

Sudan Integrated Framework Diagnostic Trade Integrated Study Aide Memoire on Second Technical Mission

February 1, 2007

1. The World Bank led a mission to Sudan, January 10–24, 2007, to gather information for the Sudan Integrated Framework Diagnostic Trade Integration Study (DTIS). The objective of the DTIS is to evaluate constraints facing Sudan’s integration into the world economy and to identify priority technical assistance needs. The mission was conducted at the invitation of the Commission for WTO Affairs, which serves as the national focal point for the Sudan Integrated Framework (IF) program, and on behalf of the six IF core agencies.¹ This aide memoire reports on the activities and principal findings of the mission.

2. This was the second of two technical missions planned for the Sudan DTIS. The first mission, conducted November 1–15, 2006, focused on supply-side constraints in selected agricultural, industrial, and services sub-sectors as well as exchange rate and macroeconomic policy. The second mission covered cross-cutting institutional issues, including trade policy/WTO accession, customs administration, transportation and trade logistics, poverty, and foreign direct investment. The mission’s objectives were (1) to gather information on the potential for trade and growth in Sudan and the constraints on this potential, (2) to identify concrete actions that should be undertaken to overcome these constraints.

3. Members of the January DTIS team and their responsibilities were as follows:

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|-------------------|------------------------------------|
| William Crandall | Customs administration |
| Vijay Raman | Transportation and trade logistics |
| Abdel Gadir Salih | Foreign direct investment |
| Mehdi Shafaeddin | Trade policy/WTO accession |
| Tahir Nur | Trade and poverty |
| Philip Schuler | team leader |

4. The team met with government authorities, business leaders, and donors in Khartoum and Juba. William Crandall additionally visited Port Sudan. A list of organizations and individuals contacted is attached as an annex.

5. The DTIS team with the World Bank country manager met with H.E. Badredin Suleiman to introduce the team members and present the issues to be addressed by the DTIS January mission.

6. The IF focal point, Dr. Mohamed Alin Dingle, convened a meeting of the national IF steering committee on January 11. H.E. Badredin Suleiman presented recent developments in Sudan’s WTO accession negotiations. Philip Schuler summarized findings from the November 2006 DTIS mission and introduced the January mission team.

7. In its role as IF facilitator, the World Bank resident mission convened a meeting for the team with external partners (donors and embassy officials) on January 15. A list of organizations represented is attached as an annex.

8. The team traveled to Juba, January 16–19, to meet with government authorities and other trade stakeholders. A day-long workshop on the IF and trade issues was held on January 17.

¹ The IF core agencies are the IMF, ITC, UNCTAD, UNDP, World Bank, and WTO.

9. A wrap-up meeting was held in Khartoum with members of the task force of the national IF steering committee on January 23. The DTIS team presented preliminary findings and received many useful comments and suggestions from the task force.

Juba Workshop and Participation of Southern Sudan in the Integrated Framework

10. The Ministry of Commerce, Trade, and Supply co-sponsored a day-long workshop on January 17 to sensitize GOSS ministries on the Integrated Framework and international trade issues in general. The workshop was funded through the IF trust fund. Staff of the MOCTS organized the program and invitations. The World Bank office in Juba provided logistical support.

11. Around 35 GOSS officials participated, representing a wide range of ministries (see annex 1). H.E. Minister of Commerce Anthony Makana opened the workshop with a presentation on southern Sudan's vision for trade and development. The IF focal point, Dr. Dingle, briefed the workshop on the Sudan IF program. Members of the DTIS team and two donor-funded advisors assigned to the MOCTS (Caleb Tamwesigire and Kenyi Spencer) gave presentations on various topics related to international trade and investment. MOCTS plans to circulate copies of presentations by email to workshop participants.

12. Participants were largely pleased with the workshop and found that the workshop was useful in increasing their understanding on international trade and investment issues. Many expressed frustration that the GOSS was not involved in national dialogue on foreign trade policy. Participants also communicated their desire for more workshops, which they felt should last longer (2–3 days) and dig more deeply into technical issues.

13. To facilitate increased participation from southern Sudan in the IF process, the MOCTS agreed to take the lead in organizing a small task force to work with the national IF steering committee. The task force will include representatives from ministries with trade-related portfolios and from the private secretary. The MOCTS designated Acting Undersecretary John Pan Paguir to serve as the point of contact between the task force and the IF focal point.

