

SOUTH SUDAN

# THE LANDSCAPE FOR IMPACT INVESTING IN EAST AFRICA



WITH SUPPORT FROM



**THE  
IMPACT  
PROGRAMME**

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# LIST OF COMMON TERMS AND ACRONYMS

**AFD** | Agence Française de Développement (French Development Agency)

**AfDB** | African Development Bank

**BIF** | Burundian Franc

**BIO** | Belgian Investment Company for Developing Countries

**BoP** | Base of the Pyramid

**CEPGL** | Communauté Économique des Pays des Grand Lacs (Economic Community of the Great Lakes Countries)

**COMESA** | The Common Market for Eastern and Southern Africa

**CSR** | Corporate Social Responsibility

**DFI** | Development Finance Institution

**DFID** | The Department for International Development (United Kingdom)

**DRC** | Democratic Republic of the Congo

**EAC** | East African Community

**Early-stage business** | Business that has begun operations but has most likely not begun commercial manufacture and sales

**EIB** | European Investment Bank

**ESG** | Environmental, Social, and Governance

**ETB** | Ethiopian Birr

**FDI** | Foreign Direct Investment

**FMCG** | Fast-Moving Consumer Goods

**FMO** | Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Netherlands Development Finance Company)

**Focus countries** | Countries under the study where non-DFI impact investors are most active in. Namely Ethiopia, Kenya, Rwanda, Tanzania, and Uganda

**GDP** | Gross Domestic Product

**GEMS** | Growth Enterprise Market Segment

**GIIRS** | Global Impact Investing Ratings System

**GIZ** | Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)

**Growth-stage business** | Company has a functioning business model and its current focus is developing new products / services or expanding into new markets

**HDI** | Human Development Index

**ICC** | International Criminal Court

**ICT** | Information and Communication Technology

**IFAD** | International Fund for Agricultural Development

**IFC** | International Finance Corporation

**IMF** | International Monetary Fund

**IRIS** | Impact Investing and Reporting Standards

**KES** | Kenyan Shilling

**LP** | Limited Partner

**Mature business** | Profitable company with a developed and recognizable brand

**MDG** | Millennium Development Goal

**MFI** | Microfinance Institution

**MSME** | Micro, Small and Medium Enterprise

**NGO** | Non-Governmental Organization

**Non-focus countries** | Countries covered in the study but have limited non-DFI impact investor activity. Namely Burundi, Djibouti, Eritrea, Somalia, South Sudan, and Sudan

**OFID** | OPEC Fund for International Development

**OPIC** | Overseas Private Investment Corporation

**PE** | Private Equity

**PPA** | Power Purchasing Agreement

**PPP** | Purchasing Power Parity

**PPP** | Public-Private Partnership

**PTA** | Preferential Trade Area Bank

**RDB** | Rwanda Development Board

**RFP** | Request for Proposal

**RWF** | Rwandan Franc

**SACCO** | Savings and Credit Co-operative

**SAGCOT** | Southern Agricultural Corridor of Tanzania

**SDG** | Sudanese Pound

**SGB** | Small and Growing Business

**SME** | Small and Medium-Sized Enterprises

**SOE** | State-Owned Enterprises

**SOS** | Somali Shilling

**SSP** | South Sudanese Pound

**TA** | Technical Assistance

**TIC** | Tanzania Investment Centre

**TZS** | Tanzanian Shilling

**UGX** | Ugandan Shilling

**UN DESA** | United Nations - Department of Economic and Social Affairs

**UNCTAD** | United Nations Conference on Trade and Development

**USAID** | The United States Agency for International Development

**VAT** | Value-Added Tax

**VC** | Venture Capital

**Venture-stage business** | Sales have begun but cannot sustain the company's operations. The business model is still being aligned with the realities on the ground

**WASH** | Water, Sanitation, and Hygiene

**WHO** | World Health Organization

# SOUTH SUDAN

THE CONTINENT'S NEWEST  
COUNTRY



# TABLE OF CONTENTS

Introduction.....	2
Country Context.....	3
Gross Domestic Product.....	4
Foreign Direct Investment.....	6
Inflation and Exchange Rates.....	7
Supply of Impact Investing Capital.....	8
Broader Investing Landscape.....	8
Impact Capital Disbursed.....	9
Demand and Need for Impact Investing Capital.....	10
Development Context.....	10
Entrepreneurs.....	12
Enabling Impact Investing: The Ecosystem.....	13
Regulatory Environment.....	13
Ecosystem Players.....	14
Challenges and Opportunities for Impact Investors.....	15
Challenges.....	15
Opportunities.....	16

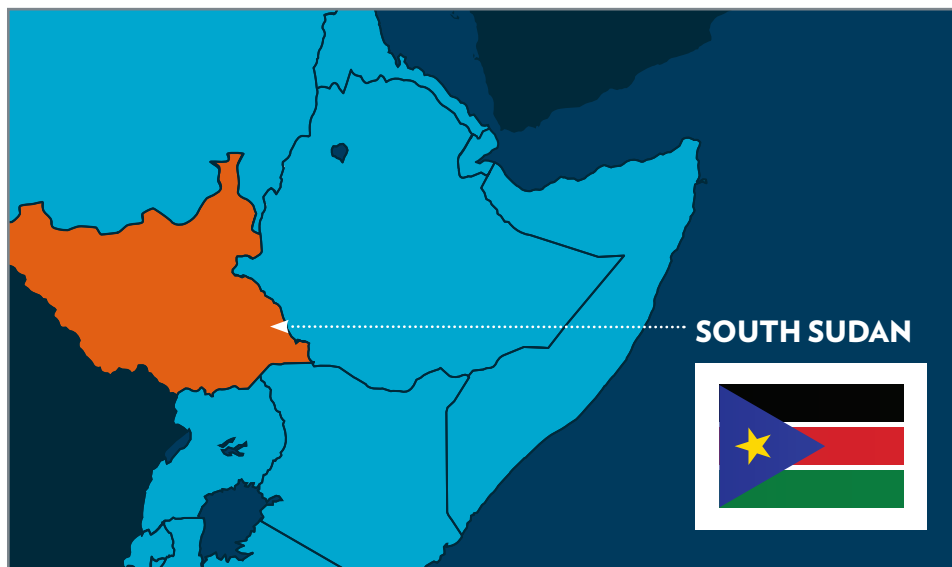
# INTRODUCTION

Following decades of conflict with Sudan, South Sudan declared independence in a referendum in 2011. At the end of 2013, civil war broke out in the country following a political struggle between the president and former vice-president.

