Special Working Paper on Devaluation of South Sudan Pound: Short-term Food Security Implications

WFP South Sudan

29th January 2016

Disclaimer: *The Authors of the report would like to acknowledge the technical difficulties in conducting this analysis within a highly complex, rapidly deteriorating and fast evolving socio-politico and macroeconomic context. Moreover, little information is known on the extent of the fiscal and monetary measures that the government will put in place within the coming months. The ''short-term" as used in this document therefore essentially relates to period between now and when the full range of fiscal and monetary changes will be in place and their impact felt—estimated at 6 -12 months. Equally important is the fact that there was existing inflationary pressures and increasing prices prior to the official devaluation. The report has not separated the impact of the existing economic downturn versus that of the new floating foreign exchange rate regime. Thus, there remains major confounders to a delineated analysis. Nonetheless, this report provides a first step in understanding the impact of volatile and rapidly increasing cost of living on welfare outcomes of the country's most vulnerable and poor population and will form part of a series of such technical reviews that will follow this year.*

I. Highlights

- Following Independence, the Bank of South Sudan adopted and maintained a fixed exchange rate regime pegged at SSP 2.96 per 1 USD. Prior to repealing the fixed exchange rate system in December 2015, the country faced an increasing pressure to stabilize the money market in the face of many challenges: foreign reserves dwindled, fiscal deficit widened and oil revenues[1] dropped. Weighed down by inflationary and currency depreciation pressures, the Bank of South Sudan (BoSS) on 15th December 2015 adopted the floating system in which the value of the South Sudanese Pound against USD is determined by the prevailing market forces. This effectively devalued the currency overnight with the official rate moving from the previous SSP/USD 2.96 to 18.5, the then going rate in the parallel black market.

- While un-pegging the exchange rate seemed long overdue to correct longstanding market distortions, for a low-production country which predominantly relies on imported goods even for the most basic of commodities, there are however, socio-economic and livelihood consequences. The impacts is also magnified by that the fact that oil revenue (typically accounting for more than 90% of the government revenue) could be in deficit following the record decline in global prices amidst fixed pipeline charges by the Sudan government on oil passage. In the immediate aftermath of the exchange rate market correction, the urban poor and the most vulnerable populations in rural areas that are highly dependent on markets[2] have witnessed continued decline in their purchasing power due to the ongoing price upsurge that has now been compounded by devaluation induced run-away inflation[3]. As popularly believed that these impacts are short-term, the actual longevity of these impacts will depend on the ability of the Government to accelerate public sector and structural reforms aimed at achieving among other things:- removing bottle necks to private investments, ensuring macro-economic stability, reducing the government wage bill, ensuring sustainable public debt, strengthening non-oil revenue collection systems, rehabilitation and immediate re-opening of oil fields, diversification of the economy (including prioritizing agriculture as the next frontier of growth through increased policy and budgetary support) and achieving sustainable peace along with the positive steps of floating the currency, taking into account the safety net needs of the most vulnerable. There are already fears that without proper management of the situation, the policy change could as well set the stage for a vicious cycle of currency depreciation. Securing key trading corridors will be important in enabling trade flows and adequate prepositioning of commodities before the rains begin in April.

- In view of the above, there is immediate need to scale up social transfers to poor and most vulnerable segments of the population by relief and development actors to compensate the resultant welfare losses occasioned by the ongoing economic challenges.

[1] Oil revenue has remained the sole avenue for governmental revenue, accounting for over 90%. However, of late the ono-oil revenues have become more and more important and are now higher than net oil revenues

[2] The December 2015 FSNMS reports that 43 percent of the population are market dependent with the highest percent recorded in Western Bahr el Ghazal's Wau Market (63%) and Northern Bahr el Ghazal's Aweil (55%)

