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Weekly Review

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It takes a Village to Raise a Child: South Sudan's Reengagement Strategy with Key International Financial Institutions

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1. Introduction and Context

On July 29, 2022, the IMF Executive Board concluded the Article IV consultation with the Republic of South Sudan, and the Management extended the Staff-Monitored Program (SMP), which will allow the authorities to deliver on the remaining structural benchmarks. Accordingly, the Revitalized Agreement on the Resolution of the Conflict in South Sudan (R-ARCSS) has enabled the country to focus on its broader strategy to strengthen economic institutions and reengage the international community, including the International Monetary Fund and World Bank, among others. South Sudan's reengagement strategy remains a key pillar, and it enabled the country to access emergency support during the pandemic. This led to two disbursements under the Rapid Credit Facility (RCF-1) in November 2020 for about $53 million and in April 2021 for $174 (RCF-2).[1] It also led to concurrent approval of the SMP in April 2021, and the current efforts to continue strengthening relations.

This increased engagement with international financial institutions (IFIs) is associated with several aspects. Specifically, the role of the leadership and country ownership in advancing reform agenda features significantly. The leadership we have in mind remains broad-based and analogous to the African proverb that states: "it takes a village to raise a child." While the South Sudanese economy remains sluggish, especially from the legacy of the past conflicts, we submit that a number of lessons can be drawn from this marked level of reengagement with the IFIs. The latter view is the key objective of this Weekly Review.

This Weekly Review proceeds as follows. Section 2 provides an overview of the political economy considerations, and a snapshot of the satisfactory performance under the SMP. Section 3 delineates what objectives the foreign exchange (FX) market reforms have

[1] IMF. (2021, March 30). IMF Executive Board Approves US$ 174.2 Million Emergency Assistance for South Sudan to Address the COVID-19 Pandemic. Retrieved July 16, 2022, from https://www.imf.org/en/News/Articles/2021/03/31/pr2194-south-sudan-imf-execboard-approves-us-174-2m-emergency-assistance-address-covid19

achieved, and what remains unfinished; Section 4 provides lessons that can be gleaned from this reengagement strategy. Finally, Section 5 concludes the Weekly Review.

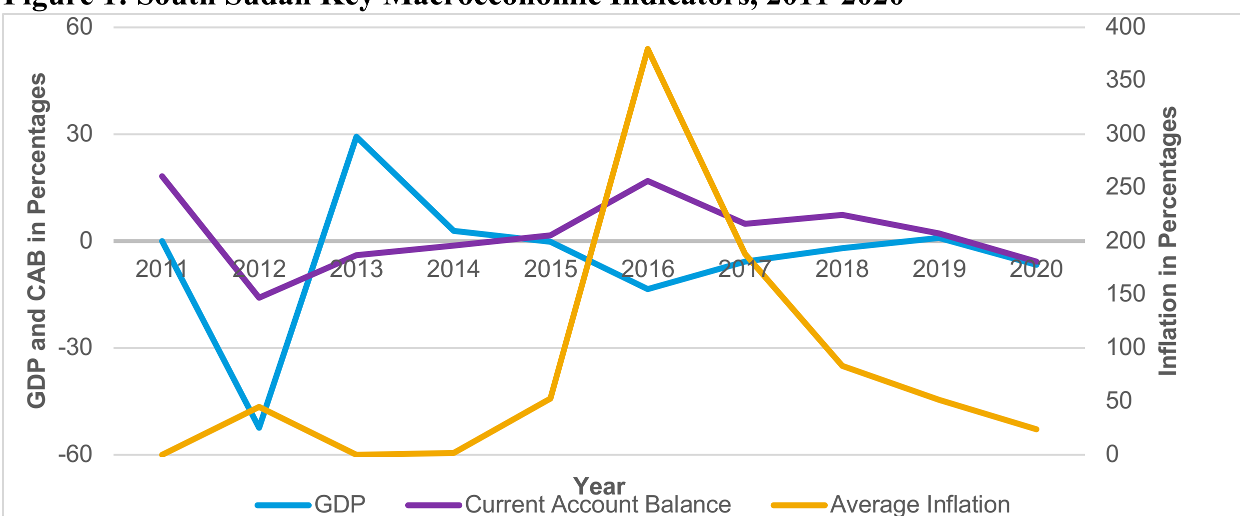
2. Overview of the Macroeconomic Development and SMP Performance

2.1 South Sudan's Macroeconomic Development in Historical Perspectives

Resetting the reengagement "button" with the IFIs has not been a walk in the park for South Sudan. The country promised to deliver, and it did in most cases on key FX market reforms. Yet, the internal conflict from 2013 to 2018 has derailed some of the previous gains made during the Interim Period (2006-2011). Accordingly, South Sudanese economy witnessed a deterioration in its macroeconomic indicators, including gross domestic product (GDP), inflation, FX reserves, current account balance, and public debt position, among others. Figure 1 reflects such deterioration in core macroeconomic indicators.

