in 2021/22 to 24 percent of GDP in 2022/23, and a reduction in the primary deficit by 0.4 percentage points of GDP. The fiscal deficit was financed by domestic and external borrowing that remains the main source of financing. According to the June 2024 IMF/ World Bank debt sustainability analysis, South Sudan's overall and external debt remains sustainable, but with a high risk of debt distress. The present value of public debt to GDP was estimated at USD3.7 million (51.2 percent in 2022/23), above the 30 percent threshold under the baseline

scenario, with debt service-to-revenue ratio declined from 36.9 percent in 2021/22 to 8.8 percent in 2022/23 against the 14 percent threshold.

External position and external financial flows: The current account balance is estimated to have improved from a deficit of 1.4 percent of GDP in 2021/22 to a surplus of 7.0 percent of GDP in 2022/23, reflecting improved oil export revenues, remittances, and FDI. The export base remains narrow, dominated by exports of crude oil, which in 2022/23 accounted for 80 percent of total exports. The current account surplus (USD603 million) has been financed largely by remittances, and FDI. The latter has recovered, increasing from USD2.2 million in 2019 to USD121.5 million in 2022, and mostly concentrated in the oil and gas sector. The balance of payments came under pressure in 2022 and 2023, reflected in the decline of international reserves from 0.5 in 2021/22 to 0.4 months of imports in 2022/23.

Table 1 : : Macroeconomic and Social Indicators							
Indicators	2018/19	2019/20	2020/21	2021/22	2022/23 (e)	2023/24(p)	2024/25(p)
Real GDP Growth (percent)	3.4	12.9	-4.9	-2.9	-0.4	-5.0	1.0
Real GDP Growth per Capita (percent)	2.9	11.4	-6.2	-4.4	-2.0	-6.7	-0.7
Inflation (percent)	48.9	33.6	43.5	15	16.5	17.5	18
Overall Fiscal Balance, Including Grants (percent GDP)	-1.0	-9.9	-3.7	-6.6	-4.0	-6.0	-2.0
Primary Balance (percent of GDP)	-3.1	-0.5	-7.8	-4.4	-4.0	3.0	2.7
Current Account (percent GDP)	-0.7	-19.7	-4.9	-1.4	7.0	-7.0	-4.0
Total Population (Millions)	12.3	12.7	13.2	13.7	14.2	14.7	15.3
Life Expectancy at Birth (Years)	56.95	55.91	55.48	58.21	58.48	58.74	58.99

Source: Data from domestic authorities; estimates (e) and prediction (p) based on author's calculations. AfDB Statistics Department, April 2024

Note: *Data in fiscal year 1 July (n-1)/30 June (n).

Social developments: The share of the population living below the poverty line increased from 51 percent in 2011 to 82 percent in 2022. Extreme poverty will continue to rise in the near term and is projected to reach 73 percent by 2024. The adverse humanitarian situation for the country has been exacerbated by population displacements, droughts, floods, external shocks, the Covid-19 pandemic, and the outbreak of conflict in neighboring Sudan. According to the UNHCR, about 2 million people were internally displaced in December 2023, and an estimated 537,779 refugees fleeing the

war in Sudan. South Sudanese accounted for 83 percent of the returnees. International Labour Organization (ILO) showed that overall unemployment increased from 16 percent in 2012 to 29 percent in 2019, with most employed in low-productivity sectors. This increase is attributed to lack of concrete actions by the government such as skilling and retooling the youth, and improved access to credit to help expand employment. This calls for an urgent need for the government to invest and capitalize on the benefit of demographic dividend by investing in human capital.

Box 1 : The Impact of Tighter International Financial Conditions: Key Transmissions Channels: Humanitarian Assistance, Debt Service; and FDI.

Debt service. South Sudan is at high risk of debt distress as external public debt accounted for 54 percent of GDP in 2021, driven by commercial/highly non-concessional borrowings. Debt-service on external debt is projected to reach 20 percent of GDP by the end of 2024 from 17 percent of GDP in 2021. Interest rate payment on external debt is also projected to increase by 0.4 percent points from 3percent in 2021 to 3.4percent in 2024. The high debt service costs and mismanagement of public resources have eroded fiscal space, thus the government's ability to invest in growth-enhancing sectors such as agriculture, as well as in human capital.

Humanitarian assistance. The years of internal conflict and natural disasters have worsened the humanitarian situation as reflected in high poverty levels, and low human development. As a result, most assistance has been focused on humanitarian. The latter assistance to the country amounts close to USD1.5 billion (5percent of GDP) per year between 2021-2023. The Sudan crisis has increased the challenge with an estimated 537,779 refugees fleeing the war in Sudan. South Sudanese accounted for 83 percent of the returnees.

Foreign Direct Investment (FDI). Most foreign investments into South Sudan are mainly to the oil sector, which is the key driver of growth. Signing of the peace agreement in 2018 as resulted in an increase in FDI to USD60 million, in that year alone, compared to an outflow of ten times that in 2013. FDI reduced due to the impact of the COVID-19 pandemic, but it has recovered, increasing from USD2.2 million in 2019 to USD121.5 million in 2022, and mostly concentrated in the oil and gas sector, though some has gone to agriculture, mining, and infrastructure development.

Section III. Macroeconomic Outlook and Risks

3.1. Outlook

Economic growth: Real GDP is projected to contract by 5percent in 2023/24, owing

to reduced oil production following the vandalization of an oil pipeline due to the ongoing conflict in Sudan, but to recover to 1percent in 2024/25 as oil production and exports relatively stabilize. The non-oil sector is expected to benefit from the peace dividend as agriculture activity will

recover from the effects of internal conflicts. Growth in 2024/25 will be supported by the industry, especially oil, and services on the supply side, and consumption and investment on the demand side.

Fiscal and current account balances:

The fiscal deficit is projected at 6percent of GDP in 2023/24, due to reduced oil revenue from damaged pipeline, but to improve to 2percent of GDP in 2024/25, owing to improved public revenues as oil production stabilizes. External debt sustainability position remains positive, with the present value of public debt to GDP projected at 46.4 percent in 2023/24 but set to fall below the 30 percent threshold under the baseline scenario by 2026/27. The current account deficit is projected at 7.0percent of GDP in 2023/24 due to lower export revenue, but to improve to 4percent of GDP in 2024/25, due to increased oil exports. However, the ongoing conflict in Sudan could disrupt South Sudan's oil exports and its current account balance.

Monetary policy and inflation: Inflation is projected to increase to 17.5 percent in 2023/24 and 18 percent in 2024/25, reflecting increased food prices, due to food supply disruptions, reflecting high food prices, and the envisaged uptick in elections related spending. Furthermore, delays in supplying seeds, and other farm inputs to the agriculture sector following the recent flooding could hold back food production and aggravate food inflation.

3.2. Risks

Main downside risks:

 Political instability and increased regional conflicts, particularly the persistent conflict in Sudan, put a significant pressure on South Sudan's economy through its impact on the costs of production and oil revenues, and inflation, due to disruptions of food supply. The influx of refugees and returnees will exacerbate the existing dire humanitarian and socioeconomic situations, with long-term consequences for economic and macroeconomic stability in the country.

- Persisting conflicts in Sudan, resulting in a decline in revenue collection, could lead to monetization of the fiscal deficit, and external borrowing with negative effects in public debt.
- Higher commodity prices, resulting from disruption of food supply, could further increase inflation, worsening poverty indicators. A potential tight monetary policy could hold back growth in private sector credit and impede private sector development, and job creation.
- Climate shocks manifested through persistent flooding and its effects on the agriculture sector, affected by limited investment and food security, is another downside risk to South Sudan's economy.

Main tailwinds

 Sustaining the peace dividend presents a new opportunity for growth and prosperity in South Sudan. Thus, promoting dialogue on the gradual transition to political stability, fasttrack economic diversification efforts to other sectors such as agriculture, and ensuring fiscal consolidation by effectively implementing the ongoing PFM reforms.

Section IV. Policy Options to Foster High and Resilient Growth; Supporting Macroeconomic Stability and Economic Transformation

In the short-term

- The government should promote local production by supporting smallholder farmers through access to finance and improved seed technologies to adapt to the climate change, which help in addressing the rising food prices.
- The government sustain must governance reforms to improve debt management capacity. Good governance and strong institutional capacity building could help in preventing operations that undermine debt reduction efforts and build buffers to timely reduce debt. Furthermore, there is also a need to avoid the practice of oil advances, as well as implementation of prudent monetary and fiscal policies for effectively managing debt and preventing its escalation.
- The government must urgently address the exchange rate pressure by allowing the SSP to adjust as much as possible.

