ADAPTING CASH PROGRAMMING TO INFLATION, DEPRECIATION AND ECONOMIC VOLATILITY IN SOUTH SUDAN

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CALP NETWORK
CHOICE & DIGNITY FOR PEOPLE IN CRISIS

This report is a culmination of the invaluable contributions of many individuals working in cash assistance both in **South Sudan** and beyond. We would like to particularly appreciate **the South Sudan National Cash Working Group** members for their engagement and insightful contributions. We are extremely grateful to **Muhammad Usman (CashCap)** and **Ibrahim Garba (Collaborative Cash Delivery Network)** who were leading the national cash working group at the time, for their guidance and direction.

The work was undertaken by the Neviro team under the leadership of **Diana Tonea** who is also the author of this report. The CALP team provided technical support under the leadership of **Sapenzie Ojiambo** who also reviewed the report.

Cover image – Elizabeth counting the money she received from selling *sukuma* to Mazoldi Primary School. Mazoldi Primary School is a boarding school receiving school meals from WFP (lunch) and they buy food from the local market or farmers like Elizabeth to cook dinner. South Sudan is facing its hungriest year to date due to conflict, a fourth consecutive year of flooding, and the global food crisis which is causing food and fuel prices to skyrocket. A staggering eight million people (almost 65 percent of the population) are facing severe food insecurity. ©Eulalia Berlanga/WFP. March 2023

INTRODUCTION

This report captures the key points from discussions with stakeholders in South Sudan to help identify the actions needed for effective implementation of cash assistance in view of economic volatility characterised by high inflation and currency depreciation. The recommendations are a product of extensive consultations with a variety of actors both within South Sudan as well as at regional and global levels. The purpose of the work was to support country cash working groups (CWGs) to agree on actions to develop clear predictable processes for adapting cash programming in line with the economic trends at country level. The proposed action plan to take forward some of the recommendations can be found in the annex.

Although the work was undertaken in support of the coordination role of the cash working groups, many of the identified solutions require the engagement and action of a variety of stakeholders including governmental authorities, humanitarian country teams, donors, individual organisations, and agencies. This report, together with similar reports from Zimbabwe, Nigeria, Malawi and Burkina Faso, is intended to serve as an example for other cash working groups seeking to better adapt cash programs to contexts of high inflation and depreciation.

SITUATION ANALYSIS

South Sudan is one of the countries with a higher percentage of its population in need of humanitarian aid worldwide. In South Sudan, an estimated 9.4 million people will require humanitarian assistance and protection services in 2023, representing 76% of the country's population and a 5% increase from 2022[1]. South Sudan is also facing high levels of food insecurity.

South Sudan has been facing significant challenges with inflation and currency depreciation. Overall, a combination of political instability, conflict, government spending, currency speculation, and limited diversification of the economy has caused inflation and currency depreciation in South Sudan since it gained independence in 2011. The pandemic reversed the economic recovery that occurred after the 2018 peace accord. The oil price shock caused by the pandemic resulted in a large income loss, prompting the government to accumulate spending arrears and begin monetary financing. This resulted in a severe devaluation of the currency and a runaway inflation rate.

In February 2023, inflation stood at 31.30%, increasing from 17.6% in 2022 and 30.23% in 2021.

In March 2022, the Bank of South Sudan declared that they would unify the nation's exchange rates and allow the currency to float. This led to a de facto devaluation of the South Sudanese Pound (SSP) and the currency lost 15% of its value overnight. This trend continued during all of 2022, when the SSP lost 61% of its official value.

Continuous high inflation and currency volatility resulted in the adoption of the US Dollar (USD) for some transactions in the main cities, including humanitarian assistance. However, recently South

[1] South Sudan 2023 HRP https://reliefweb.int/report/south-sudan/south-sudan-humanitarian-response-plan-2023-december-2022

Sudan is pushing for the de-dollarisation of the country as a measure to curb inflation. The Bank of South Sudan issued a circular dated 27th January 2023 banning the use of USD in any transaction.

Both the effects of inflation and currency depreciation manifested in the increase in the Multi-Sectoral Survival Minimum Expenditure Basket (MSSMEB) that has more than doubled in SSP in the last two years. Prices in South Sudan experience very high seasonal and geographic differences. With the last Joint Market Monitoring, a threefold difference in MSSMEB from one region to another could be appreciated[2].

