Business Environment Reform Facility

Diagnostic Review of Business Environment Constraints: Sudan

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BE RF Business Environment Reform Facility

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About Business Environment Reform Facility (BERF)

BERF is funded by the UK Department for International Development (DFID) under the Business Environment for Economic Development (BEED) Programme. BERF is a central facility responding to demand from the DFID's priority Country Offices and stakeholders to initiate, improve and scale up business environment reform programmes. BERF is managed by a consortium led by KPMG LLP. The programme started in January 2016 and will finish in January 2019.

We provide expert advice, analysis of lessons learned, policy research about what works and what doesn't and develop innovative new approaches to involving businesses and consumers in investment climate reform.

BERF has a strong emphasis on strengthening the Business Environment for women and girls, as well as for young adults more generally. It is also aiming to improve the relationship between business and the physical environment including where relevant through linkage to climate change analysis. BERF recognises the need for appropriate political economy analysis in order to underpin business environment reform processes and interventions.

About this Report

Research for this study was conducted by Deborah Mansfield and Dr. Martin Mautner Markhof between October and November 2016.

The views contained in this report are those of the authors and do not necessarily represent the views of KPMG LLP, any other BERF consortium member or DFID.

This is a working paper shared for discussion purposes only.[1] No reliance should be placed upon this report.

[1] Some parts of this report may contain politically sensitive statements. DFID Sudan may wish to consider redacting them if sharing the report outside of DFID or FCO.

Acronyms

ABS	Agricultural Bank of Sudan
ACE	Africa Clean Energy Business
AfDB	African Development Bank
ARC	Agricultural Research Corporation
BE	Business Environment
BER	Business Environment Reform
BERF	Business Environment Reform Facility
CA	Companies Act
COMESA	Common Market for Eastern and Southern Africa
DB	Doing Business
DFID	Department for International Development
EPA	Economic Partnership Agreement
EU	European Union
FAO	Food and Agriculture Organisation
FCO	Foreign and Commonwealth Office
FSBE	Federation of Sudan Businessmen and Employers
GAFTA	Greater Arab Free Trade Area
GDP	Gross Domestic Product
GoS	Government of Sudan
ICT	Information and communications technology
IFAD	International Fund for Agricultural Development
IITA	International Institute for Tropical Agriculture
JICA	Japan International Cooperation Agency
LASER	Legal Assistance for Economic Reform
MEL	Monitoring Evaluation and Learning
MoA	Ministry of Agriculture
NCP	National Congress Party
NSA	National Seed Administration
PEA	Political Economy Analysis
PFM	Public Financial Management
PIU	Project Implementation Unit

PPP	Purchasing Power Parity
PPP	Public Private Partnership
SPS	Sanitary and Phytosanitary
SRC	Strategic Reserve Corporation
SSA	Sub Saharan Africa
SUDNAIP	Sudan National Agriculture Investment Plan
TA	Technical Assistance
TAF	Trade Advocacy Fund
TTEA	Technology Transfer and Extension
UK	United Kingdom
UNDP	United National Development Programme
USAID	United States Agency for International Development
USD	United States Dollars
VAT	Value Added Tax
WTO	World Trade Organisation

Executive Summary

Objectives of the assignment / BER Diagnostic

DFID Sudan approached Business Environment Reform Facility (BERF) for support to 1) identify general business environment (BE) constraints in the economy with the aim of bringing a BE perspective to potential future programmes; 2) identify constraints in the agricultural and related agribusiness sectors, with an emphasis on how removal of constraints will benefit the poor; and 3) assess Government of Sudan (GoS) capacity to implement the reforms. DFID Sudan subsequently refined the scope explaining that its main interest is not in a detailed diagnostic of the business environment but on finding entry points where there is an opportunity to engage GoS in an intervention with the ability to create jobs and reduce poverty. The change in emphasis in the scope of the assignment is due, on the one hand, to a recognition by DFID Sudan of the wealth of analysis that has already been carried out and, on the other, of the value of beginning to engage partners on business environment reform, and refining the analysis through 'learning by doing'.

A menu of options for DFID Sudan engagement is identified based on an analysis of (i) the political economy (including government willingness and capacity to reform), (ii) partnerships available, (iii) DFID's competitive advantage and (iv) value for money. The menu of options was developed on the basis of a general business environment diagnostic to identify economy-wide constraints to doing business in Sudan, as well as a sector specific diagnostic of the agricultural sector and relevant agribusiness value chains.

Summary of desk research and field work conducted

The team reviewed GoS policy documents, key analyses and reports on Sudan's agriculture, economic and business environment from the World Bank, FAO and other international organisations and donors, and other specialist research papers where required. One member of the team visited Sudan from 30th October to 4th November 2016. Most meetings were with the private sector, with only one government meeting and two meetings with international organisations.

Key Findings / Conclusions

Sudan's business environment is one of the most challenging in the world. Key findings are:

- Lack of access to finance particularly for small businesses including farmers;
- The proliferation and uncoordinated nature of regulations, taxation and fees at all levels of government, and the unpredictability of changes;
- Lack of access to land and contested land rights including fundamental tensions between formal and informal (customary) land rights;
- Lack of reliable low cost electricity; and
- Limited dialogue between the GoS and the private sector on policy issues.

Specific issues for the agricultural sector include:

- Restricted access to markets and agricultural marketing infrastructure; and
- Lack of access to inputs: seeds, fertiliser, agricultural machinery, information / extension services, and to a skilled workforce.

It is important to note that Sudan's business environment is also constrained by a combination of factors that are either deeply political and/or influenced by the macro-economic environment. Because these factors are outside the influence of DFID, they do not form part of the recommendations of this report.

Summary of Recommendations

In line with latest thinking on addressing complex institutional reform problems, and engaging in fragile states,[2] it is recommended that DFID Sudan adopts a portfolio approach. A menu of nine potential entry points for engagement has been identified. DFID Sudan should engage a supplier to test out a selection from the menu (which is broadly presented from the most to the least promising but see Table 3 for more details of suggested prioritisation, partnerships and time frames). The approach should be a 'step wise' one, taking 'small bets',[3] engaging with problems that local counterparts care about, ensuring short feedback loops so that interventions that are not working can be dropped where appropriate and lessons learned and incorporated in real time.

Option 1: Support the Ministry of Foreign Trade in Sudan's WTO accession process through the Trade Advocacy Fund phase 2 (or if before this comes on line in early 2017 potentially through BERF). The UK has received an explicit request from the GoS for such assistance. Accession to the WTO would have potentially large positive impacts on Sudan's business environment as it promotes and "locks in" trade and investment-related reforms, thereby providing predictability and transparency for both foreign investors and traders as well as domestic firms. **Option 2: Support the Ministry of Investment to enhance coordination of government investment promotion** and to facilitate policies and laws to reduce uncertainty and to support a joint vision for growth.

Option 3: Look for opportunities to bring government and private sector together at federal level including assisting the State Minister for Investment to improve investment facilitation coordination across government.

[2]See for example Glanville, M., Kerušauskaitė, I. & Harley, F. (2016) Scoping Study on Business Environment Reform in Fragile and Conflict Affected States; Manuel, C& Kirwen, E. (2016) Changing the rules of the game: investment climate reform in fragile and conflict affected situations.
[3]An approach where solutions are developed iteratively and tested through 'small bets', which can be adapted (or abandoned if unsuccessful).

Option 4: Introduce a business environment component to DFID's support to improving local government PFM[4] with the aim of streamlining taxes and fees and reducing the number of last minute changes or rate rises.

Option 5: Offer technical assistance to the Bank of Sudan on the development of a regulatory framework for agency banking and mobile banking and improve financial information and services for farmers.

Option 6: Partner with the private sector to deliver services to farmers. Form cost-sharing partnerships with agribusiness companies to establish privately run extension service, with government 'invited in' in a low key way where appropriate.

Option 7: Explore the opportunity, possibly through DFID programmes like ACE to improve the business environment of private investment in renewable energy and for markets for household solar systems for small farmers. Review current status of regulatory and policy framework and if necessary address gaps in UNDP's technical assistance and linking with DFID Sudan's ADAPT! programme to ensure the integration of best practice on climate and environmental issues.

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Option 8: Consider partnership with the African Development Bank on vocational education for young farmers. Partner or collaborate with the AfDB's forthcoming programme for agripreneurs programme, drawing on HMG experience of the British Council's Mashrouy programme to promote agriculture as a business for young farmers and agribusiness owners.

Option 9: Coordinate with FAO, IFAD and Ministry of Agriculture on seeds and fertiliser standards, including potentially setting up seed and fertiliser testing laboratories and improving inspection services.

[4]Strengthening Subnational Fiscal Policy Management Project FY 16-18 under Pillar II, Fiscal Policy, of the World Bank Sudan Multi-Partner Trust Fund.

1. Introduction

1.1 Purpose of the report

This report presents the findings of a business environment diagnostic with a particular focus on agriculture and agribusiness. DFID Sudan is keen to support to the GoS to improve the business environment with a view to it being in a position to take full advantage of an opening up of its markets should sanctions be lifted. Options for DFID Sudan engagement on priority constraints are identified based on the political economy, partnerships available, DFID's competitive advantage and value for money.

1.2 Scope of work

DFID Sudan approached Business Environment Reform Facility (BERF) for support to 1) identify general business environment (BE) constraints in the economy with the aim of bringing a BE perspective to potential future programmes; 2) identify constraints in the agricultural and related agri-business sectors, with an emphasis on how removal of constraints will benefit the poor; and 3) assess GoS capacity to implement the reforms. DFID Sudan subsequently refined the scope explaining that its main interest is not in a detailed diagnostic of the business environment but more on finding entry points where there is an opportunity to engage government and where the intervention has the ability to impact on jobs and reduce poverty. The change in emphasis in the scope of the assignment is due, on the one hand, to a recognition by DFID Sudan of the wealth of analysis that has already been carried out and, on the other, of the value of beginning to engage partners on business environment reform, and refining the analysis through 'learning by doing'. Recommendations for engagement can be in relation to specific laws or regulations, or at more general, higher level areas of reform.

1.3 Methodology and approach

The team reviewed GoS policy documents, key analyses and reports on Sudan's agriculture, economic and business environment from the World Bank, FAO and other international organisations and donors, and other specialist research papers where required. Appendix 1 is a list of documents referred to.

1.4 Summary of field work

One member of the team, Deborah Mansfield, visited Sudan from 30th October to 4th November 2016.[5] DFID Sudan organised meetings for the mission. Most meetings were with the private sector, with only one government meeting and two meetings with international organisations. Martin Mautner Markhof conducted further consultation by email with the Ministry of Agriculture and FAO. A list of people consulted can be found at Appendix 2.

[5] The other team member, Dr. Martin Mautner Markhof was not granted a visa.

1.5 Background and context

Sudan is a low-income fragile country facing significant domestic and international constraints to inclusive economic growth. Ongoing conflicts, lack of basic infrastructure, and reliance by much of the population on subsistence agriculture, keep close to half of the population at or below the poverty line.[6]

The country has fertile land, abundant livestock, and natural resources (oil and gold), which make it the third largest economy in North Africa and the largest economy in the greater eastern Africa region.[7] From 1999 to 2011, the economy boomed on the back of rising oil production, high oil prices, and foreign direct investments. With the secession of South Sudan in 2011, the economic situation deteriorated significantly as Sudan lost three-quarters of its oil reserves. Since the secession, Sudan has struggled to stabilise its economy, and make up for the loss of foreign exchange earnings.[8]

After a sharp increase in 2012,[9] annual inflation has stabilised and was 18.3% in September of 2016.[10] US trade sanctions on Sudan have also dampened economic growth, limiting access to the international financial system and lowering Sudan's capacity to attract foreign direct investment. Many foreign banks have also withdrawn correspondent banking relations, bringing unintended consequences on private sector activity and ordinary citizens, including the most vulnerable, in particular through remittances, export receipts, and import financing.[11]

Sudan's GDP growth rates, driven by gold, agricultural and livestock exports, have begun to rise, reaching 4.9% in 2015, although still at risk from factors such as low commodity prices. (See Appendix 3 for basic data on Sudan)

Key economic sectors – production, employment and trade performance

The structure of Sudanese economy has long been characterised by a small share of industry, notably manufacturing, and a high share of agriculture and service sectors in GDP and employment. The diversification of Sudan's economy is very low, with oil and gold accounting for 73% of exports in 2012-15.[12] After the loss of South Sudan, the country has gradually moved to less reliance on oil and higher product diversification. The government has made a concerted effort to encourage the mining of gold and divert hitherto illicit gold flows into the formal export economy. Sudan also has significant market power in global export markets for gum Arabic and sesame seeds and is a price setter in those products globally. In regional markets Sudan plays a similar role for sheep and sheep meat.

