South Sudan: the cost of conflict

by José Luengo-Cabrera

Over two years after the outbreak of civil war and eight months after the signature of an internationally-brokered peace deal in Addis Ababa, a transitional government of national unity (TGNU) was finally formed in Juba on 29 April 2016. Although this is an encouraging step in the wake of intermittent ceasefire violations and political wrangling over the delayed return of the (now reinstated) first vice-president and opposition leader Riek Machar to the capital, the prospects for peace are tainted by the economic and humanitarian crises which emerged as a result of the country-wide conflict that erupted in December 2013.

Beyond the buoyant rhetoric of President Salva Kiir at the inauguration of the new power-sharing administration, the odds are stacked against the nation's divided political leadership. If the myriad of challenges prevailing at the time of the nation's independence in July 2011 were deemed a tall order, they have now been exacerbated by a destructive 20-month-long civil war.

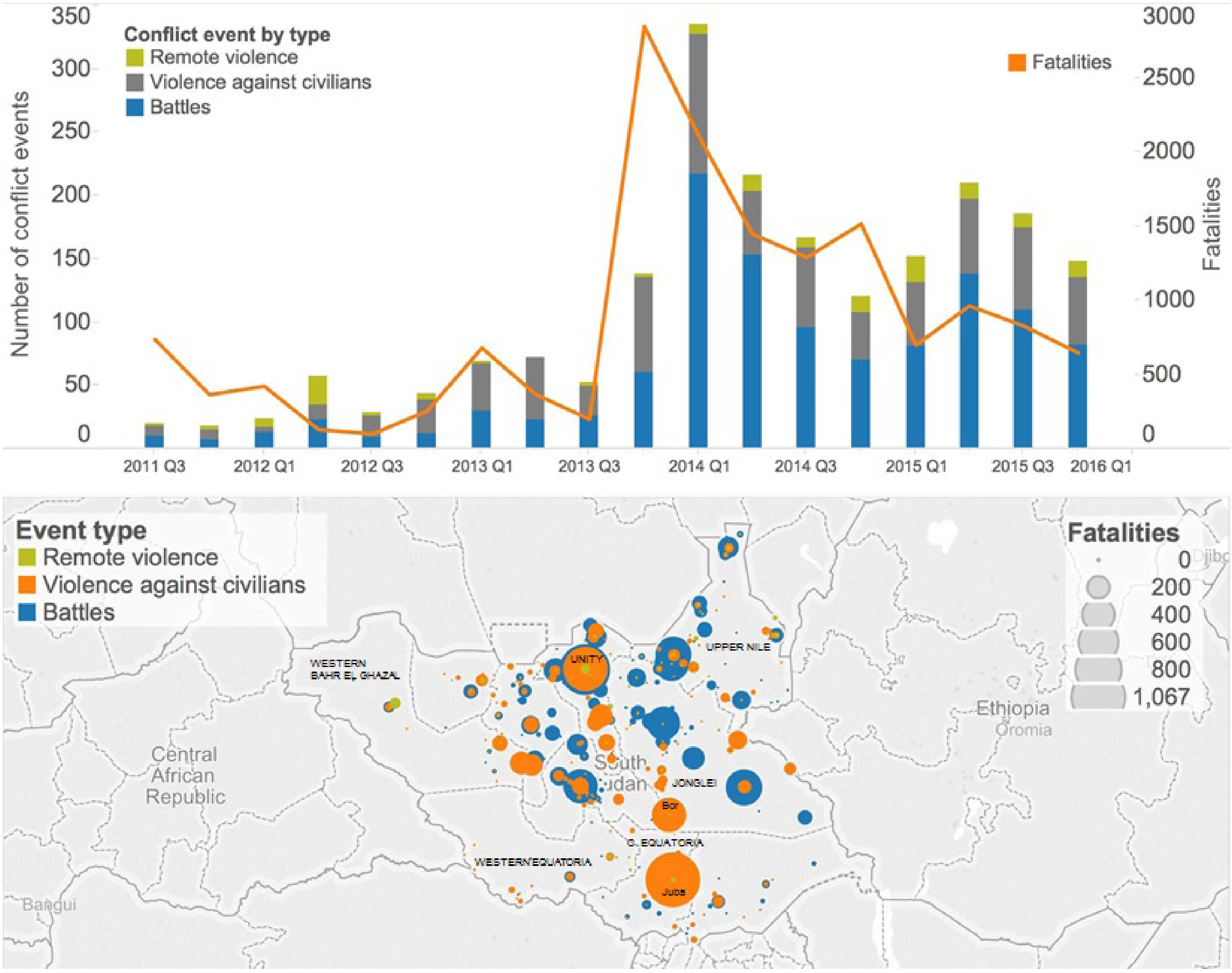
With an oil-dependent economy in tatters, grave infrastructural damage and mass internal displacement made worse by hyperinflation and food insecurity – the transitional authorities are on shaky ground. A peace dividend that was promised with much jubilation almost five years ago risks becoming a chimera unless the TGNU can credibly move beyond episodes of ephemeral truce. Indeed, a critical international financial lifeline is conditioned on its ability to do so.

