REPUBLIC OF SOUTH SUDAN

DIAGNOSTIC TRADE INTEGRATION STUDY

Developing Capacities
for
Trade Integration and Economic Diversification

October 2014

TABLE OF CONTENTS

ACRONYMS

ADR	Alternative Dispute Resolution
AfDB	African Development Bank
AfT	Aid for Trade
ASM	Artisanal and small scale miners
AusAID	Australian Agency for International Development
bbl	Barrel
BEC	Broad Economic Categories
BIT	Bilateral Investment Treaty
bpd	Barrels Per Day
BSS	Bank of South Sudan
CAR	Central Africa Republic
CASA	Conflict Affected States
CDA	Community development agreement
CET	Common External Tariff
CIF	Cost, Insurance and Freight
COMESA	Common Market for Eastern and Southern Africa
CPA	Comprehensive Peace Agreement
CPI	Consumer Price Index
DfID	UK Department for International Development
DRC	Democratic Republic of Congo
DTIS	Diagnostic Trade Integration Study
EAC	East African Community
EAPP	Eastern Africa Power Pool
ECX	Ethiopia Commodity Exchange
EIA	Environmental Impact Assessment
EIF	Enhanced Integrated Framework
EITI	Extractive Industries Transparency Initiative
EPSA	Exploration and Production Sharing Contract
EMP	Environmental Management Plan
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FIT	Feed-In-Tariff
GDP	Growth Domestic Product
GOSS	Government of Southern Sudan
GRSS	Government of the Republic of South Sudan
HS	Harmonized System
ICAO	International Civil Aviation Authority
ICSID	International Centre for Settlement of Investment Disputes
ICT	Information and Communication Technology
IDP	Internally Displaced Persons
IFC	International Finance Corporation
IGAD	Intergovernmental Authority on Development
ILO	International Labour Organization
IPP	Independent Power Producer
IPR	Intellectual Property Rights
ISIC	International Standard Industrial Classification
JDSREP	Juba Distribution System Rehabilitation and Expansion Project
KRA	Kenya Revenue Authority
LAPSSET	Lamu Port South Sudan-Ethiopia Corridor
LDC	Least Developed Country
MAFLF	Ministry of Agriculture, Forestry, Livestock and Fisheries
MDG	Millennium Development Goal
ME	Ministry of Environment
MEDIWR	Ministry of Electricity, Dams, Irrigation and Water Resources
MEST	Ministry of Education, Science and Technology

MFAIC	Ministry of Foreign Affairs and International Cooperation
MFEP	Ministry of Finance and Economic Planning
MFI	Micro-finance institutions
MJ	Ministry of Justice
MLPSHRD	Ministry of Labour, Public Service and Human Resource Development
MPM	Ministry of Petroleum and Mining
MSME	Micro, Small and Medium Enterprises
MTCDS	Medium Term Capacity Development Strategy
MTPS	Ministry of Telecommunication and Postal Services
MTII	Ministry of Trade, Industry and Investment
MTRB	Ministry of Transport, Roads and Bridges
MCYS	Ministry of Culture, Youth and Sport
NBS	National Bureau of Statistics
NGO	Non-governmental organization
Nilepet	Nile Petroleum Corporation
NIU	National Implementation Unit
NTM	Non-Tariff Measure
NRTC	New River Transport Company
ODI	Overseas Development Institute
OSBP	One Stop Border Post
OSSIC	One Stop Sahop Investment Centre
PA	Protected Area
PPA	Power Purchase Agreement
PPP	Public Private Partnership
PRMA	Petroleum Revenue Management Act
SEZ	Special Economic Zone
SITC	Standard International Trade Classification
SME	Small and Medium Enterprises
SSASIA	South Sudan Agricultural Statistical and Information Agency
SSBU	South Sudan Business Union
SSBF	South Sudan Business Forum
SSCCIA	South Sudan Chamber of Commerce, Industry and Agriculture
SSDP	South Sudan Development Plan
SSEC	South Sudan Electricity Company
SSIA	South Sudan Investment Authority
SSLC	South Sudan Land Commission
SSNBS	South Sudan National Bureau of Standards
SSNEA	Southern Sudan National Electricity Authority
SSP	South Sudan Pound
SSSC	South Sudan Shippers Council
SSTDA	South Sudan Tourism Development Authority
SSWU	South Sudan Women Union
TEU	Twenty-foot equivalent Unit (refers to container)
TMEA	TradeMark East Africa
TRALAC	Trade Law and Advocacy Centre
TVET	Technical and Vocational Education and Training
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
URA	Uganda Revenue Authority
USAID	United States Agency for International Development
VAT	Value added tax
WB	World Bank
WFP	World Food Programme
WTO	World Trade Organization

Foreword

Acknowledgements

The DTIS team would like to express its thanks to the Honourable Minister Mr. Aggrey Tisa Sabuni, Minister of the Ministry Finance and Economic Planning and the Ministry of Trade, Industry and Investment, the Undersecretary for Trade, Industry and Investment, Mr. Simon Nyang Anei, the Director General for External Trade, Mr. Stephen Doctor Matatia and Mr. Augustine Kenyi Albert, the EIF Focal Point, for their guidance and support for the realization of the DTIS. The team extends its appreciation to all the national stakeholders met for their warm hospitality, close cooperation and frank discussions around the matters covered by the report.

The team would also like to thank the staff of UNDP in Juba, especially Mr. Balazs Horvath, Mr. Biplove Choudary and Mr. Daniel Kir for their advice and guidance. Without their constant and devoted professional contributions during and between meetings, the preparation of this report would not have been possible. The team would like to also thank Ms. Luisa Bernal, UNDP Geneva, who has played a key role in finalizing the report and the Action Matrix.

EXECUTIVE SUMMARY

INTRODUCTION

The South Sudan Diagnostic Trade Integration Study (DTIS) was prepared by the Government of the Republic of South Sudan (GRSS) with the support of the United Nations Development Programme (UNDP) under the auspices of the Enhanced Integrated Framework (EIF) for Trade-related Technical Assistance for Least Developed Countries (LDCs). The report was produced by a team of national and international experts working under the direction of the Ministry of Trade, Industry and Investment (MTII).

The main DTIS mission took place during the first two weeks of September 2013. From the end of September to December 2013, the DTIS team carried out analytical work in close consultation with the government and the private sector. Initially, the plan was to have a report by end of year and for the review to begin in 2014. A first draft of the DTIS report was presented to the government for comments in mid-December 2013 and the validation workshop was planned for January 2014.

On December 15, however, fighting between heavily armed groups and the army broke out in Juba and quickly spread to other states, fuelled by a mix of political and inter-ethnic rivalry. The fighting was particularly intense in the oil producing states, with key cities taken by rebels and retaken several times by the army.

The government faces an uphill struggle in asserting its authority over rebel areas and restarting normal activities. It also needs to demonstrate to investors, both local and international, that the country is once again a safe place in which to do business. Regaining investor confidence, which had peaked early last December following the successful launch in Juba of the South Sudan Investment Conference, will be crucial if the government is to realise its ambitious development agenda.

Analyses and positions on the current outlook on oil production and the status of wells, external indebtedness, sectoral allocations and the credit rating of the country have clearly been overtaken by recent events. The DTIS team did its best to update data in the report but official information is often missing. **More importantly, the full scale of the conflict's impact has not yet been assessed in any credible way.**

The role of trade and investment in a fragile state such as South Sudan needs also to be reassessed by the government and the international community. The traditional objectives of the DTIS which focus on integration of trade into development policies should be broadened to take into account the strategic objectives of peace and state building. This can be done by designing trade policies, programmes and projects which will contribute to rebuilding the social capital destroyed by conflict. This can be achieved as follows:

- **Identifying sustainable sources of income for large groups of the population lacking adequate skills – through activities such as those that stem from and can be sustained by increased trade.**
- **Relaunching agricultural value chains**, building linkages between producers and private companies, e.g. outgrower schemes with large companies, incubators for small- to medium-scale agribusinesses.

- **Using trade policy as a tool for unification**, i.e. (i) through trade facilitation, improvements in the business environment and fostering coordination between Juba and the states where production is taking place; and (ii) through enhanced involvement of state governments in the MTII's activities.

- **Improving linkages and upgrading infrastructure and connectivity between the states**.

The above actions are a low-cost option which can be achieved through ongoing and planned projects and programmes of the government and development partners.

COUNTRY CONTEXT, POVERTY AND MACROECONOMIC ISSUES

South Sudan became independent on 9 July 2011 after a large majority of the population supported secession in a referendum organized with support of the international community. South Sudan is a large oil-rich country with a population estimated at 10.3 million in 2011 in the absence of an updated census. Since independence, the government has faced major challenges such as negligible infrastructure, food insecurity and low human development indicators.

Moreover, the country suffered a severe setback when in a few months from mid-December 2013 South Sudan faced its most serious bout of violence since 1991. Some ten thousand citizens have been killed and 1.8 million displaced. The resulting widespread destruction of human, physical and social capital, coupled with greatly exacerbated ethnic schisms, has set the country back by many years.

Poverty and inequality

South Sudan is among the world's poorest countries. Its poverty profile presents a stark picture of a country that has been ravaged for decades by war and isolation. Fifty one percent of the population lives below the absolute poverty line of SSP 74 per person per month, only 27% of the population above the age of 15 is literate and the maternal mortality rate is 1,989 deaths per 100,000 live births, the highest in the world. The prevalence of poverty in South Sudan is widespread but its distribution is uneven. Poverty rates vary significantly among states, from three in four people in Northern Bahr el Ghazal state (76%) to only one in four people in Upper Nile state (24%).

Macroeconomic environment: recent developments

South Sudan's macroeconomic situation and growth prospects have been adversely affected by continued tension with Sudan. This was reflected in a decision by the South Sudanese authorities to shut down oil production in January 2012.

An agreement signed in late September 2012 led to a resumption of oil production in the first quarter of 2013. However, continued tensions in 2013, including a threat by the Sudanese authorities to suspend the operation of the oil pipeline, led the South Sudanese authorities to limit oil production to 200,000 bpd or lower. Because oil revenues make up 98 percent of fiscal revenues, disruptions to oil production required the implementation of an emergency austerity budget for the financial year 2012/2013. Financing of the deficit has relied heavily on increasing net domestic liabilities.

South Sudan has experienced severe inflationary pressures since it gained independence. Inflation subsided in 2012, with year-on-year inflation falling from nearly 75 percent in May 2012 to zero by March 2013. Moreover, the overall picture masks significant regional variations between the northern and southern states of South Sudan. Thus, year-on-year inflation in the northern states (represented by the CPI index for Malakal) has been significantly higher than that for Juba and the southern states since June 2012.[1] This reflects the closure of the border with Sudan which has increased food scarcity in the north due to poor distribution linkages with the southern states where imported food supplies have been relatively abundant.

South Sudan has maintained a dual exchange rate policy since independence, with an official exchange rate pegged to the dollar at a rate of 2.95 SSP to the dollar, and a parallel exchange rate operating through the "tolerated" parallel market of between 4 and 4.3 SSP. **The current exchange rate policy is a key factor preventing diversification and non-oil activities, incurring an enormous fiscal cost and fuelling widespread corruption.**

A failed attempt at unifying exchange rates in early December 2013 saw a resumption of a similar gap, which subsequently broadened following the eruption of hostilities from mid-December. In fact, during 2014, the parallel market's exchange rate fluctuated between SSP4 and SSP5 to the US dollar. Disruptions to oil production had a marked impact on the balance of payments.

A current account deficit of US$ 2.1 billion is projected for the financial year 2012/2013, down from a surplus of US$ 1.3 billion in 2011/2012. The current account, excluding transfers, fell to minus 27.8% of GDP compared to 3.5% in FY2011/12 and 0.2% for FY 2010/11.[2]

The financing requirements for the budget and external deficits that have accumulated over the last financial year have required debt financing. According to the IMF, total debt stock at the end of 2012, excluding lending by the Bank of South Sudan (BSS) to the government, is estimated to be 5.1 percent of GDP.[3] Donors have expressed concerns that, notwithstanding the resumption of oil supplies, debt sustainability could become critical in the absence of a debt management framework.

Outlook and emerging issues

The fiscal stance and management of oil revenues. **The overall fiscal stance has been heavily affected by political developments, first vis-à-vis Sudan, and subsequently as a result of the escalation of internal conflict.** The full scale of the impact of the unrest has not yet been assessed, but without any doubt, the cost of human lives and the destruction of infrastructure is extremely high.

At the time of the DTIS mission, the outlook was influenced by a summit on 6 September 2013 between the respective presidents of Sudan and South Sudan that deescalated the threat of pipeline closure. This prompted South Sudan to increase production to 240,000 barrels per day (bpd). Based on this the authorities expected production to reach 280,000 bpd by early 2014. The resumption of oil production in turn had been expected to restore positive GDP growth rates and stabilise government finances. On this basis, the authorities had budgeted on a resource envelop of around SSP 17.2 billion, of which just over 10 billion was projected to flow from oil revenues, and 4.5 billion from external loans. Central government spending was budgeted to be SSP 9.2 billion, which represented a 35 percent increase on the austerity budget of the previous year. Of the remaining amount, about SSP 3.8 billion had been allocated for the repayment of loans and approximately SSP 3.1 billion for payments and transfers to Sudan.

---

[1] National Bureau of Statistics, consumer price index for South Sudan, May 2014.
[2] Data in this section have been provided to the mission by the IMF as of 1 July 2014.
[3] Estimation provided by the IMF to the mission as of 1 July 2014.

As a consequence of internal conflict, the forecasted production increase did not materialise, and production remained below 200,000 bpd. In response, the government passed an amendment that retained austerity level spending. A fiscally neutral reallocation of appropriations in favour of defence – as a direct result of conflict – led to cuts in public sector investment.

South Sudan's oil dependency continues to pose multiple policy challenges. A major task will be ensuring that the sectoral allocation of government expenditure tempers Dutch Disease effects (real exchange rate appreciation and the build-up of inflationary pressure), by saving a proportion of the revenue windfall from the resource boom and investing in overseas assets; or investing resource revenues through investments in infrastructure such as roads that raise the long-term productive capacity of the economy.

In practice, security and recurrent spending on wages have been the dominant items of government expenditure, while total spending on areas that have social rates of return (roads, health and education) have not exceeded 18 percent of the budget on average since independence. Indeed, the budget for 2013/2014 allocated roughly 18 percent of the resource envelop to roads, health and education, whereas security accounted for roughly 33 percent. Actual 2014 expenditures on security are likely to exceed this amount.

It is important to acknowledge that, as part of efforts to improve the management of oil revenues and its associated macroeconomic consequences, the authorities enacted a Petroleum Revenue Management Act (PRMA) in 2013. The PRMA's current status is unclear since agreement with the states is required for it to be fully operational.

The exchange rate regime. As already reported, South Sudan follows a hybrid exchange rate regime in which a fixed official exchange rate coexists with a "tolerated" parallel market exchange rate. Such a system creates distortions which makes exchange rate unification desirable. **Under the current regime, the BSS provides blanket allocations of foreign exchange to commercial banks at the official pegged rate, thus providing them with large windfall gains that are difficult to justify**. Moreover, attempts to offset the distortions from a dual exchange regime can give rise to discretionary taxes on trade. With the resumption of oil production and the greater availability of foreign exchange, the authorities have considered moving to a single exchange rate determined by auctions. The government held technical consultations with the IMF on the unification of the exchange rate in 2013, when the parliament revoked the proposed move to unify the exchange rate regime.

Expanding the revenue base. **In order to insulate government expenditure from the volatility of resource rents, the authorities have undertaken to widen the tax base. Indirect taxes are the largest source of non-oil domestic revenues.** Under the budget for 2013/2014, the sale tax accounts for approximately 25 percent of non-oil domestic revenue. Excise and customs duties account for 15 percent and 18 percent, respectively.

Efforts to increase revenue collection should come through strengthened administration rather than through increased duties. Moreover, moving towards a more transparent and predictable approach to exemptions – covering only flows other countries normally exclude such as humanitarian assistance – could have the double benefit of increasing revenues and reducing the opacity of the tariff structure.

Other issues. **A final question concerns the lack of clarity in the apportioning of competencies and responsibilities between the central government, on the one hand, and subsidiary levels of government on the other.** South Sudan is a unitary state, not a federal one, though in practice the states are also required to meet mandates that are aligned with the overall development strategy. Since independence, it appears that many of these mandates have been unfunded or only partially funded, prompting states to undertake revenue raising measures of their own, including through informal taxes on trade and transport. This, together with unauthorized revenue collection by non-government entities, such as checkpoints and roadblocks, has markedly increased the transaction costs of businesses operating in South Sudan. These unorthodox practices heavily penalise South Sudan's competitiveness against its East African Community (EAC) trading partners.

Reforms to the budgeting process are being implemented to ensure a better alignment between state expenditures and revenue sources from the central government. **The authorities are also in the process of moving away from cash budgeting to programme budgeting.** The general approach towards budgeting could be strengthened through the development of a medium term economic framework that projects available resources over a three to four-year period.

TRADE POLICY

Structure and value of trade

The underdeveloped state of South Sudan's customs arrangements has contributed to preventing the accurate collection of trade data. Available data are based on estimates compiled by the National Bureau of Statistics (NBS) and the BSS, or reported by trading partners, on formal and informal cross-border trade flows.

Data collected in 2012 by BSS at the Nimule customs post show that imports are around SSP 5 billion whereas the figures reported by the NBS suggest a total of SSP 10.8 billion. Given that the Nimule border post accounts for approximately 80 percent of merchandise trade by value, this suggests that the NBS data may overstate imports. One difference is that the NBS implicitly includes informal trade.

The UN's COMTRADE reports data collected by South Sudan's trading partners. The coverage of the data is limited to 2012 and is incomplete. For example, the COMTRADE database contains no mention of exports from Kenya to South Sudan, which according to the Kenyan Export Promotion Council, amounted to approximately US$210 million in 2012.

Data show that extra-African sources of imports dominate with China (25.9%) and USA (23.2%) representing almost 50% of total imports. Formal trade includes machinery and transport, with manufactures and unclassified consumer goods constituting the main import items from extra-African partners. Figures for informal trade are likely to boost the share of EAC trading partners, as well as increase the share of trade accounted for by Sudan. Notwithstanding the issue of border closures with Sudan, the level of informal trade between Sudan and South Sudan continued to remain significant.

Total exports for 2012, according to COMTRADE, were valued at just under US$700 million which largely accords with NBS estimates. The share for exports reflects the destination of crude oil: China (72%), Japan (21%), USA (6%), Uganda (1%) and Pakistan (0.4%).

Informal trade is difficult to quantify. The Bank of Uganda has developed an annual survey of cross-border trade. On that basis informal exports to South Sudan have been valued at US$196 million, US$83.7 million and US$115.1 million in the years 2010, 2011 and 2012, respectively. Informal exports from South Sudan to Uganda are negligible. **Informal trade flows between Sudan and South Sudan are also reported to be significant, though no estimates are available**. Imports from Sudan mainly consist of food products. The authorities also report unspecified flows of gum arabic smuggled from South Sudan to Sudan, from where it is then re-exported. It seems reasonable to estimate the value of "export" of gum arabic from South Sudan to Sudan in the range of US$6.5 million to US$32.5 million.

Trade regime

Tariffs. **During the DTIS mission's visit, the tariff regime in place was unclear and did not follow any international classification system such as the Harmonized System (HS) or the Broad Economic Categories (BEC).** The duties applied were set out in the document "Tariff Estimated Values 2010". In some cases the document referred to brand names rather than product categories. It was also unclear whether these duties were implemented consistently, given the high number of exemptions routinely granted. The DTIS mission estimated the simple arithmetic average of all applied tariffs at 5.6 percent. This is substantially lower than the average of 12 percent for the EAC.

A new Customs Act was enacted and gazetted in May 2014. The Act mandates the use of the HS and the implementation of valuation methods that comply with the WTO Agreement on Customs Valuation, thereby improving the transparency of the tariff structure. Support for the execution of the new Act will include a number of key actions such as a media campaign targeted at economic operators; training of border agencies in integrated border management (customs, trade, police, bureau of standards and customs agents working as a team); non-intrusive inspections and risk management procedures, including scanners and other equipment; the nomination of authorized economic operators; and measures to improve compliance of informal cross-border traders with customs formalities. Other related actions are the establishment of one-stop-border-posts (OSBPs), collection and dissemination of accurate trade statistics and reforms to accommodate electronic data interchange.

In tandem with these reforms, the authorities plan to implement a banded tariff structure. The proposal is to classify imports into the following categories: capital goods, industrial raw materials, luxury goods, necessities, and zero-rated imports. Tariff bands would run from zero to 20 percent. No further information was available at the time of writing, but the approach appears essentially to generalise and put on a more systematic footing the practices already implemented.

The resource allocation effects can, to a certain extent, be understood by considering the structure of tariffs by area of activity, as described by the International Standard Industrial Classification (ISIC). When categorised in this manner, the tariff structure shows a negative degree of escalation from agricultural activities to manufacturing, with the former covered by an average tariff of around 11.6 percent, and the latter an average tariff of around 5 percent. **The negative pattern of escalation in principle acts as a de facto tax against the allocation of resources to activities that feature a higher degree of processing and value addition. This means that the trade regime is not articulated with the development needs of the country.**

Internal taxes. **The states implement a range of other taxes that have a discriminatory and non-transparent impact on imports.** In particular, sales and excise taxes (including a special state excise tax) are imposed cumulatively, with the basis for calculation being the CIF rate augmented by import tariffs, rather than the CIF rate alone.

Import licensing. All importers are required to obtain a licence from the MTII. **The economic rationale for the current licensing regime is not clear, beyond the sole objective of raising revenue**. As indicated in the draft trade policy framework (June 2014), the government is currently envisioning reforms of the import licensing regime to make it more focused on regulatory (health and safety issues) and longer term trade development objectives.

Non-tariff measures (NTM). **A pervasive form of NTM is the prevalence of roadblocks on the main transport routes within South Sudan. A report by the National Bureau of Statistics found that in 2011 there was one roadblock for every 25 km of main roads in South Sudan. These roadblocks extract payments from transporters carrying imported items thereby increasing transaction costs.** In order to reduce the incentives that the states may have to tacitly support the roadblocks, the central authorities have reached an agreement with the states regarding the distribution of excise taxes collected. The way in which these measures are applied gives rise, however, to hidden restrictions on trade.

Trade policy issues and options

The government is currently undertaking a major review of its trade policy and institutions, in order to ensure that they contribute to South Sudan's development objectives as articulated in the South Sudan Development Plan. In particular, trade policy reform can play an important role in stimulating economic growth, helping to diversify exports and enhancing employment opportunities.

On paper at least, South Sudan has a relatively liberal trade regime. The reported average tariff rate is lower than that applied in the EAC. The main challenge for South Sudan is to ensure that distortions in the tariff structure that penalise efforts at economic diversification are progressively removed; that its trade regime is placed on a transparent and stable footing; and that trade policy remains insulated from forces that would bias policy in favour of selective protectionism or revenue collection not transferred to the Treasury.

Addressing existing distortions. **The current tariff structure is biased in favour of primary agricultural activities over manufacturing and activities with a higher degree of processing.** This negative pattern of escalation has multiple undesirable consequences. First, it increases South Sudan's food bill. Second, the current structure acts as an implicit tax on the development of activities such as food processing or textiles, in which South Sudan is likely to have a comparative advantage. An updated draft of the "South Sudan Trade Policy Framework (June 2014)" prepared under the leadership of MTII, seen by the DTIS mission, recognises the anti-export bias in South Sudan's current trade regime and recommends corrective measures to address it. One of the areas the draft policy places emphasis on is economic diversification and the need to create the enabling conditions for processing of South Sudan's natural resources to generate income and create employment, particularly in the non-oil sector.

While clearly the development of productive capacity and export potential in these areas would require addressing a multitude of supply-side constraints, correcting deficiencies in relative prices is an important starting point. Doing this by increasing tariffs on activities at a higher level of processing is not a suitable option since the increase in effective protection would worsen anti-export biases. **One way of addressing these issues is through participation in negotiated trade agreements. This is**

because such agreements involve legally binding commitments that cannot be revoked without significant costs. Possibilities for South Sudan include the EAC and COMESA at a regional level. At a multilateral level, accession to the World Trade Organization (WTO) is a possibility.

Joining the EAC Common External Tariff (CET) is an unattractive proposition for South Sudan, bearing in mind the observations made previously about the desirable direction of tariff reforms in South Sudan. First, implementation of the CET would likely require raising a number of tariffs relative to their current level, which would worsen anti-export biases.

Secondly, given the importance of non-EAC imports in South Sudan's trade, an increase in tariffs on non-EAC imports is likely to have significant trade diversion costs. In effect, the implementation of the CET would lead to transfers from South Sudanese consumers to less efficient suppliers elsewhere in the EAC, who would otherwise face stronger competition from more efficient producers from outside the CET.

A further difficulty is that **implementation of the EAC CET would not enable South Sudan to address a key issue of its current tariff structure which penalises resource allocation to processing and manufacturing activities, activities in which South Sudan is likely to have an emerging comparative advantage. Indeed, the EAC CET seems to present the very form of negative escalation between agriculture and manufacturing that it would be desirable for South Sudan to eliminate.**

If a strong political opinion exists in favour of regional integration, one option would be to negotiate reciprocal free trade arrangements (but not entry into a customs union) with EAC member states or a subset of these (such as Kenya and Uganda). A non-customs union arrangement would give South Sudan control of its tariff structure vis-à-vis third party countries.

In a gradual move toward increased openness, in 2014 GRSS signed memoranda of understanding with Sudan, Uganda and Kenya to facilitate trade with South Sudan. Based on these arrangements, the border posts shared with Sudan, which are critical for cross-border trade and food security for the northern states, have been fully or partially reopened. However, due to continued fighting in parts of the north, the opening of the border has been temporary and sporadic which depends on the degree of hostilities. Given the continuing role trade plays, often on an informal basis, between Sudan and South Sudan, the reopened border is a favourable development in the relationship of the two countries.

Another option is to pursue trade liberalisation on a Most Favoured Nation (MFN) basis. This option and EAC integration are not necessarily mutually exclusive since the benefits of the regional approach are in part contingent on the extent to which trade liberalisation is undertaken vis-à-vis non-regional partners. Liberalisation on a MFN basis does not necessarily require membership of the WTO. The main advantage that the WTO would bring to South Sudan is the ability to increase the transparency and predictability of its trade regime through binding commitments.

TRADE FACILITATION

Customs and related procedures

Poor customs administration in South Sudan hampers revenue collection and thus the expansion of the revenue base away from oil. As noted above, the new Customs Act (2014) sets the basis for introducing improvements to customs administration that will increase revenue without increasing taxes on imports.

At present, customs authorities lack a proper framework within which to function and to be held accountable. The new Customs Act addresses these weaknesses and provides a set of binding obligations on customs operations. The Act provides, for instance, for the use of the Harmonised System without which the valuation of cargo and exemptions are subjective and discretionary.

Infrastructure and linkages

The cost to ship a 20-foot container from Europe to Juba via Mombasa is US$9,285, of which the inland transportation and handling Mombasa-Juba cost is US$7,200 compared to the significantly lower Mombasa-Kampala cost of US$2,150. The difference of US$5,050 in inland transportation costs between Juba and Kampala accounts not only for the somewhat longer distances travelled but also other costs including delays en route, non-tariff barriers like roadblocks and the fact that importers have to pay for the return of empty containers, in effect paying for both inbound and outbound shipping costs. A USAID study (2012) reports that for containerized cargo, road costs are the most significant, accounting for between 70% and 78% of all costs.

South Sudan has one of the lowest road densities in Africa. The country has a total road network of 17,000 km. Most roads are gravel roads which are impassable during the rainy season. The only trunk road that is paved is the 192 km road from Juba to Nimule. There are 24 airports with only two having a paved runway. Juba international airport is the main gateway. However, it does not comply with the ICAO safety and security standards.

The White Nile is the country's largest waterway. Before the closing of the border with Sudan, barges used to navigate from Juba to Kosti, allowing the movement of food and other goods. **With six riverine states having access to navigation along the Nile, river navigation supports job creation and revenues which have been partially destroyed by the closing of the border. During the rainy season, river transport is more feasible and easier to transport people, goods and livestock compared to roads in many areas. However, the key river ports of Juba, Mongalla, Bor, Adok, Shambe, Malakal and Renk are in poor condition and need to be rehabilitated or upgraded.**

Technical regulations and product certification

Responsibility for technical regulation and product certification currently falls under the purview of the South Sudan National Bureau of Standards (SSNBS) which is under the MTII. The new arrangements should provide a starting point from which a proper framework for technical regulation and standards development can be established. The legal framework governing the conduct of the SSNBS is provided by the National Bureau of Standards Act 2012, the Weights and Measures Act 2012, the Imports and Exports Act 2012 and the Consumer Protection Act 2011.

SSNBS is responsible for ensuring fairness of trade and the protection of consumers against substandard, shoddy and hazardous products. SSNBS support for trade includes the development and implementation of standards for various sectors mainly through product conformity assessment. These activities ensure that manufacturers produce quality products that are competitive both locally and internationally.

At present, South Sudan implements standards developed by trading partners, chiefly Uganda and Kenya. There is no process for adapting these standards, or developing new ones. **Enacting enabling legislation for technical regulation and for standards would therefore be a priority. In particular, it would be opportune to establish proper processes around standards development. A process of risk analysis and the analysis of the net benefits of proposed measures is required. Finally, it is**

necessary to establish the processes for enacting regulation and disseminating knowledge of standards that are adopted among producers and consumers.

There are no processes currently for mutual recognition or conformity assessment, which in turn creates obstacles for imports and also means that there is no way of demonstrating that potential export products (e.g. gum arabic, fish) meet requirements in foreign markets. Risk analysis is not conducted, requiring in principle physical inspection of all goods transiting through borders. This further hinders the facilitation of trade, which is exacerbated by the lack of integration between standards inspection and customs services at the border.

In terms of harmonisation, one potential upside from the current capacity shortfall is that it has forced South Sudan to look to trading partners for standards. This could reduce the costs otherwise associated with divergent standards. In the longer term, harmonisation will be facilitated by the participation of South Sudanese standards authorities in international standards-setting bodies.

An important priority in the context of efforts to secure further regional integration would be to consider how regional standards may be adapted and adopted in South Sudan. For example, the East African Catalogue of Standards contains the list of current standards prevailing across the EAC. This could be a useful starting point for South Sudan.

INSTITUTIONAL CAPACITY DEVELOPMENT

Until independence in 2011, GRSS was not directly responsible for international trade. So, unsurprisingly, trade-related capacities remain at a nascent stage. Overall capacity development should begin with a functional review of the trade functions of the MTII aimed at establishing job descriptions and an efficient institutional structure aimed at the priority trade-related activities. Priority activities include the development of productive capacity and diversification away from petroleum and minerals as well as the negotiation of regional agreements. A large number of staff requires assistance in fulfilling their job functions and the institutional structure is not designed with the key trade priorities in mind. Skills need to be improved at all levels of the Ministry. Immediate priorities are basic ICT and English-language capacities. The provision of office and ICT equipment should accompany ICT skills training. Leadership and management skills also need to improve, although delegation of tasks cannot occur without leaders first having the confidence that junior staff members are fully capable of doing their jobs. This said, high-level support for trade needs to be built, possibly via the President's Office, in order to reduce delays and the blockage of legislation and decisions at Cabinet.

Research and policy development is a critical priority, which is why it would be appropriate to support the UNDP project proposal for a policy analysis unit in the MTII as well as a think tank at the university. In support of this function, statistics and data need to improve. If South Sudan is to join trade agreements or the WTO it must do so on logical grounds using a rational assessment of costs and benefits based on good data.

Although it is only a distant long-term possibility at this stage, establishing a new statutory trade body or economic development board would bypass official bureaucratic processes, strengthening analysis and implementing trade policy, linking trade and investment, incentivising skilled staff and enabling them to collaborate. The establishment of a development board would be a significant challenge which would require considerable support at the top political level. Such a development board, a well-organised and dynamic institution with the authority to pursue the full range of trade objectives, may be the best mechanism for diversifying and expanding trade and ensuring that it contributes to human development.

Parallel complementary institutional options to the development board are (i) a think tank or a network of think tanks, and (ii) using and developing the capacity of private organizations to deliver certain public services. This model relies on a public-private partnership (PPP) to work towards ensuring that public sector objectives are met through specific country agreements. Most classical examples include the outsourcing of licensing processes (e.g. rules of origin) to the chambers of commerce.

Support by the EIF for the establishment of a national implementation unit at the MTII will provide critical capacity to the ministry to launch the proposed institutional strengthening measures highlighted in this report.

BUSINESS ENVIRONMENT AND CROSS-CUTTING ISSUES

Governance

The South Sudan Business Forum (SSBF), in partnership with MTII, has developed a draft Private Sector Strategy which sets out South Sudan's vision of becoming a diversified, competitive and prosperous economy.[4] The draft strategy, which is currently under review, is composed of four pillars:

- Pillar 1: Investment climate reform programme.
- Pillar 2: Micro, small and medium enterprise (MSME) development programme.
- Pillar 3: Access to finance programme.
- Pillar 4: Physical markets and institutional building programme.

Examples of key provisions in the strategy include licensing reform, tax reform, strengthening standards compliance, infrastructure development, local enterprise development, private-public partnerships (PPPs) for the delivery of public services, the establishment of a competition authority to address uncompetitive business practices that undermine private enterprise and dispute resolution mechanisms. While the strategy promotes an ambitious agenda, the private sector continues to face a number of serious challenges that inhibit growth, trade and investment as discussed below.

Legal and regulatory framework. A major weakness of the legal system is the lack of effective courts and enforcement mechanisms to apply laws in a transparent, predictable and consistent manner. This legal vacuum creates uncertainty for the business community. A weak judicial system increases the cost of doing business as businesses are forced into taking costly measures to protect themselves against loss or foregoing lucrative opportunities altogether.

As an interim measure, the government plans to introduce an alternative dispute resolution (ADR) mechanism that addresses current deficiencies in the formal court system. ADR will allow commercial disputes involving business owners and investors to be resolved efficiently and quickly by mediation, while also increasing the security and confidence of local and international firms.

In terms of ongoing legal reforms, the government has developed a simplified and automated business registry in Juba which takes four procedures, one day, and SSP 1,195 (US$300)**. Similar**

[4] For more details, see "Draft Private Sector Strategy", Ministry of Commerce, Industry and Investment, June 2013.

registries will follow in the states of Wau, Malakal and Bentiu. To promote private sector development the government has also launched an initiative to increase transparency and improve the licensing system. This initiative includes simplifying and reducing the number of licenses, fees, levies and taxes as well as establishing a framework for licensing management.

*Land tenure***.** South Sudan's land tenure is governed by the Land Act (2009), the Local Government Act (2009) and the Investment Promotion Act (2009). Land is classified into three categories: private, community and public land. In South Sudan land tenure is considered insecure. As a remedy, the government has established the South Sudan Land Commission whose functions include managing land distribution and ownership as well as arbitrating land disputes. However, despite various legal instruments, access to land remains a highly contentious issue. **To address uncertainty, the GRSS needs to urgently establish a computerised land registry or cadastre to maintain and update records of all surveyed and un-surveyed land, including title deeds and transfers.**

Business environment

The business environment is characterized by a weak regulatory system; uncertainty and overlapping mandates at different government levels; a non-competitive tax regime; sales and excise taxes applied cumulatively between central government and states; the high cost of trading across borders and delays due to non-tariff barriers; low connectivity and high operating costs due to inadequate infrastructure; and weak human and institutional capacities.

The ranking of South Sudan in Doing Business 2014 is 183 out of 189. The main problem areas are resolving insolvency and closing a business (189), trading across borders (187), getting electricity (184), protecting investors (182) and starting a business (140).

The investment climate remains challenging, despite the improvement in relations with Sudan, in large part as a result of continued internal conflict, notably in Jonglei, Upper Nile and Unity States. Other weaknesses mentioned by investors include the limited availability of convertible currency, lack of dispute settlement mechanisms, inadequate protection of property rights and non-transparent and unstable regulatory and taxation systems. The concept and practice of private arbitration is still in its infancy although South Sudan became a member of the ICSID in April 2012.

Cost and quality of production factors

Labour. **About 90% of workers are without any qualification and less than 2% have post-secondary education.** In addition to decades of war and isolation, the common practice of child labour interferes with school attendance and affects school performance. As a result, 94% of young people enter the labour force with less than primary education, with only 40% of girls in primary education. For these reasons, South Sudan has an acute shortage of both skilled and semi-skilled workers. The majority of the workforce is employed in non-wage work (84%). In comparison to the rest of the EAC region, the average cost of labour in South Sudan, at SSP 2,340 per month for a young person entering the job market, is relatively high.[5] Similarly, daily labour costs in rural areas are also much higher in South Sudan at $7.50 per day compared to Uganda ($1.00) and Tanzania ($2.31).[6]

There are many labour-related challenges that need to be resolved. For foreign investors, hiring local labour to satisfy local content rule requirements is difficult because of the serious shortage of

[5] Draft Private Sector Strategy, June 2013.
[6] World Bank, Trade Strategy Report, June 2014, page 9.

qualified local workers. Nevertheless, expatriate workers are routinely issued work permits of one to three months instead of the standard 12 months. The higher frequency of permit renewals significantly raises the workload of the Ministry, which already faces serious capacity concerns and increases the cost of doing business for investors. **Investors should be allowed to fill key posts with expatriate workers to carry out their operations, at least in the short to medium-term, until suitable local replacements can be found. Labour shortages will continue to act as a constraint on SME growth in the foreseeable future.**

South Sudan has eight universities, with Juba University being the largest and most important. However, Juba University has not enrolled new students in the past two years, and three of the eight universities are not functional and currently have no vice chancellors in place, including the University of Northern Bahar El Ghazal, the University of Western Equatoria (in Yambio) and the University of Torit.

Human resource development planning will need to use a mix of education, on the job training and mentoring to develop the skills in demand in the labour market. **At the same time, the GRSS needs to engage the diaspora and try to attract those with skills to return to the country. As a start, the government needs to create a database of the qualifications of individuals in the diaspora to serve as a pool for potential recruits,** similar to an exercise that was carried out by the International Organization for Migration in the health sector.

*Finance and credit***.** Access to credit is another impediment to SME growth and trade. Only 1% of households have a bank account. Businesses are not able to access credit because of strict collateral-based lending criteria, high interest rates (18% - 23%), and the shortage of financial services, especially outside the main urban centres like Juba and Malakal. **Another area that needs technical support is in developing an efficient automated inter-bank payment, clearing and settlement system. A non-bank payment system, such as M-Pesa, which successfully functions in East Africa, could be very useful, including through the competitive pressure it would impose on banks, which now charge punitive costs.**

*Electricity***.** About 1% of the population has access to electricity, mostly generated off-grid by private emergency diesel-fuelled generators to run businesses and households. In comparison, 10% of the population in East Africa has access to electricity. The tariff for electricity in South Sudan is one of the highest in Africa.

Information and communications technology (ICT). South Sudan has four mobile phone service operators licensed by the National Telecommunication Corporation. Increased competition in the ICT industry has resulted in a decrease in prices for subscribers. However, in Juba and other large towns, **ICT penetration is still below regional standards, while services in the rural areas are patchy to non-existent.** There are 0.11 fixed line subscribers per 100 people (East Africa 0.24), 12 mobile phone subscribers per 100 people (East Africa 21) and an unknown number of internet users per 100 people (East Africa 5).

It is expected that when South Sudan connects its ICT backbone to Indian Ocean submarine cables, the cost of phone calls and internet will fall by half, making the country a more competitive business and investment destination.

In the interest of equity and national development, ICT operators should be required in new franchise agreements to provide universal service to under-served, mainly rural communities. As improvements are made in ICT infrastructure, the government could promote automation in government services such as business and investor registration, customs management, tax filing, e-commerce and mobile banking to improve service delivery in the public and private sectors.

Investment climate

South Sudan is potentially a highly attractive investment destination, particularly for new greenfield investments in the energy, natural resource and infrastructure sectors. Indeed, the well-attended international investment conference hosted in Juba in early December 2013, held great promise. Such potential is however diminished by ongoing internal conflict.

South Sudan's investment climate is governed by the Investment Act of 2009 and the Investment Promotion Regulations of 2012. Together, these two pieces of legislation set out the framework under which investments are regulated, including the procedures for registration and application for work and residence permits, entry visas and incentives. The law defines an investor as a domestic or foreign company with a minimum capital investment of US$100,000.

The One Stop Shop Investment Centre (OSSIC), a single point of contact representing key government ministries and agencies under one roof, processes applications and issues Investment Certificates to approved investors. The Investment Certificate in turn, entitles investors to a number of incentives and benefits.

All sectors of the economy are open to foreign and local investors except for a number of low-skilled activities which are reserved for nationals.

Investment flows. Data from UNCTAD on greenfield foreign direct investment (FDI) indicate that FDI to South Sudan in 2013 was US$180 million, down from US$382 million in 2013 and US$235 million in 2011. Based on information obtained from OSSIC, there were 102 registered investors in the pipeline, mainly from Egypt, Ethiopia, France, India, South Africa, Sudan, Tanzania, Uganda, the United Kingdom and the United States.

There are a number of policy and process-related actions that the government could take to improve the investment climate in South Sudan. In terms of process, the GRSS should ensure that OSSIC is given the authority to obtain the necessary approvals and permits within a reasonable timeframe. Also, there should be continual feedback with a view to removing bottlenecks and streamlining the investment approval process, especially at the level of the technical ministries and the ministries of immigration and interior.

From a policy perspective, the government needs to clarify the roles of national, state and local governments and address overlapping responsibilities and mandates with respect to taxation, land tenure, access to utility services and dispute settlement. A more business-friendly investment climate could also include providing modern facilities such as special economic zones (SEZ) to attract investors. Another policy objective should be to promote clustering of related industries and subcontracting between local SMEs and large firms, development of the non-oil sectors and balanced growth in terms of geographical coverage and meeting of local needs.

Special economic zones (SEZ) and investment

The Juba SEZ is currently under construction. It aims to attract domestic and foreign investment to the state, mainly large businesses while promoting linkages to SMEs. For the investor, government participation removes the risk and cost associated with access to land and infrastructure. SEZs could help the government achieve its objective of diversifying the country's economic base by promoting economic activities in the non-oil sector as long as fiscal costs are kept in check and the required infrastructure is developed to ensure the attractiveness of the zones to investors. The Juba SEZ, the first of its kind in the country, will occupy 625 sq. km of land outside Juba in Central Equatoria State. The SEZ will be a twenty-four hour multi-sector, multi-product standalone industrial zone and residential township.

Public private partnerships

Financing big-ticket infrastructure and utility projects is a costly undertaking. PPPs allow governments to share the cost and risk of funding large projects. For South Sudan, one option for funding its section of the Northern Corridor linking it to the East African coast could be through the Intergovernmental Authority on Development (IGAD), the EAC or on a bilateral basis in collaboration with developers, investors and other funding partners. In recent decades, governments around the world have been outsourcing functions traditionally carried out by public agencies to the private sector as a means to achieve cost savings and greater efficiency in the delivery of a broad range of services. PPPs are long-term arrangements that are typically implemented through PPP units within cross-sectoral government agencies like the ministry of finance or planning.

Key in establishing a solid foundation for PPPs to facilitate investment in infrastructure and delivery of other public services will be to set up a PPP unit within the government to negotiate and manage contracts with private sector partners (MFEP already has a PPP unit). In South Sudan, a number of defunct state-owned enterprises, notably in the sugar, agro-processing, textile and cement industries, are to be revived as PPPs. PPP units perform a number of core functions such as providing information and guidance, advisory support, funding and approval of PPP contracts.

SECTORAL STUDIES

South Sudan's DTIS comprises four sectoral studies: agriculture, mining, tourism and energy. The first three sectors were selected for their potential to develop the non-oil sector, diversify the economy, create jobs and revenues for the poor and integrate the national economy into the wider regional economy. To realize that potential, South Sudan must increase its competitiveness. As we will see in the chapter on agriculture, this requires a set of measures, from improvements in the regulatory and policy framework, financing infrastructure, reduction of the costs of trading across borders to strengthening human capital. Without reform, the agricultural sector will remain uncompetitive and continue to underperform.

The energy sector was also reviewed in the DTIS as there is for the first time, an interesting movement to invest in downstream activities of the oil sector. The result can be the substitution of imported refined products by locally produced derivatives as well as exporting the surplus of these products to the neighbouring countries. However, as indicated in the chapter on energy, considerable work is needed to develop the legal framework, set up a quality control mechanism and conduct a feasibility study on the regional market for petroleum derivatives and related transport and logistics arrangements.

REVITALIZING AGRICULTURE

The broad agricultural sector (including forestry, livestock and fisheries) contributes 15% of South Sudan's GDP (World Bank 2013). In comparison, it accounts for 30% of GDP in Uganda. Agriculture is a way of life for more than 80% of the population. Yet, the sector is underdeveloped and lacks competitiveness relative to other countries in the region such as Kenya or Uganda.

Agriculture. Notwithstanding an abundant availability of land, the agricultural area currently under cultivation is estimated at 3.8% (Norwegian People's Aid, 2011). Crop production is mostly conducted on small, hand-cultivated plots. Almost all agricultural production is rain fed. Sorghum is the dominant cereal covering an estimated 69% of cultivated land followed by maize with 27%. Finger millet and rice make up the remaining 4%. Sorghum is the main staple food in all the ten states except for the three Equatorias where the local diet includes also maize and cassava. In the northern states, groundnuts make an important contribution to household income and sustenance.

During the last few years, South Sudan has continuously experienced chronic food shortages which are aggravating poverty, hunger and malnutrition. Out of 10 states, only one, Western Equatoria, is self-sufficient. All the others states are net food importers, with imports covering about 50% of the national food requirement**. A large part of food imports is informal and originates from Uganda and other neighbouring countries. The cost of formal food imports is around US$200-300 million per year.**

There is an urgent need to rehabilitate and invigorate agricultural production of staple foods in South Sudan in order to overcome chronic food shortage, increase household incomes, create jobs and improve the contribution of agriculture to the national economy. **The DTIS mission has identified agricultural value chains which should be given priority for the next 36 months to invigorate agricultural capacity** and rehabilitate all the active and passive actors along the identified value chains. The value chains are as follows:

- Maize and cassava value chains in the states covered by the greenbelt region.
- Sorghum and groundnuts in the states covered by the rest of the agro-ecological zones.
- Livestock value chains in the states which are endowed with large heads of cattle, namely Jonglei, Lakes, Warrap, Northern Bar El Ghazal and Unity.
- Gum arabic in the northern states.

The overall weaknesses of the value chains in agriculture could constitute opportunities for business to bridge the gaps and add value, contributing to employment generation and revenues for all actors. This approach is illustrated in other African countries where agribusiness SMEs have an active role. One of the mechanisms employed to nurture SMEs and agribusiness start-ups is agribusiness incubation which catalyses the process of starting and growing companies, by providing existing or start-up SMEs with expertise, networks, seed funding and the tools they need to make their ventures successful.

Forestry. Natural forests and woodland in South Sudan are estimated to cover approximately 29% of the total land area. South Sudan's forests are endowed with rich and diverse concentrations of biodiversity, including valuable species for timber exploitation. There is considerable space for expansion of forest plantations of both indigenous and exotic species. Plantation forests of teak and non-timber forest products also exist. At present there is no reliable data on timber exports.

Livestock. South Sudan is well endowed with livestock resources: 11.7 million cows, 12 million goats and 12 million sheep. Low productivity characterises a sector that is affected by recurrent droughts, insecurity and a heavy disease burden. In addition, deficient infrastructure – i.e. slaughterhouses and boreholes – and the cultural mindset of pastoralists are other factors that limit the livestock sector's productivity. **Prior to independence, there was a tradition of trading livestock in Khartoum and in the main towns of Sudan. There was also some trade with Uganda. Today, there is informal cross-border trade with Sudan but figures are not available.**

Fisheries. There is significant fisheries potential of 150 to 300,000 tons of fish per year. The MAFLF estimates that only 40,000 tons of fish are harvested, mainly due to poor infrastructure and insecurity.

ENERGY

South Sudan's crude oil production in 2011 placed the country as the fourth largest producer in Africa. Current producing fields are matured fields that reached their peak production in 2009. **The current decline in crude oil output could be reversed by (i) increasing the recovery from producing fields, given that the average recovery rate is presently estimated at approximately 22%, far below international standards; and (ii) promoting the development of unexplored basins.**

The upstream oil and gas sectors

Ensuring transparent petroleum revenues management. With the Petroleum Revenues Management Bill – which is not yet operational – South Sudan has taken a major step in laying the foundations for transparency and accountability by establishing strong reporting standards. The enactment process will be operational as soon as the 10 states endorse the proposed version elaborated by Parliament. It was difficult for the DTIS mission to obtain updated disaggregated data.

Monitoring the compliance of oil companies with their regulatory obligations. **South Sudan must ensure that oil consortiums comply with their contractual obligations and perform regular auditing of the petroleum costs in order to safeguard the country's share of its oil revenue.** Certainly, the higher the cost recovered by the oil companies, the lower the entitlement of the States. The MPM recognizes its lack of capacity to perform the functions of financial monitoring and auditing of petroleum activities. Similarly, both the MPM and the ME recognize that they lack resources to implement an effective technical supervision programme.

Development of local businesses. **Oil and gas activities have the potential to provide numerous opportunities to South Sudanese businesses and create jobs in various fields**. The draft EPSA requires oil companies to give priority to South Sudanese subcontractors as long as the qualifications, quality of service and goods are comparable to international standards.

The downstream oil sector

Downstream activities of the oil sector include the production of local substitutes of imported refined products for domestic and regional markets. However, considerable work is needed to develop the legal framework, set up a quality control mechanism and conduct a feasibility study on the market for petroleum derivatives and associated transport and logistics arrangements.

Alternatives to the Sudan's pipeline. A pipeline to Port Lamu is currently designed to be 1,260 kilometres long and sized 48 inches, with a maximum capacity of 500,000 bpd of light crude oil. The cost of the Lamu pipeline taken as a standalone project is estimated at US$3 billion. **However, the**

project (from initiation to completion) would be a lengthy process given the need for preparing and approving social and environmental impact assessments, completing the feasibility study, defining the pipeline's commercial viability, identifying project financing and obtaining the necessary approvals and permits in South Sudan and in transiting countries; and initiating the procurement phase and selecting the main contractor. The pipeline project could take 3 to 5 years to complete.

Strengthening the supply of petroleum derivatives

Current demand for heavy fuel oil, diesel and gasoline is estimated at around 30 million litres per month, diesel constituting the principal source of energy. With the development of infrastructure, the importance of the downstream sector will increase. Demand for diesel and gasoline will continue to grow, especially in the electricity and the transport sectors. Today, LPG's usage is insignificant, accounting for less than 1% as a source of energy for cooking.

The construction of two topping plants is in the pipeline, with a total capacity of 10,000 bpd to respond to the growing domestic demand for diesel. Both refineries will only produce diesel and heavy oil, noting that heavy oil is not currently used in South Sudan. The surplus production is planned for export to Uganda and Ethiopia. It is unclear if the MPM has assessed the market demand and the much-needed transport infrastructure to export its heavy oil to these countries.

Although the assembly of the topping plants is relatively simple, the GRSS must address the following challenges to ensure seamless performance of the downstream sector: (i) drafting and enacting a law and regulations that govern the sector; (ii) setting effective control mechanisms; (iii) redefining the economics of the refineries as they relate to the supply of crude oil; (iv) assessing the transportation and storage requirements and outlining actions to facilitate an uninterrupted supply across the country; (v) defining the pricing structure of petroleum derivatives; and (vi) evaluating the export markets to neighbouring countries and outlining actions to be taken.

The GRSS is considering the construction of three additional refineries. In contrast to the first topping plants that will only produce diesel and heavy oil, the proposed refineries will produce a more complete range of petroleum derivatives such as petrol, Jet A1 and LPG. It is not clear, however, that South Sudan needs five refineries.

Formulating standards for petroleum by-products and establishing quality control laboratories. **It is important for the GRSS to formulate national standards for petroleum derivatives as well as to define inspection mechanisms by relevant stakeholders** (MPM, Nilepet, ME and SSNBS).

Monetization of natural gas

Small scale electricity generation, an alternative to gas flaring. The natural gas industry in South Sudan is not currently developed and would require significant investment in order to reach its full potential. Natural gas potential lies in electricity generation and in liquefied natural gas or LNG. **As energy demand continues to increase in South Sudan, the monetization of natural gas resources will be an important element in the development of the electricity sector. Monetisation of natural gas could reduce the cost of electricity compared to that of using thermal power as an energy source. Reducing the cost of electricity can trigger the development of small businesses and industries.**

Electricity

South Sudan has an installed electricity generation capacity of 25 MW in three decentralized generation networks (Juba, Malakal and Wau), which translates into approximately three MW per million people or around 1% electrification rate. The rapidly rising energy demand in South Sudan creates an urgent need for improvements in the country's energy policy, electricity generation performance and reliability. The GRSS's public policy goals related to the electricity sector can be summarized as follows:

- Increasing the number of customers connected to the grid from 22,000 to 48,000 by 2013.
- Increasing the thermal generation capacity from 25 MW to 96 MW by 2013.
- Initiating mini and large hydropower projects and increasing the total generation capacity to 4,000 MW by 2017.
- Interconnecting to neighbouring country power networks and integrating into the Eastern Africa Power Pool.

In 2011, the electricity generation cost averaged US$0.70 per kWh and the tariff averaged US$0.25 per kWh, one of the highest costs of electricity in Africa. The GRSS subsidized the resulting operational losses of US$ 0.54/kWh, which amounted to 4% of the 2011 GRSS budget. As energy demand increases and systemic inefficiencies persist, **the burden on the GRSS budget will considerably increase. Technical losses average 40% of generated power and commercial losses (i.e. revenue losses) average 50% of revenues. The reliance on expensive imported diesel from Kenya translates into a high production cost per kilowatt-hour.**

Expansion of the electricity infrastructure. South Sudan has abundant resources that have the potential to generate electricity:

- *Hydropower generation*. The hydropower potential in South Sudan, although it has not been completely assessed, is significant and the GRSS has plans to capitalize on its hydropower resources. Four large-scale hydropower projects are in the pipeline for a total generation capacity of 2,105 MW.
- *Gas fired electricity generation.* Appraisal of natural gas resources may lead to justifying small-scale electricity generation projects, and could result in a significant decrease in the cost of electricity.
- *Thermal generation.* The construction of refineries in South Sudan opens the potential to increase thermal generation capacity in the country.
- *Solar Generation.* Solar energy has excellent prospects in South Sudan as the country records sufficient sunshine hours to justify small to medium-scale solar power projects.

THE MINING SECTOR

The Government of South Sudan has identified the development of the mining sector as a priority in its efforts to diversify the economy away from the present dependence on oil.

Since 2005, some 30 companies have showed interest in exploring for minerals in South Sudan. None of these companies is large or otherwise well-established by international standards. Further, real exploration activities are so far limited to a very small number of companies, that are - or have recently - undertaken exploration activities. Gold is attracting most of the interest, but there has also been some interest in uranium, manganese/iron and copper. **The potential for mine development is, however, favourable, as the geology of South Sudan is similar to that of the neighbouring countries where several important mines are found.** A large mining sector in South Sudan will only develop in the long term. There are proven marble deposits near Kapoeta. An advantage related to the industrial minerals sector is that the time it takes from discovery of a deposit (say a lime stone quarry) to the time when a local operation (e.g. a cement plant) may be established is usually considerably shorter than that for a metal mine.

For the time being, there is a sizeable artisanal and small mining (ASM) sector for gold, although its exact size and characteristics remain poorly understood. ASM activities are often seen as a possible vehicle for industrial development, and may be an important source of livelihood for what are usually rural communities who have limited alternative economic opportunities. Several tens of thousands miners are thought to be involved in gold digging in South Sudan. ASM gold mining may even be a significant economic sector but its size and contribution to national income is not documented.

Mining regulations are being developed at present. A rather sophisticated and complex system, both for charging for the use of land for exploration and mining purposes and for charging royalties, and for apportioning the proceeds of these royalties between stakeholders is proposed: (i) for central government controlled minerals, 3% of the royalties are allocated to the local community, and 2% to the State government where the mine is found; (ii) for mines where state natural resources are exploited, the central government receives 2% of the total royalties, whereas the local community receives 3%. **The draft mining regulations should be reviewed keeping in mind the particular situation of South Sudan where there is no active mine, at least in the formal sector. The priority for the government is to put South Sudan on the map as a mining country.**

The proposal of linking royalties to profit is interesting for mining companies as the royalty levels increase with profitability. This is the system used in South Africa, a country where the geology is well known and the risks are low. Such a system is relatively complex as it requires extensive auditing and supervision capacity on the part of the authorities and disclosure and transparency on the part of the companies, to ensure that the royalty regime is implemented properly. **An alternative is the revenue based system which is the most common system used in African countries.** The advantage of such a system is that it is simpler, easy to implement and allows benchmarking against the countries of the region. **The DTIS recommends that South Sudan adopts the revenue-based system.**

The proposed rates for applying and holding ground for exploration and mining are high compared to neighbouring countries. There may be good reasons for avoiding lower rates than other countries but it is recommended that the suggested rates are considered carefully, with the aim to arrive at a regime which is clear and easily managed, as well as competitive in that it will attract new investments.

TOWARDS INCLUSIVE TOURISM

The Republic of South Sudan hosts an interesting natural and cultural resource base of diverse character. The resource base for tourism includes a wide variety of wildlife, small and large, of which some migrate annually along the flood plains of the Sudd creating a rival event to the great wildebeest migration in the Serengeti and therefore a globally significant attraction.

South Sudan is currently going through the normal tourism development phases of an emerging market. Individual entrepreneurs and a few corporate (East African) enterprises have created new establishments. The capital and air access gateway, Juba, is accessible in only 1 to 2 hours from the east African hubs of Nairobi and Addis Ababa making it a middle distance country from the large European source market. The large tourism market in Kenya offers also a potential source of visitors for safari, if security improves. This potential is under-utilised. The image of South Sudan as a tourism destination is still troublesome in the market by security issues heightened since December 2013. The Boma-Jonglei area is particularly sensitive and yet it is the region with the most important assets for tourism development.

The regulatory framework is weak due to the split between three ministries i) natural resource management (parks & wildlife), ii) cultural resources and iii) the Tourism Development Directorate (TDD) located in the MAFLF. **The establishment of a new parastatal agency, the Tourism Development Authority (TDA) as proposed by the Government will be instrumental in the implementation of the policy guidelines provided by the Tourism Policy (draft prepared in 2012) which envisage a more pro-active approach to tourism development**. **The sector could benefit from strengthening the linkages between national government, states and community involvement.**

To benefit from its unique attractions, the Protected Area (PA) system needs to be enhanced. Establishing concessions for commercial tourism operations combined with an entry fee system is necessary to entice private sector investment and provide benefits for the communities living in direct vicinity of the parks. It is proposed to constitute concession rights with legal community organizations so these can lease these concessions to experienced tourism operators. This will enable the creation of 'special tourism zones' where entry fees are paid to the protected area authority and bed night levies are an income source divided between the tourism authority, state government and community groups. These operating modalities will benefit semi-skilled residents through employment creation.

POVERTY REDUCTION STRATEGIES

Poverty and vulnerability in South Sudan are widespread with the majority of the population lacking access to basic social services. The GRSS is considering a variety of social and human development measures and programmes to reduce poverty, including for the most at risk populations (MARPs). While many of these programmes have not started for various reasons there is still a strong justification for continued government commitment to fund these MDG-related programmes to reduce poverty.

In parallel, a poverty reduction strategy based on enterprise development and trade could also have a considerable impact on poverty reduction. It should comprise three elements: developing cooperatives and producer associations, capacity building to support enterprise development and forging business linkages between SMEs and larger firms.

Organizing many of the formal and informal SMEs in the form of cooperatives and associations, especially in the agricultural sector, offers several benefits. It is an efficient way to reach micro and small enterprises, including marginalised groups like women and youths; connect enterprises to markets and opportunities; and leverage collective bargaining strength to take advantage of economies of scale. While cooperatives and associations are not new to the country, their potential has not been fully realised.

In South Sudan there is a lack of entrepreneurial skills. **Therefore, a host of interventions are necessary to support private enterprise development, such as (i) development of vocational and technical training; (ii) improvement of SMEs and cooperatives' eligibility for commercial bank and microfinance loans through guarantee funds, movable assets and warehouse receipts as collateral; (iii) fostering mobile payment systems and mobile banking; (iv) support of incubators; and (v)**

preparation of selected SMEs and cooperatives for integration in supply chains linked to national and regional markets.

Trade facilitation should be responsive to the needs of women traders who are important actors in cross-border trade but are in the informal sector. **Simplifying import-export documents, harmonising customs documentation and customs procedures with EAC trading partners, instituting single window clearance to reduce red tape, phasing out mandatory use of brokers and routinely involving women's associations in capacity building activities are required. For all categories of business size in South Sudan, both formal and informal, improving compliance with regional standards will reduce rejection rates at ports of entry and expand access to markets for finished and semi-finished products as well as commodities.**

Additionally, as internal tensions subside and borders are reopened, particularly the northern border with Sudan, support to trade and the private sector should be prioritised. The focus should be on reviving and/or strengthening existing export supply chains, as well as exploring opportunities for linkages, including diversification and value addition of gum arabic, livestock and other key commodities.

Opportunities in the priority sectors

Agriculture. The agricultural sector is the largest source of income and employment (85% of the workforce). Fostering employment in this sector can potentially have significant multiplier effects not only on household incomes but also on the wider economy.

Besides the local market, there are opportunities in regional markets like Sudan and Uganda as well as international markets. While the sector has great potential, it is currently underdeveloped. This is evidenced by the lack of competitiveness in terms of the high cost of labour, inputs and transportation. As such, South Sudanese agricultural products cannot compete in domestic or regional markets with goods imported from other countries such as Kenya or Uganda.

The GRSS should promote the development of value chains in the maize, sorghum, groundnuts, gum arabic and livestock sectors, focusing on upgrading production, processing and distribution by providing to farmers and producers the necessary inputs and advisory services, infrastructure for storage and transportation as well as financing and marketing facilities. Employment creation could be stimulated by public procurement to supply public schools, hospitals, prisons and the army. Furthermore, linkages could be developed between producers and private companies like hotels and tourist-related activities as well as outgrower and contract farming schemes where large companies provide inputs and buy products from farmers or cooperatives at agreed prices.

Tourism. Peace and security are prerequisites for the development of the tourism sector. Once the enabling conditions are in place, the tourism sector can provide job opportunities through tour operators, food and lodging facilities, eco-tourism companies and, more generally, create linkages with local suppliers, e.g. handicrafts and other creative products.

Energy. This sector is typically capital-intensive and upstream activities tend to provide few employment opportunities and development linkages. However, there are a number of potential upstream and downstream opportunities open to participation by SMEs.

For domestic SMEs to access these opportunities, however, the government and energy companies need to make available to the public information about plans and activities in the sector. **Transparent procurement procedures are needed ensuring that energy companies supply**

commercial information like tenders and requests for proposals to local businesses, chambers of commerce and cooperatives. Other measures include support for universities and technical and vocational schools to provide appropriate training to build the capacity of national firms to work to international standards.

Mining. South Sudan has a fairly sizable ASM community involved in gold and minor gem mining. Anecdotal information suggests that there are up to about 60,000 people involved in the ASM sector. One way to rationalise the ASM sector and improve scale economies is to organise miners into cooperatives and formalise their operations to support rural livelihoods and local entrepreneurship. Group formation would facilitate access to credit and services and the development of linkages to larger companies with networks of suppliers and buyers. ASM associations and cooperatives could also be encouraged to diversify into related activities.

SOUTH SUDAN - ACTION MATRIX

Objective	Recommended Actions	Priority and implementation period	Entities concerned	Type of intervention	Estimated costs (US$)*
CROSS-CUTTING CONSTRAINTS TO TRADE AND INVESTMENT					
BUSINESS ENVIRONMENT *(Integrate the following priority actions into the Draft Private Sector Development Strategy to facilitate implementation)*					
Reduce the cost of doing business	• Set up a working group to review the poor ratings in Doing Business 2014, identify causes and prepare a comprehensive work plan to implement policy reforms • Organise a working visit to a few countries which have successfully implemented policy reforms	**High** **Year 1- 3**	MTII, MFEP, customs, SSNEA, MJ, SSNBS, MTRB, MTPS, SSBU, SSCCIA, SSBF, faculties of economics in South Sudan World Bank, IFC	TA Expert advice	Over $1 million
	• Progressively establish an automated land registry to address insecurity of land rights	**High** **Year 1-3**	MTII, SSLC (Land commission) MJ, SSBF	Expert advice and IT support	
	• Progressively introduce automation in government services such as business registration, customs management and tax filing, as ICT infrastructure is developed	**Very High** **Year 1-3**	MTII, SSCIA, SSBF, Customs, TradeMark	TA, PPP, IT support	$700,000 (feasibility studies)
	• Promote mobile banking to improve service delivery in the public and private sector	**High** **Year 2-3**	Banking industry, BSS SSBF	TA, PPP, IT support	
	• Discontinue mandatory SSCCIA membership for newly registered companies	**High** **Year 1**	MTII SSBF		

<u>Note</u>: *Cost estimates provide an approximation based on the DTIS' mission technical knowledge and experience with similar interventions or programmes in other countries. These figures are only indicative. More accurate estimates would be required in the programme formulation phase of prioritized interventions.

Enhance transparency and reduce the tax burden on enterprises	• Clarify the roles of national, state and local governments (overlapping responsibilities with respect to taxation, land tenure, dispute settlement) • Consolidate tax administration and introduce one tax filing form • Reform basis of imposing excise and sales taxes to make them non-cumulative and non-discriminatory	**High** **Year 1-3**	MTII, MFEP, MJ, MEST, States	TA	$500,OOO
Promote investment and facilitate enterprise processes	• Expedite development of policy and strategy supporting micro, small and medium enterprises • Apply the standard 12 months' work permit for expatriates as per the terms of the Investment Certificate instead of issuing one or three months' work permits as per current practice. • Open Business Registry branches in under-served States. • Promote lending to SMEs by commercial banks including through training of banks' loan officers on the needs of SMEs, introducing tools to evaluate SME creditworthiness and opening dedicated bureaus for SMEs in banks • Define scope and arrangements for Special Economic Zones • Promote PPP to attract investment in infrastructure projects, including in ICT	**Very High** **Year 1-3**	MTII, MFEP, MLPSHRD, SSCCIA Chamber of commerce Private sector associations PPP and SEZ MTII, SSIA	TA	$100,000 (update regulations) $2 million (Business Registry branches) $500,000 (access to finance)
Promote enterprise development	• Support development of SME clusters • Encourage SMEs to enhance their technical and managerial competencies • Support subcontracting arrangements between SMEs and transnational companies (linkages or value chain development)	**Very High** **Year 1-3**	MTII, SSIA, BSS, SSBS, SSCIA, associations	TA	$5 million

	• Set up incubators, guarantee funds and business and technical support services • Improve standards compliance				
TRADE FACILITATION AND CUSTOMS *(Integrate the following priority actions into ongoing and pipeline activities to facilitate implementation)*					
Support implementation of the new Customs Act (2014)	• Launch a media campaign targeted at economic operators • Train border agencies in integrated border management (customs, trade, police, SSNBS, customs agents working as a team) • Introduce non-intrusive inspections and risk management procedures • Acquire scanners and related equipment • Nominate authorized economic operators • Introduce measures to improve compliance of informal cross-border traders with customs formalities • Introduce reforms promoting electronic data interchange • Initiate annual collection and publication of accurate trade statistics	**Very High** **Year 1-2?**	MTII, MTEF, SSNBS MJ, SSCIA TradeMark	TA & investment	
Transform customs into a modern and efficient instrument for development	• Gazette existing tariff schedule • Eliminate "nuisance tariffs" • Remove requirement for import licences not based on clear public policy objectives (e.g. health, safety, etc.). • Limit scope of exemptions to that set out in the Investment Act • Implement automation for data management • Assess possibilities of electronic payments • Establish a one stop border post at the Nadapal-Lokichogio border with Kenya	**Very High** **Year 1-3**	Customs, MFEP, MMTRB, MTII, SSIA, TradeMark East Africa IFC IMF (advises on the Large Taxpayers Unit (LTU) and strengthening customs	TA	$300,000 (TA tariff regime reform)
Reduce transport costs	• Undertake a study to quantify disaggregated transport costs between sea ports to the South Sudan border and the	**Very High**		TA & investment	

	cost of transport inside South Sudan. Based on findings, design a plan of action. • Analyse the costs and benefits of alternative roads to international seaports (option Juba-Ethiopia-Djibouti) • Formulate and implement a programme for upgrading inter-state roads to all weather roads, including definition of priority road network. • Promote joint venture with private investors to modernise river transport services between the northern and southern states and with Sudan • Formulate and implement a programme for up-grading logistics to foster connectivity within the South Sudan	**Year 1-2**	MTRB, SSCCIA, SSBU States, MFEP, economic departments of local universities		$500,000 per study (transport cost and alternative roads to sea port) $300,000 (formulation of programme for inter-state road upgrading) $1million (to initiate river transport joint-venture)
Enhance quality infrastructure and inspection procedures	• Carry out conformity assessment of products and services based on quality and standards requirements • Protect consumers from substandard, shoddy and hazardous products • Ensure delivery of quality services to the public • Study how East African Standards can be adopted in, or adapted to, South Sudan • Develop collaboration with EAC Regional Standards setting Institutions for accreditation and certification • Promote the application of SPS-related capacity evaluation tools to establish action plans aimed at filling gaps and enhancing the effectiveness of the food safety, animal and plant health systems in the country. • Strengthen integration with customs administration and streamline inspection	**Very high** **Year 1-3**	SSNBS Customs EAC certifying and accreditation offices	TA Management/ Administration UNIDO, EU, TradeMark East Africa are providing support to the SSNBS SSNBS may seek access to the STDF	$1 to 2 million

	procedures at all borders				
TRADE POLICY *(Integrate the following priority actions into the Draft Trade Policy Framework to facilitate implementation)*					
Address tariff distortion and enhance transparency	• Review the tariff structure and make proposals for eliminating the negative pattern of escalation • Reduce tariffs on agricultural products to eliminate negative escalation • Support the EAC technical committee which will define trade negotiation positions	**Very High** **Year 1-3**	MTII, MFEP, Customs, SSCCIA, SSBU	TA	$500,000
Enhance capacities to analyse trade policy issues and to develop policies which are in line with the objectives of the Government	• Set up a small Unit within the MTII which will develop analytical skills. The Unit will advise on issues such as bilateral, regional and multilateral trade negotiations and treaties. This Unit will receive TA and will connect with national and regional think tanks and departments of universities. • Prepare an impact assessment of joining EAC or COMESA	**Very High** **Year 1-3**	Customs NBS MFAIC MFEP	TA and national experts	Between $1million and $2.5 million Expert support $300,000 and $600,000
INSTITUTIONAL CAPACITY DEVELOPMENT					
Adopt institutional arrangements for promoting the trade and development agenda	• Analyse the best institutional set up to promote the trade and development agenda, including the following non-exclusive arrangements: 1. Establishment of a Development Board 2. Establishing linkages with think tanks and consider creating a public think-tank to address trade, development and poverty issues 3. Outsourcing services to private sector organizations	**High** **Year 3**	MTII, MFAIC, MFEP Chambers of Commerce Universities of South Sudan African think tanks IGAD and twinning arrangement	TA; conferences and meetings	$1.3 million

	• Adapt institutional set up to South Sudan's context, seek endorsement at ministerial level and proceed to implementation				
Sharpen the institutional structure to facilitate coordination and collaboration between services	• Use the NIU and EIF National Steering Committee to drive the institutional reform process • Update the Ministry 2012 strategic plan, taking into account current context and needs • Update as needed and validate job description manual • Consider, in the medium term, undertaking a full-fledged functional review of the Ministry • Establish formal coordination arrangements for trade negotiations • Complete the regulatory framework	**Very High** **Year 1-3**	MTII NIU and National Steering Committee EIF Secretariat	TA/Short term experts recruited	$200,000 (Functional review) $100,000 (Update and validation) $500,000 (Regulatory Framework and other activities)
Improve the cohesion of staff, introduce systematic computerisation and support leadership by improving skill sets	• Provide training opportunities for improving English language and reduce skill gaps • Expand internet bandwidth and wider availability of internet connection for staff • Provide targeted training in use of computers and introduce standardisation and mechanisation of tasks • Create a new website for trade within MTII • Organize executive training and introduce change management practices for Directors General and above, • Introduce a performance management system for directors and deputy directors • Enhance capacity of MTII Directorate to develop policies and regulatory framework and training of staff	**Very High** **Year 1-3**	MTII	TA and IT support NIU and short term experts ; working visits abroad	$200,000 (training) $800,000 (ICT) $200,000 (Leadership)

SECTOR OPPORTUNITIES					
AGRICULTURE *(Integrate the following priority actions into the Agriculture Sector Policy Framework to facilitate implementation)*					
Prepare development programme based on in-depth understanding of bottlenecks, potential demand and linkage with other sectors	• Promote the development of value chains in the maize, cassava, groundnuts and livestock sectors • Undertake field studies involving farmers to assess supply and demand and identify potential backward and forward linkages • Upgrade production, processing and distribution by providing producers with the necessary inputs and advisory services, infrastructure for storage, transportation and financing • Promote increased demand by encouraging long-term arrangements with large buyers such as government programmes (schools, hospitals), supermarkets, hotels and exporters • Study double-taxation, exemptions, support measures for export crops	**Very High** **Year 1-3**	MAFLF, MTII, MTRB	TA	$300,000 per study
Promote farmers' organizations to more effectively address market entry barriers	• Review the cooperatives' fee structure with a view to encouraging the creation of cooperatives • Cut down registration fees for incorporating cooperatives • Support finalization of draft cooperatives' regulation • Promote representation of private sector and MTII into a working group on agriculture	**High** **Year 1**	Directorate of Cooperative, MAFLF	TA	$100,000 (review of fee structure and draft regulation)
Develop agribusiness	• Introduce a suppliers development	**Very High**		TA	$300,000

	programme that promotes integration of domestic companies and associations in the supply chains of large local and foreign companies, e.g. supermarkets, hotels, slaughterhouses • Promote selective contract farming • Launch an incubator programme	**Year 1-3**			
Increase production and exports of gum arabic	• Undertake applied agronomic research on high yield and high quality gum arabic varieties • Strengthen extension services • Identify and remove bottlenecks in the value chain with a focus on commercialisation and export • Enhance the capacities of the gum arabic producers' cooperatives, including for negotiating prices	**Very High** **Year 1-3**	MAFLF, MTII, MFEP, agriculture/agronomic departments of local universities	TA	$900,000 (study on value chain bottle necks)
Introduce community forest management	• Undertake a study on international markets for teak • Work with communities to develop capacities to manage forest exploitation in a sustainable way • Develop a code of conduct for enterprises and local community	**High** **Years 1-3**	MAFLF, MTII		$300,000 (market study and formulation of code of conduct) $3 million (capacity development programme)
Increase exports of livestock	• Restart export of livestock to neighbouring countries, including Sudan • Upgrade quality • Upgrade export roads • Study market potential of by-products, including in Arab countries	**High** **1-3**	MAFLF, MTII		$300,000 (market studies) $2 million (quality upgrading
OIL AND ELECTRICITY *(Integrate the following priority actions into ongoing and pipelines activities to facilitate implementation)*					
Attract new investors in the oil sector	• Conduct research and surveys • Make data available online	**High**	MPM, research institutions	TA, research collaboration	$15 million

Build quality control for oil and petroleum derivatives	• Formulate national standards and certification of petroleum derivatives aligned to international standards • Establish quality control laboratories at border entry points ; develop and implement inspection procedures • Build capacity in MPM, ME and the standards authority for performing effective quality control and certification of petroleum derivatives • Build capacity in MPM and ME for conducting environmental assessments and safety inspections in the downstream oil sector	**High** **Year 2-3**	MPM ME SSNBS Nilepet	TA	$2 million
Reduce the cost of electricity by firing the power grid with LPG rather than heavy oil (which is expensive and pollutes)	• Use LPG as a substitute of fuelwood and charcoal • Initiate a pilot project for use of LPG for a small-scale refrigeration unit used in the fisheries sector (possibly in conjunction with solar energy)	**Very High** **Year 1-3**	MPM MAFLF, fisheries	TA	$5 million
Build capacity in the SSEC	• Conduct systematic audit assessments, quality control and maintenance operations • Conduct systematic collection of revenues	**High** **Year 2- 3**	SS Electricity Company	TA	$700,000
MINING *(Integrate the following priority actions into ongoing and pipelines activities to facilitate implementation)*					
Maximise profits for South Sudan while keeping a competitive profile	• Review the mining regulations and benchmark them against regional and international experience • Align royalties and exploration cost to mines operating in East Africa • Seek workable arrangements in regulations, taking into account the scarcity of specialised local human resources (e.g. accountants, layers, etc.)	**Very High** **Year 1**	MPM		

Conduct geological surveys and research	• Conduct geological surveys of prospective areas • Conduct geological/ mineralogical research (applied and practical)	**Very High**	MPM, research institutions	TA, research cooperation	$15 million (surveys) $1 million (research)
Market South Sudan as a mining country	• Make available online existing data related to geological prospectiveness on a map-based information system • Participate in international mining investment forums, such as the Mining Indaba in South Africa and the PDAC Conference in Canada • For the proven marble resource in Kapoeta, and associated cement production, target mainly regional based companies involved in cement production • Prepare a road map for investors in the mining sector	**Very High** **Year 1-3**	MPM Directorate of Industry & Mining ME	TA and PPP with mining firms	$2.8 million
Improve understanding of the Artisanal and Small Mining (ASM) sector in South Sudan	• Initiate a field based study to map out the current situation and estimate potential of ASM (estimation of number of miners, full time or part-time; income generated; organization of the work; value chain of gold mining from extraction to commercialisation)	**High** **Year 1**	MPM		$600,000
INCLUSIVE TOURISM *(Integrate the following priority actions into the Tourism Master Plan to facilitate implementation and resource mobilisation)*					
Enhance institutional policy and regulatory framework for tourism development	• Establish a Tourism Development Authority (TDA) • Prepare a detailed business plan, legal registration, funding of office and equipment, training and organization development, 3-year running cost budget • Provide adequate financial, human and material resources to the Tourism Directorate and Wildlife Service to discharge their mandates	**Very High** **Year 1-3**	Tourism Directorate (MAFLF), civil society organizations	TA Short term expert consultant	$2.7-3 million

Enhance the participation of local communities in tourism activities	• Establish concession areas and operating modalities for benefit sharing at state and community level; create awareness among communities; facilitate joint venture agreements; and provide training opportunities for local communities. • Support employment opportunities and income generating activities through the diversification of tourism products and services to hotels (e.g. tourist guides, accommodation, meals, transport, souvenirs, etc.) • Create feeder roads in Protected Areas (PA) and tourism node	**High** **Year 2-3**	TDA (Tourism Development Authority) Tourism Directorate (MAFLF) Wildlife Service, Ministry of Interior and Wildlife States MFEP Ministry of roads ME Civil society organizations	TA	$1 million (establishment of concessions and benefit sharing mechanism) $600,000 (Studies to support product and services diversification) $600,000 (technical studies for priority feeder roads in PA)
Tourism product development	• Create an investment portfolio for two parks • Start up support for South Sudan tourism enterprises outside of Juba • Introduce tour operator licencing and airport licence	**High** **Year 2-3**	TDA, Wildlife Service, Ministry of Interior and Wildlife Tourism Directorate (MAFLF) Civil society organizations	TA	$200,000 (publication and web site)
Make South Sudan known in tourism generating markets and facilitate access to the country	• Support implementation of the tourism communication strategy • Simplify visa requirement and allow visa on arrival for EU and US passport holders • Fast track access facility at Juba airport for tourists with registered tour operators • Customs to simplify procedures for clearance of vehicles and other items for personal use of people under temporary stay	**High** **Year 1-2**	TDA Wildlife Service, Ministry of Interior and Wildlife Tourism Directorate (MAFLF) Customs and immigration		$200,000

INTRODUCTION

The South Sudan Diagnostic Trade Integration Study (DTIS) was prepared by the Government of the Republic of South Sudan (GRSS) with the support of the United Nations Development Programme (UNDP) under the auspices of the Enhanced Integrated Framework (EIF) for Trade-related Technical Assistance for Least Developed Countries (LDCs). The report was produced by a team of national and international experts[7] working under the direction of the Ministry of Trade, Industry and Investment (MTII).

