



## **South Sudan: *Institutions For Job Creation And Sustainable Livelihoods***

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### **EXECUTIVE SUMMARY**

- 1. The single best predictor of civil discord and crime is the number of unemployed young males;**
- 2. Oil revenue is a dangerous drug that lulls governments into complacency;**
- 3. South Sudan risks a revolution of rising expectations;**
- 4. There must be a policy to create and support regional growth nodes;**
- 5. It was a serious mistake to have created 32 political jurisdictions (states);**
- 6. Youth gangs are beginning to threaten public safety—jobs always defeat gangs;**
- 7. Time is short.**

### **I. Employment as Social Engagement**

Work is essential to emotional thriving and stable communities. Engagement in work is essential to the full realization of being human. Unwilling idleness not only brings material suffering. Idleness gives rise to feelings of alienation from the on-going life of the community. Alienation is a psychological condition of estrangement between the individual and the world in which that individual must survive and flourish. A more serious aspect of unwanted idleness is that it can lead to civil conflict as young males confront a life without economic security and the hope of family formation. A reliable predictor of social unrest is the unemployment rate among males aged 16-30.

What are the institutional impediments for meaningful employment in South Sudan? Why has job creation failed to materialize?

### **II. The Dangerous Consequences of the Peace**

Given the mounting frustration with persistent political contestation, it is obvious that the most important challenge facing the people of South Sudan concerns how they might soon be able to get on with the urgent task of improving their fragile and vulnerable lives. This is a

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perilous time. The evident danger of post-war euphoria and hope even has a formal name—it is called a *revolution of rising expectations*.

War and conflict focus the public mind on a single urgent task beyond the confines of the household. Families dedicate their labors, their every action—and even their precious children—to the existential struggle. War pulls every household into a particularly violent form of civic engagement in which the interests of the household become secondary. No sacrifice is too great. Necessity rules.

Peace has the opposite effect. Once peace settles over the landscape, households once again become the center of concern and daily action. Having sacrificed so much in war, members of households now expect to reap some of the promised rewards from the emerging peace. They are willing to make similar commitments of effort and sacrifice, but the expected rewards are now different. Survival, once in doubt, is now secure.

Persistent sacrifice, effort, and struggle must soon begin to generate a gradual improvement in life's circumstances. When those improvements are scant, and when citizens notice that military conflict has been replaced by political games and power struggles, tolerance soon dissipates. Patience is exhausted.

➤ **Peace can be dangerous as politicians dither.**

### **III. The Necessary Institutions for Sustainable Livelihoods**

South Sudan is faced with two profound impediments to job creation and sustainable livelihoods: (1) the economic residue of enduring civil conflict; and (2) the emergence of oil as the basis of the post-conflict economy. Unfortunately, the presence of oil compounds—indeed fuels—continued conflict.

Luckily, oil is a passing phenomenon. The world oil market is in disarray, and in the near future the demand for South Sudan's oil will decline—if not disappear. In the meantime, however, the conjunction of persistent conflict and oil has led to the destruction of both the *structure and the functioning* of South Sudan's economy.

An economy is an evolutionary social system sustained by a variety of human interactions—some of which are monetized, and some of which are predicated on enduring personal networks. In a pastoral society this dual nature of economic interaction is of singular importance.

Alliances, networks, and marriage may, to the outsider, appear as “mere” social interaction. However, every aspect of social interaction is an economic transaction in the broader sense of that term. Every social interaction is part of a household survival strategy, with both immediate and long-term implications. Decades of civil war have destroyed much of that network.

Social networks are the essence of the institutional architecture of an economy—and of a coherent state. The institutional foundations of the nation’s economy and political community must now be reconstituted.

There is an additional factor in the degradation of the necessary institutional architecture for job creation and sustainable livelihoods. Specifically, there has been severe erosion in the shared cultural norm of regular employment and engagement in the world of work. Several generations of South Sudanese have now been forced to endure a life without the necessary socialization that regular wage employment offers. It is therefore necessary to re-establish the shared cultural idea of the *wage bargain*. The vast majority of young people in South Sudan have never held a regular job.

