HPG Working Paper

Markets in crises: South Sudan case study

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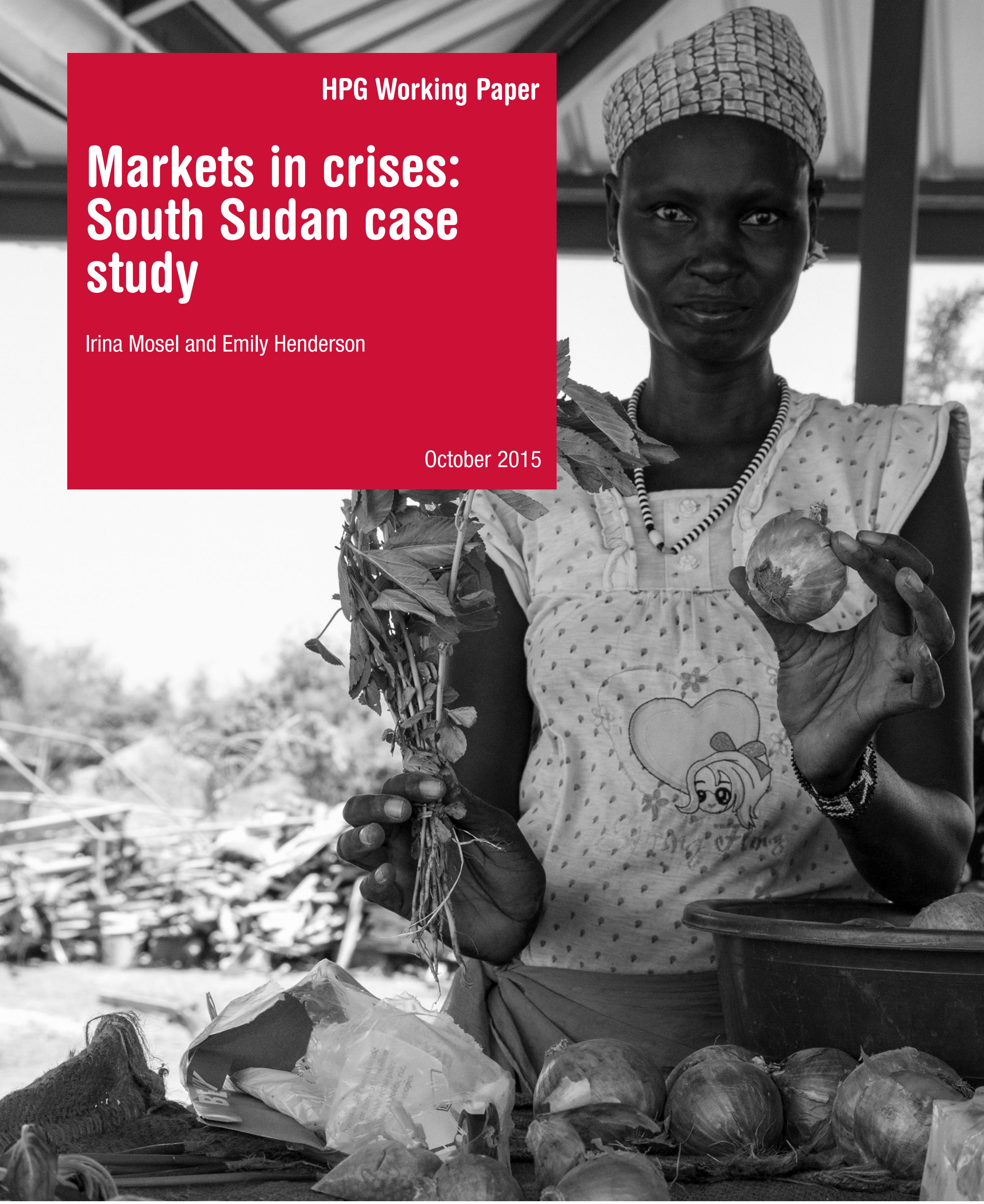

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1 Introduction

Two years after achieving independence from Sudan, divisions within the ruling Sudan People's Liberation Movement (SPLM) prompted renewed conflict in South Sudan in December 2013. Over 10,000 people have been killed and 1.5 million internally displaced. The most affected states are Upper Nile, Jonglei and Unity. Over 130,000 people – around 6% of the displaced – are sheltering in UN-administered Protection of Civilian (PoC) sites in Juba, Malakal, Bor and Bentiu (Loej, 2015). There are another 530,000 refugees in neighbouring countries (OCHA, 2015). Despite numerous rounds of peace negotiations no end to the conflict is in sight. The food situation is desperate, with some two-thirds of the population food insecure; 800,000 are in emergency levels of food insecurity. The majority of IDPs are dispersed in very remote, hard to reach areas; most humanitarian assistance has been in-kind food aid delivered via air drops.

Although markets continue to function to a certain extent, in particular in areas not directly affected by the conflict, market-based responses in this crisis have received limited attention within the humanitarian community. Nevertheless, there is increasing interest in markets among those involved in humanitarian action and emergency response, and a desire to gain a better understanding of markets, not just as a vehicle for aid, but also as a key determinant of household livelihood resilience. As such, understanding how crises (and external interventions in response to crises) affect markets and market relations is critical to understanding livelihoods and humanitarian (and, in the longer term, developmental) outcomes.

This joint study on markets in South Sudan was conducted by the Humanitarian Policy Group (HPG) and Oxfam between August and October 2014. Building on previous work by Oxfam and partners, in particular an Emergency Market Mapping and Analysis (EMMA) assessment in Juba in May 2014, and HPG's ongoing research project on markets in crises, the aim was to develop an in-depth understanding of markets in Juba, and how they were affected by the crisis.[1] The analysis is purposely qualitative and sociological, going beyond the traditional economic perspectives of market analysis to explore how and why different market actors adapt, cope or fail during crises, and the non-economic ways in which market terms are set – through power and social relations.

1.1 Methodology

The key research questions the project sought to answer were:

- How have markets and businesses adapted during the crisis, and how have trade forms and modalities evolved?
- How do relations of power and institutional factors affect the way in which people are treated by and engage with markets?
- What influences the extent to which people derive resilience, or become vulnerable, as a result of market activity?
- How has humanitarian aid affected markets in South Sudan, and what impact has this had on households?
- What opportunities exist to support markets in ways that enhance people's resilience?

Juba, the capital of South Sudan, was chosen as the main research location because it is the country's import hub and the key feeder market for other areas of South Sudan. The study focused on the town's four main markets, Konyo Konyo, Customs, Jebel and Souq Lybia, though it also looked at a number of smaller neighbourhood markets. Interviews were conducted in the town and in the PoC site in UN House. Interviews were also conducted with traders and aid agency staff in Bor. Field research was planned in Lankien (Jonglei) and Akobo, but access issues and staff capacity meant that this was not possible, and the research team relied on aid agency assessments and reports to gain a better understanding of regional and local markets outside Juba.

1 In addition to South Sudan, research has also been conducted in Pakistan (looking at the 2010 floods in Sindh) and Mali (looking at the impact of the recent conflict on markets there). For more on HPG's research project on markets in crises, see http://www.odi.org/projects/2659-markets-crises-transitions.

Initial fieldwork was carried out in August 2014 by a joint team of Oxfam staff, the HPG researcher and local researchers. This was complemented by additional interviews in Juba and Bor in October 2014. Overall the research team interviewed 122 traders, representatives of traders' associations, government officials, bank officials and currency traders, aid agencies, key informants and individuals affected by the crisis. The study focused on two key staples, sorghum and maize, both of which had been the subject of Oxfam's May 2014 EMMA. The research combined a 'market place' analysis approach in Juba and Bor with an analysis of commodity market systems (sorghum and maize).

Following this introduction, Section 2 gives a brief overview of the economy in South Sudan. Section 3 describes key features of the Juba market, and Section 4 looks at the impact of the crisis on markets. Section 5 explores broader political economy issues, and Section 6 assesses the impact of aid on markets. Section 7 concludes the paper.

1.2 Recent changes in the economic situation in South Sudan

Since the research was conducted the economic situation in South Sudan has deteriorated drastically, but the key trends and issues identified by the research remain valid. In-depth analyses of markets like the one conducted in this study are rarely undertaken by humanitarian actors in the midst of crises: market conditions are typically very volatile and conclusions can quickly become outdated given the increased time investment required to produce this kind of research. However, as this study demonstrates, even though data such as prices may change quickly and significantly, the more fundamental findings related to political economy dynamics remain relevant. Understanding these dynamics is essential for ongoing aid interventions. Key updated figures and trends at the time of writing in July 2015 are summarised in Box 1.

Box 1: Changes in the economic situation and prices

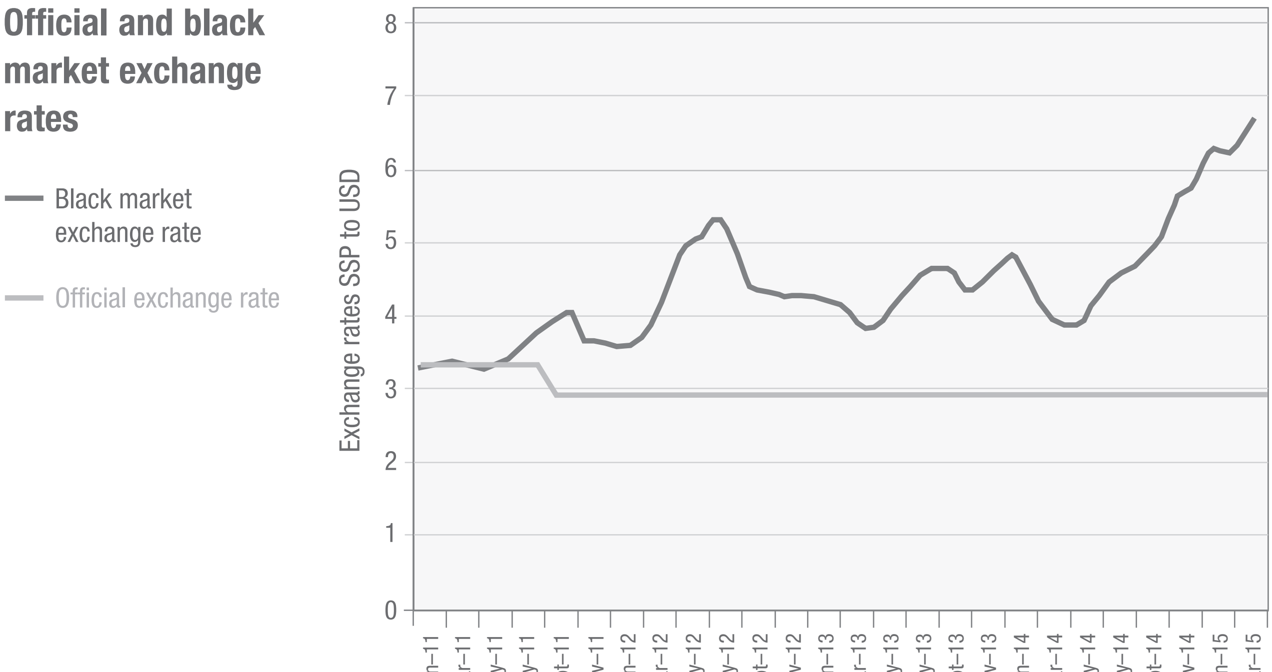
Since the research for this study was conducted, the economic situation in South Sudan has deteriorated significantly. Conflict, reduced oil production, diminishing foreign exchange reserves and lack of alternative income have meant that government resources have continued to decline. Inflation has risen sharply as the government prints South Sudanese Pounds (SSP) without the necessary foreign currency reserves to back them. The SSP has continued to depreciate against the dollar, with the parallel exchange rate increasing from 6.1 SSP/USD in January 2015 to 11.6 SSP in May 2015 in Juba, and reportedly as high as 17 SSP in other towns. Consumer prices increased by 38% between May 2014 and May 2015. Sorghum prices increased by between 60% and 90% between March and May 2015, the price of beans almost doubled and maize increased by 30%. Average prices for wheat flour rose by 21%. Terms of trade have worsened for families who rely on income from daily workers and for pastoralists who depend on markets for the provision of staples. Demand for transporters has also declined due to fuel shortages and increased fees for using roads (from SSP 170 to SSP 200 per truck). Fuel shortages in Juba have led to water scarcity as water trucks do not have fuel, and supplies of imported bottled water are scarce (Oxfam interviews, July 2015).