The main DTIS mission took place during the first two weeks of September 2013. From the end of September to December 2013, the DTIS team carried out analytical work in close consultation with the government and the private sector. Initially, the plan was to have a report by end of year and for the review to begin in 2014. A first draft of the DTIS report was presented to the government for comments in mid-December 2013 and the validation workshop was planned for January 2014.

On December 15, however, fighting between heavily armed groups and the army broke out in Juba and quickly spread to other states, fuelled by a mix of political and inter-ethnic rivalry. The fighting was particularly intense in the oil producing states, with key cities taken by rebels and retaken several times by the army.

The government faces an uphill struggle in asserting its authority over rebel areas and restarting normal activities. It also needs to demonstrate to investors, both local and international, that the country is once again a safe place in which to do business. Regaining investor confidence, which had peaked early last December following the successful launch in Juba of the South Sudan Investment Conference, will be crucial if the government is to realise its ambitious development agenda.

Analyses and positions on the current outlook on oil production and the status of wells, external indebtedness, sectoral allocations and the credit rating of the country have clearly been overtaken by recent events. The DTIS team did its best to update data in the report but official information is often missing. **More importantly, the full scale of the conflict's impact has not yet been assessed in any credible way.**

The role of trade and investment in a fragile state such as South Sudan needs also to be reassessed by the government and the international community. The traditional objectives of the DTIS which focus on integration of trade into development policies should be broadened to take into account the strategic objectives of peace and nation building. This can be done by designing trade policies, programmes and projects which will contribute to rebuilding the social capital destroyed by conflict. This can be achieved as follows:

- **Identifying sustainable sources of income for large groups of the population lacking adequate skills – through activities such as those that stem from and can be sustained by increased trade.**

[7] Georges Chapelier, Team leader; Daniel Gay and Massimiliano Riva, institutional development; Amar Brekenridge, macro-economic environment and trade policy; Ameir Mbonde, business environment and poverty reduction; Caesar Edward, poverty analysis; Jean Claude Bidogesa, agriculture, forestry, livestock and fisheries; Anna Itwari Felix, agriculture; Sebit Benansio, fisheries; Wouter Schalken, tourism; Aziza Albachir, oil and electricity; and Hakan Tarras Wahlberg, mining.

- **Relaunching agricultural value chains**, building linkages between producers and private companies, e.g. outgrower schemes with large companies, incubators for small- to medium-scale agribusinesses.

- **Using trade policy as a tool for unification**, i.e. (i) through trade facilitation, improvements in the business environment and fostering coordination between Juba and the states where production is taking place; and (ii) through enhanced involvement of state governments in the MTII's activities.

- **Improving linkages and upgrading infrastructure and connectivity between the states.**

The above actions are a low-cost option which can be achieved through ongoing and planned projects and programmes of the government and development partners.

Chapter I - Country context, poverty and macroeconomic issues

1.1 Country Background

After four decades of war and 1.5 million dead, South Sudan became independent on 9 July 2011. This process resulted from a referendum organized in January 2011 during which over 98 percent of the voters favoured secession.[8] Since independence, the government faces major challenges: a severe lack of infrastructure, food insecurity, inflows of refugees and returnees from Sudan and dismal human development indicators.

Unfortunately, in its third year of independence, the country suffered a severe setback with the most serious bout of violence yet since 1991. Some ten thousand citizens have been killed and 1.8 million displaced. The resulting wide-spread destruction of human, physical and social capital, coupled with a greatly exacerbated ethnic cleavage, has exacerbated the development challenges facing the country and set it back by many years. Following the cessation of hostilities, identifying sustainable sources of income for large groups of people lacking skills - such as the activities that can stem from and be sustained by increased trade - will be more important than ever.

South Sudan has an area of approximately 640, 000 square km, about the size of France. The country is composed of various ecological zones, from dense equatorial forest and a prosperous green belt to arid and pastoral zones in the northern part of the country. The population was estimated at 10.3 million in 2011 in the absence of an updated census. Over 83 percent of the population is living in rural areas. South Sudan is an oil-rich country but its very high dependence on oil (98 percent of national budget) has created economic distortions in the functioning of the economy. There are also potential mineral resources.

The Republic of South Sudan is administratively divided into ten states as shown below in Figure 1: Western Bahr El Ghazal, Northern Bahr El Ghazal, Unity, Upper Nile, Warrap, Jonglei, Lakes, Western Equatoria, Central Equatoria and Eastern Equatoria. The states are financed by the national government. In addition, they have the power to levy certain “state tax”. There are 86 counties spanning these ten states.

[8] The referendum took place under the supervision of the international community.

Figure 1: Administrative map of the Republic of South Sudan

South Sudan is a landlocked LDC. It shares borders with six countries: Ethiopia, Kenya, Uganda, Democratic Republic of Congo (DRC), Central African Republic (CAR) and Sudan. These countries face fragile situations – some even widespread violent internal conflict as in the case of the Central African Republic- which feed an overall climate of instability and insecurity in the region.

In addition to internal political instability and physical insecurity, South Sudan faces recurrent tensions with Sudan. At the beginning of 2012, tensions with the Sudanese government increased and on January 20, South Sudan closed down oil production until an agreement on royalties and transport fees for the use of the pipeline to Port Sudan could be reached. Trade between the two countries was also suspended. It created a severe distortion of the balance of payments, a fiscal crisis and a spike in inflation. In September of 2012, with facilitation from the African Union High Level Panel and the United Nations, Sudan and South Sudan reached a breakthrough agreement on several outstanding issues. The agreements covered oil transit fees and monitoring arrangement, resumption of trade between the two countries, the establishment of a demilitarized zone along the border and a resolution of citizenship issues. However it took five months for the oil to start flowing again.

On 10 June 2013, Sudan unilaterally threatened to suspend oil imports from South Sudan. After negotiations, an agreement was reached in September 2013 and oil continued to flow. However the border posts are still closed. Despite these difficulties, informal border trade has continued.

Sources of growth. South Sudan is an oil rich country. Oil exports account for almost the totality of exports and contribute 98 percent of government revenues (World Bank 2013, p. 6). For years to come, oil will be the major engine of growth. Besides petroleum, there are promising opportunities for growth in the following sectors: (i) Construction. The urbanisation of Juba and secondary towns and the modernization and creation of infrastructures are already a reality and will increase in the future as more ambitious work will be undertaken, e.g. hydropower plants, electricity network, and corridors to connect with the costal ports and rehabilitation of an inter-state road network ; (ii) Agriculture. With only 4.5 percent of arable land cultivated, vast tracts of fertile land and abundant rains, South Sudan has the potential to be food self-sufficient and to export food commodities to the neighbouring countries. (iii) Mining. Economically concentrated deposits of gold and other minerals have yet to be confirmed but exploratory work is under way; (iv) Tourism. Compared to neighbouring countries, South Sudan is well endowed by world class assets. Peace and security are however required for tourism to take off. Underpinning all of this, regional integration with the East Africa Community (EAC) and COMESA is also perceived by the government as a driver of economic growth.

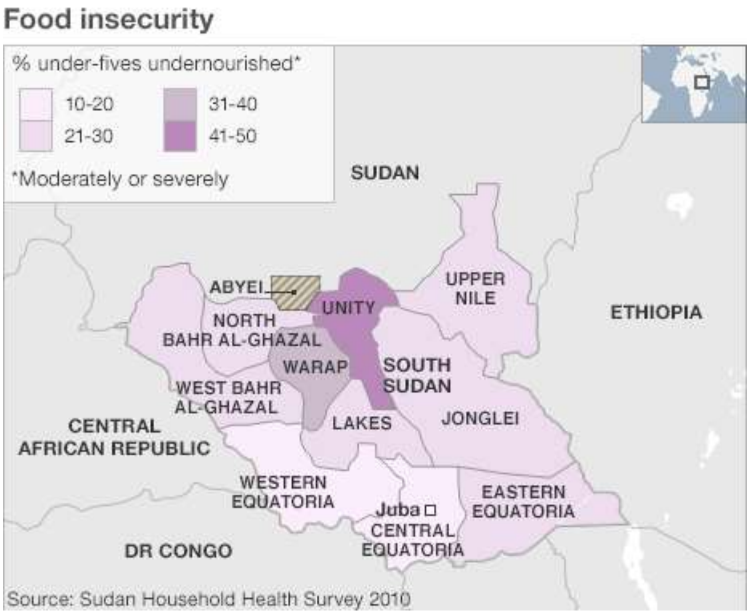
1.2 Poverty

Poverty and Inequality

Economically, South Sudan is among the world's poorest countries. Though the country is rich in arable land and mineral resources, the economy is overly dependent on crude oil exports. The country’s GDP (PPP) was US$10.45 billion in 2012 (National Bureau of Statistics). According to the 2008 census, 52 percent of the population are male and 48 percent are female. The people of South Sudan are generally poor due to decades of conflict and neglect of both its physical and human capital.

South Sudan’s Gini coefficient, a measure of inequality, is moderate at 45.5% which is slightly higher than Sub-Saharan Africa’s average of 42% (African Development Bank 2012, p.2).[9] South Sudan’s poverty profile presents a stark picture of a country that continues to be ravaged by war, lacks essential infrastructure and has very low levels of human capital. The share of the poorest quintile in national consumption is very low: the poorest 20% of the population accounts for only 4% of national consumption (Figure 2). Indeed, 51% of the population lives below the poverty line of SSP 74 per person per month (Shimeles, Abebe and Audrey Verdier-Couchane 2012), only 27% of the population above the age of 15 is literate and the maternal mortality rate is 1,989 deaths per 100,000 live births, the highest in the world (Box 1).

Figure 2: Food insecurity



[9] A good overview of South Sudan’s poverty dimensions can be found in Government of South Sudan (2011), “South Sudan Development Plan 2011-2013. Realising Freedom, Equality, Justice, Peace and Prosperity for All,” August 2011, pp. 12-24.

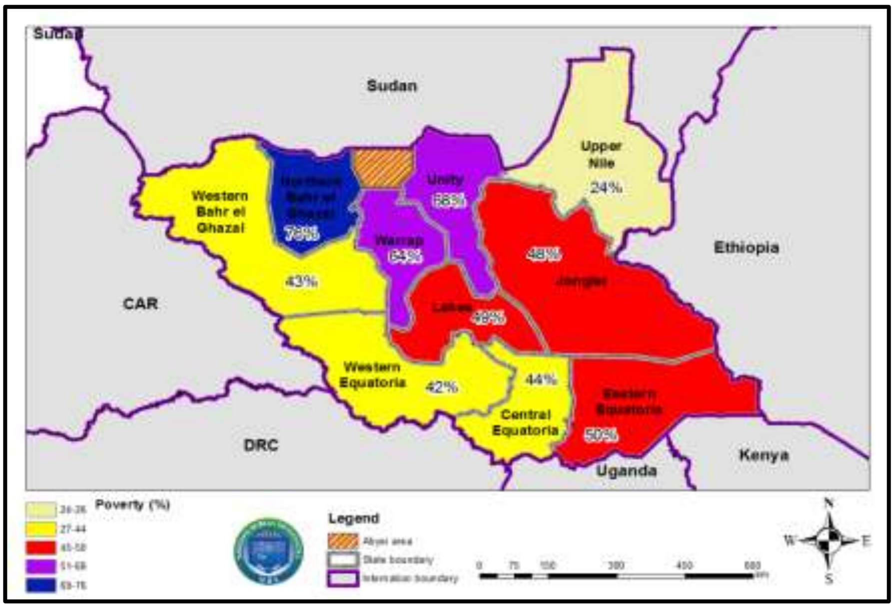
Box 1: Key poverty statistics

- 51% of the population lives below the national poverty line
- Average per capita consumption in South Sudan is SSP 100 per person per month
- Average consumption of the poor is SSP 39 per person per month compared to SSP 163 per person per month for the non-poor
- Average consumption in urban areas is SSP 168 per person per month compared to SSP 88 per person per month in rural areas
- 47% of the population is below the minimum level of dietary and energy consumption
- Infant mortality rate 75 per 1000 live births (2010)
- Under 5 mortality rate 105 per 1000 live births (2010)
- Maternal mortality rate 1989 per 100,000 live births
- 78% of households depend on crop farming or animal husbandry as their primary source of livelihood
- Up to 83% of the population lives in tukuls[10]
- 55% of the population has access to improved sources of drinking water
- 80% of the population does not have access to a toilet facility
- 38% of the population has to walk for more than 30 minutes one way for drinking water
- 50% of the population uses firewood or grass as the primary source of lighting
- 27% of the population has no lighting
- 96% of the population uses firewood or charcoal as the primary fuel for cooking
- 60% of households own at least one mosquito net
- Net enrolment is 43% of boys and girls in primary school (2011)
- 40% of the population in the age group 15-24 years is literate

Source: National Baseline Household Survey (2009) and the South Sudan National Bureau of Statistics

The prevalence of poverty in South Sudan is widespread but its distribution is uneven. As Figure 3 shows, poverty rates vary significantly across states, from three in four people in Northern Bahr el Ghazal state (76%) to only one in four people in Upper Nile state (24%).

Figure 3: Prevalence of Poverty by State



---

[10] Tukuls are traditional grass thatched houses.

Source: South Sudan Centre for Census Statistics and Evaluation (2010)
Estimates from National Baseline Household Survey (2009).

The drivers of poverty in South Sudan

Multiple factors explain South Sudan's high poverty levels. These include its economic isolation and insecurity, lack of infrastructure like roads, telecommunications and marketplaces, low human capital, underdeveloped institutions (education, health, law and order, financial and other services), and very low levels of investment in basic services and infrastructure aimed at subsistence agriculture which employs 85% of the workforce. Economic activity is regularly disrupted due to ongoing conflict among ethnic groups, especially in the northern states, reaching overt violent conflict engulfing the country as a whole in early 2014.

Border closures in 2012 by the governments of South Sudan and Sudan led to increased hardship. Due to a poor harvest, soaring fuel prices, inflation and border closures the number of food insecure people doubled in 2012. Price fluctuations were driven primarily by border closures with Sudan, the restriction of trade flows between Sudan and South Sudan and national austerity measures that indirectly affected prices of imports (Common Humanitarian Fund 2012, pp. 6-46). Indeed, high food prices have deepened poverty in certain parts of the country, especially in the northern states bordering Sudan.

The price shock hit consumers in the northern states when, starting in April 2012, the prices of food (sorghum) and non-food items rose significantly following the closure of borders between South Sudan and Sudan. Most commodities had to be sourced from Uganda at considerable cost to the consumer due to high transportation costs, multiple check points, roadblocks and the payment of formal and informal taxes (World Food Programme 2013, p.32). The most recent bout of violence and displacement of population has disrupted the planting season, increasing concerns of heighted food insecurity and hunger in affected areas in the months to come (Figure 4). It is these kinds of shocks arising out of conflict, non-tariff barriers and infrastructure deficits that have contributed to vulnerability and increased poverty.

Figure 4: South Sudan conflict

For smallholder, subsistence agriculture, a common practice, is highly inefficient and therefore yields are small. Farmer incomes are insufficient to non-existent. Plots are small and farmers produce only enough for their own consumption relying on unpredictable weather and without inputs like fertilizer and improved seeds. Small-scale animal husbandry faces similar challenges. Additionally, there is a lack of financial and extension services, infrastructure is poor and producer organizations like cooperatives are weak or absent. Alternative forms of employment in the cash economy are also scarce, with most people relying on the informal sector for subsistence. It is estimated that 53% of the working population in South Sudan work as unpaid family workers and only 12% as paid employees (Government of South Sudan 2011, p.11).

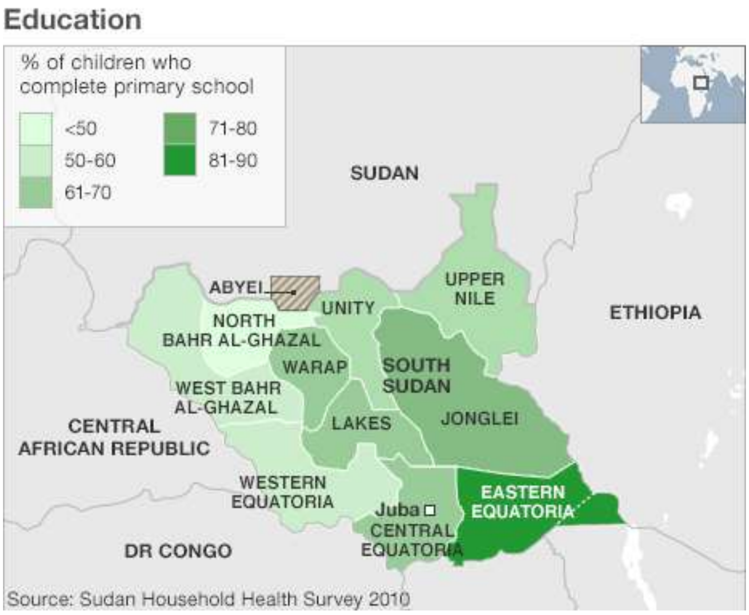
Another major contributor of poverty in South Sudan is corruption in the form of official and unofficial taxes. The application of taxes is inconsistent and unpredictable, leading to uncertainty about future costs and prices of goods and services. In particular, unofficial payments have reduced the quality of public services available to citizens and have increased the cost of business, for example, roadblocks erected to extract money from the public.

Due to the civil war, there is also a large number of handicapped people who face discrimination and limited employment opportunities. Polygamy is still a common practice in South Sudan, though no official statistics exist. Polygamy often results in large poor families being unable to support their young with food, clothing and education. There is also a lack of entrepreneurial skills such as how to start, manage and grow a business that could help lift people out of poverty and diversify away from subsistence agriculture. However, one promising activity with growth potential is cross-border trade, albeit informal, which has traditionally been dominated by women traders in East Africa.

Gender inequality

South Sudan has the highest maternal mortality rate in the world of 1,989 deaths per 100,000 live births. Only 40% of the population aged 15-24 is literate with the proportion for males (55%) being significantly higher than that for females (28%). In total, the literacy rate for males is 40% compared to 16% only for females (Figure 5).

Figure 5: Education



The reasons for gender inequality are multifaceted. The rate of female school dropouts is high because of stretched family incomes and the desperate need for farmhands who are often unpaid. For example, evidence shows that the ratio of girls to boys in primary education is 0.7, while the ratio in secondary schools is even lower at 0.4. The lack of marketable skills and other factors like early marriage of young girls, which is widespread, especially among the northern cattle-keeping ethnic groups, has a bearing on gender inequality. Most fundamentally, continued male dominance has led to men's control of household finances. However, South Sudan has made progress in increasing women's visibility as measured by the proportion of seats held by women in parliament which is 34% (2011).

Status of the MDGs

The United Nations in South Sudan has successfully advocated the inclusion of human development and the MDGs in the country's first South Sudan Development Plan (SSDP), which is the basis of government budgeting and donor programming over five years (2012-2016). The SSDP charts the government's commitment to the MDGs by building the necessary institutional, human, social and economic capacity, developing infrastructure and social services and raising the standard of public services. However, the country is still struggling to meet the MDGs and is well behind in meeting some of these goals (see Box 2 on the current status of progress on the MDGs).

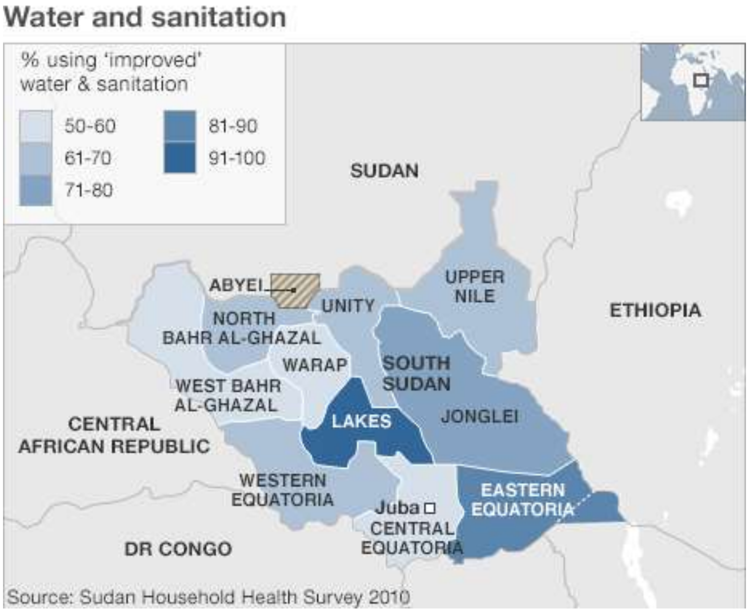
Box 2. Current status of progress on the MDGs

1. Promotion of gender equality and empowerment of women**:** Girls make up only 36.9% of primary school enrolment (2009). However, 20% more males than females were reported to be literate both among adults and youth. Getting girls into school not only improves their chances of securing livelihoods, but positively impacts the health, nutrition and education of their children and can reduce early marriages and an unsustainable population growth rate. However, the ratio of girls to boys in primary education decreased from 0.8 in 2006 to 0.7 in 2009 and the ratio of girls to boys in secondary education is 0.4 (2009).
2. Reduction of child mortality: The under-five mortality rate in South Sudan decreased from 250 per 1000 live births in 2001 to 105 in 2010. Under the SSDP, the target is to reduce this rate by as much as 20% in rural areas. This priority will build on South Sudan's success to date in cutting the transmission of deadly diseases and expanding vaccination coverage.
3. Improvement of maternal health: South Sudan has the highest maternal mortality rate in the world of 1,989 deaths per 100,000 live births, down from 2,054. This figure represents a 1 in 7 chance of a woman dying during her lifetime from pregnancy-related causes. Currently, there is only one qualified midwife per 30,000 people.
4. Combating HIV/AIDS, malaria and other diseases: There is limited information on HIV/AIDS in South Sudan. But reports show yearly increases in the prevalence rate and limited knowledge among the population about prevention. Malaria is still a big problem in South Sudan.
5. Ensuring environmental sustainability**:** Access to safe water and sanitation is a major challenge especially in the rural areas. However, access to safe water and sanitation rose from 47% in 2006 to 67.7% in 2010 for water and from 6.4% in 2006 to 37% in 2010 for sanitation. The proportion of land covered by forest is 32% (2010) while the population using solid fuel is 99% (2009).
6. Development of a global partnership for development: Progress is being made by the government to reduce dependence on oil to earn hard currency for importation of basic necessities. The agricultural sector has been designated as a national priority to diversify the economy and improve access to foreign markets. In terms of access to new technology, 19% of the population are cellular phone subscribers (2009).

Sources: UNECA, African Union, African Development Bank Group and UNDP (2012). *MDG Report 2012. Assessing Progress in Africa toward the Millennium Development* Goals, UNDP South Sudan (http://www.ss.undp.org/) and the South Sudan National Bureau of Statistics.

The lack of progress on MDGs suggests that South Sudan still has a long way to go in reducing poverty. Ongoing conflict, poor roads, inadequate water and sanitation services (Figure 6), low agricultural yields and the generally poor state of infrastructure including schools and health centres explain why the 2013 target for the population living in extreme poverty of 46% has not been achieved.

Figure 6: Water and sanitation

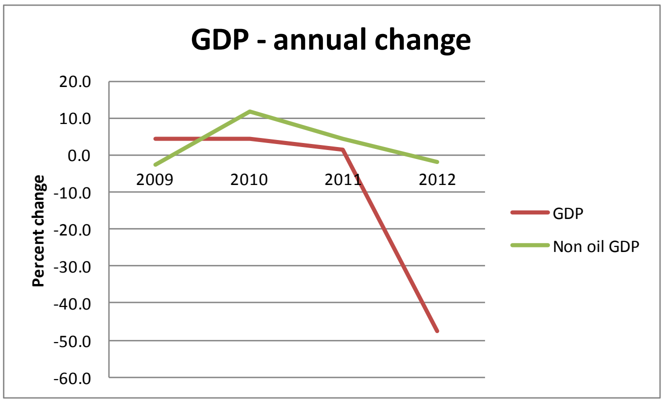


1.3 Macroeconomic environment: recent developments

South Sudan's macroeconomic situation and growth prospects have been adversely affected by continued tension with Sudan which currently provides the only outlet for South Sudan oil exports. This was reflected in a decision by the South Sudanese authorities to shut down oil production in January 2012. Following external mediation, an agreement signed in late September 2012 led to a resumption of oil production in the first quarter of 2013. However, continued tension in 2013, reflected in a threat by the Sudanese authorities to suspend the operation of the oil pipeline, led the South Sudanese authorities to maintain oil production to 200,000 bpd or lower. Oil production prior to the shutdown of 2012 was 300,000 bpd, and estimated daily production capacity is 450,000 bpd. An agreement between the respective heads of state of the two nations in early September 2013 resulted in a lifting of the Sudanese threat to suspend pipeline operations, and a return to full production was envisioned.

Figure 7 illustrates the pronounced impact of the suspension of production in 2012. Real GDP contracted by some 47 percent on a year-on-year basis. Non-oil GDP contracted by just under 2 percent.

Figure 7: Annual change in real GDP and real non-oil GDP



Source: South Sudan National Bureau of Statistics

Because oil revenues make up 98 percent of fiscal revenues, disruptions to oil production required the implementation of an emergency austerity budget for the financial year 2012/2013 of approximately SSP 6.7 billion, which involved a 40 percent cut in real terms in government expenditures. As at June 2013, the authorities expected the expenditure outturn to be SSP 6.9 billion (Government of the Republic of South Sudan, 2013a).

A current account deficit of US$ 2.1 billion is projected for the financial year 2012/2013, down from a surplus of US$ 1.3 billion in 2011/2012. The current account balance, excluding transfers, fell to minus 27.8% of GDP compared to 3.5% in FY2011/12 and 0.2% for FY 2010/11.[11]

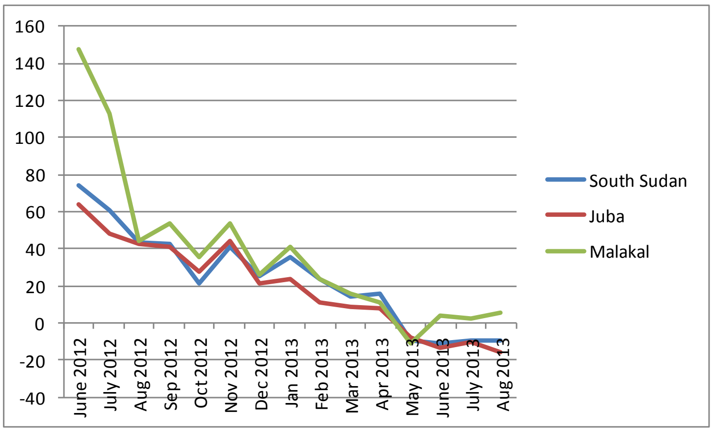
The financing requirements for the budget and external deficits that have accumulated over the last financial year have required debt financing. According to the IMF, total debt stock at the end of 2012, excluding central bank lending to the government, is estimated to be 5.1 percent of GDP.[12] Donors have expressed concerns that, notwithstanding the resumption of oil supplies, debt sustainability could become a critical issue of concern in the absence of a debt management framework.

The financing requirements for the budget and external deficits that have accumulated over the last financial year have required debt financing. According to the IMF, total debt stock at the end of 2012, excluding central bank lending to the government, is estimated at 5.1 percent of GDP.[13] Approximately three-quarters of this is short term domestic debt. The remaining quarter accounted for by foreign debt is mainly in the form of borrowing against future oil production. Donors have expressed concerns that, notwithstanding the resumption of oil supplies, debt sustainability could become a critical issue of concern in the absence of a debt management framework.

South Sudan has experienced severe inflationary pressures in the first years after independence. These abated in the first part of 2013, with year-on-year inflation falling from nearly 75 percent in May 2012 to zero by March 2013. Indeed, in May 2013 negative inflation of nearly 9 percent was recorded (see Figure 8). The decline in inflation is explained in part by a drop in food price inflation, as well as the contraction in economic activity associated with the shock to oil production.

[11] Data in this section have been provided to the mission by the IMF as of 1 July 2014.
[12] Estimation is provided by the IMF to the mission as of 1 July 2014.
[13] IMF comments to the draft DTIS, 1 July 2014.

Figure 8: Year-on-year change in CPI

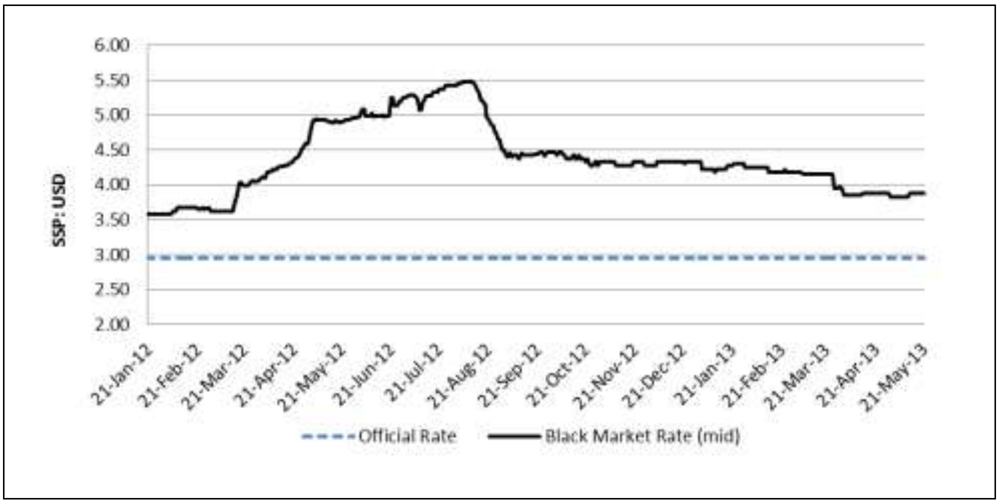


Source: South Sudan National Bureau of Statistics

The overall picture, however, masks significant regional variation between the northern and southern states of South Sudan. Thus, year-on-year inflation in northern states (represented by the CPI index for Malakal) has been significantly higher than that for Juba and South Sudan since June 2012. This reflects the closure of the border with Sudan, which has increased food scarcity in the north, and poor internal linkages with the southern states (aggravated by the onset of the rainy season in May), where imported food supplies have been relatively abundant.

South Sudan has maintained a dual exchange rate policy since independence, with an official exchange rate pegged to the dollar at a rate of 2.95 SSP, and a parallel exchange rate operating through the tolerated parallel market. Disruptions to oil production caused a depreciation in the parallel exchange rate to nearly 5.5 SSP to the dollar, but a resumption (even if attenuated) of oil production has seen the exchange rate fluctuate between 4 and 4.3 SSP to the dollar (see Figure 9). Inflows of foreign exchange associated with the operation of charitable non-governmental organizations, remittances, and the activities of foreign investors in certain service sectors (hotels, finance, retail and construction) have provided some measure of support to the exchange rate even at times of oil production disruption.

Figure 9: Official and Parallel exchange rate, South Sudanese Pound to Dollar



Source: Government of the Republic of South Sudan

Under the arrangements negotiated with Sudan, South Sudan did not inherit any debt from Sudan at independence. In addition, South Sudan and Sudan decided that if no “firm commitments” of international creditors for debt relief to Sudan was obtained by September 2014 (so called “zero option”), the parties would discuss the possible allocation of Sudan’s debt (the parties could decide to ignore or extent the September 2014 deadline). South Sudan is also committed to support Sudan’s efforts to obtain debt relief.[14]

1.4 Outlook and issues arising

The fiscal stance and management of oil revenues. The overall fiscal stance has been heavily affected by the instability in relations with Sudan, and more recently, the escalation of internecine conflict.

At the time of the main DTIS mission, the outlook was influenced by a summit on 6 September 2013 between the respective presidents of Sudan and South Sudan that led to lifting the threat of pipeline closure. This prompted South Sudan to increase production to 240,000 bpd. Based on this the authorities expected production to reach 280,000 bpd by early 2014. The resumption of oil production in turn had been expected to restore positive GDP growth rates and stabilise government finances. On this basis, the authorities had budgeted on a resource envelop of around SSP 17.2 billion, of which just over 10 billion was forecasted to flow from oil revenues, and 4.5 billion from external loans. Central government spending was budgeted to be SSP 9.2 billion, which represented 35 percent increase on the austerity budget of the previous year. Of the remaining amount, about SSP 3.8 billion had been allocated to the repayment of loans, approximately SSP 3.1 billion to payments and transfers to Sudan (of which 1.3 billion consist of pipeline fees and 1.8 billion of payments for Sudan’s share of oil payments under the peace arrangement).

As a consequence of internal conflict, the forecasted production increase did not materialise, and production remained below 200,000 barrels per day. In response, the government passed an amendment that retained austerity level spending, extending the austerity budget through the first half of fiscal year 2013/14 (July-December 2013).[15] A fiscally neutral reallocation of appropriations in favour of defence – as a direct result of conflict – led to cuts in public sector investment.

South Sudan’s oil dependency continues to pose multiple policy challenges. Evidence to date suggests that (until the temporary closure of production) expenditures largely tracked revenues. As the authorities note:

> “Up until 2012, expenditure developments have mostly reflected changes in oil revenues. (...) [I]n periods with large increases in oil revenues, expenditures also have shown large increases. And expenditures have declined in periods with falling or low revenues” (Government of the Republic of South Sudan, 2013a).

When an economy experiences volatility in income through shocks affecting earnings from natural resources, the optimal policy is to ensure that temporary windfalls are saved, and that expenditure

[14] IMF comments to the draft DTIS report, 1 July 2014.
[15] IMF comments on the draft DTIS report, 1 July 2014

plans reflect long term ("permanent") income. This prevents the creation of unfunded expenditure overhangs that could contribute to inflationary pressure and debt sustainability problems.

The fiscal stance is also relevant to managing the effects on competitiveness of resource shocks in the oil sector, and the mineral sector assuming the exploitation of these resources proceeds in South Sudan. The phenomenon of "Dutch Disease" involves the appreciation of the real exchange rate and a reallocation of resources away from lagging to "booming" sectors. These are not in and of themselves necessarily bad things, as they reflect the underlying endowments of the economy. But they may be more problematic when resource booms are transient, because of the negative consequences imposed on non-booming sectors. Moreover, in economies where the private sector has relatively limited access to financial assets, particular in overseas assets, investment from resources windfalls may be directed to non-tradable sectors such as construction, which is why construction booms are often observed to accompany resource booms. Spending on non-tradable products and services can further shift relative prices in favour of non-tradable goods and services over tradable ones, further impairing the competitiveness of the lagging sectors.

The fiscal stance can help to attenuate Dutch Disease effects in a number of ways. First, by saving a proportion of the revenue windfall from the resources boom and investing in overseas assets, the authorities can attenuate the extent of real exchange rate appreciation, and curtail the build-up of inflationary pressure. This approach is also consistent with the consumption-smoothing objective discussed above.

Secondly, to the extent that the authorities are minded to invest resource revenues, this could be appropriately done through investments that raise the long term productive capacity on the economy. Spending on infrastructure, such as roads, will also have beneficial competitiveness effects for non-resource sectors because: (i) they will reduce transport costs, which are a major factor in reducing competitiveness and (ii) the import content of infrastructure spending will typically be high, which would serve to attenuate exchange rate appreciation effects.

From the perspective to South Sudan, a major challenge will be ensuring that the sectoral allocation of government expenditure is consistent with the guidelines set out above. In practice, recurrent spending on security and wages have been the dominant item of government expenditure, while total spending on areas that have social rates of return (roads, health and education) have not exceeded 18 percent of the budget on average since independence. Indeed, the budget for 2013/2014 had allocated roughly 18 percent of the resource envelop to roads, health and education (though this figure could be increased in line with the proportion of block grants to subsidiary levels of government that are directed to these sectors), with security accounting for roughly 33 percent.

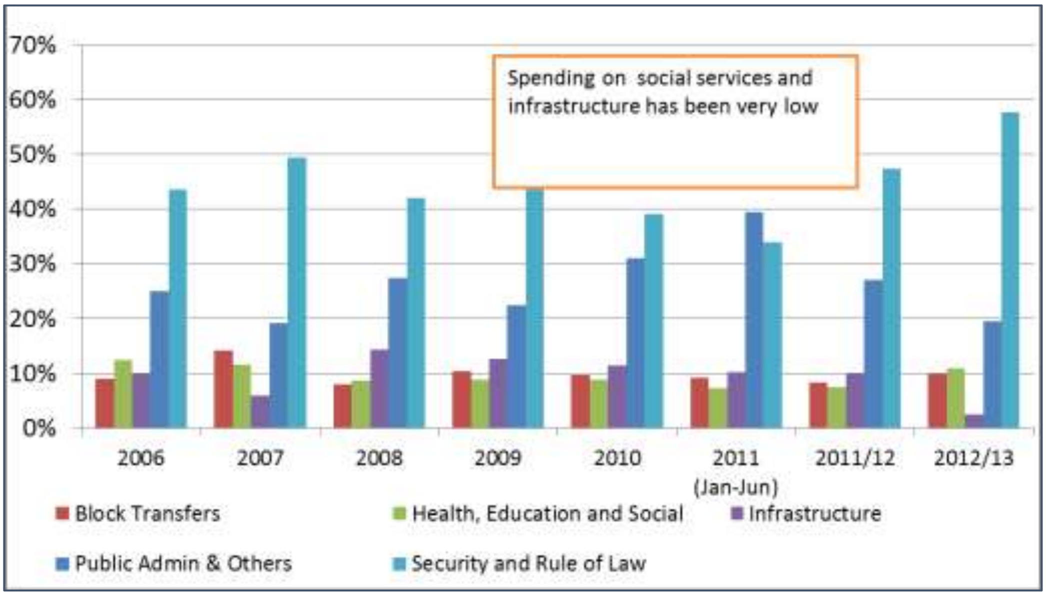
As part of its efforts to improve the management of oil revenues, and its associated macroeconomic consequences, the authorities formulated a Petroleum Revenue Management Act (PRMA) in 2013 but its current status is unclear since agreement with states is pending which is required for full operationalization. It is understood that the associated Bill passed by parliament requires: 7 percent of oil revenues to be allocated to priority social sectors in line with the South Sudan Development Plan, 10 percent be directed towards a future generations fund that would invest in offshore assets, 10 percent be directed to an oil revenue stabilisation fund, 2 percent be directed to oil producing states, and 3 percent be directed to communities within these states. At the time of writing of this report, it was not clear as to how, if at all, the passage of this legislation would affect current budget operations.

A final issue that needs to be considered is the way in which revenues are raised from the oil and resources sector. Current practice favours the allocation of resource rights through negotiation. But competitive bidding may present a more efficient way of both allocating rights and raising revenue. The draft minerals regulations provide for the possibility of competitive bidding and therefore present a model for the way forward. Given the complexities of running licence auctions, significant capacity building in this area would be recommended.

Budgeting for development

South Sudan's development prospects would be enhanced through a budget allocation directed to those areas that have the highest social rate of return. As alluded to earlier, the authorities have struggled to achieve this in practice. Indeed, the government's own analysis provides a critical commentary on the structure of allocations to date. Figure 10 shows that in the years preceding and following independence, public administration and security have dominated spending, accounting for between 70 and 80 percent of spending (Government of South Sudan 2013, p.16).

Figure 10: Sector budget allocation, 2006-2012/13



The structure of spending reflects the particular legacy bequeathed by the lengthy conflict between the two Sudans and recurrent internal conflict. Specifically, years of conflict required the mobilisation of a significant proportion of the population; it also precluded investment in skills and human capital. As a result, the authorities are confronted with the twin problems of a large cohort of the population (mainly male) with few skills other than fighting. This in effect has led the government to be an employer of first and last resort. According to official figures, organised forces and defence account for 80 percent of salary spending on national employees, and 70 percent on state employees (Government of South Sudan 2013, p.16). The government is in effect buying some degree of stability that may otherwise be threatened if a large section of the population were left unremunerated.

The fact that the government is using spending on security, law and order, and public administration in part as a de facto social safety net constrains the extent to which it is able to reorient spending towards priority sectors geared towards poverty alleviation and growth. Thus even though the 2013/ 2014 budget nearly doubled spending in nominal terms on health and increased the share of infrastructure spending in total spending nearly threefold, these increases are from a relatively low base, and take the share of these two sectors to, respectively, 4 percent and 7 percent of total spending. The share of security in total spending fell 7 percentage points from 41 percent to 34 percent; but the increase in nominal spending (SSP 411 million) was still greater than that of health and education combined. Actual expenditures in defence and security are likely to exceed budgeted amounts as a consequence of the escalation of internal conflict in 2014.

The exchange rate regime

As already reported, South Sudan follows a hybrid exchange rate regime in which a fixed official exchange rate coexists with a legalised parallel market exchange rate creating distortions. Reforms to the exchange rate are necessary for several reasons. Under the current regime, the central bank provides blanket allocations of foreign exchange to commercial banks at the official pegged rate, thus providing them with large windfall gains that are difficult to justify.

Options for exchange reform are currently under discussion with external partners. With the resumption of oil production and the greater availability of foreign exchange, the authorities have considered to abandon the dual exchange rate and to introduce a new exchange rate regime under which auctions will determine the official exchange rate. In late 2013, the government briefly unified the exchange rate before the move was revoked by parliament.

Expanding the revenue base

In order to insulate government expenditure from the volatility of resource rents, the authorities have undertaken to widen the tax base. Indirect taxes are the largest source of non-oil domestic revenues. Under the budget for 2013/2014, the sale tax accounts for approximately 25 percent of non-oil domestic revenue. Excise and customs duties account for, respectively, 15 percent and 18 percent.

There are several weaknesses that attend to the collection of these revenues and have a direct bearing on trade. These issues are discussed in the chapter on trade. Customs revenues provide one way of expanding the tax base, and may be appealing in circumstances in which tax administration capability is generally weak. However, the distortions caused by tariffs need to be considered. These are considered in greater detail in the section on trade. They suggest that in the first instance, efforts to expand the revenue base should come through strengthened administration rather than through increased duties. Customs capacity is very low and multiple capacity building measures have been initiated by donors. Moreover, in addition to these efforts, a more transparent and predictable approach to exemptions could have the double benefit of increasing revenues and reducing the opacity of the tariff structure.

Other issues

A final question concerns the lack of clarity, in practice, in the apportioning of competencies and responsibilities between the central government, on one the hand, and subsidiary levels of government on the other. South Sudan is a unitary state, not a federal one, though in practice the states are also required to meet mandates that are aligned with the overall development strategy.

Since independence, it appears that many of these mandates have been unfunded or only partially funded, prompting states to undertake revenue raising measures of their own, including through informal taxes and trade and transport. As discussed in the section on trade facilitation, this has increased the transactions costs of business in South Sudan.

Discussions with the authorities reveal that reforms to the budgeting process are being implemented to ensure a better alignment between state expenditures and revenue sources from the central government. A “bottom-up” approach is envisioned under which counties and the states are required to identify priorities and costs associated with these. The role of the central government is to evaluate these plans, and to reconcile them with available resources. The authorities are also in the process of moving away from cash budgeting to programme budgeting, which in principle should allow a better implementation of projects. The general approach towards budgeting could be strengthened through the development of a medium term economic framework that projected available resources over a three to four-year period.

REFERENCES

African Development Bank (2012). South Sudan Interim Country Strategy Paper 2012-2014, October 2012.

African Development Bank (2013). African Economic Outlook, South Sudan, updated May 2013.

CEO Magazine (2013). *Only enabling economy can transform Tanzania*, CEO Magazine, 28 October 2013.

Government of Southern Sudan (2010). GOSS Growth Strategy 2010-1012, January 2010.

Government of the Republic of South Sudan (2011). South Sudan Development Plan 2011-2013, August 2011.

IMF (2013), World Economic Outlook. Hopes, realities and risks, April 2013.

Ministry of Finance and Economy, Draft National Budget Plan 2013/14.

South Sudan National Bureau of Statistics (www.ssnbs.org), Juba 2012/13

UNDP/UNPFA/UNOPS (2011). Draft Country Programme for the Republic of South Sudan 2012-2013.

World Bank (2013). Interim Strategy Note (FY 2013-2014) for the Republic of South Sudan, January 2013.

World Bank (2009). The road towards sustainable and broad based growth, December 2009.

World Bank (2013). South Sudan Overview, (updated April 2013).

World Bank (2012). World Development Indicators.

Economic Intelligence Unit (2013). Sudan Country Report, March 2013

CHAPTER II - TRADE POLICY

2.1 Introduction

This chapter examines the central questions relating to South Sudan's trade policy, in the context of the authorities' ambition to improve competiveness and employment opportunities, and diversify the production and export base. The overarching context of trade policy is poverty alleviation.

The first section begins with an overview of the structure and value of South Sudan's trade, before progressing to an analysis of its current trade regime. The second section then considers the main policy options facing South Sudan, and provides some initial recommendations.

2.2 Structure and value of trade

The underdeveloped state of South Sudan's customs arrangements hampers the accurate collection of trade data. Available data are based on estimates compiled by the National Bureau of Statistics (NBS) and the Central Bank, or reported by trading partners, on formal and informal cross-border trade flows. In this section we present estimates of formal trade flows based primarily on data compiled by the NBS, and that available through the COMTRADE database maintained by the United Nations. We supplement this data by estimates of informal cross-border trade based on survey conducted by the Bank of Uganda.

Figure 11 reports data on merchandise exports and imports, as estimated by the NBS. The estimates were prepared as part of a more general programme that has sought to provide estimates of GDP via the expenditure approach. The NBS figures presented are estimates in the sense that they rely in part on assumptions regarding the import content of government expenditure, household expenditure, and expenditures by the oil industry. A fixed import content has been assumed by the NBS for the period in question.

Some degree of sanity-checking of the data may be conducted by cross-checking with data for imports through the Nimule customs post collected by the Central Bank for 2012. The figures show imports of approximately SSP 5 billion, whereas the figures reported by the NBS suggest a total of SSP 10.8 billion. Given that the Nimule border post accounts for approximately 80 percent of merchandise trade by value, this suggests that the NBS data may overstate imports (though the degree of overestimate is reduced to the extent that the NBS data indirectly capture informal imports in household consumption that are not captured by the Central Bank).

Figure 11: Merchandise trade, millions of SSP

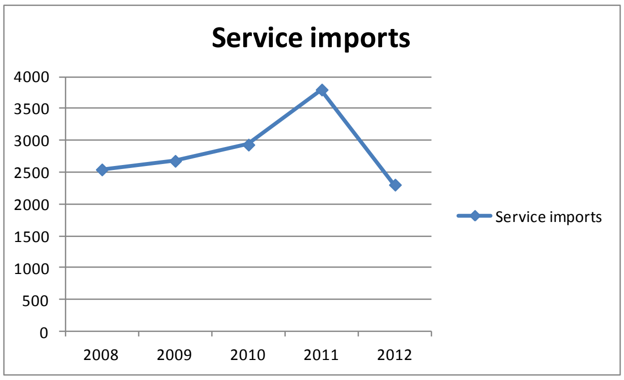
Source: South Sudan National Bureau of Statistics

The data series compiled by the NBS extends back to 2008. The series depicts the extreme oil dominance of the structure of South Sudan's exports, and also illustrates the effects of disruptions to oil exports in 2012. Even accounting for a possible over-estimation of imports in 2012, the relatively stable value of merchandise imports in the face of economic contraction is noteworthy. This is perhaps a reflection of demand for imports generated by development cooperation projects, that are largely donor financed and less exposed to external shocks.

The NBS has also compiled estimates of service imports. These are reported in Figure 12. The downturn in services imports in 2012 is principally a reflection in the drop-off in payments for oil production-related and pipelines services as a consequence of disruptions to oil production.

The NBS has also attempted to estimate services exports on the basis of assumptions agreed with the IMF. However, reliable figures are yet to be reported.

Figure 12: Services trade, millions of SSP



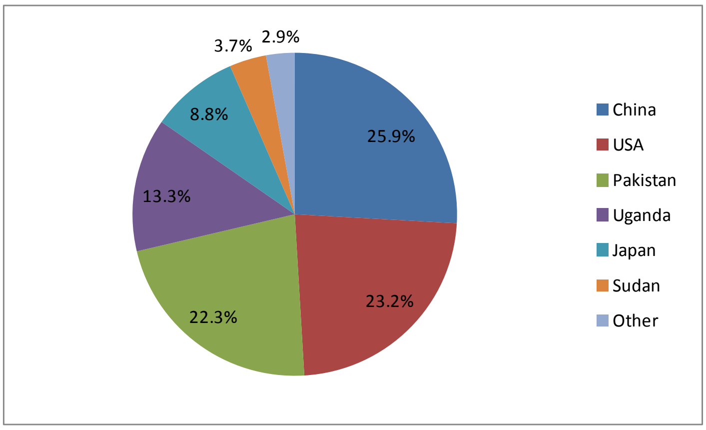
Source: South Sudan National Bureau of Statistics

The data constraints referred to previously also affect the ability to ascertain the structure of South Sudan's trade, in terms of composition and trading partners, on the import side at least (because of the predominance of oil in exports, these questions are more easily resolved on the export side).

The UN's COMTRADE reports data collected by South Sudan's trading partners. However, the coverage of the data is limited to 2012 and incomplete. Total reported imports in COMTRADE for 2012 (on the basis of export data reported by trading partners) thus amounted to a little over US$ 130 million, a fraction of the value of imports reported by the Central Bank as having passed through the Nimule border post alone. Moreover, the COMTRADE database contains no mention of exports from Kenya to South Sudan, which according to the Kenyan Export Promotion Council amounted to approximately US$ 210 million in 2012.

Figure 13 reports the shares accounted for by various sources of imports into South Sudan on the basis of existing COMTRADE data. The implicit assumption is that the broad patterns detected would not change significantly under a more complete data set. While some omissions are already known (see the case of Kenya reported above) the assumption is that the shares accounted for by trading partners within the sub-region relative to those outside it would not change significantly. The focus on regional vs extra-regional patterns of trade is of interest because policy issues regarding regional integration (see next section).

Figure 13: South Sudan, origin of imports (percentages shares)



Source: UN COMTRADE Database

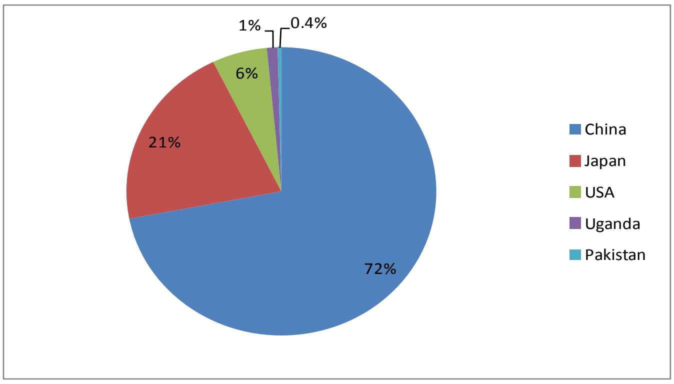
With the previously-mentioned caveats in mind, some broad inferences may be drawn on the basis of these data. The first is the significance of extra-African sources of imports, even if one allows for imports originating from Kenya that are not reported. This broadly concords with data shared with the DTIS mission by the World Bank collected through research that is still on-going (and that cannot consequently be reported), though the latter source attributes different shares to the partners mentioned in Figure 3 and reports some partners not reported in the same figure.

The shares accounted for by different trading partners are also broadly consistent with the composition of imports as reported by the South Sudanese authorities (see Figure 5 below). The latter shows that the larger share of imports is accounted for by machinery and transport, manufactures and unclassified consumer goods which are primarily produced in the extra-African partners reported in Figure 13.

Secondly, we recall that the figure reported here is for formal trade. As discussed below, figures for informal trade are likely to boost the share of East African Community trading partners. They should also boost the share of trade accounted for by Sudan, though it is notable that notwithstanding the issue of border closures with Sudan, there was still a non-negligible record of informal trade between Sudan and South Sudan.

The share of South Sudan's formal merchandise exports (principally oil) accounted for by various trading partners is reported in Figure 14. Total exports for 2012 according to COMTRADE sources were valued at just under US$ 700 million, which largely accords with NBS estimates. Accordingly, there is good reason to believe that the shares reported in Figure 14 are a more accurate representation than the shares for imports. The shares essentially reflect the destination of crude oil exports.

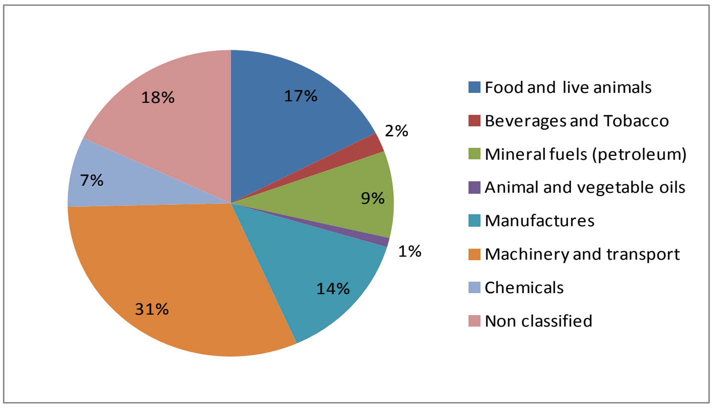
Figure 14: South Sudan, destination of exports



Source: UN COMTRADE Database

Attempts to derive estimates of the composition of imports by major product category are affected by the same problems affecting the determination of the share accounted for by trading partners. Because of limitations in COMTRADE data, we have relied on information provided by the Central Bank, based largely on reports of trade movements through Nimule in 2012. The shares are reported in Figure 15.

Figure 15: Composition of imports by SITC category



Source: Based on Central Bank of South Sudan, South Sudan Customs

Imports shares presented in Figure 15 are classified according to the main categories of the Standard International Trade Classification (SITC). The reported shares are largely consistent with the data on the provenance of imports. Manufactured products, machinery and transport equipment are primarily imported from Asia and North America. Imports of food and live animals are primarily sourced from the East African region, notably Uganda.

Informal trade flows are, by definition, difficult to quantify. Because of the importance of the phenomenon in Uganda's cross border trade, the Bank of Uganda has developed an annual survey of cross-border trade. On that basis, informal exports to South Sudan have been valued at US$ 196 million, US$ 83.7 million and US$ 115.1 million in the years 2010, 2011 and 2012 respectively. In 2012, South Sudan was the second largest destination of informal exports from Uganda (after the Democratic Republic of Congo) (Bank of Uganda 2012, pp. 9-11).

The structure of informal exports to South Sudan was estimated to consist of around 62 percent of industrial goods and 38 percent agricultural goods in 2011, while the figures were, respectively, 52 percent and 48 percent in 2012. The "industrial goods" appear to be for the most part clothing (including second hand) and footwear items, and, to a lesser extent spare parts for bicycles and motorcycles. It is not clear whether these are products manufactured in Uganda or whether they include re-exports. Agricultural products are dominated by foodstuffs. Anecdotal evidence gleaned from interviews at the Nimule border-crossing point suggest that the selling of surplus food produce from neighbouring regions in Uganda plays an important role in contributing to the availability of food in the southern part of South Sudan. Data collated by Bank of Uganda suggests that informal exports from South Sudan to Uganda are negligible.

Informal trade flows between Sudan and South Sudan are reported to be significant, though no estimates are available. Imports from Sudan mainly consist of food products. Disruptions to flows of food products, as a result of political tension, from Sudan are partly responsible for the increase in inflation in northern regions of South Sudan relative to the southern regions (see section on macro-economic developments). These developments point to the importance of imports from Sudan in the consumption bundle of South Sudanese households.

The authorities also report unspecified flows of gum arabic from South Sudan to Sudan, where it is then re-exported. The flows reflect supply links that pre-date independence. According to data presented in the DTIS for Sudan, the value of gum arabic export varied between US$ 50 million and US$ 100 million in the years prior to independence (World Bank 2008, p.41). Production for the whole of Sudan in that period was estimated to be between 20,000 and 50,000 tonnes UNCTAD/INFOCOM). The production of gum arabic in what is now South Sudan for the same period has been estimated at around 6,500 tonnes, or between 13 and 32.5 percent of the total (FAO/USAID 2009, p.13). Assuming that the South's production was exported, this puts the South's share of gum arabic exports at anywhere between US$ 6.5 million to US$ 32.5 million per year.

The importance of these flows may be gauged by the fact that the authorities are considering the establishment of a gum arabic marketing authority that would centralise export operations under a "single desk" format.

2.3 Trade regime

Tariffs

The authorities have stated that, following independence, they reverted to a tariff regime that was implemented prior to the signing of CPA. During the CPA period, the South Sudanese administration had implemented Sudan's tariff structure, albeit with some ad hoc modifications.

During the DTIS mission's visit, the duties being applied were set out in the document "Tariff Estimated Values 2010". The duties recorded in this volume do not follow any recognised classification system, such as the Harmonised System (HS), the Standard Industrial Trade Classification (SITC) or the Broad Economic Categories (BEC) classification. Rather, the document compiles duties that have in practice been implemented over time. In some cases, the document refers to brand names, rather than product categories. It remains unclear as to whether these duties were implemented consistently, it being understood that customs officials at border posts exercise significant discretion in imposing duties.

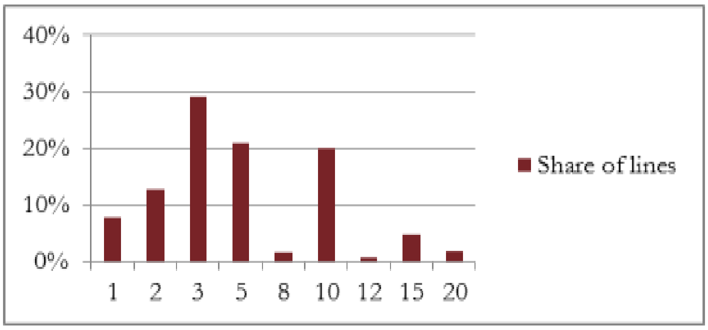
In light of the above, a new Customs Act was enacted and gazetted in May 2014 to address the serious deficiencies noted. The Act mandates the use of the HS and the implementation of valuation methods that comply with the WTO Agreement on Customs Valuation, thereby improving the transparency of the tariff structure. Support for the execution of the new Act will include a number of key actions such as a media campaign targeted at economic operators; training of border agencies in integrated border management (customs, trade, police, bureau of standards and customs agents working as a team); non-intrusive inspections and risk management procedures, including scanners and other equipment; the nomination of authorized economic operators; and measures to improve compliance of informal cross-border traders with customs formalities. Other related actions are the establishment of one-stop-border-posts (OSBPs), collection and dissemination of accurate trade statistics and reforms to accommodate electronic data interchange. Complementing the new Customs Act is an updated draft trade facilitation framework (2014) aimed at strengthening South Sudan's trade regime (outlined below in Section 2.4).

In tandem with this reform, the authorities plan to implement a banded tariff structure. The proposal is to classify imports into the following categories: capital goods, industrial raw materials, luxury goods, necessities, and zero-rated imports. Tarff bands would run from zero to 20 percent. No further information was available at the time of writing, but the approach appears essentially to generalise, and put on a more systematic footing, the practices already implemented.

For the purpose of this analysis, we have used the values recorded in the aforementioned document, "Tariff Estimated Values 2010". Consequently, various caveats are applicable. First, as reported above, it is unclear how consistently the values reported in the document are applied. Secondly, it is unclear as to what procedure is followed if goods are not covered by the document. Thirdly, in order to conduct the analysis in any meaningful way, it has been necessary to transpose the duties reported in the document into a more standard classification system, a process that inevitably requires various assumptions to be made.

Figure 16 below provides an indication of the tariff structure according to rate. The simple arithmetic average of all applied tariffs is 5.6 percent. This is substantially lower than the average for the East African Community (which is just over 12 percent), and very much lower than the average for Sudan which was just over 20 percent prior to the independence of South Sudan.

Figure 16: **Share of tariff entries by duty rate**



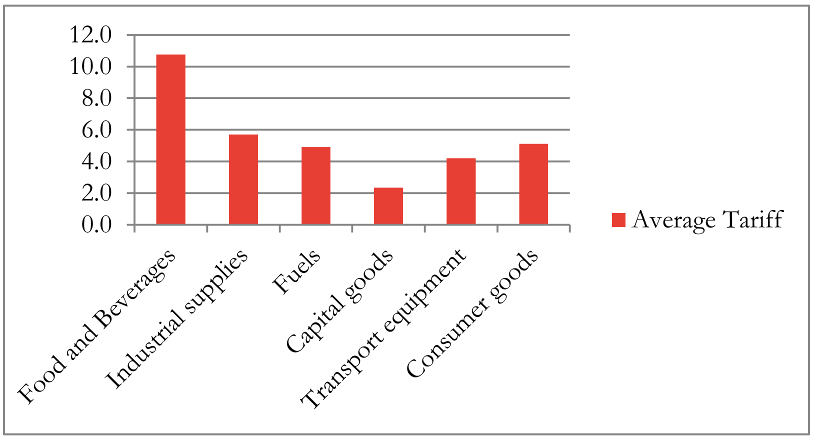
Source: Calculations based on data provided by South Sudan authorities

Prior to independence, South Sudan was supposed to have implemented Sudan's tariffs, though in practice it applied them with a reduction of 40% (World Bank 2011). Consequently, the figure reported above based on post-independence tariffs either reflect a substantial liberalisation, or may simply reflect the fact that existing tariff documentation is inaccurate. If the latter is the case, then one solution would be to consider the reported average of 5.6 percent as a lower bound, and 12 percent (i.e. a 40 percent reduction of 20 percent) as the upper bound.

Continuing on the basis of the tariffs reported by the government, we observe that the modal rate is 3 percent. The 10 percent rate applies to a range of primary products, as well as some durable consumer goods. A significant proportion of tariffs consist of what may be described as nuisance tariffs i.e. in the 1 to 2 percent range. No zero-duties were recorded in the current tariff documents. Essential goods such as medicines were reported as facing a duty of 1 percent. The existence of these nuisance tariffs, and 9 tariff bands between the range of 0 and 20 percent, confirm the desirability of rationalising the tariff structure into fewer bands, as currently envisioned by the authorities.

Figure 17 provides an overview of the tariff structure with goods classified as per the BEC.

Figure 17: Tariff Structure, BEC

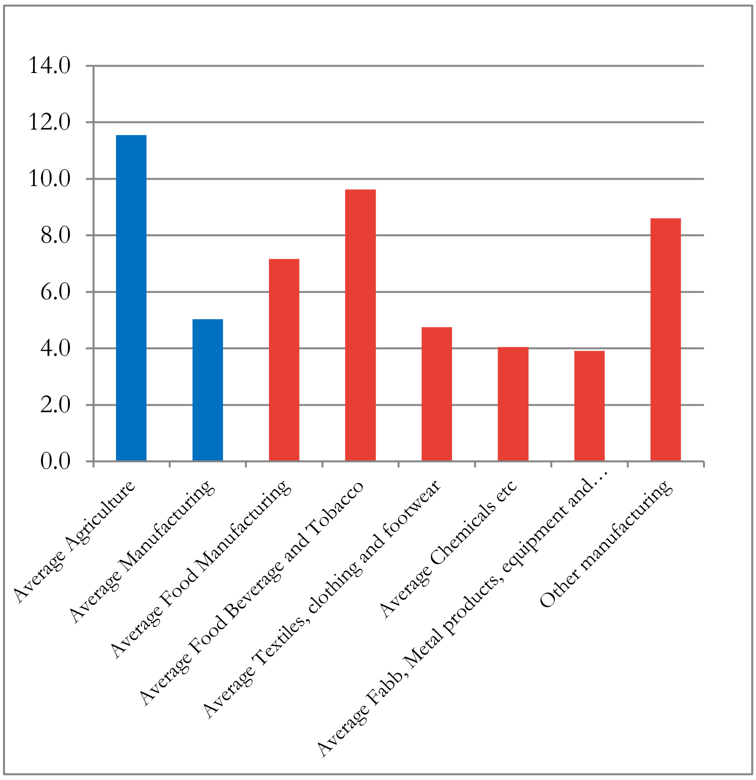


Source: Calculations based on data provided by South Sudan authorities

The data reveal that food and beverages receive the highest rate of protection. Within this category, primary products receive a slightly higher degree of protection (simple average tariff of just under 12 percent) than processed products (with an average of just under 10 percent). A similar pattern exists in Industrial Supplies, where primary goods face a tariff of about 10 percent, and processed products of just under 5 percent.

The resource allocation effects can, to a certain extent, be understood by considering the structure of tariffs by area of activity, as described by the International Standard Industrial Classification (ISIC). When categorised in this manner, the tariff structure shows a negative degree of escalation from agricultural activities to manufacturing, with the former covered by an average tariff of around 11.6 percent, and the latter an average tariff of around 5 percent. These figures, and averages for activity areas at a greater level of disaggregation (depicted in blue) are reported in Figure 18.

Figure 18: Tariff structure by activity area as per ISIC



Source: Calculations based on data provided by South Sudan authorities

The negative pattern of escalation in principle acts as a de facto tax against the allocation of resources to activities that feature a higher degree of processing. This is particularly the case for food manufacturing and textiles, which are example of activities that use primary agricultural inputs as raw materials.

Any interpretation of the tariff structure is complicated by the factors enumerated at the start of this section, as well as the discretionary scope that is provided for duty exemptions. There is currently no official record of duty exemptions. However, recorded customs revenue collections of around SSP 160 million in 2012 (that is between 1.5 and 2 percent of estimated imports) suggest that duty exemptions (or non-application of customs duties, at any rate) is a wide-spread phenomenon. The new Investment Promotion Act provides for duty exemptions for investment projects in priority sectors and areas.

Internal taxes

The central government and the states implement a range of other taxes that have a discriminatory and non-transparent impact on imports. In particular sales and excise taxes (including a special state excise tax, which is discussed in more detail below) are imposed cumulatively, with the basis for calculation being the CIF rate augmented by import tariffs, rather than the CIF rate alone. In addition, importers are subjected to an advance payment of income tax, calculated on the basis of a percentage of the value of the good (a credit against tax owed for the taxable year can be obtained).

Import licensing

All importers are required to obtain a licence from the Ministry of Trade Industry and Investment. MTII sets out the fees and the terms of the licence which are currently valid for one year and for a specific value of merchandise goods. Separate licensing arrangements regulate the import of products that have health, safety and security provisions.

The economic rationale for the current licensing regime is not clear, beyond the sole objective of raising revenue. MTII's draft trade policy framework (2014) envisions reforms to the import licensing regime in order to make it more properly focused on regulatory (health and safety issues) and longer term development objectives.

Customs procedures and valuation

As documented in Chapter III, customs procedures are underdeveloped. The discretionary scope for duty application can act as a barrier to trade, as do time-lags in customs clearance. Since independence, valuation has not followed any systematic process, and has been left largely to the appreciation of customs officers. Customs reforms and capacity building are areas actively supported by donors. Their efforts and the issues they seek to address are documented separately.

Other non-tariff measures

The impact of product standards is discussed in Chapter III.

A pervasive form of non-tariff barrier is the prevalence of roadblocks on the main road transport routes within South Sudan. A report by the National Bureau of Statistics found that in 2011 there was one roadblock for every 25 km of main roads in South Sudan. These roadblocks extract payments from transporters carrying imported items thereby increasing transaction costs. It is unclear whether revenues raised through the roadblocks are in fact channelled to state coffers.

In response to pressure by various business interest groups, the authorities have taken steps to eliminate the road blocks. These steps include the mobilisation of the military. In order to reduce the incentives that the states may have to tacitly support the road blocks, the central authorities have reached an agreement with the states regarding the distribution of excises. Thus under a centralised tax agreement between the central government and the states, the latter receive 50% of excise tax plus the proceeds of a special state excise tax. The way in which these measures are applied gives rise however, to a separate set of hidden restrictions on trade.

Trade in services

The Investment Promotion Act of 2009 contains, in its ninth chapter, various provisions on non-discrimination which in principle secure national treatment in terms of commercial presence, and also freedom from limitations to the form of business venture. The same provisions do, however, allow for the Investment Authority, in accord with the Council of Ministers, to publish a strategic list of sectors that are subject to a greater degree of limitations on national treatment and market access.

Moreover, under the 1st schedule of the Act, various factors are taken into account when considering whether a project shall be classified as a priority project area and therefore entitled to special incentives and benefits under the 2nd schedule of the Act. One of these factors is whether the form of business is a joint venture or partnership in which the South Sudanese had at least a 30 percent stake.

Finally, under the 3rd schedule of the Act, the following sectors are designated as ones in which South Sudanese investors shall be given priority: micro-enterprises; postal services; cars hire and taxi operations; public relations businesses; retail commerce; security services; and cooperative services. It is not clear, however, how or to what extent this concept of preference is enforced.

Notwithstanding the above, the health and education sectors remain critical, requiring urgent attention due to the sheer level of underdevelopment and currently high rates of maternal and infant mortality and illiteracy. The options for private sector participation in the provision of basic social services can be found in Chapter X on poverty reduction strategies.

Other measures

South Sudan does not at present have legislation governing contingent protections and trade remedies. It is understood that steps to develop such legislation are under consideration.

The authorities are considering developing a Special Economic Zone (SEZ), which would come under the jurisdiction of the Central Equatoria Investment Authority. The scope of the SEZ is yet to be determined. It is understood that the activities that would be promoted are in-line with the priorities set out in the Investment Promotion Act. Businesses within the SEZ would benefit from 100% duty free access to imported inputs, on condition that the output is exported and not sold to the domestic market.

The Investment Promotion Act of 2009 contains some trade-related provisions, in addition to those already documented in the section on services. In particular, in issuing an investment certificate to a local or foreign investor, the Authority may consider (amongst other criteria), whether the proposed investment will promote exports or substitute imports, and the extent to which it will utilise domestic raw materials. Import substitution and export promotion are also considered when deciding on the eligibility for incentives available for priority projects.

2.4 Policy issues and options

Overview

The government is currently undertaking a major review of its trade policy and institutions, in order to ensure that they contribute to South Sudan's development objectives as articulated in the South Sudan Development Plan. In particular, trade policy reform can play an important role in stimulating economic growth, helping to diversify exports, and enhancing employment opportunities.

In support of the need for reforms, an updated "Draft South Sudan Trade Policy Framework" of June 2014 prepared under the leadership of MTII, and seen by the DTIS mission, identifies six pillars or priority actions to achieve its vision of "a globally competitive South Sudanese economy led by exports with an efficient domestic market". The six pillars are as follows:

Pillar 1: Trade facilitation and market promotion: lower the costs associated with imports and exports as well as actively promote exports for South Sudan to benefit from trade.

