Economic Policy during the COVID-19 Pandemic in South Sudan

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South Sudan is experiencing a distressing economic period\(^1\). Government revenue has shrunk to historic lows and debt, both domestic and external, is mounting, marked by unsettled salary arrears and outstanding loans. A combination of the COVID-19 pandemic and the fallout of just-concluded civil strife is largely to blame. The pandemic and conflict have dramatically impeded oil sales, collection of non-oil revenues, and access to remittances and foreign aid. While income levels have dropped drastically, the cost of basic commodities continues to spiral upward. The government initially introduced economically taxing COVID-19 restrictions before relaxing them four months later; other pandemic-related actions included cushioning the foreign exchange market, shaking-up the economic sector’s leadership, and attempting to abolish the South Sudanese pound. This review analyzes the economic impacts of the COVID-19 pandemic, and specifically focuses on production, the performance of the commodity and foreign exchange markets, and resultant government policy interventions\(^2\). It concludes by recommending:

- Sustained improvements in peace and security;
- Investing in human and physical capital;
- Investing in agriculture;
- Improving non-oil revenue collection;
- Instituting and bolstering economic reform frameworks to combat corruption.

I. Production

The South Sudan economy currently produces little of international value beyond oil, which has experienced drastic shocks following the outbreak of the COVID-19 pandemic. Oil contributes at least 90% of South Sudan’s current budget. Its annual economic production is worth roughly US$2 billion, with 60% of this coming from oil, which remains volatile. While the major obstacle to growth has been conflict, continued

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\(^2\) SPLM Strategic Framework for War-to-Peace Transition
dependency on oil has led to Dutch disease\(^3\). Agriculture, which houses two-thirds of jobs in South Sudan, is virtually neglected \(^4\) (World Bank 2017). Current agricultural production barely addresses local consumption needs. This is despite the SPLM’s policy that advocates investing oil revenues in agriculture to fuel economic growth.

South Sudan produces about 170,000 barrels of oil a day. Before the emergence of COVID-19 in March, the country’s crude oil sold at about $50 per barrel; this plunged to $30 a barrel\(^5\) at the height of the pandemic. Today, a barrel is worth roughly $40\(^6\), a 33% improvement from an April price, but still 20% short of the February value of $50.

### II. Foreign exchange and commodity markets

Since the COVID-19 pandemic struck South Sudan, the foreign exchange and commodity markets, which are inextricably linked, have wildly responded. To protect the population from this extremely contagious disease, the government of South Sudan, like most other governments in the world, introduced several restrictions. The entire economy was shut down—firms closed or operated only four hours a day, workers were sent home with little or no pay, borders were closed, international travels were suspended, an early curfew was instituted, and public gatherings were prohibited\(^7\). Meanwhile, South Sudan received yet another blow: oil prices plummeted in the global market. A blend of these phenomena sent a shockwave through this relatively minute economy.

Prices of commodities in South Sudan are determined by the extent of accessibility to foreign exchange, especially the United States dollar. Because no substantial production takes place outside oil extraction, South Sudan’s market depends overwhelmingly on imports from the East African region, tapping precious foreign currency reserves. This heavy reliance upon oil earnings, however, inadequately addresses South Sudan’s enormous fiscal needs. A host of other factors, some oil-related, abound.

First, a dispute between South Sudan and Sudan over oil transfer fees in 2012 culminated in a Transitional Financial Arrangement (TFA) that awarded Sudan $3.028 billion in transitional assistance\(^8\). In 2011, South Sudan seceded from Sudan, taking it with it over 70% of the rump country’s oil reserves. This posed both economic and political uncertainties for the Sudan. Pushed by the African Union (AU) to bankroll neighborhood stability, South Sudan reluctantly offered the above sum to save Sudan from potential collapse. South Sudan still owes a chunk of this amount and continues to commit 75% of its current hard currency earnings—about $30 per barrel—towards this obligation.

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\(^3\) According to Corporate Finance Institute “Dutch disease is a concept that describes an economic phenomenon where the rapid development of one sector of the economy (particularly natural resources) precipitates a decline in other sectors.”


\(^6\) https://markets.businessinsider.com/commodities/oil-price?type=wti

\(^7\) https://www.suddinstitute.org/publications/show/5ea90d311d87b

\(^8\) https://www.reuters.com/article/us-southsudan-oil/south-sudan-owes-sudan-1-3-billion-from-2012-oil-deal-official-idUSKBN1DZ2XK
Second, attempts to fill the peStering fiscal gap have led to unsustainable debt. Given example, South Sudan has now defaulted on a $700 million loan from Qatar National Bank, with the matter just referred to the Arbitration Court, International Center for Settlement of Investment Disputes\(^9\). However, a comforting news is that South Sudan has moved swiftly to restructure this obligation and made a bargain that might get the arbitration withdrawn. A recent media report also suggests that the government owes commercial banks an additional $100 million\(^10\); this obligation not only undermines the banking sector, it also cuts into the country’s present hard currency earnings. Finally, with COVID-19 pandemic in full swing, South Sudan’s already constrained ability to collect taxes has diminished even further. Major tax sources, including trade and personal earnings, have severely declined.