In the medium- to long-term

 South Sudan should build strong fiscal institutions to efficiently mobilize more domestic resources, while sound public expenditure management would ensure that these resources are used prudently.

- South Sudan should implement structural reforms and policies to accelerate economic diversification, transformation, and strengthen the export sector, as well as fiscal consolidation when the budget deficit increases pressure on the exchange rate.
- South Sudan should create an enable environment to attract private capital and scaling up external financial flows by ensuring a lasting peace as a key pre-condition.
- South Sudan should benefit from the reform of the global financial architecture through debt clearance/ reduction, since most of its debt composition is bilateral debt with high cost of borrowing.
- South Sudan should accelerate structural transformation and prioritize actions that rebuild its resilient economy and sustain rural and urban livelihoods, while boosting employment. The political economy of South Sudan suggests that most conflicts in the country have been over rights to livelihood-generating assets such as land, water, crops, and livestock, i.e., involving agriculture where most of the population derives its livelihood. Thus, skilling and retooling the youth, and improved access to credit to help expand employment, especially in agriculture, and the rapidly expanding urban spaces, is critical.

TAKING STOCK OF SOUTH SUDAN'S STRUCTURAL TRANSFORMATION PROGRESS

2

Key Messages

- A country in transition and an estimated population of 11 million in 2023, South Sudan had a GDP of USD 8.5 billion and a per capita GDP of USD577 in 2023. The levels of both GDP and Gross National Income (GNI) per capita have deteriorated. At independence, South Sudan had a per capita GDP of USD1050 in 2012, but this had eroded over time, falling by more than 40 percent to USD577 in 2023, reflecting the fragility of the economy, and well-being.
- South Sudan's government had made rapid structural transformation the main thrust of its economic policy and development plans, but limited progress has been made. At independence in 2011, the country inherited a technologically advanced oil sector that contributed 90 percent of its exports and government revenue, and a subsistence-dominated agriculture sector that sustained the livelihood of 80 percent of the population. The civil war and climate-induced shocks have had pervasive negative impacts on both sectors, and the rest of the economy. Structural transformation is held back by several factors, including low productivity and skills. The average South Sudanese is currently low-skilled, while for educated young people, there is a skills mismatch between available jobs and their skills profiles.
- South Sudan's annual financing needs and the associated financing gap are calculated for both the 2030 Agenda for Sustainable Development and the African Union's Agenda 2063 by assigning these median input levels and controlling for other factors such as projected demographics (population size and composition, among others), and the level of GDP per capita. Based on this methodology, the Bank estimates that South Sudan would need USD6.3 billion or about 85 percent of GDP, annually until 2030 to accelerate its structural transformation. Looking at the Agenda 2063 as a reference, the annual financial needs falls to USD6.3 billion or about 15 percent of GDP. Most of these resources are in infrastructure (73.5 percent of the total), underscoring the limited investment in the sector.
- Accelerating structural transformation in South Sudan, a multipronged approach based on the following elements are necessary:
 - The South Sudan government should strengthen economic governance to create fiscal space for the expansion of social services, and other growth-enhancing expenditures. The government needs to pursue efficiency gains through the effective implementation of PFM reforms. This should help reduce leakages that could be repurposed to development financing. This should include cutting-off excessive expenditure on military expenditure, and reduction

- in public bureaucracies and corruption on the side of expenditure management, while expanding and diversifying revenue sources, especially into non-agriculture sources.
- o Scale up investments to build skills and human capital development suited to local content and priorities. This is particularly important within a context of significant institutional capacity gaps. Scaling up investments in education at all levels to build and improve the quality and relevance of technical skills becomes fundamental. For instance, prioritizing investment in science, technology, engineering, mathematics, agronomists, and geologists are a key ingredient for structural economic transformation, and it will also help to increase productivity, and respond to the market demands. A major policy priority could further bring support to the TVET centers.
- o Sustain the current peace agreement to attract FDI. Positive results have been observed in the consolidation of peace efforts to stimulate the national economy since the signing of the agreement in 2018, especially in non-oil revenue collection. The agreement has also allowed the government to significantly cut military expenditure and shift resources towards other key developmental initiatives that include economic development, public administration and transparency, and accountability efforts.
- South Sudan should invest in its huge natural capital and green wealth. These resources are largely unexploited and poorly measured. Thus, investing in measuring and integrating them in the system of national account will help estimate the true value, expand its GDP, and improve conservation.
- o Invest in essential infrastructure, including transport, as a critical driver of peace and stability. This investment approach not only opens the way to industrialization but also yields wide-ranging benefits, including job creation, skills development, enhanced connectivity, and technology transfer. By bolstering social stability and diminishing conflict risks, infrastructure investments become fundamental pillars of development. Infrastructure development will foster economic growth while addressing underlying inequalities, and so mitigate potential causes of conflict.
- Scaling up Domestic Revenue Mobilization (DRM) for financing the country's development. While ongoing efforts to involve development partners and align their contributions to the country's key pillars of development should yield initial results, efforts should be earmarked for enhancing the mobilization and efficient management of oil, and non-oil revenues. ODA funds will remain off-budget and are not as fungible and flexible in use towards the country's priorities, which reemphasizes the importance of domestic resource mobilization. The promotion of domestic resources should include promoting domestic private finance and remittances; and reorienting external financing towards enhancing fiscal space, and public investment. Additional efforts should include:
 - Tax revenue mobilization. South Sudan needs to strengthen its financial institutions capacity in prudential and efficient management of public finance throughout the PFM cycle from DRM to strengthening supreme audit, and public accountability systems. It also should invest in systems that improve efficiency in tax administration, and PFM. The Bank's ongoing PFM support valued at USD15 million has been imperative in supporting the government's institutional building efforts.
 - Tax compliance. The government should seek to promote voluntary tax

compliance, especially in the informal sector, and to increase DRM. In doing so, these resources should be used to improve basic social services.

- o **Build and deepen national and regional markets for goods.** To benefit fully from community membership, such as that of the East African Community (EAC), South Sudan should complete all the protocols required. It should also expand its trade facilitation, including upgrading customs and the operationalization of the electronic cargo tracking system on the northern corridor. Furthermore, ratifying the African Continental Free Trade Agreement (ACFTA) is also imperative.
- o Invest in youth to capitalize the benefit of demographic dividend. In doing so, it should prioritize investment in human capital and creating economic and job opportunities for the youth. The Bank's ongoing support through Youth Enterprise Development (YED), valued at USD7.2 million has been critical in supporting government's efforts.
- o Harness the Support of Development Partners (SDPs). Support from development partners including the Bank is imperative. South Sudan does not have a Public Private Partnership (PPP) law and the Bank, through the African Legal Support Facility (ALSF), is currently supporting the government to prepare it. In addition to strategies for industrialization, South Sudan possesses a valuable opportunity to engage in peace-positive investments. By fostering collaboration with international investors, governments, and other stakeholders, South Sudan can effectively attract FDI, and development aid. This proactive engagement holds the potential to not only drive economic growth but also contribute to overall stability, offering a promising path towards achieving sustainable economic transformation, and development goals.

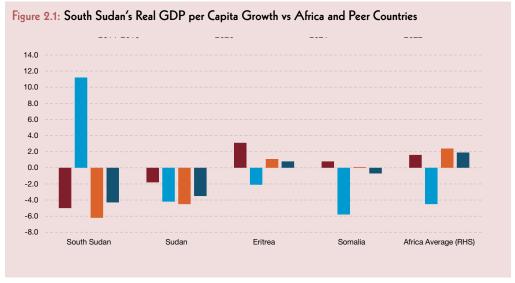
Introduction

This chapter aims to present comprehensive overview of recent progress in South Sudan's economic transformation amid a changing world, identify its key trends, and outline its characteristics as well estimate as the financing needs to fasttrack structural transformation. lt will take both a historical perspective (what has been done so far) and a forward-looking approach (what can or should be done in the future to fast-track progress) on structural transformation, comparing the South Sudan's performance with that of Africa and other peer drawing countries, and lessons chapter for the future. The will estimate the impact of a wide also array socio-economic, financial, governance, and external factors South Sudan's structural on transformation (or lack thereof), as well the

financing needs and financing gaps, with the objective of highlighting the main pull and push factors, and quiding both evidence-informed policymaking, and investment opportunities.