CONTEXTUAL CHALLENGES

The following contextual challenges affect the implementation of cash assistance in South Sudan.

Global trends such as the supply crunch due to COVID-19 pandemic, overall rise in commodity prices in USD, and a stronger USD heavily affected South Sudan. Due to the fall in oil prices in 2020, the government of South Sudan ran a budget deficit and printed money to sustain itself. This in turn created an inflationary effect. Other global trends affecting South Sudan include the war in Ukraine, which has impacted the price of commodities, especially wheat. There are increasing concerns over commodity shortages. In terms of **economic outlook**, South Sudan is highly dependent on imports for consumer goods from neighbouring countries. The country can access hard currency only through its oil exports. Without a productive economy, the balance of payments runs a constant deficit.

Currency fluctuation: The economy of South Sudan is import dependent, which in turn influences the volatility of the SSP. The overall lack of trust in the political and economic landscape drives an overall depreciation trend. Although the government has recently reformed the foreign exchange (forex) rate market, there is a flourishing parallel market for currency exchange. The currency exchange reform seeks to minimise the gap between the official and market exchange rates. Still, according to the key informants consulted, the currency will continue to be extremely volatile mostly due to internal factors (such as high imbalance of payments, lack of market integration, and high level of foreign exchange speculations). The SSP continues to be very vulnerable to speculation on the foreign exchange markets and is influenced by the traders that control the USD supply. The government has reintroduced bank auctions to control inflation, although it does not have sufficient hard currency to intervene on the market. Currency depreciation reduced the purchasing power of cash transfers, making it more difficult for recipients to access the goods and services they need.

Government regulations: As per government regulations, organisations that offer cash assistance can only work with the official exchange rates. Also, the government has issued a decree that deems distributions in hard currency illegal.

Market functionality: Markets are very vulnerable to insecurity and are usually disrupted during the rainy season, resulting in poorly integrated markets. All supplies need to be transported to Juba and then to the provinces, as the Juba highway is the only international trade route. Market functionality

[2] South Sudan Joint Market Monitoring Initiative (JMMI) 1–7 November 2022 https://reliefweb.int/report/south-sudan/south-sudan-joint-market-monitoring-initiative-jmmi-1-7-november-2022

in rural communities is often affected by floods and often reduces during the rainy season. The lack of integration and general insecurity means that prices usually vary from region to region.

There is a very high price volatility which is explained by the fact that the commodities are imported at the market price, not the official currency exchange rate. Local currency instability and fluctuations usually drive prices upwards. The purchasing power of the SSP has significantly eroded at a fast pace, with some saying that it has lost 70% of its value over the past year. The high currency fluctuation has had ripple effects on the price of commodities, driving them upwards.

Financial service providers (FSPs): The FSPs market is underdeveloped, with only a handful of actors active in South Sudan. Key informants (KIs) reported an oligopolistic market, where few actors are dictating the terms of cash programming. Cash actors seem to have little leverage over the conditions under which the FSPs are willing to do business. As per the KIs, most of the contracts with the FSPs are in USD, not in SSP. Furthermore, FSPs can easily maximise their profits by using preferential foreign exchange rates and buy SSP at a more competitive rate compared to the official foreign exchange rate. Another challenge faced by cash actors is the high FSP transfer fee. The FSPs tend to have high operational costs[3], due to a lack of infrastructure and the need to fly in cash, and use of security services at very high costs. Regional KIs reported that cash programs in South Sudan require higher operational costs compared to other countries.

Available modalities: As the e-payments infrastructure remains underdeveloped, the only feasible cash transfer modality to most of the country is to physically transport large amounts of cash from Juba to the distribution sites and deliver cash in hand. There is also a low mobile money uptake due to trust issues and preference to use commodities to store value as opposed to e-money or even SSP in cash. Mobile money options are only available in the Juba district. Lastly, donors seem unwilling to offer buffer funding to accommodate increase in transfer values. Donors seem to be instrumental in the modality approach of their implementing partners.

