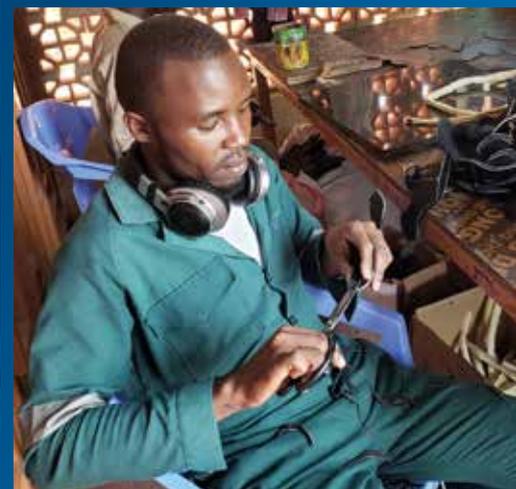


Promoting SME Competitiveness in South Sudan

Targeted solutions for a resilient future



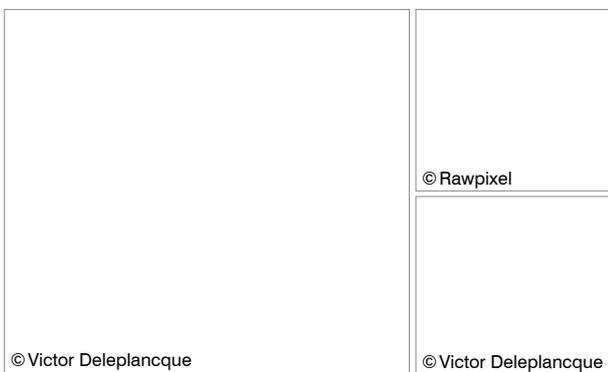
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Promoting SME Competitiveness in South Sudan

Targeted solutions for a resilient future

About the paper

Small and medium-sized enterprises have the potential to drive economic recovery and poverty reduction in South Sudan. However, they have been stifled by conflict, COVID-19 and climate change, as well as a weak business environment.

ITC's SME Competitiveness Survey reveals that most South Sudanese companies have limited internal capacities and face high operating costs. Strengthening the capacities of business support institutions is fundamental to helping these firms access financial services, become certified and upgrade their operations. A functioning and stable business environment is key to bolster the competitiveness and resilience of small companies and help them realize their full potential.

Publisher: International Trade Centre

Title: *Promoting SME Competitiveness in South Sudan: Targeted solutions for a resilient future*

Publication date and place: Geneva, November 2022

Page count: 70

Language: English

ITC Document Number: RSE-22-76.E

Citation: International Trade Centre (2022). *Promoting SME Competitiveness in South Sudan: Targeted solutions for a resilient future*. ITC, Geneva.

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For more information on the SME Competitiveness Survey, see: <https://intracen.org/resources/data-and-analysis/research-and-data>

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Foreword

The independence of South Sudan was a watershed event in the lives of its people. However, the country has faced many challenges since 2011. Most recently, COVID-19 and the looming climate crisis have undermined the livelihoods of much of the population.

The country's small and medium-sized enterprises (SMEs) have not been spared from these shocks. SMEs play a key role in the economy of South Sudan, accounting for about 93% of all registered firms. Although they have much experience weathering crises, they were strongly affected by the pandemic and are still recovering.

South Sudan's Vision 2040 and the Revised National Development Strategy spell out how small businesses drive inclusive economic growth in the country. They have strong potential to create jobs and reduce poverty. To further the goals of these plans, South Sudan needs a strong SME sector that can compete in the region and face crises with resilience.

Evidence on the strengths and weaknesses of SMEs is needed to take advantage of opportunities and diagnose problems. It helps inform evidence-based policymaking and leads to greater understanding about the effectiveness of policies to support small business competitiveness.

To generate this evidence, the International Trade Centre (ITC) partnered with the Ebony Centre for Strategic Studies and the South Sudan National Bureau of Statistics to assess the competitiveness of the country's SMEs and their resilience to shocks. More than 470 South Sudanese companies were interviewed in 2022 under this initiative, which was supported by the African Export-Import Bank (through the South Sudan National Export and Investment Strategy Project) and the European Union (through the Job Creation and Trade Development Project), in cooperation with the Ministry of Trade and Industry of South Sudan.

This report is based on the evidence generated by the responses of South Sudanese companies to the SME Competitiveness Survey. Its analysis highlights key strengths and weaknesses of the country's SMEs and their business ecosystem, and points to how firms are recovering from the pandemic.

The findings should inform the design of policies and programmes to help small businesses increase their sales and exports. Evidence-based policies enable these firms to hire more people, innovate and expand their business and markets, thereby spurring inclusive economic growth.

In line with the goals of the aforementioned projects, ITC and the ministry share a common vision to build SME competitiveness so they can access more local, regional and international markets and withstand future crises.

Trade can facilitate the structural transformation of the economy and help reduce poverty when well-crafted and targeted policies are in place. We see this report as an important step to make this vision a reality.

Hon. Kuol Athian Mawein

Minister of Trade and Industry
The Republic of South Sudan

Pamela Coke-Hamilton

Executive Director
International Trade Centre

Acknowledgements

The International Trade Centre (ITC) would like to express its appreciation to the representatives of enterprises who agreed to be interviewed about competitiveness.

Ruatpuii Cira and Nathalie Raschka wrote this report under the guidance of Floriana Borino (ITC). Teny Nebie and Antonina Popova provided technical support to the data collection process. Derek Carnegie and Sarah Mohan offered key inputs and helpful comments. Darius Kurek and Claude Manguila provided insights from country experience and managed the implementation of the project. Valentina Rollo supervised the survey process and analytical work and Barbara Ramos, Chief of the Research and Strategies for Export Section, provided oversight of the project.

The staff of the Ebony Center for Strategy Studies (ECSS) and the National Bureau of Statistics (NBS) collected the survey data for the report. ITC acknowledges the leadership and support of Lual A. Deng, Managing Director, Machien Luoi T. Dagoor and the entire technical and information gathering team of ECSS. ITC would like to thank David Chan Thiang, Chief of Economic Statistics Department of NBS for coordinating and guiding the survey process. Finally, ITC would like to acknowledge and recognize Mary Akech Milla, First Under Secretary of the Ministry of Trade and Industry, for her overall strategic leadership and support for the initiative. We would like to thank the African Export-Import Bank and the European Union for funding the survey. This report is the result of a joint collaboration, which leveraged synergies of two technical assistance projects implemented by ITC in South Sudan, the South Sudan National Export and Investment Strategy funded by the AfrEximBank and the Job Creation and Trade Development Project funded by the EU.

ITC would also like to thank Natalie Domeisen and Anne Griffin (both ITC), who oversaw the editing and production process; Jennifer Freedman, who edited the report; and Franco Iacovino and Serge Adeagbo (both ITC), who provided graphic and printing support.

About the International Trade Centre

ITC was established in Geneva, Switzerland, as a joint agency of the United Nations and the World Trade Organization dedicated to strengthening the competitiveness of small and medium-sized enterprises to build vibrant, sustainable export sectors that provide entrepreneurial opportunities, particularly for women, young people and poor communities.

About The Ebony Centre for Strategy Studies

The Ebony Centre for Strategic Studies is a centre for research and policy analysis dedicated to serving the people of South Sudan by undertaking strategic studies in the key areas of public policy, capacity building and institutional strengthening. It was established in 2011 as an independent, non-profit and non-partisan institution in support of South Sudan's quest for good governance through applied research and evidence-based policy advice.

About the South Sudan National Bureau of Statistics

The National Bureau of Statistics is the official statistical agency of the Government of South Sudan. It is mandated by the Transitional Constitution to collect, analyse and disseminate all official economic, social and demographic statistics. It carries out population and housing censuses, nationally representative surveys and other statistical activities including the publication of annual statistical yearbooks.

About the Ministry of Trade and Industry of South Sudan

The Ministry of Trade and Industry is the lead policy adviser to the government on trade, industrial and private sector development with the responsibility to formulate and implement policies for the promotion, growth and development of domestic and international trade and industry. The ministry advocates for the private sector in the government and is the principal agency responsible for monitoring and implementing the government's private sector development programmes and activities.

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Acronyms

Unless otherwise specified, all references to dollars (\$) are to United States dollars, and all references to tons are to metric tons. Percentages in some figures may not add up to 100% due to rounding.

BSO	Business support organization
ECSS	Ebony Center for Strategy Studies
FY	Fiscal year
GDP	Gross domestic product
ICT	Information and communications technology
ITC	International Trade Centre
R&D	Research and development
R-NDS	Revised National Development Strategy
SMEs	Small and medium-sized enterprises
SMECS	SME Competitiveness Survey
SSNBS	South Sudan National Bureau of Standards



Executive summary

Small and medium-sized enterprises (SMEs) play a vital role in South Sudan's economy, making up about 93% of all registered firms. They can be drivers of employment creation, economic growth and poverty reduction. This potential remains largely untapped, however, as these businesses have had to contend with numerous challenges over the last few years. As the country recovers from the most recent crisis, the - pandemic, enhancing the resilience and competitiveness of South Sudan's SMEs must be a priority. This report provides concrete recommendations on how to turn their potential into a reality.

Since South Sudan's independence in 2011, SMEs have had to deal with the fallout from prolonged internal conflict that has prevented the creation of a stable business environment; COVID-19 and climate change that severely limited their ability to operate; and the war in Ukraine that led to higher food prices, worsening food insecurity. To create a strong economy that is prepared to take on future challenges, South Sudan needs competitive and resilient SMEs. This will require developing the capacities of firms, strengthening the institutions that support them and reforming the business environment where they operate.

To inform this work, the International Trade Centre (ITC) partnered with the Ebony Centre for Strategic Studies and the South Sudan National Bureau of Statistics to assess the competitiveness of South Sudanese SMEs. Between June and July 2022, the SME Competitiveness Survey was administered to 476 businesses across all sectors, sizes and regions of South Sudan.

The data collected under the project are analysed based on ITC's analytical framework to assess firm competitiveness. The framework is built around three pillars – compete, connect and change – that drive the capacity of a company to be competitive and resilient. Each chapter of this report focuses on one of these three pillars.

The findings of this report uncover areas in which firms and the business ecosystem perform well and areas in which improvements are needed. It shows that production efficiency; resource management and certification;

connections with suppliers, customers and support organizations; and finance, skills and innovation are needed to drive both competitiveness and resilience.

Learning from the pandemic to increase resilience

The South Sudanese economy experienced a sharp downturn in 2020 and 2021, driven by COVID-19 and floods. Small firms felt the effects of these crises most acutely and are still struggling to recover. On average, firms now employ half of their pre-COVID staff and make half of their pre-COVID revenues. Many businesses are also pessimistic about their recovery prospects, with more than half (57%) saying they are very concerned about their recovery.

Learning from their COVID-19 experiences and understanding how to apply these lessons to future crises is key for resilience. Most SMEs did not have contingencies in place when COVID-19 hit. Many have learned from this, with 44% saying they are now taking steps to prepare the business for future crises, including climate change. Ninety percent of firms know they are facing environmental risks. Firms exposed to these risks are aware of their destructive potential and thus tend to better prepare for future crises.

Firms need better fundamentals

A stronger business environment – particularly through improvement to infrastructure – is needed to support the recovery of South Sudanese businesses. Many firms, including a large share of exporters, have low levels of capacity utilization and difficulty in meeting timely delivery. Forty-three percent of firms were using less than half of their productive capacity and 40% delivered less than half of their products on time.

Firms that employ their resources efficiently, using most of their productive capacity and delivering more on time, show a stronger COVID-19 recovery in terms of employment and revenue. Better performance and resilience also appear to be associated with access to good infrastructure and logistics.

Limited resource management capabilities may be responsible for low productivity, as many firms lack sound financial management. But supporting improved financial management practices, such as bank account ownership, among SMEs can pay off. Survey results showed that firms with bank accounts tend to have more complete records of their business transactions and a greater ability to manage their cash flow. These businesses have an easier time keeping track of their liabilities, receivables and funding needs, and are better able to execute payments and collect receivables on time.

Certification can help push the upgrading of management practices and increase product quality, raising competitiveness and export performance. Exporters, larger businesses and firms located in Juba tend to have higher certification rates. Access to information is essential when looking to become certified. Business networks have a role to play here, as they can help disseminate information on certification. Nearly 60% of firms that collaborate extensively with their peers cited high information availability compared to 15% of firms with little or average collaboration.

Strengthen connections for better export performance

Engaging with customers and other businesses can help firms obtain useful information about market trends and opportunities. South Sudanese companies most commonly use print advertising to connect with buyers. Low internet penetration and high internet costs inhibit the move towards digital advertising. Fewer than one-third of firms, mainly in services, use the internet for business purposes. But digital marketing brings benefits: 67% of firms that advertise online have a high degree of information about their current customers, compared to only 17% of firms that do not advertise.

Input suppliers contribute to a firm's ability to meet customer requirements. South Sudanese enterprises depend greatly on few foreign suppliers. They import inputs because they have difficulties accessing local goods and services in a sufficient volume. A more diversified base of suppliers would mean fewer problems accessing inputs during a crisis, as was experienced during the pandemic. To prepare for future crises, firms relying heavily on their biggest supplier are starting to renegotiate the terms of contracts more than those less dependent on their main suppliers.

Collaboration between firms can improve the availability of information on customers and suppliers. The data show that firms that engage more with other sector members tend to have better market information on buyers and suppliers. Business networks can also help lower information-related export barriers. Firms exchanging market information with peers are two times more likely to export and those that cooperate are more likely to prepare for future crises.

Increase capacity to adapt to crises

South Sudanese SMEs are critical about the quality of financial institutions, probably because bank offerings are not well tailored to the needs of small businesses. Eighty-three percent of firms report needing finance, especially loans. Yet only 17% have applied for a loan, mostly because they thought their application would not be approved. Alongside financial reform, businesses should be educated on loan application processes. Currently, 51% of enterprises have little to average knowledge of these processes. These knowledge gaps are largest for smaller firms and those located in Bahr el Ghazal.

Low financial literacy may be driven by South Sudan's low educational attainment. Armed conflict and natural disasters have inhibited access to education for many. As a result, the South Sudanese workforce is in need of upskilling. Smaller firms especially experience problems finding workers with skills matching their needs. To address this, small businesses should establish strong hiring processes to select the best candidates and offer high-quality training courses to employees.

Few firms innovate, due to a lack of access to finance and low skill levels. Twenty-nine percent invest a high level of resources in research and development (R&D) and 40% innovate often. Innovation can pay off, because it increases resilience, as the COVID crisis showed. The post-COVID revenue levels of businesses that invest heavily in R&D and innovate often are twice as high as those of firms that do little to average R&D and innovate rarely to occasionally.

Policies and recommendations

The results of the SME Competitiveness Survey highlight the need to improve the capacities of South Sudanese firms and their potential to lead growth and development across the country. Stronger institutions, expanded access to finance, support for innovation and a reliable business environment are all needed.

Stronger institutional support is needed to improve the design and implementation of policy, as well as to provide firms with better information and assistance. As illustrated by stakeholder consultations to design the South Sudan National Export and Investment Strategy, business support institutions would benefit from clearer mandates; enhanced domestic and international cooperation; better financial stability; and stronger internal capacities, particularly regarding the use of information and communication technologies.

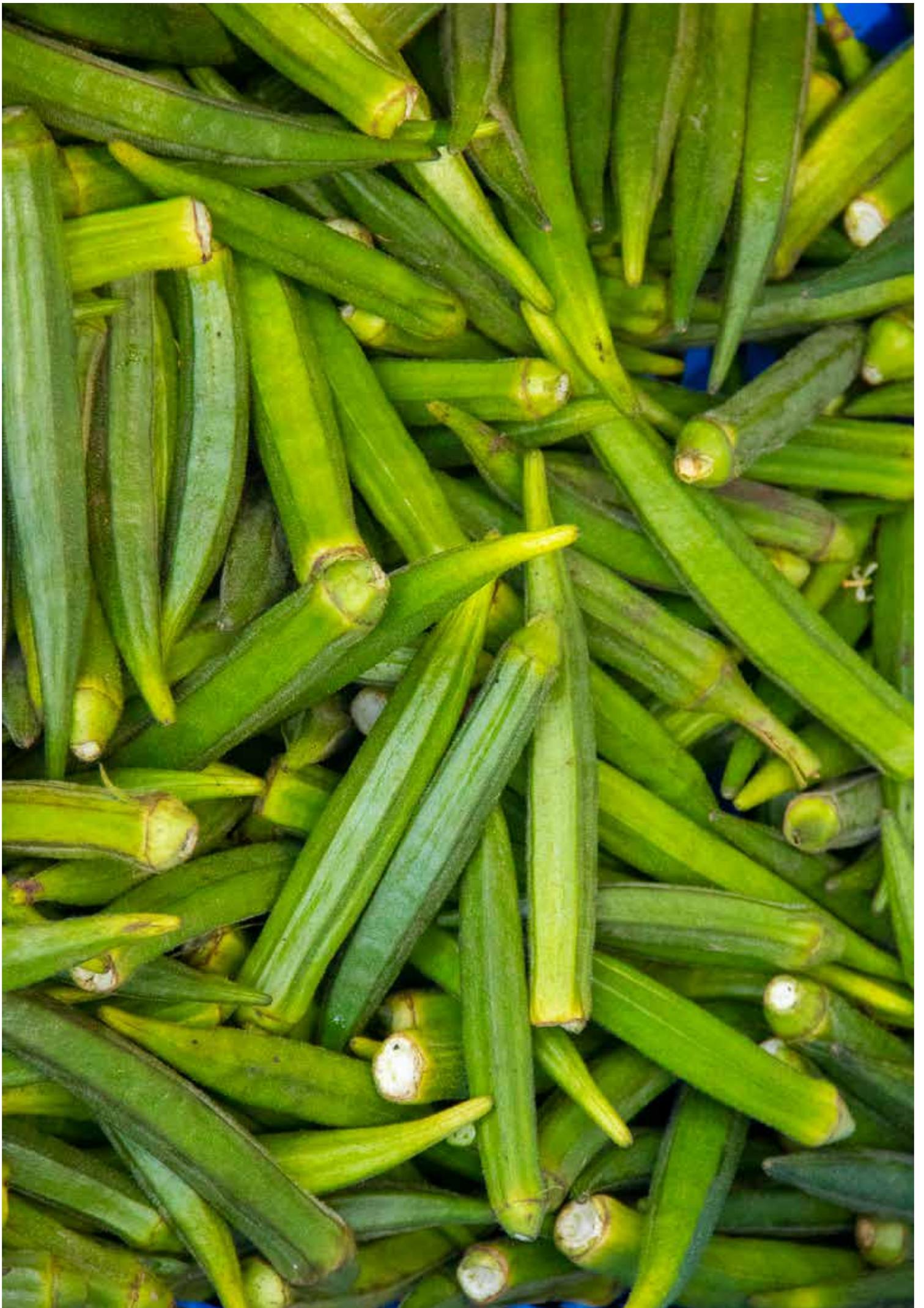
Improving access to finance may include implementing reforms to help create products tailored to the needs of smaller firms. Facilitating remittance flows and developing mechanisms to better leverage these flows as financing for small businesses and entrepreneurship may also be considered. Mobile money services have been slow to enter and expand in South Sudan, but should be encouraged to grow alongside mobile phone use to complement the spread of banks, especially in rural areas.