The South Sudanese economy is heavily reliant on oil, which comprises the vast majority of GDP, exports, and government revenue. Foreign investment has been highly concentrated in the oil sector. However, the government has acknowledged the importance of private sector development and diversification for the future of the country, and has begun streamlining the regulatory environment and investment process to facilitate this growth.

To date, South Sudan has seen very little impact investment, but it could play an important role as the country begins to develop independently. Impact investors face a number of challenges in South Sudan that have hindered them from entering the market and deploying capital. These challenges include ongoing conflict, a difficult regulatory environment, and a limited talent pool available to South Sudanese businesses.

FIGURE 1: MAP OF SOUTH SUDAN



# COUNTRY CONTEXT

South Sudan is the world's newest state at the publication of this report and remains a fragile, underdeveloped country wracked by conflict. The nation was founded on July 9, 2011 when South Sudan gained independence from Sudan following decades of conflict between the Southern rebels and Sudan's Khartoum-based government.

South Sudan was initially established as a semi-autonomous region in 1972 as part of the peace agreement that ended the country's first civil war. The removal of this autonomy in 1983 led the Sudanese People's Liberation Movement (SPLM) to take up arms against the central government, prompting a second civil war. This conflict lasted until 2005 with the formation of a power-sharing government and restoration of South Sudanese autonomy.

Following independence in 2011, South Sudan and Sudan remain at odds on a variety of issues including status and rights of nationals in each country, oil fees, and Abyei, a disputed region with significant oil resources. Punctuated by ongoing skirmishes and clashes between their armed forces, the ongoing conflict has killed thousands of people and displaced more than one million.<sup>1</sup>

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<sup>1</sup> "South Sudan Profile", *BBC* (6 August, 2014), available at <http://www.bbc.com/news/world-africa-14019202>.

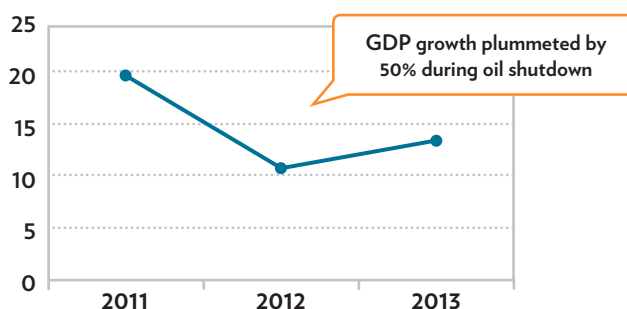


## Gross Domestic Product

South Sudan's economy has struggled recently due to civil unrest and ongoing disagreements with the government of Sudan over oil rights, as well as other disruptions to economic activity. In 2012, a dispute over oil fees led Sudan to shut down South Sudan's oil export pipelines, only resuming shipments in 2013.<sup>2</sup> As a result, South Sudan's GDP declined approximately 50%—from nearly USD 22 billion in 2011 to just under USD 12 billion in 2012 (Figure 2). While GDP grew about 25% to almost USD 15 billion between 2012 and 2013, South Sudan's recovery has been hampered by the civil war. Despite the country's abundant oil resources, South Sudan's GDP per capita was only USD 1,350 in 2013,<sup>3</sup> approximately 50% of the sub-Saharan average of USD 2,673 per capita.<sup>4</sup>

FIGURE 2: GDP (PPP), 2011–2013

USD BILLIONS



Source: IMF World Bank Economic Indicators, April 2014

Oil is the driving factor of the economy and is estimated to account for up to 80% of GDP and almost all exports, making South Sudan the most heavily oil-dependent nation in the world.<sup>5</sup> The government of the Republic of South Sudan (GoSS) is also deeply dependent on these exports as nearly 98% of its revenues in recent years have been generated by the oil industry.<sup>6</sup>

South Sudan's 2012 oil shutdown demonstrated the importance of oil to the economy. In January 2012, the government was forced to halt production and export of oil due to ongoing disagreements with Sudan, primarily around fees to use Sudan's infrastructure. These disagreements stem from uneven distribution of oil reserves

2 "South Sudan Profile", BBC (6 August, 2014), available at <http://www.bbc.com/news/world-africa-14019202>.

3 World Economic Outlook: South Sudan gross domestic product based on purchasing-power-parity (PPP) per capita GDP, *International Monetary Fund* (Apr. 2014), available at <http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/download.aspx>.

4 *Ibid.*

5 The World Bank, *South Sudan Overview*, available at <http://www.worldbank.org/en/country/southsudan/overview>.

6 *Ibid.*



and infrastructure dating back to pre-independence; as of 2014, Sudan possesses 1.5 billion barrels in oil reserves while South Sudan has more than twice that number—3.5 billion barrels.<sup>7</sup> While almost 70% of unified Sudan's oil reserves were in the south, the majority of export infrastructure was developed in the north. Therefore, independent South Sudan lacks the necessary infrastructure to export its oil, forcing it to rely on Sudan and making it vulnerable to conditions imposed by the Sudanese government.