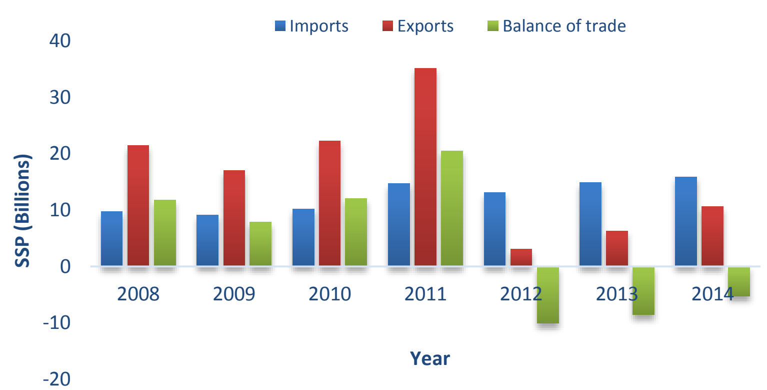
[3] Though the economy has been experiencing increasing inflation since April 2015, the situation appears to have been compounded by some level of devaluation induced inflation

II. Background

Since the independence of South Sudan, the value of the pegged exchange rate has somewhat been unsustainable – wide differential with the actual value of the currency as determined by economic circumstances and developments in the country. With the economy experiencing: (1) the 2012 oil production/export shutdown; (2) civil war from December 2013, leading to higher defense spending, disruptions of oil production, and higher risk perceptions of investors; and (3) the collapse in oil prices, from over USD100 per barrel in 2013 to USD 50 or less in 2015, the pegged exchange rate became unsustainable, with the situation further compounded by the terms of agreement with the Republic of Sudan over payments for the use of pipelines and compensation, which are fixed in US dollar terms and not related to the oil price. In an attempt to maintain the fixed exchange regime, the government had to ration the supply of foreign exchange in the official market, thereby giving rise to a foreign exchange black-market which met the demand not satisfied by the rationed official market. The divergence between the official rate and the black market rate increased over time as oil prices fell and foreign exchange reserves were further depleted.

This resulted in severe fiscal consequences – characterized by insufficient foreign inflows, reduced government revenues, increased public debt, a higher and increasing parallel market rate, higher inflation, widening balance of payment deficits and high cost of living. South Sudan's import bill in 2014 stood at a staggering 15.918 billion SSP against export value of 10.636 billion SSP, representing a negative balance of trade of nearly 5.3 billion SSP. The trade deficit could be higher in 2015 if the trend over the last three years is anything to go by – where the value of export contracted while imports went up between 2011 and 2014 as shown in figure 1a. Government revenue has also declined following slump in crude oil prices, resulting in wider budget deficit. The 2015/2016 quarter one financial report indicated that the fiscal gap is increasing, standing at 62%. Net oil revenues could slump further into negative because of the continued decline in international crude oil on the backdrop of constant pipeline charges. These structural macroeconomic shocks could devastate the economy if not well managed.

Fig. 1a: South Sudan Balance of Trade Position
Source: Computed from Bank of South Sudan Statistical Bulletin



With a view to restore order and boost confidence in the money markets, the Bank of South Sudan (BoSS) on 15th December 2015 dropped the fixed exchange rate regime in favour of the floating system in which the value of the South Sudanese Pound against USD is determined by the prevailing market forces. This effectively devalued the currency overnight with the official rate moving from the previous SSP/USD 2.96 to 18.5, the then going rate in the parallel black market.

While it is premature to gauge the full impact of current exchange rate system on the flow of trade and prices of commodities, this paper attempts to analyze the likely short to long-term implications of the foreign exchange policy change, taking into account the current known variables like the low foreign reserves levels and the fact that typically, devaluation essentially leads to increased prices of imports as well as processed commodities including foods since substantive amounts of processing raw materials are imported.

