OVERVIEW DTIS

DIAGNOSTIC TRADE INTEGRATION STUDY

Republic of South Sudan
Developing Capacities
for Trade Integration
and Economic Diversification

Enhanced Integrated Framework

UNDP
Empowered lives.
Resilient nations.

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, now part of DFAT q.v
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
DFAT	[Australian] Department of Foreign Affairs & Trade, formerly AusAID
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 agreement
EMP	Environmental management plan
FAO	Food and Agriculture Organization
FDI	Foreign direct investment
FIT	Feed-In-tariff
GDP	Gross domestic product
GOSS	Government of Southern Sudan
GRSS	Government of the Republic of South Sudan
GIZ	[Deutschland] Gesellschaft für Interntionale Zusammenarbeit
HS	Harmonized system
ICAO	International Civil Aviation Organization
ICSID	International Centre for Settlement of Investment Disputes
ICT	Information and communications technology
IDP	Internally displaced persons
IFC	International Finance Corporation
IGAD	Intergovernmental Authority on Development
ILO	International Labour Organization
IMF	International Monetary Fund
IPP	Independent power producer
IPR	Intellectual property rights
ISIC	International Standard iIndustrial Classification
JICA	Japanese International Cooperation Agency
JDSREP	Juba Distribution System Rehabilitation and Expansion Project
KRA	Kenya Revenue Authority
LAPSSET	Lamu Port South Sudan-Ethiopia Corridor
LDC	Least developed country
LGP	Length of growing period
MAFLF	Ministry of Agriculture, Forestry, Livestock and Fisheries
MCYS	Ministry of Culture, Youth and Sport

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	Microfinance 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
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 Shop 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

The Enhanced Integrated Framework (EIF) for trade-related Technical assistance for Least Developed Countries (LDCs) is a global partnership involving LDCs, donors and international organizations which support LDCs' own efforts to:

- Mainstream trade in national development strategies;
- Set up structures needed to coordinate the delivery of trade-related technical assistance; and
- Build capacity to trade, including by addressing critical supply side constraints.

Following the historic independence in July 2011, South Sudan requested its admission to the programme and embarked in the formulation of the Diagnostic Trade Integration Study (DTIS). The DTIS process was undertaken under the leadership of the Ministry of Trade Industry and Investment (MTII) through an extensive consultative process involving government, international organizations and private sector stakeholders, including representative from the states. Despite the onset of the mid December crisis in 2013 and the altering of the national and global landscape including around oil price volatility, the study and its recommendations continue to be salient and relevant to the South Sudan country context.

The DTIS is structured around 10 Chapters which provide an overview of the main cross-cutting and sectoral issues critical to unleash the trade potential of South Sudan. The report underlines the significant economic potential of mining, agriculture and tourism which together with its proven oil wealth provide opportunities for economic diversification and more balanced inclusive and sustainable growth. The analysis also emphasizes the importance of wide ranging policy reforms to improve the business environment and investment climate, and the necessity to invest in more effective and more accountable institutions to support and facilitate the integration of South Sudan in the regional and global economy. The DTIS Action Matrix is an action-oriented document which will allow the Government of South Sudan to chart the way of the needed reforms over the next three to five years. The implementation of proposed reforms and programmes will require a concerted effort by all stakeholders at the national and sub-national levels, working in close cooperation with development partners.

I would like take this opportunity to express my deepest appreciation to the team that led this valuable work, the EIF Focal Point and the rest of the staff from the Ministry of Trade Industry and Investment, the DTIS Team Leader, the international and national experts, and our trusted partner UNDP for facilitating the entire process.

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Overview

SOUTH SUDAN – DIAGNOSTIC TRADE INTEGRATION STUDY (DTIS)

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[1] 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.

GRSS 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 in early December 2013 following the successful launch in Juba of the South Sudan Investment Conference, will be crucial if the government is to realize its ambitious development agenda.

1 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.

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 e.g. (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 low-cost options which can be achieved through ongoing and planned projects and programmes of the government and development partners.

