



Socio-political tension on top of economic slow-down: A major set-back for recent gains in food security?

Special Focus South Sudan

- South Sudan was affected by poor macro-economic performance even before the breakout of the current crisis, showing declining per capita GDP, shortage of foreign reserves, deflation, and a high spread between official and informal exchange rates.
- Despite the improved harvest, the country will still have to import the equivalent of about half of its cereal production. Imports will likely be affected by the conflict.
- Weak infrastructure constrains the functioning of markets and their integration, which drive broad price differences across markets and affect households' purchasing power.
- Local food prices are high, volatile and likely to increase further with the conflict. Given the high market dependency of many households, market disruptions due to the conflict, and population displacement, food insecurity is likely to increase in the coming months.
- The states most affected by the conflict, namely Jonglei, Upper Nile and Unity, had the highest prevalence of household food insecurity prior to the conflict.

A worrisome political picture...

South Sudan's beginnings as an independent country face the challenge of an endemic economic crisis exacerbated by an unstable political situation. In mid-December, the incubating tension due to political rivalries finally broke in Juba. The conflict soon spread to Bor, Bentiu, Malakal and most of the Greater Upper Nile region. Thousands of civilians were forced to flee their homes to seek shelter within the UN compounds. According to cautious estimates, in total 646,400 people¹ have been displaced in the

past month, on top of the 108,142 who managed to cross the borders towards neighbouring countries (over a half in Uganda).² Although the current situation is already critical, risks of widespread inter-ethnic violence are raising concerns. It is also feared that this crisis may contribute to further destabilizing the entire region, which is already plagued with conflicts in Sudan, Central African Republic and the Democratic Republic of Congo.

... on top of a gloomy macroeconomic performance

According to the South Sudan's Development Plan 2011-2013³, the policy pillars of the new-born state were economic development and social/human development,

in addition to governance and conflict prevention/security. In just two years, most macro-economic indicators behind these pillars have deteriorated.

1. OCHA, *South Sudan Crisis, Situation Report*, No.14, 27 January 2014

2. UNHCR, *South Sudan, Situation Report*, No.13, 24-28 January 2014.

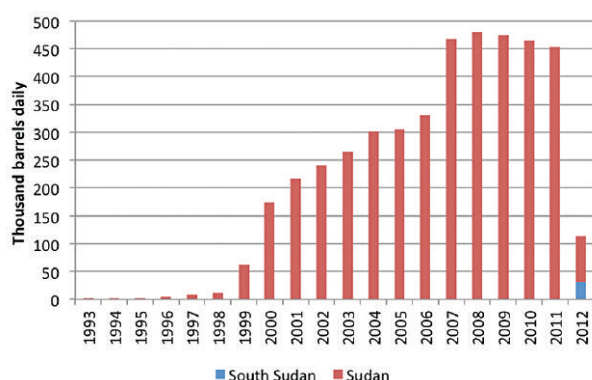
3. Government of the Republic of South Sudan, *South Sudan Development Plan 2011-2013*, August 2011.



The economy of South Sudan is almost entirely grounded on oil production, which provided about 98 percent of public sector revenues and almost all foreign reserves at the eve of independence.⁴ Since then, disagreement over oil revenue sharing with Sudan for the use of the pipeline prompted a collapse of the oil

production in 2012 (Figure 1) and very little exploitation of the huge proven reserves (Figure 2). However, it is worth noting that oil production (and revenues) had already peaked in 2009; by 2016 it was supposed to be declining by 40 percent, to virtually nil around 2035 unless new discoveries occurred or recovery rates improved.⁵

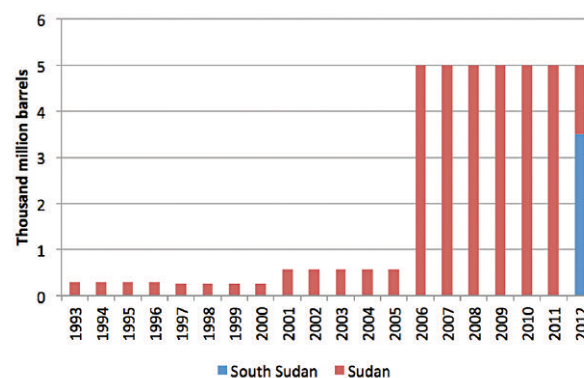
Figure 1. Oil production



Source: BP Statistical Review of World Energy, June 2013.

