



OXFAM MEDIA BRIEFING 5th July 2016

The Cost of Living and the Price of Peace:

Economic Crisis and Reform in South Sudan

Introduction

As South Sudan draws near five years of independence, its people face a crashing economy that is compounding the already devastating effects of ongoing fighting and displacement. Most working South Sudanese are now poorer than they were nearly a decade ago, with many no longer able to afford enough food, water or other basic essentials.

The 30-month transitional period offers South Sudan's new Transitional Government of National Unity an opportunity to change this direction. In this briefing, Oxfam looks at the economic challenges facing the country and how real and lasting peace cannot be delivered without serious economic reform supported by South Sudanese civil society and the international community.

Background

Since the start of South Sudan's conflict in December 2013, more than 2.3 million people - one in five - have been forced from their homes.¹ In the months prior, South Sudan's food security outlook was the best it had been in five years.² But since conflict broke out, unprecedented levels of hunger have been continually surpassed, with the World Food Programme predicting this year's lean season (May – July) the worst on record since the country's independence in 2011. This civil war is the third to have taken place in the last 60 years against a backdrop of chronic underdevelopment, long-standing unresolved political grievances and ethnic divides thinly veiled by a fragile collective identity. Fighting and displacement have disrupted planting and harvests, increasing dependence on imports. Combined with increased military spending and national and global oil trade trends, these factors have plunged the country further into economic crisis. Markets have been severely disrupted and many people can no longer afford to buy enough food, water or other basic essentials. **Since the start of the conflict, an additional one million people have been pushed below the poverty line.**³

According to the South Sudanese Bureau of Statistics inflation is now approaching 300 percent⁴ (at 295 percent in May it was the highest official rate in the world⁵). Following a mission to South Sudan in May, the International Monetary Fund (IMF) warned of an almost 90 percent drop in the

¹ Humanitarian Response Plan 2016, <https://www.humanitarianresponse.info/en/operations/south-sudan/document/south-sudan-humanitarian-response-plan-2016>

² FAO/WFP 2014

³ Humanitarian Needs Overview 2016, <https://www.humanitarianresponse.info/en/operations/south-sudan/document/south-sudan-humanitarian-needs-overview-2016>

⁴ <http://www.ssnbs.org/cpi/2016/6/10/consumer-price-index-for-south-sudan-may-2016.html>

⁵ <http://www.tradingeconomics.com/country-list/inflation-rate>

value of the South Sudanese Pound (SSP).⁶ Mission leader Jan Mikkelsen highlighted that **without economic policy reform, human suffering will likely increase and the already fragile peace process will be further jeopardized.** He also outlined a role for international donors, suggesting that the cost of reforms and implementation of the peace deal 'make it impossible for the government to meet its obligations. Strong policy efforts by the government could lay the basis for donors to play a role in providing support to close the fiscal gap, including through budget support.'

The human costs of conflict – death, hunger and disease – have significant longer term economic impacts. **The effects of hunger on labour productivity alone could mean a further \$6 billion in lost GDP if the conflict were to last another four years.**⁷ If the peace deal fails to deliver for another one to five years, it will cost South Sudan between \$22.3 and \$28 billion. If these failings stretch, untended, over 20 years, the loss is even greater: between \$122 and \$158 billion.⁸

More hard currency is going out of the country than coming in

Since December 2013, military spending has increased, making up at least 40 percent of the national budget in 2015.⁹ Conversely, only 5 percent of the 2015 budget was allocated to education – well below the 20 percent recommended by the international community.¹⁰ At the same time, oil production and value has gone down. This means more hard currency is going out of the country than coming in. **The oil rich Greater Upper Nile has seen the most intense fighting, forcing oil production – which constituted 98% of the country's revenue pre-December 2013 - to grind to a near halt.**¹¹ The limited amount of oil that has been extracted has continued to incur a transportation fee from Sudan, which was fixed at about \$24.50 per barrel until February (when a new agreement was reached to adjust it in accordance with prevailing crude oil prices), leaving South Sudan struggling to break even. This was not a tough margin when oil was selling at \$100 per barrel. But the last year has seen the global price of crude oil drop by 50 percent. To offset this import-export imbalance and consequent hard currency shortage, the Government of South Sudan has started selling stocks still in the ground as 'futures' to free up US Dollars (USD). In 2014, the country's total oil income was just \$3.38 billion from a sale of 36.6 million barrels, while its GDP dropped by a projected 15 percent.¹²

After independence in 2011, South Sudan fixed the value of the SSP to the USD (at 3.16:1) – a common practice for countries heavily dependent on a single export commodity (in this case, oil).¹³ However, as the supply of hard currency diminished and inflation increased, the Bank of South Sudan on 15th December 2015 abandoned the fixed exchange rate in favour of a floating one whereby the value of the SSP to the USD is determined by prevailing market forces. This effectively devalued the currency overnight, with the official rate leaping from SSP/USD 2.96 to 18.5, the then going rate in the black market.¹⁴

