Overview

The economy of South Sudan has suffered slow progress due to the July 2016 bouts of political insurgency that undermined development gains recorded earlier during relative calm and stability. With the peace deal collapsing in 2016, hundreds of thousands of people were killed and about 5 million were displaced leading to a worsened regional refugee situation. One half of the relatively small population of 12.57 million continue to face severe food insecurity. It is against this background that efforts to restore peace commenced and culminated in the signing of a peace deal between South Sudanese President Salva Kiir and rebel leader Riek Machar on 26 June 2018, which aimed at ending the war.

The peace deal is likely to see an implementation of a permanent ceasefire, cantonments for all forces and the deployment of forces by the Intergovernmental Authority on Development and the African Union to safeguard the ceasefire. Additionally, the country will have three capital cities; namely Juba, Wau and Malakal, on a temporary basis to host the three proposed vice-presidents. The Khartoum Authority on Development and the African Union to safeguard the ceasefire. Overall, the new wave of peace and commitment from regional member states towards ensuring sustained peace in the promising nation will most certainly act as a springboard for development initiatives over the next few years. The rapid inflow of resources towards the country’s biggest resource, the oil sector, coupled with multiplier effects to other sectors including housing, infrastructure and finance, will encourage development initiatives in the country.

Exports and household consumption have continued to decline while government consumption recorded a sharp increase because of high-level spending on security operations of this fragile political state. Public expenditure is skewed toward security at the expense of development initiatives. Security-related spending accounts for over 70 percent of the total budget whereas, the combined expenditure on health and education only sums up to about 6.4 percent of total government outflows. To try to manage the worsening deficit, the authorities have monetised the fiscal deficit against the backdrop of declining domestic and foreign revenues. This has resulted in a steady rise in inflation to unprecedented levels. The inflation rate as measured by the annual Consumer Price Index increased by 24.20 percent because of an increasing reliance on low output agriculture and a remarkable decline in oil production. Whereas the contraction in GDP is significantly better than the -11 percent recorded in 2016-2017, the position has worsened the fiscal deficit to over 4 percent of GDP in 2017.

South Sudan’s GDP per capita was SSP144 719 (US$1 111) in 2014, dropping to 60 percent of its GDP. The country, the subsistence sector has become dominant and livelihoods increasingly rely on low productive, unpaid agriculture and pastoralist work. The county’s economic collapse from July 2016 to July 2018 has seen output contract and inflation soar. For the one-year period to June 2018, the economy has contracted by 6.9 percent because of an increasing reliance on low output agriculture and a remarkable decline in oil production. Whereas the contraction in GDP is significantly better than the -11 percent recorded in 2016-2017, the position has worsened the fiscal deficit to over 4 percent of GDP in 2017.

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Access to finance

The Bank of South Sudan, at the helm of the country’s monetary policy, has been instrumental in licensing financial institutions in the country. The banking industry now boasts 22 commercial banks concentrated in major urban areas of South Sudan. Access to bank branches and ATMs is estimated at 1.4 and 0.76 respectively per 100 000 adults. Access to deposit bank accounts stands at a marginal 6.4 percent. Although access to banking services is still minimal, the rise in commercial banks’ presence is monumental as it signifies a 100 percent jump from 11 banks in 2011. The financial sector in South Sudan is still plagued by low levels of regulatory oversight, weak depositor protection legislation and low levels of client financial literacy. The leading financial institutions are regional entities with roots in neighbouring Kenya. These include Kenya Commercial Bank (KCB), Equity Bank and Co-operative Bank. These banks have, however, not derived value from their operations in South Sudan, thus making their subsidiaries in the country unlikely to remain profitable due to the recent conflict and currency depreciation. KCB, Stanbic, Equity Bank, and Co-operative Bank have seen their subsidiaries in the troubled country fall on hard times due to hyperinflation and currency devaluation, coupled with the recent armed conflict that has nearly crippled the fragile country’s economy.

In financial services, the insurance industry is nascent, comprising 10 companies, both private and partially government-owned providers. The total premiums collected by the industry amounted to US$0.7 million and is still unavailable to support mortgage lending in the country. The pension sector is a key driver of long-term funding for mortgage lending in many developed and developing nations. The country’s Pension Regulation was passed in 2013 but little has been done to establish and support pension schemes in the country. The deduction of civil servant’s pension contributions began in late September 2016 for workers at the national government level. This excludes workers at state level. In addition, the Military Pension Scheme, Organised Forces Scheme and private sector schemes are yet to be established.