Without revenues generated by oil production and export, the GoSS was forced to implement significant austerity measures, reducing its 2012 spending by approximately 45% from 2011 levels followed by additional spending cuts in its 2012/2013 budget. These cuts included reductions in operating costs, capital expenditure, and transfers to South Sudanese states, leading to GDP decline and economic challenges. With the resumption of oil flows, the economy rebounded in the second half of 2013, despite production levels nearly 40% lower than 2011.<sup>8</sup>

While oil is the key driver of South Sudan's economy, agriculture is the primary economic activity for most South Sudanese citizens. Agriculture is still primarily subsistence farming as almost 80% of South Sudanese households rely on crop farming or animal husbandry as their primary source of income.<sup>9</sup> The reliance on subsistence agriculture makes the country susceptible to natural disasters such as floods, droughts, and crop diseases. Such disasters disproportionately impact South Sudan's most vulnerable; among Sudan's bottom quintile by income, more than 80% rely on agriculture for their primary source of income.<sup>10</sup>

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7 U.S. Energy Information Administration, "Sudan and South Sudan," *U.S. Energy Information Administration* (September 3, 2014), available at <http://www.eia.gov/countries/cab.cfm?fips=SU>.

8 CIA, *The World Factbook – South Sudan*, available at <https://www.cia.gov/library/publications/the-world-factbook/geos/od.html>.

9 HumanIPO, "Top network operators see South Sudan as next big mobile-money zone," *HumanIPO* (Jul. 20, 2012), available at <http://www.humanipo.com/news/965/top-network-operators-see-south-sudan-as-next-big-mobile-money-zone/>.

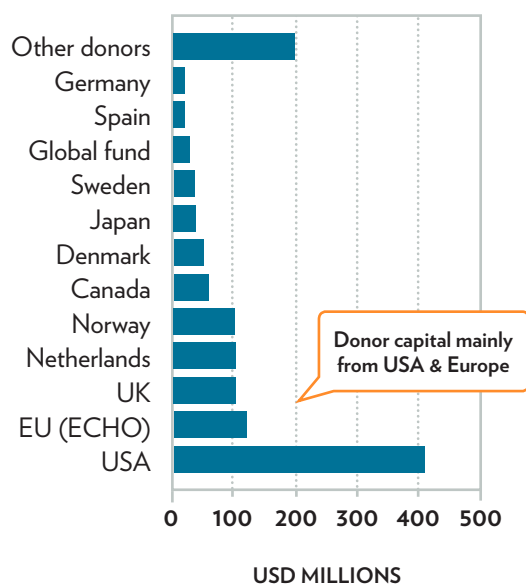
10 Bertelsmann Stiftung, *BTI 2014 – South Sudan Country Report*, available at [http://www.bti-project.de/uploads/tx\\_itao\\_download/BTI\\_2014\\_South\\_Sudan.pdf](http://www.bti-project.de/uploads/tx_itao_download/BTI_2014_South_Sudan.pdf).

## Foreign Direct Investment

With South Sudan's weak private sector and history of conflict, there have been limited international investments in the country. Although FDI statistics for South Sudan as a nation are unavailable, the oil sector receives the majority of foreign investments given its role in the economy. These are primarily from large foreign oil companies including China's National Petroleum Company, Malaysia's Petrolia Nasional Berhad (PETRONAS), and India's Oil and Natural Gas Corporation (ONGC). Other countries with business interests in South Sudan's oil industry include the U.S., Russia, France, and Kuwait. Other than oil investments, international companies that operate in South Sudan include South African brewer SABMiller, telecommunications operators MTN, Vivacell, and Zain, airlines such as Air Uganda and East Africa Airlines, as well as insurance and banking institutions from Kenya, South Africa, and Ethiopia.<sup>11</sup>

South Sudan continues to receive a substantial amount of foreign aid, primarily from the United States and Europe (Figure 3). Since 2005, aid agencies have sent more than USD 4 billion in foreign aid to South Sudan<sup>12</sup> primarily for health, infrastructure, and social and humanitarian affairs.

FIGURE 3: FOREIGN AID INFLOWS BY COUNTRY OF ORIGIN, 2010



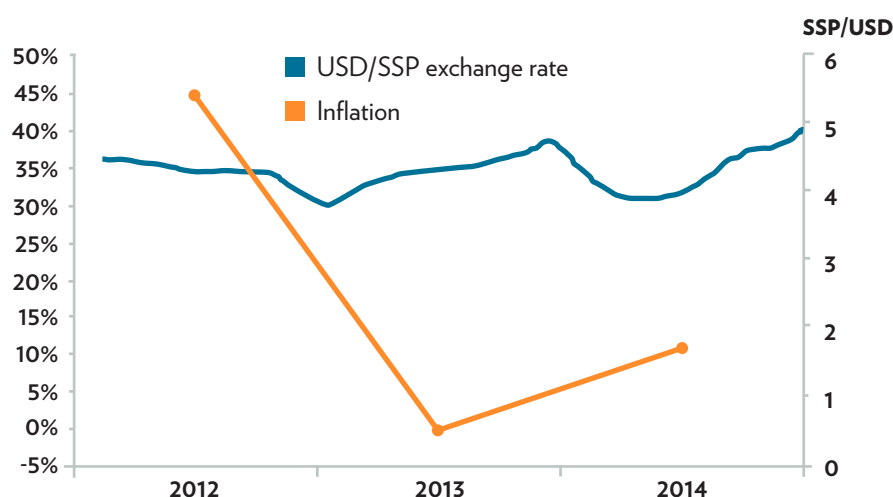
11 US Department of State, *2013 Investment Climate Statement-South Sudan*, available at <http://www.state.gov/e/eb/rls/othr/ics/2013/204855.htm>.

