

FACT SHEET: What Could the Oil Shutdown Mean for South Sudan?

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Introduction

In late January 2012, the government of South Sudan made the unprecedented decision to shut down oil production throughout the young country. The decision resulted from an impasse in negotiations between Juba and Khartoum over the financial terms and conditions by which the South would export its oil through Sudan. The situation was exacerbated by unilateral actions taken on the part of the government of Sudan to divert Southern oil passing through its territory. To Juba, Khartoum's actions amounted to the illegal confiscation of \$815 million worth of oil. The government of South Sudan determined that, from its perspective, it would rather see the nation's wealth sit in the ground, safe from further theft at the hands of the regime in Khartoum, until a sustainable agreement with Sudan can be reached or an alternative mechanism for export is secured. Neither of these outcomes is likely to be realized in the near term, and as a result, South Sudanese oil production could remain on hold for a period of months, if not years.

Regardless of one's opinions concerning the South's motivations and decision to shut down oil production, one stark economic fact remains clear: the government of South Sudan, prior to January 2012, derived 98% of its budget from the sale of oil. Therefore, one might ask, what could the oil shutdown mean for South Sudan?

This fact sheet attempts to address this question by identifying austerity measures that the government in Juba has already imposed and considering other potential effects that the oil shutdown could have on South Sudan, both economically and politically, if it continues for an extended period of time.

Austerity Measures in Force Today

Due to the government's shutdown of oil production, the South Sudan Council of Ministers approved the following austerity measures on February 17, 2012:

- **An overall non-salary spending cut of approximately 50%:** In approving this sizeable cut, the Council simultaneously mandated that “the salaries of all public employees be protected” and that no layoffs within the civil service or security services would occur.¹
- **A reduction in block transfers, or unconditional monthly grants, to South Sudan’s states:** Block transfers are generally used to pay state-level salaries not paid for by conditional grants from Juba, service delivery, and capital projects.² Reductions in block transfers may therefore affect state governments’ abilities to pay certain salaries, deliver certain services (to the extent such services were being delivered previously), and complete development projects.

The Ministry of Finance and Economic Planning further resolved to:

- **Increase the collection of non-oil revenue through taxation:** While the government of Southern Sudan passed in 2009 a Taxation Act, the government has, until now, done little to collect taxes provided for under the Act. In an effort to increase non-oil revenue, the Ministry of Finance and Economic Planning intends to initiate the collection of personal income tax, excise tax, and business profits tax per the Taxation Act of 2009.³ As the collection of taxes is a relatively novel undertaking for Juba, it remains to be seen how successful the exercise will be and how much revenue it will ultimately raise.

Potential Future Effects of the Oil Shutdown on South Sudan

Some potential future effects of the oil shutdown on South Sudan may include:

- **Greater potential for food insecurity:** The United Nations Office for the Coordination of Humanitarian Affairs, or OCHA, recently warned that the oil shutdown and subsequent government-imposed austerity measures could exacerbate food insecurity in South Sudan and make “worst-case scenarios appear more likely.” The World Food Program, or WFP, has already declared a level 3 food insecurity emergency in South Sudan, owing largely to erratic rainfalls and tensions with the north, which may result in a cereal deficit of approximately 470,000 metric tons in 2012, up 60% from the deficit in 2011. The result will mean as many as 4.7 million South Sudanese may be food insecure this year, 1 million severely.⁴
- **Further reductions in or all out cessations of service delivery and/or government-funded development projects:** A lack of available hard currency could mean that the central and state-level governments may be unable to deliver the few basic services they previously provided citizens and/or continue with or complete government-funded development projects. Indeed, South Sudan Vice President Riek Machar admitted in January that his government would have to freeze development activity for 30 months.⁵ Further reductions in block transfers may mean that state-level governments are particularly impacted.

