



CONCORDIS PAPERS V

**The Role of Investment in Sudan's
Economic and Political Future**

May 2007

Introduction

Rt Hon The Viscount Brentford

Since we started our Sudan peace-building programme in 1999, a host of consultations have been held on a wide range of themes, each with its own unique set of presentations, discussions, conclusions and recommendations. In keeping with Concordis International's overriding objective to build sustainable and just peace in areas suffering from war, these meetings have sought to address the root causes of Sudan's conflicts. They have built upon the peace-building work conducted by Concordis over the past eight years, which has focused on the facilitation of low-profile, inclusive and research-based dialogue in support of formal peace processes.

Participants have attended the consultations in a personal capacity and have included a wide range of key individuals linked with opposition groups and the government, civil society and women's groups, as well as academics and international consultants. The views expressed therefore represent a broad consensus of Sudanese viewpoints and are not necessarily the opinions of Concordis International.

This paper is the fifth in a series which seeks to build on the strengths of the Concordis approach through spreading the benefits of the multilateral consensus we have developed via our consultations. Our aim is both to summarise the presentations made and to draw together participants' discussions and recommendations into a succinct and readable form.

The Concordis Papers are available to be downloaded from our website and will be disseminated to Sudanese and international policy makers, practitioners and centres of learning. I hope you will find them to be a useful resource.

A handwritten signature in blue ink, appearing to read "Brentford".

Executive Summary and Recommendations

In the wake of the Comprehensive Peace Agreement (CPA) and the onset of relative stability across much of the country, opportunities for foreign investment in Sudan are likely to rise dramatically. While an influx of private investment could serve to help build peace in Sudan by strengthening its economy and infrastructure, it could also have a serious detrimental impact, both on the companies themselves and - if it served to provoke further injustice and inequality - on Sudan's political and economic stability.

The content of this paper reflects a series of presentations and discussions which took place at a Concordis consultation held in London in April 2006, entitled *The Role of Investment in Sudan's Economic and Political Future*. It explores issues surrounding the theme of foreign investment in Sudan, unpacking the huge potential for investment and analysing the current impediments which are serving to reduce the interest of foreign businesses. It also makes recommendations about ways in which international companies can: effectively mitigate investment risks; support Sudan's basic infrastructure, entrepreneurs and local communities; and conduct business in a way conducive to an environment of peace and human rights.

During discussions, participants recommended that the following areas and themes be prioritised by the Government of Sudan and foreign investors:

- The restructuring of Sudan's infrastructure; particularly its transport system, civil service and basic services such as health and education;
- Investment in schooling, especially vocational training schemes in order to help establish a pool of skilled labour;
- Reform of the economy to enable it to become transparent and accountable, with well-defined investment laws, objective conditions and serious terms of implementation. Corruption should also be tackled through providing incentives for companies to become transparent, and through tightening up the rules and regulations of business;
- Increased levels of private sector investment within the Sudanese economy itself, through direct support to Sudanese entrepreneurs and businesses;
- Protection of the rights of local people and of the environment when investment occurs, particularly through ensuring that the views of local people are represented and taken into account in decision-making processes during an investment cycle.

Sudan: an ideal investment environment?

Remarks by Adil Abdel-Hadi (Shield Security Services Ltd.)

Background

If Sudan is to attract foreign investment in the future, the government must avoid resorting to past practices and instead be alert to international and regional dynamics of the 21st century.

During the 1970s and early 1980s, the agricultural sector received the highest levels of foreign investment, benefiting from Sudan's reputation as the 'bread basket of the Arab world'. Today, as Sudan may be emerging from decades of civil war, its ability to provide food for the wider region is no longer an attractive selling point; many Arab countries now produce their own food products with the assistance of modern technology and economies of scale.

Particularly detrimental to Sudan's prospects for future investment are its poorly trained workforce and insufficiently educated administrators, which have caused a deterioration in the quality of Sudanese goods and services.

The ideal investment environment

An ideal investment environment is one in which key political, economic, legal and social factors are each sufficiently attractive to the foreign investor. Key conditions making up an ideal environment for investment include:

1. Prevalence of natural resources and trained labour to reduce production costs;
2. Political stability and social harmony between different ethnic groups, religions, tribes and social rankings;
3. Economic policies which safeguard the role of the private sector, low unemployment levels, strict control over monetary policies, strength of local currency and freedom to repatriate capital profits;
4. Reasonably developed levels of infrastructure in terms of transport, telecommunications, power, sewerage etc;
5. The existence of a legal framework to resolve labour disputes and a certain degree of positive relations between the employer and employee;
6. Simple administrative systems and procedures and clear investment rules, with no ambiguities or corruption;

7. Incentives to the investor such as customs exemptions, taxation concessions, freedom of movement of profits, etc;
8. Government insurance against non-commercial risks such as confiscations, civil war and civil disturbances.