With the EU playing the role of 'donor of last resort', it is proving crucial in delivering not only humanitarian relief, but also peacebuilding support. Although the comprehensiveness of the EU's approach to addressing the South Sudanese crisis has set a positive precedent, the costly disbursement of over €414m in crisis-response financing is a stark reminder of the need to re-invest in peace. The recently launched stabilisation programmes financed through the EU Emergency Trust Fund for Africa and the Instrument contributing to Stability and Peace (IcSP) are a promising development in this respect.

The human cost

The conflict has taken a significant toll on the livelihoods of South Sudanese citizens, primarily through the number of fatalities but also through the disruptive impact on the country's economy. In the short term, this will amount to labour and capital productivity losses amid destabilising

Conflict events and fatalities in South Sudan



Data source: ACLED (2016)

macroeconomic imbalances – which the government cannot manage on its own.

Civilians have borne the brunt of the violence as direct victims of armed clashes. Sporadic attacks have continued to be reported since the signing of the peace agreement, with much of the violence concentrated in the states of Unity, Upper Nile, Jonglei and Central Equatoria. Battles between government and opposition forces, deadly intercommunal clashes and attacks against civilians have resulted in an estimated 50,000 fatalities and 2.3 million internally displaced people (IDPs) – with over 715,000 taking refuge in neighbouring countries (mainly Uganda, Ethiopia and Sudan) since December 2013.

As of May 2016, 4.6 million (39% of the total population) were deemed to be in urgent need of food assistance and 40,000 were considered to be exposed to famine. Although the advent of the dry season has facilitated the delivery of aid supplies (enabling over 1 million people to receive food and medical assistance since early January), humanitarian agencies continue to be thinly spread. As of 30 May 2016, the annual humanitarian response plan had a funding gap of 42%. And while the UN is leading efforts to provide refuge for at-risk populations, it is struggling to fulfil its protection of civilians mandate. The intercommunal violence that broke out last February at a UN base in Malakal (where 30 were killed and 120 injured) revealed the security risks facing the UN across its six teeming camps, which together host over 200,000 IDPs. Although the conflict has largely subsided, clashes and attacks against civilians were reported in Western Bahr el Ghazal and Western Equatoria in late May 2016.

Having disbursed over €300 million last year to meet urgent food assistance needs and to provide emergency health and nutrition services to IDPs, the EU has already released €83.2m in 2016 alone, which thus far constitutes over 50% of the 2016 humanitarian financing. But despite the EU's relief efforts, the country's downward economic spiral has raised concerns over the need to focus on more long-term stabilisation programmes.

The economic cost

With major oil production sites shutdown for over 15 months, the oil-dependent economy (over 3/4 of government revenue depends on crude sales) is contracting: output has fallen by a third while income has dropped by around 75% in the midst of depressed oil prices. The resulting shortage of foreign exchange reserves has been exacerbated by increased military expenditure, which totalled €1.2 billion in 2015 alone – the highest in the region. Consequently, state coffers have been depleted, and the TGNU lacks the necessary financial resources to weather an encroaching macroeconomic downturn (GDP is expected to contract by 7.8% in 2016).