2 Overview of the economy

The South Sudanese economy is highly oil-dependent: oil production represents 99% of exports and 95% of government revenue, and accounted for around 50% of gross domestic product (GDP) in 2013/2014 (IMF, 2014). Since the start of the current conflict, oil revenues have plummeted by over 50% compared to the end of 2013.[2] Together with the decline in crude oil prices and the fixed costs of using Sudanese oil pipelines, this has had significant financial and economic repercussions. Foreign reserves reached an all-time low in mid-2014, and government expenditure on basic services and development has been severely curtailed; any remaining expenditure is heavily skewed towards security and the war budget and paying government salaries (UNDP, 2015). Spending is largely financed through external borrowing on future oil revenues, putting the future economic health of the country in serious jeopardy (Frontier Economics, 2015).

The fiscal deficit has led to limited availability of foreign currency and a depreciating parallel exchange rate. In 2011 the Central Bank of South Sudan fixed the currency at an inflated level against the US dollar and limited foreign exchange in what the IMF has termed 'a hidden transfer of resources from the government to those with privileged access to foreign exchange at the official rate' (IMF, 2014). Since the start of the current crisis, the gap between the official and unofficial exchange rates has widened significantly (see the figure below). As a large amount of informal cross-border trade is financed at the black market rate, it is increasingly difficult for all but a few traders with good connections to bring goods into the country. The conflict and the widening gap between the two exchange rates have meant that the group receiving privileged access has changed and the profits that can be made on currency differentials has grown, further discouraging commodity trade and favouring exchange

Official and black market exchange rates



Source: Deloitte, GRSS and FEWSNET, cited in FSNWG (2015b).

2 Oil production fell to 160,000 barrels per day in 2014 from more than 235,000 barrels per day at the end of 2013 (IMF, 2014).

rate trade (see Section 5; Radio Tamazuj, 2015a). However, declining oil revenue and the increasing shortage of currency reserves are threatening the continuity of these patronage networks.

2.1 Agricultural production

Other sectors of the economy aside from oil, such as agriculture and livestock production, are not yet sufficiently developed to compensate for the significant reduction in oil exports. Livestock, especially larger animals such as cows, are generally kept as assets given the high social value they have among pastoralists, rather than reared specifically for export. Small ruminants such as goat and sheep are a key income source for pastoralists and determine their ability to buy staple food in the market.

The potential for agricultural production in South Sudan is huge. Half of the country's 82m hectares of agricultural land is suitable for agricultural production, yet only 4.5% is routinely under cultivation (Annual Needs and Livelihoods Assessment, 2012/2013). Yields are low, with the average across all cereals generally below one ton per hectare (Oxfam, 2014). The country has only been self-sufficient in cereal production twice in the last decade; overall food production fell from 954,000 tonnes in 2012 to 900,000 tonnes in 2013 and 891,000 tonnes in 2014 (FAO/WFP 2014). This was against an estimated total demand of 1.3m tonnes in 2013/14, giving an overall deficit of 408,000 tonnes. Only one state – Western Equatoria – was in surplus. Lack of productivity is compounded by poverty, limiting investment in inputs and equipment, the effects of decades of conflict and insecurity and insufficient investment in rural infrastructure (roads, markets, post-harvest storage facilities). South Sudan is also suffering increasingly from natural disasters, including floods, droughts and epidemics of livestock disease (WFP et al., 2012).

Sorghum, the main staple crop, is cultivated by 68% of households. Maize is grown by around 44% of households; 33% grow groundnuts and 13% cassava (NBS, 2012). Just under three-quarters of households own livestock: 69% own goats, 63% cattle, 57% poultry and 38% sheep (including households that own more than one of these) (NBS, 2012). In Unity and Jonglei states, the majority of households also derive an income from the sale of charcoal, firewood and grass.

Per capita consumption of cereals is estimated at between 109kg and 150kg per year (FAO/WFP, 2014), and the average household size is approximately seven. Typically, over 40% of South Sudanese households spend more than 65% of their income on food. With the exceptions of Central and West Equatoria, markets are the main source of staple foods (apart from around harvest time in October), with up to 70% of households relying entirely on markets for their sorghum consumption during the lean season. Other key food items, such as meat, fish, sugar, fats and oils, are also mainly sourced in markets (WFP, 2014a).

Households most vulnerable to food insecurity before the onset of the crisis were those that did not produce their own sorghum, spent a large share of their income on food, did own livestock and were in states most affected by the disruption of trade patterns: North Bahr el Ghazal, Warrap, Unity, Upper Nile and Jonglei. Households like these were already using a number of coping strategies prior to the crisis. For these households, the single biggest shock factor recorded pre-crisis was food price increases (FAO/WFP, 2014).

The states most affected by the current conflict – Jonglei, Upper Nile and Unity – had the highest proportion of market-reliant households before the crisis in 2013, and households in these states spent the highest proportion of their income on food: 63% in Jonglei and 59% in Unity spent over 65% of their income on food between 2011 and 2013 (WFP, 2014a). These states also had the highest cereal deficits in the country – Jonglei alone accounted for more

Table 1: Cereal food distributions (thousands of tons) by state

State	2012	2013	2014
Central Equatoria	4	4	9
Eastern Equatoria	6	4	4
Western Equatoria	2	3	3
Jonglei	24	10	24
Upper Nile	21	32	25
Unity	12	19	25
Lakes	5	5	14
Warrap	19	25	21
W. Bahr el Ghazal	6	6	4
N. Bahr el Ghazal	13	11	7
South Sudan total	112	119	136

Source: WFP (2015).

than 30% of the national cereal deficit, with Unity and Upper Nile together adding another 32% (*ibid.*). Poor yields for cereals also affected the terms of trade for livestock, sheep and goats. Many traders rely on selling their herd to restock their stores. If there is no offtake market, or the quality of the herd deteriorates due to disease, lack of animal health workers or vets or lack of access to adequate grazing land due to insecurity, traders get less favourable terms of trade and are less willing to restock.

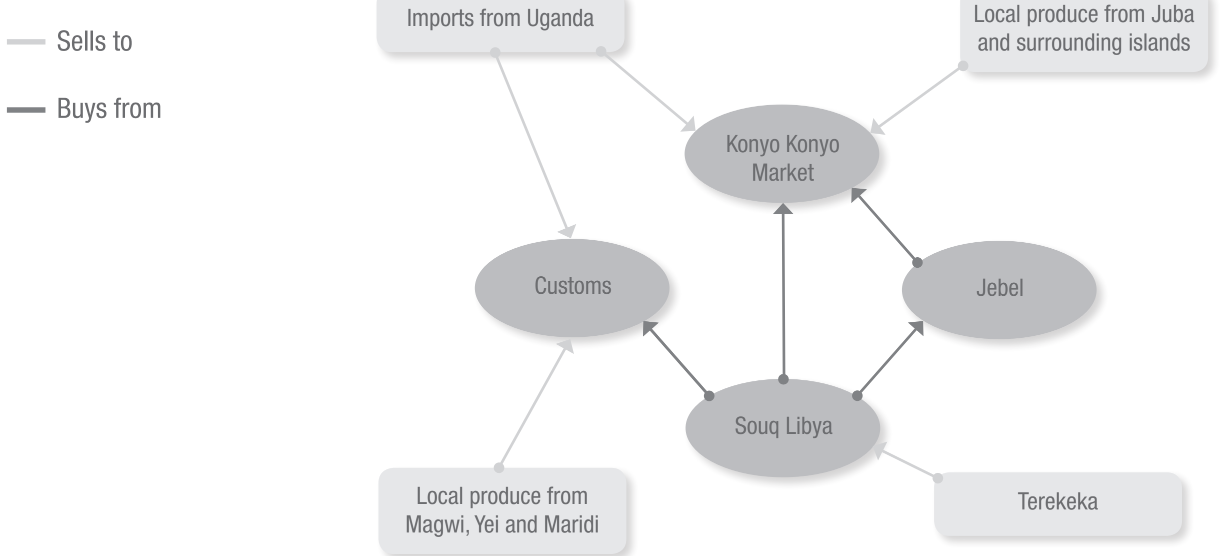
According to WFP's data on cumulative food aid distributions from January to October 2014, Jonglei, Upper Nile and Unity also received the most food aid. Warrap and Lakes states also recorded high food aid distributions (WFP, 2015).

3 Key features of the Juba market

This section describes the key trade flows, supply chains and actors in Juba's markets in normal times, before the current crisis. It focuses on Juba as the key trading and import hub for much of the country, in particular for goods using the Kampala– Nimule–Juba corridor. There are four key markets: Konyo Konyo, Customs, Jebel and Souq Lybia, as well as various smaller or medium-sized neighbourhood markets. Konyo Konyo (North and South) is the largest market in the region, the main hub for imports from neighbouring countries and the primary point of origin for market supplies throughout South Sudan. Imports from Uganda come directly to Konyo Konyo, Jebel and Customs markets, and traders in Customs and Jebel also buy from Konyo Konyo. Souq Lybia does not receive imports directly, so its traders buy goods from one of the other three markets (see the figure below). According to interviews, people prefer to buy from Konyo Konyo market because of the wider range of goods available compared to other markets. Konyo Konyo is not necessarily cheaper, except for maize and sorghum. Most traders buying goods to transport to other South Sudanese states further north also come to Konyo Konyo to buy. Local produce is sold in all markets, though Customs in particular has a number of streets dedicated solely to local produce.