Is Sudan an ideal investment environment?

Though Sudan certainly contains huge investment potential, its performance is currently falling short on several of the above conditions.

1. Sudan currently has neither a suitable workforce nor sufficient access to natural resources: the labour force is expensive and poorly trained and the availability and methods of obtaining raw materials are questionable.
2. Levels of political and social stability within Sudan are neither high nor consistent; civil unrest is likely in parts of the country, racial and religious tensions remain prevalent, and the government is not widely trusted.
3. The government's financial policies are inadequate, with unclear direction of the national economy, widespread corruption within the political hierarchy, high unemployment amongst graduates and an unstable local currency.
4. Aside from the telecommunications industry, Sudan's infrastructure remains largely poor. Transport networks are in need of major overhaul, electricity generation is mostly erratic, and the sewage system is of a poor standard.
5. Sudan's legal framework to resolve labour disputes is inadequate.
6. The administrative system is not conducive to investment, with complex procedures, incompetent administrators, and inconsistent rules. Bribery of government officials is often necessary to ensure a project's success.
7. Incentives and concessions to investors are often negated by the amount one has to pay in bribery in order to finalise the necessary paperwork.
8. The complex government structure is such that it is rarely clear which department has the authority to offer commercial insurance; consecutive governments have been known to dishonour such agreements.

Discussion

Sudan's investment potential

Sudan clearly has huge investment potential in several key areas. Perhaps most significantly, it has considerable reserves of natural resources and minerals, especially gold and copper. The South alone has 2.2 billion barrels of proven oil reserves, and there is likely to be more.

Agriculturally speaking, Sudan still presents considerable opportunities for investors, with a large labour force, reliable rainfall, access to the Nile and other rivers, and suitable conditions for farming mangos, sugar cane and teak trees. In some regards, Sudan still possesses a comparative advantage in producing food and supplying basic needs within the Arab world. It is also starting to present considerable possibilities in terms of banking and insurance.

In one sense, the current lack of infrastructure in Sudan provides even greater opportunity for investment; since a higher level of risk can lead to maximisation of an investor's profits. Today, Khartoum is already the target of many international companies - particularly from China, India and Malaysia - many of whom have already invested in successful projects.

The former British Ambassador, HE William Patey, himself sought to galvanise British investment in Sudan. He encouraged Sudanese businesspeople to return to Sudan and to establish businesses there; many have done this with great success. Some participants regarded the UK's Department of Trade and Industry (DTI) and Department for International Development (DfID) as displaying a negative attitude towards investment in Sudan and suggested that the British government should focus on the many opportunities within Sudan as opposed to the obstacles.

It was suggested that Sudan was in fact the second fastest growing economy in the world last year behind China - and this was when much of the country was still at war!

Obstacles to investment

Despite its huge potential, the conditions for conducting business within Sudan are not yet sufficient to make it a highly attractive proposition for potential foreign investors.

In particular, the transport infrastructure within the country constitutes a huge hurdle for potential investors, since road, water and rail networks all provide an inadequate means of facilitating transportation around the country. The deterioration of the railway system has been particularly marked; while it once worked efficiently and was extremely profitable, today the railways cannot cope with the levels of tonnage which need to be transported around the country.

Complex systems of bureaucracy, which slow down and complicate the conduct of business transactions, also remain a significant obstacle to foreign investment. Corruption was recognised as a disincentive for investors, though several participants emphasised that in their experience, Sudan is less corrupt than some other African countries. Indeed, corruption always demands the participation of two parties, meaning that Western investors must also take their share of responsibility for corruption in countries such as Sudan.

Ongoing US sanctions are also taking their toll on levels of investment; not only do they prevent advanced Western technology from reaching Sudan, they also deter American companies and those with US interests from conducting business there.

An additional deterrent for companies wishing to invest in Sudan is the lack of skilled and qualified workers within Sudan. Many Sudanese with good qualifications and professional experience have now left the country and are unlikely to return because they now enjoy a standard of living unavailable in Sudan. The lack of skilled workers means that foreign workers, particularly from China, have been brought in to fill the gap.

