Policy brief

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Analysis of Sudan's Labour Bill

In brief

- The South Sudan labour market is characterised by two facts: the vast majority of workers are engaged in 'unpaid' work and there is a lack of marketable skills.
- South Sudan should focus on increasing skills of the domestic work force, improve the standard of living generated by unpaid work, and buliding institutional capacity to provide a market for skilled work by encouraging productive foreign investment.
- The Labour Bill establishes labour institutions, defines general conditions of employment and the fundamental rights of workers.
- However, unintended consequences may have been generated by the Labour Bill
    - The foreign work permit policy may result in an exodus of skilled foreign labour.
    - Charging foreign employers a fee for doing business hinders capacity buliding.
    - A minimum wage may lower poverty, but may also result in a decline in employment and have unintended consequences for the informal sector.
    - Coupling annual benefits and a minimum wage may lower employment.
    - Formal union registration may be beneficial, but unions may be a burden for employers.
    - The goal to reintegrate ex-combatants into the economy provides an immediate need for job creation and may distort incentive structures.
- Policy implications
    - South Sudan should initially lower the cost of work permits for foreign workers.
    - The Ministry of Labour should initiate vocational and on-the-job training.
    - South Sudan should encourage FDI to increase jobs, technologies, and capacity.
    - Manufacturing and construction through infrastructure spending can boost employment and productivity

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Introduction

The Labour Bill provides a key step towards establishing economic stability in South Sudan. It establishes the regulatory framework within which employers can operate and create jobs. More specifically the Labour Bill establishes labour institutions, defines general conditions of employment and fundamental rights of workers. The Bill reflects the input of all stakeholders, and is comprehensive in its coverage. This note addresses the potential economic impact of key provisions on the South Sudanese labour market.

"The Labour Bill provides a key step towards establishing economic stability in South Sudan"

The labour market in South Sudan is characterised by two key facts. First, the vast majority of workers are engaged in "unpaid" work. This results not only from the concentration of work in subsistence agriculture, but also from substantial engagement in the informal sector. Second, there is a notable lack of marketable skills, represented by low levels of schooling and technical and vocational skills. These two observations serve as the basis for the ensuing discussions. The main message is that South Sudan should focus on increasing the skills of the domestic work force, improving the standard of living generated by unpaid work, and building institutional capacity to provide a market for skilled work by encouraging productive foreign investment. The policies instituted by the Labour Bill may generate unintended consequences that could hurt rather than raise the level and the skill of employment in the country.

Introducing work permits for foreign nationals will result in an exodus of skilled foreign labour

The economy requires skilled labour at a time when building institutional capacity is vital. The lack of even the most basic skills among the domestic workforce represents a primary concern for the South Sudanese labour market. It places a short-term reliance on skilled foreign labour as an engine of growth. Traditional work permits are a burden on foreign workers as they generally have associated time limits, are often cumbersome, and involve costly applications. Current foreign employees may relocate if they are required to pay high application costs, which would have a detrimental effect on the overall skill level of South Sudanese work force. At the same time, the Government of South Sudan must place importance on skill formation through training programs, with special attention to rural areas and the agriculture sector, which account for the majority of domestic labour. However, the impact of training programs will take time and cannot compensate for a short-term exodus of skilled foreign labour.

"South Sudan should focus on increasing the skills of the domestic work force"

Specifically, the foreign work permit policy should be targeted strategically or revisited so that it can be made more stringent at a later date. The Ministry of Labour should initially lower the cost of receiving work permits - at least for high skilled foreign workers - by reducing administrative costs and extending their durations. Importantly, skilled labour is required to support institutional capacity in the labour market and facilitate economic growth. To support this skill formation, the Ministry should initiate vocational and on-the-job training programs for native workers. Once domestic labour becomes a good substitute for foreign labour, a work permit system may well be productive. Encouraging (through subsidies or credits) all businesses to have a minimum share of their workforce from domestic labour can be an effective policy, but it must be carefully balance such that the requirements lead to meaningful capacity building and continued incentives for foreign capital to flow into the country. The Ministry may benefit from targeted skill building programs specifically designed to support the domestic workforce without taxing the already weak private industry.