And alongside addressing barriers to access to finance, more investment can be made to improve the financial literacy and financial management capacities of SMEs.

Although firms in South Sudan, like in most least developed countries, do not invest heavily in innovation or R&D, they stand to benefit from adopting newer technologies and production processes. This includes greater technology use, which depends on expanded infrastructure, user skills and a relevant policy framework. More generally, education and skills development will need to be enhanced to prepare workers with the skills demanded in the future.

Uncertainty in the business environment discourages investment and slows growth in South Sudan. This uncertainty stems from the complex challenges the country faces that do not have simple solutions. Nevertheless, investing in more reliable physical infrastructure and the quality of soft infrastructure and administration would represent a significant step forward.





Chapter 1

Unleashing the potential of small businesses

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Unleashing the potential of small businesses

Small and medium-sized enterprises (SMEs) are at the heart of South Sudan's economy, making up around 93% of all registered businesses.¹ Since independence in 2011, these firms have faced tumultuous times. Internal conflict has prevented the creation of a stable business environment. With more than two-thirds of the population in need of humanitarian assistance and around two-thirds facing severe food insecurity,² businesses are struggling to move beyond subsistence agriculture and low-value manufacturing and service activities.

While SMEs are more flexible than their larger counterparts in adapting to such volatile environments, this volatility still inhibits their growth potential.³ In recent years, firms have had to adapt to new challenges. The COVID-19 pandemic and its containment measures, as well as more frequent and destructive climate phenomena such as floods, have highlighted the importance of business resilience.

To create a strong, resilient economy in South Sudan, more attention needs to be paid to the SME sector and its potential for employment generation, economic growth and poverty reduction.⁴ The oil sector is the government's main source of revenue, adding an estimated 31% to gross domestic product (GDP) in fiscal year (FY) 2020/21.⁵ The sector constitutes 87% of exports⁶ and 90% of government revenue.⁷

The COVID-19 pandemic has exposed the dangers of inadequate economic diversification. Oil prices declined sharply in the first half of 2020, leading to a loss of revenue and causing the government to run up arrears on wages and salaries of public sector employees. As a result, the government had to revert back to monetary financing.⁸

Low-hanging fruit in other sectors could help South Sudan's economic diversification. Sectors such as hides and skins, oilseeds, natural gum Arabic, natural honey, tourism, and fruits and vegetables could offer SMEs opportunities to engage in value chain addition and upgrade.

By virtue of the jobs they create and their potential to reduce poverty, SMEs are key players in driving the country's competitiveness. As competitiveness drives resilience, they can also help the economy withstand disruptions.⁹

To facilitate SME development, the government should create an enabling environment to develop policies specifically targeting these firms that extends the provisions mentioned in the Revised National Development Strategy (Box 1). Persistent issues that hamper the development of small businesses must be addressed. This requires identifying the bottlenecks that companies face, as well as revealing areas of greatest potential that could drive the country's export success.

As little information is available on the performance and competitiveness of SMEs in South Sudan, the International Trade Centre (ITC) partnered with the Ebony Centre for Strategic Studies and the South Sudan National Bureau of Statistics to perform a diagnostic exercise on the state of these firms. The ITC SME Competitiveness Survey (SMECS) sought to better understand the strengths and weaknesses of these companies and identify opportunities to improve their competitiveness for trade and resilience.

The Ebony Center for Strategic Studies and the South Sudan National Bureau of Statistics administered the SMECS to 476 businesses across South Sudan in June and July 2022. This report's insights into SME competitiveness are grounded in the data generated by the survey and the partnership that has supported it. They also feed into the design of South Sudan's National Export and Investment Strategy, facilitated by ITC.

Assessing the competitiveness of small and medium-sized firms

ITC developed the SME Competitiveness Survey¹⁰ to help countries collect the data needed to assess the competitiveness of their enterprises. As of October 2022, more than 36,000 firms had been surveyed in 57 countries, including Kenya, Botswana and Burkina Faso.

The tool is designed to combine information at the micro level (firm capacity) and meso level (local support ecosystem for businesses) to provide a nuanced picture of the capacity of a country's private sector to compete in international markets and be more resilient to shocks.

Small and medium-sized enterprises are defined as firms with fewer than 100 employees (see Annex). The term SME, therefore, includes microenterprises. Although the focus is on small and medium-sized enterprises, some large companies are included in the survey so the competitiveness of SMEs and bigger firms can be compared.

ITC has developed an analytical framework to understand firm competitiveness and how it can be improved over time. The framework is built around three pillars – compete, connect and change – that drive the capacity of a company to be competitive across three levels of the economy – the firm (micro level), the business ecosystem (meso level) and the national environment (macro level) (Figure 1). Each pillar is further subdivided into themes that are the subject of the analysis in this report.

Box 1 Government policies for small and medium-sized enterprises

The Government of South Sudan has created long-term development goals that are compiled in South Sudan's Vision 2040. This vision wants to improve issues regarding freedom, equality, justice, peace and prosperity. The country also has a National Development Strategy. Originally created for the period 2018–21, this strategy was revised in 2021, resulting in the 2021–24 Revised National Development Strategy (R-NDS).

The R-NDS aims to establish stronger institutions, foster macroeconomic stability, build critical infrastructure, improve social support and empower women and youth. It is used as a tool to continue the implementation of the Revitalized Agreement on the Resolution of Conflict in the Republic of South Sudan. The R-NDS has a provision for micro, small and medium-sized enterprises and seeks to establish two development funds: the Women's Enterprise Development Fund and the Youth Enterprise Development Fund. To build entrepreneurship capacity, microfinance institutions will offer subsidized credit to SMEs led by women and youth.

There is also a draft version of a private sector development strategy. Its purpose is to establish guidelines on how government can create a healthy environment for private-sector development and expansion, consistent with R-NDS and Vision 2040.

Specifically, it aims to create an enabling environment for public–private partnerships and capacity building for small business owners.

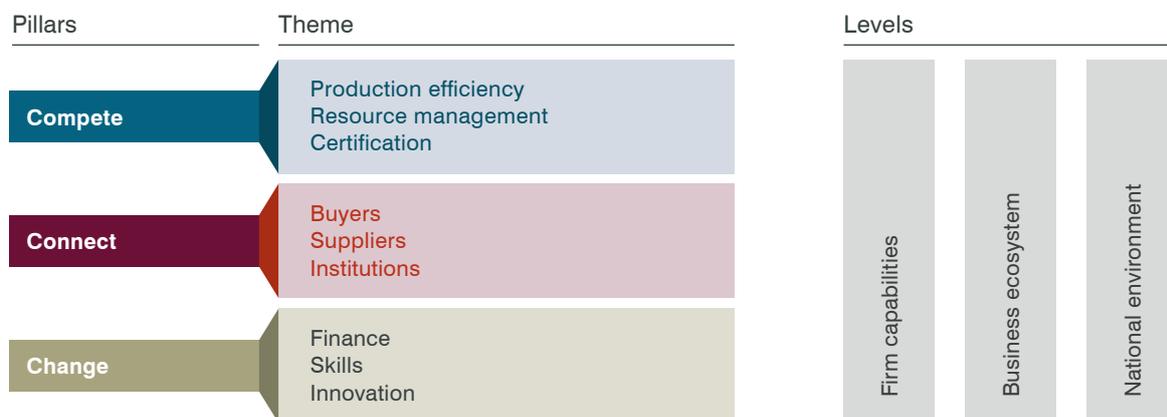
To do this, the strategy proposes four programmes that each address one pillar of private-sector development: the South Sudan Investment Climate Reform Programme (dealing with the administrative and regulatory environment), the South Sudan Access to Finance Programme (dealing with access to finance), the South Sudan SME Development Programme (dealing with business community institutional factors pertaining to skills development) and the Physical Market & Institutional Building Programme (dealing with physical infrastructure).

Furthermore, the National Export and Investment Strategy, developed for the period 2022–27 by a combination of public, private and civil society stakeholders, aims to support South Sudan in the development of its productive capacities, reduce its dependence on oil revenues and imports, and improve its business environment overall. Specifically, the strategy outlines concrete actions that can be taken both at the national and sectoral level, with special focus on six priority sectors: hides and skins, natural gum Arabic, oilseeds, natural honey, tourism and fruits and vegetables.

Sources: Republic of South Sudan and United Nations Development Programme (2021). *Revised National Development Strategy: Consolidate peace and stabilize the economy*. Republic of South Sudan and United Nations Development Programme. ITC (forthcoming). *Republic of South Sudan: National export and investment strategy 2022-2027*. International Trade Centre.



Figure 1 SME Competitiveness Grid



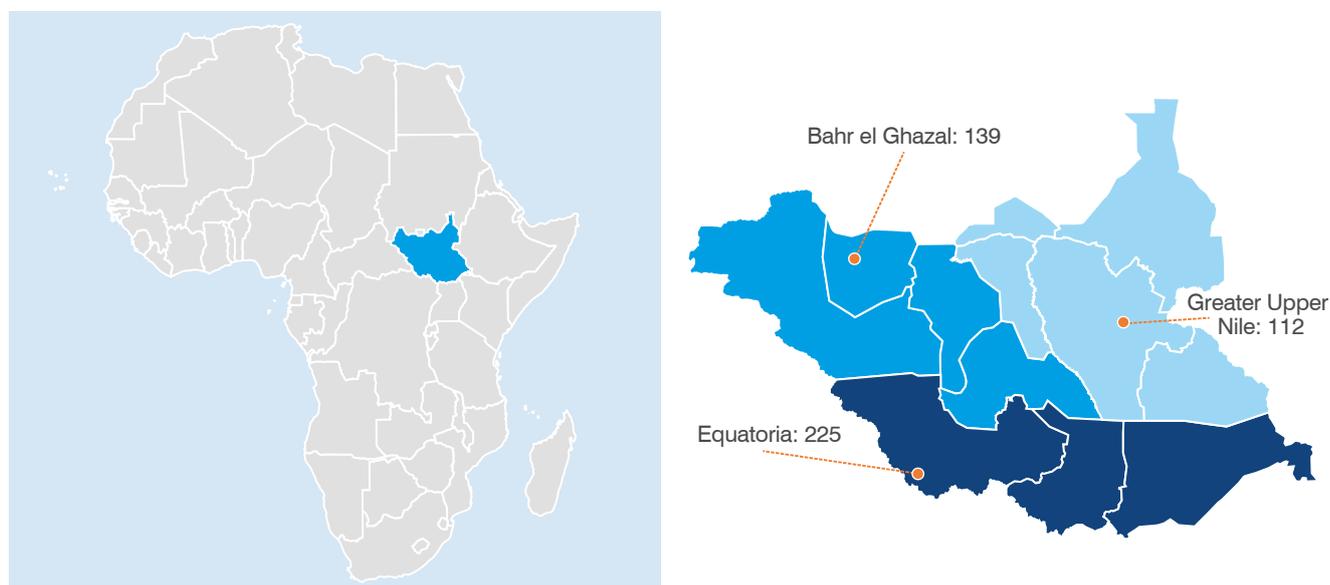
Source: ITC.

The SME Competitiveness Survey in South Sudan

ITC carried out the SME Competitiveness Survey in South Sudan in partnership with the Ebony Center for Strategy Studies (ECSS), a South Sudanese research institution, and the National Bureau of Statistics, which collected data for the survey from 476 South Sudanese enterprises between June and July 2022.¹¹

A sample of firms was randomly selected from a list of companies compiled by ECSS. Data were gathered in three main regions of the country: Bahr el Ghazal, Greater Upper Nile and Equatoria. Figure 2 highlights the surveyed regions, with darker colours representing a higher concentration of surveyed companies. This regional concentration is in line with evidence that the southern regions of South Sudan, particularly Central Equatoria, where the capital city Juba is located, are home to most businesses in the country.¹²

Figure 2 SurveYed regions of South Sudan



Source: ITC based on SME competitiveness data collected in South Sudan.

The sample included firms of different sizes (micro, small, medium-sized and large)¹³ from all sectors (primary, manufacturing and services). To the extent possible, the sample in each region was composed of exporting and non-exporting firms.

Among surveyed firms, 97% are micro, small or medium-sized: 48% are micro, 38% are small and 11% are medium-sized (Figure 3). This is consistent with evidence showing that SMEs dominate the business landscape in South Sudan.¹⁴ Regarding the ages and genders of the top managers at surveyed companies, managers who are younger than 35 years lead 30% of firms while women lead just 11%.¹⁵ Finally, 82% of surveyed firms were registered with a national authority.¹⁶

Most (67%) of the enterprises operate in the services sector, 13% are in manufacturing and the remaining 20% are in the primary sector. This distribution matches other evidence showing that most businesses in South Sudan are active in the services sector.¹⁷ Agriculture is the biggest employer in the country, with around 60% of total employment found in the sector and subsistence crop agriculture and raising livestock the largest sources of income.¹⁸

The survey data also show that 55% of South Sudanese firms were engaged in trade. About 11% of firms only export, 31% only import and 13% both export and import. The prevalence of importers matches country-level statistics, which show that South Sudan is a net importer.

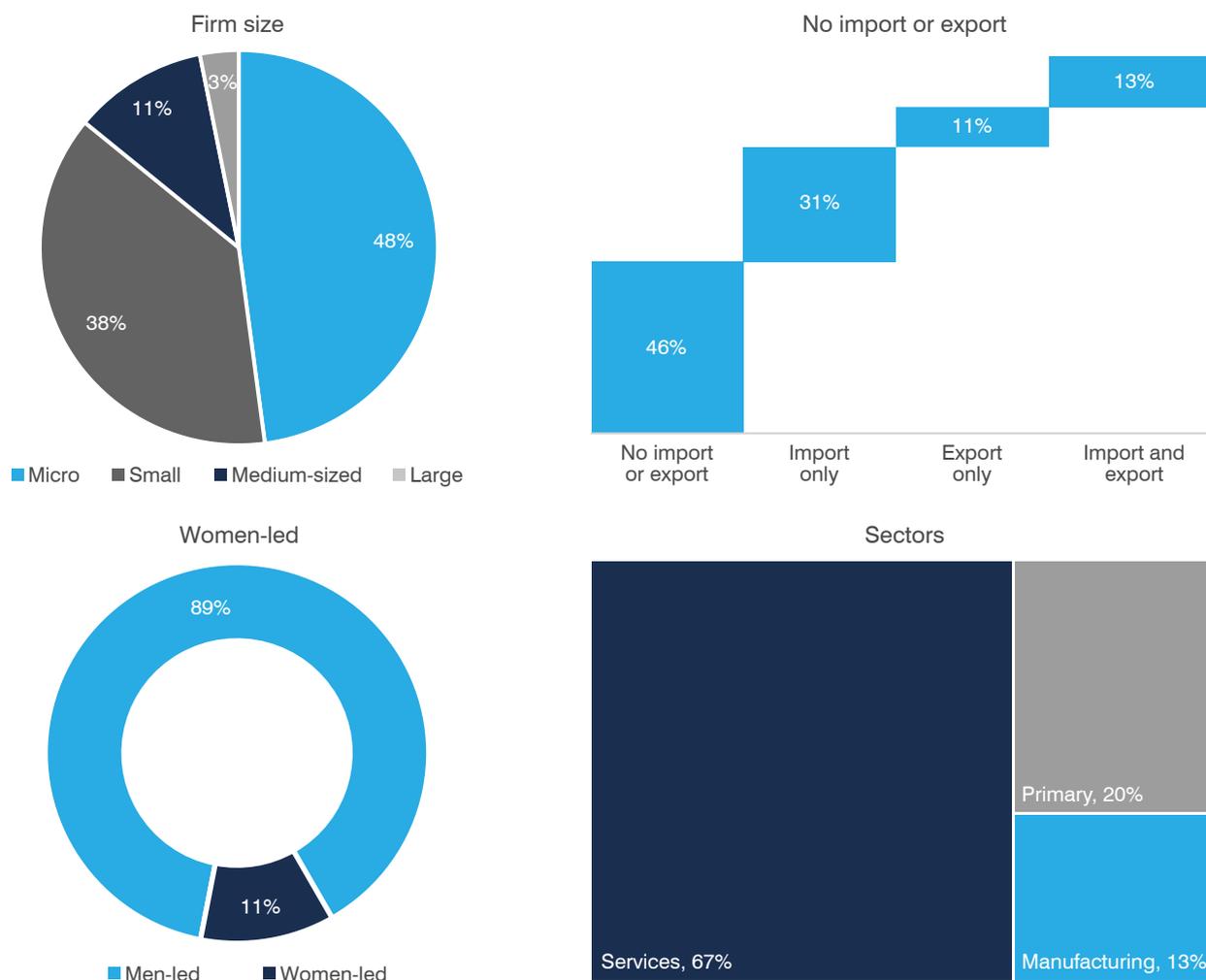
Firms predominantly import from neighbouring countries of Uganda and Kenya and their top imports are vegetable products and food.¹⁹

In a net food-importing country such as South Sudan, these imports are needed to address food deficits. However, it also means that food access partially depends on open borders. The pandemic revealed the dangers of protectionist trade measures. For example, in the first and second quarters of 2020, informal maize imports from Uganda fell by about 75% due to border closures, further worsening food insecurity.²⁰

Oil dominates South Sudan's exports,²¹ with the main destination being China.²² Total exports amounted to \$850 million in 2020, including \$701 million of crude petroleum, \$111 million in gold and \$3.9 million in scrap metal. The remaining \$34 million were predominantly agricultural goods.²³

South Sudan has scope to diversify its exports and thereby increase its resilience. ITC has identified the following sectors through consultations and analysis for the preparations of the National Export and Investment Strategy as being key to export diversification: Hides and skins, oilseeds, natural gum Arabic, natural honey, tourism, and fruits and vegetables.²⁴

Figure 3 Characteristics of firms that took part in the survey



Note: Microenterprises are defined as those with four or fewer employees; small firms have 5-19 employees; medium-sized ones have 20-99 employees and large companies have 100 or more employees. Women-led firms are managed by a woman and at least 25% owned by women. Exporters are defined as firms whose direct export sales represent more than 1% of their sales. Importers are defined as firms whose foreign inputs represent more than 1% of their inputs.

