



LIKELY IMPACT OF COVID-19 PANDEMIC ON MARKETS AND FOOD SECURITY IN SOUTH SUDAN

31 March 2020

Background

More than half of South Sudan's population – 6.5 million people out of 12 million – were expected to face severe food insecurity at the height of the annual hunger season (May to July 2020) – even before the COVID-19 pandemic. Years of conflict, climatic shocks, pests, diseases, prolonged depletion of household assets and chronic economic hardships have all contributed to high food insecurity levels in the country. The COVID-19 economic shocks could lead to a sharp increase in poverty, making it even harder for South Sudan to achieve the already extremely demanding UN Sustainable Development Goals by 2030.

The country relies heavily on revenue from oil exports. Whilst the re-opening of some damaged oil wells following the revitalized peace agreement in 2018 pushed up daily oil production by about 20 percent in February 2019, the increase has not yet translated to meaningful gains. Hard currency is still restricted, and traders depend on the informal market. The oil revenue will be impacted by the collapse of the world oil prices amidst the spread of COVID-19. The plummeting international oil price translates to heavy losses in export earnings, this means the trade deficit of over 2 billion SSP will only widen.

South Sudan is a net cereal importer with an estimated gap of 483,000 mt in 2020. The food gap is met through food aid making over 300,000 mt of mixed commodities and the balance from commercial imports mainly from Uganda and Sudan. The COVID-19 outbreak has resulted in limited commercial activity in neighbouring countries and border closures are limiting the free movement of commodities. This will exert pressure on prices for both cereals and other commodities.

Pressure from reduced crop production in Uganda and the insecurity in Sudan coupled with the reduction in oil revenues as well as the limitation in the free commercial trade movement has also resulted in a sharp devaluation of the local currency. As of 30 March 2020, the SPP on the parallel market depreciated to previous high levels seen at the end of 2019 from SSP 270/USD to 300/USD. Commodity prices in South Sudan are positively highly correlated with the parallel exchange rate. Hence, any upward movement in the exchange rate will put pressure on the already above five year average cereal prices across markets in the country.

From the Global markets, on March 9 all the major stock indices plunged by 5 to 11 percent, as a result of the combined effect of panic and crashing oil prices. **When financial markets become spooked**

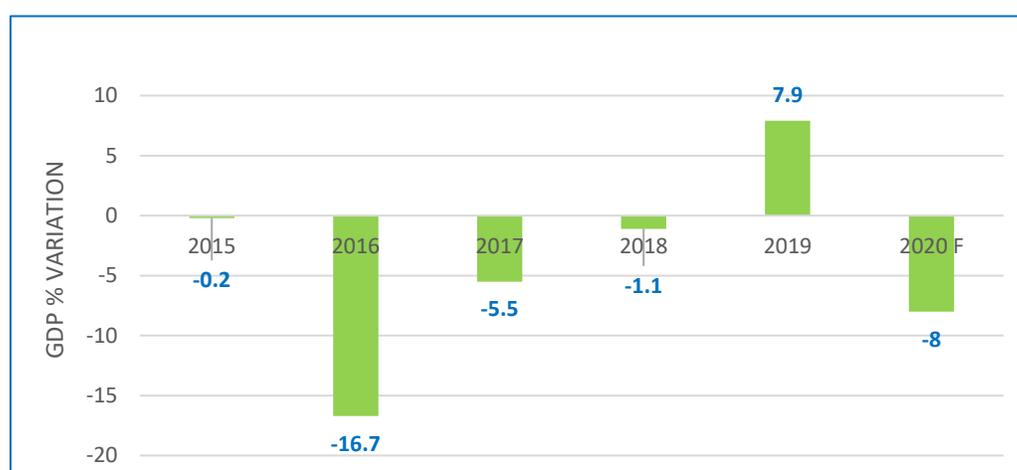
by risk, poor countries such as South Sudan are put in danger of losing their ability to borrow and spend when they most need it.

For South Sudan, a country that relies heavily on imports and exports of oil and has huge supply-chain exposure to China, factory shutdowns in China, import bans, increased shipping and freight costs, suspension of flights and restrictions on the movement of goods and people could disrupt trade and market chains with knock-on effects imported food prices.