CHALLENGES WITH CASH PROGRAMMING & RESPONSE ANALYSIS

In addition to the above-mentioned contextual challenges in South Sudan, cash actors are facing additional operational challenges:

- There is an overall preference from cash actors for market-based solutions; however, the humanitarian response policy environment **has been favouring in-kind assistance traditionally**, only with a recent move to cash assistance. There is a traditional legacy for in-kind assistance at the organisational level and a certain degree of food dumping, although logistically it is extremely complex to distribute.
- When it comes to cash assistance, a more nuanced approach is needed, as cash and voucher assistance is not always the most feasible modality. This is primarily because of the following challenges:
    - The long legacy of in-kind assistance

[3] In 2022, the government of South Sudan introduced a 'sales tax' of 18% on the money transfer commissions. It seems that so far this has not taken effect and it's not clear yet if and how this will further impact the fees.

- The lack of a unified market system
- Variable market functionality and vulnerability of markets to seasonal changes and insecurity
- Underdeveloped financial markets and limited number of FSPs
- Lack of infrastructure for e-payments
- Operational costs to deliver cash assistance (that often translate into high transfer fees).

- One of the major challenges in the context of currency depreciation is the reality that **cash actors in South Sudan do not incur currency exchange gains**[4] that could be reprogrammed to assist additional recipients. This is primarily because the majority of FSPs contracts are in USD, and the currency gains from the SSP fluctuation are usually absorbed by the FSPs as profits.
- **Harmonisation of transfer values** – there are significant differences between the transfer values utilised by cash actors and a strong argument in favour of harmonisation to ensure equity. To preserve the purchasing power, one option would be to further align the transfer values in hard currency, acknowledging that the rates in SSPs might vary depending on the foreign exchange rates at which the hard currency is being exchanged. Also, as market characteristics are not the same, the transfer values need to accommodate the regional price variability.
- **Breadth versus depth dilemma** – with the funding crunch, there is an expectation that all cash actors will need to undergo a breadth versus depth decision, looking at whether the program will have to reach more people with less resources or support a smaller proportion with higher amounts.

During the COVID-19 pandemic, a sizeable percentage of the assistance was shifted to cash, a momentum that should be kept. To address some of the challenges with currency depreciation, cash actors have adopted some of the following mitigation measures:

- **Pegging the Survival/Minimum Expenditure Basket (S/MEB) to its value in the donor currency** and transferring the equivalent SSP value using the daily/or the monthly average exchange rate. This measure is widely used by cash actors and seeks to preserve the purchasing power of the multi-purpose cash assistance (MPCA) recipients, although there is still no harmonisation of transfer values in USD.
- Adoption of a **seasonal approach to cash programming**, expecting a peak in prices during the lean season. During the rainy season, markets that are disrupted by the floods also see a spike in prices. In these situations, cash actors have been exploring other modalities, such as vouchers.
- There is **monthly market monitoring** done by REACH through the JMMI. Based on the JMMI, some of the actors are aligning the MSSMEB to reflect price changes and adjusting the transfer value based on the price monitoring.
- Organising **tenders/auctions with commercial banks** to get the best bids for hard currency and purchase SSP at the best rate offered by the highest bidder. This measure requires the FSPs contracts to be held in SSP which allows for currency gains.
- Some actors are using **vouchers** to specifically address sectoral needs or to support vendors when they do not have the capacity to restock. Vouchers are generally preferred to in-kind, due to the high costs associated with distributing in-kind assistance. Good practices include making

[4] In this context, currency gains refer to savings realised at the conclusion of the project because of a depreciating local currency relative to the project's currency.

agreements with vendors in advance and as close as possible to the time of the distribution. This method also requires monitoring whether vendors keep to the prices they agreed to.

RESPONSE OPTIONS & RECOMMENDATIONS

PRINCIPLES TO GOVERN THE RESPONSE

Even in the context of high economic volatility, cash actors should continue to prioritise MPCA distributions over vouchers and in-kind assistance, where markets are functioning.

Continue with the good practice of regularly revising the S/MEB and adjusting the transfer value to maintain purchasing power and counter inflation and/or currency depreciation[5]. Most cash actors in South Sudan have pegged the transfer value to a hard currency, however there is no harmonised /agreed transfer value either of the two currencies (SSP or USD), which merits a collective process and harmonised approach.