Disagreement over oil revenue sharing with Sudan for the use of the pipeline prompted a collapse of the oil production in 2012 and very little exploitation of the huge proven reserves.

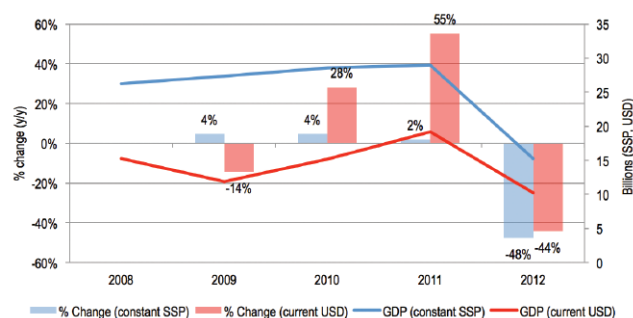
Figure 2. Oil proved reserves



There is no significant other sector of the slowly developing South Sudanese economy that can now compensate for such an abrupt reduction of oil revenues. Agriculture and livestock production should theoretically be seen as potential alternative. However, most of the population relies on low productivity agricultural and pastoral activities based on traditional systems. Real GDP plummeted in 2012

(Figure 3). As such, GDP per capita halved to USD 943 per year (i.e. 2.6 dollars per day), likely increasing the number of people below the national poverty line (51%, with a poverty gap of 24%).⁶ Both private and government per capita expenditures in constant SSP⁷ (Figure 4) have decreased in 2012 (respectively -1.4% and -41.4%, y/y, with per capita private expenditures decreasing for the second year in a row).

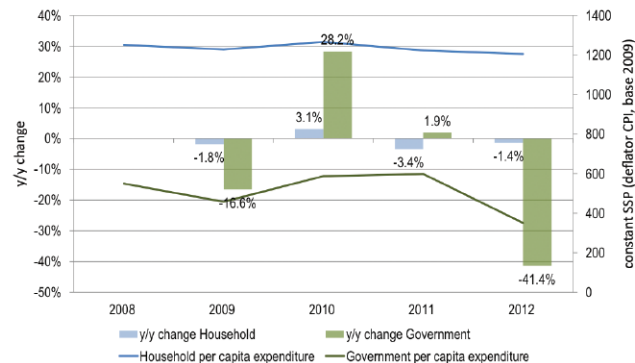
Figure 3. GDP trend



Source: World Bank, WDI data 2013.

Real GDP plummeted in 2012 due to the reduction in oil revenues.

Figure 4. Per capita final consumption expenditures in constant pounds



Source: World Food Programme's computations based on World Bank, WDI data 2013.

Per capita real expenditures declined significantly as deflation bites.

4. *Ibidem*.

5. *Ibidem*.

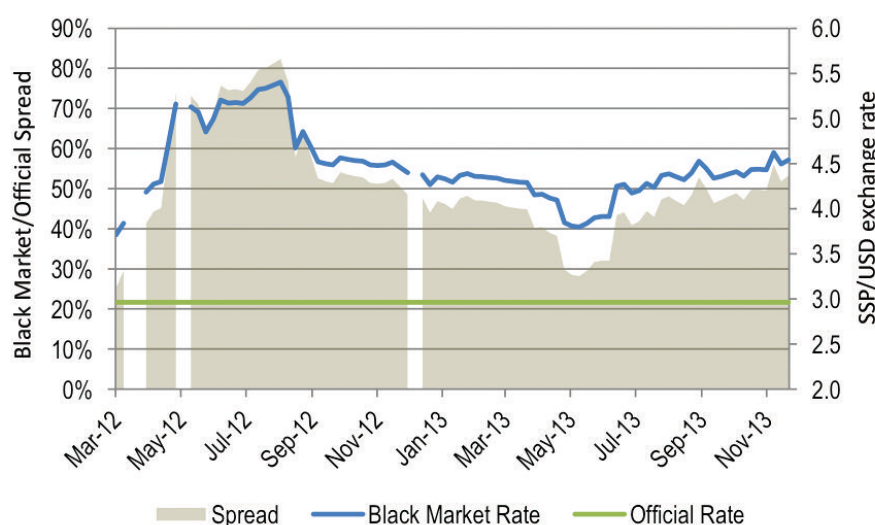
6. Above the average rates in Northern Bahr Al Ghazal (76%), Unity (68%), and Warrap (64%) states (National Bureau of Statistics, National Baseline Household Survey 2009, Report for South Sudan, 2012).