The Contribution of Investment to Sudan

Part One

Remarks by Hamish Goldie-Scot (Scott Wilson Ltd.)

Potential benefits and risks of investments in Sudan's infrastructure

When carried out in an appropriate manner, investments in Sudan's infrastructure can release economic potential, encourage further investment, stimulate economic growth, generate local jobs, build up local skills and increase trust in the government.

However, there are also serious risks involved in such investment. Unless great care is taken, infrastructure investments can fuel corruption, discourage genuine investment, benefit only a small elite, damage the environment, suppress economic growth, cause poverty, erode trust in the government and fuel civil unrest.

Corruption

A typical risk assessment will illustrate that there are extremely high levels of perceived corruption in Sudan, with industries such as construction, arms and defence, and oil and gas commanding the least confidence according to Transparency International. As the situation currently stands, security and commercial risks are generally perceived as far too high to justify foreign investment; unless it is funded by an external grant or performed for a client already known to and trusted by the company in question.

Corruption within a country like Sudan has a negative effect on the country's economy in several ways: distorting planning processes in favour of high value infrastructure projects; interfering with economic appraisals; increasing construction costs and decreasing quality; leading to inadequate maintenance; and increasing debts.

Practical approaches to infrastructure investment

Risks associated with investment can be reduced through improved transparency, increased attention to the social aspects of infrastructure construction and appropriate risk management.

Any company planning to invest in Sudan must first carry out a thorough risk assessment; to assess potential risks to staff and to determine whether the company's activities will undermine the consolidation of peace or lead to an abuse of human rights. In addition, it is far better to work in conjunction with trusted local partners rather than to employ the services of armed guards,

which may exacerbate tensions and increase security risks.

It is also important for donors to take the lead in funding projects which will increase confidence in Sudan's investment potential. Following the culmination of the civil war in Mozambique in 1996, for example, international donors chose to invest in its infrastructure through funding its 'feeder roads'; despite the high risks at the time as refugees returned following the country's mine clearance. In this case, the practical, committed and transparent approach adopted by the project led to sustainable benefits to the poor, contributed to reconciliation between divided communities and built confidence amongst investors in Mozambique's investment potential.

Part Two

Remarks by Rhoda Juan (Phoenix TDI UK)

Key themes and investment priorities

When overseas companies invest in Sudan they should seek to make a positive contribution to Sudan's infrastructure in five key areas: the environment, education, people and communities, health and housing.

Deriving from these five themes, the following areas constitute what should be key investment priorities and realms of activity for foreign firms:

1. Business and enterprise

Investment should lay the foundations for the development of high growth business clusters - such as manufacturing, tourism and financial services - to act as drivers of the local economy, help Sudanese companies to expand into international markets and provide access to finance. In turn, this will serve to increase the number of technologically advanced companies, modernise the established business base and provide the necessary training to allow the Sudanese workforce to compete in a modern economy.

2. Development and infrastructure

Investment should galvanise the establishment and regeneration of development sites and premises in urban centres and strategic economic zones - as well as helping to develop the communication and transport infrastructures to an international standard - in order to accommodate business growth.

3. People, communities and skill sets

Foreign investments must help develop business enterprises for vulnerable groups, such as women, who have previously been unable to work, support skills development and training, galvanise social enterprises and support the economic development of deprived communities.

4. Key skills development

Investment should help to develop relevant key skill-sets amongst the Sudanese through innovation, training and robust mentoring processes.

5. Access to finance

Investment funds should kick-start potential businesses, support companies through critical stages of growth and invest in new technology.

6. Support for entrepreneurs and new businesses

Foreign investors should stimulate entrepreneurship and develop innovative companies with high potential for growth. They should also offer guidance and support to help smooth the way for newly established businesses.

7. Rural enterprise

Investment should serve to catalyse the creation of rural businesses, support rural and forestry enterprises, and help farming businesses to diversify into other areas of local enterprise.

8. Workforce development

Foreign investors should support the Sudanese workforce through offering training and apprenticeships for unqualified workers and management training for managers.

9. Environmental Community Action Plans

Investors should introduce programmes which increase environmental awareness and help reverse environmental degradation through planting trees, improving management of land and rivers, etc.

Discussion

The most important preconditions for foreign investment are sustainable peace, social harmony and political stability. Despite the CPA, however, the scale of the social and economic costs of war have been so extensive that much work remains to be done to make Sudan an attractive proposition to investors.