Pillar 2: Integrate into the global economy and enhance South Sudan's access to export markets: seek participation in regional and multilateral integration schemes with a view to enhancing exporters' access to foreign markets and maximizing South Sudan's benefits from economic integration.

Pillar 3: Enhance South Sudan's business environment for South Sudanese firms to increase exports: develop an environment that is conducive for firms to improve domestic competitiveness and hence their ability to export; eliminate policy and capacity bottlenecks and biases that inhibit the private sector growth.

Pillar 4: Improve trade-related infrastructure: the poor state of South Sudan's physical infrastructure significantly raises transaction costs making exports uncompetitive and hampers efforts to benefit from the country's comparative advantage.

Pillar 5: Domestic trade: streamline and liberalize trade within the country in order to benefit from international trade.

Pillar 6: Leverage international resources for the creation of South Sudan's diversified export base: seek international donor support for implementation of projects and policies embedded in the trade policy framework.

On paper at least, South Sudan has a relatively liberal trade regime. The reported average tariff rate is lower than that applied in the sub-region generally. The main challenges for South Sudan is to ensure that distortions in the tariff structure that penalise diversification are progressively removed; that its trade regime is placed on a transparent and stable footing; and that trade policy remains insulated from forces that would bias policy in favour of selective protectionism or revenue collection not transferred to the Treasury. The latter two issues are connected to the question of what international trade arrangements South Sudan should choose, since these can be a mechanism for increasing the transparency and stability of the trade regime, and safeguarding against policy reversals.

Before considering the appropriate policy responses in detail, it is important to emphasise the broad overarching reasons why trade policy in South Sudan should retain a liberal bias and eschew selective forms of protection. The first is that increased tariffs will reinforce the anti-export bias that stems from South Sudan's geographical position as a land-locked country. The latter essentially gives rise to a natural form of protection, which studies in other contexts have shown to be very significant indeed. [16]

The second reason is that protectionism and import suppression complicate the management of exchange rate effects in the presence of resource revenue inflows and substantial aid inflows. Specifically, large inflows of aid or resource revenues will lead to an increase in the relative price of the pound versus the dollar i.e. an exchange rate appreciation. An increase in imports would attenuate that effect, since it would entail a commensurate increase in the demand for dollars relative to the pound. Trade liberalisation makes imports cheaper and therefore generates this increase in demand for dollars relative to the pound. Hence, trade liberalisation is necessary part of

[16] See for example Chris Milner, Oliver Morrissey and Nicodemus Rudaheranwa, Protection, Trade Policy and Transport Costs: Effective Taxation of Ugandan Exporters, DFID-TERP: CREDIT DISCUSSION PAPER 7 (CDP007).

managing Dutch Disease effects while protectionism is not a desirable stance (see Box 3).[17] The challenge is that quite often the initial reaction to Dutch Disease effects is a call for protectionism.

Box 3: Dutch Disease and commodity booms

The expression “Dutch Disease” relates to the effects, particularly on manufacturing activities, of the discovery of natural gas in the Netherlands in the late 1950’s.

The phenomenon of “Dutch Disease” involves the appreciation of the real exchange rate and a reallocation of resources away from lagging to “booming” natural resource sectors. These reallocation effects are not in and of themselves necessarily bad things, as they reflect the underlying endowments of the economy. But they may be more problematic when resource booms are transient, because of the negative consequences imposed on non-booming sectors. Moreover, in economies where the private sector has relatively limited access to financial assets, particular in overseas assets, investment from resources windfalls may be directed to non-tradable sectors such as construction, which is why construction booms are often observed to accompany resource booms. Spending on non-tradable products and services can further shift relative prices in favour of non-tradable goods and services over tradable ones, further impairing the competitiveness of the lagging sectors.

Dutch Disease symptoms related to the oil sector in Sudan, prior to South Sudan’s independence in 2011, already existed in the form of a real exchange rate appreciation not explained by productivity gains, excessive government borrowing and a decline of the non-oil sector, including tradables.[18] South Sudan potentially faces similar risks, pointing to the need for caution in managing oil proceeds and other resource transfers to ensure adverse real exchange rate movements do not cause long-term damage to the non-oil sector. This situation is potentially exacerbated by the dual exchange rate regime.

Addressing existing distortions

As reported in the previous section, the current tariff structure is biased in favour of primary agricultural activities over manufacturing and activities with a higher degree of processing. This negative pattern of escalation has multiple undesirable consequences. First, it increases South Sudan’s food bill. Second, the current tariff structure acts as an implicit tax on the development of activities such as food processing or textiles, in which South Sudan is likely to have a comparative advantage. South Sudan’s updated draft trade policy framework (June 2014) recognises the anti-export bias in the current trade regime and recommends corrective measures to address it. It places emphasis on economic diversification and the need to create the enabling conditions for processing of South Sudan’s natural resources to generate income and create employment, particularly in the non-oil sector.

While clearly the development of productive capacity and export potential in these areas would require addressing a multitude of supply-side constraints (that are addressed notably in the section on the private sector), correcting deficiencies in relative prices is an important starting point. Doing this by increasing tariffs on activities at a higher level of processing is not a suitable option since the increase in effective protection would worsen anti-export biases.

---

[17] See Collier and Dehn, 2001. Aid, Shocks and Growth, WP2688, World Bank, Washington DC ; Collier and Gunninng (1992), Aid and Exchange Rate Adjustment in African Trade Liberalisation, Economic Journal pp. 925-939.

[18] See IMF (2013). “Sudan Selected Issues. Country Report No. 13/320” and Johannes Schreuder (2008), “Transfers for Transition”, University of Amsterdam.

At the same time, it is doubtful that keeping tariffs higher on primary agricultural products will help the competitiveness of that sector. This is because the development of that sector will be much more dependent on access to inputs, research development and extension services, financial services, and better transport linkages. Moreover, tariffs on agricultural products help to increase the food bill for South Sudan.

There also is ample scope to eliminate a series of “nuisance tariffs” levied at rates of, respectively, 1 and 2 percent. This would substantially facilitate the flow of these goods, thus saving customs administration costs.

Policy reform and trade arrangements

As already observed, in addition to removing existing distortions, an important issue for the authorities is to ensure that the trade regime is placed on a transparent and stable footing. Currently, transparency is hampered by the fact that the tariffs are described in a non-standard way, and by the scope for discretionary application by customs. Moreover, the fact that the tariff regime is susceptible to ad-hoc revisions creates difficulties for investors who face uncertainty as to the profile of relative prices they face.

One way of addressing these issues is through participation in negotiated trade agreements. This is because such agreements involve legally binding commitments that cannot be revoked without significant costs. Possibilities for South Sudan include the East African Community (EAC) and COMESA, at a regional level. The former is understood to be the immediate focus of policy attention. At a multilateral level, accession to the World Trade Organization (WTO) is a possibility.

Given the focus on the EAC, we begin by considering the principal trade policy issues raised by membership. From a trade policy point of view, membership would involve adopting the EAC’s Common External Tariff (CET), taking into account the qualifications to the CET due to the exemptions list negotiated by existing members) and phasing out tariffs on intra-EAC trade. It would also require non-discrimination in terms of other internal taxes. The EAC also requires commitments to phasing out non-tariff measures, and to harmonisation in the area of standards. The Common Market protocol also calls for the liberalisation of trade in services, and for free movement of labour and capital. The latter two lie outside the scope of this analysis and are therefore not considered.

In terms of tariffs, the first thing to consider is the relative structure of the EAC-CET, which would become the tariff applied by South Sudan, vis-à-vis South Sudan’s current tariff structure. The WTO (see WTO 2011) reports that the CET currently has three bands (zero, 10 percent and 25 percent), and an average rate of 12.7 percent. Higher rates, ranging from 35 percent to 100 percent, apply to a list of sensitive items, which currently covers 58 tariff lines. A higher rate of tariff protection of 17.7 percent prevails in agriculture, hunting and fishing (as per the ISIC definition), compared to manufacturing with an average of 12.5 percent. The WTO also reports that the EAC-CET shows a mixed pattern of escalation: activities at the first stage of processing are sheltered by an average tariff of 13.7 percent; for semi-finished products the average is 9.9 percent; while for fully processed products it is 14.1 percent.

These aspects of the EAC-CET make its implementation an unattractive proposition for South Sudan, bearing in mind the observations made previously about the desirable direction of tariff reforms in South Sudan. First, implementation of the EAC-CET would likely require raising a number of tariffs relative to their current level, which would worsen anti-export biases.

Secondly, given the importance of non-EAC imports in South Sudan's trade, an increase in tariffs on non-EAC imports is likely to have significant trade diversion costs. In effect, the implementation of the EAC-CET would lead to transfers from South Sudanese consumers to less efficient suppliers elsewhere in the EAC, who would otherwise face stronger competition from more efficient producers from outside the sub-region. This observation is consistent with a body of research that suggests that preferential regional trading arrangements between developing countries tend to leave the poorer partners worse off than if it had chosen to liberalise more generally (see Venables 2001).

A further difficulty is that implementation of the EAC-CET would not enable South Sudan to address the key issue that the present tariff structure biases relative prices against resource allocation to processing and manufacturing activities, in which South Sudan is likely to have an emerging comparative advantage. Indeed, the EAC-CET seems to present the very form of negative escalation between agriculture and manufacturing that it would be desirable for South Sudan to eliminate.

The prospect that implementation of the EAC-CET could move tariff reforms in an undesirable direction is indeed seen in the experience of other members of the EAC. In the case of Burundi, for instance, the average tariff rate for agriculture doubled on implementation of the CET, while the impact on manufacturing was mixed (see WTO 2011).

It is of course possible to pursue liberalisation on a regional basis without joining a customs union and implementing a device such as the CET. The phasing out of tariffs that apply to EAC members on a reciprocal basis may have some advantages for South Sudan, in that it could eliminate tariffs on certain food products and consumer items that currently attract a relatively high degree of protection. If tariffs on non EAC partners are also lowered, the potential for trade diversion would be limited. Moreover, such reciprocal elimination may also open up opportunities for South Sudan as its export potential is developed.

The elimination on non-tariff barriers has the potential to generate considerable gains for South Sudan and neighbouring countries alike. However, the WTO reports that across the EAC, "In practice, there has been very little progress in tackling NTBs". The harmonisation of standards would also present advantages to South Sudan, both in terms of access to East African markets as well as access to third party markets, insofar as the implementation of standards within the EAC represent a step forward relative to the standards regime currently implemented. However, it is not clear that membership of the EAC is a necessary precondition for such harmonisation.

As far as trade in services is concerned, the EAC members have pursued liberalisation following a positive-list approach based on the General Agreement on Trade in Services. Liberalisation is on-going and is based on progressive rounds of negotiations. As far as South Sudan is concerned, the immediate gains in services reform are likely to lie in the extent to which these enable the alleviation of supply side constraints, for example by increasing inward investment opportunities in telecommunications, finance and transport. These are not necessarily contingent on participation in negotiations, though such negotiations may offer the prospect of increasing the security of reforms through binding commitments. As with goods, though, it is in the interests of South Sudan to allow for service suppliers from the most efficient sources, which do not necessarily lie within the EAC.

Other challenges with integration into the EAC include the likelihood of having to enter into negotiations with the EU as part of the Economic Partnership Agreement negotiations currently pursued between the EU and the EAC. Apart from the demand these negotiations would place on administrative capacity, there may be economic costs (in terms of trade diversion) arising out of economic partnership arrangements with the EU given the current structure of South Sudan's trade.

On the balance of existing evidence, the economic case for membership within the EAC seems weak, as it does not appear to match the desirable trajectory of trade reform for South Sudan. It would therefore be opportune to consider possible alternatives.

If a strong political opinion exists in favour of regional integration, one option would be to negotiate reciprocal free trade arrangements (but not entry into a customs union) with EAC members or a subset of these (such as Kenya and Uganda). A non-customs union arrangement would give South Sudan control of its tariff structure vis-à-vis third party countries. If, for reasons set out above, this were coupled with a low level of tariffs for other partners, and reforms to address the main resource misallocation effects of the existing tariff structure, such a step could help secure the main benefits of regional integration (including the opening of regional markets) while minimising the main costs related to trade diversion.

In considering regional trade arrangements, it would be opportune to consider the benefits of a free trade arrangement with Sudan. While there are clearly many political issues here, it is also equally clear that from an economic point of view, the creation of a border between the two cut through a number of closely developed economic linkages. Given the continuing role – albeit often on an informal basis- Sudan and South Sudan appear to play in each other's trade, a fuller economic analysis of the question would be opportune. Indeed, in a gradual move toward increased openness, in 2014 GRSS signed memoranda of understanding with Sudan, Uganda and Kenya to facilitate trade with South Sudan. Based on these arrangements, the border posts shared with Sudan, which are critical for cross-border trade and food security for the northern states, have been fully or partially reopened. However, due to continued fighting in parts of the north, the opening of the border has been temporary and sporadic which depends on the degree of hostilities. Given the continuing role trade plays, often on an informal basis, between Sudan and South Sudan, the reopened border is a favourable development in the relationship of the two countries.

One issue that may arise with the approach suggested above is sensitivities by regional partners about the possibility of South Sudan being used as a base for re-exports of good originating outside the region, particularly if third party tariffs applied by South Sudan are substantially lower than ones prevailing in the EAC. In practice, this may not be a significant issue, since merchandise goods for the most will need to transit through one of the regional partner countries before reaching South Sudan. However, the question does reinforce the need for capacity building in customs, notably in the administration of rules of origin, to accompany any trade reforms that have a regional preferential dimension.

The authorities have also considered accession to COMESA, either in tandem with integration into the EAC or as an alternative to it. Indeed, up to independence, South Sudan was part of the COMESA arrangements given that Sudan is a member.

The structure of COMESA's common eternal tariff is essentially the same as that of the EAC. Consequently, the policy issues that would arise through the application of the COMESA CET are largely the same as those discussed above in relation to the EAC. One difference is that membership in COMESA would technically allow for free trade between Sudan and South Sudan, with the attendant benefits that would follow (see preceding discussion). If liberalisation between Sudan and South Sudan were to prove politically challenging, membership of COMESA could be one way of overcoming such challenges, since the liberalisation between the two Sudans could be presented as part of a wider regional integration effort.

Another option is to pursue trade liberalisation on a Most Favoured Nation basis. This is not necessarily mutually exclusive with the previous option, since the benefits of the regional approach are in part contingent on the extent to which trade liberalisation is undertaken vis-à-vis non-regional partners.

Liberalisation on a MFN basis does not necessarily require membership of the WTO. The main advantage that the WTO would bring to South Sudan is the ability to increase the transparency and predictability of its trade regime through binding commitments. Because membership of the WTO involves considering a broad range of issues that extend beyond trade policy as conventionally defined, the process of accession will need to be carefully managed in accordance with development strategies and reform priorities at the sectoral level (including regulatory reforms). It is therefore likely that WTO membership is some way off. However, the process of negotiating accession itself may offer South Sudan an anchor for any trade reforms it wishes to undertake, since as part of the process the tariff regime will come under the scrutiny of WTO members. Moreover, the process of accession should further stimulate donor interest in trade policy capacity building.

2.5 Conclusions

The previous sections have highlighted the necessary role of trade liberalisation in helping South Sudan meet its objectives in terms of diversifying its production structure, generating employment opportunities, and, more broadly, in alleviating poverty. Given the structure of South Sudan's trade and its current trade regime, the main priorities lie in removing existing distortions and in increasing the security and transparency of the trade regime. This reflects the reality that export promotion in a small open economy such as South Sudan requires liberalisation on the import side.

The properties of the EAC's Common External Tariff do not suggest that integration into that customs union represents the optimal way forward. There may be scope for negotiating reciprocal regional free trade arrangements, including with Sudan, as long as this is accompanied by reforms on a MFN basis. The process of accession to the WTO could increase the security of this process.

It is recognised that various uncertainties still exist, because of the poor quality of data, on various aspects of South Sudan's trade and its trade regime. However, it is unlikely that the broad recommendations would change significantly even if substantially new data were available.

It is recognised that there may be non-economic reasons why for preferring some integration options over others. However, from a public policy point of view, it would be desirable if the relative costs of these options are explicitly considered, so that if decisions are made on non-economic grounds, they are done so on the basis of a full recognition of the costs involved.

It is not the intention, in dwelling on the importance of trade reforms, to downplay the importance of other types of policy actions required to stimulate productive capacity. These efforts are discussed in much greater detail in the chapters of this report that deal, respectively, with private sector development, agriculture, and aspects of infrastructure. In particular, it is clear that an increase in employment opportunities will requires substantial investments in human capital and skills formation.

2.6 Recommendations

A set of recommendations based on the preceding analysis is set out in the table below. A fundamental question is the strengthening of customs administrations capacity. This is critical to trade facilitation, and also to ensuring that the collection of customs revenues can be increased without requiring higher tariffs. These issues are addressed in Chapter III which deals with customs and trade facilitation.

Table 1 – Trade policy recommendations

ACTION
Tariff reforms
Eliminate nuisance tariffs, i.e. tariffs not consistent with the new Customs Act and the newly gazetted tariff schedule.
Reduce tariffs on agricultural products to average of 5% and eliminate patterns of negative escalation
Rationalise tariff structure to three bands between 0 and 10%, with top rate for luxury consumer items
Undertake full economic analysis of different reform options, including quantification of effect of joining EAC, prior to undertaking commitments.
Evaluate options for negotiating free trade areas with regional partners, including Sudan.
Initiate process for WTO accession
Limit scope of exemptions to that set out in the Investment Promotion Act
Other taxes on goods
Reform basis of imposing excise and sales taxes to make them non-cumulative and non-discriminatory
Import licensing
Remove requirements for import licences except for a narrowly defined class of restricted products on health, safety and security grounds.
Export promotion
Define scope and arrangements for Proposed Special Economic Zone
Services
Establish inter-ministerial committee to begin elaborating options for services commitments under GATS-type framework

REFERENCES

African Development Bank (2013). South Sudan: A Study on Competitiveness and Cross Border Trade with Neighbouring Countries.

Bank of Uganda (2011). The Informal Cross Border Trade Survey Report 2009 and 2010.

Bank of Uganda (2012). Survey of Informal Cross Border Trade 2012.

Brenton, Paul and Gözde Isik (2012). De-fragmenting Africa: Deepening Regional Trade Integration in Goods and Services, World Bank, Washington D.C.

Milner, Chris, Oliver Morrissey and Nicodemus Rudaheranwa (2014). Protection, Trade Policy and Transport Costs: Effective Taxation of Ugandan Exporters, DFID-TERP: CREDIT DISCUSSION PAPER 7 (CDP007).

Collier, Paul and Den, Jan (2001). Aid, Shocks and Growth, WP2688, World Bank, Washington D.C.

Collier, Paul and Gunninng, Jan Willem (1992). Aid and Exchange Rate Adjustment in African Trade Liberalisation, Economic Journal, pp. 925-939.

Ministry of Trade, Industry and Investment (2014). "Draft South Sudan Trade Policy Framework," June 2014.

Ogalo, Victor (2010). *Informal Cross-Border Trade in EAC: Implications for Regional Integration and Development*, publication under BIEAC Research Series.

South Sudan National Bureau of Statistics (www.ssnbs.org)

UNCTAD/ INFOCOMM – Commodity Profile_ Gum Arabic, at http://www.unctad.info/en/Infocomm/AACP-Products/COMMODITY-PROFILE---Gum-Arabic/

Venables, A.J. (2001)."Winners and losers from regional trade agreements", *CEPR Discussion Paper DP2528.*

World Bank (2008). Revitalising Sudan's Non-Oil Exports – A Diagnostic Trade Integration Study Prepared for the Integrated Framework.

World Bank (2011). "Enhancing the recent growth of cross border trade between South Sudan and Uganda", *Africa Trade Policy Notes*, No. 21.

World Trade Organization (2011). Trade Policy Review of the East African Community

CHAPTER III - TRADE FACILITATION

3.1 Customs and related procedures

Customs administration is very underdeveloped, even in comparison with other least-developed countries. This mainly reflects the fact that until independence, customs was run by what is now Sudan. Following independence, all processes that had been in place in effect ceased to operate.

This underdeveloped state of customs administration in turn hampers the development of South Sudan through a variety of channels. First, it increases the costs associated with trade. As already documented in the chapter on trade policy, a land-locked country, such as South Sudan, with poorly developed infrastructure linkages, faces a natural protectionist bias that increases the cost of imports and therefore creates further costs for businesses and biases against exporters. Trade facilitation costs add to these.

Secondly, poor customs administration hampers revenue collection and thus the expansion of the revenue base away from oil. Importantly, improvements to customs administration can help to increase revenue without increasing taxes on imports.

Shortfalls in customs can be classified into several categories: legal and policy related shortfalls; shortfalls related to trade facilitation; and resources and infrastructure shortfalls.

As noted in Chapter II, the new Customs Act (2014) sets the basis for introducing improvements to customs administration that will increase revenue without increasing taxes on imports. Before, customs authorities lacked a proper framework within which to function and to be held accountable. The new Customs Act addresses these weaknesses and provides a set of binding obligations on customs operations. The Act provides, for instance, for the use of the HS without which the valuation of cargo and exemptions are subjective and discretionary.

Practices and procedures that do exist are largely a carryover from the period prior to the signing of the Comprehensive Peace Agreement. As observed in the chapter II on trade policy, existing tariff descriptions and duties are based on a compilation created under the war of liberation. All customs procedures are conducted manually, with physical inspection of all consignments. If physical inspections cannot be conducted at Nimule (because the goods are too large or bulky), the consignment is transferred under armed escort to Juba. Risk management practices are unknown. All records are kept manually, and customs receipts are issued manually. Duties collected are entered manually into a written ledger. Written receipts are provided for cash payments. Cash is kept on the customs offices premises, from where it is transported on a monthly basis by armoured vehicles to the capital. Clearly this increases the scope for losses.

Trading across borders remains a major challenge because of South Sudan’s heavy reliance on the congested, under-equipped Nimule-Bibia customs border post at the border with Uganda for its imports and non-oil exports. The lack of automation and inter-connection between border posts hampers data collection and impedes the flow of goods. Clearance times are heavily dependent on the volume of throughput and on weather conditions. It is understood from the authorities that clearance times may vary from 1 to 3-4 days at the main customs point at Nimule. The lack of hard-surfaced parking and inspection areas is particularly problematic in the rainy season, when trucks get bogged down, creating a backlog of vehicles to be cleared.

Another cause of delays is the cash bond that traders are required to pay Kenya Revenue Authority (KRA) to clear their goods for shipment through Nimule. Many traders with large consignments often have difficulties raising the funds to post the bond. As of 6 September 2013, KRA reported that there were 592 containers at the Mombasa port that have remained uncollected, some ranging from three months to as long as five years (Secretariat of the Transit Transport Coordination Authority of the Northern Corridor 2013). Additionally, containers return empty from South Sudan requiring the importer to pay inbound and outbound costs for shipping the container, significantly increasing transport costs. As a result, it is not surprising that importing a container, for example, from Europe to Mombasa bound for Juba costs an additional US$7,200 in inland transportation and handling along the Northern Corridor. Clearing electronically sealed cargo at the point of origin, say at Mombasa or at an inland container depot, and sending the documentation electronically could significantly reduce the transit time and the cost of shipping to Juba.

Clearing agents are active at border posts. Their role is ostensibly to facilitate the flow of goods. Interviews with both the authorities and representatives of the private sector suggest, however, that clearing agents are, at the very least, as much of a hindrance as a help. This is because they are poorly trained, and are themselves not knowledgeable about customs procedures. The agents are licensed by the Ministry of Justice, and there do not appear to be any minimum standards enforced in conjunction with licensing. The result is that customs declaration forms are not properly completed. Similarly, the business community is not familiar with import and export procedures. In these circumstances, the activity of clearing agents is likely to be more a form of rent seeking – by exploiting the lack of transparency and predictability of customs operation – than a form of facilitation. Further, the processing of clearances is done manually and all payments are in cash. Without the HS code, valuation of cargo and exemptions are subjective and discretionary and receipts are not routinely issued which creates opportunities for informal payments.

In terms of the quality of the facilities, customs offices in Nimule are poorly equipped, crowded and the customs yard is not paved which prevents the efficient inspection of goods. Collectively, these non-tariff barriers increase costs and delays at the border.

The South Sudan National Bureau of Standards is active at Nimule border posts. Coordination with customs authorities is weak; in particular, deficiencies are evident in the flow of information between the two authorities regarding the arrival of consignments. An entirely different set of documents exist for the purpose of verifying standards compliance where the same information could be provided in one form. Collectively, these issues slow down the transit of goods.

Working hours at border posts are restricted to 6 am to 5 pm on weekdays, with a 3 pm finish on weekends. This means that shipments arriving in the evening have additional wait times. Moreover, congestion is increased.

One of the most fundamental constraints on customs administration remains the shortage of adequate human resources. At a very basic level, shortfalls in literacy and numeracy remain a central problem. Secondly, most current customs staff are police personnel that report to the Ministry of Interior, rather than to the Ministry of Finance, which technically has oversight over customs. The Ministry of Interior has very different priorities to the Ministry of Finance, and, moreover, the career paths and training that are within the scope of the Ministry of Interior differ greatly from that which would normally be associated with customs administration.

The shortcomings in customs procedures and systems have been extensively documented in project information documents and policy papers prepared by donors that are active in the area. It is not the intention of this paper to replicate that work. The main areas of capacity building requirements, the particular issues and the actions taken to remedy these issues are set out below in the Table 1.

Support for customs reform and capacity building is being provided by a number of agencies: chief among these are (i) Trademark East Africa, which is helping to support the implementation of a strategic plan over the period 2012-2017. The aim of the plan is to transform customs administration into a service adapted to the demands of modern international trade; (ii) IMF's Fiscal Affairs Department, which provides support as part of a general programme to strengthen the collection of non-oil revenues; (iii) IFC and Trade Mark East Africa which with the GRSS are addressing some of the issues mentioned above with a view to improving service delivery. For example, the establishment of a one stop border post (OSBP) that brings together South Sudanese and Ugandan border control authorities at Nimule-Bibia to expedite customs clearance has already started. Ugandan customs management is automated.

Other needed reforms include setting up an OSBP at the Nadapal-Lokichogio border post with Kenya; consolidating revenue collection by having the Customs Department collect taxes at the border; and introducing risk management and post-clearance audits to expedite border crossings. There is a stretch of road in Uganda from Gulu to Bibia/Nimule (104 km) that needs to be paved which is a major cause of congestion, delays and overloading. According to the Uganda National Roads Authority, improvement of the Gulu-Bibia road to bitumen standard is scheduled to be completed in August 2014.[19]

While the authorities are conscious of the need for reforms, the pace of reforms is slow. For example, a 2011 report by the IMF identified a series of actions that could be taken by July 2012 (IMF 2011). These actions included: facilities for direct deposits by traders; communication of advanced cargo data by the Ugandan and Kenyan authorities, through an automated system to be implemented in Nimule; implementation of elements of risk management, and a one stop border post. However, as of October 2013, none of these measures had been implemented.

In light of vital role customs play in a landlocked small open economy such as South Sudan, and policy slippages to date, the required actions in the table below can all (with the exception of contingent trade protection) be considered to be priority actions.

Table 2: Capacity shortfalls and potential remedies for customs administration

Issue	Required action	Comments
Legal and policy		
The legal basis for revenue collection is in place but the capacity to collect revenue is weak.	Build capacity for revenue collection, including staff training, and implement new procedures as per the new Customs Act.	

[19] Kenya Transporters Association, "Trade Facilitation: The Road to Juba". See http://www.kta.co.ke/index.php/training/11-updates/21-trade-facilitation-the-road-to-juba.

Arbitrary imposition of duties	Implement internationally recognised classification through Harmonised System Implement WTO consistent valuation processes	Need to build capacity of customs personnel to implement the new Customs Act and adhere to the newly gazetted tariff schedule.
Ad-hoc granting of exemptions	Build capacity to enforce rules on exemptions as per the new Customs Act and Investment Promotion Act.	The new Customs Act and Investment Promotion Act include provisions on exemptions.
Contingent trade protection	Requires specific legislation that is WTO compliant	
Trade facilitation		
Automation	Implement modern data management system	Uganda Revenue Authority (URA) currently assisting with computerisation based on software package developed by URA. This could be eventually upgraded to ASYCUDA package
Move from 100% physical inspection to risk based analysis	Requires automation and cooperation with other customs authorities, and training of personnel. Requires classification of goods according to risk categories. Implementation of trader profiles	Categorisation exists under import licence scheme. But further facilitation possible by refocusing licensing system on certain sensitive or prohibited goods
Multiple inspections and onerous paperwork slows clearance	Implement Single Administrative Document and single window system. Initiate information sharing with Kenyan and Ugandan authorities	Requires identification of single window system from external provider. MoU's with Kenya Revenue Authority and Uganda Revenue Authority under development. Requires institutional cooperation with other agencies, notably standards
One Stop Border Post (OSBP)	Requires cooperation with Ugandan and Kenyan authorities.	Plans are underway with Kenya and Uganda to establish OSBPs.
Increase possibilities for electronic payment	Develop possibilities for remittances of duties through commercial banks	
Congestion at peak times	Open customs posts 24/7.	
Clearing agents poorly regulated and resourced	Transfer regulatory and licensing functions to customs, and set minimum standards	The longer term ambition is to do away with the need for clearing agents as customs processes become more transparent and streamlined
Institutional reforms, infrastructure and resourcing		
Lack of training of customs staff	Need to establish proper career and	Basic constraint is lack of staff with sufficient levels of educational

	institutional structure for customs staff Develop knowledge of technical requirements of modern customs administration	attainment, including English proficiency and literacy and numeracy skills. This constrains all forms of capacity building. Integration with Kenyan and Ugandan customs authorities will also facilitate capacity building and skills transfer. Current customs staff under the military or the ministry of interior. Need to develop separate career track
Lack of adequate facilities and space	Need tarmac areas for parking and unloading of vehicles and adequate forklift machinery Proper provision of water and electricity, as well as storage and inspection facilities	Plans are underway to improve infrastructure at selected borders.
Lack of proper monitoring and weak accountability systems	Need to implement centralised reporting and monitoring system linking customs posts to headquarters. Need to implement post clearance audit practices. Need to implement codes of conduct and ethics.	This could be developed as part of the process of rolling out IT systems and networks
Lack of proper resourcing, and integration with overall revenue management structure	Establishment of independent revenue authority with its own statutory legislation and budget	

3.2 Infrastructure and linkages

South Sudan is critically dependent on transport linkages with neighbouring countries. As discussed in the chapter on trade policy, the costs associated with transport adversely affect the welfare and growth prospects of South Sudan, by increasing the costs of consumption and production, and by creating a significant anti-export bias on non-oil commodities especially.

International access to seaports

While oil is exported by pipeline through Sudan, and there is a significant cross-border trade with Sudan, the main trade linkage for South Sudan is to the port of Mombasa, in Kenya. This is sometimes described as the Northern Corridor. Within the corridor, the principal routes are through Uganda - either through Mbale and eastern Uganda, or via Kampala – and enter South Sudan at Nimule. Nimule is currently the principal entry point for merchandise trade into South Sudan.

Users of this route incur significant costs, both in terms of direct cash outlays and in terms of the opportunity costs of time incurred by delays caused by congestion at Mombasa and border crossings, and certain sectors of the road network. Attempts have been made to quantify aspects of these costs. The cost to ship a 20-foot container from Europe to Juba via Mombasa is US$9,285, of which the inland transportation and handling Mombasa-Juba cost is US$7,200 compared to the significantly lower Mombasa-Kampala cost of US$2,150. The difference of US$5,050 in inland transportation costs between Juba and Kampala accounts not only for the somewhat longer distances travelled but also other costs including delays en route, non-tariff barriers like roadblocks and the fact that importers have to pay for the return of empty containers, in effect paying for both inbound and outbound shipping costs. One study reports that in terms of direct monetary costs for containerised cargo, road costs are the most significant, accounting for between 70 percent and 78 percent of all costs (USAID 2012, p.27).

By contrast, the bulk of time-related costs is accounted for by delays at the port – just over 60 percent. The reported monetary costs associated with ports are the direct costs associated with various fees and port charges, and estimates of "unofficial charges" (i.e. bribes) required to speed up the process. They do not include the monetary value of time lost in bringing goods to markets. These costs will be in proportion to the value of the goods. Given the structure of South Sudan's trade, and in particular its dependence on capital goods and energy imports through Mombasa, the wider economic costs of these delays are likely to be significant.

The structure of costs has implications for policy. The question of road levies is closely connected to the question of road blocks (discussed in the section on trade policy), though not all of the road levies reported above are the consequence of road blocks in South Sudan. As reported in the chapter on trade, efforts have been made to reduce the incidence of road blocks in South Sudan, which could reduce the incidence of costs reported above.

The share of ports in total transport time, and thus in indirect costs, is a significant issue because the efficiency of Mombasa Port is outside the direct policy influence of the South Sudanese authorities. Like other countries in the region – notably, Uganda, Burundi, and Rwanda - South Sudan is dependent on the policy actions taken by the Kenyan authorities in regards to Port management. In other words, Kenyan policy action generates externalities with regard to its neighbours; and consequently, Kenyan authorities may under-invest, from the point of view of the region as a whole, in actions required to improve the efficiency of Mombasa port because some of the benefits accrue to other countries.

These trans-boundary externalities arise in other areas of infrastructure, most obviously roads. The state of the road to Mombasa port has an impact on transport times. Closer to South Sudan, the state of the road between the Nimule border crossing and Gulu in Uganda, contributes to increased transport times. Journey times of between 3 and 4 hours for the 130 km stretch are common. At the time of the DTIS mission, the road to Gulu was impassable because of flooding, leading to a backlog of vehicles heading to South Sudan. Thus even though journey times from Juba to Nimule have been reduced to 2-3 hours from 7-8, following investments supported by USAID, bottlenecks still occur because of unresolved road issues across the border. These reduce the pay-offs from investments made within South Sudan.

One way of dealing with the problem of externalities is through contractual arrangements such as treaties. The Northern Corridor Transit Agreement, under the aegis of the Transit Transport Coordination Authority of the Northern Corridor, is one example of such a treaty arrangement. Its objectives include transport policy and planning, and trade facilitation and customs.

South Sudan became a member of the Northern Corridor for Transit and Transport in 2012, a model of inter-state cooperation linking Mombasa port to major inland cities like Kampala and Juba (Figure

19). As a member, South Sudan will benefit from initiatives to harmonise and streamline its trade facilitation regulatory framework to comply with good practices, including enforcing axle load limits and adopting a code of ethics for customs agents. Another example of the potential for inter-state cooperation between South Sudan and Uganda is the rehabilitation of the Gulu-Elegu road in Uganda just before Nimule. This stretch of road has deteriorated and is the cause of major delays of trucks entering South Sudan from Uganda.

Figure 19: The Northern corridor

Source: Kenya Railways Corporation

Additionally, Kenya, Ethiopia and South Sudan are working on a joint regional infrastructure project, the so-called Lamu Port -South Sudan- Ethiopian (LAPSSET) corridor that will connect Kenya's coast with an oil pipeline and transport corridor linking Juba and Addis Ababa. LAPSSET will cost about US$25.5-30 billion comprising a deep water port at Lamu, a road network, a railway line, a 1,720 km pipeline, a refinery and an international airport. Lamu port will have a capacity of 20 million containers per year, 20 times larger than the current capacity at Mombasa port's container terminal. The proposed oil refinery will have the capacity to process 120,000 barrels of oil per day to meet the growing demand for oil products in the region (COMESA-EAC-SADC 2011). The pipeline could potentially transport South Sudan's oil to Lamu port, in addition to oil from new fields found in Kenya and Uganda. The pipeline option may be valuable to South Sudan in terms of providing an alternative route for its exports. At the same time, the reopening of the pipeline to Sudan and the prospects of a normalisation in relationships between Sudan and South Sudan may put into question the economics of the LAPSSET project.

One difficulty faced by South Sudan in its management of transit and transport issues is that its dependence on one oil pipeline route and one transport corridor route weakens its bargaining position vis-a-vis neighbours that control key infrastructure assets, such as Kenya and Sudan. Consequently, the authorities are exploring other options. One possibility under consideration is a route through Ethiopia to Djibouti. Development of this possibility would require substantial investments in upgrading roads to Kapoeta, near the border to Ethiopia. Investments will also be required on the Ethiopia to Djibouti section of the linkage. This particular corridor is still in the very early stages of development planning. COMESA is understood to have undertaken pre-feasibility studies of the Ethiopia-Djibouti corridor. A full cost-benefit analysis of investment scenarios for South Sudan under this option, compared to improving existing alternatives, would be warranted.

Alternative routes to the ocean

As a landlocked country, South Sudan needs reliable access to regional seaports and therefore depends on the cooperation and goodwill of transit countries (Uganda and Kenya, Ethiopia, Djibouti, Sudan, Tanzania). Currently, the country depends on Sudan's pipeline to transport crude oil to the international market and on the Northern Corridor (Kenya-Uganda-South Sudan) for goods other than crude oil. The country cannot depend exclusively on one or two routes to the ocean (Port Sudan or the Port of Mombasa).

South Sudan has in the recent past been held hostage to closures of these routes. Political tension with Sudan resulted in the suspension of oil exports through Sudan and post-election violence in Kenya's 2007 general election led to the shutdown of the Mombasa port for an extended period. In the interest of security, the GRSS will need to consider developing alternative land routes to the ocean such as Lamu (LAPSSET), Dar es Salaam, Djibouti and Tanzania (through a planned US$10 billion Chinese-backed port in Bagamoyo) using multiple corridors with multimodal capabilities. Port Sudan may also become a viable option for trade in goods if there is a thaw in relations between the two countries (see Table 3).[20]

Table 3: Capacity of selected East African ports

Port	TEUs per year	Transport Corridor/Route	Distance (km)	Remarks/Status
Mombasa	1 million	Northern Corridor (Juba-Gulu-Kampala-Mombasa)	1,978	Operational; some sections under repair, i.e. Gulu-Elegu; cargo dwell time at port 10 days
		Northern Corridor (Juba-Lokichogio-Mombasa)	1,755	Not operational; road sections awaiting completion, i.e. Juba-Nadapal-Lokichogio-Lodwar
Dar es Salaam	0.5 million	Northern & Central Corridors (Juba-Kampala-Mtukula-Dar es Salaam)	2,506	Operational but more costly route than Juba-Kampala-Mombasa route; cargo dwell time at port up to 17 days
Djibouti	1.5 million	Juba-Torit-Kapoeta-Raad-Mizar-Addis Ababa-Djibouti	2,280	Planning stage

[20] The two countries decided to open their mutual borders to inter-state trade in September 2013. See "Juba and Khartoum agree to open trade borders", *Sudan Tribune*, 24 September 2013. http://www.sudantribune.com/spip.php?article48169. Information on cargo dwell times in Table 6 was obtained from Trade Mark East Africa, Compete Africa (USAID) and the African Development Bank. The international standard for dwell time is 3-4 days.

Port Sudan	1.3 million	Juba-Khartoum-Port Sudan	2,719	Suspended; cargo dwell time at port 28 days
Lamu	20 million (planned)	LAPSSET (Juba-Lokichogio-Lamu)	1,662	Construction ongoing; full funding not secured, cost $30 billion
Bagamoyo	20 million (planned)	Northern & Central Corridors (Juba-Eldoret-Bagamoyo)	1,975	Planning stage, cost $10 billion

Note: A 40-foot container is equivalent to two twenty equivalent units (TEU). 1 TEU = 21.67 metric tons or 33.1 m^3.
Sources: Various port authorities, COMESA and others.

While several options exist for South Sudan's access to the ocean, connectivity to most of these ports is difficult due to the lack or poor condition of corridor roads and rail networks. If the planning, operational and financial requirements of the LAPSSET project were met, corridor connectivity could significantly improve. Funding options under consideration include government contributions from the partner governments (Kenya, Ethiopia and South Sudan), multilateral and bilateral sources as well as private sector participation, possibly under Build Operate Transfer (BOT) agreements that mandate operators to charge tolls and leasing fees. In early 2013, the Kenyan government awarded a Chinese firm a US$470 million contract to build the first three berths out of a total of 32 berths to be completed by 2030. Other potential backers of the project are South African banks who see attractive commercial opportunities in growing populations and increased economic activity in the region (Reuters 2013).

National road network

Communication within the ten states of South Sudan is poor and during the rainy season, many towns and villages are isolated for several months. South Sudan has one of the lowest road densities in Africa (Table 4). The only trunk road that is paved is the 192 km road from Juba to Nimule. Most roads in the country are gravel roads which are impassable during the rainy season. For example, in flooded areas of Jonglei State the government and humanitarian agencies face serious logistical difficulties in transporting relief supplies to affected populations due to washed out roads. In these conditions, air and river transport are the only viable means of transportation.

Table 4: Comparison of South Sudan's road network

Indicator	Unit	South Sudan	East Africa
Road density	Km per 1000 sq. km of arable land area	15	101
Paved road traffic	Average annual daily traffic	Not available (the Nimule-Juba road is the country's busiest road)	1,549
Unpaved road traffic	Average annual daily traffic	53	47

Source: Africa Infrastructure Country Diagnostic, p. 16.

About 7,000 km of roads are needed to facilitate rural connectivity in-country, plus an additional 1,300 km of roads to be upgraded to link the country to regional corridors. The cost of expanding, upgrading, improving and up keeping the road network for greater regional, national, rural and urban connectivity is in the region of US$220 to US$380 million per year over 10 years (Ranganathan Ranganathan, Rupa and Cecilia M. Briceño-Garmendia 2011, p. 19). Included in the mix of logistics infrastructure is the need for building inland container depots to increase efficiency in the movement, storage and distribution of cargo in the country via road and river ways. Infrastructure development is one area with potential for public-private partnerships (PPPs). Over the last decade, experience has shown that the oil and gas industry has been a major driver of infrastructure investment in Sub-Saharan Africa, suggesting the possibility of similar future partnerships between the GRSS and investors.

River transport

South Sudan is well endowed with rivers and wetlands, making it ideal for commercial river transport. The White Nile is the country's largest waterway. In the absence of paved roads linking the north and the south of the country, this waterway has the potential to promote intra-country trade, allowing the movement of food and other goods from surplus regions to areas of scarcity. With six riverine states having access to navigation along the Nile, river transport is more feasible and easier to establish than roads in some areas. However, the key river ports of Juba, Mongalla, Bor, Adok, Shambe, Malakal and Renk are in poor condition and need to be rehabilitated or upgraded (USAID 2012, p.17).

The White Nile River, as in the past, could also facilitate trade between South Sudan and Sudan, creating jobs and generating income for states along the Nile. For example, Upper Nile State has great agricultural potential to produce maize, sesame and sorghum for local consumption as well as for export, including gum arabic. Every category of farming, including large-scale mechanised farming, medium-scale agriculture and smallholders, is affected by low returns (see Chapter VI on Agriculture). Indeed, the lack of paved roads linking producing areas to the river and to market centres is a binding constraint that reduces productivity and farmer incomes, especially in the rainy season.

Effective use of the waterway on a commercial basis will require dredging of river courses, docking facilities, navigational aids, rehabilitation of ports and investment in new vessels to increase safety for high volume and year-round navigation by riverboat operators. Improvements could be done in partnership with the Ministry of Transport, Roads and Bridges and the Ministry of Electricity, Dams, Irrigation and Water Resources.

There are about eight river transport operators on the White Nile between Juba and Kosti but the two main companies are New River Transport Company (NRTC) and KEER-MISC/KEER Marine. NRTC has about 100 vessels with a total capacity of 72,000 MT while KEER Marine has about 13 vessels with a capacity of 10,000 MT. Goods transported include fuel, vehicles, building materials, machinery, containers and food items. The United Nations frequently uses river vessels to transport food and humanitarian supplies to inaccessible areas by roads, such as Jonglei State(United Nations 2009).

The GRSS needs to attract private investments in river transport services. River transport is potentially a lucrative activity if key assumptions are met and the essential elements are put in place:

increasing demand from riverine states and open borders with Sudan, a decrease in insecurity, establishment of regulations on navigation and safety and investment incentives to attract investors to develop modern river transport services.

Rail transport

The rail infrastructure in South Sudan, consisting of approximately 250 km is in a neglected state with missing sections. It extends from Wau to the northern border with Sudan (African Development Bank 2013). Options to expand rail links include (i) connecting South Sudan by rail to Kenya's narrow gauge Rift Valley Railways network or the future standard gauge Mombasa-Kampala-Kigali railway network as proposed under the LAPSSET project; (ii) rebuilding the 446 km Babanusa-Aweil-Wau stretch to the north; and (iii) additional possible links with Ethiopia and DRC. These potential rail projects will provide South Sudan with additional access routes for long haul freight transport to the ocean as well as to regional markets. The government will need to attract investors to partner with to develop rail infrastructure.

Air transport

There are 24 airports in the country, of which only two have paved runways. Juba International Airport is the main gateway for South Sudan's air freight traffic. However, the international airport does not comply with International Civil Aviation Organization safety and security standards. A new terminal is currently under construction which is likely to improve the airport's operational efficiency as well as enhance the country's access for tourism. In addition to developing air transport infrastructure, the government needs to establish a civil aviation authority. As infrastructure is developed and the country opens to increased trade, the demand for air travel is likely to increase. This is an area where investors could participate in the provision of competitive air passenger and freight services

3.3 Technical Regulations and product standards

Technical regulation refers to legal requirements that producers must comply with in order to supply an activity or service in a particular market. Standards refer to voluntary norms. That is, they are not per se legal requirements that must be met before supplying a market, but rather are a condition for receiving certification which would usually give the supplier so certified a reputational advantage in the market in question.

In trade terms, both are considered non-tariff measures, and can be welfare enhancing if properly designed. This is because they will aim to correct some instance of market failure, usually in the form of externalities (for example, health or environmental effects). Whether in fact they are welfare enhancing depends on how closely the regulation or standard is aligned to the source of market failure. The economic costs associated with a regulation or standard will usually be lower if they are not more trade restrictive than necessary to achieve the selected public policy objective.

From a trade policy perspective, the processes for establishing, implementing and verifying regulations and standards are critical since this will determine whether public policy objectives in South Sudan are pursued in a socially efficient manner. Moreover, these processes will be important in the context of regional or global trade arrangements, which usually impose disciplines to ensure that regulations and standards are enacted and implemented in a non-discriminatory manner and in a manner that is not more trade restrictive than necessary. Finally, the processes in question will condition whether or not South Sudanese exports are able to meet requirements for market access in overseas markets.

Responsibility for technical regulation and product certification currently falls under the purview of the South Sudan National Bureau of Standards (SSNBS) which is under the MTII. The new arrangements should provide a starting point from which a proper framework for technical regulation and standards development can be established. The legal framework governing the conduct of the SSNBS is provided by the National Bureau of Standards Act 2012, the Weights and Measures Act 2012, the Imports and Exports Act 2012 and the Consumer Protection Act 2011.

SSNBS is responsible for ensuring fairness of trade and the protection of consumers against substandard, shoddy and hazardous products. SSNBS support for trade includes the development and implementation of standards for various sectors mainly through product conformity assessment. These activities ensure that manufacturers produce quality products that are competitive both locally and internationally.

At present, South Sudan implements standards developed by trading partners, chiefly Uganda and Kenya. There is no process for adapting these standards, or developing new ones. Enacting enabling legislation for technical regulation and for standards would therefore be a priority. In particular, it would be opportune to establish proper processes around standards development. A process of risk analysis and the analysis of the net benefits of proposed measures is required. Finally, it is necessary to establish the processes for enacting regulation and disseminating knowledge of standards that are adopted among producers and consumers.

There are no processes currently for mutual recognition or conformity assessment, which in turn creates obstacles for imports and also means that there is no way of demonstrating that potential export products (e.g. gum arabic, fish) meet requirements in foreign markets. Risk analysis is not present, requiring in principle physical inspection of all goods transiting through borders. This further hinders the facilitation of trade, an effect that is exacerbated by the lack of integration between standards inspection and customs services at the border.

In terms of harmonisation, one potential upside from current capacity shortfall is that it has forced South Sudan to look to trading partners for standards. This could reduce the costs otherwise associated with divergent standards. In the longer term, harmonisation will be facilitated by the participation of South Sudanese standards authorities in international standards-setting bodies.

As with customs, the main challenge for standards lie in shortfalls in human and physical infrastructure that constrain the implementation on the ground of such progress that has been made in formal terms.

Many of the staff responsible for standards under the Government of National Unity were repatriated to Khartoum after independence, leaving substantial gaps in skills. As with other areas of administration, knowledge of English has been identified as a specific constraint, particularly in the context of regional integration. Much of previous standards work was done in Arabic. According to TradeMark East Africa, particular shortfalls are: lack of knowledge in standards writing, procedure writing, and knowledge of and ability to participate in the development of international standards; lack of technical processes for laboratory testing and metrology; and lack of knowledge on how to adapt international standards. The application of SPS-related capacity evaluation tools would also be important. The OIE Performance of Veterinary Services (PVS) Tool, the IPPC Phytosanitary Capacity Evaluation (PCE) Tool and the new FAO/WHO Food Safety Capacity Evaluation Tool, can provide the framework (action plans) for specific activities and resources to fill gaps and enhance the effectiveness of the food safety, animal and plant health systems in the country.

Testing facilities in Juba are under development. SSNBS Laboratories in Juba carry out testing in the main areas listed earlier in this section. Limited facilities are available in some state capitals. The facilities at the Nimule border crossing are particularly limited.

In addition, the National Central Water Laboratory test water quality on the basis of a water quality framework which reportedly incorporates recommendations based on WHO guidelines. The University of Juba's laboratories in biology and micro-biology, notably, are also components of the testing infrastructure. However, both these institutions are constrained in their operations by erratic access to electricity and running water, notably.

Current capacity building initiatives are supported, notably, by TradeMark East Africa and UNIDO. The former has sought to address many of the shortfalls in human capacity and infrastructure, while the latter has focused on the policy framework. The Kenya Standards Bureau also provides support by providing access to its testing facilities, and by providing staff on secondment to Juba.

An important priority in the context of moves to secure further regional integration would be to consider how regional standards may be adapted and adopted in South Sudan. For example, the East African Catalogue of Standards contains the list of current standards prevailing across the EAC. This could be a useful starting point for South Sudan. [21]

3.4 Recommendations

The list of priority issues and actions for customs and trade facilitation are set out below in Table 5. Given the significant impact of these constraints on trade, they are all high priority actions, with exception of legislation on contingency trade measures, which can be considered to be of low to medium priority. The remaining recommendations set out in Table 4 below refer to the questions of, respectively, linkages and regulation/ standards.

Table 5: Recommendations

Issue	Degree of Priority
Customs	
Strengthen regional cooperation on infrastructure policy issues, particularly in relation to Mombasa Port	High
Conduct full cost-benefit analysis of linkage through Ethiopia to Djibouti in comparison with existing routes through Kenya	High

[21] See http://eac-uality.net/fileadmin/eac_quality/%20user_documents/3_pdf/EAS_CATALOGUE_2007.pdf.

Seek collaboration with Ugandan authorities and donors to improve state of road between Nimule and Gulu	High
Technical regulation and standards	
Policy framework for standards and related legislation	High
Completion of training for staff in standards writing, process and knowledge of international standards	High
Study how East African standards can be adopted in, or adapted to, South Sudan	High
Establish process for developing, validating and implementing standards	High
Develop risk analysis framework	High
Outreach activities to private sector on the role and importance of standards	High
Completion of infrastructure development initiatives	High
Support development of testing infrastructure at Juba University and the National Central Water Laboratory	High
Strengthen integration with customs administration and streamline verification at the border	High
Further develop collaboration with standards authorities in the region	High

REFERENCES

African Development Bank (2012). South Sudan Infrastructure Action Plan, July 2012.

Barka, Habiba Ben (2012). "Border Posts, Checkpoints and Intra-African Trade: Challenges and Solutions," African Development Bank, January 2012.

IMF (2011). *South Sudan: Rebuilding Tax and Customs Administration*.

Nathan Associates (2011). Diagnostic study of the northern and central corridors of East Africa, April 2011.

Kenya Transporters Association (2013). "Trade Facilitation: The Road to Juba". See http://www.kta.co.ke/index.php/training/11-updates/21-trade-facilitation-the-road-to-juba

Ranganathan, Rupa and Cecilia M. Briceño-Garmendia (2011). South Sudan's Infrastructure: A Continental Perspective, Africa Infrastructure Country Diagnostic (AICD), June 2011.

USAID (2012). South Sudan Corridor Diagnostic Study and Action Plan, Final Report. September 2012.

TradeMark East Africa (2012). Support to South Sudan's Customs Development and Trade Facilitation 2012.

World Bank (2008). Revitalizing Sudan's Non-Oil Exports, Integrated Framework Diagnostic Trade Integration Study.

World Bank (2011). South Sudan's infrastructure: a continental perspective, Africa Infrastructure Country Diagnostic, Washington D.C., June 2011.

CHAPTER IV - INSTITUTIONAL CAPACITY DEVELOPMENT

4.1 Introduction

Until independence in 2011 the GRSS was not directly responsible for international trade, so unsurprisingly trade-related capacities remain at a nascent stage. Economic diversification and trade are understandably not perceived as political priorities, immediate concerns being the completion of the peace process with Sudan and internal conflict, the emergency response to floods, management of refugee camps and other pressing social needs. The integration of a number of military personnel into the civil service has presented challenges to its effective operation. Against this backdrop of limited public resources and political instability the institutional framework and institutions related to trade and commerce have understandably taken second place. Ideally this should change as the political situation normalizes and job creation and economic and social growth become imperative. Whilst considerable progress has been made, much more remains to be done.

The state and donors need to play a critical role in building infrastructure, building the policy environment and institutions and stimulating strategic economic activities where relevant. As part of this process the capacity of the state itself must increase, and in particular the Ministry of Trade, Industry and Investment.[22]

4.2 Medium-Term Capacity Development Strategy

This is not the first assessment or attempt to assess and evaluate capacity gaps in the Ministry. At different levels the World Bank/ International Finance Corporation (IFC), US Agency for International Development (USAID), African Development Bank (AfDB) and the Intergovernmental Authority on Development (IGAD) have conducted project assessments and institutional reviews of government functions in the last five years. Aid for Trade (AfT) and donor support, including the EIF and DTIS must ensure they do not duplicate this work and that they take into account the work to support the Priority Core Governance Functions Action Plan as well as the government's Medium-Term Capacity Development Strategy (MTCDS), which aims to ensure that the Government can effectively address critical institutional capacity needs required to implement the South Sudan Development Plan (SSDP), which is itself aligned with support from international development partners.[23]

The Government of the Republic of South Sudan (GRSS) Priority Core Governance Functions Action Plan, published in November 2010, articulates the 18 priority functions of government capacity that it must establish or strengthen by South Sudan's independence in order to ensure the viability of the institutional framework of the State. The core functions fall into five areas: i) Executive leadership; ii) Rule of law and law enforcement; iii) Public administration; iv) Fiduciary management; and v) Natural

---

[22] The scope of this exercise is framed in relation to three key questions, i.e. capacity for why? for whom? and for what? The objective (capacity for why) is to ensure that the Government of South Sudan has the appropriate capacities to lead the implementation of trade policy. At the time of the DTIS mission the trade functions were under Departments of the MFCIE. Such functions were transferred to the MTII following the government restructuring in March 2014. The main beneficiary is therefore, the MTII and selected other stakeholders. Relevant stakeholders in the exercise include other government agencies, provincial governments, the private sector and civil society organizations detailed in the report.

[23] A number of other capacity-building studies must also be taken into account, including the USAID Government of Southern Sudan Strategic Capacity Building Study (2010) http://www.cbtf-southsudan.org/sites/default/files/1_usaid_strategic_capacity_building_study.pdf and the Government of Southern Sudan Functional Capacity Prioritisation Study (2009), http://pdf.usaid.gov/pdf_docs/PNADU300.pdf.

resource management. The Government has made good progress but many of the rapid capacity needs within the core governance functions will require continued support.

The MTCDS provides an operational framework for organising capacity development efforts; provides an overview of sectoral capacity development priorities, and key strategic considerations for how they should be addressed; identifies additional cross-governmental interventions that are critical to achieving national capacity development goals; outlines a framework for coordinating the implementation of capacity development efforts; and defines a roadmap for the formulation of a long-term national capacity development strategy (Government of the Republic of South Sudan 2011, p.142).

The MTCDS Sectoral capacity-development priorities include the creation of a good enabling environment, implementing core government functions and improving performance through human resource development.[24] A number of cross-ministerial activities are planned. Those with special relevance to trade include the need to improve research and analysis and to review, monitor and evaluate policy. Under the sectoral development priorities, the objective with most relevance to trade is to: "Develop enabling and effective trade/industry laws & policy framework" (Government of the Republic of South Sudan 2011, p. 385)."

4.3 Ministry of Trade, Industry and Investment (MTII)

Following the restructuring of a number of government Ministries in July 2013 the Ministry of Trade, Industry and Investment (MTII) was merged with the Ministry of Finance to create the Ministry of Finance, Commerce, Investment and Economic Planning (MFCIE). The Department of Industry was moved to the Ministry of Petroleum and Mines while and the Bureau of Standards continued to remain under the MTII. In March 2014, the government decided to revert to the prior institutional arrangements and the MTII was reinstated as a full ministry with the same departments as prior to July 2013. The Department of Industry and the SSNBS are also back under the MTII.

Structure and aims

The MTII's mandate on trade is derived from the Transitional Constitution of the Republic of South Sudan and relevant presidential decrees. It specifies five broad areas: (1) internal and external trade; (2) industrial development; (3) standards; (4) private sector development; and (5) investment promotion. In terms of the structure of MTII, MTII is headed by the Minister of Trade and two Undersecretaries, one for Trade and the other one for Investment.

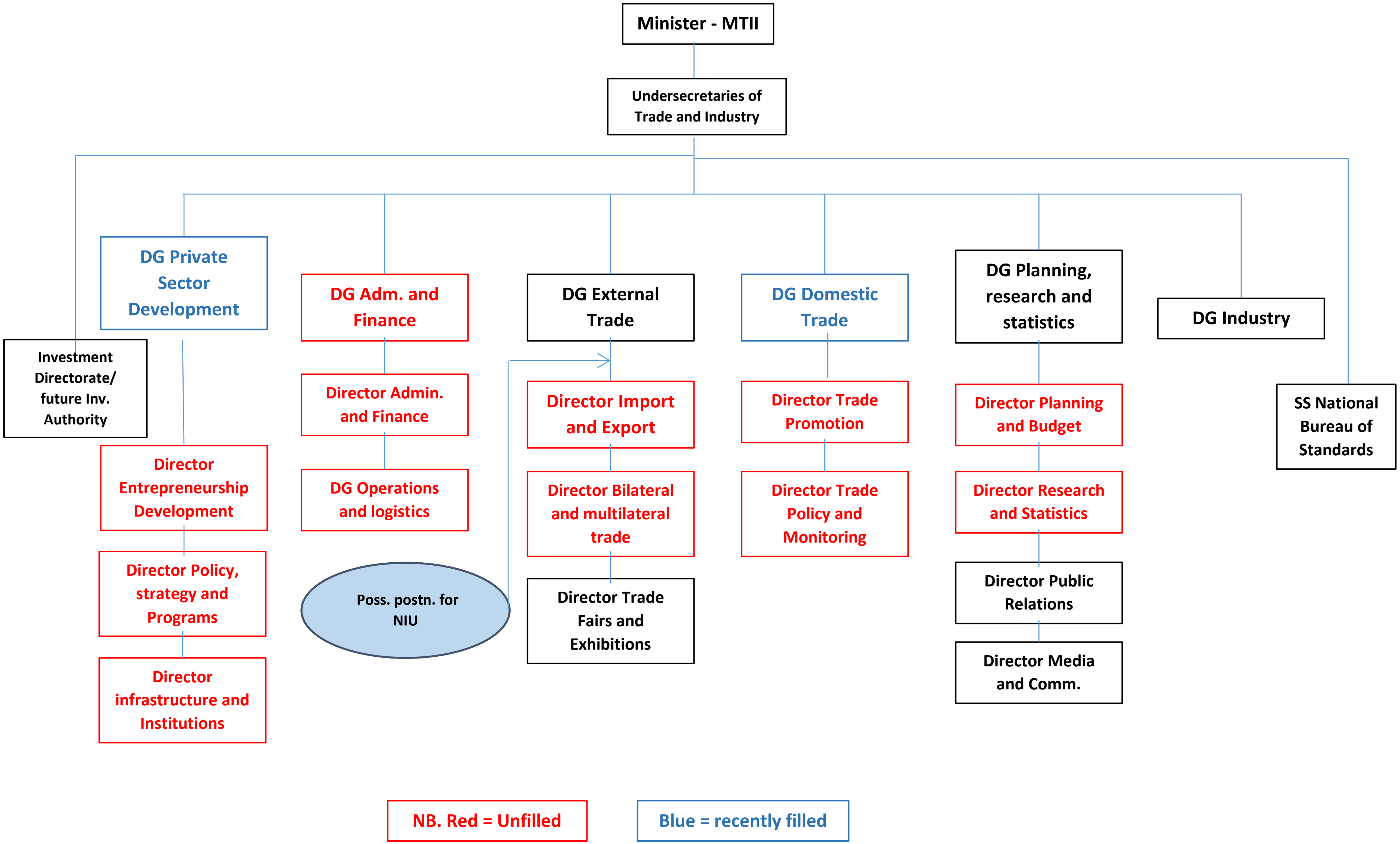
The MTII Strategic Plan, completed before the 2013 merger, states its aims as contributing to the government's economic aims of "diversified private sector-led economic growth and sustainable development that improves livelihoods and reduces poverty" and "facilitating the development of the private sector, particularly the indigenous entrepreneurs."

The Ministry of Trade's vision is "An industrialised South Sudan fully integrated into the world trade and global business sector". Its vision statement is: "To foster internal and external trade and so systematically build an industrial sector that is dynamic, competitive and integrated into the

[24] The MTCDS defines 'capacity' as "the ability of people, organizations and society as a whole to manage their affairs successfully', while the term 'capacity development' refers to the building of these abilities through human, institutional, policy and systems development," South Sudan Development Plan, p.380

domestic, regional and global economies." The goal of the Ministry is: "To build sustainable and diversified economic growth that contributes towards increased productivity, wealth creation, and poverty reduction in South Sudan" (Government of the Republic of South Sudan 2011, p. 13).The Strategic Plan also details the functions of the MTII at national and state level as well as a three-year plan detailing objectives, structure and resources and a detailed implementation plan.

Figure 20: Ministry of Trade Industry and Investment*



Note:* The present organogram is an attempt to capture the most recent changes in the MTII structure following the government restructuring in March 2014. Additional adjustments may be necessary and possible in the context of the DTIS validation mission and/or availability of an official updated organogram for the MTII.

Assessment

As Figure 20 suggests, the Ministerial structure is complex and the structure is highly intricate given the shortages of human resources. A number of countries have found that institutional flexibility is critical given the changing nature of the international trade environment. A centralised and empowered trade institution with the best officers is well-placed to deal with policy and implementation.

Nonetheless, as recommended by the MTCDS it is suggested that the MTII becomes the primary focus of trade capacity-building in the government. This is not to suggest that other Ministries and agencies should be excluded from AfT and the EIF; indeed quite the opposite, but in the initial stages of the EIF, at least, it would be appropriate to target capacity-building activities at the MTII in order not to dilute the effectiveness of the programme. Several other donor agencies are addressing the needs of other trade-related institutions and bodies, as noted in section 4.7 below.

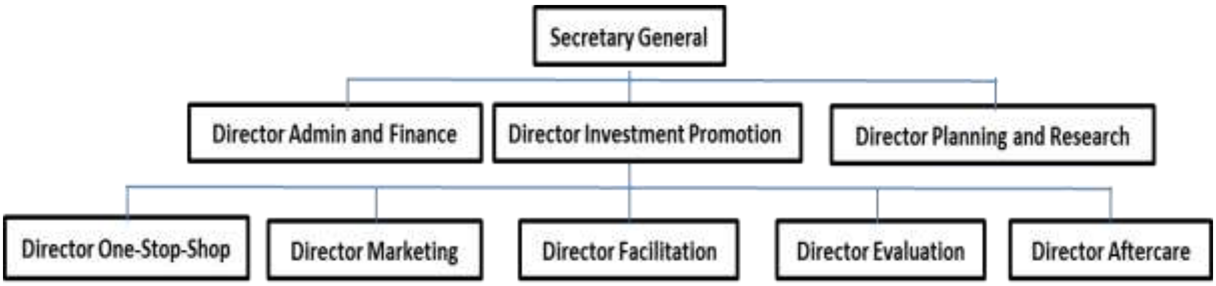
Some uncertainty surrounds the Strategic Plan. Reportedly the Strategic Plan reached Cabinet before the incorporation of the trade functions in the Ministry of finance in July 2013 but was not officially endorsed. A similar problem exists with a number of other trade initiatives and policies. A number of participants reported during consultations that intra-Ministerial support and ownership of the Strategic Plan is limited and that the objectives of the logframe are behind schedule. Out of the 242 activities/outputs suggested in the Strategic Plan for the years 2012-2014 only a few appear to have been implemented. Around 21 can be considered on track by the end of 2013, i.e. about 9% of the total. Only three (i.e. 4%) out of the 68 activities considered priorities can be considered as on track. Revision of the plan using a participatory process is underway, as part of which responsibilities for implementation of the logframe will be clarified.

Serious limitations are reported in the capacity to perform the functions that are mandated by the Transitional Constitution and relevant presidential decrees. As a result only a limited number of units within the Ministry could be considered as fully operational at the time of writing. The Ministerial composition is somewhat complex, as shown in Figure 20 and in the medium to long-term it may be appropriate to simplify the structure so that it can realistically be filled with the appropriate personnel. Three institutions were understood to be fully or partly operational: the Department of Administration and Finance; the import/export licencing registry and the Investment Authority.

The import/export licensing registry issues paper licenses to traders and is solely revenue-generating, providing no service. Some stakeholders consulted for the DTIS suggested that the registry may not be fully compliant with the law. Revenues, which are very low compared with oil revenues, accrue to the Ministry of Commerce rather than into the general Ministry of Finance government accounts. The registry's continued operation constitutes a significant trade barrier given that companies must apply for the licence in Juba and produce it at the border. No electronic licencing is used given the lack of access to the Internet and absence of databases. Truck drivers without an original licence must ask the border official to contact the central office in Juba by telephone and verify the licence. If the Juba office is closed, such as in the evenings and at weekends, the driver cannot pass through the border, creating long delays and costs. It would seem appropriate to radically reform or abolish the licencing system. As noted above, one of the reforms mentioned in the government's draft trade policy framework is the removal of the general need for import licences, except in cases involving health and safety issues.

The investment functions of the MTII are performed by the Investment Authority which currently operates as a Directorate of the Ministry. The activities of its one-stop-shop are considerably more advanced than the Ministry as a whole after a capacity-building programme administered by the International Finance Corporation since 2011. Investment licenses started to be issued on 1 October 2013, with around 100 (existing) investors registered in the first two weeks of operation. Investments are mostly in hotels, petroleum, banks and finance. Existing investors are said to gain licenses in five days, with decisions on new investors taking 15 days. Figure 21 shows the institutional structure of the Investment Authority composed of a number of divisions. Several functions, including Evaluation and Aftercare, are notional at this stage rather than operational, as part of the MTII structure.

Figure 21: Investment Authority



The operations of the government in some areas largely rely on Sudanese practices, which are still at distance from East African Community (EAC) best practices. Some of these operations are also not likely to remain once the regulatory framework and public administration design is completed (e.g. enactment of the Customs bill). There is still scope for consolidation and some of current activities might be considered redundant or not business oriented in the years to come such as in the area of licencing and border post management.

Important and notable absences in the Ministry are the lack of research and policy capacity. It appears that virtually no research has yet been undertaken, and technical preparatory work on foreign trade agreements is non-existent. This is particularly important given possible membership of the East African Community (EAC) and/or the Common Market for Eastern and Southern Africa (COMESA) as well as WTO. South Sudan must undertake a cost-benefit analysis of any trade agreements it proposes to join, and do so on the basis of technical considerations rather than solely political imperatives. A crucial capacity-building task will be to build the Ministry's capacity to conduct economic analyses of proposed trade agreements and international commitments. Work on a trade policy, however, has begun under the oversight of an EU trade adviser based in the Minister's office.

Staffing and human resources

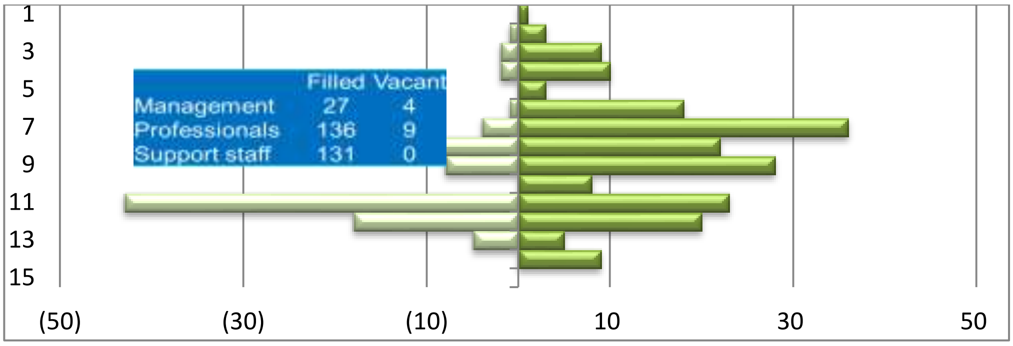
The Trade Directorate, MTII, has 294 staff dedicated to the trade functions with official grades plus around 25 staff with no official pay grade.[25] There are 27 managers (Deputy Director to Director

[25] These figures exclude therefore staff under the MTII working for the Investment Authority, the Industry Directorate and the Standards Bureau which were under the authority of different entities before the March 2014 government restructuring.

General) and 136 professional staff (Officer to Assistant Director), with 131 support staff such as drivers and secretaries. Monthly salaries range across 15 grades from SSP 322 (US$75) to SSP 2,100 (US$488), although salaries are at certain times reported to go unpaid for several months and at the time of writing several staff reported they had not been paid. 15% of managerial staff posts and 7% of professional posts are vacant. Many other positions are unfilled, and the structure shown in Figure 22 constitutes an ideal scenario for which there are too few available qualified personnel. Many of the Director-level positions are unfilled. At a future date it may be desirable to streamline the structure into a smaller number of functions. The lack of fulfilment of senior staff positions and the periodic non-payment of salaries has a significant impact on the ability of the Ministry to operate functionally, and morale in some directorates is low. No incentive systems are in place in order to encourage productive staff or to support promising new initiatives. A key issue is that officers at border posts fall under the direct supervision of the Under-Secretary.

Gender representation at senior levels is low. 19% of managerial staff and 21% of professional staff are women, whereas 49% of support staff are female. As Figure 22 shows, a large number of women are found to operate at the junior support staff level, with comparatively few at a higher level than grade 11.

Figure 22: Staffing Trade Directorate, by gender and grade (1-15)



Source: Author's calculations using MFCIE data. Figures correspond to the MTII staff in charge of the trade functions only.

The budget for overheads is limited following the austerity period that began with the restriction of oil exports in 2012. There is very little capacity to conduct programme activities and most expenditures goes to payroll, which at the time of writing totalled SSP258,113 per month (approximately US$64,528). This equates to around US$775,000 per year excluding pensions, incidental costs and benefits. Given that as noted above, salaries are reported often to go unpaid for several months at a time, the true annual wage bill may be lower.

The Director of Human resources, seconded under the IGAD Regional Initiative for Capacity Enhancement (see Box 4) has undertaken a participatory review of job functions under which staff were asked to outline their job descriptions and roles. Terms of reference were still said to be lacking. The status of this initiative is unclear following the restructuring in 2014.

Very little delegation of tasks is conducted, with senior staff in a number of departments reporting that they must conduct simple tasks such as entering data themselves as their secretarial and junior staff do not have the skills or equipment to do so.

Box 4: The IGAD regional initiative for capacity enhancement

The UNDP-supported initiative assists the Government of South Sudan (GRSS) to place 200 civil servants from the eight East African IGAD Member States on secondment with the GRSS on a "twinning" basis to mentor and coach South Sudanese civil servants for an initial period of two years. These seconded civil servants will serve as a form of rapid capacity enhancement support to strengthen the institutional capacity of the GRSS institutions to deliver services.

Source: http://www.sd.undp.org/projects/s_dg23.htm

Skills and facilities

A rapid analysis of skills was undertaken as part of the DTIS mission using verbal interviews and a questionnaire. In most directorates basic skills were felt to be lacking, particularly English language and Information Communication Technology (ICT). Many trade officials worked in the Khartoum administration before independence and communicate primarily in Arabic. The main official working language of government is English. In addition there is a perception that senior officials need additional training in management and leadership. Directors General tend not to delegate, partly because the staffing structure is incomplete and senior positions are vacant, but also because management skills are weak.

Although several staff expressed the desire to pursue long-term academic educational qualifications, a first priority is to clarify the Ministerial structure and ensure that job descriptions are appropriate and followed. A full functional review is appropriate in addition to the existing review. Many officials are frequently moved between posts without regard to their qualifications. Investment in long-term educational qualifications would therefore in most cases be an inappropriate use of government funds at this stage.

Facilities are not a major priority, in terms of buildings and transport. ICT and office equipment was felt to be lacking – computers, printers, scanners, photocopiers. A full infrastructure needs assessment needs to be conducted. In the absence of procurement and security procedures any EIF or donor partner assistance in this area would be somewhat risky. ICT training is more important at this stage than the purchase of office equipment, although two obviously complement each other.

To summarise, critical tasks are to ensure that junior to mid-level staff are given the basic skills to do their jobs; to ensure that terms of reference are clear and make sense in the context of the Ministry's trade function as a whole; to ensure that the Ministerial structure is appropriate to the tasks at hand; and to improve delegation and team management. In addition although several new laws have been developed, the regulatory framework is not yet in place and in several instances the activities of the Ministry are not fully compliant with the laws.

A South Sudan Development Board?

A long-term and ambitious option may be to consider the establishment of a new statutory trade body or economic development board following the example of countries like Rwanda, which in turn based its model on Singapore and Costa Rica. The purpose of the board would be to promote trade and investment in a single institution with the aim of improving coordination and bypassing bureaucratic procedures. Skilled staff would be pooled in a single institution and given a solely trade-related mandate protected from political pressures.

Strengthening the MTII without due care and careful planning risks the entrenchment of existing problems, in effect further undermining capacity. In such an embryonic institution skilled staff may become demotivated, isolated and demoralised. Although the establishment of a Development Board would be a major undertaking which would require strong buy-in at the senior political levels, a separate, well-organised and dynamic institution with the authority to pursue the full range of trade objectives may be the best mechanism for diversifying and expanding trade and ensuring that it serves human development ends.

The Board would operate as a statutory body semi-autonomously from government, with the mandate of promoting investment and exports and enhancing South Sudan's ability to benefit from trade. The Board would perform activities such as training in trade and investment; conducting policy advocacy; image building, investor targeting and aftercare; trade promotion using the latest techniques; as well as reducing barriers to domestic and foreign investment. Investment and export development are connected; many countries which benefited from trade were able to do so by attracting foreign investors with the know-how and contacts for large-scale export.

