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Abstract

The different financial institutions, including those in South Sudan, have continued to have an uncertain future due to the changes in the macroeconomic environment and the political state of the country. The argument for financial reforms and arrangements requires South Sudan's authorities to devise informed decisions on how to critically match money supply and fulfillment of demand for money to a fairly standardized financial system. The objectives that underpinned the study were to examine the impact of foreign exchange rates on the performance of financial institutions in South Sudan. The study was based on the positivist philosophy because the researchers collected data from the field and used it to arrive at a conclusion. The target population was composed of the 30 registered financial institutions of the CBSS, which was used as the sample. The researcher used secondary data to obtain the findings of the study. In addition to descriptive statistics and diagnostic tests, the researcher also performed regression and correlation analysis to test the effects of independent variables on the dependent variable and the linear relationship between the variables, respectively. The different financial institutions that were considered in the study were selected using systematic random sampling. The researcher collected data from various sources, including the leading financial institutions in South Sudan. The Econometric Views (EViews) software was used for data analysis and management. The correlation matrix was estimated to check for severe correlation and the possibility of multicollinearity in the estimated model. The results showed that there was an inverse and statistically significant relationship between foreign exchange rate and the performance of financial institutions in South Sudan. In conclusion, the government can use macroeconomic variables to influence the performance of financial institutions and improve policy formulation and implementation.

Keywords: *Exchange Rate, Performance, Financial Institutions, South Sudan*

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1.0 Introduction

Financial institutions struggle to access financial services, leading to poor performance. Reinhart (2002) alluded to the fact that several low-income nations with debt burdens lack access to international lending and/or borrowing even under fairly favorable conditions, whereas international market access is taken for granted by developed continents. Clare and Thomas (2013) noted that emerging economies often confront considerable obstacles that prevent any monetary policy from being implemented successfully and leading to price stability. Haryes (2016) noted that currency devaluations have led to negative repercussions for many economic agents at both the micro and macro levels, including citizens, firms, and countries at large. In South Sudan, financial institutions played a vital role in enhancing economic growth through the facilitation of transaction services and timely cash transfers that enabled improvement in citizens' livelihoods (Athorbai, 2011). Since South Sudan's autonomous establishment in 2005, financial institutions have been bridging the gap and gauge in providing a wide variety of financial facilities like deposit, savings, lending, and investment services to individuals, businesses, and soft loans to those who need finances to help solve their pressing issues and investment development (Garang, 2014).

Garang (2014) observed that South Sudan's financial sector is dominated mainly by East Africa's financial institutions, which opened branches in search of business opportunities immediately after the CPA, while other foreign entrepreneurs came with perceived motives and speculations that donor money and oil-contract jobs were lucrative. Sabuni (2014) noted that the gap filled by financial institutions is manifested by a lack of infrastructural development such as roads, hospitals, and good households. People used banking services to help their relatives by sending and receiving money across places and transfers from other countries and/or continents for those with relatives abroad. Their operations and presence have significant contributions to job creation and wealth effect in South Sudan. CBSS data for 2016, 2017, and 2018 indicated that financial institutions' annual lending projections were SSP11.377 billion (bn), 17.432bn, and 59.177bn from Jan-Oct 2018. At independence, the CBSS introduced the South Sudanese pound on July 9, 2011. Reng and Mayai (2016) note that South Sudan established its currency and pegged its exchange rate regime at the official rate of SSP 2.95 per US dollar. However, the banking sector was almost nonexistent at the time, and South Sudan was benefiting from an ample supply of petrodollars, so it was appropriate to implement and defend a fixed exchange rate system. Athorbai and Mayiik (2015) announced that the GRSS would adopt the floatation of the SSP currency against the dollar from an official rate of SSP 2.9632 to $18.5.

Countries with considerable currency reserves are hesitant to devalue their currencies because this decision usually sparks high consumer commodity prices, inflation, and exchange rate burdens on individual country's citizens, which can lead to civil unrest. Boldit (2016) argued that the fixed USD/SSP 2.96 rate had turned worthless because a minimal number of institutions and individuals used the official exchange rate. According to the International Monetary Fund (2014), the revision of Article IV of the 1976 charter motivates policymakers to keep off from manipulation of the exchange rates, which would give them a competitive edge against other players. It further implied and set the record straight for the member nations that they are free to decide on the desired exchange rate system. Bretton Woods' fears over competitive devaluation helped influence the designs of institutions and established laws and regulations to reduce the chances of having more countries adopt the beggar-thy-exchange-rate policy, which would multiply (Corsetti et al., 1998). Amadou (2015) asserts that the procedural decision of currency devaluation can either be a fixed exchange rate system, where the country's government must have sufficient reserves, or a floating exchange rate system, where forces of supply

and demand in the market determine the currency's cost. Countries are required to keep some major currencies in their central banks as reserves. Harris (2018) argued that reserve currencies are those that are held in considerable amounts by national central banks and other monetary authorities. The major currencies are the US dollar and the euro, whilst the secondary currencies are the British pound, the Japanese yen, and the Swiss franc.