Preliminary Findings from the January Mission

Customs administration

14. The mission reviewed customs operations in the GNU and the GOSS. The team met with the general director and senior management of Sudan Customs, which organized visits to facilities at Khartoum Airport, the Customs training center, the Soba container terminal, Port Sudan, and Juba. The team evaluated import, export, and transit procedures at these facilities, in addition to reviews carried out by the IMF, FIAS, and UNCTAD. The team met with officials in the GOSS ministry of finance, reviewed documents on GOSS customs and tax administration, and discussed the current state of customs administration in the South with Sudan Customs officials based in Juba. To date, the key findings of the mission can be summarized as follows:

15. *Customs administration requires modernization.* The main achievement of the Sudan Customs in the past several year has been the introduction of the ASYCUDA++ system, which now captures more than 95 percent of total customs declarations. This has resulted in the automation of previously manual processes, the direct involvement of traders in present-

ing documentation electronically, and the automatic generation of important trade-related data. The team considers basic procedures relatively sound as a result of ASYCUDA++ implementation. Nevertheless, the new system is underutilized.

16. Despite previous recommendations by international organizations and others, the department has not produced an active and comprehensive approach to customs modernization. An explicit reform strategy with full political and management support is considered critical for any quantum leap in customs performance. The mission generally supports suggestions made in reviews carried by the IMF and others, and the DTIS will propose further streamlining.

17. Risk-based approaches are not just important in carrying out inspections. The department does recognize its deficiencies in the valuation area, and that significant training and a transition period will be necessary for the introduction of transaction value under the GATT.

18. The 2005 Comprehensive Peace Agreement (CPA) assigns exclusive competence over Sudan's import tariff and customs duty collection to the national government.² This implies that the national government should conduct customs operations along all of Sudan's international borders, including those in southern Sudan. The CPA grants concurrent powers over developing economic policies, which implies the need for institutionalized collaboration between the national government, the GOSS, and state governments in shaping the structure of the import tariff and other parameters of Sudan's foreign trade policy.³ It is standard international practice for a country to maintain a single set of customs duties and to assign responsibility to the national government for customs, even where sub-national governments enjoy considerable autonomy over other economic policies. The situation in southern Sudan is currently quite different. Sudan Customs conducts operations at the Juba airport using the national tariff schedule. Knowing the difficulties confronting the national customs officials to operate along the international land borders, GOSS customs officials are still performing these duties and collecting customs using tariff rates set by the SPLM in 2000.

19. Some steps are being taken to merge the two customs administrations. The director general of Sudan Customs reports that the following measures were implemented at the beginning of January 2007:

- The national government has started to pay the salaries of GOSS customs officials.
- National customs forms are being used to process imports.
- Revenue that GOSS customs officials is placed in a block account, from which money will be shared equally with the GOSS and GNU, according to the CPA wealth sharing agreement.
- A joint committee is now reviewing the qualifications of GOSS customs official to determine ranks, paygrades, training requirements, etc.

20. *Preparation for WTO accession.* A revised national customs law has been developed based on the COMESA model customs management act. This model is an accepted basis for a modern customs administration. An English translation of the draft law is not available. The mission was able to review specific sections dealing with valuation and dispute resolution, for which expert assistance was procured, and these are now appropriate for WTO purposes.

² The Power Sharing Agreement lists customs, excise and export duties among the "exclusive competencies (Legislative and Executive Powers) of the National Government" (Part V, Schedule A, Number 22). The Wealth Sharing Agreement states that "the National Government shall be entitled to legislate, raise and collect" customs duties and import taxes (section 6.1.3).

³ Power Sharing Agreement, Part V, Schedule D, Number 6.

From the customs perspective, simply adopting WTO-compliant laws will yield few economic benefits to Sudan unless it also undertakes comprehensive customs modernization, including adopting necessary risk management policies and other trade facilitation measures.

21. *Technical assistance is needed for modernization.* It is clear that developing and implementing a customs modernization plan, if the department were to commit to this, is a task that would require technical assistance. Very few developing countries have been able to modernize on their own. Sudan Customs possesses a solid foundation to build on, including a well-established organization and a modern computer system in place. Any modernization strategy will require significant technical assistance for policy and procedural development, training, and possibly equipment. The South presents a more difficult situation, as there is evidence that sizeable investments in physical infrastructure may be needed to ensure effective customs operations.