CHAPTER 01

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 mid-December 2013 South Sudan faced its most serious bout of violence since 1991. Ten thousand citizens were 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. Following the cessation of hostilities, identifying sustainable sources of income for large groups of unskilled people – through activities such as those that can stem from and be sustained by increased trade – will be more important than ever.

South Sudan is a landlocked, least developed country (LDC), administratively divided into ten states. The country has an area of approximately 640,000 square km, much the same size as France. The country is composed of various ecological zones, from dense equatorial forests and a fertile green belt to arid and pastoral zones in the northern part of the country.

Over 83 percent of the population lives in rural areas relying primarily on subsistence agriculture. This vulnerability is further compounded by the country's high dependence on oil (98 percent of the national budget). This has created economic distortions in the functioning of the economy, which could be alleviated by the development of potential mineral resources and agricultural expansion.

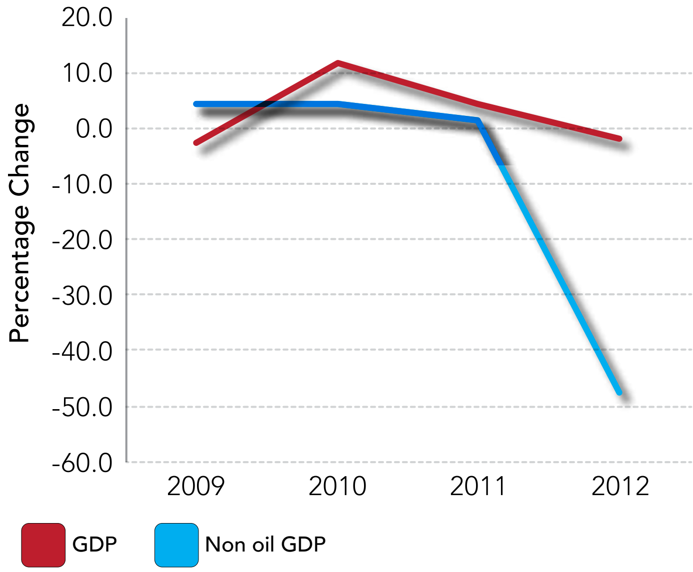
Poverty and inequality

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 SSP74 per person per month, only 27 percent 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 percent) to only one in four people in Upper Nile state (24 percent).

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. Figure 1 illustrates the pronounced impact of the suspension of oil production in 2012. Real GDP contracted by 47 percent on a year-on-year basis, while non-oil GDP contracted by just under two percent.

Figure 1: Annual change in real GDP and real non-oil GDP



Source: South Sudan National Bureau of Statistics

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 barrels per day (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 2012/13. 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.[2] 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 SSP2.95 to the US dollar, and a parallel exchange rate operating through an unofficial but tolerated parallel market of between SSP4 and SSP4.3 to the US dollar. 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

2 National Bureau of Statistics, consumer price index for South Sudan, May 2014.

fact, during 2014, the unofficial 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 percent of GDP compared to 3.5 percent in FY2011/12 and 0.2 percent for FY2010/11.[3]

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.[4] 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 of 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 bpd. Based on this the authorities expected production to reach 280,000 bpd by early 2014. The resumption of oil production in turn was expected to restore positive GDP growth rates and stabilize government finances. On this basis, the authorities budgeted on a resource envelope of SSP17.2 billion, of which just over SSP10 billion was projected to flow from oil revenues, and SSP4.5 billion from external loans. Central government spending was budgeted to be SSP9.2 billion, which represented a 35 percent increase on the austerity budget of the previous year. Of the remaining amount, SSP3.8 billion was allocated for the repayment of loans and SSP3.1 billion for payments and transfers to Sudan.

As a consequence of internal conflict, the forecast production increase did not materialize, 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 dependency on oil 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 in infrastructure such as roads that raise the long-term productive capacity of the economy.

3 Data in this section have been provided to the mission by the IMF as of 1 July 2014.
4 Estimation provided by the IMF to the mission as of 1July 2014.