7. South Sudanese Pound.

The downfall of oil exports resulted in a decrease of the account balance to -28 percent of GDP in 2012, and it is forecasted to perform poorly in 2013 (-15%).⁸ Exports were down to 10 percent of GDP from the 65 percent recorded in 2011, and imports up to 43 percent from 27 percent⁹, with an additional challenge deriving from a de facto devaluation of the national currency. The official buying exchange rate is pegged at SSP 2.97 per USD, but the shortage of foreign reserves after the oil shutdown made the black market rate drifting significantly apart (Figure 5). After having

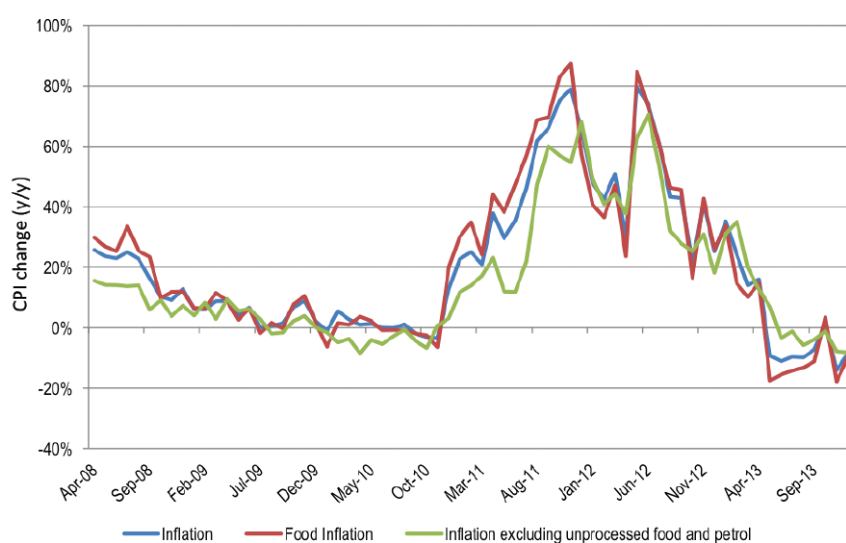
reached a ceiling of about 80 percent in July 2012, the spread between the black market and the official exchange rate was at 53 percent as of November 2013, resuming its upward trend since six months. This is likely to further reduce households' purchasing power as the country depends largely on food imports. Inflation reflects the gloomy macro-economic performance. After peaking up as high as 80 percent in May 2012, inflation first reversed into disinflation then into deflation since May 2013 (Figure 6).

Figure 5. Exchange rate



In November 2013 the spread between the black market and the official exchange rate was at 53%.

Figure 6. Inflation



Inflation reflects the gloomy macro-economic performance.

8. International Monetary Fund, *World Economic Outlook Database*, October 2013.

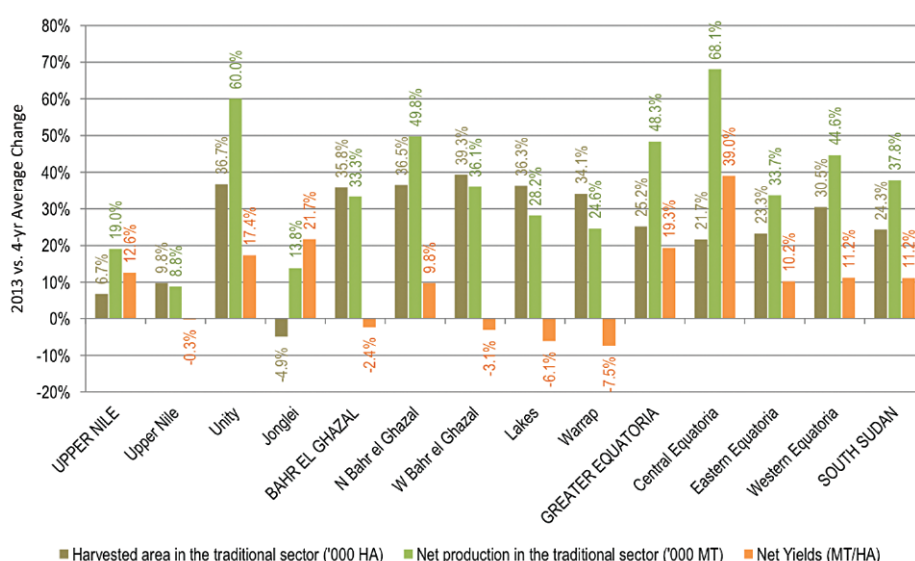
9. World Bank, WDI data 2013.