Source: ITC calculation based on SME competitiveness data collected in South Sudan.

Recovering from COVID-19 and preparing for future crises

Recurring cycles of conflict have affected South Sudanese businesses. In fact, in 2019 many firms still cited insecurity as their main business constraint.²⁵ The last few years, however, have brought new challenges, such as the COVID-19 pandemic, climate shocks, dwindling oil production and a broad-based rise in commodity prices brought on by the war in Ukraine and other supply shocks.

After detecting the first case of COVID-19 in April 2020, the South Sudanese Government introduced lockdown measures, such as business, school and border closures.²⁶

This obstructed the normal business operations of many firms and led to reduced economic activity in the country. Pressure on businesses was further exacerbated by locust infestations and extensive flooding along the Nile and Lol rivers and in Sudd marshlands.²⁷ These floods affected upwards of one million people in 2020 and more than 800,000 in 2021, almost 10% of the population.²⁸

As a result, real GDP fell by 5% in FY2020/21. South Sudanese markets saw some recovery in FY2021/22, but GDP is still projected to shrink by 2.8% in FY2021/22.²⁹

In addition, the conflict in Ukraine has likely played some part in dampening the country's recovery. Even though South

Sudan does not have a significant trading relationship with either Ukraine or the Russian Federation, it relies heavily on trade with Uganda and Kenya. Uganda is the Russian Federation's second-largest trading partner in Africa and 33% of its wheat imports are Russian. Disruptions in the trade of wheat can thus have spillover effects for South Sudan.³⁰

Indeed, these spillover effects are already being felt in the country, worsening food insecurity. Prices of food and basic household commodities have increased considerably. For instance, prices of selected cereals in Juba rose 10% to 25% from December 2021 to March 2022.³¹

Learning from one crisis can help firms cope with future ones. It is therefore important to see how firms dealt with COVID-19 and which subsets of firms suffered the most or least. The SME Competitiveness Survey finds that businesses that fared better during the pandemic leveraged competitiveness attributes, which also increased their resilience. From this, it provides recommendations on how to make SMEs more competitive and resilient to future crises – prime among them climate change.

COVID-19 recovery is slow

SMEs operating in fragile states tend to focus less on their long-term efficiency and instead try to become more resilient to the effects of conflict.³² While South Sudanese businesses are experienced in dealing with disruptions brought by domestic unrest, they were not prepared for the effects of the COVID-19 pandemic. While many firms have fully reopened since the pandemic started subsiding, with 90% being fully open and 6% partially open, their recovery is slow.

Current employment numbers and revenue levels are indicative of the slow recovery. On average, firms employ 52% of their pre-COVID staff and make 46% of their pre-COVID revenues (Figure 4a).

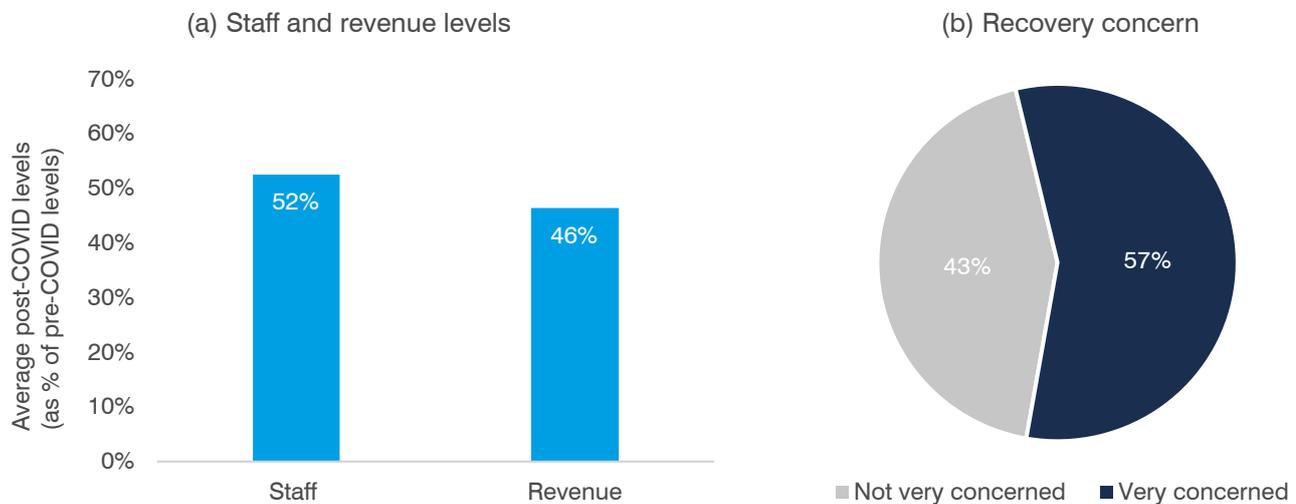
COVID-19 hit different subsets of companies differently. Consequently, not all firms are recovering at the same speed, and many have diverging recovery expectations. Businesses in Bahr el Ghazal are slowest in their COVID-19 recovery; they have 35% of their pre-COVID staff levels and 39% of their pre-COVID revenue levels. Firms in Equatoria have higher post-COVID staff and revenue levels than those in Bahr el Ghazal: they are at 54% of their pre-COVID staff and 44% of their pre-COVID revenue levels.

Businesses in Greater Upper Nile are performing the best: they have 68% of their pre-COVID staff and 59% of their pre-COVID revenue levels. The more advanced recovery of businesses in Greater Upper Nile can likely be traced to the region's higher development level. It has a more established regulatory infrastructure and benefits from road connections to Khartoum.

Many businesses are also pessimistic about their future recovery prospects. In fact, more than half (57%) say they are very concerned about their recovery (Figure 4b). Expectations of recovery are contingent on numerous factors, such as how affected a company was during the crisis or the optimism level of individual managers. For this reason, some parts of the SME sector in South Sudan are more confident about bouncing back from the COVID shock and their performance going forward.



Figure 4 COVID-19 recovery is slow for South Sudanese firms



Note: Respondents were asked 'What percentage of your usual number of staff at this time of the year are you currently employing?', 'What percentage of your usual revenue at this time of the year are you currently making?' and 'How concerned are you about the recovery of your business from the COVID-19 crisis?'.

Source: ITC based on SME competitiveness data collected in South Sudan.

Across the world, COVID-19 has the greatest impact on services firms. Many services sectors, such as accommodation and food services, deliver their services through face-to-face interactions. These businesses could not switch to remote delivery during lockdowns and therefore incurred losses.³³ It is unsurprising that they are the most pessimistic about recovery. Sixty-three percent of South Sudanese services firms say they are highly concerned.

Many agriculture firms also worry about their recovery prospects, with 49% highly concerned. Manufacturing firms are the most optimistic, with only 34% saying they are highly concerned about their recovery.

Youth-led companies are more optimistic about the recovery of their revenues. Almost half (46%) believe revenues will return to pre-COVID levels within one year, compared to 35% of non-youth-led firms. Research finds that young entrepreneurs are generally more optimistic about the future than more experienced, older entrepreneurs.³⁴ This could explain why South Sudan's youth-led enterprises have a more positive outlook for the post-pandemic period.

In these challenging times, many firms found it difficult to survive on their own and needed assistance. Access to various kinds of COVID-19 support helps explain why today, certain groups of firms are performing better than others.

Government support not widespread during pandemic

Contracting debt was one way for firms to mitigate the COVID-19 impact. More than half (53%) of firms took this route to obtain finance. While doing so may have helped companies survive the crisis, some are now struggling to pay it back. Sixteen percent of firms believe they will never repay this debt and 26% believe it will take more than three years. Firms located in the more rural Bahr el Ghazal region tend to be the most pessimistic about their ability to repay their COVID-related debt. Carrying this debt burden endangers the long-term survival of these firms.

Countries such as India have implemented debt moratoriums to strengthen the businesses grappling with COVID debt. A debt moratorium specifies a period in which borrowers are not required to make loan repayments. After the end of this grace period, borrowers start repaying via fixed monthly payments.³⁵ Such a programme could help SMEs struggling to repay debt, such as firms in Bahr el Ghazal, avoid bankruptcy.

Debt moratoriums are just one type of measure governments around the world introduced to alleviate the economic fallout of COVID-19. In South Sudan, such government or business support organization (BSO) support was not widely available

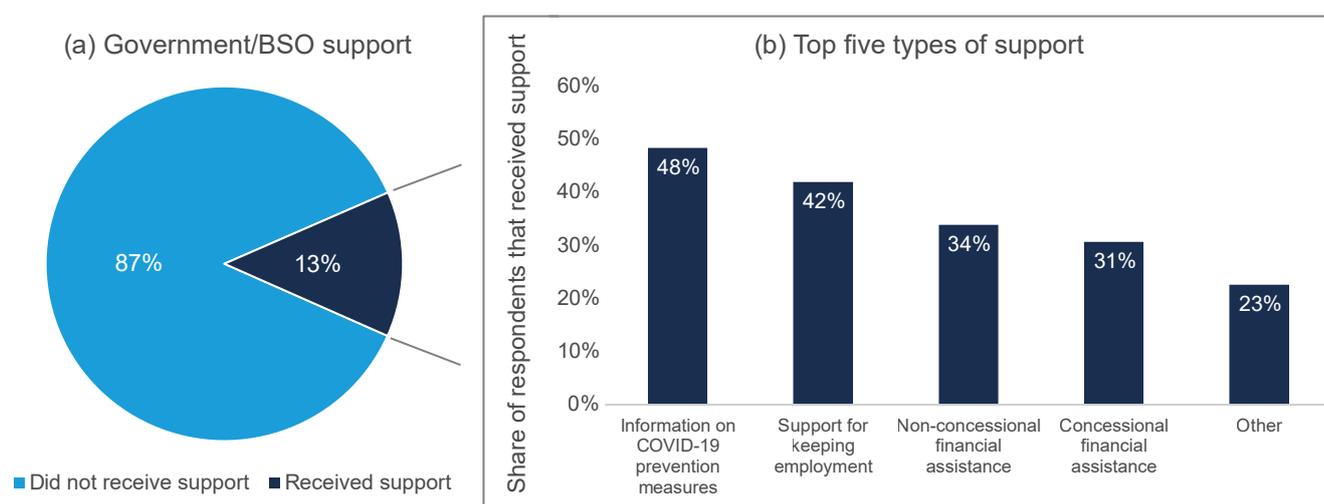
during the pandemic. In fact, 87% of firms did not get any support (Figure 5a). When asked why they did not receive support, 85% of respondents said no support was provided or they were not aware of support being available.

The main COVID-19 assistance provided by the government is set out in the National COVID-19 Strategic Preparedness and Response Plan, which had an initial implementation timeframe of FY2020/21 and was later extended to cover FY2021/22. This plan laid the groundwork for an information campaign that aimed to counteract misinformation and

educate the population on how to avoid or reduce COVID-19 exposure and transmissions.³⁶

The campaign reached firms that indicated they had received support. The most common type of assistance received was information on how to protect employees or customers from COVID-19 (48%) (Figure 5b). Most firms that received support were happy with its quality. Sixty percent said the assistance fully met their needs, 31% said it partially met their needs and 10% said it did not meet their needs.

Figure 5 Few businesses received support during pandemic



Note: Respondents were asked 'Has the business received COVID-19-related support from the government or a business support organization?' and 'What kind of COVID-19-related support has your company received?'.

Source: ITC based on SME competitiveness data collected in South Sudan.

Going forward, key policy objectives should ensure that SMEs are not left behind in their COVID-19 recovery. Findings from this report suggest that qualities that make South Sudanese SMEs competitive – such as productivity, timeliness, innovativeness and strong business networks – make them more resilient against external disruptions.

Policies and mechanisms that support and facilitate these qualities include enhancing access to inputs and markets through better transport and logistics services, providing access to electricity, telecommunication and certification services, and reinforcing business support services. These efforts would provide a better foundation for SMEs to turn their focus to the future and prepare for upcoming crises.

Companies exposed to environmental risks are more forward-looking

While the world economy slowly recovers from COVID-19, the rise in commodity prices brought on by the war in Ukraine, along with other shocks, have created new challenges for businesses across the globe. Yet the war is not likely to be the last crisis disrupting markets. Political instability, social conflicts, fluctuating oil revenues and climate change, to name just a few, are all risks that small businesses in South Sudan need to anticipate. Adopting long-term risk management strategies that take account of these factors is therefore key in making SMEs resilient to future crises.³⁷



Many SMEs had no plan in place when the pandemic hit and were more severely affected than large firms by the measures taken to slow the spread of the virus.³⁸ They seem to have learned this lesson, with 44% of South Sudanese companies saying they were taking steps in 2022 to prepare the business for future crises, thereby engaging with risk management.

Youth-led firms tend to ready themselves more for future crises, with 63% saying they prepare, compared to 34% of non-youth-led firms. Although youth entrepreneurship helps to drive job creation and contributes to the dynamism of the business sector, youth-led firms face some unique challenges. They are generally less resilient because they face more severe resource constraints during crises, as evidenced by the pandemic.³⁹ Young entrepreneurs are also more likely to have limited experience and networks on which to draw.⁴⁰ They therefore need help developing risk management strategies to ensure their survival during the next crisis.

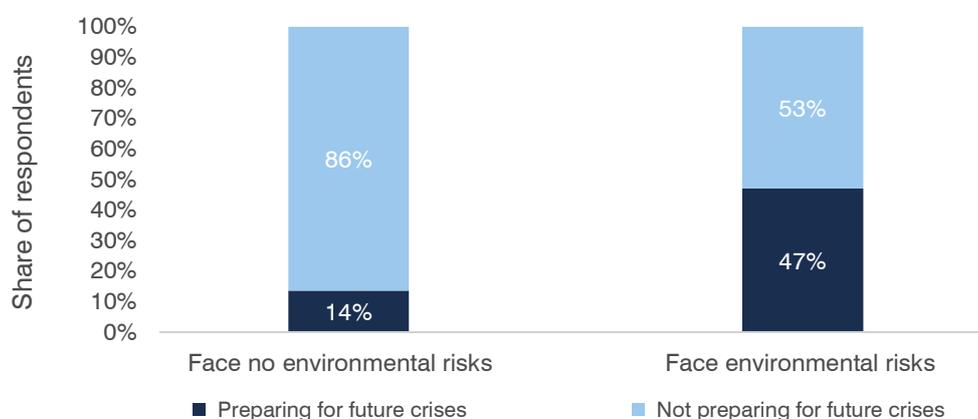
Having strategies in place that anticipate and mitigate risks is doubly important for firms engaged in trade, because they not only face domestic risks, but are also directly exposed to shocks on world markets. Most South Sudanese traders recognize this, as 51% are preparing for future crises, compared to 27% of firms not engaged in trade.

Firms that are not preparing said they do not expect a major crisis to occur or to affect their business (41%) or that they lack the financial resources (41%). Firms that are preparing are revising their sourcing strategy (70%) and/or revising their sales strategy (60%).

One crisis that has the potential to damage South Sudan greatly is climate change. Globally, South Sudan is one of the countries most vulnerable to climate change, with rising temperatures resulting in longer heat waves and drought.⁴¹ Moreover, recent years have brought heavy flooding along major rivers.⁴² In a country that relies heavily on subsistence agriculture and where food insecurity has reached its highest level since independence,⁴³ climate change poses a real threat to livelihoods. Some 90% of surveyed firms realize that they face environmental risks, especially floods (43%) and changing temperatures (40%).

Businesses that have dealt with COVID-19 and are also experiencing the effects of climate change know how quickly supply chains can be disrupted and how devastating this can be to their own operations. This trial by fire makes them more aware of the need to put contingencies in place by having adequate risk management strategies. The data corroborate this. Companies that are exposed to environmental risks tend to prepare more for future crises than firms that are not exposed (47% vs 14%) (Figure 6).

Figure 6 Climate risk exposure raises preparation for future crises



Note: Respondents were asked 'Are you taking any steps to prepare the business for future external crises?'. Respondents were also asked 'Which of the following environmental risks are significant for your business?', with one of the answer options being 'None'.

Source: ITC based on SME competitiveness data collected in South Sudan.

The Government of South Sudan recognizes the importance of climate risk management and recently launched its first national adaptation plan for climate change. The plan aims to put climate-centric development at the heart of South Sudan's development planning.⁴⁴ This move creates opportunities for firms already engaging in climate-conscious production and business operations by giving them an edge over their less climate-conscious competitors.