III. Immediate cost of living implications

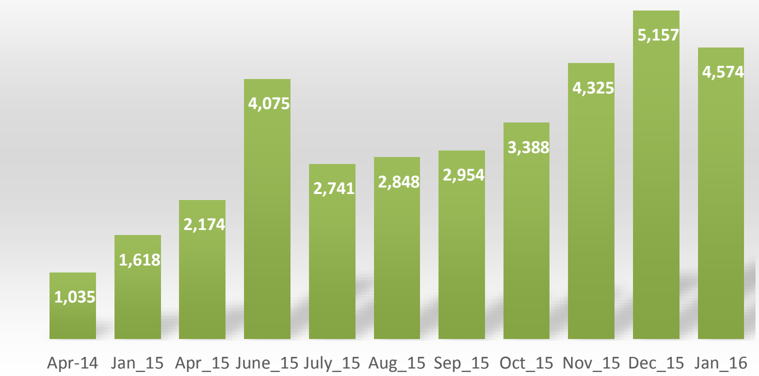
South Sudan's imports double the value of its exports with the 2014 net-import position estimated at more than 4 billion SSP. While floating the currency is largely positive in the long-term (fostering non-oil activities, increasing confidence in government policies, potentially increasing fiscal position and foreign reserves, lowering the administrative costs and closing in on the trade deficit), the resultant devaluation in a cash-strapped import dependent country with equally limited or undeveloped monetary policy framework was likely to have some immediate ramifications on the costs of commodities. In the case of South Sudan this was no exception as the costs of some items went up overnight following currency devaluation. The devaluation fueled an already existing run-away inflation as all actors in the economy tuned into a "price increasing mode" in order to compensate welfare losses of the official devaluation and maintain their economic welfare, resulting into among other things:

Increased cost of commodities: Prices of imported and processed commodities such as sugar, maize flour, water, soft drinks etc. continued with an upward trend at a much steeper rate in the third week of December, just one week after currency devaluation, as traders reviewed their prices upwards to match the SSP value losses. The rationale is simple—traders have expectations of dollar equivalent of costs and profit margins and so they increased prices to recover the SSP exchange value losses in order to enable them restock in the future. Furthermore, the upward review in government charges, licenses and taxes including custom charges at national and sub-national[4] levels to compensate SSP value losses are being passed on to consumers. Moreover, the government still experiences huge inefficiencies in tax collection that exposes traders to multiple taxation regimes. The situation is exacerbated by the gloomy macro-economic outlook coupled with market inefficiencies and lack of competition in food commodity trade, worsened by virtue of import dependence for nearly all inputs including for processing. Cost of commodities particularly those of imports are projected to increase further in 2016 in line with SSP devaluation and possible upwards adjustments in taxes. Growing insecurity along major supply routes is

[4] Increased expenditure pressure to finance budgets of newly created administrative states could see some sub-national units increasing their levies

also expected to further constrain supply of commodities as transaction costs go up at a time when purchasing power is also reducing. Expected lower than last year crop production is likely to tighten commodity markets for most consumers. Figure 1b provides the trends in cost of minimum expenditure basket (CMB[5]) in Juba. The cost of the basket hit peak record level in December[6] extending rising trends that started in October 2015. At SSP 5,157, the CMB is triple its level in January 2015 and about five times the level in early 2014. The main drivers of high cost of living in December were mainly prices of processed food and imported commodities which increased fivefold. Price inflation could have been steeper had it not been for the November-December harvests, that somewhat tampered the trajectory.

Figure 1b: Minimium Expenditure Basket Cost in SSP, Juba City



Prices of local cereals have remained relatively stable in January in localized markets which received supplies from the November-December harvests, predominantly in the Equatoria- although this will be short-lived due to limited household stocks. However, prices of staple cereals in Greater Bahr el Gazal and Greater Upper Nile Regions are significantly elevated. Prices of local grains could further increase in the coming months through consumption substitution away from the more expensive imports particularly by the poor and vulnerable households. Moreover, increased insecurity in the greenbelt coupled with effects of el-nino (effects of first harvest season due to prolonged dryness) may compound the impact and further heighten the prices. Another year of high prices and increased cost of living is predicted on the backdrop of below last year's bumper harvest, tighter regional food markets, insecurity, disrupted trade flows and dollar and fuel shortages. The impact of the recent decision by the Government of Sudan to lift the trade embargo and open up its borders with South Sudan for free trade and movement of goods, services, people and capital could bring some reprieve to the border markets in the northern frontier, although close monitoring of trade flows would be necessary. Sorghum flows to the South could also be limited by below average production in the 2015/16 season in most parts of Sudan.