Local food availability is constrained by limited supply sources and poor market integration

The current crisis has not affected the main harvest, which is forecasted to be above the recent 4-year average by 38 percent. Most of progress depends on a greater harvested area (24%), with a smaller improvement in yields (11%). It is worth noting the state-level differences in the 2013/14 agricultural performance, with under average performances

recorded in Warrap, Lakes, West Bahr el Ghazal and Upper Nile (Figure 7). All states except Western Equatoria have production deficits against their cereal demand. Still, the conflict affected states account for the highest cereal deficits in the country - Jonglei alone accounts for more than 30% of the total national cereal deficit, with Unity and Upper Nile adding another 32%.¹⁰

Figure 7. Cereals: 2013 performance vs. 4-yr average (2009-2012)



Source: FAO and WFP, CFSAM South Sudan 2013, forthcoming.

The current crisis has not affected the main harvest.

South Sudan would still need to import the equivalent of about half of its cereal production to fill the overall deficit and to secure consumption needs. In particular, Jonglei, Upper Nile and Unity (Table 1) are

the states where import needs are greatest and where households would have to rely the most on markets to mitigate the large cereal deficit.

Table 1. Cereals expected surplus/deficit

States	Demand ('000 MT)	Production ('000 MT)	Surplus/Deficit ('000 MT)	Import requirement as a share of production
Central Equatoria	205	150	- 55	36%
Eastern Equatoria	144	116	- 28	24%
Western Equatoria	241	179	+ 62	
Jonglei	195	70	- 125	179%
Upper Nile	105	40	- 65	163%
Unity	90	26	- 64	248%
Lakes	109	75	- 34	45%
Warrap	129	100	- 29	29%
W Bahr el Ghazal	59	50	- 9	18%
N Bahr el Ghazal	146	85	- 61	72%
South Sudan	1,301	892	- 409	46%

Source: FAO and WFP, CFSAM South Sudan 2013, forthcoming.

Despite the improvement in production, South Sudan would still need to import cereals to fill the overall deficit.

