

Corporate Market Scoping Mission Report for Republic of South Sudan

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Executive Summary

a. Market Assessment

1. Markets in RSS are in a state of transition with limited ability to quickly respond to increased effective demand. During last year majority of Sudanese traders left RSS; traditional trade routes were officially closed; new and more risky routes have emerged but entail high transaction costs; the transportation capacity itself is significantly reduced; and hence the cost of doing business is very high.
2. There is high inflation in food and non-food prices and prospects of hyper-inflation unless availability of foreign exchange improves in the very near future. For example, during May and October 2011 petrol prices rose by 54 percent in Juba and a staggering 282 percent in Malakal. This upward trend is still continuing thereby making transportation exceptionally expensive. Food commodity prices have also been on the rise. For example, sorghum prices in Juba rose by 53 percent and 300 percent in Wau between October 2010 and 2011. Other commodities also exhibit similar trends.
3. High risk of steep currency devaluation is also a concern. Currently there is a shortage of USD and the exchange rate is beginning to reflect this shortage in the open markets. In Juba the exchange rate has increased from USD1=SSP330 to USD1=SSP368 over the last month. These rates are even higher in smaller markets like Malakal and Wau USD1=SSP398. Severe exchange rate devaluation is worrisome given that the country is highly import dependent for both food and non-food essential commodities.
4. The border closures between RSS and Sudan have curtailed supplies as well as increased transaction costs of trade between the two countries. The food and non-food commodities are still arriving into RSS albeit at a much higher cost. These costs entail higher transportation expenses as well as indirect costs related to border closures.
5. Cereal production has declined by about a fifth compared to last year and a quarter when compared to the average of last five years. The supplies from Sudan are limited due to border closures but also a very poor harvest in Sudan.
6. Thus far RSS has been unable to fill the vacuum created by the withdrawal of equipment and financing previously provided by Sudan in the transport and agricultural sector. There is a vast shortage of sea and road transport vehicles available to the commercial sector as majority of these vehicles were owned and operated by the Sudanese. Now many of these vehicles are either not operating in RSS or working on very high premiums given the political uncertainty and high transport costs.
7. The neighboring countries like Uganda and Kenya have also not necessarily capitalized on reduced supply from Sudan. Their commercial sectors have shown little interest in doing business with RSS given the high transaction costs—cumbersome clearance procedures and

expenses, high transportation costs, insecurity and the low purchasing power. Ethiopia is an exception whereby the flow of non-food commodities has increased along with food items.

8. The 8th April 2012 deadline for people of southern origin to move to RSS is only a month away. Estimates indicate that 500,000 to 700,000 people will be making their way to RSS in the next few weeks. If these individuals do decide to move in large numbers to avoid becoming Stateless. The market implications of this potential increase in demand can be severe not only on the returnees but also the host communities. Hence it is critical for the humanitarian agencies to be ready to assist en-route and also at their final destinations to avoid them becoming a burden on the host communities. This will also require close coordination with the counterparts in Sudan.
9. The upcoming rainy season which coincides with the lean season will further exacerbate some of these concerns. The shortage of transport alternatives means that the commercial transport sector will be unable to meet the additional transport demand from the commercial, Government and humanitarian actors. This situation is quickly becoming critical given the general hesitancy of traders and transporters from neighboring countries to engage with RSS especially during the rainy season. Hence the augmentation of transport capacity is a necessary condition if the increased demands are to be met.
10. The RSS decision to close its oil supplies has further reduced her ability to effectively respond to this crisis. The oil sector accounts for 98 percent of the government revenues while the estimates of national reserve range anywhere from six to eighteen months depending on how firmly the austerity measures are implemented. Indeed this crisis goes far beyond the oil ban and austerity measures alone as this new country is dealing with several structural issues that are taking their toll.

b. Cash, Voucher and Monetization Schemes

11. The deployment of cash or voucher based responses is plausible in the short-term at small-scale. The potential size of the immediate deployment is fundamentally limited by the significant current degree of national food scarcity, lack of trading capacity and the unknown effects of structural changes on both the macro-economy and food supply.
12. The government is keen to initiate interventions that promote local development and reduce the risk of food aid dependency. In this regard, government is willing to explore the use of cash and voucher-based approaches as additional food-assistance transfer modalities.
13. WFP can support national efforts to design and implement a comprehensive social safety net, for both urban and vulnerable populations. In the long-term, there is scope for WFP to develop credible, scalable cash or voucher-based interventions that support food security and livelihoods, in addition to national development objectives.
14. The mission examined likely scenarios that would further exacerbate food insecurity, given that the rural food-security situation and responses are already well documented and planned. The

mission assessed the potential scope and impact of both rapid macro-economic austerity on food security and increased returnee flight.

15. In the first scenario, increased economic austerity and macro-economic decline will lead to rapid food-price inflation and loss of livelihood. The mission finds that this scenario will result in a significant loss of purchasing power and lack of access to food for both the urban poor and salary-dependent populations. In the second scenario, significant movements of returnee populations from Sudan to South Sudan will impact both on returnee households and host populations in both urban and rural areas. The mission found that the new returnees require significant support to meet both their immediate food needs and to establish a livelihood.
16. In response, the mission finds that there is potential for market-based solutions. Nevertheless, factors such as weak trader capacity, inadequate infrastructure, lack of transport capacity, and lack of regional market-integration conspire to reduce the efficacy of these approaches. The mission recommends a twin-track response that takes account of the needs of both the immediate situation and the requirement to support long-term development efforts.
17. In the short term, the mission recommends a voucher intervention targeted at urban health-based caseloads and a combination of in-kind and cash for food security and livelihood support for returnee populations. In the long-term, the mission recommends that WFP introduces food assistance tools that promote recovery, given the perception of both government and the international community that long-term food aid provision inhibits local production. There is a significant opportunity for WFP to contribute to South Sudan's transition from relief to recovery.
18. For voucher schemes the feasibility of working with Ugandan/Kenyan traders with have enough capacity and experience to manage the entire supply chain including the retail stores where the vouchers can be redeemed by the beneficiaries should be analyzed. WFP can help to facilitate some of the supply chain constraints that these traders will face such as border clearance procedures and duty exemptions—if approved by the Government. Payments to the traders would only be made after they present the redeemed vouchers in their respective countries.
19. For cash schemes consider beneficiary payments in USD equivalent SSPs to minimize the impact of inflation. Start small and then gradually increase institutional caseload while closely monitoring market behavior will also be important.
20. Monetization of food though technically viable may further compound logistical challenges. In the context of segmented markets monetization in urban centers could be envisaged without any major damage to other markets and local production. Yet monetization should only be considered if logistical capacities are enhanced to support new supplies so as to not create competition in the transport of traditional food and non-food essential commodities. In the face of high transaction costs and the absence of formal price setting mechanisms, there remains the risk of traders not honoring their formal contractual agreements.

I. Economic and market environment

c. Macro-economic context

2. Republic of RSS (RSS) became an independent State on 9th July 2011, marking the successful completion of the Comprehensive Peace Agreement (CPA) signed in 2005. Despite significant improvements over the last five years including efforts to unify and stabilize the country, insecurity remains prevalent, particularly in the bordering regions with Sudan and those places affected by inter and intra-communal conflicts such as Jonglei and Unity State.
3. Lately RSS's macro-economic stability is threatened by the shutdown of oil production which comes on top of an already extremely high inflation rate and depreciating exchange rate. The economy is heavily dependent on oil revenues, which account for more than 70 percent of the GDP and almost 100 percent of the government's revenues. To adjust the fiscal budget to the revenue losses caused by the shutdown of the oil production, the government has submitted austerity measures consisting of a budget cut of 63 percent in 2011-2012: suspension of contributions towards pension and allowances; hiring and salary freeze; reduction in government agencies' operating expenses by 85 percent; capital investment budget reduction by 15 percent; and decrease in central government transfers to the states of 50 percent.
4. The shutdown of the oil production is likely to reduce further the foreign exchange reserves estimated at the lower end to be just enough for the next six months expenditures. This will in turn further reduce the government's capacity to import goods and services, depreciate the RSS Pound (SSP) and hence fuel more inflation in the country.
5. The SSP, ever since its introduction after independence, has experienced rapid depreciation attributed to the country's tight foreign reserves (FAO, WFP, 2012). This has resulted in a growing black market in many areas with inadequate supply of USD. Key informants traders and commercial banks mentioned the scarcity of US dollars for import transactions as a major constraint. Commercial banks' have limited access to foreign currency through the Central Bank of RSS (BOSS). For instance, one commercial bank indicated to the mission that only 20 percent of its demand for US dollars is generally met by BOSS. Key informant traders also mentioned that they rely more on the parallel market or other money transfer mechanisms than the banks to get sufficient foreign currency for the payments. Consequently, black market premium has increased from about 15 to 30 percent in recent months.
6. Currency devaluation is also fuelling inflation in addition to the upward pressure due to food inflation. The year-on-year inflation rate reached 48 percent in January 2012.¹ Food & Non-alcoholic beverages increased by 40.6 percent from January 2011 to January 2012. The deceleration recorded in January 2012, followed a rapid general price increases since October 2010, reaching levels as high as 79 percent in November 2011.

¹ National Bureau of Statistics (2012): Consumer price index for South Sudan, January 2012, Press Release.

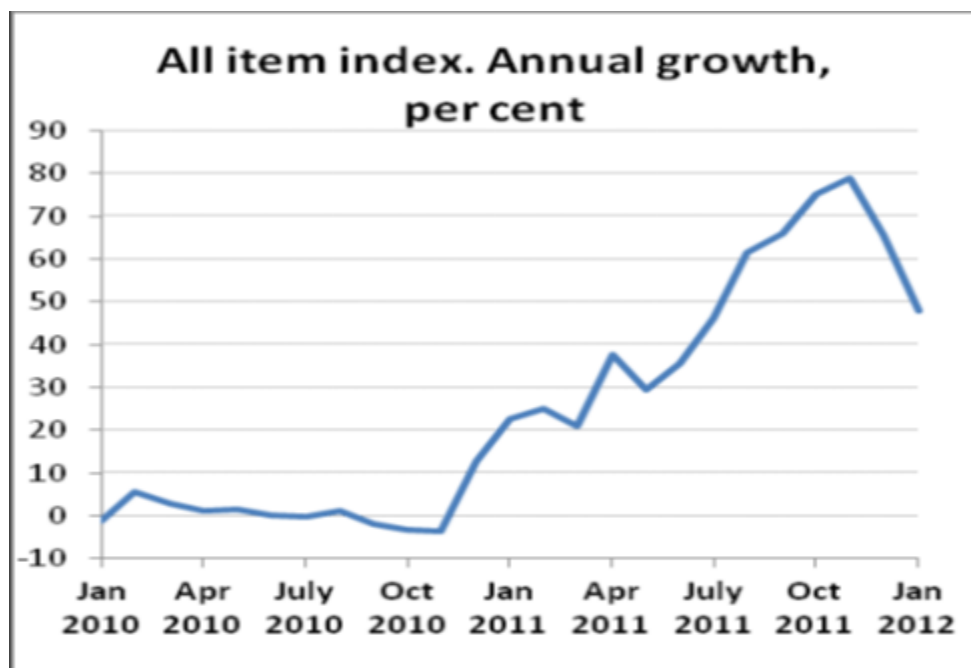


Figure 1. Recent evolution of the consumer price index in RSS (2010-2012)

Source: National Bureau of Statistics (January 2012)

b. Domestic and sub-regional supply conditions

i. Domestic cereal supply capacity

7. Sorghum, maize and wheat, together with groundnuts, are the most consumed food commodities in RSS, though with some slight geographical differences. According to USAID and FEWSNET, sorghum, maize, and groundnuts are the staple foods for the poor in most rural areas. Maize flour and wheat (as bread) are more important for middle-income and rich households in urban areas. Sorghum and maize are generally substitutable for one another with an increasing preference for maize, especially in the southern half of RSS. Overall, it is estimated that sorghum provides about 26% of calorie intake followed by wheat flour (15%). Groundnuts are important for the rural poor in Northern Bahr El Ghazal, Warrap, and Lakes states.
8. According to a recent FAO/WFP joint crop and food security assessment mission report, the performance of the net cereal production has deteriorated, with a 25% reduction compared to the average of the last five years and 19% less than 2010². The deficit of the 2011 national cereal balance production is estimated at about 473,700 tons (60% more than 2010) with a record deficit of almost 100,000 tons in Jonglei. All the states are deficit, except a small surplus in Western Equatoria (table 1). The poor cereal production performance is attributed to below long term average rainfall in several states, namely Upper Nile, Unity, Warrap, Northern Bahr el Ghazal and parts of Jonglei. These states contributed to about 70% of the national cereal deficit. The situation is further compounded by other factors such as insecurity, recurrent incidents of armed cattle rustling, inter and intra-community conflicts and the activities of militia groups.

² FAO/WFP (2012): Crop and food security assessment mission in South Sudan, January.

Name of State	Net Production Change (2011 forecast vs. 2010, %)	Estimated Surplus/Deficit in 2012 (ton)
Jonglei State (JS)	-22.6	-98,487
Lakes State (LS)	-31.8	-42,288
Upper Nile State (UNS)	-46.9	-67,172
Western Bahr el Ghazal (WBS)	2.9	-9,719
Northern Bahr el Ghazal (NBS)	-33.3	-56,404
Unity State (US)	-66.7	-58,161
Eastern Equatoria State (EES)	25.3	-26,701
Central Equatoria State (CES)	-16.1	-86,861
Western Equatoria State (WES)	7.1	30,380
Warrap State (WS)	-51.1	-58,241
RSS	-19.0	-473,654

Table 1. 2011 net cereal production and surplus/deficit status in RSS

Data Source: FAO/WFP (2012): Crop and food security assessment mission in RSS, January.