Given the importance of competitiveness to the resilience of SMEs, the rest of the report focuses on the aspects of competitiveness that need to be strengthened in South Sudan to build resilience to shocks.





Chapter 2

Strengthening the foundations to succeed internationally

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Strengthening the foundations to succeed internationally

A competitive business must be sufficiently productive to withstand competition. It should be able to allocate resources efficiently and meet market requirements. A firm's ability to deliver outputs of suitable quantity, quality and cost, as well as its timeliness, determine customers' satisfaction and therefore business success.

In the context of increased input pressures – aggravated by high and volatile prices often faced by firms in fragile regions – efficient resource management practices are indispensable to allocate resources optimally and obtain the best return. International standards certification can enhance management practices and the productivity of firms, and stimulate exports. However, adequate information about certification requirements and procedures is needed to be certified.

Partly as a result of the COVID-19 pandemic, interviewed South Sudanese businesses have found it difficult to produce at their optimal capacity, often could not deliver their goods and services on time, and had to deal with declining consumer demand and basic infrastructure deficits. Yet more competitive firms have shown faster recovery from the crisis in terms of employment and revenue.

Financial resource management practices could also be linked to productivity. Data show that bank account owners can keep better track of their financial transactions and manage their cash flow. At the same time, the survey finds important differences in management capabilities across size, sector and gender of leadership. South Sudanese firms lack institutional support to obtain certification and draw on their informal business networks to acquire certification information when it is not readily accessible.

Support business recovery to revive exports

The pandemic and other recent disruptions have had major effects on businesses in South Sudan. Many firms have low rates of capacity utilization and struggle to deliver

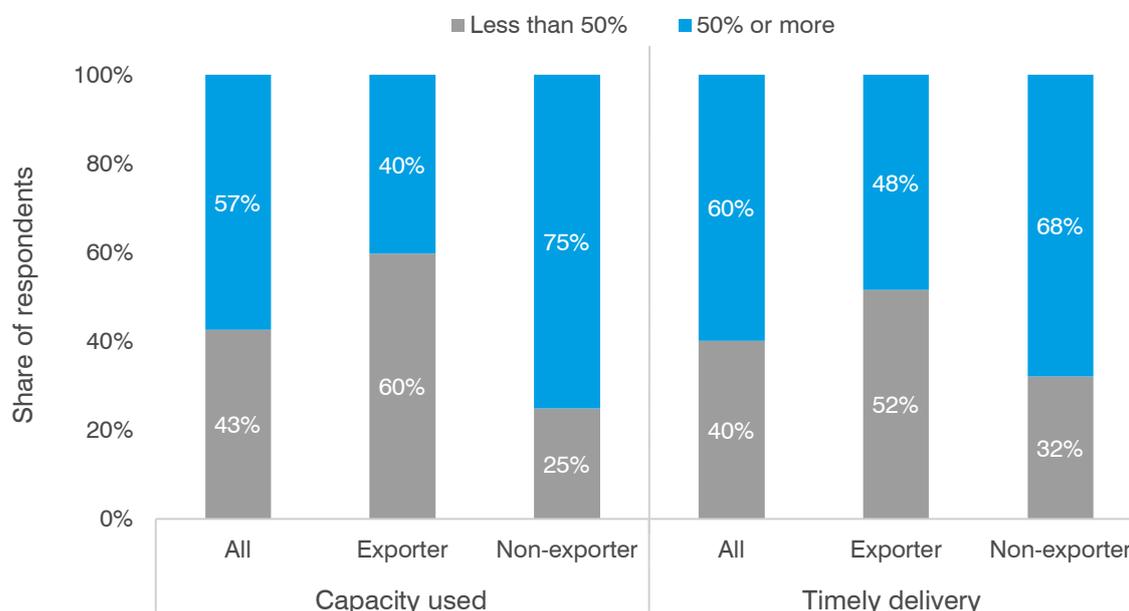
their goods and services on time. More productive and efficient companies are more resilient, because practices that boost their capacity to compete also make them more robust to withstand disruptions.⁴⁵ However, the business environment also plays an important role. Access to high-quality and reliable infrastructure is associated with better firm performance.

Many firms were operating well below full capacity during the pandemic. Changes in the external and internal environments – such as competitive pressure, demand variations, financial constraints, management practices, technological bottlenecks and institutional weaknesses⁴⁶ – influence capacity utilization.⁴⁷

South Sudanese companies did not fully exploit their production capacity during the pandemic. In 2021, the average capacity utilization rate among SMECS respondents was roughly 50%. The survey found that 43% of firms were using less than half of their productive capacity (Figure 7). Low levels of capacity utilization have implications for firm productivity and performance. Firms that generate more output with given productive resources can lower production costs and increase profits.⁴⁸

Through its effects on demand and disruptions to supply chains, the pandemic also had a strong impact on exporters. While 25% of non-exporters were using less than half of their capacity, 60% of exporters were at a similarly low level of capacity utilization. Globally, the COVID-19 crisis affected businesses that engage in international trade more severely than non-traders due to greater difficulty accessing inputs and selling outputs as well as reduced logistics and certification services.⁴⁹ Failing to diversify export destinations, which domestic instability can encourage, can boost vulnerability to external shocks and affect capacity utilization.⁵⁰

Figure 7 Pandemic cost exporters production and delivery efficiency



Note: Respondents were asked: 'In the last year, what was this company's output as a percentage of the maximum output possible? 100% means all resources are fully employed and increase in output is not possible without increasing resources (an estimate is sufficient)' and 'In the last year, what percentage of this company's goods or services were delivered on time?'.

Source: ITC based on SME competitiveness data collected in South Sudan.

Many South Sudanese firms also struggled to deliver their products on time during the last year. Although most firms (60%) delivered at least half of their goods/services on time, 40% did not manage to do so (Figure 7). Issues aggravated by the pandemic, such as reduced access to inputs, logistics and certification services that hindered exporters' production, also affected their ability to deliver on time.

Indeed, lack of access to inputs and market access are among the top barriers, according to export-oriented firms. Therefore, it comes as no surprise that more exporters faced delivery delays than non-exporters. About 52% of exporters delivered fewer than half of their goods/services on time, compared to 32% of non-exporters.

In effect, the top challenge respondents face when exporting or trying to export is delays or time uncertainty. Nearly 60% of surveyed firms that export or want to export cited it as the biggest export barrier. Strict border regulations and controls, mainly due to security concerns, create delays for South Sudanese exporters that are considerably longer than in other African countries. The costs involved are also much higher.⁵¹ The issue of logistics and transport costs was the second-biggest export challenge cited by surveyed firms.

The business ecosystem also plays a crucial role in firms' short-term decisions and affects their capacity utilization – and hence competitiveness.⁵² Basic infrastructure deficits undermine productivity and timeliness in South Sudan.⁵³ Around 7% of the population had access to electricity in 2020, a much lower rate than in neighbouring countries such as Kenya (71%), Sudan (55%), Ethiopia (51%) and the Central African Republic (16%).⁵⁴ High cost and unreliability of electricity are the main supply constraints.⁵⁵ To cope with the lack of access, many firms devise their own power sources and use generators. Tankers that source water from wells supply much of the water needs of firms around Juba, but some also rely on their own boreholes.⁵⁶

Firms with reliable access to electricity and water for production tend to have higher capacity utilization rates. The survey found that 65% of firms with stable electricity had high capacity utilization rates, compared to 48% with unstable electricity, while nearly 80% of firms with reliable access to water were running at high capacity, compared to 39% with limited access to water. Furthermore, having access to good transport infrastructure doubles the probability of excellent timely delivery (more than 90% of products delivered on time) among respondents while good logistics services triple it.

There are important disparities in access to infrastructure. More than 85% of South Sudanese live in rural areas with poorer infrastructure and amenities.⁵⁷ The survey finds that the capital city of Juba enjoyed markedly better amenities than other areas. For instance, 70% of firms in Juba reported stable electricity compared to 35% of firms outside Juba. Similarly, 85% of firms in Juba rated the quality of logistics services as high compared to just 31% of those outside Juba.

Infrastructure improvements – especially in rural areas – will support the capacities of farms and agribusinesses in South Sudan (Box 2). South Sudanese firms need significant support to export and compete in international markets. Addressing infrastructure barriers will help improve their capacity utilization and timeliness.

Boost financial management for performance

Financial management underpins the competitiveness and resilience of a firm by determining how effectively it allocates resources and plans for the future. Sound resource management practices can help firms sustain operations, expand and export successfully. Finance is a central component of a firm's resource base, and its efficient management involves good financial recordkeeping.

Adequate financial records are needed to access financing and plan for growth.⁵⁸ Having a business bank account

helps with bookkeeping by storing records of financial transactions and allowing firms to track and manage them.⁵⁹ This helps simplify tax accounting and loan applications and enables businesses to make effective investment and resource allocation decisions.

The limited financial management capacities of many South Sudanese SMEs are therefore a cause for concern that affects many other aspects of these businesses. Some firms perform better than others, with notable differences across firm characteristics such as size and sector. Low levels of education contribute to the lack of management skills necessary to stimulate business development.

The survey found that firms with bank accounts had more complete records of their business transactions. While more than 80% of firms with a bank account kept records of their revenue, expenses, assets and liabilities, just 52% of companies without a bank account did so (Figure 8). Bank account ownership was rather low among surveyed firms, however, with only 55% of them having a business bank account.⁶⁰

By facilitating recordkeeping, having a bank account improves the ability of firms to manage their cash flow and reliably execute payments.⁶¹ It also helps them identify problems and plan for the future. The survey reveals that 64% of enterprises with a bank account had a good ability to manage their cash flow compared to 41% of those without an account (Figure 8).



Box 2 Increase output for farmers and agribusinesses

Much of South Sudan's agriculture takes place at the subsistence level, limiting output. Expanded domestic production could enhance the stability of the food supply. Recent pandemic-induced border closures curbed imports, leading to food shortages and higher food prices. Agriculture and agroprocessing value chains have the potential to drive economic diversification and alleviate food insecurity.

One way to achieve this is by using more sophisticated farming technologies. These are costly, however, which is why farmers in South Sudan tend to use traditional and less advanced tools. The survey found that 56% of farmers used hand tools (axe, sickle, harrow, hoe, etc.), 11% used tractors and 10% used animal-drawn equipment. Only a few respondents reported using more advanced tools: 3% used mechanical harvesters, 1% used power tillers and 1% used pruning machines for production.

Farmers who use more sophisticated machinery can increase their productivity because they can plant and harvest more crops, helping address capacity shortcomings. To encourage farm mechanisation, the rental market should be strengthened. Custom hiring centres that lease out farm machinery could be set up.

About three-quarters of surveyed farmers had taken action to preserve soil fertility to ensure that the land they are living off is still arable in the future. The most common method was crop rotation, with 20% of farms using this technique, followed by the use of organic fertilizers (such as manure-based fertilizers) by 15% of farms and intercropping (12%).

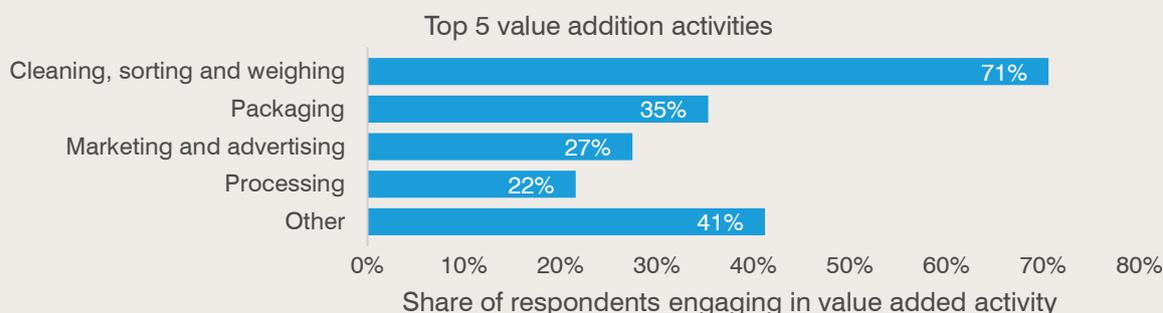
Capacity can also be improved by cutting post-harvest losses resulting from poor storage infrastructure, which Vision 2040 identified as a key investment area. Storage facilities are underdeveloped in rural areas of South Sudan, preventing farmers and agribusinesses from using (or from using suitable) storage techniques and reducing the shelf life of produce.

More than half of the surveyed food manufacturers and 35% of farmers did not store their products to preserve them. Farmers and food manufacturers mainly used bags (39% of respondents) or crates (32% of respondents) for storage. Only a small share, mostly beverage manufacturers, used refrigerated and controlled atmosphere storage, chillers and metallic silos.

Farmers and agribusinesses should also increase their competitiveness by adding value to their goods. They should make their produce more appealing to customers rather than selling it in its raw form. On average, 53% of farmers and agribusinesses engaged in activities to add value. Of these, 71% said they clean, sort and weigh their produce before selling it, while only 35% packaged it and 27% advertised their products.

Exporters tended to do more value addition. Packaging especially can reduce post-harvest losses, as it prevents produce from being exposed to damaging high temperatures and humidity. But packaging is often imported from Uganda and many farmers still do not use it.

Farmers and agribusinesses take basic steps to add value



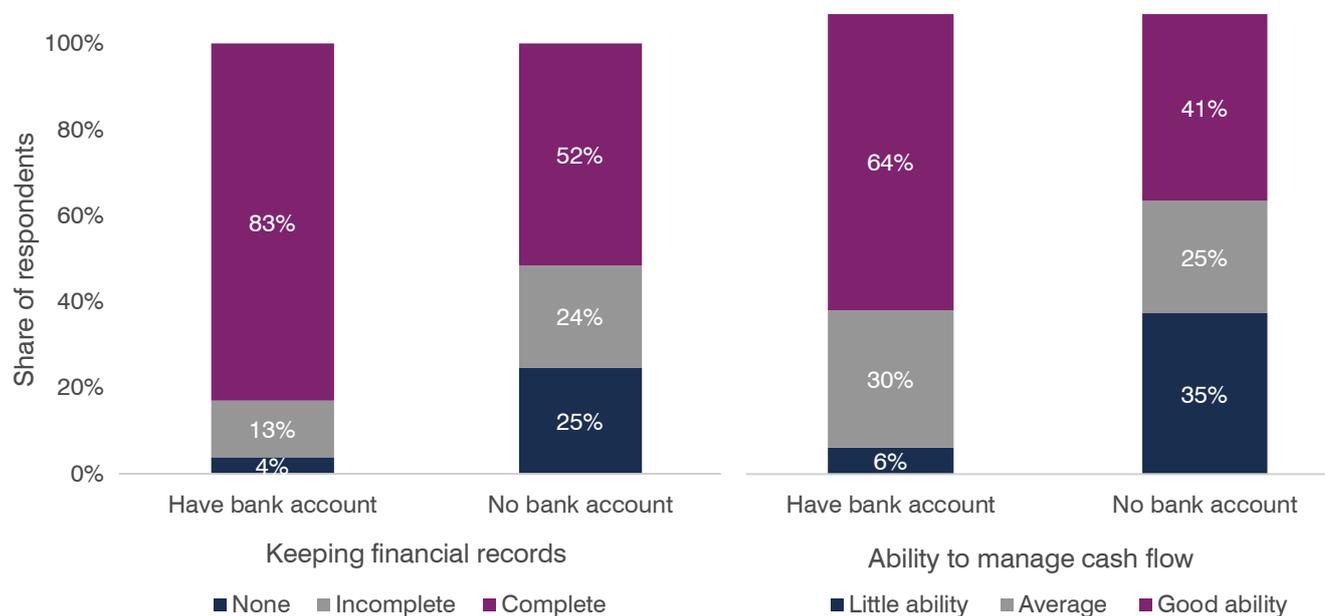
Note: Respondents were asked: 'Does your establishment perform any of these operations before selling its main product?'

Source: ITC based on SME competitiveness data collected in South Sudan.

Source: FAO (2022). *National agrifood systems and COVID-19 in South Sudan: Effects, policy responses and long-term implications*. Food and Agriculture Organization of the United Nations. <https://doi.org/10.4060/cb8613en>; ITC (2022). Republic of South Sudan – Fruits and vegetables strategy 2023-2027. International Trade Centre; United Nations (2019). South Sudan country report for the fifth United Nations Conference on the Least Developed Countries. United Nations.

https://www.un.org/ldc5/sites/www.un.org/ldc5/files/final_draft_south_sudan_country_report.pdf

Figure 8 Bank account simplifies financial management



Note: Respondents were asked: 'At this time, does this company have a bank account for daily operations which is separate from a personal account?' and 'Does your company keep the following types of records: Revenues, Expenses, Liabilities, Assets?' and 'Please rate this company's ability to manage its cash flow to reliably execute payments'.

Source: ITC based on SME competitiveness data collected in South Sudan.

Financial management practices vary across firms, but South Sudanese enterprises generally avoid using professional services offered by accountants, auditors and financial advisers to help with financial management.⁶² The financial management practices of surveyed firms differ by size, sector and gender of leadership. Larger firms have better resource management practices than smaller firms. While all surveyed large companies documented all their financial proceedings, 83% of medium-sized, 77% of small and 57% of micro firms did so.

Larger businesses also tended to report better cash-flow management abilities than smaller firms. Smaller companies, especially microenterprises, have no or few employees to deal with accounting procedures and often do not see the importance of keeping quality financial records.⁶³ This lack of awareness hinders their ability to obtain financial statements for loan applications and properly manage cash flows.

Agricultural and manufacturing firms lag behind services companies in resource management practices. Most surveyed services firms (65%) owned a business bank account compared to 34% of agricultural firms and 32% of manufacturers. Services firms were also more likely to do bookkeeping and to have good cash-flow management.