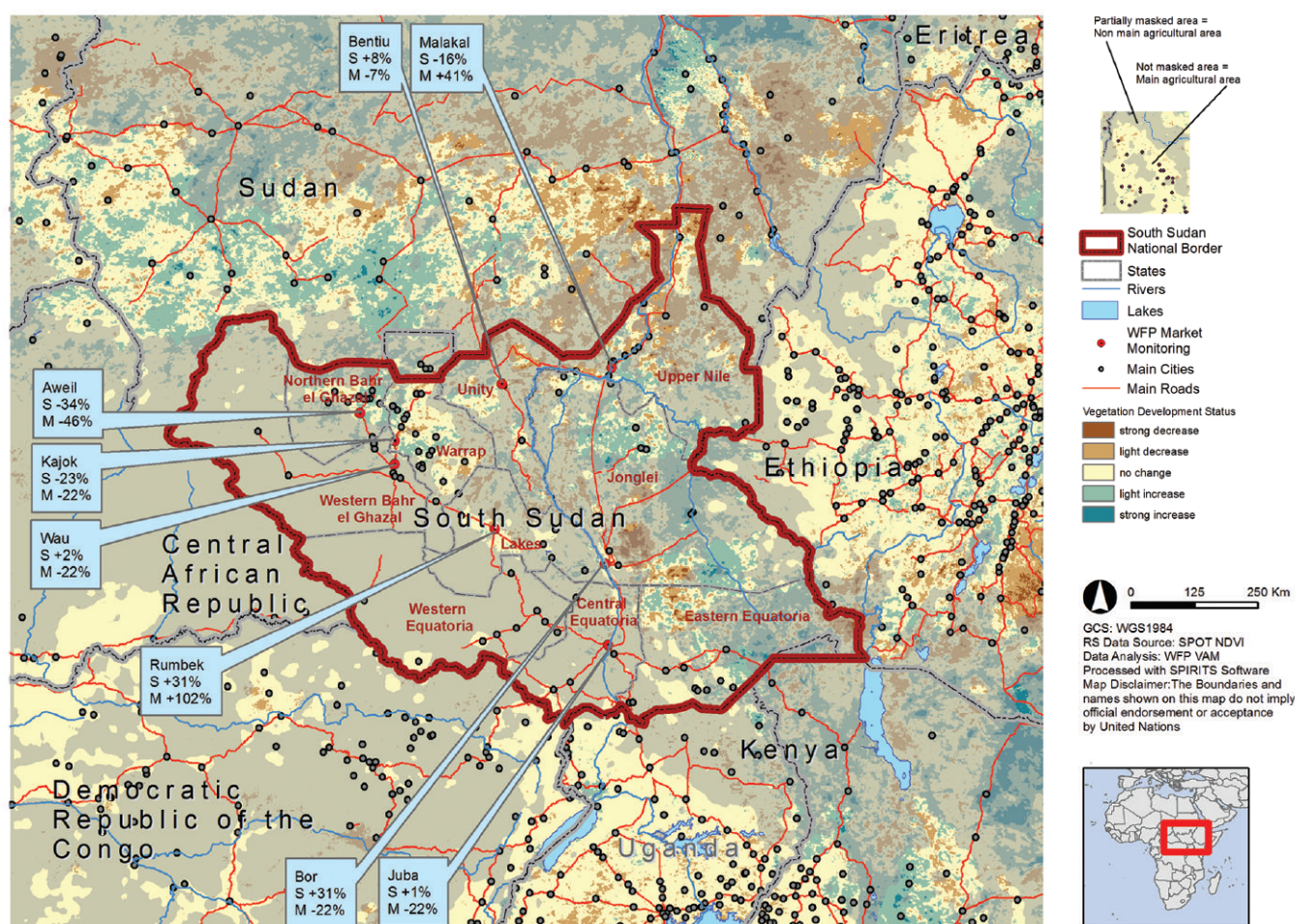
10. FAO and WFP, CFSAM South Sudan 2013, forthcoming.

The country's most significant food import flows are from or via Sudan and Uganda. After the official border closure with Sudan, the flow of commodities that supplied markets in the more northern regions has diminished to a virtual standstill, with only a few routes still open (e.g. near Aweil, for trade goods from Darfur, and near Renk for inputs to mechanized farming). Currently, informal trade routes via Upper Nile are likely affected by poor production prospects in some key supply sources of Sudan (see map below). Consequently, import flows are overwhelmingly reliant on trade routes from

Uganda. Indeed traders from Kenya would by-pass the Nadapal border post transiting via Uganda for security reasons.¹¹ Most of the imported food coming from south transit in Juba, to then be transported either north-eastbound to Bor or north-westbound to Wau and Aweil.¹² Long transport distances, on a very poor road network, along with insecurity and a number of irregular checkpoints add on to the cost of moving commodities across the country. As a result, markets are poorly integrated, with high price differentials as shown below.

Map 1. Vegetation development status and sorghum and maize price spreads from the national average

Vegetation Development Status - Season 2013 vs. last 5-years average.
Price Spreads by Market as of December 2013



Source: WFP, SPOT-Vegetation. In the call-outs, S stands for Sorghum while M for Maize.

Informal trade from Sudan to Upper Nile is constrained and formal trade is likely limited to Ugandan sources. Thus price differentials across markets are expected to increase.

11. African Development Bank Group, *South Sudan: A study on Competitiveness and Cross Border Trade with Neighbouring Countries*, 2013.
12. National Bureau of Statistics, *Cost-to-market Report, An Analysis of Check-Points on the Major Trade Routes in South Sudan*, 2011.