2.1. Taking Stock of Economic Performance and Transformation in South Sudan

South Sudan's levels of both GDP and GNI per capita have deteriorated over the years. At independence, South Sudan had a per capita GDP of USD1050 in 2012, but this had eroded over time, falling by more than 40 percent to USD577 in 2023, reflecting the fragility of the economy, and well-being. In historical context, between 2011-2022, real GDP per capita growth contraction averaged 5percent, owing to period of internal conflicts, and economic deceleration (Figure 2.1).



Source: African Development Bank Statistics and IMF World Economic Outlook Database.

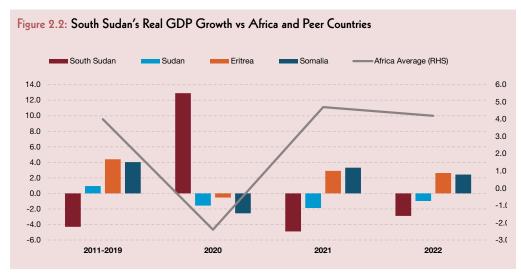
South Sudan's real GDP performance has been volatile, averaging -4.3 percent between 2011-2019, and 1.6 percent between 2019/20 and 2022/23. In 2022/23, real GDP was estimated to have contracted by 0.4 percent, compared with a contraction of 2.9 percent in 2021/22, and 4.9 percent in 2020/21. This performance

was lower when compared to peers in the region. For instance, Sudan recorded an average growth of 0.9percent, Somalia 4percent, Eritrea 4.4percent between 2011-2019 (Figure 2.2). Conflicts and external shocks have been a consistent feature of the South Sudan economy. In 2012, a year after the country achieved

independence, a self-imposed oil export ban, when oil prices were at an average USD100 per barrel of crude, led to a 50.3 percent contraction in GDP growth, while the onset of civil war in 2013 led to a sharp decline in gross capital formation, and the unprecedented withdrawal of FDI. From 2014 up to the signing of the peace agreement in 2018, South Sudan recorded low or negative average growth rates as insecurity in the oil-producing states worsened, and economic management faltered. The peace agreement, signed in September 2018, heralded the possibility of lasting political stability in South Sudan. In that year alone, FDI increased to USD60 million, compared to an outflow of ten

times that in 2013. GDP growth increased by 3.4 percent in 2018/19, and 12.9 percent in 2019/20, while in per capita terms, GDP increased by 2.9 percent and 11.4 percent, respectively. Despite a difficult economic and social history, South Sudan is making progress towards economic recovery. GDP growth is projected to recover to 1percent in 2024/25 as oil production, and exports relatively stabilize. However, the road to long-term prosperity faces many hurdles and is dependent on a successful implementation of the peace agreement, reducing the high dependence on oil, and diversifying the economy, closing the infrastructure gap, and investing in jobs, health, education, and livelihoods.

Accelerating structural transformation will require multifaceted interventions including institutional and human capital strengthening, and investments enabling infrastructure.



Source: African Development Bank Statistics and IMF World Economic Outlook Database.

2.2 South Sudan's structural transformation: Drivers, Bottlenecks, and Opportunities

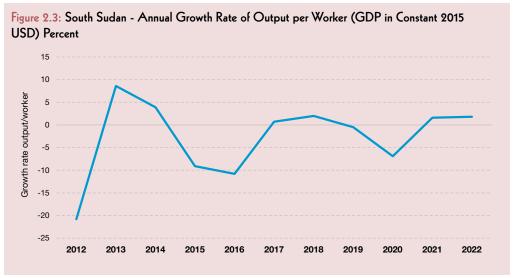
Productivity Constrained by Low Levels of Education and Literacy

South Sudan's economic productivity is undermined by low education levels and low literacy rate. About 42 percent of public workers do not have more than a primary education, and 72 percent of adults cannot read, write, or do basic calculations (UNESCO, 2018). Low literacy

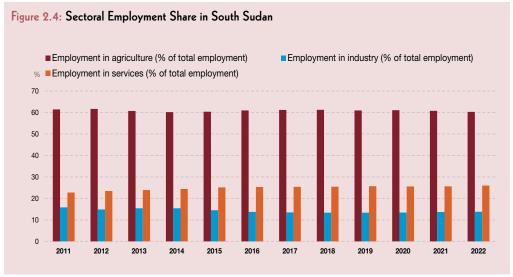
forces companies to rely on foreign labor, which raises production costs significantly. The skills mismatch (reflected in high unemployment rate) between available technical skills and those required for value addition hinders structural transformation and lowers economic complexity. Investing in skills will help to create opportunities for job creation and consequently improving the living conditions of the people of South Sudan. This is also consistent with the Bank's High 5 priority- Improve the Quality of Life for the People of Africa.

The International Labour Organization (ILO) has modelled the annual growth rate of output per worker in South Sudan based on GDP estimates. This derived indicator for changes in labor productivity (Figure 2.3) adequately captures the highs and troughs of recent economic growth in the country—including the impact of oil prices affecting that dominant sector's productivity, and, hence, that of the rest of the economy. Figure 2.3 also captures the debilitating impacts of the civil war on productivity but suggests a recovery post-2020.

In terms of employment, South Sudan remains predominantly agrarian. While the agriculture shares of employment decreased from 62 percent in 2011 to 60 percent in 2022, this share is still higher than service, the second largest aggregated sector (Figure 2.4). The primary beneficiary of this reallocation has been the services sector rather than the industrial sector. Of the 1.2percent of the labor force that moved from agriculture in the period between 2011-2022, the services sector received 4.1percent, and the industrial sector declined by 2.1percent.



Source: ILO



Source: World Development Indicators.

Structural Transformation.

Structural transformation is understood as the shift of an economy's structure from low-productivity, labor-intensive activities to higher productivity, capital, and skill intensive activities. As indicated in AEO2024, "Africa has been transforming without a marked level of industrialization but through a low-skill services sector, mainly because of low manufacturing activity."

In the case of South Sudan, rapid structural transformation has become the main thrust of the economic policy and development plans of the government, but limited progress has been made. At independence in 2011, the country inherited a technologically advanced oil sector that contributed 90

percent of its exports and government revenue, and a subsistence-dominated agriculture sector that sustained the livelihood of 80 percent of the population. The civil war and climate-induced shocks have had pervasive negative impacts on both sectors and the rest of the economy. As a result, the industry sector's share of GDP (largely oil and mining) dropped from 56.8 percent in 2012 to 52 percent in 2021, driven by damaged oil infrastructure due to war, thus a fall in oil production, with the GDP share of the services sector increasing from 39.1 percent to 45 percent (Table 2). In both cases, shifts in sector shares were caused by non-economic factors, especially the direct and secondary effects of the civil war, including the destruction of productive infrastructure. Manufacturing accounted for an average of 2percent of GDP.

Table 2: Sector Share of GDP (percent)					
Sector	2012	2015	2020	2021	
Agriculture (incl. hunting, livestock, and fishing)	4.1	4.16	5.98	3	
Industry (oil, mining, and manufacturing)	56.8	45.16	41.57	52	
Services (incl. social services, transport, wholesale, tourism and tourism-related)	39.1	50.68	52.45	45	

Source: Economic Commission for Africa (ECA), https://ecastats.uneca.org and author's estimates.

Agriculture saw its share of GDP reduce from 4.1 percent in 2012 to 3 percent of GDP in 2021, owing to persistent droughts and floods, and limited investments in the sector. According to Food and Agriculture Organization (FAO) (2021), Western Equatoria was the only state in the country with a cereal surplus in 2019. Given that most staples consumed in South Sudan are imports from Kenya and Uganda, the country has vast scope for import substitution, and with time could even position itself as a regional cereal and vegetable exporter. For example, the country's main imports include bananas,

beans, cassava, cereals (maize and sorghum), legumes, and vegetables all grown on peasant holdings in South Sudan, but not in sufficient quantities. Strategic support, including better access to credit, farm inputs and product markets, could help raise efficiency and harvest quantities of excellent quality produce in the country.