12 Economy watch, "South Sudan Economic Statistics and Indicators," Economy watch, available at <http://www.economywatch.com/economic-statistics/country/South-Sudan/>.

## Inflation and Exchange Rates

South Sudan's Central Bank was established shortly after independence in 2011, and there is limited reliable data available on the bank's operations and lending rates to date. Inflation in South Sudan has been erratic due to the economic uncertainty that has plagued the country since independence (Figure 4). Starting at 45% in 2012, the inflation rate peaked at almost 80% in mid-2012 due to rising fuel prices and exchange rate pressure.<sup>13</sup> The inflation rate then plunged to just slightly negative in 2013 before rising to an estimated 11% in 2014. The International Monetary Fund (IMF) expects inflation in South Sudan to gradually decline and stabilize at approximately 5% over the next few years, but continued unrest may drive inflation higher than expected.<sup>14</sup>

FIGURE 4: INFLATION AND USD/SSP EXCHANGE RATE, 2012-2014



Meanwhile South Sudan's currency, the South Sudanese Pound (SSP), has remained fairly stable, averaging an official exchange of 4 SSP to the dollar between 2012 and 2014, although investors interviewed for this report suggest that black market exchange rates fluctuate significantly. It is heavily supported by the country's foreign exchange reserves from oil. As a result, the 2012 oil shutdown led to a slight devaluation of the SSP as the government was forced to spend foreign exchange reserves.<sup>15</sup>

<sup>13</sup> CIA, *The World Factbook – South Sudan*, available at <https://www.cia.gov/library/publications/the-world-factbook/geos/od.html>.

<sup>14</sup> World Economic Outlook: South Sudan inflation, average consumer prices, *International Monetary Fund* (Apr. 2014), available at <http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/download.aspx>; African Economic Outlook, South Sudan (2014), available at [http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN\\_Long\\_EN/SoudanDuSUD\\_ENG.pdf](http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/SoudanDuSUD_ENG.pdf).

<sup>15</sup> South Sudan National Bureau of Statistics, *The South Sudan Millennium Development Goals Status Report* (2012), available at <http://www.undp.org/content/dam/southsudan/library/Reports/MDG%20Report%202012.pdf>.

# SUPPLY OF IMPACT INVESTING CAPITAL

There has been minimal impact investing activity in South Sudan to date. Investing and working in South Sudan continues to be challenging due to a variety of factors, including ongoing conflict, a poor regulatory environment, and a limited talent pool available to South Sudanese businesses. This is reflected in South Sudan's place in the World Bank's Ease of Doing Business rankings where the country is recognized as one of the poorest environments for business, ranking 186<sup>th</sup> out of 189 countries.<sup>16</sup>

## Broader Investing Landscape

Impact capital represents only a small part of the overall investing landscape, with limited evidence of activity to date. Access to conventional capital continues to be a challenge for both local and foreign businesses due to the country's newly independent financial sector. South Sudan has fewer than 20 banks and just 70 foreign exchange bureaus country-wide. Foreign exchange is strictly controlled, with the four largest bureaus controlling almost 70% of the sector's total assets.<sup>17</sup> In addition, South Sudan's banks are risk averse and unwilling to lend to early stage ventures as the nascent regulatory environment does not offer sufficient protection to lenders. Most banks are centered in urban areas such as Juba and Wau and have limited presence in rural areas; even MFIs have limited reach due to the country's poor infrastructure.<sup>18</sup>

Investments in the oil sector remain the largest area of investment in the country, with little investment in other sectors. However, the government acknowledges the importance of private sector development and diversification for the future of the country, and has begun streamlining the investment process to facilitate this growth. They established the One Stop Shop Investment Centre (OSSIC) to act as a central contact point for investors to apply for all required approvals and permits.<sup>19</sup>

After years of conflict, the country is in desperate need of infrastructure investments. Plans for infrastructure development had begun to be laid out, but ongoing civil unrest has largely halted these projects.<sup>20</sup>

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16 Economy Rankings, *World Bank Group*, available at <http://www.doingbusiness.org/rankings>.

17 US Department of State, *2013 Investment Climate Statement-South Sudan*, available at <http://www.state.gov/e/eb/rls/othr/ics/2013/204855.htm>.

18 *Ibid.*

19 African Economic Outlook, *South Sudan (2014)*, available at [http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN\\_Long\\_EN/SoudanDuSUD\\_ENG.pdf](http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/SoudanDuSUD_ENG.pdf).

20 *Ibid.*

## Impact Capital Disbursed

There are 50 known impact funds (excluding DFIs)<sup>21</sup> that list South Sudan as part of their target geography. These non-DFI impact investors have deployed USD 748,000 in impact investments in the country to date (Figure 5). These vehicles have very large geographic reaches—often global or sub-Saharan African wide—and most do not prioritize investments in South Sudan, resulting in the small amount deployed so far. It is unclear whether many of these non-DFI impact investors would be willing to seriously consider an investment in South Sudan despite its formal inclusion as a target country. Indeed, only one non-DFI impact investor has placed staff locally in Juba.

Reflecting this lack of focus on South Sudan, only USD 4.5 million is committed specifically to impact investments in the country from non-DFI investors. Beyond this, there is at least a further USD 611 million in capital committed regionally that could be deployed in South Sudan. However, it remains highly unlikely that any notable fraction of this capital will be deployed in the country. Still, this availability does imply that if the investment environment improves, there are substantial pools of capital that could rapidly shift to investments in South Sudan.

By contrast, DFIs have been much more active deploying capital in South Sudan with approximately USD 17 million disbursed across six known investments in 2012 and 2013 (Figure 5). These investments were concentrated in financial services—four USAID-funded investments provided guarantees totaling approximately USD 7 million to financial institutions such as KCB Sudan and Equity Bank South Sudan. The remaining capital was provided by IFC and Norfund to companies in construction and real estate.