- **Future layoffs of civil servants and members of the security forces and/or salary cuts:** While the Council of Ministers mandated that public employee salaries be protected, it, as well, decided to review regularly South Sudan’s “priorities in order to meet proposed targets.”⁶ This decision may leave open the possibility of future layoffs and/or salary cuts. Given the bloated ranks of South Sudan’s civil service and security forces, such actions have the potential to impact thousands of Southerners, while, simultaneously, saving the government thousands of pounds. The specter of layoffs and/or salary cuts, or even the potential of salary non-payment, is a particularly unsettling proposition in the context of South Sudan’s armed forces. Layoffs could create insecurity and increase the number of former combatants and rebel forces currently awaiting disarmament and reintegration. Salary cuts and/or nonpayment could, as well, destabilize the security situation, as SPLA soldiers and other members of the police and security services could refuse to work or violently oppose the cuts.
- **Inflation, a balance of payments crisis, and other macro-economic issues:** A loss of hard currency derived from the export of oil could have major macro-economic reverberations. As the government struggles to meet its domestic financial obligations, in particular, the payment of salaries, the Central Bank could begin to print more money, which, in turn, could lead to the flooding of South Sudan’s economy with excess pounds and inflation. As well, a balance of payments crisis may occur, if the South begins to lack the hard currency necessary to import goods from abroad. In a country with little, if any, export capacity outside of oil and few available domestic sources of food and other necessary commodities, these macro-economic issues have the potential to develop quickly. That said, such effects could be mitigated, to a certain extent, by the government’s ability to secure loans and lines of credit from outside sources, namely foreign sovereigns and private creditors. Such loans, if interest bearing, could, however, serve to further undermine the South’s fiscal health in the future.
- **A departure of foreign laborers/entrepreneurs, particularly those from Sudan, Uganda, and Kenya:** South Sudan has in recent years seen an influx of laborers and entrepreneurs from abroad, particularly from neighboring Sudan, Uganda, and Kenya. Nowhere has this influx been more apparent than in the capital of Juba, where foreigners own many of the city’s shops, hotels, businesses, and restaurants. If government wages decrease or dry up, this segment of South Sudan’s consumers will likely be unable to continue to purchase “luxury” items from city and town markets and restaurants. This, in turn, may leave foreigners with no choice other than to leave South Sudan for home. That said, Juba’s sustained flow of foreign capital from international NGO workers may stem the economic losses of foreigners, keeping their businesses afloat while the majority of South Sudanese go without.
- **An escalation of tensions with the Republic of Sudan:** Tensions between Sudan and South Sudan are increasingly on the rise. Sudan’s economy has felt, and will continue to feel, Juba’s decision to shut down production almost as acutely as its

southern neighbor. As the two countries, and their respective populations, become increasingly cash strapped, and with the economic incentive to maintain relatively stable relations between Khartoum and Juba now shutoff, the two countries may easily slip back into conflict.

- **A loss of foreign investor confidence:** Juba's unilateral decision to shutoff oil production, at great potential economic loss to foreign investors, may negatively affect South Sudan's ability to attract foreign direct investment going forward. This may have long lasting effects on a country that acutely requires foreign investment in infrastructure and development projects.

Endnotes

- 1 South Sudan Ministry of Finance & Economic Planning, "Press Release: South Sudan Approves Austerity Measures in Response to Loss of Oil Revenues," 19 February 2012.
- 2 South Sudan Ministry of Finance & Economic Planning, "Press Release: South Sudan Approves Austerity Measures in Response to Loss of Oil Revenues," 19 February 2012.
- 3 South Sudan Ministry of Finance & Economic Planning, "Press Release: South Sudan Expedites Transition to Non-Oil Revenue, Aims for 300% Increase in Six Months," 8 February 2012.
- 4 OCHA, "Weekly Humanitarian Bulletin," 23 February 2012, <http://reliefweb.int/sites/reliefweb.int/files/resources/OCHA%20South%20Sudan%20Weekly%20Humanitarian%20Bulletin%2017-23%20February%202012.pdf> [last accessed 6 March 2012].
- 5 BBC, "South Sudan Slashes Spending after Halting Oil Output," 22 February 2012, <http://world.myjoyonline.com/pages/news/201202/81815.php> [last accessed 6 March 2012].
- 6 South Sudan Ministry of Finance & Economic Planning, "Press Release: South Sudan Approves Austerity Measures in Response to Loss of Oil Revenues," 19 February 2012.

Enough is a project of the Center for American Progress to end genocide and crimes against humanity. Founded in 2007, Enough focuses on the crises in Sudan, South Sudan, eastern Congo, and areas affected by the Lord's Resistance Army. Enough conducts intensive field research, develops practical policies to address these crises, and shares sensible tools to empower citizens and groups working for change. To learn more about Enough and what you can do to help, go to www.enoughproject.org.

