



Public Private Cooperation in Fragile States

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1. Introduction and project background

Project context: The current report is part of the larger project 'Public Private Cooperation (PPC) in Fragile States', which has been initiated under the 2007 Schokland Agreement on 'Network for Peace, Security and Development'.¹ The Network aims to support and encourage the sharing of expertise and cooperation between the different Dutch sectors and organisations involved in fragile states. The focus of this larger project is on tripartite partnerships in order to contribute to fair and sustainable economic growth in fragile states.

Project partners: The fieldwork for this case study was carried out by a team composed of representatives from the various stakeholders involved in tripartite partnerships, i.e. government representatives (Ministry of Economic Affairs-Agency for International Business Cooperation 'EVD'), the Dutch private sector (The Netherlands African Business Council 'NABC' and Kadaster International) and civil society organisations (ICCO and Cordaid). The project was carried out in close cooperation with the Netherlands Ministry of Foreign Affairs. The team was coordinated by the Conflict Research Unit of the Clingendael Institute (CRU).

Project objective: The primary objective of the overall project was to identify key areas, local sectors, local needs and (im)possibilities where public-private cooperation can best or most efficiently contribute to pro-poor, just and sustainable economic growth. In light of the unstable character of the identified states, the field research would also help to ensure the conflict-sensitive character of the final policy recommendations. The field research thus aimed to identify local needs in terms of socio-economic development and how PPC could best contribute to alleviate such needs.

Project design: The project was designed to result in practical examples, bottlenecks and opportunities for PPCs in Southern Sudan:

- § **An extensive field study** into local needs and opportunities, conducted by international and local consultants from Southern Sudan. The field study was organised and carried out under the responsibility of ICCO in Western and Central Equatorial State and in Aweil and Wau (by Cordaid) and concentrating on the current socio-economic needs in Southern Sudan.²
- § **Fact-finding mission** carried out by project partners. The fact-finding mission was carried out by representatives from CRU Clingendael, EVD, NABC, ICCO, Cordaid and Kadaster International. Several private companies, NGOs, government bodies and international organisations were interviewed. The fact-finding mission was carried out in close cooperation with the Netherlands Ministry of Foreign Affairs.
- § **A Round-table event on PPCs** was organized in Juba. During this event, the potential preliminary results of the fact-finding mission and potential PPC opportunities were presented and tested with representatives from local stakeholders.

¹<http://www.millenniumakkoord.nl/agreements/00030-network-peace-security-and-development>. Schokland Agreement: "Knowledge Network for Peace, Security and Development, June 2007.

² A separate report on the outcomes of this field study has been prepared by ICCO and is available on request (*Report on the decentralised mission in Southern Sudan*; Specht and v. Dorp et al, 2009).

- § **Partnership building concerning PPCs in fragile states.** The joint fact-finding mission contributed to a better understanding of the views and the scope of the work by actors from the government, the private sector and NGOs.
- § **Economic Mission.** The first-ever Dutch economic mission to Southern Sudan was organised by the NABC in close cooperation with the Royal Dutch Embassy in Khartoum in order to identify concrete business opportunities and to introduce Dutch companies to the local business environment.
- § **A practical funding guide (market scan)** for private sector activities in Southern Sudan was developed by the EVD, which has been presented to the participants of the economic mission.³
- § **Preparation of a pilot PPC project.** After a call for proposals, the most promising project ideas will be further developed into a feasible project plan for a concrete PPC in Southern Sudan.
- § **Country report on Southern Sudan.** The current report presents the main findings from the project activities as well as a number of recommendations for cooperation.

Definition of PPC: In line with the project background, a PPC within this project has been defined as the involvement of three actors, i.e. government, private enterprises and civil society/NGOs. Such partnerships are also referred to as tripartite partnerships and are considered to be a sub-type of public-private partnerships. Practice has indicated that tripartite partnerships are less common than, for instance, public-private partnerships between government and private sector actors or private non-profit partnerships in which the private sector partners only cooperate with a civil society actor.⁴ The goal of the project is to *explore, support* and *promote* strategic examples of tripartite partnerships in Southern Sudan.

Intended audiences: The primary audiences are Dutch government officials, Dutch civil society and the Dutch private sector. The objective of the report is to encourage potential partners to consider starting a tripartite partnership in Southern Sudan and to inform the various stakeholders of the main opportunities, bottlenecks and the steps which are required to be taken. A second audience comprises the Government of Southern Sudan (GoSS), private sector actors and civil society organisations of Southern Sudan and its direct surroundings.

Guiding questions:

- § Can innovative ways of cooperation between Dutch public, civic and private actors contribute to fair and sustainable economic growth in Southern Sudan?
- § Which sectors in Southern Sudan are, from a local perspective, particularly interesting for PPCs in terms of contributing to fair and sustainable economic growth? Within this range of sectors, which country-specific opportunities for PPC can be identified for Southern Sudan? In other words, are there PPC cases which potentially both contribute to local needs and which are economically interesting for investment?
- § What are the main challenges and risks involved in these particular PPCs and which steps are required by the various stakeholders to overcome such challenges?

³ The market scan is available on request at the EVD.

⁴ A separate synthesis report will be prepared, analysing the overall outcome of the case studies. This report also elaborates in more detail on the concept of PPC and the different models.

2. Background and context of Southern Sudan

a) Conflict history and the current security situation

The signing of the **Comprehensive Peace Agreement (CPA)** in 2005 ended over two decades of conflict between the Government of Sudan and the Sudan People's Liberation Movement/Army (SPLM/A). The war was mainly fought over the issue of political and religious self-determination for the South, while the question of who would attain control over the country's resources – particularly oil – was an important underlying concern for both parties.⁵ The CPA provides for a high level of autonomy for the South. Southern Sudan has its own President (Salva Kiir), ministers and government structures. There are some policy areas for which the South *does not* have exclusive executive and legislative powers. These include foreign affairs and international representation; nationality and naturalization; immigration; and customs, excise and import duties.

The physical security situation in Southern Sudan has significantly improved after the signing of the CPA in 2005, but is still far from stable. Insecurity particularly affects the rural areas and is caused by several factors including inter-ethnic hostilities, conflicts over land, water and cattle, the presence of various non-state armed groups and abuses by state agents, notably the army and the police. The slow and hampered process of CPA implementation negatively impacts North-South relations and is an additional burden to Southern Sudan's security environment. Border demarcation, the redeployment of troops and transparency in the oil sector are important, but still unresolved issues that may fuel new North-South tensions in the run-up to the elections and the referendum.

The Government of Southern Sudan (GoSS) identifies security as a priority area, which is reflected in the allocation of its resources: expenditures on security considerably exceed what is spent on other sectors.⁶ However, civil law enforcement agencies, such as the Southern Sudan Police Service, are weak and are themselves often a source of insecurity.^[2] The crime rate in Juba has risen over the last year, although it has been mentioned by respondents that the recent USAID-funded relocation of SPLA soldiers to the outskirts of the city has reduced feelings of insecurity among its citizens. It should further be noted that crime rates in Southern Sudan are relatively low in comparison to other African states. Moreover, Southern Sudan generally has a good reputation as regards its hospitality to foreign visitors.

b) Governance

After the war, the SPLM had to transform itself from a military movement into a civil authority. Core public structures on every level of society needed to be created in order to establish effective and legitimate governance. Today, governing institutions at the central, state and local level still lack basic infrastructural capacities, policy and a legal framework. Rule of law institutions such as the judiciary,

⁵ For a more elaborate analysis of the causes of Sudan's civil wars, see Rogier, E. (2005). *No More Hills Ahead? Sudan's Tortuous Ascent to Heights of Peace*. Clingendael Security Paper, The Hague.

⁶ Tisa Sabuni, A. (2008). *Southern Sudan Financing Requirements & Fiscal Issues* (2008). Presentation on behalf of the Ministry of Financial and Economic Planning, Government of Southern Sudan.

the police, prisons and the Ministry of Legal Affairs are all yet to become fully functional. Governance indicators concerning Southern Sudan have not yet been systematically collected, but it is widely recognized that GoSS, only having been established in 2005, is still characterized by a lack of capacity both in terms of resources and qualified staff. The institutional capacity of the GoSS is, however, improving. The progress that has been made over the last few years in terms of budgeting and planning is notable, although at lower administrative levels capacity problems continue to be present and more difficult to address.⁷

Weak state capacity is often mentioned as one of the main constraints for private sector development, especially in terms of the creation of a business-enabling environment. A large part of the donor support for Southern Sudan is related to the capacity development of the GoSS, including the development of the local state governments of Southern Sudan. Notwithstanding the slow progress so far, conversations with government officials indicate that GoSS is committed to delivering jobs and services. It was also frequently suggested that the best way for Southern Sudan to achieve these goals is through the development of a strong, broad-based and competitive private sector. Also, respondents from the GoSS underlined that tax revenues from increased formal private sector activity will in the medium to long run present the most solid and sustainable source of funds for the GoSS to invest in overall development activities and to reduce dependence on oil revenues.⁸ Foreign Direct Investment is considered to be welcome.⁹ Joint ventures can be established, even with 100% foreign share participation, although a partnership with a local partner is recommended.¹⁰

Even though the challenges are daunting, there are assets on which to build.¹¹ Trade continued during the war across Southern borders with Kenya and Uganda, focussing on exports of timber, some agricultural products and the import of essential goods. The South has a stable supply of cattle, food crops, horticultural products, timber and energy. With large neighbouring and domestic markets to supply, Southern Sudan may be able to capitalize on growth in this sector and those further abroad with the requisite investments in infrastructure, transportation and extension.

GoSS has taken a number of early actions, establishing key responsible line Ministries, reviewing all major foundational laws supporting private sector development, including banking laws (to enable a change to conventional banking), investment law, bankruptcy laws and contract law. The Ministries of Energy and Mines and Commerce, Trade and Supply have recently been merged into one Ministry of Commerce and Industry. This Ministry has recently established a department for private sector development, which closely cooperates with the MDTF-SS under its Private Sector Development Programme (PSDP) (see below).

⁷ Soede, S., The role of the private sector in furthering sustainable economic growth in Southern Sudan (2009) MBA Management project report (not published), p. 14.

⁸ "Sudan: revitalizing non-oil exports. Diagnostic Trade Integration Study (DTIS) for the integrated framework programme, June 2008.

⁹ Richie, R. "Southern Sudan can be Africa's next Business Hub", in: *Active Nation*, March 2009; Mugisha, A., "Multi-Investors Sought for Southern Sudan", in: *Active Nation*, March 2009. While meeting the business community during a German-Sudanese Business forum in Hamburg, the Southern Sudan Minister of Finance and Economic Planning urged investors to come to Southern Sudan and explore the business opportunities available.

¹⁰ See also section 3C on the Southern Sudan Investment Bill.

¹¹ The war prevented the emergence of an entrepreneurial class and few businesses owned by Southern Sudanese exist.

c) Macro-economic outlook¹²

Apart from the oil sector, Southern Sudan's economy can best be described as a subsistence economy, which accounts for the limited market activity and low import and export levels, although some new markets have emerged and trade rates have improved since the establishment of the CPA. Sudan's official statistics do not include data on international trade crossing borders into the South. A rough estimate is that the South imported around 75 million USD from Kenya in 2006 and around 55 million USD from Uganda.¹³

In terms of employment, agriculture is traditionally the most important sector in Sudan.¹⁴ However, underinvestment and war have left output vulnerable to climate conditions, leading to fluctuating output levels. Cotton was traditionally the largest non-oil export earner, but in recent decades it has been displaced by livestock and sesame.¹⁵ Although Sudan remains a predominantly agricultural economy, the development of the oil export industry is altering the country's economic structure.¹⁶ The development of the oil sector has led to a sharp rise in foreign investment flows and has boosted the development of the industrial sector.

Furthering economic growth and generating non-oil revenues is high on the agenda of the GoSS.¹⁷ Revitalizing non-oil exports could play an important role in achieving Southern Sudan's potential for international integration, sustained broad-based economic development and a widely shared improvement in living standards, including the marginalized areas.¹⁸ However, as a result of the current political uncertainty in Southern Sudan, it may be difficult for private sector actors to engage with a long-term perspective and the current private sector is often still geared towards high-risk, high-return and short-term investments.¹⁹

The **financial and economic crisis** is seriously impacting on the Sudanese economy.

The strong downturn in oil revenues and the difficult relations with Khartoum have resulted in fiscal pressure for the GoSS. First, the funds available to GoSS have recently diminished sharply, reducing the fiscal room for public spending. As a consequence local entrepreneurs supplying GoSS have run into trouble since GoSS has large amounts outstanding. Second, GoSS is the largest employer in South Sudan. The non-payment of government salaries will have a serious negative impact on consumer demand as well as economic growth and could lead to increased insecurity in the region.

The financing gap is worsened due to the fact that Sudan is a heavily indebted country which has repeatedly failed to honour its obligations towards the World Bank and the IMF. The remaining debt

¹² The aim of this subsection is to highlight some of the current developments which are relevant for potential investors. For a more detailed economic outlook, please refer to "Country Profile 2008 Sudan", Economist Intelligence Unit, 2008 or the DTIS report. Another source is the "Doing Business Report Sudan", World Bank, 2009. It is important to note that both reports offer aggregate figures for Sudan. Specific numbers on Southern Sudan are still hardly available and may differ significantly.

¹³ DTIS report, pg 9.

¹⁴ Country Profile 2008 Sudan, Economist Intelligence Unit, pg 25. Please note that this report also indicates that the oil sector accounts for more than 50% of the GDP. Agriculture is, however, traditionally one of the more important sectors, also in terms of employment generation.

¹⁵ Idem.

¹⁶ Idem.

¹⁷ Soede (2009), p. 17.

¹⁸ DTIS report, pg viii, Executive Summary.

¹⁹ Douma, P., "Economic Recovery in Southern Sudan: Private Sector Sector Development Perspectives in context", in: Van Beijnum, Specker and Anthony, Economische Wederopbouw na Conflict: een beleidsverkenning, December 2007, Conflict Research Unit, Clingendael Institute, p. 73. But one example of a pioneering company with a long-term perspective is SAB Miller, who recently opened a brewery and intends to expand in the coming years.

arrears prevent Sudan from borrowing from the International Financial Institutions (IFIs) and the same applies to Southern Sudan.