⁶ IMF Staff Completes 2016 Article IV Mission to South Sudan, <https://www.imf.org/external/np/sec/pr/2016/pr16259.htm>

⁷ Frontier Economics, 'South Sudan: The Cost of War', January 2015, <http://www.frontier-economics.com/documents/2015/01/south-sudan-cost-war.pdf>

⁸ Ibid

⁹ Government of Republic of South Sudan Ministry of Finance, "Approved Budget Tables Financial Year 2014/15," (August 2014), www.grss-mof.org/wp-content/uploads/2014/08/RSS-Approved-Budget-Book-2014-15.pdf

¹⁰ Addis Ababa declaration on education for all, <http://unesdoc.unesco.org/images/0018/001871/187149E.pdf>

¹¹ Frontier Economics, 'South Sudan: The Cost of War', January 2015, <http://www.frontier-economics.com/documents/2015/01/south-sudan-cost-war.pdf>

¹² Ibid

¹³ Sudd Institute, 'Understanding the Exchange Rate Regimes in South Sudan: A Non-technical Review', February 2016, <http://www.suddinstitute.org/publications/show/understanding-the-exchange-rate-regimes-in-south-sudan-a-non-technical-review/>

¹⁴ WFP, 'Special Working Paper on Devaluation of South Sudanese Pound: Short-term Food Security Implications', January 2016, <https://www.wfp.org/content/south-sudan-special-working-paper-devaluation-pound-food-security-implications-january-2016>

The number of people depending on markets is rising as the value of their money is falling

In 2009 – a time when the country's economic conditions were considered favourable - the Government of Southern Sudan's National Bureau of Statistics found that over 50 percent of the population lived on less than a dollar a day. However, the currency devaluation that came with unpegging the exchange rate means that the market-dependent urban poor – and particularly those with monthly earnings below 2,000 SSP¹⁵ (currently about \$5) - are faced with skyrocketing inflation, causing a continued decline in their purchasing power.¹⁶ This means that **the majority of working South Sudanese are now poorer than they were nearly a decade ago**,¹⁷ with the country's lowest level ever in real wage recorded in January 2016.¹⁸ In April 2016, the minimum amount of food needed by the average household for a month cost 4,900 SSP – 10 percent more than the previous month and 260 percent more than the same time last year.¹⁹

At the same time, the number of South Sudanese dependant on markets is growing. According to the census, 17 percent of southern Sudan's 2008 population was living in urban areas. This figure is now estimated to be hovering around 25 percent.²⁰ As of December 2015, 43 percent of the population were market dependent.²¹ An increasing reliance on imported goods combined with devaluation of the SSP (effectively increasing the price of everything imported into the country) means an increasing number of people are getting less for more in a continually downward trend.

South Sudan has one of the world's fastest rates of urbanization, with an average increase of 5.05 percent in the years 2005 - 2010 compared to 3.55 for Africa as a whole.²² Mass displacement caused since December 2013 has seen this trend continue, with those displaced from towns mostly moving to other towns rather than the countryside. For example, most arrivals in Akobo town have been displaced from Bor, Juba, Bentiu and Malakal. Markets and access to food is also largely concentrated in urban areas, meaning people from cash-poor rural areas have to move towards markets in order to sell livestock and buy food.²³

Funds meant for humanitarian aid are lost in the cost of delivering it

South Sudan is one of the world's most expensive contexts to operate in. The country has a road network over 17,000 km, but only 200 km is paved.²⁴ Moreover, the rains render more than 60 percent of the country unreachable by road from May to November.²⁵ Added to the fact that 90 percent of the population displaced internally since December 2013 – about 1.5 million people – are not in UN Protection of Civilians sites and are often hiding in hard-to-reach areas, this means

¹⁵ Sudd Institute, 'Understanding the Exchange Rate Regimes in South Sudan: A Non-technical Review', February 2016, <http://www.suddinstitute.org/publications/show/understanding-the-exchange-rate-regimes-in-south-sudan-a-non-technical-review/>

¹⁶ WFP, 'Special Working Paper on Devaluation of South Sudanese Pound: Short-term Food Security Implications', January 2016, <https://www.wfp.org/content/south-sudan-special-working-paper-devaluation-pound-food-security-implications-january-2016>

¹⁷ Sudd Institute, 'Understanding the Exchange Rate Regimes in South Sudan: A Non-technical Review', February 2016, <http://www.suddinstitute.org/publications/show/understanding-the-exchange-rate-regimes-in-south-sudan-a-non-technical-review/>

¹⁸ WFP, 'Special Working Paper on Devaluation of South Sudanese Pound: Short-term Food Security Implications', January 2016, <https://www.wfp.org/content/south-sudan-special-working-paper-devaluation-pound-food-security-implications-january-2016>

¹⁹ WFP South Sudan Market Price Monitoring Bulletin, 1- 30 April 2016.

http://reliefweb.int/sites/reliefweb.int/files/resources/south_sudan_monthly_market_price_bulletin-may_2016.pdf Basic staple (sorghum or maize), pulses/beans (source of protein), vegetable oil, sugar and salt. This provides the cheapest possible minimum food basket for minimum energy requirements consumed by an average household of six people.