Juba's markets are marked by impermanence and low levels of investment, as traders are keen to retain the ability to leave quickly should security deteriorate. Many come to make a quick profit, and hence do not invest in permanent structures such as storage capacity or shops. There is also a lack of regulation and control, and many foreign – and to a lesser extent local – first-time business people arrive in Juba with little money and are simply trying their luck. Goods may not be as advertised on the packaging – a 50kg bag of maize may in fact only contain 45kg, or the quality may be lower than claimed – and informal tax collection and bribery is common, in addition to official set fees for services such as policing and garbage disposal.

Juba markets



Source: Study authors

3.1 Trade flows

3.1.1 Imports

The scale of imports (both formal and informal) into South Sudan is difficult to estimate as accurate data is unavailable. Staple food commodities in particular are largely traded informally across borders. Over the past four years annual import requirements have fluctuated between 350,000 and 500,000 tonnes (WFP, 2015). South Sudan is the main informal staple food importer in East Africa, accounting for 57% of total informal imports (FSNWG, 2014a). In 2013, before the current conflict, South Sudan imported around 1.85m tonnes of staple food informally, with maize (360,890 tonnes of maize grain and 221,643 tonnes of maize flour) and sorghum (317,114 tonnes) accounting for the highest proportion (WFP, 2015).

Most imports into South Sudan come from Uganda and, to a lesser degree, Sudan. Smaller amounts come from Ethiopia and Kenya (via Kapoeta) to the eastern areas of Jonglei, Eastern Equatoria and Upper Nile states (ACAPS, 2014). South Sudan's main trade routes go through Nimule or Kaya, Central Equatoria and then up along the Jonglei/Lakes border via Rumbek, supplying Greater Bahr el Ghazal or Unity State by road or barge (depending on the season), or via Bor, reaching Upper Nile State (see p. 9 for maize and sorghum trade routes).

Around 54% of Uganda's total maize exports went to South Sudan in 2013 (FSNWG, 2014a). Uganda also exports most of its sorghum to South Sudan. Previously, South Sudan, particularly northern areas, also relied on imports from Sudan. In 2010, an estimated 80,000 tonnes of staple foods such as sorghum, wheat flour, millet and wheat were imported from Sudan (Annual Needs and Livelihoods Assessment, 2011/2012). However, the closure of the border in May 2011 has greatly reduced this trade. Informal trade continues, in particular near Aweil and Renk, but figures are difficult to come by as trade is dispersed along the border to circumvent the ban, and so difficult to monitor (FSNWG, 2014). Interviews for this study suggest that informal taxes paid at border crossing points are high, making trade very expensive. EMMAs by MercyCorp (2015a; 2015b) highlight the exodus of many Darfurian traders from rural markets in the area, disrupting informal trade networks along the northern border. FSNWG (2014a) reports anecdotal evidence that white sorghum from Sudan is increasingly being replaced by the cheaper local and imported red sorghum, maize and maize flour from Uganda. Northern towns such as Aweil, Bentiu and Malakal used to be oriented towards Sudan for their imports, while also receiving goods from Juba and Wau (in the case of Aweil and Agok), Bor, Wau, Rumbek and Juba. Towns in the southern half of South Sudan are more oriented towards imports from Uganda. Although Juba continues to receive imports from Sudan (in particular wheat and sorghum, as well as spices and sauces), traders interviewed for this study estimated that they got about 15% of their wheat and sorghum from Khartoum, and 85% from Uganda.

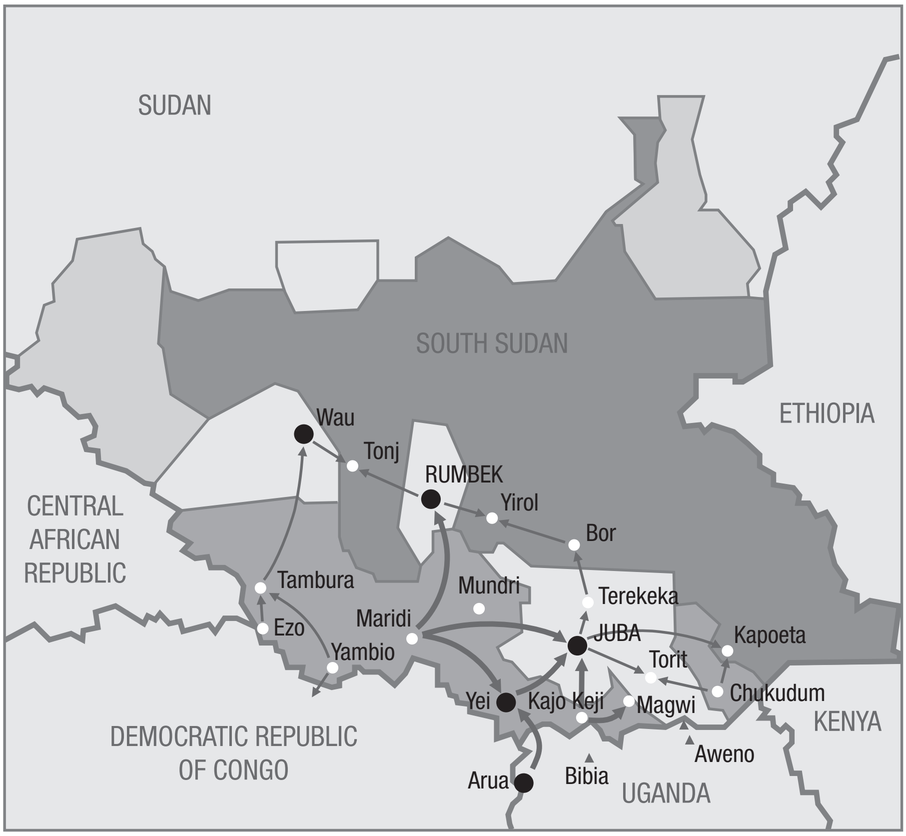
3.1.2 Local procurement

Domestic production makes up 10%–15% of the total supply in Juba's markets. In Konyo Konyo, much of this consists of local fruits and vegetables, such as okra, bamia, kudra and tomatoes, grown on the islands and in the outskirts of Juba and sold by local women in small quantities. Some traders specialise in the sale of local produce in Customs market, where a whole street is dedicated to the sale of South Sudanese maize, sorghum, sim sim and groundnuts. Many of these traders either only procure locally, or buy locally seasonally, importing produce the rest of the year when local supplies are unavailable. Much of this local produce comes from Greater Equatoria – Eastern, Central and Western Equatoria. Traders reported that they would rent cars from Juba and drive to Yei, Morobo, Maridi or Magwi to buy from producers locally. Producers themselves generally do not have the means, knowledge or connections to travel up to Juba to sell their produce, instead transporting their products to the nearest market by bicycle or donkey cart. Traders mentioned that many residents prefer to buy local food, which is generally grown without the use of fertilisers.

Before the start of the conflict, the main local source of sorghum was Renk, the only large-scale mechanised farm in South Sudan. However, production in 2012 was already half what it had been previously because of the departure of the Sudanese who made up three-quarters of the workforce. Most of Renk's sorghum production was destined for Sudan, but some of it also fed the Greater Upper Nile area and Juba markets. Several large traders interviewed mentioned that they used to regularly go to Renk to buy sorghum, as often as once or twice a month, bringing back around 500–1,000 bags each trip.

Typical maize flows in South Sudan

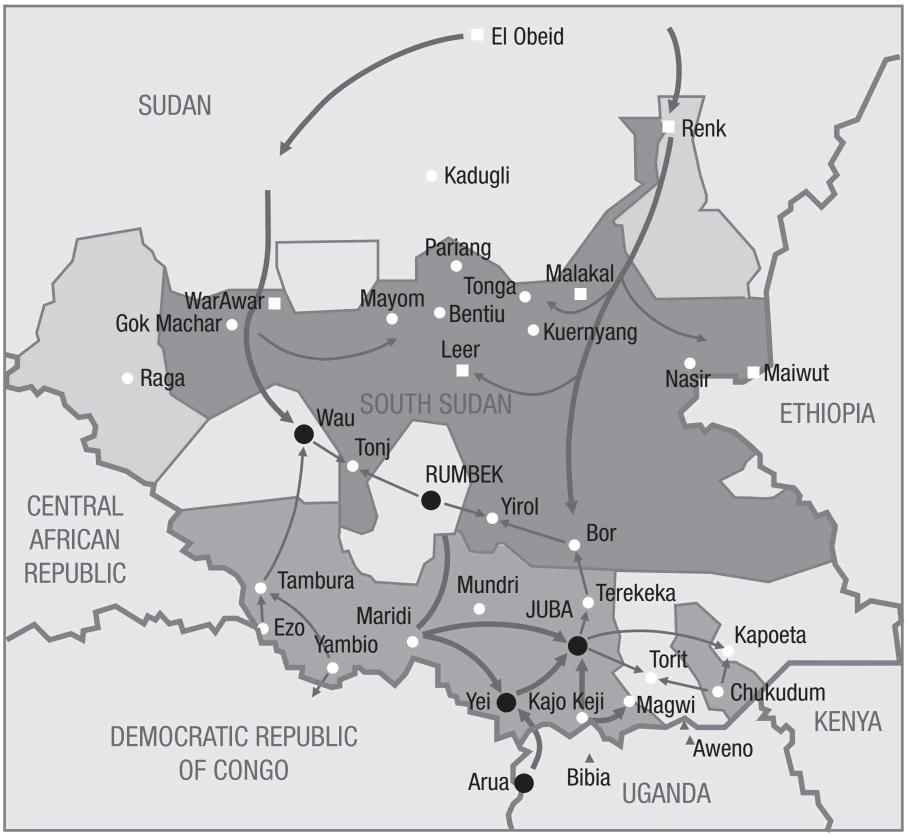
- Large flow
- Small flow
- Minor deficit
- Major deficit
- Major production/ surplus
- No data
- Assembly, retail and wholesale
- Assembly
- Retail



Source: World Bank (2012).

Typical sorghum flows in South Sudan

- Large flow
- Small flow
- Minor deficit
- Major deficit
- Major production/ surplus
- No data
- Assembly, retail and wholesale
- Assembly
- Retail
- Wholesale



Source: World Bank (2012).

3.2 Market composition

Most traders on Juba's markets import the majority of their goods from Uganda. Exact figures are difficult to come by, but estimates suggest that imports account for 85%–90% of total supply in Konyo Konyo market (WFP, 2015). It is not only wholesalers who import goods: retailers, even smaller ones, also do at times. The decision on whether to import or buy locally is heavily influenced by the exchange rate and the availability of, and traders' access to, foreign currency (further discussed in Section 5).