A second effect of the financial crisis is the widening of the current account deficit in Sudan. Due to the high dependence on oil exports and the decrease in oil revenues, foreign exchange reserves have fallen sharply to less than two weeks of imports and the exchange rate has depreciated. However, imported inflation will be limited due to a decline in world food prices and tight monetary and fiscal policies. The lack of available data do not allow for an estimation of the overall effect on the economy in Southern Sudan.²⁰

Southern Sudan and other marginalized areas have been exempted from sanctions since the 2006 revisions. In addition, imports of gum arabic are exempted from sanctions against Sudan as a whole.²¹ Also, even though the prospects for after the referendum in 2011 are uncertain, a number of resource persons have indicated a number of potentially positive developments, including Southern Sudan integrating with the **East African Community**.²²

d) Description of private sector actors and NGOs which are active in Southern Sudan

i) Local and international private sector

The formal private sector in Southern Sudan is still in a nascent state of development: rudimentary, largely fragmented and primarily geared towards setting up government structures, some housing as well as providing services for a large (but temporary) expatriate community (accommodation, logistics and restoration). Regular economic activities have only been able to develop since the CPA in 2005. The rural areas are virtually void of any entrepreneurial activity above household-level micro-enterprises. The trend in Southern Sudan is a rapidly growing number of micro-enterprises consisting of informal retailers. Private enterprises which are active in Southern Sudan can be characterised as follows:

- The vast majority of business owners are Kenyan, Ugandan, or North Sudanese. Few returning Southern Sudanese have started to set up businesses, and an even fewer number of “indigenous” entrepreneurs have developed a sizable enterprise. Those who do are often strongly linked to GoSS/SPLA;
- A limited number of Dutch or European (non-oil) investors are active; most in service delivery in the slipstream of international assistance programmes, a few to implement one-off projects. Obviously, the high level of both political risk and day-to-day insecurity will mean that investors are calculating very high margins leading to short payback periods. Some investments are made by “rogue investors” – individuals with a taste for high-risk, high-gain ventures. Often, these are “hit and run” investments, meaning a risk venture with a low initial investment and a very short repayment period, typically less than one year;
- Most enterprises, irrespective of their origin, are in trading and service activities, the local added value is generally low, and “sunk capital” investment is rarely seen.

²⁰ Sudan: Staff-Monitored Program for 2009-10, IMF Country Report No. 09/218 .

²¹ The US imposed economic sanctions against Sudan in 1997, blocked US firms and individuals from trading with Sudan or conducting any business transactions with the national government of Sudan or any individual or organisation associated with the national government, including state-owned enterprises. DTIS report, pg 22.

²² See also: http://www.busiweek.com/index.php?option=com_content&task=view&id=1132&Itemid=36. “Opportunities Beckon in Region, Southern Sudan”, Business Week February 2009.

There are a number of local private entrepreneurs currently involved in economic activities in Central and Western Equatoria. One is the ALOK group of companies, engaged in diverse economic activities like water purification and bottling, air transportation, stone crushing, building and road construction and hotel management. Other local companies are: Bilpam Telecommunications, Athir Wic, Nile Commercial Bank, PAYII Construction, White Nile Lodge, Sunflower Hotel, Rhino Supplies and Construction Company Limited, Buffalo Bank Limited, South Sudan Hotel, Bakheita FM, Imatongas Petroleum, SkyJet Airlines, Yanyyom Water Purification and Bottling. A fair number of these companies are part of one of the business conglomerates of the Southern Sudanese “tycoons” who have successfully targeted the most promising segments in the last few years.

A large majority of local entrepreneurs are working in the informal sector, where many activities are also carried out by SMEs from surrounding countries. A major area of local entrepreneur preoccupation is the retail sector (sugar, rice, salt, maize flour, soda, beer, biscuits, hardware from China, building materials). Others are foodstuffs, livestock, motor vehicle and motor cycle sales and repair, the sale of (top-up) call time for mobile phones, repair and maintenance of electronic equipment (i.e. computers), carpentry, telecommunication services, banking, microfinance, money transfers and exchange, public transportation and river transportation.

The **international private sector operates in diverse sectors and activities** such as telecommunications, banking, air transportation, timber mining, the building sector, road construction, the importation of goods, road transportation, hotels and lodges, etc. The main international players in Southern Sudan are the Kenya Commercial Bank, Jetlink, East African Airlines, Air Uganda, MTN, ZAIN, Vivacell, JIT Supermarket, ROKO Construction, Equatoria Timber Company, SAB Miller, Civicon Construction, Davinci Lodge, Intra Africa, Afex Hotels, KK Security, SDV Transami, Delbit Petroleum, Spring Petroleum, Total E & P – Sudan, and Ascom Petroleum. A large number of international investors come from the region, i.e. Uganda, Kenya and Ethiopia.

From the Netherlands, Damen Shipyards, Euroconsult MottMacDonald, Pegu Systems, Agriterra, Heineken (through a local distributor) and Hofman are active in Southern Sudan.

ii) Local and international NGOs

The role of **international NGOs** was, as a result of the prolonged war, mainly focused on the provision of humanitarian assistance and the delivery of services, in particular in the health sector. However, as the situation has improved, their role has now shifted more towards structural development. This includes the capacity building of individuals and organisations (both public and civil society), technical assistance in e.g. agriculture and health, the provision of micro-credit and the general empowerment of e.g. farmers and women’s groups. The (re)construction of the roads, bridges, hospitals, schools is still an important activity. Some of the international NGOs present in Southern Sudan are: ICCO Sudan, World Vision, Cordaid, NPA, MSF, Oxfam Great Britain, JRS, ZOA, WarChild Holland, Acted, CHF International, IRC, Tearfund, CRS, BRAC, SNV.

Most local NGOs are connected in some way to international NGOs. They often act as partners/implementers of NGO projects. Local NGOs can also be a capacity resource for investors who often require expertise that these NGOs are able to provide. Local NGOs that operate in Southern Sudan are: Action Africa Help International (AAH-I), Equatorial Women Association (EWA), Institute for the Promotion of Civil Society (IPCS), Sudan Micro Finance Institution (SUMI), Yei Community Resource Centre(YCRC), Network for Education and Empowerment in Southern Sudan (NEESS), Community Education Action Program (CEAP). On a general note, however, the capacity of local NGOs is fairly limited.

3. Business-enabling environment of Southern Sudan

a) General

The current political environment in Southern Sudan was identified by the private sector as one of the most important constraints for investment and trade. Uncertainty concerning the outcomes of the 2010 elections and the 2011 referendum increases the risks for investors as well as companies involved in trade relations with Southern Sudan. Even though such risks are similar for regional investors, being used to higher risks in their home countries, regional investors have a different risk perception. Regional companies are thus considered to be potentially interesting partners. Section 4B elaborates on the political environment in more detail as part of the business enabling environment.

In addition, as a result of the war, the overall labour quality and the level of education are low. Furthermore, government funds are unpredictable. Due to the strong downturn in oil prices and the difficult relationship with Khartoum, the funds that GOSS has available have recently diminished sharply. Local entrepreneurs supplying GOSS have run into trouble since GOSS has large amounts outstanding. Moreover, since GOSS is the largest employer by far, the non-payment of government salaries has a serious negative impact on consumer demand and can lead to increasing insecurity. The lack of entrepreneurial quality has resulted in a market with little competition in most sectors. However, this may also lead to difficulties in finding reliable and capable business partners for foreign investors.

b) Physical infrastructure

The lack of physical infrastructure in Southern Sudan is generally a constraining factor for private sector development.²³ The construction, rehabilitation and maintenance of strategically important roads remain vital to enhance the accessibility of state capitals, major towns and markets. Road access has improved since the signing of the CPA, but the existing infrastructure network of roads and bridges, river transport, telecommunications and energy remain limited and poorly maintained. Juba was and still is the only place with a bridge across the White Nile in all of South Sudan.²⁴ Repairs to strengthen the bridge are being arranged by GoSS.

Southern Sudan is critically dependent on Kenya and Uganda for its access to the sea and to trade facilitation services.²⁵ This poses challenges of rapidly evolving services in transport while simultaneously establishing institutions for the development of the sector. The physical recovery programme in Southern Sudan is necessarily attuned to basic infrastructure needs and includes building an internal (rural) road network, ensuing transport and trade facilitation links between the north and the south of the country and establishing trade facilitation systems for better hinterland

²³ Although respondents from the private sector indicated that it depends on the type of company and not all companies saw it as a major bottleneck.

²⁴ In November 2006 the bridge was damaged by an overloaded truck and it now has a 5-tonne vehicle weight limit. Southern Sudan's closest port is Mombasa. Goods have to be offloaded east of the bridge from large vehicles to smaller, more suitable vehicles.

²⁵ DTIS report, pg 68.

connections to regional countries and the Northern Corridor to Mombasa Port in Kenya.²⁶ Yet, construction materials are in short supply. Clearing mines and unexploded ordnance exacerbates construction problems.

Because Southern Sudan is effectively a land-locked region, it faces an especially pressing need to develop a logistics industry with external collaboration to integrate transport and trade facilitation services for clients. In Southern Sudan this industry would help to provide that part of the country with competitive services and the two routes to the sea through Port Sudan and Mombasa.²⁷ In Southern Sudan there is a potential for establishing private sector inland container depots (ICDs) and a logistics industry with external collaboration.²⁸ Damen Shipyards is developing a shipyard in the proximity of Juba and this is expected to result in more cross-river trade.

In Southern Sudan only three towns (Juba, Malakal and Wau) have partial access to diesel stations for electricity. The existing national grid only covers six states and the northern parts of the Blue Nile. Southern Sudan has particularly poor access to electricity services. It is also not feasible at this time to connect Southern Sudan to the existing national grid. The authorities are responding to this by using a two-stage plan which involves the use of isolated diesel power stations in the south and other disconnected areas, which will then be linked together to form larger grids. In areas where hydro-power is an option (especially in the South) small-scale hydro-power plant stations are planned as a medium to longer-term solution for extending national grids. GoSS has developed an ambitious programme aimed at electrifying 70-80 % of Southern Sudan by 2020.²⁹

There are several mobile telephone providers which are active in Southern Sudan (Zain, Gemtel and MTN). The quality has improved, but it remains difficult if not impossible to call from one network to another. It is, however, fairly easy to connect to a network and to buy credit. The arrival of telecom companies has boosted local economic activities. The availability of telecommunications has enabled information gathering on prices of products. A number of businesses have been set up as spin-offs to the boom in the telecom sector, including shops selling (top-up) calltime, small shops selling and repairing new or used mobile phones and/or offering phone charging services.

c) Regulatory framework

The interim constitution of Southern Sudan grants authority to GoSS concerning matters relating to commerce, trade and commercial regulation. GoSS is increasingly taking over this role and is making efforts to create its own regulatory framework for the private sector. Yet, the first few years after the signing of the peace agreement have shown that policy uncertainty is still a challenge. Traders, for instance, pay arbitrary taxes at the border. Firms report that it is not only the level of taxation that matters, but also the manner in which the government collects taxes, the number of different taxes and the transparency of the tax legislation that greatly affect investment decisions by firms.

Although major steps have been taken in order to develop appropriate legal and regulatory frameworks for Southern Sudan (drawing from national laws), the legal environment is still to be clarified in critical areas such as land, investment, registration and the role of the government itself. In

²⁶ DTIS report, pg 68.

²⁷ Ibid, pg 70.

²⁸ Ibid, pg 71.

²⁹ Ibid, pg 90.

addition, the implementation process of the already enacted laws is rather slow and confused as a result of the sheer magnitude of the laws and regulations as well as the lack of capacity within the institutions responsible for their implementation.

Some steps have recently been taken in order to improve the regulatory framework for investors in Southern Sudan, although it remains to be seen to what extent those will be implemented. Eleven laws have, for instance, been developed with the assistance of the Business Names Act. The development of the Investment Bill is slowly progressing. It is important to note that provisions requiring foreign investors with Southern Sudanese partners to pay start-up funds have been removed from the later versions.³⁰ Also, the national government of Southern Sudan and the GoSS have taken steps to recently bring all **customs** operations under the administration of the national customs department. But significant investments in staffing, training, and equipping customs administration in the South will still be required to ensure that customs operations are integrated throughout the country. The overall **judiciary** remains weak. There are as yet no commercial courts in Southern Sudan and it is difficult to discover where one can turn to when one becomes involved in a commercial dispute.³¹

Business registration in Southern Sudan is increasing and this can be done by the Chief Registrar at the Ministry of Legal Affairs and Constitutional Development. Yet it remains difficult to obtain the required permits and licences. The first business directory for Juba has been developed with support from UNIDO under the MDTF-SS PSD.³²

d) Land registration

Access to land is still a limiting factor for private sector development. A well functioning framework includes a coherent land policy, adequate legislation, functioning institutions, law enforcement capacity and supporting services. A reliable, sustainable and transparent functioning land registration system is a critical enabling factor for private investment. In addition, it supports the security of tenure and contributes to the rights of women and vulnerable groups which use or own land.

Even though access to land remains a challenging factor for the private sector, significant progress has been made concerning the new Southern Sudan Land Bill. Southern Sudan still lacks an overall framework for land issues and the security of land tenure is still very weak. Land access issues and resulting disputes are not effectively managed and handled. Yet, the Land Bill came into force in February 2009. In addition, GoSS, supported by the international community, is currently also working on a Land Policy. Although the Land Bill has been welcomed, it has also been criticized for its general nature: specific subsidiary laws and regulations will need to be developed. The Land Bill will serve as an example for forthcoming Land Bills. All separate states in Southern Sudan will, for instance, align their own acts and detailed regulations with the Land Bill. The Land Commission is now starting to explore on a state-by-state basis how to implement and adjust this act for every state.

Any investor wanting to make use of land in either urban or rural areas should be aware of old land rights (i.e. land rights from before the war in 1983) and the rights of returnees to that land

³⁰ The Investment Bill includes a number of provisions on corporate social responsibility. Draft versions included the condition that community benefits and profits were to be reinvested in the community and NGOs can play an important role in this. It is unclear whether these provisions have survived revision sessions.

³¹ Soede, (2009), p. 27.

³² *Juba Business Directory 2009*, Ministry of Commerce and Industry in cooperation with DFID and UNIDO.

(including the right to make use of the land for pasture). The Land Bill, for instance, specifies that “a person may be entitled to restitution of a right in land if he/she lost his/her right after involuntary displacement as a result of the civil war starting in May 16, 1983. (...) The restitutions may be done regardless of whether the right in land referred to was taken over by an individual or the government.”³³ The purpose of land use (i.e. agriculture, industry etc.) and the origin of the land (i.e. State-owned lands, Communal Areas etc.) both play a role in the rights involved.

For investment in agriculture and natural resources, there is a possibility that land can be made available for long-term lease. In general, according to the Land Bill, foreign investors cannot buy land, they can only lease it. One can either take over the lease from another lessee or obtain a lease for a new plot. In addition to issues affecting land policy (like limitations on foreign shareholding) there are other challenges affecting investment in agriculture: land mines and limited infrastructure and the lack of (all-weather) roads, electricity, communications and markets.

Currently, the lack of functionality pertaining to land administration both at the central and local levels is a key part of the problem. Survey departments are a shambles, important data and records have been lost and there is no reliable information on which to base new land allocations and transfers or to secure tenure rights. Respondents have indicated that there is a risk that cadastral and land registry data may disappear in areas where local authorities are complicit in land speculation. Customary land management still works on a localised basis in Southern Sudan, between neighbours or members of the same family, but when larger areas and groups or outsiders are involved the customary system is largely ineffective. And yet respondents have indicated that, informally, the Land Market seems to work reasonably well.