This measure can be implemented by either reprogramming the currency gains from budgeted amounts and from obtaining or negotiating a better or preferred foreign exchange rate for humanitarian actors. Cash actors can negotiate more favourable exchange rates with the Government or Central Bank or obtain better/more competitive exchange rates through sourcing local currency on the foreign exchange market. When inflation and currency depreciation exceed currency gains, cash actors should negotiate for additional flexible funding from donors to cover the increase in transfer value.

In some cases, the need to harmonise humanitarian cash transfer values with social protection (SP) schemes, has limited the ability to raise transfer values as often as required to maintain purchasing power. **The provision of top-ups and lumpsums** are a good solution when cash actors need to harmonise with social protection transfer values[6]. In situations where the revision of the SP transfer values takes a very long time, cash actors can consider the provision of a top-up or lumpsum as an interim measure. The approach should however be harmonised between cash actors by also harmonising the value of the top-ups/lumpsums and communication with communities. Additionally, a potential solution for the seasonal market disruptions would be to frontload several months' worth of transfers ahead of the rainy seasons.

E-payments, mobile money or vouchers. When dealing with liquidity issues, cash actors should prioritise e-transfers or mobile money, although this is conditioned by the availability of e-payments and mobile network infrastructure (currently found only around Juba as well as financial literacy. Recognising the low e-payments and mobile money uptake in South Sudan, KIs have argued that a lot more needs to be done to expand the e-payment infrastructure in the country. Other adaptation

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[5] Guidelines on how to calculate minimum expenditure basket and transfer values can be found at https://www.calpnetwork.org/publication/calculating-the-minimum-expenditure-basket-a-guide-to-best-practice//

[6] The Social Protection mechanism is led by UNOPS with funding from the World Bank. Transfers in SSP are made on monthly basis attached to 15 days of work.

measures to address liquidity issues in areas where e-payments are not feasible, include the use of vouchers, with preference given to value vouchers.

In South Sudan, there is a need for a high level of **organisational flexibility to shift between modalities**. In general, South Sudan requires a more nuance approach to cash assistance, as its feasibility varies geographically and from season to season. While inflation and currency depreciation do not justify shifting to in-kind due to the very high operational costs of in-kind assistance[7] and **less value for money**; in-kind assistance remains as a preferred modality by many humanitarian actors for the above-mentioned reasons. In situations where all other measures have been exhausted, especially in those with very high differences between official and parallel exchange rates, in-kind assistance could be an option. In such situations, cash actors should have a clear plan of returning to cash and voucher assistance based on agreed thresholds.

RECOMMENDATIONS TO THE CWG AND CASH ACTORS TO BE CONSIDERED INTERNALLY

The decrease in funding coupled with increasing needs can also be an **opportunity to drive efficiency** for humanitarian assistance. Efficiency can be achieved by moving from in-kind responses to cash assistance and improving operational coordination between cash actors.

Cash actors and CWGs should develop contingency/anticipatory planning for future economic or policy changes. The CWG and its members must be equipped with the means to adapt to changing inflation/currency depreciation conditions. **Actors should have in place a continuum of measures that take into consideration long-term trends, including preparedness measures and contingency planning for economic volatility.** These could be such as mechanisms, processes, and delivery platforms that could help preserve the purchasing power of the recipients and feasibility of cash assistance.

The CWG should develop SoPs for joint market monitoring exercises and information sharing. **Joint market monitoring exercises should include forecasting looking at potential future trends.** Currently, decisions on MEBs and transfer values rely only on a snapshot of the prevailing market prices and vendor operations. Including a trend analysis element to calculate the transfer values based on possible future scenarios of currency depreciation could be useful for budgeting and as an advocacy tool towards donors.

Adjusting to inflation and currency depreciation should not be a one-off event. The CWG should develop a pre-agreed mechanism that allows for a swift **S/MEB adjustment**[8] to economic volatility. **The CWG should review the S/MEB periodically or based on a threshold collectively agreed**[9] . The

[7] Cash and In-Kind Transfers in Humanitarian Settings: A Review of Evidence and Knowledge Gaps https://www.wfp.org/publications/cash-and-kind-transfers-humanitarian-settings-review-evidence-and-knowledge-gaps

[8] For the S/MEB calculation process and tools, please access https://www.calpnetwork.org/wp-content/uploads/2020/03/MEB_CALP.pdf

[9] WFP has a 15% threshold to start internal discussions on transfer values.