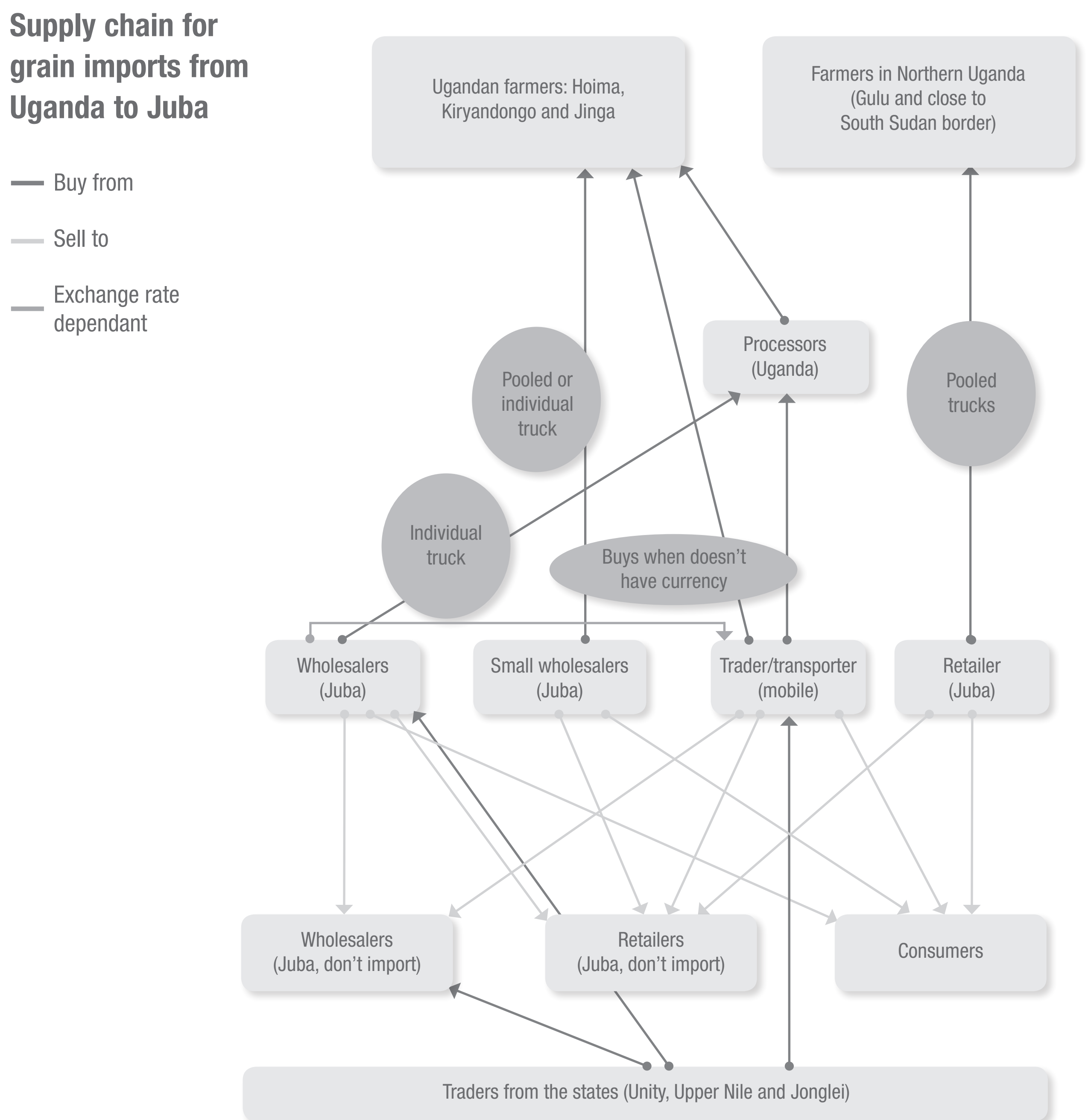
The figure overleaf summarises the various entry points into the grain market. Traders who buy from Uganda either make the trip there themselves or send a close relative or business partner. Some have a South Sudanese or Ugandan associate based permanently in Uganda who will source the goods locally and load them on a truck bound for South Sudan. Many of the larger traders buy directly from the two or three large grain traders/processers based in Kampala. These large traders source grains from all over Uganda, as well as having grinding and processing capacity in their factories in Kampala. Smaller traders buying in Uganda often source cereals themselves, and may travel to different regions, such as Hoima, Jinja, Kiryandongo and Gulu, to collect cereals directly from farmers. Even smaller retailers interviewed, who sold from jerricans or cups, said that they would get together with others and import cereals from Uganda. They preferred to buy in Uganda mainly for quality reasons, and often travelled shorter distances than larger traders – mainly to Gulu or other places in Northern Uganda close to the South Sudanese border.

Those not importing themselves buy from two types of trader/transporter in Juba: those with trucks, who sell their imported produce directly off the back of the vehicle, and those who own stores. Off-the-truck selling generally takes place in North Konyo Konyo; depending on demand and season, between one and five trucks may be trading at any one time. South Konyo Konyo hosts traders with more permanent stores (usually 8 metres by 5 metres in size). Previous studies have shown that these traders/transporters are mostly independent and based in South Sudan, not Ugandan grain processors, who prefer not to travel to South Sudan themselves due to high import duties and taxes and harassment on the road (WFP, 2012). Middlemen may also become involved in some of these transactions, bringing traders to particular stores for a 2 SSP/bag commission.

Wholesalers sell their produce to other wholesalers (especially if they are importers), but also to retailers and individual customers from Juba and surroundings. Retailers tend to sell to smaller shops and individual customers in Juba. Large amounts of goods (sorghum, maize, maize flour) are also sold to traders from states upcountry (Greater Bahr-el-Ghazal, Greater Upper Nile). Volumes are difficult to estimate and vary seasonally, but one recent market assessment suggested that upcountry trade may have accounted for as much as 60%–70% of traders' business prior to the conflict (Oxfam, 2014). During the dry season traders arrive with their trucks from Bor, Rumbek, Wau and Malakal; during the rainy season only a few roads (Bor, Rumbek, Wau/Aweil) remain passable, and large barges take most of the goods north towards Bor, Malakal and Bentiu. Traders said that upcountry traders can buy between 50 and 500 bags from individual shops, combining different commodities from different stores to fill one truck. They may visit a particular shop as often as once or twice a month.

The South Sudanese market is dominated by foreign traders, with only around 15% of South Sudanese origin. Most are Darfuri, Somali, Eritrean, Ethiopian or Ugandan. While some are individual businesspeople, many of the Eritrean, Somali and Ethiopian businesses in South Sudan are branches or subsidiaries of larger companies based elsewhere. While many of the small and medium-sized traders import only foodstuffs, several of the larger traders and companies combine food imports with other, more lucrative businesses, such as hotels and petroleum importing (especially Somalis). Most Ugandan businesses are small or medium-sized, unregistered food traders. South Sudanese retailers, in particular female traders, had started to increase before the crisis, mainly selling local fruits and vegetables. There are also a few (10–15) large-scale South Sudanese traders involved in foodstuffs and other goods.

While it is difficult to say how many large operators there are in the sorghum and maize trade, given that many traders import other goods as well (and a large trader overall may not be big in sorghum or maize), estimates can be made. Although a few very large companies have capital of over $10m, most



Source: Study authors

companies registered with the Chamber of Commerce have capital of 50,000–15m SSP (around $8,000–$250,000). The Chamber has 6,000 members, around half of which deal in food items. Of these, there are around 20 large traders, 2,000 medium ones and 1,000 smaller ones. According to the Chamber of Commerce, three-quarters of the companies registered with it are partnerships between foreigners and a local shareholder. The local shareholder is rarely a businessman or provides any capital, but simply offers an entry point into the local market and establishes useful connections.

Chamber of Commerce figures only concern registered companies, and many traders are not willing to register for financial and bureaucratic reasons. Most informal traders are small- or medium-scale. Medium-sized traders typically bring to the market between 1,000 and 2,000 bags of maize a month. Large traders bring in 2,500 bags or more, with the bigger ones often bringing in as many as 4,000 bags around 3–4 times per month; others also bring in fuel (up to four trucks a week before the crisis). They often own several stores of around 3,000 bags each. Small-scale traders usually sell by jerrican or cup and, if they do import, bring in around 50–100 bags a month.

According to Fewsnet (2009, cited in WFP, 2012), the sorghum market is relatively concentrated, with 12% of the largest traders handling 70% of the trade. Even before the conflict there was not much of a sorghum market in Juba for local consumption. People in Juba and the Equatorias have generally shifted consumption patterns, preferring maize to sorghum, or consuming sorghum, wheat and maize together. In Juba, sorghum was mainly used for alcohol brewing before the government demolished the informal market in 2012. Traders reported that they were selling around 500 bags a day to local brewers, but since the demolition demand has declined significantly. Much of the sorghum traded in Juba and imported from Uganda is destined for trade upcountry.

3.3 Transport

Trucks normally carry either 15 tons or 25 tons, and traders may load a combination of different cereals and other items on a single truck. Rental prices reported by traders were around 5m Ugandan Shillings ($2,000) for a 25-ton truck and around 3m Shillings for a 15-ton truck. Trucks are generally hired in Kampala and operate independently of traders, though some may also have their own trucks. Transporters in Juba who take produce upcountry also operate independently. Checkpoints along the roads (both formal and informal) are a major factor driving up the price of goods. A study by the National Bureau of Statistics (NBS, 2011) found six checkpoints between Juba and Nimule, 32 between Juba and Aweil, 24 between Juba and Wau and nine between Wau and Aweil, with varying amounts of payment demanded at each. This study found reports of numerous checkpoints between Kampala and Juba, with traders having to pay between 100 and 200 SSP at each unofficial checkpoint and and 200–300 SSP at Nesitu.