The dominance of the oil sector in industry means that the sector has not provided the backward and forward linkages that are essential for the country's economic diversification, and

structural transformation. The start of oil refining in Bentiu in Unity State in 2021, marked a crucial step in adding value to the country's crude oil. With several such refineries planned in the future, the country could well become self-sufficient in petroleum products including tar for road construction, reduce the cost of fuel, which forms a substantial part of its transport mark-up, while also exporting fuel to neighboring countries. This industrialization approach will also support the Bank to achieve its High 5s objective of Industrialize Africa. Technical skills remain limited in South Sudan and the country depends on expatriates from China and Malaysia to run its oil sector. The rate of the consortia transfer of technical competences to South Sudanese is not known for certain but should be a priority to the government, as accumulating such skills will be critical for the planned expansion of the oil sector.

Data on sector-specific wages for South Sudan remain limited, but data modelled by the International Labour Organization (ILO) suggest that labor's share in value-added has remained flat, at about 42 percent, since 2011. As a comparison, Kenya's labor shares in valueadded increased by 6percent between 2011 and 2019 to 47.2 percent. In Tanzania, labor's share increased by 25 percentage points between 2011 and 2019 to 54 percent. In the bargain between capital and labor over income share, Kenyan and Tanzanian workers did better than their South Sudanese counterparts during the 2010s. Available manufacturing sector data suggest that value-added per worker has declined since 2011 from USD11,918 in 2011 (at 2010 prices) to USD3,108 in 2016. In agriculture, value-added per worker fell from USD444.5 in 2011 to USD400 in 2016, while in the services sector, it declined from USD3,947 to USD3,511 over the same period.

Unpacking South Sudan's Structural Transformation Through Labor Productivity Decomposition

South Sudan's agricultural productivity has been traditionally low, owing to its limited use of fertilizer, certified seeds, and other technologies, but given the vastness of the country, the situation varies markedly between states. In Western and Central Equatoria, for example, farmers have responded well to favorable weather conditions, and generated cereal surpluses in the past. For them, the key constraints were not land or labor, but how to get their produce to the market. In the Lakes region, on the other hand, farmers dealt with floods by resorting to planting rice. This type of adaptability will be crucial in the years ahead as climateinduced changes in weather conditions become more common. According to data from the World Bank and the Food Agriculture Organization of the United Nations, South Sudan's cereal productivity is low, being about a third of Uganda's and about half that of Kenya and Tanzania in 2021. It is only comparable to Sudan, a country which is less endowed with arable land and water resources.

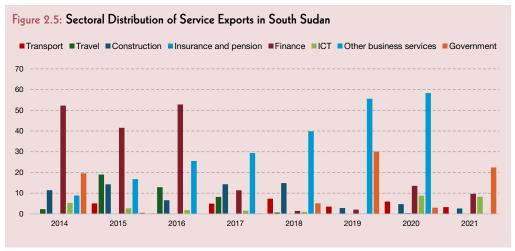
Low levels of literacy in South Sudan constrained investors have expanding their businesses, and the public service from efficient operation. Entrepreneurs have resorted to hiring workers from the region and beyond, leading to local disgruntlement. The skills mismatch between available technical skills and those required for value addition hinders structural transformation and lowers economic complexity. For instance, South Sudan ranked last on the complex economy dimension among 146 economies in the 2019 Economic Complexity Index (ECI). With the highest levels of specialization in foraged crops

and crude petroleum, the country's most complex products were wood sawn and chipped lengthwise. Diversifying economy and focusing on value-adding sectors like agriculture, and manufacturing would spur productivity and transformation. This is also consistent with the Bank's High 5s objectives of Feed Africa and Industrialize Africa. Given the available resources, the public sector is oversized, employing 450,000 people, although the majority (91 percent) are in the security forces, police, and prisons (Mawejje 2020). Although only about 9percent of public sector employees are in the mainstream civil service, up to 42 percent of them lack a post-primary education with implications for the country's overall capacity to deliver services.

A study of labor productivity in manufacturing in South Sudan from 2020 found that physical capital and education (years of schooling) were crucial for boosting productivity. A 10 percent increase in the capital labor ratio (ceteris paribus) increased productivity by 3percent. The study also found that one additional year of schooling increased labor productivity by 13.5 percent. Predictably, the study found that mediumsize firms are more productive than smaller ones, which was ascribed to their longer experience. However, foreign firm ownership or large firm size (which are closely related) did not necessarily boost labor productivity as capacity optimization was low. It suggested that although such firms had more equipment than local ones, local knowledge was a significant factor for enhancing productivity in South Sudan.

The implementation of South Sudan's growth model, which is anchored on a pro-poor structural transformation stance, has been held back by civil war, but this has also created opportunities for the private sector to drive growth. The core operational emphases of the model center around the five priority areas of capacity-building and skilling; infrastructure, industrialization, and job creation; social inclusion, and poverty reduction; harnessing oil resources for economic diversification; and promoting agriculture, and rural development. However, the realization of this model's ambitions has been delayed by the civil war, which altered the reform climate, and resulted in the bulk of the public resources being channeled to the military. The situation has not only diverted more resources, both financial and physical (human) towards the war effort, it also resulted in a major humanitarian crisis, and displacement of populations.

Sudan's South services exports concentration has been mixed (Figure 2.5). In 2014, high knowledge-intensive services, in particular finance accounted for 52.2 percent, followed by the government (19.5 percent), and construction (11.4 percent). Nonetheless, following the civil war in 2016, the share of finance had significantly dropped to 9.7 percent in 2021, while the government gained further traction, increasing from 19.5 percent in 2014 to 22.4 percent in 2021. During that period, transportation share had significantly increased from 0.1 percent in 2014 to 3.2 percent in 2021, while Information and Communications Technology (ICT) also recorded an increase from 5.3percent in 2014 to 8.2 percent in 2021.



Source: World Development Indicators.

Drivers to Accelerate Structural Transformation

Technology development notably cellphone has become a valuable tool for financial mobilization in East Africa and will be critical to building South Sudan's structural transformation and industrial development value-chain. The level of access to mobile phones has varied in recent years, owing to the conflict, but estimates by the Reach Initiative , which measured traffic by service providers in South Sudan in 2020, indicated that 52 percent of settlements in the country had cellular service. Moreover, 4 million people, more than 30 percent of the population, had access to a mobile phone in 2018, and their number has increased since. Already, such technologies are making important inroads in South Sudan, although from a low base compared to Kenya, where "just in time" manufacturing processes are beginning to drive industrial growth.

South Sudan's development blueprint, Vision 2040, recognizes that modern infrastructure will be a key input in the country's structural transformation. According to the 2022 Africa Infrastructure Development Index (AIDI), South Sudan ranked 53 out of 54 countries regarding overall infrastructure availability, and 46 out of 54 countries regarding electricity access. Transport infrastructure in South Sudan is very poor and is an obstacle to economic development, and livelihoods. Road density is low, only 15km per 1,000 km2 compared to the East Africa average of 101 km per 1,000 km2. Rail density is even lower, at 0.4 km per 1,000 km2.

Box 2 : The African Development Bank (AfDB) role in Supporting Growth and Structural Transformation in South Sudan

South Sudan must evolve its agriculture sector, moving from traditional subsistence practices to those of a modernizing economy. The process will need to start with the policy environment. The Bank's current investments in agriculture in South Sudan are over USD 60 million. Among the supported projects include (i) Agriculture Market and Value Addition Project (USD 14.0 million); (ii) Program to Build Resilience for Food and Nutrition Security in the HOA (USD38 million); and (iii) Emergency Food Production Programme (USD8.4 million). These projects have been implemented with a view to supporting South Sudan to develop agricultural value-chains to boost agricultural productivity, diversify the economy, and create jobs. The support will also lay the foundation for economic diversification and resilience. The interventions so far enabled (i) establishment of Agriculture Aggregation Business Centres;

(ii) establishment of Agriculture Business Producer Associations; (iii) construction and rehabilitation of 700 water infrastructure. Furthermore, the support also makes provision to provide over 400 thousand metric tons (MT) of sorghum seeds, 10 MT of rice seeds, 30 MT of fertilizers (Calcium Ammonium Nitrate-CAN, Nitrogen-Phosphorous-Potassium NPK, and Diammonium Phosphate-DAP. The Bank's further interventions are to address agricultural productivity through modernization to catalyze value-chain development, notably in gum Arabic, sesame, and livestock.