CWG should have a clear decision process outlined in SoPs that details the procedures to reach an agreement over S/MEB and transfer value adjustments. The SoPs should include different scenarios and proposed common strategies, agreed criteria and thresholds that should prompt a discussion at the CWG level, and a step-by-step guidance note on the revision process. **Once the purchasing power is significantly reduced**[10], the CWG should use the pre-agreed mechanism to review the S/MEB and transfer values and initiate a discussion with its members. The SoP should also include a timeframe for implementing the new transfer value. **The revision of the S/MEB can be used as a good opportunity to harmonise transfer values across actors operating in the same geographical areas and promote a culture of equitable access to humanitarian assistance. As a first step, cash actors should harmonise the transfer values in USD, with the outlook of further harmonisation in SSP at subnational level (e.g. state level).**

Advocate for and include financial and digital literacy actions in cash responses. Cash actors should investigate and prioritise delivery options that contribute to program recipients' financial inclusion. Financial inclusion increases the resilience of a country's cash response by increasing the number of delivery mechanisms available in the event of hard currency inflation or policy changes.

Continue monitoring beneficiary preferences. The CWG and its members should continue monitoring the preferences of program recipients. Driven by external factors, the needs, and preferences of cash recipients will vary, and cash programming must adapt to accommodate these differences. In addition, the preference of program recipients must be contextualised. It should be noted that people are often resistant to change due to perceived risks to their entitlements[16].

Recipients requesting in-kind assistance is an excellent indicator that there is a disconnect between the transfer value and the expenditure basket. In evaluating the effectiveness of the various mechanisms, the perspectives and experiences of the recipients are also indispensable.

Invest in market systems. Explore other mechanisms to support the development of local markets, such as business grants for traders. Utilise modalities that restore critical market systems affected by conflict. Allow for additional investments in the JMMI and address gaps in data collection.

RECOMMENDATIONS TO THE CASH WORKING GROUP AND CASH ACTORS TO ENGAGE WITH EXTERNAL PARTNERS

In many cases, the technical programmatic adaptations (such as adjusting the transfer values for inflation) need to be part of coordination efforts between cash actors, main sectors/clusters, and the government. **The technical solutions often need the support and buy-in from a variety of parties, including the government, Humanitarian Country Team, and donors** to be adopted**.**

Advocacy with government authorities and continuous monitoring of the market and policy environment. The challenges faced by South Sudan are also structural in nature and need to be addressed by the government through a **strategic economic development plan and investments** in the productive economy and infrastructure. Advocate with the government to implement monetary

[10] The authors recommend a threshold of 20–25% purchasing power reduction. For example, WFP has a 15% threshold to start internal discussions on transfer values.

policies that address currency depreciation and inflation. Advocate with the government and FSPs to further **develop the e-payments and mobile money infrastructure**.

Advocacy with donors for enhanced budget flexibility and to allocate a contingency budget (as a proportion of the overall budget) for future transfer value adjustments. Advocate with donors for an impartial modality decision-making process and higher flexibility with the modality change approach. Ensure that all proposals have crisis modifiers built into the response, including contingency to adjust the transfer value to inflation and currency depreciation.

METHODOLOGY

The researchers used participatory approaches to ensure that the perspectives and insights of all key stakeholders were taken into consideration. Primary data collection was conducted mainly through key informant interviews with cash actors. The consultants interviewed a total of 18 key informants including CWG chairs and members, donors, international NGOs, the Food Security Sector, UN agencies and financial service providers. The researchers did not interview cash recipients.

The researchers organised a half-day workshop with over thirty participants. The purpose of the workshop was to discuss challenges associated with implementing cash assistance in a context of high economic volatility, discuss the current response options, discuss mitigation measures, and discuss on a common action plan to address challenges.

ANNEX: PROPOSED ACTION PLAN

This action plan was discussed and agreed upon during the half-day workshop organised by the researchers together with the CWG leadership. The actions are ranked according to the workshop's prioritisation exercise that was done through a poll and opinions expressed during key informant interviews.