Respondents have indicated that the functioning of the current Land Commission in Southern Sudan needs to be improved, among other things in order to support private investors. There is a need to develop a new cadastral system, a large area of land in Southern Sudan needs to be surveyed and mapped, the demarcation of land in rural areas needs to be improved, institutions need to be strengthened or established, a start needs to be made with the titling and registration of land and a system for the registration of land needs to be developed.

e) Financial services and microfinance

The banking sector in Sudan is generally small, with only about 30 commercial banks operating in the whole country. Most banks are located in the North and they therefore operate under Islamic banking principles. In the South, with the establishment of the Bank of Southern Sudan as a central bank for the South, non-Islamic banking is permitted. While several foreign banks have opened representative offices in Juba, KCB of Kenya currently has a de facto monopoly over regular banking transactions. Another bank, the Nile Commercial Bank (NCB), is the largest “indigenous” bank with 20 branches in Southern Sudan.

Kenya Commercial Bank LTD KCB (Sudan) Limited has two branches in Juba and Rumbek and has plans to expand to other viable business centres in Southern Sudan such as Yei and Yambio. The subsidiary offers a wide range of banking services.

The Nile Commercial Bank (NCB) is the biggest indigenous Southern Sudanese bank. NBC offers loans, current accounts, savings accounts and accepts funds on fixed deposits. Accounts are also kept

³³ Land Bill Southern Sudan 2009, Chapter XIII Land Rights Restitution and Compensation.

in different currencies. NCB handles money transfers to all parts of the world, letters of credit and trade transactions. NCB has 25 branches including in neighbouring Uganda and in Nairobi in Kenya.

The microfinance industry in Southern Sudan is estimated to only be reaching 1-3% of the people in need of financial services in the market. There are currently four microfinance organizations operating in Southern Sudan, plus a number of very small and recently established CBOs that offer microfinance. By contrast, there are 27 MFIs operating in Ethiopia and 18 in Uganda. A World Bank mission in 2005 estimated that there was a likely potential of 350,000 to 400,000 unserved clients for microfinance in Southern Sudan, a number that will rapidly grow. It is important to point out that population density is low, posing a challenge to sustainable microfinance.

A network of microfinance practitioners, the **Southern Sudan Microfinance Forum**, was established in 2006 to offer microfinance practitioners a platform to share experiences and to discuss topics of common interest. The major microfinance organizations in Southern Sudan are:

- **Sudan Microfinance Initiative (SUMI)** with activities in the urban settlements of Yei, Maridi, Yambio, Rumbek and Juba with USAID support. More than 8,000 clients have been recruited and over 13,000 loans made. Of these clients, 38% are women. Some 12% of the clients are rural based and are served through the 13 “outreach centres”. SUMI aims to open new branches in Wau, Malakal and Torit in the next five years.
- **Bangladesh Rural Cooperative (BRAC)** now has seventeen branches, mostly around Juba in the state of Central Equatoria, with close to 12,000 village members and 140 staff. BRAC plans to grow rapidly in other Southern Sudan states and foresees reaching one million clients and financial sustainability in 4-5 years. Besides microcredit, BRAC aims to provide livelihood and business development services, a health programme, a water, sanitation and hygiene programme and a non-formal primary education programme for vulnerable and out-of-school children.
- **Savannah Farmers’ Cooperative (SFC)** is not a microfinance initiative, but provides agricultural inputs on credit to its members.
- **Finance Sudan** is a partnership between ARC and Micro Africa and is mainly active in Malakal and Juba.

Worth mentioning is also a USAID project related to microfinance, **Generating Economic Development through Microfinance in Southern Sudan (GEMSS)**, which aims to more than double the current outreach of MFIs from 18,000 to 38,000 clients.

f) Business Development Services and Trade Promotion Services

Given the rapid emergence of small businesses, there is a growing need for Business Development Services. Under the MDTF-SS PSD programme UNIDO has carried out an inventory on providers of Business Development Services.

There is an emerging, but active Chamber of Commerce (CoC), but sector associations need to be established in order to transform the CoC into a representative body. The further development of the CoC is supported by the MDTF-SS PSD programme and the Industrial companies’ component of UNIDO. It has active branches in major towns such as Yambio, Yei, and Juba. The Chamber of Commerce is just restarting after the war, however. Although the association is vibrant, it is currently

challenged by a lack of office space and full-time personnel (at the time of the field visit it was in the process of recruiting).

The IFC/PEP Africa is also supporting the creation and implementation of the **Southern Sudan Business Forum for Public Private Dialogue** as part of the MDTF-SS PSD programme. The Business Forum was set up in February 2009. The GoSS is also currently starting some joint ventures with local private sector actors. One example is the Juba **wholesale market**.³⁴ The government provides land and infrastructure, while local businesses will manage the venture. According to the director of PSD, under the Ministry of Commerce, Dutch companies are very welcome to join these ventures as a third party.

In May 2008, the President of the GoSS enacted the Investment Provisional Order, 2008. The Order established the **Southern Sudan Investment Authority** as the Government's agency which is responsible for the licensing, promotion and facilitation of all investment activities in Southern Sudan. The Investment Authority will become operational as soon as the Investment Bill has been enacted.³⁵ However, among other things the lack of resources may constitute a challenge to the effective functioning of the Investment Authority and it remains to be seen how it will function in the (near) future.

³⁴ See Chapter 4 for more details on the MDTF-PSDP.

³⁵ GoSS, Investment Provisional Order, August 2008, Juba. The Board of Directors of the Investment Authority consists of the Minister of Finance and Economic Planning, the Minister of Commerce, Trade and Supply, the Minister of Legal Affairs and Constitutional Development, and the Minister of Energy.

4. Private sector opportunities in Southern Sudan and the potential for PPCs

a) Private sector opportunities

The project activities, in particular the field study, fact-finding mission, round-table funding guide and economic mission resulted in the identification of business opportunities for the Dutch private sector as well as PPCs.

- § *Agriculture (including livestock)* is of major importance to the Southern Sudanese economy, in particular with respect to food security and employment. Out of 82 million hectares of land surface in Southern Sudan, about 50 percent is prime agricultural land. Despite this, commercialisation currently only takes place on a very small scale. Hence most of the agricultural production in the South is at subsistence level. With around 8 million cattle in Southern Sudan, livestock plays a significant role. There is a great deal of potential for international investment in cattle rearing, dairy products and slaughterhouses. The Moldavian oil company Askom has built a slaughterhouse close to one of their bases, which is currently partly used by third parties. In addition, veterinary services and the training of cattle handlers present opportunities for investment and public-private cooperation. Poultry is currently being commercialized on a very small scale. Similar to beef production, poultry has a high potential for replacing imports from Uganda.

Increased productivity in the agricultural sector requires an increased level of mechanization and improved inputs (seeds, fertilizers, etc.). Setting up agricultural service supply companies would present a market-oriented solution for attaining this objective. Also, out-grower schemes can be used to boost productivity. Due to the low skill levels of workers, NGOs can take part in these ventures, e.g. by providing training and awareness-raising activities. Also, clients could be persuaded to join these activities, e.g. by providing technical knowledge.

GoSS, donor agencies (MDTF-S, EC, IFAD, and FAO) and international NGOs are all preparing themselves for providing a boost to agricultural development. The Ministry of Agriculture and Forestry (MAF) of GoSS, for instance, has developed a draft Seed Policy and draft Seed Act; there is also an interest in developing centres for seed multiplication and upgrading central seeds laboratories.

Both KPMG, advance Consulting and Stet Holland have identified potential projects in the agricultural sector. STET is exploring whether the potential Southern Sudanese trade partners are willing to invest in potato seeds. Depending on these contacts STET may start to deliver potato seeds to Southern Sudan. Other opportunities identified were in food processing (e.g. slaughterhouses, milk processing), a poultry supply chain (broilers and layers) and the cooperative marketing of farm products (e.g. producing sorghum for the SAB Miller brewery).

Other initiatives such as a WuR (Wageningen University) study to increase sustainable agriculture and raise rural productivity by developing an agricultural seeds industry for Southern Sudan are being

explored. The WuR study is also aimed at supporting the abovementioned initiatives by the GoSS to improve the agricultural sector.

- § **Fisheries.** There is relatively little commercial fishing currently taking place. Most of the fish sold in markets in Central and Western Equatoria has come from Uganda. The development of this sector has very high potential, especially because it can compete very efficiently with imported fish. Local demand is still quite small and therefore especially fish exports would be the most serious option, whereby the largest part of the catch would be exported to, e.g., Uganda and only a limited amount would be used to cater for the local market.

The fact-finding mission identified some opportunities in fish packaging and cold storage, but realized it may be too soon for the involvement of the Dutch private sector.

- § **Forestry** is important in both timber and non-timber value. It is estimated that natural forests and woodlands cover a total of 192,000 sq. km or about 29% of the total land area in Southern Sudan. Currently, commercial exploitation is limited to teak (from plantation forests) and mahogany (natural). Gum Arabic is also considered to be a potentially interesting area for commercialisation. Other products such as sheanuts, honey and medicinal plants can also be further exploited. Most products would typically be produced for the export market. The local NGO Lulu Works has been able to set up a small production facility for sheanut products. The sheanuts are harvested/collected by women's groups and processed in a small factory. This has been made possible by support from INGOs. However, access to international markets and marketing knowledge is necessary to further develop this type of activity. PSI+ could be used to bring in a foreign company that could support this process.
- § **Infrastructure.** The restoration of roads and buildings has been ongoing in Southern Sudan since the CPA. With the exception of Juba (where around 100 miles of road surface has recently been tarmacked), all other urban, inter-urban, interstate and regional highways have a dirt surface. Water resources in Southern Sudan still remain underdeveloped and underutilized and much of the sparsely existing infrastructure does not function efficiently.

Currently, there are no commercialised irrigation schemes. However, the demand for both the domestic and productive use of water is expected to increase rapidly as peace takes effect in Southern Sudan and as people are returning and looking for means to start and restart agricultural production. About 70 kilometres of railway track from Port Sudan has been completed³⁶. Electricity also necessitates investment since there is no national electricity grid to supply consumers from a central location. The demand for power is largely unmet despite existing potential to generate over 500 MW and hence a great potential for investment. Wärtsila (a Finnish company with a large branch in the Netherlands) is currently installing additional diesel generators in Juba. Due to the absence of a national grid, rural areas will have to be catered for by various types of small-scale energy systems. For instance biogas, mini-hydro, solar and biodiesel can be considered. As for construction, there is some ongoing work to build more government buildings and hotels. The cities are expanding rapidly and the demand for construction materials coupled with high transportation costs has led to high prices, which makes this a very lucrative sector.

Oskam V/F and Vergeer Resultants, both targeting the low-cost housing sector, have identified significant possibilities for their concepts. Oskam V/F is already negotiating the delivery of one of its

³⁶ Interview with the Director of General Railways, Ministry of Transport and Roads, GoSS.

machines for a project in Southern Sudan, initiated by a Dutch NGO, the Solid House Foundation. Vergeer Resultants has made a proposal for model houses and a hotel in South Sudan. Currently, KPMG is seriously involved in an airport project. Damen is already developing a shipyard in the Juba area.

- § **Transportation.** Southern Sudan still lacks established public transportation systems. The sector is dominated by private operators. Road transportation is largely undeveloped mainly due to poor roads and has left huge gaps which present a good potential for private firms. Air transportation is still largely undeveloped. There are a total of 16 ports along the White Nile in Southern Sudan, of which seven are major and nine are small. GoSS's Department of River Transportation is in the process of repossessing and restoring the ports which had been leased by the Northern government to private operators.

Damen Shipyards has been contracted to restore the port of Juba.

* **Tourism & Hospitality.** Southern Sudan has seven National Parks and 12 Game Reserves, some of which still have large numbers of wildlife. However, none of these parks are currently operational. Hospitality is currently in a transitional stage, and more luxury hotels and regulated game spotting could be developed as a longer-term investment. Mobile safari operations could be started in the short term.

- § **Health.** *The protracted nature of the war has seriously constrained the development of a functioning health system and has damaged existing health facilities. Diminishing interest on the part of donors in supporting health provision is contributing to this decline. The Government is expending excessive funding on medical treatment for civil servants in neighbouring countries. There is therefore a great deal of potential for private health service providers.*

In the future, when more bilateral and multilateral funds might be targeted for this sector, there will be huge opportunities for Dutch medical equipment suppliers with experience in neighbouring countries such as Philips Medical Systems, DRC Medical, Dräger and Simed.

- § **Manufacturing.** Mainly small-scale manufacturing is taking place in Southern Sudan, including carpentry and metal processing. The production of mineral water is already taking place while the production of soft drinks and beer (by SAB Miller) is being developed in Juba by foreign investors. Nevertheless, the shortage of finance and technology in manufacturing, coupled with high transportation and procurement costs (input costs), limits growth in this sector.

Opportunities for Dutch companies in the food processing industry have already been mentioned above.

- § **Services.** The services sector is small but growing. Small-scale local businesses and medium-scale local branches of businesses having their headquarters elsewhere in Sudan (Khartoum or Juba) are springing up in urban centres. In economic terms, however, this still adds up to a limited contribution. The lack of access to finance and a lack of skilled personnel seem to be the major challenges.

- § **Oil and mining.** In Southern Sudan there are large deposits of petroleum and minerals. At present, large-scale oil drilling is taking place in the regions of the Upper Nile, Abyei and Unity State. The opportunities in this sector are outside the scope of this project.

Generally, the main business opportunities for the Dutch private sector are related to the replacement of currently imported products and to the development of an export sector in the agriculture, forestry and fishery sectors. Food processing is virtually absent in Southern Sudan, and most of the food and beverages sold in the urban markets are imported from Kenya, Uganda, and Ethiopia. As nearly all products are imported and sold at extremely high prices (partly as a result of the high transportation costs and customs duties), local production substituting petrodollar-financed consumption should be a viable business proposition for many branches of business. Locally produced products will be sold at lower prices leading to a further increase in local demand. A classic example is setting up a local poultry production chain.

The natural resources in Southern Sudan will allow for the development of export-oriented activities. Dutch investors could tap into these opportunities by joining forces with regional companies, e.g. from Uganda and Kenya. The role of the Dutch companies could be to provide technical know-how, machinery and market access to Europe. Due to the political insecurity and the generally difficult business environment, activities should typically be selected that require only limited investment, e.g. fisheries. Also high-value products such as gum arabic and sheanut products could be interesting for Dutch investors.

Most companies which took part in the economic mission already had experience with doing business in fragile environments comparable to Southern Sudan. Most acknowledged that it is a challenging task, but also underline that this offers opportunities. The competition is limited, while the opportunities, demand and needs for service provision and investment are present. At the same time, the other side of the coin of a legally insecure environment is that there are also few legal restrictions or tax regulations for companies to comply with.

In addition, the high-risk, high-gain environment of Southern Sudan offers private investors the possibility to recoup their investment within a relatively short period of time which is critical considering the unclear future in terms of future political developments. Investing in Southern Sudan is a matter of pioneering: labour is available but capacity is lacking, and management and capital are scarce, which is part of the reason why the GoSS welcomes foreign investors.

The GoSS Minister of Finance and Economic Planning indicated his appreciation of the current PPC initiative and would like to strengthen bilateral contacts with the Netherlands, especially in terms of economic cooperation. Furthermore, the visit of the economic mission contributed to the Dutch efforts to further develop the economic cooperation between the Netherlands and Southern Sudan. Yet, even though the reactions have been positive, it should be taken into account that the mission was planned at a time of economic crisis, the related payment arrears by the GoSS and political uncertainty.