These economic shocks are likely to exacerbate the severity of acute food insecurity in South Sudan, at a time when the country is approaching the peak of the lean season, when household stocks have generally been exhausted, market prices are at their highest, as are food and nutrition insecurity. Increased food prices curtail households' purchasing power, putting households' access to food at risk, and forcing them to activate coping mechanisms ranging from switching to cheaper, less nutritious foods, to reducing their consumption and/or going for days without food.

South Sudan's economy growth forecast has been revised downwards, as compared to 2019 (figure below), as a combination of inflationary pressure, local currency depreciation and sharp fall in export earnings due to the drop in the price of crude oil.

South Sudan Gross Domestic Product (GDP)



Source: International Monetary Fund (IMF)

Impact of a possible COVID-19 spreading in South Sudan "Poverty can fuel contagion, but contagion can also create or deepen poverty"¹

The ongoing COVID-19 pandemic, which has resulted in border closures, restricted movement of goods and people across borders, is likely to exacerbate existing food and nutrition security crisis in South Sudan, and drive worsening food security and nutritional outcomes. In particular, it will have a

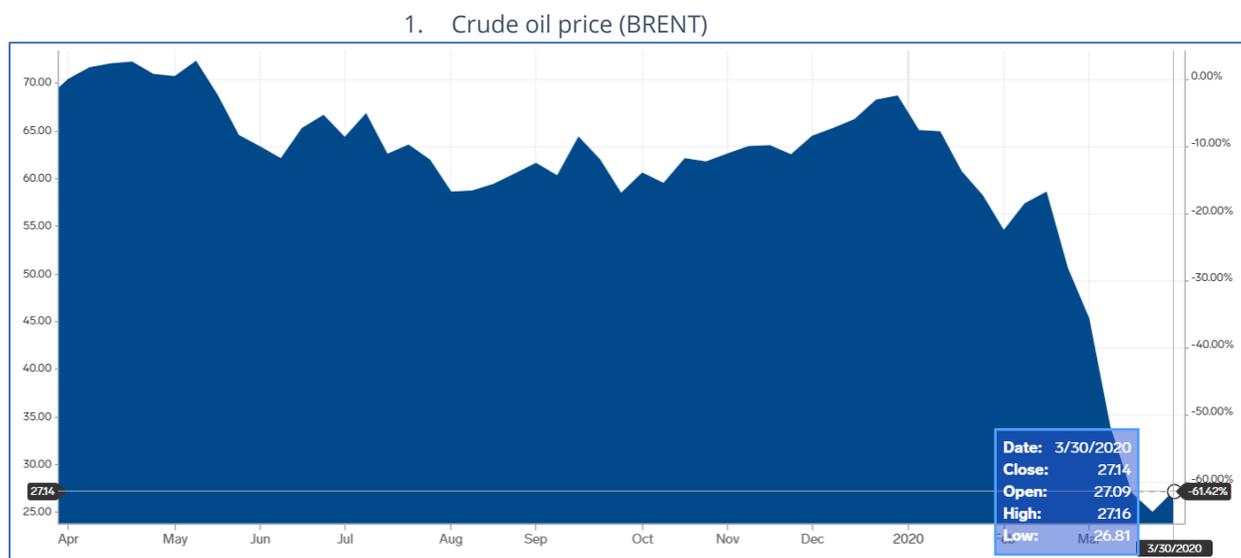
¹ <https://www.odi.org/blogs>

significant impact on South Sudan consumers given its import dependency. The country's urban and rural poor households who are highly dependent on markets will be impacted by high food prices.

Loss of oil revenue:

A global economic downturn is expected as the ongoing pandemic has already significantly disrupted production and supply chains across the world. Global economy forecast is lower to 2.4% in 2020, from 2.9% in 2019 due to the negative impact of the COVID-19, as uncertainty over global economy and restriction are resulting in slow consumer demand and subdued investment.

Additionally, crude oil prices have recently begun to fall due to the combined effects of multiple factors, including reduced demand due to COVID-19 and supply disputes between Saudi Arabia and Russia.