Reconstruction of Sudan's infrastructure

Reconstruction of Sudan's infrastructure is essential, both the physical rebuilding of roads and rail networks and the re-establishment of the civil service and administrative services. The creation of a stable infrastructure should also include the provision of basic services such as health and education. In order to help establish a pool of skilled labour, the government should make large investments in schooling and particularly in vocational training schemes. One possible approach would be to have a public-private agreement between the government and the private sector, in which the government funds the infrastructural developments which the private sector cannot afford, but which the private sector then manages and operates.

The government's ideological and political policies have served to alienate many educated Sudanese now living in the West, which has discouraged them from investing their capital and expertise back into Sudan. The government must liberalise its attitudes if it wants to encourage positive engagement from the Sudanese diaspora.

The Sudanese economy

It is vital that the economy be stabilised to create an environment conducive to investment. Once stabilised, the economy must become transparent and accountable - guaranteed by objective conditions and serious terms of implementation - to restore the confidence of businesses in investment in Sudan. In order to encourage foreign investors, investment laws must be better defined and the government's economic and development policies must be clarified and maintained. It is also important that Sudan's financial systems reform themselves to conform to international norms, including safeguards such as systems of accountability for private sector investment and guarantees of freedom of mobility within the country.

Ultimately, however, only local market forces will enable Sudan to develop economically, since sustainable growth only really comes from local investment and re-investment. It is therefore imperative to raise the levels of private sector investment within the Sudanese economy itself. Sudanese entrepreneurs must be assisted to match themselves to foreign partners who will provide the necessary start-up capital for their businesses to become profitable.

Business Principles for Sudan during the Interim Period

Paper by European Coalition on Oil in Sudan (ECOS)

Introduction

This paper suggests that international investors should adopt five priority principles - adopted from international law, authoritative voluntary standards for business behaviour, and the provisions of the CPA - in order to contribute to, and not undermine, an environment of peace and human rights in Sudan.

To ensure respect for the principles of human rights, peace and security, non-discrimination and accountability, the paper also proposes, as a model, a set of thirteen activities deriving from the key five principles.

ECOS' priority business principles

1. Promote, respect and protect human rights and fundamental freedoms, land rights, and the rights and interests of indigenous peoples and minorities.
2. Ensure that all business activities are conducive to peace and equitable development, and to the realisation of the provisions and purpose of the CPA.
3. Avoid discrimination on the basis of race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status, while actively promoting that the local population is equitably represented, at all levels, in the local work-force.
4. Combat bribery, extortion and all other forms of corruption.
5. Promote transparent and accountable public management.

ECOS' priority business activities

1. Prior to any investment decision and at regular intervals, the company will assess its impact on and contribution to local communities and the wider society, regarding development, peace, security, human rights and the environment, taking into account its impact on the security of the population, on local and national rivalries, and on the realisation of the CPA. The company will share the assessment with its stakeholders, implement its recommendations, and evaluate and update it regularly.
2. The company will establish mechanisms for consultation, dialogue and partnership-building with its stakeholders to create an economic, social and peace action programme, which conforms to nationally agreed policies.

3. Establishment of procedures to ensure that its own activities - and those of fellow consortia members, subcontractors and other business partners - do not result in, benefit from, or otherwise contribute to human rights abuses.
4. Monitoring and documentation of all breaches of the CPA occurring within the operational environment and report the findings to the appropriate authorities, or to international government and/or human rights bodies.
5. When appropriate, considering the company's sphere of influence and activity, engage high level government officials in active dialogue about human rights on a regular and timely basis.
6. Within the company's sphere of activity and influence, assurance of safety and freedom of movement.
7. Companies active in regions with a history of violence should shape their security arrangements along the lines of the Voluntary Principles on Security and Human Rights.
8. Use of all leverage and influence with the Government to encourage the adoption of a comprehensive and transparent revenue management regime.
9. Full disclosure of all provisions of cash or in kind equipment or services for military, security, or dual use purposes.
10. Not make payments or otherwise support political or religious parties, factions, organisations, their representatives or related interest groups, or take part in any party politics.
11. Openly fight against bribery, extortion and any other forms of corruption and not offer, promise, give, accept, condone, knowingly benefit from, or demand a bribe to obtain or retain business or other advantage and ensure that remuneration of agents is appropriate and for legitimate services only.
12. The company will make its capability to uphold and promote these principles and activities a crucial factor in its decisions to enter into or remain in business relationships.
13. The company will report on an annual basis its impact on and contribution to development, peace and security, human rights and the environment, an evaluation of the economic, social and peace action programme, and the status of the recommendations of the impact assessment.