The exchange market has increasingly deteriorated since the COVID-19 restrictions were imposed. In August 2020, the Bank of South Sudan (BSS) announced that it had run out of foreign reserves\(^11\), although the leadership later denied that this was not an official position of the institution. As the country commits its hard currency reserves to the obligations outlined above and by continuing to rely on imports, the South Sudanese pound has increasingly weakened against the US dollar. Between August and September, the pound depreciated by 30% (see Figure 1). Commodity prices predictably followed suit: in March the price of an average commodity rose by about 30%\(^12\), underscoring the importance of foreign exchange to the domestic market. Accordingly, a recent dramatic dollar shortage caused commodity prices to triple\(^13\). South Sudan’s BSS hopes to address the hard currency predicament by controlling domestic transactions that involve foreign currency. In an economy that is largely informal, there is a huge skepticism about how helpful this policy would be.

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\(^9\) Wither LPP  
\(^11\) https://www.voanews.com/africa/south-sudans-central-bank-has-no-more-foreign-cash-reserves  
\(^12\) https://www.suddinstitute.org/assets/Publications/5ea90d311d87b_TheEconomicEffectsOfTheCOVIDPandemicIn_Full.pdf  
\(^13\) https://www.voanews.com/africa/south-sudan-focus/south-sudan-sudan-address-economic-crises
III. Economic policy

To tackle these economic woes, the government has instituted several policies as briefly visited above, including efforts to strengthen revenue collection and expenditure measures. It is to be noted that South Sudan has since lost development aid in response to the recently concluded conflict and donor concern over an unparalleled level of corruption. Instead, bilateral and multilateral agencies now spend billions of dollars annually on saving lives in the country, responding to the displacement of over 4 million South Sudanese. The pandemic-driven shutdown, though warranted, like it did worldwide, drastically battered the South Sudanese economy.

Settling salary arrears, which in a number of instances span over a year, has for long troubled the South Sudanese government. Although it has now been discontinued, deficit financing by printing money only strengthened inflation. In July 2020, the BSS’ Governor announced a $5.5 million investment in gold without sufficient economic justification. He purportedly assumes that this investment would generate jobs for domestic miners and cushion the country’s generational savings. Recently, the government announced plans to replace the nation’s currency—this did not go very well. The market nearly crashed, with a dollar selling at SSP700, up from SSP500 a few days earlier. An economic policy committee was also established to study and recommend actions; it unearthed high-profile cases of fraud. For example, it found that a customs official was defrauding the government. He was never held accountable, however. Lastly,

14 https://www.unrefugees.org/emergencies/south-sudan/
the government appears to mistake systemic economic troubles with individual executive members’ dismal performance. In response, several economic sector officials have been fired. These firings and many other stopgap measures only serve as band aid: they achieve very little in the absence of strong institutions and sound policies.

VI. Concluding remarks

In summary, South Sudan’s dire economic circumstances, which are exacerbated by COVID-19, affect the government’s ability to implement the Revitalized Agreement for the Resolution of the Conflict in South Sudan (RARCSS) and deliver services. This has serious implications for both political and economic stability. Continued efforts to implement the Agreement are desired. Looking ahead, however, a more diversified economy is critical for restoring resilience. Investing oil revenues in agriculture and human and physical capital to stimulate growth is one of the most imperative policy instruments South Sudan should consider. This minimizes Dutch disease, broadens economic activity, and promotes prosperity for all. This policy should be complemented by improving the non-oil revenues collection. Finally, building a stronger economy calls for meaningful reforms, including immediately putting to work prevalent public finance management tools to combat endemic corruption. As the country stabilizes, improved economic management will be critical for attracting development aid and foreign direct investment. In this respect, the Revitalized Transitional Government of National Unity (R-TGoNU) ought to bolster its recent efforts on the Public Financial Management (PFM) reforms.

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The Sudd Institute is an independent research organization that conducts and facilitates policy relevant research and training to inform public policy and practice, to create opportunities for discussion and debate, and to improve analytical capacity in South Sudan. The Sudd Institute’s intention is to significantly improve the quality, impact, and accountability of local, national, and international policy- and decision-making in South Sudan in order to promote a more peaceful, just and prosperous society.

Author’s Biography

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