

## **THE SOUTHERN SUDAN PRIVATE SECTOR DEVELOPMENT PROJECT**

submitted by  
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The project, focused on early-stage private sector development in conflict-affected region supports (a) policies and institutions that are required for private investment and trade; and (b) key services required for micro- and small-enterprises to grow. The project focuses on building capacity among Southern Sudanese policy makers and the private sector to develop the policy and institutional framework for trade and investment through open consultation. It supports establishment of monitoring frameworks to feed back into the policy dialogue, and broad participation in private sector development by mobilizing grassroots support for entrepreneurship as a livelihood choice, particularly for women and ex-combatants.

Secondly, the project provides policy, technical and financial support for the establishment of the microfinance sector in Southern Sudan.

Third, the project supports the emergence of industries through (a) industrial strategy and capacity building; (b) support to private sector institutions; (c) provision of business development support to the private sector.

Finally, the project establishes a wholesale market system based on a wholesale market, three assembly markets, and a market information system. This is intended to create efficient flow of product into rapidly-growing Juba, as well as backward linkages into the rural economy, while demonstrating a public-private partnership model for market infrastructure.

The interplay of these four factors, the policy framework, finance, skills and efficient markets are intended to contribute to a favorable enabling environment for the growth micro and small enterprises now emerging in Southern Sudan, while providing a policy and strategic foundation for the emergence of larger economic sectors in the medium-term. The focus of the project is primarily on small and micro entrepreneurs typical to post-conflict environments. The project also sets the stage for medium-term emergence of industrial sectors through strategy development and building public capacity for medium-term industrial development.

A selection of key performance indicators:

- Number of businesses registered in Southern Sudan (target: 25% increase per year over five years);
- Employment by formal, registered private sector in Southern Sudan (target: 20% increase per year over five years);
- Private sector development strategy endorsed by Cabinet or Parliament;

- Starting a business, time (days), and cost (% of income per capita);
- Southern Sudan Microfinance Development Facility established;
- Number of new microfinance institutions (MFIs) operational in Southern Sudan (target 4);
- Number of start-ups established through business plan competition each year (target 10);
- Fruit and vegetable wholesale market and associated assembly markets trading at least 18,000 MT per year of produce;
- Produce from at least three Southern Sudanese states traded in wholesale market;
- Market information system established and issuing price signals to producers and buyers.

## **PROJECT COMPONENTS**

### **Component 1. Trade and Investment Policy Framework**

The objective of this component is to establish an efficient investment climate. It will focus on strengthening the human and institutional capacity of the Ministry of Commerce, Trade and Supply and its allied Ministries and Agencies so that they can effectively discharge their key functions of developing an efficient policy framework, promote entrepreneurship, and monitor private sector development.

#### Sub-component 1.1. Long-term policy capacity.

A long-term policy advisor will be placed in the Ministry of Commerce, Trade and Supply in order to support development of a coherent policy and strategy toward the development of the private sector, and to guide the articulation of the policy in the form of laws, regulations and programs. The advisor will also have a mandate to build the Ministry's capacity to execute policy functions. The subcomponent will also allow MCTS to hire on a rapid-response basis, legal and policy experts to help in the development of specific policies, regulations and laws. Such policies will include those to protect the public interest in a clean and sustainable environment through development of policies to regulate and provide disincentives for pollution.

#### Sub-component 1.2. Establishment of Public-Private Dialogue Forum.

In the process of developing the legal and policy framework, it will be critical to have close consultations between the public and private sectors. This is particularly important in light of the fact that the concept of federalism and participatory policy formulation are new to the Sudan. This subcomponent will finance the creation of a structured, regular dialogue mechanism between the public and private sector around the policy agenda. The funds will be used to hire a firm that will provide a small secretariat that will provide technical assistance to the South Sudan Chamber of Commerce, Industry and Agriculture to prepare and develop its proposals for the policy agenda, legal review draft laws and regulations, maintain records, organize meetings both within the private sector and with the Government, publish minutes. The TA Fund will allow the private sector to conduct research on key issues which can then be discussed through the Forum.

#### Sub-component 1.3. Catalyzing Entrepreneurship (joint activity with Ministry of Industry and Mining and Chamber of Commerce).

The wealth of Southern Sudan will greatly depend on the development of its human resource, one of the youngest populations in the world. Yet, large numbers of young

Southern Sudanese men and women, including returnees, are currently facing an employment market with limited absorption capacity. In order to address this challenge, the program will support (a) disseminating information on the enabling environment; (b) mobilization and organization of Southern Sudanese women and men, communities, and cooperatives into sustainable economic units and entrepreneurs, to prepare them to utilize the policies, programs and resources available to the private sector; (c) the launch, jointly with the Ministry of Industry and Mining and the Chamber of Commerce, of a business plan competition allowing new Southern Sudanese entrepreneurs to compete for start-up grants averaging \$20,000. The business plan competition is intended to increase awareness, build confidence and create role models.