Following the monetary authorities' decision to adopt a floating exchange rate policy last December, the value of the South Sudanese pound dropped immediately by 84% and has continued to face downward pressure. This has stoked the price of imported goods – ranging from basic food items, medical supplies and household goods to much-needed capital and (refined) fuel imports. Compounded by the heightened cost of transportation, largely because gasoline prices have tripled as a result of acute shortages, yearly inflation was recorded at 266.4% last April, with the minimum food basket cost (MFBC) having risen by 62% since the start of 2016.

As purchasing power tumbles further, the urban poor who are reliant on wage labour and imported food staples are at present facing excruciatingly high living costs, something which is allegedly contributing to rising levels of criminality across the country. The closure of transport routes between the cities of Juba and Bor since April, for example, is due to rising incidents of banditry and intercommunal clashes in the Mangalla area of Central Equatoria.

In certain rural areas, large numbers of farmers are struggling to pay the heightened cost of water to irrigate their crops. In addition, their livestock remains under the constant threat of raids. The prevailing security vacuum along border areas has prompted suppliers to increase the cost of imported goods while cereal prices are suspected to have risen above 300%.

Meanwhile, the cash-strapped government is having a hard time subsidising the cost of essential food and medical supplies to ease economic hardship. Along with the private sector, it is also struggling to pay salaries amid acute hard-currency shortages and the provisional shutdown of local and international businesses. A recent government directive pledged to raise public sector salaries by 300% in an attempt to counter the effects of the currency depreciation. Yet, with depleted financial reserves, the government can only resort to external borrowing (with debt already stacked over 50% of GDP) or print money to inject liquidity – the latter being a counterproductive measure that has already contributed to an inflationary upsurge since late 2014.

The political cost

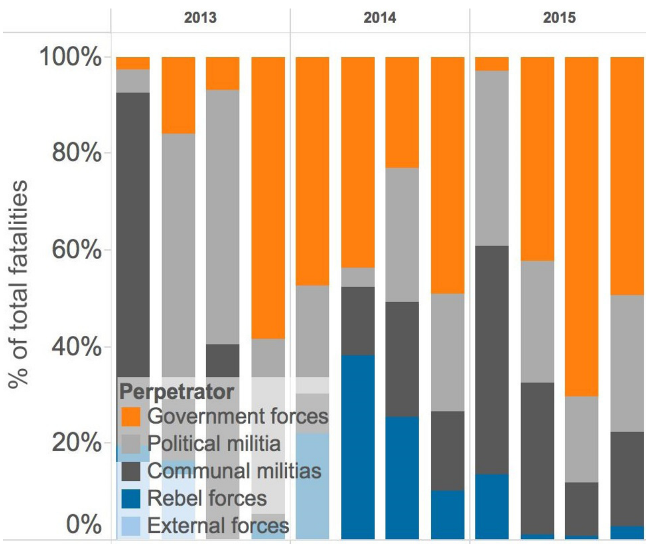
Not only did the Kiir administration skew spending towards the security sector, it also proved incapable of countering (and penalising) fraud across all levels of government. Indeed, the scandal of the misappropriation public funds that has been hovering over the president in the past years might prove to be the biggest political setback now facing the country. Addressing accusations of rampant embezzlement will be a political tightrope walk for representatives of the TGNU and the military, with the prospects of widespread impeachments perhaps hindering efforts to consolidate peace.

Prior to (and during) the latest conflict episode, overspending by both the office of the president and the military has meant reduced funds for welfare or agricultural sectors. Accounting for 41% of the 2014-2015 national budget, the share of security expenditure is remarkably high, with the military receiving a whopping 28% while education and health expenditure constituted a mere 5% and 7%, respectively.