3.4 Terms of trade

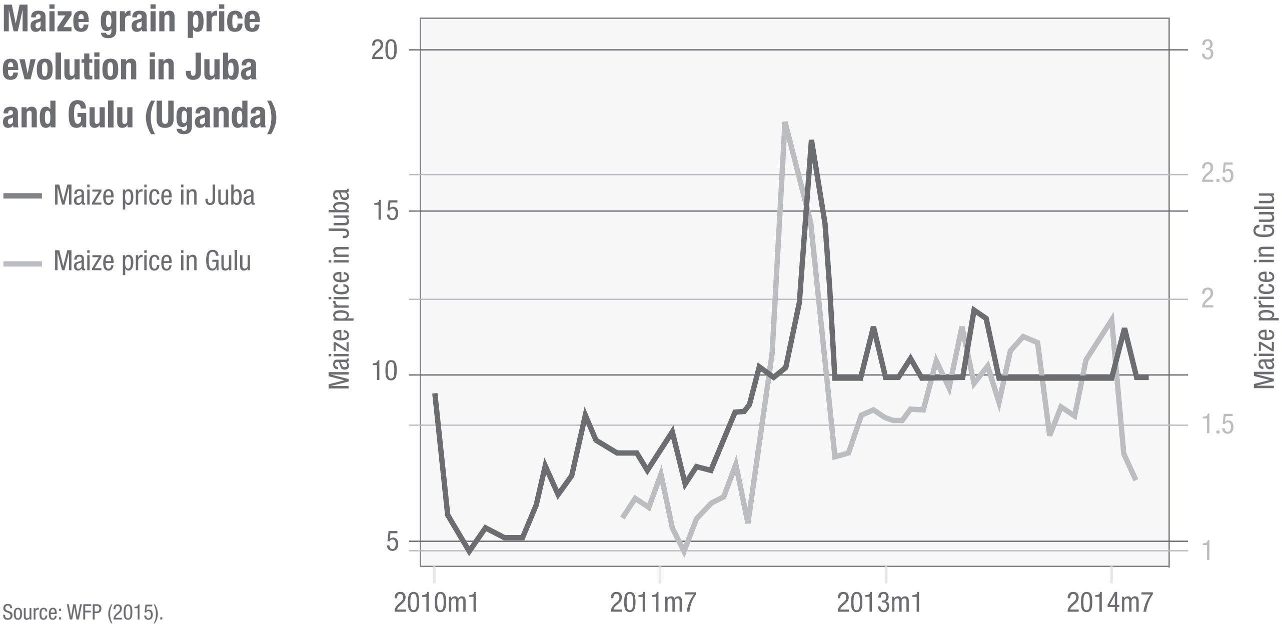
Staple food markets operate on both credit and cash. Almost all traders access credit on an informal basis, rather than through formal channels such as banks or other financial institutions. Credit arrangements are often in-kind, where a trader receives the goods but only has to pay for them after selling them and collecting the profits, normally a couple of weeks later. Credit also depends heavily on the connections individual traders have with other traders or processors/producers. For example, several traders reported that they knew large maize processors in Uganda well and did not have to pay in advance for their goods, but paid once they had sold their stock. Others mentioned that they always had to pay upfront because they did not have the same personal contacts.

3.5 Prices

Food prices in South Sudan have been highly volatile since independence in 2011. There are enormous price differences between different markets due to weak market integration across the country, mainly down to poor roads, expensive fuel, illegal checkpoints and taxes and unfavourable exchange rates (Special Focus Report, 2014). Generally, the further from an import point (Uganda, Sudan, Ethiopia) the less integrated markets become, and the more likely it is that prices will be higher (WFP, 2015). WFP price monitoring for maize grain in Juba between 2010 and 2014 suggests that they closely follow prices in Ugandan markets. There seems to be little seasonal variation in prices for either maize or sorghum in Juba and Bor, reflecting both towns' strong reliance on, and good connections with, import markets in Uganda (WFP, 2015).

While overall prices for sorghum and maize seem to be less volatile in Juba than in other South Sudanese markets, prices do vary significantly from trader to trader because they depend entirely on the import channel traders used, the prices traders bought at, the amount of formal and informal taxes they paid and, most importantly, the exchange rate at which the trader converted his South Sudanese Pounds into US dollars in order to import the goods. Traders explained that, while goods were cheaper in Uganda, after transport, taxes and storage they cost in effect almost the same as they would have done had they been bought in South Sudan. Interviews suggest the main profit traders made before the conflict was from the exchange rate differential, rather than the price differential from buying goods cheaply in Uganda. Traders with larger storage capacity are at an advantage because they can wait out exchange rate fluctuations and time their restocking to coincide with favourable rates, maximising their profit.

Maize grain price evolution in Juba and Gulu (Uganda)



Source: WFP (2015).

4 The impact of the crisis on markets

What started as a political dispute within the ruling Sudan Peoples' Liberation Movement (SPLM) party in Juba in December 2013 quickly escalated into large-scale violence. The fighting pitted supporters of President Salva Kiir and former Vice-President Riek Machar against each other, though other communities are increasingly being drawn into the conflict. Cycles of violence and retaliation have spiralled out of control, resulting in appalling atrocities against civilians by all sides. The SPLM and the Sudan Peoples' Liberation Army (SPLA) split, resulting in the formation of the Sudan People's Liberation Movement/Army under the leadership of Machar. Mobilising breakaway elements of the SPLA, as well as other armed actors such as the Nuer White Army, the opposition took control of areas of Upper Nile, Jonglei and Unity states. Front lines remain very volatile, and the towns of Bentiu, Bor and Malakal have repeatedly changed hands. The Ugandan government intervened on the side of the government, sending troops to secure key towns such as Juba and Bor.

Insecurity and conflict have had a direct impact on markets. Markets in Bentiu, Malakal and Bor were destroyed during the fighting and many traders lost everything. In Bentiu, over 1,000 Sudanese traders lost their goods (DNA, 2014). Traders started to return to Bor in mid-2014, but staples remained limited and fear of insecurity and continued conflict persisted (*ibid.*). During a visit to Bor in October 2014, the research team noted a partial resumption of trade, though many shops had been destroyed and only a few traders had returned. In Bentiu and Rubkona two small markets were functioning, with goods coming from Juba by aircraft (WFP, 2015). In Malakal, a WFP report on research conducted in October 2014 showed that only one-sixth of traders were operational and the market was functioning at around 10% of its pre-conflict level. Terms of trade for livestock have also been affected. Livestock in areas most affected by the conflict were usually sold for offtake in market hubs such as Bentiu, Bor and Rumbek in exchange for sorghum and commodities. The conflict has paralysed this trade, meaning that traders, many of them from Darfur or Juba, no longer have a supply for their goods (MercyCorps, 2015a; 2015b).

In Juba, Konyo Konyo and Jebel markets were closed for around two weeks during the initial fighting, and Jebel market was looted and stores broken into. Most losses were either due to looting or unpaid (mostly in-kind) credit granted to traders and customers upcountry. One Darfuri trader estimates that he lost around a third of his capital due to unpaid credits from customers in Malakal and Bentiu. In other markets in Juba, such as Souq Lybia and Mangataen (which are very close to neighbourhoods where there was heavy fighting), many shops were looted or destroyed. After the initial acute period of fighting in December 2013, residents reported sporadic gunfire and insecurity for around three months, preventing them from accessing markets. At the time of the research in August and October 2014 markets in Juba were operating, but at lower than normal levels, and internal trade flows between Juba and the northern states were much reduced. Feelings of insecurity meant that people generally preferred smaller, neighbourhood markets to large markets such as Konyo Konyo and Customs, and traders in these smaller markets had raised their prices in response.

With the onset of the crisis many traders – especially foreigners – left, either because of insecurity or because they had lost everything and were unable to restart their business. Estimates from traders interviewed suggest a 30% decrease in the number of traders in Konyo Konyo market. One representative of a building firm interviewed estimated that construction had gone down by 65% since the start of the crisis, and that half of the shops the company owned in the market were empty, either because the tenants had left or because they could no longer afford the rent. The Chamber of Commerce likewise reported a 40% decrease in registrations of new companies since the start of the conflict.

Juba's markets also saw the arrival of newcomers, mainly foreign traders from Bentiu, Bor and Malakal seeking to restart business with the help of relatives in Juba. Ugandan traders were targeted in opposition-held areas given their country's perceived association with the South Sudanese government, and many relocated to Juba or left the country entirely. Some started to return to Bor to trade in areas protected by Ugandan troops.

Foreign traders often had very different support networks than those available to South Sudanese. Those operating in South Sudan often act as a subsidiary of a family business or as an informal 'branch'. These traders' losses were made good with loans from relatives in Juba to enable them to restart their businesses. In this sense, for some of these foreign traders losses were operational not capital losses, as they are part of a wider network. South Sudanese traders often lacked such support networks; interviewees highlighted that South Sudanese relatives may help with food, but are unlikely to provide cash to restart business activities.

4.1 Trade flows

The conflict has had a significant impact on imports into, and trade flows within, South Sudan, reducing informal sorghum, dry bean and maize grain exports from Uganda in the January–March 2014 quarter by up to 90% compared to the three-year quarterly average (FSNWG, 2014b). Regional exports to South Sudan slowly started to increase in the third quarter of 2014, but remained below average due to continued conflict and insecurity, low demand and the depreciation of the South Sudanese Pound. Overall cross-border imports of maize, sorghum and rice into South Sudan declined by 44%, 85% and 79% between 2013 and 2014 (FSNWG, 2015). Sustained conflict in Western Upper Nile near Malakal has disrupted cereal trade flows from Sudan as most foreign traders have fled (ACAPS, 2014). The conflict has not directly affected the main local production areas in Greater Equatoria, and links to larger markets, such as Nimule, Juba and Torit, continue to function. However, links between Nimule and Juba and areas further north have been heavily affected, as fewer traders are willing to travel. Local production in conflict-affected areas has also been badly hit, and insecurity and checkpoints along the roads have meant less local produce is available in markets.

Trade routes in the conflict-affected states of Jonglei, Upper Nile and Unity have also been affected. Traders in other parts of the country were not directly affected by the conflict, but have suffered from the indirect effects of decreased trade, insecurity along major roads and rivers and an increase in illegal checkpoints. Many roads and river routes have become too insecure to use, and roads that cross the frontlines, such as the Bor–Pigi–Malakal route or between Panyijiar County (Unity) and Ayod County (Jonglei), are very risky. The Rumbek to Bentiu route is significantly affected, reducing food supplies to Malakal and Bentiu. Despite these difficulties, some trade continues locally, for example via a new hub in Tayar in Unity State, which emerged in March 2014 (see MercyCorps, 2014).[3]

Unity and Upper Nile were heavily reliant on goods from Sudan before the conflict, but travel risks within South Sudan and in the border areas of Southern Kordofan and Blue Nile mean that this has started to change, and there has been a reorientation towards Juba in a number of northern areas, such as Bentiu, Malakal and Renk, where an estimated 50% of sorghum production used to be destined for the north. Some illegal trade continues along the border with Sudan, in particular at the Aweil/Raja crossing points and, to a lesser extent, in Unity State, but prices are high due to informal taxation and quantities have declined. Due to a combination of the rainy season and insecurity, for both traders and humanitarian actors the main form of transport for packaged goods to conflict-affected areas controlled by the government is by cargo plane from Juba, which makes trade very expensive, and prices have risen sharply (WFP, 2015).[4] Opposition areas in the east of the country are virtually cut off, and supply routes there have shifted towards Ethiopia (*ibid.*).