The low performance of agricultural and manufacturing businesses could be related to the informal status of many of these enterprises. In the surveyed sample, roughly 70% were registered with a national authority compared to 90% of services firms. Agribusinesses are also mainly served by informal financiers who do not require written records and are better able to reach rural and marginalized populations.⁶⁴

There is a gender gap in financial resource management resulting from the additional challenges in accessing finance that women-led firms face. Female entrepreneurs often have less access to collateral and education, and they face gender-based discrimination.⁶⁵ Among survey respondents, more than half (55%) of men-led companies had a bank account compared to 43% of women-led companies. Men-led firms were also more likely to record their finances than women-led firms.

Addressing these management gaps can have a major impact on fostering financial inclusion and increasing the economic contribution of women-led businesses. Facilitating access to banks for small enterprises and women-led firms and providing relevant financial management and business planning training could help them improve their financial capabilities to meet financing needs and increase productivity.

Increase information about standards and certification

As a credible signal about firm operations and performance, certification enhances firms' exports.⁶⁶ Following internationally recognized standards and requirements such as ISO 9001 may also improve management and product quality, resulting in lower costs.⁶⁷ This is particularly important for firms in countries with weak institutions to support international transactions. An international certificate can improve perceptions and willingness to engage in trading relationships with firms in these countries, where the perceived risk of breach of contract obligations and lack of rights protection lower the trust of foreign buyers.⁶⁸

Improved certification systems would help South Sudanese enterprises access foreign markets. Knowledge exchange within business networks in South Sudan has helped spread information about standards and certification among firms. However, further development of the national quality infrastructure and services is essential to increase the competitiveness of companies in international markets.⁶⁹

Although few firms in the country have domestic or international safety, quality or sustainability certificates, exporters are more likely than non-exporters to be certified; there was about a 30 percentage point difference in certification rates between these groups of South Sudanese firms. Like non-exporters, smaller and rural firms are more

constrained with certification. Certificate ownership is more than two times higher among large firms than micro firms and 32 percentage points higher among firms in Juba compared to those outside the capital.

A shortage of information about standards and certificates contributes to the lack of certification among smaller and rural firms.⁷⁰ The data corroborate this as the certification rate was 2.5 times higher among firms that reported easy access to this type of information than those with little access. While large firms did not report information availability issues, 22% of medium-sized firms, 24% of small firms and 34% of micro firms reported inadequate information. More than 30% of firms outside Juba reported low availability compared to 9% among firms in the capital.

Businesses outside Juba also were more concerned than Juba-based firms about the institutions involved in quality management. Smaller enterprises and those outside the capital were also less likely to be satisfied with the quality of inspection and certification bodies.

The South Sudan National Bureau of Standards (SSNBS)⁷¹ tries to fill this gap by disseminating and promoting standards information through various channels, mainly local media including radio, television and newspaper, workshops and seminars. Nevertheless, the SSNBS has no official database or website for public information on standards that are gazetted and how the users can

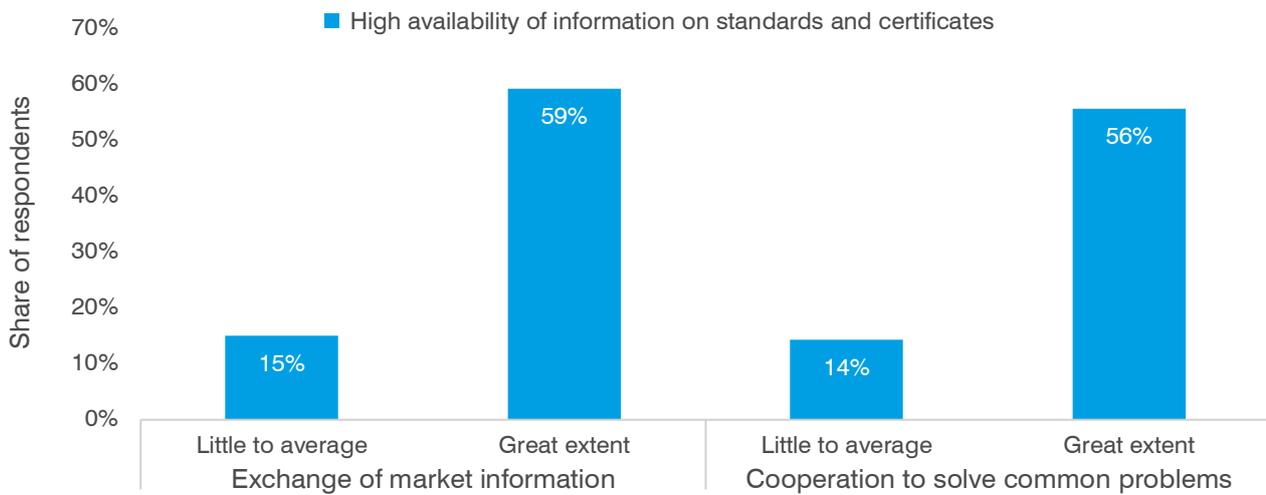


purchase these standards. As a result, users must contact the agency directly to buy standards or obtain information.

South Sudanese business networks have also been effective in delivering enhanced information about the quality infrastructure. Firms that often collaborate with their peers to exchange market information and solve common

problems tended to report higher availability of information on standards and certification than those that do not. For instance, nearly 60% of companies that collaborate extensively with their peers cited high information availability compared to about 15% of firms with little or average collaboration (Figure 9).

Figure 9 Business networks stimulate information sharing



Note: Respondents were asked: 'Please rate the availability of domestic information on standards and certificates related to this establishment's main product or service', 'To what extent do companies in your sector exchange market information which may be beneficial to the sector as a whole (e.g. market trends)?' and 'To what extent do companies in your sector cooperate to solve common problems which may be beneficial to the sector as a whole?'.

Source: ITC based on SME competitiveness data collected in South Sudan.



However, even better access to information cannot compensate for the lack of capacities and sophistication of South Sudan's quality management system. The country is missing a proper national quality policy and supporting infrastructure to facilitate trade and private sector development.⁷² Although some firms reported being certified, the certificates they obtained are unlikely to be recognized internationally or regionally. While the country has an active standard and certification authority – the SSNBS – the agency has not yet been able to develop a product certification scheme.⁷³

Furthermore, quality management institutions in South Sudan tend to have limited international recognition because laboratories and testing bodies are not accredited by a recognized accreditation body.⁷⁴ As a result, the certificates issued by the SSNBS or any laboratory are not recognized in Africa or outside the continent. This means some products are being exported without certificates or often need to be reinspected and certification through foreign providers with higher costs and significant time delays.⁷⁵

Policy insights: Improving productivity and financial management

Internal and external factors that prevent the timely delivery of outputs of appropriate quantity, quality and cost to meet current market expectations have undermined the competitiveness of South Sudanese firms. While the recent challenges brought on by the COVID-19 pandemic, natural disasters and global economic instability have affected firms, deeper issues in the country have made it difficult for SMEs to build their competitiveness.

Improving the environment in which companies operate, their financial management capacities and the country's quality management system should be prioritized to boost the competitiveness potential of SMEs.

A predictable business environment is fundamental to competitiveness. Reliable infrastructure allows firms to exploit their production potential. Survey results show that firms with better access to electricity and water have higher capacity utilization rates and those with access to good transport infrastructure and logistics services deliver more outputs on time. Extending the reach and quality of infrastructure will be critical to support the productivity of firms and to connect businesses efficiently to suppliers and markets.

In addition, an improved security situation, more transparency in policymaking and macroeconomic stability would bring greater certainty and build the confidence of entrepreneurs and SMEs to invest in upgraded and expanded capacities.

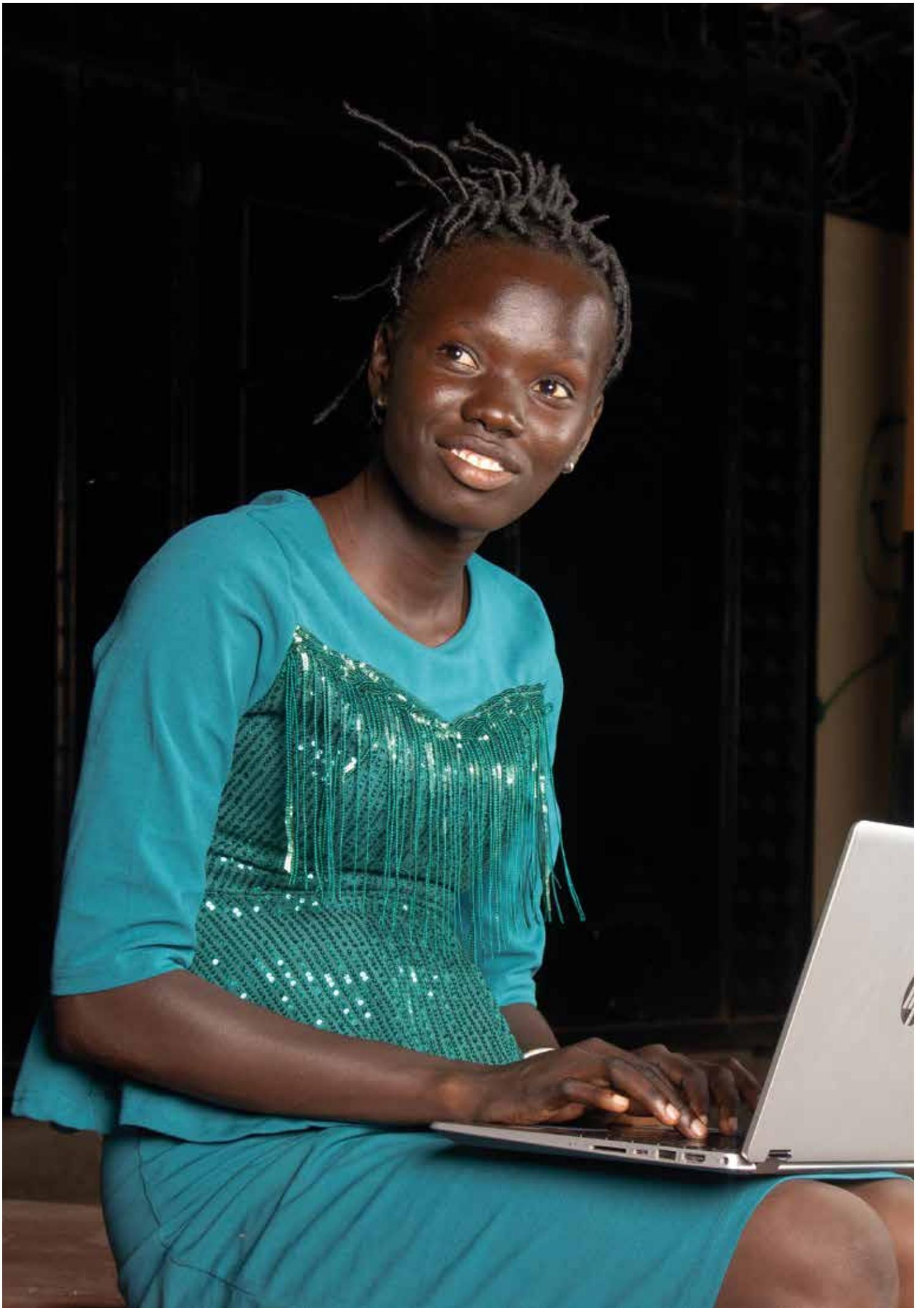
At the firm level, financial management affects how businesses manage operations, growth and unanticipated

events. South Sudanese companies, particularly smaller and women-led firms, need better financial management capacities – and closely connected financial literacy capacities.

Training and business support in financial management skills would enhance their management capabilities and competitiveness. These capacity-building initiatives should address the unique challenges of more vulnerable firms that are in particular need of this assistance. South Sudan's business associations will need to play a major role in designing and implementing financial management training, in partnership with government and development partners.

Improvements in quality and certification raise the value of firms' outputs and help them expand into new markets. However, South Sudan needs a much stronger quality management system for these changes to take place. Meeting mandatory standards in export markets will require a national sanitary and phytosanitary framework, additional capacities in metrology and testing, and the pursuit of international recognition of national standards.

Agricultural producers will need the support of sector associations to raise awareness of the benefits and processes of certification. Financial institutions may have a role to play as well in working with other stakeholders to develop financial services tailored to farms and SMEs investing in pursuing certification.



Chapter 3

Fostering networks for better market linkages

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Fostering networks for better market linkages

Forging networks and connections helps firms to be competitive. Engaging with customers and other businesses can help firms obtain useful information about market trends and opportunities as well as policies and regulations. This helps them design better business and marketing strategies. On the other hand, inadequate information about buyers and export procedures creates uncertainty and impedes the internationalization of firms.⁷⁶

South Sudanese firms are actively building connections with their customers, suppliers, peers and others. More than half of the surveyed firms have advertised to attract customers. Despite the low quality and high cost of an internet connection in the country, the few businesses that do use online channels to advertise seem to benefit from it.

Companies tend to rely mostly on foreign suppliers due to inadequate domestic input production. However, those that depend heavily on their main supplier are diversifying their input sources and improving their contractual terms to prepare for future crises. Businesses' engagement with sector associations and other support organizations tend to improve their access to information.

Advertise and connect with customers

Connections with clients are key to competitive and resilient firms everywhere. Firms need to stay connected with customers to retain them and gain traction in domestic and international markets.⁷⁷ To do this, many firms have marketing strategies to attract buyers. South Sudanese firms are no exception. Among surveyed companies, more than half (52%) said they had added marketing to their activities in the past three years. Increasingly, firms in South Sudan are also using information and communication technologies (ICT) in advertising and connecting with their customers.

Advertising is a widely successful aspect of marketing. More than 60% of respondents said they had advertised their business. Larger firms tended to advertise more than smaller firms, possibly because it requires additional

resources, which smaller firms often lack, or due to lower perceived benefits of advertising among smaller firms.

Print advertising (leaflets, posters or newspapers) is the most common form of advertising, accounting for 39% of all ads. This is followed by internet advertising (including social media) with 32% of advertisements, and broadcasting (using radio or television) with 29% of advertisements. Although much of the population, particularly in rural areas, still lacks access to a simple radio,⁷⁸ most people in South Sudan turn to the radio or television to access information, followed by the internet and then newspapers.⁷⁹

While print media still have the top spot for advertising in South Sudan, they are in decline due to high operational costs and falling ad revenues.⁸⁰ Newspaper readership is relatively low and also declining, affected by low literacy levels in a country where only 35% of the adult population can read and write.⁸¹

At the same time, digital advertising and online communications are gaining popularity among surveyed firms, especially those based in Juba, despite low internet penetration in South Sudan. Only 7% of the population used the internet in 2020.⁸² The survey found that fewer than a third of respondents, mainly services companies, used the internet for business operations and interactions, likely due to the challenges of getting online or low literacy levels.

Among interviewed firms, 21% had a business website – another important business promotional tool. Most of these companies operate in the services sector, notably in accommodation, financial services, education, health and retail sectors. More than 25% of services firms owned a business website compared to 11% of agricultural and manufacturing firms.

High costs hinder internet access and digital advertising.⁸³ About three-fourths of internet users said the cost was extremely high. This makes it difficult for small enterprises in particular to go online for business operations and connect with customers. While roughly 60% of medium-sized and



large companies used the internet, less than 30% of small and micro firms did so.

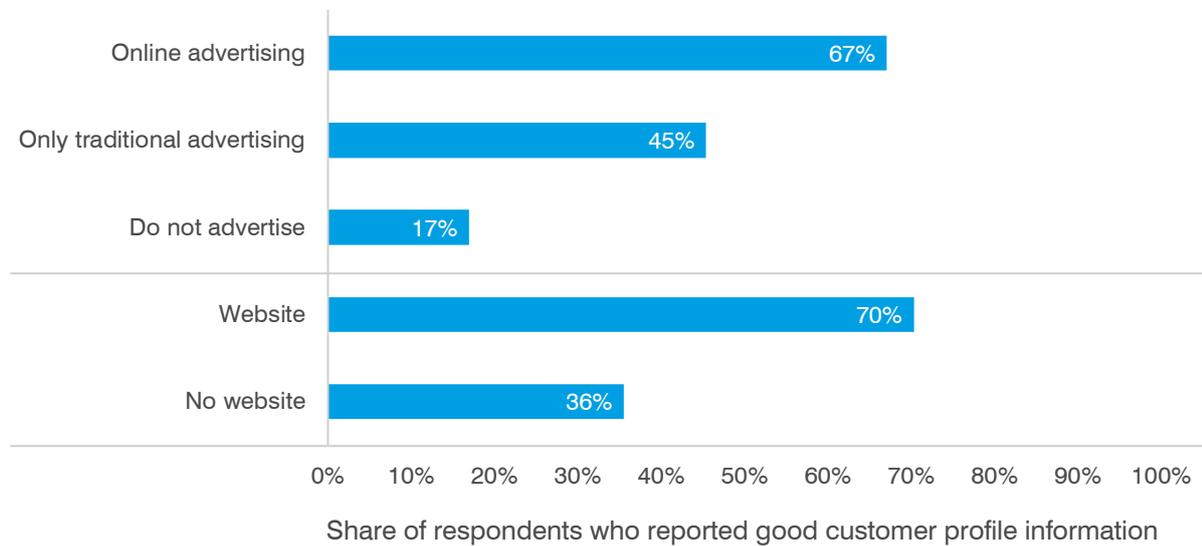
Uneven telecommunications coverage across the country also obstructs internet access, with Juba having the highest number of operators.⁸⁴ As a result, 42% of surveyed firms in Juba said they used the internet for business operations compared to just 29% of firms outside Juba. Firms in Juba also considered internet quality to be better than those outside the city.

Digital marketing using websites and social media platforms is useful for gathering customer information. It enables firms to better assess and track the effectiveness of their promotional campaigns on specific consumers, so they can follow up with targeted advertisements.⁸⁵ The survey finds that firms that advertised online had more information about their customers than firms that only used traditional channels to advertise or those that did not advertise at all.