**FIGURE 5: IMPACT INVESTMENTS IN SOUTH SUDAN**

	Capital disbursed	Deals
NON-DFI	USD 748,000	3
DFI	USD 17 Million	6

Source: Open Capital Research

21 Due to the unique nature and large size of development finance institutions (DFIs), the authors of this report analyzed their activity separately from those of other types of impact investors (“non-DFI”), and present this separate analysis when appropriate. See the Introduction and Methodology section of this report for more details.

# DEMAND AND NEED FOR IMPACT INVESTING CAPITAL

South Sudan struggles with a weak private sector and minimal entrepreneurship by the local population. Northern Sudanese dominate most businesses and trade in the country, while Kenyans and Ugandans provide most imports. Of the few businesses started by South Sudanese nationals, South Sudanese repatriates are responsible for a larger portion than “indigenous” South Sudanese. Local entrepreneurs tend to focus on the informal sector in areas such as retail, livestock, vehicle repair, transportation, and equipment maintenance.<sup>22</sup>

Without significant entrepreneurial activity, most of South Sudan’s industries have little competition to drive growth and innovation. While this can make it challenging to find proficient and dependable local business partners and suppliers, it also represents an opportunity for investors and entrepreneurs to start new businesses in a variety of sectors.<sup>23</sup>

## Development Context

After years of conflict, South Sudan is understood to have strong development needs, but due to its relative infancy, there are few reliable measures to objectively understand South Sudan’s socioeconomic conditions or to compare the country to regional and global indicators; for example, the United Nations has yet to rank South Sudan on its Human Development Index.

The country has little socioeconomic development in non-urban areas and is plagued by high poverty rates. As of 2009, more than 50% of South Sudan’s population lived on less than USD 1.00 a day (Figure 6).<sup>24</sup>

South Sudan also suffers from a shortage of basic health services, and those that do exist are of poor quality. The maternal mortality rate is 730 deaths per 100,000 live births, making it the seventh worst country in the world for maternal health.<sup>25</sup> Meanwhile, only 17% of South Sudanese children are fully immunized,<sup>26</sup> and nearly 40% of children in South Sudan die before their fifth birthday, as the under-five mortality rate is 381 deaths per 1,000 births, far worse than in nearby countries. This

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22 Peace Security and Development Network, *Public Private Cooperation in Fragile States Country report: Southern Sudan* (2009), available at [http://www.clingendael.nl/sites/default/files/20090900\\_report\\_cru\\_southern\\_sudan.pdf](http://www.clingendael.nl/sites/default/files/20090900_report_cru_southern_sudan.pdf).

23 *Ibid.*

24 Bertelsmann Stiftung, *BTI 2014 – South Sudan Country Report*, available at [http://www.bti-project.de/uploads/tx\\_itao\\_download/BTI\\_2014\\_South\\_Sudan.pdf](http://www.bti-project.de/uploads/tx_itao_download/BTI_2014_South_Sudan.pdf).

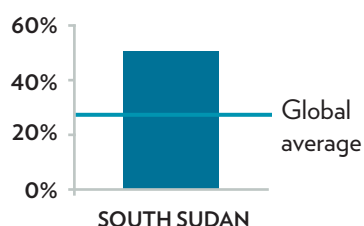
25 “Maternal mortality has declined steadily since 1990, but not quickly enough to meet the MDG target,” *UNICEF* (Jul 2014), available at <http://data.unicef.org/maternal-health/maternal-mortality>.

26 “South Sudan Overview,” *The World Bank* (Nov. 13 2014), available at <http://www.worldbank.org/en/country/southsudan/overview#1>.

rate is more than 2.5 times greater than in Somalia and nearly six times greater than in neighboring Ethiopia.<sup>27</sup>

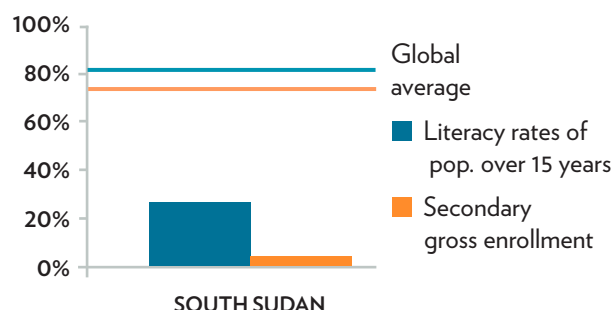
South Sudan has similar challenges along educational metrics. Approximately 75% of South Sudanese heads of household have not completed any formal education<sup>28</sup> and the literacy rate among those aged 15 years and older is only 27% (Figure 7) with a significant disparity in male literacy (40%) and female literacy (16%), a reflection of boys receiving better educational opportunities.<sup>29</sup> Moreover, just 4% of students of secondary school age are enrolled in secondary school, less than one-eighth the East African average of approximately 33%, and nearly 20 times lower than the global average of 74%.<sup>30</sup> South Sudan continues to rely on NGOs, churches, and other charitable organizations to provide public goods such as healthcare and education.<sup>31</sup>

**FIGURE 6: POPULATION BELOW USD 1/DAY  
(LATEST AVAILABLE DATA POINT)**



Source: UN Human Development Report 2014; Bertelsmann Stiftung, BTI 2014 - South Sudan Country Report. Note: Chart shows population below USD 1/day, but global average refers to population below USD 1.25/day from the UN Human Development Index

**FIGURE 7: SECONDARY SCHOOL  
GROSS ENROLLMENT**



Source: UN Human Development Report 2014; Bertelsmann Stiftung, BTI 2014—South Sudan Country Report

27 Bertelsmann Stiftung, *BTI 2014 — South Sudan Country Report*, available at [http://www.bti-project.de/uploads/tx\\_itao\\_download/BTI\\_2014\\_South\\_Sudan.pdf](http://www.bti-project.de/uploads/tx_itao_download/BTI_2014_South_Sudan.pdf).