9. Cereal production from large scale mechanized farms in Renk was less than half of what is normally produced. The main reasons were that Sudanese who made up about three-fourths of the farmers decided to leave along with their agricultural equipment. The financing for these schemes which was also provided by the Sudanese banks did not materialize and finally the crop protection sprays that were usually conducted by Sudanese Ministry of Agriculture did not occur. The GoRSS does not yet have the capacity to replace either the financing or the agricultural infrastructure and inputs previously provided by GoS.
10. However, the reduction in cereal production in Renk has not necessarily affected the cereal supply within the region since before most of this production was transferred to Sudan. In fact this year cereal prices in Malakal are lower than in the previous years though the transportation costs are exceptionally high.

ii. Sub-regional trends in cereal availability

11. The dependence of RSS on neighboring countries to make up its cereal production deficit, suggests that the supply conditions within RSS should be viewed in relation with the cereal production performance in the sub-region, especially in Uganda, Sudan, Ethiopia and Kenya.
12. The RSS closure of trade routes with Sudan comes at a time when cereal production in the neighboring countries is also relatively constrained, except Ethiopia. Over the last decade (2001-

2011) Kenya has become more and more dependent on cereal imports while Uganda is facing a declining trend which is also affecting grain quality. Overall, Ethiopia has made some progress in domestic cereal production which can potentially become an alternate supply source for RSS.

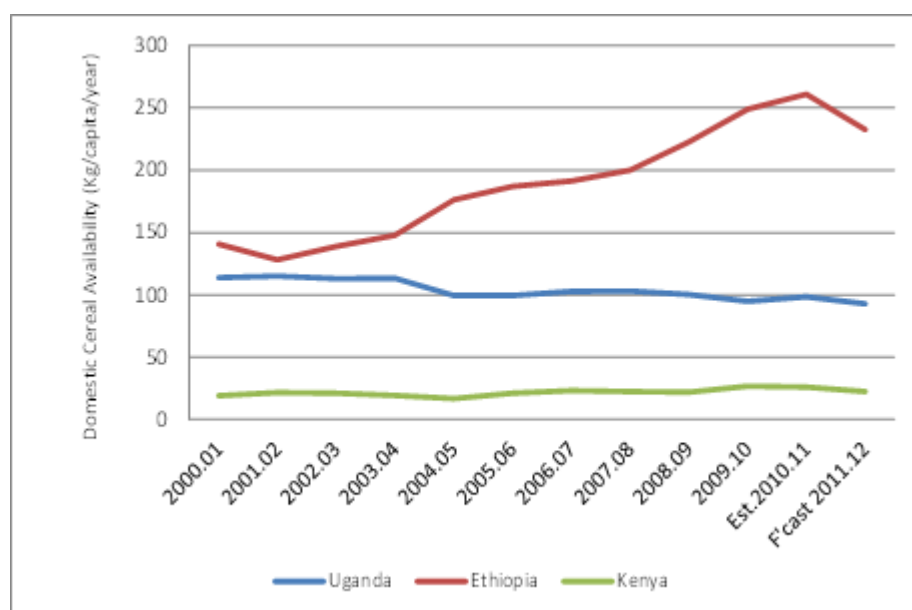


Figure 2. Trends of domestic cereal availability in countries neighboring RSS

Source of data: FAO/GIEWS cereal balance sheets (2001-2012)

iii. The role of cross-border trade

13. The role of informal cross-border trade between RSS and its neighboring countries is well recognized for its scale and implications for households' food security and livelihoods, although it is not yet properly captured by official statistics. Food commodities (mainly sugar, maize, maize flour, rice, wheat flour and sorghum) flow mainly from Uganda (Kampala) and Sudan (Khartoum). Wau and Malakal are mainly dependent on Khartoum for sorghum, sugar and maize flour.
14. However, Ethiopia has become a major source of cereals for RSS in recent months. During last quarter 2011, Tanzania and Ethiopia were the main exporters of cereals (maize, sorghum and wheat flour) while Kenya, Sudan and RSS were the recipients. 3 Tanzania is the main source of formal export of maize to Kenya (through Namanga border market) while Ethiopia informally export sorghum to RSS—through Gambela. As of January 2012, an estimated 855 tons of food commodities—95 percent cereals—were exported to RSS. Cross-border trade in sorghum is most likely to further increase during the hunger and the rainy season when barges (if available) can be used to move food commodities along the Nile but not necessarily to other States given impassable roads during rainy season.
15. Trade restrictions imposed by Sudan in 2011, combined with impassable roads during the rainy season, multiple taxes and high operational costs due to long distances and bad roads have made it difficult to meet the increased national cereal production deficit since 2011. The World Bank ranks RSS (Juba) 159th and 181st out of 183 countries, respectively in terms of ease of doing

business in general and ease of trading across the borders.³ For instance, from the port of Mombasa in Kenya (1400 km away), it takes an entrepreneur in Juba 60 days, and costs US\$ 9,420 to import a standardized container cargo (World Bank, 2011). Domestic transfer costs are similarly high, especially during the rainy season. Traders in Wau indicated that it takes them between US\$9,000-12,000 to transfer 45 tons of goods from Juba. Similarly, a 27 tons lorry from Juba to Bentiu takes five days and costs more than US\$8,000. Cross-border trade is slower and more expensive than the regional average. During the dry season it takes Wau traders three days to receive supplies from Sudan and seven days from Uganda. However, during the wet season, the roads are closed. Overall, the traders' ability to supply the domestic markets is constrained mainly by poor road infrastructure, civil insecurity, long distances to move goods, and complex administrative processes and multiple taxes.

16. Interviews with Kenyan traders based in Kitale suggest that only limited quantities of maize grain are directly coming from Kenya to RSS (less than 5 percent of their trade volumes) due to: reduced surplus maize production, the ongoing maize grain export ban imposed by Kenya since 2010 which is resulting in a shift from maize grain export to maize flour export, poor road networks linking Kenya with RSS, and insecurity which increase traders' operational costs. There are indications of alternative trade routes via Uganda (Swan and Malaba) though traders stated that there are more imports into Kenya than exports through Uganda. The net maize import status of Kenya is also reported by the February 2012 cross-border trade bulletin produced by FNSWG.⁴ Long distances and several costly check points in both Uganda and RSS are also reported as an additional hindrance for supplying markets in RSS.
17. Imported food commodities mainly from Sudan and Uganda are available in the main urban markets of the bordering states, though at a higher price. In the northern states of RSS, traders are coping with border closures by increasingly relying on informal cross-border trade with Sudanese traders, mostly Darfurians. The urban markets visited in Malakal, Torit, Bentiu, Aweil and Wau are well stocked with imported commodities (cereals, sugar, oil, etc.) from Sudan as well as Uganda. At the retail level in Aweil and at the wholesale level in Wau, there is evidence of substantial sorghum food aid coming from Darfur Sudan. Although cross border trade of sorghum food aid to RSS is not a new phenomenon, poor grain production in both Sudan and RSS in 2011 is a contributing factor.
18. However traders in both Aweil and Wau indicated that their capacity to increase supplies from neighboring countries is stretched due to insufficient capital as well as increased demand from due to more returnees and IDPs and poor local cereal production. Therefore, traders do not have enough inventories at a time when they should be normally increasing their inventories in anticipation of the rainy season when the roads will not be passable. As a result they expect food commodity prices to increase more than the increases recorded last year during the hunger season (April-August). Some traders expect that the bilateral agreement signed between the governments of Sudan and RSS on 18th September 2011 to re-open ten border points will enable the free movements of goods to RSS but the impact on supplies will be limited as the rainy season will start in April.

II. Market structure and conduct

³ World Bank and IFC (2011): Doing Business in Juba, IBRD, Washington D.C.

⁴ FSNWG (2012):

a. Changes in the cereals supply chain

19. Market structure, conduct, performance (SCP) studies commissioned by FEWSNET in 2008 and 2009⁵ show that most commodities traded within the border markets of RSS are imported from either Kenya or Uganda. The Eastern Equatorial markets (e.g. Torit and Kapoeta) mainly rely on Kenya for maize, maize meal and wheat flour. These commodities are imported from Kitale and transported by road using hired trucks through Lokichoggio. On the other hand staple food commodities sourced from Uganda are mainly beans, maize and maize flour. These commodities are transported by road using hired trucks. Nimule, Kajo Keji and Yei markets rely more on Uganda as their commodity source markets. Traders use a combination of options to import their goods, including hired and own trucks and sometimes pooling to hire one large capacity truck. The main agricultural commodity source markets in Uganda include Atiak, Ajua, Adjumani Gulu, Kitgum, Agoro, Hoima for raw agricultural foods and Kampala for manufactured foods.
20. The mission met with five large traders in Kampala. All were willing to continue to work with WFP despite some disputes on the quality of the grain last year which resulted in the rejection of a few consignments. They highlighted the fact that WFP regional purchases in Uganda have sharply declined despite the good harvest of this year. They mentioned that they are willing and able to deliver maize to RSS in about three weeks on a credible payment arrangement with WFP.
21. In general Ugandan traders export maize to RSS. However, compared to previous years, quantities have declined. Several factors, particularly non-payment, cumbersome clearance procedures and heavy transport losses have made many traders weary of directly trading with RSS.
22. Traders reported three types of customers from RSS—Government tenders for armed forces and institutions; NGOs; and RSS traders. The terms of trade are strictly cash or confirmed letters of credit through recognized banks. This to a certain extent has affected the level of trade but was considered necessary given that payments for some large scale contracts in the past did not materialize.
23. Ugandan traders now prefer to sell directly to RSS traders hence limiting their own interaction with RSS markets. This helps them to avoid dealing with hassles of duties and transportation. Generally, real prices quoted for RSS traders are significantly higher as grain quality is not necessarily an issue for RSS traders. For example, maize that is currently sold for about 600-700 shillings per kilogram in the Ugandan market is sold for up to 1000 shillings per kilogram to RSS traders. Obviously, this means that the final price paid by RSS consumers is likely to be at least twice as high as in Uganda.
24. Kenya also provides a significant market for maize with brokers hired by Kenyan traders sourcing grain directly from some of the major maize producing districts such as Mubende and Mityana.
25. One of the traders also indicated that although there is generally adequate maize in the market, a significant quantity has been stocked by large traders who are hoarding it until the prices go up. The trader expects the prices to increase but not at the same scale as in 2011.
26. Overall, traders have a clear understanding of the changes occurring in the main commodity supply chains either through their business networks or through informal systems of information

⁵ Margaret Ngigi (2008): Structure, Conduct and performance of Commodity Markets in South Sudan: linkages with food security, FEWSNET, July.

Tom R. Wambua (2009): Southern Sudan S-C-P Market Study: Implications for food security, FEWSNET, December.

flow. For instance, since the closure of trade routes by Sudan in May 2011, informal cross-border trade has intensified with Sudan and Ethiopia, especially for sorghum (including sorghum food aid) and wheat flour and formal cross border trade has been further diverted to mainly Uganda. Wholesalers either import through other traders or go themselves to Uganda to buy commodities. In contrast informal cross border trade has become the main means of accessing supplies from Sudan. Supplies are delivered by Sudanese cross-border traders within RSS border markets (e.g. Aweil town and Wau). Retailers source their commodities either through wholesalers or directly from cross-border traders depending on the type of commodity.

27. Besides uncertainties on security and the peace process with Sudan and high transfer costs due to numerous legal and illegal taxes, key informant traders have also serious concerns about the road conditions during the rainy season (May-August). This will undermine their capacity to supply adequately the markets and consequently increase food commodity prices given they have no other means to cope through domestic supply sources. Domestic supplies to the main urban markets also get affected by the rainy season and there are no alternative supply routes.