Notable, regularization of the exchange regime occurred amidst acute shortages of the US Dollar. Most markets in the hinterland have relatively lower supply of dollars through the black market and are heavily

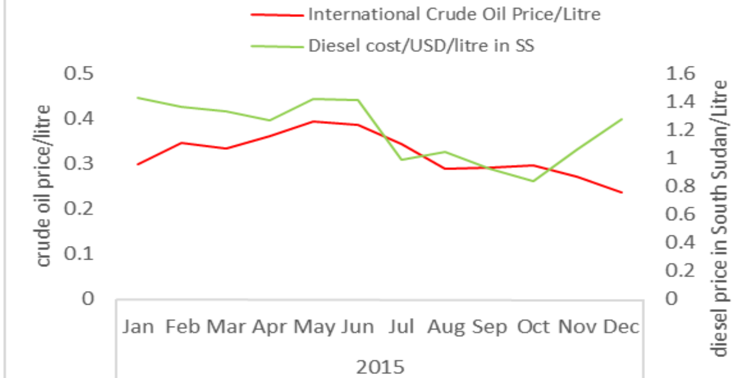
[5] The MEB outlines the minimum items for survival for a household for one month. It is derived using data from the National Baseline Household Survey 2009 which vides dis-aggregated rural/urban data on household food and non-food consumption. The basket comprises the basic energy food requirements of 2,100 kilocalories per person per day, fuel for cooking and lighting and other non-food items like clothing, housing, water etc

[6] While the changes was a continuation the prevailing inflationary pressures, devaluation further heightened the price increases.

reliant on Juba dollar market. Traders continue to be affected by limited dollars to support trade flows. Rising cost of doing business have been systematically passed to consumers, thus continued price increases for imported commodities. Increased cost of food could result in expenditure cuts for essential health care and children's education especially by poor households as food comprises a significant share of their expenditures[7].

Increased cost of fuel: One of the main import products in South Sudan with far reaching implications on the economy is fuel. Currently, the country spends a significant amount of its foreign exchange on imported fuel, as the country requires in excess of 40 million litres every month. Lack of a functional refinery implies that the country imports 100 percent of refined oil for its own consumption despite being a major crude oil producer[8]. South Sudan's state-owned Nile Petroleum company directed fuel stations to increase the official fuel pump prices in Juba from SSP6 to SSP22 after currency devaluation. To consumers whose incomes are in SSP and whose expenditure premiums are on local currency, such nominal increases have far-reaching effects. In dollar equivalents, however, the official cost of fuel reduced by 100% from $2 to $1 due to exchange rate changes. With the escalating economic crisis, South Sudan's economy has slowly been gravitating towards dollarization and so the devaluation strongly benefits largely people who have dollars – these are mostly elites, firms with contracts quoted in dollars and those whose salaries are paid in foreign currency—the wealthiest part of the population—at least from the current known variables, though this will largely depend on the eventual inflationary factors that will be determined by the full extent of government policies and full absorption of devaluation by the market.

Figure 1: International crude oil and South Sudan diesel prices/ Lit



With the sudden rise in nominal price of fuel amidst scarcity and erratic supply to markets there is likely to be further upward pressure on the prices through inflated transport costs. In the short-term, there is likely to be adjustment volatilities in fuel costs. Figure 1 above shows that although the trend in country's diesel prices in 2015 closely mirrored that of the international crude oil at least until September 2015, the divergence begun in October and has now been further widened by the current devaluation. The price differential between crude oil and local fuel prices has therefore substantially increased, to an all-time high in December 2015, up to 450 percent following the local currency devaluation. The rise in local fuel prices continues at a time when the crude oil prices have been on a downward trend hitting its 12-year

[7] Up to 85% according to FSNMS ROUND 17 of 2015
[8] At least before the 2013 political flare-ups

low by January 2016, pointing to the high inefficiencies that characterize fuel trade in the country. The additional costs of transport as well as wider inefficiencies are diluting the potential benefit of reduced crude oil prices[9]. Nonetheless, since the fuel prices are controlled by the government (at least in Juba), the actual costs and attendant full impacts of the ongoing changes may not be very volatile. On a positive note, the increased cost of fuel resulted in ample availability of fuel in petrol stations countrywide, even in areas that for a long time did not have fuel in petrol stations as the lowly pegged price encouraged hoarding and black market sales at a premium.