22. The DTIS mission provided Sudan Customs with two recommendations for low-cost analytical activities that could be undertaken immediately using data that are already available to the department: analyzing data on reasons for uplifting of customs valuation and matching two existing datasets to compute current container clearance times. These recommendations are attached to this aide memoire as an annex 2.

Transportation and Trade Logistics

23. The DTIS is investigating the full range of transportation sectors. The DTIS team's preliminary finding is that the relative absence of logistics services providers presents perhaps the greatest transportation-related constraint to Sudan's integration into the world economy. Southern Sudan suffers additionally from a lack of basic physical infrastructure. Bottlenecks at Port Sudan and in certain parts of the domestic transportation system create significant delays, thereby raising the cost of trading. Many of these bottlenecks were identified in the JAM. Both the national government and the GOSS have made commitments to address these through policy reforms and projects funded by the multi donor trust funds.

24. One should bear in mind that the principal cost of these bottlenecks to Sudan comes not in the form of foregone government revenues on delayed shipments but rather as reduced economic competitiveness. Delays in receiving imported inputs lock up firms' capital in inventories, adding to their cost of doing business.⁴ They discourage integration of Sudanese firms into global supply chains, thus limiting their ability to gain access to world markets. Further, indirect costs from the consequential results of goods not being available for use can be considerable.

25. *Maritime Services.* Ships using Port Sudan face the highest port charges in the region, and imports arriving at the port are subject to lengthy delays. Port Sudan has sufficient capacity to cater for increased volumes of external trade and has an overall plan to enhance infrastructure (berths, etc.) as traffic increases. Nevertheless, Sudan Ports Corporation (SPC) reports that cargo stays in port for 5–6 weeks on average. Some issues are related to customs inspections (see section on customs administration) but many are linked to procedures involved with multiple agencies in clearing or preparing goods for imports and exports. SPC

⁴ If the opportunity cost of locking up capital in inventories is considered as 20 per cent, each ten days of avoided delay is equivalent to about 0.6 per cent of the value of goods in avoided inventory costs. Hummels estimates the cost to be 0.8 per cent of ad valorem value *per day*, based on a study of what exporters are willing to pay for reducing transit time of manufactured goods. (David Hummels, "Time as a Trade Barrier," Global Trade Analysis Project Working Paper No. 18 Purdue University, 2001).

and government authorities attribute many delays to inexperienced businesspeople who are slow to pick up goods at the port.

26. To enhance efficiency, the Sudan Ports Corporation (SPC) plans to eventually concession the container terminal. The period under consideration for this change to be completed is about nine years and this could be reduced significantly.

27. During the January mission, Sudan's negotiator for WTO accession, H.E. Badredin Suleiman, requested advice on options for Sudan's WTO offer in maritime services. A draft note is being prepared using inputs from the DTIS team and services trade specialists from the World Bank's Trade Department.

28. *Logistics Service Providers.* Sudan is not taking optimal advantage of the container revolution in international trade. In large part this is because providers of integrated logistics services do not have a significant presence in the country. Their absence affects transportation in both South and North. Their presence would integrate services across a modes and countries in global supply chains, for example by arranging Through Bills of Lading. Inland container depots (ICDs) that are owned by private firms and licensed as customs bonded warehouses provide another form of these services. It will be necessary for Sudan to start developing capabilities through private sector collaboration of domestic and international logistics firms. The current customs regulation restricting licenses for clearing agents to individuals only tends to deter integrated services providers from entering the market. The South is for all practical purposes a landlocked region. As such, it faces a pressing need to develop a logistics industry with external collaboration to integrate TTF services for clients as a single-window service.

29. *Inland water transport.* A well-functioning inland water transport (IWT) system is critical for integrating the national economy and for providing southern Sudan with an alternate route to the sea. During the civil war the traditional IWT link between Kosti and Malakal, Bor and Juba was disrupted. Services have started again but many problems remain:

- silted Juba port
- navigation channels requiring dredging
- lack of navigation aids
- lack of handling equipment, particularly for containers
- many vessels require rehabilitation

30. *Road transportation services.* Road transport provides 90 percent of inland transport services. The main road links between Port Sudan and the main centers in the North are reasonable, although the network suffers from lack of maintenance. There are several large road haulage companies, besides smaller service providers. This market appears to be competitive, and tariffs charged are not unreasonable in international comparisons. Freight rates have experienced considerable volatility since 2004, due to a combination of market forces and changes in policies.