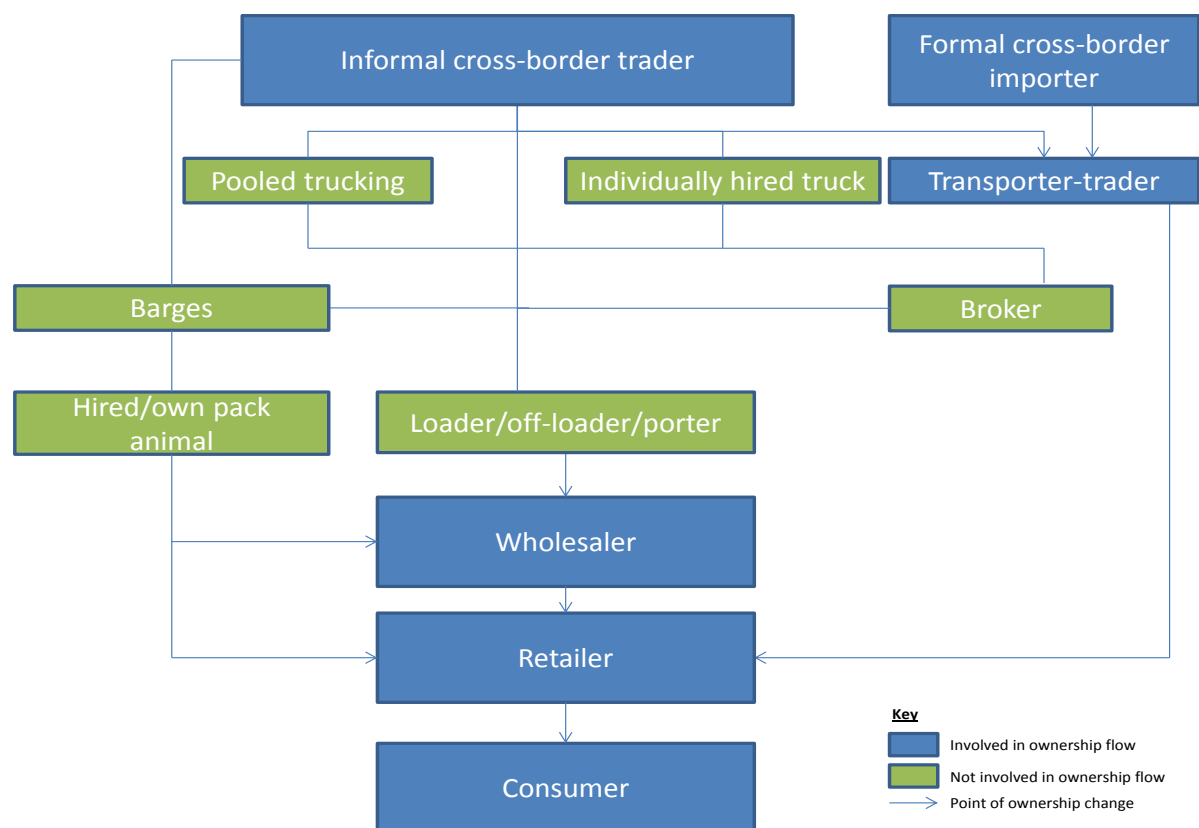


Figure 2. Supply chain of imported food commodities

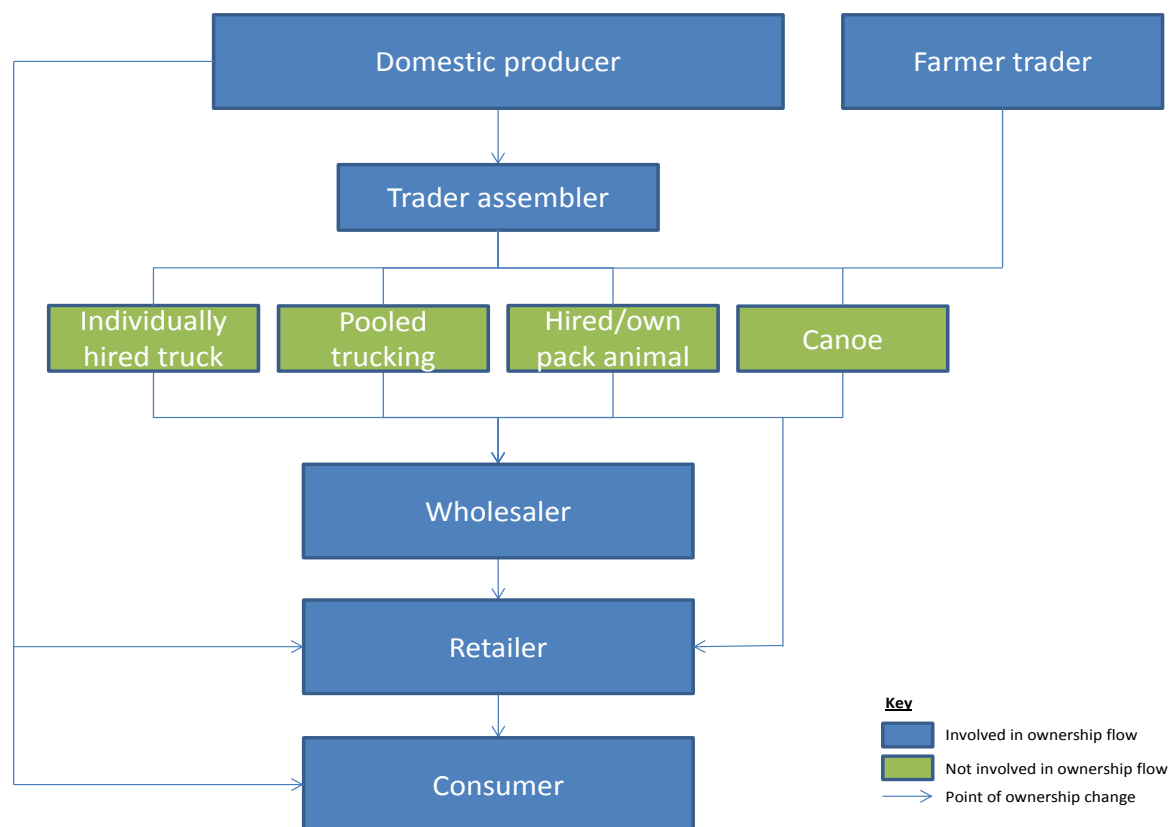


Figure 3. Supply chain of locally produced food commodities

b. Supply chain actors

28. **Cross-border traders:** They play a critical role in facilitating regular and year-round supply of major food commodities sourced in neighboring countries. Most of the cross-border trade is handled by RSS traders who physically travel across the border to make procurement and transportation arrangements. They generally search, assemble, purchase and move goods from the capital cities and major production areas of source countries to the respective urban markets in RSS. For instance, traders sourcing commodities from Uganda go as far as Jinja and Mbarara in Eastern and Western Uganda, respectively. Since the closure of several trading points with Sudan, cross-border trade with Ethiopia is growing.
29. **Domestic producers:** Internal commodity sources are also an important component of the trade in RSS, though with major regional differences. For instance, trader-farmers supplying Wau market from within the state commonly use bicycles and pack-animals to transport commodities to the market. Trader-farmers supplying Malakal market commonly use pack animal and river transport.
30. **Transporters:** Transport is a major determinant of the supply chain of food commodities in RSS. Goods procured in neighboring countries are mainly transported by road to the major central urban markets. During the dry season, it takes a trader based in Wau on average 3 days to import from Sudan and 7 days from Uganda. During the rainy season roads are impassable and the bridges on the accessible ones from Sudan are tightly controlled. Road transportation is mainly managed by:

- individually hired trucks commonly used by large-scale traders or wholesalers (more than 15 tons) to minimize their stock management and transaction costs on long distances;
 - collectively shared trucks are commonly hired by small-scale traders (less than 15 tons) who pool their loads to reduce operational and transaction costs on long distances;
 - transporter-traders who commonly buy perishable bulk commodities from source areas to sell “off-their-trucks” at the urban markets.
31. The transportation of locally produced commodities is constrained by extremely poor feeder roads to connect major urban centers with rural markets. As a result, locally produced commodities are mainly transported in small quantities to the markets, using bicycles. In areas that are accessible by motorized vehicles, assemblers travel to production areas and spend up to three days organizing and supervising assembly of goods from various small-scale farms to central collection points. When the desired loads have been assembled, they are transported to the urban market using hired trucks.
32. **Wholesalers:** There are two categories of wholesalers: those selling off-the-truck and those with wholesale food stores or stalls of dried food commodities (sugar, oil, wheat flour, rice, maize flour, etc.) in the urban markets. Off-the-truck wholesalers are generally cross-border traders dealing mainly with cereals (sorghum, sorghum food aid, maize flour and wheat flour) and perishable commodities such as bananas, potatoes and onions. During harvest periods, they buy from farmers and transport the commodities across the border to markets in RSS. The trucks, loaded with commodities arrive at the market place and are positioned at designated places from where the market traders, including retailers and smaller-size wholesalers can buy.
33. According to Fewson (2009), the grain (sorghum, maize meal and millet) trade is concentrated in the hands of relatively few large traders. Around 40 percent of the grain trade is operated by less than 12 percent of the largest traders. The concentration is even higher for sorghum with around 12 percent of the largest traders handling 70 percent of sorghum trade. However maize market is more competitive. Excluding large scale grain wholesalers, the average typical size of food stores observed in major urban markets fluctuates between 30 and 40 square meters. Wholesale trade is currently dominated by foreigners (at least two-thirds versus RSS nationals), mainly Kenyans, Ugandans and Darfurians.
34. **Retailers:** Retailers engage more in the trade of sorghum (including sorghum food aid), maize and wheat flours, groundnuts, sesame, etc. The majority operates in open air markets. A relatively smaller number of shopkeepers have stores with an average size of 9-12 square meters. Retailers procure imported food commodities from wholesalers operating in the same markets or buy supplies directly from cross-border traders. Women open air retailers are more involved in locally produced commodities such as groundnuts and sesame. Locally produced commodities are procured from farmers, farmer traders or assemblers. This segment of the supply chain is less concentrated due to low barriers to entry and their limited asset base. However, in the current and foreseen supply challenges, they may not be key players for cash and voucher interventions as they are more dependent on unreliable supply sources than wholesalers.

c. Price setting behaviors

35. Informal negotiation between seller and buyer (including wholesalers and retailers) is the most widely used method of price discovery. Consultation among wholesale traders is rather limited.

Among the traders interviewed in Aweil and Wau, it appears that they arrived at selling prices through informal negotiation with prospective buyers. However, there could be some differences in the selling price conduct as wholesalers in Aweil stated that they arrive at indicative selling prices through consultation among traders. The extent to which such consultations could lead to collusive pricing conduct in Aweil cannot be ascertained nor ruled out given the limited number of wholesalers interviewed. On the other hand, traders interviewed at the chamber of commerce in Wau stated that they have no consultative process in place with traders given the high variability and unpredictability of transaction costs.

III. Market performance

a. Seasonality and price volatility

36. Cereal prices have been sharply rising in urban markets since 2010. Compared to their 5-year averages (2007-2010), white sorghum prices have increased on average by as much as 131% in Aweil town and 243% in Malakal. Similarly, the white sorghum prices increased by more than 100% on average in 2011 compared to 2010 in Aweil town and Malakal. Wheat flour prices recorded also the highest increases in Aweil town and Malakal. The high prices of sorghum and wheat flour are due to several factors: decreased road access during the rainy season; the high fuel and transport cost of importing commodities from Uganda; increased demand from returnees; typical lean season shortages; and the continued impact of trade restrictions.⁶

37. Maize prices increased on all the major urban markets, ranging from 42% to 67% when compared to the 5-year average and from 32% to 37% when compared to 2010.

Market	Commodity	Average monthly percentage (+/-) change	
		2011-5YrAvg (2007-2010)	2011-2010
Juba	White sorghum	83%	38%
	White maize	67%	32%
	Wheat flour	30%	29%
Bor	White sorghum	55%	36%
	White maize	42%	36%
	Wheat flour	59%	68%
Rumbeck	White sorghum	45%	35%
	White maize	45%	35%
	Wheat flour	-13%	-10%
Aweil Town	White sorghum	131%	98%
	White maize	-	-
	Wheat flour	117%	113%
Malakal	White sorghum	243%	143%
	White maize	-	-
	Wheat flour	101%	76%
Wau	White sorghum	97%	24%
	White maize	52%	37%

⁶ USAID/FEWSNET (2011): South Sudan price bulletin, December 2011.

	Wheat flour	49%	63%
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Table 2. Changes in nominal prices of cereals in major urban markets in RSS

Data Source: WFP Country Office (Juba)

b. Domestic and cross-border market integration

38. RSS's domestic cereal markets are poorly integrated due to long distances between major markets and poor road conditions, insecurity, considerable number of intermediaries handling food along the value chain, numerous checkpoints and complex administrative processes incurring high transaction costs (transfer costs and formal and informal taxes) (World Bank, 2011; FAO and WFP, 2012). As a result, spatial price differences remain high and prices remain highly volatile in the absence of sufficient commercial flows of cereals between the major urban markets (Juba, Bor, Wau, Aweil, Malakal). Annex 1 indicates that spatial integration of sorghum prices has further deteriorated in 2011, especially between Malakal-Bor, Malakal-Aweil and Aweil-Juba.

39. As shown in table 3, sorghum trade has become more disconnected from Sudan and much more integrated with the Ethiopian border markets. The cross-border market price integration analysis is conducted by calculating coefficient of correlations between markets in RSS and El Obeid (Sudan), Asosa (Ethiopia), Eldoret (Kenya) and Kampala (Uganda), differentiated by pre-independence (2006-2009) and post-independence (2010-2011) intervals. During the sub-period 2006 -2009, northern RSS sorghum markets (Malakal and Aweil) were relatively well integrated with Sudan (El-Obeid). However, since 2010, the RSS markets are disconnected from Sudan as shown by the negative coefficient of correlations. This situation has resulted in the emergence of sorghum trade flows from Ethiopia, as illustrated by the increase of the coefficient of correlation from – 0.51 (in 2006-2009) to 0.60 (in 2010-2011) between Bor (RSS) and Asosa (Ethiopia).

40. The aftermath of the independence is characterized by the deterioration of the degree of maize price integration between RSS, Kenya and Uganda due to high transaction costs. However, the coefficients of correlation remain positive suggesting that the price differentials across the borders remain high enough to enable profitable trade flows to RSS, despite the increased transaction costs and trade restrictions. Interviews with cross-border traders in Kitale (Kenya) indicate that the Kenyan export ban on maize grain has resulted in increased trade flows of maize meal (in lieu of maize grain) to RSS.

	Correlations between retail prices of white sorghum in RSS markets, wholesale price of red sorghum for Asosa in Ethiopia and wholesale price of sorghum feterita for El Obeid in Sudan							
	El Obeid –Juba	El Obeid-Aweil	El Obeid-Bor	El Obeid-Malakal	Asosa-Juba	Asosa - Aweil	Asosa - Bor	Asosa-Malakal
2006-2011	0.21	0.16	0.14	0.28	-0.55	-0.30	-0.63	-0.29
2006-2009	-0.63	0.47	0.61	0.89	-0.36	-0.21	-0.51	0.48
2010-	-0.20	-0.16	0.05	-0.41	-0.39	0.80	0.60	-0.16

2011								
	Correlations between wholesale price of white maize in Kampala and Kenya and retail price of white maize in Juba							
	Kampala-Jua	Eldoret-Juba						
2006-2011	0.14	0.13						
2006-2009	0.50	0.40						
2010-2011	0.41	0.17						

Table 3. Coefficients of correlation of sorghum and maize prices between RSS and neighboring countries

Data Source: WFP and GIEWS

Note: Prices were all converted in USD (OANDA exchange rates)

c. Prospects of traders' response capacity during the hunger season

41. Overall markets and traders' response capacity are undermined by numerous challenges. Domestic urban markets are poorly integrated with rural markets. The main urban markets are weakly integrated with markets in the neighboring countries with further deterioration with regards to Sudan and an improvement with Ethiopia. The situation is expected to be compounded by supply challenges foreseen during the hunger season (April-August):

- Weak infrastructure (poor road conditions) creates difficulties for trader's to supply the market and distribute the commodities effectively. The situation will be aggravated by the rainy season when roads become impassable;
- high transfer costs attributed to poor road infrastructure, civil insecurity, long distances, and multiple taxes make supplies from formal and informal cross-border trade unreliable;
- increased scarcity of the US dollars for imports will result in further local currency devaluation, inflation and further food price volatility;
- poor grain harvest in major source countries (Sudan) will affect prices due to reduced cross-border supplies as the demand increases during the lean season;
- insufficient capital to increase supplies and stocks to mitigate domestic grain production deficit and anticipate the challenges foreseen during the rainy season.