As can be discerned below, select periods of political instability co-move with certain indicators. GDP, for example, saw a huge slump in 2012 due to the oil shutdown when South Sudan disagreed with Sudan over oil transit fees. Similarly, inflation (see right axis) hovered close to 400 percent per year when the conflict resumed in 2016.

Figure 1: South Sudan Key Macroeconomic Indicators, 2011-2020



Source: IMF WEO, 2021; Garang, 2022.

The same internal conflict has also worsened financial indicators during the study period, including measures of financial inclusion (see Table 1).

Table 1: South Sudan's Indicators of Financial Development and Inclusion, 2013-21

Indicator	Year								
	2013	2014	2015	2016	2017	2018	2019	2020	2021
M2/GDP (as %)	26	35	74	187	325	474	454	825	1,282
Account Holders ('00,000)	2.1	3.3	4.5	4.9	5.2	5.2	6.8	..	..

Household Borrowers ('000)	9.0	14.1	10.2	7.7	4.5	3.7	3.7	..	..
Banks	26	27	28	28	27	27	26	30	31
Banking Branches	61	88	72	75	65	61	65	94	86
Number of ATMs	44	67	65	54	32	31	43	50	49
MFIs	8	7	7	7	7	7	7	7	7
Forex Bureaus	-	96	96	-	76	-	44	64	64
Insurance Firms	-	-		-	-	-	-		36
Mobile Money	-	-	-	-	-	1	2	3	4

Source: Bank of South Sudan; Author's compilation, 2021.

Note: *While most data here in this table—total borrowers, ATMs, bank branches, forex bureaus—show deterioration, and support the central argument of the effects of war on financial inclusion, a few exceptions exist, including the number of account holders, which almost tripled during this period, partly due to population growth.*

2.2 Progress under the Public Financial Management Reform Strategy

South Sudan made some progress following the Revitalized Peace Agreement in 2018, particularly on Chapter IV, which urges the authorities to ensure prudent resource management. The authorities managed to conduct Article consultation in 2019 and when the pandemic struck, they immediately acted by forming the Public Financial Management Reform Strategy (PFMRS), with some advice from IMF. The PFMRS governance structure consists of 3 organs—the Oversight Committee, which is co-chaired by the Minister of Finance and Planning and a member of the Troika in Juba; a Technical Committee with membership across key technical institutions, and a Secretariat—which is helping the authorities to advance PFM reforms. Consequently, South Sudan had received two emergency financial disbursements, which were used mostly to pay public salary arrears. Furthermore, the country has also ensured transparency in the use of the general allocation of Special Drawing Rights[2] (SDRs), devoting these resources to build reserves and support the budget. In line with the authorities' commitment to transparency and accountability, they published the RCF-1 audit report in September 2021[3] and will deliver on the RCF-2 report, which is expected to be finalized and published on the MoFP website in August 2022.

[2] African Law and Business. (2021, August 25). South Sudan Gets USD 334 million from the IMF. BoSS Press Statement. Retrieved September 14, 2021, from https://iclg.com/alb/17160-south-sudan-gets-usd-334-million-from-imf

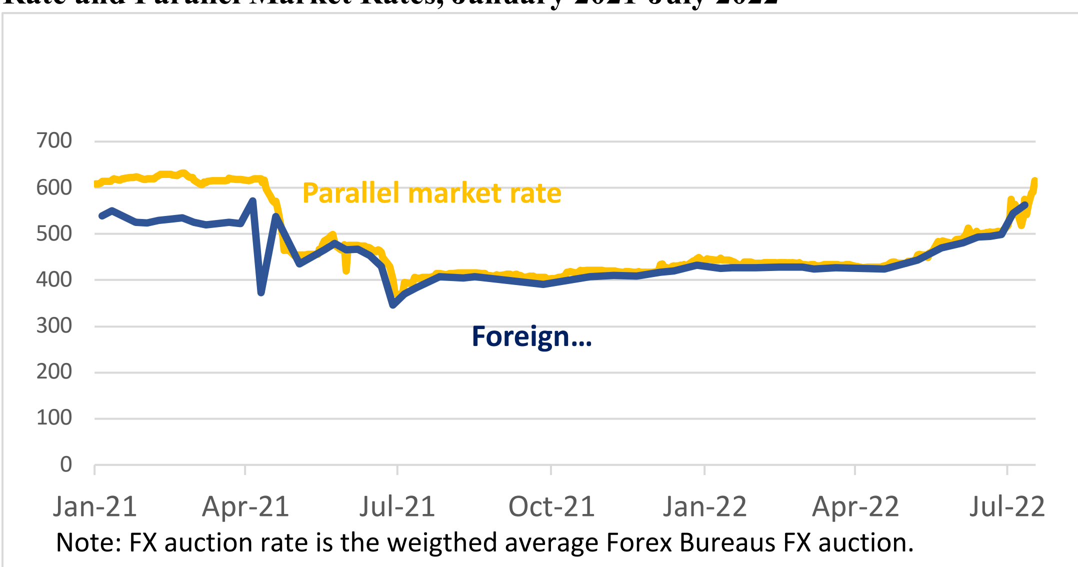
[3] National Audit Chamber. (2021). Consolidated Compliance Audit Report of the Auditor General on the First Tranche of the Rapid Credit Facility (RCF1) from the International Monetary Fund (IMF) Disbursed for Payments of Government Employees' Salaries for the Months of June and July 2020. A Report submitted to Minister of Finance and Planning, Government of South Sudan. Retrieved July 20, 2022, from http://www.mofep-grss.org/wp-content/uploads/2021/09/Consolidated-RCF-report-Peer-advice-8th-September-2021.docx-Clean-1.pdf