Source: <https://markets.businessinsider.com/>

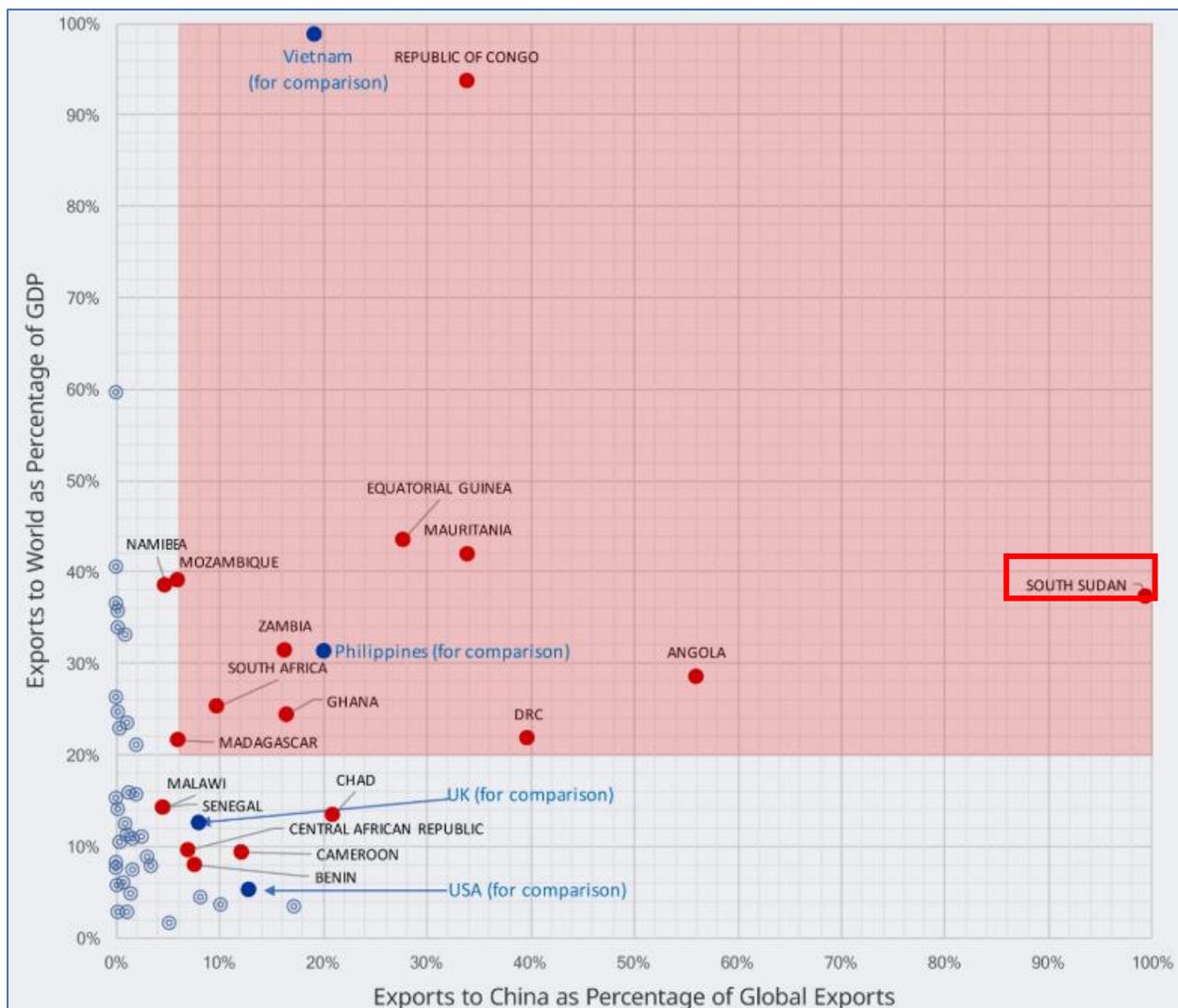
Similar to global trends, GDP losses are likely in South Sudan given its high dependence on oil exports, which accounts for about 90% of government revenue, 95% of total exports and more than half of the country's GDP. Given ongoing economic disruptions, this sector has been negatively affected, with significant implications for national revenues.