IV. Household food security and nutrition status

a. Trends in households economic access and dependence on markets

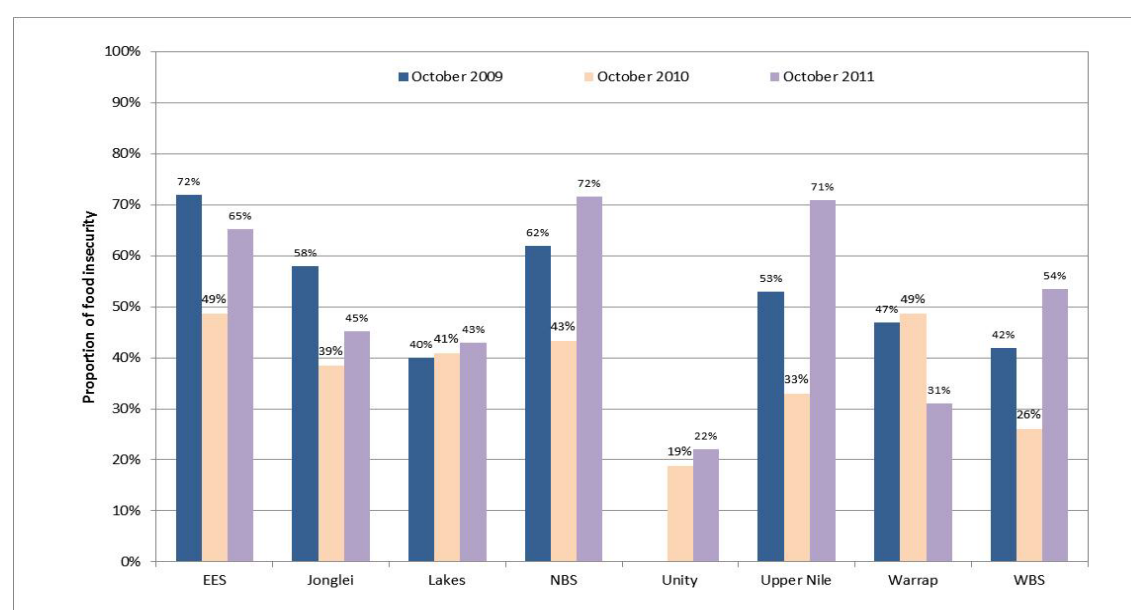
42. According to WFP country office data, high grain price increases has led to a decline in the purchasing power of households throughout 2011. Evidence of the declining trend of both

pastoralist and agro-pastoralists' terms of trade is seen in Wau and Bor. To the contrary, the terms of trade improved slightly in Malakal in end-2011 as a result of the harvest and trade restrictions to Sudan that prevented outflows of grain from Malakal town markets.

43. Overall, RSS has historically high dependence on markets but their market dependence has increased further in 2011 as a result of poor harvest. Markets have become the dominant source of food, accounting for about 47 percent of sorghum supply at the time of harvest (up from an average of 39 percent in October 2010) and around 75 percent during the peak of the lean season in April-June 2011. The average proportion of households spending more than 65 percent of their incomes on food has increased substantially from 26 percent in October 2010 to 40 percent in October 2011, despite the harvest.
44. In the absence of sufficient own production and incomes and in the face of continued high food prices, rural households are expected to increasingly resort to selling charcoal, firewood and mats as the dry season ends in March. Furthermore, it is expected that higher than normal number of households will resort to markets to source food and/or sell their livestock during the peak hunger season of April-August 2012.

b. Impact and short-term prospects of household food security and nutrition

45. Compared to 2010, RSS households' food security and nutrition status has deteriorated in 2011. About 48 percent of the population of RSS is reported to be moderately to severely food insecure, an increase from 36 percent in 2010/2011 agricultural year (FAO/WFP, 2012). According to WFP food security monitoring (FSMS) data, the sharpest increases (compared to 2010) in food insecurity are observed in Upper Nile (+115%), Northern (+67%) and Western Bahr El Ghazal (+108%) and Eastern Equatoria (+32%).⁷ The most affected States, except for Eastern Equatoria, suffered more from trade restrictions from Sudan, severe production shortfalls, conflicts, increased inflow of returnees from Sudan and IDPs from Abyei and high food price increases.



⁷ The percentage increase of the numbers of food insecure is calculated based on the difference between FSMS figures of October 2010 and October 2011.

Figure 3. Prevalence of Child Acute Malnutrition in RSS as of October 2011

Source: FAO/WFP (2012): Crop and food security assessment mission in RSS

(CES – Central Equatoria State, EES – Eastern Equatoria State, NBS – Northern Bahr el Ghazal State, WBS – Western Bahr el Ghazal State)

46. Child malnutrition rates have reportedly increased significantly, especially in Jonglei, Eastern Equatoria, Northern and Western Bahr El Ghazar, Upper Nile and Warrap. The main drivers of child malnutrition are poor food intake, diseases, poor feeding practices, poor hygiene and sanitation and lack of access to medical care.

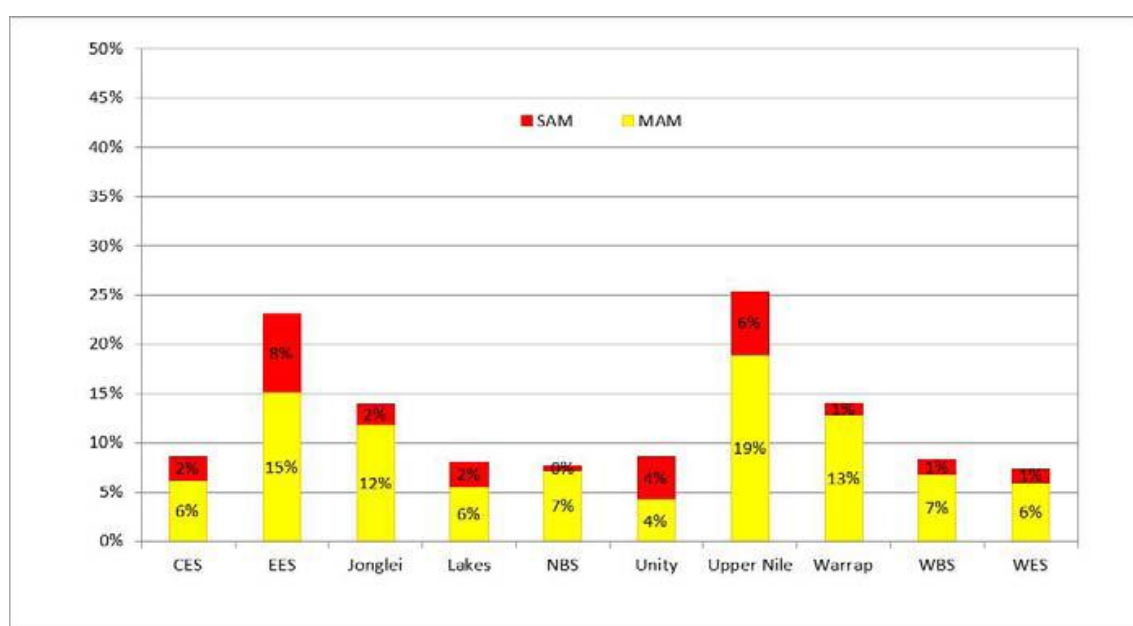


Figure 4. Prevalence of Child Acute Malnutrition in RSS as of October 2011

Source: FAO/WFP (2012): Crop and food security assessment mission in RSS

(CES – Central Equatoria State, EES – Eastern Equatoria State, NBS – Northern Bahr el Ghazal State, WBS – Western Bahr el Ghazal State)

47. Overall, the food security situation is expected to further deteriorate during the hunger season (April-August) when markets will become less accessible physically and supplies will consequently reduce further. Child malnutrition is also expected to be compounded by seasonal peaks at the height of the hunger season (early stage of the rainy season in April-June) and at the peak of the rainy season (end of the hunger season in August-September) due to increased incidence of malaria.

V. Programming Context

21. The deployment of cash or voucher-based approaches to respond to food and livelihood insecurity is plausible in the short-term. The scale of the immediate deployment of cash or voucher-based responses is fundamentally limited by the significant current degree of national food scarcity, lack of trading capacity and the unknown effects of structural changes on both the macro-economy and food supply.
22. In the long-term, there is scope for WFP to develop credible, scalable cash or voucher-based interventions that support the development of both food security and livelihoods. In this regard, WFP should position itself to support national efforts to design and implement a comprehensive social safety net, for both urban and vulnerable populations.
23. The government is open to new forms of food assistance, keen to initiate interventions that promote local development and reduces the risk of food aid dependency. In that respect, government is willing to explore the use of cash and voucher-based approaches as additional food-assistance transfer modalities.
24. The mission found that there is potential for market-based solutions. Options to address the current supply-side constraints of basic food commodities, however, are very limited. Factors such as weak trader capacity, inadequate infrastructure, lack of transport capacity, and lack of regional market-integration conspire to reduce the efficacy of these approaches.

a. Government Position

25. The Ministry of Humanitarian Affairs (MHA) and Relief and Rehabilitation Commission (RRC) were very open to the possibility of introducing either cash or voucher based programmes in both rural and urban areas of South Sudan. Officials cited many benefits to such responses, including the long-term potential of cash or voucher approaches to stimulate local food production and trade. Nevertheless, government officials asserted that their primary concern remained the overall food supply situation and a potential humanitarian crisis associated with the returnee populations.
26. Both the MHA and RRC identified the repatriation of South Sudanese from Sudan as their chief priority – given that food requirements for rural food deficit populations have already been accounted for by both WFP and other international organisations. Government officials noted that critical support is required for restoring livelihoods, in addition to the returnees' food needs.
27. Both the MHA and RRC were also open to exploring the deployment of cash or voucher responses in urban areas, noting that there were potential benefits for beneficiaries and for the local economy. It was recommended that the provision of assistance should be limited to easily definable, targetable and needy populations such as the conflict displaced and returnees. If this was not the case, the government warned that targeting and distribution in urban areas could prove to be very problematic and result in conflict and create undesirable pull-factors.
28. From a long-term perspective, the MHA recognises the need to move away from large-scale food-aid interventions and to create incentives for farmers to increase their agricultural production. In the past, a small number of cash-based programmes were shown to have been

beneficial to villagers, farmers and traders – although these programmes took place in the context of the good production years. It was noted by both the MHA and the Ministry of Agriculture that in many areas there is potential to link voucher programmes to the monthly marketing-day system that takes place in most payams and bomas.

29. Chronic food insecurity is believed by many to be a result of food aid dependency. Despite this perception, efforts to introduce large-scale cash transfer or livelihood programmes have failed to gain traction within either donor or government circles. It was reported to the mission that some parts of government were reluctant to systematically introduce universal cash transfers, as outlined in the recent national development plan. The Ministry of Finance was reported to have strong reservations with the approach proposed in the plan, on the grounds that it failed to take a comprehensive perspective of the needs of vulnerable populations and the development challenges facing the country. The proposed Universal Child Cash Transfer (UCCT) did not win the backing of the Ministry of Finance.
30. Government officials, both in the national and state capitals, advised that WFP should pay full attention to both the rural and urban divide and the need to ensure that future urban responses are not concentrated solely in the national capital, Juba. Nevertheless, urban poverty is still considered to be a challenge with increasing problems associated with overcrowding, lack of access to basic services, and food insecurity. WFP, as with most major agencies, has historically focused its attention on the rural situation.

b. Donor Position

31. Donors were largely circumspect on potential of cash or voucher based activities as a response to the emergent crises of the new state. Donors acknowledged the severe food deficit situation rendered large-scale cash or voucher programmes beyond the realm of possibility, however, they indicated that such programmes would in the future be an important feature of the required transition from relief to development approaches. Both ECHO and USAID expected that private sector import volumes will also fall, as a result of increasing incidences of insecurity, looting and higher transport costs associated with additional transit taxes.
32. ECHO indicated that despite the positive results of their cash programs, the macro-economic and food-security situation renders the current situation uncondusive to cash and/or voucher interventions; largely due to the anticipated hyperinflation. According to ECHO, the current austerity crisis will lead to a significant loss of purchasing power in the urban areas. In their scenario, the lack of purchasing power will have devastating implications on the national security situation, leading to a rapid increase in looting and generalised crime. An example was given of soldiers that will continue to receive their salary but it will quickly and drastically lose purchasing power. The impact of austerity is expected to have a far greater effect on the new state than the repatriation of the South Sudanese population from Sudan.
33. ECHO noted that it could be supportive of an intervention where the market supply would be enhanced. Monetisation was not directly discussed with ECHO, but rather the use of vouchers as a form to sign contracts with traders/wholesalers who would take the risk to import food commodities within the framework of a secure business. Insecurity and looting were raised as the key risks of this approach. ECHO also highlighted how their small-scale cash programs, delivered by NGOs, would likely be flexible in their ability to respond to rapid changes in the context.