28 *Ibid.*

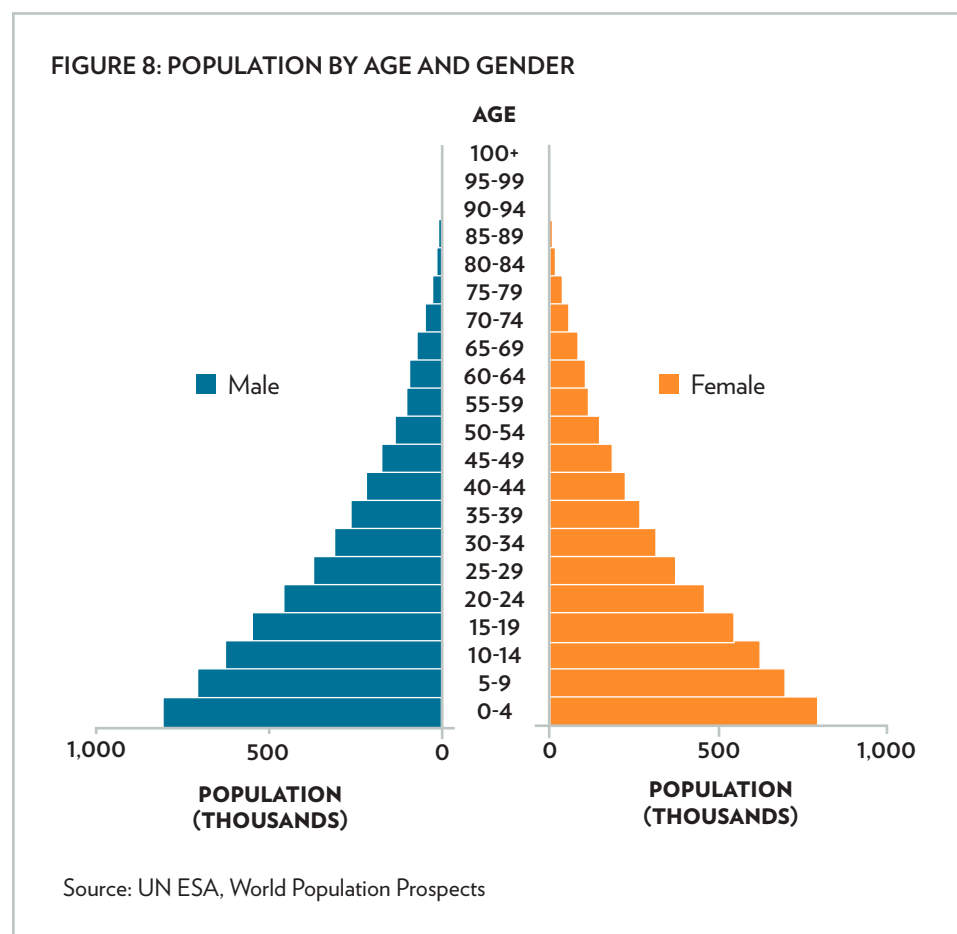
29 “South Sudan Overview,” *The World Bank* (Nov. 13 2014), available at <http://www.worldbank.org/en/country/southsudan/overview#1>.

30 Bertelsmann Stiftung, *BTI 2014 — South Sudan Country Report*, available at [http://www.bti-project.de/uploads/tx\\_itao\\_download/BTI\\_2014\\_South\\_Sudan.pdf](http://www.bti-project.de/uploads/tx_itao_download/BTI_2014_South_Sudan.pdf).

31 *Ibid.*



Educational metrics are an especially important indicator for future development given South Sudan's demographics. Like other East African countries, South Sudan has a disproportionately young population, where 63% of the population is below the age of 25 and more than 40% below the age of 15 (Figure 8). This has led to high youth unemployment. Low levels of education make it more challenging to translate the youth boom into positive economic growth as these youth begin to seek employment opportunities.



## Entrepreneurs

It is challenging to start a new business or transition a business from the informal to the formal sector due to numerous regulatory requirements. As recently as 2011, the high cost of setting up a business in South Sudan made Juba the second most expensive commercial capital in the world. An entrepreneur registering a business in South Sudan must go through 11 procedures and pay USD 3,077, almost three times the annual income per capita.<sup>32</sup>

As mentioned earlier, non-South Sudanese such as Ugandans, Kenyans, and northern Sudanese dominate most business ventures. Development of home-grown businesses in South Sudan will require investing in an enabling environment and in local entrepreneurs.

<sup>32</sup> Ease of Doing Business, *South Sudan*, available at <http://www.doingbusiness.org/data/exploreeconomies/south-sudan>.

# ENABLING IMPACT INVESTING: THE ECOSYSTEM

As a new country, South Sudan is still building an ecosystem capable of encouraging private sector growth. This is evident across the regulatory and service provider market as well as the general business environment.

## Regulatory Environment

After independence, the government of South Sudan was forced to develop the new country's regulatory framework while maintaining continuity with previous systems. The country still uses some laws enacted during its period of semi-autonomy from 2005 to 2009, and it has also passed several new acts, including the 2012 Imports and Exports Act and the 2012 Companies Act. Nevertheless, its regulatory framework remains underdeveloped.