The plummeting oil prices will impact on Government revenue affecting its ability to meet import obligations and payment of public service salaries that are already in arrears. This will negatively impact the economy which had already negative trade balances and Gross Domestic Product (GDP), the shortage of hard currency and the exchange rate that has started to depreciate after starting to recover.

South Sudan's vulnerability to a demand-side shock from China

South Sudan is highly dependent on China as an export market, as China accounts for over 90% of South Sudan's export. The country, which sits at the extreme of the demand-side danger zone (figure below), does not have alternatives to China as a buyer nor has viable alternatives to its commodities for sources of growth. South Sudan was expected by the IMF to be the fastest growing country in the world in 2020, growing by 8.2 percent mainly because of the oil it sends to China; however, a negative revision of this growth rate is likely, due to the over-dependence on oil and the Chinese market. While guarantees for infrastructure financing as payment may reduce South Sudan's vulnerability, there is still a huge risk, if Chinese buyers claim "*force majeure*" and renege on those guarantees.

African countries' vulnerability to a demand-side shock from China



Source: The Diplomat

Currency depreciation and market-dependent populations: According to the 2008 Census, 17% of South Sudan's population live in urban areas. However, this figure is now estimated to be over 25%. The July-August (indicative of lean season) 2019 FSNMS reports that increasingly high proportions of the population are market dependent for their cereal consumption, with the highest percent recorded in Northern Bhar el Gazal (73 percent), Central Equatoria (61percent), Upper Nile (58 percent) and Eastern Equatoria (56 percent). These states largely and primarily depend on commodity imports and devaluation, which increases the prices of imported goods, will negatively affect their purchasing power.

According to data collected by WFP on the Juba population², nearly all households in Juba rely on markets for the purchase of staple foods such as cereals and tubers, while fruits and vegetables are more commonly grown in home gardens. With nearly 1 in 2 households spending roughly 2/3 of monthly income on food, Juba residents are highly vulnerable to market shocks overall.

Possible rise in nominal price of fuel amidst scarcity and erratic supply to markets, likely to cause further upward pressure on the prices through inflated transport costs as this typically comprise 15-30 percent of food prices in South Sudan.

Impact on commodity flows and prices: Whilst the Governments in the East African Region including Uganda and Sudan, major source markets for South Sudan, have indicated that they will allow commercial and food aid cargo to continue moving across the borders, following the COVID 19, the screening process at the border has slowed down the commodity movement and limited trade volumes. However, a clearer understanding of the impact on cross border trade volumes will become clearer in the coming weeks. Moreover, food prices in source markets are increasing due to stockpiling. These combines resulted in a knock-on effect on food prices in South Sudan i.e. 50 kg maize flour increased by 49%, from SSP 4,500 to SSP 6,700 in Juba. Prices of imported and processed commodities are likely to continue with an upward seasonal trend, though at a much steeper rate. In Juba, the price levels of some of the staple commodities have at present surpassed the lean-season price of 2019, almost 3 months earlier. If sustained, this amount to an early onset of the hunger season for market-reliant populations.

Real incomes of casual labourers: A significant vulnerable layer in urban areas, were already on a downward spiral and are likely to be further impacted by the currency devaluation. The purchasing power of these populations will continue to be compromised going forward if the SSP continue losing its value. Casual and fixed income workers paid in SSP will be trapped with lower wages, as their purchasing power continually diminishes (as inflation rises). The worst hit will be the urban poor and rural low-income market-dependent earners.

Vulnerability: Apart from the food security implications of a COVID-19-triggered economic slowdown, an extensive spread of the disease in South Sudan, a poorer and food insecure country with extremely limited basic infrastructures, already high morbidity rates and high levels of malnutrition could take a heavier toll in terms of mortality rates. Countries with high levels of food insecurity are generally more vulnerable and less prepared for an epidemic outbreak than those which see a rapid spread of the

² WFP, Juba Urban Assessment, 2017

disease at present. A COVID-19 outbreak would be far more damaging at the household level due to a much higher expected morbidity – higher transmission rate and a global 10-20% prevalence of severe cases requiring hospitalization, which would likely be higher in South Sudan – leading to more severe and more widespread losses of labor and income at the community and household levels.