34. DFID's primary interest is in recovery or transition, and they are considering establishing area-based programmes with an integrated policy response. DFID plans to introduce a 3-year, £100 million programme for Food Security and Livelihoods, within Bahr-el-Ghazal. They are primarily interested to pursue simple CV approaches (along the style of the Karamoja intervention), rather than to replicate what is considered to be an expensive Productive Safety Net Programme (PSNP) style approach. The approach will likely change and evolve according to the evolving situation on the ground. DFID expressed an interest to work with WFP.
35. The World Bank (WB) is very interested to explore the use of cash as a recovery mechanism and has been closely involved with government in developing their response, through the Social Protection Group. The World Bank expressed its interest in working directly with WFP to define the context and to develop an approach to Social Protection that takes a comprehensive approach.
36. USAID did not share any plans for CV programming with the team, declining to comment on likely scenarios resulting from either the austerity measures or potential returnee crisis. Overall FFP did not seem to be supportive of monetization in South Sudan. It was noted that the use of cash transfers should be confined to assist the repatriated population in order to re-establish their livelihoods, whereby food would be a component of a larger cash transfer.

c. Cooperating Partner Capacity

37. A small number of Cooperating Partners have implemented cash and voucher programmes in both urban and rural context and consider their interventions to have either successfully or unsuccessfully reached their objectives. Cash interventions by Mercy Corps, SCF and Horn Relief have been implemented to provide for a range of household needs, including food and agricultural needs. An urban voucher-based intervention by ACTED has been implemented to respond to the immediate food needs of returnee populations.
38. Many of the partners expressed their confidence in the fundamental benefits of cash-based interventions and expressed their willingness to partner with WFP to implement either cash-or-voucher based programmes. The mission considered that partners were realistic about the potential challenges associated with the implementation of either cash or voucher based approaches, including the anticipated difficulty of securing food supply through the markets or through contracted traders.
39. The mission met with two partners who are implementing small-scale cash interventions in Aweil County. Save the Children has successfully implemented a cash intervention in Malakon since 2009, funded by ECHO. The project reaches between 1,400 to 2,500 beneficiary households and the transfer of €32 or 110SSP per household per month is designed to address both the household food gap and to protect and create household assets.
40. Currently cash is distributed directly in-envelopes by SCF, however, this approach is considered to be inefficient and to be logistically difficult in terms of the physical transit of cash. Cash is transferred to households as part of both an unconditional and Cash-for-Work activities. SCF is exploring using traders to issue cash through a cash-voucher style intervention.

41. SCF is very committed to continuing to distribute cash to its beneficiaries, however, they acknowledge that the recent closure of the border and food-price increases have had a negative impact on the ability of households to access their full food and non-food needs. At the time of the mission, SCF was conducting a review of the programme to explore the possibilities of further increasing the cash value of its transfer or introducing a voucher-based approach to protect beneficiaries entitlements.
42. Reviews of the project have found that the approach has enabled households to improve their food consumption, dietary diversity and provide greater empowerment to beneficiaries. It is estimated that households generally spend 60 percent of their transfer on food needs and 40 percent on other needs, such as school fees, medical fees and purchasing of poultry.
43. Horn Relief has recently introduced a cash programme in Aweil County, targeting 1,500 beneficiary-households and with a particular focus on newly-arrived, returnee populations. A cash transfer to the value of 60 USD, distributed in South Sudanese Pounds, is provided to targeted households who participate in Cash for Work activities. Households mostly use the transfer to meet their major food needs and to purchase sorghum, sugar, tea, leaves, staple foods and oil.
44. Some 80 percent of the programme beneficiaries are highly-vulnerable returnees and 20 percent are highly-vulnerable host-community households. Beneficiaries, particularly returnee populations, are considered to be very financially literate in terms of both the use and value of money.
45. To implement the project, Horn Relief undertook a feasibility study, which noted that foods were generally available yet there was a need to support and develop local markets. In addition to the provision of cash-transfers to vulnerable returnee and host populations, Horn Relief is beginning to implement a "Cash for Business" programme to support the development of local markets and businesses.
46. Developing a feasible, delivery mechanism proved initially challenging for Horn Relief, given the very erratic/non-existent electricity supplies, limited financial services available, and lack of network connectivity in its area of operation. Horn Relief was able to identify a local bank, Amal Bank, who agreed to provide remote banking services and distribute the cash transfer to beneficiaries on a monthly basis at seven sites for a commission of 7 percent. Amal Bank was quite concerned with security, and employs security personnel to accompany the cash in transit and oversee distribution at remote sites. Although there were a lot of logistical problems and confusion associated with the initial implementation of the project, Horn Relief believes that the delivery mechanism is now working well.
47. Although the project has only been running for two distribution cycles, Horn Relief has already noted that prices of basic commodities have increased to the point that the transfer is insufficient to meet the envisaged needs of the households. Both increasing food prices and the limited availability of the foods in local markets have prompted Horn Relief to shift the intervention from the current cash-based programme to the voucher-based programme. At the

time of the mission, Horn Relief was evaluating its options. Despite the rapidly changing economic conditions and increasingly limited food availability, Horn Relief believed in the merits of the cash intervention and registered its potential interest to partner with WFP to implement cash.

48. ACTED has implemented a small-scale voucher intervention for returnees who were given the entitlements to redeem meals in newly established restaurants, however, cultural practices that prohibited the beneficiary population from receiving meals from persons unknown to them was a serious constraint that the project was unable to overcome.
49. Existing food-aid partners expressed both enthusiasm and concern about the possible large-scale introduction of cash or vouchers with WFP. Both **World Concern** and **Celestial** believed that cash or voucher interventions potentially offered significant benefits to vulnerable households. It was widely held that any cash intervention undertaken in an urban area would allow beneficiaries to purchase a range of local available foods and to seek lower-cost cereals and vegetables during the hunger season.
50. These partners raised concerns that urban households might use cash transfers for anti-social means. Cooperating Partners seemed particularly uneasy with the idea that WFP might introduce cash or voucher activities *in lieu* of the large-scale, seasonal food-aid programme. Partners were of the opinion that a very significant proportion of the cereals that become available during the lean season are sourced from rural beneficiaries.
51. Voucher-based interventions were also considered feasible in urban-areas. It was noted, however, that it would take a significant amount of time to identify and select reliable traders who would be able to ensure consistent supply of basic commodities and honour contractual commitments; particularly when faced with increasing demand for their products at the height of the lean season.
52. NGOs were quite favourable to potential WFP support to interventions that support market supply, as they estimate to have the capacity to assist a much larger number of households with cash and vouchers. NGOs foresaw a scenario where WFP would facilitate supply and where NGOs would develop voucher response, in-line with their intention to scale-up.

d. Available Financial Service Providers and Money Transfer Schemes

53. The range of available financial delivery mechanisms in South Sudan is currently limited yet major banks were interested to participate in the development of cash or voucher programme. The banking sector is considered to be relatively nascent yet expanding; banking halls exist in all major towns. Additional banking services such as agent banking and mobile banking do not yet exist at large scale, however, the two banks that the mission had discussions with were planning to pilot and roll out these services.
54. Full trust of the banking sector has yet to be established and the introduction of conventional banking has marked a shift away from the general familiarity with traditional Islamic banking systems. Furthermore, the financial service sector has witnessed considerable changes and development, associated with the division of formally Sudanese banks and the establishment and expansion of South Sudan based banks.

55. Lack of financial literacy and familiarity with modern banking services (such as mobiles services provided through merchant-based Point of Sale devices) were cited by both Kenya Commercial Bank (KCB) and Equity Bank as major constraints on their operations. Nevertheless, their current resources and particularly banking hall services were oversubscribed and beyond capacity limits. KCB has established a subsidiary bank in South Sudan and is rapidly expanding its conventional banking network. KCB aims to have branches open in all state capitals by 2012.
56. Both KCB and Equity Bank were very willing to work with WFP and to develop operational partnerships. Both KCB and Equity Bank would be willing to provide PoS devices to retailers, should WFP contract retailers to administer a voucher programme. KCB and Equity Bank were also willing to provide cash distribution services (including in pre-packing) should WFP develop a cash intervention.
57. Maintaining the supply of either local or foreign currency cash to branches in state capitals is problematic, and all cash is air-lifted from Juba. Local traders largely use the Hawala system, although KCB encourages traders to open accounts as Sole Proprietors, as most are not registered as Limited Liability Companies.
58. The mission also met with Agricultural Bank, a bank that provides short-term microfinance loans for agriculture, small business and traders. The bank, which was partitioned into a Sudanese and South Sudanese banks, does not use computer-based systems to manage its
59. Conventional banking remains very much the norm, with banks primarily offering savings and loans. Mobile Money and Internet Banking services are not yet available, although KCB plans to pilot both services later in the year. Western Union and Hawala schemes widely operate throughout South Sudan.

e. Trader Capacity & Willingness

60. The mission explored the possibility of trader participation in the implementation of voucher programmes. Medium and small-scale traders registered their interest to participate in such programmes, however, they were candid about the possible risks for WFP and its beneficiaries. Traders were concerned about a range of potential problems, including: the availability of credit to purchase supplies, their potential inability to provide supply during the rainy season, and their concerns about whether WFP would be willing to pay higher prices during the height of the lean season.
61. NGOs were also open to establishing contractual relationships with traders as part of a voucher programme, however, NGOs were concerned about the capability of traders to fulfil contractual obligations and to guarantee supply throughout the season.
62. In Aweil County, a local small-scale wholesaler noted that there is significant price fluctuation, primarily as a result of the formal closure of the border with Sudan and capacity impediments and blockages as the Ugandan border. Nevertheless, the trader noted that informal trade continued to flow between Bhar El Ghazal and Darfur, as Darfurian traders were fully reliant on South Sudan as their primary market. The wholesaler noted that he had a lot of difficulty with local traders, who had very limited business skills and were unable to maintain capital and stock.

Some 36,000 USD were owed to the trader, who subsequently refuses to offer credit to any local trader. The small-scale wholesaler expressed confidence in his ability to participate in a WFP voucher programme, however, as long as WFP was very specific about its exact needs and requirements and provided advanced payment. The trader uses the Hawala system to pay his suppliers, who would mostly rely on smuggled foods.

63. The Chamber of Commerce in Wau was very concerned about the overall food supply situation and was very concerned about the ability of local traders to meet urban food needs in the current season. The chamber called for a “collective effort” by WFP and traders to increase food supply, noting that the situation will be worse than previous years and that there was no reserve to meet demand. Traders estimate that food prices will exceed those of last year.
64. The trader noted that should the economic situation continue to deteriorate, the urban population would likely switch their preferences to basic produces and demand will remain high. Transport costs continue to increase, from both Mombasa and Djibouti and prices have reached a high of 14,000 USD for one container from Mombasa to Juba. It was reported that most Juba-based international traders do not operate outside Juba, given the security concerns and logistical challenges.

VI. Intervention Scenarios

65. Given that the rural food security situation and aid responses have been well documented and planned, the mission focused its attention on possible scenarios that will likely have a significant effect on food security. Specifically, the mission examined the potential scope and impact of increased returnee flight and rapid macro-economic austerity on food security.
66. To date, little is documented about the food security situation in the main urban areas of Juba, Malakal and Wau. The recent CFSAM identified 130,000 persons living in urban areas who are considered to be severely food-insecure. In addition, the CFSAM identified a further proportion of moderately food-insecure households exhibited poor food consumption. The needs of these households were not factored into the overall food-aid requirement for this season, which focused on the rural food security situation. Given the changing scenarios, described below, the mission recommends that the urban food-security situation requires additional consideration by WFP and other actors.

a. Scenario 1: Food-Price Increases Significantly Reduce Urban Food-Security

67. Financial austerity has many potential implications on the country’s food security situation. It is expected that the devaluation of the South Sudan Pound is inevitable and that a devaluation of pound will lead to significant increases in the prices of imported foods and basic commodities. The World Bank reports that the South Sudan Pound’s collapse is a matter of months away and that a period of hyperinflation is anticipated. Consequently, urban households are likely to be largely affected by increasingly high prices and the likely devaluation of the domestic currency.
68. There is a convergence of opinion with respect of the impact of government imposed austerity measures, concluding with a scenario where rapid-inflation leads to a significant loss of

household purchasing-power for urban and market-dependent households. Discussions about the impact of those measures on the market supply, however, were not equally convergent.

69. The mission believes that the markets can continue to function if it is supported by secure and solvable demand. The mission had limited discussions with large-scale trader-importers, however, one large-scale, Dubai-based general trader reported that traders are confident that demand for their services would continue to rise, given the problems with food production and the currency devaluation. The macro-economic situation does not affect their ability to import, however, it affects their pricing.
70. If this scenario is to materialise, the urban population is likely to be largely impacted as they fully rely on their income to access the market. Even if food markets will be sufficiently and regularly supplied, this supply will come at a much higher cost; inevitably having a significant impact on the urban poor whose access to food is wholly dependent on the market.
71. The mission expects that this depreciation will result in a further loss of the household purchasing power for government employees and the armed forces. Salary increases cannot be envisaged due to the financial austerity measures being undertaken by the government.
72. Therefore, the 130,000 severely food insecure and proportion of the moderately food insecure urban people (with low food consumption) will likely endure significantly reduced food access.

b. Scenario 2: Significant Returnee Movement Impacts Urban and Rural Food Insecurity

73. There is a wide diversity in understanding of how the returnee repatriation situation will evolve, and many different scenarios were discussed with partners and donors. It is estimated that 700,000 South Sudanese remain within Sudan and 50,000 within South Darfur. A memorandum of understanding signed between the governments of Sudan and South Sudan states that all South Sudanese citizens must be repatriated by April 8, 2012.
74. To date, IOM reports⁸ that spontaneous and organised movements of returnees have been limited in scale. IOM is chiefly concerned about the possibility of a large-scale movement of returnees and is working with the two governments and partners to develop an operational plan to manage such a return. IOM's most likely scenario is that a large number of repatriated households will move towards the end of the deadline. As a result of the rainy season, they will likely remain stranded in the Upper Nile state. The rainy season will heavily impact onward movement and returnees will have no option but to be housed in transit camps for at least a six to eight month period. Preparations for the returnee population are very limited, as currently there is no funding for IOM.
75. Nevertheless, IOM has begun negotiations with the government on where to install the camps. IOM's preferred plan is to build several camps housing between 20,000 to 30,000 persons along the river Nile; facilitating access to water, equipment and NFI transport. If the movement is going to materialise, this population will require in-kind food assistance for the duration of their stay in the camps. According to ECHO, the likelihood of this scenario is slimmer than it would appear. Based on a recent visit to the Upper Nile border areas, intelligence from Khartoum, and

⁸ In 2011, IOM provided transport assistance to 23,000 South Sudanese residing in Sudan to return home by barge, train and air. A further 16,500 returnees were provided with support to reach their final destination points (IOM).

official information from Khartoum and Juba, it may turn out that no major or no influx at all will happen at least in the short term.