Key criteria for success of the Board would include:

- Initial buy-in from the senior level.
- A well-developed legal mandate as a parastatal or statutory body, tailored to South Sudan's needs but drawing on successes elsewhere.
- A highly-skilled leader recruited at an early stage in the development of the institution, with international experience and high-level political support.
- A young, educated and motivated workforce, appointed for technical rather than political reasons or for links to the armed forces.
- A meritocratic structure.
- A strong financial basis, with the opportunity to recoup revenues and incentivise staff on a different salary scale to government.
- Location in a single building.

If these criteria are absent or considered difficult to achieve in the future then the idea should be reconsidered.

Some technical staffing could come from the government (ideally the Investment Authority and External Trade departments would be moved to the Board, rather than duplicating them), as well as from other government institutions, the diaspora and tertiary education institutes. Private sector representatives should be included. Rwanda or Singapore's economic development boards could serve as a model, as could the examples of Chile or Uruguay.

Box 5: A few examples of Development Boards in developing countries

Singapore's Economic Development Board (EDB) has formed a key platform of economic development since its establishment in 1961, two years before independence. It is the lead government agency aimed at enhancing Singapore's position as a global business centre. Its mission is to generate sustainable economic growth with vibrant business and good job opportunities (See www.edb.gov.sg). It aims to:

- Attract foreign investment via a one-stop agency which facilitates and supports local and foreign investors in both manufacturing and services.

- Help existing industries explore new areas.
- Enhance the business environment by providing feedback to other government agencies to ensure that infrastructure and public services remain efficient and cost-competitive.

Singapore is one of the world's great trading nations, partly as a result of its position on the world's busiest shipping lane, and it would be highly unlikely that South Sudan could replicate its example. However the multi-faceted role of the EDB and its cross-Ministerial authority means that in effect it is one of the best examples of trade and investment mainstreaming in practice.

The **Rwanda** Development Board has a vision of transforming Rwanda into a dynamic global hub for business, investment, and innovation (See hhttp://www.rdb.rw). Its mission is to fast track economic development in Rwanda by enabling private sector growth. Work includes all aspects related to the development of the private sector including companies of all sizes and both local and foreign investors. It has five economic clusters: ICT, tourism, services, agriculture and trade and manufacturing. Leadership is along the lines of a corporation, with a CEO, Chief Operating Officer and Chief Financial Officer. The Board has support from global entrepreneurs and experts from the Singapore Economic Development Board, World Bank, IFC and the Office of Tony Blair.

Chile has no dedicated Trade Ministry although it has developed a dedicated institutional structure. The Comité Interministerial de Negociaciones Económicas Internacionales (Inter-Ministerial Committee for International Economic Negotiations), formed in 1995, has become a key mechanism for trade policy development. It includes the Ministers of Foreign Affairs, Finance, Economy and Agriculture and the Secretary-General of the Presidency, as well as the private sector. The Committee meets monthly.

In **Uruguay**, the Comisión Interministerial para Asuntos de Comercio Exterior (CIACEX) aims to integrate trade negotiations, promotion and investment in one system involving government agencies with a trade function: Foreign Affairs, Economy and Finance, Livestock, Agriculture and Fisheries, Industry, Energy and Mining and Tourism and Sport. Whilst CIACEX initially had shortcomings, in 2011 it was revitalised with a new Executive Secretariat with a long-term trade strategy and the mandate of monitoring trade and investment programmes (UNDP 2011).

4.4 Other ministries with trade-related functions

Several Ministries and offices other than the MTII have important trade-related capacity functions: the President’s office, the Ministry of Foreign Affairs and International Cooperation, the Ministry of Finance and Planning, the Ministry of Labour, and the Ministry of Petroleum and Mining. As yet no trade focal points are in place in these Ministries, it would be appropriate to put such positions in place. Each state has a Minister of Commerce whose task it is to perform trade-related functions.

President’s Office

It is understood that the President’s Office has significant influence on the trade function of government. The support of the President’s Office would enhance any proposed trade-related capacity-building activities. The Ministry of the President’s Office is organised into six Directorates, those of Policy, Research and Monitoring; Special Programmes; inter-Governmental Relations; Communications and Public Relations; Finance and Administration; and Security and Protection.

The official functions of the Office include supervision of executive decisions, the appointment of constitutional and judicial posts; presiding over the Council of Ministers; and initiating constitutional amendments. The President’s office also has the power to create, restructure and close down ministries, commissions and other administrative units as well as appointing ministers, chairpersons and heads of other administrative units and senior public servants. As of August 2013 the President's Office was reported as having six special advisers in the areas of security, legal affairs, gender and human rights, decentralisation, religious affairs and South Kordofan.

Ministry of Foreign Affairs and International Cooperation

The Ministry of Foreign Affairs and International Cooperation (MFAIC) has a mandate to negotiate trade agreements. At the time of the DTIS mission the Ministry had eight Directorates: the GRSS Liaison Offices and the Diaspora; Administration and Finance; Multilateral and International Relations; Bilateral Relations; Directorate of Protocol and Public Relations; ICT and Media; Aid Coordination; and Research, Training and Capacity Building.

The MFAIC's mandate of negotiating trade agreements means that coordination with the MTII and the Ministry of Finance is imperative. Senior officials responsible for capacity-building expressed the need for training in trade agreements. Knowledge and skills in trade are clearly lacking and it is important that foreign affairs officials are imbued with a basic understanding of trade agreements. Officials also expressed the need for legal support and training in negotiation skills. The development of any trade negotiations strategy should involve the MFAIC.

Ministry of Finance and Economic Planning

With respect to trade, the Ministry of Finance and Economic Planning develops and implements tax arrangements as well as collecting revenues. Import taxes are generally very low so in practical terms this has less of an impact on trade policy than it otherwise might. Amongst other things the MFEP also implements procurement policies, which has implications for trade, as does its role in macroeconomic forecasting and the establishment of the medium term expenditure framework. It would be desirable to amalgamate trade and macroeconomic forecasting so as to ensure coherent trade policies.

Ministry of Labour

At the time of the DTIS mission, there existed a Ministry of Labour, Public Service and Human Resource Development (MLPSHRD) with a wide mandate including a number of trade-related capacity functions such as the issuance of work permits, supervision of trade unions, developing Vocational Training Institutes, human resource development and training. The Ministry had 10 departments: Administration and Finance; Human Resource Management; Human Resource Development; Labour and Industrial Relations; the Vocational Training Centre; Occupation Health and Safety; Policy, Planning and Budget Pension; Record Management; and the Recruitment Board.

There is a perceived lack of vocational skills such as electricians, tourism and hospitality staff, mechanics and engineers as well as a general paucity of training in the areas of ICT and basic administration. At the time of the DTIS mission, such Ministry was working with the Japan International Cooperation Agency and the International Labour Organization to improve the Ministry's functions and to enhance vocational skills development.

Following the restructuring of Government in 2014, Labour was established as an independent Ministry with the corresponding functions.

Ministry of Petroleum and Mining

The Ministry of Petroleum and Mining (MPM) oversees the petroleum and mineral products which comprise almost all of South Sudan's exports, so in effect alongside the MTII it is the most important Ministry with a trade-related function. The MPM operates under The Petroleum Act 2012 and The Mining Act 2012, which give the Ministry the mandate amongst other things to formulate strategies, plans and programme for the development and management of the petroleum sector; to negotiate petroleum agreements; manage petroleum resources; and manage relations with petroleum companies. The MPM is also mandated to transport, refine, process and distribute petroleum products, including infrastructure relating to these activities and provide for the marketing and selling of Government crude oil and its derivatives. There are four departments, those of Administration and Finance; Minerals Development; Planning, Training and Research; and Geological Survey.

4.5 States

The government is highly decentralised, although in practice this decentralisation is somewhat reduced by the dependence on central government revenues, given that 98% of revenues come from oil. Three different levels of government operate according to the constitution:

"(i) the National level which shall exercise authority in respect of the people and the states;

(ii) the state level of government, which shall exercise authority within a state, and render public services through the level closest to the people; and

(iii) local government level within the state, which shall be the closest level to the people" (Transitional Constitution of the Government of South Sudan 2011, p.15).

There are ten states as enumerated in chapter I. Tiers of local government consist of County, Payam and Boma in the rural areas, and of city, municipal and town councils in the urban areas. Each state is endowed with significant powers, and gender affirmative action is officially enshrined in the constitution:

"There shall be legislative and executive organs at each state level ….women shall be allocated at least twenty-five per cent of the seats and positions in each legislative" (Transitional Constitution of the Government of South Sudan 2011, p.60).

Section 16 of the Bill of Rights on Women states that: "All levels of government shall:

(i) promote women's participation in public life and their representation in the legislative and executive organs by at least twenty-five per cent as an affirmative action to redress imbalances created by history, customs, and traditions;

(ii) enact laws to combat harmful customs and traditions which undermine the dignity and status of women; and

(iii) provide maternity and child care and medical care for pregnant and lactating women."

Revenue-raising is the join responsibility of local and national government. "The National Government may pay grants-in-aid to states in support of their budgetary deficits and that of local government councils […] "Local governments shall have powers to levy, charge, collect and appropriate fees and taxes in accordance with the law" (Transitional Constitution of the Government of South Sudan 2011, p.60).

Under Schedule C of the constitution “Trade, commerce, Industry and industrial development” is listed as one of the current powers of both the National State and the states. Although there is some suggestion that autonomy extends to trade relations with other countries, this section does not imply that states should use these powers to negotiate separate trade agreements or commercial agreements with states in other countries.

The appearance of a federalist structure, however, is belied by the right of the President to suspend the powers granted to the states under the constitution. The 2011 constitution rolls back some elements of decentralisation introduced under the 2005 Comprehensive Peace Agreement. As noted in Cope (2013) the constitution has been flouted in a number of areas since independence and some of the elements of the bill of rights are not carried out in practice. In addition Cope (2013) points out that:

“During a state of emergency, the president may suspend most parts of the bill of rights and may take any measure “deemed necessary,” which “shall have the force of law.” The president may, “by law or orders, take any measures . . . as provided herein: . . . to dissolve or suspend any of the state organs or suspend such powers conferred upon the states under this Constitution.” The basis for a state of emergency can include, for example, a natural disaster, an epidemic, or “imminent danger” to the “economy” of any part of the country (South Sudan lives under near- perpetual threat from both invasion and epidemic). The revisions also remove the role of the legislature in dismissing federal justices, arguably giving the president unilateral authority to remove justices (i.e., members of the Supreme Court) for bases that include not just gross misconduct and incapacity, but also “incompetence” (Cope 2013).

It is critical that states are involved in trade-related policymaking, decision-making and implementation, since the country’s resource base – agricultural, mineral and petrochemical – is to be found in the regions. The country has a history of factionalisms and trade policy can be used as a tool for unification. Trade facilitation and improvements to the business environment rely heavily on coordination between the capital and the states where production takes place.

The EIF should involve the state governments in its activities, partly through representation on the National Steering Committee but also at the level of everyday government activities. Trade diversification will be successful partly as a function of the extent to which the national government is able to work with regional administrations to support economic activities in the rural areas. Coordination between central government and ministers in the provinces is said to be adequate, although there is some duplication of activities with the provincial governor.

The prerequisites for the development of non-resource based rural economic activity are very basic, and include security, power, roads and fully-functioning borders. At the time of writing the main border at Renk in Upper Nile state, the country’s second-largest after Jonglei, was closed and most goods were smuggled from Sudan. Even basic requirements are lacking, such as fuel and clean drinking water. The capacity needs of the provincial governments are similarly fundamental, and include training in financial management, computers, and ICT and English-language training.

Box 6. Upper Nile state

The government structure and capacity needs of Upper Nile are typical of many other states. The Ministry of Commerce and Investment consists of three directorates: Commerce and Trade, Administration and Finance, and Investment. The Director General expressed the need to build systems and institutions, given that the Ministry was formed only in 2012. ICT skills among junior to mid-level staff are lacking, as is the availability of skilled human resources.

The total number of government employees in Upper Nile is 15,000, although the central government provides funding for only a third of that number. The Ministry of Commerce and Investment has 174 staff and a budget of SSP 1,479,756 (US$370,000) for salaries and SSP 1,994,000 (US$500,000) for expenditures. Central budget allocations are made irrespective of the various sizes of states, meaning that a large state like Jonglei or Upper Nile receives the same budget as a smaller state such as Unity. The provincial government has legislation which allows it to collect taxes to pay the remainder of employees. The excessive levying of local taxes is likely to discourage business and lead to the misallocation of resources. Restructuring and retrenchment would be highly politically and socially sensitive, since many employees fought in the independence struggle or are relatives of deceased soldiers.

4.6 Private sector and tertiary education

Chamber of Commerce

The private sector is represented by two major business associations, the South Sudan Chamber of Commerce, Industry and Agriculture (SSCCIA) and the South Sudan Business Union (SSBU). The SSCCIA is the leading umbrella business association in the country and is represented in all 10 states with over 7,000 registered members, the majority of whom are SMEs with less than 50 employees. It offers a number of services to members including advocacy and trade-facilitation activities. There are several sector-specific associations including entrepreneurs, tourism, banking and insurance. The Chamber of Commerce in Upper Nile state, consulted for this study, appears to be an active and dynamic institution representing a number of trade-orientated companies, although its task is hampered by the difficult business environment. The senior staffing of the Juba Chamber is high quality, with a number of returnees from the diaspora. The Chief Executive Officer, policy specialist and communications officer are employed by the World Bank. Relations with the government, specifically the MTII may be hampered by a skills imbalance and the perception that the Chamber is seeking to manipulate the government agenda; conversely Chamber officials appear to feel that the government fails to consult the private sector enough.

Chamber officials highlighted a number of trade-related capacity challenges, in particular a shortage of human resources, especially at the tertiary level. Polytechnic graduates are in particularly short supply, including electricians, carpenters and engineers. Officials also suggested that regulatory frameworks need to be put in place. Laws either do not exist or are not enacted due to weaknesses in the judiciary. The arbitration process is a key issue, as is investment protection. Most lawyers were trained in the north and Arabic is their main language.

The SSBU is also represented countrywide and was closely involved during the austerity budget period in working with retailers and wholesalers on competition and consumer safety issues to curb the price inflation of basic commodities.

Other institutions promoting the development of the private sector include the South Sudan Business Forum (SSBF), the South Sudan Women Union (SSWU) and the South Sudan Shippers Council (SSSC).

The remit of SSBF, which operates more like a think tank representing both the GRSS and the private sector, covers a wide variety of issues such as public-private dialogue, trade, tax administration, access to finance, land, agriculture, agribusiness and infrastructure. Among its other responsibilities, SSBF has developed a draft Private Sector Development Strategy that is now before the Cabinet of Ministers awaiting final approval. Recently, the regulation empowering SSBF was gazetted, thereby establishing its authority as South Sudan's official forum for promoting public-private dialogue. The Annual Business Forum, which is the highest organ of SSBF, is chaired by the President of the Republic of South Sudan. The SSSC, which was established under the auspices of the SSCCIA, works with the trading community to deal with the slow clearance of containers at Mombasa port. For information on SSWU, see Chapter X on Poverty Reduction and the MDGs.

As noted above, due to the critical shortage of skills in the country, there are not many firms offering professional services. However, a few locally registered companies provide services to the business community, including one accounting company, three law firms, five general consulting firms and several transport and logistics service providers and courier companies (Government of the Republic of South Sudan 2011).

Tertiary education and civil society

Higher education should form an important component of trade capacity-building. South Sudan has a number of skilled and qualified technical professionals in the broad area of trade; the task is to use these personnel effectively as well as train new people. Often highly-skilled, university-educated professionals are best deployed in a collaborative environment which promotes knowledge-sharing and mutual learning. The gains from collaboration can make such an organization bigger than the sum of its parts. Conversely, isolating and marginalising skilled professionals can demotivate them and reduce their inputs. A number of young staff with significant potential need to be trained in the skills necessary for trade policy and analysis, functions which are currently in short supply.

It is recommended that the UNDP project Economic Analysis Capacity Development Support to The Republic of South Sudan forms a key component of AfT and EIF support in this area. The initiative aims to build the analytical capacity of the MTII to carry out its mandate to plan and ensure rational resource allocation and impact assessment for economic development, and for the Bank of South Sudan (BSS) to carry out its monetary policy role. The specific objectives of the programme are to support the Ministry of Finance and Economic Planning (MFEP), the MTII, the National Bureau of Statistics (NBS), and the BSS in building their economic modelling capacity for policy analysis and to support MFEP, the BSS, the Department of Economics of Juba University and the ten states of South Sudan in building internal human resource capacity for policy analysis. Often trade officials tend to be excluded from the modelling and analysis undertaken in Ministries of Finance, with the result that policy decisions are taken for revenue-related rather than reasons of productive capacity.

The state universities include the University of Juba, University of Upper Nile at Malakal, University of Western Bahr el Ghazal at Wau, Rumbek University and the Dr. John Garang Institute of Science and Technology at Bor.[26] The operational status of each is unclear, and staff shortages are severe. At the

[26] The following section draws on USAID (2009, 2010): http://www.cbtf-southsudan.org/sites/default/files/1_usaid_strategic_capacity_building_study.pdf http://pdf.usaid.gov/pdf_docs/PNADU300.pdf

time of writing the University of Juba was closed due to strikes over unpaid wages. A number of new private universities are also in operation.

Institutions of higher learning

- Bridge University, 2010, Juba
- The Catholic Health Institute, 2010, Wau
- The New Generation University College, 2009, Juba
- Agape Christian University of Science and Technology
- Legal Study Centre, 2010, Juba
- Pan African University, 2009, Juba
- Institute of Management Studies, 2009
- Ras University of Juba, 2009, Juba
- Christian Leadership Institute of Sudan, 2009, Yei
- The Catholic University of South Sudan, 2009, Juba
- The South Sudan Christian University of Science and Technology, 2009

<u>University of Juba</u>

The University of Juba opened in 1975. Academic staff (mostly local) now number around 600-700. Subjects include Education and Community Studies and Rural Development, Industrial and Applied Sciences, Natural Resources and Environmental Studies, Engineering and Architecture, and Medicine.

<u>Upper Nile University</u>

Upper Nile University was established in 1991 and is located in the northern zone of Malakal town near the airport. The Malakal campus has five colleges and one specialized centre (College of Education, College of Animal Production, College of Veterinary Medicine, College of Human Development, College of Postgraduate Studies, and a Centre for Child and Woman Studies).

<u>Dr. John Garang University of Science and Technology</u>

Dr. John Garang University of Science and Technology, operating in Jonglei State is still in the very early stages of development and lacks of physical infrastructure. The University has begun partnerships with a number of American Universities including Texas A&M, Iowa State, State University of New York at Oswego and Michigan State University. The Universities of Juba and Khartoum are included in this partnership.

<u>University of Bahr El Ghazal (Wau)</u>

Bahr El Ghazal University was established in 1991. Subjects include Education, Veterinary Science, and Medicine and Health Sciences, Agriculture, Forestry, and Animal Production, but it still needs significant funding. According to some sources, this university is not functional.

Think tanks

There are several nascent attempts to create think-tanks, notably the Nile Institute for Strategic Policy and Development Studies (commonly referred to as the Nile Institute), the Sudan Institute of Policy Research Analysis, and an initiative by the Overseas Development Institute and the North-South Institute. Perhaps the most well-known Southern Sudanese think tank was the Kush Institute, which was established by the Southern Sudan Legislative Assembly via the Kush Institute Act in 2007.

However the institute appears no longer to be active. The Nile Institute was originally registered in 2005 with the Humanitarian Aid Commission in Khartoum and moved to Juba in 2008. The Nile Institute has undertaken a number of projects, including strategic planning and education-related evaluations and is currently undertaking land-related research. The Institute has received core funding from the US-based National Endowment for Democracy: US$28,200 in 2004; US$35,000 in 2007; and US$36,000 in 2009.

South Sudan-based think tanks and universities should also take advantage of the several African institutions which exist in the continent and elsewhere, including the:

- The Trade Law and Advocacy Centre (TRALAC) based in South Africa.
- The South Centre, an intergovernmental organization of developing countries that helps developing countries to combine their efforts and expertise to promote common interests in the international arena.
- Sudan Studies Society and Sudan Studies Association. An independent professional society founded in the United States in 1981 that promotes Sudanese studies and scholarship. Membership is open to scholars, teachers, students, and others with interest in the Sudan.
- Africa Institute of South Africa. An independent research organization focusing on Africa in its policy analysis and research in politics, socioeconomics, and development issues; over 40 years old.
- Centre for Strategic Studies. The Africa Centre is the preeminent US Department of Defence institution for strategic security studies, research, and outreach in Africa. It has regional offices Addis Ababa, Ethiopia and Dakar, Senegal.
- Institute for Global Dialogue. An independent South African NGO broadly concerned with international affairs and how these affect South Africa, southern Africa, and Africa as a whole.
- Rift Valley Institute. The Rift Valley Institute is an independent, non-profit research and educational association established in 2001 and based in Kenya, the US, and the UK.
- The South African Institute of International Affairs. Founded in 1934, this international relations institute was ranked 2009’s best think tank in Africa in the annual international survey conducted by the University of Pennsylvania. It is based at South Africa’s University of the Witwatersrand (USAID 2009, 2010).

4.7 Donor capacity-building activity

According to the Republic of South Sudan Donor Book 2012-13, pledged aid to the Economic Functions sector grew by US$7.4 million in 2012, with a 22% rise in allocations between 2011 and 2012/13. The list of planned commitments indicated that the upward trend was planned to continue into 2013/14. This growth is driven by increased allocations to two programme areas: creating a conducive environment for trade and private sector development, and power management and development, which together account for 95% of 2012/13 commitments. The key trade-related capacity-building donor projects include:

- The Private Sector Development Project under the Multi-Donor Trust Fund aimed at the Ministry of Commerce, Industry and Investment was projected at US$3,459,126 in 2011, of which US$1,325,387 was spent. The project was expected to continue into 2014 and beyond.

- The UNDP Support to Inclusive Growth and Trade Capacity Development, targeted at the Ministry of Agriculture and Forestry, the Ministry Trade, Industry and Investment, and the Ministry of Finance and Economic Planning, with a projected US$6,498,922 expenditure in 2012/13. The IGAD initiative (see box above) is supported by the UNDP.
- Support under the Private Sector Development in Southern Sudan project under the International Finance Corporation (IFC) was projected at US$3,520,000 in 2011 and US$1,411,500 in 2012/13.
- The World Bank Private Sector Development Project, projected at a value of US$7,500,000 in 2011/12 and US$10,500,000 in 2012/13.
- AfDB has two projects: Institutional Support to Public Finance Management & Aid Coordination, in the Ministry of Finance and Economic Planning projected at US$1,692,900 in 2011/12, and the Capacity Enhancement Programme for the University of Juba, at US$81,940 in 2012/13.
- USAID has a Human Capital Development Initiative worth a projected US$14 million in 2012/13 and 2014.

The UK supports the MFEP by providing technical assistance through the ODI Fellowship Programme, which deploys junior economists into civil service roles to fill critical gaps. DfID also provides support to ODI's Budget Strengthening Initiative, which supports planning and budgeting processes; development of aid management processes; and strengthened financial management systems. DfID also supports the development of customs revenue collection through TradeMark East Africa. The European Union provides a trade adviser to the MFEP, who at the time of the DTIS mission was expected to assist in the drafting of a trade policy framework drawing on the DTIS.

4.8 Conclusions and overall assessment

The MTII should be the primary recipient of immediate trade-related capacity-building activities.

Overall capacity-building should begin with a functional review of the trade function of the Ministry aimed at establishing job descriptions and an efficient institutional structure aimed at the priority trade-related activities, which include the development of productive capacity and diversification away from petroleum and minerals as well as the negotiation of regional agreements such as the EAC and COMESA. Many staff require assistance in fulfilling their functions and the institutional structure is not designed with the key trade priorities in mind. Skills need to be improved at all levels of the Ministry. Immediate priorities are basic ICT and English-language capacities. Leadership and management skills also need to improve, although delegation of tasks cannot occur without leaders first having the confidence that junior staff are fully capable of doing their jobs. This said, high-level support for trade needs to be built, possibly via the President's Office, in order to reduce delays and the blockage of legislation and decisions at Cabinet.

Many officials expressed the desire for long-term training, a sign of the ambition that exists throughout the Ministry. However at this stage, apart from general economics skills specialised long-term training is not considered a priority since job turnover is so high that there can be little confidence in skills being put to best use. Skills specialisation should occur at a date when the Ministry is more developed and when its basic structure is finalised and adapted to the purpose at hand. Basic and general skills enhancement is useful even if staff are redeployed to other departments.

Despite several requests for infrastructural improvements such as buildings and vehicles, we believe is a lower priority than basic training, although the provision of office and ICT equipment should accompany ICT skills training with the appropriate procurement procedures and assessment of fiduciary risk.

Research and policy development is a critical priority, which is why it would be appropriate to support the UNDP project proposal for a policy analysis unit in the MFEP as well as a think tank at the university. In support of this function, statistics and data need to improve. As noted in the chapter on trade policy, trade data is very poor and most is based on estimates. If South Sudan is to join trade agreements or the WTO it must do so on logical grounds using a rational assessment of costs and benefits based on good data.

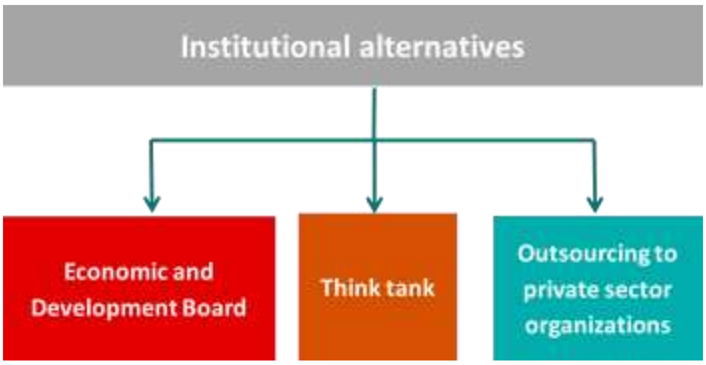
Although it is only a distant long-term possibility at this stage, establishing a new statutory trade body or economic development board would bypass official bureaucratic processes, strengthening analysis and implementing trade policy, linking trade and investment, incentivising skilled staff and enabling them to collaborate. The establishment of a Development Board would be a significant challenge which would require considerable support at the top political level, but a separate, well-organised and dynamic institution with the authority to pursue the full range of trade objectives may be the best mechanism for diversifying and expanding trade and ensuring that it contributes to human development.

4.9 Recommendations

Institutional options for promoting the trade and development agenda

Three distinct, non-mutually-exclusive institutional alternatives are possible in the attempt to promote the trade and development agenda (see Figure 23). Although these broad models have been used elsewhere, this is not to suggest these experiences can be parachuted into South Sudan. There is no single model that can be applied across countries and a thorough reworking of these models to the South Sudanese context is a clear requirement. The first alternative proposes the establishment of a Development Board, which as mentioned would be a major undertaking requiring strong buy-in at the most senior political levels.

Figure 23: Institutional alternatives



The second alternative is a think tank or a network of think tanks. The research and policy advice market is over reliant on foreign expertise and is not sufficiently matured in South Sudan. There is not enough competition among lead experts, which tends to increase the importance of personal trust and track record, creating so-called 'closed policy advisory loops' or group think. Opportunities to develop new research skills and participate in international research projects are still limited. The support to the creation of a think tank or a national network of think tanks to be associated with the University of Juba is a viable option to expand neutral and evidence based research. Initial support is envisaged from the Government and external partners through the establishment of a semi-public institution. The think tank will be able to deliver human development and economic policy research. With time the think tank will be able to act as a catalyst in South Sudan and support the development of specialized research capacities in line Ministries and in Universities outside of Juba.

The third institutional alternative proposal looks at using and building the capacity of private organizations to deliver certain public services. This model relies on a public/private partnership (PPP) to work towards ensuring that public sector objectives are met through specific country agreements. Most classical examples include the outsourcing of licensing processes (e.g. rules of origins) to the Chambers of Commerce. The trade promotion function, which usually takes the form of support in business matching, information gathering and participation to and organization of trade fairs, is currently non-existent in South Sudan. MTII can build this function in partnership with the Chamber rather than a stand-alone initiative.

Leadership, skills and the enabling environment

The state-building process meant an integration of different public service traditions and work ethics. The public civil servants who had had relevant government experience in the north, the staff of the independent south temporary Government and the newly recruited South Sudanese from the diaspora bring different skills, work cultures and expectations. These differences in skills and expectations should be turned into assets rather than perpetuated as problems. Knowledge of Arabic can be turned into an asset as the country will enter into deals with capital surplus states in the Gulf. Education obtained by South Sudanese diaspora in western universities brings a new set of skills and knowledge that could be transferred to the staff of the Ministry who did not have the opportunity to study abroad. However a change management process can only happen through visionary leadership and deliberate actions that generate trust and motivate individuals to actively participate.

Four recommendations are proposed to address the capacity gaps identified in the report:

i) Establish a fair working environment with a focus on streamlined education and basic skills.

Detailed actions: I. Provide limited undergraduate/graduate education opportunities for the most brilliant staff who could not complete education due to the conflict. Support should be limited to the identification of scholarships and assessment of eligible staff; II. Reduce English language skill gap by providing long term teaching opportunities (mandatory language test to be required for any promotion or salary increase): III. Reduce ICT skill gap with targeted training on internet and office software (mandatory test to be required for any promotion or salary increase).

Suggested focal Point: EIF NIU
Supporting Role: Administration and Finance, Human Resources, Planning
Estimated potential cost: US$500,000

ii) Establish an enabling working environment with a focus on mechanization of tasks, digitalization, information sharing and internet.

Detailed actions**:** I**.** Expansion of internet bandwidth options and wider availability of internet connection to staff; II. Investment in IT equipment and human resources; III. Targeted training and review of clerical business processes in light of standardization and mechanization of tasks (e.g. registry, internal communications, payroll, etc.) IV. Progressive digitalization (full) of public archives and databases (e.g. export/import license) in line with ASYCUDA implementation road map; and V. Establishment of a new website for the MTII.

Suggested focal Point**:** Administration and Finance, Planning
Supporting Role**:** Human Resources, Planning, EIF NIU
Estimated initial cost: US$100,000

iii) Build capacity to conduct applied research and develop negotiation positions with a short term focus on economic integration.

Detailed actions: I. Obtain short-term external support for establishing a trade negotiations strategy and cost benefit analysis for EAC; II. Establish formal coordination mechanism for EAC negotiations; III. Establish a coaching mechanism for staff in external trade and research department to gradually establish trade analysis capacity; IV. Support to the establishment of an economic think tank within the University of Juba; V. Develop a career path for economic and trade analysts within the MTII.

Suggested focal Point: EIF NIU
Supporting Role: Trade-related departments at the MTII
Estimated potential cost: US$1 million

iv) Adequately support the leadership in undertaking its function and continually improve its skill set.

Detailed actions: I. Organize executive training for Director Generals, Under-secretaries and Ministers on management and soft skills; II. Involve an external expert to propose and introduce change management practices; III. Increase the direct support to the leadership function to facilitate interactions among Undersecretaries, Ministers involved in the trade policy cycle (e.g. Cabinet Affairs, Justice), and the Parliament.

Suggested focal Point: EIF NIU
Supporting Role: Administration and Finance, Planning
Estimated potential cost: US$200,000

Policy and systems

The regulatory framework, policies, practices and systems are essential for the effective functioning of an organization. A situation where rights holders are able to make duty bearers deliver on their obligations is critical for policies and institutions to work.

South Sudan largely lacks a complete and sound policy regulatory environment. Without a proper regulatory environment public institutions can barely function. This is particularly the case for the policy and regulatory environment for trade, which is largely to be completed. At the time of writing only the investment authority was equipped with an investment act, an investment regulation and a strategic plan of the responsible authority. Several laws were in place, such as the Imports and Exports Act, the weights and measures Act and the National Bureau of Standards Act, but regulations are missing and provisions may conflict with those soon to be approved bills (e.g. the Customs Bill). Customs and standards still operate in a (partial) legal grey area, meaning for example that there is no clarity on what standards have a legal value in the country. The legal vacuum surrounding customs and tax collection manifests itself not only in weak revenue collection, but also in widely reported abuses of authority on revenue collection by national and states' authorities. This situation has created an administrative tax-like burden on private economic activities and trade, some within the MFEP. Improving the capacity of the Ministry to deal with these challenges is a priority. In addition systems need to be put in place to ensure full transparency.

A number of acts and policies are being drafted, but the approval cycle is often not completed. This has generated a queue of strategic and legal decisions in the Cabinet and the Parliament. With no regulation and policies enacted the institutional set up and mandates will continue to remain largely informal. Similarly it is almost impossible to perform monitoring and evaluation functions and to establish accountability mechanisms with no rule of law or laws.

Austerity measures have stalled the public sector expansion which characterized the years of the oil boom. While austerity has reduced the development budget almost to zero, it has also created an opportunity to reform institutions.

Three recommendations are proposed to address identified capacity gaps:

i) Complete the regulatory environment that establishes trade institutions' mandates, legal powers and accountability.

Detailed actions: I. Provision of targeted external support to complete the regulatory framework (i.e. standards, private sector development strategy, customs bill etc.) which is impeding the undertaking of critical functions. Prevent to the maximum extent possible a situation where laws and regulations are based only on model policy/law without contextualization to the South Sudan. Coherence and compatibility of provisions should also be rigorously checked; II. Establish a trade policy framework on the basis of the DTIS through a cabinet decision; III. Establish an annual calendar of policies and key document to be approved by the cabinet or the assembly; IV. Reduce the number of yearly submissions to the cabinet and identify follow up responsibilities over the approval process.

Estimated potential cost: US$500,000

ii) Introduce an institutional structure that facilitates coordination and collaboration through a gradual functional review process.

Detailed actions: I. Establish a functional NIU and National Steering Committee under the EIF to drive the institutional reform process; II. Update and streamline the Ministry's strategic plan and organogram taking into consideration realistic budget scenarios and the effects of the merger between the MTII and the MFEP; III. Validate, implement and amend the job description manual to firmly identify individual responsibilities and required skills; IV. In the short to medium-term consider a full-fledged functional review of the Ministry. V. Establish formal coordination arrangements and/or practices on priority negotiations, starting from EAC.

Estimated potential cost: US$200,000

iii) Put in place organizational systems to effectively attract, retain, manage and develop MTII human resources.

Detailed actions: I. Initiation of a process of leadership development for middle-cadre (Directors and Deputy Directors) with a focus on soft and management skills; II. Introduce a performance management system starting from Deputy Directors, Directors and Director Generals; III. Complete the staff learning needs assessment; IV. Reduce structural internal turnover by matching skills with actual functions.

Estimated potential cost: US$100,000

REFERENCES

Government of the Republic of South Sudan (2011). South Sudan Development Plan (SSDP) 2011-2013, August 2011.

Ministry of Human Resources. (2011). South Sudan Medium Term Capacity Development Strategy (MTCDS), May 2011.

CHAPTER V - BUSINESS ENVIRONMENT AND CROSS-CUTTING ISSUES

5.1 Introduction

South Sudan, the world's newest landlocked country, presents many business opportunities for producers, investors and traders. The country is well endowed with under-utilised fertile land, water resources, oil and minerals. It is in a region where the East African Community (EAC) and four other non-EAC countries (Ethiopia, Sudan, the Central African Republic and the Democratic Republic of Congo (DRC)) collectively represent a market of 350 million people with a combined GDP of US$196.5 billion and a per capita income of US$561. At the same time, the country's fortunes are dependent on the maintenance of peace with neighbouring Sudan and peace, law and order within its own borders. This fragility is underscored by a near total lack of infrastructure, insecurity and non-tariff barriers which have adversely affected economic activity for decades.

One of the government's main objectives, as stated in the "South Sudan Development Plan 2011-2013", is to diversify the economy to diminish dependence on oil and double the amount of non-oil revenues by creating a more conducive business environment and strengthening economic competitiveness. The challenge is therefore to create a competitive business environment that promotes private enterprise and investment in the oil and non-oil sectors.

This chapter covers key topics such as the regulatory environment, infrastructure, support services and cross cutting issues which have a significant impact on South Sudan's capacity to trade and invest. Included in the analysis is a review of the essential elements of the business and investment climate and recommendations on possible areas of intervention to address weaknesses and challenges.

Table 6 highlights the strengths, weaknesses, opportunities and threats (SWOT) that define South Sudan's economy. It is based on meetings and exchanges of views between the DTIS mission and government officials, entrepreneurs and members of the international community.

However, in light of recent ethnic tensions that began in December 2013 and remaining pockets of instability, the government faces an uphill struggle in asserting its authority over rebel areas and demonstrating to investors, both local and international, that the country is once again a safe place in which to do business. Regaining investor confidence, which had peaked early last December following the successful launch in Juba of the South Sudan Investment Conference, will be crucial if the government is to fully realise its ambitious development agenda.

Table 6: SWOT analysis

Strengths	Weaknesses
• International goodwill and donor support following independence • The national leadership's commitment to institutional and regulatory reforms to unlock the country's economic potential • A newly streamlined, fast-track One Stop Shop Investment Centre • Extensive oil and under-utilised arable land, water	• A weak regulatory system governing trade, land, labour and government services • Uncertainty and overlapping mandates at different government levels (land, taxes) • A complex and uncompetitive tax regime • Low connectivity and high operating costs due to inadequate infrastructure • High cost of trading across borders and

and mineral resources • High oil revenue for reconstruction and development	delays due to non-tariff barriers • Weak human and institutional capacities, high illiteracy and cost of labour • Insecurity and internal conflict
Opportunities	**Threats**
• Normalising trade relations with Sudan • Improving the ease of doing business by enhancing and simplifying the regulatory framework • Creating modern, state of the art facilities (integrated border management and customs, power systems, ICT, multimodal transport, storage and logistics, building and zoning codes) • Applying good practices from the region and beyond (mobile banking, e-government, product and safety standards) • Improving liquidity through innovative financing solutions (secured transactions, warehouse financing, outgrower schemes) • Addressing lack of infrastructure by introducing irrigation, incubators and special economic zones • Developing demand-driven training programmes to create a skilled workforce • Building awareness and incentivising informal traders to formalise their activities	• Disputes with Khartoum and the suspension of oil exports through Sudan • Policy reversals due to austerity • Recurrent political instability and, ethnic tensions • Lack of public funds and/or investors to launch strategic infrastructure projects • Increase in use of non-tariff barriers to forestall the effects of trade liberalisation • Healthy foreign reserves trigger the "Dutch Disease", i.e. an appreciating local currency prices out goods from domestic and export markets and hollows out an emerging non-oil sector

An overview of donor activities in South Sudan with respect to improving the business environment can be found in Table 7.

Table 7: Business environment reform activities by donors in South Sudan

Donor	Activities
AfDB	-Infrastructure development -Capacity building and donor coordination.
GIZ (formerly GTZ)	Development of a National Revenue Authority.
IFC	-Support to the Bank of South Sudan to expand financial services and increase options for financing, e.g. leasing, trade finance, microfinance and mobile banking; -The Conflict Affected States in Africa initiative provides training to local banks in credit risk management; -The Business Edge programme strengthens small and medium enterprise management skills, including business planning.
IMF	Technical assistance in tax and customs administration reform.

JICA	-Provision of training to customs administration staff and brokers in HS code training -improving trade statistics; -Nile River dredging.
TradeMark East Africa	-Multi-donor funded activities (DFID, etc.) to develop tax and customs administration capacity, including automation and implementation of a One Stop Border Post at Nimule, -removal of non-tariff barriers -strengthening of the National Bureau of Standards.
USAID	-Technical assistance to increase agricultural productivity and link communities to markets, provide access to credit for agribusinesses and small-scale farmers; -assistance from Deloitte LLP for improvement and automation of tax and customs administration, including the Directorate of Taxation; -funding the South Sudan Infrastructure Services Project to develop trunk and primary roads, secondary and tertiary/feeder roads, urban roads and institutional capacity as well as enhancing road safety.
European Union	-Technical cooperation in justice and rule of law, education, water management, urban development, rural economy, infrastructure and civil aviation.
World Bank	-Assisting GRSS to set up a credit bureau to facilitate lending by commercial banks; -rehabilitating feeder roads to increase access to rural communities in areas with high agricultural potential.

Source: Various donors and partners.

5.2 Governance

The SSBF, in partnership with MTII, has developed a draft Private Sector Strategy which sets out South Sudan's vision of becoming a diversified, competitive and prosperous economy.[27] The draft strategy, which is currently under review, is composed of four pillars:

- Pillar 1: Investment climate reform programme.
- Pillar 2: Micro, small and medium enterprise (MSME) development programme.
- Pillar 3: Access to finance programme.
- Pillar 4: Physical markets and institutional building programme.

Examples of key provisions in the strategy include licensing reform, tax reform, strengthening standards compliance, infrastructure development, local enterprise development, PPPs for the delivery of public services, the establishment of a competition authority to address uncompetitive business practices that undermine private enterprise and dispute resolution mechanisms. While the strategy promotes an ambitious agenda, the private sector continues to face a number of serious challenges that inhibit growth, trade and investment as discussed below.

[27] For more details, see "Draft Private Sector Strategy", Ministry of Industry, Trade and Investment, June 2013.

South Sudan has a number of unresolved geopolitical issues such as the ongoing dispute with Sudan over border demarcation and pipeline fees and a high dependence on receipts from oil exports flowing through Sudan's pipeline. Additionally, the GRSS is overseeing a slow and difficult demilitarisation and demining process while attempting to deal with rebels in various parts of the country such as Jonglei, Upper Nile and Unity States. More recently in 2014, the country has witnessed the worst escalation of violence since 1991. Moreover, there is frustration within the country over corruption and the slow progress in providing services to the public, which in part provoked a major government cabinet reshuffle in July 2013.

In this fluid and uncertain environment, the possibility of policy reversals increases the cost of doing business for investors by pushing up premiums for political risk insurance (PRS Group 2012).

Legal and regulatory Framework

The business and investment climate in South Sudan is fraught with insecurity though some efforts have been made regarding the regulatory framework to provide enhanced certainty and predictability needed by the private sector to invest and create jobs. Where new laws have come into being, these have superseded the pre-independence laws. Currently, there are nearly 60 new business-related laws of which 80 percent have been enacted by the National Legislative Assembly (Box 7). But gaps remain. In several areas there is a need to formulate policies and adequate legal frameworks; these include, for example, trade policy, private sector development strategy and land regulations. Some of the notable bills yet to be passed cover intellectual property rights (IPR) and microfinance. Other important legal aspects still missing are a labour law that defines issues like the minimum wage, workers' benefits, human resources development and the accreditation and the certification of professional services for financial, legal, engineering, architectural, laboratory and testing services.

The country's Contract Law stipulates that the laws of South Sudan apply in civil cases unless otherwise stated. In such cases, competent legal professional services are essential. Similarly, mining and energy sector laws are also based on national law but provide for referral to other jurisdictions for arbitration. The local courts are able to handle only a limited volume of cases due to the shortage of judges and legal tools. The Law Society represents the legal profession.

Box 7: Status of business-related legislation in South Sudan

Enacted:

1. Personal Income Tax Act, 2007
2. Partnership Act, 2008
3. Registration of Business Names Act, 2008
4. Agency Act, 2008
5. Limited Partnership Act, 2008
6. Contract Act, 2008
7. Investment Act, 2009
8. Land Act, 2009
9. Local Government Act, 2009
10. Taxation Act, 2009
11. Bank of South Sudan Act, 2011
12. Wildlife Service Act, 2011

26. Nationality Act, 2011
27. Insolvency Act, 2011
28. Consumer Protection Act, 2011
29. Companies Act, 2012
30. Weights & Measures Act, 2012
31. National Bureau of Standards Act, 2012
32. Imports and Exports Act, 2012
33. Drug and Food Control Authority Act, 2011
34. Engineering Council Act, 2012
35. The South Sudan Civil Aviation Authority Act, 2012
36. Higher Education Act, 2012

13. South Sudan Electricity Corporation Act, 2011 14. South Sudan Urban Water Corporation Act, 2011 15. South Sudan Road Authority Act, 2011 16. Co-operative Society Act, 2011 17. South Sudan Audit Chamber Act, 2011 18. South Sudan Centre for Census, Statistics and Evaluation Act, 2011 19. South Sudan Employee Justice Chamber Act, 2011 20. Public Grievance Chamber Act, 2011 21. Sale of Goods Act, 2011 22. Examination Council Act, 2011 23. Diplomatic and Consular Service Act, 2011 24. Passports and Immigration Act, 2011 25. Public Finance Management & Accountability Act, 2011	37. Petroleum Bill, 2012 38. Foreign Exchange Business Provisional Order No.23, 2012 39. The Banking Provisional Order No.22, 2012 40. Anti-Money Laundering and Counter Terrorist Financing Provisional Order No. 29, 2012 41. General Education Act, 2012 42. Mining Act, 2012 43. The Agricultural Bank Provisional Order No. 25, 2012 44. Advocacy Bill, 2013 45. The Broadcasting Corporation Bill, 2013 46. Petroleum Revenue Management Bill, 2013 47. Media Authority Bill, 2013 48. Customs Act, 2014
Pending approval by the National Legislative Assembly:	
49. Workers Trade Union Federation Bill 50. Public Procurement and Disposal Bill	51. Labour Bill
Under consideration by the Ministry of Justice:	
52. Agreement on the Nile River Cooperative Framework 53. Electricity Bill 54. Insurance Bill 55. South Sudan Leasing Bill	56. Trade Licensing Bill 57. Microfinance Bill 58. Veterinary Drugs Control Board Bill 59. Animal Disease and Pest Control Bill

Source: Sudan Legislative Tracker (Updated 11 Sept. 2013) and South Sudan Chamber of Commerce, Industries and Agriculture.

Existing laws governing property and land tenure are ambiguous and hinder private sector growth, requiring decisive government attention. South Sudan's land tenure is governed by the Land Act (2009), the Local Government Act (2009) and the Investment Promotion Act (2009). The Land Act classifies land into three categories: private, community and public land. The Local Government Act defines the roles and responsibilities of customary institutions in administering community land rights. The Investment Act facilitates access to land for private investment, including foreign investors, and the protection of both current rights holders and investors. However, the application and interpretation of the law, particularly as it pertains to community land, does not inspire confidence in potential users, including developers and investors.

As a result of weak governance, land tenure in South Sudan is considered insecure whether in the mining, agribusiness or tourism sectors (see Box 8). As a remedy, the government has established the South Sudan Land Commission whose functions include managing land distribution and ownership as well as arbitrating land disputes. However, despite various legal instruments, access to land remains a highly contentious issue. To address uncertainty, the GRSS needs to urgently establish a computerised land registry or cadastre to maintain and update records of all surveyed and un-surveyed land, including title deeds and transfers.

Box 8: Land issues

Tenure insecurity contributes to conflict and lack of trust in essential public institutions, reduces reasonable expectations over tenure rights and impedes investment and economic development. Many of the thousands of people displaced during the civil war encounter obstacles reclaiming rights to their land at their homes of origin. Conflict over grazing and water rights and between agriculturalists and pastoralists will remain a major internal cause of violence in several areas of South Sudan.

The old Sudan regime negated the legal basis of customary rights and institutions that were the dominant tenure system in southern Sudan. State ownership of land regulated access to resources used in common such as grazing land and forests, secured collective resources and prevented land-grabbing. These essential institutions of governance were destroyed during the South Sudanese independence struggle.

CPA recognised the significance of resolving land-based sources of conflict and mandated establishment of a National Land Commission and a Southern Sudan Land Commission (SSLC) to develop land policies and draft legislation to clarify and strengthen land administrative systems and the rights of landholders. The Interim (2005) and Transitional (2011) Constitutions have required all agencies to include customary rules and institutions in their policies and strategies. The Land Act (2009) gives equal legal recognition to community, private and public land tenure systems including customary institutions. The Local Government Act of 2009 defines the roles and responsibilities of customary institutions, prescribing that they have particular responsibilities for administering community land rights. The Investment Promotion Act (2009) provides procedures for facilitating access to land for private investment, including by foreign investors, in ways that protect the interests of both current rights-holders and investors. These three laws form the basis for a legal framework conducive to the fair and transparent administration of land rights in South Sudan.

SSLC has made progress toward putting in place policies, laws and administrative systems that secure the rights of landholders, foster economic development and help provide the foundations of an enduring peace. However, as the legislation was not based on a comprehensive and participative land policy review process, the Land Act did not address adequately issues including 1) roles and responsibilities of land administrative authorities at various levels of government; 2) land rights of women and vulnerable groups; 3) procedures for conflict mediation and resolution between various categories of land users; 4) restitution and resettlement policies for Internally Displaced Persons (IDPs) and refugees; and 5) documenting and reconciling customary and land use planning protocols for the management of common forest and grazing resources. In response in 2009, the Government of South Sudan launched a participatory process on the issues not addressed by the Land Act in order to revise it. A draft land policy was developed under the leadership of SSLC with support from USAID. Extensive public consultations across South Sudan have led to draft legal and administrative reforms that extend security of land tenure rights to the greatest possible number of citizens. This policy was submitted in February 2011 to the Ministry of Legal Affairs and Constitutional Development for review.

Source: Adapted from GRSS, "South Sudan Development Plan 2011-2013. Realising Freedom, Equality, Justice, Peace and Prosperity for All", August 2011, pp. 47-48.

Judicial system

While progress has been made in putting in place the necessary regulatory framework, it must be noted that enforcement mechanisms are either weak or absent. One of the main weaknesses of the legal system is the lack of effective courts and enforcement mechanisms to apply laws in a transparent, predictable and consistent manner. The modern, common law-based legal system is still in its infancy and under-staffed and therefore poorly equipped courts are unable to handle commercial disputes efficiently. This places unchecked, discretionary powers in the hands of law enforcement officers who often dispense on-the-spot justice without due process. This legal vacuum creates uncertainty for the business community.

An interim measure undertaken by the government is the introduction of a new alternative dispute resolution (ADR) law and mechanism. The ADR mechanism addresses current deficiencies in the formal court system by allowing commercial disputes involving business owners and investors to be resolved efficiently and quickly by mediation, while also increasing the security and confidence of local and international firms. This intermediate measure, to be implemented in partnership with the South Sudan Chamber of Commerce, is part of a longer-term process to strengthen South Sudan's legal framework, including its commercial laws. Indeed, addressing gaps in the legal system, as mentioned below under "*The challenges of South Sudan's investment climate*", will require training judges, lawyers and law enforcement cadres as well as equipping courts with modern tools for the judicial system to perform efficiently.

5.3 Business environment

In 2005 when the interim government came into being after signing of the Comprehensive Peace Agreement (CPA), it inherited a territory with little or no infrastructure (roads, electricity, telecommunications, water and sanitation services, hospitals and schools), limited access to land due to land mines, high rates of illiteracy and a small educated workforce. Feeder roads linking agricultural producers to processing centres are often in extremely poor condition; customs clearance and trade facilitation services are inefficient. These deficiencies and low connectivity to markets increase the cost of doing business.

***Doing Business*.** The *Doing Business* global rankings of the World Bank provide an objective benchmark of the regulatory burden the economy imposes on the private sector. According to the *Doing Business* indicators for South Sudan, the low overall rank of 186 out of 189 economies (Table 8) is instructive (World Bank 2013, 2014). In 10 key areas, performance indicators suggest that there are serious obstacles to overcome if South Sudan is to become a competitive economy that promotes private sector growth and investment.

Table 8: Doing business indicators for South Sudan, the East African Community and Sudan

Indicator	South Sudan	EAC*	Sudan
Ease of doing business	186	-	149
Starting a business	140	84	131
Dealing with construction permits	171	115	167
Getting electricity	184	120	113
Registering property	183	122	41
Getting credit	180	74	170
Protecting investors	182	84	157
Paying taxes	92	110	108
Trading across borders	187	153	155

Enforcing contracts	87	103	154
Resolving insolvency	189	125	89

Source: World Bank (2013*, 2014).

The main problem areas in the business environment are resolving insolvency and closing a business (189), trading across borders (187), getting electricity (184), registering property and accessing land (183), protecting investors (182), dealing with construction permits (171) and starting a business (140). Compared to 2013 rankings, South Sudan lost ground in all 10 categories with the exception of enforcing contracts, rising one place from 88 to 87, but with no changes in resolving insolvency, trading across borders and protecting investors.

Benchmarking South Sudan's performance against regional trading partners and global economies using various metrics such as the *Doing Business* (Table 9) can provide guidance on reforms that the country should envisage adopting. The EAC's best performer in the *Doing Business 2014* report is Rwanda, which in 2010/2013 initiated significant reforms in a number of areas (starting a business, protecting investors, paying taxes). Additionally, the benchmarking could also track results such as employment, tax revenue, foreign exchange earnings, the use of exemptions, land use and local community development to ensure that policy objectives are being realised.

Table 9: Ease of doing business ranking of EAC trading partners

South Sudan	EAC*	Burundi	Kenya	Rwanda	Tanzania	Uganda	Singapore
186	117	140	129	32	145	132	1

Source: World Bank (2013*, 2014), Doing Business.

Box 9: Rwanda's Doing Business success story

In 2010 Rwanda jumped 76 ranks, from 143 to 67th rank out of 183 countries. This was the biggest–ever improvement in the history of Doing Business. During the next four years, Rwanda continued its progression to 54th rank in 2013 and 32th rank in 2014 out of 189 countries.

The government was fully aware that strong growth, led by the private sector, was key to helping the Rwandese population improve living conditions and build a solid foundation for reconciliation. Rwanda has steadily reformed its commercial laws and institutions since 2001 with support from the World Bank. The financial sector is also healthier, and together this progress reflects:

- Reforms have been adopted in 7 of the 10 doing business topics;
- Major laws were prepared and adopted, including a company law, a secured transactions law, an insolvency law, a labour law, a law establishing the commercial courts, and another establishing the commercial registration agency. A Doing Business unit has been set up within the Rwanda Development Board (RDB) and is effectively leading the preparation and implementation of the investment climate reform agenda through enhanced public-private dialogue. The one-stop centre in the RDB is also more effective. Rwanda's image as an investment destination has considerably improved and investments are increasing

As a result, it is now easier, faster and less expensive to do business in Rwanda:

- Time to start a business was cut from 14 days to three days and the number of procedures was cut to two from eight. The cost of starting a business has dropped from 109 percent to 10 percent of income per capita between 2008 and 2009;

- Time to register a property was reduced to 60 days from 371 days and the cost to register property dropped from 9.6 percent of property value to 0.5 percent between 2007 and 2009;Time to import was reduced from 42 to 35 days, and time to export was reduced from 42 to 38 days between 2008 and 2009.
- Fiscal administrative procedures for businesses are being streamlined and the Value Added Tax law amended, resulting in the reduction in the number of tax payments from 34 to 26 and reduction in time to prepare, file tax returns and pay taxes from 160 hours to 148 hours between 2009 and 2010.
- All banks now comply with the required minimum capital adequacy ratio of 15 percent and the non-performing loans ratio has been decreasing falling to 12 percent in 2009 from more than 30 percent in 2000.

Source: World Bank paper, adjusted by the DTIS mission

Starting a business. According to the Business Registry set up in 2006 under the Ministry of Justice, currently there are over 21,000 registered companies in South Sudan that are active in sectors like retail, construction, hotels and other services. The majority of these companies are SMEs of less than five years old financed with funds from the owner's savings or from family and friends (African Development Bank 2013). The IFC has supported streamlining of business registration and automation of the business registry in Juba.

Three additional simplified and automated business registries have been planned for the states of Wau, Malakal and Bentiu. To further promote private sector development and investment, the government launched an initiative to increase transparency and improve the licensing system. This initiative includes simplifying and reducing the number of licenses, fees, levies and taxes as well as establishing a framework for licensing management. Currently it takes four procedures, one day, and SSP 1,195 (US$ 300) to register a business.

Another improvement is the elimination of the requirement of paid-in capital as an expense in the registration process. However, starting a business is still a hindrance to business growth, given that 80% of the workforce is in the informal sector including women informal cross-border traders. While the use of a lawyer is no longer mandatory for sole proprietorships, starting a business is still not easy for the typical SME. Registration involves a number of steps such as securing a name and a minimum of five permits or documents with corresponding fees:

- Certificate of registration/incorporation – Ministry of Justice
- Tax identification number and clearance – Ministry of Finance and Economic Planning (MFEP)
- Petroleum operating licence – Ministry of Mining (or the appropriate government ministry or agency depending on the sector of the enterprise)
- Licence of quantities – MFEP
- Membership certificate – South Sudan Chamber of Commerce, Industry and Agriculture (SSCCIA)

The Business Registry promises to issue a certificate of registration within five working days but this timeframe may not always be possible because of the many other institutions involved in the registration process as outlined above. Furthermore, membership of SSCCIA should not be mandatory for newly registered companies but optional to defray costs for the small business. The cost of SSCIA membership for a local SME is considerably high, ranging from US$200 to US$400 per year depending on the legal form of the enterprise.

Lack of information about the procedures and the benefits of operating as a formal business, high fees, the fear of exposure and predatory taxation, and the high illiteracy rate of owners play an important part in preventing businesses from registering. Another cause for the low rate of registration is the lack of facilities to serve clients outside the main urban centres. The Business Registry plans to open branches in other parts of the country. Outside Juba, it currently has branches in two states, Upper Nile and Western Bahr al Ghazal. The constraints on the expansion of branches include the lack of reliable power, internet access, manpower shortages and limited funds. The lack of easy access to business registration services is a serious barrier to business growth, especially in states where there is growing economic activity.

Easier registration of new businesses helps formalise economies, leads to better tax collection, generates data on sectoral growth and contributes to revenue and economic diversification. On the other hand, informal trade not only weakens formal trade, but also reduces government revenue. Measures to increase formality should include providing information to the public on the procedures and benefits of registration, improving eligibility for government tenders, reducing fees and increasing access by expanding registration and advisory services in key rural areas.

Insolvency. Closing a business is costly because of inefficient courts, the absence of qualified liquidators and a yet to be developed tradition of allowing companies to file for bankruptcy to liquidate assets to pay creditors or turnaround distressed companies. An Insolvency Bill (2009) was enacted and what remains is setting up an insolvency system that promotes orderly and efficient bankruptcy proceedings. Implementing this system will require the involvement of financial institutions and legal and accounting professionals to oversee and manage insolvency proceedings.

5.4 Cost and quality of factors

Labour

Due to historically low school attendance rates, about 90% of workers are without any qualification and less than 2% have post-secondary education. In addition to decades of war and isolation, the common practice of child labour interferes with school attendance and affects school performance. As a result, 94% of young people enter the labour force with less than primary education, with only 40% of girls in primary education. For these reasons, South Sudan has an acute shortage of both skilled and semi-skilled workers. The majority of the workforce is employed in non-wage work (84%) (Guarcello, Lorenzo et al. 2011).

As most businesses operate in the informal economy, labour laws and standards are not enforced. For example, the GRSS requires that all businesses ensure that 90% of their employees are nationals. Achieving this goal is not always realistic, especially in the hotel industry where foreign workers dominate due to the shortage of qualified workers. Most expatriate and migrant labour in South Sudan possesses skills that are not readily available such as managerial, financial, legal, medical, engineering, trade facilitation and teaching skills. Even basic services such as retailing, taxi, catering, housekeeping and similar services are provided mostly by foreigners from Uganda, Kenya and Ethiopia which is a source of much resentment among locals.

A draft Labour Bill has been presented to the National Legislative Assembly. The bill promotes trade unions, the resolution of labour-related disputes and is likely to result in a revision of the current standard minimum wage of SSP 300. The bill also covers employment contracts, wage protection, conditions of employment, termination and workplace safety. It provides workers in full-time employment with one day per week of rest and 21 days of paid annual leave. The GRSS ratified seven ILO conventions in 2012 (The Corporate 2013).

In comparison to the rest of the EAC region, the average cost of labour in South Sudan, at SSP 2,340 per month for a young person entering the job market, is relatively high.[28] Similarly, daily labour costs in rural areas are also much higher in South Sudan at $7.50 per day compared to Uganda ($1.00) and Tanzania ($2.31).[29]

There are still many labour-related challenges that need to be resolved. For foreign investors, implementing local content rules by hiring local labour may not always be possible because of the serious shortage of qualified local workers. Expatriate workers are routinely issued work permits of one to three months instead of the standard 12 months which exacerbate restrictions on the supply of qualified workers. Investors should be allowed to fill key posts with expatriate workers, at least in the short to medium-term until suitable local replacements can be found.

South Sudan has eight universities of which Juba University is the largest and most important. Juba University however, has not enrolled new students in the past two years, and three of the eight universities are not functional and currently have no vice chancellors in place, including the University of Northern Bahr El Ghazal, the University of Western Equatoria (in Yambio) and the University of Torit. There are ten vocational schools of which two, Tonj and Torit, are operational after being rehabilitated. Vocational training centres, including the one based in Juba, will be an important factor in meeting the current private sector labour force needs and requirements.

Human resource development planning will need to use a mix of education, on the job training and mentoring to develop the skills in demand in the labour market. A skill agenda based on growth sectors should be established: for example, the rapid growth of the construction sector require well qualified masons, plumbers, electricians, engine conductors… who are available on the market. The same approach applies to the hospitality sector which is composed of foreigners. Across the board, a serious effort has to be made to increase English skills.

At the same time, the GRSS needs to engage the diaspora and try to attract those with skills to return to the country. As a start, the government needs to create a database of the qualifications of individuals in the diaspora to serve as a pool of potential recruits, similar to an exercise carried out by the International Organization for Migration in the health sector.

Finance and credit

Access to credit is a very important impediment to SME growth and trade. Only 1% of households have a bank account (SSNBS 2012). Most SMEs are not able to access credit because of strict collateral-based lending criteria and high interest rates (18% - 23%). The shortage of financial services is more acute outside the main urban centres of Juba and Malakal. Another problem is the weak capacity of SMEs to prepare sound business plans to substantiate theirs requests for a loan. The problem is compounded by the fact that most SMEs are in the informal economy and have no bank record or credit history.

---

[28] Draft Private Sector Strategy, June 2013.
[29] World Bank, Trade Strategy Report, June 2014, page 9.

There are 19 banks and about 70 foreign exchange bureaus operating in South Sudan. The majority of the commercial banks are foreign-owned, including Ethiopian Commercial Bank, Kenya Commercial Bank, Equity Bank, Dubai Bank, Afriland Bank, Eco Bank and Qatar National. The remaining banks are locally owned such as the Buffalo Commercial Bank, Ivory Bank, Agricultural Bank of Sudan, Mountains Trade Development Bank and Nile Commercial Bank. South Sudan has no investment banks yet to finance large-scale, long-term infrastructure or industrial projects. Additionally, South Sudan has about eight registered microfinance institutions (MFIs), 67% of whose borrowers are women informal vendors. Loans are for use in the trade and services sectors (68%), agriculture (15%) and light manufacturing (11%). MFI clients include 33,000 active borrowers who represent only 1% of the potential client base in South Sudan (Lee, Celina and Robert Stone 2013).

Restrictions on foreign exchange affect the operations of commercial banks, limiting the provision of letters of credit to importers. The supply of foreign currency is tightly regulated by the Bank of South Sudan (BSS) and rationed for the purchase of food, medicine, fuel and other essential goods. Foreign exchange bureaus are also not supplied with sufficient amounts of hard currency by the central bank, contributing to the growth of a parallel foreign currency market. Shortages are felt more outside Juba than in the other states. This has implications for the convertibility of currency, felt mainly by traders and investors who often need to convert locally generated income into hard currency to cover expenses outside the country. Another area that needs technical support is in developing an efficient automated inter-bank payment, clearing and settlement system.

Legislation promoting inclusive banking is before the National Legislative Assembly, including a microfinance bill and a secured transactions bill that recognises movable assets as collateral for loans to SMEs. Addressing the constraints on access to credit will require establishing guarantee funds and a credit bureau to encourage commercial bank lending to businesses. The World Bank is currently advising the Bank of South Sudan on the establishment of a credit bureau to facilitate commercial bank lending to the private sector.

Improving the coverage of financial services in the rural areas and capacity building will also increase access to credit. Examples include opening more bank branches, introducing armoured trucks as mobile banks and rolling out mobile payment services similar to the popular M-PESA in East Africa. The IFC's Conflict Affected States in Africa (CASA) initiative has been providing training to local banks in credit risk management, while its Business Edge programme has sponsored business plan competitions (Table 6).

Capacity building in financial management should include the following: training of counsellors to work with business associations and banks and introducing tools for evaluating the creditworthiness of bank clients.

Getting electricity

The *Doing Business 2014* report ranks getting electricity in South Sudan at 184, among the lowest in Sub-Saharan Africa. The low ranking reflects South Sudan's lack of a national electric generation system. Power generation and transmission networks are limited to non-existent, well below the minimum efficient scale size of 200 megawatts (MW). South Sudan has a small electrical grid of 25-62 MW of installed electricity, serving a very modest number of government-owned installations in the capital city of Juba. Access to electricity is acutely unequal, with about 1% of the population having access to electricity, mostly generated off-grid by private emergency diesel-fuelled generators. In comparison, 10% of the population in East Africa has access to electricity. The average cost of power is high at US$0.37 per kilowatt-hour, double the average cost in Sub-Saharan Africa due to the use of small, uneconomical power plants and the high cost of diesel fuel. Cheaper electricity will reduce the cost of doing business by lowering the cost of producing industrial goods and the cost of living.

The lack of adequate and cheap power remains one of the primary factors limiting economic growth in South Sudan. The country has extensive reserves of potential hydropower that could be harnessed from its rivers as well as flared natural gas from oil fields to power the electrical grid. Three new medium-sized dams in Wau are scheduled to provide electricity while a fourth dam, the Maridi dam, will be dedicated to supply water and irrigation. Other forms of renewable energy based on solar power and biofuels could also contribute to off-grid electrification, benefiting especially SMEs and producer cooperatives by reducing post-harvest losses through processing and refrigeration. (For more details, see Chapter VII on energy.)

Water and sanitation

Piped water and sanitation services are non-existent. Households and businesses rely on wells and boreholes for water, often not safe, and septic tanks for waste disposal. Again, 38% of the population's drinking water has to be sourced at great distances, on average 30 minutes' walk each way. Agriculture is rain fed as there are no irrigation systems to water farms and raise productivity. The cost of water is US$0.81 per m^3, higher than the cost in East Africa (see Table 10).

Table 10: Comparison of South Sudan's water infrastructure

Indicator	Unit	South Sudan	East Africa
Access to piped water	% population	Not available	11
Access to stand posts	% population	2	14
Access to wells/boreholes	% population	64	32
Average effective tariff	$ per m^3	0.81	0.76

Source: Africa Infrastructure Country Diagnostic, p. 25.

Information and communications technology

Efficient connectivity includes good information and communications technology (ICT) capacity. South Sudan has four mobile phone service operators licensed by the National Telecommunication Corporation: Zain, MTN, Vivacell and Gemtel. Increased competition in the ICT industry has resulted in a decrease in prices for subscribers. In Juba and other larger towns, ICT penetration, including internet, is still below regional standards, while services in the rural areas are patchy to non-existent. Despite the fairly large number of service providers, the ICT penetration rate is still low. There are 0.11 fixed line subscribers per 100 people (East Africa 0.24), 12 mobile phone subscribers per 100 people (East Africa 21) and an unknown number of internet users per 100 people (East Africa 5).

The primary constraint on the growth of fixed line telephony is the underdeveloped state of the country's infrastructure as well as the absence of licensing agreements to allow new investments.

The Broadcasting Corporation Bill of 2013 addresses questions related to the oversight of the sector. It is expected that when South Sudan connects its ICT backbone to Indian Ocean submarine cables, the cost of phone calls and internet will fall by half, making the country a more competitive business and investment destination (Table 11) (AICD 2011, pp. 36-37).

Table 11: The effects of improved connectivity and competition on the cost of telephone calls

Cost US$	Call within the Region	Call to the United States	Internet Dial-up	Internet ADSL
Without submarine cable	1.34	0.86	68	283
With submarine cable	0.57	0.48	47	111
Monopoly on international gateway	0.70	0.72	37	120
Competitive international gateway	0.48	0.23	37	98

Note: ADSL stands for asymmetric digital subscriber line.
Source: Africa Infrastructure Country Diagnostic, p. 37.

Related to ICT is the provision of real-time market information to market actors. In a country with little infrastructure, developing a market information system could be an efficient way to connect buyers, sellers, cooperatives and processors of various commodities such as coffee and cereals as well as transport and warehousing services. Market information about prices, product availability and the arrival and departure schedules of truck, bus, riverboats and rail services could be disseminated regularly through radio, television, newspapers, mobile phones and the internet. This service could be developed by the GRSS in partnership with the private sector along the lines of Ethiopia's Commodity Exchange.[30]

As improvements are made in ICT infrastructure, the government will be in a better position to promote e-government (business and investor registration, customs management, tax filing), e-commerce and mobile banking to improve service delivery in the public and private sectors. In the interest of equity and national development, ICT operators should be required in new franchise agreements to provide universal services to under-served, mainly rural communities.

5.5 Taxation

[30] For more information on the Ethiopian Commodity Exchange, see http://www.ecx.com.et/.

Import duties and taxes account for two-thirds of current government non-oil revenues, with over 80% corresponding to the Nimule-Bibia border (73%) and the Juba airport (IMF 2013). Revenue collection is low, however, due to weak customs administration and the high frequency of exemptions among others. The introduction of a new customs tariff for valuation will improve income.

Paying taxes is a major hurdle for many businesses because of the lack of clarity on which government agency is responsible for which taxes (Table 12). As such, companies are required to pay several taxes, representing a cumulative tax burden which increased marginally from 25.5% in 2005 to 28.7% of pre-tax income in 2011 (World Bank 2011). In comparison, the average total tax burden is 53.3% for Sub-Saharan Africa. While South Sudan's tax burden appears modest, the main problem is the plethora of taxes that have to be paid several times over to various national and local government agencies which increase the cost of doing business for the business community. In the interest of greater efficiency, the GRSS needs to consolidate these taxes and use one tax filing form to simplify tax payment and collection.

Table 12: Taxes paid by companies

Tax	Rate (%)
Business profit tax	
Turnover SSP 1 million	10
Turnover > SSP 1 m. – 75 m.	15
Turnover > SSP 75 m.	20
Sales tax (on gross sales)	5
Austerity tax (on gross sales)	10
Withholding of personal income tax	
Up to SSP 300	0
> SSP 300 – 5000	10
> SSP 5000	15
Taxes on factories	
State surcharge on gross sales	30
State excise tax	Varies

Sources: IMF, MFCIEP and a private establishment.

The private sector has complained repeatedly about the array of taxes imposed on private businesses. Various government entities, especially state and local governments, impose their own taxes which increase the level of uncertainty. For example, when oil exports were suspended, state and local governments hiked taxes to make up for lost revenue. This system is inherently unstable for the business operator and encourages under-reporting and tax evasion.

In a move to coordinate and improve revenue collection, the GRSS signed a framework agreement in the second quarter of 2013 to authorise the central government to collect taxes and disburse payments on behalf of the 10 states (Ngor, Mading 2013). However, the private sector reports that it is still subjected to multiple taxes (Box 10). A taxation system that is simple and transparent would ease doing business by SMEs and investors, enhancing revenue and encouraging increased compliance.

Box 10: Multiple taxes on hotels

Hotels represent one of the fastest growing and lucrative industries in the services sector in South Sudan. In Juba, the capital, the supply of hotel accommodation has grown rapidly to meet demand from the government as well as the business and international communities. The industry supports many jobs, including those in the construction industry. However, many hotel owners complain that doing business in Juba is not only expensive because of the high cost of electricity, water and labour, but also because of high taxes. Taxation, including business profit tax and stamp duty, is levied at the national, state and payam levels on various activities like billboards, ground rent and services. Some of these taxes have to be paid several times over at each level of government. The Tourism and Hospitality Chamber is conducting a survey to identify what taxes are owed and to which government agencies they should be paid. One suggestion is that the government should appoint one collecting agency to collect taxes in order to reduce the inconvenience to taxpayers.

Sources: Musa Mahad, (2013), "Hotel Owners Decry Multiple Taxes", The Corporate, Issue 26, 2 – 8 September 2013, p. 13; and SSCCIA.

5.6 Trading across borders

Trading across borders remains a major challenge because of South Sudan's heavy reliance on the congested, under-equipped Nimule-Bibia customs border post at the border with Uganda for its imports and non-oil exports. The customs department and other border agencies, particularly at Nimule, are responsible for delays and the high cost associated with cross-border trade in South Sudan (IFC 2012). Delays result in extra inventory costs, adding 10 to 25% to the cost of goods (USAID 2012, p. viii). There are multiple actors operating independently (customs, MTII, standards) and each duplicates documentary requirements (customs declaration form, import licence, import and inspection application form), for the same information that could be provided in a single form. Further, the processing of clearances is done manually and all payments are in cash. Without the HS code, valuation of cargo and exemptions are subjective and discretionary and receipts are not routinely issued which creates opportunities for informal payments.

5.7 Investment Climate

South Sudan is potentially a highly attractive investment destination, particularly for new greenfield projects in the resource and infrastructure sectors, and it represents a lucrative market for consumer goods given its relatively high per capita income. However, recurrent conflict and insecurity, the ongoing humanitarian crisis, and the lack of government services in several states have severely dented the country's ability to attract new investment. Indeed, the well-attended international investment conference hosted in Juba in early December 2013, held great promise. Such potential is however diminished by the recent bout of internal conflict.

Investment in South Sudan is governed by the Investment Promotion Act of 2009 and the Investment Promotion Regulations of 2012. Together, these two pieces of legislation set out the framework under which investments operate, including the procedures for registration and application for work and residence permits, entry visas and incentives. The law defines an investor as a domestic or foreign company with a minimum capital investment of US$100,000.

Entry process

The One Stop Shop Investment Centre (OSSIC), a single point of contact representing key government ministries and agencies under one roof,[31] processes applications and issues Investment Certificates to approved investors. OSSIC, which falls under the MTII, facilitates investor relations and fast tracks investment approvals, having reduced the registration time from 15 to seven days. OSSIC also provides after care customer services to investors who experience difficulties in implementing their projects. It houses officers from a number of key government agencies that handle investment-related approvals: Ministry of Interior/Directorate of Immigration (residence permits and entry visas); Ministry of Labour, (work permits); Ministry of Finance and Economic Planning (tax and fiscal exemptions); and the Business Registry Office (incorporation of companies). Other line ministries may also be involved from time to time depending on the nature of the investor's request.

As mentioned earlier, the government with assistance from partners has made efforts to increase transparency and improve the licensing system for approvals, permits and licences. This initiative has included simplifying and reducing the number of licenses, fees, levies and taxes as well as establishing a framework for licensing management, including the investment entry process.

There are a number of fees involved in the application process such as a US$10 application fee, a US$600 fee for the Investment Certificate and additional fees for business registration or incorporation. Although there are no performance requirements, investment projects must demonstrate some benefit to the country (see Box 11) in the government's prescribed investment priority areas and comply with environmental laws and regulations. For example, in the petroleum sector investors are required to comply with local content requirements in sourcing from local suppliers of goods and services of similar quality and delivery specifications if the price differential is no more than 10% (US State Department 2013). This requirement may not always be technically feasible in an environment such as South Sudan where, for example, labour shortages are commonplace.

Box 11: Conditions for approval of investments

Investments must have a value of at least US$100,000 and be beneficial to the people of South Sudan through:

- Employment creation of South Sudanese nationals
- Skills and technology transfer
- Contribution to tax revenue

[31] The ministries represented in OSSIC include the MFEP, MTII; Ministry of Justice; Ministry of Labour; and a number of other line ministries.