First, it is necessary to review the implications of the *curse of oil* and the severe *consequences of autarky*.

### **A. The Curse of Oil**

The macroeconomic perils of oil states are well known. Exchange rates become distorted, domestic wage structures are mis-aligned, and other productive activities are placed at a comparative disadvantage. What is less obvious—but of greater importance in developing countries—is the “two c’s” of such oil-dependent economies. These are the *capital* intensity, and the geographic *concentration*, of oil production.

The basic problem with oil states that are also flooded with unemployed labor is that oil production and transport is extremely capital intensive. The ratio of capital assets to total revenue is higher in oil production than in most other industries. In labor-surplus economies such as South Sudan, the extraction and transport of oil is the essence of an *enclave economy*. That is, the oil economy functions in severe isolation from the general economy.

On the matter of geographic concentration, the oil fields of South Sudan are highly compacted and they straddle the new border with Sudan. In consequence, much of the country’s oil production occurs very close to the northern border, thus contributing to the potential for armed conflict. This remote location of oil production, coupled with the absence of employment opportunities, means that the oil sector is economically irrelevant to the vast majority of the population on either side of the shared border.

A more serious impediment to sustainable livelihoods is that of autarky.

### **B. The Consequences of Autarky**

In wartime, national economies often disintegrate into isolated and quite compact enclaves of enforced self-sufficiency. This has certainly been the case in South Sudan. This situation is known as *autarky*. Once conflict ends, roads and bridges can be repaired, and safety ceases to be a concern. Trucks and other vehicles can gradually be shifted from military duties to commercial functions.

Overcoming autarky is a long and expensive necessity if development is to proceed. The problem is compounded by the fact that former social and economic networks have long

disappeared. Moving goods across space is risky—theft is a constant threat. Necessary public services are missing. Of greater importance, autarky raises the transaction costs of re-creating traditional market relations.

Transaction costs are of three kinds: (1) the costs of learning about and then arranging possible market transactions; (2) the costs of negotiating mutually beneficial contracts—both formal and trust-based—that are the essence of market transactions; and (3) the costs of monitoring and enforcing market arrangements once they have been negotiated. The necessary institutional arrangements in an economy constitute the fundamental legal architecture whose very purpose is to reduce transaction costs.

The degraded or destroyed institutional infrastructure must be recreated as a necessary pre-condition to the reconstitution of an *internal market* across the geographic extent of South Sudan.

- **Recreating internal markets requires the reestablishment of trust—the essential ingredient in a well-functioning market economy.**

With these institutional problems plaguing post-conflict South Sudan, creating jobs and sustainable livelihoods will be exceedingly difficult.

The problem is compounded by the presence of simultaneity. In the absence of employment there is little disposable income, and with little disposable income there is insufficient demand for the output of firms. In this setting, firms have scant inducement to increase employment. The population suffers from an under-consumption trap. In essence, there is *notional demand* but almost non-existent *effective demand*.

In practical terms, economic activity must be “pulled” from the autarkic hinterlands. The capital city will often be the dominant attraction in this process, but secondary places—potential growth nodes—will be essential participants in this gradual transformation.

#### **IV. Overcoming Autarky: Regional Growth Nodes**

A national capital is a natural magnet that attracts a wide variety of economic activities. The agglomeration economies of capital cities are generally too strong to resist. But nations can have only one capital city and so the existence and nurturing of secondary cities—Mumbai, Lagos, Durban, Abidjan, Alexandria, Kumasi—can be seen as an autonomous evolution of the advantages of location and economic opportunity. Those growth nodes have been slowly nurtured over the years by a variety of economic and political decisions.

The necessary first step toward recovering sustainable livelihoods is for the government of South Sudan to designate a limited number of *regional growth nodes*. These cities will then become the foundation of a regional economic development strategy. In this regard, Kapoeta, Yambio, Wau, Aweil, Rumbek, Bentiu, Bor, Malakal, and perhaps Akobo would seem to have

the potential to become centers of regional economic activity. But this result will not happen without leadership and financial support.