Agriculture contributes to about one-third of the country's GDP, provides livelihood to about 65% of total population, and employment to about 35% of the labour force. Workers in the

[6] World Bank (2015) – Sudan Country Economic Memorandum
[7] World Bank (2015) – Sudan Country Economic Memorandum
[8] World Bank (2015) – Sudan Country Economic Memorandum
[9] Sudan Diagnostics Trade Integration Study, Update 2014
[10] http://www.tradingeconomics.com/sudan/inflation-cpi
[11] IMF (2016) – Sudan, Staff Report for the 2016 Article Iv Consultation
[12] ADFB (2016) – African Economic Outlook: Sudan Country Brief

agricultural sector have low productivity and earn low wages, compared to workers in manufacturing that earn higher wages (but make up less than 5% of the total labour force).[13] Agriculture production and crop yields are below its potential due to low productivity levels, in part due to low fertiliser usage.

Sudan's agriculture sector has seen signs of revival since 2008, linked to rising agriculture exports – in particular for livestock, gum Arabic, and cotton. Livestock exports have seen a remarkable recovery after virtually no exports in 2008 due to an imposed export ban and quarantine measures. Exports have grown to a multi-million business and earned more than US$670 million in 2013. Gum Arabic and cotton have also shown a strong recovery as parastatal monopsonies have been relaxed (to open the sectors up to the private sector), increasing the prices received by farmers, and with them areas cropped and yields. Cotton yields tripled nationwide in one year (2010/11), and in three years increased by five and a half times (with no improvements in irrigation or varieties).[14]

Political context: governance and trade

Sudan suffers from political instability and a lack of sound institutions. The country is officially a federal presidential representative democratic republic. In practice, however, Sudan is best described as an authoritarian state where all effective political power is vested in President Omar al-Bashir and the ruling National Congress Party (NCP).[15] The regime also exerts control over various economic sectors, such as the oil, transport, communications, and construction industries. Sudan is a member of both the Greater Arab Free Trade Area (GAFTA) the Common Market for Eastern and Southern Africa (COMESA). Although negotiating with the EU as part of the Eastern and Southern African Group, Sudan chose not to sign an interim Economic Partnership Agreement (EPA)[16] in 2007 and has not taken part in subsequent negotiations on the final EPA, which are still ongoing at the time of writing.

Sudan still enjoys preferential access to the EU under the 'Everything But Arms' scheme, which provides for duty- and quota-free access for all products except for arms and ammunition for least developed countries. Sudan applied for accession to the World Trade Organisation (WTO) in 1994 and held its second Working Party Meeting in 2004. Since then, progress in Sudan's WTO accession seems to have stalled but the government has indicated its commitment to continue with the WTO accession process.[17]

Private sector

[13] World Bank (2015) – Sudan Country Economic Memorandum
[14] World Bank (2015) – Sudan Country Economic Memorandum
[15] U.S. Central Intelligence Agency (2011) - The World Factbook: Sudan
[16] The interim EPA between the EU and Madagascar, Mauritius, Seychelles and Zimbabwe, signed in August 2009, includes the elimination of duties and quotas for imports from these countries to the EU as well as a gradual liberalization of EU exports to these countries. The agreement also covers rules of origin, fisheries, trade defence, development cooperation provisions and mechanisms for settling disputes. (Source: http://ec.europa.eu/trade/policy/countries-and-regions/regions/esa/)
[17] World Bank (2014) – Sudan: Diagnostic Trade Integration Study, Update 2014

An important feature of Sudan's private sector is the control and influence exerted by the ruling political elite. The government is an important player as it directly and indirectly controls various economic sectors, often referred to by Sudanese as the "grey" economy. Government influence is prominent in many strategic and high-value sectors, such as oil, transport, communications, and construction. Senior ruling NCP officials and members of their families own companies, and allegedly receive privileged treatment in the allocation of government contracts and in waivers of government dues for customs and taxation.[18]

According to the 2014 World Bank Enterprise Survey, Sudan has low levels of foreign-owned firms. The average proportion of a Sudanese firms' ownership coming from private foreign investors is 0.8%, compared to the sub-Saharan Africa average of 13%. The average proportion of a Sudanese firms' ownership classified as 'other' – not privately by domestic or foreign investors and not owned by the state – is as high at 63% (compared to 7% SSA average). This may reflect the "grey" economy described above.[19]

Sudan's informal and increasingly urban (Khartoum based) sector is very large and much of the labour force is employed in the informal sector.[20] According to some estimates the informal sector accounts for more than 60% of Sudan's GDP.[21]

Business environment

Sudan's business environment is considered by several measures as among the most challenging in the world. Sudan's ranking in the 2017 World Bank Doing Business report (see table 1 below) dropped to 168th out of 189 countries, from 164th a year before. The country's worst rank was in the category of "protecting minority investors", where it dropped 11 points to 187th. The rankings in the categories of "starting a business" and "paying taxes" deteriorated by eight and five points respectively. Sudan is also among the bottom five performers globally in "trading across borders" as it ranked 184th in 2017.

Table 1: Sudan's rankings: World Bank Doing Business ranking (2017 and 2016)

	DB Rank 2017	DB Rank 2016
Overall	168	164
Starting a Business	156	148
Dealing with Construction Permits	145	144
Getting Electricity	113	112
Registering Property	89	88
Getting Credit	170	168
Protecting Minority Investors	187	176
Paying Taxes	141	136
Trading across Borders	184	184
Enforcing Contracts	147	148
Resolving Insolvency	153	152

[18] Baldo, Suliman (2016) - "Khartoum's Economic Achilles' Heel The intersection of war, profit, and greed"
[19] World Bank Enterprise Survey 2014
[20] http://www.heritage.org/index/country/sudan
[21] http://www.sd.undp.org/content/sudan/en/home/countryinfo.html

The 2014 World Bank Enterprise Survey found that more than 20% of the surveyed firms identified customs and trade regulations, tax administration and political instability as major business constraints (compared to about 8% of firms elsewhere in sub-Saharan Africa). Although the official monthly minimum wage is low (about USD 70.8 at the official exchange rate end-2015), dismissing a redundant employee is burdensome and costly. As a result, the average firm hires fewer permanent workers, about 25 employees in 2014, compared to 31 for SSA.

According to the African Development Bank, the business environment in Sudan has become increasingly challenging in recent years due to three main reasons: i) the continued difficulties of processing transactions through the international banking system due to US sanctions[22]; ii) a 4.6% drop in the banks' credit flows since 2013; and iii) a 58% gap between the official and the depreciated parallel-market exchange rate. As a result, the cost of doing business has become exceptionally high, as about 65% of the private manufacturing firms use imported inputs and supplies.[23]

The World Bank's "Enabling the Business of Agriculture" measures regulations that can improve market access for producers. Sudan's performance in the 2016 report (Table 2 below) is mixed — there are a number of good regulatory practices and at the same time areas for improvement. The results show that Sudan has particularly weak regulations in agricultural finance but relatively better regulations for the certification and development of new seed varieties.

Table 2: Sudan's rankings: World Bank Enabling the Business of Agriculture (2016)

Indicator	Score (0 – 100)	Comparison with global average
Seed	76.6	Above average
Fertiliser	63.3	Below average
Machinery	45.9	Above average
Finance	27.1	Far below average
Markets	61.6	Below average
Transport	65.7	Below average

Government policy – business environment and investment

In response to the economic downturn since 2011, the GoS has expressed a clear intention to improve the business environment, support investment and diversify the economy. The government has adopted a new five-year programme for Economic Reform (2015-2019) which seeks to consolidate progress made under the previous three-year stabilisation programme. This set of financial policies seeks to attract new foreign resources and stimulate the domestic and foreign private sector to increase production and productivity.

The government is currently working to amend the national investment law and introduce policies to encourage investment in certain sectors – strengthening the infrastructure for the

[22] A 2% compliance charge per transaction was imposed by foreign banks to cover the administrative burden of ensuring compliance with the US sanctions, even those that complied with the Office of Foreign Assets Control
[23] ADFB (2016) – African Economic Outlook: Sudan Country Brief

agricultural and industrial sectors, as well as providing basic services for investors (electricity, water and communications). In 2013, the new National Investment Encouragement Act came into force. The Act provides that there shall be no discrimination between the investors as being Sudanese or non-Sudanese, or as being public, private, co-operative or mixed sector, and that no discrimination shall be made between similar projects in similar locations in respect of granting incentives and guarantees. A new council, called 'The Higher Council for Investment', has been established under the new act. The Council is the highest authority in charge of investment and has the power to, *inter alia*, approve the general policies, strategies, plans and programs for investment; review laws related directly or indirectly to investment; determine under-developed areas; and co-ordinate among the authorities concerned with investment at national and state level. Beside the Council, the Act provides for the establishment of a new National Authority for Investment. The Authority has executive powers for implementation of the Act.

A new Companies Act (CA) replacing the 90-year-old CA (1925) became effective in July 2015. The new CA is based on the 2006 UK Companies Act and introduced a simplified regime of registration for small companies, while ensuring that public companies are subject to greater levels of scrutiny and accountability. The amended act is expected to improve the business climate through reducing the time and cost of starting a business and to protect minority shareholders.[24]

The government in 2015 also adopted a new National Agriculture Investment Plan (SUDNAIP) 2016 – 2020. SUDNAIP is a sector-wide plan for coordinating and harmonising the resources needed to implement Sudan's agriculture development polices and plans. The Plan identifies the main challenges to agricultural sector development in the following areas: production and productivity constraints; deficient agriculture support services; inadequate agricultural infrastructure, market access and industrialization, natural resources and land, improving the enabling environment, food security and nutrition, institutions and gender and youth (see Appendix 4 for more details on SUDNAIP).

The recommendations emanating from the 2015 National Dialogue Conference[25] also touch on economic transformation, investment and agriculture development. For example, the development of the services sectors, communications, financial, tourism, entertainment and medical services, is recommended as well as an investment strategy that increases export earnings and employment. Interestingly, the recommendations also call for greater transparency in the government's ownership of private sector firms in the so called 'grey' sector.[26]

[24] ADFB (2016) – African Economic Outlook: Sudan Country Brief
[25] In January 2014, President al-Bashir declared a National Dialogue initiative calling on the opposition parties and the armed groups to end the country's political, economic and social issues. A National Dialogue Conference was held in October 2015 with the participation of a number of Sudanese political parties, civil society organisations – although major political parties and armed movements refused to participate in the conference.
[26] The specific recommendations related to government ownership of private firms say: "[45]Listing and reviewing of the private governmental companies in order to check their actual financial status." "[46]Listing and reviewing the grey companies and the recovery of public money from these companies as well as the termination and prohibition of the continuation or repetition of such a phenomenon"

Donor support

The main donors in Sudan supporting BER, agriculture and investment include African Development Bank (AfDB), Japan International Cooperation Agency (JICA), United States Agency for International Development (USAID) and the International Fund for Agricultural Development (IFAD). Donor appetite is generally low for engagement in this area, however. For example, Norway has signalled its intention to withdraw from the World Bank's Sudan Multi Partner Fund, leaving DFID as the sole donor. It is a priority for DFID Sudan to look for opportunities to bring more donors in. Specific opportunities may exist for DFID to leverage private sector focused facilitation and investment through CDC and/or IFC engagement, for example to encourage private sector investment in cold storage, processing and other market infrastructure to support the agri-processing sector.. Detail on relevant donor programmes in Sudan can be found in Appendix 5.

DFID Sudan does not provide Financial Aid or other form of funding to be directly routed through the GoS systems as Sudan does not meet the UK's three partnership commitments (commitment to poverty reduction, human rights and international obligations, and strengthening financial management and accountability). It does have funds available to be used in support of government in the World Bank Multi-Partner Fund that has an Economic Diversification pillar, and the potential to add more if needed. The UK government has recently entered into a new period of phased engagement – the Strategic Dialogue – with the GoS. This new approach is centred on a range of issues of mutual importance including UK direct interests such as business environment, migration and regional security where there is a shared concern. There is a strong interest in engaging with the GoS on business environment reform for increased investment.