In addition, regional companies are more likely to invest in Southern Sudan.³⁷ Regional investors (i.e. from neighbouring countries like Kenya, Uganda and Ethiopia) are the predominant source of economic activity and development in Southern Sudan. Regional investors have typically been active in the Southern Sudan market for years, by trading and sometimes extended distribution networks.

³⁷ Dutch investors typically work with sophisticated products requiring relatively high skill-intensive labour. The low labour costs in Southern Sudan may thus be a comparative advantage, but the low skill levels of the local workforce also involve additional efforts and costs. Typically, the mind-set of Dutch investors is not geared towards (extremely) high-risk, high-gain investments, but rather towards acceptable risks for making a reasonable profit. While the risks are known to be high, not every sector is certain that margins are correspondingly also high. Finally, few Dutch enterprises have a compelling *need to invest*: selling their products is far less risky.

This “market intelligence” makes the step towards a (sunk) investment into production easier and more likely compared to European investors. Yet, even though regional companies may be more likely to see a “business case” in investment in Southern Sudan, they generally lack the necessary resources. In addition, also regional companies are faced with the aforementioned major obstacles when investing in Southern Sudan and may need international funding to overcome the major risks to kick-start their investment. In short:

- In their respective home countries, the business climate has similar risks and uncertainties, and Kenyan or Ugandan entrepreneurs, managers and investors are far more proficient in dealing with these problems;
- A flexible set-up for the business operation or culturally-adapted management methods, as well as a region-specific style of dealing with authorities, reduce and contain risks such as those prevalent in Southern Sudan;
- The business models and organisation of regional companies are adapted to comparable circumstances, albeit that Southern Sudan is a more challenging territory;
- Finally, the products and production methods of regional companies are closer to what can realistically be produced in Southern Sudan.

b) Identified obstacles

Notwithstanding the extensive number of opportunities, the Dutch companies that took part in the economic mission also acknowledged some bottlenecks for investing in Southern Sudan with the political situation after 2011 being the predominant risk for long-term investors. The risk level is generally high for investors on a macro, meso and micro level:

- *Macro-level risks*: Political insecurity, especially with respect to the forthcoming elections (2010) and the referendum (2011) when Southern Sudan may opt for independence. Investments or subsequent steps in a project will largely be dependent on the outcome of the referendum in 2011. Political insecurity was often mentioned as one the biggest drawbacks (see also above, section 3a);
- *Meso-level risks*: the institutional capacity of GoSS is still fragile, few rules and regulations and property rights are in place or are being enforced in a predictable manner, infrastructure development and educational systems are still insufficient;
- *Micro or market-level risks*: markets and prices are generally difficult to predict, erratic changes are common as usually only a few suppliers exist, the purchasing power of the whole market is dependent on oil revenues, there is no rule of law, irrational price formation and few facts and figures are known about the market and market potential.

More specifically, the following factors were identified as possible constraining factors for investment:

- The lack of **physical infrastructure** (especially all-weather roads) can be an obstacle, although it was not mentioned as a major constraining factor by all companies during the trade mission. Depending on the type of investment, it may significantly increase the costs of economic activities. It will depend on government support and investments when and at which pace this situation will start to change;

- The **limited access** to land can be an obstacle for some.³⁸ Yet, it should also be noted that companies like Hilco or Oskam V/F, which are only engaged in delivering goods, do not face this problem as much as firms that need to invest in a plant;
- The **lack of available financial means**, primarily as a result of the arrears in payment by the GoSS and the lack of credit by banks;
- **Missing links in the value chain** from input suppliers to distribution, with no supporting industries or institutions being currently operational. Thus an investment in one element of the value chain is only a viable concept if there is an assurance that the other supporting industries and institutions will also develop on time. This may be a bottleneck but can be circumvented by well planned PPCs or, for instance, by importing input or skilled staff who are not available locally. Training and capacity building are thus prerequisites.
- **The absence of well-educated managers and reliable business partners** are referred to as relatively lesser drawbacks. Related to this is the absence of a local focal point for investors, which may delay projects. Dutch consultancy agencies specializing in PSI can play an important role in pushing project proposals, but without being on the ground it seems to be difficult to implement a project. And being on the ground for a prolonged period is both costly and risky.

Therefore exporting to Southern Sudan and joining forces with regional players currently seems the more likely options for many Dutch companies. Subsidies (like risk-reducing instruments) cannot replace the lack of a “business case”, and subsidies are always of a finite amount, while the risks (and associated losses and costs) described above continue to exist. In addition, the involvement of regional companies also offers potential.

c) Potential for public-private cooperation in Southern Sudan

i) From a private sector perspective

There needs to be a viable business case. Where a viable business case can be established, public-private cooperation was generally considered to be a key instrument in reducing and sharing external risks. Where no business case can be established, PPC is fruitless. Apart from risk sharing, PPCs can increase investors’ confidence by ensuring that several investments and developments are taking place simultaneously, which allows individual investments in the value chain to be a viable option. It is interesting to note that the joint fact-finding mission has made clear that local needs as identified by NGOs (which operate in almost every sector in areas like Southern Sudan) do not necessarily make it a viable business case. PPCs for sustainable economic development should thus ideally be identified in areas where both local needs and business cases overlap.

NGOs can have an added value by providing ground-level knowledge concerning Southern Sudan. During the missions, companies repeatedly indicated that they recognize the importance of expertise by NGOs in a number of areas in order to support investment in Southern Sudan, for instance by offering good working knowledge of the region. Especially in projects that are related to their current activities (for instance in the healthcare, housing, agriculture and education sectors), NGOs can play a very important role. In addition, it was stated that NGOs can assist in the necessary training and teaching of local employees. Furthermore, awareness raising in the local communities and strengthening the organisation of small-scale producers would be part of the role of NGOs. These activities would be of benefit to investors.

³⁸ See also Chapter 3, section c.

There needs to be a clear agreement between the partners as to the various roles. Notwithstanding the fact that companies generally recognize the added value of partnerships with NGOs, a perceived drawback identified by companies is the increased complexity of projects in an already complicated context. Therefore, before implementation, a very clear agreement is necessary between the partners. This negotiation will require time as the objectives of NGOs and companies could differ. However, in many cases the alignment of objectives is certainly possible and mostly requires efforts geared towards serious and open dialogue. Companies welcomed the observation that NGOs seem to increasingly recognize the potential added value of cooperation with the private sector. Companies would recommend NGOs to clarify and formulate internal guidelines for cooperation at headquarters level as well as in the field. Such regulations may also facilitate cooperation by clarifying points of contact for the private sector at both levels.³⁹

Incentives for a tripartite partnership are needed. Especially when, in addition to local partners, also regional partners are involved, the number of partners involved may become considerable. This almost inherent complexity will make it less attractive for PSI consultants to include more partners than the strict minimum. Without an incentive, the development of tripartite PPCs is likely to remain low. Incentives could be financial or in the form of the provision of a coordinator (e.g. an incubator).

Strive for win-win situations. Respondents from the private sector also underlined that **PPC should never be a goal on its own, but a means to achieve a common goal.** It should be recognized that all partners differ concerning their background and reason for cooperation and thus one should aim for win-win situations, rather than a compromise. Collaboration in any form should have a clear additional value for all the partners involved. It was indicated that a critical condition is that partners thereby clearly agree on the division of tasks and every party should focus on its own area of expertise. Most companies involved subscribed to the added value and advantage of collaboration.

The opinions on the attainability and the efficiency of cooperation with NGOs or the Dutch government vary among the respondents. Except for Oskam V/F none of the participants in the economic mission has experience with PPC. Oskam has engaged in a successful project in Ethiopia where it closely cooperated with a Dutch NGO and a governmental institution. Interviews have demonstrated that all involved should be aware that the concept of a PPC is often based on the assumption that the interests, working methods, and conditions of the parties can be easily combined, whereas that may not always be the case. It requires *flexibility and a willingness* by all involved to make cooperation effective.

ii) From an NGO perspective

NGOs need to maintain their independence in tripartite partnerships. NGOs indicated that they find it important to maintain their independence, although this may at times be a fine line to balance as NGOs are also required to have the knowledge, experience and stature to be a genuine discussion partner of the corporate sector. A balance is thus to be found between being critical as well as being sufficiently open towards the private sector and the advantage of being affiliated with an NGO can thereby be recognised. That means that NGOs should, for instance, be large enough to be fairly independent (by, for instance, ensuring funding from different resources) and be able to avoid being influenced by the (political) will of a single source. The role of NGOs in tripartite partnerships should therefore be carefully explored.

³⁹ With respect to the role of the GoSS, partners should be aware that the GoSS has on various occasions “translated” PPC into part-ownership, which may not be the ideal formula for companies. The government has been seen to be quite open in giving land to foreign investors, without directly claiming part ownership, although revenue taxes could easily be levied.

NGOs can contribute to the positive image of companies in terms of their commitment to corporate social responsibility (CSR). CSR is often based on internal corporate guidelines. NGOs could play a role, for instance, by verifying such commitment and advising companies on how to improve activities in a complex and conflict-sensitive context. Such a role may differ between local and international NGOs taking into account the potential political pressure involved. Companies could benefit from such an affiliation with NGOs in terms of a positive image. The private sector seems to be increasingly aware of the power and advantages of being seen as fair, “green” and transparent enterprises. A suggested way for NGOs to play a role in stimulating CSR is, for instance, by including the topic in partnership negotiations and partnership agreements. Partners can then fall back on this agreement when this is necessary. It is also worth mentioning that within tripartite partnerships, both companies and NGOs (international or local) considered it easier to connect by sharing similar aspects of corporate social responsibility. NGOs recognized that they should at the same time continue to be more business oriented and become aware of the fact that the private sector can also be a potential agent for change.

NGOs may have a distinct advantage over companies when it comes to information and knowledge concerning the local context and potential partners. In the absence of sufficient local government capacity, information on a business-enabling environment, the local context or partners is scarce. New investors or companies interested in trade with Southern Sudan may need a firm and quick attachment to (a certain part of) society, such as farmers’ cooperatives in agricultural businesses (e.g. beekeeping and rice growing cooperatives in Yei). Regional NGOs such as Africa Action Help International (AAH-I) have, for instance, large networks and established relations with companies and potential clients. In addition, NGOs often have valuable insights into cultural and social habits as well as government structures. Complementarity thus lies in the different approaches and competences of the two actors for change. NGOs can form a clear bridge between cooperatives and the public and private sector to initiate long-term cooperation. In addition, NGOs are encouraged to, for instance, increase their level of knowledge concerning local business activities and to extend their local network to include contacts within the private sector.

The actual practical role of NGOs in tripartite PPCs is based on emphasising the positive outcome/output for local communities and/or specific vulnerable community groups. Alongside this goal, the task of safeguarding local production for the population’s own consumption and ensuring the durability of capital and human resource investments remains important. More specifically, with respect to the roles of joint collaboration NGOs can be multi-focussed, translating into specific activities like training or capacity building in marketing, ensuring the delivery of raw materials and creating opportunities for microfinance projects. Also, especially in fragile environments like Southern Sudan, NGOs often play a relatively large role in terms of organisational and general capacity building and basic service delivery.

As a result of the generally low level of education and labour quality available, NGOs could thus play a complementary role in improving the ‘employability’ of workers and small-scale entrepreneurs.

iii) From a public sector perspective

The complexity of fragile situations means that none of the sectors can ‘do it alone’. The objective of a partnership is thus to achieve results in fragile states which the partners would not be able to attain on their own.⁴⁰ The resources, networks and skills of private citizens, the business world, civil society organizations and public sector institutions are needed to create the necessary conditions

⁴⁰ *Security and Development in Fragile States: the Netherlands Strategy 2008-2011*, November 2008, Netherlands Ministry of Foreign Affairs.

which make it possible to pave the way for attaining the Millennium Development Goals. Partnerships can provide integrated solutions to problems, thereby benefiting from the involvement of more than one actor, thanks to the joint input of the parties involved. This also means that risks, responsibilities and competencies must be shared. The role of the GoSS was recognized as an overall improvement in the business-enabling environment in Southern Sudan. Stakeholders at the field level highlighted in particular GoSS's role in improving business registration and licensing (by making procedures easier and more accessible). An overall improvement in the business-enabling environment includes both physical and non-physical infrastructure.

d) Bilateral funding opportunities for Dutch private sector initiatives and PPCs

Private Sector Investment programme

The Private Sector Investment programme (PSI) is a subsidy programme of the Netherlands Minister for Development Cooperation, managed by the EVD. It operates in 50 countries and stimulates private sector development through financial support for partnerships between Dutch and local companies. The project should have a significant positive impact in terms of the transfer of technology and knowledge and the spin-off for local economies. The contribution to a project in one of the PSI countries is 50 percent of the project budget, with a maximum contribution of EUR 750,000. For fragile states the grant is 60% (with a maximum of EUR 900,000).

PSI Plus offers extra facilities for risk management and insurance. As for partners, under PSI Plus foundations which are linked to corporate business are also eligible as applicants. The local partner might also be an enterprise not yet registered as a private company. Budgetary guidelines for PSI Plus proposals offer the possibility to include (extra) investments in security. In addition, the EVD will make an extra budget available from MIGA/SIP for political risk insurance premiums. The first tender of 2009 did not result in any proposal for Southern Sudan.

So far, there are no active PSI Plus projects in Southern Sudan. Several participants in the economic mission expressed their intention to apply for a subsidy in the next tender.

Matchmaking facility

The Development Cooperation Matchmaking facility is available to companies in more than 40 countries in Africa, Asia, Latin America and Eastern Europe, including Southern Sudan. The facility puts those companies in touch with Dutch businesses. Small and medium-sized companies from Southern Sudan with a solid business plan that are looking for a Dutch business partner can apply for the facility through the Netherlands Embassy. The goal is to stimulate joint investment in the country. EVD will identify Dutch businesses that match the company's profile. If a suitable match is found, the company will receive a voucher worth EUR 5,000 for hiring a Dutch consultant who will explore the potential cooperation. The consultant's duties include arranging a visit for the company to the Netherlands and developing a joint action plan. At this moment in time there is no demand from Southern Sudan.

ORIO

The Development-related Infrastructure Improvement Facility (ORIO) is funded by the Dutch Minister for Development Cooperation to encourage public infrastructure development in developing countries, including Southern Sudan. ORIO contributes to the development, implementation

(construction and/or renovation), operation and maintenance of public infrastructure in developing countries. Grant applications are submitted by the central government. The total budget for 2009 is € 180 million (twice yearly). Governments can submit proposals for ORIO funding for Southern Sudan in the following sectors: roads, primary health care and drinking water. A bottleneck in the implementation might be the lack of procurement capacity within GOSS.

FMO

There are currently no projects in Southern Sudan, but companies can submit proposals for possible projects in the following sectors in Southern Sudan: financial institutions, energy and housing, global partners, private equity, financial markets and sustainability. Furthermore, the FMO has two funds that could be interesting for companies which want to do business in Southern Sudan: the *Least Developed Countries Infrastructure Fund* and the *Access to Energy Fund*.