Charging foreign non-resident employers a fee for doing business in South Sudan will hinder capacity building

"Foreign firms importantly contribute a new set of technology and skills; a boon to the starved South Sudan state"

The private sector currently employs only 20,000 domestic and foreign workers. As the private sector is almost an entirely insignificant but crucial player in the South Sudanese labour market, it is key to support the firms that are investing for the long term in South Sudan. Introducing a fee for foreign firms will negatively impact a limited number of firms in a fragile private sector that is still in its infancy. Increasing a foreign employer's cost of doing business will have negative effects on their profits and may result in firms reducing employment levels or shutting down should other more lucrative opportunities – outside South Sudan – become available. Foreign firms importantly contribute a new set of technology and skills; a boon to the starved South Sudan state.

South Sudan should encourage foreign direct investment as a way to increase the number of jobs, introduce technologies, and support capacity. This will raise productivity and be helpful to the domestic private sector in the longer term. Foreign employers should be encouraged to build relations with South Sudanese firms by way of joint ventures, increasing direct benefits to domestic firms. Encouragement can come in the form of direct incentives (subsidising the wages of natives) or indirect benefits (preferential tax treatment or relief from some regulatory burdens for a limited time period). Any limitations to these foreign firms may again result in a void of important skills and technologies in present day South Sudan.

A policy establishing a minimum wage may lower poverty, but may result in a decline in employment and have unintended consequences with respect to the informal sector

In regards to poverty reduction, evidence from an examination of minimum wage policies in 22 countries shows that such wage floors may lead to a modest decline in poverty at best. Because South Sudan has a minor share of workers reporting any salary, the effect of a minimum wage policy will be severely limited in terms of coverage. The structure of South Sudan is such that the poorest members of the population either work in agriculture where the focus is on subsistence farming, or are self-employed or unpaid family workers. As a result, the poorest members of society do not directly benefit from a minimum wage regulation, and any effect on the poverty rate may be confounded by a complex labour market situation.

"A study in Ghana found that increasing the minimum wage in the formal sector drastically reduced manufacturing jobs by 5-6"

A minimum wage will also affect the level of employment in South Sudan. Most studies find that introduction of a minimum wage will have a modestly adverse effect on employment. A study in Ghana found that increasing the minimum wage in the formal sector drastically reduced manufacturing jobs by 5-6%. The manufacturing sector in South Sudan, requiring a low skill set, is an area where sector growth can have major positive effects for the economy. Another study in South Africa found a minimum wage resulted in significant job losses for the most vulnerable populations, namely low-wage domestic workers and those employed in the agriculture sector.

How South Sudan's informal sector will react to a minimum wage is difficult to predict. It is not unlikely though that it may result in unintended consequences. Several studies in Latin America have shown an expected increase in the reservation wages of those employed in the informal sector; this is likely to be associated with a large coverage of minimum wage law, something uncharacteristic of South Sudan. This higher reservation wage may strengthen the informal sector as a whole on costs of the formal sector, resulting in loss of revenue for the government. This reservation wage may delay worker transition from the informal sector to the formal sector, or conversely result in worker exit from the formal sector into the informal sector, both resulting in lost wage-related taxes. The effects of minimum wage legislation evident in other countries may also not apply in South Sudan, given the country's unique labour situation.

Overall, The Labour Advisory Council should be vigilant in monitoring the effect of a minimum wage on employment levels. Establishing a minimum wage in conjunction with other policies in the Labour Bill may have a significant negative effect on business and employment. The Labour Ministry could initially set a low minimum wage which then can be adjusted depending on the overall effect in the labour market.

