Support to Investment Climate Reforms

The World Bank Group’s (WBG) involvement in investment climate (IC) reform started in 2006, when South Sudan, not yet formally an independent country, had just emerged from a 21-year long civil war. The program was implemented in a situation characterized by the lack of critical institutions, an outdated legal and regulatory framework, and extremely weak operational capabilities, in both the public and private sectors. Accordingly, WBG assistance involved a major institution and capacity building element, in order to “establish a robust legal and regulatory framework, and to develop key institutions”. This makes WBG’s intervention in South Sudan significantly different from those implemented in the other countries, where significant efforts were devoted to the simplification of existing legislative and regulatory frameworks.

WBG assistance to IC reform was provided through two successive operations. Launched in 2006-2007, the first project covered three reform areas: (i) business registration; (ii) investment policy and promotion; and (iii) public private dialogue (PPD). In the original design, a component covering access to land and special economic zones was also envisaged, but work in these areas was dropped during implementation due to budget constraints. Launched in January 2011, the second project considerably broadened the scope of interventions, to include industry specific reforms, business licensing, Alternative Dispute Resolution (ADR) and legal reforms in areas linked to Doing Business (DB) indicators. The total value of WBG assistance is about US$ 6.7 million. More than one third of the resources went to support the reform of business registration, while investment policy and promotion, PPD and legal reforms each attracted about one sixth of total funding.

The WBG program was implemented in a difficult context and had to face a number of operational constraints. Activities were seriously affected by the civil disturbances that erupted in December 2013, which led to the suspension of operations for a few months, due to security concerns. The WBG program came to an official end in the first half of 2014 and is expected to be followed by another initiative, currently under preparation.

South Sudan – Key Facts

South Sudan is Africa’s youngest independent state, having formally acquired independence in July 2011, after a long armed struggle with origins dating back to the 1950s. With a population of 11.3 million, the country can count on vast and largely untapped natural resources. However, economic and social development is hampered by structural constraints, lack of physical infrastructure, weak institutions and scarcity of skilled manpower, as well as by security problems and acute political conflict. South Sudan is one of the world’s most oil dependent countries, with oil accounting for nearly the totality of exports and an estimated 60% of GDP. The country suffered a major setback in 2012 due to the closure of the oil pipelines passing through Sudan, which led to an abrupt contraction in economic activity. As a result, over the 2009-2013 period real GDP contracted by 2.4% per year on average. In 2013, nominal GDP stood at US$ 13.8 billion, basically the same value of 2009, while GNI per capita (Atlas method) was US$ 1,120.
RESULTS OF IC REFORM EFFORTS

The WBG program contributed to the implementation of 8 IC reforms over the 2010-2013. These reforms mostly concerned the creation of the basic conditions for the development of private sector activities, with the setting up of crucial institutions and the passing of key pieces of legislation. Main achievements include: (i) the reform of the business registration system; (ii) the creation of a platform for PPD; (iii) the strengthening of the South Sudan Investment Authority (SSIA); (iv) the enactment of various laws on enterprises, including a new Companies Act; (v) the adoption of the implementing regulations for the Investment Act; and (vi) the enactment of legislation on the licensing of imports and exports. While crucially important for the creation of a modern market economy, these reforms are not easily captured by commonly used IC indicators. This is the case in particular of DB indicators, that are mostly geared at measuring the reduction of regulatory burdens. As a result, South Sudan is still ranking low in the overall DB rankings (186th out of the 189 economies covered by the 2014 DB Report).

Achievements in Selected Reform Areas

Business Registration. WBG support greatly helped to improve the business registration process, with the provision of legal advice, training and operational support, including the setting up of a computerized system. Formally established in 2005, the Business Registry was re-launched in 2009. Lately, efforts were also made to expand services outside the capital city, but the move was only partly successful, due to deteriorating security conditions. In a context where many firms are young and information on enterprises is scarce, the Business Registry has become an important source of company information. Indeed, bankers regularly refer to the Business Registry to get information on prospective clients (“We always want to check who is behind a company, things change quite quickly in this country”; “Getting the certificate of incorporation is not a formality, we need to get as much information as possible”). The important role played by the Business Registry as a provider of company information justifies the requirement for firms to submit annual returns. While this obligation inevitably imposes a burden on enterprises, the benefits associated with the collection of updated information are generally considered to outweigh the costs.

Investment Policy & Promotion. WBG assistance was largely aimed at strengthening SSIA’s operational capabilities, including the establishment of a One Stop Shop Investment Center, responsible for handling applications for investment certificates and incentives. However, the effectiveness of capacity building support was reduced by frequent changes in the institutional setting (the legal status of the investment promotion agency changed no less than four times in less than a decade) and by tight budget conditions, with difficulties in securing an adequate operational budget. WBG also played a crucial role in the organization of South Sudan’s first investment conference. Held in early December 2013, the conference was well attended, with over 800 participants from some 50 countries, and a number of participants expressed interest in doing business in the country. Unfortunately, the conference was quickly followed by the eruption of civil disturbances in several parts of the country, and this inevitably tarnished the image of South Sudan as an investment destination.

Public Private Dialogue. Formally set up in 2009, the Southern Sudan Business Forum (SSBF) is managed by a secretariat that coordinates the activities of thematic working groups (on financial services, trade and tax administration, land and agriculture, etc.), involving both the private sector and relevant government bodies. The degree of activism of these working groups is variable, depending upon the commitment of participants, but some positive results have been achieved. In particular, the SSBF actively supported the adoption of new legislation on enterprises, contributed to the development of blueprint policy documents (namely, the government’s Private Sector Development Strategy and the Bank of Southern Sudan’s microfinance policy), and successfully lobbied for the removal of road blocks that hampered freight traffic with neighboring countries.