Most (67%) firms that advertised online said they had good customer information, compared to 45% of traditional advertisers and 17% of non-advertisers (Figure 10). Similarly, website owners had better customer information than firms without websites. Firms that advertised (especially online) and website users also reported better availability and quality of information about potential buyers compared to their counterparts.

There is no one way to advertise that will be effective for every firm. What works for a company will depend on the target audience and trends of consumer behaviour.⁸⁶ Having good customer information is thus essential. The survey shows that growing engagement and visibility through online communication channels and advertising can feed back into the firm's repository of customer information. To unlock the potential of online channels, however, affordable and equal access to decent internet is essential.

Figure 10 Digital presence and advertising boost access to client data



Note: Respondents were asked: 'Please rate the completeness of this company's profile information on its buyers (e.g. information on age, gender, employment background)', 'Does this company have a business website?' and 'In the last year, did this company engage in any of the following forms of advertising: (i) Leaflet, poster, or newspaper advertising, (ii) Radio or television advertising, (iii) Internet or social media advertising?'

Source: ITC based on SME competitiveness data collected in South Sudan.



Diversify the supplier base for crisis resilience

In efficient supplier relationships, input suppliers help the firm meet customer requirements by delivering quality inputs when needed.⁸⁷ To this end, having strong supplier bases and relationships is central to the success of a company.

Most surveyed South Sudanese firms rely on a narrow base of suppliers. They generally have fewer than four suppliers, with almost 60% having one to three suppliers. Most SMEs said they had fewer than four suppliers while most large firms had four or more. As a result, supplier diversity is rather low among South Sudanese businesses, with 46% saying they strongly rely on their biggest supplier.

South Sudanese firms depend heavily on foreign suppliers. Half of the survey respondents sourced inputs from abroad. Nearly half of these respondents said the main reason they imported inputs instead of sourcing locally was difficulty accessing sufficient volumes of local goods and services. Other reasons included high price, instability of supply, absence of inputs or their alternatives, and low quality.

Relying heavily on undiversified imported inputs for production can be risky, as the supply of these inputs is more susceptible to external price shocks and international market volatility.⁸⁸ South Sudan is quite vulnerable to these shocks given its great dependence on oil for foreign exchange and limited economic diversification to supply inputs for its own industries.⁸⁹ Investing in local suppliers

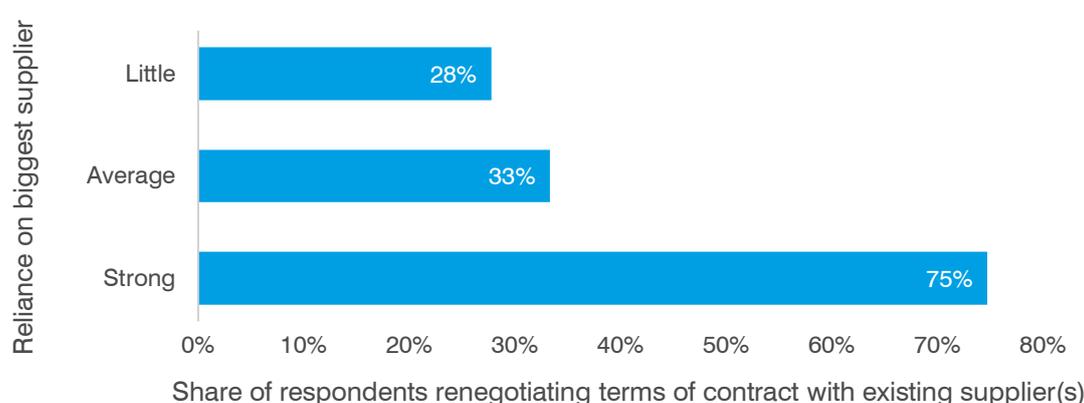
and producing more and better inputs locally would stimulate forward and backward value chain linkages in the country.

Developing new sources of supply, whether domestic or international, would also give firms flexibility to adapt to changing market conditions and customer needs. It would enable them to manage supply chain risks better and be more resilient to shocks such as floods, pest outbreaks, conflicts and health crises.⁹⁰ The COVID-19 pandemic cut off many firms from their main suppliers, pushing them to diversify their input sources. Survey evidence in developing countries shows that firms with a more diversified base of suppliers had less difficulty accessing inputs during the crisis than those relying on fewer suppliers.⁹¹

South Sudanese firms are looking to diversify their input sources, thanks in part to lessons learned during the pandemic. The survey finds that firms with just one supplier were keener to revise their sourcing strategy to prepare for future crises: 80% of single-supplier firms said they had revised their sourcing strategy compared to 66% of firms with more than one supplier.

Firms relying heavily on their biggest supplier were also more likely to have renegotiated the terms of the contract with their suppliers to prepare for future crises than those that did not depend on a single supplier. While three out of four firms with strong reliance on one supplier said they had renegotiated their terms, only 28% of those with little supplier reliance did the same (Figure 11).

Figure 11 Firms that rely on main supplier renegotiate contracts



Note: Respondents were asked: 'Please rate your reliance on your biggest supplier' and 'Are you taking any steps to prepare the business for future external crises? If yes, what steps are being taken?'

Source: ITC based on SME competitiveness data collected in South Sudan.

Firms that depend greatly on their suppliers must make sure they can trust them to deliver when needed. Supplier assessment involves measuring and monitoring supplier performance to ensure they comply with the firm's requirements and undertake improvement, risk mitigation and resource optimization.⁹² It is one of the most vital components of supply chain management and influences the quality performance of the firm.⁹³

The survey finds that firms that strongly rely on their main supplier assess them more often than those with little reliance (60% vs 46%). Firms that produce based on buyer specifications also assessed their suppliers more frequently than those not following buyer specifications (50% vs 20%). As resources and effort are needed to thoroughly evaluate a supplier, it is no surprise that 90% of large firms frequently carried out such assessments compared with only 43% of SMEs.

Companies need information about potential suppliers to diversify or switch suppliers and ensure reliable access to inputs. Around 40% of surveyed firms described the availability of information on potential suppliers as well as the information quality and cost as 'average'. However, smaller firms and those outside Juba tended to report lower availability and quality of potential supplier information than larger firms and firms located in the capital. For instance, 73% of large enterprises reported high availability and quality of supplier information, compared to 34% of SMEs.

Business networks accelerate market information flows

Networking allows firms to learn about new business trends and opportunities, including target-market information and rules and regulations to internationalize.⁹⁴ Businesses in South Sudan often lack sufficient access to information, which limits their growth potential and ability to react to changing market conditions. Sector associations and other support organizations play a central role in connecting firms. For example, while just 20% of all survey respondents were aware of the African Continental Free Trade Area, the level of awareness was double among firms that are engaged with a sector association than those not engaged.

Most information in South Sudan circulates through word of mouth, which means firms have much to gain from their networks.⁹⁵ Indeed, SMECS shows that South Sudanese firms that engaged more with other sector members had better information about buyers and suppliers. The survey found that the proportion of firms saying information on

potential buyers and suppliers was easily available was roughly four times higher among firms that extensively exchanged market information with sector members than those that seldom collaborated (Figure 12).

The same is true for information quality. The share of firms saying information on buyers and suppliers was good quality was much higher among firms that frequently shared market information.

The extent of sectoral collaboration varies across sectors and locations, however. Manufacturers collaborated less with their peers by exchanging market information (on market trends, for example) or cooperating to solve common problems. While nearly half of agricultural and services firms said they often exchanged market information with their peers, only a quarter of manufacturing firms said the same.

Firms in Juba collaborated more than those elsewhere, with 82% of firms in the city saying they cooperated extensively with other sector members to solve common problems compared to 42% of firms outside Juba. This could be partly driven by the high concentration of companies in Juba, which facilitates flows of information and ideas. Businesses are likely to learn more from each other through knowledge spillovers when they are located near to one another.⁹⁶



Firms that seek to export often face additional information challenges. Above all else, they need up-to-date data about export requirements such as standards in target

markets, bureaucratic procedures, regulations, duties, potential buyers, partners and more.

Policy insights: Build better networks to increase information access

Connections are at the core of the competitiveness and resilience of every firm, shaping all stages of production and which customers they can reach. Companies need better access to information. They also need better access to and capacities in ICT use, and more support on supplier diversification. In South Sudan, improving the capacities of BSOs will help small companies expand their networks.

Digital technologies and the internet play an ever-growing role in creating, storing, transforming and diffusing information. They are changing the way companies conduct business and generating new opportunities in many parts of the world.

In sub-Saharan Africa, the use of websites and e-mail has been found to underpin SME internationalization. South Sudanese businesses need broader access to digital technologies – and the ability to use them – to succeed at home and in international markets. The first step is to improve basic education, along with training in digital marketing, investing in telecommunications infrastructure and promoting competition among service providers. However, such efforts will also need to be affordable and inclusive, ensuring that they benefit small businesses and rural firms as much as large and urban companies.

Firms require reliable and diverse sources of inputs to meet customer needs. SMECS shows that South Sudanese firms rely greatly on their biggest suppliers, which are often foreign. Support organizations have a role to play in providing information and tailored services to lower the costs that smaller firms face to diversify their suppliers.

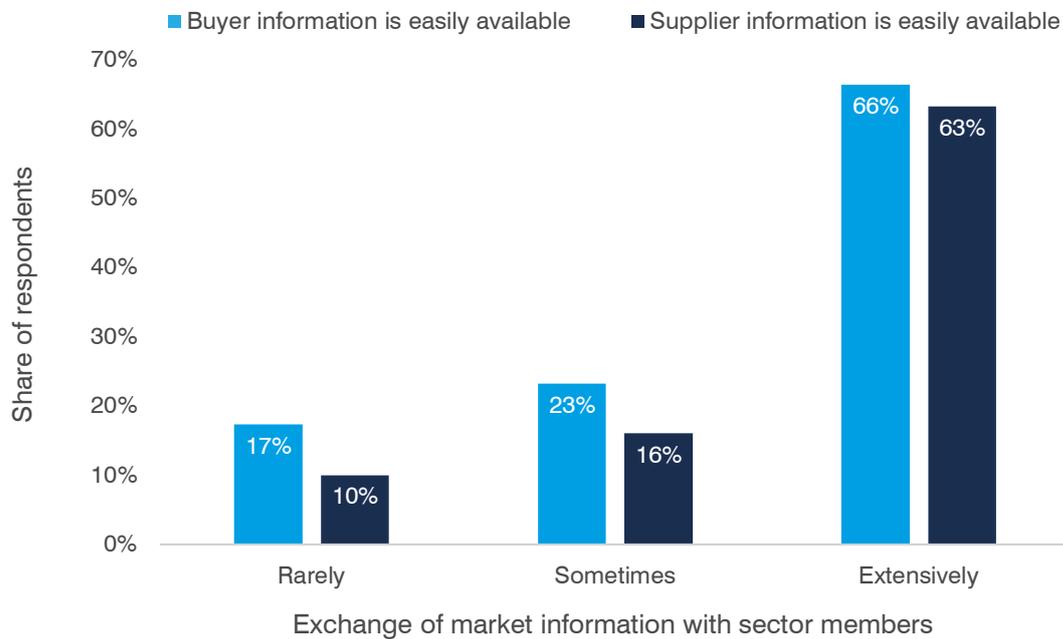
An additional benefit of the growth of the domestic manufacturing sector will be the increased availability of input suppliers. This would support the creation of value chain linkages in the country and boost resilience. Policies to strengthen domestic input supply networks might focus on fostering the growth of industrial clusters in high-potential value chains.

South Sudan's BSOs have a major role to play in bridging market information gaps and enhancing firm resilience against future threats. Survey evidence indicates that collaboration between firms improves access to buyer and supplier information. Going forward, the Government and BSOs could facilitate business meetups and sector-level networking events to promote the exchange of information and opportunities to collaborate.

Effective BSOs play an important role in disseminating information. Still, South Sudan has limited publicly available trade and market information. There is no centralized channel of communication to disseminate information on international market access requirements and opportunities that is easily accessible to private operators who want to export. Strengthening the capacities of BSOs to provide these kinds of resources and other forms of assistance to SMEs would have a real impact on the performance and trade potential of these firms.

Business support organizations must also cooperate and exchange information to minimize service gaps and duplications. Digital technologies can help lower operational costs and increase impacts for BSOs by cutting the cost of connecting with firms and external partners and facilitating the collection and sharing of information.

Figure 12 Sectoral collaboration facilitates access to market information



Note: Respondents were asked: 'To what extent do companies in your sector exchange market information which may be beneficial to the sector as a whole (e.g. market trends)?' and 'Please rate the availability of market information on (i) potential buyers, (ii) potential suppliers'.

Source: ITC based on SME competitiveness data collected in South Sudan.

Figure 13 Top three measures to help firms engage in business abroad



Note: Respondents were asked 'Which of the following measures would most help your company engage in business abroad, in Africa or overseas: information on rules and regulations, opportunities to take part in international trade fairs, support for finding business partners and networking, grants or subsidies or low interest loans, tax incentives, information on market opportunities, other, none?'.

Source: ITC based on SME competitiveness data collected in South Sudan.

Business networks can help firms to overcome these kinds of information-related export barriers.⁹⁷ The survey shows that South Sudanese firms that extensively shared market information with their peers were two times more likely to

export than those that rarely exchanged information. Firms that often cooperated with their peers to solve common sectoral problems were more cautious about potential disruptions in global markets. The survey finds that 50%

of the more cooperative firms had taken steps to prepare for future external crises that could affect their business compared to 25% of those that seldom cooperated.

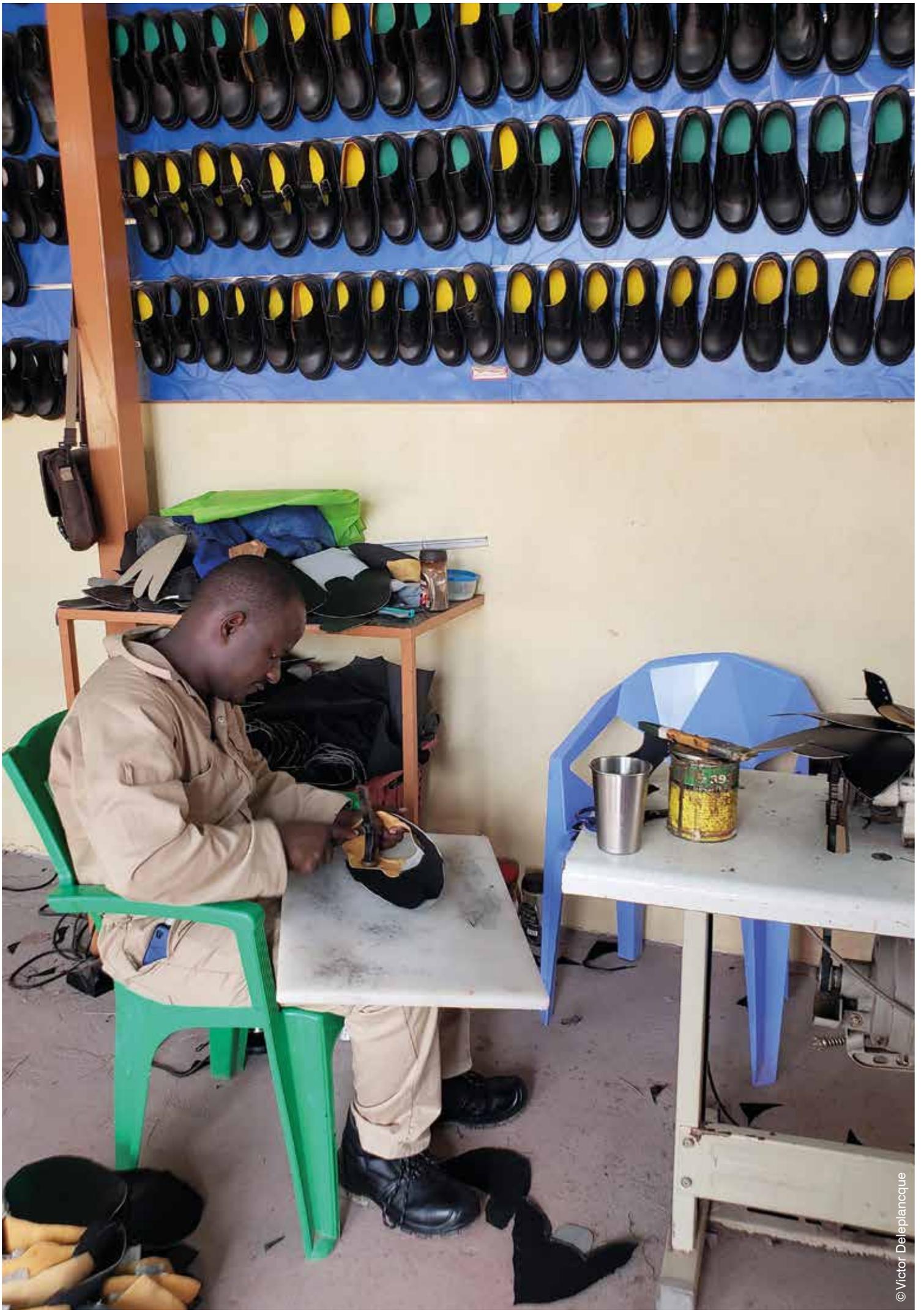
BSOs such as chambers of commerce, sector associations and trade and investment promotion organizations usually have mandates to disseminate market information and provide training and advice to local firms. South Sudan has several private-sector organizations representing and providing services to members, including the umbrella body, the South Sudan National Chamber of Commerce, Industry and Agriculture. Almost a quarter (73%) of survey respondents said they had engaged with the organization.

South Sudan has no independent trade or investment promotion organization. The Ministry of Trade and Industry

and the Ministry of Investment are the main institutions focusing on trade and investment development in the country.⁹⁸ Almost half (46%) of interviewed firms had consulted an investment-supporting body, while 38% had consulted a trade-supporting body and 32% had engaged with a sector association.