Discussion

Protecting human rights

Foreign investment in Sudan has historically failed to provide widespread benefits for the people of Sudan themselves. Very often, investment projects tended to bring wealth to Khartoum, leading to increased marginalisation of other states. In Eastern Sudan, people's land has been confiscated and given to mining companies which have been allocated gold concessions. In Port Sudan, there are increasing numbers of Chinese renting houses who serve to price out the local populations.

During future waves of investment in Sudan it is vital that the rights of the local people are both protected and prioritised. It is particularly important that local people are consulted during an investment process to ensure that their views are represented and taken into account when decisions are made, perhaps via fora which bring investors and local people together. One possible approach would be to allow all investment decisions to be taken by steering groups rather than by government ministers.

The government must adopt a clear strategy of investment which prioritises the needs of local people and protects the environment. Currently, the government is encouraging high levels of investment from Indian and Chinese companies which do not prioritise social corporate responsibility or human rights. While foreign direct investment in Sudan is to be welcomed, there should be controls and limitations on what the investment is spent on, for it will not always be spent on ethical causes if it is unregulated.

Tackling corruption

When patronage is embedded within politics and society to the extent it is in Sudan, measures such as improved rules and regulations and increased transparency are necessary but not sufficient to deal with the problem at its roots. Rather, there are institutionalised obstacles to reform which must ultimately be dealt with.

In order to tackle corruption in Sudan, the government should provide incentives to encourage local and international companies to become more transparent. There is no incentive for businesses to be open and honest in the present system.

There is also great need for international standards to be established which demand transparency; the Sudanese government could then ask all companies working there to sign up to this standard.

ABOUT CONCORDIS INTERNATIONAL

Concordis International is a British non-profit organisation that seeks to achieve long-term transformation of relationships across conflict boundaries, by engaging all constituencies of a country or region in sustained examination of issues of common interest. These systematic and well-researched discussions move beyond the lines of confrontation to build on shared purpose and explore new possibilities for peace. Rather than becoming involved in official peace negotiations, we aim to build relationships of trust that pave the way for peace or contribute to post-conflict nation-building. The work is underpinned by values – such as justice and equity – that are shared by those of many faiths and traditions.

Concordis International's primary methodology involves a series of informal, low-profile consultations, held in a neutral venue and attended by key individuals linked to their respective leaders and constituencies. As they attend the consultations in a personal capacity, participants are not under pressure to maintain a particular party line. The consultations take place away from the public and media eye, and are carefully constructed on a solid foundation of in-depth research into the structural causes of conflict and consideration of the economic and social factors necessary to sustainable peace. Our wide network of academic contacts ensures that the preparatory research is of high quality.

Under the name Newick Park Initiative (NPI), the Concordis International team was instrumental in South Africa in establishing confidential dialogue between leading members of the ANC and the white establishment, contributing to the peaceful ending of apartheid. In the aftermath of Rwanda's 1994 genocide, NPI played a critical role in resolving issues of agriculture and justice, successfully bringing together senior Tutsis and Hutus to consider Truth and Reconciliation Commissions and traditional *gacaca* courts. In 1999, at the invitation of senior Sudanese, the Concordis team and the African Renaissance Institute launched the Sudan Peace-Building Programme and together ran six consultations. Subsequently, Concordis International has responded to requests from senior Sudanese to remain engaged, through facilitating informal dialogue aimed at developing consensus on post-conflict priorities for Sudan and contributing to the resolution of regional issues like Darfur and Eastern Sudan.

In addition to informal consultations, Concordis adopts other means of furthering peace processes – such as publications and capacity-building workshops – though always adopting a non-partisan approach. Peace-building work in countries other than Sudan – including the Democratic Republic of the Congo, Israel/Palestine and Afghanistan – is currently in a development stage. The work of Concordis International is funded through contributions from private individuals, churches, NGOs, grant-giving trusts and foundations, and government agencies.

Concordis International is grateful to
The Worshipful Company of Girdlers



for sponsorship of this edition of
Concordis Papers



Concordis International
Jubilee House
3 Hooper Street, CAMBRIDGE, CB1 2NZ
United Kingdom

Phone: +44 (0)1223 341281 Fax: +44 (0)1223 566359
office@concordis-international.org

www.concordis-international.org

Concordis International Trust is a non-profit UK company limited by guarantee (No. 4930461) and a registered charity (No. 1105697)