1.6 Structure of document

The introduction to this report is followed by:

- Section 2 on priority business environment constraints: access to finance; registration, taxes and licences; land; electricity; relations between the government and the private sector;
- Section 3 focuses on specific constraints to agriculture and agribusiness and discusses: access to markets and agricultural marketing infrastructure; access to inputs: seeds, fertiliser and agricultural machinery; access to information / extension services; access to skilled workforce;
- Section 4 sets out recommended options for DFID Sudan and approach; and
- Section 5 concludes with a summary of recommended options and approximate timelines. Appendices 1 to 7 follow.

2. Key BE Constraints

This section presents the key constraints facing Sudan's business environment in relation to:

- Access to finance;
- Registration, taxes and licences;
- Land;
- Electricity; and
- Relations between the government and the private sector.

It is important to note that in addition to these, Sudan's business environment is also constrained by a combination of factors that are either deeply political and/or influenced by the macro-economic environment (both discussed in Section 1.5 above). Because these factors are outside the influence of DFID, they do not form part of the analysis or recommendations in this report.

2.1 Access to Finance

Access to finance particularly for small businesses including farmers is difficult in Sudan. Small businesses cannot absorb shocks so operate conservatively and think hard before investing or trying new approaches or products. Products such as crop insurance, that are starting to come onto the market, can encourage small farmers to take a longer term view but the lack of access to finance for day to day living costs like education and health, together with poor financial knowledge hamper the growth of small businesses in the agricultural sector. A 2014 survey[27] found that only 4.4% of the poorest 40% of the population by income have borrowed money to start, operate or expand a farm or business in the last 12 months.

The banking sector is inefficient. High credit risks and the lack of competition among the 34[28] banks in Sudan, the high level of state ownership and a regulator that is also an actor in the sector are all contributory factors. The macro-economic factors in relation to the exchange rate and the effect of US sanctions on the correspondent banking system also reduce effectiveness.

The reach of the commercial banks is limited both geographically and demographically. There is little lending to farmers and less than 10% of all firms have credit from a bank in any form. Use of current accounts is higher[29] but, in line with the Sub-Saharan Africa average, the biggest source of financing is internal (personal, family and friends). Unlike the average for the region, however, businesses in Sudan overwhelmingly turn to trade finance over banks as

[27]http://databank.worldbank.org/data/reports.aspx?source=1228 accessed 20 November 2016
[28]http://www.cbos.gov.sd/en/node/452 accessed 20 November 2016
[29]http://databank.worldbank.org/data/reports.aspx?source=1228 accessed 10 November 2016

their second most popular source of finance. A 2012 study on women entrepreneurs in Sudan[30] confirms that this is the trend for women as well as men.

In order to deepen market presence and compete with mobile network operators, at least one commercial bank[31] is piloting agency banking. Third party retailers are contracted as agents and, after vetting, are authorised to offer financial products and services on behalf of the bank. These pilots have the blessing of the regulator, the Central Bank of Sudan, but as yet there is no regulatory framework.

A credit information service is managed by the Bank of Sudan and appears to work well. A collateral register is planned. Lack of collateral is a barrier to access to credit, particularly for small firms who generally lack the type of collateral – land or heavy machinery – preferred by the banks. This is likely to be a particular problem for women entrepreneurs, many of whom don't own land that can be used as a collateral. An enterprise survey from 2012 shows that women entrepreneurs in Sudan considers collateral the most serious obstacle to obtaining credit from commercial banks. [32]

Alternatives to banking are popular and include; air time transfer, mobile money, trade financing and insurance. Mobile phone credit – air time – is used as a proxy for money transfer and mobile banking, in various forms, is beginning to enter the market. Many users of mobile money are not otherwise included in the formal financial system. In Sudan, 92% of adults who report having used mobile money in the past 12 months do not have a formal account[33]. In other countries mobile money services have evolved from the air time transfer market and enable transfers, deposits and withdrawals. In some instances, partnerships with banks can give access to expanded financial services such as loans.

2.1.1 Access to finance for the agricultural sector

The Agricultural Bank of Sudan (ABS) and its Strategic Reserve Corporation (SRC) are government owned and play important roles in financing agricultural production and marketing. With the bulk of activities concentrated in the surplus-producing zones in the eastern part of the country, ABS finances the purchase of inputs and machinery used for sorghum and wheat production and growers repay loans in cash or in kind during the post-harvest period. When loans are repaid in kind, those stocks are made available to the SRC for local distribution, subsidised sales, or other domestic activities, or are exported in exchange for foreign currency.

Microfinance - an option for lending to small farmers - is driven by government regulation rather than the market as every private bank is required to put 12% of its lending through

[30] Ali Musa, ElKhider 2012, Emerging Women Entrepreneurs in Sudan: Individual characteristics, obstacles and empowerment. Sudan International University, Khartoum Investment Climate and Business Environment Research Fund Research Report No. 33/12. Dakar, July 2012
[31] Bank of Khartoum
[32] Ali Musa, ElKhider 2012, Emerging Women Entrepreneurs in Sudan: Individual characteristics, obstacles and empowerment Sudan International University, Khartoum Investment Climate and Business Environment Research Fund Research Report No. 33/12. Dakar, July 2012
[33] Smith, W., Scott, L., Shepherd, A. (2015) Enhanced Resilience through Savings and Insurance via Linkages and Digital Technology. Chronic Poverty Advisory Network Financial Inclusion Policy Guide No. 6.

microfinance. It enables private bank loans for community agricultural projects but does not address core problems that small farmers face in accessing finance. Small farmers need to prioritise spend on day to day living – food, health and education – but cannot borrow to do so. This prioritisation takes place at the expense of investment in agriculture even (anecdotally) to the extent of colluding with merchants to defraud microfinance institutions so that they can buy food instead of agricultural inputs. There is a limited interest amongst banks in lending to small farmers; there is a view that small farmers lack a "credit culture" and will not pay back.

Trade financing of farmers is common with equipment suppliers or agri-processors financing the purchase by farmers of machinery or inputs. Pre-harvest local credit from merchants is available for farmers but at high rates of interest and subject to arrangements that leave them vulnerable to market manipulation of pre- and post-harvest prices. International organisations are also helping to provide finance to small farmers. African Development Bank, for example, has reached agreement with the Central Bank of Sudan to permit it to extend risk insurance to Banks to finance agripreneurs under its forthcoming youth programme where it will also work to strengthen links to agribusiness companies' value chains.[34]

Insurance covering livestock and crop insurance risks is available in Sudan, for example through Shiekan Insurance.[35] Some large agriculture companies are including crop insurance as part of the package that they give to their contract farmers to encourage them to invest in the productivity of the land. It seems unlikely that the market for this is large, however. A 2012 study[36] found that just 6% of adults engaged in agriculture in Sub-Saharan Africa, South East and East Asia and the Pacific, had purchased crop, rainfall or livestock insurance in the past 12 months. Reasons for this include limited supply and low demand due to suspicion and lack of understanding of the product.[37]

Below is a 'long list' of recommendations to address access to finance constraints. These recommendations are further focused in section 4 using political economy and other criteria to provide a menu of short listed recommendations for DFID.

2.1.2 Access to finance: recommendations

- <u>Regulatory frameworks for agency banking and mobile banking should be reviewed by the Bank of Sudan to keep pace with innovation</u> but care should be taken to strike the right balance and not constrain or unbalance the market. It is not clear what the regulatory framework is for mobile banking. There have been various initiatives by

[34]African Development Bank in partnership with the IITA and rolled out in Nigeria and other countries See http://www.iita.org/2016-news/-/asset_publisher/CxA7/content/iita-afdb-catalyze-african-youth-into-agribusiness-provides-hope-and-jobs-for-millions-of-youth?redirect=%2Fhome#.WDL6ebKLTIU
[35]http://www.shiekanins.sd accessed 18/11/16
[36]Demirguc-Kunt, A. and Klapper, L. (2012) Measuring Financial Inclusion: The Global Findex Database Policy Research Working Paper 6025.Washington, DC: World Bank
[37] Cole, S.; Bastian, G.; Vyas, S.; Wendel, C. and Stein, D. (2012) 'The Effectiveness of Index-Based Micro-Insurance in Helping Smallholders Manage Weather-Related Risks' London: EPPICentre, Social Science Research Unit, Institute of Education, University of London.

mobile network operators and banks over the past few years offering different degrees of service through mobile phones. The development of this market is in accordance with Central Bank Policy: The Central Bank of Sudan's policies for 2012 provide for the 'Development of the payment systems and offering banking services via the mobile phone and the Internet'.[38] A similar approach should be taken to that outlined above for agency banking. There are similarities in concept and the development of regulatory frameworks for both could be supported in tandem. The World Bank has prepared a concept note on agency banking with a view to funding regulatory reform under the Economic Diversification pillar of its Multi-partner Trust Fund. As noted above, piloting of agency banking is already under way, however, there are concerns from the commercial banks that a focus on regulatory issues now could undermine these efforts to test the market.

- <u>Support to warehouse receipt financing is not recommended as a priority action.</u> Warehouse receipt financing is the use of securely stored goods as loan collateral. The World Bank in Sudan is interested in supporting the introduction of such a system at least in part in response to Sudan's low score (zero) in the recent Enabling the Business of Agriculture survey. Interviews with agribusinesses and a commercial bank did not, however, suggest that the lack of such a system is a binding constraint to increasing agricultural productivity. There is a lack of quality storage capacity; high corruption levels, and unpredictable GoS interference in markets, making the value of stored products volatile.
- Trade financing takes place in the context of close commercial relationships between agribusiness companies and farmers. <u>It is recommended that DFID support these relationships through technical assistance on inputs and extension services</u> (see section on extensions services below). This may in turn increase the number of farmers eligible for trade financing.
- <u>Increase availability of information about financial services to small farmers and how to use them.</u>

2.2 Registration, taxes and licences

Registration of a company is federally administered under the Companies Act 2015 and is regulated by the Commercial Registry that is part of the Ministry of Justice and has branches in major towns. It is a lengthy process compared to regional averages but is not raised as a major constraint by businesses.

Tax rates and tax administration are seen by firms as a more major barrier despite the fact that, according to Doing Business indicators, Sudan performs better than many of its regional comparators. The tax base is small, however, and firms' perceptions are that those that are in the formal sector are too heavily taxed and the government should focus on bringing more

[38] http://www.cbos.gov.sd/en/node/3324 accessed 20/11/16

firms into the tax base from the informal sector. The number of interactions with tax officials is high in comparison to the regional average and the complex and bureaucratic tax administration has been identified in the top three of priority constraints to business in Sudan, and the number one constraint for small businesses.[39]

Businesses are required to obtain operating licences from the federal, state and locality authorities, resulting in a complex web of different requirements including various industry licences, health and safety licensing and standards. The majority of licensing is at locality level; where every business is required to be licensed and compliance seems to be high. Investment licences issued by federal government under the National Investment Encouragement Act (2013) are not required by law but carry tax and customs concessions for investments identified as 'strategic'. They are available to Sudanese and non-Sudanese investors on the same basis. Land for investment is allocated to investors by the National Investment Authority and state governments are required to demarcate and notify the Authority of land available for allocation.

Laws and regulation are often not applied in practice, adding to the burden on business. For example;

- Agriculture is exempted from taxation, and the States are in theory compensated at the federal level. In practice, federal transfers are limited and agriculture is subjected to taxation by the States through agricultural taxes under different names (such as crop market fees and transport fees).
- Despite constitutional prohibition of taxes on inter-State commerce, taxes imposed by the States or localities through road tolls and fees appear to impose a significant burden on business, even to the extent of making imports of agricultural products more attractive than local sourcing to Sudanese agribusiness companies.

The proliferation and uncoordinated nature of regulations, taxation and other fees at all levels of government are major constraints. In addition to the Federal Government taxation regime, for example, states have the power to tax businesses indiscriminately.[40] Since the majority of services are delivered at sub-national level this seems appropriate but streamlining of regulatory requirements between levels of government, improved coordination between ministries and notification to business of forthcoming changes to those requirements would improve the business environment significantly.