During the peak of the pandemic, BSOs provided information on business continuity and COVID-19 trade-related measures to support their clients or members. However, they still lack capacity to deliver services, do not have sufficient facilities and equipment, face weaknesses in internal coordination and have limited connections with clients.⁹⁹





Chapter 4

Better skills and more innovation for competitive business

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Better skills and more innovation for competitive business



Today's businesses must be flexible to adjust to market changes. This is especially true in a fragile context such as South Sudan's. As the conditions under which firms operate can evolve rapidly, they need to be quick in responding to the altered business environment by adapting their business operations. Many factors shape their ability to do this, including access to skills and finance, as well as firms' engagement in innovative activities. During periods of crisis, this adaptive capacity also builds the resilience of firms.

Survey evidence suggests that small South Sudanese businesses struggle to access finance. Banks view microfinance as too risky and are unwilling to extend loans to small enterprises. Firms also indicate that their employee skill levels do not adequately match the needs of the company. Upskilling South Sudan's workforce through targeted policy intervention can address this problem.

Finance and skills challenges also hold back the innovation capacities of firms, though innovation can make companies more resilient during crises.

Improve financial systems to help firms grow

Financing fundamentally affects the efficiency of firms' operations and their growth potential.¹⁰⁰ As a result, the limited access to finance in South Sudan is a major hindrance to private sector development. In 2020, domestic credit provided to the private sector stood at only 1.9% of GDP. This is considerably lower than for other countries in the region. Sudan and Uganda, for example, had rates of 7.9% and 14.2%, respectively.¹⁰¹

The reach of financial institutions in South Sudan is low. There were only 1.5 commercial bank branches per 100,000 adults in 2020.¹⁰² The small size of the financial sector means there is little competition between banks, resulting in high interest rates and narrow product offerings.¹⁰³

Surveyed firms are critical about the quality of the financial institutions available to them. While 36% of firms say the quality of banks is high, 64% rate it as average to low. Smaller firms perceive quality to be lower, probably because the offerings of banks are not well tailored to small business needs. Bank quality is rated high by 25% of micro, 41% of small and 48% of medium-sized firms, compared to 79% of large firms.

Banks are hesitant to lend to SMEs. In an underbanked business environment such as South Sudan's, where few companies have a bank account and thus they lack financial records, banks struggle to obtain information on the creditworthiness of SMEs. Small firms also tend to have limited collateral, making them ineligible for many loans. This risk is doubled in a setting where contracts protecting the rights of creditors are not strictly enforced.¹⁰⁴

ITC's flagship publication, the *SME Competitiveness Outlook 2022*, underscores the relevance of a well-functioning financial sector that also provides services geared towards smaller firms. The publication showed that firms with access to high-quality banking were better able to present a business plan and spent more generously on R&D than firms with lower-quality banking services.¹⁰⁵

Local mobile money services in neighbouring countries suggest that they may offer a means to improve financial inclusion and facilitate commerce. To create the conditions for mobile money use to spread, infrastructure gaps, poor network coverage and unavailable or unreliable electricity access problems need to be solved (see Chapter 2).

The absence of financial products designed for SMEs creates an excess demand for financing among South Sudanese businesses. This expresses itself in the number of firms saying they require external finance and loan application numbers. Only 17% of surveyed firms said they did not require additional financing, leaving 83% of them in need of finance.

Most of the firms that require additional finance would like a loan. Forty-four percent needed a long-term loan (repayable in over 3 years), 31% needed a short-term loan (repayable in less than one year) and 27% needed a medium-term loan

(repayable in one to three years). Yet few businesses have applied for loans. Of the firms in need of finance, 83% had not applied for a loan in the last three years (Figure 14).

If this many firms need financing – and a loan in particular – why did they not apply for one? Most of these companies said (32%) they did not believe their application would be approved (Figure 14). Other reasons for not applying were unfavourable interest rates (18%), overly complex application procedures (13%), excessive collateral requirements (11%) and the size of the loan and maturity were insufficient (3%).

Trust in institutions may also be important. The data show that firms that consider the quality of financial institutions to be high tended to apply for loans more frequently. Twenty-eight percent of firms that rated bank quality as high applied for a loan, compared to only 13% of firms that rated bank quality as low to average. This underscores the importance of banks offering loans specifically geared towards SMEs, as it encourages them to apply for formal financing.

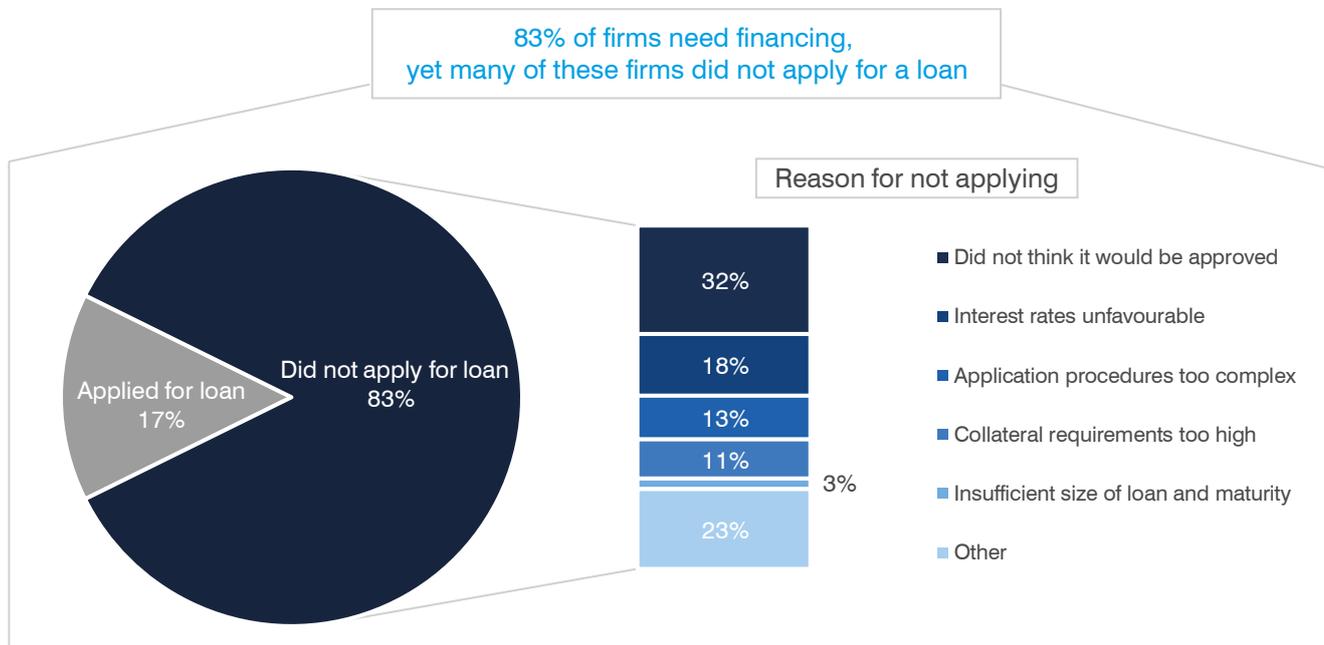
Just because firms decide to apply for loans does not mean their application will be approved. Among the firms that sought a loan, 51% had their application approved by the bank, 33% had it rejected, 8% turned down the offer made by the bank and for the remaining 8%, the application was still in progress. The rate at which banks rejected applications is high when compared to the situation in other developing countries.¹⁰⁶

The financial literacy of many South Sudanese firms is low, partly because they are inexperienced in dealing with financial institutions.¹⁰⁷ Consequently, they may have been unable to submit the necessary financial statements, resulting in banks rejecting their applications.

Businesses should be educated on loan application processes to improve access to finance. About half (49%) of respondents said they had detailed knowledge of these processes, while 51% had little to average knowledge. This certainly contributes to firms finding loan application procedures to be too complex.

Financial education initiatives could focus on smaller firms and businesses in Bahr el Ghazal, where knowledge gaps were largest. Fifty-nine percent of micro and 47% of small firms had low to average knowledge levels, compared to 39% of medium-sized and 8% of large firms. In Bahr el Ghazal, 82% of firms had low to average knowledge, compared to just 40% of firms in Equatoria and 34% in Greater Upper Nile.

Figure 14 Financing needs of South Sudanese firms not met



Note: Respondents were asked 'Is this establishment in need of any of the following forms of financing?' One of the answer options was 'Do not need any financing'. Respondents that are classed as 'Need financing' were asked 'Has this business applied for a loan in the last three years?'. Respondents that are classed as 'Need financing' and 'Did not apply for a loan' were asked 'Why did the establishment not apply for a loan, or reject the offer given by the bank?'.

Source: ITC based on SME competitiveness data collected in South Sudan.

Learning about the intricacies of a loan application helps firms understand what is required when applying. This appears to pay off. Firms with a broader knowledge of loan application processes were more likely to have applied for a loan. Twenty percent of firms with detailed knowledge applied for a loan, compared to 14% of firms with little to average knowledge.

Encouraging banking institutions to develop SME finance products and improving the knowledge of loan application processes in firms can strengthen South Sudan's financial sector and help improve the financial situation of its businesses. Companies that have constructive, lasting relationships with competent financial-service providers are better placed to develop a long-term business vision and adopt practices that improve their capacity to adapt, increasing their competitiveness.¹⁰⁸

At the same time, facilitating easier flows of remittances – which are subject to high transaction costs for South Sudanese recipients – may also provide additional sources of financing for small firms. Today, funds sent from the

diaspora are not typically used to support entrepreneurship, while remittances are important contributors to spending on regular household consumption, education and the management of crises.

Small firms suffer from skill gaps

Skills play a key role in driving aggregate growth, increasing productivity and incomes, and expanding new and higher value-added areas of economic activity.¹⁰⁹ A business can only thrive when employees are able to execute their tasks. When the business environment changes – which tends to happen often in a fragile setting like South Sudan's – workers who are intimately familiar with their work processes are more efficient at adapting them to the new context. A skilled and educated workforce is therefore vital for businesses to anticipate and adjust to change.¹¹⁰

Structural issues in the education system hamper skill development in South Sudan. Armed conflict and natural disasters have prevented many from accessing education.

Only about 35% of the population are literate and school enrolment and education attainment levels are low.¹¹¹ Just 35% of primary school-aged children are enrolled in primary education and only 5% of all secondary school-aged children are enrolled in secondary education.¹¹² This limits the availability of skilled workers in the workforce.

Firm capacities to attract and develop employees' skills are still relevant in determining their perspectives on skill availability. Smaller firms and youth-led firms feel the effects most acutely. Microenterprises were about three times less likely than large companies to report a high availability of skilled workers. Similarly, youth-led firms – which tend to also be small – were half as likely as non-youth-led firms to say there is a high availability of skilled workers. Skilled workers may prefer to work for larger companies, which are usually able to pay higher wages and be a more stable source of employment.¹¹³

Surprisingly, most firms are not concerned about the lack of highly educated workers in the labour force. When asked to what degree the overall skills of employees match the needs of the company, 55% of firms reported having a high skills match, 33% an average match and 11% a low skills match.

Smaller firms struggle more with matching employee skills with company needs, but many still report a high skills match. Forty-seven percent of micro and 57% of small firms reported a high skills match, compared to 69% of medium-sized firms and 93% of large firms. These positive results are somewhat surprising and uncommon compared to similar country contexts.

Many South Sudanese firms are presumably satisfied with their workers' skillsets and skill levels because they do not need them to have sophisticated skills. Businesses likely do not use advanced production techniques or provide complex services for which specialized skills are required. A closer look at the agricultural sector confirms this: most farms use traditional and less advanced farming tools and therefore do not need their employees to have knowledge of more advanced technologies.

This, however, constrains growth in productivity and competitiveness. To seize opportunities to transition to higher value-added production and service delivery, firms need to find employees who have these more advanced skills or upskill their current workforces. To do this, they should establish a strong hiring process and offer skill trainings to current employees.

Improving the staff selection process is one way for smaller businesses to enhance skill matching, which is crucial for companies to move up the value chain. Established hiring practices help businesses efficiently identify the best match for the position they are seeking to fill, thereby increasing productivity and, ultimately, leading to greater competitiveness.¹¹⁴

But smaller firms often hire family and friends, partially positively biasing the perceptions on their employees, and do not see a need for a well-defined hiring process. This is why many of these companies lack one, with microenterprises being three times less likely than large firms to say they have a strong hiring process.

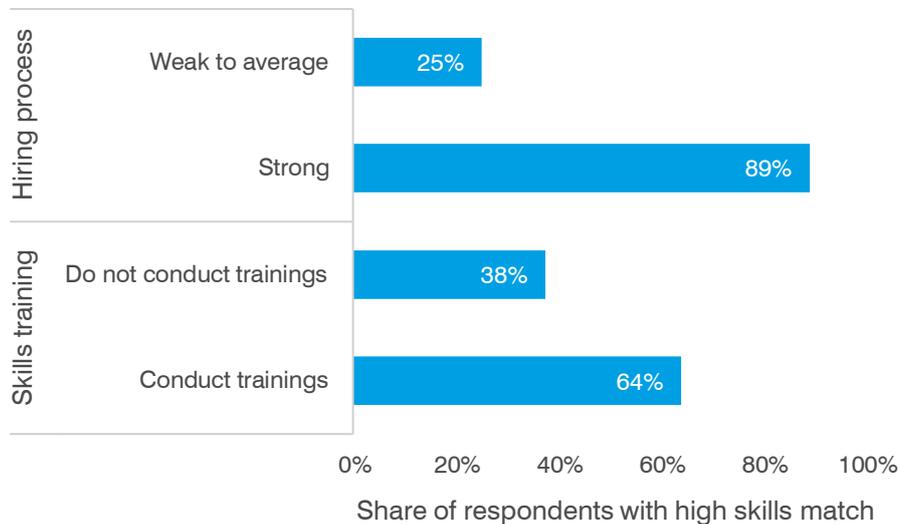
There is, however, merit in strengthening the hiring process. Firms with a strong hiring process were almost four times more likely to have high skills match compared to firms with a weak to average hiring process (89% vs 25%) (Figure 15). Selecting the right workers will be especially important for firms trying to upgrade in the value chain.

Offering training programmes is another avenue firms can pursue to help upskill existing employees.¹¹⁵ Many South Sudanese firms recognize the importance of skills training. Sixty-four percent of surveyed firms had at least one training workshop a year. Skills training can be costly, however, so it is no surprise that smaller firms again lag behind their larger counterparts in this respect. Micro firms were two times less likely than large firms to offer trainings.

These trainings may help to improve skill matching, alongside stronger hiring procedures. Firms that offer training were almost two times more likely to have a high skills match, compared to firms that did not offer trainings (64% vs 38%) (Figure 15).

Support providers can help by offering trainings on establishing a formal hiring process and implementing on-the-job and other forms of training. However, as previously mentioned, costs form a barrier for smaller, more resource-constrained firms. Almost half (49%) of all firms said the cost of such support was high. Alternative arrangements may therefore be needed that target microenterprises and small businesses to make these services more accessible.

Figure 15 Strong hiring process and trainings boost employee skills



Note: Respondents were asked 'Please rate the extent to which the skill set of currently employed workers matches the needs of this company' and 'Please rate the extent to which your company has an established hiring process to hire the best candidates' and 'How many employee training workshops does the company offer on average each year?'.
 Source: ITC based on SME competitiveness data collected in South Sudan.

Innovation makes firms resilient

Firms that conduct R&D or otherwise engage in innovation can generate novel products and services needed to adapt to an ever-changing competitive landscape, making them more resilient.¹¹⁶ This is especially important in a business environment that is frequently disrupted by conflict and natural disasters, where being innovative and flexible can make the difference between business survival and failure.

There is also a first-mover advantage in a fragile context, where the potential of innovation has not yet been exploited, meaning that innovators can drive diversification, development and stability.¹¹⁷ Increasingly, innovation is also critical for firms looking to boost their sustainability and resilience to environmental threats.

South Sudanese firms are not very innovative. Just 29% of survey respondents invested a high level of resources into research and development and 40% innovated often. This innovation takes on various forms.

One way companies innovate is by carrying out higher value-added activities to improve their value chain positioning. The top five activities that South Sudanese firms performed in the past three years to upgrade their value chains were marketing (73%), logistics (30%),

processing (26%), packaging (17%) and supply chain quality management (16%). Much of today's marketing is done through digital means on social media platforms, which highlights the importance for the South Sudanese workforce to develop digital skills to ensure that labour skills keep up with the needs of the marketplace.

While activities to reduce a firm's environmental footprint is another type of innovation, South Sudanese businesses are less likely than other African firms to invest to reduce the negative impact their business has on the environment. Just 28% of firms in South Sudan made these kinds of investments, compared to 42% of firms in other African countries.¹¹⁸

South Sudan's more innovative firms were more likely to invest in environmental impact reduction. Forty-five percent of those with high levels of research and development invested in mitigation efforts, compared to 22% with low to average R&D levels. Similarly, 41% of firms that innovated often invested in environmental impact reduction, compared to 20% that innovated rarely or occasionally.

Domestic and international buyers increasingly consider sustainability performance when they choose suppliers. And as governments across the world adopt policies on climate change and sustainability, firms eager to stay ahead of the



curve – and remain competitive on international markets – must be proactive in greening their production.¹¹⁹ Firms in South Sudan that invest to reduce their footprint are aware of this. They consider the top opportunities stemming from eco-innovation to be keeping existing markets (66%) and increasing product quality (26%).

Value chain upgrading and eco-innovation make firms more efficient and more competitive, which increases their resilience during crises.¹²⁰ Survey data confirm the importance of innovation to a company's capacity to adapt. Businesses that invested in R&D and innovated often were more resilient to the COVID-19 shock. Data show that 33% of firms with high levels of R&D were earning more than two-thirds of their pre-pandemic revenue levels at the time they were surveyed, compared to 18% of firms with low to average R&D levels.