76. The Government's Relief and Rehabilitation Commission (RRC) estimates, however, that a movement of up to 700,000 persons will take place. In response, the RRC have asked State Governors to provide 150,000 plots for returnee households. The RRC aims to support those persons that are willing to resettle to their final destination only, and not those persons who aim to settle in urban areas.
77. Returnees who reach their areas of origin (final destination) face significant challenges in terms meeting their food and non-food needs. The majority of returnees are granted a plot of land within their area of origin, however, they are often expected to clear their land and to construct shelter. Host populations in food-deficit areas reported their concerns that returnee populations would exhaust their already limited means. WFP currently provides a returnee ration of three-months food needs to IOM identified households, however, this transfer could be amended to include significant non-food and asset creation needs of households.

VII. Short and Long-Term Responses

78. There are merits to the deployment of cash or voucher-based approaches in response to increasing urban food-security needs and the food and livelihood needs of vulnerable returnee populations. The scale of the immediate deployment of cash or voucher-based responses is, however, fundamentally limited by the existing market and trader capacity and a range of risks associated with the transitional, fragile state.
79. WFP's responses analysis for the both the urban and returnee scenarios must take account of the needs of both the immediate situation and the requirement to support long-term state-building and development efforts. In this regard, the Fragile States Principles⁹ offer clear guidance to support WFP's decision making. Response analysis respond to immediate needs while seeking to develop long-term approaches that prioritise the needs of both rural and urban food insecure and support GoSS to provide for the food security needs of its people.
80. In introducing cash or voucher programming, WFP will be required to navigate around many significant risks and challenges. Cash and voucher interventions will face the same challenges that currently undermine market functioning such as high price volatility, market segmentation and unreliable supplies. Such risks will likely increase with the progression rainy season and increased macro-economic uncertainty. The final selection and design of distribution modalities should take full account of these risks. Table 1 below details the major risks that face potential cash, voucher or market support programmes.

⁹ The Fragile States Principles: 1. Take context as the starting point; 2. Ensure all activities do no harm; 3. Focus on state-building as the central objective; 4. Prioritise prevention; 5. Recognise the links between political, security and development objectives; 6. Promote non-discrimination as a basis for inclusive and stable societies; 7. Align with local priorities in different ways and in different contexts; 8. Agree on practical co-ordination mechanisms between international actors; 9. Act fast but stay engaged long enough to give success a chance; and 10. Avoid creating pockets of exclusion ("aid orphans").

Table 1. Major Threats or Risks for Cash, Voucher or Market Support Programmes

Area	Threat or Risk
Macro-Economic Context	Rapidly deteriorating macro-economic context
	Currency devaluation and rapid inflation
	Significant national food scarcity
	Lack of regional market integration
	Lack of Trading Capacity
	Inadequate infrastructure and transport capacity
	Potential response failure due to lack of access
	Returnee humanitarian crisis
Urban Food Security	Increasing levels of food insecurity and poverty
	High and increasing food prices
	Trader capacity to meet urban food needs
	Hyperinflation
	Significant loss of purchasing power
	Urban targeting and distribution challenges
	Cooperating Partner Capacity Limited
	Maintaining cash value of transfer
	Use of cash transfers for anti-social means
Returnee Situation	Increasing urban population
	Increasing levels of food insecurity and poverty
	High and increasing food prices
	Support for food, shelter and non-food needs
	Rainy season will limit onward movement and returnees
	Returnees will be housed in transit camps for at least a six to eight month period.
Trader and Transport Capacity	Reliance on large-scale, seasonal food aid programme
	Higher transport costs associated with additional transit taxes
	Increasing incidences of insecurity, looting
	Difficulty securing contracted food supply
	Major traders operate within Juba only
	Local market reliance on smuggled foods.
	Limited business skills of local traders
Banking and Financial Services	Currency devaluation or collapse
	Limited number of banking centres and facilities
	Banking services are largely conventional
	Lack of remote, mobile and internet banking
	Current lack of connectivity and network services
	Lack of Point of Sale Technology
	Preferential use of Hawala system
	Financial literacy of both traders and individuals
	Difficulty in accessing and transporting cash
	High cost of commission and service fees
Cooperating Partner	Limited experience and capacity with cash and voucher programming
	Time required to recruit reliable traders
	Cultural practices that inhibit voucher responses
	Ensuring consistent supply from traders

a. Responses to Scenario 1

81. Efforts must be made to expand urban-based programmes to meet the expected increasing needs of food insecure populations. Given the concerns raised by both government and NGOs, an urban-based response mechanism will be required to have very clear targeting criteria. Currently, WFP has planned to provide in-kind transfers to health-based institutional caseloads. There is scope to increase and widen this caseload as an entry-point to urban food security programming.
82. The use of in-kind food assistance in urban areas will address beneficiaries' needs but would most probably induce negative effects on the market due to a sizable drop in demand. Less demand, particularly if protracted over several months, will reduce the traders' capacity to import goods, supply will shrink affecting most probably employment in the trade sector.
83. Currently, the Ministry of Health are largely responsible for the distribution of WFP's supplementary foods, however, it is likely that an increasing caseload and a shift in transfer modality would place an increasing burden on their resources. Cooperating Partners expressed their willingness to administer and implement such cash or voucher based responses.
84. Although some beneficiary populations, traders and partners tend to lean towards vouchers as a response, there is a general sense that cash-based interventions provide more freedom of choice to beneficiaries and will ensure that beneficiaries have the flexibility to mitigate any specific trader to supply sufficient quality foods.
85. The limited availability of technology and lack of network connectivity hinders the immediate deployment of electronic distribution and payment systems. The willingness of banks to partner with WFP to provide either remote or mobile banking services warrants further investigation. Both the Immediate Cash and Cash Account distribution model could be considered.
86. Cash transfers, however, have the potential to contribute to fuelling inflation due to overall large amounts of cash that would be distributed by WFP in the market. In this context, a voucher programme has the ability to: provide access to pre-defined food and non-food items, restrict voucher redemption to pre-selected shops and agree voucher reimbursement on the basis of pre-negotiated prices if required.
87. Retailers selected for participation in the programme will have a strong interest to guarantee demand for their goods. WFP may be able to negotiate either fixed prices or limited price increases for the selected commodities thus limiting the amount of money circulating and the impact on inflation. Vouchers can create win-win conditions for beneficiaries and the market, if the risks of retailer failure can be fully mitigated. Given the lack of current available technology and connectivity, as simple low-technology approach should be adopted.

Table 2. Urban Health-Based Caseload, Cash and Voucher Opportunities

Transfer	Model	Major Opportunities	Major Risks
Cash	Cash Account	<ul style="list-style-type: none"> High degree of financial control and risk management. Banks are willing and able to provide specific services in major 	<ul style="list-style-type: none"> Beneficiary populations are unfamiliar with conventional banking. Financial literacy and

		urban centres. <ul style="list-style-type: none"> • Risk of retail failure is low, and beneficiaries will be able to spend cash at will. • Cash approaches enable beneficiaries to meet a range of needs, including non-food needs. • Beneficiaries would collect cash from predefined locations. 	mobility are required to open an account and to make withdrawals. <ul style="list-style-type: none"> • Fees and commissions may be prohibitive. • Cash transfer values will likely need to increase, in accordance with food price inflation.
	Immediate Cash	<ul style="list-style-type: none"> • Banks are willing and able to provide specific services in major urban centres. • Risk of retail failure is low, and beneficiaries will be able to spend cash at will. • Beneficiaries do not require a large amount of financial literacy and familiarity with banking. • Cash can be made available on site. 	<ul style="list-style-type: none"> • Cash-transit and cash-distribution may result in security risks. • The cost of remote banking services may be prohibitive. • Cash transfer values will likely need to increase, in accordance with food price inflation.
Voucher	Paper Voucher	<ul style="list-style-type: none"> • Transfer entitlement can be pre-defined according to specific needs. • Suitable for low-technology, no-technology environment. • Traders “demand” can be guaranteed by contract with WFP or its partners. • Requires basic literacy of traders and participants. 	<ul style="list-style-type: none"> • Counterfeiting and fraud are a high risk. • Retailers may refuse to honour vouchers. • Slow trader reimbursement may impact traders ability to guarantee supply
	E-Voucher	<ul style="list-style-type: none"> • Automation of key business processes allows for faster voucher redemption. • Enables significant degree of process monitoring. 	<ul style="list-style-type: none"> • Lack of connectivity disrupts redemption and reimbursement • Long-lead time required. • Significant training and investment in hardware required of WFP
Combination		<ul style="list-style-type: none"> • A combination of in-kind supplementary foods with either additional cash or voucher transfer can enable highly-vulnerable beneficiaries to meet a wide variety of needs. 	<ul style="list-style-type: none"> • Complicated programme design requires increased lead-time.

b. Responses to Scenario 2

88. New returnees in rural areas require significant support to meet their immediate food needs, non-food needs and to establish viable rural livelihoods. WFP currently provides assistance to those returnees who register for support to reach their final destination, in the form a 3-month return package. Given the wide-range of needs for facing returnee households, WFP should consider the provision of a broader return package. **The mission recommends that a**

combination of food aid and cash for livelihood support is mostly recommended by IDPs and rural households.

89. The disbursed nature of resettlement will likely be a major constraint and require careful consideration by WFP. If WFP is required to identify households at the final destination and place of origin, targeting and distribution may require significant resources. In some case, the number of households settling in any particular payam or boma may be very low and the provision of support—outside of the normal general food distribution—may prove inefficient. Further mapping of expected settlement is required.

Table 3. New Returnee Rural Caseload, Cash and Voucher Opportunities

Transfer	Model	Major Opportunities	Major Risks
Cash	Cash Account	<ul style="list-style-type: none"> • High degree of financial control and risk management. • Cash approaches enable beneficiaries to meet a range of needs, including non-food needs. 	<ul style="list-style-type: none"> • Beneficiary populations are highly dispersed. • Populations are located away from major urban centres and banking facilities.
	Immediate Cash	<ul style="list-style-type: none"> • Banks are willing and able to provide specific services in major urban centres. • Risk of retail failure is low, and beneficiaries will be able to spend cash at will. • Cash can be made available on site. 	<ul style="list-style-type: none"> • Cash-transit and cash-distribution may result in security • Cash may result in increased protection risks for returnee populations.
Voucher	Paper Voucher	<ul style="list-style-type: none"> • Transfer entitlement can be pre-defined according to specific needs. • Suitable for low-technology, no-technology environment. • Traders “demand” can be guaranteed by contract with WFP or its partners. • Requires basic literacy of traders and participants. 	<ul style="list-style-type: none"> • Counterfeiting and fraud are a high risk. • Retailers may be located far away from beneficiary populations. • Slow trader reimbursement may impact traders ability to guarantee supply
Combination		<ul style="list-style-type: none"> • A combination of in-kind supplementary foods with either additional cash or voucher transfer can enable highly-vulnerable beneficiaries to meet a wide variety of needs. 	<ul style="list-style-type: none"> • Complicated programme design requires increased lead-time.