Moreover, the unofficial "dual exchange" regime that characterized the country and the fuel market inefficiencies negatively affected even those segments of the population whose salaries were paid in dollars as they had to exchange money in the parallel black market at a premium and buy fuel at 6SSP/litre in Juba before the policy change. Furthermore, though the Juba fuel price was fixed at 6SSP, availability was an issue as the rate was unfavorable. Thus, the black-market rate of a litre in Juba was as high as 50 - 60SSP. As was the case with the currency, the fuel market also had a parallel market. It is feared that controlling the fuel prices in Juba may still lead to black-market operations and further erode potential benefits to fuel buyers.

Increased cost of transport: Increased fuel prices immediately triggered corresponding upward adjustment in transport fares and cost of transporting commodities further spiraling the retail costs of food. Transport costs typically comprise 15-30[10] percent of food prices in South Sudan and so increased prices of fuel are likely to be shouldered by urban poor households who are highly dependent on markets but also market-dependent rural poor in some areas of the country. There have been numerous cases of the transport system grinding to a halt due to fuel shortages, disrupting trade and economic activities in the Country. Although this started prior to devaluation, this still continue albeit at slower rate.

Higher cost of mobile telephone communications: Mobile telephone companies (MTN, GEMTEL and Vivacell) more than doubled their tariffs in local currency (SSP) terms citing devaluation. Nominal and real calling rates are however lower in dollar terms compared to previous charges – benefiting population segments with sufficient savings and supply of dollars. With a low mobile penetration rate of 27%[11], predominantly in urban areas, the higher cost of communication is likely to negatively affect mostly the urban poor and vulnerable with mobile phones, estimated at about 5% of the national population through

	Nominal Zain Calling Rates		Real Zain Calling Rates	
	Before devaluation	After devaluation	Before devaluation	After devaluation
Zain to zain/ minute in Piasters	19.00	66.00	5.59	18.50
Zain to zain/ minute in US $	0.06	0.04	0.02	0.01

[9] Fuel prices have reduced elsewhere in East Africa in line with global crude oil prices
[10] South Sudan Market Assessment, WFP February 2015
[11] Estimates provided by service providers, January 2016

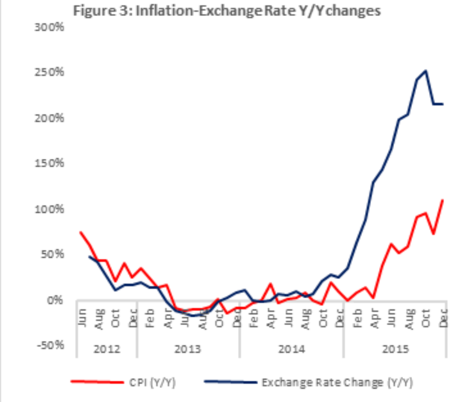
reduced purchasing power. The transmission of price shock could be amplified given the low elasticity in phone use. On the other hand, mobile phone companies which are firms of foreign origin, are getting less revenue in dollar terms following devaluation, which will dent their profits this year.

IV. Immediate policy Winners and Losers

Policy Winners

Surplus rural farmers: Consumer Price Index in South Sudan is closely linked to exchange rates, the country being a net importer of food. Figure 3 clearly demonstrates that year-on- year inflation has been on the run for most of 2015, reaching its peak in October, in line with currency depreciation. Devaluation usually raises imported food prices and shifts the food parity price (the rural-urban terms of trade) in favor of agriculture/local produce. However, low agricultural productivity that results in insignificant tradeable surplus by most farmers coupled with low levels of market integration and linkages exclude a number of farming populations from benefiting from rising prices of locally produced commodities. December 2015 food security and nutrition monitoring system (FSNMS) estimated that only 37% of farming households (during a period of presumed harvest) consider sale of agricultural produce as their main income source as agriculture is predominantly subsistence. Exceptions could be envisioned in net producing counties like Morobo and Yei, though further hampered by poor road infrastructure and high transportation costs to/from Juba and other cereal deficit areas, given poor market integration and shortage of fuel. Low farm gate prices also imply that the benefit of high prices are skewed towards grain traders rather than farmers. High prices are not transferred to farmers due to the oligopolistic behavior and collusion among traders and food processors, and their limited information on market opportunities and price levels. Nonetheless, the devaluation decision was significant in shaping incentives for long-term fundamentals that are critical for economic recovery and growth especially in the non-oil sector. Increased prices of locally produced commodities may in the longer term incentivize local production. However, production will not likely accelerate to greater lengths if the incentives do not stimulate increased productivity. Despite huge opportunity for accelerating agriculture led growth, low mechanization, poor rural roads, lack of market integration, reliance on rains and low yields characterize the sector implying that the potential for increased net benefits in the short time remains minimal, calling for immediate more structural interventions to support this crucial sector in order to boost the economy.