The microfinance sector is young, underdeveloped, and unregulated. The sector is monitored by the South Sudan Microfinance Development Facility, a joint initiative of the government, the Bank of South Sudan and the Multi-donor Trust Fund, yet these shortfalls remain prevalent. A number of microfinance institutions (MFIs) operate in the country as well as small savings and cooperatives or Rotating Savings and Credit Associations. The largest MFIs by asset base are BRAC SS (a subsidiary of the Bangladeshi INGO), SUMI (the result of greenfield investment funded by USAID), and FSL (funded by the ARC International and Micro Africa Limited). MFIs still face huge operational challenges including high non-performing loans as a result of emigration resulting from civil unrest, and low levels of client financial literacy and business skills, both of which, collectively, drive up the MFIs’ cost of doing business.

Overall, the banking industry suffers from limited utilisation of the credit reference bureau due to a low coverage rate and an underdeveloped collateral registry, thereby restricting access to credit facilities. The financial sector has been characterised by high interest spreads of up to 24 percent while most of the lending activity is concentrated in short-term lending, usually between three to 24 months over the entire period of post-independence (2010 and beyond).

Less than eight percent of the entire loan portfolio is attributed to real building and construction sector; with banks preferring to lend to well-known and well-established individuals and institutional customers. Commercial bank lending is still less advanced with over 90 percent of the loans being short-term (less than a year) at interest rates of between 8 and 10 percent.3 Medium-term loans of one to five years, at interest rates of between 22 and 24 percent, constitute about four percent of the loans. Loans of over five years constitute the balance (one percent), and they are offered at interest rates of between 18 and 20 percent. The main sectors which received commercial loans include (i) domestic trade, (ii) households, (iii) building and construction and (iv) real estate. The average loan size is estimated at approximately US$25 000. A high downpayment of up to 60 percent is required to reduce credit risk. However, financial institutions have scaled down housing finance because of rising political tension and increasing credit risk. Some banks have, including Equity Bank, exited the mortgage space.

As an intervention in the financing space, the government introduced a Youth Business Startup Programme to offer financing opportunities to youth in the politically fragile country. Under this programme, approximately SSP130 260 to SSP156 312 (US$1 000 to US$1 200) is offered as a grant to youths, of which 60 percent are female beneficiaries. The recipients participate in week-long training for life and business skills before they obtain access to the allotted grant through their respective commercial bank account. The grant is unconditional and can be used for any expenditure at the discretion of the beneficiary.

The initial programme attracted about 6 000 applicants in 2014 and funds were disbursed in 2015 through to 2016. The programme was, however, cancelled due to the outbreak of war in 2016. It is hoped that more youth will be considered with the return of relative peace and calm over 2018, leading to marginal improvements in access to finance.

Affordability

The government of South Sudan has over the past few years been the major economic player in the country; through its various monetary and fiscal arms as well as being the dominant employer after the collapse of the private sector due to armed conflict. With a deteriorating revenue base and rising defence-related spending, the government has largely been financing itself through accumulated arrears to civil servants and printing more money to finance the deficit. Non-payment of salaries to government employees in both urban and rural areas has affected their ability to afford the minimum food basket and has resulted in a number of employees quitting government service. The urban labour force participation rate in urban South Sudan has declined from about 50 percent to about 34 percent between 2016 and 2017. The drop has mainly been attributed to deterioration in the political and economic conditions of the country.

Printing of more money on the other hand accelerated inflation from 187 percent in June 2016 to 550 percent in September 2016, before decelerating to 118 percent in recent months to the end of 2017.4 This has resulted in a large loss of wage purchasing power; driving many households into poverty. Poverty among wage-earning households has more than doubled from 28 percent in 2015 to over 65 percent in 2017.

Economic decline has resulted in an increase in poverty from 49 percent in 2015 to 74 percent in 2017, particularly in urban areas.5 The urban poverty gap increased by over 54 percent between 2015 and 2017. The gap between the rich and the poor also increased as reflected by the poverty severity index which doubled from 0.10 in 2015 to 0.22 in 2017. Overall, deterioration in economic conditions has led to depressed demand for goods and services across all sectors of the economy.

Housing supply

The supply of housing units in South Sudan has continued to weaken amid periods of political unrest. Several small-scale developers that had commenced the supply of low-income housing units stopped because of declining demand for rental houses in South Sudan’s major urban centres, including Juba, Wau, Malakal, Bor, Gogrial, Nimule, Yi, Tonj and Torit. The demand for residential housing units had risen because of an increasing presence of not-for-profit organisations and small-business holders serving various segments in the young nation. With the outbreak of war in 2016, most project staff and business operators were forced to flee the country, leaving most housing units vacant. Over the past two years, the supply of housing units has largely been through the re-introduction of formerly occupied residential units that have since lost tenants due to civil strife.