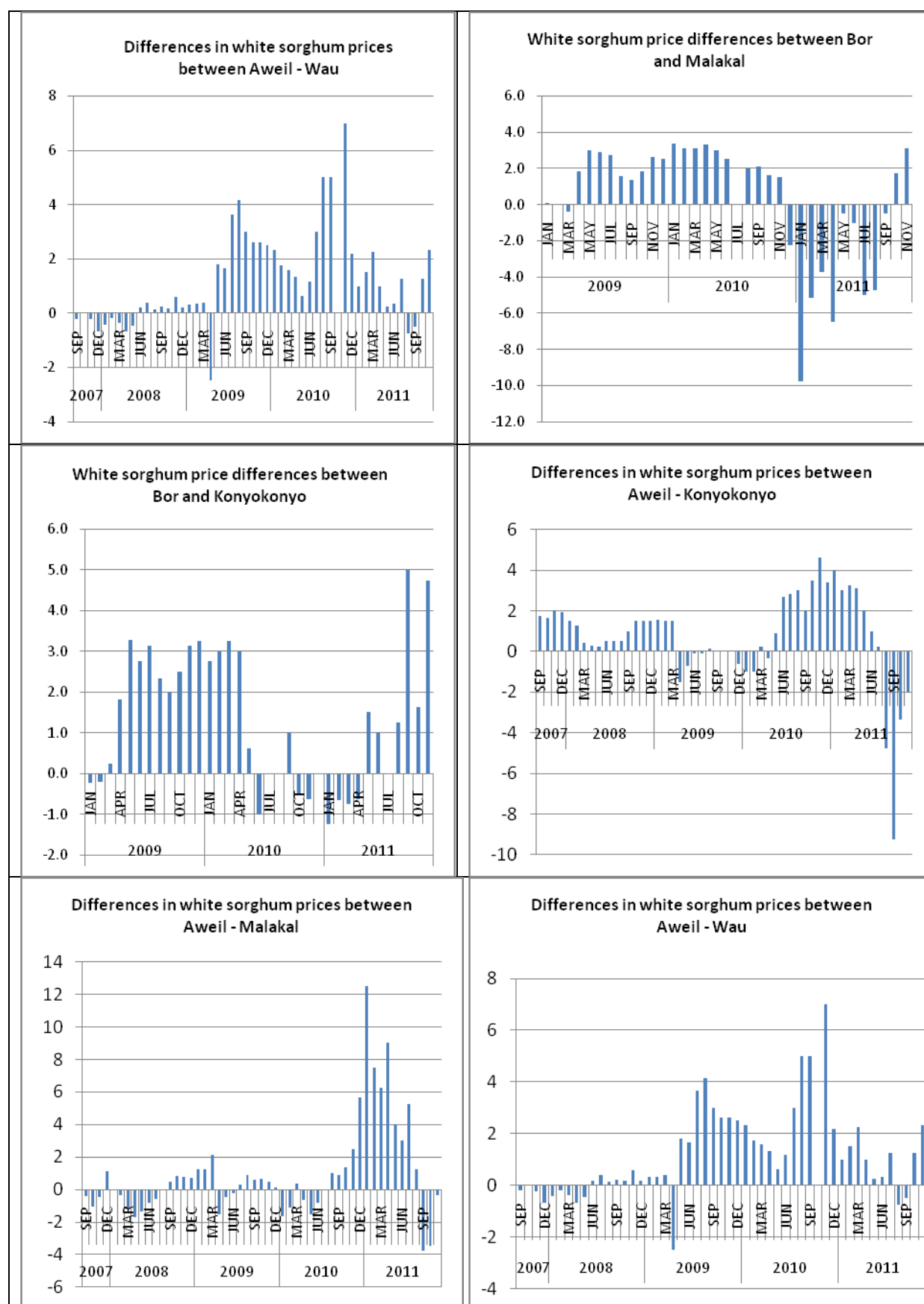
VIII. Long-Term Responses

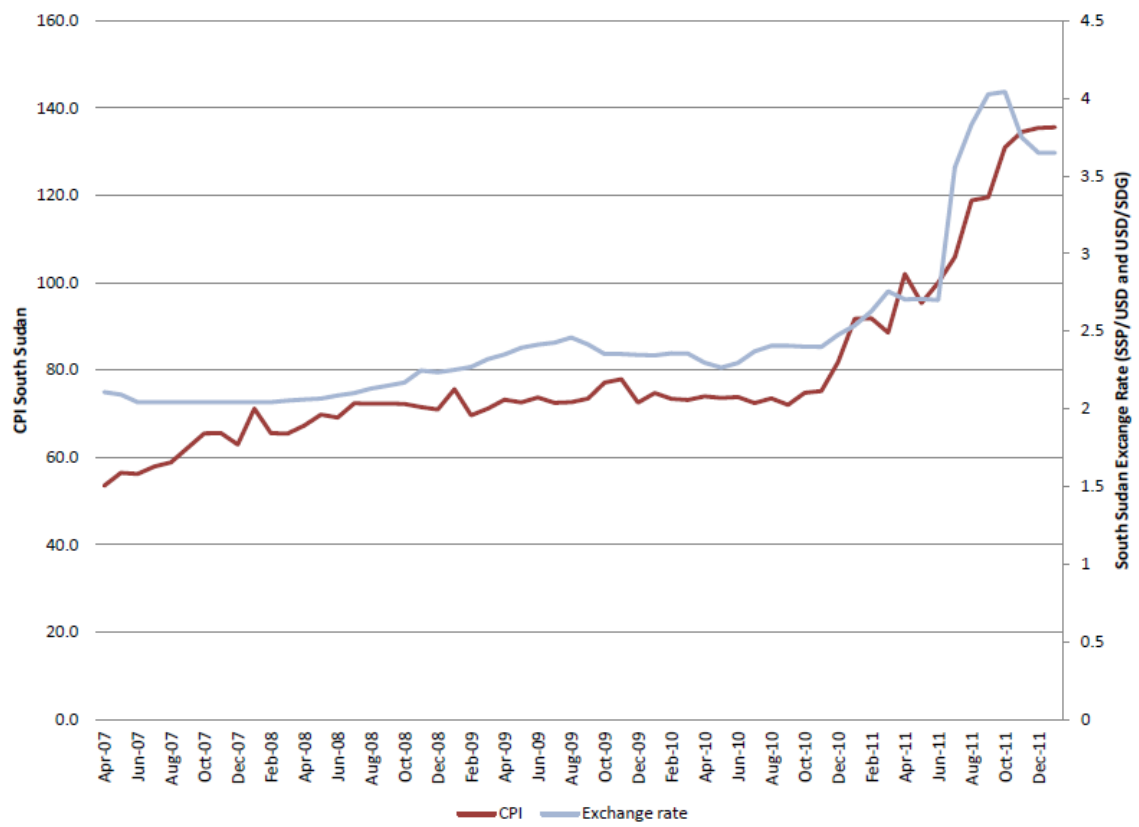
90. The mission acknowledges the critical needs of WFP to respond to the major challenges facing South Sudan, however, it is equally important to develop programming in a manner that responds to the long-term needs of South Sudan, both its people and long-term development. Given the perception of both government and international community that long-term food aid

provision inhibits local production and exerts an overly strong influence on policy, WFP can provide food assistance alternatives and contribute to national efforts to develop a national safety net.

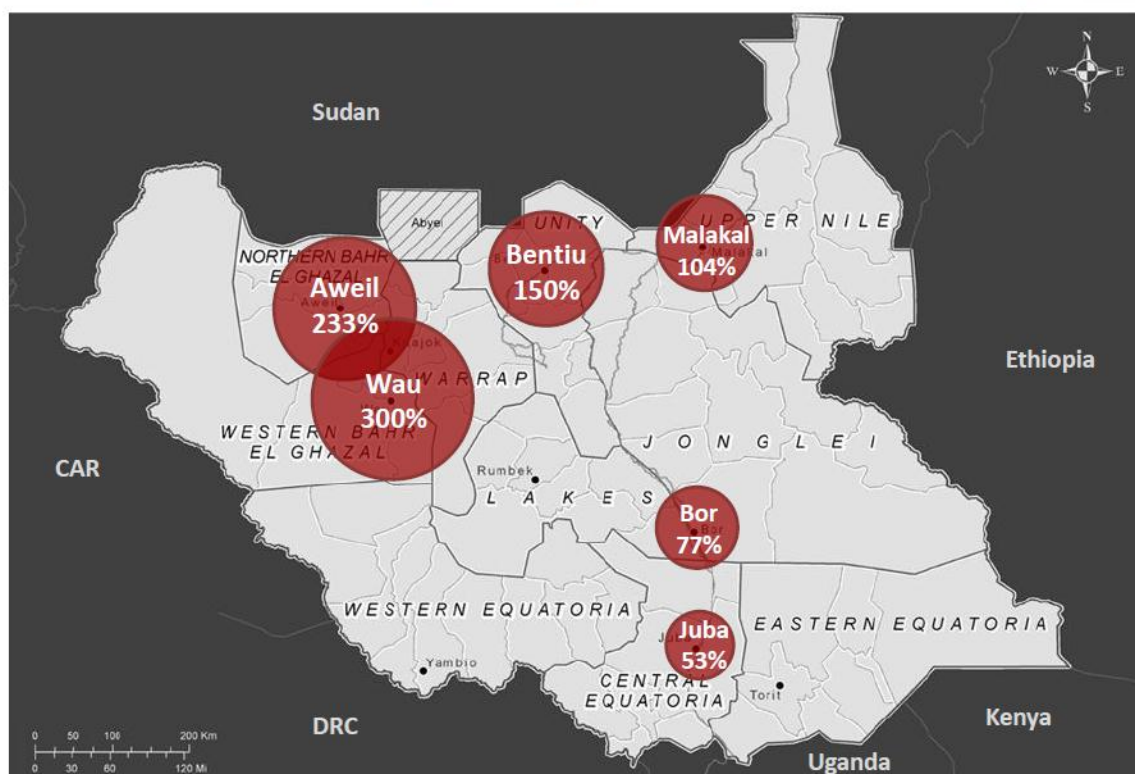
91. Humanitarian responses are highly reliant on the most basic of relief instruments. A continued dependence on basic relief instruments, such as blanket general food distribution, will likely depress the development of local livelihoods to address basic needs. **As South Sudan begins the transition from relief to recovery, there is a significant opportunity for WFP to contribute to the transition.**
92. Cash-based programming in particular, offers potential as a recovery mechanism. Local government officials readily acknowledge that cash can create incentives for local farmers to increase their production and offers households the ability to diversify their food consumption and to meet a wide variety of livelihood needs. Improving rural livelihoods, will ultimately improve urban and rural food insecurity.

Annex 1. Trends in white sorghum price differences between selected markets in South Sudan



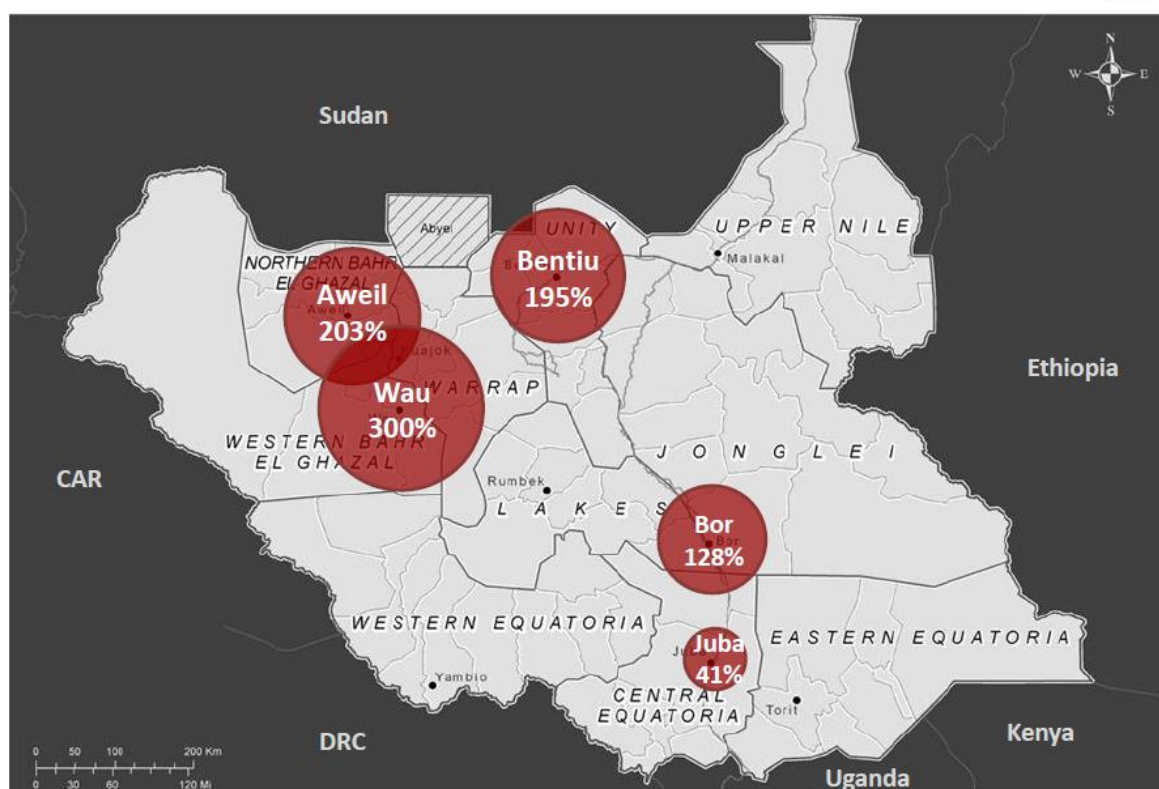


Inflation: White Sorghum (Oct 2010 – Oct 2011)



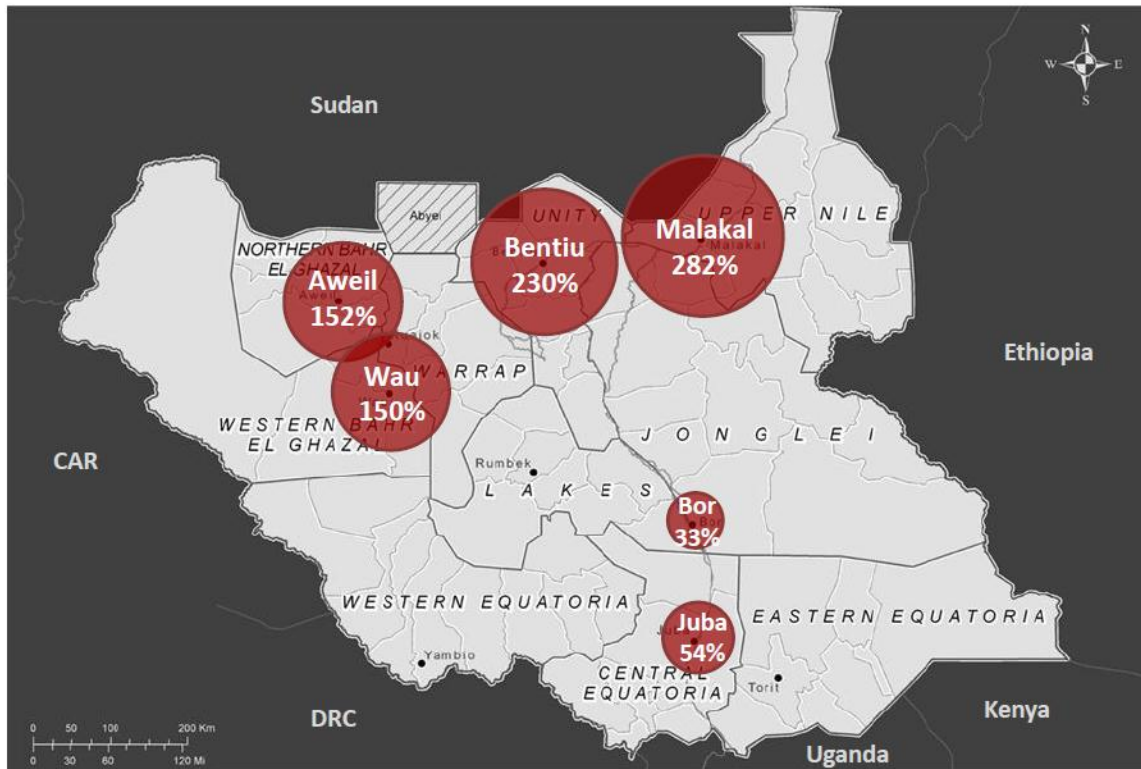
Data source: World Food Program

Inflation: Wheat Flour (Oct 2010 – Oct 2011)