In practice, recurrent spending on wages has 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 2013/14 allocated approximately 18 percent of the resource envelop to roads, health and education, whereas security accounted for close to 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 current status is pending since agreement with the states is required for it to become 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 an unofficial but 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 government decided in 2013 to move to a single exchange rate determined by auctions and held technical consultations with the IMF on the unification of the exchange rate in 2013, but parliament subsequently revoked the decision 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 2013/14, the sales 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 subordinate 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 penalize 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 forecasts available resources over a three to four-year period.

CHAPTER 02

TRADE POLICY

Structure and value of trade

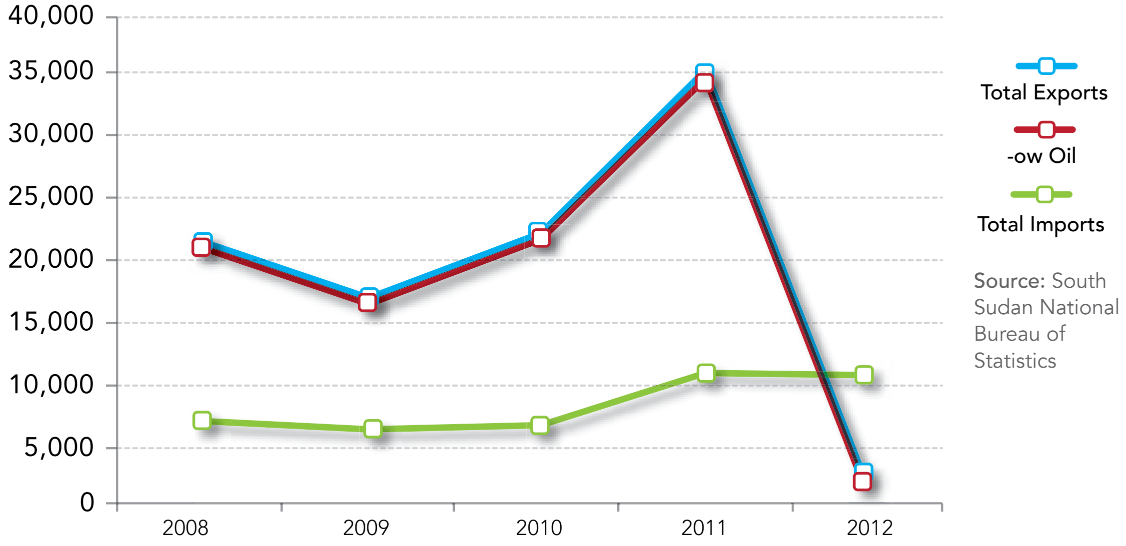
The underdeveloped state of South Sudan's customs arrangements has contributed to preventing the accurate collection of trade data. Available data are based on estimates of formal and informal cross-border trade flows, compiled by the National Bureau of Statistics (NBS) and the BSS, or reported by trading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

Figure 2 (right) 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.

Data collected in 2012 by BSS at the Nimule customs post show that imports are approximately SSP5 billion whereas the figures reported by the NBS suggest a total of SSP10.8 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.

Figure 2: Merchandise trade, millions of SSP



Data show that extra-African sources of imports dominate with China (25.9 percent) and USA (23.2 percent) representing almost 50 percent 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. The share for exports reflects the destination of crude oil: China (72 percent), Japan (21 percent), USA (6 percent), Uganda (1 percent) and Pakistan (0.4 percent).