According to United Nations Children's Fund (UNICEF), only 40 percent of the population have access to safe water, 10 percent have access to improved water, 41 percent have access to basic sanitation, and 61 percent of the population practiced open defecation as at end of 2021 (UNICEF, 2022). For electricity, South Sudan performed better on the AIDI in regional terms, with a rank of 46 of 54 African countries. In terms of energy, the status remains fragile with most energy needs currently being met by biomass. Fossil fuels account for 92.8 percent of electricity generation and hydro for the remainder. In 2020 only about 7percent of the population in South Sudan had access to electricity, while electricity access in Ethiopia was 51.1 percent, 71.4 percent in Kenya, 60 percent in Sudan, 46.6 percent in Rwanda 42.5 percent in Uganda, and 48.2 percent in Sub-Saharan Africa. There is a significant potential source of electricity generation comprising fossil, and renewables. Today, most energy needs are met by biomass. The main potential site for hydropower is on the Nile with an estimated capacity of 2,590 megawatts.

South Sudan human capital indicators are low. As alluded before, the country has one of the lowest literacy levels worldwide, with only 32 percent of adults being able to read and write. It was recorded at 34.8 percent in 2018 (compared to the sub-Saharan African average of 65 percent), but with a huge disparity between urban areas (53 percent), and rural ones (22 percent). Although primary education is ostensibly free, most school-age children

(70 percent) are not attending school, owing to insecurity, and the lack of fees or parent-supplied school materials. Budget allocation for education budget remains low. In 2023/24 national budget, allocation to the sector declined to SSP 1.63 billion from SSP 107.84 billion in 2022/23.

In terms of governance, South Sudan's financial and economic governance indicators remain low. In transitioning from fragility to stability, South Sudan should enhance its PFM by developing instruments for credible, transparent, effective budget planning, and execution. The Transparency International's 2022 Corruption Perceptions Index (CPI) ranked South Sudan 178 of 180 countries, with a score of 13 percent. The 2021 Ibrahim Index of African Governance, on the other hand, indicates that governance indicators deteriorated further between 2011 and 2021, with respect to the foundations for economic opportunity, participation, rights, and inclusion, as well as security, and the rule of law. According to the African Regional Integration Index (ARII) 2019, efforts are required to integration. South Sudan's overall regional integration score within the East African Community (EAC) was 0.134 (of 1), compared to the EAC average of 0.537. Scores on five dimensions of integration were equally low: 0.117 for trade integration (EAC average of 0.44); 0.073 for productive integration (0.434 for EAC); zero score for macroeconomic integration (0.66 for EAC); zero score for infrastructural integration (0.555 for EAC). In terms of visa openness index, South Sudan scored 0.13, and is the

least in EAC in the 2023 ARII. To reap the benefit of regional integration and access to markets for goods, South Sudan should fast-track the process to complete all the protocols required within EAC, as well as ratifying the ACFTA.

Key Bottlenecks to Fast-Paced Structural Transformation

South Sudan's structural transformation is held back by several factors including the skills mismatch, high public debt, and poor infrastructure. The average South Sudanese is currently low-skilled, while for educated young people, there is a skills mismatch between available jobs and their skills profiles. A steady structural transformation process will require an elevated level of human and physical capital accumulation and large-scale infrastructure, and institutional capabilities. To create short-term opportunities for mass employment, it might be necessary for the government to embark on public works programs across the country, tailored to suit local needs, and with the full participation of local communities. There is an urgent need for the reconstruction of social infrastructure such as schools, hospitals and markets, and a broad program of rural and urban reconstruction will be necessary at all state levels to enable local economies to operate normally once again. Part of the humanitarian support could be allocated to this type of job creation to ensure the sustainability of livelihoods post-crisis. Furthermore, South Sudan's political landscape has been driven by uncertainties manifested through political instability, armed internal conflicts, and communal violence, which have derailed growth and socio-economic development, and disrupted livelihoods.

South Sudan is highly vulnerable to climate change, which is manifested through frequent droughts, floods, and infestations of locusts. Floods and locust infestations have negatively affected the country's agricultural productivity, with most people depending on agriculture for subsistence. In addition, social inequalities remain a concern. South Sudan's access to safely managed pipe-borne water is almost non-existent, estimated at 3percent nationally, and 8percent in urban areas. In addition, poverty, and unemployment in 2021 stood at 82 percent and 21 percent, respectively.

Box 3: Potential and Opportunities in the Agricultural Sector

South Sudan has enormous agricultural potential. Land is plentiful and covers several agricultural, and temperature zones, allowing for several crop yields as well as cattle, and other animal rearing. The country's many rivers and lakes, aside from fisheries, provide possibilities for irrigation and hence for year-round crop production. Yet very few of these opportunities are being exploited. Despite abundant water resources—ranging from 500-600 millimeters a year to more than 1,500 a year—only 3percent of South Sudan's agricultural land is irrigated. Dense forests occupy about a quarter of South Sudan's land surface. In addition to teak plantations covering 5,000-8,000 hectares, there are large areas of natural indigenous forest with African mahogany, and other commercial species. Non-wood natural products include medicinal plants, spices, gum acacia, rubber, and silk. The country could produce the bulk of its staple foods-sorghum, maize, cassava, pulses, groundnuts, sesame, and sunflower. It also has potential for horticulture (bananas, mangos, lemons, pineapples, onions, okra, tomatoes, eggplants, sweet potatoes, cabbages), and for plantation agriculture (coffee, tea, honey, sugar). Yet the country's potential has translated only slowly into market-driven agricultural activities with export potential. In 2017, for example, South Sudan imported USD283 million worth of processed cereals and related products, and vegetable products.

The source countries were mostly regional (Kenya and Uganda) with similar agricultural conditions. Despite this potential, the government should invest in infrastructure, improve access to credit, promote value-chain for maize, sorghum, and casava, among others.

2.3. Finance to Fast-Track South Sudan's Structural Transformation: How Much is at Stake?

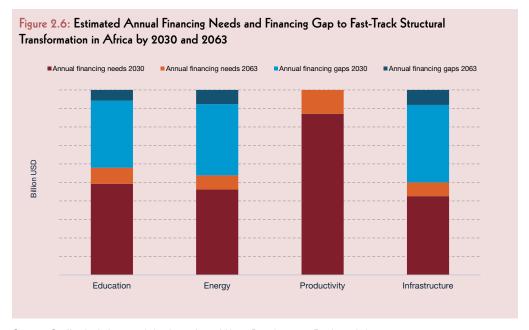
South Sudan's commitment to structural change

The Revised National Development Strategy (RNDS), 2021-2024 is the government blueprint's for spearheading economic growth and transformation during the life of the **government of national unity.** The content of the development model envisaged in the RNDS is articulated around five pillars (i) governance; (ii) development of social services; (iii) a focus on gender, youth, and other cross-cutting themes; (iv) economic development including economic diversification; and (v) infrastructure represented in the chart below. Critical is the reliance on oil resources to finance economic diversification and structural transformation. Although in the mediumterm, there are few means for decoupling South Sudan's economic performance from that of the oil sector, the return to peace is bound to shift incentives, risk perceptions, and the refocus attention on sectors driving economic growth, and transformation. As mentioned before, South Sudan's growth and development prospects are tied closely to the oil sector and have not been accompanied by any structural change, especially growth

of labor-intensive manufacturing. The implementation of the RNDS will require up to USD15 billion.

Financing needs and financing gaps

South Sudan annual financing needs and the associated financing gap are calculated for both the 2030 Agenda Sustainable Development and the African Union's Agenda 2063 by assigning these median input levels and controlling for other factors such as projected demographics (population size and composition, among others), and the level of GDP per capita. Based on this methodology, the Bank estimates that South Sudan would need USD6.3 billion or about 85 percent of GDP, annually until 2030 to accelerate its structural transformation. Looking at the Agenda 2063 as a reference, the annual financial needs falls to USD6.3 billion or about 15 percent of GDP. Most of these resources are in infrastructure (73.5 percent of the total), underscoring the limited investment in the sector. Given the current country performance levels on these critical sectors and their projected values, which are assumed to change in line with GDP per capita, the annual financing gap to fasttrack structural transformation is estimated at USD6.3 billion, with infrastructure remaining the main contributor to South Sudan's financing gap (Figure 2.6).