In the first quarter of 2015, the president exceeded his allocated spending by 349% while the ministry of defence did so by 150%. To compensate, money was channeled away from other government agencies such as the ministry of agriculture and forestry, which employs close to 80% of the population but received only 56% of its allocated budget. As a result, the siphoning off of financial resources has been the main driver behind the erosion of the country's financial reserve base.

In the interim, the government has been mortgaging the country's oil reserves to sustain security spending. By resorting to the collateralisation of future oil sales, it has secured foreign loans with very high interest to purchase (among other things) weapons. With the country being flooded with small arms, the government's reckless spending behaviour has created a toxic post-conflict environment. Moreover, Kiir's unilateral decree (condemned by the Council of the EU) to increase the number of states to 28 has jeopardised the power-sharing agreement which

Violence against civilians in South Sudan



Data source: ACLED (2016)

was based on 10 states. The salaries of security sector workers are now subject to delays while various communal groups are suspected of having acquired arms for self-defence purposes. All this has raised the spectre of an upsurge in armed criminality, particularly given the exorbitant price of food, fuel and medical supplies.

Implementing peace

As the dust begins to settle in Juba, efforts by South Sudanese citizens, the TGNU and international partners will be directed towards addressing impunity and redressing injustices. This will occur in tandem with the overhauling of governmental institutions, designed in particular to ensure the enforcement of public expenditure accountability and oversight for the management of the economy's resources – especially oil, as production is expected to resume this July.

In this respect, the €120m earmarked by the EU in support of stabilisation efforts through improved resource, economic and financial management in South Sudan is a step in the right direction. Set to last for 36 months and financed by the EU Emergency Trust Fund for Africa, it is a country-wide project which aims to strengthen local institutions in public financial management, as well as foster a culture of accountability across sub-national entities – notably through the EU's support for the creation a National Revenue Authority to tackle fraud.

This money is in addition to the €20m mobilised to encourage the safe return of IDPs via support for public health programmes, as well as €10m to fund the settlement of refugees in northern Uganda through vocational training and income-generating ventures. Moreover, the EU-financed Peace and Stability Quick Impact Fund – implemented by the International Organisation for Migration – aims to reduce communal tensions along border areas through peacebuilding projects in partnership with grassroots organisations.

As such, while the EU has been heavily engaged through its commitment to financing initiatives in support of the peace agreement – notably by funding the regionally-led mediation efforts – it has also been proactive in imposing targeted sanctions on the warring parties, as well as an arms embargo. This highlights the comprehensiveness of the EU's response to the South Sudanese crisis, which could set a precedent for policy effectiveness should the conflict subside indefinitely. This will, however, depend on the extent to which the TGNU is able to address the issues of justice and impunity in the short term as the popular demands for reparations have been politicised through rising economic hardship.

With the government and opposition armed forces responsible for most of the violence against civilians in the past two years, the issue of amnesty is proving to be a politically sensitive one. Chapter V of the peace agreement envisions the creation of a Hybrid Court to be led by the African Union, as well as a Commission for Truth, Reconciliation and Healing and a Compensation and Reparations Authority. Even if combatting impunity is crucial, granting conditional amnesties or alternative sentencing to perpetrators could occur as a measure of last resort, notably to halt the prospect of retaliatory violence by disgruntled perpetrators. This has been vocalised by President Kiir, who on 7 June 2016 proposed to repeal the establishment of the Hybrid Court, no doubt because he and his deputy would be subject to prosecution for war crimes.

South Sudan therefore finds itself at a critical juncture. Given the dire economic and humanitarian situation, the TGNU cannot afford to shy away from its responsibility to implement the provisions of the peace agreement – the opportunity cost is too high. Failure to do so would jeopardise the flow of external financial assistance, effectively stalling all possibilities of re-launching a post-conflict nation-building process. If the country is to hold its first post-independence elections (scheduled for 2018), much will depend on the willingness of the TGNU leadership to reconcile their political differences and avoid repeating the costly mistakes of the past.

José Luengo-Cabrera is an Associate Analyst at the EUISS.

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