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

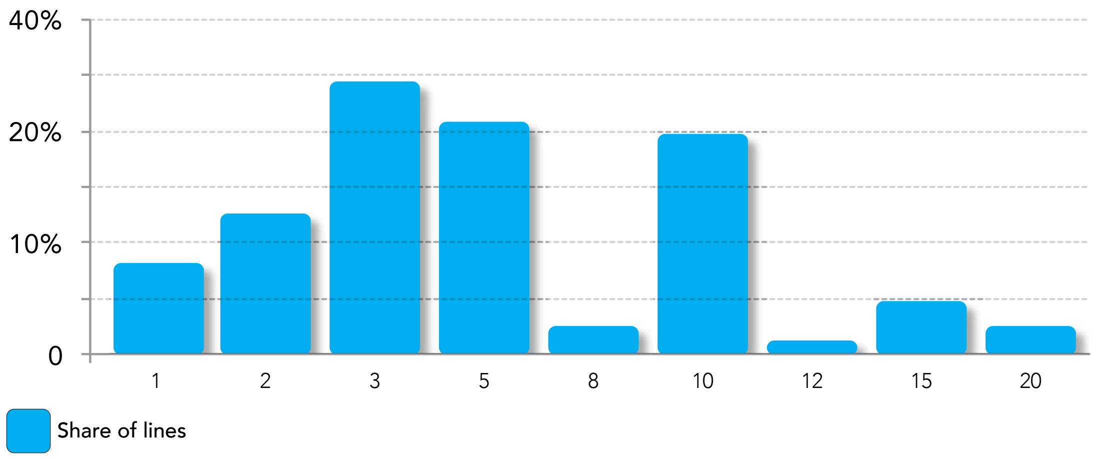
Tariffs. During the DTIS mission's visit, the tariff regime in place was unclear and did not follow any international classification system such as the Harmonized System (HS) or the Broad Economic Categories (BEC). The duties applied were set out in the document *Tariff Estimated Values 2010*. In some 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.

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 generalize and put on a more systematic footing the practices already implemented.

Figure 3 below provides an indication of the tariff structure by duty rate. The simple arithmetic average of all applied tariffs is 5.6 percent. This is substantially lower than the average for the EAC (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.

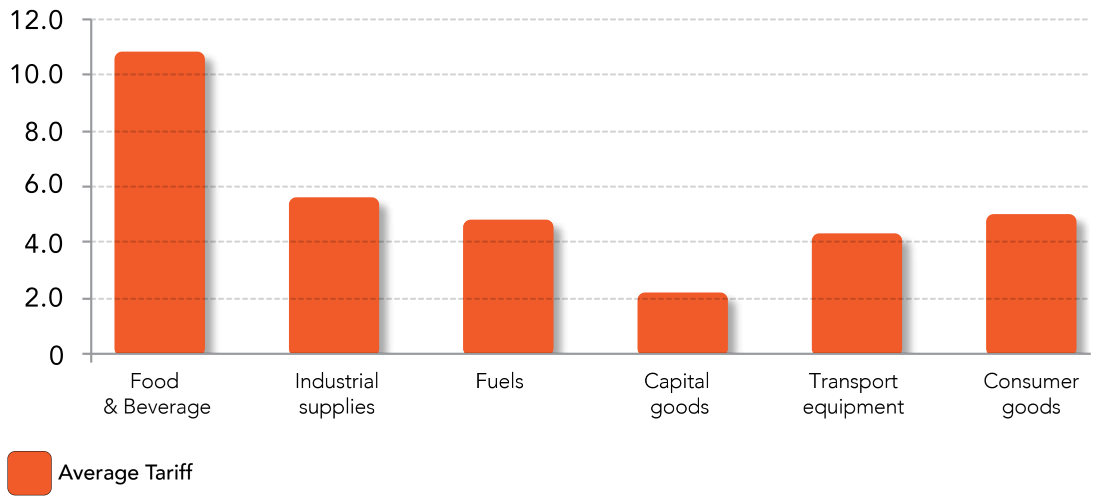
Figure 3: Share of tariff entries by duty rate



Source: Calculations based on data provided by South Sudan authorities

Figure 4 provides an overview of the tariff structure with goods classified as per the BEC.

Figure 4: Tariff Structure, BEC



Source: Calculations based on data provided by South Sudan authorities

The data reveals 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 ten percent). A similar pattern exists in industrial supplies, where primary goods face a tariff of about ten percent, and processed products of just under five 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 categorized 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 11.6 percent, and the latter an average tariff of five 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 aligned 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 cost, insurance and freight (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 South Sudan 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 long-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 (i) distortions in the tariff structure that penalize efforts at economic diversification are progressively removed; (ii) that its trade regime is placed on a transparent and stable footing; and (iii) 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. The updated draft of the *South Sudan Trade Policy Framework* (June 2014), prepared under the leadership of MTII and seen by the DTIS mission, recognizes 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 penalizes 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 depending 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.