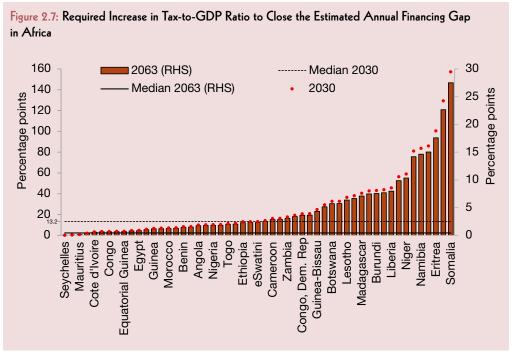
Source: Staff calculations and database from African Development Bank statistics.

Domestic Resource Mobilization

South Sudan should strengthen its tax

revenue collection and enhance public spending efficiency, as it has been running budget deficits over the years. The overall fiscal stance of the government has remained expansionary, reflected by the need to finance recurring conflicts and military spending has between 2011 and 2017, has reached USD5.7 billion), and steep accumulation of arrears to civil servants, and domestic suppliers. Taxes on the non-oil sector in South Sudan, mostly corporate profits, and sales taxes, have not yielded much revenue although the ongoing reforms at the National Revenue Authority (NRA), especially the focus to reduce the share of oil revenue in total revenue, and the merging of the customs department with the NRA, have seen an increase in the contribution of

the non-oil sector in the recent past. Institutional capacity limitations, and lack of transparency and accountability have been at the center stage as the country financial and economic governance indicators remain low. For instance, Transparency International (TI)'s 2022 CPI ranked South Sudan 178 of 180 countries, with a score of 13 percent. The government's deficits have been financed through commercial loans, including those backed by oil advances and that has resulted in relatively high costs on public debt. Figure 2.7 shows that in the absence of other measures. South Sudan need to increase its tax-to-GDP ratio of about 85.8 percent to close the financing gap by 2030, meanwhile, the required increase in tax effort for structural transformation is estimated at 15 percent for the Agenda 2063 deadline, on account that additional tax revenues are efficiently deployed and allocated to that objective.



Source: Staff calculations and database from African Development Bank statistics, Sachs et al. (2023), UNESCO, CIA, NASA, IMF, and World Bank.

Box 4: The Bank's Support for Economic Transformation in South Sudan

The Bank has been supporting the government to realize its ambitions of boosting agricultural productivity. The Bank financed the Short-Term Regional Emergency Response Project at USD42.2 million in response to the 2017 drought; and is funding the ongoing Agricultural Markets, Value Addition and Trade Development Project (AMVAT) at USD13.4 million, and Building Resilience for Food and Nutrition in the Horn of Africa, valued at USD27.79 million to embark on integrated value-chain-based agribusiness development. Going forward, the Bank's further interventions to address agricultural productivity through modernization are necessary to catalyze value-chain development, notably in gum Arabic, sesame, and livestock. The results will raise household incomes, alleviate poverty, and reduce the cycle of food insecurity. In this way, the Bank will use the agriculture 'Feed Africa' strategy enablers, notably the Technologies for African Agricultural Transformation (TAAT), to facilitate technology transfer to farmers, which will help to enhance agricultural productivity. Support for the development of feeder roads to link farmers with markets, and the creation of storage facilities is equally critical.

2.4. Concluding Remarks and Policy Recommendations

Over more than a decade since separating from Sudan, structural transformation and diversification has remained an elusive goal in South Sudan. Nonetheless, for accelerating structural transformation in South Sudan, a multipronged approach based on the following elements are necessary:

The South Sudan government should strengthen economic governance to create fiscal space for the expansion of social services, and other growthenhancing expenditures. The government needs to pursue efficiency gains through the effective implementation of PFM reforms. This should help reduce leakages that could be repurposed to development financing. This should include cutting-off excessive expenditure on military expenditure, and reduction in public bureaucracies and corruption on the side of expenditure management, while expanding and diversifying revenue sources, especially into non-agriculture sources.

Scall up investments to build skills and human capital development suited for local content, and priorities. This is particularly important within a context of significant institutional capacity gaps. Scaling up investments in education at all levels to build and improve the quality and relevance of technical skills becomes fundamental. For instance, prioritizing investment in science, technology, engineering, and mathematics, agronomists, geologists are a key ingredient to structural economic transformation, and it will also help to increase productivity and respond to the market demands. A major policy priority could further support to TVET centers.

Sustain the current peace agreement to attract FDI. Positive results have been observed on the consolidation of peace efforts to stimulate the national economy since the signing of the agreement in 2018, especially in non-oil revenue collection. The agreement has also allowed the government to significantly cut military expenditure and shift resources towards other key developmental initiatives that include economic development, public administration and transparency, and accountability efforts.

South Sudan should invest in its huge natural capital and green wealth. These resources are largely unexploited and poorly measured. Thus, investing in measuring and integrating them in the system of national account will help estimate the true value, expand its GDP, and improve conservation.

Invest in essential infrastructure, including transport, as a critical driver

of peace and stability. This investment approach not only opens the way to industrialization but also yields wideranging benefits, including job creation, skills development, enhanced connectivity, and technology transfer. By bolstering social stability and diminishing conflict risks, infrastructure investments become fundamental pillars of development. Infrastructure development will foster economic growth, while addressing underlying inequalities, and so mitigate potential causes of conflict.

Scaling up Domestic Revenue Mobilization (DRM) for financing the country's development. While ongoing efforts to involve development partners and align their contributions to the country's key pillars of development should yield initial results, efforts should be earmarked, enhancing the mobilization and efficient management of oil and non-oil revenues. ODA funds will remain off-budget and are not as fungible and flexible in use towards the country's priorities, which reemphasizes the importance of domestic resource mobilization. The promotion of domestic resources should include promoting domestic private finance and remittances; and reorienting external financing towards enhancing fiscal space and public investment. Additional efforts should include:

- Tax revenue mobilization. South Sudan needs to strengthen its financial institutions capacity in the prudential and efficient management of public finance throughout the PFM cycle from DRM to strengthening supreme and public accountability systems. It also should invest in systems that improve efficiency in tax administration, and PFM. The Bank's ongoing PFM support valued at USD15 million has been imperative supporting the government's institutional building efforts.
- Tax compliance. The government

should seek to promote voluntary tax compliance, especially in the informal sector, to increase DRM. In doing so, these resources should be used to improve basic social services.

Build and deepen national and regional markets for goods. To benefit fully from community membership such as that of the EAC, South Sudan should complete all the protocols required. It should also expand its trade facilitation, including upgrading customs, and the operationalization of the electronic cargo tracking system on the northern corridor. Furthermore, ratifying the ACFTA is also imperative.

Invest in youth to capitalize on the benefit of demographic dividend. In doing so, it should prioritize investment in human capital and creating economic and job opportunities for the youth. The Bank's ongoing support through YED,

valued at USD7.2 million has been critical in supporting the government's efforts.

Harness the Support of Development Partners (SDPs). Support from development partners, including the Bank is imperative. South Sudan does not have a PPP law and the Bank, through the ALSF, is currently supporting the government to prepare it. In addition to strategies for industrialization, South Sudan possesses a valuable opportunity to engage in peace-positive investments. By fostering collaboration with international investors, governments, and other stakeholders, South Sudan can effectively attract FDI, and development aid. This proactive engagement holds the potential to not only drive economic growth, but also contribute to overall stability, offering a promising path towards achieving sustainable economic transformation, and development goals.

FINANCING TRANSFORMATION IN SOUTH SUDAN: THE NEED FOR REFORMS OF THE INTERNATIONAL FINANCIAL ARCHITECTURE

Key Messages

- Financing structural transformation in South Sudan in the short-term requires
 ramping up DRM and improving public spending efficiency to create fiscal
 space for investments in growth enablers. The financing will also encompass
 support in investing in infrastructure, human capital, climate action, and productivity
 enhancing technology.
- The principal sources of financing for South Sudan include FDI, remittances, and ODA. Of these three, ODA is the most significant. Between 2014 and 2021, net ODA flows to South Sudan amounted to a total of USD14.59 billion. ODA is largely in the form of humanitarian support, which has averaged USD1.5 billion per year or about 20 percent of GDP over the last decade. Such a massive inflow of resources could be destabilizing to any country in sub-Saharan Africa, in South Sudan, it has created a serious dependency syndrome.