Coupling annual benefits and minimum wage may have a combined effect of significantly lowering employment in South Sudan

"South Sudan should not increase the cost of doing business in the country if it wishes to attract new domestic and foreign investment"

The question here is whether requiring benefits would result in an increased cost of employment to the firms. A Chilean study found instituting annual benefits had no impact on labour demand while a Columbian study found benefits resulted in lower wages. Larry Summers argues that mandated benefits can be a more cost-effective way to deliver public goods than provisioning them through government taxes. South Sudan should not increase the cost of doing business in the country if it wishes to attract new domestic and foreign investment. Already costs are high because of transport distances, electricity costs, and a heavy regulatory burden relative to comparable countries. Results are mixed and the Ministry of Labour should monitor firm reaction to mandatory benefits, especially as costs are coupled.

Instituting a formal procedure for labour union registration can be beneficial, provided unions are not government regulated; however, unions may be a burden for employers

"Instituting a formal registration process would be a positive step to ensuring labour fairness so long as they are not perceived as a burden"

Unionised firms, on average, are able to negotiate a higher wage for employees and employ more workers, although this often occurs at the cost of decreasing the firm's efficiency and productivity. Studies have estimated that firms with well-established and independently run unions are able to negotiate an additional 5-15% increase in employee wages. For purposes of the South Sudan labour market, unions must not be an additional burden on domestic and foreign employers. Instituting a formal registration process would be a positive step to ensuring labour fairness so long as they are not perceived as a burden.

It is additionally imperative that unions, in order to function properly, be free from government control. Studies on abnormal unions in Zimbabwe and Cameroon showed unions led to a decline in wages. These were abnormal unions were not engaged in collective bargaining, but rather the wage decrease may have resulted from government suppression or government run unions

Urgent need for productive job creation: Ex-Combatants

The South Sudan Disarmament, Demobilisation, and Reintegration Commission's (DDR) goal to reintegrate 90,000 Ex-Combatants into the South Sudanese economy by 2012, provides an immediate need for job creation. Additionally, the South Sudanese Government's policy decisions to "buy peace" by hiring Ex-Combatants in well paid public sector positions has distorted the incentive structure for the private sector. The Ministry of Labour must ensure the current work force has the proper skills to participate in gainful and productive employment, and that opportunities for employment are abundant.

Renewed Focus on Manufacturing and Construction through Infrastructure Investment Spending

These sectors currently employ a combined 2.2% of the South Sudanese population. Given their labour- intensive and low-skill work requirement, boosting the manufacturing and construction sectors could provide jobs matching the skills of the domestic population, having a positive impact on employment and productivity. Infrastructure spending at this stage in the development of South Sudan can serve to not only create jobs in these sectors, but also build skills and provide the impetus to spur the development of supporting industries (such as concrete, cement and wood products). In addition, rural infrastructure spending would support farms in all stages of production, including post-harvest production activities (packaging, storage, cooling). The benefits for manufacturing from infrastructure investment spending would therefore be felt throughout the economy.

About the authors

Dr. Nada Eissa is Associate Professor of Public Policy and Economics, and Research Associate at the National Bureau of Economic Research (NBER). From 2005 -2007, she served as Deputy Assistant Secretary of the U.S. Treasury for Economic Policy. Previously, she was on the economics faculty at the University of California at Berkeley, a National Fellow of the NBER, a visiting economist at the IMF and a visiting scholar at the American Enterprise Institute (AEI).

Professor Eissa's research examines how tax and transfer policy affects work and family formation decisions, and in turn what these behavioural responses imply for how programs should be designed. In her current research Nada Eissa is running several research projects on labour markets in Africa, including an evaluation of the impact of vocational training and apprenticeship programs on the labour market success of disadvantaged young people in Nigeria; and labour market regulations in South Sudan, for which she has just been appointed Lead Academic by the International Growth Centre (IGC). She is also continuing her work on domestic U.S. policy, evaluating the impact of taxation on high -income earners, using matched executive compensation and tax return data.

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