Figure 3: Inflation-Exchange Rate Y/Y changes



Bank of South Sudan: The bank has been conducting dollar auctions to commercial banks to stabilize the value of the SSP, but this is not sustainable and is costly for the banks' reserves, at a time when the bank is experiencing low foreign assets. Moreover, the administrative costs associated with regulating the foreign exchange was enormous and eroded the gains. The current reserve of central bank is worth SSP 710 million (about 35 million US dollars) as of November 2015, equivalent to a half a month of import cover. At higher SSP: USD official rate, more USD will be available in the Central Bank. In the fixed exchange regime, the bank had few beneficiaries with preferential access at 3.1 SSP per USD. It is likely that preferential demand will be reduced and the central bank reserve position strengthened. However, this will only happen if policy measures that boost forex inflow—including restoration of security, scaling up oil production, and vibrant economic activity are in place.

Business environment: Floating exchange rate will likely incentivize development partners (and to some extent humanitarian players[12]) to move more US dollars into the economy and in effect increasing government revenue, contingent on peace and stability. If harnessed successfully with a combination business environment and regulatory reform measures, it will be a major boost to improved business environment, development, and job opportunities in the long run. Traders are also likely enjoy a better supply of dollars as the previous large demand by few people with preferential access to USD at 3.1 SSP will be reduced.

Government Revenue: The government revenue in SSP terms is likely to increase as they will now receive more pounds for every dollar supplied in the market, making it easier to finance the budget gap and ensure salaries are paid, creating greater fiscal space to finance development expenditure and debt servicing. However, this benefit may be a challenge in the short-term as the government has promised salary increases for public servants including the army to cushion them against inflationary factor. The prospects of increased revenues could be weighed down by falling oil[13] prices and fixed pipeline charges. Furthermore, plans of reducing customs duty on imported food could be counterproductive as huge fiscal gap and low price control enforcement capacity is likely to further complicate the already wide fiscal position. The administrative cost of enforcing this could as well be higher than the expected attendant benefits given the oligopistic nature of traders. This in effect will drive up budgetary spending, which may not be immediately matched by potential benefits.

Increased confidence in government policy: The floating regime eliminated large transfer of funds to few beneficiaries with prefential access to dollars and has provided transparent and reliable access to foreign

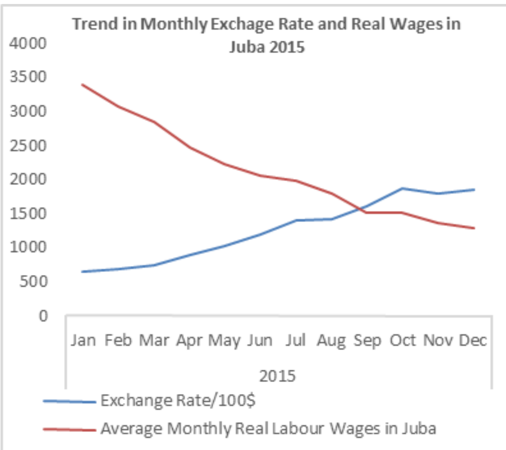
[12] However, humanitarian communities could be in the short-term experience bulging operating costs as workers agitate for salary increments in addition to increases in procurement costs of virtually all commodities as well as fuel and resultant transport costs

[13] The primary revenue stream for the government

exchange—there is now less incentive to get dollars at high rate of 18.5 SSP to exchange[14] at the black market at a "profit", unlike before. It thus reduces a scenario where some few could collude with some elements within the Central Bank to make windfall currency hedge gains at the expense of the wider public. This increases confidence amongst the public and business community in matters related to acquisition of foreign exchange and therefore a conducive atmosphere for trade. Business confidence, however will only be guaranteed by sustained assurance of positive policy undertakings.