Private Sector’s Views on IC Reforms

Attitudes towards IC reforms were assessed through interviews with local small and medium enterprises (SME) and selected foreign investors. IC reforms are widely appreciated by the business community, with the overwhelming majority of enterprises surveyed for the study expressing the view that the overall IC either significantly (57%) or somewhat (31%) improved in recent years. The positive assessment extends to virtually all specific IC themes investigated (e.g. business licensing procedures, tax payment procedures, etc.), with three quarters or more of respondents noticing a more or less marked improvement. Interestingly, the views expressed by interviewees were seemingly unaffected by the situation of political instability and insecurity prevailing at the time of the survey. This clearly indicates that memories of the “lawless conditions” prevailing in the early/mid-2000s are still very much in the minds of business people and that current conditions, although not ideal, constitute a major improvement. In this respect, South Sudan is a special case among the five countries assisted by WBG, because the introduction (rather than the abolishment) of business regulations is generally seen as a positive development, as
it provides a clear basis for business activities (“Duties and rights among parties involved in business have been made clearer”, “Now we know which office to address”).

**IMPACT OF IC REFORMS – REDUCTION OF COMPLIANCE COSTS**

Given the predominant focus on creating the basic legal and institutional framework, WBG initiatives have resulted in a comparatively modest reduction of administrative burdens. Overall, WBG–supported reforms resulted in cost savings totaling some US$ 0.5 million over the 2010–2013 period. This value is almost entirely ascribed to ‘monetary savings’, resulting from the reduction of fees and out-of-pocket expenses. ‘Time savings’ associated with a reduction in the time required to fulfill administrative procedures are much more limited.

The majority of cost savings were achieved in the area of business registration, thanks to: (i) the elimination of the requirement for notarization for business names; (ii) the simplification of registration procedures for companies; and (iii) the establishment of decentralized registration offices, which allowed operators based outside Juba to save on travel costs. Some cost savings were also achieved through the dismantling of a series of road blocks established by security forces on the main road connecting Juba with the Ugandan border. While in principle intended to guarantee safety of passage and officially entailing no payment of fees, in practice these road blocks had become an opportunity for security personnel to extract bribes from truckers.

The value of cost savings has been increasing overtime, due to the coming on stream of new reforms and the increasing number of firms/transactions benefiting from earlier reforms. However, their relative importance remains quite limited, as they account for just 0.02% private investment.

**IMPACT OF IC REFORMS – ENTERPRISE FORMATION AND FORMALIZATION**

**Enterprise Formation.** Available data on business registrations mostly refer to Juba and neighboring areas and, therefore, do not provide a comprehensive picture of developments countrywide. Subject to this caveat, IC reforms do not seem to have had any appreciable impact on the enterprise formation process. Indeed, over the 2006–2013 period, the number of newly registered enterprises does not show any discernible trend, with major fluctuations from one year to the next, seemingly unrelated with the introduction of reforms. In 2010, there was a surge in the registration of sole proprietorships and partnerships, possibly linked to the passing of new legislation on these types of firms. Similarly, in 2012 there was a strong increase in the registration of firms adopting a corporate form, possibly linked to the enactment of the new Companies Act. However, in both cases the increases were short-lived and in subsequent years numbers reverted to previous levels.

**Enterprise Formalization.** A comparison of data on business registrations with statistics on active firms established by the National Bureau of Statistics, suggests that at end 2010 about 60% of businesses had started operations before registering. However, as the Business Registry de facto became operational only in 2009, the phenomenon can be better qualified as the regularization of entities that previously did not have an opportunity to acquire a formal status, rather than the formalization of firms that had been deliberately operating informally.

**SUSTAINABILITY OF IC REFORMS**

In South Sudan, some IC reforms are still too short-lived to allow for any definitive assessment of sustainability. While there are some positive signs, the political and institutional environment is highly volatile and this inevitably affects future prospects.
The situation is comparatively more favorable in the area of legal reforms and business registration. The various pieces of legislation that constitute the basis for a well-functioning market economy (law on companies, law on cooperatives, insolvency law, etc.) took significant time to develop, but their usefulness is unanimously recognized and, barring major unfavorable developments in the political scene, there are no significant risks of policy reversal. The same can be said about business registration reforms, as the Business Registry is fully integrated into the Ministry of Justice and its functions are widely regarded as essential by government authorities and the business community. However, the attempt to extend registration services to areas outside Juba suffered a major setback as a result of the events of December 2013. Only one of the two branch offices established with WBG support is currently functioning in Wau, while the other in Malakal was completely destroyed. Plans for setting up another branch in Bentiu have been postponed indefinitely in light of the security situation.

The sustainability of other reforms is more questionable. The SSBF was not seriously affected by the events of December 2013. The secretariat managed to remain operational working group meetings were held even in the immediate aftermath of the crisis. However, future sustainability remains a challenge, due to financial considerations. In fact, given the difficult budgetary conditions faced by the government, the forum would need to mobilize substantial support from private sector organizations, and this may prove quite difficult to achieve. The situation is even more problematic with SSIA. While investment promotion capabilities were significantly improved by WBG assistance, the institution is currently facing serious constraints due to the difficult situation in public finances. Staff morale has been affected by delays in salary payments and the agency is struggling to repay some overdue debts, which given its modest annual budget, is impacting on operational efficiency (e.g. the software for investment tracking is rudimentary and needs updating).

This case study is part of the report Evaluation of The World Bank Group's Investment Climate Programs: Focus on Impact and Sustainability. This evaluation was carried out as an independent evaluation by Economisti Associati on behalf of the World Bank Group. The full report is available at: http://documents.worldbank.org/curated/en/2014/11/24397624/evaluation-world-bank-groups-investment-climate-programs-focus-impact-sustainability