A further option is to pursue trade liberalization 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 liberalization is undertaken vis-à-vis non-regional partners. Liberalization 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.

CHAPTER 03

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.

Previously 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 Harmonized System (HS) without which the valuation of cargo and exemptions are subjective and discretionary.

Infrastructure and linkages

While oil is exported by pipeline through Sudan, the main trade linkage for South Sudan is by road to to the port of Mombasa in Kenya. Users of this route incur significant costs. For example, 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 longer distances travelled but also other costs including delays en route, non-tariff barriers such as 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 percent and 78 percent 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 safety and security standards mandated by the International Civil Aviation Organization (ICAO)

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 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 is 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 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 harmonization, 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, harmonization 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.

CHAPTER 04
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.

Ministry of Trade, Industry and Investment (MTII)

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. The MTII is headed by the Minister of Trade and two Undersecretaries, one for Trade and the other for Investment.

Following the restructuring of a number of government ministries in July 2013, the MTII was merged with the Ministry of Finance and Economic Planning 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. In March 2014, the government decided to revert to the previous 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.

The Ministerial structure is complex and highly intricate which is a problem given the shortage of human resources. Serious limitations are reported in the capacity to perform the functions 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. In the face of this complexity, in the medium to long term it may be appropriate to simplify the structure so that it can realistically be filled with appropriate personnel. Only three units within the existing structure are currently understood to be fully or partly operational: Administration and Finance; the import/export licensing registry and the Investment Authority.

The import/export licensing registry issues paper licences 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's accounts. The registry's continued operation constitutes a significant trade barrier. 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.

Important and notable absences in the Ministry are in research and policy capacity. It appears that virtually no research has yet been undertaken, and technical preparatory work on foreign trade agreements is nonexistent. This is particularly important given possible membership of the EAC and/or 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.

It is suggested that the MTII becomes the primary focus of trade-related capacity building in the government and that this 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.

Many staff require 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 are 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 empirically tested grounds using a rational assessment of costs and benefits based on good data.

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 factionalism and trade policy can be used as a tool for unification. Trade facilitation and improvements to the business environment rely heavily on coordination between Juba, 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 states is said to be adequate, although there is some duplication of activities with the state governors.

Establishment of an economic development board

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, incentivizing 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-organized 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.

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.

CHAPTER 05

BUSINESS ENVIRONMENT AND CROSS-CUTTING ISSUES

South Sudan, the world's newest landlocked country, presents many business opportunities for producers, investors and traders. The country is well endowed with underused fertile land, water resources, oil and minerals. 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.

Table 1 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.

Table 1: 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 underused arable land, water and mineral resources › High oil revenue for reconstruction and development	› 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 delays due to non-tariff barriers › Weak human and institutional capacities, high illiteracy and cost of labour › Insecurity and internal conflict
Opportunities	**Threats**
› Normalizing 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 incentivizing informal traders to formalize 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 liberalization › 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

Governance

The South Sudan Business Forum (SSBF), in partnership with MTII, has developed a draft Private Sector Strategy setting out South Sudan's vision of becoming a diversified, competitive and prosperous economy.[5] The draft strategy, currently under review, is composed of four pillars:

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

- **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 undermining 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 requires completion of four procedures only, takes one day, and costs SSP1,195 (US$300). Similar 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 licences, 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 computerized land registry or cadastre to maintain and update records of all surveyed and unsurveyed land, including title deeds and transfers.

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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 International Centre for settlement of Investment Disputes (ICSID) in April 2012.

Cost and quality of production factors

Labour. Approximately 90 percent of workers are without any qualification and fewer than two percent 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 percent of young people enter the labour force with less than primary education, with only 40 percent 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 percent). In comparison to the rest of the EAC region, the average cost of labour in South Sudan, at SSP2,340 per month for a young person entering the job market, is relatively high.[6] Similarly, daily labour costs in rural areas are also much higher in South Sudan at US$7.50 per day compared to Uganda (US$1.00) and Tanzania ($US2.31).[7]

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 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

6 Draft Private Sector Strategy, June 2013.

7 World Bank, Trade Strategy Report, June 2014, page 9.

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 small and medium enterprise (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 Bahr 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 (IOM) in the health sector.