Policy Losers

Market dependent populations: According to the 2008 Census, 17% of South Sudan's population live in urban areas. However, this figure is now estimated to be hovering around 25%[15]. The December 2015 FSNMS reports that 43 percent of the population are market dependent with the highest percent recorded in Western Bahr el Ghazal's Wau Market (63%) and Northern Bahr el Ghazal's Aweil (55%). These states largely and primarily depend on commodity imports and devaluation, which increases the prices of imported goods, will negatively affect their purchasing power. Real incomes of casual labourers, who form a significant vulnerable layer in urban areas were already on a downward spiral and has now been further impacted on by currency devaluation. As shown in the graph, the year 2015 has seen a further erosion of real labour income in Juba in line with currency devaluation trends (which has been prevailing in the un-official exchange market since February 2015) and now compounded by the official devaluation thus the lowest level ever in real wage has been recorded in January 2016. The purchasing power of these populations will continue to be compromised going forward if the SSP continue losing its value. Casual and fixed income workers paid in SSP will be trapped with lower wages, as their purchasing power continually diminishes (as inflation rises). The worst hit will be the urban poor and rural low income market-dependent earners. There will be increased workers' agitation for higher wages to meet the skyrocketing cost of living. There will also be lower incentives to work for many due to extremely low wages, thus cases of desertion and absconding duty can be envisioned. Workers will be forced to engage in multiple incoming generating activities in order to cope with the rising cost of living and reduced purchasing power.



Importers, manufacturers of processed food and traders: Devaluation of the SSP increases the price of imported goods, as foreign suppliers require traders to pay for goods in USD (previously provided by the

[14] Though preliminary indications are already pointing to a renewed divergence between commercial trade and the black market—the later estimated at SSP 30/1USD compared to SSP 21.5 at the banks

[15] South Sudan IPC Report, September 2015

South Sudan bank at the then official exchange rate). This is a consumption disincentive for poorest households as they tend to cut on food expenditures as a copying mechanism, resulting in lower turnover and profits for traders and importers. Most retail traders with low capital base will not be able to buy adequate stocks and will mostly likely be crowded out of business. There are already reports of some foreign traders closing shop in many towns owing to effect of the currency devaluation. Most foreign traders have adopted a "wait and see" attitude, scaling down re-stocking with the hope that things will improve otherwise relocate back to their countries. Foreign investments and those with large bank savings in SSP are also bracing to huge losses. Manufacturers of processed food and other commodities like beverages are likely to face higher cost of imported raw materials in addition to the persistent difficulty in finding adequate dollars. The South Sudan Beverages Ltd has already indicated possibility of winding down production operations once its existing inventories run out, due to lack of dollars. The prospects of scaled down trade and investment flight portends negatively for urban labourers with serious implication on food insecurity as job losses and unemployment levels will likely go up. Businesses and individuals along the supply chains of affected companies will be equally hit.

Export sector: South Sudan, other than for oil, has limited production capacity and near negligent tradeable export sector. The economic gains of the currency devaluation are limited in the short term due to lack of supply response for exports. The current deep in global oil prices, the severely disrupted local oil production and the fixed pipeline charges by the Government of Sudan further deems any potential of increased revenue from oil exports. Aggregate private consumption will likely fall due to real income losses caused by devaluation induced inflation. The attendant high cost of imported capital goods like agricultural machinery and inputs will likely crowd out investments in agriculture with a net effect of increasing the balance of payment deficits.

Pressure on government to increase recurrent expenditures: The immediate aftermath of the currency devaluation is likely to see trade unions and staff associations agitating for increased salaries of public servants and others paid in SSP to compensate them for rising costs of commodities. If not well managed, demonstrations may be a common feature as workers decry their lost purchasing power. Cases of localized crimes are likely to be on the rise especially in urban areas, in addition to higher transaction costs for businesses due to likely increases in informal taxation. Furthermore, government expenditures on other essential services are likely to require increased expenditures due to rising costs of all commodities.