The RCF-1 report highlighted some areas where corrective actions are needed. In this context, the authorities are taking steps toward these actions, including paying the public servants through bank accounts and strengthening internal controls.

2.3 The Performance under the Staff-Monitored Program

In addition to emergency support, South Sudan underwent the SMP, starting in March 2021, with an expressed aim to build a track record of policy commitment. The SMP allowed the authorities to benefit from staff advice, with FX reserves as part of the support package. The SMP supported the authorities' reform agenda and enabled them to abolish the system of multiple currency practices and unify the exchange rate (see Figure 2),[4] keep money growth under control, remove FX restrictions, allow market participants to buy and sell FX freely, stop monetary financing, and clear almost all domestic salary arrears except the last two months, which were planned to be cleared by end-July and to begin paying salaries on time going forward. The policy package supported by the SMP of prudent monetary policy and FX market reforms did stabilize the exchange rate and consumer prices. However, the conflict in Ukraine is counteracting such progress, including by putting pressure on the exchange rate in recent months, as evidenced by the Figure 2 below. The upward pressure notwithstanding, both rates are moving in tandem and that augurs well for policy credibility.

Figure 2: The Convergence of the South Sudan Pound's Foreign Exchange Auction Rate and Parallel Market Rates, January 2021-July 2022



Source: Bank of South Sudan; IMF Staff, 2022.

[4] Devarajan, Shanta. (2021). Success despite the odds: South Sudan and Bangladesh. A Brookings Blog in Future Development Series. Retrieved July 16, 2022, from https://www.brookings.edu/blog/future-development/2022/01/14/success-despite-the-odds-south-sudan-and-bangladesh/

While South Sudan tried in 2015, efforts to unify the exchange rate failed miserably and there are divergent views, for explanations and a blame game undergirding this initial failure. While that event is not the central argument of this piece, the exchange rate's convergence within a short while has given other countries something to learn from South Sudan regarding the FX reforms.

3. The Objectives of the Foreign Exchange Market Reforms under the SMP

From the policy perspective, there were two broad objectives under the SMP, namely the need to unify the exchange rate and achieve macroeconomic stability, which is crucial for growth and other material improvements in the economy. The FX reforms have achieved the first objective, as indicated by the convergence between the parallel and official rates by August 2021, which is a success.

Full macroeconomic stabilization, however, was not achieved. Notably, it takes time to entrench macroeconomic stability, and once it is done and dusted, the economy can then perform by enhancing opportunities and lifting all boats. To this end, prudent macroeconomic management remains key for supporting productive investment, ensuring decent wages, preserving debt sustainability, maintaining a low inflationary environment, and preserving external balance. Reaching a full economic recovery and lifting all boats is not an event. It is a process, and a function of many variables, including factors beyond economics to enter the realm of political stability, good governance, strong institutions, and public confidence in their systems. Full implementation of the Revitalized Peace Agreement is one of those enabling factors.

4. Lessons from strong engagement with the International Financial Institutions, Development Partners, and the Public

At a time that there are significant downside risks to South Sudan's near and medium-term economic development owing to the spillover effects from the global challenging context, floods, droughts, locusts, higher food and fuel prices, and governance weaknesses, the economic reforms supported by the SMP with the IMF, and the current plan to deepen relations with the IFIs can teach us some useful lessons. This Weekly Review highlights five lessons from South Sudan's engagement strategy with the IFIs.