PRIORITY 1 ACTIONS

Agree on clear triggers, frequency and decision process for reviewing the cost of S/MEB and transfer value adjustment.

- The CWG should consider implementing an inflation and depreciation monitoring mechanism to revise the transfer value without activating a full-fledged S/MEB revision process[11].
- The South Sudan CWG has historically updated the S/MEB and transfer values annually. Revision of the S/MEB and transfer values is a laborious procedure involving at least four clusters. With the rise in inflation and devaluation, a yearly review may no longer be sufficient to maintain purchasing power.

Advocate for better alignment of transfer values.

- Key informants reported that in some cases, organisations are using different transfer values. Unilateral adaptations and top-ups to adapt to inflation and currency depreciation were mentioned by the KIs as the main reasons.
- The CWG and donors should reinforce the need to use aligned transfer values at subnational level (e.g. state level).

Better monitor beneficiary preferences.

- The CWG collectively, and its members individually, should better monitor beneficiary preferences. In South Sudan, more research is needed to better ascertain recipients' preferences and the best modality to meet their needs.

Continue with and enhance the current level of price monitoring for better context/market analysis.

- Currently, the Joint Market Monitoring Initiative monitors prices for key foods and non-food items (NFIs), as well as the costs associated with key elements of the Multi-Sector Survival Minimum Expenditure Basket. Reports are published monthly. The initiative is guided by the JMMI Technical Working Group (JMMI-TWG), led by REACH and supported by the CWG members. There is a need for additional investments in the JMMI to address gaps in data collection.

[11] Organisations such as WFP have inflation triggers that initiate internal discussions about increasing transfer values when more than 15% of purchasing power is lost. Consider implementing similar triggers at the CWG level to evaluate transfer values more regularly.

PRIORITY 2 ACTIONS

Increase the transparency around FSP engagement and collectively negotiate with FSPs.

- The CWG should promote transparency and information sharing between humanitarian organisations when it comes to FSP engagement, negotiated transfer fee rates and foreign exchange rates. Also, cash actors should negotiate having contracts in SSP, not USD.
- As a contingency measure against policy changes, liquidity issues or inflation in hard currency, the CWG should do a mapping of all available FSP solutions, including the transaction costs, KYC requirements, coverage, and cashing-out options. This exercise will be especially valuable for smaller or local organisations, with less capacity to conduct their own FSPs mapping.
- In South Sudan, fees paid to FSPs and vendors account for a sizeable portion of the total cash programme cost. As agencies usually need to either reduce participant numbers or the amount transferred. The collective negotiation with FSPs could reduce these fees, allowing more funds to be allocated to program recipients.

Collectively discuss with donors to increase modality and transfer value flexibility.

- Collectively advocate for modality and transfer value flexibility to be incorporated into cash grants from the proposal stage.
- The donors interviewed during the key informant interviews were not prescriptive in terms of the preferred modality or were advocates for a flexible transfer modality approach, with priority given to MPCA where feasible.
- The CWG should collectively advocate for modality and delivery mechanism flexibility to be incorporated into cash grants at the proposal stage. This flexibility must allow shifting smoothly between transfer modalities and delivery mechanisms that provide the best value for money and protect recipients against inflation and currency depreciation.

Collectively, agree on the use of one currency – preferably the SSP.

- In South Sudan, there is currently a lack of harmonised transfer values and transfer currency among cash actors. This practice is creating a culture of inequitable access to humanitarian assistance, as participants could receive different transfer values from different organisations. All humanitarian partners should use the transfer values as outlined by the CWG, and donors should enforce the use of aligned transfer values. This is particularly important in a context of high inflation and currency depreciation where organisations might be tempted to raise transfer values unilaterally.

PRIORITY 3

Joint tendering of FSPs to reduce the cost of transfers, maximising economies of scale.

- This requires collective advocacy and exploration of opportunities for joint FSP procurement. Negotiate a more competitive transfer fee and holding contracts in SSP instead of USD. Consider other potential contractual arrangements with the FSPs, including pre-payment options as opposed to reimbursements. This shifts the risk from the FSPs to the implementing agency, however it presents an opportunity to negotiate a better transfer fee rate.