Agriculture production: In South Sudan, a larger hit of the COVID19 on the workforce would negatively affect the agricultural sector, characterized by labour intensive production, aggravating the repercussions on production. As the main agricultural season is about to start, especially in the Green Belt, reduced labour force and, in turn, reduced production is likely to have long-lasting effects on 2020-2021 production levels, compromising food security for the next year or so. The COVID 19 will be further aggravated by the desert locusts' outbreak if this is not controlled.

Conflict and Protection: South Sudan has made admirable gains in its peacebuilding efforts through the September 2018 signing of the Revitalized Agreement on the Resolution of the Conflict in the Republic of South Sudan (ARCSS) and the formation of the executive of the Revitalized Transitional Government of National Unity in February 2020. While most violence related to national conflicts has reduced, localized conflict with non-signatories continues sporadically and intercommunal violence escalated dramatically in several key areas of the country in the 2020 dry season, with numerous links to national issues. Reductions in violence between signatories to R-ARCSS are tenuous, however, as essential components of the complete transitional government have yet to be formed – including the entire national legislature and state and local governments – and may be postponed indefinitely due to fears of a COVID-19 outbreak. Elites are likely to forego a wide range of political gatherings due to real or feigned concern around COVID-19, taking a lesson from the death of Burkina Faso's First Vice President due to COVID-19. These delays leave key policymaking and leadership gaps at several levels of government as the virus spreads to nearly all neighboring countries. In this environment, political opportunism is likely – factions may seek to undercut each other during prevention and response, some high offices may aggrandize emergency powers, and security forces are likely to take on even greater roles in public and economic life during an outbreak.

A first training phase for unification of armed forces was officially suspended on 25 March as an explicit mitigation measure – further delay for a critical element of the peace agreement and a risk of outbreak as combatants are asked to remain in close quarters at cantonment and training sites. Absenteeism and desertion among deployed forces of signatory and non-signatory armed actors, including government, IO, and NAS, may increase dramatically in the event of a real or perceived outbreak, particularly if combatants are asked to engage in quarantine and other public health directive enforcement without Personal Protective Equipment or salaries. While COVID-19 preparedness is already testing the transitional government and the peace process, confirmed cases, and eventually local transmission, would put incredible stress on a wide range of societal divisions, particularly among political factions, ethnic and sub-ethnic groups, and host communities and displaced populations. Other countries in the midst of domestic peace processes and local transmission of COVID-19, such as Afghanistan, are experiencing this already.

Protection outcomes for the population of South Sudan are anticipated to deteriorate further in the event of an outbreak. Preemptive school closures are already in effect, while additional social distancing measures aimed at urban areas are already placing the urban poor under severe

livelihoods stress. The widespread usage of negative coping mechanisms is inevitable if these public health measures remain in place, given limited options for maintaining access to food and other basic needs. This may include survival sex, child marriage, and forced marriages. Sexual and Gender Based Violence, already considered as a human rights and health epidemic in South Sudan, is likely to increase. Persons with disabilities and marginalized individuals are likely to face increased hardship with the depletion of community coping mechanisms and morbidity and mortality among caregivers as homecare is likely to be the dominant response to COVID19 cases within a household. Humanitarians will face a wide range of challenges in responding to increased food insecurity and protection needs, including for the provision of case management and psychosocial support during an outbreak.

IMPACTS BY POPULATION GROUP

For urban populations:

Further restrictions on non-essential local business activities, who are already suffering due to restricted movements of buyers and increasingly due to shortage of stocks, are likely to impact negative on business-derived livelihoods. Some of the only remaining middle-class households in South Sudan are presently found in a small number of urban centers and therefore exposed to market shocks brought about the COVID-19 pandemic.

Labor opportunities for the urban poor (e.g. transportation, hospitality, domestic house help) is already on decline and will likely continue as social distancing measures take effect and limit movement. Restrictions on gatherings have compelled the closure of tea shops, restaurants, and non-food shops such as salons/barber shops and boda boda operators, affecting casual labor income in this sector.

