Enhancing Transparency and Accountability in the Utilization of Oil Revenues in South Sudan

Presentation by

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Why Transparency & Accountability?

- To prevent the occurrence of the resource curse in South Sudan!
- But, has it not already occurred?
- Not yet, though there are symptoms of the resource curse.
- Hence, The central premise of my presentation is that South Sudan has the opportunity of turning the "resource curse" into a "resource blessing" through enlarging the number of people who benefit directly from oil revenues.

The Resource Curse Defined!

- According to the IMF, it is a "complex phenomenon through which an abundance of resource revenues can translate into stagnation, waste, corruption and conflict."
- From A Public Financial Management Framework for Resource-Producing Countries, IMF Working Paper WP/10/72, Prepared by Teresa Dabán and Jean-Luc Hélis (2009).

How Some leaders Describe the Resource Curse

It is the devil's excrement. We are drowning in the devil's excrement.

—*Juan Pablo Pérez Alfonso*, Founder OPEC

We are in part to blame, but this is the curse of being born with a copper spoon in our mouths.

—*Kenneth Kaunda*, President of Zambia

All in all, I wish we had discovered water.

—*Sheik Ahmed Yamani*, Oil minister, Saudi Arabia

Relevance of the previous quotes

- The first quotation would seem, in my view, to be describing our act of voluntarily shutting down oil production on January 20, 2012 just six months after independence.
- This behavior of oil shutdown is analogous to setting on fire one's own house on the argument that you wanted to prevent someone from stealing from your house.
- The ruling elites then were really "drowning in the devil's excrement" for the Government of the Republic of South Sudan (GRSS) was receiving a monthly average of USD500 million from its share in "profit oil."

Relevance of the previous quotes (cont.)

- The second quote from President Kaunda describes the lack of a prudent approach in the management of natural resources, which is underpinning the "resource curse" concept.
- The most important message from this quote is to accept responsibility for wrong decisions with respect to the management of natural resources. In this regard, we must accept the fact that we made a mistake to shutdown oil production in January 2012 and to resume oil production under a bad agreement with Sudan that was reached in September 2012.
- These mistakes were made due to lack of systems of transparency and accountability in the management of oil revenues.

Relevance of the previous quotes (cont.)

- The third quote from Sheikh Yamani reminds me of Dr. John Garang's idea of "**using our oil to fuel agriculture as the engine of growth of our economy**." I would add to Dr. Garang's idea this point: use our water to irrigate our land to grow food.
- South Sudan was born on 9 July 2011 with a golden spoon in her mouth, not just because of oil, but more so due to other natural resource endowments in the form of land, water, timber, and gold.
- We might have misplaced one golden spoon, which is oil, but South Sudan has four golden spoons – land, water, timber, and gold - lined up to be put in the mouths of future generations.

The Primary Driver of the Resource Curse in SS

- The lack of a robust institutional framework for transparency and accountability in the management of oil revenues in the case of South Sudan.
- There are two broad dimensions (or secondary drivers) – political and economic – underpinning the primary driver of the resource curse.
- I am influenced by the work of Michael Ross (1999) in classifying secondary drivers or causes of resource curse into two – political and economic dimensions of institutional framework.

Secondary Drivers: The Political Dimension (cont.)

- **<u>1. The Politics of Ignorance & Arrogance</u>**:
- "In a time of deceit telling the truth is a revolutionary act."
  — *George Orwell*
- I find it to be the most appropriate line to describe how the ruling elites (myself included) of the Sudan People's Liberation Movement (SPLM) embarked on a major scheme of deceit during the Interim Period (July 2005 – June 2011).
- That is, by constantly denying receiving our share of oil revenues from the central government in Khartoum.

Secondary Drivers: The Political Dimension (cont.)

- Transparency and accountability are the foundation of democratic governance. And politics of ignorance and arrogance flourish in the absence of a functioning institutional framework for transparency and accountability.
- For instance, the decision to shutdown oil production in January 2012 was not based on concrete facts. It was driven by shortsighted elites with limited understanding of the boom and bust cycles of the oil market.

Secondary Drivers: The Political Dimension (cont.)

- **<u>2. The Politics of Selfishness & Greed</u>**:
- This is articulated by the following cases:
- Cardinal scandal involving the purchase of V8 Toyota cars in 2006;
- Dura saga in 2008;
- Presidential letter of June 2012 to 75 senior officials alleged to have stolen from public treasury USD4.5 billion;
- Safes scandal in 2013;
- LC saga in 2015;
- Conviction in 2015 of the Chief Administrator of the Office of the President and his colleagues for embezzling millions of dollars;
- The Sentry Report alleging cases of corruption; and
- Contract of 600,000 bbl./month to a private company called Orxy for the supply of fuel products to South Sudan and which the TNLA has recommended for cancellation.