Indispensability of Political Support

First, where there is strong leadership, reforms are likely to bear fruits. South Sudan's performance under the SMP reforms has demonstrably reaffirmed this principle. From President Salva Kiir Mayardit, the Council of Ministers, Ministers of Finance, Central Bank Governors, general public, and civil society organizations, the country leadership has been supportive of the economic reforms, especially those under the SMP from the get-go. The authorities, for example, initiated the PFMRS, supported FX market reforms, deployed SDRs, and undertook commensurate policies under the SMP. Going forward, we must learn to appreciate strong political and program ownership which can greatly advance any reforms we so choose to champion. Just like raising a child in the African context takes a village, delivering on any reforms needs ownership and leadership from all stakeholders.

Criticality of Development Partners

Second, South Sudan worked with development partners to receive emergence support and delivered under the SMP commitments. The role of the Troika in the Oversight Committee, for example, has been a positive one, providing policy advice to the Ministers, and supporting the work of the Technical Committee and Secretariat. The same goes for other IFIs. When countries meet the minimum required reforms, donors are likely to be supportive of their reform agenda. The classic example is the requirement to commit to transparency through auditing and publishing the RCF-1 audit report which the government had done, subsequently allowing the country to receive a second disbursement under the RCF. This provided resources which became useful in paying salary arrears, one of the basic sources of social safety nets in South Sudan.

Roles of Public and Civil Society in Ensuring Scrutiny Count

Third, spirited scrutiny over the use of public resources is also vital . When the public wants their leaders to ensure transparency over resources or adhere to a particular appropriation act, there are ways they can do that, including by demanding regular publications of audits or quarterly reports. This applied to the RCF-1 proceeds. Media houses, civil society organizations, research centers, and other economic actors have demonstrated interest in monitoring what the government had done with those resources. In this context, both the government and the public should continue to appreciate the indispensable role of public oversight. In addition to ascertaining value for money or bang for every buck, it restores credibility with the public and builds trust among the donors.

Imperative Role of Domestic Audit Institutions

Fourth, the National Auditor Chamber and other supreme audit institutions are not just tools to ensure accountability and transparency in the use of scarce public resources. They can also address informational asymmetry. Once the Auditor General, anywhere, has done their homework and produced a report, it serves to inform the public about what has been done with the public resources and the course of corrective measures underway to address any internal weaknesses. This public exercise puts pressure on the authorities to do the right thing. In this context, the public, the government, and the development partners should continue to espouse the role of the National Audit Chamber in ensuring prudent resource management while curtailing any rent-seeking behavior.[5]

No Silver Bullets to Reform and Economic Progress

Finally, there is no one-size -fits all in reform progress. Reform in a particular area can fail, but that does not mean the whole reform agenda is destined to fail. While the South

[5] Garang, James Alic. (2021). Agency creation as an instrument of rent-seeking in South Sudan. *International Journal of Economic Policy in Emerging Economies, 14(4), 360-376.*

Sudanese authorities tried in 2015, the exchange rate adjustment did not produce results. The opposite of that took place in the second attempt in 2021. While the initial unification of the exchange rates failed in 2015 in the minds of many economic actors, the 2021 FX reforms delivered results because there was a strong political will, supportive leadership, enabling policy environment, and financial support from the IMF under two RCF disbursements and the SDR allocation, which together provided about US$550 million to South Sudan. The lesson here is unadorned: preparations plus a supportive policy environment can lead to successful outcomes, even in the context of past failures.

5. Conclusion

This piece has attempted to walk the reader through the historical macroeconomic developments in South Sudan, providing an overview of the SMP performance, and drawing lessons. Broadly, it stresses that engagement strategy with the IFIs is bearing fruits, especially the support under the SMP, and disbursed RCF proceeds. The SMP's performance has been satisfactory, including allowing the authorities to unify the exchange rate, control money growth, stop monetary financing, and clear several months of public arrears. These notwithstanding, the lingering effects of the pandemic and conflict in Ukraine continue to put upward pressure on prices, thereby hurting many households, especially in a country where the average public servant salary is very low compared to the regional average. Nonetheless, one cannot help but draw a few lessons here, including the centrality of home-grown reforms, and policy commitments, for the success of any reform agenda.

Author's Biography

James Alic Garang is a co-founder and scholar at The Sudd Institute. His areas of interest include macroeconomics, development economics, financial sector, and financial inclusion. He has in the past participated in host of academic and professional undertakings, including internships at the African Development Bank in Tunisia (2009-2010), as a lead evaluator on the Banking Sector during the "Comprehensive Evaluation of the Government of South Sudan, 2006-2010", a consultant with the World Bank (2013-2014), and a board member serving on a number of charitable organizations and academic affiliations. A former McNair Scholar, and a member of Omicron Delta Epsilon, James holds a PhD in Economics from the University of Massachusetts, Amherst. A former Deputy Dean of Faculty of Economic & Social Studies at Upper Nile University and a Senior Economist with the Ebony Center for Strategic Studies, he is currently a Senior Advisor to the Executive Director at the IMF Executive Board in Washington, DC.