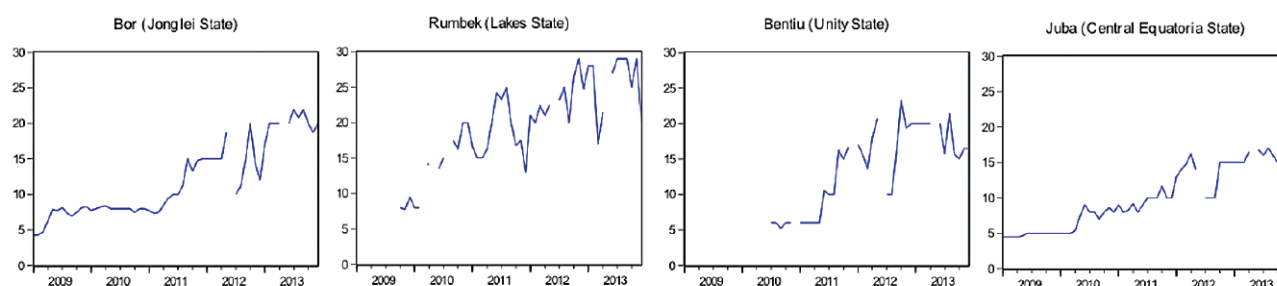
Local food prices are high, volatile and likely to increase further with the conflict

The border closure with Sudan and a continuous depreciation of unofficial exchange rates made retail prices trending dramatically upwards in almost all markets in the country, shifting from a relatively stable level before independence. In the past three years, prices have been highly volatile, beyond seasonal norms. In addition, price differences between markets are persistently high, an indication of the weak integration of food markets. In the states of Jonglei, Lakes, Unity, which are among the most affected by the

December 2013 violence, the markets of Bor, Rumbek, Bentiu show much higher average prices than in the rest of the country.

At the onset of the conflict in December, both sorghum and maize price levels were highest in Rumbek compared to the rest of the country. On the contrary, Aweil market was the least expensive, probably benefiting from informal cross-border trade from Sudan. Sorghum in Aweil was half as expensive as in Bor and Rumbek.

Figure 8. Sorghum retail prices in selected markets (SSP/Malwa)



Source: World Food Programme, VAM Food and Commodity Prices Data Store.

Retail prices have been trending dramatically upwards since independence.

As shown in Figure 8, the seasonal downturn expected for sorghum prices after the harvest was apparent only in Rumbek. By contrast, the downward trend in sorghum prices vanished quite abruptly, and prices were back on the rise in conflict affected markets. As of December 2013, nominal sorghum price increased by 67% from last year in Bor. Maize prices were 13% above 2012, with year-on-year (y/y) increases almost everywhere, except in Juba (-13%). The price impact of the conflict is likely delayed to January in some conflict affected areas such as Rumbek where a 19% decrease in sorghum price was observed in December 2013.

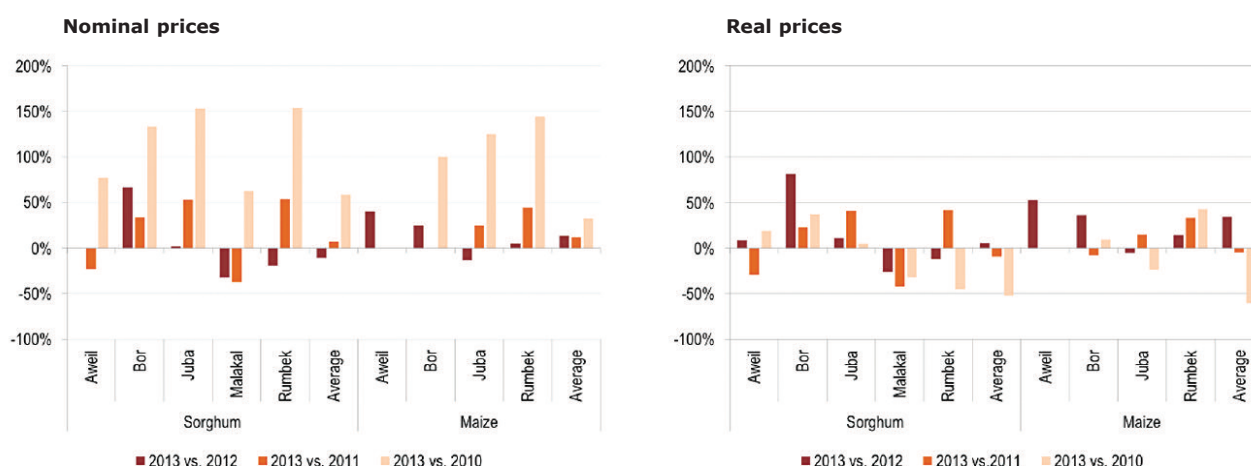
Despite the positive outlook of the 2013 crop production, nominal prices as of December were on average 13 percent above last year for maize (y/y) and only 11 percent below for sorghum (Figure 9). However, when the deflationary context is taken into account, both prices had increased in real terms (respectively,