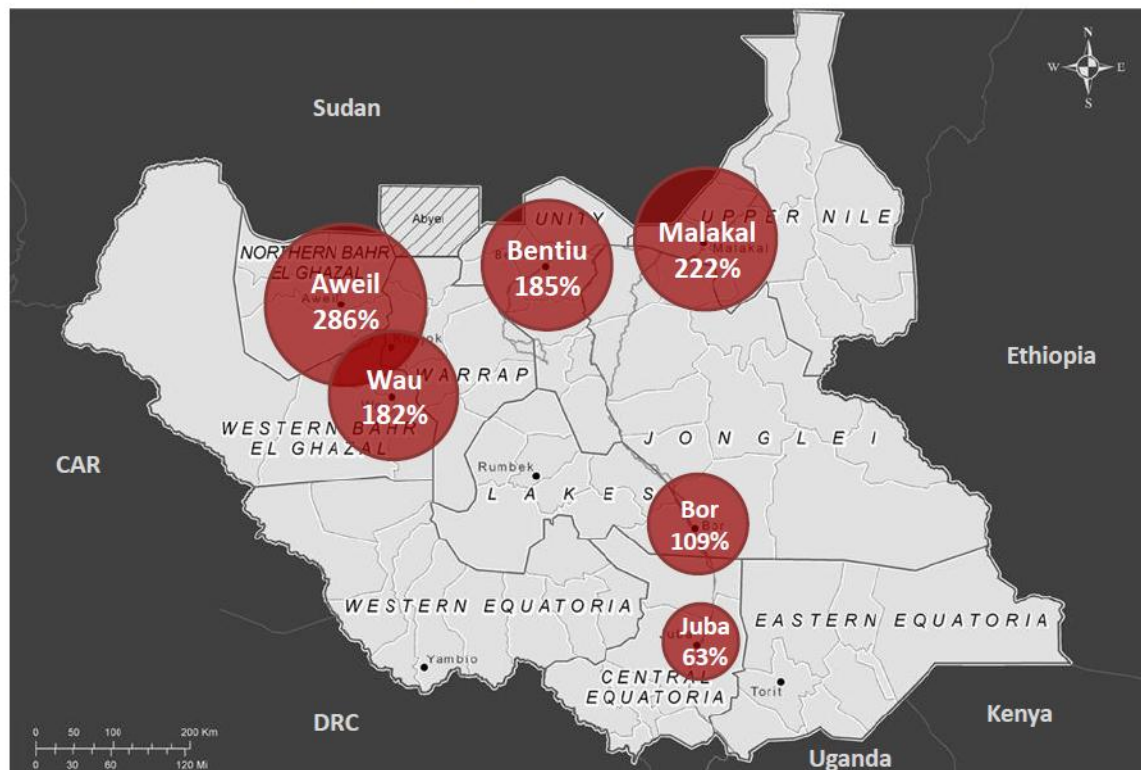
Data source: World Food Program

Inflation: Petrol (May 2011 – Oct 2011)



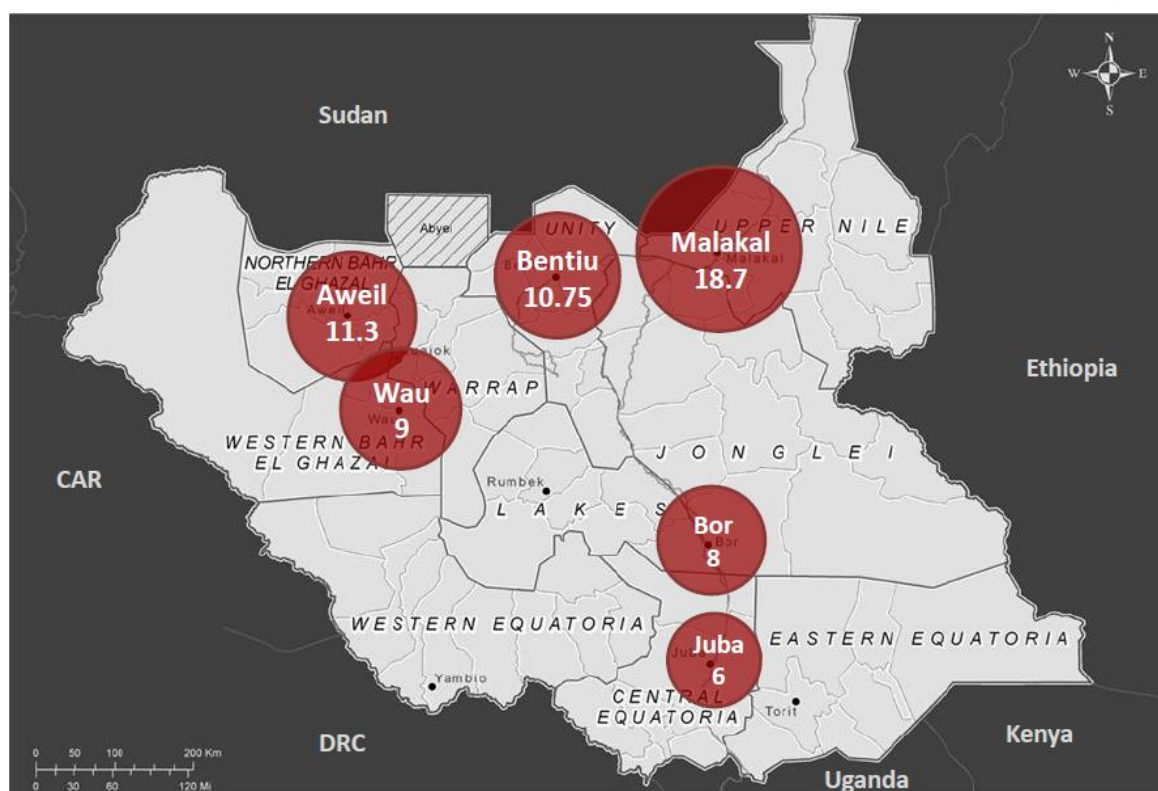
Data source: World Food Program

Inflation: Diesel (May 2011 – Oct 2011)



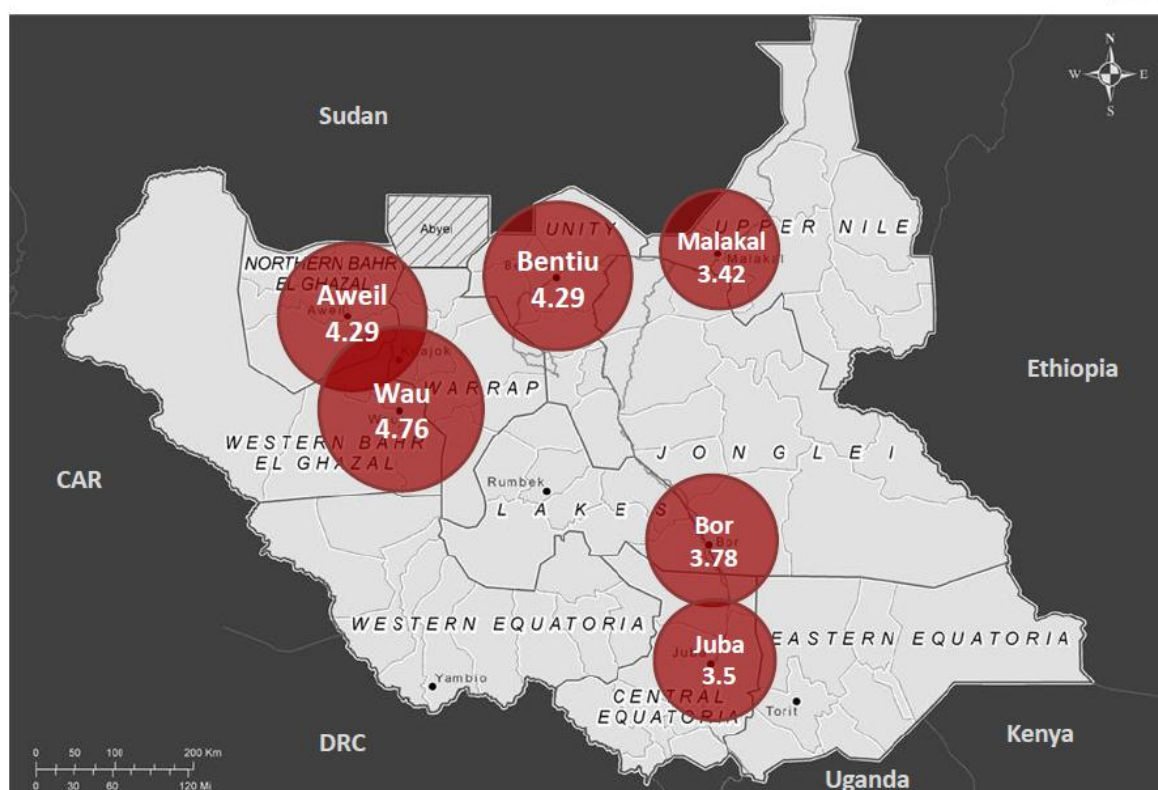
Data source: World Food Program

Prices (SSP): Petrol (Oct 2011)



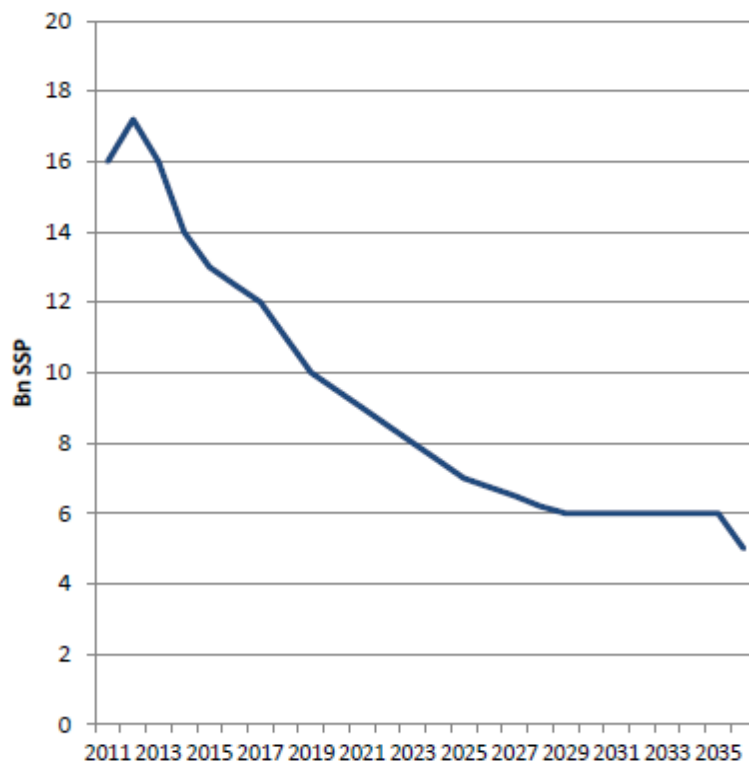
Data source: World Food Program

Prices (SSP): White Sorghum (Oct 2011)

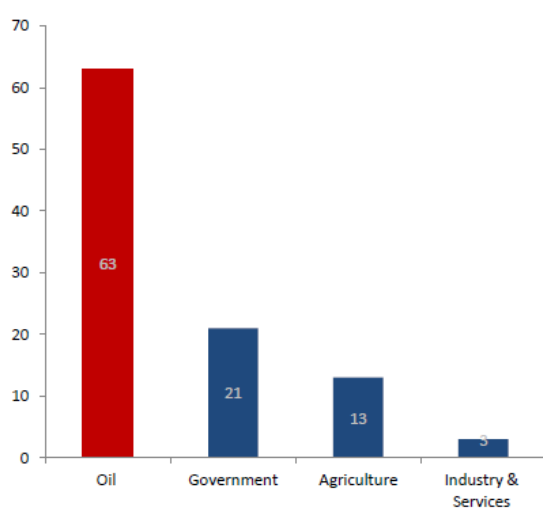


Data source: World Food Program

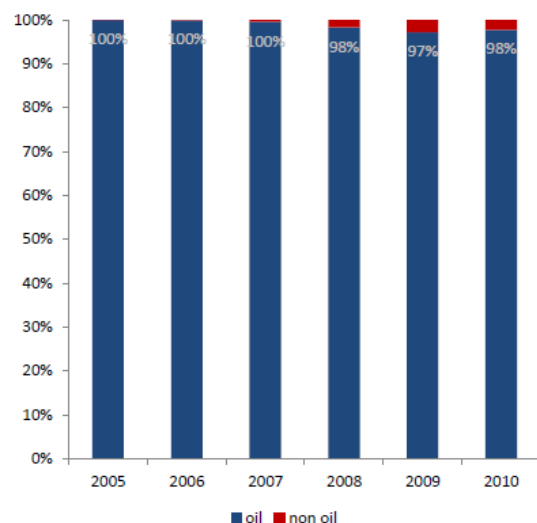
Revenues from known oil reserves are declining...



Oil sector is 63% of the Economy...



...and 98% of government revenue





**DYNASTY 25
TRAVEL CENTER**

Custom Clearing and Forwarding Co. Nimule

Nimule - Southern Sudan

Tel: +249-903 803 787, +249-924 269 485, +256-752 245 723

No 0114

RECEIPT

Name: GAI DIO DING Date: 24/05/2014

Qty	Particulars	Rate	Amount
	CUSTOMS		35.63
	SLATE		450
	COMMERCE		180
	STANDARD		45
	ROAD TAIL		50
	TRAFFIC		150
	VARIATION FEE		80
	DRIVING ASS.		60
	AGENT FEE		150
	GATE PASS		20
	Form 23-24		20
E & O E			Total
			4735

Amount in words: FOUR THOUSANDS SEVEN HUNDRED AND THIRTY FIVE POUNDS

Signature: _____



No 0167

Nimule - Southern Sudan
Tel: +249-907 803 787, +249-924 269 485, +256-752 245 723

RECEIPT

Name: SACHAR STONE Date: 5/2/2012

Qty	Particulars	Rate	Amount
1	CUSTOM		1082
2	SLATE		264
3	Taxation		200
4	Standard		30
5	linea fee		50
6	Manifest and declaration		100
7	Verification		300
8	gate pass		50
9	Estimation fee		500
10	klugc fee for photo		300
11	Gate pass, passport and line up		50+100+70
13	Blocker, + gate fee		50+100
14	Parking fee		300
E & O E			Total
			3806

Amount in words: three thousand eight hundred and six S.S. Pounds

Signature: _____