Secondary Drivers: The Political Dimension (cont.)

- **<u>3. The Politics of Nepotism & Patronage</u>**:
- National companies operating in the oil sector are mostly owned and/or managed by relatives of the ruling elite. Moreover, analysis of the 1,908 companies involved in the LC saga would tend show that most of these were fake ones.
- The "genuine ones" were owned by a well-connected group of individuals through a network of patronage. This was possible due to the nature of the business environment, which is described by Daniel Akech Thiong as follows:
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Secondary Drivers: The Political Dimension (cont.)

- “The dominant feature of rent seeking in South Sudan is that the regulators, the rent setters, are themselves the rent seekers. Strange behaviors have been observed among people who had engaged in rent seeking with the goal of becoming rent setters. Some have paid so much in lobbying to become civil servants paying more in cash and non--cash than the annual salary of their target job. The expenditures expended by rent seekers come in varied forms.”

Secondary Drivers: The Economic Dimension (cont.)

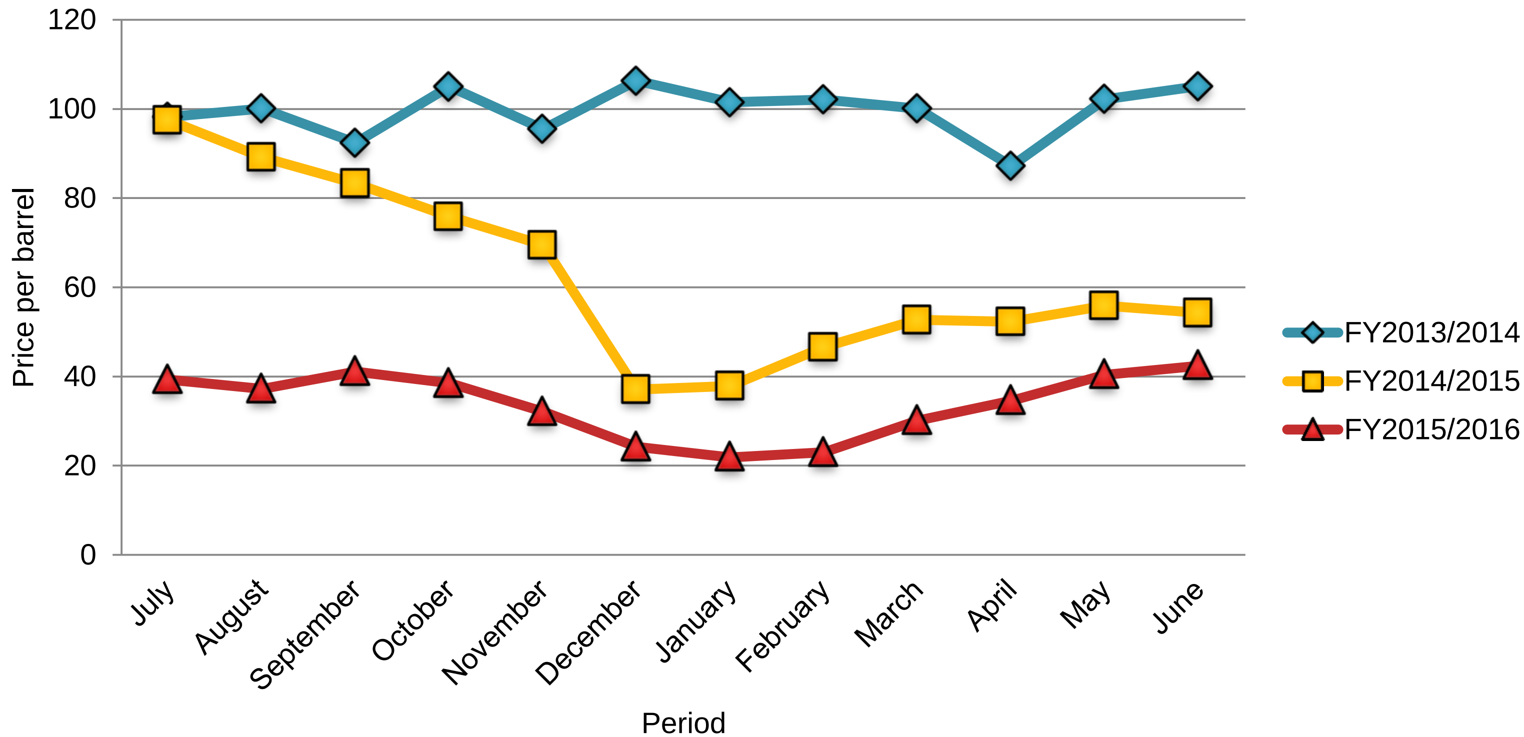
- **<u>1. Unpredictability of oil revenues:</u>**
- Macroeconomic stability is premised on the predictability of the sources of government's revenues.
- This is especially true when government revenues are largely derived from a primary commodity, such as crude oil.
- South Sudan has been experiencing macroeconomic

Secondary Drivers: The Economic Dimension (cont.)