Mobilizing resources at scale and on affordable terms for the financing of structural transformation in South Sudan will require the following policy reforms:

- To accelerate and benefit from the scale of low-cost concessional financing, South Sudan should improve transparency and strengthen its tax administrations to combat illicit financial flows and reform tax policies to enhance domestic resource mobilization. Creating an oil account for future generation will also support the country's long-term development efforts. South Sudan's debt management capacity should also be strengthened. In doing so, it will also help the country to add its voice in the matter and benefit from the reform.
- South Sudan should create conditions to leverage private sector financing for transformation. To achieve this objective, the government should ensure political stability, whilst developing appropriate policies including in energy; institutional strengthening and programs, including risk mitigation measures to mobilize sustainable infrastructure investment. Furthermore, there is a need to build the technical capacity structuring of climate projects. Reforms could embed mechanisms for portfolio-based approach toward PSI rather than project based.
- South Sudan creates policies to greening its GDP. The country possesses significant
 natural assets, but the value of these externalities is not fully captured in the
 measurement of the country's GDP. This could be done by enforcing a mandatory
 requirement to reinforce methods of natural capital accounting. Furthermore, using

international agreements on climate change and biological diversity to finance higher returns from the substantial endowments of natural assets in the region that can serve the global goals in these areas.

- South Sudan could add its voice through the African Union in making the governance
 of the GFA more inclusive to enhance Africa's participation. Nonetheless, South
 Sudan should make efforts to implement growth-enhancing policies, which will help
 to boost its economic size.
- South Sudan should implement reforms to strengthen and deepen the financial sector to improve access to emergency financing facilities. In doing so, it will create buffers against external shocks.
- The reform of the global debt financial architecture is paramount for South Sudan since the required actions will facilitate restructuring of the country's existing debt as well as avoiding the further build-up of unsustainable debt. The reform also represents an opportunity for South Sudan to benefit from debt relief.
- The MDBs and bilateral partners can play a bigger role in climate financing by allocating funds for climate adaptation projects that are directly linked to development and economic transformation. Development financing and climate adaptation financing are not mutually exclusive objectives, however. Additional financing must be dedicated to development financing, in a way that focuses on climate adaptation efforts.

Introduction

Building on chapter 2, this chapter presents South Sudan's external financing needed to achieve structural transformation while grappling with climate change issues. It uses the Bank's estimates on financing needs and gaps to fast-truck structural transformation (AEO 2024), and to finance climate actions (AEO 2022 and 2023) respectively by 2030. It also assesses, using the Bank's estimate, South Sudan's capacity to increase the tax-to-GDP ratio to close the financing gap to fast-track structural transformation by 2030 and 2063, and motivates the needs for reforms to the international financial architecture.

3.1. South Sudan's Stand on the Need to Reform the International Financial Architecture

A reformed global financial architecture will help in providing access to new

and sustained sources. This can play a crucial role in achieving the goals of the Paris Agreement and implementing NDC mitigation and adaptation activities, especially in South Sudan. South Sudan will require about USD100 billion for the implementation of NDC interventions and strategies over a period of 10 years. These resources will be used to address climate adaptation and mitigation across various sectors, including agriculture, livestock, fisheries. forests, and disaster risk management. Financing of climate change has been mainly through government resources which accounted for about 96.5 percent (USD182.9 million) of the total financing in 2019/20 (AfDB, CFR 2023). Furthermore, South Sudan could explore other innovative instruments such as green finance, carbon market, debt-climate swaps, climate-related debt, natural capital accounting to access climate financing funds. Nonetheless, institutional capacity weaknesses to mainstream

climate change into policies and prepare bankable proposals for access to climate finance remains the key constraints. Thus, the need to prepare tailor made policies and to provide technical support to enable relevant ministries, and institutions to develop climate change financing policies and strategies, and climate finance proposals.

To achieve the above objective, the government needs to review its fiscal policies. For instance, the overall fiscal stance of the government has remained expansionary, reflected by the need to finance recurring conflicts, steep accumulation of arrears to civil servants, and domestic suppliers. Taxes on the non-oil sector in South Sudan, mostly corporate profits, and sales taxes, have not yielded much revenue although the ongoing reforms at the South Sudan Revenue Authority (SNRA) with the support from the Bank, especially the focus to reduce the share of oil revenue in total revenue and the merging of the customs department with the SNRA, have seen an increase in the contribution of the non-oil sector in the recent past. Thus, financing of the development and transformation of the economy from domestic resources is thus constrained by the fact that a positive fiscal outlook for the country is dependent on favorable oil prices, uninterrupted oil production, and the pace of domestic fiscal consolidation.

The reform is also critical in supporting South Sudan to clear its debt, which is currently classified at a high risk of debt distress. Most of the country's debt composition is bilateral debt with unfavorable conditions-high cost of borrowing. The current mechanism for data collection and debt management remains a challenge, since it is not well coordinated as well as not following the

approval process by the parliament. With non-concessional loans being the preferred method, the government intervention must restrain the practice of oil advances, as well as focusing on the implementation of prudent monetary and fiscal policies as means of managing debt. Furthermore, the reform will provide an opportunity to review and provide additional financing to South Sudan to meet the Sustainable Development Goals (SDGs), since the country has started from a very low base and is constrained by lack of data to assess the progress. Lastly, the reform could represent the long-awaited need for South Sudan to attract the needed private capital to invest in development projects rather than humanitarian projects, by ensuring a lasting peace and security.

South Sudan should also seize the opportunity of the global financial reform to strengthen its domestic resources, including leveraging its abundant natural resources, improving the collection of non-oil tax revenues, enhancing public spending efficiency, and fighting illicit financial flows, tax avoidance, and limiting exemptions. The abundant natural capital wealth continues to be unexploited, and if appropriately measured, could be beneficial in expanding the country's GDP. The Bank study on Customs Revenue Potential (2022) found that in the fiscal year 2022/23, the total amount of customsrelated exemptions amounted to USD42 million (an estimated 16 percent of the total customs revenue collections). According to the Financial Action Task Force report (2021), illicit financial flows amounted to USD36 billion between 2016-2020, thus constraining the government's ability to provide the minimum socio-economic services to the citizens, such as healthcare, education, and other SDGs. The efforts will also require strengthening transparency, and accountability in public institutions.

3.2. Mobilizing Additional Resources for South Sudan's Structural Transformation

The contribution of external resources in financing economic development and structural transformation in South Sudan is significant. The main sources of external financing for South Sudan include FDI, remittances, and ODA. Of these three, ODA is the most significant. Between 2014 and 2021, net ODA flows to the country stood at USD14.59 billion (see Table 3). As alluded above, ODA is in the form of humanitarian support, which has averaged USD1.5 billion per year or about 20 percent of GDP over the last decade. Such a massive inflow of resources could be destabilizing to any country in sub-Saharan Africa, and in South Sudan, it has created a serious dependency syndrome. In 2016, as the humanitarian crisis was

unfolding, donors set up a partnership for recovery and resilience group that they use for self-regulation. Moreover, a South Sudan Humanitarian Fund (SSHF) prevents aid balkanization by pooling resources and making them available to agencies undertaking frontline operations.

Remittances also play a critical role in the economy with an estimated 1.2 million diaspora. Between 2014 and 2022, the country received USD5.7 billion in the form of remittances, though this figure captures those funds moved through official channels, which tend to be very costly—the most expensive in East Africa. To capture more remittances, South Sudan would need to reduce the cost of sending and receiving money through official channels, improve the regulatory and business environment, and consider diaspora engagement.

South Sudan would benefit most from GFA reforms that ensure expeditious debt restructuring and access to concessional development financing.

Table 3: Remittances and Net ODA Flows to South Sudan (USD billion)										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Remittances USD bn	0.002	1.4	1.08	0.63	1.27	0.08	0.87	0.14	0.19	
Net ODA, USD bn	1.96	1.67	1.59	2.18	1.58	1.68	1.82	2.11		

Source: World Bank Indicators.

As a natural resource rich country, especially with regards to oil and gas, FDI plays a critical role in resource extraction and in other parts of the economy, though the country receives much less than its potential. Data from the Bank shows that in 2021, FDI inflows to South Sudan amounted to USD68 million (or 1.15percent of GDP), up from USD18 million (or 0.34percent of GDP in 2020). In comparison, FDI flows to Tanzania amounted to USD922 million, and East Africa USD8.2 billion.

Despite these important inflows of resources, they are still significantly lower than the country's needs, as most of them are channeled to humanitarian **assistance**. For instance, South Sudan will require about USD15 billion to finance the requirements of the Revitalized National Development Strategy.