+34% and +6%, y/y)¹³ and are only slightly below their peak in December 2011. The scattered patterns of sorghum prices are worth noting: in Bor, nominal prices increased by 67% from last year, in Malakal and Rumbek declined respectively by 32% and 19%, while in Aweil and Juba they stayed almost put. In contrast, maize prices are 13% above 2012, with y/y increases almost everywhere, except in Juba (-13%).

Since the onset of the conflict, prices of essential cereal commodities (sorghum and maize) have reportedly risen by up to 30% in Juba and Rumbek markets. Markets in Jonglei, most parts of Unity state and western parts of Upper Nile have remained closed and non-functional. Due to insecurity, traders are unwilling to sell their commodities in the market while imports have grounded to nil. Roads leading to these markets are completely cut-off due to insecurity.

13. Base year 2011, deflator is CPI, excluding unprocessed food and petrol.

Figure 9. Sorghum and maize retail price changes as of December 2013



Source: World Food Programme, VAM Food and Commodity Prices Data Store.

Sorghum and maize prices increased in real terms from 2012-13.

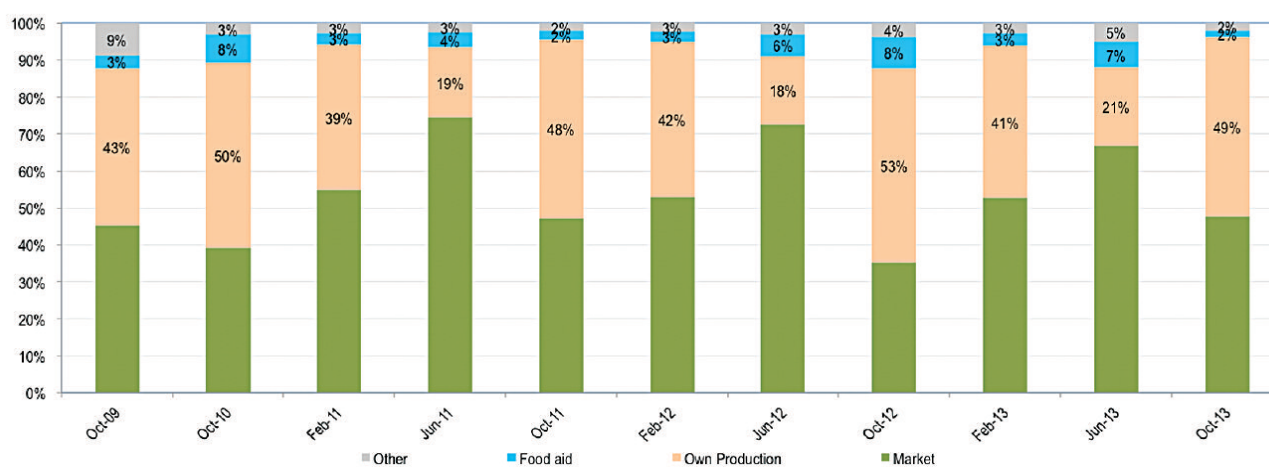
Market disruptions caused by conflict will worsen food insecurity due to high dependency of households on markets

High food prices are an all-year major threat to South Sudanese households' access to food due to their high dependence on markets to meet their food needs, including of sorghum, maize and pulses (Figure 10). Except for Central and West Equatoria, markets are the dominant source of staple food over households' own production at all times (except around harvest time in October). Up to 70% of the households resort to markets for their sorghum consumption around June, as most of them would exhaust their stocks a few months after harvest. Markets are throughout the year also the main source of other key food items such as meat, oils and fats, fish and sugar. Typically, over 40% of South Sudanese households register high food

expenditures (i.e. over 65% of income spent on food, see Figure 11). Yet, commodities are no longer flowing to the conflict affected states which severely jeopardizes households' market participation.