1.1 Statement of the Problem

The various financial institutions in South Sudan have continued to struggle over the past few decades, however, the nature of financial institutions matters because they are active enterprises that store wealth, monetary facilitators, and job generators. Harker & Zenios (2000) the growth and economic development of any country are the main objective of most governments across the World. Therefore, any government would do anything to achieve economic development, reduce inflation to acceptable levels and achieve full employment for that particular country. During the pre-independence periods (2008-2010), the institutions (MoFEP and CBSS) tasked with regulatory authority for well-functioning and efficient operation of financial systems, financial institutions, and the economy at large, did not put in place tangible and/or more realistic exit strategies and policies as the then Southern Sudan prepares for expected independence (2011) results. Upon independence, it became a nightmare on the very night of 9th July 2011 when CBS immediately cut its banking operations with CBSS, one of its then branches that consequentially paralyzed financial services, especially banking systems. Garang (2014) hinted that creating workable government structures in South Sudan has been a major challenge, essentially starting from scratch.

1.2 Objective of the Study

i. To establish the impact of foreign exchange on the performance of financial institutions in South Sudan.

1.3 Research Hypothesis

H_{01}: Foreign exchange rate does not statistically affect the performance of financial institutions in South Sudan.

2.0 Literature Review

2.1 The Monetarist Theory

Milton Friedman postulated the Monetarist theory in the 1970s and other scholars later improved the same (Kay, 1986; Howard, 1997; Kehoe, 1998) and in particular, Coddington (1976) attributed the instability of demand for money as the central approach emphasizing on the monetary variables capability to impact employment and output both in short and long runs. The theory states that the money supply is the most important driver of economic growth. It suggests that as the money supply increases, individuals demand more, and industries produce more hence creating more jobs. Bachurewicz and Gdańsk (2019) presented an Institutional (Central bank and the Ministry of Finance) analysis of Poland arguing that MMT is relied on credit creation through government spending and also, based on the balance sheet as asset and loan.

Amadeo (2018) asserts that monetarism has become unfavorable in that money supply is a less effective metric for liquidity because now, liquidity includes cash, credit (loans, stocks, bonds, and mortgages), and money market mutual funds that people are more likely to save today to receive a better return than in the past. As observed by Clare and Thomas (2019), this policy instrument is not often utilized in

industrialized economies today since rapid change is disruptive and the monetary authority has little influence over the quantity of money that economic actors deposit in banks or the willingness of banks to provide loans. Castillo, Montoroz, and Tuesta (2008) found that interest rate used as the tool for monetary policy study prompts a decrease in macroeconomic risks. This theory is applicable to the study as it informs monetary (Central Bank) and fiscal policy such as exchange (independent variables) usually referred to as the monetary transmission mechanism of the economy, which are here, the primary performance determinant measures of financial institutions.

2.2 Empirical Review

Golit *et al* (2019) studied the Exchange Rate and Interest Rate Differential in G7 Economies and conducted both the conventional and augmented versions of ARDL models captured for asymmetry and structural breaks. The findings showed that taking structural breaks into account is more important than asymmetry in the nexus, and when G7 countries with and without the euro are compared, it is clear that the nonlinear ARDL structural breaks model is the most accurate for the euro while the linear ARDL "structural breaks give better estimates in the latter." In South Africa, Yeboah and Takacs (2019) researched on the profitability of 49 listed companies to determine the impact of the foreign exchange rate from 2000-2014 using a random effect model. The study found that the ROA of mining companies is 5% significantly higher than listed manufacturing companies and depending on the nature of the companies, the exchange rate has a negative return on assets of all listed companies. However, profitability increases significantly as a result of tangibility, interest coverage, and liquidity and is reduced by leverage profitability whereas interest rate revealed a positive profitability impact at the macroeconomic level. Ue, Be and Ki (2018) used analytical tests for the Classical Linear Regression Model (CLRM) on secondary annualized time series from 1999-2016. The findings revealed economic growth of inflation and exchange rate are positive whereas 92% described negative on both external and public debts association. The study also established that it is difficult to hold Nigeria's devaluation as its assumption and execution have worsened investment and economic conditions than before because the desirable requirements to safeguard essential services are not sufficiently delivered.