#### Sub-component 1.4. Monitoring and Evaluation.

A lack of information hampers efforts to establish and improve PSD policy. The objective of this subcomponent is to establish a framework for the ongoing monitoring and evaluation of progress toward the goals of private sector development. The Ministry of Commerce, Trade and Supply has established the Department of Market Research, Planning and Statistics led by a Director. This sub-component will finance the design and execution of a system of monitoring indicators to measure the growth and health of the private sector, including perceptions of investors on policy uncertainty, trade, investment, registration and start up, closure, lending and employment. The monitoring framework will be used to issue a dashboard of policy-relevant indicators for decision-makers; business bulletins for investors/media; and in depth data for researchers.

### **Component 2. Establishing commercially-viable microfinance institutions**

The objective of this component is to stimulate the creation of a viable microfinance sector that provides banking services to the currently unbanked, economically-active poor. While microfinance is not a panacea for poverty reduction, it could play an important role in the financial sector development of Sudan. Although the demand for microfinance services is substantial, the industry currently only covers less than 7,000 customers in seven cities, an estimated 1%-3% of the potential market. Providing access to appropriate microfinance (credit, savings and other services) could support:

- Employment growth
- Increased assets and wealth
- Reduced vulnerability of households to economic shocks and to risk, and increased household ability to invest in their own health, education, etc.
- Economic empowerment of women.

#### Sub-component 2.1. Policy and Enabling Environment for Microfinance.

The objective of this sub component is to support development of the legal and regulatory framework for microfinance, to enable diverse microfinance providers (including banks, local and international NGOs and co-operatives) to start up operations, diversify their products, and expand their capital. This will entail creation of an enabling environment for the sector, applying a mix of laws, policies and regulations to stimulate innovation and diversity in achieving the goal of broad-based access to finance. A long-term policy advisor, will also deliver capacity-building of the Bank of Southern Sudan overseeing particularly deposit-taking MFIs.

### Subcomponent 2.2. Southern Sudan Microfinance Development Facility Manager.

The project supports the establishment of the Southern Sudan Microfinance Development Facility. The Facility, structured as a non-profit organization, will be supervised by a Board including public sector, private sector and civil society representatives. The Facility is designed to support the establishment of new microfinance institutions through provision of best practices, training, financing and managing donor resources. It will support creation of new MFIs as well as downscaling banks. A manager for the Southern Sudan operations will be chosen through international tender for the Sudan Microfinance Development Facility, linked to the selection at the national level. The operation for Southern Sudan would be based in Juba. Key functions:

- Build expertise on good-practice microfinance strategies, operations, policies and regulations at all levels – retail microfinance providers, service providers to the microfinance industry such as consultants, trainers and auditors, and regulators and policy makers – to ensure the health of the sector as a whole, working with the new microfinance network and the policy advisor in BOSS;
- Making sure that the retail providers and support organizations have sufficient support to build institutional capacity, through technical assistance tailored to the needs of the organizations;

Adjust the program’s interventions as the sector develops, to ensure that funding and capacity-building is tailored, more focused, and implemented in such a way as to avoid distorting the market as the microfinance market becomes more competitive and commercial.

At the end of the project, any non-grant investment in MFIs would gradually be repaid, and extend the life of the institution as a capacity building organization. Southern Sudanese would take over its management and it would exist as a training facility for microfinance or conventional bankers.

### Sub-Component 2.3: Technical Assistance and Financing to Microfinance Providers and to the sector.

The objective of this component is to support the start-up and expansion of microfinance providers and services throughout Sudan who have potential to operate on an ongoing basis after initial support. Technical and financial support will strengthen the institutional and financial capacity and performance of diverse MF providers. The project will take an institutional approach, supporting MF providers that commit to be institutionally and financially viable over the long-term and that present credible capacity-building plans to reach large numbers of low-income clients. Specific packages will be determined competitively, through the offers made in the procurement of the manager.

## **Component 3. Building industrial capacity**

The objective of this component is to initiate a process of creation of higher-value added industries that would serve in the medium-term as industrial pillars of the Southern Sudanese economy.

### Subcomponent 3.1. Building industrial strategy and policy capacity.

This subcomponent will focus on the enhancing capacity with GOSS to support industrial strategy and policy formulation. Focusing on Ministry of Industry and Mining but working in association with other relevant agencies, the subcomponent objective is to leave behind a capacity in the relevant departments, based on best practices, to develop and implement support programs for private sector investments leading to growth in industrial sectors that offer competitive advantage to Southern Sudan.

To achieve these aims, a consultant placed at the ministry will identify critical institutional and human resource gaps in the relevant departments of the Ministry, and recommend institutional changes and staffing requirements in overcoming those gaps. The subcomponent will support the development of result based policy and program formulation by the Ministry and establish the framework of interaction, including the division of roles, between the Ministry and the relevant ministries at state level and with the private sector, building on the Public-Private Dialogue Forum.