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

Electricity. Only one percent of the population has access to electricity, mostly generated off-grid by private emergency diesel-fuelled generators to run businesses and households. In comparison, ten percent 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 percent), 12 mobile phone subscribers per 100 people (East Africa 21 percent) and an unknown number of internet users per 100 people (East Africa 5 percent).

It is expected that when South Sudan connects its ICT backbone to Indian Ocean submarine cables, the cost of phone calls and internet access 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 underserviced, 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 Promotion 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 bringing key government ministries and agencies together 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 some 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 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 responsible for immigration and internal administration.

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. A further 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.[8] For the investor, government participation removes the risk

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

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 multisector, multiproduct, 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 such as finance or planning ministries and departments.

Key to 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. The skills contained in PPP units include contract management skills to provide oversight of contracts 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.[9]

9 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.

SECTORAL STUDIES
CHAPTERS 6-9

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 is discussed in Chapter 6 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.

CHAPTER 06
REVITALIZING AGRICULTURE

The broad agricultural sector (including forestry, livestock and fisheries) contributes 15 percentof South Sudan's GDP (World Bank 2013). In comparison, it accounts for 30 percent of GDP in Uganda. Agriculture is a way of life for more than 80 percent 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 percent (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 percent of cultivated land followed by maize with 27 percent. Finger millet and rice make up the remaining four percent. 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 the ten states, only one, Western Equatoria, is self-sufficient. All the others states are net food importers, with imports covering about 50 percent of the national food requirement. A large proportion of food imports is informal and originates from Uganda and other neighbouring countries. The cost of formal food imports is in the order of 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. 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 2: Key elements of maize production costs and revenues in South Sudan, Uganda and Tanzaniaports

	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 2 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.[10]

The World Bank report cited above makes the important observation that, "Impediments to increase trade also stem from the policy framework and poor government coordination. While

10 World Bank, Trade Strategy Report, June 2014, pages 9-10.

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".

Despite South Sudan's challenges, **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 percent 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.

CHAPTER 07
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 percent, 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 ten states endorse the version enacted 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 *Exploration and Production Sharing Agreement* (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 one percent 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. Monetization 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 a one percent 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 four percent 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 percent of generated power and commercial losses (i.e. revenue losses) average 50 percent 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.
- **Biomass, wind and geothermal.** There is a need to assess the potential of the country's resources to ascertain the feasibility of power generation from these sources.

11 Only 22,000 or less than 1% of the population had access to grid electricity in 2010, all based in Juba, Malakal and Wau

CHAPTER 08

THE MINING SECTOR IN SOUTH SUDAN

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, close to 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 undertaking, 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 (e.g. a limestone 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 its contribution to national income are not documented.

Regulations under the *Mining Act* 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, 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 royalties, whereas the local community receives three percent. 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 a revenue based system which is the system most commonly 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 for, and for 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.

CHAPTER 09

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 potentially 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 one to two hours from the east African hubs of Nairobi and Addis Ababa making it a middle distance country in terms of 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 exploited. 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 proactive 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 give the right to grant concessions to legally constituted community organizations so they 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.

CHAPTER 10

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: (i) developing cooperatives and producer associations; (ii) capacity building to support enterprise development; and (iii) 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 marginalized groups, e.g. women and young people;

it connects enterprises to markets and opportunities; and it leverages 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 almost entirely in the informal sector. Simplifying import-export documents, harmonizing 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 prioritized. 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 percent 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, e.g. 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, ecotourism 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 as noted earlier.

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 about 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 sizable ASM community involved in gold and minor gem mining. Anecdotal information suggests that up to 60,000 people are involved in the ASM sector. One way to rationalize the ASM sector and improve scale economies is to organize miners into cooperatives and formalize 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.