Unfortunately, a looming barrier to the rational evolution of these growth nodes is the re-constituted political landscape of South Sudan—now comprising 32 states. The danger of this elaborate political overlay on economic potential ought to be obvious. That is, each state capital will now expect financial handouts from the central government. Rational economic structure will be sacrificed.

The proposed list of growth nodes (above) is tied to the likely economic activity most closely associated with each node. That is: (1) the expected importance of the activity to the country’s economic future; (2) the potential impact of policy reform and targeted investments for achieving enhanced productivity and growth within the activity; (3) the extent to which the constraints to enhanced productivity and growth in the activity also seem to represent constraints that harm other economic activities; and (4) the feasibility of removing the impediments to enhanced productivity and growth through targeted investments and policy reforms.

The encouragement of regional growth nodes then opens the way to the gradual encouragement of development and population growth in and around these nodes. In essence, the institutional innovation necessary to overcome the present autarky is to create incentives for encouraging scattered villagers to move closer to one of the regional growth nodes.

The most obvious benefit of this agglomeration policy is the opportunity to extend much-needed public services and economic opportunities to all residents. The increased concentration of population in and around the growth nodes will enhance the synergies among individuals and improve the quality of life for everyone.

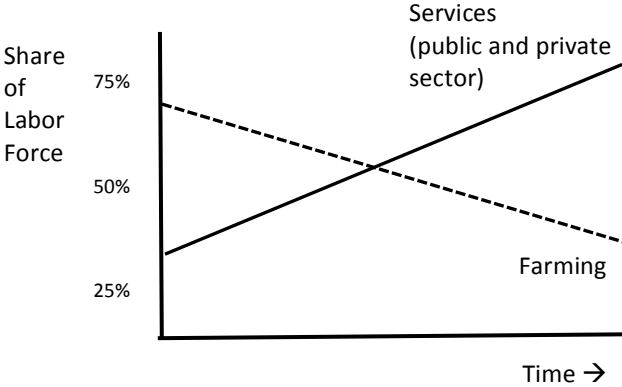
In addition to the creation and nurturing of growth nodes, several other institutional innovations—public policies—will be important ingredients in creating an integrated national economy.

**V. Sustainable Livelihoods Through Institutional Innovation**

A commitment to economic development in South Sudan must be cognizant of a profound employment trajectory. Economic development necessarily requires that the share of employment in agriculture will fall, while the share of employment in the various services will inevitably increase. And within the agricultural sector, the share of labor engaged in farming—agricultural production—must fall as employment in the agricultural sector shifts toward services. Included here would be agricultural research and extension, agricultural credit and marketing, technical innovation and mechanization, and veterinary services (see Policy Brief #4).

Outside of the agricultural sector, increased employment will gradually occur in banking, credit, insurance, law, medicine, education, real estate, and government. As an indication of future trends, services now account for 70-80 percent of total employment in the Organization for Economic Cooperation and Development (OECD) countries. The figure below captures the

future of work in South Sudan. These trajectories are familiar throughout the world. This depiction can be thought of as the *development scissors*.



With this inevitable transformation in employment, the essential task is to collaborate with political and economic leaders associated with the growth nodes to: (1) identify the most promising development prospects (projects and programs); (2) identify ways in which the central government can play a limited but necessary catalytic role in each of these settings and programs; and (3) secure long-term evolutionary trajectories that will produce the necessary results.

This model allows the development of phases along each trajectory at which the central government can withdraw from its early catalytic role and turn over the enhancement and support functions to local governments, local political processes, and local economic initiative. This phased approach will evolve and gradually induce increased economic activity in ever-larger zones around the growth nodes. This approach will result in a multiplier effect that can then become the further stimulus for yet greater economic activity spreading out from these nodes.

### VI. Getting Started on Job Creation

The necessary institutional and organizational rehabilitation before South Sudan is able to provide meaningful livelihoods for its citizens is practically unprecedented. Not only is South Sudan not a coherent state, there *is no meaningful economy*. Even Juba, which seems to resemble a struggling capital of modest-sized African countries, is an entirely artificial construct. It is claimed that South Sudan is the world’s major recipient of international assistance. The volume of traffic, and the occupancy of Juba’s hotels, stand as a testament to the overwhelming international presence. If that source of income were to be removed, Juba’s propped-up economy would crash. There is no way to deny the economic incoherence across the countryside.