MIGA/ SIP

Although MIGA/ SIP is not a Dutch instrument, it is worth mentioning here in relation to the PSI Plus programme. MIGA provides political risk guarantees for new investments in developing countries, including Southern Sudan. Risks covered by MIGA are war and civil disturbance, expropriation, transfer restrictions and a breach of contract (by government bodies). As mentioned earlier, PSI Plus could cover the costs of a MIGA guarantee. The EVD facilitates companies in the application for MIGA.

e) Multi-donor funding for private sector development

At the international conference held in Oslo in 2005 following the CPA, donor nations pledged USD 4.5 billion to help rebuild Southern Sudan. The largest and most significant of the pooled mechanisms established in Southern Sudan are the Multi-Donor Trust Fund - Southern Sudan (MDTF-SS), administered by the World Bank and the Common Humanitarian Fund and managed by UNDP.

i) Multi-Donor Trust Fund - Southern Sudan

Although the MDTF-SS programme looks good on paper, it has been criticized for falling short of meeting expectations. The main reasons for the slow progress and the lack of disbursement are the tough requirements for financial control and accountability which are difficult to meet in Sudan, especially in the South, although such measures are required as anti-corruption measures.⁴¹

The MDTF-SS has a **specific window for private sector development**. Within the framework of the international efforts to accelerate development, GoSS received a grant from the MDTF for the joint financing of the **Southern Sudan Private Sector Development Project (PSDP)**. The PSDP is focussed on early stage private sector development and supports: a) policies and institutions that are required for private investment and trade; and b) key services required for micro-finance and small enterprises to grow.

Firstly, it is worth highlighting the **Business Plan Competition**, which has been launched in order to support the development of the local private sector as part of this branch of the MDTF-SS PSDP. It led to 2000 applications and 60 Southern Sudanese 'new' entrepreneurs joining a training programme. Twenty will also receive a grant, by way of cash collateral through the banking system. The

⁴¹ Van Beijnum, M., and Hemmer, J., "Approach paper for a Multi-donor evaluation of conflict prevention and peacebuilding activities in Southern Sudan, 2005-2008", Conflict Research Unit Clingendael Institute, 2009 (not published).

development of the local private sector is important for attracting foreign investors, including Dutch investors (PSI Plus), which often seek local business partners.

Secondly, the programme provides policy, technical and financial support for the establishment of the **micro-finance sector** in Southern Sudan. Thirdly, the project supports the **emergence of industries** through: a) industrial strategy and capacity building; b) support for private sector institutions; c) the provision of business development support for the private sector. Finally, the project establishes a **wholesale market system** based on three assembly markets and a market information system. This intends to create an efficient flow of agricultural products into rapidly growing Juba, as well as backward linkages to the rural economy, while demonstrating a public-private partnership model for market infrastructure.

As part of the PSDP, GoSS has also agreed to set up a **Monitoring and Evaluation (M&E) system for Private Sector Development (Feb 2009-Feb 2010 with a possible extension)**.⁴² The systems have been set up in order to enable regular reporting on and to map the development of the private sector in Southern Sudan. The objective is to improve communications between entrepreneurs and the national and regional governments and to serve as a starting point for an economic policy for the GoSS based on controlled and quantitative information.⁴³

There are no funding opportunities for Dutch companies regarding the World Bank. It is however possible for Dutch companies to bid for MDTF procurement. One Dutch company has currently been shortlisted for a MDTF PSD project.

ii) Other pooled funds and relevant donor initiatives

The remainder of this section provides a brief description of the main pooled funds in order to give an indication of the scope of the reconstruction efforts in Southern Sudan. The most important ones are the Common Humanitarian Fund, the Basic Services Fund, the Southern Sudan Recovery Fund and the EU-funded post-conflict community-based Recovery and Rehabilitation Programme (RRP). Companies providing goods, services or advice to UN institutions should be registered in the United Nations Global Market (UNGM). The EVD supports companies in obtaining this registration. Cheap and fast delivery is required. A number of UN agencies provide for the purchasing of goods and services for the cooperation for which they are themselves responsible. Others are outsourcing their purchases.

None of these funds has direct windows for financing the private sector which is willing to invest in Southern Sudan.

The **Common Humanitarian Fund (CHF)** is managed by UNDP and aims to improve the coordination of humanitarian aid delivery by creating a channel through which donors can provide early, predictable funding. The CHF is operational concerning Sudan as a whole. Key donors supporting the CHF are the UK (USD 79.5 million), the Netherlands (USD 21.6 million), Norway and Sweden (respectively USD 17 and 16.7 million). Some 36.1% of the total 2008 CHF was allocated for activities in Southern Sudan.⁴⁴

⁴² In December 2008, GoSS assigned BMB MottMcDonald to carry out this M&E project. The team was mobilized in February 2009.

⁴³ There is currently only limited information available, which has also not often been specifically gathered for the purpose of (re)building the economy and is spread out over the various Ministries and donor organisations.

⁴⁴ Van Beijnum and Hemmer (2009).

The **Basic Services Fund (BSF)** aims to support the delivery of basic services in Southern Sudan through NGOs. The BSF is managed by a private sector agent and was initially intended to bridge the gap in service delivery until the MDTF became operational. A total of 14 NGO programmes are now being funded through the BSF, which covers GBP 17 million.⁴⁵ Currently, discussions are ongoing on whether or not to continue with the fund or to feed it into the new Sudan Recovery Fund.

The **Sudan Recovery Fund for Southern Sudan (SRF-SS)** has been set up in response to the given delays in setting up the MDTF and the growing recognition of its structural inability to address immediate recovery needs. The SRF was set up with the intention to expedite the implementation of early recovery activities, primarily through the UN and NGO partners. Donors have pledged USD 121,2 million to the fund.⁴⁶ The Terms of Reference of the SRF-SS of April 2008 provides examples of eligible early recovery activities, including economic functions.⁴⁷ Supporting micro and SMEs is indicated as a priority activity. The SRF-SS is relatively new and it thus remains to be seen what its contribution in terms of private sector development will be.

The **EU-funded** post-conflict community-based **Recovery and Rehabilitation Programme (RRP)** is a USD 75 million national programme with a rural livelihood focus.⁴⁸ The objectives of the RRP are capacity building and institutional strengthening; improving livelihoods; and providing support to basic services. By focusing on small administrative and geographical areas such as a county, the EU hoped to be able to demonstrate a significant impact within a relatively short timeframe.

USAID was for quite some time the only donor working on PSD issues. USAID programmes are mainly focussed on infrastructure (roads, bridges, electricity, schools, clinics) through implementing partners like UNDP, the Louise Berger Foundation and ENERCA, as well as NGOs, and food security and livelihood development, specifically with Volunteers for Economic Growth Alliance (VEGA) in the field of PSD. Together with the Sudan Microfinance Institution (SUMI) there have been interventions in the livestock sector. In theory USAID procurement opportunities are awarded based on competitiveness. However, American organizations are generally better informed on what the restrictions are and what special rules apply to Sudan. Most of USAID's partner organizations in Sudan are American, but some NGOs are not.

IFC has launched a five-year programme for private sector development in fragile states in sub-Saharan Africa: the **Conflict Affected States in Africa (CASA)** initiative. The Netherlands is a CASA donor. The programme focuses on the following: improving the business climate, the reconstruction of the financial markets and institutions, strengthening SMEs and business associations, increasing private participation (physical and social infrastructure).

The **JDO** was established in Juba in May 2006 by the Netherlands, Norway, Sweden and the UK, as a mechanism to coordinate and pool development assistance from these countries to Southern Sudan. Denmark and Canada subsequently joined. The joint funding provided by these six donors is channelled through the MDTF-SS. The intentions of the JDO include creating a single policy

⁴⁵ There are indications that the BSF has delivered services rapidly and effectively and has assisted NGO partners in beginning the transition from relief to development. NGOs are keen to see the fund being expanded and strengthened, given the delayed implementation of basic service activities to be funded under the MDTF, and their own difficulties in accessing funds through this mechanism.

⁴⁶ See <http://www.sd.undp.org/SRF-SS.htm>.

⁴⁷ Such as "accelerating the balances and sustainable economic development of Southern Sudan, with clearly delineated roles for the public and private sectors" and "to provide the citizens with the necessary tools, infrastructure and information to participate effectively in political and economic development."

⁴⁸ The programme is implemented through consortia comprised of 48 international and national NGOs, and administered by UNDP.

framework for the GoSS, unifying aid administration systems, and sharing the benefits of having a multi-donor cross-disciplinary team. It has also been the objective to catalyse broader harmonisation. The ambition is to be a key policy dialogue partner for the GoSS by speaking on behalf of a number of important donors.⁴⁹

However, the JDO model implies a number of challenges relating to the merging of the different development policies of six different donors, including different views on what aspects can be included under the development agenda (i.e. security-related issues). In addition, an important challenge stems from the fact that the role of the office is restricted to development cooperation. However, in practice aid to Southern Sudan cannot avoid politics and the separation creates problems. The JDO does not have funds outside the MDTF, which means that the office has little leverage to ensure that it becomes an important dialogue partner outside the MDTF.⁵⁰

⁴⁹ Haslie, A. and Borchgrevink, A. (2007), p.19. *International Engagement in Sudan after the CPA – Report on the piloting of the OECD/DAC’s ‘Principles for Good International Engagement in Fragile States’ for the Case of Sudan*. NUPI Paper 714.

⁵⁰ Van Beijnum and Hemmer, 2009.

5. Recommendations for public-private cooperation in Southern Sudan

The following sections offer a number of recommendations to encourage public-private cooperation in Southern Sudan. During the mission it became clear that the high risks involved and the political uncertainty of Southern Sudan in many cases *require* cooperation between actors, i.e. tripartite cooperation, for the private sector to become involved, rather than being a mere added value for working together. This is especially the case in terms of the support in risk coverage for the private sector. Contributions by NGOs can be of significant added value in terms of the working level information as well as supporting companies' acceptance within communities.

1. There is potential for Public-Private Cooperation projects in Southern Sudan. PPC projects are currently a rare phenomenon in Southern Sudan. The local needs assessment, the fact-finding mission as well as the economic mission resulted in a common agreement that PPCs may facilitate pro-poor, just and sustainable economic growth. Building on the specific knowledge, experience and network of partners can be beneficial to the private sector, civil society and the government. However, the project also clearly ascertained that there are business cases where no NGO involvement is required and capacity-building projects where no involvement by the private sector is needed. Private sector actors emphasized that a viable business case is required for PPC. Overall, PPC was thus considered a potentially useful instrument, but should not be used as a goal in itself.

2. Encourage PSI proposals from the East African region. The information gap and the focus of the Dutch and international press on security issues makes it difficult for companies to identify business opportunities in Southern Sudan. Also, Dutch entrepreneurs tend to have a higher risk perception of the Southern Sudanese business environment than entrepreneurs from neighbouring countries such as Uganda, Kenya and to a lesser extent also Ethiopia. Since regional companies are more familiar with the business environment, the regulatory framework and the actual risks and security issues, they already have a strong presence in Southern Sudan. An interesting strategy would therefore be to encourage PSI Plus proposals from the region, which is possible under the untied conditions of the programme. Dutch companies might team up with their regional business partners which have a lower risk perception. This includes regional companies in trade missions, organizing matchmaking events with regional companies and working closely together with regional business intermediary organizations and programmes such as **African Enterprise Challenge Fund (AECF)**. But it is important to note here that the PSI+ programme requires the involvement of a company from Southern Sudan. A partnership between, for instance, only a Dutch and a Ugandan company in Southern Sudan is not sufficient for PSI+ funding, unless the Ugandan company is registered in Southern Sudan. This restriction could be lifted.

3. Loosen the criteria for subsidy schemes. Before 2011, as earlier indicated, investors from the Netherlands will be reluctant. Resource persons recommended allowing, for instance, Dutch companies to have a limited role in terms of project drafting, implementing and capacity building in cooperation with their Southern Sudanese partners, without requiring a long-term investment commitment.

4. Linking up with other PSD initiatives in Southern Sudan. A recurring bottleneck during the mission was the lack of strong South Sudanese counterparts. Entrepreneurship skills are lacking and

investment capital is scarce. To cater for this, PSI+ does not require the local partner to be an officially registered local company: also private individuals can be considered. For Dutch and regional companies it might be difficult to allocate a South Sudanese counterpart without links to the SPLM, as those links generally offer access to capital for local investors.

The World Bank Business Plan competition led to 2000 applications and 60 Southern Sudanese 'new' entrepreneurs joining a training programme. These participants could be suitable counterparts for Dutch companies. Conversations with the IFC during the fieldwork have resulted in the sharing of the list of the winning applications of the **Business Plan Competition** in order to link Southern Sudanese and Dutch partners in support of PSI plus applications. Also, the IFC has indicated that it is now going to start informing local investors of the possibilities under the PSI plus programme. The **AFCF**, also funded by the Dutch Minister for Development Cooperation, could be both an alternative and a source of new proposals for PSI funding. EVD is a member of the AECF Investment Committee.

5. Create a business incubator in Southern Sudan. Many investment opportunities are unknown to Dutch companies. For a better understanding of local business opportunities, a person or company residing in Southern Sudan could act as a 'business incubator' bringing opportunities in Southern Sudan to the attention of Dutch companies. Certain NGOs (i.e. ICCO, Cordaid, SNV) as well as companies could play this role in cooperation with RNE.

6. The Royal Netherlands Embassy in Khartoum and the political liaison in Juba are encouraged to adopt a more proactive role towards the promotion of several Dutch PSD private sector opportunities and programmes, including PSI Plus and ORIO. A proactive approach is essential in order to promote the possibilities of the programmes. Creating a business incubator and continuing the organization of and support for economic missions are options. The RNE could also encourage a private sector advisor to be permanently based in Juba. Conversations with resource persons have indicated that it would benefit the programme if a private sector adviser could be permanently based in Juba. Also, the JDO is encouraged to adopt more proactive role in promoting the private sector development branch under the MDTF and to push for the concrete implementation of PSD programmes as an integrated part of reconstruction efforts.

7. Organize more small-scale business missions to SMEs in Southern Sudan to support Dutch companies in order to obtain a better understanding of business opportunities and to allocate potential business partners. The recent economic mission to Southern Sudan is expected to increase the forthcoming PSI plus and ORIO applications for Southern Sudan.⁵¹ Information gained by such missions is particularly relevant for SMEs, as larger companies will primarily rely on their own sources of information. Especially the SME will need to be stimulated and made aware of business opportunities as well as funding instruments in fragile states, in Southern Sudan in particular. Small-scale business missions will contribute to the required more proactive approach and to closing the information gap among Dutch private sector actors. Also, past research has indicated that, generally, SMEs contribute most to pro-poor growth.⁵² Current *Collective Promotie Activiteiten* (CPA) and *Collectieve Promotie Landbouw Activiteiten* (CPLA) instruments for trade missions, funded by the Netherlands Ministry of Economic Affairs and the Netherlands Ministry of Agriculture have a strong focus on emerging markets. In order to create more awareness of doing business in fragile environments such as Southern Sudan, the MFA could create a similar instrument.

⁵¹ Please note that in the first round of the PSI plus programme for Southern Sudan in May 2009, no companies had applied.