- **Repatriation of profits and dividends:** South Sudan's Investment Promotion Act guarantees the right to transfer profits into and out of the country; however, as a practical matter, many companies have trouble repatriating profits. The supply of foreign currency is in short supply, and the Central Bank regulates which businesses are given US dollars, which can complicate efforts by foreign investors to repatriate profits.<sup>33</sup>
- **Foreign exchange controls:** The Central Bank uses foreign exchange rationing as a monetary instrument—banks are required to report significant foreign exchange transactions to the Central Bank, which caps the supply of foreign currency to businesses and private citizens.<sup>34</sup>
- **Land ownership:** Under South Sudan's 2009 Land Act, foreigners may not own land but are permitted to lease land for up to 99 years. Leases for mining or quarrying are limited to the life of the mine or quarry.<sup>35</sup> Though inadequate land regulation has made access to land a challenge, various foreign entities have successfully acquired leases to substantial land holdings, including 2.28 million hectares in Boma National Park leased by an Emirati company and 600,000 hectares leased by US-based Nile Trading and Development. It is estimated that as of the 2011 independence vote, non-South Sudanese entities in various sectors such as ecotourism and agriculture had acquired approximately 5 million hectares in the country.<sup>36</sup>

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33 US Department of State, *2014 Investment Climate Statement-South Sudan*, available at <http://www.state.gov/e/eb/rls/othr/ics/2013/204855.htm>.

34 African Economic Outlook, *South Sudan* (2014), available at [http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN\\_Long\\_EN/SoudanDuSud\\_ENG.pdf](http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/SoudanDuSud_ENG.pdf).

35 US Department of State, *2013 Investment Climate Statement-South Sudan*, available at <http://www.state.gov/e/eb/rls/othr/ics/2013/204855.htm>.

36 USAID, *USAID Country Profile-Property Rights and Resource Governance – South Sudan*, available at [http://usaidlandtenure.net/sites/default/files/country-profiles/full-reports/USAID\\_Land\\_Tenure\\_South\\_Sudan\\_Profile.pdf](http://usaidlandtenure.net/sites/default/files/country-profiles/full-reports/USAID_Land_Tenure_South_Sudan_Profile.pdf).

- **Local ownership requirements:** Foreigners are allowed to own or control businesses in any sector, but the Board of Directors of South Sudan's Investment Authority Board has the authority to enact or change regulations that limit the sectors in which foreigners may invest.<sup>37</sup> Medium and large companies must have at least 31% South Sudanese shareholding, though there is a common misperception that this rule applies to all businesses.<sup>38</sup> Small businesses—specifically companies that employ fewer than seven people and meet certain other financial requirements—may only be operated by South Sudanese citizens.<sup>39</sup>
- **Government enterprises:** Given the importance of oil to the economy, it is apt that an oil company is the GoSS' only enterprise. Nilepet, operated by the Ministry of Mining and Petroleum, manages South Sudan's oil reserves. In instances of public-private partnership, the GoSS will enter into joint ownership of a company with a foreign investor often with a controlling stake of 51% equity. The GoSS requires that investors in such enterprises be registered in South Sudan and typically enters into public-private partnerships in oil exploration, timber development, water, and mining.<sup>40</sup>
- **Taxation:** South Sudan's corporate tax rates vary by company size. The government levies 10%, 15%, or 20% taxes on small, medium, and large companies respectively. Companies must pay an additional 10% withholding tax on dividends, royalties, interest, and rent.<sup>41</sup> Regulations state that both foreign- and locally-owned businesses should receive tax exemptions on machinery and equipment, agricultural imports, and capital investments, although as of the publication of this report they fail to specify the size or length of exemptions.<sup>42</sup>

## Ecosystem Players

Along with a poorly developed private sector, South Sudan has a limited ecosystem to support private development. International organizations such as Technoserve and VC4Africa cover South Sudan but do not have a local presence. The Africa Enterprise Challenge Fund has awarded several grants to companies operating in South Sudan. Beyond these few activities, there are few intermediaries and service providers active in country.

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37 US Department of State, *2013 Investment Climate Statement-South Sudan*, available at <http://www.state.gov/e/eb/rls/othr/ics/2013/204855.htm>.

38 *Ibid.*

39 *Ibid.*

40 World Bank Group, *The Republic of South Sudan- Regulatory Reform Status*, available at <https://www.wbginvestmentclimate.org/advisory-services/regulatory-simplification/business-regulation/upload/Country-Presentations-South-Sudan.pdf>.

41 Deloitte, *International tax – South Sudan Highlights 2014*, available at <http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-southsudanhighlights-2014.pdf>.

42 US Department of State, *2013 Investment Climate Statement-South Sudan*, available at <http://www.state.gov/e/eb/rls/othr/ics/2013/204855.htm>.

# CHALLENGES AND OPPORTUNITIES FOR IMPACT INVESTORS

## Challenges

Current and potential impact investors in South Sudan face many challenges entering the market and sourcing high potential opportunities:

- **Political risk and insecurity:** Given ongoing civil conflict and recurring disagreements with Sudan, South Sudan continues to have high insecurity and instability, limiting the ability of investors to deploy capital.<sup>43</sup> Beyond the direct threat of violence and difficulty operating in an insecure environment, the significant internal displacement—more than one million people have been displaced<sup>44</sup>—makes it difficult for businesses to establish reliable consumer bases and scale operations in order to be attractive for investors, whether conventional or impact.
- **Underdeveloped financial and regulatory structures:** South Sudan's poorly developed institutions and regulations make it challenging for impact investors to operate in the country. Constraints include limited government data, poorly enforced regulations, lack of a credit reference bureau, and minimal documentation to prove land ownership. South Sudan's government has not yet instituted regulations to provide sufficient protection for lenders, making financiers reluctant to extend loans. Not only does South Sudan have an insufficient regulatory framework to support the private sector, it is also often challenging for entrepreneurs and investors to develop a full understanding of current legislation.<sup>45</sup>
- **Limited talent pool:** The lack of human capital is a consistent challenge throughout East Africa, and it is particularly acute in South Sudan. After decades of conflict and instability, South Sudan's education system has noticeably suffered. The country has one of the lowest literacy rates in the world, making it difficult to source qualified staff to scale. In addition, businesses' access to foreign talent is limited due to an unofficial expectation that 70-90% of positions in all companies be held by South Sudanese citizens.<sup>46</sup>

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43 Peace security and Development Network, *Public Private Cooperation in Fragile States Country report: Southern Sudan* (2009), available at [http://www.clingendael.nl/sites/default/files/20090900\\_report\\_cru\\_southern\\_sudan.pdf](http://www.clingendael.nl/sites/default/files/20090900_report_cru_southern_sudan.pdf).