V. Implications on food security and nutrition programming

This preliminary analysis shows likely worsening conditions of vulnerable families—primarily the market dependent populations that have been hit by multiple shocks:-reduction in local production due to impacts of insecurity and in some parts of the country, el-Nino phenomenon; increasing food prices that is now deepened by devaluation induced inflationary pressures and low economic activity, access challenges for humanitarian activities in some locations as a result of insecurity; population displacements etc. Furthermore, there are rising needs of the poor urban due to reduced market activities, spiraling demand and increasing commodity prices.

On the other hand, the humanitarian providers are witnessing mounting challenges: increased taxation (legal and illegal) as well as higher costs of doing business due to access issues now being compounded by eminent further increases in operating costs resulting from devaluation in the short-term. The humanitarian community is staring at agitation for increased staff salaries, higher fuel costs and increased costs of procurements—as prices of imported commodities soar up. Thus, the humanitarian activities to respond to the increasing needs could be jolted, if not matched with increased support.

The foregoing analysis also reveals that some areas and demographic segments are likely to witness the greatest impacts of the prevailing policy environment, including:

- ***Deepening poverty among urban poor primarily in Juba and other major state capitals***: The World Bank estimates that the incidence of poverty has worsened, rising from 44.7% in 2011 to more than 57.2% in 2015, with a corresponding increase in the depth of poverty[16]. It is projected that the number of poor vulnerable population is likely to rise in the post currency devaluation period, especially in urban areas. With over 20% of the population estimated to reside in urban areas, some 25% of them are categorized as poor but this could be higher as a result of the protracted challenges. The deepening economic crisis compounded by devaluation is already hard-hitting the market dependent urban poor. Their real wages is at its lowest ever. This population is estimated to be in the range of a million. Thus, urban safety net programmes that address the food consumption gaps but also build their capacity to withstand the shocks need to be considered in the light of the economic evolution.

- ***Pockets of poor and very poor rural population who have no assets and depend on markets especially those in Greater Bahr el Ghazal states:*** The region is already indicating worst food security levels, estimated to affect as high as 20% of the population with equally high levels of acute malnutrition, above the emergency threshold. They largely depend on markets for imported food commodities. Even though there are already food security programmes ongoing in these locations, the evolving situation will require urgent scale up to mitigate the effects of the devaluation induced inflation.

- ***The Greater Upper Nile Region:*** This is an area severely affected by insecurity that has totally depressed local production. Furthermore, the impact of el-nino has been pronounced in some counties within this region, largely in eastern parts of Jonglei state. Accordingly, this region will

[16] Source: World Bank, South Sudan Overview, 2015

continue to largely depend on humanitarian assistance ito complement their limited self-reliance activities. The ongoing support needs to be scaled-up to take into account that additional population whose vulnerability is worsened by the current developments.

VI. Conclusion

Even though the change in the exchange rate regime, which led to the currency devaluation, was long overdue with potential benefits, it immediately triggered significant food price inflation and eroded purchasing power of a majority of the country's poor and vulnerable. The short-term social costs of currency devaluation may be higher—there is high likelihood of increased cases and incidences of food insecurity and deepening poverty especially for the lowest consumption segment of the population.

The Government should fast-track the necessary fiscal and monetary policies that reduce inflation by cutting aggregate demand and lowering domestic re-current expenditures. There is therefore need to accelerate public sector and structural reforms aimed at achieving among other things: removing bottle necks to private investments, ensuring macro-economic stability, reducing the government wage bill, ensuring sustainable public debt management, strengthening non-oil revenue collection systems, rehabilitation and immediate re-opening of oil fields, diversification of the economy and achieving sustainable peace. Securing key trading corridors and routes through revamped security patrols will be important in the short-term by enabling trade flows and adequate prepositioning of commodities before the rains begin in April.

Although this paper is not conclusive on the magnitude of the shock induced vulnerability (primarily due to the yet to be implemented additional fiscal and monetary measures), there is no doubt indications of increased vulnerability especially amongst the urban poor and poor rural families dependent on market sources of food.

For additional information, please contact

Bernard OWADI: bernard.owadi@wfp.org

Or

Kennedy NANGA: kennedy.nanga@wfp.org