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 Organize 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	Technical Assistance (TA) Expert advice	Over $1 million
	Progressively establish an automated land registry to address insecurity of land rights	**High** **Year 1-3**	MTII, SSLC MJ, SSBF	Expert advice and ICT 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		
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

Objective	Recommended Actions	Priority and implementation period	Entities concerned	Type of intervention	Estimated costs (US$)*
Promote investment and facilitate enterprise processes	› Expedite development of policy and strategy supporting micro, small and medium enterprises › Apply the standard 12 month work permit for expatriates as per the terms of the Investment Certificate instead of issuing one or three month 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) › Set up incubators, guarantee funds and business and technical support services › Improve standards compliance	**Very High** **Year 1-3**	MTII, SSIA, BSS, SSBS, SSCIA, associations	TA	$5 million

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Objective	Recommended Actions	Priority and implementation period	Entities concerned	Type of intervention	Estimated costs (US$)*
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 Promotion 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)

Objective	Recommended Actions	Priority and implementation period	Entities concerned	Type of intervention	Estimated costs (US$)*
Reduce transport costs	› Undertake a study to quantify disaggregated transport costs between sea ports to the South Sudan border and the cost of transport inside South Sudan. Based on findings, design a plan of action. › Analyze the costs and benefits of alternative roads to international seaports (option Juba-Ethiopia-Djibouti) › Formulate and implement a programme for upgrading interstate roads to all-weather roads, including definition of priority road network › Promote joint venture with private investors to modernize river transport services between the northern and southern states and with Sudan › Formulate and implement a programme for upgrading logistics to foster connectivity within the South Sudan	**Very High Year 1-2**	MTRB, SSCCIA, SSBU States, MFEP, economic departments of local universities	TA & investment	$500,000 per study (transport cost and alternative roads to sea port) $300,000 (formulation of programme for interstate 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 procedures at all borders	**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

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Objective	Recommended Actions	Priority and implementation period	Entities concerned	Type of intervention	Estimated costs (US$)*
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 GRSS	› 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: › Establishment of a Development Board › Establishing linkages with think tanks and consider creating a public think tank to address trade, development and poverty issues › Outsourcing services to private sector organizations › Adapt institutional set up to South Sudan's context, seek endorsement at ministerial level and proceed to implementation	**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

Objective	Recommended Actions	Priority and implementation period	Entities concerned	Type of intervention	Estimated costs (US$)*
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 MTII 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 computerization and support leadership by improving skill sets	› Provide training opportunities for improving English language skills and reduce skill gaps › Expand internet bandwidth and wider availability of internet connection for staff › Provide targeted training in use of computers and introduce standardization and mechanization 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)

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Objective	Recommended Actions	Priority and implementation period	Entities concerned	Type of intervention	Estimated costs (US$)*
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 linkages 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 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	**Very High** **Year 1-3**		TA	$300,000

Objective	Recommended Actions	Priority and implementation period	Entities concerned	Type of intervention	Estimated costs (US$)*
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 commercialization 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

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Objective	Recommended Actions	Priority and implementation period	Entities concerned	Type of intervention	Estimated costs (US$)*
OIL AND ELECTRICITY (Integrate the following priority actions into ongoing and pipeline 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 for wood fuel 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

Objective	Recommended Actions	Priority and implementation period	Entities concerned	Type of intervention	Estimated costs (US$)*
MINING (Integrate the following priority actions into ongoing and pipelines activities to facilitate implementation)					
Maximize 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 specialized 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 regionally 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 commercialization)	**High** **Year 1**	MPM		$600,000

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Objective	Recommended Actions	Priority and implementation period	Entities concerned	Type of intervention	Estimated costs (US$)*
INCLUSIVE TOURISM (Integrate the following priority actions into the Tourism Master Plan to facilitate implementation and resource mobilization)					
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, three-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)

Objective	Recommended Actions	Priority and implementation period	Entities concerned	Type of intervention	Estimated costs (US$)*
Tourism product development	› Create an investment portfolio for two parks › Start up support for South Sudan tourism enterprises outside of Juba › Introduce tour operator licensing 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

Note: *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.

Matrix ends

DIAGNOSTIC TRADE INTEGRATION STUDY

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