31. Discussions with the private sector suggest that several factors tend to raise the cost of road transportation services, however. Road transporters report that that collection of illegal levies at road blocks is one of their main problems. Periodically the national authorities stop this practice but after some time they re-surface and start collecting levies again. A second factor is that, despite the availability of empty containers at inland centers like Khartoum, export cargo generally travels break bulk from Khartoum to Port Sudan, where the cargo is stuffed into containers that traveled empty along the same route. An increase in logistics ser-

vice providers with ICDs could assist in increasing export containerized movements from the main production and collection centers.

32. *Railways.* Rail transport can theoretically provide lower cost transport than road services, but the Sudan Railways Corporation (SRC) is in serious financial difficulties and suffers from the effects of over-staffing, delayed maintenance, and U.S. sanctions on Sudan.⁵ NETREP includes measures to address many of these issues, including the social costs of reducing staff levels.

33. A multimodal road/rail/IWT link between Port Sudan and Juba via Kosti is being restored in a manner that will allow container movements. The new port of Kosti is ready and could be operated by the private sector on a concession. A pilot project with JICA funds is underway to establish an emergency jetty for general cargo, provided issues regarding leasing land are resolved. For Juba an emergency jetty is planned as an interim measure under NETREP for handling containers. This could be located adjacent to the proposed general cargo jetty and would utilise common features such as the approach road, fenced compound etc. The timing of activities will allow the establishment of this facility within a year. Further, GoSS is establishing a shipyard with a Dutch company at Juba to build vessels and dredge the existing Juba port.

34. *Special issues affecting southern Sudan.* The South suffers from the lack of both physical and institutional infrastructure. Reconstruction efforts to date have focused on rebuilding roads to connect Juba to Kenya and Uganda. Imports passing through the port of Mombassa, Kenya, to Sudan have more than doubled (in tonnage) since 2001. Although Mombassa is the South's closest seaport, the region has an economic interest in not becoming overly dependent on that port. Like Port Sudan, the port of Mombassa presently suffers from delays. In the long term, southern Sudan has an interest in fostering competition between its external corridors to Mombassa and Port Sudan in order to keep some degree of control over transport costs.⁶ From this perspective, the

35. Internal transport links from farm gate to markets in southern Sudan are practically nil owing to two continuous decades of civil war and neglect. The November 2006 DTIS mission identified the absence of these links as a critical disincentive for agriculturalists to move out of subsistence production, and is thus a binding constraint on realizing the South's potential to develop agro-food exports.

36. Improved collection of trade related transport data from a very early stage is highly desirable and this should be organized soon in southern Sudan.

Foreign Direct Investment

37. As the FIAS administrative barriers report and the investment climate assessment are already addressing a range of institutional issues regarding foreign direct investment, DTIS will focus on evaluating the economic development impact of FDI flowing into Sudan. Data limitations present a large challenge, in part because different government agencies do not share a common definition of what constitutes FDI or common methods for tracking it. For example, investments from Arab countries are sometimes considered FDI and sometimes not.

38. The Ministry of Investment and the Bank of Sudan provided data at high levels of aggregation. The picture that emerges from the available data is that FDI is primarily South-

⁵ Sanctions have limited SRC's ability to obtain spare parts.

⁶ Uganda takes this approach with respect to its external corridors, ensuring that at least 10 percent of international trade passes through Dar es Salaam as an alternative to total dependence on Mombassa.

South, it is dominated by investments in oil, banking, and telecommunications, and it makes up a relatively small share of fixed capital investment in the country. Relatively little FDI appears to be flowing into activities that will increase competitiveness of non-oil exports.

39. The team has requested industry-level FDI data from the Ministry of Investment and firm-level information from the Registrar of Companies in Khartoum. Selected firms with foreign participation will be interviewed to investigate the role that FDI is playing in helping local firms to increase productivity, investment outlays, wages, and employment, e.g., through introducing new management practices and new technologies, or by helping local suppliers to raise quality and to integrate into global supply chains.