The main import hub along the Kampala–Nimule–Juba road has not been affected by the conflict. Some goods also continue to enter from Kenya via Kapoeta/Torit. The roads from Juba to Rumbek and Rumbek to Aweil continue to function, though insecurity has increased and the number of checkpoints has grown. Informal trade with Sudan continues, though to a lesser degree than before the conflict. Traders in Juba said that, before the conflict, every month four or five

3 Tayer market was destroyed in a government offensive in May (Radio Tamazuj, 2015b), but there are plans to rebuild it.

4 WFP (2015) reports that packaged foods in Juba cost 11 SSP per kilo.

trucks used to come through Raja/Aweil and on to Juba during the rainy season, bringing mainly sorghum from Sudan. Now at most only two trucks travel the route. Traders also sell more sorghum along the road, for example in Aweil and Wau, which means that less arrives in Juba. The Juba–Bor road is open, though at the time of the research travel along it was affected by the rainy season and insecurity. Interviewees mentioned that in many instances heavy trucks have been replaced by smaller vehicles. Similarly, large barges are no longer able to navigate rivers and have been replaced by smaller boats or canoes, which carry fewer goods.

4.2 Demand

Demand in Juba has declined drastically due to population decrease and displacement within the town. Estimates suggest that Juba's population fell by as much as 50%, from around a million inhabitants prior to the conflict to around 500,000 in April 2014 (Oxfam, 2014; HPG interviews). Those that remain lack purchasing power due to unpaid or fluctuating salaries, including a 10% pay cut for civil servants. Many of Juba's inhabitants are employed by the government, and salaries had not been paid for 2–4 months (depending on the section) at the time of research in August 2014. Given South Sudanese family structures and the many dependents that a government employee may support, this has important consequences for the purchasing power of wider family networks. Casual workers have also seen their resources dwindle as demand for their labour has plummeted. Women working in petty trade, selling fruits and vegetables in the market, have also been affected by lack of demand. People interviewed explained that, while previously it was possible to buy goods on credit from traders they knew well, this was no longer possible and almost all transactions were in cash. Several interviewees mentioned getting loans from relatives still in employment or abroad.[5]

Retailers selling to Juba residents say that their sales have gone down by as much as 50%–70%. One retailer explained that, while he used to sell all his produce in a single day, it now takes 2–3 days. Another maize retailer explained that he now barely sells one bag a day, when previously he was selling four. To attract customers, he mixed cassava with maize and sorghum to make the quality more appealing, but customers were still not coming. Some traders interviewed in Bor reported that they had been sent back to the town by their relatives in Juba to see if demand had picked up, and to spread the risk as demand in Juba was too low for them to continue operating there. Wholesalers selling to Juba retailers and residents and large-scale traders from upcountry have lost many of their usual customers from Bor, Malakal and Bentiu. This is the case for both the sorghum and maize trades, as most sorghum simply transits Juba given the lack of a significant local market. For many wholesalers, upcountry traders represent a significant amount of income, buying between 50 and 300 bags at a time. Interviews suggest that trade has gone down at least by 50%, mainly due to the disruption to upcountry livelihoods and insecurity.

Some traders have also lost the army as a regular buyer of maize for soldiers. Before the conflict, the army used to buy large quantities from selected traders (up to 3,000 bags in one go) and then send this to army bases in other states. Since the start of the conflict, however, the army has set up its own companies with direct access to government funds, which supply goods directly either from Uganda or from selected traders in Konyo Konyo. Traders say that the army only comes to the market to buy very small quantities, and blame the government for handing the trade to friends and allies, rather than sourcing openly on the market.

4.3 Currency and exchange rates

As discussed in further detail below (Section 5), the crisis has had a significant impact on traders' ability to access dollars, and has fuelled a huge increase in the dollar–SSP exchange rate on the black market. When asked about the future, most traders said that they would be able to bring in significantly more quantities than currently if they had access to dollars at preferential rates. Even before the conflict, due to government rationing of foreign exchange only formally registered traders or those with close government connections were able to access dollars at the official government exchange rate, whereas most informal traders had to rely on the black market. With the conflict, only a few individuals close to the government are able to access dollars at the preferential governmental rate; everyone else has to rely on the black market. Given that South Sudan

5 The situation has worsened substantially in 2015; income opportunities have not improved and prices have spiked.

is predominantly an import market, and the South Sudanese currency is not traded or accepted across East Africa, access to foreign currency is crucial for business continuity for most traders. As such lack of access to dollars represents the most significant obstacle to the expansion of trade.

As a consequence of the conflict black market rates have exploded, rising from around 3.9 SSP/USD in April 2014 to between 5.8 and 6 SSP towards the end of the year, or around 80% higher than the official Bank of South Sudan (BOSS) rate of 2.9 (or 3.16 for the official commercial rate).[6] This has had considerable consequences for traders who make a large part of their profit on the exchange rate rather than on the price differential between buying and selling, both in terms of how they operate and stock their goods and in terms of prices. Instead of regularly importing a set quantity of goods, traders now wait until they have finished selling almost everything before restocking, and most reported bringing in significantly lower quantities. For example, one trader explained how previously he would bring in two trucks of 500 bags of maize around three times a month, whereas one truck now brings in enough stock to last around two months. One large Eritrean trader who also sells to traders upcountry recounted how he used to bring in 6,000 bags of maize flour a month during the dry season peak, and 4,000 bags in the rainy season, compared to only 2,000 bags during the rainy season now – a drop of 50% in his trade.

How much traders currently bring also depends on the individual trader's strategy and their storage capacity. Larger traders tend to have more access to safe storage capacity then smaller ones, and seem to have more room for manoeuvre: they are able to restock more and store significant amounts when the exchange rate is favourable, and then sell their stock over time according to market conditions. They are also able to close down completely during periods of insecurity. Several traders explained how, when the dollar rate was high, they would not restock, but would sell their stored goods until the exchange rate went down. At that point they would then restock again. As such, they can survive for much longer than smaller traders.

To avoid the need for dollars, some traders now buy in Juba, rather than going to Uganda themselves. This also avoids a costly journey and the various tariffs and taxes levied on the road. However, prices in Juba are higher, reducing profits. Many smaller traders do not have an alternative and either deal in much lower quantities or make very limited profits. Others try to move out of cereals altogether, and have started trading in local vegetables instead – at least during the dry season, when this can be more profitable than the maize trade.

Foreign traders (Ugandans, Eritreans, Somalis) have access to a number of informal means of money transfer. Most said that they could not take South Sudanese Pounds physically out of the country to change because the notes were extremely bulky in large amounts and there were security risks along the road. Carrying large amounts of cash also increases the risk of being stopped at illegal checkpoints and at the border, incurring large tax payments. Ugandans and Kenyans use informal networks that transfer money through friends and their companies, giving South Sudanese Pounds to a Kenyan in Juba, who changes the currency into Kenyan Shillings. An associate then retrieves the Shillings in Nairobi. Some traders appear to be able to transfer money through companies, paying South Sudanese Pounds into the branch in Juba, with the equivalent US dollars withdrawn in Kampala. These informal networks appear to be small-scale and ad hoc, and are not used by larger traders.

The *hawala* system was also mentioned as a potential source of dollars, in particular for Somali traders, though interviewees noted that the system was no longer operating smoothly. Individual *hawala* traders have a certain ceiling under which they are able to borrow, but thereafter they need to repatriate the money in order to be able to borrow again. Under current circumstances, *hawala* traders are often unable to repay the money they borrowed from their lenders, and are unable to accept new trade.

Several large Somali companies use NGOs or other international organisations as money transfer agents: they give NGOs South Sudanese Pounds in Juba at good rates, and the NGO pays out dollars to Somali subsidiaries in Nairobi or Kampala. Most NGOs and UN staff also exchange their money on the black market, fuelling the black market trade.

The size of the trader does not necessarily correlate with the kind of transfer mechanisms used, though many of the smaller traders will use the more

6 The parallel exchange rate has reportedly skyrocketed in 2015, from 6.1 SSP/USD in January 2015 to 11.6 SSP in May 2015.

informal, small-scale methods detailed above. Large-scale traders who are well connected to the government or who import essential goods such as fuel, crucial to the government and to the war effort, also have no problems accessing dollars. Other large traders who do not have these connections have the same problems as small traders, and like them must find informal ways of changing or transferring money.

4.4 Credit

The crisis has had a considerable impact on credit arrangements between traders, and between traders and their customers. Most credit arrangements in South Sudan are informal, often in-kind. With the crisis most traders report that they cannot easily get access to credit; many lost significant amounts in unpaid credits and trust is low. Similarly, selling on credit to people from other states is much less common. Traders who know each other well continue to access credit, and those with good connections to traders in Kampala or Gulu continue to access goods on credit, repaying after a couple of weeks. Credit arrangements among foreign traders, such as Darfuris, Somalis, Eritreans and Ethiopians, continue to function, given that many of these traders operate as extended branches of the same business. Credit arrangements between retailers and small-scale traders (selling by the cup or jerrican), and between traders and their customers in Juba, continue to function, with repayment after two or three days.

4.5 Prices

Prices in Juba have fluctuated widely since the start of the crisis, both in terms of price evolution over time and variations in prices from one trader to another. Prices in Juba spiked during the first weeks of the conflict, with sorghum and maize reportedly up by 30% as imports stopped and insecurity led to the temporary closure and looting of some markets (WFP, 2014). This was followed by a fall in prices in January/February for perishable items, as traders tried to sell off their goods quickly before leaving. Prices for sorghum and maize stabilised in Juba, while continuing to climb in markets in conflict areas, in particular during the May–August lean season. The highest prices were recorded in Bentiu and other conflict areas (WFP, 2015).

At the time of the research in October 2014, prices for sorghum and maize seem to have remained relatively stable in Juba, due to depressed demand and lack of purchasing power among Juba's residents, fewer traders importing lower quantities and reduced trade with the northern states, all of which kept prices from increasing. This meant that traders were, at least temporarily, adjusting to shrinking profits while waiting for the situation to improve. Increases in exchange rate differentials and continued constraints on accessing dollars meant that this precarious stability was unlikely to last, and since the research was conducted prices have risen substantially.

Box 2: The situation in PoC sites

When the conflict broke out members of the Nuer ethnic group took shelter in UN-administered Protection of Civilians (PoC) sites in Juba and elsewhere across South Sudan. UN House in Juba was sheltering around 33,000 IDPs in January 2015. Most households are entirely reliant on humanitarian assistance due to movement limitations (mainly fear of going outside the camp) and the very limited income opportunities available inside the camp (mainly cash for work or wage labour from NGOs, often allocated to able-bodied young men). Many households have limited to no disposable income and have to resort to unfavourable coping strategies, including selling aid at low prices and brewing alcohol.

There are several small markets within the PoC site, with shops carrying a limited range of goods, including vegetables, dried fish, sugar, wheat flour and oil. Around 10% of households run small businesses inside the camp (Oxfam, 2014). Few families have savings or access to remittances from relatives. Most households interviewed reported eating a mix of sorghum, maize and wheat flour. Some maize flour is available in the camp, though prices are high – as much as 170–180 SSP per 50kg bag. Households reported trying to sell at least part of their sorghum ration to buy other goods or diversify their diet. Some Eritreans, who are too afraid to go into town and do not have any networks, sell their 50kg sorghum bags for as

Box 2: The situation in PoC sites (*cont'd*)

little as 30 SSP. Initially, traders came to the gate of the compound and bought from people inside the camp, but in June 2014 UNMISS started to block people from selling sorghum at the gate or taking sorghum out of the camp to sell, prompting increasingly creative arrangements to get sorghum out of the camp, including throwing bags over the fence of the compound (young men are paid 10 SSP to throw the bags over the fence) and cutting holes in the fence to smuggle bags outside.