⁵² Crijns, G, "Measuring the Contribution of the private sector to the Millennium Development Goals", MDG Measurement Framework, 2006. See also Haan, C. "Private Sector Development in the South: what can be the role of the private sector in the North", Netherlands Development Assistance Research Council, 2001.

8. Enabling an international facility to support investments by the private sector would be welcome, due to the significant lack of internationally available capital for investment in Southern Sudan.⁵³ Respondents have indicated that additional research would be welcomed in order to explore the possibilities for increasing the funding share spent on private sector development. The IFC as well as the African Enterprise Challenge Fund could play an important role in this regard.

9. Long-term cooperation between the administrative entities in Southern Sudan and Kadaster International with regard to land registration and Land Register issues could be considered (government to government support). This type of cooperation could contribute to strengthening the management of land issues in Southern Sudan as well as finding solutions for the more operational issues involved in capacity building.

10. NGOs are encouraged to adopt a more business-oriented approach. Most NGOs in Southern Sudan are currently not linked to or working together with the private sector, generally as a result of a lack of trust between the sectors as well as a lack of knowledge about the respective capabilities and expertise. NGOs are encouraged to increase their level of knowledge concerning local business activities and to extend their local network to include contacts within the private sector from the outset (i.e. during assessments or early stages of project planning/involvement). Contacts with the (local) private sector are often not included when projects are started. In addition, respondents have indicated that it will take time to rebuild an entrepreneurial spirit, as people have long depended on the humanitarian aid offered by NGOs.

Additionally, NGOs will need to start working on changing their role as providers of aid to empowering local authorities and communities. Working together with the private sector and supporting private sector development is one way to support that process. NGOs are still perceived as service providers, while this is essentially the task of the local government. NGOs will also need to shift their focus more towards the capacity development of government institutions (i.e. by complementing their orientation on the empowerment of local communities and vulnerable groups).⁵⁴

11. Tripartite cooperation in fragile states requires strong coordination. The project has demonstrated once more the importance of strong guidance and coordination throughout the entire process of public-private cooperation. Partnership agreements should pay considerable attention to specifying which partner will play what particular role and they should budget sufficient overhead costs to allow the partner to play this role. Especially when also regional companies are involved, one project can encompass a relatively large number of actors. Overhead costs for coordination should be included in project budgets, in order to enable the coordinators to fulfil their tasks.

12. Ensure the participation of stakeholders by representatives from the organisation itself in order to encourage the sustainability of partnerships and the internalization of lessons learned. Public-private participation for economic development in fragile situations is a rather new concept. A support base ('draagvlak') within an organisation is the key to successful cooperation in the longer term. The mission has shown that cooperation may well be based on individuals within an organisation.

13. A clear division of tasks is a key issue. PPC partners should continue to recognize the value of expertise and hence the added values of each organisation within the partnership. Throughout the

⁵³ RNE KHA.

⁵⁴ ICCO/Cordaid will proactively pursue in their current and future programmes to adopt this business oriented approach by making resources available to encourage and contribute PPC projects in the here described context.

process, partners should remain aware of the fact that as a result of the mandate and core business of each partner, one should not compromise in approaches, outcomes or standpoints, but should rather focus on the added value of each partner in practice. The mission demonstrated, for instance, that no subsidies or contributions from NGOs can substitute for the absence of a good business case. It is therefore essential to **agree beforehand on expected outcomes** of the partnership. Most stakeholders may differ in the reasons why they participate in a partnership and the goals they want to achieve therewith. Partners should not strive to attain the same goal, but instead should aim to formulate early on in the process what the expected outcome of the process will be, i.e. the modes of synergy.

14. Partners are encouraged to pay attention to developing internal guidelines on cooperation with partners from other sectors as well as the organization of internal training programmes and awareness-raising activities. The Base of the Pyramid project, for instance, has established a good track record of close cooperation between companies and NGOs. Generally, NGOs are still in the middle of a paradigm shift from a rather negative and non-cooperative attitude towards a more positive attitude on working closely together with the private sector and recognizing those enterprises as potential actors of change. Based on a few “success stories”, workshops could be organised for NGOs and companies to create awareness concerning the advantages of PPC. In addition, partners are encouraged to continue to look critically at their own role in partnerships

Annex I: Case examples of PPCs in Southern Sudan

The case studies are primarily aimed at providing examples of the *exploration and identification of opportunities* for tripartite partnerships in Southern Sudan. The cases as presented in this report hope to provide the necessary information for (Dutch) stakeholders (private sector, government and civil society organisations) to encourage cooperation between these sectors in setting up joint activities in Southern Sudan.

Please note that the PPC cases as presented below should be used as early identifications of opportunities for tripartite partnerships in Southern Sudan. The cases can be used to attract interested stakeholders and as a start-off point for further feasibility studies. The cases also serve to make the discussion surrounding stakeholders' expectations, perceptions and incentives concerning partnerships more transparent. The success of follow-up activities will necessarily depend on stakeholders' interests at a difficult time (the financial crisis, uncertainty concerning the elections in February 2010 and the referendum planned for 2011 in Southern Sudan). Readers should remain aware of the political and security situation on the ground in Southern Sudan.

Example 1: Poultry Value Chain Development in Southern Sudan

Concept

To develop a viable poultry industry in Southern Sudan, replacing expensive imports, several chain actors have to cooperate in order to achieve a functioning supply chain: from feed producers (rural farmers) to feed millers, poultry farmers (hatching, rearing and processing) to animal production farmers to consumers. While mostly a private sector-driven project, possibilities exist for cooperation between private actors (private feed and poultry businesses) and public donors (like the EVD, WB or IFC) and NGOs (like Cordaid, ICCO and others). Private actors invest and operate the businesses in the chain, public donors coordinate the simultaneous investments in the chain and reduce the risk level, and NGOs ensure that rural smallholders can reap benefits as suppliers of feed.

1. General background

Southern Sudan has virtually no poultry industry (and few advanced poultry farms) – only 5 million chickens are estimated to be in the country by the FAO. The animal density per km² is extremely low. The cause of this unusually low chicken density is partly the challenging climatic conditions (requiring modern technology like ventilation and disease control to be economic and effective), and the impact of 30 years of conflict, which has erased all production facilities, technical knowledge and business skills in this value chain. Hence, almost no trace of the industry is left, which in turn discourages any individual investor in the chain from starting. At the same time, poultry products – meat and eggs – are in demand in Juba as well as other towns; estimates of local traders vary from 250,000 to 450,000 chickens per month for broilers (eggs are sold everywhere, but no figures exist). Nearly 100% of both meat and eggs are imported from Kenya, Uganda or Northern Sudan, depending on the location of the town where it is sold. Prices vary from 5-9 SP (2-4.5 USD) per kg wholesale, which is high by international standards, especially given the quality and food safety

standards of the produce sold. The key explanation for this is that imported goods are expensive due to transport costs (a 20 ft container from Mombasa to Juba allegedly costs USD 10,800), and high (and unpredictable) customs duties of up to 40%.

2. Opportunity

The *opportunity* for investors and donors is that there is a growing market which is currently only being served by poor quality goods with very high prices. Thus, even under the challenging (and costly) business climate conditions prevailing in Southern Sudan, the cost price difference is so large that a competitive and import-substituting industry can be developed. A further advantage is that in the case of poultry meat there is already a well-established **distribution system** in place; developing production is then a backward integration, which commonly has more possibilities to be successful.

Potential development benefits are:

- an industry within Southern Sudan is developed, adding to the GDP;
- a first example of a food, meat processing industry is developed in Southern Sudan;
- income for rural farmers who supply feed to the feed mills;
- consumers benefit from lower prices and better quality;
- a backyard market (households having 10-20 chickens for meat or egg production) can begin to emerge, offering additional income in kind and cash to poor rural and urban households.

However, to build up a poultry industry – from scratch, as in Southern Sudan – several production steps are needed.

The **basic production requirements** are:

- Basic materials for feed (grain, maize) produced by local farmers.
- A feed mill that produces adequate feed (-mix) by a private investor.
- Reproduction facilities (Parent Stock rearing, a hatchery) by a private investor.
- Rearing for (layer) hens or poultry houses (broilers), by a private investor.
- Slaughter line for broilers, and cool storage, by a private investor.
- Supporting services, such as veterinary services, feed testing facilities and the like, operated or regulated by government institutions

Poultry seems to coincide with the **choice of consumers** – given the consumption levels a market certainly exists and offers larger and smaller investors a business opportunity. For donors and NGOs the opportunity lies in the fact that without their involvement, this business opportunity cannot develop (or can only develop much later). As a result, NGOs and donors in general have leverage to influence the value chain development so that it contributes to what the donors consider to be fair and sustainable development.

3. Challenges and Risks

The **key challenge** in Southern Sudan is that none of the above exists - tabula rasa. At the same time, all of the above steps have to be there at the same time to make it a viable business proposition for each individual investor. In addition, there is a relatively high technological threshold: climatic conditions make poultry production technically difficult, while support facilities (like e.g. a veterinary service) and educated technicians are absent. Finally, the cost level for investors is high (due to the lack of infrastructure or any supporting/connecting industries and services), thereby increasing the investment requirement.

For the business community, expected profits are a precondition for considering any investment, yet here the expectations are uniformly high, despite the high investment level. However, these expectations are multiplied by the **risk factors** that prevail in Southern Sudan. These are (apart from the “standard risk” prevailing anywhere in the developing world):

1. **A general risk** of or exposure to losing investments due to political turmoil, government interference and renewed conflict. This cannot be controlled by business and is incalculable (hence, it cannot be compounded in the price) and is thereby a prohibitive obstacle for many.
2. **A market risk** as market development depends on volatile oil revenues. This is (somewhat) calculable and can be reflected in pricing and is bearable for investors, though only high-risk/high-gain investors are likely to be attracted.
3. **A coordination risk**, as there is no certainty that other chain actors will start. Everyone is waiting for the other to make the first move. The coordination risk is another “investment plug”; without confidence in the chain, no industry is likely to develop, as no single actor, neither financially nor technically, is able to stem the entire chain investment.

Therefore, under current circumstances, despite the prevalent belief by many in the local business community that a poultry industry can be very profitable, no one invests because of the risks described above.

4. Chain Development Scenarios

Currently, there is an established demand for both poultry and eggs; the market for meat is served by several importers, some of whom are keen to develop local production which would lower prices and increase turnover. The market for eggs is diffuse; eggs are coming into the country as a part of truck loads and are sold off the truck to consumers or small traders in the local markets. Which of the two is more feasible to develop at this stage depends on many unknown factors that have to be established in the course of the feasibility study as described below. However, both require (a) secure feed supply and (b) a hatchery plus parent stock rearing to be developed as a minimum precondition.

Broiler

There is an interest among commercial operators in Juba in developing a value chain for the production of meat, and there are several interested investors. The value chain for meat requires a feed supply, a hatchery, parent stock rearing, broiler houses and a slaughtering facility. In short, this segment is more likely to be catered for by a few big farms or integrators rather than many small farms. The reason for this is that controlling meat quality, checking for diseases, ensuring proper cool storage and an efficient production cycle every 42 days is an industrial challenge, and the investors are the current traders who want a reliable supply, preferably from one source which they can control. Not involving the traders as investors is possible, but makes the business proposition unlikely; traders with their existing distribution network will likely continue to source their meat from abroad rather than from hundreds of different backyard/smallholder suppliers. Thus, while not impossible, it is most likely that broiler meat will be the first line of business to start and will likely be concentrated rather than extensive.

Broiler value chain scheme						
Actor	Farmers	Feed mill	Hatchery, parent stock rearing	Broiler houses	Slaughter house	Traders

Product	Ingredients for feed	Feed	Day-old chicks	broilers	Processed meat	Wholesale/retail
Supporting Agency	NGO	Donor-funded investment support programmes				GoSS
Support programme	Out-growers scheme, extension services	Investment support (through PSI or similar programmes; common feasibility study, coordination, support services development)				regulation, market development, support services
Target group	Rural poor	(S)MEs				S(M)Es

Layer

The egg trade currently takes place through many small trading networks, as are presumably the sources of the traders. To produce eggs locally, feed supply and crucially a hatchery and parent stock rearing are vital to supply the market with day-old chicks, which in turn could be reared professionally, and eggs could be produced in a large-layer farm with cages. However, here the alternative could also be to opt for the production of day-old chicks only and to sell those chicks to backyard producers in urban and rural areas, who then purchase feed and sell eggs to the local markets (as they do now). Unlike meat, the experience is often that a commercial layer-hen farm has no large competitive cost-price edge over backyard producers, and hence incentives are not as high as in the case of meat. It is now too early to establish what scenario is likely to develop, as it also depends on the investors' interest and their view of the market. Extensive egg production is more likely to attract NGO support, if needed.

Layer value chain scheme						
Actor	Farmers	Feed mill	Hatchery, parent stock rearing	Small egg producers		
Product	Ingredients for feed	Feed	Day-old chicks	Rearing of Layers	Eggs	Retail
Supporting Agency	NGO	Donor-funded investment support programmes		NGO		GoSS, NGO
Support programme	Out-growers scheme, extension services	Investment support (through PSI or similar programmes; common feasibility study, coordination, support services development)		Development of extension services, support services, outreach		Expansion to rural areas, market linkages to urban markets
Target group	Rural poor	(S)MEs		Rural and urban smallholders, poor households		

In the end it would be highly unusual to have only one of the two; across the world both lines develop eventually, once the primary conditions and facilities for one are on the ground. Which one develops first depends largely on the choices of private investors (depending on where the better market opportunity is seen) and also on donors (depending on where the greater development spin-off is seen).

Both scenarios have a different impact on development and have different risks: concentrated, more industrial production offers three development spin-offs: lower consumer prices, more control over

diseases/meat quality through professional handling, and an agro-industrial enterprise adding to the local GDP instead of imports. The risks are that it requires high skill levels and professional organisation, and is more sensitive to environmental uncertainties. To reduce this risk, intensive support in the development phase of this venture with training programmes and technical support is important; exposure to uncertainties will require risk-sharing support for the investors. In a feasibility study the benefits and risks associated with these options have to be explored in greater detail, including the cost and risks of building up supporting services.

5. Scope for PPC

Considering the above, an opportunity exists for public donors and private investors to line up to achieve their respective (yet differing) goals. In practice, the PPC would take shape as follows:

- **NGOs and farmers** (farmers' organisations) develop and support an out-growers scheme to produce ingredients for feed – ensuring supplies for the feed mill. NGO support will ensure that (a) the dealings with the feed factory are fair and sustainable, and (b) that producing feed for poultry does not conflict with the aim of food security.
- **Private investors** (Dutch, regional and Sudanese partners) form a consortium to develop the feed mill with co-investment by the Dutch PSI programme and GoSS support – ensuring feed supply for poultry farm(s) and backyard farmers/smallholders.
- Private investors (Dutch, regional and Sudanese partners) form a consortium to develop the **poultry farm** with e.g. support from the Dutch PSI programme and GoSS support – delivering the final goods to the consumer.
- **GoSS** engages with the industry to develop **supporting services**; in particular (regulations for) veterinary services, feed testing and training facilities.