- Generation of foreign exchange
- Use of domestic raw materials, supplies and services in production
- Value addition through backward and forward linkages
- Development of ICT capacity
- Local community development, e.g. health centres, schools, feeder roads, water supply and sports and cultural events.

Source: Investment Promotion Regulations, 2012, Ministry of Justice.

Incentives

The Investment Certificate, upon fulfilment of the necessary documentary requirements including feasibility studies and payment of fees, entitles investors to a number of incentives and benefits. Entitlements include tax exemptions from duty and tax on imported equipment and inputs; fiscal incentives like capital and depreciation allowances; and rights to the use of land where applicable. Additional benefits include the repatriation of profits, guarantees against expropriation, protection of IPR, dispute resolution, 100% foreign ownership and tax exemptions on net profits for a fixed period. In the case of joint ventures or partnerships, South Sudanese nationals must have a stake of at least 30% in the company.

Priority sectors

All sectors of the economy are open to investors except for a number of low-skilled activities which are reserved for nationals (postal services, cooperative services, car hire and taxi operations). GRSS has identified the following priority sectors for investment:

- Agriculture, agribusiness, food processing
- Physical infrastructure, social infrastructure
- Mining, quarrying, petroleum, gas industries
- Forestry
- Medium and heavy manufacturing industries
- Transport and communications
- ICT
- Financial services
- Medical and pharmaceutical services and products
- Tourism

Investment flows

South Sudan has not started reporting on investment flows. Data from UNCTAD on greenfield foreign direct investment (FDI) indicate that FDI to South Sudan in 2013 was US$180 million, down from US$382 million in 2013 and US$235 million in 2011. Based on information obtained from OSSIC, there were 102 registered investors in the pipeline, mainly from Egypt, Ethiopia, France, India, South Africa, Sudan, Tanzania, Uganda, the United Kingdom and the United States.[32] China is also a major investor in South Sudan, especially in the oil sub-sector, and is becoming increasingly active in the energy, minerals, infrastructure and manufacturing sectors in other countries in the East African region.

[32] Information was obtained from OSSIC on 13 September 2013.

The majority of foreign investments is in the oil sector. These include China National Petroleum Company, ONGC Videsh of India, Petronas of Malaysia, Total Oil of France and Kufpec of Kuwait. Other important registered foreign-owned enterprises operating in the country are the South Sudan Beverages Limited owned by SABMiller, Kenya Commercial Bank, Covec, Equity Bank, Buffalo Commercial Bank, UAP Insurance and the Commercial Bank of Ethiopia. Food production is limited to basic items such as milk, mineral water and beer.

There are a number of large-scale investments in South Sudan at various stages of implementation including Central Equatoria Teak Company (UK/Finland), Madhvani sugar project (Uganda), Green Resources/Tree Farms (Norway), Blues Lakes (Kenya), MAJ Foundation (India), Fenno Caledonian (Finland), Citadel Group (Egypt) and Concord Agriculture (Australia) (African Business 2011, pp.14-16). Some investors have shown a keen interest in investing in large-scale land-based activities. However, a number of these projects such as US-based. Nile Trading and Development have run into difficulties with the traditional landowners in Central Equatoria State (see Box 12) (The Oakland Institute 2011, p.9).

The majority of these investments are in sectors such as petroleum, agriculture, construction and ICT. Health, education, engineering and financial services are also important but secondary sectors. Determining the status of each project is difficult as OSSIC has not put in place a monitoring and reporting system to track the progress of approved projects.

Most investment projects in South Sudan are based in Juba by regional companies from Kenya, Uganda and Ethiopia in sectors like construction, manufacturing, consumer goods, power and telecommunications (EIU 2013, p.9). GRSS hosted a major investment conference in December 2013 with the support of the IFC to showcase about 45 projects in the agricultural, petroleum, transport (roads, telecommunications), energy and mining sectors. The values of these investment opportunities range from $2 million for the establishment of a honey and other bee products processing plant at Izzo to $200 million for a nationwide fibre optics network. For a complete list of investment opportunities, see Annex 1 at the end of the report.[33]

Box 12: Large-scale land investments

Even though land is a sensitive issue in South Sudan, foreign investors in some cases have managed to acquire large parcels of land for planned operations. In terms of significant land leases (25-49 year leases) granted to investors, some of the larger ones include Boma National Park (2.28 million hectares) in Eastern Equatoria and Jonglei States to Al Ain Wildlife (United Arab Emirates); at least 0.6 million ha. of timber and forestry resources in Central Equatoria State to Nile Trading and Development (USA); at least 0.4 million ha. for agribusiness in Unity State to Jarch Management (USA); and 0.1 million ha. for agriculture in Guit to Prince Badr bin Sultan (Saudi Arabia).

Source: African Business. (2011 b). "The Scramble for Southern Sudan," IC Publications, October 2011, pp. 20-22.

Challenges of South Sudan's investment climate

There is ambiguity about the ownership of land. First, it is not clear whether land can be pledged as collateral for loans. Second, accessing community land is problematic because of communal

[33] For more information on investment opportunities, go to http://www.investsouthsudan.net.

ownership. Although the Investment Act and its regulations state that OSSIC will facilitate access to land, in practice in respect of community land, investors wanting to acquire land are required to consult and negotiate with the landowners: the local communities. Included in the process is a requirement for an environmental impact assessment (The Oakland Institute 2011). The uncertainty surrounding these requirements has impacted adversely the implementation of a number of agribusiness projects, as mentioned above.

The investment climate remains also challenging because of unstable relations with Sudan. Other weaknesses experienced by investors include the limited availability of convertible currency, lack of dispute settlement mechanisms, inadequate protection of property rights, a weak legal system characterised by inefficient courts and the lack of adequate professionals like judges, lawyers and the police to deliver and enforce judgments. Most court cases are settled in customary courts due to the aforementioned weaknesses in the judicial system. Poor transparency of the regulatory system can also lead to corruption. The concept and practice of private arbitration is still in its infancy although South Sudan became a member of the International Centre for Settlement of Investment Disputes (ICSID) in April 2012.

The time to process applications is lengthy, although the newly reorganised OSSIC claims that it takes less than 10 days to obtain an Investment Certificate. Delays are experienced when dealing with other government agencies to obtain clearances like work and residency permits, visas and land. The Business Registry maintains that it takes five working days to incorporate a company but because there are many other government agencies involved in issuing permits and licences before a certificate of incorporation can be issued, in practice the process takes longer.

Related to investor protection is the protection of property including intellectual property rights (IPR). The Business Registry collects royalties but without clear guidelines, which is seen as just another ploy to generate revenue for the government. A new law on the protection of IPR developed with IFC assistance, covering trademarks, copyrights and patents, is currently awaiting passage by the National Legislative Assembly. From a public health standpoint, the new IPR will need to take into account restrictions on access to affordable generic drugs. Enforcement of the IPR law will remain a challenge, as is currently the case in most of the developing world due to weaknesses in the legal system.

There are a number of policy and process-related actions that the government could take to improve the investment climate of South Sudan. In terms of process, the GRSS should ensure that OSSIC is given the authority to obtain the necessary approvals and permits within a reasonable timeframe. Also, there should be continual feedback with a view to removing bottlenecks and streamlining the investment approval process, especially at the level of the technical ministries and the ministries of immigration and interior. For example, investors often experience delays in the processing of work permits which at the time of the DTIS mission, was the responsibility of the Ministry of Labour, Public Service and Human Resource Development. Work permits are often issued for shorter periods than the required 12 months (US State Department 2013).

Furthermore, the South Sudan Investment Authority should consider developing more detailed promotional material on priority sectors for investors, including roadmaps on medium and long-term investments by sector. For improved efficiency, OSSIC should be relocated to modern and larger premises to accommodate staff and equipment but also to create a more favourable impression on the public, especially the investment community.

From a policy perspective, the government needs to clarify the roles of national, state and local governments and address overlapping responsibilities and mandates with respect to taxation, land tenure, access to utility services and dispute settlement to improve the investment climate. A more business-friendly investment climate could also include providing modern facilities such as SEZs and export processing zones to attract investors. Another policy objective should be to promote clustering of related industries, development of the non-oil sectors and balanced growth in terms of geographical coverage and meeting local needs. For example, for a country that is still food insecure and faces chronic food shortages, food production for domestic consumption should take precedence over food and biofuel exports until local food security needs have been adequately satisfied before surpluses can be exported. In terms of national development, the GRSS needs to promote local participation of South Sudanese nationals as workers and owners in the capital-intensive energy sector through the use of local expertise, goods and services as well as joint ventures and partnerships, as appropriate. Related to some of these issues are environmental regulations to govern development activities. The government has prepared a draft environmental bill and has developed environmental regulations, in compliance with multilateral environmental agreements, with the assistance of partners such as UNEP, aimed at promoting conservation and protecting the country's biodiversity.

Investment for development

Investment, both domestic and foreign, should be a vehicle for achieving national development objectives. Investment represents scarce capital resources, including hard currency, plant and equipment, technology and often highly skilled talent. As such, the GRSS should take every opportunity to make the most of investment inflows, whether to strengthen infrastructure or develop productive capacities and diversify the economy. For example, the oil and gas industry has been a major driver of infrastructure investment in Sub-Saharan Africa over the past decade.

At the same time, South Sudan's Investment Authority needs to regulate investments to protect vulnerable communities, public health and the environment. Oversight involves ensuring that the benefits and services generated by investment projects are shared equitably between the investor, local communities and the government. The GRSS should also reserve the right to intervene in cases where investors fail to meet their contractual obligations or where a public policy issue is at stake. As these actions have the potential to provoke investors to challenge the government's actions, disputes are inevitable. The GRSS needs to exercise due diligence when negotiating bilateral investment treaties and other investment agreements to reduce its exposure to the risk of litigation (see Box 13).

At the time of the mission and as reported by UNCTAD, South Sudan had not entered into any bilateral investment treaties (BIT) and as such has no BIT model.

Box 13: Investor-state dispute settlement

One of the challenges governments face in their relationship with investors is conflict and application of the investor-state dispute settlement (ISDS) process. Cases that are decided at international tribunals pose major risks for the host government. According to UNCTAD, 62 new cases were initiated in 2012 by foreign investors seeking investor-state arbitration, the highest number recorded which points to a growing trend in ISDS cases.

According to UNCTAD, foreign investors challenged a broad range of government measures, including changes to domestic regulatory frameworks (with respect to gas, nuclear energy, the marketing of gold, and currency regulations), as well as measures relating to revocations of licences (in the mining, telecommunications and tourism sectors). Investors also took action on the grounds of alleged breaches of investment contracts, alleged irregularities in public tenders, withdrawals of previously granted subsidies (in the solar energy sector), and direct expropriations of investments.

Out of the total number of known cases that have been concluded, 42% were decided in favour of the state and 31% in favour of the investor. Approximately 27% of the cases were settled. The highest monetary award in the history of ISDS ($1.77 billion) was in Occidental v. Ecuador, a case that arose out of unilateral termination of an oil contract by the state.

Source: Adapted from *UNCTAD (2013), Recent Developments in Investor-State Dispute Settlement (ISDS).*

See http://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=453.

Special economic zones (SEZ) and investment

In terms of creating an enabling environment, under consideration has been the idea of developing SEZs to attract investors. The Juba SEZ, the first of its kind in the country occupying 625 sq. km of land outside Juba in Central Equatoria State, will be a twenty-four hour multi-sector, multi-product standalone industrial zone and residential township. Besides infrastructure, the zone will provide tax incentives and amenities such as power, water, telecommunication and access to finance. Labour will be offered housing, including schools for workers' children. From the above description, it is clear that SEZ are quite different by the size and by the range of activities from the traditional industrial Parks and Export Processing Zones

The Juba SEZ is currently under construction. It aims to attract domestic and foreign investment to the state, mainly large businesses while promoting linkages to SMEs.[34] For the investor, government participation removes the risk and cost associated with access to land and infrastructure. SEZs could help the government achieve its objective of diversifying the country's economic base by promoting economic activities in the non-oil as long as fiscal costs are kept at check and required infrastructure developed to ensure the attractiveness of the zones to investors.

Public private partnerships

Financing big-ticket infrastructure and utility projects is a costly undertaking. PPPs allow governments to share the cost and risk of funding large projects. For South Sudan, one option for funding its section of the Northern Corridor could be through the Intergovernmental Authority on Development (IGAD), the EAC or on a bilateral basis in collaboration with developers, investors and other funding partners within and outside the region. Potential PPP projects to enhance connectivity include road, rail, river and air transport projects. Similar initiatives could be pursued to develop economic infrastructure: ICT; irrigation and power using hydropower and natural gas; waste treatment and recycling; and construction and maintenance of transport infrastructure and facilities (inland container depots, waste treatment and recycling, river transport, warehousing and transport logistics, etc.). For examples of PPP projects under consideration, see Annex 1.

Key in establishing a solid foundation for PPPs to facilitate investment in infrastructure and delivery of other public services will be to set up a PPP unit within the government to negotiate and manage

[34] See "South Sudan launches modern business and investment city," *Sudan Tribune*, 1 July 2013. See http://www.sudantribune.com/spip.php?article47050.

contracts with private sector partners (MFEP already has a PPP unit). In recent decades, governments around the world have been outsourcing functions traditionally carried out by public agencies to the private sector as a means to achieve cost savings and greater efficiency in the delivery of a broad range of services. PPPs are long-term arrangements that are typically implemented through PPP units within cross-sectoral government agencies like the ministry of finance or planning.

PPP units perform a number of core functions such as providing information and guidance, advisory support and funding and approval of PPP contracts. The skills contained in these units include contract management skills to provide oversight of the contracts that are active as well as advocacy and outreach skills to generate consensus among a wide spectrum of stakeholders in various sectors, government levels and civil society. PPP units provide efficient services if they are resourced with the necessary skills and funding and structured to handle conflicts of interest.

Examples of countries that have established PPP units include South Africa (PPP Unit, National Treasury), India (Gujarat Infrastructure Development Board and Andhra Pradesh Infrastructure Authority), the United Kingdom (Partnerships UK), the Philippines (BOT Centre) and many others. These PPP units provide limited or the full range of services, such as information dissemination, PPP guidance material, project-related advice, funding of consultants for PPP preparation, project development and closing deals, contract monitoring and the authority to screen and approve PPP contracts. Projects that have been facilitated through PPPs include private investment in power generation in Pakistan, build-operate-transfer projects in the Philippines and the provision of prison services in the UK.[35] In South Sudan, a number of defunct state-owned enterprises, notably in the sugar, food-processing, textile and cement industries, are to be revived as PPPs.

5.8 Recommendations

Public sector reform

Introduce public sector reform to clarify the roles of national, state and local governments and address overlapping responsibilities and mandates with respect to taxation, land tenure, access to utility services and dispute settlement. Address gaps in the legal system by training judges, lawyers and other law enforcement cadres as well as equipping courts with modern tools. On bilateral investment treaties, the GRSS should consider developing a model BIT based on good practices aimed at protecting the interests of the state and investors. The government will need to exercise due diligence when negotiating BITs and other investment agreements to reduce its exposure to the risk of litigation – 1 to 3 years.

Consolidate and streamline tax administration and introduce one tax filing form in order to simplify tax payment and collection. Establish a one stop border post at the Nadapal-Lokichogio border post with Kenya; consolidate revenue collection by having the Customs Department collect taxes at the border; and introduce risk management and post-clearance audits to expedite border crossings. – 2 to 3 years.

Streamline the application process for construction and utility connection permits. Urgently establish a computerised land registry or cadastre to maintain and update records of all surveyed and

[35] For more information, see World Bank, "Public-Private Partnership Units", Public Policy for the Private Sector Note Number 311, September 2006. Available at: http://rru.worldbank.org/PublicPolicyJournal.

unsurveyed land, including title deeds and transfers in order to address uncertainty arising from the insecurity of land rights – 2 to 3 years.

Enterprise development

Expatriate workers are routinely issued work permits of one to three months instead of the standard 12 months. The GRSS should ensure that qualified expatriate workers are issued work permits of the required duration as per the terms of the Investment Certificate. Develop more detailed promotional material on priority sectors for investors, including roadmaps with medium to long-term investment plans by sector. – 1 year.

The Business Registry should be assisted to open branches in under-served states and address the lack of power, internet access, manpower shortages and limited funds. Membership of SSCCIA should not be mandatory for newly registered companies but optional to defray costs, especially for micro and small businesses. Measures to increase formality should include providing information to the public on the procedures and benefits of registration, improving eligibility for government tenders, reducing fees and increasing access by expanding registration and advisory services – 2 to 3 years.

Capacity building in financial management should include the following: training of counsellors to work with business associations and banks and introduce tools for evaluating the creditworthiness of potential clients. Formalise the transactions of small traders, for example, by introducing through their business associations legal tools such as purchase agreements and contracts as well as financial and other support services. – 3 years

Infrastructure and public private partnerships (PPP)

Promote PPP as a means to share the cost and risk associated with big-ticket infrastructure projects with partners such as IGAD as well as other investors and developers. Attract investment in the ICT sector to overcome deficiencies in infrastructure in order to support e-government (business and investor registration, customs management, tax filing), e-commerce and mobile banking to improve service delivery in the public and private sectors – 3 years.

Promote private investment in modern river transport services for improved connectivity between the northern and southern states and promote increased inter-state trade. – 3 years.

Promote the development of a real-time market intelligence system to connect commodity buyers, sellers, cooperatives and processors as well as transport and warehousing services. The facility could run along the lines of Ethiopia’s Commodity Exchange in partnership with the private sector – 3 years.

REFERENCES

African Business. (2011a). “South Sudan Business Suits Replace Fatigues,” IC Publications, October 2011.

African Business (2011b). “The Scramble for Southern Sudan,” IC Publications, October 2011.

Brenton, Paul and Gözde Isik (2012). De-Fragmenting Africa: Deepening Regional Trade Integration in Goods and Services, World Bank.

COMESA/EAC/SADC (2011). “Tripartite Taskforce Progress Report on Implementation Decisions of the First COMESA-EAC-SADC Tripartite Summit.”

Economist Intelligence Unit (2013). *Sudan Country Report*, July 2013.

Government of the Republic of South Sudan (2011). *Republic of South Sudan Investor Guide.*

Government of the Republic of South Sudan (2011). South Sudan Development Plan 2011-2013, August 2011.

Government of the Republic of South Sudan/ IFC/WB (2011), Republic of South Sudan Investor Guide, October 2011.

Government of the Republic of South Sudan (2013). “Regulatory and Licensing Framework for Businesses in South Sudan,” Business Licensing Task Force, Ministry of Finance, Commerce, Investment an Economic Planning.

Guarcello, Lorenzo, Furio C. Rosati and Scott Lyon (2011). “Labour Market in South Sudan,” Programme Working Paper, Understanding Children’s Work, December 2011.

IFC (2012). “South Sudan Trade Logistics Scoping Memo,” Draft for Discussion, November 2012.

Jiji, Beauty (2012). “The South Sudan Livelihoods and Economic Opportunities Mapping Draft,” 26 February 2012.

Mahad, Musa (2013). “Hotel Owners Decry Multiple Taxes”, *The Corporate*, Issue 26, 2 – 8 September 2013.

Martin, Ellen and Irina Mosel (2011). *City Limits: Urbanisation and Vulnerability in Sudan Juba Case Study*, Humanitarian Policy Group, January 2011.

Ministry of Trade, Industry and Investment (2013). “Draft Private Sector Strategy”, June 2013.

National Bureau of Statistics (2012). *Key Indicators of South Sudan*, June 2012.

Ngor, Mading (2013). “South Sudan to Form National Revenue Authority Within Six Months,” Bloomberg, 23 July 2013.

PRS Group (2012). Sudan Country Report, The PRS Group, Inc., November 2012.

Ranganathan, Rupa and Cecilia M. Briceño-Garmendia (2011). *South Sudan’s Infrastructure: A Continental Perspective,* Africa Infrastructure Country Diagnostic (AICD), June 2011.

Secretariat of the Transit Transport Coordination Authority of the Northern Corridor (2013). “Northern Corridor Stakeholders Survey of Eldoret – Malaba – Elegu/Nimule – Juba Transit Section and South Sudan Consultative Mission”, September 2013.

South Sudan Chamber of Commerce, Industry and Agriculture (2013). “Position Paper on the Effects of the US Dollar Becoming a Tradable Commodity in the Market. ‘Towards a More Conducive Exchange System’,” January 2013. Unpublished paper.

Sudan Tribune (2013). “Juba and Khartoum agree to open trade borders”, *Sudan Tribune*, 24 September 2013.

The Oakland Institute (2011). Understanding Land Investment Deals in Africa. Country Report: South Sudan.http://www.oaklandinstitute.org/sites/oaklandinstitute.org/files/OI_country_report_south_sudan_1.pdf.

The Corporate (2013). “Draft Labour Bill to Promote Trade Unions”, Issue 25, 26 August – 1 September 2013.

UNCTAD (2013). *Recent Developments in Investor-State Dispute Settlement (ISDS)*, Geneva.

UNCTAD (2013*). World Investment Report 2013*, Geneva.

United Nations (2009). *River Cargo Transportation Assessment White Nile River Sudan*, United Nations Joint Logistics Centre.

USAID (2012). *South Sudan Corridor Diagnostic Study and Action Plan*, September 2012.

US State Government (2013). “Investment Climate Statement,” Bureau of Economic and Business Affairs, February 2013.

World Bank (2009). Sudan Investment Climate, Washington, DC

World Bank (2012). *“World Bank Boosts South Sudan Government Efforts to Improve Rural Roads and Increase Agriculture Potential*", Press Release No: 2012/464/AFR, 18 May 2012.

World Bank (2012). Doing Business 2013. Smarter Regulations for Small and Medium-Size Enterprises, 10th Edition.

World Bank (2013). Doing Business 2014. Economy Profile: South Sudan. Comparing Business Regulations for Domestic Firms in 189 Economies, 11th Edition.

World Bank (2013). “South Sudan Overview,” April 2013.

World Bank (2014). “Trade Strategy Report”, June 2014.

Zake, Justin and Brian Brimble (2011). *South Sudan: Rebuilding Tax and Customs Administrations*, IMF, August 2011.

CHAPTER VI - REVITALIZING AGRICULTURE

Agriculture, forestry, livestock and fisheries have been identified as one potential growth sector for South Sudan and a major factor in integrating the country into the regional and global economy. This study takes a critical look and evaluates South Sudan's resources with regards to these sectors, identifying weaknesses, constraints, strengths and opportunities in order to arrive at an informed understanding of the country's agricultural potential. The analysis has helped formulate and prioritize actionable programmes that promote trade regionally and globally and thus alleviate poverty.

In this chapter, the term "agriculture" is used generically to collectively represent agriculture, forestry, livestock and fisheries.

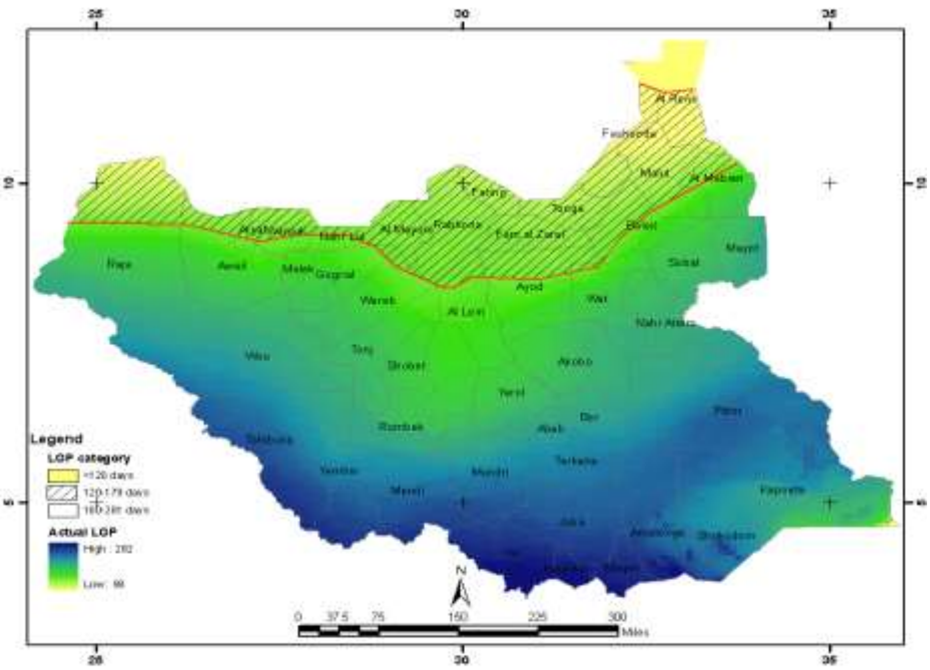
6.1 Agro-ecological environment and agricultural prospects

Agriculture

The world's newest country has extensive virgin land but one of the least agronomically known landscapes in the world. As result, very little is understood about the physical and chemical attributes of South Sudan's agricultural land, although it is widely recognized that South Sudan has a vast and rich natural resource base. It is said that the South Sudan has huge potential for agriculture based only on the available amount of rainfall throughout the year across the country. Rainfall is one of the key factors that determine the potential of agriculture. However, due to limited information on the factors that influence crop growth such as soil topography, the potential for erosion, texture, drainage, organic matter as well as the physical, chemical and biological properties, it is difficult to determine the country's agricultural potential. These factors affect not only whether a particular crop can be grown in certain areas, but also the level of yield and the quality of produce.

In the absence of reliable weather and soil information, the agricultural potential of South Sudan has been estimated on the basis of the length of growing period (LGP). LGP is defined as the number of days when both water availability and prevailing temperatures permit crop growth. As shown in Figure 24, the shortest LGP in the far north of the country is only 100 days while more than 80 percent of South Sudan is classified with an LGP equal to or more than 180 days, with enough moisture and temperature to qualify those areas as having a high agricultural potential. The rest of the country is classified with an LGP of between 120 and 180 days or having medium agricultural potential. Only 1 percent of the country with an LGP of less than 100 days is classified as being of low agricultural potential.

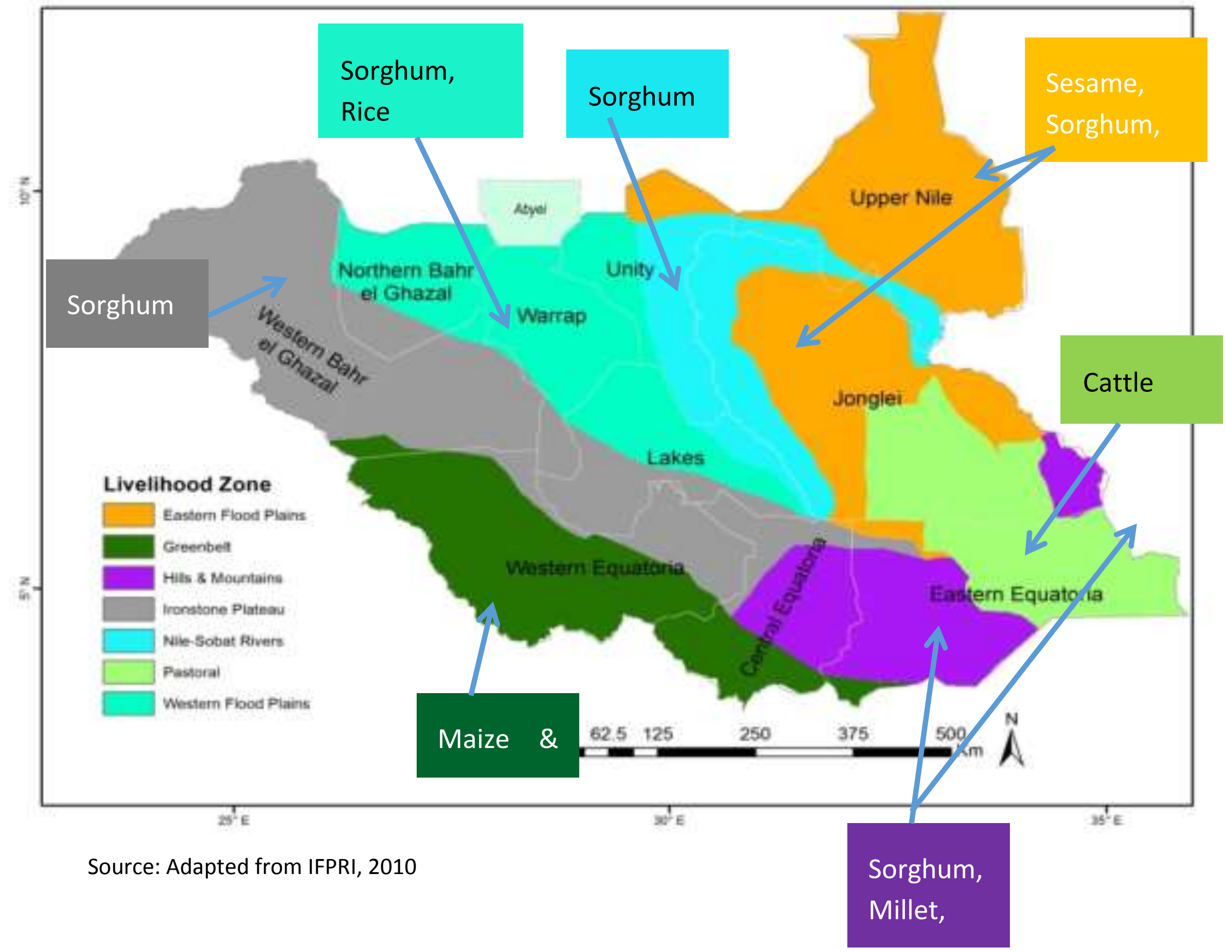
Figure 24: Length of growing period (LGP) in South Sudan



Source: IFPRI 2010

Although 80 percent of South Sudan's land is believed to be of high agricultural potential because of an LGP of more than 180 days, information on the suitability of crop distribution across the country is extremely limited because of lack of data on crop production and crop suitability with regards to weather, soil and irrigation potential. Recent FAO/WFP assessments of 2010 and 2012 (FAO/WFP 2011; FAO/WFP 2013) estimating crop production identify the major crops found in the seven rural livelihood zones, as shown in Figure 25, and the constraints they face, including both climatic conditions and farming systems.

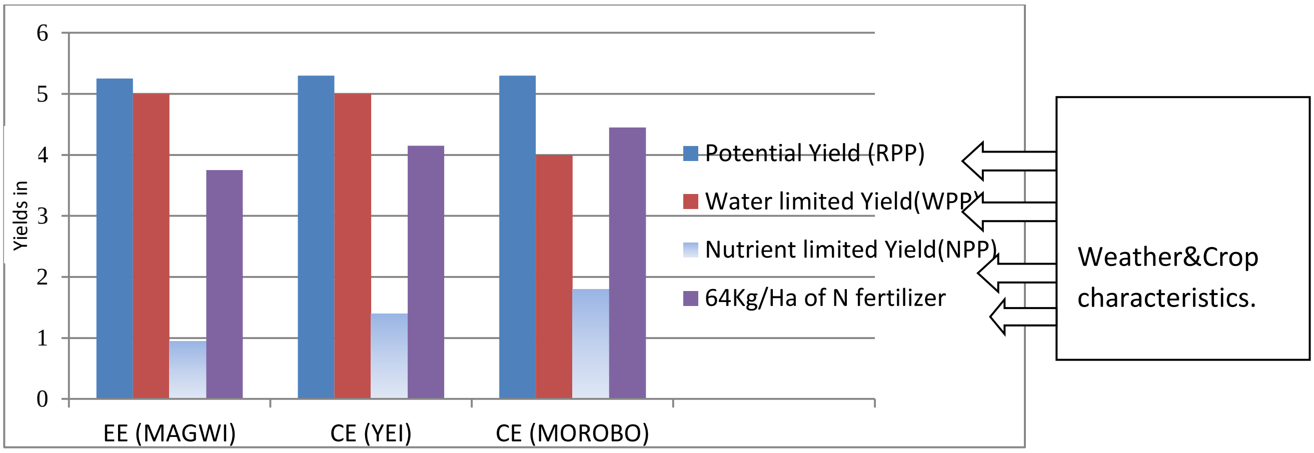
Figure 25: The seven rural livelihood zones and major crops and livestock



Source: Adapted from IFPRI, 2010

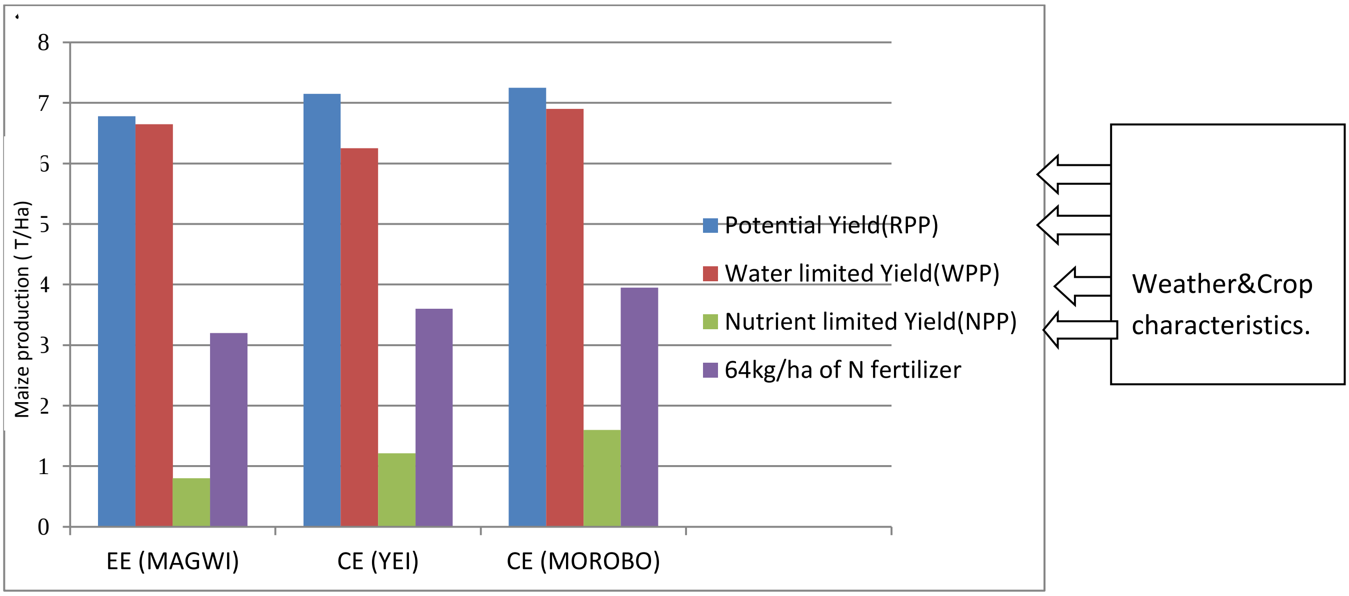
Physical and chemical soil data available for some counties of the greenbelt region, namely Magwi (Eastern Equatoria-EE), Morobo (Central Equatoria-CE) and Yei (Central Equatoria-CE) (Bidogeza 2012), has shed some light on the potential and constraints of maize production by identifying and analysing yield gap using a modelling decision support tool (DSSAT) whose results are highlighted in Figures 26 and 27.

Figure 26: Yield gap analysis for short maturation variety of maize in selected locations of greenbelt of South Sudan



Source: Bidogeza, 2012

Figure 27: Yield gap analysis for long maturation variety of maize in selected locations of greenbelt of South Sudan



Source: Bidogeza, 2012

The maize yield gap analysis in the greenbelt region indicates that radiation in the region is sufficient for an optimal potential maize yield. Additionally, the available water is enough to meet the maize water requirements at different stages of growth and development. Agricultural inputs such as improved seeds and fertilizers are essential to compensate for the low level of soil fertility found in the greenbelt region (Bidogeza 2012). Although the study was conducted on a small scale, its key message is that the country's agricultural potential needs to be based on an understanding of local specific factors in order to arrive at a detailed and precise measure of South Sudan's potential.

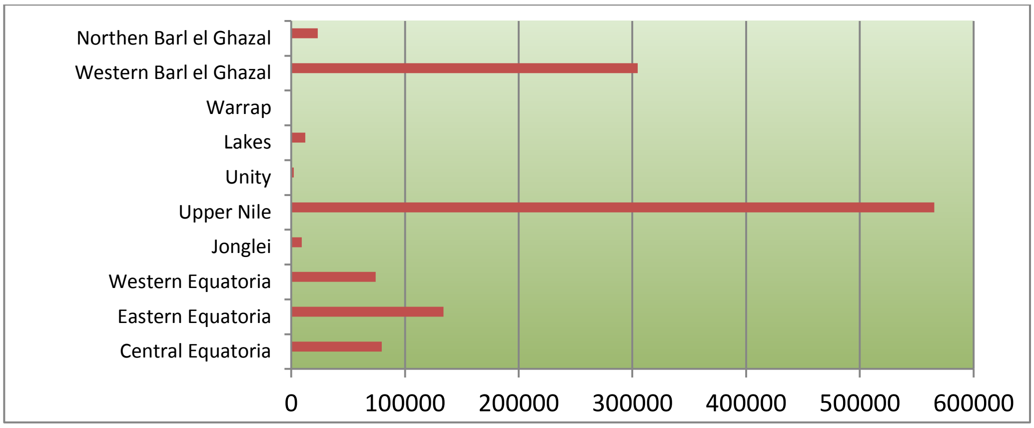
Notwithstanding the abundant supply of land, the agricultural area currently under farming is estimated at only 3.8% (Norwegian People's Aid 2011). Crop production is mostly done on small, hand-cultivated plots farmed by women. Farmers have cultivated only land close to their homes, mainly due to many years of war and insecurity in the past which has limited the land under cultivation. Also, plots farmed are limited by the size of household labour force and/or the ability of the household to provide payment (essentially food/beer) for mobilisation of traditional working groups (FAO/WFP, 2013). Rainfall, in the absence of agricultural inputs, is the major factor in determining crop performance which is used primarily to classify the agro-ecological zones of South Sudan. The country experiences both unimodal and bimodal rainfall regimes. The bimodal areas cover much of Greater Equatoria (Western, Central and Eastern Equatoria) while the rest of the country has a unimodal regime. The bimodal rainfall regime offers the possibility of two or even three harvests per year in the greenbelt of Greater Equatoria, and a single harvest in the unimodal areas further north. From the literature on crop farming and interviews with stakeholders, sorghum appeared to be the main cereal with an estimate of 69% of land occupancy followed by maize with 27% (FAO/WFP 2013). Finger millet and rice make up the remaining 4%. Sorghum is the main staple food in all ten states except for the three Equatorias where the local diet includes also maize and cassava. In the northern states, groundnuts are the major crop and make an important contribution to household income and sustenance.

South Sudan currently imports as much as 50% of its needs, including 40% of its cereals from neighbouring countries, particularly Uganda, Kenya and Ethiopia (AFDB, 2013). Every year, South Sudan spends on formal food imports between USD $200-300 million (AFDB, 2013) compared to agricultural commodity exports which are negligible. Agricultural imports account for 15% of South Sudan's GDP while in Uganda, the major food supplier to South Sudan, similar imports account for 3.8% of the GDP. Food imports place a heavy burden on South Sudan's non-oil trade balance.

Forestry

The natural forests and woodlands of South Sudan are estimated to cover a total area of about 29% of the total land area (MAF 2011). South Sudan's forests are endowed with rich and diverse concentrations of biodiversity which include valuable species such as mahogany, *Senegalia Senegal*, *Vachellia Seyal* (*Gum Acacia*), shear butternut (*Vitellaria paradoxa*) and *Prunus africana*. Other species of economic value include *Podocarpos milanjianus*, *Juniperus procera, Olea hostchstetteri* and *Syzigium spp.* There are also plantation forests of teak and other non-timber forest products. Considerable potential exists for the expansion of forest plantations of both indigenous and exotic species. The largest forests areas are found in Upper Nile, Western Bahr-el-Ghazal and Eastern Equatoria (Figure 28).

Figure 28: Area under forest reserves in South Sudan in ha



Source: adapted from FAO/WFP, 2013

Despite the huge potential of South Sudan's timber and non-timber forest products to provide off-farm employment in upstream forestry-based industries (sawmilling, wood-based panels, furniture and joinery manufacture), there has been very little investment in the sector so far. MAF estimated that teak plantations alone can generate over US$100 million per year. Mahogany from the natural forest reserves could also be a significant source of hard currency. However, reliable data on teak exports and other hardwoods do not exist, though some literature mentioned that during the last few years only between 500 m^3 and 2500 m^3 of hardwoods have been extracted annually and exported to India (MAF 2011).

Rural communities derive benefits from timber and non-timber forest products for local use and to some extent for trading. These products include firewood, charcoal, gum arabic and honey. Recently, a limited number of logging concessions have been given out to companies. One of these companies is the Equatoria Teak Company, a UK/South Africa-based company. SNV, a Dutch NGO, is working with local farmers to develop the value chain for gum arabic whose economic value is still unknown by many local villagers (MAF 2011).

South Sudan has significant potential for natural gum arabic production from Acacia trees such as *Senegalia Senegal* and *Vachellia Seyal* which still remain poorly exploited. Gum acacia, also known as gum africa or by its commercial name gum arabic, is used for its properties as an emulsifier, thickener, binder, stabilizer and adhesive, and for its applications in the dietary food and health sub-sectors. Also, soft drinks and confectionaries represent 70 percent of the demand for gum arabic (World Bank, 2007a). In addition, the acacia tree reduces soil and wind erosion because of its long lateral rooting system, thus generating a positive environmental impact on the land. The gum arabic belt in South Sudan is concentrated in Eastern Equatoria, Jonglei, Upper Nile, Warrap, Unity, Lakes, Central Equatoria, Western and North Bahr el Ghazal States.

Despite the country's considerable unexploited gum arabic capacity, both Sudan and South Sudan remain the world's largest gum arabic exporters with a 50% world market share, generating over the last 20 years on average US$ 40 million annually (World Bank 2007a). A study conducted during the Government of National Unity of Sudan under the Joint Assessment Mission framework, estimated that the export value of Sudan's gum arabic was US$ 150 million annually (World Bank 2007a). However, achieving this figure remains elusive due to current production conditions, governance and marketing structures which have failed to ignite the interest of small-scale farmers. As a result, an annual decline of 2.2 percent in gum arabic productivity has been noted over the past 20 years.

A number of factors are behind the low productivity of gum arabic. Prices paid to farmers were for many years about 10 percent of the FOB price which had demotivated farmers and made other crops more attractive. Additionally, taxes of various kinds related to marketing have further depressed prices received by farmers. An anti-export policy (the export monopoly right of the Gum Arabic Company, a state owned company) and unstable policy reforms of the gum arabic sector have contributed to the decline of gum arabic production and export. The producers associations have been unable to position themselves as strong negotiators for the producers vis-à-vis traders, processors and exporters because of their limited capacity and other weaknesses along the value chain.

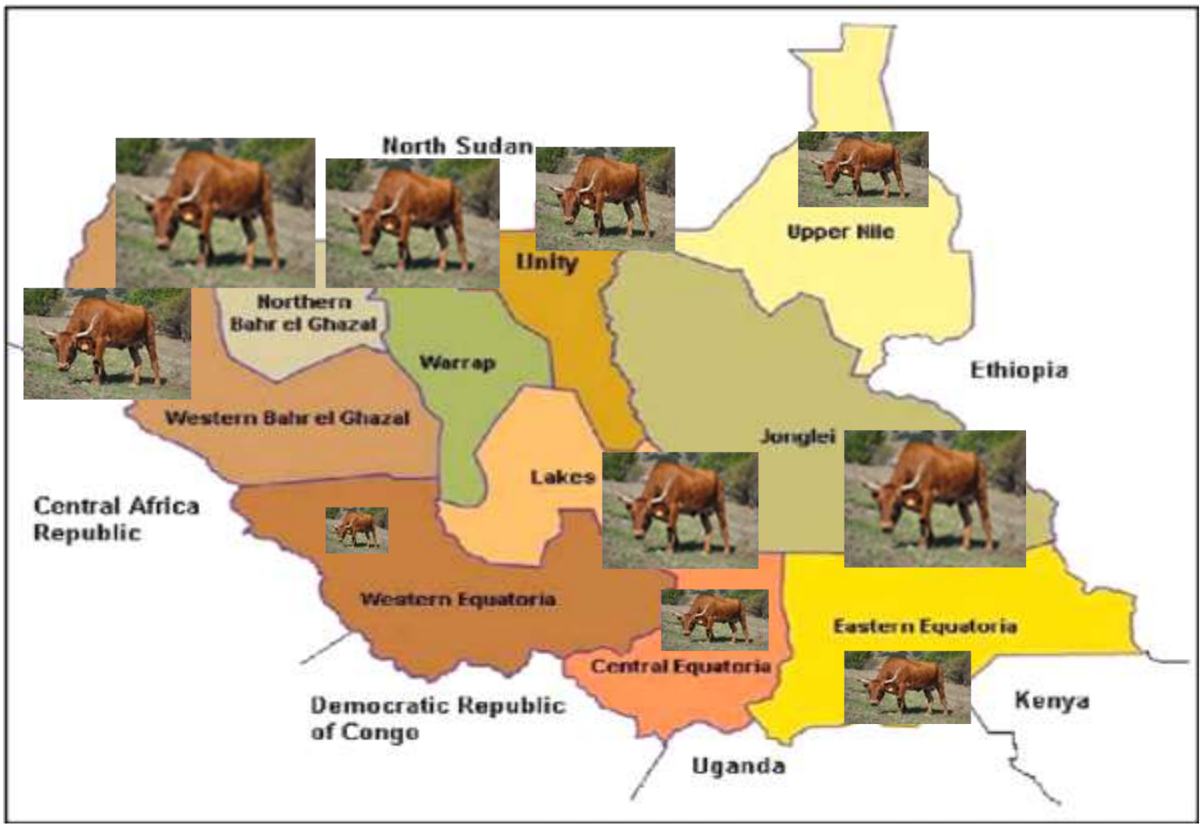
Indeed, South Sudan’s forest resources could contribute to the eradication of rural poverty as rural communities derive their livelihoods not only from timber and non-timber products, but also from agriculture and livestock.

However, the future of South Sudan’s forests is jeopardised as more than 90% of the energy supply used by the urban and rural population comes from firewood, charcoal, shrubs and grass. Additionally, the increasing growth rate of urban cities of South Sudan, returning refugees and the growing demand for fuelwood for the purpose of brick making, construction of houses and other buildings, are adding more pressure on forest resources. Alternative sources of energy such as electricity, wind, solar, etc. remain under-developed in South Sudan. Moreover, the current market for charcoal and its projected positive growth trend due to the rise of rural and urban demand imposes a high and unsustainable cost on South Sudan’s forest resources. In a survey of February 2009, the prices of one bag of charcoal ranged from US$ 8 (near Yei and Lainya) to US$ 28 (in Juba). During the rainy season, prices can reach up to US$45 in Juba for one bag (MAF 2011) due to scarcity and increased demand. Charcoal production has become an economic activity and more people are involved in the charcoal business. Consequently, this is leading to a manifest depletion of forest resources which compromises access to resources by future generations. Forests play a significant role in regulating climate and other ecosystems.

Livestock

South Sudan is endowed with extensive livestock resources with an estimated 11.7 million cows, 12.4 million goats and 12.1 million sheep (FAO/WFP 2013). As illustrated in Figure 29, the northern states, especially Western Bahr el Ghazal, Northern Bahr el Ghazal, Warrap, Jonglei, and Lakes, have the highest number of cattle with more than 60% of the total population. The states with the least number of cattle are the three southern states of Greater Equatoria.

Figure 29: Distribution of cattle across South Sudan



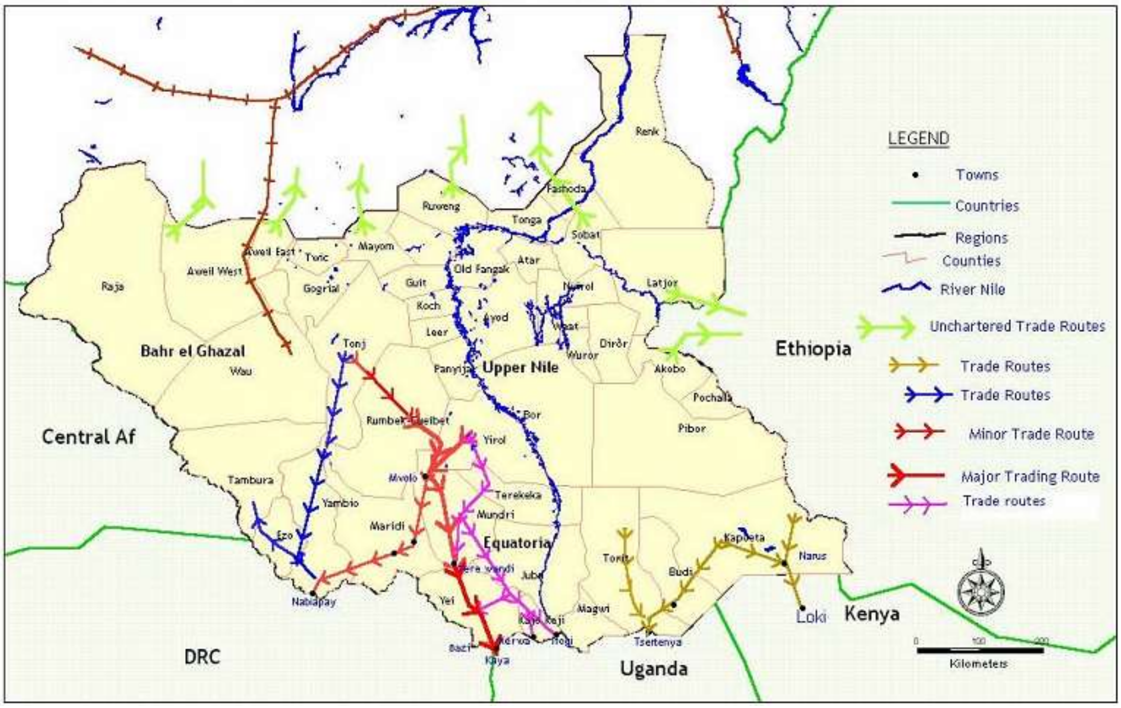
Source: adapted from FAO/WFP, 2013

With an average of 19 heads per household, livestock production represents a significant proportion of the agricultural activity in South Sudan and is extremely important for both economic and cultural reasons (World Bank, 2012). Livestock production, like many other sectors of the economy of South Sudan, has been negatively affected by the civil war and conflict. The potential of the livestock sector is limited by various constraints, including low productivity exacerbated by droughts and insecurity, lack of adequate slaughtering facilities and marketing structures, weak extension services and training capacity and poorly organized and informed herders and traders. Further, the cultural mindset of agro-pastoralists hampers the potential of livestock production as the latter see the cattle more as a sign of wealth and prestige than as a source of food and income.

Another major setback that is negatively affecting livestock productivity in South Sudan is the high incidence of endemic diseases which are causing calf mortality as high as 40-50 percent, while in mature herds the mortality rate can reach 10-15 percent. FAO has noted that some of these endemic diseases include haemorrhagic septicaemia, black-quarter, contagious bovine pleuropneumonia, anthrax, East Coast Fever and foot and mouth disease. The GRSS and its development partners have undertaken campaigns to vaccinate livestock against some of these diseases (Figure6). However, livestock from Jonglei state has not benefited from the vaccination campaign because of transport problems as reported by FAO/WFP (2013). Such vaccination initiatives are to be maintained and reinforced in order to uplift livestock productivity. The increase of livestock productivity and the development of the whole livestock value chain will revitalize the sector and open up direct trade links with the Arab countries who are the traditional importers of Sudanese meat.

Although current data on the livestock trade are not available, it is reported that before the CPA Southern Sudan had a strong tradition of livestock trading within the country as well as with neighbouring countries. The major and minor trade routes of cattle are presented in Figure 30.

Figure 30: Major and minor trade routes of cattle before the CPA



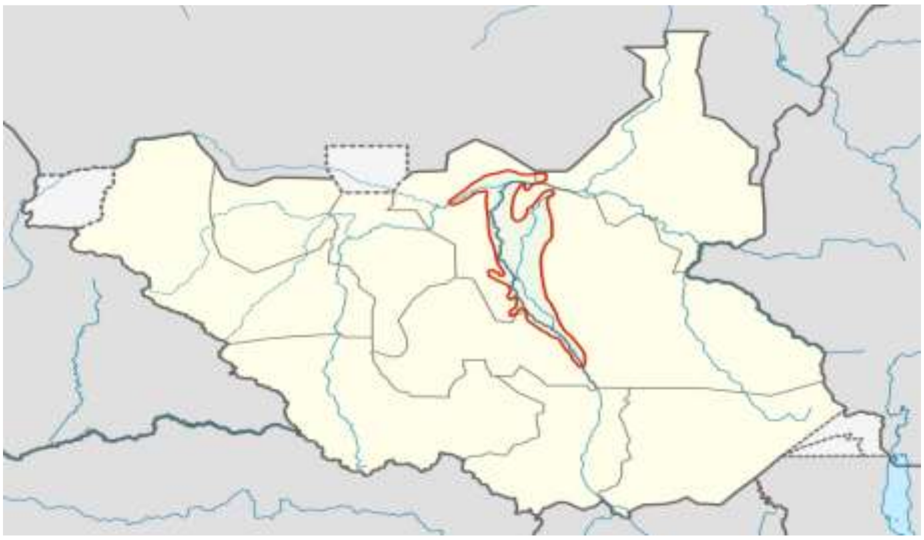
Available data indicate that South Sudan has been exporting to Uganda 2000 heads of cattle every month since 1997. However, the export declined to 200 animals a month in 2002 due to high transaction costs (long queuing period at the border up to three months), high taxation rates and lack of water points along the route, especially in the months of February, March and April.

It is said that livestock exports from South Sudan to Sudan offer more potential because of the better livestock trading conditions and the high demand for meat from Khartoum and other major cities of Sudan. Border tensions have hampered the trade although it is believed that informal exports of livestock are strongly tied to the two countries. It is reported that livestock by-products such as hides and skins of South Sudan are exported to Uganda, Sudan and Nigeria. However, the data should be taken with caution due to lack of reliable sources of information.

Fisheries

South Sudan has vast aquatic resources with some 13 million hectares of inland waters centred on a diverse river system, natural lakes, numerous wetlands, swamps and floodplains. South Sudan is home to the River Nile, the world's longest river, which is highly bio-diverse and includes one of the world's largest wetlands, the "Sudd" (Figure 31), with an estimated area of 100,000 km^2 with six lakes and a number of river tributaries. The Sudd is an important breeding area for Nile ecosystem fish species and is the largest potential source of freshwater fish in South Sudan. About 14 percent of households, particularly those of the Sudd region and along the River Nile and its tributaries, are said to engage in fishing as a means of livelihood.

Figure 31: Location of Sudd region in South Sudan



Estimates indicate that there is potential for the sustainable harvest of between 150,000 and 300,000 tons of fish per year in the Sudd region with a maximum sustainable yield of at least 180,000 tons per year valued at about US$300 million (MARF 2011; Fortune of Africa 2013). Furthermore, there is a large potential for aquaculture development in Central Equatoria, Eastern Equatoria, Western Equatoria, Northern Bahr Ghazal, Western Bahr el Ghazal and Warrap States. However, only about 40,000 tons are currently harvested annually, of which a sizeable proportion is lost because of inadequate infrastructure along the fish value chain. FAO has stated that if the sector is fully developed, fishing could provide employment opportunities and enough food for 80,000 South Sudanese. In terms of earnings potential, the fisheries sector could generate an estimated half a billion US dollars a year from domestic as well as foreign trade (FAO 2013).

Currently, the high demand for fish from the large cities of South Sudan cannot be met by local production. Hence, neighbouring countries, mainly Uganda, supply fish to the major cities of South Sudan in spite of the country's vast aquataic potential. The limited fish output is partly due to cultural factors. Artisan craftsmen from various ethnic groups who fish have traditionally low socioeconomic status within their communities. This traditional bias against fishing limits fishing capacity by discouraging people from fishing and new investment. Pastoralists also engage in fishing as a seasonal activity during the dry season when pastureland is unsuitable for grazing. The consumption of fish per capita of 1.6 kg has remained low for the past ten years despite the high potential of fish production to generate incomes and jobs and to provide a balanced, high protein diet to fishing communities.

Major constraints to the full realisation of the fisheries sector's potential include recurrent civil conflicts, a weak policy and legislative framework, weak institutional capacities in terms of manpower and the coordination of the development partners involved in fisheries initiatives, inadequate information on fisheries production and markets, and under-development of aquaculture. Other constraints include relatively high fish post-harvest losses resulting from improper handling throughout the supply chain and very limited access to markets due to poor road infrastructure, poor organization of fishermen and low fishing capacity. For example, the lack of cooling facilities to preserve fish for long periods has weakened the supply chain and limited production. Additionally, as noted above sociocultural obstacles have hindered the development of the fisheries sector as fish farming is seen as a low-class activity. As a result, the fishing profession and fishing communities continue to be socially and economically marginalised.

The fisheries sector has received relatively little attention over the years from the government and private investors in spite of the huge potential of the fisheries sector to create employment, generate revenues, combat hunger and contribute to food security. However, the recent launch of the strategic plan of the livestock and fisheries sectors (2012-2016) and other fish-related development initiatives will strengthen the sector and develop its untapped potential, as follows:

- GIZ - Fish Production and Marketing Project, which is focused on organizing fishermen into associations for capacity building, increasing fish catches, reducing post-harvest losses and improving marketing
- ACP/Fish 2 programme support, which is aimed at strengthening fisheries policy development and a legal framework
- IGAD/FAO support fish trade strategy development and the harmonization of regional policies; FAO provides support in capacity building and the distribution of fishing equipment
- SMARTFISH was launched in October 2011 targeting 19 ESA-IOC (Eastern and Southern Africa – Indian Ocean Commission) countries and focuses on developing fish trade strategies for the ESA-IOC member countries
- SUDAFISH: The idea behind the launch of this parastatal is for the government to initiate the establishment of a fisheries sector parastatal in the hope that private sector and /or cooperative fisheries groups will participate. The initial planned role of the SUDAFISH parastatal is to provide facilities for fish preservation and transportation from production areas to major fish marketing centres.
- A memorandum of understanding was signed between the South Sudanese and Egyptian governments in which Egypt has committed to establish a semi-intensive fish production unit. The unit comprises a model fish farm for fish production, a model fish hatchery, floating cages and a fish processing unit.

The main institutions responsible for fisheries management and development in South Sudan are the Directorate General of Fisheries and Aquaculture Development within the Ministry of Agriculture at the national level and the Fisheries Departments at the state level. Although the fisheries strategic plan for 2012-2016 has been adopted and launched, the fisheries administration has not been able to implement its activities as defined in the strategic plan because of the limited technical capacity within the department. A range of actions, including incentivising private investors, are required to enable the fisheries sector to reach its potential. The priority for action should be to build the capacity of the fisheries department at the national and state levels to support them to implement the strategic plan (2012-2016). At the same time, action is needed to support and coordinate the initiatives of development partners and the private sector that focus on increasing production and organising the fishermen.

6.2 Agricultural policy and regulatory framework

The Ministry of Agriculture, Forestry, Cooperatives and Rural Development and the Ministry of Animal Resources and Fisheries were merged into one ministry in July 2013 to be known as the

Ministry of Agriculture, Forestry, Livestock and Fisheries (MAFLF). The ministry has a national mandate to spearhead the implementation of its sector policies in liaison with the ministries from the ten South Sudanese states in charge of agriculture, forestry, livestock and fisheries. The mandates and channels of funding of the national ministry and state ministries are not that clearly defined. This has generated working conflicts between the two institutions, and therefore weakened the implementation of a number of agricultural programmes and projects. For example, several agricultural research stations that are spread across the country remain understaffed and underequipped.

The GRSS has formulated and launched crucial and critical agricultural policies and regulatory frameworks to guide the transformation of agriculture, forestry, livestock and fisheries towards improvements in food security, household income, job creation and national income. The strategic plans 2013-2018 (agriculture and forestry) and 2012-2016 (livestock and fisheries) are expected to address structural weaknesses contributing to low agricultural productivity. Some of the key issues addressed by these strategic plans include improved agricultural markets and trade, and developing value chain businesses for local, regional and international markets.

In light of the above, new initiatives have been developed to address some of the issues linked to the low agricultural productivity in South Sudan:

- The National Effort for Agricultural Transformation (NEAT) aims at driving South Sudan towards its 2025 Agricultural Vision by putting in place one integrated action plan for the state and national governments and development partners.
- Zonal Effort for Agricultural Transformation (ZEAT) is a two-year programme that aims to accelerate food self-sufficiency by combining the efforts of all donors, government, NGOs, farmers and other relevant stakeholders.
- Comprehensive Agricultural Master Plan (CAMP) is a wide-ranging long-term strategic plan to enhance agricultural productivity and the international competitiveness of the sector.

6.3 Value chain development to increase agricultural productivity

As noted earlier, South Sudan is endowed with extensive land-based resources (agriculture, forestry, livestock and fisheries). However, the agricultural sector contributes less than 15 percent of GDP despite the fact that nearly 80 percent of the population derive their primary means of living from agriculture but at a subsistence level. To put this in context, 51 percent of the population live below the poverty line. Being the biggest employer and potentially having the highest multiplier effect, agriculture could offer more opportunities to reduce poverty.

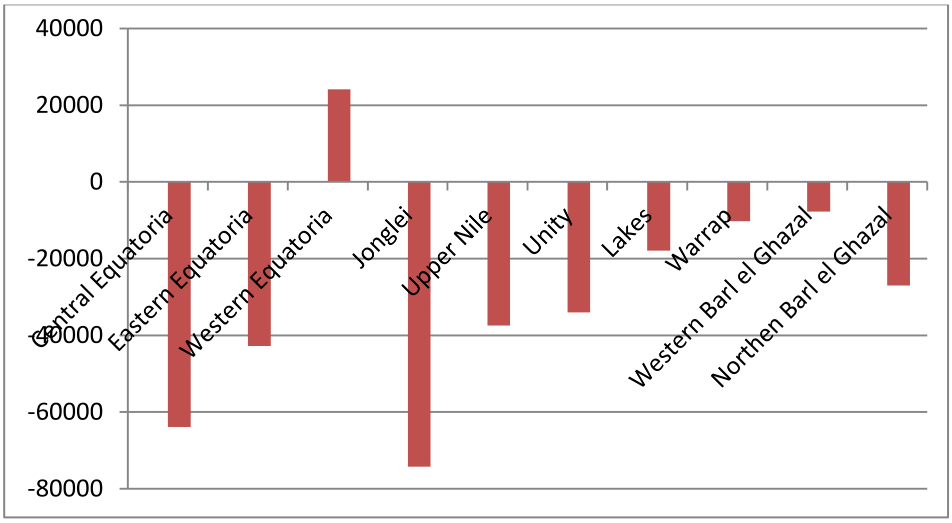
Agriculture is the pathway to alleviate poverty in South Sudan. The international development community has refocused on agriculture as an effective means of fighting poverty in agriculturally-based developing countries as it has been shown that GDP growth originating in agriculture is about four times more effective in raising incomes of extremely poor people than GDP growth from other sectors (World Bank, 2010). The high multiplier effect of agriculture could rapidly stimulate economic growth through value added activities and the commercialisation of agriculture.

Value chains are mechanisms that allow input providers, traders, processors, buyers and sellers to add value to goods and services as they move from one step of the chain to the next, until the products get to the final consumer. Value chains as such do not exist in South Sudan and the approach is new. This is exemplified by the fact that there is insignificant use of agricultural inputs (fertilisers, pesticides and improved seeds), lack of infrastructure such as research and extension services to support production, and the large quantities of imported food. Although the approach is new, South Sudan has great potential for value chain development because of its vast agricultural land, strong government commitment to support value chains and farmer cooperatives from the boma to the national level, and the rapid growth of South Sudanese cities due to rural-urban migration.

Farmers are the key actors in the agricultural value chain. However, the low capacity of South Sudanese farmers needs to be addressed so that they can respond efficiently to market opportunities created by suppliers and buyers in the value chain. Cooperatives can provide farmers more control over the production process, agricultural inputs and their commodities. Producers cooperatives, which one form of cooperatives, are commercially oriented and aim at reducing transaction costs and increasing revenue by undertaking physical trade and bargaining for cheaper inputs and better commercial terms for their members. The government's support for the national cooperative movement, including producers cooperatives, is articulated in the national strategy for cooperative development (2012-2015) and the Cooperative Societies Act (2012).

Studies provide evidence that a robust and consistent increase in agricultural productivity tends to reduce poverty. Agriculture also creates multiplier effects that feed into other sectors of the economy. However, the indicators that measure agricultural productivity, such as the general output per unit of land, farm yield by crop, total output per hectare and output per worker, all point to very low levels of agricultural productivity in South Sudan. This fact translates itself into the chronic food deficits and food shortages seen across the country as highlighted in Figure 32. Only one out of 10 states, Western Equatoria, recorded a cereal surplus.

Figure 32: Estimate cereals surplus or deficit by state in South Sudan



Source: adapted from FAO/WFP, 2013

The long civil war, sporadic insecurity due to inter-ethnic conflicts, border tensions with Sudan, poor infrastructure, the lack of basic public services like agricultural extension and research, food aid from WFP, FAO and other international NGOs and GRSS's insignificant budget for agriculture (only 2% of the total national budget was allocated to agriculture in 2012), have all contributed to stunting the growth of the agricultural sector. Hence, in the last few years South Sudan has continuously experienced chronic food shortages which are increasing in frequency and aggravating poverty, hunger and malnutrition. Several studies, including the World Bank (2007b), Diao and Pratt (2007), Minten and Barrett (2008) and Jayne et al. (2010), show that growth in staple foods has a greater potential of reducing poverty than any other product in predominantly agrarian developing countries.

Hence, fostering and increasing the efficiency of the agricultural value chains of staple foods will lessen progressively public expenditure by GRSS on food imports (approximately US$200-300 million yearly). This will improve South Sudan's balance of payments which is currently in deficit in part due to large volumes of food imports from neighbouring countries. Once domestic production is ramped up and local requirements are satisfied, surpluses could be exported to meet the cereal deficit in neighbouring countries which annually spend US$4.5 billion on cereal imports.

Likewise, there is substantial gum arabic production in South Sudan that could be exported if the right conditions are created. In times past, gum arabic used to be the only export crop whose value chain was well organised. Although production, quality, governance and marketing structures were poor and inefficient, the sector was well integrated into Sudan's economy and the global market.

Similarly, South Sudan is rich in livestock with large heads of cattle per household. As noted above, livestock production and productivity are extremely low because of a range of constraints, including sociocultural norms that value cattle as a prestigious asset conferring high social status on owners within their community rather than as a source of food and income as well as other structural barriers in the value chain. However, animals such as cows, goats and sheep can play a key role not only in feeding families, increasing incomes, providing manure to preserve soil fertility and improve crop yields, but also contribute to the generation of foreign exchange through exports.

Organising value chains around well selected commodities increases interactions between farmers and other actors of the value chain, and thus generates social capital accumulation. Although market access and feeder roads are very poor in South Sudan, the growth in agricultural productivity could stimulate demand and increase tax revenue to finance road construction and preventive maintenance. However, the increase in staple food production could lead to a price collapse and undermine incentives for production by smallholder farmers. Therefore, the increase in staple food production needs complementary measures or strategies such as increasing exports of tradable goods to increase incomes and hence the demand for staple food. Other measures could include progressively curtailing food imports on a short-term basis, contract farming, index-based weather insurance, warehouse receipt systems and short-term state interventions to stabilise prices.

Once progress is made to revitalize value chains, efforts will be reoriented towards export crops. One challenge for South Sudan will be to ensure its productive capacity is internationally competitive. To give an idea of the task ahead, the table below prepared by the World Bank compares South Sudan to Uganda and Tanzania.

Table 13: Key elements of maize production costs and revenues in South Sudan, Uganda and Tanzania

	South Sudan	Uganda	Tanzania
Average yield (kg/ha)	800	1,200	1,120
Farm gate price (US$/kg)	0.50	0.15	0.20

Labour requirement (man-days/ha)	72	47	52
Labour cost (US$/man-day)	7.50	1.00	2.31
Use of seeds (kg/ha)	10.50	5.4	7.0
Seed price (US$/kg)	1.57	0.92	1.35

Source: Bank staff's estimates based on various data sources and field surveys done by the World Bank in "Republic of South Sudan, Trade Strategy report, Economic Diversification, Regional Integration and Growth", June 2014, page 9.

Table 13 above indicates that yields for maize in South Sudan are two-thirds of those in Uganda, while the price of seeds is 71 percent higher than in Uganda. As shown elsewhere in the DTIS, predictably the largest contributor to farm production costs in South Sudan is labour. Also, the cost of intermediate inputs is high. For example, a ton of beans costs 60 percent more in Juba than in Kampala, with transport and logistics contributing to 40 percent of the increase in costs.[36]

The World Bank report makes the important observation that, "Impediments to increase trade also stem from the policy framework and poor government coordination. While tariffs (15 percent) are low compared to those of neighbouring countries, other levies applied at the border can increase the value of imported goods by another 115 percent".

Yet, the lack of competitiveness and weaknesses in selected value chains offer opportunities for businesses to bridge gaps and add value, therefore generating employment and revenues for all the actors, as illustrated in the examples of Rwanda and Ethiopia (see Boxes 14 and 15).

Box 14: Inventory credit system (warrantage) - maize value chain in Nyagatare District (Rwanda)

Nyagatare is the largest district of Rwanda. The farming system of the district has some common features with some parts of South Sudan. The district is less populated and many farmers still have at least one hectare to produce crops and livestock. The district used to be part of the nearby Akagera national park inhabited by a few cattle rearing farmers. The region was chosen by the government to resettle ex-refugees returning from Uganda and encourage them to make a livelihood from agriculture. Initially, the new farmers and livestock keepers, due to inexperience, found it difficult to shift from animal husbandry to crop farming. They started by producing sorghum, beans and maize but soon found out that, with an average yield of 0.8 to 1.0 tons of maize per hectare, it was difficult to make a living.

An agricultural value chain development project of the International Fertilizer Development Centre (IFDC) introduced new crop production technologies combining organic and inorganic fertilizers (ISFM-Integrated Soil Fertility Management). Demonstration plots in different parts of Nyagatare District were set up to compare traditional methods of farming with the improved ISFM technology.

A comparison of the different treatments demonstrated that organic fertilizer plus 100 kg DAP and 50 kg urea / ha produced the highest yield with about 4 mt / ha, while the traditional method yielded only about 1 mt / ha. Farmers in the district did not know about organic or mineral fertilizer before the project started. In the beginning the farmers were reluctant to adopt the new technology but once they saw the results, more and more adopted it, about 200 farmers in 2009, 800 in 2010 and more than 1,500 in 2011. The fact that the fertilized maize crops survived during the drought period in 2010 also contributed to the increase in the adoption rate.

In 2009 the local NGO, Rwanda Development Organization (RDO), faced a serious challenge. The increase in maize

[36] World Bank, Trade Strategy Report, June 2014, pages 9-10.

production had led to a dramatic drop in the local market price as farmers and cooperatives did not have a market in which to sell their newly produced surplus. The new low prices did not even cover the production costs which had fallen from about 150 RWF / kg of maize using the traditional method to 70 RWF / kg of maize using the new method. Farmers were nevertheless ready to sell their maize at a low price rather than let it rot. Enterprising businessmen from nearby Uganda took advantage of this situation and crossed the border to purchase the cheap maize. After processing the maize in Uganda into flour, they brought it back to Nyagatare to sell the maize flour on the local market for up to 350 RWF / kg.

RDO, which was collaborating with 15 cooperatives with over 4,000 members in the district, developed an interesting strategy to tackle the problem of low prices. First, they created Rwanda Development Investment (RDI) which was tasked with processing maize locally into flour to serve the local market at a low price (210 -260 RWF / kg), thereby adding value to the crop.

Second, RDO created the Nyagatare Maize Investment Group (NYAMIG) to manage prices and identify potential markets. The membership of NYAMIG includes both cooperatives and individuals owning shares. Over 200 shares with a value of 120,000 RWF per share were sold to the shareholders.

Another strategy introduced by NYAMIG with the support of the project was the so called inventory credit system, also known as warrantage. Warrantage helped link farmers to financial institutions who received credit based on the amount of maize held in storage. Stored maize acts as a guarantee or collateral and also helps farmers obtain higher crop prices when the maize is sold after the harvesting season when market prices tend to be higher. About 487 tons of maize belonging to five cooperatives were in storage and DUTERIMBERE, the local micro-finance institution, extended loans representing 60 percent of the market value of the maize at 120 RWF / kg. To ensure proper storage and minimize losses, the project provided and trained partners in the use of a moisture metre which measures the humidity content of the stored maize, ideally at 13%.

After two months of storage the members of NYAMIG and the MFI started looking for new markets as prices were about to rise. In 2010 the major part of the stored maize was bought by the World Food Programme (WFP). NYAMIG had negotiated a contract with a fixed price of 140 RWF / kg. WFP gave assurances that it would continue its collaboration in 2011 as the quality of maize was good and the price was reasonable. Following this transaction, MINIMEX, a major flour producing maize mill near Kigali, bought 30 tons and paid 250 RWF / kg. The problems of managing prices and finding reliable buyers had finally been solved.

Box 15: The Ada'a Dairy Cooperative in Ethiopia – livestock value chain (Ethiopia)

Ethiopia has Africa's largest livestock population, while it is estimated that South Sudan has the highest livestock per capita in Africa. As in South Sudan, Ethiopian pastoralism is a cultural and economic system that incorporates and defines the social structure and welfare mechanisms in communities founded on livestock rearing as the primary economic activity. The following success story based on the livestock value chain could inspire the GRSS and its development partners to replicate similar initiatives in South Sudan.

The Ada'a dairy cooperative was established in September 1998 with 34 founding members who purchased a single share of Ethiopian birr (ETB) 100 each and paid an additional ETB10 for the registration fee. The initial capital of the cooperative was only ETB 3,400 (US$ 400). The first two years were devoted to establishing the organizational arrangements to make the cooperative operational. The main objectives of the cooperative at its inception were as follows:

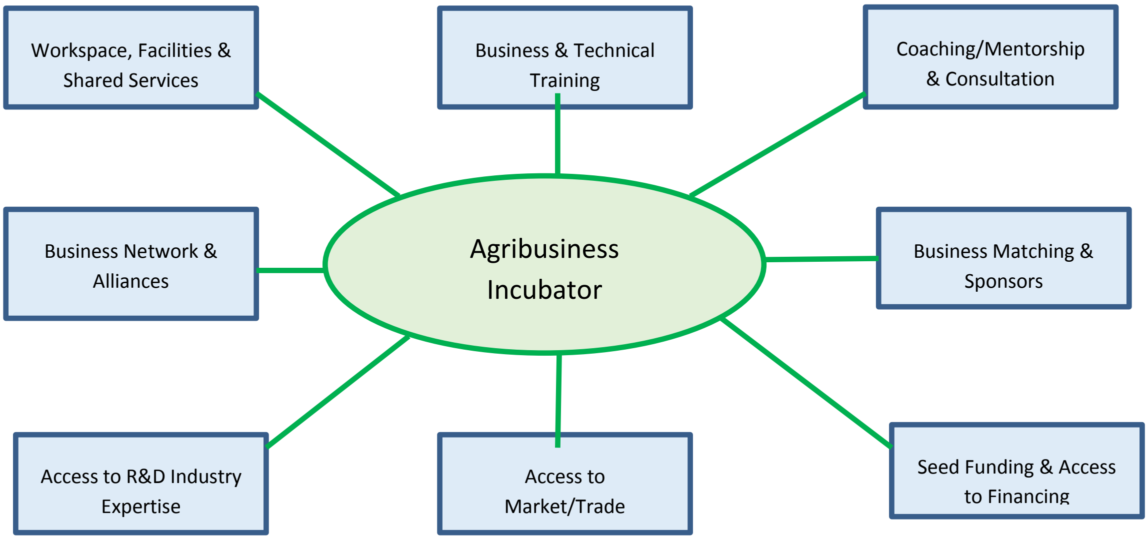
- Increase the production and productivity of dairy farms and improve the overall incomes of member farmers
- Supply inputs such as feed, health services, etc. to members at reasonable prices
- Provide training in dairy cattle management, milk hygiene, milk handling and milk processing to members
- Assist farmers to form milk units and establish a milk union at the community level
- Introduce a saving and credit system for members
- Collaborate with other dairy cooperatives (nationally, regionally and internationally) to enhance dairy development

The cooperative has now become one of the major suppliers of milk and milk products to Addis Ababa city and is an example to other cooperatives in the country.