Trade Policy and WTO Accession

40. *WTO accession.* After several years of considerable progress, Sudan's negotiations stalled in 2004 due to international political considerations that are unrelated to the WTO's mandate. Sudan has taken several steps in recent months to revive the accession process. In September 2006 it submitted updated versions of its "checklist" reports on the TRIPS, SPS, and TBT agreements. In November it initiated bilateral negotiations on market access with ten members of its accession working party. The government has also maintained some momentum in trade reforms since 2004 through significant liberalization in banking and telecommunications services as well as modest reductions in customs duty rates.

41. Nevertheless, many of the laws listed in Sudan's 2004 legislative action plan remain in draft stage.⁷ Other developing countries' experiences with the WTO accession process suggest that Sudan's primary challenge will be to demonstrate to WTO members that its trade-related laws, regulations, policies, and institutions conform to WTO rules. Most laws will need to be in place by the date of accession, although Sudan will likely enjoy post-accession transitional periods to develop the organizational capacity to fully implement certain WTO agreements. While waiting for the easing of the political barriers that have stalled its negotiations, Sudan should accelerate the pace of economic reforms, particularly those that will directly facilitate international trade (e.g., passing the new customs act and SPS-related laws). Acceleration of the accession process also requires, inter alia, impact assessment studies for those main agreements on which no study has taken place, in order to specify physical, institutional, and training needs of the country. The DTIS will elaborate on these and on ways that Sudan can exploit the special and differential treatment clauses and TA to the maximum and in avoid the imposition of the WTO-plus conditions.

42. *Trade policy-making process.* International trade issues, by their nature, do not fall under the authority of any single government agency, and all countries face the challenge of institutionalizing participation by a diverse group of stakeholders in the process of making trade policy. In Sudan as in many other countries, any ministries and government organizations in are involved in trade policy issues without effective coordination. While there is some interaction between the private sector and the government authorities, it is often used as "fire fighting" to address urgent problems on an ad hoc basis rather than to engage the private sector in developing a national strategy for trade. As a result, there is no consistent and comprehensive trade policy, let alone a trade policy that is integrated into an overall national development strategy for growth and poverty reduction. However, the planning exercise currently being undertaken by the National Strategic Planning Commission may present one avenue for addressing this gap. The DTIS will explore institutional mechanisms to enhance

⁷ WTO report number WT/ACC/SDN/16 (June 30, 2004).

coordination across ministries, levels of government, and between the government and private sector.

43. *Weak capacity for trade.* There appear to be several independent and uncoordinated capacity-building initiatives underway within the trade ministry; these should be consolidated. The private sector as well needs to enhance its awareness about the implications of the WTO accession and other trade agreements, knowledge of trade issues in general, and various modern techniques of organization of production as well as market information and marketing channels, particularly for manufactured goods and for businesses based in southern Sudan. Some donors and agencies are providing support in this area.⁸ Much more needs to be done, however. The DTIS will elaborate on these needs and suggest the most appropriate means for delivering technical assistance (e.g., long-term advisors, study tours, workshops, establishment of training institutions, etc.)

44. Based on discussions with a number of ministries, the DTIS mission found that Sudan has not benefited from many technical assistance facilities that international organizations offer free of charge. The DTIS team will provide an indicative list of such resources to the IF focal point.

45. *Issues specific to southern Sudan.* The South, unlike the North, is at an early stage of establishing administrative machinery of the state. This limits its ability to create a legal and institutional environment that facilitates international trade as well as participate fully in trade policy making at the national level. Perhaps a more fundamental problem is that the allocation of authority between the national government and the GOSS on different international trade issues is itself not clear. This will complicate negotiation of international trade agreements. More importantly, the existence of multiple trade policies can discourage potential trade and investment. In addition to identifying capacity-building needs on trade issues over which the GOSS has sole authority under the CPA, the DTIS will also devote attention to interaction and coordination between the national government and the GOSS on foreign trade issues.

Trade and Poverty

46. The DTIS team member responsible for the poverty component of the DTIS was not hired until after the start of the January mission. Work during the mission focused on gathering data from international sources to assess the effects of WTO accession on poverty. That analysis will supplement the main focus of the poverty component, which is to map out ways that increased international integration can support Sudan's poverty reduction objectives.