In this grim situation, it is necessary to search for small starts that will help to meliorate further despair. Several possibilities come to mind.

## **A. Youth Empowerment Scheme (YES)**

There should be an immediate launch of a Youth Empowerment Scheme (**YES**) in the regional growth nodes. The purpose of the **YES** initiative is two-fold. The primary purpose is to create an activity that will teach the discipline of structured work. But the program will also instill in the youth of South Sudan a commitment to their local community. While there is no need to design the specifics of the scheme here, several aspects seem important.

First, participation must be seen as a great honor and so there should be a limited number of spots available in each development node. Second, participation should be restricted to those youth who are entering their 7<sup>th</sup> year of schooling. In this way, there are local rewards for staying in school. The normal duration of participation should be one year so that a large number of individuals have the opportunity to participate. Third, there should be equal participation by girls and boys. Fourth, these young people should be expected to work after school, on weekends, and during the summer recess—but probably not more than 6-10 hours per week. Fifth, the **YES** corps of young people would be called upon to carry out any number of simple and rather routine tasks of great visibility in the local community. Collecting litter and other wastes would be one task. Keeping the school grounds and the grounds of common areas well maintained is another example. They might paint local highway markers, other signage, and carry out the pruning of trees and shrubs that block road signs or intersections. They could assist local officials in ushering and helping at public meetings. The point is that the **YES** corps would be visible reminders of the importance of civic obligation. Finally, they should wear bright T-shirts in the colors of the South Sudan flag with the letters “**YES**” in bold colors.

One important attribute of the **YES** initiative is that it would introduce much needed liquidity into the local economy. **YES** participants should receive a modest wage for their work, with the money being paid to their mother or other female adult relative. This modest payment would bestow additional esteem on the mothers (indeed the families) of the **YES** participants, and the incremental cash infusion would stimulate local businesses.

## **B. Linking Growth Nodes Through Public-Private Partnership**

There is a pressing need to link the regional growth nodes with an agile truck fleet. The government could offer financial assistance to entrepreneurs who would initiate rapid transport services among the regional growth nodes. Truck owners would be required to establish prominent terminals in each of the growth nodes. This fleet could be an employment generator for a variety of tasks.

## **C. Future Professionals Program (FPP)**

There is a severe shortage of well-trained staff to carry out the necessary functions of governance. A *future professionals program* would allow college students to gain experience in the public sector. The program would recruit students in their third year of college and then allow them to work part-time while completing their degree. Following graduation they would have a two-year employment contract with the national or state-level government.

Skills that should be especially recruited would include accountancy, business management, finance, human resources, pre-law, to name but a few.

#### **D. Civic Redeployment Program (CRP)**

One of the pressing challenges in a post-war economy is to find plausible re-deployment opportunities for members of the military. The *civic redeployment program* would provide an exit strategy for members of the military who are prepared to locate in one of the growth nodes. These re-deployed soldiers would continue to receive a portion of their military pay, but would be gradually moved into other paying jobs. The transition period might be for a period of 3-5 years, with the level of pay from the military gradually diminishing.

At the end of the transition, these re-deployed individuals would be expected to find work in the private sector or to work at public sector jobs.

### **VII. The Urgency**

The frequent reference to the emergence of youth gangs in Juba (and elsewhere) ought to be a warning that time is short. Young boys from the countryside fall under the influence of a small cadre of rogue leaders and are beginning to threaten civil peace. This threat must not be ignored.

It spreads beyond the young. A *revolution of rising expectations* among the population at large is a common occurrence when peace finally breaks out.

The presence of oil money is dangerous drug—it lulls leaders into imagining that all is well. This is a dangerous illusion. The oil dividend in South Sudan must immediately become the endowment of a comprehensive program of employment and sustainable livelihoods. In the absence of credible action and visible results, the future of South Sudan is in doubt.