²⁰ South Sudan Integrated Food Security Classification (IPC), September 2015 , http://www.ipcinfo.org/fileadmin/user_upload/ipcinfo/docs/1_IPC%20South%20Sudan%20-%20September%202015%20-FINAL.pdf

²¹ Food Security and Nutrition Monitoring Survey (December 2015)

²² Nonviolent Peaceforce South Sudan, 'Protection Report – Leer County, Unity State', February 2016

²³ DFID, 'Developing strategic responses to displacement in South Sudan', April 2016

²⁴ World Bank, <http://www.worldbank.org/en/news/feature/2016/02/09/a-triumph-over-long-odds-building-rural-roads-in-south-sudan>

²⁵ Humanitarian Response Plan 2016, <https://www.humanitarianresponse.info/en/operations/south-sudan/document/south-sudan-humanitarian-response-plan-2016>

that a substantial amount of humanitarian aid must be delivered by alternate means. Malakal and surrounding ports like Adok are accessible by barge – the cheapest available option – with supplies taking 10 days from Bor. Logistically, Melut is also reachable by barge. However, insecurity in the area has ruled out their use for the past year. Fixed-winged planes are the cheapest mode of air transport available and thus used by the United Nations Humanitarian Air Service (UNHAS) where possible. However, some of the hard-to-reach areas where people are hiding can only be reached by helicopter. According to UNHAS, the going market rate for an MI8 MTV – the standard model used by humanitarians and for delivering aid – is about \$18,000 for an average trip of three hours delivering 2.5 to 3 metric tonnes. According to South Sudan's 2016 Humanitarian Response Plan, the same amount of money could instead be used to feed 165 of the 4.23 million people estimated to need food and livelihoods support this year.²⁶ In an ideal world, agencies and donors wouldn't have to make these choices.

Devaluation of the SSP and subsequent inflation mean that these costs have spiralled even further. Programme budgets are quickly outdated as the price of fuel and goods continues to rise. In other words, one USD cannot buy what it could a year or even six months ago. To reduce the impact of this, **diplomats must work with donors, increasing pressure on the transitional government to uphold the ceasefire and the safe passage of aid so that funds reach the people they seek to serve and are not lost in transport costs. Programme budgets should be as flexible as possible with pre-agreed contingency funds to allow for the fluctuating cost of humanitarian assistance in South Sudan.**

A peaceful South Sudan cannot be built without the foundations of economic reform

It is not only oil that is being sold as futures. So long as people do not feel safe enough to return home and live their lives in peace, their futures will remain mortgaged - their lives put on hold - to pay for the cause of their suffering. Opportunities are snatched, hopes dashed and the light of a bright future lit by independence in 2011 dims further. The people of South Sudan are paying for the conflict now, and will continue to pay for it long after the last peaceless day has passed.

Economic reform is a fundamental prerequisite of a peaceful South Sudan. And the peace agreement provides an opportunity for it in the Economic and Financial Management Authority body tasked with improving oversight of economic and public financial management in the 30-month transitional period.²⁷ **The Transitional Government of National Unity must use the space this body provides for civil society, women and youth to make sure these voices are heard and reflected in the decisions made for an economically stable – and peaceful – South Sudan.**

The IMF projects that the Transitional Government of National Unity's budget deficit in 2016/2017 could top \$1.1 billion.²⁸ This means that the funds available will be insufficient to cover the cost of economic reforms, implementation of the peace agreement (and transitional bodies therein), and the grave development needs that left the country so vulnerable to conflict in the first place. **If the transitional government is able to show real political will, resolve differences through meaningful public dialogue rather than military means, and demonstrate progress on the path to peace, donors should be ready to support development needs such as literacy, economic development, governance and reconciliation alongside short-term survival to strengthen the resilience of the country, its institutions and its people against the threat of conflict in the future.**

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²⁶ Ibid

²⁷ Agreement on the Resolution of the Conflict in the Republic of South Sudan, August 2015,

http://www.sudantribune.com/IMG/pdf/final_proposed_compromise_agreement_for_south_sudan_conflict.pdf

²⁸ IMF Staff Completes 2016 Article IV Mission to South Sudan, <https://www.imf.org/external/np/sec/pr/2016/pr16259.htm>

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