Without public-private cooperation no investment and development is likely to take place under current conditions. With PPC, however, the probability of success is much higher, primarily because:

- public donors can reduce risk levels (for general risks) to make private investment and engagement a viable option;
- public donors can ensure coordination among the private sector by making risk-reducing support dependent on the simultaneous engagement of all – creating confidence in the chain;
- non-governmental agencies can ensure that socially important benefits are generated through e.g. an “out-growers scheme” which simultaneously ensures a vital supply for the other chain actors;
- private actors can shoulder the market risks and ensure that the industry is operated efficiently and is growing.

Further, with a PPC approach, GoSS involvement is more likely to be effective and supportive, e.g. when it comes to (assistance for) access to land, the provision of public goods for the industry (education systems or certification systems) or regulatory matters. Finally, a PPC approach does not require *new instruments or budgets*, but can simply make use of the existing donor instruments and organisations to address the issues raised above. PSI funding is very suitable, as well as many other public donor or NGO-sponsored programmes.

6. Implementation

To practically develop a PPC for the poultry value chain, a key step is to bring all parties into a coherent and cooperative working system. The “C” in the abbreviation stands for cooperation which

is achieved when the different objectives, working methods, complementarities, abilities and views can be exchanged, aligned, put into action and managed properly to be mutually enhancing. Thus PPC *management* is perhaps the biggest challenge to understand for donors, NGOs and private actors, for all of whom this may be (at least partly) a new world. Below, a schematic view of a possible implementation path is shown, with explanations of the main steps and an indicative timeline.

Step	Action	Explanation	Proactive party	Estimated Timeline
1	Formation of CIG, a Common Interest Group	To realise a PPC, the first step must be to bring all relevant parties – private investors, NGOs and representatives of potentially suitable public donor programmes - to one table. The aim of the CGI is initially to establish whether the PPC is possible and sufficient common resources can be mobilised to generate a complete PPC programme	The public donor, here e.g. the Dutch Embassy, together with EVD	(within) Month 1
2	Common feasibility study	<p>As no individual actor currently has an incentive to instigate a feasibility study (both technical and economic/financial), this should be the first task of the CIG. Next to the core elements of a feasibility study, there should be a donor feasibility analysis as well, essentially establishing which donor is able to take on which identified gap under what conditions. It is vital that donor representatives actively advise which instrument can be used for what, and which new parties may need to be invited to the table.</p> <p>In the process some actors may exit, and the CIG's task is to find alternative parties, or to conclude that no common interest can be identified.</p> <p>If there is technical, economic feasibility acceptable to private investors, and viability to raise the required donor funds from the different actors in Southern Sudan, a final go-ahead can be decided.</p>	The CIG should appoint a secretary or a chairman who can take the lead in finding resources for the study and managing the process of developing this common feasibility study	Final document accepted by all (or not) by Month 6
3	Development of investment plans and detailed applications/proposals for each actors	Once there is a common agreement that there is a viable possibility, each key actor prepares and investment plan (including financial plans for one's	Private investors, with support from CIG members	Depending on donor timelines, but it should be a feasible option to have all plans

		own investments and bank loans) and the applications for donor support, where required. Public donor (representatives) in the CIG actively support (lobby) the development of the applications within their mandate. NGOs interested in cooperation draw up their plans to mobilise programme resources for implementation.		submitted by Month 9
4	Submission of plans	All plans requiring donor involvement submitted to either private banks, public donor agencies, GoSS authorities and NGOs for approval.	Private investors, as applicants or public agencies, where required	Approval may take time, but in month 15 a final clearance should be feasible
5	Investment decision	When approvals for the various programmes are granted (or not), a final investment decision is taken, and resources are committed.	CIG chairperson	With a month granted for approvals; i.e. Month 16
6	Implementation	With the implementation, the CIG focuses its role on supervision to ensure that all actors' programmes are properly aligned troubleshooting: where unforeseen difficulties arise, the common pool of networking power and resources should be employed to avoid damage or collapse lobby support: where needed, support with the development and/or adjustment of adjacent GoSS initiatives and other donor initiatives in the field initiation of similar PPCs: if successful, the lessons learned and the contacts developed can be used in part to initiate similar PPC initiatives, e.g. in a related value chain	CIG as a whole	Implementation may take 1-2 years, depending on the nature of the plans

Example 2: Community/ Farmer-Based Organisation (CBO) initiatives

Concept

The present case presents a PPC model whereby the civil society partner plays an important role in terms of the initiation of the project. It has also been written from a civil society perspective. To develop a value chain in agricultural products with a commercial marketing firm, owned by farmers at the centre, there are small-scale farmers as producers at one end of the value chain, and big consumers like breweries at the other end. The concept has been elaborated in the northern part of Ghana with a commercial farmers' marketing company (SFMC). This firm was set up and initially financed by an international NGO (ICCO), in cooperation with a local NGO (ACDEP), to become commercially viable within three years, but the concept can also be transferred to Southern Sudan as climatic and economic circumstances are more or less comparable and farmers' organisations and large-scale consumers (e.g. SAB Miller breweries) are also present.

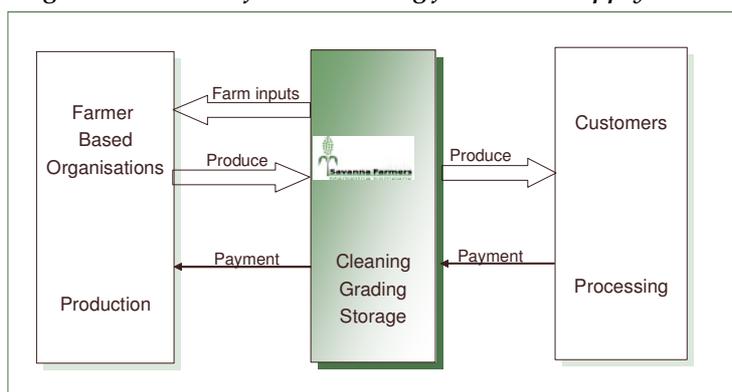
1. General background of the model

Savanna Farmers' Marketing Company (SFMC) was established from a Farmers' Agricultural Production and Marketing (FAMAR) project, which officially started in October 2004. The long-term goal of the project was: *'To establish a transparent and independent production and marketing chain, which is beneficial to rural households and outlets involved.'* A major component of the project was to establish an independent local trading company. This company was officially established as the Savanna Farmers' Marketing Company Ltd. in July 2005. ICCO provided a grant of EUR 100,000 to SFMC as starting capital. The company started operations in the 2005 farming season and is currently completing its fourth year of operations. The FAMAR project continued on to build strong and sustainable Farmer-based Organisations that can organise their marketing through SFMC. The company contracted 226 farmers' groups with over 3,000 farmers, 45% of whom were women. Most of these farmers were provided with certified seed, ploughing services and credit (figures from 2007).

SFMC's vision is to be the leading marketing company for farm produce from Northern Ghana. The company works with a significant percentage of all farmers in Northern Ghana through ACDEP member stations and other local service providers. SFMC's goal is to market a range of agricultural products that meet the following criteria:

- grown in large quantities in Northern Ghana, largely by small or medium-sized farmers, with limited or no use of chemicals;
- no or limited processing is required before the products can be sold, because SFMC does not intend to invest in large-scale processing facilities;
- a sizeable market has been identified that generates fair prices for farmers, though farmers currently experience problems with accessing markets and obtaining fair prices. In practice these products are: sorghum, soy beans, groundnuts and shea nuts.

Figure 1: The role of the marketing firm in the supply chain



a) Benefits of the marketing company for farmers

- contracts with farmers' groups for a certain number of acres of production. These contracts guarantee that SFMC will buy all produce from the contracted acreage providing it meets minimum quality standards.
- fixed farm gate price for a season. This fixed price is based on an analysis of the production cost of farmers as well as negotiations with the buyer of the produce.
- farmers' groups can supply all their produce to SFMC in bulk, unlike the common system where they have to go to the market and sell a small quantity at a time.
- farmers' groups are paid the total amount due within a few days of accepting the produce. Where possible farmers' groups are paid through a bank.
- seed and ploughing services are provided when and where required by the farmers' groups. These inputs can be paid in cash or are taken on a credit basis.
- Access to credit for production inputs at attractive interest rates: Where possible this credit is organised through local financial institutions. If not, SFMC provides the credit directly.
- Quality packaging free of charge: farmers do not have to buy sacks at the market. The quality of the sacks prevents farmers from losing produce.
- Buying by weight: This system is attractive to farmers because it prevents cheating as is common with buying by bowl.
- Collection of produce directly from the community: SFMC organises transport.
- End-of-season bonus for well-performing groups: based on the quality and quantity of supply, bonuses are paid to the best performing groups.

b) Benefits of marketing company for buyers

- produce is cleaned and graded according to the quality standards set by customers; only produce that qualifies is delivered so that the product can immediately be processed by the customer.
- a minimum quantity of supply is guaranteed by contracting farmers for this quantity. When needed, SFMC complements the volume through buying on the open market.
- fixed prices, thereby eliminating the risk of price fluctuations for customers.
- A direct link with farmers: Through SFMC customers can instruct farmers to, for instance, grow certain varieties or apply a certain method of processing.
- Reduction of complexity: production, processing and logistics are dealt with, so that customers can concentrate on their core business.
- Professionalism: most traders prefer to do business with a professional, modern company, unlike the traditional ones that are informal and unreliable.
- Avoidance of imports; SFMC buys only from Ghanaian farmers, thereby avoiding the cost of imports and reducing the cost of logistics.
- Corporate Social Responsibility: buying from SFMC means investing in Ghana and contributing to the development of the North. Customers prefer to buy from SFMC because they know that the margin in the chain is passed on to farmers.

c) Governance and Organisation of the Marketing Company

SFMC is a private limited liability company. Fifty percent of the 1,000,000 registered shares were sold to ACDEP. ACDEP is holding these shares in trust for the farmers. These shares will be transferred to farmers' groups when a number of predefined criteria such as the capacity of the farmers' groups to govern these shares properly are met. SFMC has a Board of Directors, with representatives from universities, the private sector, farmers, civil society and the government. The Board meets four times

yearly. Twice a year, the Board meets with a representation of the shareholder ACDEP in a General Meeting.

SFMC is a network company that contracts out operations to third parties, such as:

- ACDEP stations and other NGOs providing services to farmers and purchasing produce from the farmers' groups;
- The Seed Inspection Division at the Ministry of Food and Agriculture for produce cleaning and storage;
- different transportation companies for transport.

2. Transfer of the model to Southern Sudan

There are a couple of distinct reasons why this model, which worked so well in Ghana, could also be beneficial for fair and sustainable economic development in Southern Sudan:

1. **Southern Sudan has great potential for agricultural production.** The GoSS - in particular the Ministry of Agriculture - has indicated that it has a genuine interest in this kind of cooperation between civil society and the private sector, in particular where self-sufficiency in food supply is involved. The Green Belt, reaching from the Central to the Eastern Equatorial state, is very much suited for agriculture as it has some of the most fertile soils in Sudan. Agricultural produce here includes: sorghum, maize, sesame, groundnuts, shea nuts, cotton, vegetables, and fruit.
2. **Farmers' cooperatives, the prerequisite for this farming and supply chain model,** were already present in pre-war times and are in the process of re-establishing and reforming themselves. Examples of these are farmers' cooperatives established in the Yei area, where farmers are starting to regain confidence in their capacity and their combined efforts⁵⁵. After many years of short-term thinking and an unfavourable climate for investment due to the war, slowly the entrepreneurial mind of farmers is emerging. The dependency of this model on mutual farmers' trust and communal thinking makes this model, on the one hand, somewhat risky in the present situation in South Sudan. Past experience has shown that promoting these kinds of cooperatives and collective investments could substantially contribute to communal thinking and thereby to conflict transformation.
3. **There are numerous (I)NGOs that already support farmers in Southern Sudan.** As these organisations are transforming from a relief and emergency aid approach to a more development-oriented approach, they should be able to facilitate, organize and build the capacity of farmers and farmers' cooperatives. A long-term commitment (five to ten years) combined with a substantial amount of funds to invest in the initial phase of this model (estimated to be at least two to three years) is however needed.
4. **In Southern Sudan there a significant number of small-scale, unorganized middlemen.** They are currently very ineffective in providing reliable services to buyers and, at the same time, they are not very much trusted by and are not beneficial to producers. They can only operate in the absence of organised producers and the monopoly of just a few transport firms, thereby enormously increasing the cost-price for end-users and at the same time minimizing the profit for producers.
5. **Large-scale customers (like SAB Miller which was recently established in Juba) are ideal candidates to be part of this market chain.** The benefits are mutual: SAB Miller can, among other things, demand a specific variety, quality and quantity of sorghum that it needs for its

⁵⁵ One of the biggest cooperatives (MCDF), nowadays an established CBO with the former support of Novib, consists of 6 production departments with a total of over 1500 members. Interest especially lies in the communal selling of produce like coffee and honey, as well as in training and the provision of new seedlings.

brewery and, in return, farmers are given a stable and trustworthy customer which requires large quantities of produce. Additional benefits are described above in the relationship between Guinness Ghana Breweries Ltd and the farmers' cooperatives in Ghana. Other large-scale customers could be found, for example, in the shea nut and groundnut industry, as there is quite some (local) demand and exports to countries like Uganda and Kenya (see the other case example).

Generally speaking, this PCC model is very applicable and suitable for fair and sustainable economic development in Southern Sudan. A relatively low risk level and a high potential for agricultural development applies, provided that the roles and responsibilities of the various stakeholders are clear and adhered to. Building up mutual trust among farmers and between farmers and large-scale buyers is the key to rapidly and sustainably developing South Sudanese agriculture that is lagging so far behind. Civil society in the form of (I)NGOs have the necessary knowledge and the contacts with farmers from their long-standing relationship with them and are therefore in an ideal position to start up, facilitate and foster such a PPC initiative.

3. Suggested roles and responsibilities for various stakeholders in Southern Sudan

a) Private sector

Small and medium-scale farmers. Farmers need to have the:

- **Willingness and ability to organize themselves.** Cooperatives do exist, but their capacity to organize themselves and represent farmers towards the private sector or government is weak. Farmers also have to regain trust in each other so as to benefit collective thinking and dealing.
- **Basic knowledge of agricultural practices.** The prolonged war has resulted in a whole generation being deprived of knowledge concerning proper agricultural practices, let alone of the current and modern ways in which agriculture is nowadays practiced.
- **Willingness to be contractually bound** (quality, quantity, fixed price and customer-minded). Farmers have struggled in the past concerning their day to day survival, leaving little attention to the quality or quantity of their produce, but rather opting for short-term yields and profits. Changing this attitude into a longer-term perspective, being bound by certain quality standards and a specific quantity produced will necessitate a long-term commitment by any person and organization involved, as trust is a prerequisite for this landslide change.

Possible farmers' cooperatives could be those that have so far been established around Yei (9), as they are already functioning and receive support from NGOs such as AAH or NPA⁵⁶. A more or less similar initiative has been put in place by the Savannah Farmers' Cooperative Company (SFC). The SFC farms are located in the Yei and Kajokeji areas of Western Equatoria (Morobu, Logobero, Moje and Romogi) and they have established cooperative farms with tractors. Other areas that have high potential are found in Eastern Equatoria (Yambio) where the war was less devastating and less people have been internally displaced, with farmers' links and cooperatives still in place.