Source: Beekman and Meijerink , 2010. Reducing food price variability in Sub-Saharan Africa. Wageningen.

Despite the challenges, the role of agribusiness SMEs in the growth of agriculture and agricultural development has been universally recognised in many studies. Agribusiness entrepreneurs and start-ups face many obstacles, especially at the initial stage where there is great uncertainty. High market entry costs, limited access to capital, liquidity problems and inadequate business and technical skills are only some of the risks associated with new ventures. One of the mechanisms employed to nurture SMEs and agribusiness start-ups is agribusiness incubators. These incubators provide a lifeline to starting and growing companies by providing expertise, networks, seed funding and the tools they need to make their ventures successful. Figure 33 highlights the range of services provided by agribusiness incubators.

Figure 33: Business services provided by Agribusiness Incubator Programme



6.4 Recommended programmes and actions

Agricultural Value Chains (36 months)

There is an urgent need to rehabilitate and invigorate the agricultural capacity for staple food in South Sudan in order to overcome chronic food shortages, increase household incomes, create jobs and improve the contribution of agriculture to the national economy. The DTIS mission has identified five agricultural value chains which should be given priority for the next 36 months to enhance agricultural capacity and rehabilitate all the active and passive actors along the selected value chains. The value chains are as follows:

- Maize and cassava value chains in the states covered by the greenbelt region
- Sorghum and groundnuts in the states covered by the rest of the agro-ecological zones
- Livestock value chains in the states that are endowed with large heads of cattle, i.e. Jonglei, Lakes, Warrap, Northern Bahr el Ghazal and Unity
- Gum arabic production in the northern states

Agricultural Value Chain for Food and Education Programme (36 months)

The agricultural value chain for food and education programme will fight hunger and poverty through the revitalization of local economies based on the development of value chains around the commodities identified earlier. The programme will have four main goals:

- To increase the agricultural production and productivity of selected commodities and strengthen the active actors along the value chain from upstream (input supply). Schools will be one among several end consumers. Other passive actors of the chains such as the agricultural research and extension service providers and business service providers will get support as well.
- To provide pupils in selected schools at least one nutritious meal a day of locally produced food (from selected commodity value chains) and hence improve food security and limit the number of children who drop out of school.
- To promote greater participation of girls in school and use female enrolment as one of the criteria to select participating schools in the programme.
- Promote greater participation of the private sector in the delivery of agricultural inputs.

Livestock Development Programme (24 months)

The Livestock Development Programme of South Sudan will serve as an extension service and training centre to disseminate information on livestock farming to eradicate hunger and poverty by enhancing the knowledge base of livestock farmers and other stakeholders to increase livestock production and productivity. A farmers' field school will demonstrate the potential of livestock to increase production and productivity. The programme will offer the following services among others: basic animal health services and disease control, slaughter facilities and a livestock market, improvement of local breeds and small processing technologies.

Support to Gum Arabic Production and Export (12 months)

Gum arabic is primarily produced by the poorest and most vulnerable rural women and children in the traditional agro-pastoral areas where the incidence of rural poverty is in the range of 65 to 90%. Strengthening the value chain of gum arabic could reduce poverty, improve South Sudan's balance of payments and contribute to the diversification of the economy. Support to the sector could include enhancing knowledge of the constraints at various stages of the value chain; identifying appropriate policy measures to address constraints; strengthening research and extension services with a view to improving quality; and enhancing the capacity of the gum arabic producers cooperatives.

South Sudan Agribusiness Incubation Programme of Selected Value Chain Commodities (24-36 months)

The South Sudan Agribusiness Incubation Programme will establish and support the creation of agribusiness incubators working on the selected commodity value chains proposed earlier. The main goal of the incubators will be to nurture innovative early-stage agro-based enterprises. Incubators will provide qualifying new start-up businesses with a set of facilities – physical facility space, shared services, training, business and legal advice and seed funding – to facilitate their creation and assist them until "graduation", when they have the capacity to "survive" on their own in a competitive business environment. Graduated agribusiness start-ups from the incubation programme will be better able to add value to agriculture, create jobs and contribute to national tax revenues.

Consolidation of the South Sudan Cooperative Movement (3-6 months)

There is a need to technically and financially support the South Sudan cooperative movement from the boma to the national level in order to start grounding and implementing the cooperative policy. The Directorate of Cooperatives under MAFLF is finalizing the draft cooperatives regulations which will enforce the cooperatives law. One of the ways that support could be provided initially is financial assistance to convene and fund a workshop of major stakeholders to validate the regulations for cooperatives and support the development of a governance body for the cooperative movement.

South Sudan Agricultural Statistical and Information Agency - SSASIA (12-24 months)

The creation of a South Sudan Agricultural Statistical and Information Agency (SSASIA) will be a landmark achievement in the development of a nationwide statistical service for agriculture to explore and exploit effectively and efficiently the huge potential of agriculture, forestry, livestock and fisheries of South Sudan. SSASIA will be the principal public agency for collecting, compiling, processing, analysing and disseminating official statistics on agriculture, forestry, livestock and fisheries as basic inputs for various end-users (decision makers, investors, policy makers, producers, farmer organizations, agribusinesses, lawmakers and government agencies). Further, the agency will serve as the central information source for agriculture, forestry, livestock and fisheries at the national, state, county, payam and boma levels.

Management of Woodlot Forests through Sustainable Energy Production Programme (12-24 months)

The programme is designed to create jobs and achieve sustainable energy production through reforestation and environmentally sound and cost-effective energy production. The programme will support local manufacturers to manufacture improved cooking stoves and brick-making equipment, and thus contribute to the reduction of greenhouse gas emissions while contributing to job creation and poverty eradication.

Support Implementation of South Sudan Agricultural Policies (6-12 months)

The programme will support implementation of agricultural policies as follows:

- Provide support for existing and new initiatives of GRSS that are aligned with South Sudan's agricultural policy priorities, especially the strategic objectives linked to value chain development, agricultural markets and trade.
- Build the capacity of the Fisheries Administration in South Sudan to provide effective support for the development of the private sector in fisheries and aquaculture, especially in the Sudd region, the richest in terms of fish stocks.

The GRSS should support initiatives promoting the utilization of Integrated Soil Fertility Management (ISFM) as a sustainable farming approach to sustain agricultural productivity and soil health. ISFM strategies focus on a combined approach of organic (crop residues, green manure, compost) and mineral fertilizers that have been proved to improve agricultural productivity in an environmentally sustainable manner, particularly in the tropical zones where South Sudan's soils are poor.

REFERENCES

Bidogeza, J.C. (2012). Yield Gap Analysis of Maize in the New Nation Country of South Sudan. How to reduce it? Unpublished.

CFSAM (2010). Special Report, FOA/WFP Crop and Food Security Assessment Mission to South Sudan, FAO Global Information and Early Warning System on Food and Agriculture. World Food Programme..

CFSAM (2011). Special Report, FAO/WFP crop and food security assessment mission to South Sudan.

Deng, K. David (2011). The New Frontier, a baseline survey of large-scale land-based Investment in Southern Sudan. Norwegian People Aid.

FAO/WFP (2013). FAO/WFP crop and food security assessment mission to South Sudan. Special report. Rome.

FAO/WFP (2011). A joint FAO/WFP Food Security Assessment Mission Report, June 2011

FAO/USAID (2009). A Synthesis of the Proceedings of the First Southern Sudan Gum Acacia Workshop.

FAO (2009). The State of Food Insecurity in the World. FAO, Rome.

FAO AQUASTAT (2009). Statistical Yearbook for South Sudan in Maps; FAO AQUASTAT, Rome.

Fisher et al. (2002). MAF 2012 Comprehensive Agricultural Sector Policy.

Government of the Republic of South Sudan (2012). Strategic plan for the Ministry of Agriculture and Forestry 2012-18.

IFAD (2009). Proposed grant to the Republic of The Sudan for the revitalizing the Sudan Gum Arabic Production and Marketing Project. Rome

IFPRI (2010). Assessing Food Security and Development Opportunities in Southern Sudan. Washington, D.C.

Jayne, T. S., Mason, N., Myers, R., Ferris, J., Beaver, M., Lenski, N., et al. (2010). *Patterns and Trends in Food Staples Markets in Eastern and Southern Africa: Toward the Identification of Priority Investments and Strategies for Developing Markets and Promoting Smallholder Productivity Growth* (International Development Working Paper). East Lansing, Michigan: Michigan State University. Retrieved from http://ageconsearch.umn.edu/bitstream/62148/2/idwp104.pdf

MAF (2011). Revised Draft of Forestry Policy Framework. Juba.

MARF (2012). Policy Framework and Strategic Plans 2012 -2016. Juba

Maxwell, D., Gelsdorf , K. and Santschi, M. (2012). Livelihoods, basic services and social protection in South Sudan. Feinstein International Centre, Working paper.

National Bureau of Statistics (2010). National Household Survey. Report. Juba.

Nyantung Beny L. and Snyder, M. (2012). Analysis of the Republic of South Sudan’s Accession to the East African Community: benefits, detriments and recommendations. Public Law and Legal Theory Research Paper Series, No. 337.

Phillip Harvey, Beth Rogers Witte (2007). Nutrition Status and its Determinants in South Sudan: A Summary of Available Data.

Randrianarison, L., and Swinnen, J. F. (2009). Global Retail Chains and Poor Farmers: Evidence from Madagascar. *World Development*, 37 (11), 1728-1741.

Schneider, K. and Gugerty, M.K. (2010). Agricultural productivity and poverty reduction: linkages and pathways. The Evans School Review. Vol.1, num.1, Spring 2011.

World Food Programme (2011). Annual Needs and Livelihood Analysis.

Wongo, S. H. (1984). A survey of the horticultural potential of the South Sudan Region. Regional ministry of agriculture and Natural resources, Juba, Sudan. *Acta Horticulturae* 184, Tropical Horticulture VIII.

World Bank (2007). World development report 2008: Agriculture for development. Washington, D.C.

World Bank (2007). Export Marketing of Sudanese Gum Arabic. Khartoum.

World Bank (2010). Building Competitiveness in Africa's Agriculture. A guide to value chain concepts and applications. Washington, D.C.

World Bank (2012). Agricultural Potential, Rural Roads and Farm Competitiveness in South Sudan.

World Bank (2014). Republic of South Sudan, Trade Strategy report, Economic Diversification, Regional Integration and Growth. Washington, D.C.

CHAPTER VII - ENERGY

7.1 The institutional and legal frameworks

The hydrocarbons and energy sectors are managed under the jurisdiction of several ministries that are responsible for their respective overall sector policy and strategy (see Figures 34 and 35): the Ministry of Petroleum and Mining (MPM), the Ministry of Electricity, Dams, Irrigation and Water Resources (MEDIWR), the Ministry of Environment (ME), the Ministry of Trade, Industry and Investment (MTII) and the Ministry of Finance and Economic Planning (MFEP). In addition, the following public entities are responsible for the commercial activities in the oil and the energy sectors:

- Nilepet, the National Oil Company of the South Sudan, is responsible for the commercial management of South Sudan's crude oil and gas through joint venture agreements with international oil companies, as well as the commercialization of derivative petroleum products. The MPM assigns its participation in oil and gas exploration and production activities to Nilepet.

- The Electricity Corporation Act established the South Sudan Electricity Company (SSEC), which is responsible for the expansion, management and operations of the electricity generation and transmission infrastructure as well as the bulk commercialization of electricity to distribution companies.

South Sudan has made considerable efforts in formulating its petroleum policy and establishing a sound legal framework of the upstream oil sector, comprising exploration, transportation and exploitation activities of the country's oil and gas resources. Under the new Petroleum Law, the Government has committed to a high level of transparency and has adopted the principles of the Extractives Industries Transparency Initiative (EITI). Specifically, the Government has committed to awarding new oil contracts in an open and transparent manner, which must be approved by several public institutions, including the National Legislative Assembly.

- The Parliament passed the Petroleum Revenue Management Bill but the bill has not yet been enacted into law. The law once ratified will govern the country's oil revenues, which make up 98% of the national budget. The bill sets out the foundations of how South Sudan collects, manages, audits and reports its oil revenues, making the GRSS accountable to the Parliament and the civil society through various reporting requirements. The GRSS through the MFEP is responsible for the overall management of petroleum revenues.

- South Sudan's licensing regime is based on the exploration and production sharing contract (EPSA), which defines the terms for exploration, development, production and transportation activities as well as their fiscal regime. The review and update of the template EPSA is currently underway. In particular, the draft EPSA provides for increased transparency in the sector, most specifically in awarding oil contracts and publishing oil revenues, and defines obligations for local content and for the protection of the environment. The EPSA also contemplates tightening the relinquishment provisions to limit the tenure of the exploration rights with the objective to better promote oil exploration activities.

At the time of secession, the government inherited several EPSAs from the unified Sudan for petroleum activities ongoing at the time of secession. Consortiums holding the rights to these inherited EPSAs signed a transitional agreement in January 2012 that allows for continued petroleum operations until the GRSS introduces a new EPSA.[37]

There are currently no laws regulating the downstream oil sector in South Sudan.

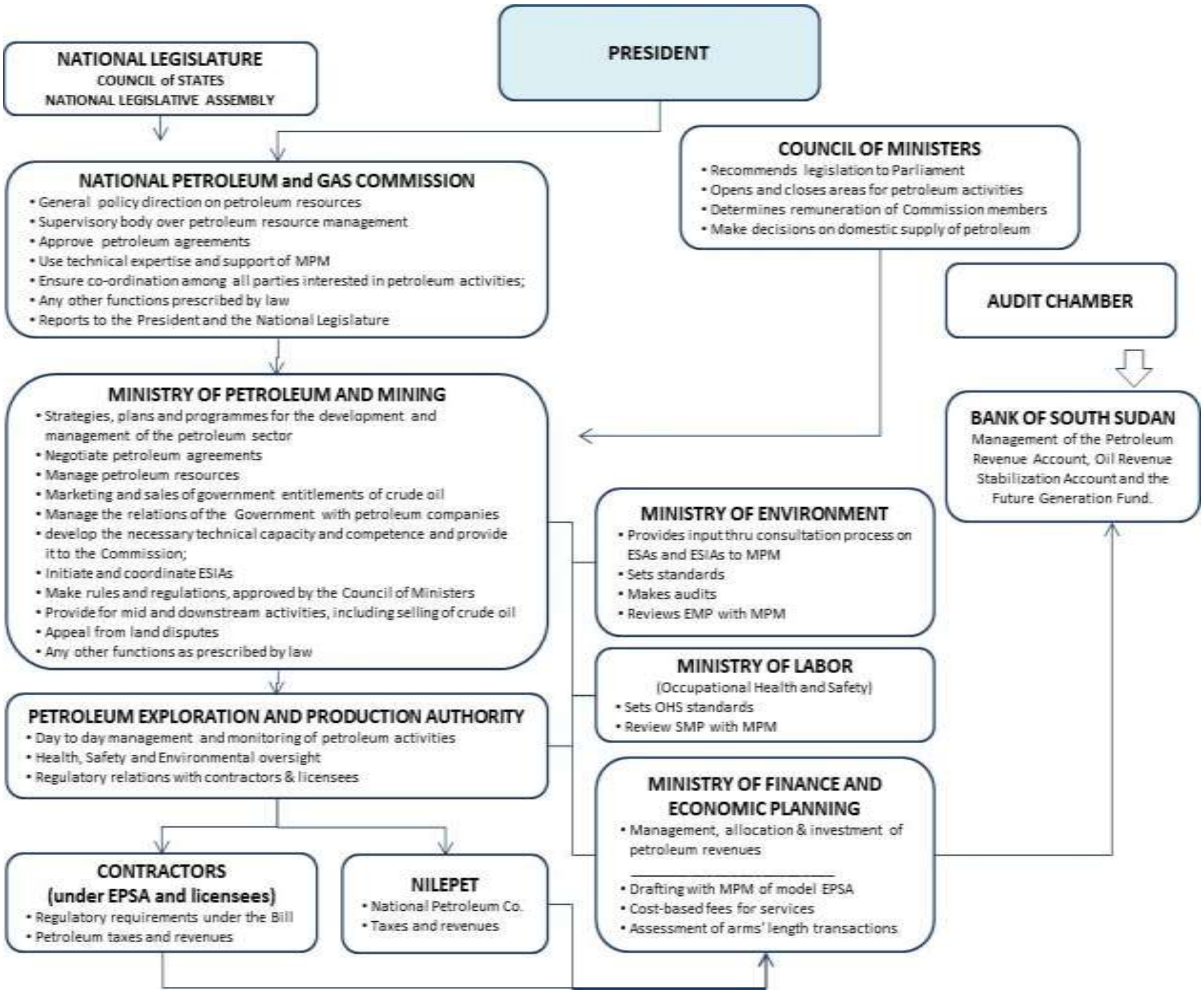
The draft Electricity Bill establishes the regulatory framework for the electricity sector including provisions for generation of electricity by the private sector. The bill calls for the establishment of a state-owned transmission and distribution utility and of an independent regulator to set tariffs and enforce electricity agreements, most specifically power purchase agreements (PPAs).

The draft Environmental Bill, currently in the pipeline, is set to establish the South Sudan National Environment Authority (SSNEA), which shall be responsible for establishing the Environmental Impact Assessment and the Environmental Management Plan. The bill requires every oil and gas project sponsor to complete an environmental study in accordance with the legislation, which is then made available for an extensive review by the relevant institutions as well as civil society.

Other regulations are also applicable to the oil and energy sectors, including (but not limited to) the provisions of the Investment Act, the Taxation Act, the Labour Act, the Land Act and the Contract Act.

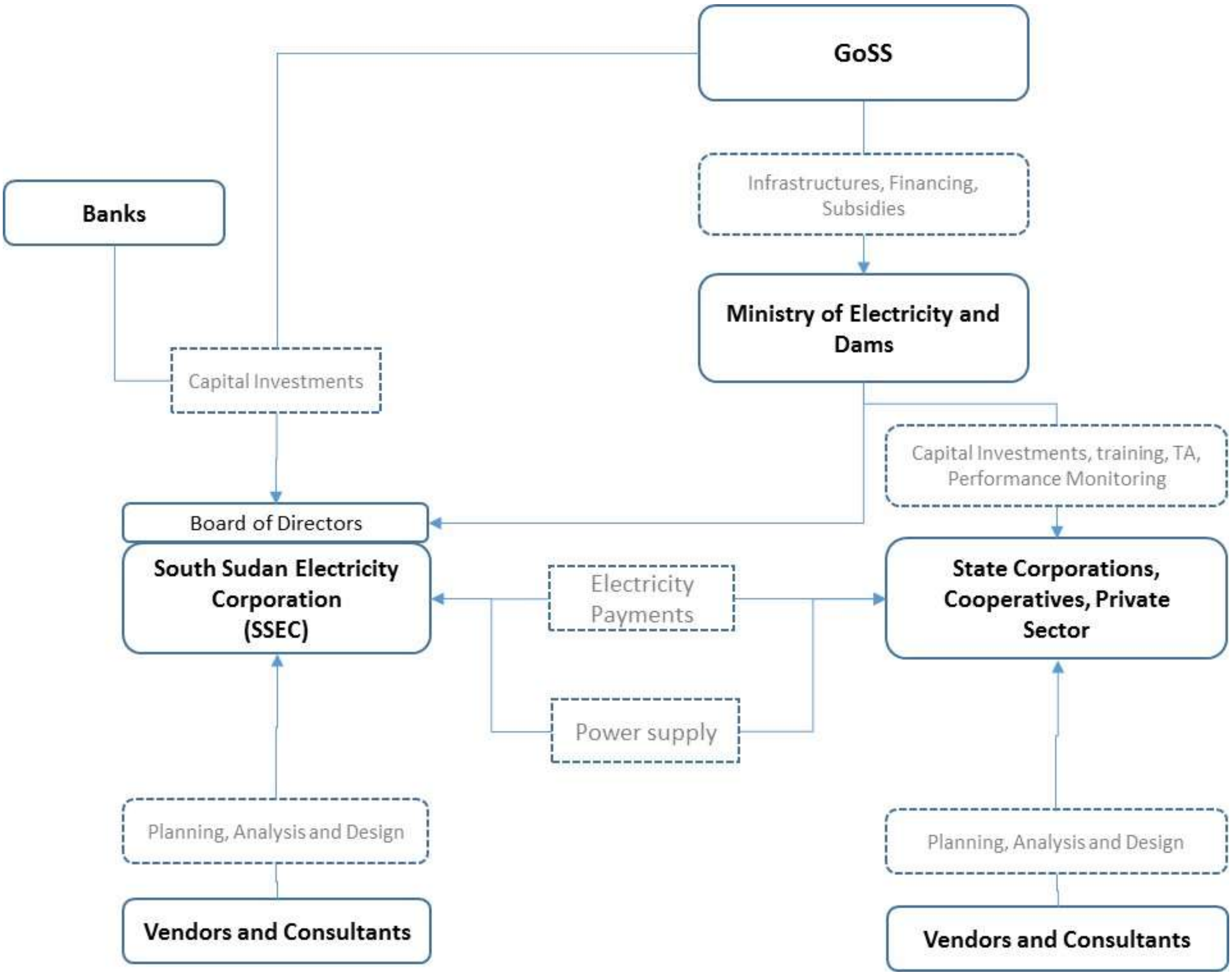
[37] The provisions of EPSAs inherited at the time of secession date from the template drafted in the 1980s. Most provisions are outdated and need to be updated to comply with new international standards in the petroleum industry, as well as provisions of the Petroleum Law of the South Sudan.

Figure 34: Institutional framework of the oil sector



Source: Ministry of Petroleum and Mining, *Petroleum Policy*

Figure 35: Institutional framework of the electricity sector



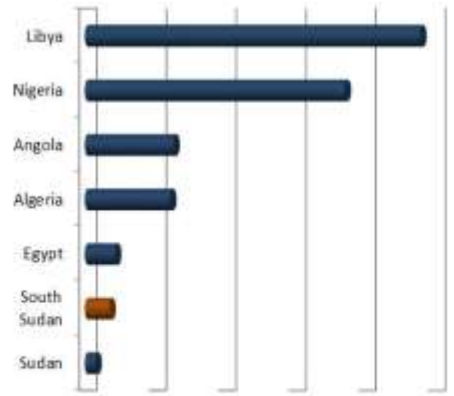
Source: Ministry of Electricity, Dams and Water Resources, *Electricity Strategy Note*

7.2 The upstream oil and gas sector

Current state of the upstream oil sector

The oil sector continues to be the main source of revenues in South Sudan, contributing 98% of the country's revenues in 2011. South Sudan's crude oil production averaged 325,000 bpd at the end of 2011, which placed the country as the fourth largest producer in Africa (Figure 36), with estimated reserves equalling 3.5 billion barrels (BP Statistical Review, 2013), of which 1.18 billion barrels are reserves from current producing fields.

Figure 36: Proved oil reserves in Africa, 2012



Source: BP Statistical Review of World Energy,

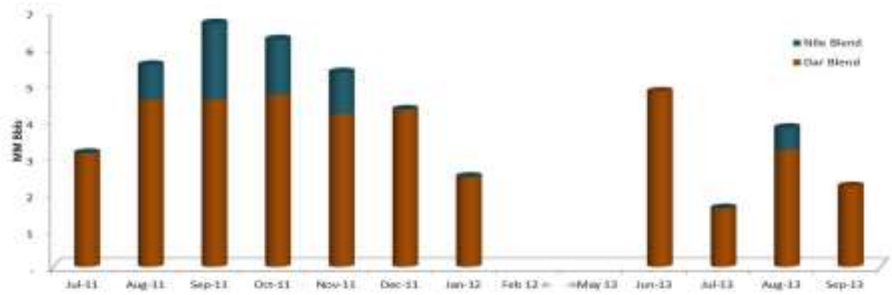
In January 2012, South Sudan voluntarily shut down its oil production because of ongoing disputes with Sudan. As a result, South Sudan's commercial deficit has deteriorated considerably. In April 2013, both countries reached an agreement to allow South Sudan's oil to flow to international markets via the port of Port Sudan. The GRSS has since reported oil sales of approximately 9.8 million barrels of crude oil valued at US$969 million for the period from June to August 2013 (Figure 37). The pipeline transportation fees related to these sales paid to Sudan equal approximately US$91 million.

South Sudan's current producing fields are mature fields that reached their peak production in 2009. The current decline in crude oil output is not reflective of the potential of the country's production capabilities and the trend could be reversed by:

- Increasing the recovery from producing fields; the average recovery is presently estimated at approximately 22%, far below international standards
- Promoting the development of unexplored basins in order to compensate for declining oil production

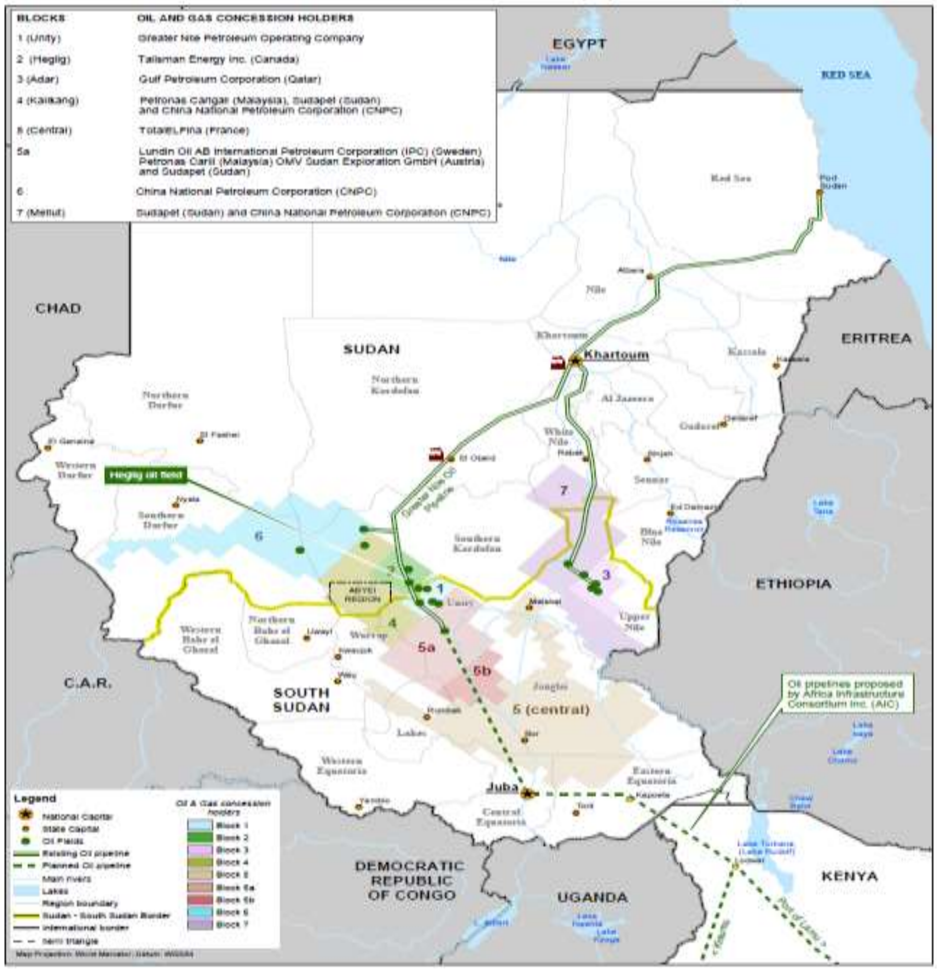
The GRSS recognizes that the current block delineation practices create oversized oil blocks by any international standards, which means that oil operators do not necessarily carry out exploration activities in all areas of their blocks, resulting in underexplored basins. Most companies only focus on the main leads. As a result, the GRSS is contemplating to redefine block sizes as well as to tighten the relinquishment obligations, allowing new oil operators to undertake active exploration programmes that may lead to new discoveries (Figure 38).

Figure 37: Crude oil actual historical sales volumes[38]



Source: Ministry of Petroleum and Mining, 2012

Figure 38: Oil blocks and pipeline network



Source: Global Atlas

Improving oil governance

[38] Source of data: MPM Marketing Report for the period between July 2011 and January 2012; MPM Crude Sales Internal Report for the period between June and September 2013.

Ensuring transparent petroleum revenues management. The prudent management of South Sudan's oil revenues can drive its long-term social and economic development. With the Petroleum Revenues Management Bill – not yet operational - South Sudan has taken an important step in laying the foundations for transparency and accountability by establishing strong standards. Specifically, the bill sets a clear and theoretically transparent funding mechanism (Box 16). All petroleum income is initially deposited into the petroleum revenue account. Funds can then be transferred to the national budget or to the saving funds in accordance with the provisions of the Petroleum Revenues Management Bill. The law governing the oil sector calls for regular publication of the country's petroleum revenues. In addition, the petroleum law requires annual reporting to the National Legislative Assembly and to the public in general regarding all aspects of petroleum revenues. The National Audit Chamber has the responsibility to audit the inflows and outflows of petroleum revenues.

Box 16:2. An encouraging blueprint for oil governance

" .. In establishing the standards for how oil operations, contracts, and revenues will be managed, South Sudan has set out an encouraging blueprint for oil governance. However, the real test of this new legal framework will be its implementation".

Source: Global Witness, 2013

With regard to the implementation of the EITI requirements, companies of the oil sector are required to disclose information on all payments made to government agencies in connection with their activities. Similarly, the GRSS committed to disclose revenues received in connection with all petroleum activities in South Sudan. However, the legislation relating to transparency in the oil sector has yet to be enforced: a regular reporting process has yet to be established and a robust audit compliance mechanism has yet to be implemented.

Even though the law requires regular reporting and sets out the requirements for the publication of audited financials, it was difficult to obtain disaggregated, complete and updated data. According to the Revenue Watch Institute and as depicted in Table 14, South Sudan scored 17 out of a possible 100 when it relates to the "Reporting Practices" composite and 35 out of a possible 100 for the "Safeguard and Quality Controls" composite. These scores reflect the weakness and lack of capacity of South Sudan's institutions in implementing South Sudan laws.

By establishing a petroleum library at the MPM, the ministry can provide a much-needed resource to support capacity building efforts and solve the prevailing issue of availability and consolidation of data. Most importantly, the availability of readily accessible information will improve transparency, increase understanding of the oil resources and facilitate the promotion of the sector. The objective is to consolidate all relevant materials (laws, regulations, activity reports, geological and geophysical data) and strengthen the ability of the ministries' agents to understand, compile and report accurate petroleum data. The recommendation includes assessing and evaluating appropriate databases, gathering and archiving all relevant documentation, implementing strong control procedures and providing appropriate training relating to archiving techniques and access control procedures.

Table 14: South Sudan's performance on Resource Governance Index

Rank (out of 58)	Country	Resource Measured	Composite Score (out of 100)	Institutional and legal setting	Reporting Practices	Safeguards and Quality Control	Enabling Environment
15	Ghana	Minerals	**63**	79	51	73	59
16	Liberia	Minerals	**62**	83	62	71	31
21	South Africa	Minerals	**56**	69	31	75	72
25	Morocco	Minerals	**53**	48	60	56	42
27	Tanzania	Minerals	**50**	44	48	68	42
30	Botswana	Minerals	**47**	55	28	53	69
32	Gabon	Hydrocarbons	**46**	60	51	39	28
33	Guinea	Minerals	**46**	86	45	43	11
35	Sierra Leone	Minerals	**46**	52	47	59	24
38	Egypt	Hydrocarbons	**43**	40	44	48	40
40	Nigeria	Hydrocarbons	**42**	66	38	53	18
41	Angola	Hydrocarbons	**42**	58	43	52	15
44	Congo (DRC)	Minerals	**39**	56	45	42	6
45	Algeria	Hydrocarbons	**38**	57	41	28	26
46	Mozambique	Hydrocarbons	**37**	58	26	37	37
47	Cameroon	Hydrocarbons	**34**	63	33	25	17
50	**South Sudan**	**Hydrocarbons**	**31**	**80**	**17**	**35**	**8**
55	Libya	Hydrocarbons	**19**	11	29	15	10
56	Equatorial Guinea	Hydrocarbons	**13**	27	14	4	4

Source: Revenue Watch Institute, 2013

Monitoring the compliance of oil companies with their regulatory obligations. South Sudan must ensure compliance of the oil consortiums with their contractual obligations and perform regular auditing of the petroleum costs in order to safeguard the country's oil revenues. Indubitably, the higher the cost recovered by the oil companies, the lower the entitlement of the government. The MPM recognizes that it lacks the resources and capacity to perform its role vis-à-vis the functions of financial monitoring and auditing of petroleum activities.

Deloitte LLP has been providing technical assistance to the MPM through a USAID funding project. The project is aimed at providing support to the MPM's staff in creating a template contract for crude oil, identifying buyers, negotiating and closing crude oil sales contracts. The Deloitte team has further assisted the MPM to develop basic accounting and monitoring capacity such as invoicing and reporting procedures. Further basic training will continue and will include providing an overview of petroleum operations, oil accounting and cost recovery principles and build the capacity in the MPM to monitor the oil contractors' financial activities and crude oil entitlement calculations.

It is clear that the government's capacity to operationalize and implement such function needs strengthening. Despite the assistance provided by Deloitte, and considering the complexity of oil and gas accounting, it is recommended that further assistance be provided, which can be coupled with on the job training or possible secondments of the ministries agents with various organizations (including with the oil consortiums). The technical assistance and proposed training programmes should cover a wide range of subjects, including among others, understanding of the commercial and fiscal terms of the EPSA, oil production and revenues accounting and reporting, auditing techniques and information systems training.

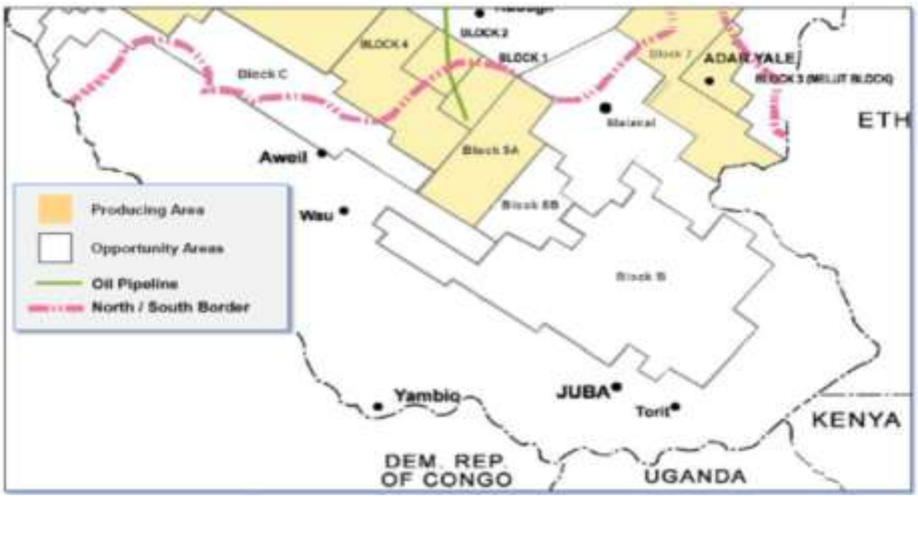
Similarly, both the MPM and the ME recognize that they lack resources to implement an effective technical supervision programme. Regular monitoring of petroleum operations by the GRSS is necessary to ensure the operational effectiveness of oil operators. The scope includes, among others, matters pertaining to drilling, production, metering, safety and protection of the environment. Even though the Petroleum Law designates the MPM as the competent institution to coordinate the monitoring of EIAs, pending the establishment of the SSNEA, the MPM must work jointly with the ME to define and implement suitable monitoring mechanisms of petroleum operations.

What increased oil production entails

The goals of the GRSS's public policy related to the petroleum sector are among others to (1) promote the development of new oil and gas discoveries, (2) assess alternative export routes for its crude oil to mitigate the country's risk exposure to Sudan and (3) improve the recovery of oil from the current producing fields through enhanced oil recovery techniques. To achieve the government's vision, major investments and initiatives are required:

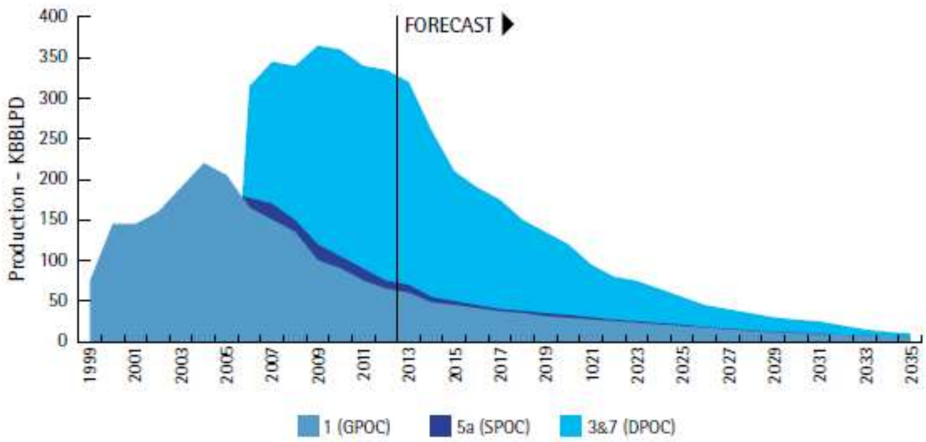
- First, the current transport and customs infrastructures are insufficient to accommodate the level of traffic generated by the oil industry. The solutions to transport delays involve the realization of main transport corridors; road and river transport being usually favoured, airfreight only used sporadically because of its comparatively high costs.
- Second, the current oil production facilities are inappropriate for enhanced oil recovery that the GRSS intends to carry out. Investments in new technologies are required to potentially help offset the natural production decline of current producing fields.
- Third, a better understanding of the resource potential will facilitate the promotion of unexplored basins and development of new discoveries (Figure 39). The GRSS needs to inventory its resources for all basins and analyse geological and geophysical data so that it can correctly determine the size of additional oil and gas fields.
- Finally, the lack of immediately available skilled technical and experienced workers will impose a high ratio of expatriates vs. nationals.

Figure 39: Opportunity areas for oil and gas



As shown in Figure 40 below, production from the current producing fields is forecasted to drastically decline to 100,000 bpd by year 2020, which represents a decline of 70% from its 2011 levels. Production is forecasted to further decline to less than 10,000 bpd by year 2035. The forecast may change when enhanced oil recovery and new exploration programmes are initiated. Despite this conservative forecast, petroleum revenues still have the potential to significantly and positively improve the country's economy by providing revenues for the construction of infrastructure and the provision of public services such as electricity, water, health and education.

Figure 40: Crude oil actual and forecasted production



Source: Global Witness, 2013

Development of local businesses. Oil and gas activities have the potential to provide numerous opportunities to South Sudanese businesses and create jobs in various fields. The draft EPSA requires oil companies to give priority to South Sudanese subcontractors as long as the qualifications, quality of service and goods are comparable. Similarly, the draft EPSA favours the employment and training of South Sudanese. It was noted during the DTIS mission's visit that there are no procedures in place that facilitate the flow of information between the oil companies and local businesses.

Interestingly, downstream activities of the oil sector include the production of local substitutes of imported refined products for domestic and regional markets. However, considerable work is needed to develop the legal framework, set up a quality control mechanism and conduct a feasibility study on the market for petroleum derivatives and associated transport and logistics arrangements.

In the short term, opportunities for local businesses appear to be limited to unskilled, non-technical and low-value-added services such as vehicle rental, camp maintenance, basic IT support, security, cleaning and non-technical recruiting services. Certain capital-intensive opportunities may become available in areas such as land clearing, maintenance of access roads, drilling of water wells or infields logistics. Other opportunities could include supply of non-technical goods such as office supplies, food products, safety products or building equipment.

Despite the apparent lack of local competencies, South Sudanese businesses could take advantage of opportunities in the sector. Aside from matters discussed in the business environment chapter, it is important for the MPM to play its role of intermediary between the oil companies and local businesses. One particular problem is the availability of information. If timely, informed local businesses may be better prepared to exploit these opportunities. The MPM must ensure that oil companies implement transparent procurement procedures that include:

- Fair and transparent vendor prequalification procedures
- Timely and appropriate advertising of upcoming tenders and requests for proposals
- Understanding by local businesses of the tenderer's contracts terms and conditions
- Understanding by local businesses of fiscal incentives provided by the EPSA
- Ability of local businesses to access funding for potential high value contracts
- Ability of local businesses to access training in business organization and management

One effective method for setting transparent procurement procedures involves close collaboration between the oil contractors and the local chamber of commerce. Oil companies can be more effective in informing businesses by publishing upcoming opportunities and attracting qualified organizations they would not otherwise know. Similarly, oil companies must apply fair and transparent recruiting procedures and have a training programme to employ South Sudanese nationals. As a result, the involvement of the ML is crucial to the successful implementation of a suitable and effective recruiting procedure.

Mitigating the migration of workers from traditional activities to the oil industry. The draft Environmental Bill requires oil companies to prepare an EIA that evaluates and defines monitoring procedures in order to mitigate the adverse social and environmental impacts of oil activities. The process of preparing an EIA is lengthy and involves numerous public consultations with all relevant stakeholders, including the communities of the project area. Ultimately, the EIA shall define the mitigation measures that will allow reducing or preventing conflicts in the project areas, as well as monitoring and mitigating instances where people abandon or lessen their traditional activities and migrate to the oil and gas sector.

Focusing on the long-term environmental impact of oil activities. The current petroleum legislation assigns the monitoring of the EIA to the MPM. However, such an undertaking requires close coordination with the ME and the National Environmental Authority once it is established. Typically, the ME has the responsibility to steward the consolidation of environmental data. Both the ME and the MPM do not currently have the necessary resources and capacity to enforce the provisions of the EPSA and the Environmental Bill. The ME needs an environmental management information system which, if combined with ongoing technical assistance and on-the-job training, would allow building and developing the ministries' capacities for conducting technical surveillance of oil and gas activities.

Recommendations

The recommendations are expected to address the following objectives and outcomes:

- Build capacity of the MPM and the MFEP for conducting effective financial audits of the oil operating consortiums
- Build capacity in the MPM and the ME for conducting effective technical inspections of petroleum operations and environmental assessments
- Install and operationalize ICT infrastructure at the MPM and the ME and implement appropriate management information systems coupled with on-the-job training for selected

personnel in order to facilitate and improve the ministries' monitoring and reporting capabilities. On the job training may cover subjects such as change management

- Establish a geoscience database at the MPM and provide on-the-job training on the use of geological, geophysical and other analytical tools and procedures according to international standards
- Establish a petroleum library at the MPM

7.3 Transportation of hydrocarbons: alternatives to Sudan's pipeline

South Sudan's crude oil export pipeline network consists of two main pipelines (Figure 41):

- The Greater Nile Oil Pipeline connecting the Heglig field to Port Sudan. The 28-inch pipeline has a length of 1,610 km and a maximum capacity of 450,000 bpd. South Sudan negotiated to pay a fee to Sudan equivalent to \$11/barrel (bbl).
- The Melut Basin Pipeline (Petrodar) connecting Adar Yale to Port Sudan. The 32-inch pipeline has a length of 1,370 km and a maximum capacity of 500,000 bpd. South Sudan negotiated to pay a fee to Sudan equivalent to \$9.10/barrel.

Figure 41: Key oil infrastructure in Sudan and South Sudan

South Sudan has been exploring alternatives to the existing pipeline to Port Sudan to export its crude oil and has signed several memoranda of understanding (MOUs) with neighbouring countries. The GRSS is considering two potential pipeline routes: (1) a pipeline to the Port of Lamu in Kenya and (2) a pipeline to the Port of Djibouti via Ethiopia.

The pipeline to Port Lamu is currently designed to be 1,260 kilometres long with a size of 48 inches having a maximum capacity of 500,000 bpd of light crude oil. Even though the Lamu pipeline is shown as part of the "LAPSSET Corridor" project,[39] it was reported that the construction of the pipeline could be completed independently of the port development. The cost of the Lamu pipeline taken as a standalone project is estimated at US$ 3 billion.

The construction of an alternative pipeline route would resolve the dependence of South Sudan on Sudan's crude oil export pipeline infrastructure. However, the project (from initiation to completion) would be a lengthy process given that the following considerations remain to be finalized:

- Preparing and approving the social and environmental impact assessments in South Sudan and in the transiting countries, including extensive public consultations
- Completing the feasibility study, defining the pipeline's commercial viability, identifying project financing and obtaining the necessary approvals and permits in South Sudan and in transiting countries
- Negotiating with neighbouring countries the ownership and management of the pipeline in each country, including the determination of the transit fees, the priority rights of crude oil being transported (in case that future crude oil produced in transiting countries or other neighbouring regions use the pipeline) and other commercial provisions (investment incentives, etc.)
- Initiating the procurement phase and selecting the main contractor
- Mobilizing equipment and personnel to begin the construction of the pipeline infrastructure, including blending stations along the pipeline route and terminal facilities

Realistically, the pipeline project could take 3 to 5 years to complete. The environmental and social impact assessment alone may take 18 to 24 months to complete, while the mobilization of equipment may take 24 to 30 months (Box 17).

Box 17: The likelihood of alternative oil pipelines from South Sudan

South Sudan's oil is currently exported via a pipeline to Port Sudan. However, reports that construction of a US$5-6 billion, 2,000 km alternative oil pipeline from South Sudan's oil fields to Port Lamu, Kenya, will start in October 2013 are overly optimistic. On-schedule pipeline construction is *unlikely* given:

- Outstanding feasibility studies and environmental assessments still require consideration, evaluation and review
- Project financing is yet to be identified
- Further intergovernmental agreements are incomplete
- Another route to the Port of Djibouti remains on the table.

Source: Open Briefing, Intelligence Brief, 5 June 2013.

[39] It was reported that the feasibility study of the LAPSSET (Lamu Port-South Sudan-Ethiopia) corridor project included the Juba-Lamu pipeline as one of the project components.

Until an alternative pipeline is built, South Sudan will continue to rely on access to Sudan's pipeline to export its crude oil. As an alternative to exporting via pipeline, the GRSS contemplated the possibility to truck its crude oil to the port of Djibouti. However, such an option is atypical and cannot be justified taking into account the significant production volumes, the lack of transport and storage infrastructure and the underlying environmental and security risks.

The Cooperation Agreement between South Sudan and Sudan has set the total transportation fees at US$9.10/bbl and US$11/bbl for the Dar blend and the Nile blend respectively (Table 15). The average transportation tariff paid to South Sudan is broadly comparable to the tariff charged for pipelines of similar length and capacity. As an example, the transportation tariff for the 1,070 km Chad/Cameroon pipeline is estimated to be between US$7 and US$9 per barrel.

Table 14: South Sudan's pipeline network

	Petrodar* (DPOC)	**GNPOC***	**SPOC**
Start	Block 3 & 7	Heglig	Block 5A
Length (Approx.)	1,3700 km	1,610 km	96 km
Maximum Capacity	500,000 bbls	450,000 bbls	200, 000 bbls
Size	32 inch	28 inch	24 inch
Blend	Dar	Nile	Nile
Destination	Port Sudan (Bashayer Marine Terminal 2)	Port Sudan (Bashayer Marine Terminal 1)	To Heglig Facilities
Sudan and South Sudan Agreement on Pipeline Fees			
Transportation Tariff	$6.50	$8.40	N/A
Transit Fee	S1	S1	N/A
Processing Fees	$1.60	$1.60	N/A
Total Tariff per barrel	**$9.10**	**$11**	**N/A**

Source: Tariff, The Republic of South Sudan, Press Statement, 4 August 2012

Recommendations

With the understanding that the preliminary feasibility studies were completed,[40] the main recommendation is expected to address the following objectives:

- Continue efforts to increase crude oil production in order to justify the construction of the new pipeline
- Continue implementation of the feasibility study given the timeline of such an endeavour

7.4 Strengthening the supply of petroleum derivatives

Current demand for heavy fuel oil, diesel, and gasoline is estimated at around 30 million litres per month, diesel constituting the principal source of energy. With the development of infrastructure, the importance of the downstream sector will increase. Demand for diesel and gasoline will continue

[40] The MPM reported that ILF Engineers was undertaking the pipeline feasibility studies, which was to be available in the summer of 2013.

to grow, especially in the electricity and the transport sectors. LPG's usage is insignificant, accounting for less than 1% as a source of energy for cooking. According to the National Baseline Household Survey, 96% of the population uses firewood or charcoal as the primary source of energy for cooking. More than 50% of the population uses firewood as the primary source of energy for lighting; 27% of the population has no access to any lighting sources; and approximately 1% of the population has access to grid electricity (Table 16).

South Sudan imports all of its petroleum derivatives needs from Kenya but has plans to develop its own infrastructure to produce derivatives locally.

Table 16: Usage of modern fuel in South Sudan

	All households	Richest households
Sudan (2009)	36.1	64.9
Kenya (2003)	3.45	16.52
Nigeria (2003)	1.19	5.51
Uganda (2001)	0.87	4.34
Ethiopia (2005)	0.31	1.48
South Sudan (2009)	0.3	0.8
Tanzania (2005)	0.24	1.22

Source: DHS various years and World Bank 2010a

Current state of the downstream oil sector

The construction of two topping plants is in the pipeline, with a total capacity of 10,000 bpd to respond to the domestic growing diesel demand. The GRSS plans to complete the construction and commissioning of the Bentiu refinery (Unity State) in the third quarter of 2013. Similarly, it plans to complete the Tangrial refinery in the Melut area (Upper Nile State) around the third quarter of 2014. However, the ongoing conflict that started in December 2013 may cause delays in the completion of these projects. Both refineries will only produce diesel and heavy oil, noting that heavy oil is not currently used in South Sudan. Discussions with the MPM indicate that the surplus production is destined to the export to Uganda and Ethiopia. It is unclear if the MPM has assessed the market demand and the much-needed transport infrastructure to export heavy oil to Uganda and Ethiopia.

Although the assembly of the topping plants is relatively simple, the GRSS must address the following challenges to ensure seamless performance of the downstream sector:

- Drafting and enacting a downstream law and regulations that govern the sector

- Setting effective control mechanisms to ensure enforcement of the downstream law and regulations once enacted
- Redefining the economics of the refineries as they relate to the supply of crude oil to the refineries and evaluate the impact of the crude oil entitlements of the GRSS
- Assessing the transportation and storage requirements and outlining the immediate actions in order to facilitate an uninterrupted supply across the country. In the short term, the option for river transport may be more favourable. However, the GRSS still needs to review the regulations surrounding such an undertaking as well as invest in proper river transport infrastructure and capacities
- Defining the pricing structure of petroleum derivatives to ensure the commercial viability of the projects and ensure their competitiveness versus imported petroleum by-products.
- Evaluating the export markets in neighbouring countries and outlining actions to be taken

The GRSS is seriously considering the construction of three additional refineries. Contrary to the first topping plants that will only produce diesel and heavy oil, the proposed refineries will produce a more complete range of petroleum derivatives such as petrol, Jet A1 and LPG. It is not clear that South Sudan needs five refineries; the GRSS must be cautious in fast tracking such projects without taking into account the full economic considerations and assessing the long-term domestic demand and the potential export market for surplus volumes (see Table 17).

Table 17: Refining capacity in East Africa

Country	Refinery	Type	Status	Category of product	Capacity (bpd)
Kenya	Mombasa			LPG, diesel, fuel oil, bitumen and grease	80,000
Sudan	Khartoum	Refinery	Actual		100,000
	Port Sudan	Refinery	Actual		21,700
	El Obeid	Topping plant	Actual		10,000
	Shajirah	Topping plant	Actual		10,000
	Abu Gabra	Topping plant	Actual		2,000
	Port Sudan	Refinery	Proposed		100,000
	Khartoum	Expansion	Proposed		100,000
South Sudan	Bentiu	Refinery	Planned	Diesel, fuel oil	5,000
	Tangrial	Refinery	Planned	Diesel, fuel oil	10,000

Source: EIA, Sudan and South Sudan Country Profile, 2013

Obstacles to the development of the downstream sector

As South Sudan is preparing to commission its first refinery, the GRSS's priority should be to establish the legal framework of the sector, which will include regulations governing the refining, storage, transportation, distribution, commercialization as well as import and export activities.

The lack of adequate transport, storage[41] and distribution infrastructure is a major constraint to the uninterrupted distribution of petroleum by-products.

Illegal, unrecorded or informal trade along the southern border will constitute a major obstacle to the development of the downstream sector. In particular, the GRSS should evaluate and set appropriate mechanisms to prevent product shortages, production shutdowns and misuse of potential subsidies.

Formulating standards for petroleum by-products and establishing quality control laboratories

It is important for the GRSS to formulate national standards for petroleum derivatives as well as to define inspection mechanisms by relevant stakeholders (the MPM, Nilepet, and ME). The standards will set the framework for the safe commercialization of petroleum derivatives originating from South Sudan and, in the interim, for petroleum by-products currently imported from Kenya.

The regulations of the downstream sector must address the following:

- Formulating national standards and certification of petroleum derivatives according to international standards, focusing on the main derivative products currently used in South Sudan (or that could potentially be used in the medium term) to include diesel, petrol, LPG, Jet A1, asphalt and lubricants.
- Establishing quality control laboratories in Juba and at major border points to control both imported and exported petroleum derivative
- Encouraging the development of the private sector in the performance of quality control and certifications activities
- Defining the functions of the different public stakeholders (MPM, ME, Standards Authority, Nilepet) as they relate to the downstream oil sector and avoid duplication and conflicts
- Developing the capacity of selected public and private institutions to provide quality control, testing and inspection services at different stages of the value chain.

This recommendation must incorporate the establishment of laboratories at border entry points and as well as in urban areas, at least initially in Juba. The SSNBS can benefit from ongoing technical assistance to help formulate the standards, establish suitable verification procedures and operationalize the inspection activities in coordination with the MPM and the ME.

South Sudan can benefit from the use of LPG in developing its fisheries sector. As discussed in the section on fisheries and livestock in Chapter VI, one of the main problems in the fisheries sector is the lack of adequate cold storage facilities to safely store and transport fresh produce to markets.

[41] The design of the Bentiu and Tangrial refineries only incorporates three days of storage capacity. Any disruptions in emptying the tanks may result in unplanned production shutdowns.

Similarly, LPG and solar energy can provide energy for lighting and cooking, which will reduce considerably the consumption of fuelwood and charcoal.

Recommendations

The recommendations are expected to address the following objectives and outcomes:

- Enact the legal framework of the downstream oil sector
- Formulate the national standards for petroleum and define the certification procedures according to international standards
- Establish quality control laboratories at border entry points and in major urban areas (at least in Juba), provide inspections tools, develop and implement effective inspection procedures
- Build capacity in the MPM, the ME and the Standards Authority for performing effective quality control and certification of petroleum derivatives
- Build capacity in the MPM and the ME for conducting systematic environmental assessments and safety inspections in the downstream oil sector
- Initiate programmes that encourage the use of LPG as a substitute of fuelwood and charcoal
- Initiate a pilot programme for the use of LPG in the fisheries sector, possibly in conjunction with solar power, and evaluate potential microfinance mechanisms to facilitate access. LPG is widely used as an energy source to power fishing boats and as an energy source for small-scale refrigeration units, facilitating the transport and storage of fish.

7.5 Monetization of natural gas: Small scale electricity generation, an alternative to gas flaring

The natural gas industry in South Sudan is not currently developed and would require significant efforts and investments in order the capture its full potential. Natural gas potential lies in electricity generation and in liquefied natural gas or LNG. Despite being aware that all volumes of associated gas are currently flared, it was not possible to gather reliable data from the MPM and the ME. It was however reported that the unified Sudan has 3.5 billion cubic feet of natural gas reserves (see Box 18).

> **Box 18: Flaring of natural gas in Sudan**
>
> " ..In 2010, the unified Sudan flared approximately 11.8 billion cubic feet of natural gas, according to the latest data from the National Oceanic and Atmospheric Administration (NOAA), which represents about 0.2 percent of the total gas flared globally."
>
> **Source:** EIA, Sudan and South Sudan report, 09/ 2013

As energy demand continues to increase in South Sudan, the monetization of natural gas resources is an important element in the development of the electricity sector. Electricity generated using natural gas can significantly reduce the cost electricity compared to that using thermal power as an energy source. As analysed in the energy section, reducing the cost of electricity can drastically reduce the cost of doing business and can trigger the development of small businesses and industries. In addition to being affordable, natural gas generates fewer emissions than thermal electricity. Traditionally, a natural gas fired power plant costs between two to three million US$ per kWh.

Recommendations

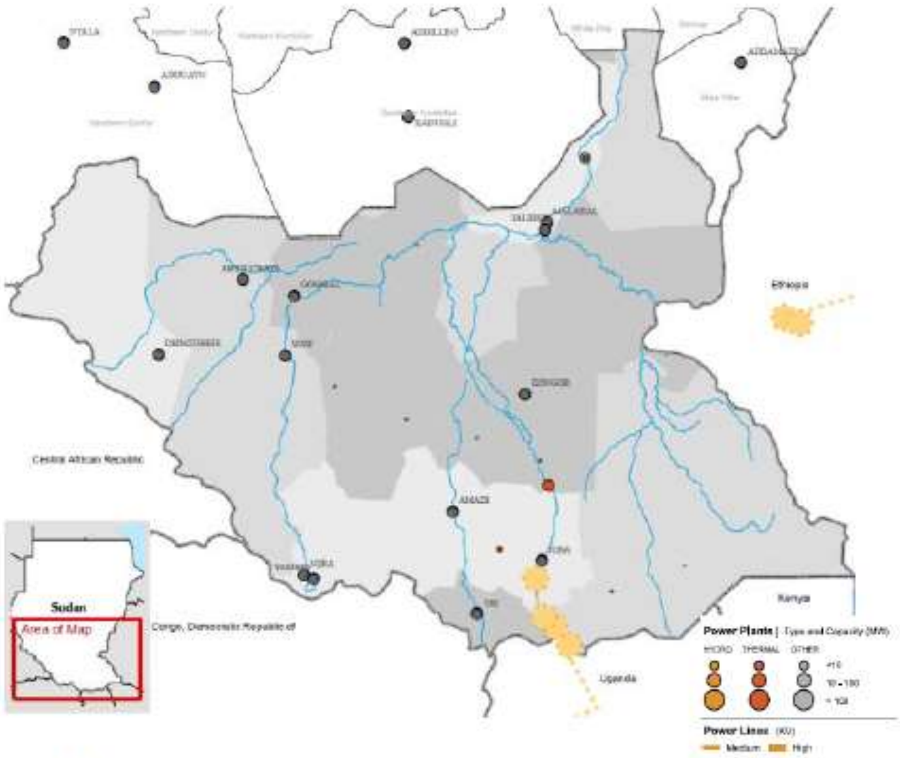
The recommendations are expected to address the following objectives and outcomes:

- Build capacity in the MPM and the ME for monitoring the flaring of natural gas. This recommendation may be included in the "Capacity building of the MPM and the ME to conduct effective technical oversight in the upstream oil sector".
- Support the GRSS in its effort to appraise and ascertain its natural gas reserves. This recommendation may be connected to "Establishing a geoscience database at the MPM".
- Initiate feasibility studies for low-scale electricity generation using natural gas as source of energy. This recommendation is related to the previous recommendation above and the two recommendations should be coordinated during implementation.

7.6 Electricity

South Sudan has an installed electricity generation capacity of 25 MW in three decentralized generation networks (Juba, Malakal and Wau), which translates into approximately 3 MW per million people (see Table 15 above) or around 1% electrification rate. The rapidly rising energy demand in South Sudan creates an urgent need for improvements in the country's energy policy, electricity generation performance and reliability. The lack of adequate transportation, electricity and ICT infrastructure (Figure 42) hinders the growth of businesses and industries. Electricity is the single largest impediment to business productivity and competitiveness in Africa but especially in South Sudan. Provision of electricity services is a prerequisite for development and for enhancing the quality of life.

Figure 42: Power infrastructure in South Sudan



Source: AICD.

One hundred percent of businesses and 87 percent of businesses in Malakal and Juba respectively report that electricity is the largest obstacle to their business. Generators supply as much as 93 percent of the total power consumption in Juba. Approximately 83 percent of businesses in Juba own or share generators to combat erratic power supply.

The GRSS's public policy goals related to the electricity sector can be summarized as follows:

- Increasing the number of customers connected to the grid from the 22,000[42] to 48,000 by 2013
- Increasing the thermal generation capacity from 25 MW to 96 MW by 2013
- Initiating mini and large hydropower projects, and increasing the total generation capacity to 4,000 MW by 2017
- Interconnecting to neighbouring power networks and integrating the Eastern Africa Power Pool (EAPP)

In 2011, the electricity generation cost averaged US$0.70 per kWh and the tariff averaged $0.25 per kWh, one of the highest electricity tariffs in Africa. The GRSS subsidized the resulting operational losses of US$ 0.54/kWh. As energy demand increases and systemic inefficiencies persist, the burden on the GRSS budget will increase considerably. The reliance on expensive imported diesel from Kenya translates into a high production cost per kilowatt-hour. Technical losses average 40% of generated power and commercial losses (i.e. losses of revenues) average 50% of revenues.

The AfDB is currently reviewing the Juba Power Distribution System Rehabilitation and Expansion (PDSRE) Project. The objective of the Juba PDSRE is to increase the supply capacity and the reliability of the power distribution system in Juba and includes:

- Construction of medium voltage network
- A 33 kV medium voltage line and a 33/0.415 kV transformer station
- Construction of low voltage network
- A 415/240 volt line, service connection and street lighting
- Project management, engineering and audit services

Table 18 shows the current coverage of electricity in urban and rural areas as well as the distribution of other sources of power in South Sudan.

Table 18: Electricity coverage

	Electricity	Gas	Generators	Solar Power	Traditional Fuel	No lighting
Overall	1.2	0.1	1.8	0.9	68.8	26.9
Urban	7.1	0.3	9.6	2.5	63.6	16.9
Rural	0.2	0.4	0.4	0.5	69.8	28.7

Source: Southern Sudan Centre for Census, Statistics and Evaluation, 2010

[42] Only 22,000 or less than 1% of the population had access to grid electricity in 2010, all based in Juba, Malakal and Wau.

Expansion of electricity infrastructure

South Sudan has abundant resources that have the potential to generate electricity, including hydropower, gas fired, thermal, solar, biomass, wind and geothermal generation:

**Hydropower generation*. The hydropower potential in South Sudan is significant and the GRSS has plans to capitalize on its hydropower resources. The potential hydropower capacity has, however, not been completely assessed. Four large-scale hydropower projects are in the pipeline for a total generation capacity of 2,105 MW (Table 19). In addition, it was reported that the GRSS has completed feasibility and design studies for eight small hydroelectric plants, ranging from three to 11 MW of generation capacity.

Table 19: South Sudan's proposed main large-scale hydropower projects

Dam (Hydropower project)	Fula	Shukoli	Lakki	Bedden
Potential Installed Capacity (MW)	890	230	410	570
Location	33 km downstream of Uganda border	46 km downstream of Uganda border	77 km downstream of Uganda border	136 km downstream of Uganda border
	spillway of 135 M with 11 gates and Vertical Francis Turbines	spillway with 12 gates and Vertical Francis Turbines	spillway with 12 gates and Vertical Kaplan Turbines	12 gates and Vertical Kaplan Turbines
Dam Height (M)	60	75	45	42
Dam Length (M)	760	500	385	2775
Lead Time (Years)	5	5	5	5
Estimated Cost				US$1.5 billion

Source: Data from SSEC, SMEC and World Bank estimates

**Gas fired electricity generation.* Appraisal of natural gas resources may lead to justifying small-scale electricity generation projects, and could result in a significant decrease in the cost of electricity. Because of its characteristics, natural gas is considered clean energy and reduces the impact on the environment because it generates fewer emissions than that of diesel and heavy oil.

**Thermal generation.* The construction of refineries in South Sudan opens the potential to increase thermal generation capacity in the country. It is important to note that diesel and heavy oil are not traditionally favoured because they generate more emissions and cause more harm to the environment compared to all the other alternatives combined. As such, the GRSS must exercise caution in defining thermal generation in the mix of energy sources.

- *Solar Generation.* Solar energy has excellent prospects in South Sudan as South Sudan records sufficient sunshine hours to justify small- to medium-scale solar power projects (see Box 19).
- *Biomass, wind and geothermal*. There is a need to assess the potential of the country's biomass, wind and geothermal resources in order to ascertain the feasibility of power generation. There is currently limited data available to perform a preliminary analysis.

Box 19: Lighting Africa Programme

" ..The incorporation of South Sudan into the Lighting Africa programme deserves consideration as a practical short-term solution to the country's energy challenges. Lighting Africa is a joint International Finance Corporation (IFC) and World Bank programme to accelerate the development of commercial off-grid lighting markets in Sub-Saharan Africa. The programme aims to mobilize the private sector to build sustainable markets to provide 2.5 million people with safe, affordable, and modern off-grid lighting by 2012 through a variety of tailor-made products, many of them in the form of PV [photovoltaic] solar lanterns."

Source: World Bank, 2011

The South Sudan Electricity Master Plan

The development of the energy sector is a key priority of the GRSS. A rough initial estimate is that approximately 450 MW are needed to meet current electricity demand. The determination of South Sudan's energy strategy must take into account several factors:

- The sustainable availability of energy sources to include fossil fuels, hydropower, solar, wind power, geothermal and biomass
- The cost and lead-time factor of building and exploiting infrastructures for each type of energy source
- Country demography and remoteness of the communities
- The impact on the environment
- The harmonization of the South Sudan Master Plan with the EAPP Master Plan.

Encouraging the participation of the private sector in the power sector

The GRSS encourages the participation of the private sector in the power industry. IPPs and other non-governmental entities such as cooperatives can obtain licenses to develop, finance, and operate distributed electric generation systems.

As previously noted, the draft Electricity Bill provides a framework for private operators to participate in the development and operation of the electricity industry. Private operators have various investments options: (1) sale of power to the SSEC subject to off-take agreements (OTAs) and PPAs; (2) sale of power directly to large commercial and industrial customers; and (3) establishment of joint ventures with the state distribution companies to sell power directly to residential end-customers[43].

In addition, the Electricity Corporation Act allows the SSEC to purchase electricity from independent power producers, transforming it and transmitting it for sale to electricity distributors. The upward revision of electricity tariffs to cost recovery levels by the independent regulator (which will be established once the Electricity Bill is enacted) is necessary reduce the fiscal burden on the GRSS.

Integration in the Eastern Africa Power Pool

The EAPP was established with a vision to develop a regional power pool and facilitate regional integration. Tapping into the EAPP presents a great opportunity for the GRSS to participate in the regional electricity market. The primary objective of EAPP is to secure affordable, sustainable, and reliable electricity available to its members. Member states of the EAPP include Burundi, the Democratic Republic of Congo, Egypt, Ethiopia, Kenya, Libya, Rwanda, Sudan and Tanzania. Potential new members are Uganda, Somalia, Eritrea, Djibouti and South Sudan.

South Sudan plans to participate in the regional electricity trade via an interconnection with its neighbours, Ethiopia, Uganda and Sudan. Accordingly, the GRSS has signed several MOUs as follow:

The Ethiopia-South Sudan Power Interconnector. The project consists of construction of: (1) a 230 kV transmission line, 335 kilometres from Gambela in Ethiopia to Malakal in South Sudan (Phase I), and (2) a 500 kV transmission line from the Dedesa substation in Ethiopia to Tepi and subsequently a 700 kilometres transmission line from Tepi to South Sudan Border and to Juba (Phase II). The technical and economic feasibility studies and the environmental and social impact assessment studies remain to be completed.

The Uganda-South Sudan Power Interconnector. The project consists of construction of: (1) 220kV 360 kilometres transmission line from Karuma HPP via Nimule in Uganda to Juba in South Sudan, and (2) related substations. The technical and economic feasibility studies and the environmental and social impact assessment studies remain to be completed. The AfDB will finance the feasibility studies.

The Sudan-South Sudan Interconnector. The SSDP describes plans to import 140 MW of power from Sudan via a 220 kV interconnector line.

Recommendations

The recommendations are expected to address the following objectives and outcomes:

- Enact the Electricity Bill including the regulations that govern the role of the private sector
- Develop an Energy Master Plan for South Sudan
- Build capacity in the SSEC for conducting systematic audit assessments, quality control and maintenance operations of the existing power infrastructure. Regular maintenance and operational audits may significantly reduce technical losses from their current 30% average.

[43] Ideal for isolated mini-hydropower, biomass and solar projects.

- Build capacity in the SSEC for conducting systematic revenue collection with the objective to improve the profitability of public utilities. The collection of revenues and eliminating illegal connections to the grid may significantly improve the collection rate of 50%.
- Introduce a programme for the promotion of renewable energies to supplement conventional power sources and encourage the use of energy efficient technologies.
- Initiate discussions with current oil consortiums for the monetization of natural gas.

REFERENCES

African Development Bank (2013). Juba Power Distribution System Rehabilitation and Expansion Project, Environmental Impact Assessment Summary.

Eastern Africa Power Pool and East African Community (2011). Regional Power System Master Plan and Grid Code Study.

Global Witness (2011). Crude calculations: the continued lack of transparency over oil in South Sudan

Ministry of Petroleum and Mining (2012). Transitional Agreement: Greater Nile Petroleum Operated Company Ltd, Blocks 1 and 2.

Ministry of Petroleum and Mining (2012). Transitional Agreement: Petrodar Operating Company Ltd, Blocks 3 and 7.

Ministry of Petroleum and Mining (2012). MPM Marketing Report July 2011-Januray 2012.

Revenue Watch Institute (2013). The 2013 Resource Governance Index. A Measure of Transparency and Accountability in the Oil, Gas and Mining Sector.

UNDP- Republic of South Sudan (2013). Sustainable Energy for All. Rapid Situation Assessment and Gap Analysis Report.

USAID (2011). Strengthening Institutional Structures in South Sudan, FY 2011 Annual Progress Report.

World Bank (2011). South Sudan’s Infrastructure. A continental Perspective. Policy Research Working Paper.

World Bank (2009). Sudan: The Road toward Sustainable and Broad-based Growth. Washington, D.C.

World Bank (2013). Electricity sector strategy for South Sudan,1 April 2013.

CHAPTER VIII – THE MINING SECTOR IN SOUTH SUDAN

8.1 Introduction

The Government of South Sudan has identified mining sector development as a priority in its efforts to diversify the economy away from the present dependence on oil. At the moment, however, there is no formal mining in South Sudan and investments in exploration have thus far been modest. The South Sudanese authorities need to be prepared to foster and manage mining sector development, which in some important ways is rather different from the oil sector to which the country is accustomed to (see Box 20).

Box 20: The oil and the mining sector - a brief comparison

The oil and mining industries, collectively known as the "extractive" industries, have similarities but also distinct differences that make the drawing of parallels and exchange of experiences problematic.

Similarities include the dependence on geology, the large up-front term investments needed to achieve and maintain production, and overall low labour intensity in the larger projects.

Important distinctions exist in the success rate of exploration. For oil, when a basin is identified, 1 well out of every 10 proves to be economic; for mines, only a fraction of one percent of all exploration projects will become a mine.

Mining and exploration companies usually do not compete to acquire exploration permits (e.g. bid for), and that production sharing agreements are not readily applied to mining.

The commodities sought in mining are numerous, and the legal regimes that govern how this should be done vary from mineral to mineral. For example, the more precious mining commodities (such as metals) as well as coal are usually controlled by the state, whereas industrial minerals (limestone, gravel) are often controlled and owned by the landowner.

Although smaller producing companies exist in the oil industry, the mining sector in many developing countries is still dominated by "Artisanal and Small scale Miners (ASM)", that use basic or even primitive technologies.

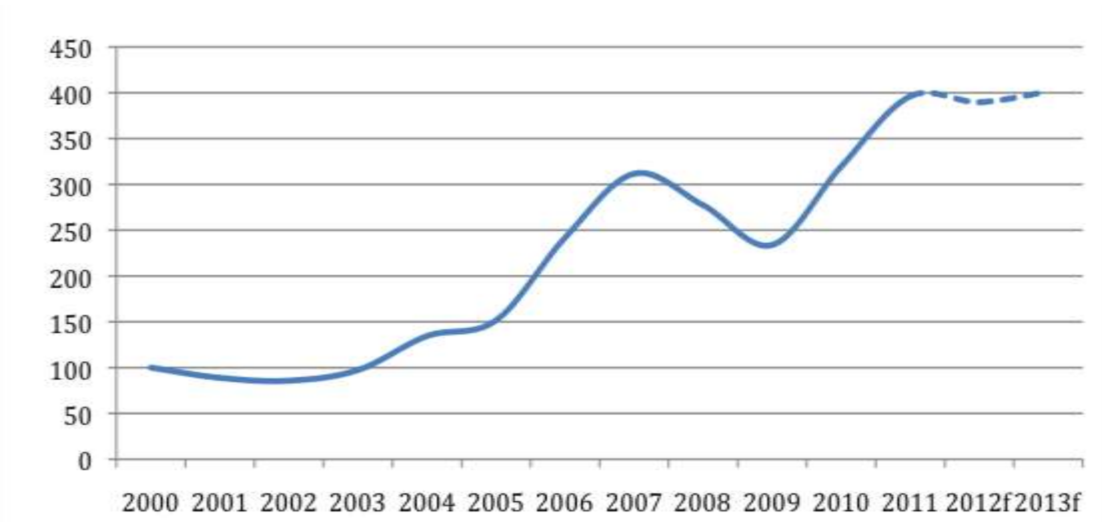
The mining sector may be divided into three main subsectors: (i) metals and precious minerals mining; (ii) coal mining; and (iii) industrial minerals mining. Coal mining has an economic worth that is on par with all metals and precious minerals mining combined. Industrial minerals mining (mainly quarrying) is sometimes overlooked, when the mining sector is being considered in spite of it being a subsector which is vital for the functioning of society, and which has a considerable economic value.

Large scale, formal mining projects require a substantial amount of time to be initiated, developed and commissioned. The time from discovery of a top mine to production commonly takes 7-8 years. The management of the sector needs to have a similarly long-term view. The development of mining for industrial minerals (such as limestone mining used for cement production) may, however, be achieved in shorter periods of time.