Access to markets outside the camp is severely restricted for Nuer camp residents due to fear of insecurity and attack. Only women and men without traditional tribal markings venture outside. Interviewees reported incidents of robbery, assault, sexual violence and disappearances outside the camp, and those who do venture outside tend to do so in groups, and avoid public transport. People prefer to go to Konyo Konyo because goods are cheaper there than in nearby Jebel market, but transport costs to Konyo Konyo are much higher (25 SSP return for a motorbike, 5 SSP return fare for a matatu). Those who did use markets in Juba said that traders treated them like any other customers, and did not discriminate in terms of price, mainly because most traders are foreigners and hence not interested in their customers' tribal affiliations.

5 Broader political economy issues: currency, corruption, nepotism

The key issues affecting most traders since the start of the crisis are to do with the broader political economy. These are issues that few humanitarian actors understand well, or look at in their market analysis. Most Juba traders' overwhelming concern is the lack of access to dollars and the increase in the dollar exchange rate on the black market. This is also the biggest obstacle to increasing trade in Juba and markets further north that rely heavily on imports along the Juba–Nimule corridor.

The rationing of foreign currency and corruption around the foreign currency trade create key blockages in markets and supply chains. Most traders report that they cannot access foreign currency at profitable rates, even though most say that, in principle, they have the capacity to bring in more goods. This has the most impact in Juba and parts of South Sudan that rely heavily on imports from Uganda.

Before the crisis, official registration with the Chamber of Commerce and a licence would, at least in theory, allow a trader to open a bank account and access foreign exchange, either at a bank at the commercial set rate of 3.16 to the dollar or in one of Juba's many foreign exchange bureaus. In practice, however, access to foreign currency was rationed following independence, and even with registration or a licence traders often still needed good connections to government officials to access currency (see IMF, 2014). Most smaller, unregistered traders changed money through informal channels, such as on the black market or through friends. For large transactions, the government instituted a letter of credit (LC) system in 2012 under which a trader took all the documentation related to the transaction (invoice, tax receipt etc.) to the BOSS, which then approved the transaction and instructed a commercial bank to release the money to the supplier once a waybill to a border post in South Sudan (normally Nimule) had been delivered.[7] This complex system was in principle introduced to keep prices stable. In practice, however, it was often exploited by people with good connections to senior government officials.[8]

Since the start of the crisis, and with the significant reduction in foreign exchange reserves at the BOSS, accessing dollars at the official rate in banks has become even more difficult. Access is reported to be closely linked to corruption, nepotism and the war economy. Dollars are obtained either directly from the Central Bank through relatives or connections there, or at a commercial bank. In these cases the Central Bank transfers the money to the commercial bank, which makes it available to the individual. According to interviews, amounts can be as much as \$5–10m. Interviews suggest that the number of individuals with this access has declined and the composition of the group has changed to reflect a change in the configuration of power within the SPLM. Those without privileged access obtain dollars at a range between the official and unofficial rate depending on the channels they use for exchange and the connections they are able to activate.

7 The arrangements for the LC system then changed, with approvals given by the Ministry of Commerce and funds in foreign currency provided by the Qatar National Bank, and subsequently reimbursed by the Central Bank. Following parliamentary criticism, returning the approvals system to the Central Bank is under discussion (Petero, 2015).

8 A precursor to the current system, which was similarly exploited by well-connected individuals, was the Dura (sorghum) programme. The 'Dura saga' was one of the largest corruption scandals in South Sudan. A government programme established in 2009, it was originally intended to build food stores across for sorghum (Dura) reserves. Funds were disbursed to 290 companies that did not sign contracts with the government, and 151 companies were overpaid. No stores were built or sorghum reserves established. An estimated 6 billion SSP vanished (Awolich, 2013).

Most banks have stopped issuing dollars to businesses and no longer operate money transfers from SSP accounts outside the country – except to a select few individuals. Some banks continue to run some dollar operations by importing dollars by air from neighbouring countries. One bank official estimated that his bank was flying in between $2m and $5m a month to keep day-to-day services running for its dollar account clients and to supply very limited amounts of dollars on a case by case basis. The government officials who authorise aircraft landings reportedly get a cut of around $2,500 each time a plane lands.

According to interviews, individuals with access to dollars are not genuine traders, but people using their connections to government officials to profit from the black market currency exchange given the large profits that can be made on exchange rate differentials. These individuals register a fake company in neighbouring countries as well as in South Sudan to issue waybills and invoices, and waybills and taxation documents are obtained from the Nimule border without actually bringing any goods. Instead of importing goods, many of these so-called 'businesspeople' in fact exclusively or largely trade the currency they obtain on the black market. According to one high-level interviewee, if a 'trader' obtains $10m, they may spend $7m on currency trading and $3m on actually importing goods. In the words of one South Sudanese government official, 'the dollar has become a commodity of its own'.

After a parliamentary review into black market exchange practices many of the forex bureaus that had registered prior to independence were closed down. In their place there has been an explosion of newly established banks in South Sudan, with at least 30 springing up in recent years. Most do not serve clients or have branches outside Juba, but more closely resemble briefcase companies with the sole purpose of trading on the black market exchange. They often have a foreigner who will front as the main owner, with a well-connected South Sudanese shareholder in the background.

9 Banks used to receive fixed dollar allocations from the BOSS according to three main categories: business/import, medical allocations and family support allocations. Different banks received different amounts. These allocations have stopped for some banks, while others may still receive limited amounts.

6 The impact of aid on markets

Throughout the conflict most humanitarian aid has been in-kind, in particular in-kind food assistance, much of it delivered by air drops given the lack of infrastructure and inaccessibility of large areas of the country. Food aid has been crucial for the most vulnerable in conflict-affected states. The three states of Jonglei, Upper Nile and Unity account for over half of all cereal in-kind food assistance in South Sudan. Warrap, which has been unaffected by the conflict, accounted for 15% due to chronically high food insecurity. All other states accounted for less than a third of overall food assistance (WFP, 2015). There is thus a correlation between food production and food aid, with the largest food producers (Eastern Equatoria State, Western Equatoria State, Western Bahr el Ghazal) receiving the least food aid (*ibid.*). Overall, general food distributions accounted for 13% of supply (without imports), meeting approximately 10% of demand (*ibid.*).

While food aid has been crucial, at least in preventing the food security situation from worsening, markets continue to function to varying degrees across the country, including in conflict areas (see WFP, 2015; Oxfam, 2014; 2015; Maxwell et al., 2015). There are increasing concerns about the long-term impact of food distributions on markets. An Oxfam EMMA in Bor in 2015 suggests that the lack of demand due to general food distributions is partly responsible for the collapse of markets. Similarly, WFP (2015) found that, while food aid is helping to reduce prices in conflict areas, it was also probably responsible for crowding out local sorghum traders in Bentiu market. The report concluded that markets continued to function in many parts of the country, and that the feasibility of market-based interventions should be assessed. There are also concerns that air drops congregate large numbers of people in one place, making them more vulnerable to conflict-related risks.[10]

The impact of food aid distributions has been less pronounced in Juba than elsewhere because markets are still functioning and imports from Uganda are available for purchase. Food distributions had little effect on prices or on the quantities available on the maize market, given the competitiveness of the market and the fact that most food aid distributed is sorghum. The effect on the sorghum market has however been significant, and food aid has arguably destroyed the limited sorghum market in Juba. Most sorghum traded on the markets in Juba is now aid sorghum, with 50kg bags selling for as little as SSP 30–50, depending on the location. Most sorghum comes from the UN House PoC site and the Tong Ping site, though traders interviewed by the research team also mentioned some sorghum flows coming back to Juba from further north. How much, and where it is coming from, is difficult to determine. According to WFP, the amount of food aid coming back to Juba is around 600 tonnes (compared to over 10,000 tonnes or more being distributed). The most likely source is Bor/Mingkamman, where there is a large PoC site with over 100,000 IDPs. During a visit to Bor in October 2014 no sorghum was being traded on the market there. There is some evidence of aid maize grain being sold in Juba for as little as SSP 80 for 50kg. This is most likely maize handed out at the Tong Ping PoC site.

Despite – albeit limited – market functionality in many areas across the country, there have been few attempts by aid agencies to support market-based interventions alongside in-kind food distributions. Aid agencies including Oxfam, Acted, MercyCorps, LWF and Solidarités have provided limited cash and voucher assistance in PoC sites, such as charcoal and milling vouchers, and limited cash assistance, mainly in the form of vouchers, to complement food rations with vegetables, milk and other items. However, UNMISS bureaucratic restrictions were difficult to overcome when trying to institute more innovative responses supporting traders and residents in the PoC camps. In the Juba PoC site, the provision of cash (even in limited amounts) has been prevented by UNMISS's refusal to allow bank branches inside the camp and by the lack of mobile transfer options. The possibility of organising fairs with vetted traders from outside the camp was rejected by UNMISS for security reasons.

Agencies are also increasingly supporting people and traders with cash and voucher interventions outside

10 WFP was planning to undertake more research on this in 2015.

PoC camps, though efforts have been small-scale and limited, rather than more comprehensive or innovative market-based interventions. Very few agencies have taken a more systematic, conflict-sensitive approach to supporting markets in conflict areas. MercyCorps is a notable exception: when looking at potential market-based responses in its operational areas it found that local leaders had revived long-standing ties based on intermarriage with neighbouring communities to keep markets in their areas going. Local Nuer chiefs from Panyjiar County in Unity State had initiated talks with Dinka chiefs from Duk County in Jonglei State to find ways to stimulate and keep trade alive between their two areas. MercyCorps was thus able to support a locally led peace-building initiative to stimulate markets and trade (MercyCorps, 2014). A fisheries programme initiated by AECOM before the current conflict proved a valuable link between communities and supported trade after the conflict began. The canoes and fishing equipment provided to Dinka and Nuer youth in Tayer port, Unity State, became an essential component of local trade and interaction during the conflict (USAID, 2014).[11] However, programmes such as these remain the exception rather than the rule.

Few humanitarian agencies procure food aid locally or work through local traders' supply chains to purchase the food needed for their interventions. Anecdotal evidence suggests that some NGOs may be making limited purchases in Juba markets, though it was difficult to confirm this as traders could not distinguish clearly between NGOs and other customers. While production has continued uninterrupted by the conflict, in particular in the surplus areas of Greater Equatoria, few agencies or donors seem to be looking at the possibilities that connecting and establishing links with local producers and traders could present in the short to medium term for the aid response, including research to support the development of such programmes.