In relation to investment, for example, under the National Investment Encouragement Act, the National Investment Authority (now the Ministry of Investment[41]) and the Higher Council on Investment, headed by the President, have coordination powers in relation to authorities related to investment at state and federal level. In practice, individual ministries' mandates overlap (they are created by Presidential decree and can conflict with responsibilities

[39] World Bank Enterprise Survey 2014
[40] Article 195 Interim Constitution
[41] Presidential Decision No. 32, 2015

delineated in legislation) and the tendency is for them deal with investment facilitation and promotion themselves. In addition, the split of responsibility for investors between state and federal government is not clear. The principles of coordination between the national and state governments are set out in the interim constitution[42] but individual laws can be unclear on the respective responsibilities. A consultation on federalism last year did not address the issue of resource allocation and revenue; issues that underpin the allocation and exercise of roles and responsibilities.

The unpredictability of changes in regulation and levels of taxes, subsidies and fees is also a big challenge for business, particularly in its ability to plan medium to long term investment. Large companies cope by diversifying their operations and spreading their risks. The impact on small businesses is more serious. These overnight changes are imposed by national and sub-national government alike and are often driven by the urgent need to plug financing gaps. The apparently last minute nature of some of these changes can only increase the risk of government pulling in different directions when it comes to encouraging business.

The following 'long list' of recommendations addresses registration, taxes and licensing constraints. These recommendations are further focused in section 4 using political economy and other criteria to provide a menu of short listed recommendations for DFID.

2.2.1 Registration, taxes and licences: recommendations

- <u>Enhance coordination of government efforts to improve the business environment.</u> There is a lack of coordination and alignment between government ministries and between government at national and sub-national level. This has an impact on business – increasing the administrative and financial burden through a multitude of requirements and confusing investors – and means that government efforts to increase economic growth are often pulling in different directions.
- <u>Improve government financial planning and management particularly in relation to streams from the business and agricultural community.</u> The aim should be to streamline taxes and fees and reduce the number of last minute changes or rate rises. This will enable businesses to have due notice of new government regulations that have the potential to impact their business planning.
- <u>Support initiatives to bring businesses into the formal sector.</u> The government needs to bring more businesses into the tax base. One option would be for localities in urban areas where there are a significant number of businesses to improve coordination and information sharing with the federal Sudan Taxation Chamber on businesses to which they issue operating or trading licences. This has been the basis of the Uganda Revenue Authority's campaign to widen the tax base through streamlining business registration processes.[43] Other initiatives could include awareness campaigns as to the benefits of formalising, for example the ability to bid for government contracts.

[42] Article 26
[43] Taxpayer Registration Expansion Project

2.3 Land

Land issues in Sudan are complex, a conflict driver and highly political. Access to land and contested land rights are constraints on investment in agriculture and impact productivity. Sudan has a land area of 1,861,484 sq. km and almost 50% of the land shows cultivable potential. But only around 10% of the total land (max 19 million ha) is currently used for agricultural purposes.

The system of land allocation for large scale agricultural investments under the National Investment Encouragement Act (see section 2.2 above) fails to balance the needs of the investor with those of local people. It can leave local people with insufficient land to provide a livelihood or to raise credit for investment, and creates barriers to investment in agriculture. Disputes over land are common, fuelling conflict and preventing effective use of the land for agricultural production.

There are fundamental tensions between formal and informal (customary) land rights due to a lack of clarity as to how they relate to each other and how to resolve the disputes that result. This tension is not new and disputes over land rights have been a significant driver of the decades-long conflict that resulted in the secession of South Sudan and that still continues in some states.

About 95% of land in Sudan is government owned. Private (individual) land ownership is largely confined to the banks of the Nile and some of its tributaries in the north – an area comprising about 2.5 million ha, about 5% of the total area of the country. Land rights can be registered under the Registered Land Act 1925.

The remainder of the land is unregistered. The implementation of large-scale agricultural projects has severely impacted rural communities. The legal framework, starting with the 1970 Unregistered Land Act, has left small farmers behind and favoured big business over small holders. Under the National Investment Encouragement Act, for example, Federal government can issue leases of unregistered land to investors without consulting local communities or considering customary rights over the land.

These official allocations of land for industrial or agricultural development are likely to generate objections by people who claim to own or have rights over the allocated land under customary tenure. The dispute can be violent (there have been instances of burning of investors' property) but is often resolved by negotiations – sometimes protracted – and payment of compensation. The land is then available to the investor to be used for productive purposes.

Sometimes, however, the dispute is seemingly too complex to resolve in this manner and, as a result, neither the customary users nor the investor have the security of tenure necessary to invest and potentially productive land is under-exploited e.g. much of the land in the Gezira Scheme is currently in this position. In addition, forcible dispossession of customary users is not unknown resulting in loss of livelihoods for small farmers or, in the case of pastoralists, lost grazing and roaming rights.

Attempts to resolve the tensions have not worked. The Interim National Constitution does not seek to resolve key issues of land administration in Sudan but instead requires that: *All levels of Government shall institute a process to progressively develop and amend the relevant laws to incorporate customary laws, practices, local heritage and international trends and practices.*[44] This was to be achieved by the setting up of a National Land Commission - and state land commissions in Blue Nile and South Kordofan - but this has not been taken forward. The lack of a transparent and effective land administration system is viewed as one of the main constraints to investment and effective utilisation of Sudanese land.[45]

The problem is compounded by a lack of clarity between the rights and roles of the Federal Government on the one hand and state governments on the other. As with other business environment frameworks, there is a lack of clarity and a tension between the roles and rights of federal government on the one hand and state government on the other in relation to the vast majority of land in Sudan, which is government owned. This has resulted in conflicting decisions over land causing confusion for farmers and investors and tension between state and federal government.[46]

USAID has been supporting land reform in Sudan for some years (see list of programmes at Appendix 5). Its recommendations for donor support[47] include:

- **Continued support for establishment of the National Land Commission and State Land Commissions.** This process has stalled for many years and it is unlikely that any donor can move it forward without significant political will on the part of federal government. Although the way forward on the National Dialogue recommendations is not yet certain, there is a clear call for land reform. Example recommendations include: Amendment of land laws and the facilitation of investment in farming lands (251) and Seeking a radical solution for the problem of lands and the prevention of speculation thereof (279). Any reform should aim to maximise the benefits from large scale investment but also minimise its risks in terms of livelihoods, inequality and environmental degradation.
- **Support for dispute resolution mechanisms and forums that are perceived as effective and legitimate** is critical to Sudan's future – to diffuse or prevent conflict and to release productive land for cultivation and grazing.

Intervention in the area of land access is not recommended as it is highly political and there is little chance of change without significant political movement on the issue. There are, however, areas where land issues may impinge on work DFID is already doing (such as DFID's Local Partnership and Dialogue programme) or that is recommended elsewhere in this report (see option 2 in section 4).

[44] Article 186(3)
[45] Sudan Transparency Initiative 2016. Land Use, Ownership and Allocation in Sudan The challenge of corruption and lack of transparency. Sudan Democracy First Group.
[46] Sudan Transparency Initiative, 2016Land Use, Ownership and Allocation in Sudan The challenge of corruption and lack of transparency Sudan Democracy First Group
[47] https://www.land-links.org/wp-content/uploads/2016/09/USAID_Land_Tenure_Sudan_Profile.pdf accessed 18 November 2016.

2.4 Electricity

A lack of reliable low cost electricity is a priority constraint to business in Sudan. The national grid has insufficient infrastructure and production level to meet demand. There is little penetration of electricity infrastructure to rural areas and there is anecdotal evidence of investments in, for example storage for agri-processing, lying empty because a promised connection to the national grid did not transpire.

Already the Sudan National Agriculture Investment Plan (SUDNAIP) 2016-2020 shows 5 Investment Programme Areas (IPAs) and under IPA5 it mentions that rural electrification and electricity services, which are currently poor in most states, will need to be greatly improved on account of their high economic and social benefits.

The agri-processing industry's current reliance on diesel generators is high as national grid power is irregular. In Bahri, for example, Khartoum's major industrial area, factories do not currently receive national grid power during the day. Although industry and agriculture have been protected from recent rises in electricity tariffs, if supply is irregular they are forced to buy diesel. With the recent cuts in fuel subsidies diesel is becoming an increasingly large cost to businesses.

Large agri-processing plants are investigating options for alternative energy sources such as solar, wind and biogas. Solar power and wind power options are being explored by the Government in partnership with UNDP including working with the Ministry of Water Resources and Electricity to put in place a policy and regulatory framework.[48] The framework would need to include, for example, the ability to conclude long-term power purchase agreements with renewable energy producers and provide financial guarantees to private investors to ensure payment. The Investment Encouragement Act 2013[49] identifies electricity generation as a strategic project and so exempted from custom duties on capital goods.

The development of the market for community mini-grids and household systems with pay as you go financing would assist small farmers. Solar powered irrigation pumps have the potential for both environmental and financial benefits[50] by reducing the use of diesel generators in farms away from national grid power lines.

Locally based, private sector SMEs are becoming established in East Africa selling off-grid solar energy products including pay-as-you-go solar home systems. In addition to providing affordable and reliable electricity to homes and small business, these systems enable the user to build a credit history. DFID's forthcoming centrally managed programme, ACE (Africa Clean Energy Business), seeks to improve the market and regulatory environment for these small, affordable off-grid systems.[51]

[48] United Nations Development Programme 2014 Project Document, Promoting Utility Scale Power Generation from Wind Energy
[49] Section 6, Articles 19, 20 and 21.
[50] http://www.sd.undp.org/content/sudan/en/home/ourwork/environmentandenergy/successstories/Solar_Energy_in_Sudan.html accessed 19/11/16.
[51] DFID 2016. Africa Clean Energy, Terms of Reference

There follows a 'long list' of recommendations to address electricity constraints. These recommendations are further focused in section 4 using political economy and other criteria to provide a menu of short listed recommendations for DFID.

2.4.1 Electricity: recommendations

- Review current status of regulatory and policy framework for:
  - Independent power producers to feed renewable energy into the national grid
  - The market for pay as you go home solar systems

With a view, if necessary, to filling gaps in UNDP's technical assistance to government to remove business environment constraints to the renewable energy market and linking with DFID Sudan's ADAPT! programme (implemented by UNEP) to ensure both coordination and the integration of best practice on climate and environmental issues to programme delivery and GoS policy making

2.5 Relations between government and private sector

There is a large gulf between the Government and the private sector and suspicion on both sides. Priorities are rarely aligned and much of the private sector that is not directly connected to the government exists in spite of government and not because of it.

Whether politically close to the government or not, most companies have a mechanism to communicate or influence government at some level, usually to resolve one off operational constraints to running their business rather than systemic issues. How helpful the government will be depends on the closeness of the relationship.

Substantive interaction between the private sector and the government is difficult. The private sector is structured in Chambers under the Federation of Sudan Businessmen and Employers (FSBE) which is aligned with the ruling party, the National Congress Party (NCP). Although all companies in the formal sector belong to a Chamber – it is a legal requirement – the Federation is not representative of those parts of the private sector that prefer to keep their distance from government. Since all formal dialogue between government and private sector takes place with the Federation as the private sector partner, it is difficult for the whole of the sector to make its voice heard. For a short while, in 2005, there was a relaxation in NCP control of the private sector and several business associations sprang up as alternatives to the FSBE before being closed down by government.

Discussions with the private sector indicate that the UK's involvement in consultation or dialogue between the GoS and the private sector would be helpful in creating more meaningful interaction. Early indications are that a wider cross section of the private sector would be more likely to engage and that government may behave more accountably in response to suggestions from the private sector if the UK were involved. A public private dialogue has begun on the back of World Bank and African Development Bank support to the establishment of a public private partnership (PPP) unit in government and the development of a PPP legal framework.

PPPs are a way for government and companies to work together to deliver public services. There have been few PPPs achieved to date, however, and one of the few that has got off the ground - between British company Biwater, the Dutch development bank (FMO) and Khartoum State Water Corporation – has run into difficulties, potentially highlighting a gap in the Government's lack of understanding of how to work with the private sector and also the difficulty inherent in paying foreign investors in hard currency for a service that customers pay for in Sudanese pounds. It is key to the future of PPPs in Sudan that the current dispute with Biwater is resolved to everyone's satisfaction.

Less formal or more local partnerships between private sector and government may work better, for example by allowing government agricultural extension workers to join in with and benefit from the support services delivered by large agribusiness companies. Although the desire amongst such companies to steer clear of involvement with government is a hurdle.