The requirements for the development of a mine vary depending on the commodity in question. High bulk commodities such as iron ore and coal are crucially dependent upon the availability of infrastructure for transport (railroads, harbours), and other supporting industries and activities (often referred to as “linkages”). Conversely, mines for low bulk commodities (e.g. gold and diamonds) may be initiated with a comparatively lesser need for associated linkages and infrastructure.

Mining is a cyclical business, with commodity prices varying in what is sometimes referred to as “super cycles”, which in turn may span over one or several decades. Thus, the decade preceding 2005 (and the rise of demand from China) was characterised by low commodity prices, and limited exploration. In contrast, since 2005 the world has seen a boom in the mining sector, fuelled to a great extent by Chinese demand. Since 2011, we have witnessed a slowing down of activity and decrease in commodity prices (Figure 43). This cyclical character of the sector imposes particular challenges for the management of the sector which policy makers need to keep in mind.

Figure 43: Variations in “metal price index” since 2000 (with 2000 given an index of 100).



Source: Raw Materials Group, Stockholm 2012.

The mining sector holds substantial prospects for fostering development and economic growth. The sector is, however, also associated with a number of less desirable characteristics such as environmental impacts, socio-economic unrest, land-use conflict, and financial instability (e.g. Dutch disease effects). Measures are needed to address these problem areas, such as the development of a suitable regulatory regime, as well as the building of institutional capacity to implement such a regime.

Metals and precious minerals mining are in places associated with conflicts and unrest. Notable cases include diamonds in West Africa, Central African Republic and Angola; gold and columbite-tantalite in the eastern DRC, and gold in Darfur. A number of initiatives have been taken to monitor trade in such “conflict minerals”, including the Kimberley process for diamonds, and stipulations in the US “Dodd Frank Act” (section 1502)[44] which is concerned with cassiterite, columbite-tantalite, gold and wolframite.

---

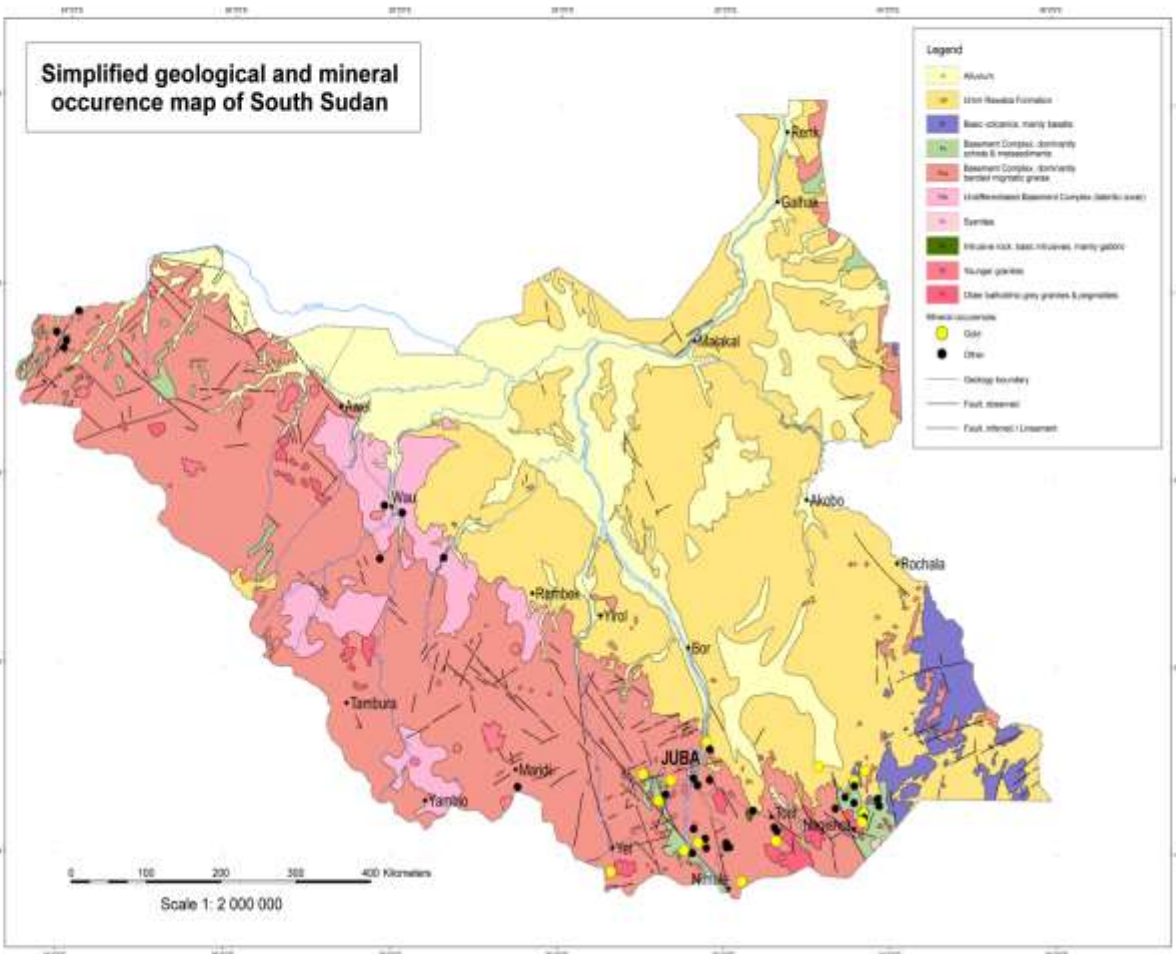
[44] The following countries are considered in Dodd–Frank Section 1502: Democratic Republic of Congo, Central Africa Republic , South Sudan, Zambia, Angola, The Republic of the Congo, Tanzania, Burundi, Rwanda and Uganda

8.2 Assessment of South Sudan's mining potential

Geology

The geology of South Sudan (Figure 44) is still poorly known, due to: (i) the fact that no significant mineral deposits were found in early times of colonisation, which meant that comparatively little interest has been paid to the country's mineral resources thereafter; (ii) the prolonged conflict that the country has experienced has hindered both scientific work, as well as commercial exploration ventures.

Figure 44: Overview of the geology of South Sudan.



Note that large areas in the south and west is covered by old Archean geology (pink); such old geology is known to be prospective for metals and precious minerals mining.

The geology of South Sudan is described in work done in the 1970s (Whiteman, 1971, Vail, 1978). The geology of the country can be divided into three main categories, based on ages and types of rocks: (i) Some 40 percent of the country is believed to be covered by Archaean basement (older than 2.5 billion years), which forms part of the Congo craton; (ii) Less than 10 percent of the country is covered by rocks belonging to the Arabian-Nubian Shield (Neoproterozoic; 1,000 to 541 million years). The Arabian-Nubian shield from the basement in portions of the eastern part of the country, and in the south east are covered by recent rift valley volcanics of the Ethiopian Plateau. The Arabian-Nubian shield is a so called accretionary terrane which forms the basement of large parts of the horn of Africa and the Arabian Peninsula; (iii) The larger part of South Sudan is occupied by sedimentary rocks of Cretaceous to Eocene age (145 to 34 million years, which host the oil and gas reserves) and a cover of Tertiary to recent sediments which have been deposited in swamps, river valleys and inland deltas.

The Archaean and to some extent also the Neoproterozoic rocks are the most important geological environment for the prospectivity of metallic minerals. These older types of geology host a number of known mineral occurrences in South Sudan:

- Most notably are gold deposits in so called greenstone or greenstone like areas[45,] and related gold deposits. In South Sudan, such occurrences are known from previous geological works (e.g. IGS & Uranerzbergbau, 1977; Hunting Geology and Geophysics, 1980; Civetta et al., 1981; c.f. Figure 43). The prospects identified in these surveys have subsequently attracted exploration activities in later years, mainly in the south and southeast of the country.
- The copper deposits at Hofrat en Nahas, in the far northwest, near the border to Sudan, were mined in a small scale in historic times, and this area was explored in a rather serious manner by the Billiton (now BHPBilliton) in the late 1990s.
- Other mineral occurrences that have been documented from previous work in these geological terrains include zinc, iron, and uranium. These occurrences have however seen little exploration activity and it is not possible to make a meaningful assessment of their potential at this time.

Regional experiences of mining

The countries neighbouring South Sudan are increasingly seen as being prospective for mining, especially with regards to gold, and a number of substantial gold mines have been – or are being - developed in neighbouring countries with geological terrains that may also be present in South Sudan:

- In the DRC, some 130 km southwest of the border with South Sudan (Central Equatoria), the Kibali gold mine (which is a joint venture between Randgold, AngloGold Ashanti, and the Congolese parastatal Sokimo) is due to soon be commissioned. The mine is one of the largest gold mining projects in the world, and it will produce 600,000 oz. of gold annually, worth about US$840 million at current gold price during an estimated lifetime of 17 years. This mine is being developed around the old Durba mine, in the Kilo-Moto greenstone belt, which is an area which saw extensive gold mining during colonial times.
- In Ethiopia, the Lega Dembi gold mine is located at 400 km from the South Sudanese border (Eastern Equatoria). This mine produced 113,000 oz. in 2012 (worth approximately US$160 million). Also in Ethiopia, the Tulu Kapi project, situated some 150 km north east of the South Sudanese border (Jonglei) has an "Inferred Mineral Resource" containing 1.87 million oz. of gold.

[45] Greenstone belts may host a variety of minerals deposits, especially gold, and they are thought to have been formed along the margins of Archaean cratons (3200 – 2500 million years). They consist of a mix of metamorphosed mafic to ultramafic volcanic sequences with associated sedimentary rocks. The name greenstone comes from the green hue of some of the metamorphic minerals present.

- In Sudan, 800 km north of the South Sudanese border we find the 20-year-old Hassai gold mine, which is operated by La Mancha and it has so far produced 2.3 million oz. of gold.
- In Eritrea, at 800 km from South Sudan, we find the Bisha copper-gold mine, which has lately produced 100,000 oz. of gold annually.

Apart from gold, there are also other commodities being mined in formal, larger operations in neighbouring countries, the most notable being:

- In Ethiopia, some 400 km from the South Sudanese border (Eastern Equatoria), the Kenticha tantalum[46] mine is considered one of the largest deposits of this kind in the world.
- Located near Bakouma in the Central African Republic, about 500 km from the South Sudanese border (Western Equatoria), we find the Bakouma uranium mine, which is controlled by Areva (the operation is at present suspended due to security concerns).
- In Uganda and Ethiopia, the cement industries of these two countries rely on the mining of limestone deposits. The seven main cement factories in Ethiopia, situated in the central parts of the country, produce close to 10 Mt of cement annually. In Uganda, two plants produce nearly 2 Mt cement annually and one of the Ugandan operations relies in part on the quarrying of limestone in the Moroto district of the Karamoja region, some 100 km south of the South Sudanese border (Eastern Equatoria).

Extensive artisanal and small-scale mining (ASM) activities involving many hundreds of thousands of people are also present in countries neighbouring South Sudan, including:

- ASM activities targeting gold in Ethiopia, the DRC and in Sudan. Available estimates of how many people are involved and how much gold is produced often appear exaggerated (see Box 19) but available reports suggest that: (i) in Ethiopia, up to 300,000 miners sold nearly 300,000 oz. of gold to the National Bank in 2012; (ii) in Sudan, several hundreds of thousands ASM miners were reported to be present in the Blue Nile state (just North of Jonglei), in north Darfur and in River Nile state.

- Extensive ASM alluvial diamond mining, involving up to an 80,000-100,000 informal miners in the Mambere-Lobaye and Kotto river basins in the Central African Republic. The production is about 300-400,000 carats /year, and the value is reported to be in the region of US$50 million (the high average carat value of some US$125-170 is a result of the high quality of these alluvial diamonds).

- In Ethiopia there is extensive ASM mining for semi-precious stones of different types (opal, garnet, emerald, beryl, tourmaline etc.). The most important gem in terms of value is opal, which is being mined in an area northeast of Addis Ababa. Most of the other types of gems are found in the Precambrian terrains in the south of the country.

ASM activities in South Sudan are not well documented but anecdotal information suggests that ASM is a source of income for many people, especially at the grassroots level (see Box 21 and Figure 45).

---

[46] Tantalum is a metal which has minor but important uses in alloys present in electronic equipment.

Box 21: How many artisanal and small scale (ASM) gold miners are there?

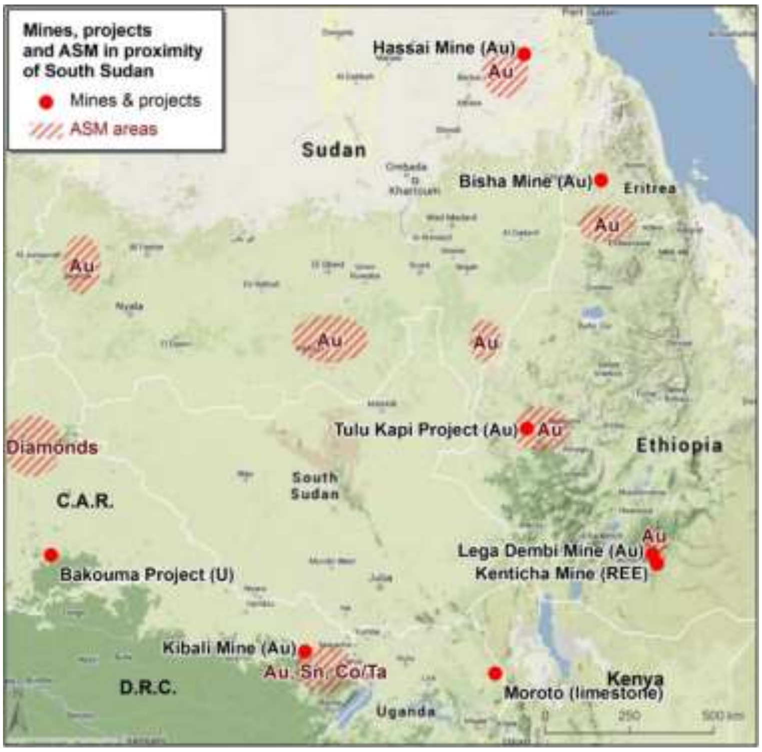
Estimates of the number of people involved in ASM often provide large numbers but these are generally not based on reliable census work.

If a country has both a formal and an informal gold sector, then the difference between the official production by companies, and the total gold produced, is used to estimate the number of artisanal miners. An often used method to estimate the number of ASM miners is based on the supposition that a typical artisanal gold miner produces 0.5-1g gold per day. If a miner works 200 days / year then 1kg gold produced corresponds to 5-10 miners.

For example, in 2009 in Tanzania, total gold produced was about 40 tons, of which 36 tons derived from formal mines. If the "missing" 4 tons are apportioned to ASM activities, then this corresponds to 20-40,000 miners.

Problems and uncertainties with these types of estimates include the fact that artisanal miners may work only part time as miners, whereas their main occupation could be, for example, subsistence agriculture; and that gold deriving from undisclosed sources may be apportioned to ASM activities, thereby legitimising its origins.

Figure 45: Location of important mines and ASM areas in the central/eastern African region.



Current exploration and mining in South Sudan

Since 2005, some 50 companies have showed interest in exploring for minerals in South Sudan. None of these companies are large or otherwise well-established by international standards. Real exploration activities are so far limited to a very small number of companies, that are - or have recently - undertaken exploration activities (proper desk top studies, and field work such as trenching, soil sampling, drilling, airborne and ground geophysics). Gold is attracting most of the interest, but there has also been some interest in uranium, manganese/iron and copper. Most of the activities have been conducted in the Archean terrains in Eastern Equatoria, and all of them are following up on prospects that were identified many decades ago (mainly in the 1970s and 1980s and earlier; Table 20). The table below includes only those projects that have involved serious exploration work. None of these projects have as yet however, established the existence of mineral resources or reserves and are therefore in their early stages. In a best-case scenario, such early stage projects may develop into mines in 5-10 years from now.

Table 20: Overview of the most important recent and present exploration projects in South Sudan.

Company	Name of project(s)	Region	Commodity[1]	Comment
Brinkley Mining / EuroGold	Budi	Eastern Equatoria	U	Follow up mineralisations identified in the 1970s. Brinkley was taken over by EuroGold in 2010.
Equator Gold and CMERIC[2]	Luri	Central Equatoria	Au	A British / South Sudanese JV, following up on prospect identified by Hunting (1980)
New Kush Exploration & Mining	Kapoeta	Eastern Equatoria	Au	A British / South African / South Sudanese venture, following up on mineralisations identified by Hunting (1980).

[1] U = uranium; Au = gold; Mn = manganese; Fe = iron; Cu = copper
[2] Consolidated Minerals and Energy Resource Investment Company

Actual mining in South Sudan is limited to artisanal activities, most of which are targeting gold in the states of Central and Eastern Equatoria; there is also some activity in Jonglei. The population involved in mining, as well as the size of production are unknown. There is, however, anecdotal evidence that the activities are extensive involving many tens of thousands of people, and that the value of the production may likewise be considerable, perhaps several tens of millions of US$.

Industrial minerals (gravel, sand) are being exploited in a number of locations, mostly near Juba. This sub-sector has not seen much work since independence, and its prospects remain poorly known.

Scenarios for mining-led development in South Sudan

The prospectivity for mine development in a country is crucially dependant on geology. Assuming that South Sudan has a geology which is similar to the African "average", South Sudan's mining sector once matured and developed (see Box 22), would represent a total yearly turnover of more than a US$2 billion. The assumption that the geology of South Sudan is as prospective as the African "average" is furthermore reasonable given that: (i) about a third of the country is covered by Archean rocks; (ii) most of the important metal and precious minerals mining activities in Africa are in areas with such Archean geology; and (iii) the geology of South Sudan is similar to that of neighbouring DRC and CAR, both of which host significant mining activities.

Box 22: The economic importance of mining, mining development and exploration in Africa

The business of mining includes exploration, mine development and actual mining. The African exploration sector is dominated by numerous small and usually quite poorly capitalised “junior” companies, many of which are listed on the stock exchanges in Toronto, Perth or London. In contrast, mine development and actual mining is predominantly performed by well-capitalised multinational mining companies.

Mining is a large and important sector and in 2012 total sales from this sector in Africa were valued at US$120 billion (this does not include mining for industrial minerals), representing nearly 10% of the continent’s Gross Product. In Africa, metal mining and coal mining are about the same magnitude in terms of value. Among the metals, gold, copper and iron ore make up more than half of the value.

If one assumes that the geology of South Sudan is as prospective as the African “average”, then these numbers would imply that the present day economic potential for the development of the South Sudanese mining sector would be to achieve an annual turnover of in excess of US$2 billion (with South Sudan covering 619,745 km²; 2% of Africa’s surface).

Considerable funds are spent on developing new mining projects; that is, investments that are made before a mine generates any income. In the last two years, funds raised for such purposes have totalled US$4.8 billion in Africa (this includes money raised for reserve classifications, feasibility studies, engineering contracts, construction, expansion and expenses at development projects).

Significant funds are spent on exploration that is the search for new mines. In the last two years (2011-2013), a total of US$829 million was been raised for exploration ventures in Africa, and about 60 percent of these funds have been raised for the search for gold. Some way behind gold is the search for copper, coal and iron ore accounting for 7.9%, 7.2% and 6.3% respectively. Given the total surface of Africa comprises 30,221,532 km², this gives an average of US$25-30/km²/year. If South Sudan (619,745 km²;) had captured the same magnitude of exploration interest during this time, then this would have corresponded to about US$18 million/year.

Source: IntierraRMG (2013)

The industrial mineral sector may also become an important source of income and development. There are proven marble deposits near Kapoeta, and overall the Cretaceous to Eocene age sedimentary rocks of South Sudan should reasonably be expected to host deposits of industrial minerals such as gypsum, bentonite and diatomite. An advantage related to the industrial minerals sector is that the time it takes from discovery of a deposit (say a lime stone quarry) to the time when a local operation (e.g. a cement plant) may be established is usually considerably shorter than that for a metal mine.

If, for example, a cement factory was to be established in South Sudan, it may conceivably be of a similar size to those cement plants that exist today in Uganda. This would mean an operation with an annual turnover of some US$50-150 million/year, where up to 1,000 people may become employed, and where incomes from taxes and royalties could be in the range of one to several US$ million annually (SGAB & SPL, 2010; see Box 23).

Box 23: What are the prospects for establishing a Cement factory in South Sudan?

Cement factories are typically established close to a source of limestone, and is reliant on a steady supply of electrical power. Cement is usually a high bulk-low value product. However, towards the end of 2013, the price of a sack of cement in Juba was about US$20/sack, that is double the price in neighbouring Uganda, and in the range of the highest prices paid for cement anywhere in Africa (c.f. Malawi at US$18/sack). In 2012, recorded imports of building materials into South Sudan were valued at some US$150M. In countries where the cost of cement is very high, it may represent over half of the cost building material on an average building, but generally in Africa, the cost is some 10 percent of total construction costs. The value of the cement imported into South Sudan may, thus, be in the region US$20-75 million.

Cement plants that are constructed these days generally have capacity of at least close to 1Mt year, and this kind of operation would entail an investment in the region of US$200 million.

In 1977, a preliminary feasibility study (Klöckner Industrie, 1978) suggested that a deposit with an estimated 9 M ton of marble suitable for cement production is to be found near Kapoeta, in the south east of the country. The area of the deposit is reportedly still gazetted for the purpose of quarrying, although there is also a complicated overlap with a valid gold exploration license.

In short, a sizeable market for cement exists in South Sudan, and the prices paid for the product is comparatively high. There are further indications that suitable raw material exists, suggesting that, if problems related to power supply and rights to mine can be resolved, then the prospects for establishing a Cement factory in South Sudan should be good.

8.3 Mineral sector baseline

Stakeholder overview

Central government involvement in the mineral sector is centred in the Ministry of Petroleum and Mining (MPM). The Ministry of Finance and Economic Planning has an interest in the sector, related to corporate taxation and the promise of increased foreign exchange earnings, as does the National Bank of South Sudan. Within the MTII the Directorate of Industry may in part be seen as having mining related mandate (e.g. related to industrial activities that are associated with mining, such as possibilities for cement production). The Ministry of the Environment and the Ministry of Lands equally have mandates with an interface with the MPM for the development of the mining sector. At the moment, however, there seems to be limited knowledge of or interest in the mining sector within these Ministries. .

The states have an important role in assisting the central government in the development and management of the sector. Moreover, some minerals (industrial minerals, and minerals exploited by artisanal miners) are under the control of the states.

The World Bank is interested in supporting the development of the sector, and has financed some initial work related to developing a new Mining Law. AusAid is running an ambitious programme, which is being implemented by the consultancy company Adam Smith International, and the work includes assisting in the development and promulgation of the Mining Law, and associated regulations, a draft fiscal framework for the sector as well as institutional capacity building and reorganization at the MPM (AAPF 2013). Further, the South Sudan Law society has recently undertaken in-depth work related the sector (financed by the United States Institute for Peace). The NGO Sustainable Extractives for South Sudan is also active in the sector.

A small number of minor international exploration companies (most notably Equator Gold and New Kush) are actively taking part in stakeholder liaison/feedback events organized by the MPM.

South Sudan is a candidate country for the Extractive Industries Transparency Initiative (EITI). South Sudan's engagement in the EITI initiative has been entirely focused on work in the oil sector, but there is an understanding that in due course, the mining sector will also be part of the initiative.

Institutional framework

The implementation of mining policy and other functions related to the sector are the responsibility of the Ministry of Petroleum and Mining (MPM) through two Directorates, each headed by a Director General (DG): the Directorate of Mining Development, which advises the minister on all mineral title matters, and supervises and controls all mining operations; and the Directorate of Geological Survey which focuses on the collection, management and provision of geo-scientific data (notably geological mapping) required for increasing knowledge the knowledge about mineral resources which in turn gives the basis for an efficient exploitation of such resources.

Policy decisions within the MPM are usually taken at the Minister level, with limited delegation of powers. This causes delays in decision-making. Acknowledging these problems, the Minister has recently appointed an Undersecretary for Mining (a new position).

At present, the two mining related directorates at the MPM have about a dozen staff each, although the official organogram envisages more than 100 staff for each Directorate. The existing staff is reportedly generally well educated and motivated. However, the Directorates suffer from high staff turnover and do not have enough office space not even for the small contingent of staff that is present at the moment. Furthermore, there is a dire lack of equipment and facilities such as computers, IT systems and transport, which makes it impossible for the Directorates to implement their respective mandates. This means that staff productivity is very low.

The work of the Ministry of the Environment is severely hampered by the fact that the Environmental bill has not been enacted. This means that the Ministry has no means no enforce environmental conservation as would be stipulated in the draft legislation. The lack of an environmental bill also means that the foreseen implementing agency - South Sudanese Environmental Management Authority - has not yet been created.

The governments of the provincial states are meant to control some mineral resources, notably quarrying (sand and gravel) and artisanal mining activities. These mandates are implemented by the respective Directorates of Industry and mining in the states, once the respective Mining Acts have been enacted.

Policies, laws and regulations

According to the Transitional Constitution of South Sudan the mineral wealth of the country is to be controlled by the national government. Precious minerals within South Sudan are controlled by the central government, whereas some industrial minerals fall under the control of the respective state control. These are referred to as “State Natural Resources”. Additionally, precious minerals mined by artisanal miners are also considered to be State Natural Resources.

A draft mining policy has been prepared, in line with the recently passes Mining Lay (see Box 22) and is expected to be approved by the National Assembly. The policy aims at ensuring that the economic and social benefits of mineral development are harnessed for the benefit of South Sudan whilst limiting any negative effects. The policy is in some aspects rather detailed as it contains stipulations that are more commonly seen in legislation, such as the various mineral titles/licences available and how these are to be issued. Some of the most important issues addressed by the draft mining policy include:

- The mining industry should be led by the private sector, with commercial mining companies carrying out mineral exploration and mining development. To this end, a “conducive macro-economic environment” should be established, and a stable regulatory regime for the allocation of mining rights.
- Communities, landowners and others with rights over land adversely affected by mining activities have the right to compensation.
- South Sudanese nationals and businesses should derive maximum benefit from mining, including to the fullest extent possible, by participating in exploration and mining operations.
- The mining sector shall be characterised by transparency and accountability, which includes the dissemination of information concerning matters of public concern.
- The policy states that government will introduce mining legislation (already in place, see below) to regulate the exploration, mining and commercialization of minerals of all kinds; such regulation will not extend to small scale mining for “State Natural Resources” (industrial minerals) and artisanal mining, which will be regulated by the States.
- The orderly and sustainable development of artisanal mining is encouraged, as a means to encourage local economies and livelihoods.

The Mineral Act was signed into Law in December 2012. The law is ambitious and comprehensive in its scope; but also complex. Some of the more prominent features of the law are as follows:

- The Act is meant to encourage the development of mining activities while promoting sustainable development.
- Decisions of importance are to be made by the Minister, with advice from the Directors of the relevant Directorates.
- The law allows for the issuing of various types of licences for exploration and mining (see Table 21). It does so in two ways. “First come, first considered” principle where there is a selection process if more than one company/person has applied for the same area during the same time period. In such a case, the one selected will be the one seen to be best able to develop the mineral resource in question. It is also possible to award both exploration and mining licenses through bidding processes. The law also provides for the possibility for a company to apply to enter into a so called “Exploration and Mining Agreement” with the government, covering a specified area. The latter is not a common feature of mining regulations worldwide, and appears to be inspired by experiences from the oil sector. It is similar to the stipulations of the South

Sudanese mining legislation, which requires oil companies to enter into an Exploration and Production Sharing Contract with the government.

Table 21: Types of mineral licenses in South Sudan, in accordance with the Mining Act (2013).

License Type	Duration	Area	Extension
Reconnaissance	2 years	Max: 25,000km^2 Min: 10 km^2	Not renewable
Exploration[1]	5 years	Max: 2,500km^2 Min: 10 km^2	Twice renewable for 5 years
Small scale mining[2]	10 years	Max: 1km^2	Renewable for 10 years
Large scale mining[3]	25 years	Max: - Min: -	Renewable for 20 years
Retention	5 (expl) or 6 (mining) years	Same as for expl & mining	Not renewable
Artisanal mining	No time limit	Max:1 km^2	To be renewed annually

[1] A holder of Exploration license has exclusive right to apply for Mining licenses in the same area.
[2] Small scale mining may only be done by a company employing >25 people, and which works in alluvial deposits, and/or in an open cast; underground mining is not allowed, nor is the use of explosives or potentially toxic chemicals.
[3] The state has the right to have an up to 15% working interest (that is, "free carry") in any large scale mining venture.

- Mineral titles are granted by the Minister on the advice of the Director General for Mineral Development. State Mineral Resources Advisory Coordination Committees composed of members representing the Government and the State(s) in which the Licence falls will also advise the Minister.
- The State governments grant Artisanal Mining Licences and small-scale licenses for mining of "State Natural Resources".

Exploration and mining activities are not to be regarded as "land use" as stipulated in the Land Act (2009). Thus, special conditions are stated to apply to mining related activities, compared to other possible uses of land with the final decision resting with the Minister of the MPM.

The Act includes stipulations related to land use and the relationship between a mining company and local communities such as the following:

- Adequate compensation is to be provided to other land users affected by mining activities.
- Holders of large scale mining licenses are required to enter into so called Community Development Agreements (CDA), with the local community (ies) to support local needs through, for example, construction of schools, roads, water supply etc. According to the draft regulations,

the CDAs investments and expenditures should have the value of at least 1% of total project costs. Holders of mining licences are also required to develop rehabilitation and mine closure plans, and to set aside financial assurances for these purposes.

- The Minister may declare an area to be a so called “Mineral Resource Reserve” with the objective to provide land specifically for mineral title applications. Conversely, mining related activities in restricted areas, such as those protected for environmental reasons require “additional consent” to be able to exploit mining resources in those areas.
- The requirements for holding a mining license include Environmental Impact Assessments (EIAs), submission of yearly reports, resource estimate, surface rights agreement and a closure plan, etc. However, state authorities may exempt the holder of such a license from all or part of the said requirements.

Other regulatory developments concerning the Minerals sector in South Sudan include the nearly completed formulation of the Mining Regulations and Mining Community Development Regulations. A template for Exploration and Mining Agreements is being formulated.

The draft Environmental bill includes the requirements for EIAs and Social Impact Assessments (SIAs), including a process of public consultation, and for the designation of sensitive areas which should be protected from development. The bill is in line with the “polluter pays” rationale; however, the draft version of the law provides for low penalties for pollution related infringements.

The South Sudanese Environmental Management Authority (SSEMA, which will be a parastatal) will be in charge of managing and reviewing EIA/SIA processes and granting environmental authorisation to mining (and other) projects. The MPM will comment on the assessments in question, when they deal with mining, but the final authorisation will be the responsibility of the SSEMA.

According to the Land Act (2009), all land is owned by the people of South Sudan, and the government is responsible for regulating its use. The government (at all levels) may, after judicial review, expropriate land in the public interest but will then need to provide fair compensation. However, the list of activities that comprise a public interest does not include private investments such as mining.

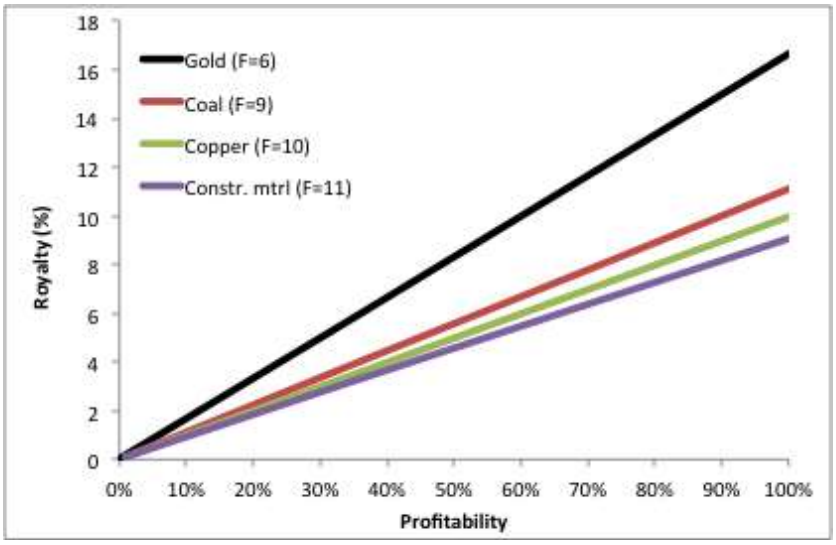
The Land Act also allows communities to allocate land for investment purposes so long as the investment activity reflects an important interest for the community and contributes to its economic and social development.

8.4 Tax and royalty regime

The MTII has identified the mining industry as one of its investment priority sectors, and has therefore made it mining companies eligible for significant tax breaks, including exemptions from import and export duties. Further, the draft mining policy includes allowances for capital equipment depreciation and tax concession for payments under community development agreement or CSR programmes.

The Mining Act and the draft Mining Policy state that royalties will be charged on all mining activities in South Sudan. The 2013 draft regulations to the Mining Act suggest that the royalty regime is one that is inspired by the South African system. This means that the level of royalties is calculated based on revenues, or by taking the ratio between gross earnings (EBIT) and the value of sales. This approach is different to the more commonly used system where royalties are based on the value of gross sales. Figure 46 illustrates the royalties calculated based on the proposed system in South Sudan. Due to the proposed system for calculating royalties being somewhat different from the norm, comparisons cannot readily be made with neighbouring countries, or mining nations elsewhere (see Table 22).

Figure 46: Illustration of the royalties levels of the proposed South Sudanese system



Note: Royalties are based on a designated "factor" and are calculated as follows:

$$\frac{\text{Earnings before Interest, Taxes, Depreciation and Amortization x 100}}{\text{Aggregate gross sales for the assessment period } x \text{ factor (F)}} = \text{Royalty rate}$$

With royalty levels increasing with profitability, this proposed system in South Sudan is attractive in itself. Indeed, taxing economic rents accruing to mineral deposits is more efficient than taxing the quantity or value of production. Utilising such an approach may, however, be more complex and challenging than a simple revenue-based royalty regime. It requires high level of auditing and supervising capacity on the part of the authorities, and disclosure and transparency on part of the companies, to ensure such a royalty regime is implemented properly.

Table 22: Comparison of the royalty rates in South Sudan with selected mining nations.

Royalty (%)	South Sudan	South Africa	Bots-wana	Tanzania	Ghana	Australia	Congo (DRC)
basis for calc. royalty	adjusted revenue	adjusted revenue*	revenue	revenue	revenue	revenue & profit	revenue
Copper	0-10	0.5-7	3	4	5	2.7-3.5	2

Gold	0-17	0.5-5	5	4	5	0-2.5	2.5
Iron ore	0-10	0.5-7	3	3	5	6.5-7.5**	0.5
Coal	0-11	0.5-7	3	3	5	7-10**	1

* Minimum royalty is 0.5%; max is 7% for unrefined minerals, 5% for refined minerals
** MRRT = 22.5%

The royalties are to be divided between central government, the state government and the relevant local community according to the following scheme: (i) for central government controlled minerals, three percent of the royalties are allocated to the local community, and two percent to the State government where the mine is found; (ii) for mines where State Natural Resources are exploited, the central government receives two percent of the total royalty, whereas the local community receives three percent. In both these cases, the amount of royalties allocated to the local community is fairly substantial, and this amount is in addition to the benefits that are to be provided to such communities through Mining Community Development Regulations.

8.5 Mineral titles licensing

The responsibility of managing mineral titles falls under the mining cadastre unit, which belongs to the Directorate of Mineral Development. The states' Mineral Resource Advisory Coordination Committees advise the MPM on mining licenses and decide whether to grant licences for artisanal mining. The committees are required to meet within sixty days of any application for a mineral title in any given state.

Prior to the enactment of the Mining Law, the issuing of licenses for exploration and mining was not well managed, but licenses were nevertheless granted and issued. With the purpose of bringing the situation into order, there was a moratorium on mining licences from late 2010 until after the enactment of the new law. Prior holders of licenses were allowed to reapply for their licenses up until three months after the law was enacted but, for various reasons, only two companies – out of more than 20 prior holders of licenses – did so. The main reason for this apparent lack of interest of old license holders to reapply was that many of the companies that previously held licences did no longer exists.

At present, the Mining Cadastre Unit operates a basic, mostly manual Licence Application and cadastre management system, with some limited ability to check for availability of ground and potential overlaps through a Google Earth database. However, a new and automated Mining Cadastre System will soon be established with support from AusAid.

The proposed costs as outlined in the draft mining regulations, for exploration and licence application appear to be high in comparison with neighbouring countries and selected mining nations (Table 23). Note that these types of comparisons can only be approximate, as no two mining laws and associated regulations are identical, and detailed stipulations differ from country to country. Furthermore, the South Sudanese system for charging fees for holding ground – with fees payable for application processing, for registration and then also for the actual license - is more complex than in most other countries.

Table 23: Comparison of the cost of holding ground for exploration and mining in South Sudan with some neighbouring countries, and selected mining nations

<table>
<tr><th>US$ equivalents, approx. costs, as of Sept 2013</th><th>South Sudan (prop)</th><th>Bots-wana (1999)</th><th>Ethiopia (1994)</th><th>Kenya (prop)</th><th>Tanzania (2012)</th><th>Zambia (2008)</th><th>Rwanda (2010)</th><th>Sweden (1992)</th></tr>
<tr><td colspan="8">Reconnaissance Licence</td><td></td></tr>
<tr><td>Application Processing Fee</td><td>8,750</td><td>-</td><td>5.2</td><td>2.9</td><td>-</td><td>-</td><td rowspan="2">73</td><td rowspan="2">80</td></tr>
<tr><td>Registration Fee</td><td>438</td><td>-</td><td>0.5/page</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="8">Exploration Licence</td><td></td></tr>
<tr><td>Application Processing Fee</td><td>9,375</td><td>-</td><td>10.5</td><td>2.9</td><td>300</td><td>68</td><td rowspan="2">147</td><td rowspan="2">80</td></tr>
<tr><td>Registration Fee</td><td>469</td><td>-</td><td>0.5/page</td><td>24</td><td>500</td><td>34</td></tr>
<tr><td>Annual Rent / km^2</td><td>6</td><td>0.58</td><td>3.1</td><td>2.9</td><td>100</td><td>1.9[1]</td><td>14,7</td><td>63[2]</td></tr>
<tr><td colspan="8">Small Scale Mining Licence (not artisanal mining license)</td><td></td></tr>
<tr><td>Application Processing Fee</td><td>6,250</td><td>-</td><td rowspan="2">10-15</td><td>-</td><td>-</td><td>16,9</td><td>-</td><td>-</td></tr>
<tr><td>Registration Fee</td><td>313</td><td>-</td><td>-</td><td>-</td><td>67</td><td>-</td><td>-</td></tr>
<tr><td>Annual Rent / km^2</td><td>781</td><td>-</td><td>2.5-10</td><td>-</td><td>-</td><td>0,33</td><td>29</td><td>-</td></tr>
<tr><td colspan="8">Large Scale Mining Licence</td><td></td></tr>
<tr><td>Application Processing Fee</td><td>31,250</td><td>-</td><td>26</td><td rowspan="2">23</td><td rowspan="2">2,000</td><td>-</td><td rowspan="2">220</td><td rowspan="2">13,000</td></tr>
<tr><td>Registration Fee</td><td>3,125</td><td>-</td><td>0.5/page</td><td>-</td></tr>
<tr><td>Annual Rent / km^2</td><td>1,563</td><td>11.6</td><td>21</td><td>173</td><td>3,000[3]</td><td>67</td><td>29</td><td>-</td></tr>
<tr><td colspan="8">Exploration and Mining Agreement</td><td></td></tr>
<tr><td>Neg. Process Application Fee</td><td>15,625</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Registration Fee</td><td>3,125</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
</table>

[1] Year 1 & 2, thereafter rents escalates
[2] Year 1-3, thereafter rents escalates
[3] Gold, Kimberlitic diamonds and Gemstones; other minerals is US$2,000/$Km^2$

8.6 Current and planned programmes of support to the mining sector

AusAid is currently funding support to the mining related activities of the MPM. AusAid is committed to fund the design and establishment of a modern automated mining cadastre. Other AusAid funded activities related to training of MPM staff are on-going through the Africa Partnerships Facility.

The World Bank is considering support through a "Sustainable Development of Natural Mineral Resources Project", probably with a budget of several tens of millions of US$. Such a programme would have a comprehensive scope, in line with similar World Bank funded programme elsewhere, and would include a range of activities, such as country wide geo-scientific mapping, institutional strengthening and capacity building, environmental and social safeguards, etc.

The Chinese has recently pledged to assist in the development of the South Sudanese mining sector. Official statements suggest that a geological survey of the country will be funded through a US$43 million loan.

8.7 Building the foundations for mineral sector growth

The South Sudanese mining sector is seeing very little activity at present. The challenge is essentially to build and develop a completely new economic sector. Comparisons with other African countries with a similar geology to South Sudan suggest that encouraging the mining sector may lead to the development of an annual economic potential of several billion US$.

Primary considerations regarding the structure of the mining sector

The development of the mining sector is diverse, with the various segments of the sector - that is the large scale and small scale mining, and artisanal and industrial mining - having different requirements, and time-line perspectives:

- A large scale mining sector in South Sudan will only develop over a long-time perspective. Given the capital intensity of any sizeable modern mine, the investment needed will by necessity, be sourced from international companies. Such investors are drawn mainly by geological prospectivity, whereas legal, regulatory and institutional framework may at times be given significantly less importance (as exemplified by the large investments being made in countries regarded as unstable and/or with comparatively less attractive mining regulatory regimes). This means, in essence, that the priority to attract investments into South Sudan relates to proving geological prospectiveness, whereas the development of the institutional and regulatory framework is important to ensure that the country as a whole does derive benefits from the investments in mining.
- South Sudan already has a sizeable ASM sector for gold, although its exact size and characteristics remain poorly understood. ASM activities are often seen as a possible vehicle for industrial development, and may be an important livelihood for what are usually rural communities who have limited alternative economic opportunities. ASM is, however, also associated with some socio-economic challenges, including informality, social and environmental impacts, and hindrances to the development of more efficient and large scale mining operations. In South Sudan, the priority is to provide a better understanding of the sector, and to design and implement policies that enable the sector to be better managed and controlled.

- Mining for industrial minerals does not attract nearly as much interest as precious minerals mining. Yet, the sector is absolutely vital for the economy, and its economic importance is, in all countries, considerable. The finding of deposits that can be exploited and the initiation of mining/quarrying is nowhere near. The development of the industrial mining sector should be given due consideration and encouragement by, the MPM.

Fiscal, economic and transparency considerations

The Mining Regulations are being developed at present, and these contain important stipulations that relate to fiscal and economic conditions. The rationale is one of establishing a rather sophisticated and complex system, both for the use of land for exploration and mining purposes, and for royalties and apportioning the proceeds of royalties between stakeholders. This approach requires significant support on capacity development within the MPM to create a cadre of well trained staff, and well-functioning systems (c.f. Section 4.4 below).

The proposed royalty regime is attractive to mining companies since no royalty is payable when no profit is made. Moreover, the levels of royalties due for a reasonably profitable operation (with profits in the range between 25 and 30 percent) are at a comparative level to African mining nations. However, for a very profitable operation, the royalties due are considerably higher in South Sudan than elsewhere in the region. Such a regime is arguably more suitable for a developed mining nation where the perceived risks of investments are low, than in a new mining nation such as South Sudan where the priority of attracting new investments is paramount.

The fees to apply for, and holding ground for exploration and mining are high compared to neighbouring countries. There may be good reasons for not having lower rates and costs than other countries: for example, avoiding speculation or that land is held by companies/individuals that have no capacity to develop the prospects in question. It is, nevertheless, recommended that the suggested fees as well as the mechanisms use to charge these fees, are considered carefully, to arrive at a regime which is clear and easily managed and understood, and competitive.

South Sudan is a candidate country for the EITI, and considerable work is being done within the MPM, in the oil sector, for this purpose. The nascent mining sector should take active part in this work, and thus benefit from the lessons learned.

Development and streamlining of legal framework

The Mining Law encourages the development of the mining sector. The Law should be streamlined with other related legislation such as the Land Act, and the (draft) environmental Bill:

- The issue of land access for exploration and mining is often contentious. Although the Mining Law clearly stipulates that mining activities will be allowed to access land, it is not clear that the Land Act is compatible with these stipulations. Further, the issue of control and ownership of land in South Sudan is overall complex, and to a large extent remains unresolved. The introduction of mining as a major land-use factor may therefore aggravate existing conflicts as well as generate completely new ones. It is recommended that the amendment of what is defined “public interest” in the Land Act is considered with the purpose of also including mining projects of national interest. This would require the concomitant strengthening of legal provisions regarding compensation and resettlement, to ensure that the rights and well-being of land owners and lawful occupiers are safeguarded.

- The environmental bill is yet to be passed. This bill addresses the process of obtaining environmental authorisation for mining projects, through EIA and SIA. It is critical that these requirements are streamlined with the environmental provisions in the Mining Law.

Institutional development and capacity building

The role of the central and provincial state authorities in regulating the mining industry is important. The capacity to effectively do so does not exist at present. A range of activities are necessary:

- The funding and staffing of the mining-related Directorates of the MPM need to be improved. Existing plans appear to be directed towards building Directorates with large staff contingents. However, it should be considered whether focus should not shift towards establishing smaller but well equipped and functioning Directorates that can address the present and rather limited needs of the sector. Of special importance is to ensure that the licensing of mineral titles is functions efficiently. In the longer term, the establishment of larger Directorates may become necessary – but gradually as the sector develops.
- Relevant staff at the MPM (as well as other relevant Ministries and State governments) requires practical training. This may be achieved through coaching programmes similar to those available in other areas, where regional and international advisers work together with South Sudanese staff; or through access to practical training courses abroad.
- Coordination between relevant Ministries, especially Lands and Environment, need to be established and/or improved, as well as coordination with the relevant local government structures at the state level.

Encouraging investments and sector growth

South Sudan is not an established destination for exploration and mining related investments. In the absence of "success stories" that in themselves would attract interest and draw investors to the country, the collection of new geological data, and the subsequent marketing of these data as well as information about South Sudan as an investment destination in general, assumes vital importance:

- The collection of new geo-scientific data may be achieved in two main ways: by obtaining funding for government led geo-scientific surveys; and by encouraging serious, field based, exploration activities.
- New and existing data that relates to the geological prospectiveness and information on the country in general needs to be made available to the wider mining communities. This should be done by facilitating the presentation of such data and information online, and through South Sudan participating at targeted investor events, where the country may be presented to the wider international mining community.

Recommended actions

Significant support to the mining sector is being planned through AusAid, World Bank and Chinese initiatives. The actions identified below complement those on-going or soon to be initiated (e.g. mining cadastre through AusAid, geological survey through the support of the Chinese government) but must be coordinated with the initiatives of others.

<u>Next 12 months</u>

- The fiscal and economic aspects that are entailed in the ongoing drafting mining regulations should be considered in a benchmarking study that includes regional and international experiences, with the aim of arriving at a reasonable and competitive outcome for South Sudan.
- Existing data that relates to assessing the geological prospectiveness of South Sudan should be made available on a map-based information system, which is made available online, aimed at investors and other interested parties. Considerations should be made related to charging for the use of this resource, thereby assisting in funding the work of the two mining related Directorates at the MPM. Further, such a system may possibly also address the need to collect and manage geo-scientific data that can support the further development of the oil and gas sectors.
- South Sudan should participate in mining investment related forums internationally, with the most relevant ones being the Mining Indaba in South Africa, and the PDAC conference in Canada.
- The possibility represented by the proven marble resource in Kapoeta, and associated possibilities for cement production needs to be addressed in a focused way, by resolving issues related to permits, and by marketing the prospect to regionally based companies involved in cement production.
- A legal review that compares and suggests ways of streamlining the provisions of the Mining Law with those of the Land Act and the (draft) Environmental bill is urgently needed.
- The ongoing EITI related work at MPM should be expanded so that it also covers the mining sector developing in South Sudan.

<u>12-36 months</u>

- The South Sudan Investment Authority has established a "one-stop-shop" for investors, as well as guidelines for investors. It is recommended that a Road map for investors in the mining sector is developed, and that this is done in a process that involves all relevant authorities and agencies as well as the private sector. In addition to the value of the publication for transparency and as an investment promotion tool, the process itself would contribute to a better understanding by all relevant parties of the needs, requirements and challenges facing by the mining sector.
- A comprehensive study of the ASM sector is needed, in order to understand the sector and thereby, be able to properly manage it. Such a study must be field based, and include the collection of data on the number of miners, their whereabouts and the economic and social structure that underpin the activities. Such a study will also help clarify whether the provisions of the Mining Law and draft regulations addressing ASM, are relevant and adequate.
- Considerable work is being made with support by AusAid with respect to the institutional development of the mining related Directorates in the MPM, and this also includes provision of equipment and training activities There exist institutional needs that are not covered by the AusAid programme, however, such as the need to develop the capacity to manage and control the industrial mining sector, and possibly also ASM. A review of these and other relevant

needs, coupled with the development of a proposal for institutional development is recommended.

REFERENCES

Australia-Africa Partnerships Facility (AAPF) (2013). Final Report: Technical Assistance to the Ministry of Petroleum and Mining in South Sudan, Consultancy report prepared by Adam Smith International (ASI).

Clark, M. (2006). Maxi or mini? International Cement Review. March 2006.

Deng, D.K., Mertenskoetter, P., and van de Vondervoort, L. (2013). Establishing a mining sector in post war Sudan. Special report 330, April 2013. United States Institute of Peace.

Hunting Geology and Geophysics (1980). Mineral exploration of the Juba Area.

International Crisis Group (2010). Dangerous Little Stones: Diamonds in the Central African Republic.

IntierraRMG (2013). State of the Market: Africa. Annual report on the mining industry in Africa at www.intierrarmg.com.

Ismail, O. and A. Kumar (2013). Darfur's Gold Rush: State-Sponsored Atrocities 10 years after the Genocide, the Enough Project, Satellite Sentinel Project, Washington D.C.

Institute of Geological Sciences for British Nuclear Fuels Ltd and Uranerzbergbau (1977). Preliminary Reconnaissance Uranium Survey in the Sudan.

Klöckner Industrie Anlagen, GmbH. (1978). Feasibility study. Kapoeta cement project.

Matthysen. K. and Clarkson, I. (2013). Gold and diamonds in the Central African Republic - The country's mining sector, and related social, economic and environmental issues. ActionAid Nederland and Cordaid.

Swedish Geological and Sunshine Projects (SGAB & SPL) (2010). Social baseline study of the Ugandan mineral sector. Sustainable Management of Mineral Resources Project, Ministry of Energy and Mineral Development, Department of Geological Survey and Mines, Entebbe.

United Nations Industrial Development Organization (2007). Removal of Barriers to the Introduction of Cleaner Artisanal Gold Mining and Extraction Technologies. Global Mercury Programme in Sudan, Final Summary Report.

Vail, J,R. (1978). Outline of the geology and mineral deposits of the Democratic Republic of the Sudan and adjacent areas. Overseas Geology and Mineral resources. No 49.

Whiteman, A, J. (1971). The geology of the Sudan Republic. Clarendon Press, London.

CHAPTER IX – TOWARDS INCLUSIVE TOURISM

9.1 Introduction

The Republic of South Sudan hosts an interesting natural and cultural resource base of diverse character. The capital and air access gateway, Juba is accessible in four hours from Cairo and only 1.5 hours from the east African hub of Nairobi making it a middle distance country from the large European source market. This potential is under-utilised and the Diagnostic Trade Integration Mission will identify priority interventions based on (i) an analysis of constraints for tourism trade, (ii) an identification of actions to integrate South Sudan into the world tourism market by (iii) suggesting practical and realistic objective for tourism in the country's strategic development objectives.

The image of the north eastern part of Africa as a (potential) tourism destination is still troublesome in the market. Landlocked South Sudan, as a post conflict state neighbours six countries that all have a troubled tourism image. Tourism in the sub-region is characterised by a distinct 'boundary'; Kenya is a well-established, classic safari country and Uganda and Ethiopia enjoy niche market tourism – everything further west is largely off the commercial tourism map (Table 24).

Table 24: South Sudan and its neighbours

Country	Travel Advice[47]	Conflicts
Sudan	Advise against all travel to almost a third of the country, including all the parts that border South Sudan.	Tension with South Sudan over national boundaries
Ethiopia	Although largely accessible for leisure travel (except large parts bordering Somalia), all travel to the regions bordering South Sudan is advised against.	
Kenya	No restrictions	The only country relatively safe for tourists has recently be shocked by the Westgate Mall attack in Nairobi and continuing warnings for terrorist threats to be taken seriously.
Uganda	Advise against all the parts that border Kenya in the north which affects parts of the border with South Sudan as well.	LRA insurgencies influence the destination image
Democratic Republic of the Congo	Advice against all travel in the eastern and north-eastern regions including the border area with South Sudan	Severe and long-standing armed conflicts in the east of the country

[47] Taken for UK, USA, German & French government websites (Oct 2013)

Central African Republic	Advice against travel to and in the country	Banditry, rebellion and armed conflicts throughout the country; power vacuum

Tourism can contribute positively to post-conflict nation building. It offers an opportunity to reflect positively on cultural and ethnic differences that have often been one of the causes of conflict. By fostering national awareness and pride by attention to the preservation, restoration and promotion of historical sites, cultural festivals, art forms, and by encouraging the development of those cultural forms and expressions, which are distinctly South Sudanese in origin, the identity of the new nation can take form.

The discussion around tourism can also ensure the first steps towards the safeguarding of physical and social territorial rights of residents; especially with respect to potential facilities where visitors are likely to interact with the established local community. In general, tourism builds cross-cultural relations, locally, nationally and internationally, thereby promoting peace and exposing South Sudan's potential to the outside world.

9.2 Characteristics of tourism in South Sudan

Current state & performance

Tourism in South Sudan is more a phenomena than an industry. There are various actors, both at operational as well as regulatory level but efforts are restricted due to unclear regulations, unclear mandates at state and national government and lack of enactment of necessary regulations (October 2013). It is difficult for a prospective visitor in 2013 to obtain any visitor information on the country, either in printed travel magazines or through Internet search engines.[48]

The existing accommodation establishments all attract their own niche of visitors. In the capital Juba these are predominantly visitors from bi- and multilateral donor agencies as well as some commercial business interest. The huge proliferation of accommodation establishment development is showing signs that saturation is reached. During the last three years, hotels were the only available accommodation and any available room would have been occupied by an expatriate involved with an aid organization or a visiting (returning) South Sudanese from the diaspora as no residential facilities were available. Average length of stay was measured in months, rather than days between 2010 and 2012.

Late 2013, the hotels of international standard in Juba saw occupancy levels drop; the length of stay is now averaging 7 days. The official number of hotel facilities in Juba (Department of Hotels. Directorate of Tourism Oct 2013) is 206. In the absence of any formal data sets, this number is based on a 2012 inventory by the Ministry. There are at least 20 additional developments in various stages of completion adding to the oversupply. Although the total number of rooms is estimated to be

[48] October 2013 is the publish date of the Bradt Travel Guide on South Sudan; first designated travel publication on the country.

around 5000, an estimate of the accommodation industry in Juba “acceptable for international tourism” totals 600 rooms.

The situation outside Juba is completely different. Only few accommodation options exist in the state capitals across the country and even fewer can be regarded as being of international standard.

Classic leisure tourism products are not found in South Sudan. There are at present no operational establishments in the proclaimed national parks. This also means that the large number of expatriates, forming a captured market in Juba, has no excursion options for weekend away.

The only tourism product available is rafting the White Nile from Nimule national park to Juba which is organised a few times between February and April by a Juba based operator as well as a Kenya based specialist.

Air Access

Air access to Juba is limited to connections within the African continent and Dubai. Kenya Airways (Sky team) provides the majority of seats based on a high frequency on the Nairobi route. In general, most seats are available through Nairobi with several budget carriers providing point-to-point services into Juba. Fly Dubai as well as the Star Alliance members Egypt Air and Ethiopian Airways complement the volume of most likely tourism entries into South Sudan. The weekly seat capacity into Juba (excluding flights from Khartoum) is some 5,000 seats.

A lack of correct and detailed statistics makes it difficult to measure and manage the tourism industry.

Current tourism benefits

The current business tourism character of South Sudan does provide trade benefits. The hospitality industry forms the largest employer in Juba. This is almost exclusively linked to hotels and only a few restaurant facilities without accommodation exist.

Taken an average employee per room calculation for international hotels (based on a 12 hotel sample) there are some 1,050 staff members (1.75 staff/room ratio) in Juba. Estimating the employment figures at the more locally oriented hotels is more difficult due to high instances of multitasking (reception and F&B) and family ‘employment’. Rough estimates range between 2000 and 3000 additional positions although remuneration is unlike to be fixed. The lack of an operational regulatory environment makes it impossible to measure the benefits from tourism beyond statement by hotel operators and government which include:

<u>Employment</u>

- Salaries paid to hospitality staff range between 800 and 1,500 SSP/month
- Large number of foreign employees especially in hospitality and food & beverage sections.
- High staff turn-over amongst local and foreign staff
- Social security was (re-)introduced in 2010 in South Sudan. The policy foresees for the company to pay 17% contribution and the staff to pay 8 % (together 25%) of the salary for each month into a designated insurance company account. Effectively this is not applied at present and the 17% is (in most cases) added to the effective monthly cash payment to the employee. This limits the likelihood of a social security fund being developed.

Taxes & Fees

- Excessive taxes and licensing fees due to overlap between different tiers of government; amounts are unclear and inconsistent.
- Hospitability section targeted randomly as it forms one of only a few sources of government revenue.
- Visa fee per foreign arrival into South Sudan of US$ 100 (single entry).

Others

- Land leases for tourism properties vary between US$ 2,000 – US 8,000 per month.
- Diesel consumption amounts up to 4,000 litres per week per establishment.
- Vast majority of hotels are owned by nationals from Ethiopia and Eritrea. Initial investment are often FDI of US$ 30- 40,000 per room (6 hotel sample). This makes them eligible for an investor certificate and entitles the owner to financial benefits as per investment guidelines.
- Expansions and operating credit can be obtained from Juba based banking institutions.

9.3 Resource inventory

Potential tourism resources in the Republic of South Sudan are found throughout the country and comprise both natural and cultural assets. The primary natural resources are its wildlife and its distinct, intact landscapes. Despite its long-lasting armed conflict, the country has retained a wide variety and healthy numbers of wildlife throughout vast parts of the territory and its different landscapes. An assessment of the resource base for tourism in Table 25 below provides a preliminary overview of its potential and challenges for development:

Table 25: Natural and cultural assets - Boma - Jonglei Landscape

Boma - Jonglei Landscape	
Scope	This landscape encompasses Boma National Park, the proposed Bandingalo National Park, broad pasturelands and floodplains, and the Sudd, a vast area of swamp and seasonally flooded grasslands rich in wildlife including the Zeraf Reserve. Containing expansive grasslands the size of Kenya and Uganda combined, the area supports an abundance of iconic African wildlife, including elephants, giraffe, eland, lions, wild dog, buffalo and topi (locally called "tiang"). Primary scope based on Boma-Jonglei being East Africa's largest, most intact savannah ecosystem. The landscape hosts one of the world's greatest mammal migrations, the seasonal movement of some 1.3 million white-eared kob and other antelope species.
Access	The landscape has no formal status as a protected area. The Boma National Park does and entry permits need to be obtained. There is an airstrip within the park which is the preferred travel option as travelling by road from Juba takes 3 days along rough tracks. Access within the park is limited due to poor security and landmines and requires ranger guidance. The non-protected areas of the landscape suffer from poor road/track infrastructure and flooding of the grass plains.

Location	The continuous landscape covers north, east and south-east South Sudan. Linking the Sudd with the Badigeru and Kenamuke. Mainly located in Jonglei, Eastern Equatoria and Unity states with some peripheral sections in Warab and Lakes states (important for access).	
Drawing Power	International drawing power possible based on interesting variety of wildlife within a pristine landscape setting, unexplored and with the largest migration on annual basis. Access challenges make it a costly destination and one that requires planning in advance and at a 7 day itinerary from abroad.	
Destination Facilities	- Non-permanent tented camps operated by safari companies from Juba - Air strip - The landscape lack a logistical centre where provisions can be found or which can act as a hub for visitors and an information/communication centre.	
Prices	Entrance fees protected areas:	U$ 70 per person per day
	Air transfer:	S.Q
	Accommodation:	S.Q

The Boma-Jonglei landscape can be an international attraction if developed properly for which detailed assessments and planning needs to be conducted. Conservation efforts are currently supported by Wildlife Conservation Society (WCS) and USAID and selected animals have radio collars to monitor movements and capture dispersal data.

Although part of the tourism potential of the Sudd is directly linked to the Boma-Jonglei Landscape, the Nile forms an iconic resource that merits separate ‘capturing’ as a potential visitor product (Table 26).

Table 26: Natural and cultural assets – The Nile/Sudd

The Nile/ Sudd	
Scope	The iconic Nile River and its associated Sudd wetland hold a primary scope based on its global significance. Several protected areas are found along the river and the Sudd delta is a formal Ramsar site. A variety of rare and endangered animal species, interesting ecosystems, and rich (migratory) birdlife occur throughout the ecosystem. The Fola Rapids form an exciting hurdle for rafters as well as a scenic site although plans exist to construct a hydropower facility there. However, the unique and interesting scope of mammals is often difficult to site due to perennial high grass and thickets of vegetation. Much of the appeal lies in the vastness of the Sudd and might of the Nile river best explored on an appropriate vessel.

Access	Access varies from easy in Juba and Bor to challenging in the actual Sudd swamps. Access to the Fola Rapids requires park entrance fees. Access to the Sudd proper requires boats. There are no demarcated 'entry' points.	
Location	The Nile traverses the length of South Sudan and the Sudd cover extensive parts of the Jonglei, Warab, Lakes and Unity states.	
Drawing Power	The drawing power varies substantially. Rafting the White Nile might hold international drawing power for a niche market and specific viewpoints such as the rapids are a pleasant inclusion in an overland trip. The Sudd has bigger challenges; a swamp area (protected or not), especially moist, the size of the Sudd, is a challenge for the development as a visitor experience. High temperatures and humidity for the most part of the year as well as rainfall and poor access roads combined with mosquitos and other 'bugs' remain a challenge. An average visitor will not spent a long time in such areas. The periphery is often sought; riverine forests, grasslands generally encourage a somewhat longer stay, as open spaces and clearings offer other views points. The area does hold international drawing power for ornithologists, especially in the migratory season with over 400 bird species recorded.	
Destination Facilities	Nearest hotel facilities exist for the Sudd in: - Rumbek, of which the 24 units (tents) Safari Style Hotel offers the best tourism friendly facilities - Bor which has a variety of hotels of varying quality and budget Other accommodation along the White Nile exists in Juba and Nimule. Rafting (2-5 days) starts below the Fola Falls in Nimule National Park depending on interest and time available and is usually offered between February and April. There are no permanent structures with the wetland and no recognised operators who have conducted trips on a regular/planned itinerary basis. Nile boat cruises at Juba available from various operators.	
Prices	Entrance fees protected areas:	U$ 70 per person per day, although reserves do not by regulation, form a park
	Boat trips:	From U$ 30/per person per hour (Juba Cruises)
	Rafting	SQ
	Accommodation:	Varies from U$ 10 – U$ 200 depending on location

South Sudan offers some small, but interesting areas of Montane Forest. These are limited to the Imotong, Didinga and Dongotono Mountains forming a small ecological region totalling less than 1,000km². The isolated setting of the Imotong Mountains (and its Forest reserve) provides for interesting endemic biodiversity with the highest peak a worthwhile ascent, as indicated in Table 27.

Table 27: Natural and cultural assets – Mount Kinyeti

Mount Kinyeti		
Scope	Secondary scope based on it being South Sudan's highest peak (3187m) and an interesting mix of dense forest and rocky peak. Remnants of forestry operations can be found with overgrown remains of a sawmill and a hydro plant dating back to the 1930s. It forms a wild and untouched sanctuary and provides real adventure and discovery shared only by local subsistence hunters. Although no reliable data exists there should still be healthy numbers of primates, elephant, buffalo and leopard.	
Access	Access is extremely difficult and without any local guidance impossible. Local residence set fire to the area to allow for better hunting opportunities. Air strip exists at Torit.	
Location	Located south of Torit in the Eastern Equatorial State. The area has been the setting for many struggles in South Sudan's past ranging from the Second Civil war to the terrors of the LRA. Location combines well with Nimule National Park and could form a circuit with Bandingilo or even Boma NP if roads are improved.	
Drawing Power	Niche market for those who are keen to climb the highest peaks of countries and regions but its location allows for inclusion in short itineraries of South Sudan highlights.	
Destination Facilities	- Hotels in Tori (not of international standard)	
Prices:	Entrance fees protected areas:	No entrance fees at present as it's a forest reserve; special permit required to enter the overall area (U$ 40)
	Accommodation:	Ranging from U$ 30 to U$ 150 in Torit

Additional natural resources with tourism potential are found around Savannah Woodland – the largest ecological system in the country linking the border with Sudan along the CAR, DRC border to Magwi country in Eastern Equatoria. Plains game species such as Uganda kob, hartebeest and giant eland share the landscape with elephant, buffalos, bushbuck, oribi and various carnivores and primates.

Lowland forest is found in a few isolated sections in the southwest near the borders with CAR, DRC and Uganda as well as along the foothills of the Imotong Mountains. It forms the habitat for the threatened eastern chimpanzee, bongo forest buffalo and giant forest hog which are valuable eco-tourism species.

The semi-arid region is limited to the extreme south east of Eastern Equatoria and is a disputed area where it forms an extension to north western Kenya semi-arid zone. The Beisa oryx, Lesser kudu, dik dik and Grant's gazelle make it a valuable area and a protected area (Loelle) is proposed.

The cultural resource base of South Sudan constitutes a large ethnical variety. Nearly 80 different tribes live within the borders of the country and each has their own unique language, culture and religious practices. Seven of them are generally regarded as the larger groups; Acholi, Bari, Dinka, Nuer, Shilluk Toposa and Zande.

Other heritage resources are few and far between. No old (ancient) structures exist, no monuments have yet been declared. But in the absence of formal proclamation, there are sites of national importance found in Juba (John Garang's grave), Wau (Cathedral) and rural attractions such as the Dinka cattle camps. Of particular potential is the town of Bor and its surrounds (Table 28).

Table 28: Natural and cultural assets – Bor

Bor		
Scope	Of historical significance as the birth place of the Second Civil War but also as contemporary cultural hub through its weekly Bor wrestling and its easy access to the cattle camps of the Dinka people.	
Access	Road is under construction and still holds difficult stretches. Air access is available but not regularly. Dinka cattle posts can be accessed using a boat/canoe to cross the river.	
Location	In Jonglei State on the banks of the Nile river, some 190 km north of Juba	
Drawing Power	Bor wresting tournament held every weekend on Freedom Square. Large cattle camps, easily holding 500 heads of cattle at any given time are found across the river from Bor.	
Destination Facilities	- Several hotels available in town. - Although not formally structured, hotels can provide boat access to the Dinka cattle posts.	
Prices	Accommodation:	From U$ 35 – U$ 120

Competitive advantage

South Sudan contains one of the largest untouched savannah and woodland ecosystems remaining in Africa as well as the Sudd, the largest wetland in Africa, of inestimable value to the flow of the River Nile, the protection of endemic species and support of local livelihoods. The 2007-2010 aerial surveys conducted by the Wildlife Conservation Society and the (then) Ministry of Wildlife Conservation and Tourism of the Government of Southern Sudan revealed:

- One of the largest, intact antelope migrations in the world comprising 1.2 million White-eared kob, Mongalla gazelle and tiang, which rivals the world famous Serengeti wildebeest migration
- Around 4,000 elephants and viable populations of other large bodied species such as giraffe, buffalo and the endemic Nile lechwe
- Large carnivore species such as lion, leopard, cheetah and wild dog still exist

At present, the competitive advantage of South Sudan is found in the fact that it's not a tourism destination. It can be the 'last of the true wilderness adventures' opposed to the standard East African safari package. However, that image will not last long as tourism will basically destroy that by finding it.

9.4 Regulatory and enabling environment for tourism

Tourism in South Sudan falls under the authority of the Ministry of Agriculture, Forestry, Cooperatives, Tourism & Rural Development. A director-general is responsible for tourism and oversees three directorates:

- Directorate of Tourism Development
- Directorate of Marketing; and
- Directorate of Hotel Inspection

The directorate has no budget and no money to conduct any activities. The office space is limited and ill equipped but the staff contingency of 126 people is motivated to support the development of tourism and do what they can without any substantial resources.

Although tourism development, promotion and control (hotel inspection) is housed within a single directorate, the resource base for tourism is controlled through other Ministries. Most notably is the split of wildlife from tourism where both were historically mandates under a single Ministry of Wildlife & Tourism. Wildlife is now hosted as a Service by the Ministry of Interior and Wildlife (see Figure 47).

This means that the tourism directorate is not in control of what is arguably South Sudan's most important tourism asset. The cultural attractions that the country offers are also under the auspices of a separate Ministry (of Youth, Culture & Sports). Staff of the Wildlife Service is found throughout the country (at protected areas) and are tasked with accompanying visitors into parks and reserves thereby fulfilling an important tourism role without any direction or guidance through a formal accountability structure for tourism.

Developing tourism requires efforts in areas of security, infrastructure, marketing, product development, education and awareness creation at local and state levels. This can only be effective from a clear mandate – even a position of strength – that the current tourism directorate does not have. The situation is further complicated with the establishment of a separate Ministry of

Environment responsible for all wetlands and water bodies of which the White Nile and Sudd constitute an important tourism resource.

The proposed South Sudan Tourism Development Authority as an independent tourism body tasked and authorised with the development of tourism might solve some of the dispersed tasks and mandates but the current reality in South Sudan makes it highly unlikely that this will be established soon and become an effective institute unless substantial external funding is provided.

At state level, there is no tourism authority and the mandate of state authority over national resources (protected areas) compared to national authority is unclear. To date, as no tourism development has taken place, possible conflicting authorities have not been tested. Clarification needs to be sought before income generating opportunities are being established as it will influence the investment and development appeal considerably.

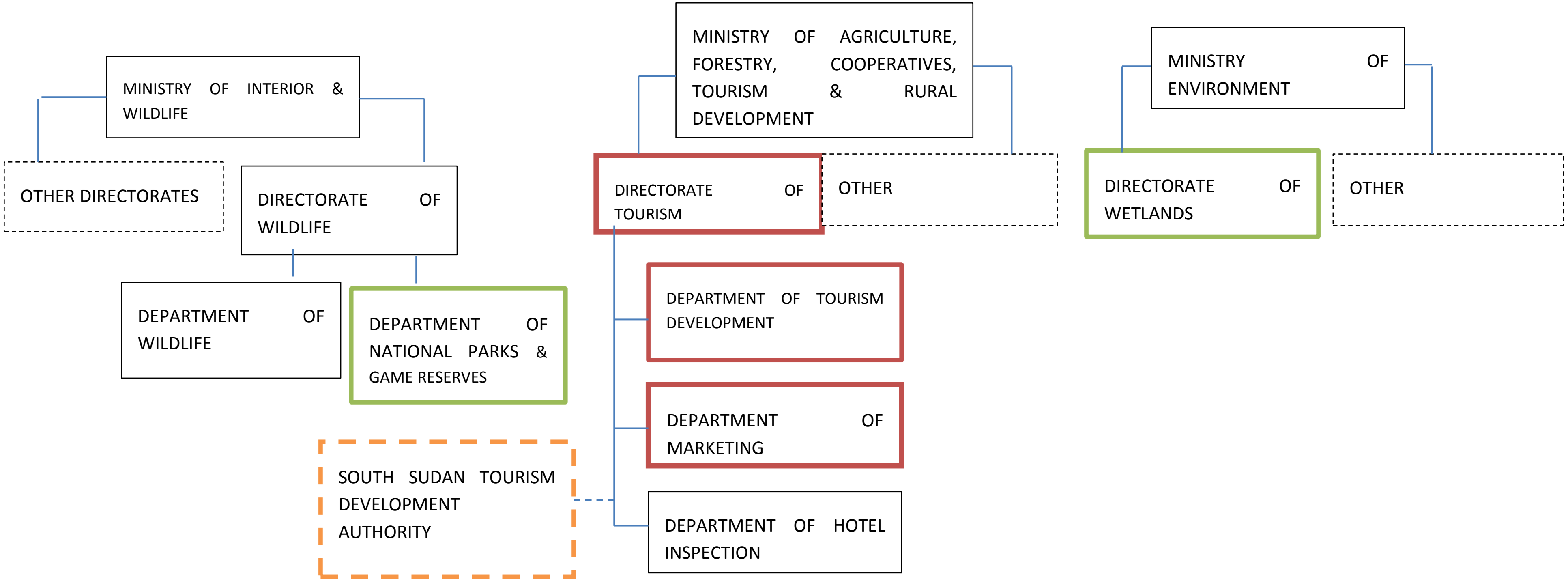
Protected Area (PA) Tourism

The split authority between tourism and wildlife/protected areas is unfortunate as the relation between tourism and protected areas forms a valuable international trend in Africa. Tourism generating markets are aware of the pressure and threats on the environment in Africa (and the rest of the world) and protected areas are often seen as the last safe haven. A protected status is often considered a prerequisite for an attraction – if it is not worth visiting, it would not be protected. This is why tourism development in many African countries has started in national parks and this could be the case for South Sudan as well.

The relationship is also important to maintain resources as sustainable management of biodiversity is expensive. To sustain biodiversity, a comprehensive view of costs and benefits needs to be made: covering the full range of protected area (PA) costs, ensuring that those who bear PA costs are recognised and adequately compensated, and that those who benefit from PAs make a fair contribution to their maintenance.[49]

[49] "Sustainable financing of protected areas – Lucy Emerton et al, IUCN 2005"

Figure 47: Governance structure of tourism and tourism resources (2013)



The tourism resources, the national parks and other protected areas, are not controlled by the directorate of tourism, but fall under different directorates within different ministries (green boxes). Should the proposed tourism authority become reality, an additional stakeholder with a part-mandate will be established (orange)

Donor interventions are often focused on ecotourism development in state-owned protected areas as financing systems for those PAs are unsustainable and tourism is able to contribute to making conservation management more sustainable. This also forms the case for WCS's support to South Sudan where the protected status is passive, offering nothing more than the proclaimed status. In government controlled PAs, where priority rests with conservation as an objective of state, this often creates the expectation of "free for the (local) public" based on the perception of a public asset.

- An official, and recognisable PA system, is likely to attract a willingness to pay amongst individual visitors and the tourism industry. Such possible sources of direct revenue in PAs include:
- *Entrance fees.* Visitors can be charged to enter PAs.
- *Merchandising*. Sale of guidebooks, souvenirs, local crafts, etc.
- *Concession fees*. Companies ("concessionaires") providing services within PAs - such as lodging and guiding - can be charged fees to operate such business concessions.
- *Licenses and permits.* Private firms operating within or outside PAs (e.g. tour operators, guides,) and individuals participating in specific visitor activities (e.g. hiking, fishing, rafting) can be charged for licenses or permits.

Tourism also has a beneficial (indirect) economic impact in the local communities within and surrounding protected areas. This can take the form of payment for provision of tourism services such as guides, accommodation, meals, transport, purchase of souvenirs, etc. all of which contribute additional turnover and income to the local economy. When these funds are then spent locally, this has a knock-on effect supporting still further jobs within the local economy.