*Analysis of Competitiveness.* Based on resource endowment, the industrial potential of Southern Sudan is fairly diversified, encompassing oil and gas, minerals, agricultural produce, forestry, fisheries etc. In addition, several large-scale industries were created in the past through public sector investments. Emerging best practices in industrial development call for public-private processes for supporting analysis of competitive advantage, the promotion of industrial clusters and the provision of support services that improve the competitiveness of firms. This subcomponent will undertake a survey of existing and potential industrial capabilities, analyze their prospects within the national and regional contexts and through a consultative process with the private sector identify key industrial sectors or clusters that could be promoted as promising sectors for investment by the private sector. It will therefore establish the analytic foundation for the industrial strategy to be followed by the government and private business.

*Assessment of Mineral Potential.* Southern Sudan is rich in mineral resources, which have the potential to contribute significantly to the development of the domestic industry. In view of facilitating the promotion of investment opportunities for the private sector, a survey will be carried out by a subcontracted firm. This survey will also facilitate land use decisions that will affect the amount and type of activity permitted in that area. A mineral potential map displaying the results of the assessment by showing the relative mineral potential of different areas of Southern Sudan will be produced.

### Subcomponent 3.2. Development of private sector support institutions.

An effective private sector cannot function without effective support institutions that can develop the common interest on issues affecting the growth and efficiency of the private sector; represent its interests and perspectives in the formulation of policies and strategy; and provide services to its constituencies. This subcomponent would strengthen the capacities of these private sector support institutions serving the formal sector (Chamber of Commerce) and the informal sector. It will also strengthen their capacity to define common interests of the business community and to be an effective partner to the Government in the formulation of industrial strategy, policies and legislation, as well as in the promotion of investments. The development of a strong network of support institutions will

eventually facilitate the decentralized implementation of changes in the policy and regulatory framework as well.

#### Subcomponent 3.3. Catalyzing Business Linkages through BDS.

Presently the majority of enterprises in Southern Sudan consists of small and micro-enterprises working in low value sectors (e.g.: trade, retailing and rudimentary transformation of food products). The efficient use of entrepreneurial talent for productive purposes not only depends on the institutional framework (addressed in component 1 and 3.1) but is also influenced by the lack of education, inadequate technical skills, and weak linkages to markets. This sub-component aims at addressing these bottlenecks and to develop a growth-oriented entrepreneurial class in Southern Sudan that can identify and implement viable business ideas. In order to achieve this objective a market for Business Development Services will be developed. Interventions will further deepen and built on the entrepreneurial awareness and private sector culture stimulated under subcomponent 1.3, by focusing on the provision of training in technical and entrepreneurial skills.

Activities will intervene at different levels:

- Long-term training (in design, manufacturing, marketing and management) combining technical with entrepreneurial skills and close monitoring on the job.
- Building institutional capacity building through the training of trainers (TOT).
- A network of training providers facilitated through the development of information networks, joint training courses, exchange visits and business plan competitions will further stimulate the creation and strengthening of training providers.

### **Component 4. Marketing System Development**

An efficient marketing system is a precondition for promoting and commercializing agricultural productivity, increased food security and improved nutrition. It enables better prices to be obtained by producers, leading to higher incomes and availability of competitively priced produce to consumers. Linking producers to consumers is addressed in three ways: through effective marketing extension, and by improving physical infrastructure, particularly that of assembly and wholesale markets and through credible price signals. The objectives of the Market Component are to: (a) establish a market institution that lowers transaction costs and facilitates the flow of products, information and credit between farm producers and urban consumers; (b) demonstrate an effective public-private partnership for infrastructure.

#### Sub-component 4.1. Establishment of a wholesale market.

The objective of the subcomponent is to manage the establishment of a public-private partnership through a transparent process through which (a) the Government will identify performance obligations and use a competitive process to identify a commercial manager for the market, compensated from the project. The subcomponent will finance the investment costs of a 10,000 m<sup>2</sup> terminal wholesale food market on five hectares of land, enabling the throughput of up to 37,000 tons of fresh produce per year to increase the quality and reduce the price of food in Juba, while also creating a private wholesaling industry.

Sub-component 4.2. Establishment of Associated Assembly Market System and rural-urban linkages.

The sub-component will support the establishment of three assembly markets providing inputs to the wholesale market from three Southern Sudanese states, and technical assistance to support the flow of product through the marketing system, including identification of farmer groups, contract farming, facilitating access to credit.

Sub-component 4.3. Building backward linkages and market information systems.

The objective of the subcomponent is to strengthen the capability of Southern Sudanese entrepreneurs to enter the wholesaling business and develop market linkages. The subcomponent will finance market information, price discovery and facilitate contracting with rural producers.