These combined factors will likely drive a decline in household incomes and purchasing power for affected urban populations, highly dependent on markets for their consumption. Low income households will likely be the most affected. A failure to expand donor-supported urban social-protection programmes for these at-risk populations could prompt large-scale outflow of migrant laborers and low-income urban residents with rural relatives – likely the majority of any urban population in the country – back to rural areas, as observed in other countries. This may also be of greatest concern as a potential pathway for urban-rural COVID-19 transmission at scale, pushing the disease into areas even less equipped to respond.

For rural populations:

Market closures, trade disruptions, rising transportation costs could cause farmers to face marketing challenges that drive a decline in their income levels. Market and trade disruptions could limit the supply of agricultural inputs and drive rising prices of essential agricultural inputs, which could cause declines in crop yields for affected farmers.

Movement restrictions could cause labor supply challenges. For examples, several Crop and Food Security Assessment Missions (CFSAM) and Emergency Food Security Assessments (EFSA) conducted during the Ebola crisis in West Africa found that farmers saw their crop production levels fall due mainly to limited labor availability as movement restrictions prevented agricultural laborers from working in groups. For poorer households who were heavily reliant on labor work as a source of income, labor wages also fell, reducing their purchasing power. Though its impacts on crop yield will likely be limited in comparison to other factors, a high COVID-19 caseload during the agricultural season could also reduce sick farmers' ability to effectively manage their fields (i.e. weeding, pest control).

Pastoral households may experience a decline in their earnings if trade disruptions reduce the export demand for live animals, with a consequent decline in livestock prices and worsening cereal-to-livestock terms of trade. South Sudan would be particularly vulnerable countries to this shock, considering the high level of vulnerability of most pastoralist community following several years of conflict and livestock-losses. Disruptions to exports will result in declining purchasing power for pastoralist and agro-pastoralist households, with major impacts on their food security, already of concern due to the negative impacts of recent climate shocks.

Similar to agricultural inputs, market and trade disruptions, as well as restrictions on the movement of NGO workers and other outreach services, could also reduce livestock owners' access to vital grazing areas, medicines, and other inputs, resulting in deteriorating animal health and an increased mortality rate if the situation persists.

For refugees and IDPs:

Displaced populations, especially those hosted in camps, are likely at much higher risks of contiguous diseases outbreak considering the higher transmissibility due to intense social mixing between the young and elderly and overcrowding and poor sanitation capacity within camps which might propagate transmission disproportionately;

Possible mitigating factors

However, there are also factors that could mitigate the damage caused by the COVID-19 pandemic in South Sudan, like the age structure of its population. The share of people with the highest risk (by age) of developing severe disease or dying is far lower in South Sudan than in, for example, China or Europe. Moreover, a sparse and predominantly rural based population and more limited travel networks both within the country and in the region could reduce the pace at which COVID-19 spreads.

Oil pre-sales to China (including the 30,000 barrels/day for major infrastructure investments) in previous years are likely providing at least a marginal to modest cushion against the collapse of global crude oil price. However, this could be undone if Chinese buyers claim "*force majeure*" and renege on those agreements.

Measures to prevent an exacerbation of the food security situation

While COVID-19 is a health emergency, it is likely to further exacerbate acute food insecurity. Beyond measures to contain the pandemic it is essential to continue providing food assistance to support vulnerable populations. Thus, it is important:

1. To continue providing support to the most vulnerable populations through shock-responsive assistance and consider monitoring additional population groups that could become vulnerable and in need of food assistance, as a result of COVID19 related effects.
2. Whilst WFP respects the Government's decision to close its international airports and border crossings, to advocate for humanitarian corridors to remain open for as long as possible and restrictions on commercial trade to be minimized to ensure adequate food supplies.
3. To continue monitoring food prices and markets, as they represent a very critical indicator for the evolution of the food security situation. Information is to be shared information timely to decisionmakers and all actors. This will help evidence-based programming and will support choice for most appropriate assistance modalities, including definition of transfer value for CBT operations, in a time of rapidly changing food prices.