There follows a 'long list' of recommendations to address constraints to good relations between the public and private sectors. These recommendations are further focused in section 4 using political economy and other criteria to provide a menu of short listed recommendations for DFID.

2.5.1 Relations between government and private sector: recommendations

- Involve the private sector in processes to improve investment facilitation and promotion. (See section 2.2 above on registration, taxes and licensing). A broad formal consultation with the private sector would help identify specific problem areas for business caused by lack of coordination between ministries or between National and State government.
- Improve relations between the private sector and government at a local level using an opportunistic and responsive approach paralleling the approach taken by DFID's Local Partnership and Dialogue Programme. It is possible that there is a more space for dialogue at state level than there is at national level.
- Initiate a deeper public-private dialogue, e.g. by encouraging the public sector to provide reliable energy supply to agri-food sector and in parallel the private business sector to invest more in the missing agricultural marketing infrastructure; that approach would result In a win-win situation and is backed up by the Sudan National Agriculture Investment Plan 2016-2020 under IPA5; it requires there better rural electrification and electricity services to achieve high economic and social benefits.
- Call on the private sector to bring government in to share selected learning or service delivery activities in the agricultural sector.

3. Sector-specific diagnostics: Constraints to investment in agriculture

Agriculture is the backbone of the local economy as the sector contributes to about one-third of the country's GDP, employs around one-third of the labour force, and provides a livelihood to two-thirds of the total population. The main obstacles to enabling a sound agribusiness environment in Sudan are related to agricultural land, finance, markets, seeds and fertilisers, machinery, information and extension services, and skills. As the diagnosis of land and finance was undertaken in the previous chapter, only the remaining topics will be considered below.

A common interest of the GoS in all sub-sectors is the urgent need for foreign exchange and therefore for investment in agricultural exports. In 2014 Sudan exported agricultural products worth USD 1,520 million[52] - mainly gum Arabic, cotton, sesame, livestock, peanuts and sugar. Currently there are not many value-added activities undertaken by the Sudanese agribusiness industry and despite steady increases in export volumes the agricultural trade deficit remains high.

3.1 Access to markets and agricultural marketing infrastructure

One of the main challenges of the agricultural sector is to meet market demand. Despite substantial production taking place, linking producers to markets should enable (smaller) farmers to sell their surplus and satisfy local demand.

Agricultural producers and processors in Sudan target both national and international markets. Producers do this either by directly selling fresh food and vegetables, unprocessed commodities and livestock to the market, or indirectly through selling to agri-processors who add value and then offer the goods to markets. However, farmers who sell to agents at the village level are usually not well informed about actual prices and therefore do not receive good prices. IFAD[53] is currently working to refurbish the market infrastructure and strengthen market service provision (of the livestock sector) to achieve better price transparency.

The largest share of agricultural GDP (47%) derives from livestock production (90-120 million head of animals).[54] In 2008 (pre-separation), Sudan held an estimated 51 million sheep, 43 million goats, 41 million cattle and 4.3 million camels.[55] The livestock markets in Sudan, whether for local slaughter or export, are traditional with a fragmented value chain. One of the major constraints to increase trade is the lack of working capital. This is especially true for small traders conducting business in villages and primary markets who cannot purchase as many animals as demanded by the market due to insufficient working capital.

The livestock subsector has suffered from underinvestment also in terms of public spending e.g. Sudan currently has no operational export-grade slaughter facilities which limit the export

[52] FAO (2015). Sudan National Agriculture Investment Plan (SUDNAIP) 2016-2020. Rome: FAO

[53] IFAD: Sudan. Livestock Resilience and Marketing Project. Final project design report, 2014

[54] FAO: Country Programming Framework for Sudan. Plan of Action (2015-2019): Resilient Livelihoods for Sustainable Agriculture, Food Security and Nutrition. 2015

[55] IFAD: Sudan. Livestock Resilience and Marketing Project. Final project design report, 2014

of Sudanese meat. Therefore the national investment plan SUDNAIP proposes to establish at least five new, modern slaughterhouses to enhance livestock exports.

In Sudan the three main staple foods that are produced, consumed, and traded are sorghum, millet, and wheat. In aggregate terms, Sudan is producing surplus in sorghum, is self-sufficient in millet, and shows a structural deficit in wheat.[56] Wheat is not a traditional crop in Sudan, but the GoS has accorded special status to wheat, anticipating that a breakthrough in wheat yields would assure self-sufficiency in national food production and reduce imports.

Farmers typically sell their grains to smaller-scale traders in rural collection markets during the post-harvest period. Small-scale on-farm storage mainly for own consumption is widespread but poorly done so farmers face high post-harvest losses and have to retain more cereals than finally consumed.

Cereals production is partially financed by the Agriculture Bank of Sudan (ABS) that extends loans for inputs and machinery ahead of harvest time to be paid back in cash or in-kind delivery to the Strategic Reserve Corporation (SRC). However farmers – especially smallholders - hardly use financial services offered by banks and rely more on traditional credit arrangements. The SRC obtains the majority of its grain through the above mentioned in-kind repayments to the ABS and also intervenes on behalf of the GoS to buy sorghum at fixed prices to avoid sharp declines in sorghum prices during harvest and post-harvest periods.

The fruit and vegetable (F&V) export potential is currently limited due to low productivity because of traditional practices, disease and pest problems, lack of certified seed, and high post-harvest losses due to lack of (public) cold storage and processing facilities. The F&V sector also deals with constraints such as expensive central markets, limited marketing and few producers' organizations that could bulk up agricultural goods. Export is hampered by high transport and air-freight cost, absence of sanitary certificates required by importing countries and high cost of taxes and fees.[57]

As there are no marketing institutions dealing with F&V, farmers deal directly with traders as individuals, and also with exporters when larger quantities are involved. Existing F&V processing industries are rudimentary and often not functioning because the available varieties are not suitable and because processors do not have the required working capital needed to purchase the high volumes of F&V during harvest time.

Finally the GoS tries to encourage relevant investments but allotment of suitable agricultural land is poor (see section 2.3).

[56]USAID & Famine Early Warning Systems Network (2015). Sudan - Staple Food Market Fundamentals. Washington: USAID.
[57]The World Bank: Republic of the Sudan: Agriculture and Natural Resource Management Strategies for Sustainable Growth and Poverty Reduction. June 2016

3.1.1 Access to markets and agricultural marketing infrastructure: recommendations[58]

Recommendations to the GoS

- The GoS might focus on milk products (for import substitution) instead of promoting wheat production in Sudan;
- Also F&V have export potential and the GoS has to invest and to encourage private investments into cold storage (cooling chains), processing and other marketing infrastructure facilities. Processed F&V will find their way into export markets.
- The GoS might also continue to invest in market infrastructure such as roads and rail.59 Dams and irrigation channels are needed and irrigation should be linked to drip-irrigation as traditional, intensive flooding of arable land results in salinisation.
- In livestock better (public) market infrastructure and slaughter facilities corresponding to export markets' requirements are needed. Livestock marketing – except construction of slaughterhouses - is supported and financed by IFAD.
- The GoS might promote silos to reduce current high post-harvest losses for staple commodities this would be in line with SUDNAIP 2016-.2020 IPA5 under that cost-effective warehouse systems (silos, warehouses) should be constructed.

Technical Assistance

- As access to international markets is long-term issue, Sudan is now considering future WTO accession. Sudan should be assisted by TA in analysing the pros and cons of WTO accession and in formulating an accession strategy. A transition period for sensitive products should be examined carefully so that Sudan can retain some options for the transition period i.e. sensitive products will not be confronted by free trade regulations for a few years.

3.2 Access to inputs: seeds and fertilisers

Seeds and fertilisers are two main inputs in modern agriculture and many farmers know about it. Nevertheless they tend to ignore their importance, especially if they have not much funds for investments. Unsurprisingly this low-input strategy usually results in a low-output performance. As in many developing countries, in Sudan most of the seeds used in local agriculture are farm retained seeds (89%).[60] Farmers use local varieties and landrace, and keep some parts of the harvest as seed for the next season. The non-certified quality, with

[58] These recommendations have to be seen as a 'long list' of recommendations to address market constraints and are further focused in section 4 using political economy and other criteria to provide a menu of short listed recommendations for DFID.
[59] FAO (2015). Sudan National Agriculture Investment Plan (SUDNAIP) 2016-2020. Rome: FAO.
[60] COMESA et European Union: Sudanese Seed Sector. A Baseline Study /Survey. 2011

often limited genetic potential, is low and consequently affects agricultural productivity. As retaining seeds from last year's harvest does not work with modern hybrid seeds the (smaller) farmers often don't use hybrids for crops like sunflower, maize, sorghum and millet. Main reasons for using retained seeds – besides the low costs involved - are:

- Poor reliability of offered seeds: too often seeds are offered in bulk and not in original packed units so that in most cases the quality is not certified and often does not correspond to the information on the label.[61]
- Limited availability of seeds in the market: according to a World Bank study[62] the seed system comprising seed registration and property rights in Sudan is well developed but costly which prevents a wide choice of seed varieties. In 2014 there were seed shortages that reduced the country's agricultural performance further.

The new Seed Law was developed in 2010 and the GoS began building the capacity of the National Seed Administration (NSA) to monitor the production, release and utilisation of all seed classes.[63] At that time the GoS limited its involvement in seed production activities as the legislation was designed to accommodate and enhance development of the private sector seed industry. The World Bank scored the results of the new seed legislation better than in comparable countries and it was expected that the seed sector would develop strongly. However, the expected results have not been achieved as seed registration costs in Sudan are too high. A complicated and long registration procedure makes the seeds themselves more expensive.

The World Bank maintains "protecting the intellectual property rights[64] of seed developers spurs further innovation." This should be put on the agenda of the MoA. However the crucial issue is not that Sudan does not have a successful seed industry with innovative seed yet but that farmers cannot purchase affordable and good quality seeds – certified and inspected by the NSA.

The situation with fertilisers is similar and Sudan is characterised by low use of fertilisers.[65] As Sudan does not have significant fertiliser production, fertilisers have to be imported

The use of fertilisers is uncommon, except in irrigated agriculture compared to rain-fed which rarely use chemical fertilisers because of farmers' low input strategy but also – similar to seeds – because of the uncontrolled and therefore often wrongly declared ingredients in fertiliser bags. In the irrigated sector the usage of fertilisers is below recommended amounts.

[61]From mission meetings November 2016
[62]World Bank Group: Enabling the Business of Agriculture 2016: Comparing Regulatory Good Practices. Washington, 2016
[63] IFAD: Sudan. Seed Development Project (SDP). Final Design Report.Main Report.Near East, North Africa and Europe Division, Draft Version. November 2011

[64]Intellectual Property Rights are increasingly influencing the sector for seeds and planting materials; being a commercial incentive, plant breeder's rights and patent rights are central in business decisions in both commercial enterprises and public research organisations.
[65]African Development Bank / African Development Fund: Private Sector-led Development and Economic Diversification in Sudan. Revised draft; June 2015

The World Bank criticised the expensive administration of import permits and importers' registration.[66]

3.2.1 Access to seeds and fertilisers: recommendations

Recommendations to GoS

- Currently the local production of seeds covers only 10% of domestic needs.[67]Sudan needs local production of seeds (also for food security), has to reduce costs for imported seeds (by keeping registration costs at a lower level) and ensure a better distribution within the country to secure availability of seeds. MoA should retain responsibility for certification of seeds and inspections. This goes hand-in-hand with the SUDNAIP 2016-2020 Investment Programme Area (IPA) 2 where facilities for advancing good-seed production should be installed

Technical Assistance

- Modern seed and fertiliser testing laboratories are necessary and require well-coordinated interventions with FAO, IFAD and MoA; furthermore, the daily work in laboratories requires TA to make best possible use of the newly purchased technical equipment.
- Besides TA for labs TA would be helpful for streamlining (shortening) registration and import procedures as the overall situation with seeds and fertilisers is similar; the objective must be to provide farmers with cheaper agro-inputs.[68]
- An awareness campaigns could help farmers to fully understand the advantages of seeds and fertilisers.

3.3 Access to inputs: agricultural machinery

Given the considerable wear of agricultural equipment in Sudan and the large number of smallholders, agricultural mechanisation is very low. Reasons include the cost of registration of machinery and the cost of import permits.