Impediments to housing finance continue to be evident as the major commercial banks including the Co-operative Bank, Equity Bank, KCB Bank, and CFC Stanbic
Bank and Buffalo Commercial Bank continue to scale down operations in most areas affected by political instability. A significant number of residents in major cities including Juba continue to reside in temporary structures at a going rate of US$25 a month for a single room. Furthermore, land acquisition, particularly the high cost of land leases, has deterred prospective investors from developing modest housing projects (between 20 and 50 units).

**Property markets**

The bulk of housing units in South Sudan are low cost, low quality housing structures mainly constructed for the poor and migrant low cost earners (earning below SSP26 052 (US$200)). Many peri-urban areas are dotted with grass thatched huts (Tukuls) that are traditionally built for family units and other structures made from iron sheets and timber that are mostly leased to foreign nationals at monthly rates ranging between SSP2 605 (US$20) and SSP3 908 (US$30). A few luxury single-suite apartments are also available at rates ranging between SSP325 650 (US$2 500) and SSP390 780 (US$ 3 000) a month. Such luxury structures include Liaison Courts with 12 apartments, Tongpin area with 14 units, Attabara with 20 units, Diplomat, Hudson and Classiqueson.

The cost of renting these structures varies depending on the developer’s business model. Some developers rent the rooms out on a daily rate and others on a monthly basis. The daily rates model mostly applies to structures built near markets, with a focus on the mobile traders, especially those delivering items to markets and then heading out of the city once they have sold their merchandise. A daily fee of SSP391 (US$3) is charged for this usually furnished room with a single bed, plastic chair and table. The monthly payment model targets low income (earning an average of SSP19 539 to SSP26 052 (US$150 to US$200) a month) foreign nationals with some level of residence in South Sudan. These are usually market traders, hotel or restaurant attendants, construction labourers and other poor people. Tenants are required to move in with their household items because the monthly rental is not inclusive of furnishing.

Overall, the property market is significantly underdeveloped with most residential areas lacking access to electricity, piped water and clear access roads. This makes such areas unattractive to prospective developers due to additional estate running costs of thermal power generation, water pumping and road maintenance. A few real estate brokers are available, listing some properties in their portfolio at high prices. Other service providers in the housing supply chain are difficult to locate, operating informally in less structured settings. These include architects, quantity surveyors and property valuers. Prospective buyers therefore encounter challenges in ascertaining the true value of properties being offered. The current benchmark of similar structures in nearby localities could be misleading if such properties also appear to be overpriced. Verification of true owners of landed properties tends to be strenuous due to the absence of clear processes at the land records office. Verification of ownership can take weeks, thus hindering immediate conclusion of purchase transactions.

**Policy and regulation**

In the past year, there have been no new developments in the policy and regulatory environment governing South Sudan’s housing finance sector. Efforts to end the protracted conflict have, for two consecutive years, forced the government to prioritise military spending, stifling resources to ministries, departments and agencies whose mandate is relevant to the development of the housing industry and housing finance sector. The country has several policies, strategies and regulatory frameworks that espouse practical and feasible measures on how to adequately and sustainably develop the housing industry and housing finance sector.

The Ministry of Housing Physical Planning and Environment continues to oversee housing developments in the country and also monitors compliance with established planning and building standards. The Land Act of 2009 continues to govern land use management. Additionally, the government adopted the Land Policy of South Sudan in 2013 to address issues pertaining to land acquisition and land management.

**Opportunities**

South Sudan is a country with immense growth potential across several sectors of the economy. The bulk of this growth depends on renewed activity in the oil sector whose is likely to commence with the actualisation of the peace agreement signed in June 2018. A few challenges will need to be overcome for the opportunities in the housing sector to be realised. The first is restoring peace and security through cessation of hostilities and implementation of governance and security arrangements that promote private sector-led investments. The delivery of affordable housing entails harnessing both multiple stakeholder initiatives and private sector-led initiatives to ensure housing sector development. To support such initiatives, the government will need to implement comprehensive macroeconomic reforms to unify the official and parallel exchange markets and reduce inflation. This is essential for foreign direct investment in housing and other sectors of the economy. Additionally, clear plans for longer-term action to boost employment, build infrastructure, and diversify the economy will help create demand for housing units during the post-conflict period of economic recovery.

**Sources**


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2 Ibid.
3 Interview with key resource persons from Bank of South Sudan Officers, Equity Bank and KCB Bank (2018).