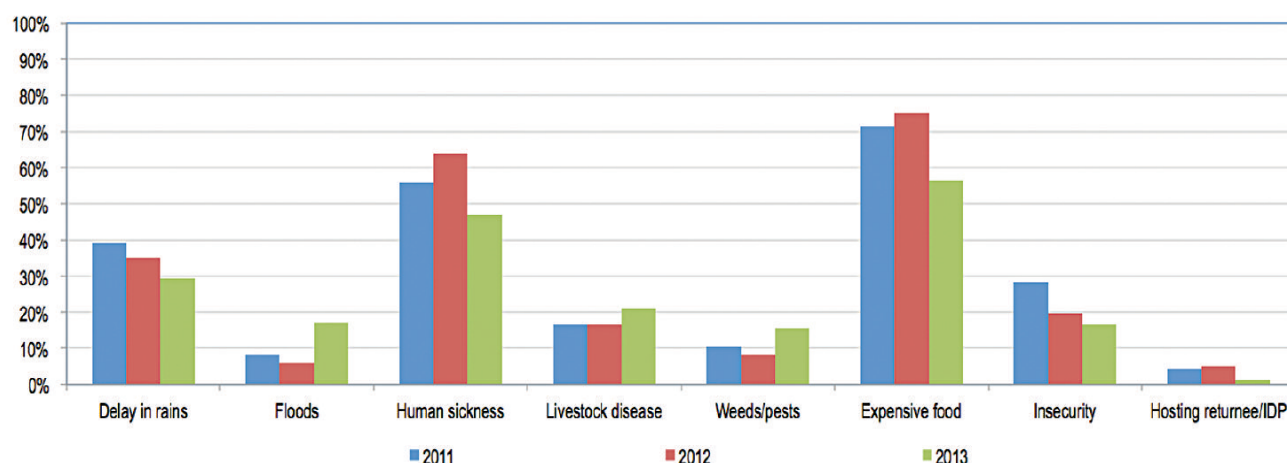
The states most affected by the conflict, namely Jonglei, Upper Nile and Unity, were also the most food insecure prior to the conflict. Moreover, these are the areas with the highest cereal production deficits in the country, the highest proportion of market dependent households for staple food consumption, and the highest proportion of food expenditures in mid-2013 (63% and 59% of households in Jonglei and Unity, respectively spent over 65% of income on food).

Figure 10. Source of sorghum



Source: WFP: Various rounds of data from the Food Security Monitoring System.

Households strongly rely on markets as a source of sorghum.

Figure 11. Incidence of household shocks in South Sudan (2011-2013)

Source: WFP: Various rounds of data from the Food Security Monitoring System.

Food prices are the major threat for households' food security.

Conflict has erupted precisely at a time when food security conditions in South Sudan were showing a consistent improvement relative to the past few years, except in Jonglei and Unity. In October 2013, food insecurity (moderate and severe) reached the lowest levels since 2010, on average 30%. Severe food insecurity in particular dropped to 3.4% nationwide, after years stagnating at 10%. Unlike the rest of the country, pre-conflict food insecurity levels (severe and moderate) had actually increased to 38% in Jonglei and 35% in Unity compared to the same season 2012. The most food insecure livelihoods were households that engaged in sale of natural resources (charcoal burning, selling of firewood and grass etc.); these are the predominant livelihoods in Jonglei and Unity.

It is most likely that disruptions of market and trade inflows caused by conflict will affect household security well beyond its duration and over a wider area. According to estimates of a rapid interagency IPC analysis, up to 3.2 million people mostly in Jonglei, Unity and Upper Nile are already either in crisis or emergency phase (with 1.1m in emergency), up from

1 million in crisis phase by mid-December 2013.¹⁴ A protracted insecurity and uncertainty will transmit additional pressure on food prices, causing serious challenges to access to food by most households countrywide. Reliance on households' stocks from own production is also at risk in the aftermath of the harvest (December 2013 - March 2014), particularly in conflict affected states. Indeed the significant population displacement as well as looting or destruction by combating forces led to a loss of households' stocks, hence triggering unusual increases in the proportion of households relying on either markets or food assistance to meet their food needs. Given large population displacements and widespread fear, the start and prospects of the next agricultural season with timely planting and input availability are uncertain for many households, particularly in Jonglei, Unity and Upper Nile states. In Central Equatoria, the situation may not become as serious, given less widespread insecurity, far better supply routes, and the proximity to the capital and Uganda.

14. Estimates from an in-country, inter-agency IPC workshop, 17th January 2014.

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