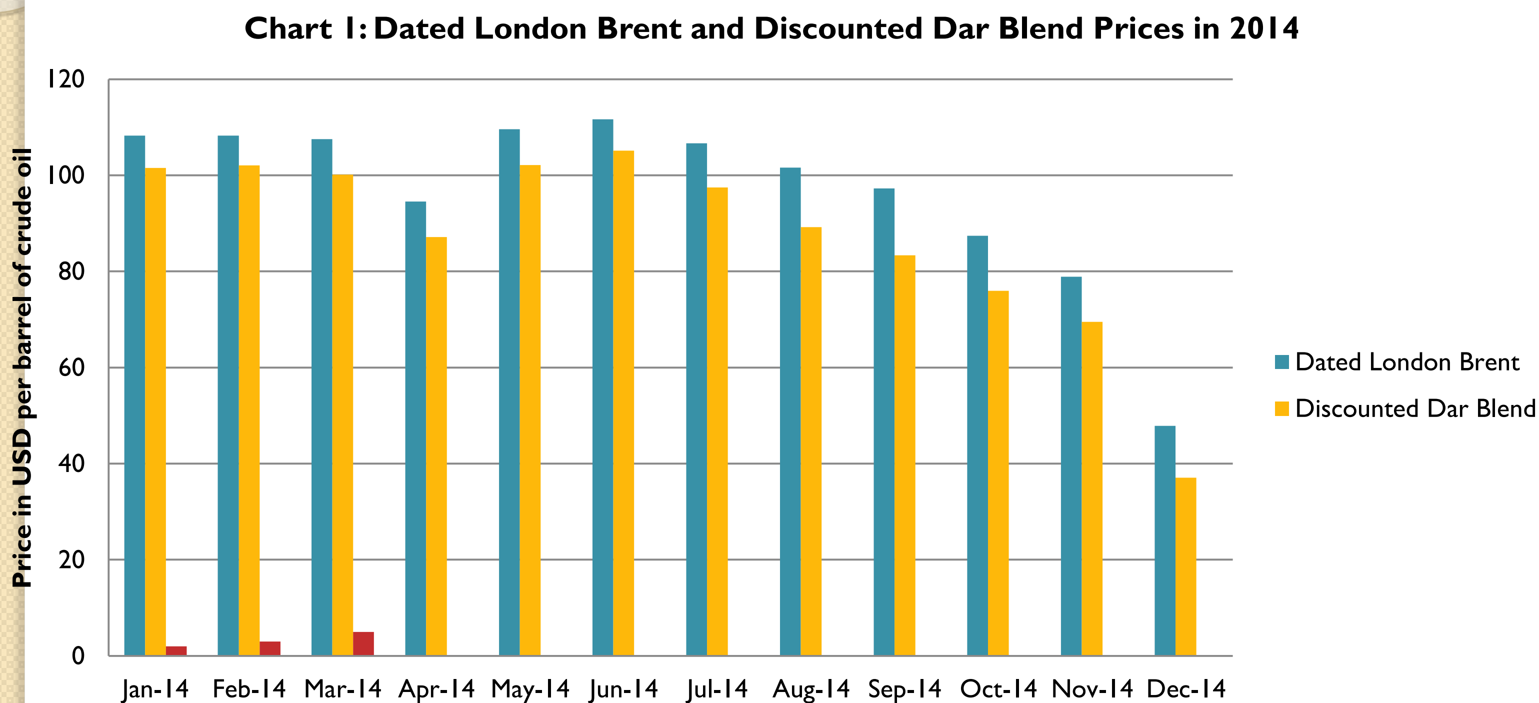
- The three shocks have contributed in widening the revenue-expenditure gap, for three years in a row, of the government annual budgets (i.e. FY2013/2014, FY2014/2015, and FY2015/2016).
- That is, the first shock meant drastic increase in the security sector expenditure due to the prevailing violent conflict, while the other two shocks (i.e. fall in both volume and price of oil) meant a sharp decline in the government revenues, since more than 90% of its revenues comes from oil. The fiscal implication of the above stated shocks is quite telling. Oil production resumed in April 2013 after fourteen (14) months of non-production. In this regard, GRSS entitlement in FY2013/2014 was 33.2 million barrel of crude oil at an average price of USD99.5/bbl. or USD3.31 billion. Total gross GRSS oil revenues felt by 27.5% in FY2014/2015 even though the entitlement in terms of number of barrels was 34.7 million of bbl. The reason being the sharp fall in the discounted price of Dar blend by 37% in the international market.