Next Steps and Expression of Gratitude

47. Members of the November mission will submit draft reports by mid-February and revised reports by mid-March. This should allow time for a complete DTIS to be circulated in April.

48. The IF focal point will apply for TAF funding to hold a 2–3 day training workshop in March in Khartoum. This workshop would focus on trade policy, trade facilitation, and positioning Sudan to exploit recent developments in the global economy. The workshop would be

⁸ For example, the FAO has commissioned studies on agriculture trade; UNCTAD, WTO and other agencies have provided training on key trade issues; EC, DFID, Commonwealth Secretariat, and the MDTF are currently funding or plan to fund long-term advisors in the Ministry of Foreign Trade and the GOSS Ministry of Commerce, Trade, and Supply

part of a program of training provided through a WTO-University of Khartoum arrangement. In addition, the workshop would provide an opportunity for the IF task force from southern Sudan to work with other members of the national IF steering committee on plans for the national validation workshop.

49. The IF focal point has proposed that the national validation workshop be held in May.

50. The DTIS team thanks IF focal point Dr. Dingle, the staff of the Commission on WTO Affairs, World Bank country manager Asif Faiz, and staff of the World Bank resident mission in both Khartoum and Juba for their guidance, hospitality, and logistical support.

Annex 1: Individuals and Organizations visited during the Mission

National Government

Central Bank of Sudan
Civil Aviation Authority
Commission for WTO Affairs
Ministry of Finance and National Economy
Ministry of Foreign Trade
Ministry of Industry
Ministry of International Cooperation
Ministry of Investment
Ministry of Transport, Roads, and Bridges
National Strategic Planning Commission
Sudan Customs

Government of Southern Sudan

Investment Authority
Ministry of Agriculture and Forestry
Ministry of Commerce, Trade, and Supply
Ministry of Finance and Planning
Ministry of Industry and Mining
Ministry of Transport and Roads

Enterprises and Private Sector

Abd Elraouf Clearing and Forwarding Agency
Abdalla Awad Abosiyar, customs clearing agent
Katahira & Engineers International
Mohamed Abdel Malik Mohamed, customs clearing agent
SDV Transami
Soba Container Terminal
Somarain Oriental Co. Ltd.
South Sudan Chamber of Commerce, Industry, and Agriculture
Sudanese Businessmen and Employers Federation

Organizations represented at January 15 meeting of external partners

Ambassador of Jordan
Ambassador of Malaysia
Commonwealth Secretariat
DFID
Embassy of Germany
Embassy of Switzerland
European Commission Delegation
UNDP

Organizations represented at January 17 workshop in Juba

Bank of Southern Sudan
Ministry of Animal Resources and Fisheries
Ministry of Commerce, Trade, and Supply (Central Equatoria State)

Ministry of Commerce, Trade, and Supply (GOSS)
Ministry of Cooperatives and Rural Development
Ministry of Industry and Mining
Ministry of Legal Affairs
Ministry of Regional Cooperation
Ministry of Telecommunications and Postal
Ministry of Transport and Roads

Annex 2: Immediate Analytical Activities for Customs

January 24, 2007

The DTIS team has identified two analytical activities that the Sudan Customs General Department (CGD) could begin immediately, without waiting for implementation of legal reforms or provision of donor assistance. Both would help support future customs modernization programs. Neither would entail significant monetary costs to CGD.

Trend analysis on valuation

The CGD could begin a preliminary analysis of valuation activity. Using sampling or other techniques, identify major reasons for valuation uplift. Transactions should be classified by commodity, importer, and country of origin. Determine trends and try to identify common and repetitive situations. Carry out a similar exercise for a sample of cases where valuation was accepted as proposed by the importer. This analysis could serve as a basis for beginning the process of developing risk profiles for introducing selectivity in physical inspections.

Preliminary time release analysis

The CGD has two important sources of data for identifying the amount of time it takes for customs formalities:

- the massive data in the ASYDCUDA++ system
- the container and shipment control systems used at Soba and Port Sudan

Data from these systems can be matched and analyzed to assess customs release times without waiting for implementation of a formal time release study. This limited analysis will not necessarily identify and attribute the causes of time delays caused by other actors involved in the clearance process. For this one needs a broader analysis, such as the WCO time release study. Nevertheless, this limited analysis would enable CGD management to begin monitoring the clearance process more systematically.