Ogunjimi (2020) adopted the Autoregressive Distributed Lag (ARDL) and Nonlinear Autoregressive Distributed Lag (NARDL) framework to study the symmetric and asymmetric relationship between exchange rate movement and sectorial output. The results established that exchange rate dynamics encourage the services sector and agricultural performance for short-run linear ARDL whereas the nonlinear ARDL shows that agricultural depreciation and appreciation are positive with industrial output indicating an inverse relationship. On the other hand, the sectoral output is inversely related to the monetary policy rate, however, the degree of responsiveness to a change is very low in both models. Additionally, the long-run findings demonstrate that although the monetary policy rate is negatively associated to the performance of these sectors, depreciation and appreciation have beneficial effects on sector production. Siddig and Abdelmawla (2009) used a computable General Equilibrium model to study the influence of exchange rate devaluation on Sudanese agricultural trade. The results revealed that domestic prices have increased considerably due to the Sudanese pounds devaluation with a decrease in real wages, land rents, and income showing a negative change in the welfare level of the households which deteriorated foreign agricultural trade further. The researchers dwelt on only one major currency, market variables, and leverage to excess exchange rate performance ignoring other regional currencies such as GBP, CHF, JPY, and SAR. This study considered regional currencies as a medium for cross-border trade. Though South Sudan has pegged its currency to USD, regional currencies also shaped its local markets.

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3.0 Research Methodology

The study follows a positivist approach, which means it relies on data gathered from the field to make conclusions. The researcher used mixed methods to analyze both numerical and non-numerical data. The focus of the study is on the impact of macroeconomic variables, tax revenue, and the performance of financial institutions in South Sudan. Data was collected from selected banks and supplemented with information from the Central Bank of South Sudan. For analysis, the researcher looked at reports from 30 registered financial institutions and used time-series data examined over two periods. They used methods like Ordinary Least Square model and multiple regression to analyze the data. The goal was to test a research hypothesis and achieve the objectives of the study. The analysis helped the researcher understand patterns and themes more clearly.

4.0 Data Analysis and Interpretations

4.1 Descriptive Statistics

Table 4.1: Descriptive Statistics

	ROA	Exchange Rates
Mean	0.069148	0.015511
Median	0.062352	0.000000
Maximum	0.246749	1.000000
Minimum	-0.087866	0.000000
Std. Dev.	0.065672	0.123598
Skewness	0.406050	7.841427
Kurtosis	3.931624	62.48798
Jarque-Bera	147.7152	366018.9
Probability	0.000000	0.000000
Sum	160.4930	36.00000
Sum Sq. Dev.	10.00576	35.44162
Observations	2321	2321

The statistics in Table 1 below presents the summary of the descriptive statistics which shows the characteristics of the data collected for this study. The results showed that the average coefficient for the return on assets was estimated to be 0.069148 units while the estimated standard deviation

coefficient was 0.0657 units for ROA. The exchange rate which was estimated to have a mean coefficient of 0.01551 units while the change or the fluctuations is having a coefficient of 0.124 units meaning that, when there are changes in the exchange rates, the same are within the coefficient size or level both beneficial and undesirable aspects.

4.2 Foreign Exchange on Performance of Financial Institutions in South Sudan

The foreign exchange was one of the macroeconomic variables adopted for this study which had a significant impact on the financial performance of the financial institutions within South Sudan. In Burundi, Nkuruzinza (2002) stated that trade and foreign exchange controls in developing countries affect the external sector inversely because in most cases; imports arehighly subsidized as exports are taxed, thus, no significant reasons for economic justification of foreign exchange allocations by the government by way of interfering with the processes. This means that the government through the central bank of Sudan South can be able to influence the direction of the performance of financial institutions in the Country by adjusting the foreign exchange and the rate of interest. This can be achieved through the activation or utilization of the fiscal and the monetary policy. These findings have also agreed with the findings by Gaalya (2015) where it was revealed by use of the random and the fixed effects that the determinants of tax revenues performance for the period 1994 to 2012 were the rate of exchange, trade openness and share of industrial to GDP. These variables were established to positively influence the changes in the financial performance of the financial institutions. The research came to the conclusion that trade openness, a proxy for trade liberalization, had a beneficial impact on tax revenue performance**.** The current study established that the macroeconomic variables and the tax revenues influenced the changes in the performance of financial institutions. In South Sudan, the volatility of foreign exchange set a signal that financial institutions feel secure if they hold enough volume in foreign currency than in South Sudan pounds. Thus, it means that the government should use the macroeconomic variables through fiscal policy to impact the changes in the performance and profitability of these institutions. This was important for the government because it was able to collect more revenues through taxation and other tariffs when these institutions are doing well.

5.0 Conclusion of the Study

In the current study, it was revealed that there was a relationship between the exchange rates and performance of the financial institutions in South Sudan. This is due to the fact that an increase in the exchanges rates contributed to increased change in the profitability and revenues for the financial institutions.

5.1 Recommendations of the Study

In relation to the recommendations, the current study makes recommendations based on the findings of the study. It is recommended that the government should develop policy and formulate laws that are able to inform the financial sector and the banking environment to allow for proper functioning of the financial institutions and hence, increased profitability.

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