Sudan has traditional farms which do not use tractors at all, or semi-mechanised farms and mechanised farms. The mechanised farms have tractors plus implements whereas the semi-mechanised have to hire tractor services.

In the past the ABS provided the tractor hire services but farmers nowadays are contracting these services directly from market as far as they are available. In some states the farmers'

[66]World Bank Group. 2016. Enabling the Business of Agriculture 2016: Comparing Regulatory Good Practices. Washington, 2016
[67]The World Bank Group: SUDAN - Country Economic Memorandum. Realizing the Potential for Diversified Development. 2015
[68] As also recommended by the World Bank seeds and fertiliser products that have previously been registered in another country should not need to be reregistered in Sudan.

union are planning to acquire agricultural machinery and hire it to producers. However, the financing for this set-up might come from the MoA again.

3.3.1 Access to agricultural machinery: recommendations

Recommendations to GoS

- Farm mechanisation is currently inadequate. A less bureaucratic and expensive administrative procedure to import agricultural machinery will reduce machinery costs and contribute to more purchases of new agricultural machinery. It is recommended to streamline the import administration procedures.
- Instead of involving the MoA in providing machinery services it is recommended to provide financial support to farmers to enable them to purchase farm mechanisation. These farmers then could use the equipment on their own farms and also rent them out to neighbours willing to pay for services.

3.4 Access to information / extension services

The existing market information system is in a good shape. Several steps have been undertaken to increase the market transparency and there are different market information systems in place. The Sudan Agricultural Information System is a project founded by the European Union and it is linked to FAMIS / FARMERS (Food and Agriculture Real-time Messaging and Reporting System) that aims to provide food security information.

The agricultural extension services were decentralised in 1994 and today each state has its own extension administration, while keeping the Agricultural Extension Administration at the federal level - now called Technology Transfer and Extension (TTEA).[69] Besides dozens of governmental extension organisations, many NGOs are offering services (often focusing on rural women farmers) and there are farmer-based organisations active in farmer-to-farmer extension activities. Despite all of these activities, extension services in Sudan reach only a very limited number of farmers e.g. only 3% of rural households involved in livestock indicate access to veterinary services.

Currently most extension services are not adequately backed-up by research institutions, have little to offer to farmers about improved agricultural practices and do not have adequate skills to cope with farmers' requests.[70]

Technically the GoS tried a number of approaches to disseminate information to farmers such as information bulletins and fact sheets; audio-visual education material for use by extension staff; extension materials and publications available on-line; television and radio programs and finally SMS. The “Ziraa Mobile (SMS) Service” has been introduced by TTEA through which SMS messages are sent to the producers containing technology packages and current prices

[69]BELLO, A.R.S.: Agricultural Extension in the Sudan: Background Development and Present. Wulfenia Journal. October 2014
[70]African Development Bank / African Development Fund: Private Sector-led Development and Economic Diversification in Sudan. Revised draft; June 2015

of horticultural crops. TTEA's website (www.ttea.gov.sd) still exists but it is not clear if information there is still being updated.

SUDNAIP (2016 – 2020) recommends the upgrading of the research functions and quality and expansion in research capacity and the establishment of new research facilities for improved coverage of different agro-climatic zones and new and innovative research agendas.

3.4.1 Access to information / extension services: recommendations

Recommendations to GoS

- It is recommended that the MoA should maintain market information systems the various programmes. Thereafter the GoS might secure sufficient funding – at least for a down-sized agricultural information system.

Technical Assistance:

- Sudan has seen too many capacity development programmes focusing on the agricultural extension workers financed by the GoS. The existing extension and veterinary service workers need practical training. But it might be better to start by assessing directly the needs of the agribusiness sector through Technical Assistance. Sudanese farmers will benefit more from a market driven extension service than from one managed by governmental research institutions.
- One of the additional tasks of the extension staff must be the promotion of closer backward integration of agribusiness companies with smallholders, which will improve the quantity and quality of raw materials delivered by farmers.
- Based on anecdotal evidence[71] a part of the agribusiness industry is not willing to use federal or state extension services. A newly established extension unit should undergo first in-house training, understanding the challenges of the specific agribusiness company, the complete production cycle and learning more about the important criteria when it comes to raw material supply.
- To enable a further dissemination of know-how, the governmental extension staff should be invited to participate in these training courses at no extra costs. Besides training a larger group of extensionists, this training will automatically lead to a closer exchange of opinions between private and governmental extension staff and open the door for more cooperation opportunities. (SUDNAIP 2016-2020 also mention the need for the Development of Agricultural Support Services and Establishment of Knowledge and Information Network under IPA4.)

[71] Mission to Sudan in October 2016

3.5 Access to skilled workforce

Half of the population in Sudan has never attended a formal school, only 15% have secondary school education, and around 4% have some post-secondary education. Education level is substantially lower in rural than urban areas and substantially lower among women.[72]

The agriculture and agribusiness sectors are in need of a skilled workforce, including at managerial level. Sudan has a large number of agricultural universities and Agricultural Technology Colleges. Despite limited success, too much emphasis was put in the past on agricultural universities and research facilities and not enough on agricultural vocational schools. Agricultural education and training have to satisfy the demand from the markets. Sudan needs young, farmers trained in agronomy, accounting and marketing who are able to manage mid-size farms.

3.5.1 Access to skilled workforce: recommendations

Technical Assistance

- Support to agricultural vocational education could improve performance of the agricultural sector. Vocational training is expected to result in the development of a range of new agricultural skills. (This is also in line with the SUDNAIP 2016-2020 Investment Programme Areas/IPA5 that states that technical and vocational training in Sudan need improvement.
- DFID should partner with the African Development Bank's agripreneurs programme.

[72] The World Bank Group: SUDAN - Country Economic Memorandum. Realizing the Potential for Diversified Development. 2015

4. Recommendations

4.1 Approach

DFID Sudan needs to respond to immediate opportunities to engage on business environment reform but also help put in place processes, policies and laws, and build capacity and relationships that will give Sudan a head start should there be a step change in the political and economic context, for example if US sanctions are lifted.

In considering priority options among the long list of recommendations the following factors have been applied: political economy, policy frameworks, partnerships, value for money, DFID's comparative advantage, and principles of engagement in fragile contexts.

Political Economy. The context to DFID Sudan's potential engagement in business environment reform in Sudan is set out in the introduction to this report. A significant risk to any support to government would be the reluctance of the government to implement any reforms that DFID Sudan supports. Choosing champions and real demand for reform and identifying where DFID and Government priorities align is critical to mitigating this risk. Each recommended option below identifies entry points and important partnerships, and indicates where the recommended intervention is aligned to obvious government interest or stated priories. Political economy changes, however, and DFID Sudan should ensure that the political economy of each intervention is reviewed at regular intervals and approach and/or activities adapted to respond if needed. This can and should be done by the implementation team rather than (or in addition to) external experts. When working with government, DFID Sudan should use fulltime local and international support, embedded if possible, to ensure that a deep understanding of the context is built as the intervention evolves and the programme has the ability to respond nimbly to changes in context – both in terms of opportunities and threats. It is recommended that the interventions are managed by one programme management team so that a strategic direction can be maintained across the different areas of engagement, synergies between interventions can be maximised and focus and funds can be more easily shifted from under-performing interventions to those with more traction.

Policy Frameworks. Recommended options for DFID Sudan's engagement fit within and contribute to the UK's policy of phased engagement with the GoS, and to GoS priorities set out in its 5 year plan, Investment Policy, Agriculture policy and National Dialogue recommendations.

Partnerships. The recommended options below seek to establish a broad stakeholder/partnership base for DFID Sudan's engagement in business environment reform. This approach will spread the risk of its engagement, and enable a number of 'small bets' to be taken with the aim of scaling up as and when larger programming opportunities emerge and fit the context. It will also help DFID Sudan act as a broker to catalyse, facilitate and build coalitions and partnerships for reform. A breadth of partnerships serves best to support coordination between DFID and FCO efforts and with other development partners, to exploit synergies and to help prevent the duplication of efforts. Identified options are for DFID to work in partnership with national and sub-national government, the private sector and development partners; in a mix of leveraging of existing partnerships and programmes and developing new ones. The partnership with World Bank through the Sudan Multi-donor Partnership Trust Fund where DFID is a major donor is particularly key to maintain as offering an alternative platform for dialogue with government.

Value for money. All inputs suggested are for technical assistance only, with no capital costs. Current evidence is that this way of working can represent good value for money.[73] In terms of impact on the poor and on jobs, options for engagement with the private sector that target small farmers are most likely to have immediate impacts on livelihoods and jobs. Options for engagement with government are more risky and impact on the poor is more remote.

DFID's comparative advantage. Recommended options are set out in terms of existing UK experience and partnerships in Sudan, and expertise available in DFID institutionally and accessible through centrally managed programmes.

Recent lessons on investment climate reform in fragile contexts[74] such as Sudan indicate that discovery through doing works well. A little analysis can identify entry points that can be deepened and broadened by starting work on the ground. Feedback loops are essential to ensure that successes and failures, and changes in context are fed back into the programme in real time.

4.2 Options for DFID Sudan engagement

Option 1: Support the Ministry of Foreign Trade in Sudan's WTO accession process

The UK has been approached by the GoS for help in its WTO accession. This aligns with UK priorities and the phased engagement process, and provides an entry point for DFID to offer both capacity building assistance and specific trade-related technical assistance to the Government. Accession to the WTO would have potentially large positive impacts on Sudan's business environment as it promotes and "locks in" trade and investment-related reforms, thereby providing predictability and transparency for both foreign investors and traders as well as domestic firms. There is clear potential – through discussion of trade barriers – to target assistance at the removal of barriers, particularly in relation to agriculture, and improve the business environment. Agriculture is likely to be a sensitive issue for the GoS during the negotiations.

DFID technical assistance may be resourced through DFID's centrally managed programme Trade Advocacy Fund (TAF). Phase 1 is complete. Phase 2 is due to start in early 2017. We recommend that DFID Sudan makes contact with DFID's Trade Policy Unit to explore the possibility of TAF 2 providing support to the GoS's WTO accession. Once TAF 2 begins DFID

[73]Hooper, R et al (2016). Commercial Law and Justice as an investable product: a value for money perspective. Available at: http://laserdev.org/media/1174/clj-as-an-investable-product-final-8-november-2016.pdf; Manuel, C. (forthcoming) Forget the money: De-linking technical assistance.
[74]See for example Glanville, M., Kerušauskaitė, I. & Harley, F. (2016) Scoping Study on Business Environment Reform in Fragile and Conflict Affected States; Manuel, C. (2016) Changing the rules of the game: investment climate reform in fragile and conflict affected situations.

Sudan can inform the government about the scope of services offered by TAF and how to apply for support.

DFID should explore options for directly contracting technical support needed (potentially through BERF) or facilitate contact between the GoS and other providers of Trade related technical assistance including the WTO Secretariat and TradeCom II (EU), to explore options.

Option 2: Support the Ministry of Investment to improve coordination of government investment promotion and facilitation policies and laws to reduce uncertainty and to support a joint vision for growth.

There is a lack of coordination and alignment between government ministries and between government at national and sub-national levels. This has an impact on business – increasing the administrative and financial burden through a multitude of requirements and confusing investors – and means that government efforts to increase economic growth are often pulling in different directions.

Potential entry points for DFID support include the Ministry for Investment. The Minister is keen to get support in exercising his mandate to coordinate and streamline efforts on investment facilitation and promotion and has suggested looking to other countries for examples of how to do this efficiently. Some technical assistance – ideally embedded and full time – might help in developing these ideas and negotiating a way forward with the National Investment Committee and other government bodies.

DFID should be aware that complex and politically sensitive land issues may arise in the course of this recommended intervention as land allocation is part of the investment licence process facilitated by the Ministry and the allocation process is often an issue for investors and local communities alike (see sub-section 2.3 above).

Option 3: Look for opportunities to bring government and private sector together at federal level e.g. on harmonisation of investment law

An opportunity has been identified to assist the State Minister for Investment on improving the coordination across government on investment facilitation (see option 2 above). A broad formal consultation with the private sector could help identify specific problem areas for business caused by this lack of coordination. The findings would feed into a review of the policies, laws and regulations relating to investment, and their implementation. The State Minister for Investment has expressed an interest in dialogue with the private sector and would seem to be open to the concept. He has also expressed frustration with the formal structure of the Federation of Sudan Businessmen and Employers so the door may be open to including a broader set of private sector actors in the consultation process than is usually the case. UK involvement will be key here to lend credibility to the process.