Larger private sector actors. Larger private sector actors, such as the consumers/buyers of agricultural producers, are the second most important actor for this PPC case. Without a genuine interest by the industrial private sector in establishing long-term relationships with farmers'

⁵⁶ Bereka Parmer Association, a combination of loan-saving schemes with technical assistance and milling facilities (Lainja). The lack of processing facilities for agricultural products is a major reason for the low profitability.

cooperatives, this PPC model is due to fail. Businesses should be prepared to invest substantially in these relationships, in return for longer-term profits through trusted and reliable supply chains. A fairly high level of Corporate Social Responsibility is necessary to prevent initially weak farmers' cooperatives from being taken advantage of and to build on a durable long-term relationship, eventually benefiting all parties involved.

Direct inputs that could be provided by the private sector are knowledge about and the provision of new agricultural techniques and varieties, technical expertise to set up and run a commercial marketing company (without being part of it) and funds for civil society organizations to build the organizational capacity of farmers' cooperatives.

As mentioned above a very interested player would be SAB Miller Brewery, but also other, new or already established processing or trading firms in the shea nut or groundnut industry could be interested. Future intensive animal production firms such as beef, dairy or poultry are very likely to be interested in farmers' cooperatives concentrating on maize production. On the other hand, potential opportunities are also for the - extensive - animal production sector to come into contact with the leather and meat industry. Fish ponds with cultivated fish are other possibilities.

b) Civil Society

NGOs that would play a role in this PPC model would need to have:

- **Commercial interest / professionalism:** NGOs, whether local or international, will need to exhibit professionalism and technical know-how, as the capacity building of farmers and their cooperatives is the key to the success of this PPC model. Moreover, they need to have a genuine interest in linking up with the private sector and must have a commercial attitude so as to best serve farmers and their cooperatives.
- **An ability to find start-up investment and longer-term funding:** This model cannot start without capital, as is the case with any business. However, funding should be available not only to permit NGOs to assist farmers and their cooperatives for a long period of time (some years at least), but also to provide farmers and their marketing company with funds to cover any initial losses.
- **A willingness to foster long-term relations with farmers, CBOs and farmers' cooperatives.** As mentioned above this model needs a long-term commitment by any person and organization involved.

Possible (I)NGOs that could be interested and which have the expertise and experience to set up this kind of PPC are AAH, World Vision (Yambio), Oxfam GB, IRC, NPA and CRS.

c) Government

- The main responsibility for this (and other PPCs) is to ensure the **creation of an enabling environment**. GoSS needs to provide, for example, the legal framework (law associations, judicial contracts and systems etc.) and to facilitate the provision and availability of (micro)credit and infrastructural hardware.
- **It should support and stimulate farmers' groups in organizing themselves.** GoSS should be proactive in this and at the same time it should stimulate these farmers' groups to link up with the industrial private sector. Towards this private sector the government should play its role in safeguarding that this economic development is fair and sustainable by allowing and even stimulating civil society to act as an intermediary and a 'watchdog' in relations between farmers and the industrial private sector.

- Other roles which the government can play are **linking farmers with Agricultural training institutions**⁵⁷ and providing (agricultural) extension and animal health services.⁵⁸

4. Timeline

Year one-two: establishing farmers' cooperatives and collaboration initiatives between various actors; providing technical support and improved farm inputs such as seeds, fertilizer, tools etc. Exploring marketing possibilities for agricultural produce and market chains. Providing additional facilities such as seed banks and ploughing. Main actor: civil society

Year two-three: Establishing the private Marketing Company with technical assistance by the private sector and civil society. The first contracts to be signed between producers and consumers. Transport and other processing arrangements made.

Year three-four: First products delivered to consumers according to predefined quality and quantity criteria. First contractual advance payments to producers and engaging in credit and further elaboration as part of the contracts.

Year four-five: First year of private Marketing Company making profit, eventually flowing back to the farmers through the shares they hold in the Company.

Year five to ten: Extension of the agricultural products, contracted farmers, consumers and cultivated farmland. The Marketing Company to become a private, profit-making entity in itself, owned by farmers, benefiting both producers and end-consumers.

Example 3: Shea-nut butter production

Concept

During the field research in Juba, contacts were made with an NGO called "Lulu Works". This is basically an organization that coordinates the collection and processing of Shea nuts by women's groups. The collection takes place in various locations in Southern Sudan, the processing is done in Juba using the collected Shea nuts and some ingredients (especially aromas) that are purchased in Khartoum. Lulu Works is supported by a Kenyan NGO and has received minor funding from international NGOs. Current production volumes by Lulu Works are low, yet the products are surprisingly well packaged and seem to be of good quality. This business case aims to increase production combined with increased sales, including exports.

1. What is Shea-nut Butter (*Butyrospermum parkii*)?

Also known as Karite Butter, shea-nut butter is a vegetable fat extracted from the fruit of a tree which grows in Africa. *Vitellaria paradoxa*, the Shea tree, grows across a wide swathe of Sub-Saharan Africa, from Senegal to Ethiopia and is highly valued by local communities. Due to the lack of processing

⁵⁷ Example: the Agricultural Training School in Yei, where four different in-house courses are provided ranging from 1-2 weeks to 9 months for farmers.

⁵⁸ This in itself is an interesting possibility for PPC as well: NGOs training farmers to become Community Animal Health Workers: once educated these farmers provide commercial animal health services to their communities, linking up with the government-controlled state veterinary services for vaccination campaigns etc.

plants many of these seeds and nuts are exported unprocessed, thereby depriving the local communities of much needed employment opportunities.

Shea-nut butter is the only exotic butter containing linoleic acid which is excellent for dry, damaged or irritated skins. It protects the skin, improves its elasticity and suppleness, whilst promoting the healing of the skin. It is a natural lipid which provides moisturizing benefits, being quickly absorbed into the skin. Shea-nut products have a high market value and this offers opportunities for significant income generation for those involved in the value chain. The high value per volume unit makes it also possible to overcome high transportation costs.

2. What is needed for higher production and increased sales?

a) Increased collection (NGO/private sector)

The basic system of collection by women's groups in villages surrounded by Shea trees is in place and has to be extended to more villages. Due to the low income levels in rural areas, the collection can be done by hand and no major investments in technology are needed. Local NGOs can be supported by an international NGO to ensure that the higher collection targets are met and that the outgrowers receive their agreed prices. All in all, this is not very complicated in terms of its process – there are many similarities with outgrowers' schemes across Africa. So far, however, Southern Sudan has little experience with outgrowers' schemes.

b) Increased and improved processing (private sector/NGO)

One has to investigate whether to transport the raw products to central collection points (e.g. Juba and/or Wau), or whether it would be advisable to process the nuts directly at source. Mobile processing installations do exist, which are capable of producing high quality standard oil and which could then be transported to the processing plants to be transformed into the final products. Because of the standardization, the oil from different sources can be mixed together before further transportation. The final products could be produced in Southern Sudan, but the standardized oil could also be exported. Due to its organic nature the oil can be further refined to be used in the cosmetics, pharmaceutical and food markets. Less complicated processing can be done in Southern Sudan; more advanced processing will have to be done in refineries in Europe or the USA.

The benefits of processing at source are:

Lower transportation costs: only oil is exported instead of whole nuts.

The remaining nut cake can be reused as fertilizer or cattle feed.

The mobile units can be used the whole year round for different types of seeds and nuts in different areas. So even other products (seeds, nuts) could be produced and new collection areas could easily be added.

Outgrowers are not dependent on one processing plant, but can eventually choose to whom to sell their high value oil.

Processing installations can be funded via PSI+, via NGOs or via microfinance organizations.

c) Marketing (Private sector/NGO)

The advantages of Shea-nut products are that they are 100% natural products, free of parabens, SLS (Sodium Lauryl Sulfate) and other 'undesirables'. They are not tested on animals and are suitable for vegans in most cases. Shea-nut oil has a very high consumer price and the demand is likely to increase significantly since Shea-nut products are only starting to become known among consumers. Both NGOs and companies could market this product, either via a "fair trade" avenue or via direct commercial selling. It will not be difficult to find companies that can and want to market shea-nut oil; for end-products that are manufactured in Southern Sudan, this might be more complicated.

Example Case 4: Fresh fish production

Concept

In various areas of Southern Sudan, there are excellent fishing waters, e.g. Lake No and the River Nile. This business case explores the broad lines of a fisheries project, which makes use of local fishing communities and primarily aims at the export of fish to processing facilities in Uganda. Fish will be a relatively low-cost food item for the inhabitants of Juba. Given the high sales of chicken, the local fish market will be quite impressive. In Uganda, there is a shortage of supply due to fishing restrictions on Lake Victoria. This project will be challenging but potentially offers high rates of return: fish is abundant in Southern Sudan, there are local fishing communities and local and regional demand is high.

Main components of the project

1. Production

Fishing communities are abundant in Southern Sudan, but up to now there has been no formalized structure in which local fishermen can bring their products to the market (being either the bigger cities of Southern Sudan or within the region). A production system has to be put into place to ensure a regular flow of fish towards customers and to ensure good quality. The central point of the value chain would be either an on-shore facility (storage/market) or an off-shore facility (a "mothership" with storage facilities). Furthermore, the fishermen can receive some training in hygiene and technical aspects.

Local fishermen can be facilitated by supplying them with small boats (+/- 8 meters) and fishing gear. They can deliver their fresh fish at a central point and receive instant payment. The financing for the fishing boats could be provided within the project or via an NGO. NGOs can assist fishermen in forming a cooperative and can provide training and sensitize the community. NGOs can also ensure that fishing operations are carried out responsibly and sustainably. To ensure the independence of the fishermen, the NGO in question could also provide the financing for the fishing boats. If the fishing boats are financed within the project, the fishermen would have to pay a daily rate that is deducted from their payment for the fish delivered; alternatively, the fishermen would gradually pay for the boats and become the owners after a certain period.

2. Storage

Fresh fish has to be directly stored in a cold space after the catch. A well isolated storage facility has to be provided in combination with an ice-making facility. Part of the fish can be sold as fresh fish in

Juba, most of the other fish would be frozen within the storage facility. In order to have more flexibility, the storage space could also be provided inside a barge on the Nile or on Lake No.

This is clearly the highest investment within the scope of this project, and PSI+ would seem to be an excellent instrument to finance this part.

3. Transportation

Trucks with reefer containers pick up the fish from the storage facility for transport to the local market (e.g. Juba) and to the export market. Due to the poor roads, this requires high quality trucks with African specifications. The flow of fish has to be ensured by deploying enough trucks. Due to the extremely high transportation rates, the trucks would preferably be part of the project. The local or regional private sector would normally arrange for this transport fleet. Given the state of the roads, exports to Uganda would seem to be more practical than exports to Kenya, but also this second option is feasible.

4. Processing

In Uganda (along Lake Victoria), many large-scale fish processing plants are already up and running. Initially, the fish from Southern Sudan would be sold to these companies. A second option would be to sell the fish in Uganda or Ethiopia. At a later stage, fish processing could also take place in Southern Sudan itself.

Annex II: Call for Proposals

Formulation of a Public Private Cooperation project in Southern Sudan

Deadline for concept note: 1 October 2009

Budget for business plan: EUR 10,000 lump sum grant

Objective: This Call for Proposals has been issued to encourage the formulation and preparation of a Public Private Cooperation project in Southern-Sudan.

Background:

This Call for Proposals has been issued by a consortium⁵⁹ researching the possibilities for Public Private Cooperation in Fragile States, coordinated by the Conflict Research Unit of Clingendael Institute and the EVD. It is part of the larger project 'Public Private Cooperation (PPC) in Fragile States', which has been initiated under the 2007 Schokland Agreement 'Network for Peace, Security and Development'.

The primary objective of the overall project is to identify key areas, local sectors, local needs and (im)possibilities where public private cooperation can best or most efficiently contribute to pro-poor, just and sustainable economic growth. This resulted in a local needs assessment field study, a fact-finding mission, a business delegation mission, a practical funding guide and a country report on PPC in Southern-Sudan. This Call for Proposals is the last part of the research and is meant to generate real business proposals for PPC projects. No guarantees for further funding after formulation of the PPC project can be provided. A PPC is here defined as the involvement of government, private enterprises and civil society/NGOs in a commercial project.

Deliverables:

To prepare and formulate a business plan for a feasible Public Private Cooperation project in Southern-Sudan (max 20 pages), covering the following components:

- § Description of the role of the company, NGO and government (e.g. setting up a business/capacity building staff/granting licenses) in the proposed PPC project;
- § Description of the business case / feasibility of the project (commercial plan);
- § Description on the actual implementation of the project (operational plan);
- § Suggestions for project financing (financial plan).

Application procedure (all registered Dutch companies and NGO's can apply with one or more concept notes);

- § Prepare a concept note of max 3 pages (no format and no budget requirements). The concept note will address the issues mentioned in the assessment criteria below;
- § Send the concept note, together with the project application form, by email in Word or PDF before 1 October 17.00 to:

Email: lspecker@clingendael.nl
CRU Clingendael Institute

Assessment criteria:

- § The capacity of the company or NGO to implement the project (max 30 points);
- § Contribution to the PPC concept (max 30 points);
- § Feasibility of the project (30 points);

⁵⁹ CRU Clingendael, EVD, ICCO, Cordaid, NABC, Kadaster International.

§ Overall impression (maximum 10 points).

The winning applicant will be informed before 15 October 2009, after which the business plan has to be submitted **within 2 months**.

Contract:

The winning applicant will sign a non-negotiable contract with the Conflict Research Unit of Clingendael Institute. Payment: 50% at contract signing and 50% after delivery of report.

Information:

Background material can be provided on request from Leontine Specker (lspecker@clingendael.nl) and can be downloaded from : www.millenniumakkoord.nl (from mid-September 2009 onwards).

Further information: Mike Timmermans 070-7788624.

Project application form

Company/NGO name and legal structure (BV, Ltd. etc)	
Address	
Postal code and town/city	
Country	
P.O. Box	
City code and city	
Name of contact person	
Position	
Telephone number	
Fax number	
E-mail address	
Website	
Registration number Chamber of Commerce	<i>Give registration number, name and address of the Chamber of Commerce or other designated Registration Authority and date of registration</i>
BIK (SBI) code (to be obtained through Chamber of Commerce, Dutch companies only)	
Main activity	
Number of employees	

<p>Programmes EVD, FMO and SenterNovem</p>	<p><i>Is or was this company or a subsidiary, sister or mother company involved as consortium member in a Dutch Government programme implemented by EVD, FMO or SenterNovem?</i></p> <p>No</p> <p><i>Yes, please give title(s) and project number(s)</i></p>
<p>Corporate Social Responsibility</p>	<p><i>Are the Applicant and the Recipient familiar with the OECD guidelines for multinational corporations and will they make an effort to apply them, to the best of their ability, in their companies? (See www.oecd.org)</i></p> <p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>
<p>International Labour Organisation Principles</p>	<p><i>The applicant and recipient will follow the ILO principles and rights. (see www.ilo.org)</i></p> <p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>