3.3 Dealing with South Sudan's Debt

Despite the implementation of the Heavily Indebted Poor Countries (HIPC) initiative, many African countries are either in debt distress or at high risk of debt distress (AEO 2024), and South Sudan is not an exception. According to the World Bank and the IMF's assessment of South Sudan's debt in March 2023, the country's debt situation is sustainable on

a forward-looking basis. However, South Sudan remains at a substantial risk of both external debt distress and overall debt distress. The debt service-to-revenues ratio remains above the threshold of 14 percent through 2029/30, the debt serviceto-exports, which is expected to be above the threshold of 10 percent through 2025/26, and the present value of external debt-to-GDP ratio, also remaining above the threshold of 30 percent until 2026/27. The primary deficit has been the leading driver of public debt, and real exchange rate depreciation (between January and mid-May 2024, the South Sudanese Pound (SSP), on average, dropped by 44 percent, using the official rate and by 148 percent, using the parallel rate. As of May 16, 2024, the parallel rate reached SSP 3,250, and the official rate stood at SSP 1,570 - producing a 100 percent black market premium), and real interest rate are emerging as key drivers. Key risks to debt sustainability include disruption to peace agreement implementation and lack of political will to enforce the needed macroeconomic adjustment measures such as the exchange rate reforms. The ongoing conflict in Sudan is also a major risk to economic stability, due to potential destruction of oil pipelines.

Thus, the reform of the global financial architecture is paramount for South Sudan since the required actions will facilitate restructuring of the country's existing debt as well as avoiding the further build-up of unsustainable debt.

Going forward, South Sudan's public debt management system should be anchored on a medium-term fiscal framework that seeks concessional resources, prioritizes efficient public investment, and optimizes the use of oil resources. Management of the latter has been a significant challenge, due to lack of transparency and accountability as oil resources, as well as considering that oil

resources are not channeled into a future generation account. Non-concessional resources have been easy to acquire in the past, with the expectation of sustained high oil prices, but have effectively led to a debt trap. First, the government must avoid the practice of oil advances: the unpredictability of oil price movements makes this a very hazardous practice. Second, prudent monetary and fiscal policies are the key means for containing external shocks, managing debt, and preventing its escalation. Recent PFM reforms, including a Treasury Single Account (TSA), will raise efficiency in the public sector, and positively impact debt dynamics in the medium term. Furthermore, the government should also strengthen the capacity of the directorate of debt management officers to enhance transparency of debt transactions.

The Bank has been a key player in supporting the government's efforts to manage its debt as part of their PFM roadmap agenda. The Bank is currently funding a USD15 million institutional support project to support the government's efforts to improve fiscal and debt sustainability. The project seeks to support improvements in non-oil domestic revenue mobilization, strengthening the debt management unit, and enhancing oversight institutions, including the anticorruption agencies. Among other things, the Bank provided technical assistance for the preparation of the Debt Management Policy Framework (DMPF), and Medium-Term Implementation Strategy (MTIS) (2022-25).

3.4 Financing Climate Action

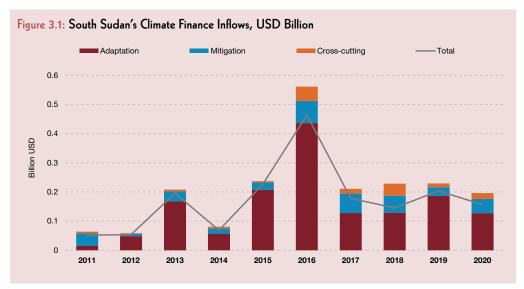
South Sudan's annual financing gap to achieve its climate and green growth ambitions is estimated at USD9.2 billion over 2020-2030. The country is willing to finance up to USD7 billion of the amount and hopes to attract the balance from development partners. These resources

will be used to address climate adaptation and mitigation across various sectors, including agriculture, livestock, fisheries, forests, and disaster risk management. But access to conventional capital continues to be a challenge for both local and foreign businesses, due to the country's newly independent financial sector. The country's financing gaps clearly shows that the government requires more reforms and financing strategies to close the country's financing requirements. The reforms include fiscal consolidation, especially cutting on miliary expenditure.

As previously indicated, South Sudan's private sector landscape is small. According to the Bank's report (AEO 2023), the public sector remains the main financier of climate finance in South Sudan. Total climate finance stood at USD182.9 million in 2019/20, of which 96.5 percent came from public finance and 3.5 percent from private finance. Nonetheless, the government has managed to mobilize USD1.78 billion between 2011-2020 from

developed countries for climate finance. It is worth noting that during this period, climate finance inflows ranged from USD58.7 million in 2011 to USD156.5 million in 2020 (Figure 2). However, the government has acknowledged the importance of private sector development and economic diversification and has begun streamlining the regulatory environment and investment process to facilitate this growth.

The government has taken measures implement tax reforms aimed at enhancing domestic resource mobilization efforts. These include the enactment of South Sudan Anti-Corruption Commission Act 2009 (amendment bill 2023); enactment of the National Revenue Act 2016; and passed the Public Finance Management and Accountability Act of 2011 (amendment bill 2024). It also prepared the Tax Exemptions, and Proposed Regulations with support from the Bank. These reforms serve to promote transparent, accountable, and prudent management of national resources.



Note: The total amount of climate finance inflows corresponds to the sum of the values of mitigation and of adaptation, minus the cross-cutting value.

Source: AfDB staff computations based on OECD data.

South Sudan continues to struggle in crowd-in PSIs or mobilizing innovative instruments (green finance, carbon market, debt-climate swaps, climaterelated debt, natural capital accounting) to access climate financing funds. This is partly due to the nature of the private sector in the country, comprising mainly micro- and small-to-medium enterprises. National climate fund, national capital

accounting, and financial intermediation, among others, are potential areas for resource mobilization. In addition, South Sudan faces several challenges to capitalize on the innovative sources of financing. Among the key challenges that include institutional capacity weaknesses to mainstream climate change into policies and prepare bankable proposals for access to finance. Therefore, there is a need to provide technical support to enable relevant ministries and institutions to develop climate change financing policies and strategies, and climate finance proposals. Nonetheless, South Sudan could develop tailor-made policies such as feed-in tariffs for specific renewable energy technologies to attract PSI, and finance in renewable energy.

3.5 Concluding Remarks and Policy Recommendations

Mobilizing resources at scale and on affordable terms for the financing of structural transformation in South Sudan will require the following policy reforms:

- To accelerate and benefit from the scale of low-cost concessional financing, South Sudan should improve transparency and strengthen its tax administrations to combat illicit financial flows, and reform tax policies to enhance domestic resource mobilization. Creating an oil account for future generation will also support the country's long-term development efforts. South Sudan's debt management capacity should also be strengthened. In doing so, it will also help the country to add its voice in the matter, and benefit from the reform.
- South Sudan should create conditions to leverage private sector financing for transformation. To achieve this objective, the government should

ensure political stability, whilst policies developing appropriate institutional including in energy; strengthening and programs, including risk mitigation measures to mobilize sustainable infrastructure investment. Furthermore, there is a need to build the technical capacity structuring of climate projects. Reforms could embed mechanisms for portfoliobased approach toward PSI rather than project based.

- South Sudan creates policies to greening its GDP. The country possesses significant natural assets, but the value of these externalities is not fully captured in the measurement of the country's GDP. This could be done by enforcing a mandatory requirement to reinforce methods of natural capital accounting. Furthermore, using international agreements on climate and biological change diversity to finance higher returns from the substantial endowments of natural assets in the region that can serve the global goals in these areas.
- South Sudan could add its voice through the African Union in making the governance of the GFA more inclusive to enhance Africa's participation. Nonetheless, South Sudan should make efforts to implement growthenhancing policies, which will help to boost its economic size.
- South Sudan should implement reforms to strengthen and deepen the financial sector to improve access to emergency financing facilities. In doing so, it will create buffers against external shocks.
- The reform of the global debt financial architecture is paramount for South Sudan since the required actions will facilitate restructuring of the country's

existing debt as well as avoiding the further build-up of unsustainable debt. The reform also represents an opportunity for South Sudan to benefit from debt relief.

 The MDBs and bilateral partners can play a bigger role in climate financing by allocating funds for climate adaptation projects that are directly linked to development, and economic transformation. However, development financing, and climate adaptation financing are not mutually exclusive objectives. Additional financing must be dedicated to development financing, in a way that focuses on climate adaptation efforts.

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