Option 4: Introduce a business environment component to DFID's support to improving local government PFM

Use existing entry points in local government in piloted States of Red Sea, River Nile, Sinnar, and North Kordofan (DFID's PFM support through the Word Bank[75]) to assist with better budgetary planning and management of revenue streams from the business and agricultural community. The aim should be to streamline the taxes and fees and reduce the number of last minute changes or rate rises. A 2009 study[76] on state level administrative barriers to investment was carried out for IFC and contains a wealth of detail on taxes, fees and processes at state and locality level. It might be worth a small investment to update the study for focus states, add a consultation with local businesses and use it to inform the PFM work with local government.

Option 5: Offer technical assistance to the Bank of Sudan on the development of a regulatory framework for agency banking and mobile banking and improve financial information and services for farmers

There is a World Bank proposal to support the Central Bank of Sudan to put in place a new regulatory framework for agency banking. DFID should offer technical assistance in support. It is clear that regulatory frameworks will need to be reviewed to keep pace with innovation but care should be taken to strike the right balance and not to constrain the market. As noted in the sub-section 2.1, piloting of agency banking is already under way, and there are concerns from the commercial banks that a focus on regulatory issues now could undermine these efforts. Mobile banking initiatives are also in the market. A way forward might be to agree with the Central Bank and the Bank of Khartoum (and other banks that are piloting agency or mobile banking) to work alongside the pilots, to conduct a regulatory impact assessment that can inform the development of a regulatory framework in due course. The World Bank's forthcoming Financial Inclusion Survey will provide useful data about the nature of demand in this area. Support to drafting the regulatory frameworks could follow.

A useful add-on to this work, if a partnership is established with the commercial banks, would be to increase the availability to small farmers of information about financial services and how to use them. This could have the effect of increasing the uptake of products such as crop or livestock insurance and, if done in partnership with the banks, could improve bank staff's knowledge about the business of agriculture and change perceptions of farmers as poor credit risks.

[75] Strengthening Subnational Fiscal Policy Management Project FY 16-18 under Pillar II, Fiscal Policy, of the World Bank Sudan Multi-Partner Trust Fund

[76] The Law & Development Partnership (for IFC) (2009). The Republic of Sudan, Mini Diagnostic. State level administrative barriers to investment in Gedaref State, Gezira State, North Kordofan State, Red Sea State. Washington: IFC

Option 6: Partner with the private sector to deliver services to farmers

It is recommended that DFID chooses a pragmatic approach to supporting agriculture and agribusiness that touches on but does not engage substantively with what are largely dysfunctional government systems. Instead a partnership with the private sector should be established and government 'invited in' in a low key way where appropriate.

The agricultural sector is characterised by disrupted value chains. The potential of adding value to locally available agricultural raw materials remains limited as, with some notable exceptions, the agri-processing industry is not well linked to the producing farmers. The role of an extension service is fundamental as extension officials not only provide technical advice but also act as matchmakers between agribusiness companies and farmers

DFID is advised to partner with large agribusiness companies willing to set up a privately run extension service and share costs with DFID. Agribusiness companies interviewed were interested in the idea of accessing improved technical assistance for their contract farmers through DFID. Opportunities to bring government extension workers in, for example on training sessions, would be looked for at the local level (see Appendix 6 for suggestions on resourcing, approach and budget). Anticipated outcomes are:

- Market driven extension services;
- Closer backward integration of agribusiness companies with smallholders and thus improvement in quantity and more important quality of raw materials delivered by farmers;
- Availability of in-kind credits for farmers through the raw material purchasing agribusiness industry; and
- More predictable incomes for farmers (be reducing the volatility of prices) though contract farming and more predictable procurement costs for the agribusinesses.

There is useful learning from the KPMG managed DFID's Africa Enterprise Challenge Fund[77] as this fund targets investment in agriculture and agribusiness. AECF helped create about 8,000 salaried jobs since 2008. Those these roles are mainly in manual labour at the field or factory worker level, some of them also include professional grades such as extension officer or farm manager positions.

Option 7: Explore the opportunity possibly through DFID programmes like ACE to improve the business environment private investment in renewable energy and for markets for household solar systems for small farmers

Review current status of regulatory and policy framework for:

- Independent power producers to feed renewable energy into the national grid;
- The market for pay as you go home solar systems; and

[77]http://www.aecfafrica.org/

With a view, if necessary, to filling gaps in UNDP's technical assistance to government to remove business environment constraints to the renewable energy market and linking with DFID Sudan's ADAPT! programme (implemented by UNEP) to ensure both coordination and the integration of best practice on climate and environmental issues to programme delivery and GoS policy making

Option 8: Consider partnership with the African Development Bank on vocational education for young farmers

The African Development Bank's forthcoming youth programme plans to promote agriculture as a business and run incubators for young agripreneurs to develop their agricultural and business skills, assist them with access to finance (AfDB will provide risk insurance for financing through partner banks), link them to mentors and value chains, and help manage business start-up.

A key priority for the recovery of the agriculture sector is attracting skilled, educated workers. This requires investment in vocational training and business skills and the promotion of agriculture as an attractive career prospect. Young graduates and entrepreneurs interviewed for this report in Khartoum, reported that few of their peers were interested in a career in agriculture seeing it as risky and unfashionable and instead had aspirations to work in the services sector or business sector. Most likely these young graduates only consider small scale agriculture and have not yet considered or evaluated the situation in agri-processing sector. For example, modern dairy plants, F&V processors, grain mills and others often require higher level skills in accounting and marketing, know-how in food processing technologies and ICT skills which might be more attractive to young graduates can be considered as an lucrative career option.

The UK government in Sudan has experience in supporting young entrepreneurs. The FCO funds the British Council's Mashrouy programme, a competition to identify and mentor Sudan's most promising young business people. Partnership or collaboration with the AfDB's forthcoming agripreneurs programme would enable the UK to share its experience of the challenges faced by young entrepreneurs and, in particular, promote agriculture sector as a business for a new generation of young farmers and agribusiness owners.

Option 9: Coordinate with FAO, IFAD and Ministry of Agriculture on seeds and fertiliser

DFID should explore collaboration with FAO, IFAD and the Ministry of Agriculture on the following priority recommendations that align with the GoS national investment plan:

- Setting up or modernising seed testing laboratories in close coordination with FAO, IFAD and MoA, and eventually conducting field trials to check germination, purity and proper seed labelling; and
- Improving inspection services so that farmers have improved access to reliable (including correctly labelled) and affordable seeds and fertilisers.

Table 3 (overleaf) summarises the nine entry points for business environment reform interventions with the most potential for DFID to achieve impact in terms of reduced poverty and increased jobs.

Table 3: Summary of Prioritised list of recommendations for DFID Sudan

	Recommendation	Partner	Time frame for start	Priority
1	Support the GoS Ministry of Foreign Trade in its Sudan's WTO accession process	GoS Ministry of Foreign Trade	0 – 6 months	High
2	Enhance coordination of government investment promotion and facilitation policies and laws	Minister of State for investment, Ministry of Investment	0 – 6 month	High
3	Partner with the private sector to deliver services to farmers	Private sector agribusiness companies	0 – 6 months	High
4	Introduce a business environment component to DFID's support to improving local government PFM	State and locality governments in piloted States of Red Sea, River Nile, Sinnar, and North Kordofan, and World Bank Sudan Multi-partner Trust Fund	0-6 months[78]	High
5	Look for opportunities to bring government and private sector together at federal level	Ministry of Investment and Higher Council for Investment	0- 12 months	Medium
6	Offer technical assistance on the development of a regulatory framework for agency banking and mobile banking and improve financial information and services for farmers	Bank of Sudan, commercial banks such as Bank of Khartoum, and World Bank Sudan Multi-partner Trust Fund	0 – 12 months	Medium
7	Explore the opportunity to improve the business environment private investment in renewable energy and for markets for household solar systems for small farmers.	UNDP, UNEP and Ministry of Water Resources and Electricity / other relevant ministries	0 – 24 months	Medium
8	Consider partnership with the African Development Bank on vocational education for young farmers	AfDB	0 – 12 months	Medium
9	Coordinate with FAO, IFAD and Ministry of Agriculture on seeds and fertiliser standards and improving inspection services	FAO, IFAD, Ministry of Agriculture	0 – 12 months	Medium

Appendix 1 List of key documents reviewed

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Appendix 2 List of stakeholders consulted

Name	Organisation	Position	Contact details
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Mohammed Jafar	Entrepreneur	Director, small business	
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Abdul Jalil	British Council	PEA expert	
Khalid Mamoun	Small farmer / agripreneur / investor	Director	

Appendix 3 Basic data: Sudan

Population (million)	39
Land area (sq.km)	1861484
Agricultural land in use (sq.km)	max 190000
Agricultural land not in use but cultivable (sq.km)	740000
Irrigated agricultural land (sq.km)	3326
Forest (sq.km)	19559
Average annual precipitation (mm)	250
Agricultural employment in % of total employment	45
GDP in billions USD	90
GDP per capita in USD	2119
GDP per capita (PPP) in USD	3927
Agriculture contribution to GDP in % (2012)	30
Agricultural exports (2014) in USD million	1520
Agricultural imports (2014) in USD million	2480
Overall imports (2014) in USD million	9211
Overall exports (2014) in USD million	4350
Gini Index	35
WB Doing Business Ranking (Starting a Business) 2016	146
WB Doing Business Ranking (Starting a Business) 2015	140
Adult literacy rate[79].	62%
Mobile phone usage	77%
Internet access[80]	27%

[79] http://www.sd.undp.org/content/sudan/en/home/countryinfo.html

[80] U.S. Central Intelligence Agency (2014) - The World Factbook: Sudan

Appendix 4 Sudan National Agriculture Investment Plan 2016 - 2020[81]

The Sudan National Agriculture Investment Plan (SUDNAIP) 2016 – 2020 was endorsed by the GoS in 2015. SUDNAIP is not a new agricultural development strategy or programme. Rather, it is a sector-wide plan for coordinating and harmonising the resources needed to accelerate the implementation of the AU-NEPAD Comprehensive Africa Agriculture Development Programme (CAADP), which Sudan signed in 2013. CAADP is an AU-wide policy framework that aims to transform agriculture through food & nutrition security, wealth creation, and economic growth. The FAO provided assistance to the GoS when it formulated SUDNAP.

The Plan identifies the main challenges to agricultural sector development in the following areas: production and productivity constraints; deficient agriculture support services; inadequate agricultural infrastructure, market access and industrialization, natural resources and land, improving the enabling environment, food security and nutrition, institutions and gender and youth.

One of the main rationales for formulating SUDNAIP is that Sudan is trying to secure donor funding for implementing the CAADP. SUDNAIP's overall budget requirements is USD 5.54 billion until 2020 and the GoS will bring up USD 3.6 billion. Hence there is an investment gap of almost USD 2 billion. In terms of investment areas for which GoS will require donors support, the major funding gaps are in capacity building; institutional reforms; studies for enabling environment; food security and traditional sectors like investments in improved crop varieties, sustainable soil and water management, water harvesting and other low risk technologies; and in natural resources including prevention of land degradation, forest management using local communities, rangeland conservation and rehabilitation and pasture seeds spreading and demarcation of the stock routes to avoid conflict between nomads and settled farmers.

A few key points are elaborated in more details as relevant for DFID interventions.

- Extension service needs improvements and farmers have to be trained in plant production and livestock but also in business skills. Agricultural extension in the country has been for long suffering from inadequate facilities and lacking sufficient training support. Moreover, the research-extension-farmer links have been weak whereby a substantial number of technologies developed by research have not found their way to farmers' fields with the consequence of continued low and even declining crop yields.
- Agribusiness linkages are essential and SUDNAIP's vision is a comprehensive national socio-economic development led by a dynamic agricultural sector contributing to sustainable growth, inclusive of smallholders and with strong linkages to agricultural industrialization. The contribution of agriculture to industry is well known in almost all developing countries, with agriculture and industry being an integral component of the

[81] Interview with Dr. Salih Kheiralla Hussein, Ministry of Agriculture, responsible for SUDNAIP issues and strategic planning

development process due to their mutual interdependence and symbiotic relationship. Agriculture supplies raw material such as cotton, oil seeds and livestock needed by the agro-based industries and generates demand for industrial consumer goods, while industry supplies commercial inputs, such as fertilisers, pesticides and machinery to agriculture. Other relationships include savings generated by agriculture, which could support industrial investment, but on the other hand, fluctuations in agricultural production may affect private corporate investment decisions. Sudan's agriculture highly reveals such forward and backward linkages. Although the contribution of the manufacturing sector to the GDP is quite small, much of its activities are highly linked to agriculture where most of the processing industries are agriculture based. … Therefore the local governments will need to establish the necessary coordination institutions and linkages with other stakeholder organizations including private sector actors and farmers.