44 "South Sudan Profile," *BBC* (6 August, 2014), available at <http://www.bbc.com/news/world-africa-14019202>.

45 US Department of State, *2013 Investment Climate Statement-South Sudan*, available at <http://www.state.gov/e/eb/rls/othr/ics/2013/204855.htm>.

46 *Ibid.*

## Opportunities

While hurdles exist for impact investors interested in Sudan, there are also opportunities for investors to deploy capital to provide financial returns while driving economic growth and long-term development:

- **Leverage technical assistance (TA) facilities for pre-investment pipeline building:** Given South Sudan's economic challenges, impact investors will continue to struggle to find businesses suitable for investment. Several impact investors have successfully developed TA facilities for portfolio companies within the region, and this will be especially important to address the lack of talent in South Sudan.
- **Infrastructure development:** As recently as 2011, South Sudan had approximately 60 miles of paved roads, severely limiting the ability to move goods and human capital through the country.<sup>47</sup> Investors could partner with DFIs and other stakeholders to support infrastructure development efforts in roads, electricity, and other sectors, which will lead to long-term economic growth and the introduction of new businesses.

In addition, several sectors are ripe for the development of new businesses and could present viable opportunities for investment:

- **Agriculture:** Agriculture remains an underdeveloped sector in South Sudan with considerable potential. Roughly half of the country's land is arable (approximately 41 million hectares), but the effects of war and minimal investment have left crop yields vulnerable to climate conditions and natural disasters. Most agriculture is subsistence farming with little commercial activity; these crops could benefit significantly from modern technologies and crop management practices. Investments in commercial agriculture, mechanization, input supply, technical assistance, and outgrower schemes would help develop the industry and provide greater food security.<sup>48</sup>
- **Telecommunications:** As South Sudan develops, a strong telecommunications sector is increasingly important for industry and government. Between 2010 and 2013, the number of mobile subscribers grew approximately 24% annually, nearly doubling from 1.5 million to 2.5 million over the period. Despite this strong growth, South Sudan currently lacks the infrastructure to reach the 80% of the population that lives outside major urban areas. Zain, a Kuwaiti company and one of South Sudan's leading mobile providers, estimates that the percentage of South Sudanese with mobile phones will grow from 13% to 36% over the next four years. With limited access to the formal financing sector, increasing use of mobile phones may facilitate access to mobile money, with important consequences for

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47 "South Sudan Faces Hurdles as World's Newest Country," *International Monetary Fund* (July 18, 2011), available at <http://www.imf.org/external/pubs/ft/survey/so/2011/car071811a.htm>.

48 Peace security and Development Network, *Public Private Cooperation in Fragile States Country report: Southern Sudan* (2009), available at [http://www.clingendael.nl/sites/default/files/20090900\\_report\\_cru\\_southern\\_sudan.pdf](http://www.clingendael.nl/sites/default/files/20090900_report_cru_southern_sudan.pdf).

commerce.<sup>49</sup> Multiple phone companies currently operate in South Sudan, but none currently offer mobile money services.

- **Renewable energy:** With the lowest per capita electricity consumption in Africa, South Sudan's energy industry is sorely in need of development and investment. South Sudan's electricity grid reaches only 1% of the population. Firewood and charcoal serve as the primary means to heat and cook for 96% of the population, presenting an opportunity for solar energy and other low-cost renewables. South Sudan has plans to dramatically increase power generation capacity (20 MW at time of writing), including a 38 MW hydropower plant to be completed in 2016, and the 540 MW Bedden Dam hydropower plant expected to cost USD 1.4 billion. South Sudan also received a USD 26 million grant from the African Development Bank (AfDB) in 2013 to expand the country's electricity distribution infrastructure.<sup>50</sup>
- **Industrial diversification:** Despite its importance to the economy, South Sudan has a limited reserve of oil. The World Bank estimates that the country's oil reserves will steadily decline until exhausted in 2035.<sup>51</sup> Other promising sectors include forestry, infrastructure, transportation, tourism and hospitality, health, manufacturing services, and mining.<sup>52</sup>

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49 HumanIPO, "Top network operators see South Sudan as next big mobile-money zone," *HumanIPO* (Jul. 20, 2012), available at <http://www.humanipo.com/news/965/top-network-operators-see-south-sudan-as-next-big-mobile-money-zone/>.

50 U.S. Energy Information Administration, "Sudan and South Sudan," *U.S. Energy Information Administration* (September 3, 2014), available at <http://www.eia.gov/countries/cab.cfm?fips=SU>.

51 The World Bank, "South Sudan Overview," *The World Bank* (Oct. 10, 2014), available at <http://www.worldbank.org/en/country/southsudan/overview#1>.

52 Peace security and Development Network, *Public Private Cooperation in Fragile States Country report: Southern Sudan* (2009), available at [http://www.clingendael.nl/sites/default/files/20090900\\_report\\_cru\\_southern\\_sudan.pdf](http://www.clingendael.nl/sites/default/files/20090900_report_cru_southern_sudan.pdf).



#### **ABOUT THE GLOBAL IMPACT INVESTING NETWORK**

The Global Impact Investing Network (GIIN®) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information, see [www.thegiin.org](http://www.thegiin.org).

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