Secondary Drivers: The Economic Dimension (cont.)

Figure 1: Prices of Dar Blend in USD, 2013–2016



Secondary Drivers: The Economic Dimension (cont.)



Secondary Drivers: The Economic Dimension (cont.)

- **2. High Resource Dependency:**
- The sign of a resource curse in South Sudan has been vividly displayed by the volatility in the annual gross oil revenues of the GRSS as presented in the preceding section.
- Moreover, the economy of South Sudan is highly dependent on oil, which constitutes more than 60% of gross national product (GDP); about 98% of exports; and 83.5% of total gross revenues of GRSS.
- Hence, high resource dependency has led to early symptoms of an ailment known in the literature as the "Dutch Disease," which is characterized by poor economic linkages between resource and non-resource sectors. It has particularly led to the neglect of the agriculture sector as the engine of growth of the economy of South Sudan at this stage of development.

Consequences of the Resource Curse

- These are:
- 1. Stagnation
- 2. Waste
- 3. Corruption
- 4. Conflict

A Framework for Preventing The Occurrence of The Resource Curse In South Sudan

- Enhancing transparency and accountability in the utilization of oil revenues is one of the key policy measures for preventing the occurrence of the resource curse in South Sudan.
- My professional conviction tells me that South Sudan does not need to reinvent the wheel.
- She could benefit by adapting to her own objective conditions systems that have succeeded elsewhere in the rest of world. Some examples

A Framework for Preventing The Occurrence of The Resource Curse In South Sudan (cont.)

- **USA, Australia, Canada, Scandinavia and Latin America**. According to Wright and Czelusta (2002), the success of these countries has been the result of an institutional environment conducive to efficient government, robust political institutions, and strong positive spill-over from the resource sector to non-resource sectors.
- In fact, Norway's great performance after the 1960s is the result of reorienting its traditional engineering skills from shipbuilding to the export of technology on deepwater drilling platforms (Ledermand and Maloney, 2008).
- The expansion of Canada's manufacturing sector was driven by the innovations introduced by the resource sector.

A Framework for Preventing The Occurrence of The Resource Curse In South Sudan (cont.)

- **Botswana and Chile**. Their success reflects favorable institutional frameworks that emerged prior to or during the discovery of the natural resources (see Kalter, and others, 2004 for Chile).
- In the case of Botswana, according to Beaulier and Subrick (2007), and Acemoglu, Johnson, and Robinson (2001), positive factors include (i) sound pre-colonial tribal institutions, which encouraged broad-based participation and constrained political leaders; (ii) strong and wise leadership by Botswana's earliest presidents, which helped to balance tribes' interests and build a "developmental state"; (iii) a predictable legal environment and an effective medium-term hard budget constraint, given by the Parliament-approved National Development Plan, which were adopted before the diamond era; and (iv) government effectiveness, partially reflecting a positive attitude toward involving expatriates in the government.

A Framework for Preventing The Occurrence of The Resource Curse In South Sudan (cont.)

- Namibia, Ghana, South Africa, Trinidad and Tobago, Indonesia, and Malaysia are also cited as successful stories in spite of their relatively less favorable institutional frameworks.
- For instance, in the case of Indonesia, the lack of institutionalized transparency and accountability mechanisms allowed rent-seeking and corruption to flourish.
- However, this was somewhat compensated for by the existence of a technocratic bureaucracy that focused on improving the financial sector, preserving macroeconomic stability, and fostering infrastructure and agriculture activities (Eifert, Gelb and Tallroth, 2003).

A Framework for Preventing The Occurrence of The Resource Curse In South Sudan (cont.)

- The central challenge facing policymakers in South Sudan is how to put in place a functioning and "institutionalized transparency and accountability mechanisms" that prevent "rent-seeking and corruption to flourish," as illustrated by examples from the preceding slide.
- In this regard, I would propose the institutional framework for South Sudan to consist of the following key elements:
- A robust public financial management (PFM) system;
- An independent Audit Chamber;
- A credible anti-corruption commission;
- A motivated and efficient technocratic bureaucracy; and
- An independent judiciary.

Thank You