- The need to expand market access for agriculture produce. The agricultural exports in 2014 have reached USD 1520 million whereas the agricultural imports summed up to USD 2480 million. Potential for import substitution is seen by SUDNAIP in sugar, edible oils, milk and milk products.
- Agriculture Value Chains as a strategic priority. SUDNAIP prioritises support to selected high priority crops and livestock products and scaling up their production through improved value chains (VCs). In the SUDNAIP annex the following VCs are highlighted:

1) Cereal crops, particularly sorghum and millet but also wheat and maize
2) Oil seeds such as sesame, groundnut and sunflower
3) Hibiscus and watermelon seeds chain
4) Cotton
5) Horticulture, particularly banana or even organic banana
6) Agro-forestry food products with particular emphasis on gum Arabic
7) Livestock and meat, small ruminants, cattle and poultry
8) Dairy products to target self-sufficiency through increased milk and local dairy production
9) Hides and Skins
10) Fisheries products

The highlighted VCs are not prioritized in terms of importance. However the MoA is always in favour of export orientation for the sake of earning hard currencies. Mainly sorghum, cotton, organic banana, ruminants including their meat and hides and skins are fit for export markets. In this context poultry is excluded as poultry is in direct competition concerning fodder to human beings. Ruminants, regardless if it is sheep, goats or cattle, have the advantage that they could and should be raised under pastoral systems. Not mentioned but export relevant are fodder products such as alfalfa and Rhodes grass as these are demanded products for livestock production in the Gulf States. Furthermore import substitution is also contributing to improve the hard currency situation in Sudan and here dairy products seem to be promising as the current import needs are huge.

Appendix 5 Donor support in Sudan to agriculture, business environment reform and investment

Donor	Current, planned or recent programming
AFDB	<u>Young, agripreneurs' incubation programme (planned)</u> Successful model implemented in other African countries in partnership with International Institute for Tropical Agriculture to build business and agricultural skills in young people and launch them as agripreneurs with access to finance, links to markets and mentoring. <u>Water Sector Reforms and Institutional Capacity Development Program (2015-2020)</u> Aims to contribute to building a resilient and sustainable water and sanitation sector that meets the needs of all users or beneficiaries in Sudan in particular West Kordofan State. Program outputs include: i) Water sector policy and institutional reforms supported for the better efficiency of the water and sanitation sector; ii) Capacity development for federal and state staff and community supported for improved services and livelihoods; and iii) Water supply points and sanitation facilities provided for the improved resilience and stability. <u>Public Financial and Macroeconomic Management Capacity Building (2014-2017)</u> Aims to build and enhance transparency, accountability, and efficiency in the use of public resources, macroeconomic policy and debt management through institutional strengthening and capacity building.
DFID	<u>Sudan Multi-Partner Trust Fund (2014 – 2016)</u> Through World Bank. Current activities on cash transfers / social safety nets and PFM reform to sub national government. (GBP 3 million) <u>Water for Three States (Red Sea, Gadarif and Kassala) (2013-2019)</u> To provide the people of Eastern Sudan with access to sustainable clean drinking water sources, improved sanitation facilities, and hygiene promotion by 2018. Implementing water and sanitation projects in selected rural areas and designing a comprehensive and feasible plan for rehabilitation and expansion of Port Sudan water and sanitation systems. (GBP 20 million) <u>Local Partnership and Dialogue Programme (2014-2018)</u> To improve the capacity of women and men and groups who represent them to collaborate on issues of concern to their communities at the local, state and national level in Sudan.(GBP 12 million) <u>ADAPT! Environmental and Climate Resilience in Sudan (2015-2019)</u> Implemented by UNEP. To increase understanding and integration of climate resilience and environmental management into delivery, plans and policy in Sudan. (GBP 10 million) <u>Local Governance and Public Expenditure Management in East Sudan (with UNDP)</u> The project works with the government, as well as civil society, at state and local level, to train staff in essential finance and auditing skills, as well as procurement and planning. (GBP 1.9m)
FAO	<u>Expansion of a quality seed production system (planned)</u> <u>Development of a Quality Seed Production System and Value Addition in Sudan (2014-2016) USD 370,000</u> <u>Value addition for smallholder farm and community-level seed multiplication through PPPs (USD 7 million)</u>
IFAD	<u>Livestock Marketing and Resilience Programme (2014-2021)</u> Aims to increase the food security, incomes and climate resilience of poor households in pastoralist communities. Budget USD 119 million (out of that IFAD financing USD 31 million)
JICA	<u>The Project for Upgrading Food Production Infrastructure (2012-2017)</u> <u>Feasibility Survey for Improving Incomes of Small-scale Farmers Groups through Small-scale Dry Onion Processing (2015-2016)</u> <u>Capacity Development Project for Irrigation Scheme Management in River Nile State (2015-2019)</u> <u>Capacity Building Project for Promotion of Rice Production (Planned)</u> <u>The Project for Developing Counter Measures against Striga to Conquer Poverty and Improve Food Security (Planned)</u>

Donor	Current, planned or recent programming
SIDA	Sweden's international development cooperation in Sudan amounts to 60 million SEK annually. Projects supported aim at achieving the following results: Strengthened ability to prevent conflicts and achieve reconciliation in Darfur through local peace initiatives Greater knowledge and opportunities for women to assert their human rights, including sexual and reproductive health and rights, and greater respect for children's rights. Enhanced civil society capacity to promote increased respect for human rights, and thereby contribute to stronger democracy.
UNDP	Local Governance and Public Expenditure Management in East Sudan (with funding from DFID, Netherlands, Norway, Denmark) The project works with the government, as well as civil society, at state and local level, to train staff in essential finance and auditing skills, as well as procurement and planning. Darfur Development Strategy (2013-2019) Objective of Pillar 3 (Economic Recovery) under the Strategy is to contribute positively towards poverty alleviation and transitioning Darfur to development in an equitable and environmentally sustainable manner. This will be achieved by support to key livelihoods, increasing access to those key livelihoods and financial services, and ensuring the sustainability of productive sectors; the latter requiring a review and strengthening of agricultural and livestock policies, regulatory instruments and institutional arrangements in all five states. (Total strategy budget: USD 88.5 million, Budget for Pillar 3: USD 7.5 million) Climate Risk Finance for those Most Vulnerable to Climate change According to Sudan's National Adaptation Programme of Action (NAPA), the groups that are most vulnerable to climate risks are traditional rain-fed farmers and pastoralists. Climatic shocks, such as long drought spells and flooding contribute to widespread losses of property and livestock. This project is seeking to provide finance to help these farmers and pastoralists adapt so they can become more resilient to the impact climate change is having on their lives. Building Resilience Against Climate Change Seeks to address many of the consequences of climate change simultaneously: enhancing food security and improving rural household livelihoods while at the same time, also bringing in new techniques, such as water harvesting technology. In addition to introducing water harvesting techniques, it also involves improving irrigation systems and the use of solar powered water pumps. Early maturing and drought resistant crops have also been introduced to help increase yields. Meanwhile, the eroding of areas of fertile land has been helped by the introduction of sand dune fixation.
USAID	The Sudan Rural Land and Governance Programme (2011-2014) Assisted the GoS to develop a draft land policy based on extensive public consultation and research, as well as provided support to build the capacity of the South Sudan Land Commission. The Sudan Rural Land and Governance project helped to harmonize the land policy with the 2009 Land Act, supported two selected States and two Counties governments for more effective land administration and planning. Famine Early Warning Systems Network Provides timely food security information for Sudan and other countries that allows donors to monitor emerging crises and respond to needs early. Identifies populations affected by food insecurity and describes the underlying factors in regular quarterly forecasts and occasional alerts that highlight immediate concerns. USAID Sudan also supports activities that strengthen the abilities of Sudanese organizations to recognize and manage food insecurity threats and runs the Sudan School Milk Programme in partnership with DAL group.
World Bank	Sustainable livelihoods for displaced and vulnerable communities in Eastern Sudan: Phase 2. Strengthening Sub-national Fiscal Policy Management. (USD 5 million) Active August 23, 2016 Sudan Statistical Capacity Building Project P152016, USD 500,000. Active October 1, 2015

Donor	Current, planned or recent programming
	Sudan Budgeting Capacity Strengthening Project. P148619. Budget USD 5 milion. Active August 22, 2014 Sudan Multi-donor Partnership Trust Fund, P149614. Budget USD 2 million needed. Active April 10, 2014 The SMPF has three overarching objectives: *i. Strengthening core government functions* to help manage the post-secession economic transition, and to improve equitable basic service delivery to reduce conflict-fuelling inequality. *ii. Facilitating policy dialogue between international and domestic actors* to help deepen government's poverty reduction focus in a context where attention and resources are inordinately devoted to issues of territorial control and security. *iii. Increasing the coordination of international financial support and its alignment to the implementation of the I-PRSP.* Sudan Sustainable Natural Resources Management Project. P129156. USD 8.35 million. Active December 18, 2013

Appendix 6 Option 6 proposal in full: Partnership with private sector to deliver services to small farmers: Resourcing, approach and indicative budget

Outcomes

1) Market driven extension services
2) Closer backward integration of agribusiness companies to smallholders and thus improvement in quantity and more important quality of raw materials delivered by farmers
3) Availability of in-kind credits for farmers through the raw material purchasing agribusiness industry
4) More predictable incomes for farmers (be reducing the volatility of prices) though contract farming and more predictable procurement costs for the agribusinesses

The agricultural sector is characterized by often disrupted value chains. The potential of value adding activities to locally available agricultural raw materials remains limited as the agri-processing industry is not well linked to the producing farmers. The role of an extension service is fundamental as extensionists could not only provide technical advice but also act as matchmakers between agribusiness companies and farmers.

Partners

All agribusiness companies in a specific sector willing to set up a private extension service and to share costs with DFID.

Requirements

1) Small Project Implementation Unit (PIU; 2 international experts, 2 local experts) for a project duration of 2 – 3 years
2) 1 or more agribusiness companies willing to improve their backward linkages with the help of newly employed extensionists
3) 4 extensionists with an agricultural background and a kind of entrepreneurial spirit hired by the agribusiness industry, for example a dairy plant. Costs could be shared between the company and DFID.
4) The extensionists will be trained by the dairy plant in all in-house topics (especially in the milk processing side with a focus on milk hygiene etcetera) and will receive tailor-made training from freelance experts or local universities and agricultural colleges - financed by DFID.
5) (These training sessions will be made available also to the local governmental extension staff to enhance their skills too and also to start a private-public dialogue.)
6) The 4 extensionists will be equipped with laptops, cameras, cars and more by the company and will start their extension work with all current milk suppliers and also other farmers interested in milk delivery. The dairy plant will disseminate their raw milk requirements and extensionists will assist farmers to achieve qualitative and quantitative targets.

7) Farmers will enter contractual agreements fixing quality, deliverable quantity and a price range to reduce the volatility in agricultural prices.

8) If this approach proves successful, farmers might get cows, fodder and other agro-inputs on a basis of in-kind credits from the dairy plant, paid back on a monthly basis through milk delivery.

9) As soon as the model is working the PIU could move to another dairy plant or another agribusiness company and repeating there the same activities. (Replicability is given.)

Indicative Budget

		No.	Fee (£)	Costs for 2 years (£)
Staff PIU				
	International experts	2	£100,000	£400,000
	National experts	2	£20,000	£80,000
	Office, transport, services	1	£50,000	£100,000
Extensionists				
	National experts	4	£15,000	£120,000
	Office, transport, services	1	£20,000	£40,000
	50% by DFID rest by agribusiness			£80,000
Training costs				
	Training days outside the company	60	£500	£30,000
Others				
	Unexpected expenditures	1	£50000	£50,000
TOTAL in GBP				**£740,000**

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