WFP, through its Purchase for Progress (P4P) project, aspires to procure at least 10% of its cereal needs locally, though meeting this target has been difficult (WFP, 2014b). The project, which started as a pilot in 2010, has been trying to work with farmers' associations and traders. This has been challenging given lack of infrastructure and storage facilities, insufficient organisation of farmers, the quality of goods and a reluctance to increase production. As a result WFP has only been able to purchase around 1,560 tonnes (1,399 of maize and 159 of sorghum) since the programme began (HPG interviews; WFP, 2014b). WFP can only pay farmers three months after the start of production, and few are willing to wait that long. WFP also works with three local traders, helping them to use their own supply chains and connections with producers to bring food to the market.

Other private enterprises have had better experiences. The research team found one Dubai-based enterprise in Juba that was working with farmers on 4,000 acres of land, providing training and inputs and then buying the produce at the market price 90 days later. The maize is transported to Uganda to be ground and packaged, then brought back to South Sudan for sale (1,000 50kg bags were sold locally). It is currently the only packaged maize that reads 'made in South Sudan' on the packaging. The company was planning to set up a maize processing factory in Juba.

A key issue in South Sudan is the lack of connection between producers and traders/markets and the lack of public and private investment in infrastructure favouring trade (roads, processing facilities). Many farmers do not know where they can sell their produce (other than at the local village market) and lack means of transport and connections to access markets further afield where there may be more demand, such as Juba. There are many ways in which humanitarian agencies, even working on short- and medium-term projects, could establish better links between producers and markets, as well as strengthening traders' supply lines. Current food assistance could be better targeted and paired with longer-term programmes focused on market rehabilitation/recovery and agricultural production. Few agencies are currently considering such options.

It is commonly accepted that the decision to provide cash or in-kind support requires a comparison of the cost-efficiency and cost-effectiveness of different modalities. Agencies tended to focus on cost-efficiency, and the research team found no robust analysis of cost-effectiveness. WFP commonly uses the omega value to compare the cost-efficiency of different delivery modalities.[12] However, the actual figures to support such comparison are not made generally available.

11 Due to fighting in 2015, some of these trade initiatives may have been interrupted.

12 For more information on how the omega value is calculated, see: http://home.wfp.org/stellent/groups/public/documents/resources/wfp271102.pdf.

The researchers found that different agencies and individuals within them have different views on the outcomes of such calculations and the legitimacy of the assumptions on which they are based. While it appears to be accepted that local purchase is more expensive than importing food (even with very high operational costs), due to exchange rates and related increases in local purchase costs (see UNDP, 2015), there does not seem to be consensus around the implications of this. Calculations can give completely opposite conclusions depending on the exchange rate used – and this can depend on the ways and rates at which agencies access and use forex, and on the locations where market-based/in-kind support are proposed.

Many of the market assessments carried out by humanitarian agencies are very localised, look exclusively at the feasibility of particular, predesigned interventions and often do not incorporate broader political economy concerns. While the increasing consideration of market analysis and market-based programming in the Food Security Cluster role and workplan is encouraging, coordination of and connections between assessments and analysis remain insufficient to allow the data collected by different agencies to give a country-wide, dynamic picture of markets (from local to national).

Most of the market analysis undertaken by aid agencies in South Sudan, whether using the EMMA methodology or others, has served to assess the feasibility of cash and voucher programmes, rather than looking at overall market functionality and the effects changes in markets have had on vulnerable people affected by the conflict. Assessments tend to look at markets from the perspective of the aid agency, rather than affected people and their needs. With a few exceptions they also tend not to look beyond cash and vouchers, and often include minimal conflict analysis. Among practitioners there remains considerable debate around the applicability of different market analysis tools, and disagreement over which tools are best suited to specific contexts and types of crises, in particular protracted crises.

The market analyses reviewed during this research tended to focus narrowly on particular localities, and did not look at country-wide links or feeder markets. Only one agency's market assessment mentioned that supporting local markets in a particular area may mean also providing support to feeder markets such as Bor, Rumbek or Juba. Most of the other assessments looked only at the particular market of concern, the availability of goods on the market, price fluctuations and current gaps. As such they are missing important links to Juba and the wider political economy. This is surprising given the increasing adoption of market analysis which considers markets as systems (with regulations, chains of actors and infrastructures), and therefore looks at market actors and chains beyond the place of research and intervention. It may also reflect operational and access constraints in South Sudan and resource limitations (insufficient expertise and human resources to enable assessments to achieve the required scope and depth). It may also suggest uncoordinated assessment and analysis efforts between agencies, as well as insufficient preparedness. The complexity of markets and the quality of market analysis required is in contrast to the time and resources that seem available to (or made available by) agencies.

None of the market assessments done in 2014 (except the most recently published WFP (2015) paper) picked up on the constraints to accessing foreign currency in Juba and elsewhere. As such, they are missing important elements in determining the viability of cash interventions at state level. While small-scale cash interventions at the local level are unlikely to have any negative effects, the aggregate of different aid agencies' uncoordinated interventions might. The case of South Sudan shows the critical importance of understanding the political economy and regulatory environment in designing market-based programming and advocating for appropriate programming: understanding access to and availability of foreign currency as well as trade regulations is critical to decisions regarding cash interventions, as well as advocacy messages.

Although the tools available to practitioners in principle allow this, market assessments generally do not fully understand the support networks and links that might exist between traders in different places, and the impact this has on their ability to operate and restart activities. By looking at the trader only 'in situ', they are missing the fact that many may have access to credit, or are part of a wider network of trader/family support structures. Given that the majority of traders in South Sudan are foreigners, ethnic support networks and 'informal' branches are an important feature of the market. When one of these traders reports a total loss of capital to an aid agency he or she may in fact not have lost everything, but may only be referring to an operational loss if they are part of an informal branch with its headquarters in Juba.

Lastly, by not taking into account the broader political economy and how the war economy works, agencies may not have a full understanding of why particular traders are able to continue to function, and what their connections are to the war economy. As discussed in Section 4, those that continue to operate with significant capacity and access to dollars tend to be well connected to the government and individuals benefiting from a corrupt system which uses hidden resource transfers, including through preferential access to foreign currency, to buy political loyalties.[13] As such, aid agencies may be fuelling the war economy by inadvertently providing additional support to those already privileged by a corrupt system. Ultimately, market assessments – based on systems analysis – should seek to support the analysis of risks for both cash and in-kind modalities, and indicate what type of actors and infrastructure to work with. This should include a clear understanding of the political economy, power relations and the war economy.

13 For a detailed analysis of the roots of South Sudan's corruption and patronage networks and the effect on the current conflict, see De Waal (2014).

7 Conclusion

This study has shown that supporting markets in war environments demands sophisticated analysis by humanitarian actors. In South Sudan, where markets are heavily skewed towards imports and trade is firmly in the hands of foreign nationals, supporting markets and the private sector may challenge conventional assumptions about who these 'private sector actors' are, and how this could best be done. Support to local markets and private sector actors often assumes that they are locally connected, constructive and a permanent part of society. Yet, as this study has shown, many traders in South Sudan are not in the country for the long term but come only to make quick profits and do not invest in permanent facilities. Successful local traders may be present for the long haul, but are linked to corrupt networks and the war economy and are often more interested in making quick profits on the currency trade than bringing goods into the country that would benefit people. This suggests that humanitarians need to analyse more closely what kind of market or private sector actors they are supporting in war environments, and for what purpose. It also raises a number of broader questions. Are we supporting people who already have links to power and money, and if so what does this mean and what kind of analysis do we need as humanitarians to understand these issues better? Are we supporting private sector actors as 'partners', or as instrumental conduits for a particular purpose, and what consequences does this have for what we want to achieve?

Foreign traders in South Sudan have very different support networks than South Sudanese. As discussed, they are often a subsidiary of a family business or informal 'branch', which gives some of these traders access to support structures that international agencies need to understand when thinking about market interventions and support to traders. This highlights the importance of analysing market systems as a whole, not just particular market actors or geographically delimited market places. Such analysis needs to look at networks and relationships, market chains and infrastructures, as well as the overall regulatory environment.

While the research focused on affected people in Juba, the team found that in general the crisis has affected people through loss of assets and reduced income and purchasing power, particular in the PoC sites, where mobility, income and labour opportunities are all constrained. While in-kind food aid has prevented food insecurity from worsening, affected people need disposable income to cover other needs, forcing some to sell or exchange part of their aid package. The current response has made livelihood recovery and protection subordinate to direct food assistance. Market-based approaches require parallel, long-term livelihoods interventions that help support income-generating or livelihoods activities, allowing people to raise their own income and protect their purchasing power. The current situation in South Sudan raises a number of questions around how to support access to markets in situations where market functionality is limited and conditioned by unbalanced terms of trade and conflict/insecurity.

Response analysis, and within that the design of market-based interventions, also requires an informed comparison of in-kind and cash approaches (at least for emergency responses to basic needs) with regard to risks, costs and speed and the potential impacts on people and their environment. For food assistance, obtaining the necessary information to make such a comparison has proved lengthy, with different actors having their own opinions, and there is no sector-wide shared analysis.

Few agencies are looking at conflict-sensitive, innovative market-based responses that go beyond cash and vouchers. Agencies have made enormous progress in developing awareness of markets and tools for market analysis. However, many of these interventions are localised in their design, and do not take broader market links into account. Very few agencies have taken a systemic, conflict-sensitive approach to supporting markets in conflict areas. Interesting small-scale indigenous initiatives are aimed at reviving local trade relationships and peaceful coexistence. These could be supported in conflict-sensitive, low-key ways by outsiders without raising their profile too much.

The key problems affecting most traders stem from broader political economy issues linked to currency – both lack of access to dollars and the increase in the dollar exchange rate on the black market. Access to dollars at the official rate is closely linked to corruption, power and nepotism, as well as the war economy; everyone else accesses dollars at a range between the official and the unofficial rate. Current market analysis tools and approaches, and the time and expertise allocated to them by aid agencies, do not adequately capture these issues.

On a practical level assessment approaches and the resources allocated must consider political and power factors. While market analysis tools can be improved, the main limiting factors in achieving the required level of analysis appear to be the insufficient time and expertise allocated, serious operational constraints, the disconnect from existing analysis (from development programming for example) and insufficient coordination and consolidation between different assessments and analyses. Agencies may need to consider whether more profound changes are required going beyond simply revising market assessment tools designed mainly for non-specialists. Do we need different kinds of specialists, and if so what kinds, and how would they fit into the current staffing profiles of humanitarian agencies? Should this include expertise in conflict analysis, politics and political economy, and should closer links be created with development market experts and private sector experts? Does this mean we have to think differently about the kind of expertise that logisticians (who still do most of the procurement and engagement with markets in humanitarian agencies) need to have?

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Cover photo: Market trader in the Mingkaman internal displacement camp, South Sudan.
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