Whether directly generated revenue from PAs is actually used to support that park or reserve depends on the management structure and capacity – funds can simply be sent to the treasury for inclusion in the general government revenue budget, earmarked to the PA and tourism authorities or retained within the PA management from which they were generated. In South Sudan, the appropriate regulation for this need to be created including a division at state and national level.

The improved development and utilisation of protected area resources – and possible proclamation of the Boma – Jonglei landscape (see 9.2) as a protected area can make South Sudan an interesting ecotourism destination. However, it is worth stressing that this is not the classic African safari experience of big game found in open savannah grasslands of Eastern Africa.

9.5 Policy

Tourism is guided by a draft policy document (June 2012) only. The policy recognises that tourism forms one of the fastest means of generating foreign exchanges and creating jobs, for skilled and unskilled labour. It looks towards the region where rapid growth of tourism occurred even in troubled countries like Rwanda where it took less than 15 years after the horrific genocide to establish a vibrant industry. The policy is also right in acknowledging that tourism will be one of the few sectors that can truly cover the whole of South Sudan as natural attributes and unique local cultures are found in all states.

The policy is a sound document that identifies strategies for 13 main objectives around:

1. Tourism & Environmental Conservation – due to the Ministry's reorganization, the environmental mandates have been transferred to the Ministry of Environment. This has effectively weakened a coordinated approach to environmental management as the income generating opportunity from environmental resources through (eco) tourism is now spread over different Ministries (see Figure 46) in addition to the states.
2. Culture & Tourism – aimed at promoting cultural tourism products and resources. Similar to [1], the establishment of a Directorate of Culture under the Ministry of Youth, Culture & Sports has weakened the influence of the tourism directorate of the Ministry. Strategies identified to establish cultural centres and a national museum are now under the authority of the MYCS. The idea to establish cultural centres and a national museum are however encouraging as they form a potential visitor product.
3. HR development - identifies need for the establishment of a national training institute for tourism & hospitality as well as curriculum development and training delivery. National training institutes are expensive to develop and maintain and a proper business case (feasibility plan) for South Sudan, where tourism in embryonic, should be made.
4. Planning - the policy foresees the development of a Tourism Master Plan which will incorporate detailed strategies. With the current state of tourism in South Sudan and unlikely rapid growth due to numerous challenges (see section 9.8.) it is advisable to formulate a lean 'white paper' that identifies tourism nodes and priority development.
5. Product Development – the provision of market data and statistics is rightfully identified as a key function to be initiated in order to support product development efforts by the private sector.
6. Marketing & Promotion – the policy identifies the need for generic destination marketing globally and the provision of materials and media outlets, as well as cooperation with foreign missions. As the image of neighbouring countries as tourism destinations is dubious to a large extend, South Sudan should reconsider whether emphasising regional packages represents the best approach.
7. Community & Eco Tourism – a valuable inclusion in the policy of the objective to establish community management structures at local level. The statement however falls short of establishing (economic user) rights for such community organizations as it merely 'support and facilitate' the creation of such systems.
8. Domestic Tourism - although rightfully identifying the value of domestic tourism as an economic and welfare source, the strategy falls short of going beyond "campaign" and encouragement.
9. Product quality – the need for a code of conduct for product quality is identified which could be beneficial in overcoming image problems (see section 9.8). Incentivising the investment of internationally accredited operators and products (classic safari camps) should be considered in this regard.
10. Infrastructure & Transport - the establishment of relevant infrastructure in support of tourism is addressed by liaising with relevant line ministries but it is made dependent on the level of support and priority for the sector amongst different government departments. Emphasis should be placed on feeder roads and internal roads to national parks and reserves.
11. Financing & investment - the policy recognises the daunting task at hand and the need for investments by government and private sector. The allocation of funds by government has not taken place beyond the payment of the salaries of ministry staff. The investment

regulations allow for appropriate incentives for new developments in rural areas (least developed areas). The tax and licencing system for tourism enterprises needs to be streamlined as it is currently perceived as the only available 'cash-cow' and targeted intensively for local and national tax and levy payments.

12. Information & Research – the tourism authority (directorate) should gather data on arrivals, length of stay, satisfaction of visitors and other tourism statistics and disseminate such information appropriately.
13. Regional & international cooperation – the policy proposes to seek regional cooperation that is relevant to South Sudan.

A draft Tourism Bill (March 2013) should provide the regulatory framework for tourism development. The document is solely aimed at establishing and operating the South Sudan Tourism development Authority as an independent tourism body tasked and authorised with the development of tourism.

The bill is a modern document that foresees the Authority to initiate and control tourism and be funded through the collection of relevant fees and taxes that it may charge in accordance with the objective to develop a sustainable and beneficial form of tourism in South Sudan. All other regulations for tourism are to be developed under the guidance of this authority and as such, are not stipulated yet.

9.6 Private sector organizations

The private sector is organised as a Hotel Association under the South Sudan Chamber of Commerce & Industry. The association is managed by an executive committee whose members are all South Sudanese nationals, representing establishments based in Juba. The association meets to discuss challenges and opportunities in the tourism sector and tries to engage with government although it admits that successes are limited (October 2013). Only a small group of some 10 locally owned establishments meet regularly to discuss issues.

There is no formal agreement with government that recognises the association as the legitimate representative of the private sector. The association misses the active participation of the largely foreign owned hotels that control the largest number of rooms and of the more internationally accepted category. This is an indication that there are effectively two types of private sector industry; local and foreign controlled. For effective influence on tourism development in South Sudan, these need to come together as a single entity soon.

9.7 Development potential and trade value

As mentioned in the introduction, tourism represents an attractive non-traditional export diversification opportunity that is a high employer and a good educator. It has the potential to bring high foreign exchange returns for relative low capital investment which is not directed to commercial or population centres but towards areas of natural and cultural resources.

Tourism product development
South Sudan is able to attract different tourism markets based on its resource base, and its socio-economic setting which provide different benefits from a trade perspective. These types of tourism include:

Domestic Tourism

The expatriate community in South Sudan provides a captured tourism market of predominantly well-travelled, single individuals with high disposable income. Although restricted by the same specific challenges that impede on-travel in South Sudan, they do form a market that has expressed genuine interest in excursion type travel on weekends. This is especially true for the large Juba-based community who are keen to find resort/retreat type products along the White Nile that provide a level of comfort and (leisurely) activity options such as a swimming pool and wellness, in the 3 star segment.

The value of this type of tourism is primarily found in its introduction of leisure tourism to the current scope of business tourism products and can therefore constitute the first authentic 'tourism' product. In trade terms, it increases in-country expenses in foreign currency.

Wildlife Tourism

As South Sudan's wildlife resources form its competitive advantage in global terms, wildlife tourism is an obvious product to initiate. The wetland areas, flood plains and mountains form an appealing setting for wildlife tourism including specialist segments such as ornithology. Wildlife tourists are likely to stay on average 10 days (in Africa) and are willing to pay an average of $ 500+ per day for the in-country package if the attraction is special which in the case of South Sudan will be the wildlife numbers and migration occurrence. The concept of a "camp based tourism product" should be pursued. As the logistical challenges of South Sudan make it difficult to move around from one place to the other, the product should be based on a selection of safari camps that form logistic hubs for the wildlife tourists.

This could constitute the first investment into rural (conservation) areas and as such, the first dissemination of tourism benefits beyond Juba. If the concession rights on which these types of tourism operate are owned by the host community, actual tourist revenue-earning opportunities for rural communities will be initiated.

Adventure Tourism

The introduction of a (recurring) adventure event in South Sudan could capture the globally significant adrenalin market based on the pioneering activities of rafting on the White Nile. At present there is only one regional operator offering a regular raft venture between Nimule and Juba but this could provide the basis for putting South Sudan on the global destination map if this could be turned into a periodic event with global sponsorship.

As with the wildlife product, the rights to host/operate such an adventure should be owned by constituted community organizations in the target area so benefits accrue at local level.

Employment & Income Generating Models/ Trade Value

Although no data exists, the hotel industry states that almost all input into their operation, including labour, is imported. This means that there are substantially high leakages in the tourism trade in South Sudan. Whereas initial investment was funded through FDIs, expansion and improvements of hotel properties are now often funded through loans with local (branches of foreign) banks.

The effective trade contribution of tourism therefore requires not just an increase in classic criteria such as arrival numbers and length of stay, but also a structural adaptation of the value chain of tourism by:

1. Overcoming the import dependency

Tourism by its nature, supports and requires a wide mixture of products and services ranging from food and transport to accounting and construction. The more that's available in country, the better for South Sudan and the growth of tourism will stimulate such demand which is currently only limitedly available.

2. Housing economic benefit rights with host communities

By ensuring that economic user rights from tourism are vested with organised & constituted community organizations (forming a legal entity), tourism benefits can accrue at local level and thus be more broadly distributed across the country.

Throughout Africa, successful examples of such systems have been created, including in neighbouring countries like Kenya and Uganda. The good examples are however, far outweighed by problems of non-inclusive tourism development (see Box 24) which should be avoided from the outset.

Box 24: Managing expectations – lessons from Zimbabwe

Participation in tourism refers to economic participation through employment in the tourist industry or trading in goods or services with industry or individual tourists. A survey was conducted in nine communities around the Gonarezhou National Park. Forty-four percent reported having had tourists in their villages and 18% reported having direct contact with tourists. **Only 2 respondents had contact with tourists through their work which reflects early stages of tourism development**. There is a very high level of support for the principle of having tourists in the area (95%). There was significant variation between communities, in those with little experience of tourism 18% felt that tourism exploits local people whereas in communities where tourists visit frequently over 50% felt exploited. Attitudes to tourism are diverse, and it is important to be cautious in generalising about what communities think in an undifferentiated way.

9.8 Specific challenges to tourism development in South Sudan

Several country specific challenges in South Sudan influence the introduction and development of a tourism industry:

The real and perceived security situation

- As indicated in the travel advice section, South Sudan has real security challenges in large parts of the country; in particular there where the primary natural attractions are found (Boma - Jonglei Landscape). This makes travel difficult and is not easy to resolve quickly. The perception in the major tourism generating countries is that the whole country is problematic to travel and this negative image makes for a platform of speculation and half-truths on top of real safety issues, including unexploded ordinances, banditry, hold-ups and an ineffective rule of law at selected state levels. In addition, the country is malarial and one of the few destinations in Africa where Yellow Fever still occurs and vaccinations are required. The health system does not provide any solace as it is almost none existing, especially outside of Juba.

- More a hassle and nuisance than a security threat is the cumbersome and un-transparent permit system. Although the law does not prescribe tourists (staying less than 30 days) to register with authorities within 72 hours, this is not well known amongst authorities and makes for challenging discussions that should be avoided. Obtaining separate “photo-permit” for taking pictures (a key tourism activity) also creates an unwelcoming feeling amongst visitors.

Infrastructure and Access

- The infrastructure is (understandably) weak across the whole country but especially there where the natural wildlife attractions are found. Dirt roads with large pot holes make travelling cumbersome and fuel is not always available. The logistics of operating any tourism venture that requires insurances on visitor mobility, meals and water are therefore challenging and become expensive.
- Although sufficient airline capacity into Juba from the region exists, the airport capacity and visa procedure are a real bottleneck which would require a designated ‘tourism’ system to facilitate the arrival of bona-fide tourists to avoid them turning around on the runway. The new terminal building (under construction) should make some of this easier and more visitor friendly but the procedure of the visa formality on arrival needs to be managed better as well.
- Accommodation adhering to international standards is difficult to find outside Juba. The vast majority ranges from poor to outright appalling. There is no industry wide communication platform that ensures bookings and there is no culture of honouring bookings by phone; walk in clients get preference (statement Hotel Association).

Skills Capacities

- The skills base for hospitality and especially tourism (development) is very limited. With the boom of (Juba) hotels, experiences in hospitality functions are increasing but the industry managers state that employees are not loyal to the enterprise or the industry and no career thinking in tourism exists. The development of tourism, a notoriously sophisticated industry, requires coordination and professional guidance at all levels. With an absent history of tourism in the young republic, such skills do not exist. The poor planning framework is further compromised by the lack of data and dispersed authority over the resources required for tourism.

9.9 Conclusions and recommendations

The regulatory framework is weak due to the split of mandates and responsibilities on natural resource management (parks & wildlife), cultural resources and tourism across different governmental entities. The Tourism Directorate is left with the mandate to promote and regulate an (infant) industry without the tools to control the attraction base.

A large staff contingency without proper office space, equipment, work plan and budget is effectively 'hanging around' a parking area of the wildlife service not able to perform specific duties and/or tasks for the development of the tourism sector.

The draft policy and bill does provide a good basis for tourism development although it could benefit from strengthening the linkages between state and national government and community involvement.

The resource base for tourism is not well documented but is likely to include a wide variety of wildlife of which several (kob) occur in large numbers and migrate annually along the flood plains of the Sudd creating a rival event to the great wildebeest migration in the Serengeti and therefore a globally significant attraction. A correct and detailed inventory of the tourism resources should be a priority task.

To benefit from this unique attractions, the protected area system needs to be enhanced and entrance fees charged whilst at the same time a concession for commercial tourism operations needs to be created that entices private sector investment and provides benefits for the communities living in direct vicinity of the parks. It is proposed to constitute concession rights with legal community organizations so these can lease these concessions to appropriate and experienced tourism operators. This will enable the creation of 'special tourism zones' where entry fees are paid to the protected area authority and bed night levies are an income source divided between the tourism authority, state government and the neighbouring community groups. These special zones should use park boundaries as demarcation for the proposed revenue dissemination.

These operating modalities are likely to start tourism around a nodal development that emphasizes the rural areas where tourism stands to benefit (semi-skilled) residents through employment creation.

- As the current entry formalities into Juba are not conducive to tourism, formally registered tour operators should be given preferential access and procedures at Juba airport to guide their clients along a 'fast track' through customs formalities.
- There is an acute lack of factual correct information about South Sudan. To overcome this situation should be the priority task of the Directorate of Tourism. This is different from outright promotion for which the country is not ready yet. The organization of a globally significant event such as a rafting race can hold much more value if supported by appropriate and correct visitor information through print and as an online platform.

South Sudan is currently going through the normal tourism development phases of an emerging market. Currently there are encouraging signs that the business and pioneering level is reached with individual entrepreneurs and a few corporate (East African) enterprises having created new establishments. The formation of a tourism development authority could provide impetus to the creation of employment and income generating opportunities so desperately needed and provide the pro-active approach by the Government of South Sudan in tourism development. This requires an improved enabling environment as well as diversified visitor products which are likely to come from individual small-scale operators able to establish their own niche markets.

The abovementioned interventions allow for a realistic growth of tourism in South Sudan – the outcome of which should form the basis for the new, autonomous system of tourism development in the country. This holds more value than trying to create a theoretical system for tourism growth and expecting the various stakeholders to implement it. Well-intended strategic ideas from the draft bill and policy are unlikely to be implemented, mainly because tourism is low amongst the country's more 'pressing' development issues.

That is why the proposed actions are primarily aimed at making the country known as a tourism destination and increase visitor numbers (see Table 29 below). The approach suggested foresees a private sector driven industry guided by an empowered and informed authority for tourism development giving priority to development in the identified key resource areas.

TABLE 29: PROPOSED ACTION PLAN FOR TOURISM IN SOUTH SUDAN					
Objective	**Priority**	**Recommended action**	**TA needed**	**Local agency or external support**	**Costs US$**
Enabling Environment					
Tourism directorate repositioning	High	Tourism and Protected Area Management under the authority of a single ministry	No	Ministry of Interior and Tourism Directorate	Nil
	High	Inventory of tourism assets	Yes	Tourism Directorate	50,000
Establishment of a Tourism Development Authority	High	Formulation of a detailed business plan, legal registration of authority, funding of office, equipment, training and organization development and running costs for 5 years	Yes	Tourism Directorate, UNDP	3.5 million
Human Resource Development in Tourism	Medium	Tax incentives for accredited training of staff and for full-time labour agreements to be designed	No	Tourism Directorate and Ministry of Finance	Nil
Airport Fast Track	High	'Fast track" access facility at Juba Airport for tourists booked with registered tour operator	No	Customs &Immigration, Directorate of tourism	100,000
			TOTAL US$3.65 MILLION		
Diversified Tourism Product					
Tourism product development	High	Investment portfolio for two national parks as identified in the tourism inventory and published/facilitated internationally.	Yes	Tourism Directorate with consultants	100,000
	High	Start-up support for South Sudan owned tourism enterprises outside of Juba with diversified offering	Yes	Tourism Directorate with consultants	500,000
	High	Annual event introduction – rafting, wildlife migration, others and matching funds for first event	Yes	Tourism directorate, others (private sector)	100,000
	High	Tour operator licencing and airport licence	No	Tourism Directorate	50,000

Tourism Node Development	High	Establishment of concession areas and operating modalities on benefit sharing at state and community level; awareness creation for communities and facilitation of joint venture agreements	Yes	Tourism Directorate, Wildlife Service, WCS	1 million
Access Roads	High	Park access roads, feeder roads to identified sites in PAs and proclaimed tourism nodes.	No	Tourism Directorate, Ministry of Roads	1 million
					TOTAL US$ 2.75 MILLION
Increase Demand					
Make South Sudan known in tourism generating markets	High	Website hosting managed as PPP, image library, information publications, management costs for 2 years	Yes	Tourism Directorate with consultants	300,000
Improve access to South Sudan	Medium	Simplify visa requirements and allow visa on arrival for EU and US passports	None	Customs and Immigration	Nil
					TOTAL US$ 300,000
GRAND TOTAL					**US$ 6.7 MILLION**

ROAD MAP	2015				2016				2017				2018				2019			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
ENABLING ENVIRONMENT																				
Tourism mandate repositioning																				
Establish Tourism Development Authority																				
HR in tourism																				
Airport Fast Track																				
DIVERSIFIED TOURISM PRODUCT																				
Tourism product development																				
Tourism Node Development																				
Access Roads																				
INCREASE DEMAND																				
Make South Sudan known in tourism generating markets																				
Improve access to South Sudan																				

REFERENCES

Brad Guide South Sudan (2013). Sophie & Max Lovell-Hoare, October 2013.

Damien Jacobsen, Dean Carson, Pramod Sharma and Jim Macbeth (2004). A Guide to Assessing the Economic Value of Tourism in Regions, Occasional , Number 7, CRC.

Government of the Republic of South Sudan (2011). South Sudan Inaugural Investment Campaign: Identification of Priority Sectors for Proactive Promotion, IFC, May 2011.

IUCN (2009). Report on National Conservation Action Planning workshop for cheetah, wild dog and lion.

Christine Breitenmoser-Würsten, Sarah Durant and Amy Dickman (2009).Oasis Camp, Juba, Southern Sudan 30 March – 3 April 2009.

Lucy Emerton et al. (2005). Sustainable financing of protected areas, IUCN.

SNV Rwanda (2008). Branding Rwanda as tourism destination. SNV Rwanda and RSM-Erasmus University.

UNDP (2011). Tourism and Poverty Reduction Strategies, Discussion Paper, April 2011.

UNDP (Undated). Launching Protected Area Network Management and Building Capacity in Post-conflict Southern Sudan, Project document.

UNWTO (2013). Sustainable Tourism for Development Guidebook, First edition: 2013.

Iain Christie, Eneida Fernandes, Hannah Messerli, and Louise Twining-Ward (2013). Tourism in Africa. Harnessing Tourism for Growth and Improved Livelihoods, World Bank, Washington D.C. at https://www.gov.uk/foreign-travel-advice

CHAPTER X – POVERTY REDUCTION STRATEGIES

10.1 introduction

There is a diversity of views as to which poverty reduction strategies are more effective – economic growth or redistributive policies. The growth-centred school of thought argues that economies that achieve economic growth show that over time the expansion of national income reduces poverty, including among most at risk populations (MARPs) and the bottom 20%. According to Kaushik Basu, a Vice President of the World Bank, the bulk of poverty in recent decades was eradicated by overall income growth as well as growth of income of the poor (Basu, Kaushik 2013). Growth has been driven by private sector development, the rule of law, fiscal discipline and trade openness.

The other side of the argument holds that redistributive, pro-poor policies also have a positive impact on reducing poverty. Kaushik Basu, mentioned above, notes that "on poverty eradication, theory and evidence show that policy interventions, when skilfully designed, can also play a significant role". It is well documented, for example, that the Indian government's free midday meals scheme has increased school attendance and nutrition by reducing daily protein, calorie and iron deficiency of poor primary school students (Abhijeet Singh 2013). Arguably, similar publicly funded social programmes targeting poor households in comparable contexts like Sub-Saharan Africa could be extended to other areas such as public health and education as poverty reducing measures.

In both of these cases, growth-oriented and pro-poor policies have demonstrated their capacity to generate positive outcomes in the form of reduced poverty and inequality. Therefore, GRSS needs to consider a combination of complementary policies that will not only promote inclusive growth through enterprise development, increased investment flows and trade, but also government and/or donor funded programmes that target MARPs with a view to reducing absolute poverty. The government's commitment to enterprise-led growth through various initiatives, including Aid for Trade, combined with redistributive policies such as a proposed child cash benefit programme (GRSS 2011, pp. 42-43) suggests that this hybrid approach is already under consideration by policymakers. Accordingly, below is an overview of social programmes as well as opportunities in priority economic sectors that potentially could contribute to broad-based poverty reduction in South Sudan in the medium to long-term.

State-backed poverty reduction strategies

As shown in Chapter I, poverty and vulnerability in South Sudan are widespread and much of the population does not have easy access to basic social services. GRSS is considering a variety of social and human development measures, one of which is expanding access to basic social services. Basic social services comprise improved primary health care to reduce maternal and infant mortality through investments in new facilities. A second component of basic social services is raising school enrolment and the retention of girls in school through teacher training, expansion of classrooms and school meals. To address the needs of vulnerable communities, there is a planned child benefit cash transfer system to ensure that the children of poor families meet basic daily nutritional requirements. There is also a payam-level youth programme aimed at integrating at risk young people in nation-building activities and public works. (Details of these initiatives can be found in "South Sudan Development Plan 2011-2013".)

Long-term sustainability of these programmes will be achieved as the tax base and revenue collection are progressively expanded, including transfers of oil revenues to government social programmes. For example, GRSS plans to transfer 7% of oil revenues to priority social sectors and for poverty reduction. And as political and economic stability improve and growth increases, the number of people living below the poverty line will decrease as discussed in the next section, requiring less public expenditure to combat poverty. Social welfare will also expand due to the provision of infrastructure like electricity, water and sanitation services and high-density social housing and resulting incomes from employment related to development and maintenance of these assets.

While many of these programmes have not fully started for various reasons such as the recent austerity budget and ongoing internal tensions, there is still strong justification for continued government commitment to fund these MDG-related objectives. Additionally, support should be sought from development partners, including bilateral and multilateral partners as well as NGOs, to kick-start these initiatives. Public-private partnerships may also be suitable in special contexts, such as large companies funding community clinics, schools or health programmes in exchange for access to resources. For a summary of ongoing poverty reduction activities by the government and its partners, see Annex 2.

Poverty reduction strategies through enterprise development

South Sudan, as mentioned in Chapter V on the business environment, suffers from serious institutional and structural deficiencies that inhibit economic growth and development. These weaknesses are reflected in the country's extremely high cost of doing business. A robust business environment is therefore a prerequisite for a vibrant, inclusive private sector made up of strong local enterprises, farmers and producers that produce a diversified basket of goods and services to generate incomes and employment. The poverty reduction strategy through enterprise development and growth described below comprises three elements: cooperatives and producer associations, capacity building and forging business linkages in selected sector value chains.

Cooperatives and producer associations

The majority of economic actors in South Sudan are smallholders, sole proprietorships and informal enterprises that operate independently. It is estimated that there are only about 20,000 registered, formal SMEs in the country. Organizing many of these formal and informal actors in small voluntary groups in the form of cooperatives and associations, especially in the agricultural sector, has several benefits. It is an efficient way to reach micro and small enterprises, including marginalised groups like women and youths; connect enterprises to markets and opportunities; and leverage their collective bargaining strength to take advantage of economies of scale. While cooperatives and associations are not new to the country, their full potential has not been fully developed (see Box 25).

Box 25: Cooperatives in South Sudan

Cooperatives have been around since the 1920s and currently there are 566 registered primary cooperatives with 20 or more members in all 10 states, the majority based in Jonglei, Eastern Equatoria and Western Equatoria States. A cooperative is defined as an autonomous, democratically controlled, legally constituted association of persons united voluntarily to pursue common economic, social and cultural objectives. The advantages of membership are bulk purchasing at reduced prices, linking local producers to provincial, national and international markets, bargaining power and access to new technology, partners, finance and other services.

In South Sudan, cooperatives are governed by the Cooperative Societies Act (2011) under the Directorate of Cooperatives in the Ministry of Agriculture, Forestry, Cooperatives and Rural Development. The functions of the directorate include formulating and implementing policy, providing extension services, addressing governance issues, dispute settlement, training and education. One of the directorate's main objectives is to multiply cooperatives through capacity building and linking them to stronger cooperatives and associations. However, the challenge for the government is the lack of regulations and enforcement mechanisms to advance its development objectives. This includes the need to harmonise the directorate's policies with national policies on taxation, labour, employment, gender and youth. Another constraint on the growth of cooperatives is the high registration fee, a major complaint of the cooperative movement and lowering the fee is considered a priority.

Source: GRSS (2012), "National Strategy for Cooperative Development 2012-2015", May 2012.

Globally, the sectors in which cooperatives are active include agricultural supply and marketing, retailing and financial services. Cooperatives offering financial services include cooperative banks, savings and credit cooperatives (SACCO) and micro-insurance providers. Other activities are construction, tourism, manufacturing and labour contracting, including cargo handling, road work, farm work, garbage collection and office cleaning (GRSS 2012, p.12). These activities show the broad range of functions that cooperatives perform. The key benefits arising from these activities are poverty reduction and the improvement of livelihoods through education, appropriate production and business skill development as well as strengthening of cooperatives and associations, including informal economic groups.

In South Sudan, cooperatives are often engaged in agricultural supply and marketing, retailing, savings and credit. The examples of activities mentioned above show the potential that cooperatives have in leveraging the potential of SMEs and reducing poverty. One key area that these institutions could play a role is in the absorption of 150,000 ex-combatants in cooperatives to conduct labour-based public works, including road construction. The National Strategy (2012) notes that labour contracting cooperatives will be given priority because of their potential to generate decent employment in South Sudan's growing construction industry(GRSS 2012, pp.24-25).

However, support for capacity building is needed in areas like marketing the services of cooperatives and associations to their communities, lobbying and representing their demands to policymakers and training in business organization, management and bookkeeping (GRSS 2012, p.21). Other areas of government support include the provision of preferential credit and tax exemptions, financing for agricultural research and infrastructure improvements.

Another role that cooperatives could perform is in assisting informal operators achieve some measure of official recognition and status through their association with cooperatives. For example, women informal cross border traders in Uganda used their membership identification cards to facilitate border crossings at Nimule and navigate customs formalities.[50] Also, these women traders were assisted by their associations to formalise their businesses (Box 26).

Box 26: Informal cross-border trade

[50] An ITC project starting in 2010 assisted the Ugandan authorities to organise women traders in groups, strengthen existing associations and build capacity for compliance with customs formalities at selected borders.

The shortage of consumer goods and the lack of local production capacity in South Sudan drive both formal and informal cross-border trade between Uganda and South Sudan. Estimates indicate that the prices of goods sold in South Sudan are 40% higher than similar goods in Uganda because of high transaction costs. Informal cross border trade in East Africa is dominated by women. The growth of informal cross-border trade generally represents a normal market response to time-consuming and inefficient bureaucratic export-import procedures and regulations. Traders see these barriers as significantly increasing the cost of both joining the formal economy and operating within it and for this reason opt to remain informal (Victor Ogalo 2010).

This form of trade is generally defined as trade that is legal but unregulated and not accounted for in national accounts and other official trade statistics. It is estimated that informal imports from Uganda amounted to $445.5 million in 2009 and $197 million in 2010. In the same period, informal exports to Uganda were $5.8 million and $3.2 million, respectively (Bank of Uganda 2012). The precipitous drop in trade flows in 2010 was caused by increased border insecurity. The main informal imports from Uganda included fish, cattle, bananas, millet, eggs, shoes, clothing, milled and unmilled maize and pharmaceuticals. The only export to Uganda from South Sudan in significant numbers was timber. This suggests that there is untapped potential for goods traditionally exported by South Sudan such as timber, hides and skins, honey, coffee beans, groundnuts, sesame, beans, horn and hoofs and gum arabic (Paul Brenton and Gözde Isik 2012, pp.43-45).

Based on available data, about 77% of traders come from female-headed households aged 35-45 with low literacy levels and whose main source of income is trade for meeting basic needs like food and school fees. Kaya is one particular border crossing that is active with South Sudanese women traders. These traders cross the border from South Sudan into Uganda to purchase goods in Oraba for sale during market days. Other groups of women traders include Kenyan and Ugandan women who use public buses to transport goods for sale in Juba (Paul Brenton and Gözde Isik 2012, p. 51). A common complaint of women traders is the high risk of harassment, violence and extortion at border crossings. Therefore, organising women traders in associations and cooperatives could offer an effective way to represent their interests to the government, increase formality and address insecurity and other barriers to trade along South Sudan's active borders, especially in the southern and northern states.

Cooperatives and business associations that target women could be more effective in addressing gender disparities in South Sudan (see Annex 2 on women's associations). For example, such bodies could advocate for a trade policy that is gender sensitive. This includes trade facilitation that is responsive to the needs of informal women traders in several ways, such as simplifying import-export documents, harmonising customs documentation and customs procedures with EAC trading partners, instituting single window clearance to reduce red tape, phasing out mandatory use of brokers and routinely involving women's associations in capacity building activities (Ruth Kihiu 2011. Pp.15-17). Additionally, these groups could facilitate training in workplace gender and equity issues and HIV/AIDS prevention practices.

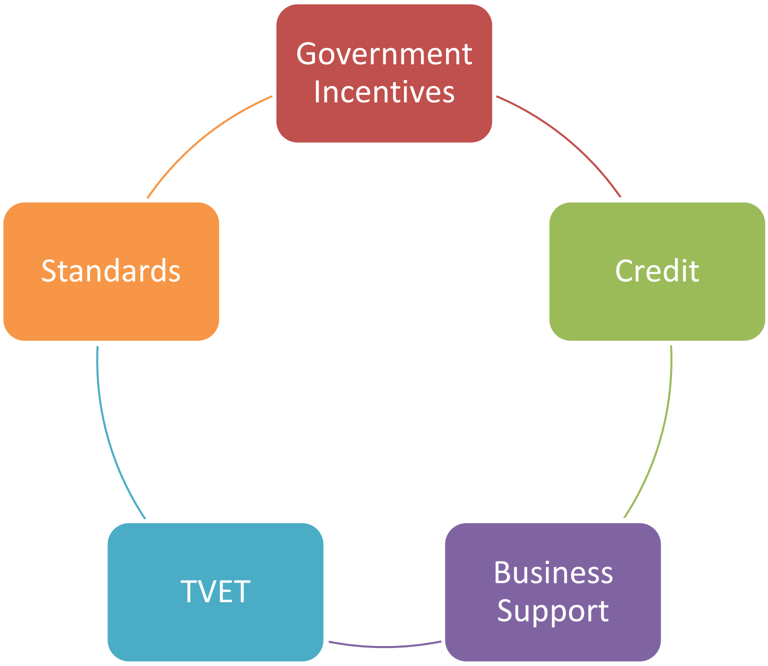
In summary, there is a compelling argument to be made that cooperatives and associations representing SMEs, smallholders and informal businesses can facilitate enterprise development, address market entry barriers, help informal enterprises transition to formal status and contribute to rural livelihoods and poverty reduction. Therefore, the formation and strengthening of these groups should be supported along the lines outlined above.

Capacity building and business development services

Enterprise development usually does not take place in a complete vacuum, requiring a combination of capacity building and other supporting measures to nurture and sustain existing and start-up SMEs

(Figure 48). A host of interventions is necessary to support private enterprise development in South Sudan, including incubators, vocational and technical training, access to finance and other business development services like capacity building to improve SME compliance with regional standards. Other interventions include technical support to prepare selected SMEs and cooperatives in priority sectors for integration in supply chains linked to national and regional markets; and the introduction of model contracts to mitigate commercial risk between buyers and sellers.

Figure 48: Capacity building and business development services



- *Government programmes* that include loan guarantee funds, tax incentives and relief for investing in economically depressed urban and rural areas; fiscal measures such as differential tax rates for small businesses; legislative benefits such as exemption from environmental requirements; and support infrastructure such as business incubators that provide business premises, basic utility services and ICT; timely market information regarding prevailing market conditions and opportunities in different parts of the country; an information clearinghouse for job opportunities and public procurement notices; and services like simplified business planning, counselling and coaching to facilitate access to finance and promotion of priority industries.[51]
- *Enhancing the supply of credit* by improving the eligibility of SMEs and cooperatives for commercial bank and microfinance loans through guarantee funds, movable assets and warehouse receipts as collateral (see Box 26). Other sources of credit include leasing, outgrower schemes, contract farming and partnerships with input suppliers. Low-cost channels for reaching SMEs range from mobile payment systems and mobile banks to agency banking through retail or postal outlets. Credit is usually for working capital, equipment and renting of premises. About

[51] Some of these functions could be performed by private companies in return for a fee or other means of revenue generation like advertising.

98% of the population has no access to financial services (GRSS 2012, p.39). Market interest rates are 18-23%.

- *Business development services, training and development*, including skills, counselling, coaching, networking and building business linkages. This involves working with stakeholders, including lawyers, accountants, funding sources, marketing professionals, potential customers and business partners to promote and develop entrepreneurship and to provide essential support services to SMEs and cooperatives like facilitating loan applications, marketing and model contracts to increase business generation. In South Sudan there is a lack of entrepreneurial skills such as how to start and manage a business, negotiate with creditors and other service providers and cultivate relationships with customers, employees, lenders, government agencies and vendors.
- *Technical and vocational education and training (TVET)* – working with existing institutions such as Amadi Rural Development Institute and others to develop a market-responsive national standardised curriculum on technical and vocational education to produce apprentices and master crafts people in various trades in demand in the construction, oil, mining, agribusiness, tourism and transport sectors; promoting apprenticeships and attachments in local and foreign companies; and developing basic functional literacy and numeracy skills through adult training programmes.
- *Improving compliance with international standards* – achieving compliance with international SPP and technical standards is a challenge for most enterprises. Hence, improving SME quality controls and compliance with these standards through capacity building and standards and certification infrastructure should be a key component of South Sudan's private sector development and export strategy. Improving compliance standards will reduce rejection rates at ports of entry and expand access to markets for finished and semi-finished products as well as commodities like timber, hides and skins, honey, coffee beans, ground nuts, sesame, beans, gum arabic, fish and livestock. Certification of service firms would also improve access to national and regional markets, for example, oil and gas services.

Box 27: Case study – Ethiopia warehouse receipts

Crop prices tend to be at their lowest during the harvesting period and highest during the planting season when stocks are low. Warehousing allows farmers to store their crops when prices are low, obtain credit to meet expenses for the next planting season and sell when prices are high, thereby increasing farmer incomes and improving access to credit. The example of Ethiopia follows.

THE CHALLENGE: Agriculture forms the base of the Ethiopian economy, accounting for 80% of employment and 50% of the country's GDP in 2011. Although the government is committed to supporting agribusiness, structural blockages exist around sector access to finance due to the risks associated with traditional rain fed agriculture, lack of collateral and the complexities of loan appraisal and analysis. As a result, bank lending to agribusiness makes up just 10% of the total lending portfolio.

THE RESPONSE: In 2009, the Ethiopia Commodity Exchange (ECX) signed an agreement with IFC to develop the concept of warehouse receipt financing which would allow banks to use verified warehouse receipts as collateral. The Ethiopia Commodity Exchange certifies secure warehouses that issue receipts to the supplier confirming the deposit and the grade of the produce. This receipt serves as collateral for a loan. IFC assisted ECX develop a range of best practice manuals for affiliated warehouses; promoted the concept to government, industry and the general population; and advised local banks on this financing method. Direct outcomes of this project included a 92% increase in warehousing capacity and a dramatic increase in warehouse receipt financing loans, which grew from $50,000 to $600,000 in 2010-2011.

Source: IFC Advisory Services in Africa.

http://www.ifc.org/wps/wcm/connect/f19165004e8a280bb100bdfce4951bf6/Africa_AS_Factsheet_web.pdf?MOD=AJPERES

Linkages development

The majority of South Sudan's enterprises are in the informal sector with only about 20,000 SMEs operating in the formal economy, mainly in the services sector. These businesses are mostly inward looking with few linkages to one another and to external markets. In order to develop productive capacity and diversify the economy, there is a need to expand the number of local SMEs and build linkages among themselves and with large regional and international companies. Forging linkages upstream and downstream in selected sectors can stimulate value addition, contribute to exports and employment and reduce poverty by supporting rural livelihoods and entrepreneurship. Box 28, which provides an illustration of Haiti's linkages development programme to promote enterprise development, is instructive and provides lessons for South Sudan.

Box 28: Linkages development programme in Haiti

Many countries that have successfully moved up the value chain in multiple sectors, most notably South Korea which achieved success partly through a process of learning via diversification of the domestic economy, rather than by exclusively relying on technology from abroad or attracting FDI. Given the prospect of significant new flows of foreign investment in Haiti in the near future, it will be doubly important to develop linkages both between large and small domestic companies and between foreign companies and local companies.

An explicit linkages development programme may be the best way of achieving this objective. Linkages include backward linkages with suppliers, linkages with technology partners, forward linkages with customers and other spill over effects. Linkages are often lacking because local firms cannot meet international production standards, as well as corporate requirements in terms of consistency, continuity and volumes of production.

A UNDP initiative known as the Supplier Development Programme is currently underway to develop linkages. The programme aims to identify a suitable large company which currently sources inputs from abroad, such as a large supermarket or food manufacturer, and to find and coach local suppliers to supply the company. A group of 33 local consultants have been selected for training in supplier development. Two consultants will be assigned to each supply chain. Eventually it is expected that the project will become self-sustaining. Under similar programmes in other countries some local firms have subsequently developed into exporters themselves.

In addition, UNDP is seeking to establish one-stop centres where entrepreneurs can access business development services and inputs (i.e. entrepreneurship training, information, finance, quality control, networking and business counselling).

Source: Haiti DTIS 2013

Linkages or value chain development offer many opportunities to competent South Sudanese firms to participate in the supply chains of larger companies, both domestic and foreign. For this to happen, the government needs to develop local content regulations that encourage development of national suppliers of goods and services. For example, in the agribusiness sector local companies can participate along several stages in the value chain: production, inputs, grading, standardisation, milling, packaging, branding, logistics and ancillary services like financing and advisory services.

The next section explores the opportunities in the oil, mining, agribusiness and tourism sectors available to South Sudan that will have the greatest impact on human development and poverty reduction. The basis for the selection of the sectors is their potential to form linkages between local SMEs and export-oriented domestic and foreign companies, generate export revenue for the country, create jobs and raise the standard of living of the poorer segments of the population.

10.2 Opportunities in the sectors

Oil and energy

The oil and energy sector is typically capital-intensive and upstream activities tend to provide few employment opportunities and development linkages. The upstream oil sector comprises exploration, transportation and production. However, there are a number of potential mainly upstream but also downstream refinery-related opportunities open to local participation in South Sudan as follows:

Upstream

- Quality control, testing, inspection and certification services to control petroleum products by private sector operators
- Environmental impact assessments by private consultants
- Transport services, e.g. tankers and other transport
- Management, administration, security, catering, real estate and maintenance services, e.g. welders

Downstream

- Refining of crude oil (diesel, petrol, aviation fuel, LPG, bitumen or asphalt)
- Quality control, testing, inspection and certification services to control petroleum products by private sector operators
- Wholesale and retail distribution outlets like filling stations
- Transport services, e.g. tankers and other transport
- Management, administration, security, catering, real estate and maintenance services

In addition to the above-mentioned activities, there is private sector power generation and sale to industrial and residential customers. However, in order for domestic SMEs to access these opportunities, the government and energy companies need to make available to the public information about plans and activities in the energy sector. Transparent procurement procedures are needed that ensure energy companies supply commercial information like tenders and requests for proposals to local businesses, chambers of commerce and cooperatives. Other measures include funding to enable SMEs to implement projects as well as support for universities and technical and vocational schools to provide appropriate training to build the capacity of national firms to work to international standards.

Malaysia and Norway are usually cited as good models because of many decades of skilful stewardship of their oil wealth. Box 29 gives some practical examples of how Malaysia developed its energy industry, partly showing the way for local participation in the sector by South Sudanese companies. GRSS needs to promote participation of South Sudanese companies in providing services to the oil sector through development of linkages (partnerships, joint ventures, etc.) between local and foreign firms.

Box 29: Case study - Malaysia's oil industry

Recognising that the most lucrative part of the oil business is in the provision of services to major oil companies, the Malaysian government created the Malaysian Petroleum Resource Corporation (MPRC), whose mandate was to spearhead the emergence of a competent local (Malaysian) service industry for the petroleum sector.

Under the MPRC Act, any foreign petroleum service company wishing to operate in Malaysia must be registered in the country. However, before obtaining registration, the company must show that it has a local partner holding a significant stake in the business. The company must also show how it plans to gradually transfer skills and knowledge to local people so that the company is managed by Malaysians after a reasonable period of time. Today, MPRC oversees more than 3,500 private companies (both local and joint ventures with foreign partners) all providing technical and other services to the oil sector in Malaysia.

Source: "Only enabling economy can transform Tanzania," CEO Magazine, 28 October 2013. http://theceo.co.tz/only-enabling-economy-can-transform-tanzania/.

Mining

The mining sector, similar to the oil sector, is highly capital intensive particularly at the large-scale, industrial end of the sector (for details on the mining sector, see Chapter VIII). That being said, South Sudan has an active ASM community involved in gold and minor gem mining. Anecdotal information suggests that there are up to about 60,000 people involved in the ASM sector. One way to rationalise the ASM sector and improve scale economies is to organise miners into cooperatives and formalise their operations to support rural livelihoods and local entrepreneurship. Group formation would facilitate access to credit and services and the development of linkages to larger companies with networks of suppliers and buyers. Formalisation would also subject miners to taxation and help contribute to government revenue as well as increased compliance with environmental regulations. ASM associations and cooperatives could be encouraged to diversify into related activities such as the following:

- Quarrying of limestone, gravel and marble for the construction industry
- Mining equipment sales, leasing and rental services of generators, pumps, power tools, excavators, etc.
- Management, administration, security, catering, real estate, transport and maintenance services

Agribusiness (agriculture, forestry, livestock, dairy products)

In the non-oil sector, the agricultural sector is the largest source of income and employment, employing 85% of the workforce. In South Sudan, where the average household size is seven persons, employment in this sector can potentially have significant multiplier effects not only on household incomes but also on the wider economy. As recommended in Chapter VI on agriculture, the five sectors for development and poverty reduction include maize, cassava, sorghum, groundnuts and livestock. Domestic demand for these goods is substantial, as measured by the food import bill of US$ 200-300 million per year and by the volume of imports (Table 30).

Table 30: Imports of selected agricultural products

Product	Total Imports (MT)
Maize grain	52,240
Maize flour	105,720
Cassava	130
Sorghum	42,428
Groundnuts	8,120
Cattle (per head, not MT)	74,250
Goats/sheep (per head, not MT)	57,400

Source: FEWSNET Trade Flow Reports, 2011.

In addition to satisfying domestic demand, other markets for local produce include regional markets like Sudan and Uganda as well as international export markets. In 2011, South Sudan exported about 10,000 livestock per month and unrecorded quantities of dry and fresh fish, ghee, hibiscus, sorghum, groundnuts, sesame and pineapples. Other exports included non-timber forest products such as honey, tamarind, balanites, grewia, gum arabic, charcoal, bamboo and timber (Beauty Jiji 2012). See Box 30 on the potential for growth in these five sub-sectors based on Zambia's experience.

Box 30: Crop and livestock development in Zambia

Zambia, apart from its physical and human capital, exhibits similarities with South Sudan in terms of its geographic and demographic size. The example of Zambia indicates what South Sudan could achieve with the necessary development and investment in the five selected agricultural sub-sectors. Zambia's land area is 752,000 sq. km and its population size is 11.8 million. In terms of income, Zambia's GDP per capita was $1,469 in 2012 (World Bank) compared to South Sudan's GDP per capita of $1,858 in 2011 before the border closures and oil shock the following year.

The table below (in metric tons or MT except for livestock demand figures which are per animal head) shows quantities of Zambia's demand and production for maize, cassava, sorghum, groundnuts and livestock. The supply figures for most of these goods, with the exception of sorghum, are multiples of what is currently produced in South Sudan with supply outstripping local demand. This situation suggests two possibilities. First, there is the potential to export surplus supplies and generate foreign currency. In the case of maize, for example, the total demand of 1.6 million MT in 2011 consisted of home consumption of 1.2 million MT, national food reserves of 250,000 MT, animal feed of 65,000 MT, brewing of 15,000 MT and seed multiplication of 20,000 MT. In 2011, Zambia had a surplus of 1.2 million MT of maize for export or other uses. Second, investment in modern agriculture can create employment and reduce poverty through the development of backward and forward linkages, thereby bringing significant numbers of unpaid workers into the cash economy.

	Maize	Cassava	Sorghum	Groundnuts	Cattle	Goats
Demand	1.6 million[a]	533,000[b]	7,259[c]	58,585[c]	58,000 (beef); 65,000 (raw milk)[d]	146,000[e]
Supply[a]	2.8 million	900,000	19,000	74,000	2.5 million	1.6 million

Sources: Zambia Development Agency (2011), Agriculture, Livestock and Fisheries Sector Profile 2011;[a] Nigel Poole (2010), Zambia Cassava Sector Policy: Recommendations in Support of Strategy Implementation, FAO, October 2010;[b] Ministry of Agriculture & Cooperatives and Central Statistical Office (2011), 2010/2011 Preliminary Crop Forecast Survey Report, June 2011;[c] World Bank (2011), What Would It Take for Zambia's Beef and Dairy Industries to Achieve Their Potential?, July 2011;[d] Nchimunya Muganya (2012), "Zambia: Goat Farming, a Money Spinner?", Zambian Times, 18 April 2012.

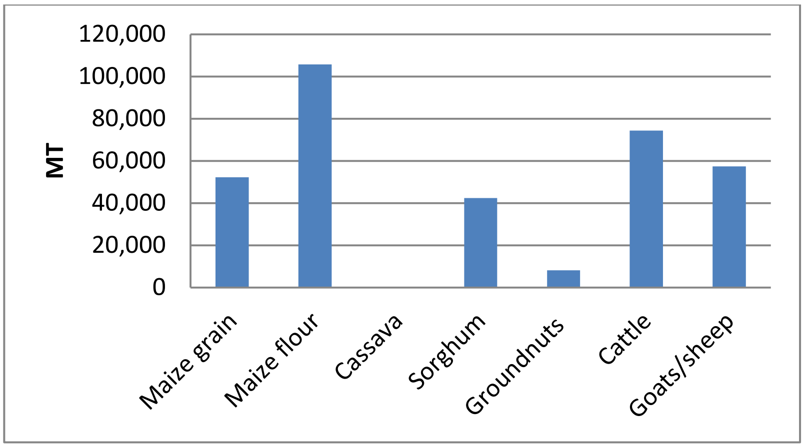
However, South Sudan's likely membership of the EAC and further trade openness is likely to increase competition for all agricultural products causing prices to remain depressed, with the exception of a few items such as timber, gum arabic and livestock in which South Sudan has a comparative advantage. For this reason, GRSS may have to impose a limited moratorium on imports of goods in the five priority sectors, including distribution of externally sourced relief food items that directly compete with local products and depress prices.

The generic agribusiness value chain in Figure 49 shows opportunities in selected sectors, potential areas of development and their contribution to rural livelihoods and poverty reduction. Targeting the main actors in the value chain (permanent and seasonal workers, transporters, warehouse operators, financial service providers, processors and transporters), building their capacity and providing the necessary support as depicted in Figure 47 will have a significant impact on reducing poverty in South Sudan.

Figure 49: Value chain

These activities would need to be coordinated with ongoing infrastructure development (certification, storage, market centres, roads, water and electricity). Furthermore, in order to achieve these targets communities and landowners willing to participate would need to be identified. Associations and cooperatives would need to be formed and strengthened and extension services introduced such as improved pre- and post-harvest practices and demonstration plots to showcase new methods. As noted above, linkages would need to be developed with input suppliers (seeds, fertiliser, pesticide, mechanised equipment) and service providers like financial institutions (commercial banks, MFIs, SACCOs) and other providers of storage, transport and handling, distribution and marketing (local, national, relief agencies, export) services.

Figure 50: Imports of selected agricultural imports in 2011



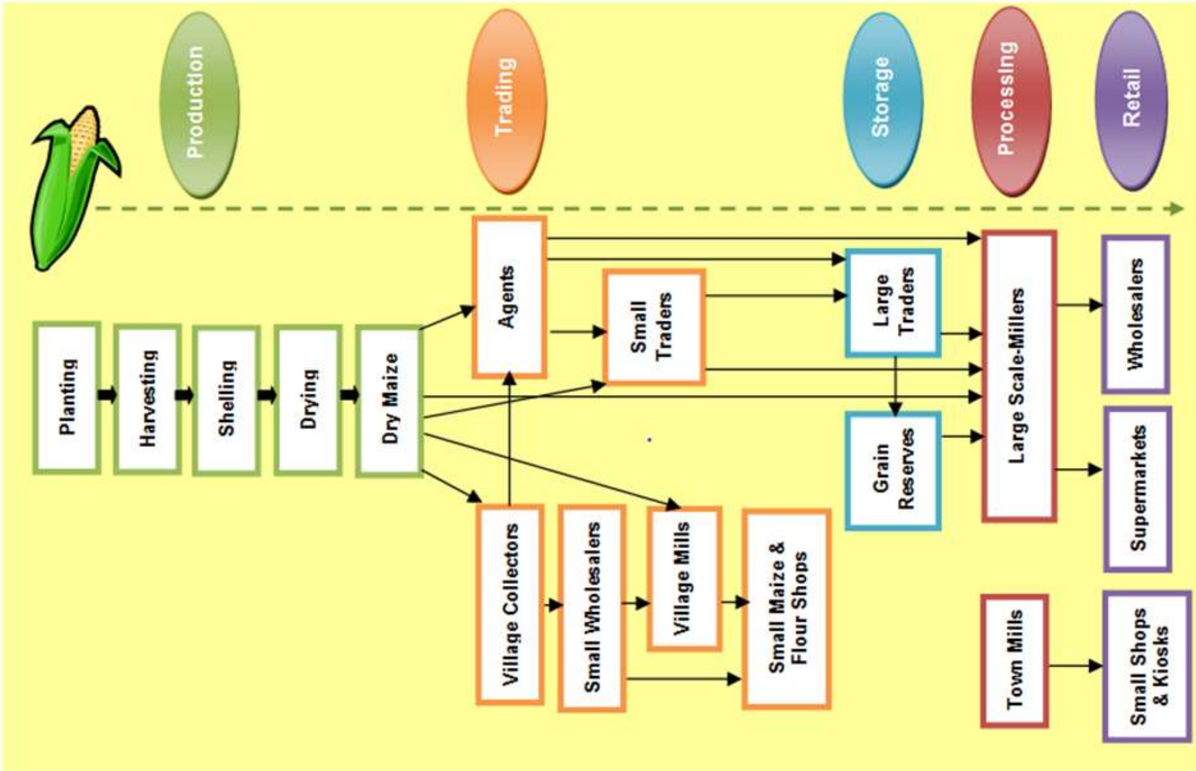
Note: quantities of cattle, goats and sheep are per head.

Source: FEWSNET Trade Flow Reports, 2011.

Maize

Maize is one of South Sudan's main food staples, suggesting that there is great potential for private sector participation in domestic maize production as indicated in Table 29 and Figure 50 above. Beyond subsistence production and consumption of maize, other potential uses of maize in the value chain include the production of breakfast cereals such as cornflakes and porridge, flour, beer, malt drinks, starch, syrup, dextrose and animal feed. As shown in Figure 50, the transactions in the maize sector could potentially employ large numbers of permanent and seasonal workers in seed multiplication, production, trading, storage, processing and retail distribution in Western Equatoria State, the main zone for maize production.

Figure 51: Maize value chain

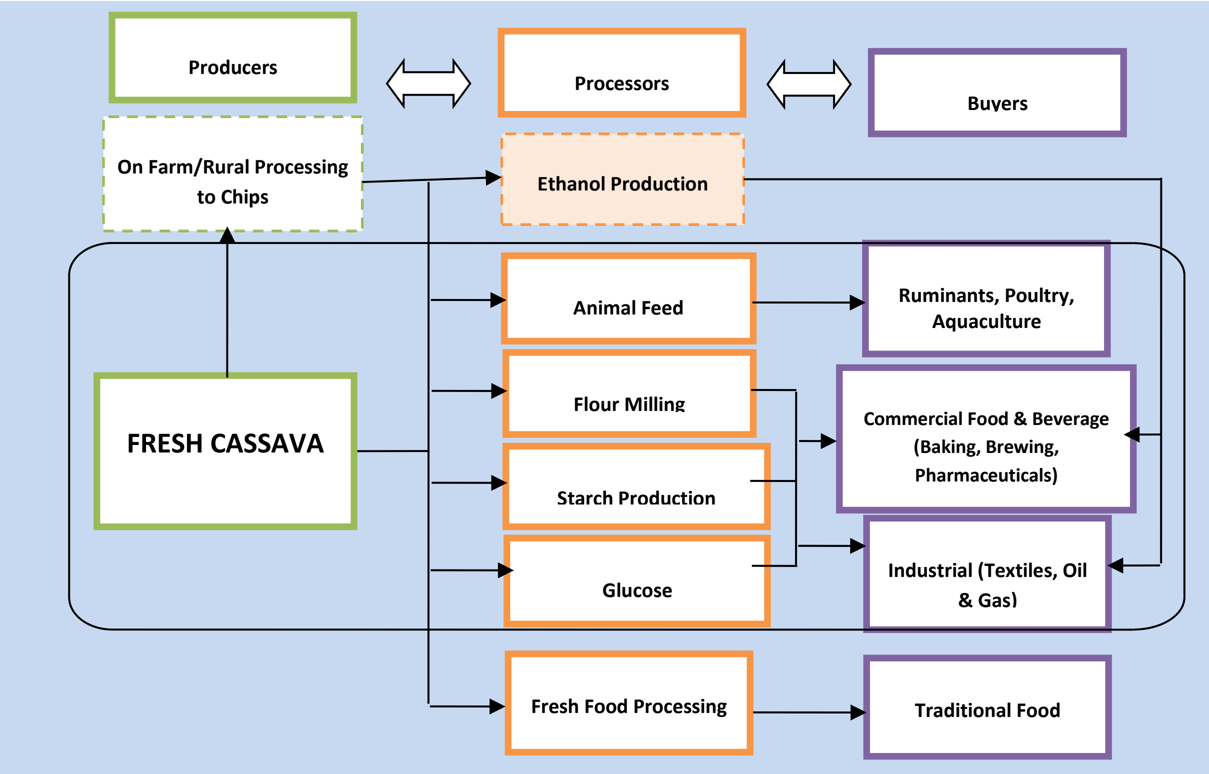


Source: Adapted from USAID (2009).

<u>Cassava</u>

Cassava is mainly grown in Western Equatoria. According to Figure 52, cassava imports in 2011 were only 130 MT. Similar to maize production, the cassava sector also provides several opportunities for income generation and employment of domestic SMEs, cooperatives and associations. The cassava value chain, besides fresh cassava used in traditional food preparations, includes a number of derivative products with employment potential such as flour, starch and animal feed (Figure 52) (UNIDO 2010). Cassava also has industrial applications such as baking, brewing and pharmaceuticals. In Nigeria, for example, cassava is used in the textile industry and in the production of ethanol for the oil and gas sector.

Figure 52: Cassava value chain



Source: Adapted from UNIDO (2010).

Sorghum

Sorghum is South Sudan's leading food staple with an approximate consumption of 42,428 MT based on imports in 2011. The main growing zones for sorghum include Central Equatoria, Western Bahr el Ghazal, Northern Bahr el Ghazal, Unity, Upper Nile, Jonglei and Eastern Equatoria. In the region, sorghum is consumed by producing households or sold in informal markets for traditional beer production. Figure 53 indicates the actors involved in various stages of the sorghum value chain.[52] Private firms, farmer associations and cooperatives could participate in various capacities as input suppliers, producers, wholesalers/retailers and millers. For example, SABMiller, which produces a traditional beer called Chibuku made from sorghum that is popular in parts of east and southern Africa, could provide a ready cash market for sorghum sales.

Figure 53: Sorghum value chain

Groundnuts

Groundnut imports in 2011 were 8,120 MT (Figure 50). Groundnuts, found in Western Bahr el Ghazal and Unity States, are primarily cultivated by smallholders who could be organised into larger groups

[52] Based on information obtained from USAID (2009), *Staple Foods Value Chain Analysis Country Report – Malawi*, November 2009.

to increase output and efficiency. The other actors in the value chain include input suppliers, harvesters and storage service providers, traders, processors, wholesalers/retailers and exporters. Groundnuts have multiple uses and can be consumed in various forms such as roasted nuts, flour, peanut butter and cooking oil while empty shells can be used to make livestock feed and compost (USAID 2009).

Livestock

Livestock consumption, based on 2011 imports, is 74,250 head of cattle and 57,400 sheep and goats (Figure 50). Cattle and goats are found mainly in Eastern Equatoria but also other states. The livestock sector potentially provides many employment opportunities, including input supply, dairy and meat farming, wholesale and retail outlets like abattoirs and butcheries, veterinary services and processing or export of hides and skins. In terms of sales, there is a ready livestock export market in Sudan. The main constraint on the growth of the sector, as mentioned in Chapter x on agriculture, is certain traditional practices among pastoral communities that associate livestock with wealth and not as a source of food and income.

In summary, the GRSS should promote the development of value chains in the maize, cassava, sorghum, groundnuts and livestock sectors, focusing on upgrading production, processing and distribution by providing to farmers and producers the necessary inputs and advisory services, infrastructure for storage and transportation as well as financing and marketing facilities. In all of the above examples, employment creation and SME growth could be stimulated by public procurement to supply public schools, hospitals, prisons and the army. Furthermore, linkages could be developed between producers and private companies like hotels and tourist-related activities as well as outgrower schemes or contract farming where large companies provide inputs and buy products from farmers or cooperatives at agreed prices.

Tourism

- Leasing of real estate, including lodging facilities;
- Eco-tourism companies – tours, accommodation, etc.;
- Eco-tourism certification;
- Linkages to local suppliers;
- Handicrafts and other creative products – artisans, artists, fashion, cosmetics, branding (e.g. Alek Wek, South Sudanese supermodel).

Other opportunities

In addition to tourism, healthcare and education services, two sectors that remain vastly underdeveloped for many of the reasons already discussed, show great potential for trade in services and could generate significant gains for South Sudan in terms of jobs, incomes and human development. Improved provision of these basic services could be achieved in partnership with local and international investors as well as with healthcare and education professionals from the region and the diaspora. Provision of health services by the private sector or NGOs should strengthen and expand primary health care services including mobile clinics, health posts, community health centres and pharmacies for both rural and urban areas. A second phase might include refurbishment of existing hospitals and provision of the full range of health services, including modern hospitals, specialised care and training of various cadres of healthcare workers.

Similarly, given the country's low literacy levels, there is an acute need for pre-school, primary, secondary, vocational/technical, tertiary and adult education that could be met through trade in services and private sector participation. These activities include developing an educational policy and curriculum that responds to the nation's development needs, assessment and accreditation, administration, construction of classrooms, supply of teaching and learning materials and teacher training. All of the above activities will contribute to a marked improvement in the provision of healthcare and education services in South Sudan.

Other measures that could potentially reduce the number of people living below the poverty line and increase jobs and SME expansion are outlined in Box 31. All of these activities will need support in the form of capacity building and business development services as shown in Figure 47.

Box 31: Other poverty reduction strategies

- Timber sector value chain development – sawmills and manufacture of construction materials such as doors, window frames, parquet floor tiles and furniture
- Pharmaceuticals – research and development based on biodiversity and genetic potential
- Road construction and maintenance – labour-based contracting/construction and maintenance of trunk and feeder roads to reintegrate 150,000 returning ex-combatants
- Civil works – construction and maintenance of water and sanitation infrastructure, boreholes, electrification, health clinics and hospitals, schools and social housing
- Transport and logistics – development of private commercial river transport to/from Malakal and the northern states, storage and warehousing, including refrigerated facilities
- Private sector provision of waste collection and recycling and social services in the health and education sectors
- Retailing and other activities – kiosk owners, food vendors, hawkers, taxi fleet operators, boda boda, vendors of LPG, gas stoves, solar panels
- Various trades – ICT and automotive maintenance and repair services, electricians, plumbers, carpenters, builders, contractors, customs brokers, hotel management

10.3 Recommendations

- Develop regulations to enforce the Cooperative Societies Act. This will facilitate orderly development of the cooperative movement, i.e. organise smallholders and informal traders into groups for registration under the Act to serve, for example, as service providers in storage and marketing – 1 year.
- High registration fees have retarded the growth of cooperatives. There is a need to review the fee structure with a view to encouraging the multiplication of cooperatives – 1 year.
- Organise smallholders, SMEs and informal operators in sector associations and cooperatives to facilitate access to credit, bulk purchasing, marketing, training and other services as well as promote linkages to existing supply chains – 2-3 years.
- Develop local procurement guidelines and mechanisms to promote South Sudanese participation and employment in both upstream and downstream oil and mining sector activities, subcontracting, outsourcing – 1-2 years.
- Promote enterprise development through the provision of business development services such as incubators, guarantee funds and capacity building in marketing, improved standards compliance, entrepreneurship and business management. Other areas of support include provision of preferential credit, tax exemptions and financing for agricultural research – 3 years.

- Introduce a linkages development programme that promotes integration of domestic companies and cooperatives in the supply chains of local and foreign companies, e.g. supermarket chains, hotels and apparel manufacturers – 1-3 years.
- Promote the development of value chains in the maize, cassava, sorghum, groundnuts and livestock sectors, focusing on upgrading production, processing and distribution by providing to farmers and producers the necessary inputs and advisory services, infrastructure for storage and transportation and financing and marketing facilities. Included should be the development of linkages to large buyers such as government programmes (schools, hospitals, etc.), supermarkets, hotels and exporters – 1-3 years.

REFERENCES

Basu, Kaushik (2013). “Reason and the End of Poverty,” *Project Syndicate*, 7 October 2013.

Diao, X and Pratt, A. (2007). Growth options and poverty reduction in Ethiopia – An economy-wide model analysis. Food policy, 32(2), 205-228.

Felgenhauer, Katharina and Denise Wolter (2008). “Outgrower Schemes – Why Big Multinationals Link up with African Smallholders,” OECD.

Government of the Republic of South Sudan (2011). The Cooperative Societies Act.

Government of the Republic of South Sudan (2011). Fostering Innovation and Competitiveness in Southern Sudan (FICISS), Sector Growth Strategies. OTF Group, March 2011.

Government of the Republic of South Sudan (2012). “National Strategy for Cooperative Development 2012-2015”, May 2012.

IFAD (2011). Outgrower Schemes – Enhancing Profitability.

Kihiu, Ruth (2011). “Realising a Gendered Common Market for East Africa,” *The East African Lawyer*, Issue No. 18, November 2011.

Robertson, Charles (2012). The Fastest Billion: The Story Behind Africa's Economic Revolution, Renaissance Capital.

Shimeles, Adebe and Audrey Verdier-Couchane (2012). “Poverty Situation and Prospects in South Sudan,” Africa Economic Brief, Vol. 3, Issue 8, African Development Bank, August 2012.

UNIDO (2010). Unleashing Agricultural Development in Nigeria through Value Chain Financing. Working Paper, November 2010.

USAID (2005). Value Chain Analysis Mapping Maize, Sunflower and Cotton Chains. Final Report, October 2005.

USAID (2009). Staple Foods Value Chain Analysis Country Report – Malawi, November 2009.

Vaaland et al. (2012). Local content and struggling suppliers: A network analysis of Nigerian oil and gas industry.

World Bank (2013). Haiti Diagnostic Trade Integration Study.

ANNEXES

Annex 1: Investment opportunities [53]

AGRICULTURE				
Project name	**Location**	**Estimated Investment (US$)**	**Opportunity Type**	**Administering Ministry**
1. Nzara Agro-Industrial Complex Study. Complete feasibility study on revival of Nzara Agro-Industrial Complex	Nzara	--	PPP	Commerce
2. Yirol Edible Oil Mill. Establish palm oil cultivation and oil factory	Lake State	$8,124,000	PPP	Commerce
3. Slaughterhouses. Establish two modern abattoirs	Juba and Malakal	$20,000,000	PPP	Agriculture
4. Milk processing. Establish two milk processing plants	Juba and Wau	$15,000,000	PPP	Agriculture
5. Tanneries. Establish two tanneries	Juba and Malakal	$10,000,000	PPP	Agriculture
6. Poultry farms. Establish three modern regional poultry farms	Juba, Malakal and Wau	$12,000,000	PPP	Agriculture
7. Honey bee products. Establish honey and other bee products processing plant	Izzo	$2,000,000	PPP	Agriculture
8. Fish processing. Develop fish supply chain, including processing plants, storage facilities, and refrigerated vans	Processing plant in Shambe, Storage in Shambe, Malakal, Adok and Bor	$10,950,000	PPP	Agriculture
9. Melut Sugar Project. Develop cane cultivation and sugar production facilities	Melut: Northern Upper Nile	--	Greenfield	Agriculture
10. Mongalla Sugar Project. Develop cane cultivation and sugar production facilities	Central Equatoria	--	Greenfield	Agriculture

[53] Investment opportunities featured at the South Sudan Investment, 4-5 December 2013

11. Aweil Rice. Cultivate rice farms in Aweil	Bahr el Ghazal State	--	Greenfield	Agriculture
12. Gum arabic. Support gum arabic production and processing	Arid and Nile Sobat zones	--	Greenfield	Agriculture
13. Farm Machinery (tractors, threshers, combine harvesters etc.)	Eastern Floodplain (Renk), Greenbelt	--	Greenfield	Agriculture
14. Crop Protection (birds, insects, rodents, other pests)	Eastern Floodplain (Renk), Greenbelt zone	--	Greenfield	Agriculture
15. Horticulture, cold storage and value addition	Hills and Mountains zone	--	Greenfield	Agriculture
16. Sheep production, holding yards, transport	Arid Zone	--	Greenfield	Agriculture
PETROLEUM				
Project name	**Location**	**Estimated Investment**	**Opportunity Type**	**Administering Ministry**
1. Additional pipeline. Construction of a pipeline for transportation of crude oil, based on external feasibility study (underway)	National	--	PPP / Greenfield	MPM
2. Petroleum labs. Establishment of Petroleum Laboratories	National	--	PPP / Greenfield	MPM
3. Oil refineries. Construction of three Refineries	Upper Nile and Unity States	--	PPP / Greenfield	MPM
4. Oil depots. Construction of fuel depots	National	--	PPP / Greenfield	MPM

INFRASTRUCTURE/ENERGY

Sub-Sector	Project name	Location	Estimated Investment	Opportunity Type	Administering Ministry
	1. Cement Feasibility Study in Kapoeta. Feasibility for cement plant using local mineral materials	Eastern Equatoria (Kapoeta)	--	PPP	SS Investment Authority
	2. Kajokeji. Manufacture of cement	Central	--	PPP	SS Investment

	utilizing naturally occurring mineral materials	Equatoria			Authority
	3. Mangayat. Manufacture of cement utilizing naturally occurring mineral materials	Western Bahr el Ghazal	--	PPP	SS Investment Authority
	4. Juba International Airport. Completion of new terminal building	Juba City	$12,500,000	BOT	Transport
Infra-structure	5. River transport. Nile River transport project including dredging	Nile river	$152,583,000	PPP	Transport
	6. Sanitary Landfill. Construction and operation of sanitary landfill	Juba City	$15,250,000	PPP	Environment
	7. Wastewater treatment. Improve oxidation ponds and build new water treatment plant	Juba City	$17,500,000	PPP	Environment
	8. Fibber Optics Network. Nationwide network of fibre optic cable	National	$200,000,000	PPP	Tele-communications
	9. Low cost housing. Construction of 10,000 houses	National	N/A	Greenfield	MPM
	10. Malakal-Jikou Road (329 km)	National	--	PPP	Roads & Bridges
	11. Kapoeta-Boma-Raad Road (278 km)	National	--	PPP	Roads & Bridges
Roads	12. Juba-Terekeka-Ramciel Road (200 km)	National	--	PPP	Roads & Bridges
	13. Wau-Aweil-Meiram Road (290 km)	National	--	PPP	Roads & Bridges
	14. Rumbek-Bentiu-Jau Road (371 km)	National	--	PPP	Roads & Bridges
	15. Tharjath – Rumbek 400 KV	National	$15,125,000	Greenfield	Electricity & Dams
	16. Juba– Ramchiel –Rumbek 400 KV	Juba	$80,000,000	Greenfield	Electricity & Dams
	17. South Sudan and Uganda grid interconnection 400 KV	National	$27,875,000	Greenfield	Electricity & Dams
Energy (Transmission	18. Rumbek-Wau-Aweil 400/220 KV	Rumbek	$41,250,000	Greenfield	Electricity & Dams

Lines & Sub-stations)					
	19. Juba-Torit-Kapoeta 220 KV	Juba	$85,350,000	Greenfield	Electricity & Dams
	20. South Sudan and Sudan grid interconnection.	National	$37,250,000	Greenfield	Electricity & Dams
	21. Malakal-Ayod-Bor-Juba 400 KV.	Malakal	$31,250,000	Greenfield	Electricity & Dams
	22. Juba 220 KV interconnection line.	Juba	$8,300,000	Greenfield	Electricity & Dams
MINING					
Project name		**Location**	**Estimated Investment**	**Opportunity Type**	**Administering Ministry**
1. Mining labs. Establishment of mining laboratories to test and support throughout all mining phases.		National	N/A	PPP	MPM
2. Airborne geophysical assessment. Conduct geophysical assessment throughout the country and identify strategic mining areas.		National	N/A	PPP	MPM
3. Mining support services. Develop capacity, tools and processes, and software and hardware to support mining industry		National	N/A	Greenfield	MPM

Source: South Sudan Investment Authority

Annex 2: Poverty reduction programmes in South Sudan

Activities by the Government:

The Ministry of Gender, Child and Social Welfare

The Ministry of Gender, Child and Social Welfare (MGCSW) is a key player in developing the policy environment for poverty reduction to ensure the welfare and respect of the rights of women and men, persons with disabilities and other vulnerable groups. MGCSW also manages programmes and institutions for children and social welfare.

Within MCCSW the Directorate of Gender is responsible for formulation of policies and regulatory frameworks, gender mainstreaming in public and private institutions, gender-responsiveness, governance and socio-economic empowerment; promotion and protection of women's rights; and capacity building.

In 2009, MGCSW developed the "Ministry Policy Frame and Work Plan 2007 to 2009". The work plan included a chapter on gender. In 2010, an "Institutional Capacity Development Manual 2010" was developed and a "Gender-Based Violence Survey 2010" was published. In 2011, a "Gender Comprehensive Assessment 2011" was published.

The “Ministry Policy Framework and Work Plan 2007 to 2009” consists of key objectives which MGCSW set to attain:

- Develop a national gender policy for South Sudan
- Promote research and studies on traditional practices that impact negatively on the welfare of women, children and recommend remedial approaches including legislation
- Promote research and studies on gender-based violence and support development of a national policy on gender-based violence in South Sudan
- Develop approaches to mainstream gender in the government and social sectors.
- Promote programmes to enhance women’s effective participation in the economic, social and political life of South Sudan
- Promote participation of women in peace building
- Promote education and training of women and the girl child

Within the work plan there is a chapter on poverty reduction which has the following objectives:

- Establish vocational training centres at state level
- Provide training in entrepreneurship
- Encourage formation of cooperative societies and microfinance institutions
- Promote income generating activities particularly for vulnerable groups

Within MGCSW, the directorate on gender has been engaged in a number of projects, some of which were completed successfully.

- MGCSW supported the South Sudanese Women Association and Cooperatives (SSWAC) in the area of agribusiness.
- The ministry allocated SSP one million to SSWAC for funding micro-projects in agriculture (2006-2007). The fund was used mostly for the purchase of seeds, tools for poultry and fisheries and for running costs.
- MGCSW facilitated the establishment of Women Economic Empowerment, a programme which ran for four years (2009-2012). The main focus of the programme was on capacity building and gender assessment.
- MGCSW has also facilitated the establishment of the South Sudan Women Entrepreneurs Association and is currently working with the same organization in capacity building and economic empowerment.
- MGCSW is also working with UN Women in capacity building and economic empowerment of South Sudanese women.

Activities by development partners in South Sudan:

USAID – increase agricultural productivity and link communities to markets and provide access to credit for agribusinesses and small-scale farmers.

AfDB – infrastructure development, capacity building and donor coordination.

Trade Mark East Africa – support to the Directorate of Customs, implementation of an integrated border management system at Nimule, removal of non-tariff barriers and strengthening of the National Bureau of Standards.

Other: WFP, OCHA and others gave food and other essentials valued at $1.3 billion in 2012.

UNDP

- Protected Area Network Management

The project objective is to secure the foundation for biodiversity conservation in post-conflict development of South Sudan through enhanced management effectiveness of protected areas.

- Support to Inclusive Growth and Trade Capacity Development

This project is designed to support the Government’s efforts to create an enabling environment for private sector development by raising productivity in non-oil export sectors as well as making economic growth more inclusive.

- Strengthening the Foundations for Environmental Governance and Natural Resources

This project is part of UNDP’s support to South Sudan to strengthen the capacity of national, state and local institutions and communities to manage the environment and support processes for climate change adaptation.

World Bank Group

The World Bank is involved in several projects, some of them directly or peripherally related to poverty reduction:

- South Sudan Gender Support & Development Project
- South Sudan Adolescent Girls Initiative
- IFC'S Conflict Affected States in Africa (CASA) initiative provides training to local banks in credit risk management; the Business Edge programme strengthens SME management skills, including business planning.

UN Women

UN Women is working with MGCSW and women's associations to support women in areas of capacity building and women's economic empowerment. The ongoing programmes being funded and facilitated by UN Women are:

- Training for women entrepreneurs
- Training in food security
- Training for women's rights and gender equality

Women's associations**:**

South Sudan Women General Association (SSWGA): SSWGA is an umbrella organization for South Sudanese women associations, with its head office in Juba, and other offices are expected to be established in the rural areas. The mission and objectives of SSWGA are to support women in training, access to finance for SMEs and capacity building.

South Sudan Women Entrepreneurs Association (SSEA): The SSEA is an organization which aims to empower South Sudanese women in developing entrepreneurial skills, access to finance and capacity building. The main support for SSEA comes from MGCSW, World Bank and IFC.

South Sudan Women Union (SSWU): The SSWU is an umbrella organization for women associations, with its head office in Juba, and other offices are expected to be established in the rural areas. SSWU liaises with MGCSW, NGOs and other stakeholders in programming topics of importance in terms of gender equality, women rights, capacity building and economic empowerment. To date, SSWU has participated in a number projects and supported several women in training for running small businesses.