Similarly, 31% of businesses that innovated often were earning more than two-thirds of their pre-pandemic revenue levels, compared to 16% of firms that innovated rarely or

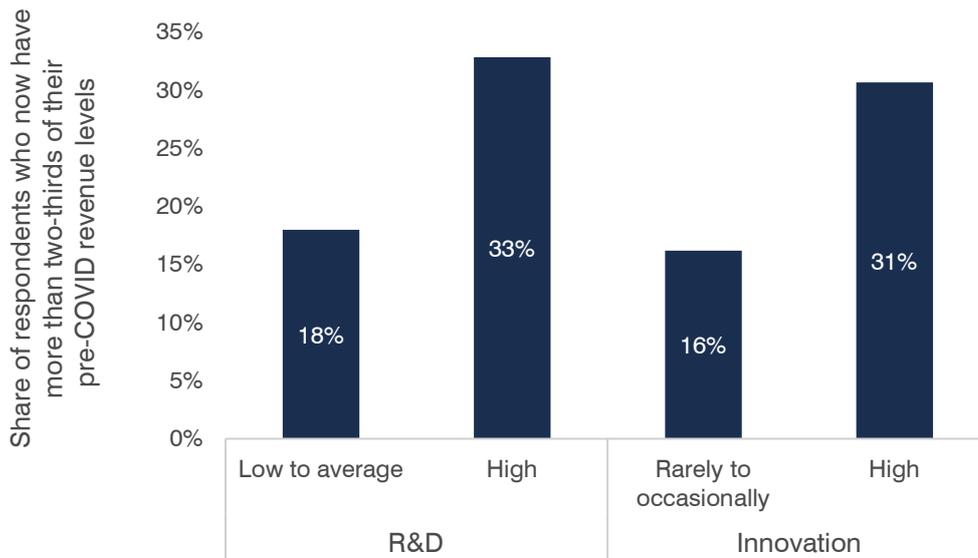
occasionally (Figure 15). Innovative firms are more resilient because they can more easily adopt resourceful strategies, such as creating new or customized products, during crises.¹²¹

Investing in R&D and innovation, both to upgrade one's value chain position and to become more attractive to buyers, can help South Sudanese firms create their niche in underdeveloped markets, draw on the first-mover advantage and increase their competitiveness. These advancements can help them survive during crisis and make them more resilient in the long run, ultimately creating a more resilient economy for South Sudan.



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Figure 16 Innovative companies were more resilient to COVID-19



Note: Respondents were asked 'Please estimate the level of resources your company commits to research and development' and 'Please rate the frequency with which your company develops and implements new or improved processes or products' and 'What percentage of your usual revenue at this time of the year are you currently making?'.

Source: ITC based on SME competitiveness data collected in South Sudan.

Policy insights: Improving skills to drive development

The recent experiences of South Sudanese enterprises highlight how resilience depends on the capacity to adapt to changing conditions. Their capacities for innovation and upgrading must be improved so they can better adapt to crises and new contexts and access skilled workers and finance.

Many of the skills challenges identified in the SME Competitiveness Survey indicate that firms need help managing human resources. Businesses appear to benefit from developing strong hiring processes and expanding on-the-job training. There may be a need for public investment in skill development to lead in South Sudan as a way to encourage the private sector to follow.

Vocational and on-the-job training also offer avenues to upskill the South Sudanese workforce. Research on African firms has found that these trainings are most effective when they go beyond standalone classes and instead combine vocational trainings with practical experience such as through apprenticeships.

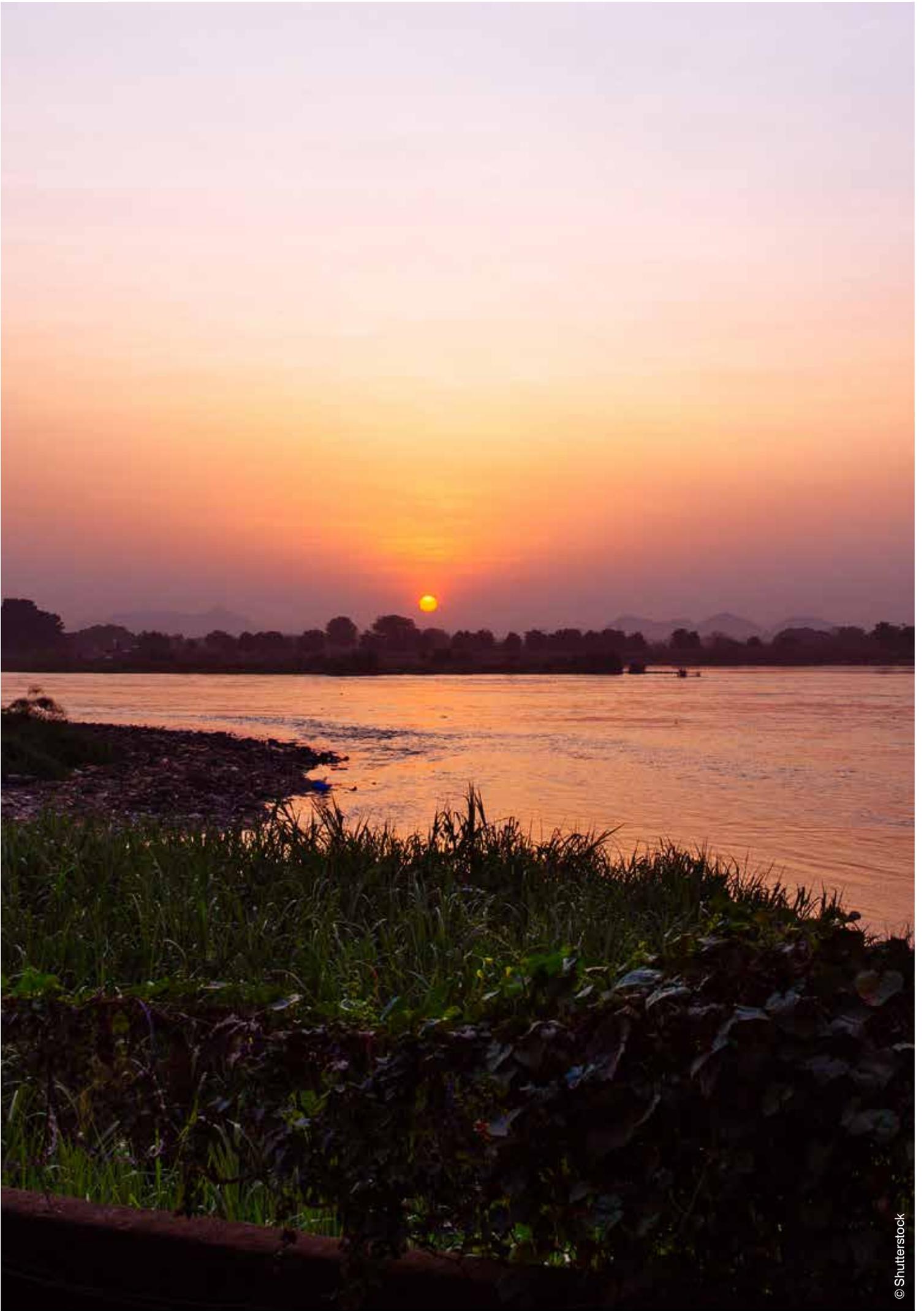
Current employees could also be given skills training on resource management. During this training, SMEs could go through the process of opening a bank account while being instructed on how to manage their finances. This could help address the low loan application numbers and high loan application rejection rates uncovered by the survey. Given the significant barriers to private investment in the country, government and donors may need to play a greater role in supporting the establishment of training programmes.

Firms' financial challenges, made more apparent recently, have deep roots in South Sudan. Formal financing will need to be made more accessible to SMEs as their financial literacy and financial management capacities improve. Mobile money platforms have considerable potential to transform the country's cash-based economy. Introducing more flexible rules for financial institutions may better address the needs of underserved small and rural businesses.

Most South Sudanese firms are not involved in R&D, but building the capacities of SMEs to use new technologies and to move into new modes of production and sectors of economic activity is essential to the country's economic development. This can be encouraged by building and leveraging international trade and investment relationships that foster cross-border technology flows.

Strengthening firm-level capacities for upgrading must ensure that workers are equipped with skills that complement technological change, including in ICT use. Spending on education should be increased to enable more children to obtain primary and secondary education. Total government education expenditure on education stood at just 1.5% of GDP in 2016, less than half the share of the global or least developed country average. Dialogue with the private sector on curricula design is also needed to ensure that the skills taught at school match the needs of businesses.

Source: World Bank. Government expenditure on education, total (% of GDP) – South Sudan. Retrieved from <https://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS?locations=SS>; Beber, B., Dworschak, R., Lakemann, T., Lay, J., & Priebe, J. (2020). 'Skills Development and Training Interventions in Africa: Findings, Challenges, and Opportunities' (p. 35). RWI – Leibniz-Institut für Wirtschaftsforschung; World Bank. (2020). Promoting Digital and Innovative SME Financing (p. 118). World Bank.



Chapter 5

Policies for competitiveness and resilience

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Policies for competitiveness and resilience

The results of the SME Competitiveness Survey make clear that South Sudan's SMEs have the potential to help drive the much-needed expansion of economic opportunities in the country. These businesses create economic opportunities that help address poverty and will play a central role in driving economic transformation and income growth. However, they are also seriously constrained by limitations in their internal capacities and by the high costs imposed by their operating environment.

Policy and institutional reforms are needed to support the growth, productivity, sustainability and resilience of these firms. Survey findings suggest that priorities include strengthening the capacities and impact of BSOs, improving the access of SMEs to financial services, fostering innovation and the upgrading of firms, and reducing the uncertainties in the business environment that have the greatest consequences for investment.

Strengthen institutional support

Effective business support organizations are needed in designing and implementing the policy reforms that will support the transformation of South Sudan's SME sector. As the results of the SME Competitiveness Survey show, firms lack sufficient support to improve and certify the quality of their products, find information on diversifying input suppliers, trade and investment promotion activities, and embrace digitalization.

Improvements can be made to how government ministries, public sector agencies, private sector associations and others shape rules, provide services to companies and advocate for business interests by treating these organizations as a collaborative ecosystem.



Four main areas of work should be prioritized:

- The adoption of clear mandates by BSOs can help in their own long-term planning and the identification of areas of overlap or gaps in firm support. Firms' concerns about quality and certification suggest that attention should be given to quality infrastructure and the development of the national sanitary and phytosanitary framework.
- Coordination among South Sudanese BSOs should be strengthened to enhance efficiencies and improve access to information, and to build with international partners where needed.
- Institutions in South Sudan require additional resources and greater financial stability to fulfil their mandates and effectively plan future programming. This means institutions must improve their capacities to raise revenue – from grants, levies on trade, membership fees, charges for services and development partners – that supports their institutional goals and areas of work.
- Finally, BSO capacity building is needed, especially to improve their ICT capacities. Greater use of digital technologies will allow support organizations to multiply their impact and better manage costs – if this takes place alongside improvements in SME ICT skills and use.

Help SMEs access finance

Greater financial inclusion can transform the business sector of South Sudan. The many SMEs that lack bank accounts or cannot obtain sufficient financing struggle to operate, prepare for and respond to shocks, and invest in growth. Addressing this situation will require changes to how financial institutions operate and improvements in the financial literacy and management capacities of small enterprises.

Policy reform will need to balance financial inclusion with the management of risks financial institutions face and the costs of extending services to unserved or underserved firms. Introducing a broader range of account and loan types may help to bridge these differences. The government can support this flexibility by adapting rules for banks that serve particular sectors or operate in rural areas.

The SME Competitiveness Survey shows that many businesses opt not to apply for loans because they expect to be rejected or are concerned about the complex

application procedures. This suggests potential benefits from better dialogue among firms, financial institutions, government policymakers and regulators on the design of financial services better suited to SME needs.

In particular, facilitating easier flows of remittances – which are subject to high transaction costs for South Sudanese recipients – may provide additional sources of financing for small businesses. Funds sent from the diaspora are not typically used to support entrepreneurship. Instead, remittances are used for regular household consumption, education and to manage crises.¹²² Beyond financing, engaging the diaspora more closely in SME development may lead to new trade relationships, knowledge flows and access to skills.

While local mobile money services are new to South Sudan, the success of these services in neighbouring countries suggests that they could contribute to financial inclusion and facilitate commerce. However, several key constraints must be addressed to create the conditions for mobile money use to spread.

Most notably, infrastructure gaps obstruct the use of mobile phones and thus mobile money. Poor network coverage and unavailable or unreliable electricity access are holding back the spread of cell phones in South Sudan. The number of mobile cellular subscriptions per 100 people in South Sudan in 2020 was just 14% of the sub-Saharan African average.¹²³ At a policy level, along with ensuring the protection of user data, the government should review relevant policies to encourage competition, including by fostering interoperability between providers.

Alongside the challenges of access, companies need help to develop their financial literacy and financial management capacities. Low levels of financial literacy limit the range of financing options that firms pursue and make it harder for them to navigate complex loan applications.¹²⁴ Similarly, poor financial management capacities hold back firm competitiveness, growth, and resilience.

To address these issues, firm-level capacity-building initiatives should be designed with consideration of the particular needs of businesses that are smaller, in the agricultural or manufacturing sectors, women-owned, youth-led or otherwise more likely to benefit from this assistance. Sector associations and other BSOs have a role to play here, in cooperation with government and development partners and in reaching out to SMEs to deliver relevant trainings.



Foster innovation and upgrading

Original innovation and R&D are far less common in least developed countries such as South Sudan than in the rest of the world. Yet innovation through adaptation is critical to the diversification and value chain upgrading that underpins economic development.

In South Sudan, innovation priorities could include reinforcing agriculture productivity and resilience by using more improved seed varieties and mobile technologies as part of extension services, especially among smallholders. Small businesses have the potential to introduce products and services that are new to the domestic market and to adopt more environmentally sustainable technologies in production.

Supporting these kinds of transformations and developing an innovation system in South Sudan will require a broad-based strategy. Connected firms, international investment, skills development and support for entrepreneurs are among the prerequisites for driving this kind of change.

Greater use of ICT in business operations and marketing activities also has great potential to transform South Sudanese SMEs. While few use digital technologies, more widespread use could help them be more

productive, reach broader domestic and international markets, facilitate e-government and digital delivery of support services, and improve access to finance. Encouraging inclusive digitalization will require a clear policy framework for e-commerce and related activities, as well as investment in infrastructure, firm capacities in using technologies and platforms, and relevant skills.

Better worker skills are likely to become more important as other barriers to firm development are addressed. Small firms report that few skilled workers are available in local labour markets. Moving into new value-added activities, incorporating new technologies, upgrading quality, innovating and investing in resilience will all require complementary skills, however. Education reforms in South Sudan must take into account anticipated technological change and its implications for the kinds of skills that future workers will need. Workers should also have training opportunities targeting their current fields or supporting their movement into new sectors.

Supporting skill development in the workforce implies a need for better technical and vocational education and training and on-the-job training programmes. Informal training can give workers needed skills. Indeed, as the survey results show, firms offering training are far more likely to have high skills matches. Given the many constraints to private investment in South Sudan, public investment led by

the Ministry of General Education and Instruction may need to complement these efforts and even lead the way in skill development.

Reduce uncertainty in the business environment

South Sudan's fragility hinders private sector development. Uncertainty in the business environment raises the production costs and discourages much-needed investment. And attracting new international investment would create opportunities for SMEs to benefit from supply linkages and other spillovers.

Reliable infrastructure should be a starting point to reduce the uncertainty that firms face. Infrastructure gaps and unreliability lead to delays in firm deliveries, as the survey found. The government has prioritized road construction, which is critical to efficient companies and supply chains,

and allows businesses to more easily expand the markets they serve.

Wealth from exploiting natural resources can be channelled into investments to upgrade South Sudan's basic infrastructure and improve connections with neighbouring markets. Additional investment to improve the security of transportation routes will be needed to realize the benefits of infrastructure investment.

Similarly, reforms to 'soft' infrastructure that supports trade predictability – through trade facilitation initiatives and other border transport efficiency measures, for instance – can ensure that cross-border connections lead to greater trade flows. The concerns expressed by a number of SME Competitiveness Survey respondents on delivery delays highlight the need to improve soft infrastructure while expanding and upgrading transportation and other forms of physical infrastructure.





Annex

About the SME Competitiveness Survey

About the SME Competitiveness Survey

Many factors influence the competitiveness of an economy in domestic and international markets. ITC provides a holistic view of enterprise competitiveness in the following definition:

Competitiveness is the demonstrated ability to design, produce and commercialize an offer that fully, uniquely and continuously fulfils the needs of targeted market segments, while connecting with and drawing resources from the business environment, and achieving a sustainable return on the resources employed.

The importance of competitiveness in driving firm survival, growth and trade makes it a key element in economic development. For this reason, ITC has developed an analytical framework to understand firm competitiveness and how it can be improved over time. It consists of three pillars that drive competitiveness, each subdivided into three themes (see Figure 1).¹²⁵

The three pillars of competitiveness are compete, connect and change.

1. **The Capacity to compete** assesses the ability of enterprises to deliver output of appropriate quantity, timeliness, quality and cost to meet current market expectations. This ability to meet short-term market requirements is influenced by firm-level operational characteristics, such as efficient inventory management, professional financial management and compliance with internationally-recognized standards, as well as factors at the business ecosystem and national level, including electricity and transport infrastructure and services.
2. **The Capacity to connect** assesses the ability of enterprises to use information, products and services to build strong linkages with actors in its business ecosystem for successful firm operations and growth. At the firm level, this includes efforts to disseminate marketing information to current and potential buyers and build better relationships with suppliers and other value chain actors. Collaborating with other firms in the

sector, and linking with chambers of commerce and other business support organizations, forges connections within the business ecosystem to access market information, products and services. ICT infrastructure and services support these connections and are influenced by national level factors.

3. **The Capacity to change** assesses the ability of enterprises to adapt their business model in response to, or in anticipation of, dynamic market forces. When companies are able to build a forward-looking business strategy, and mobilize required funds and skills to implement it through innovation, they draw on their current competitiveness, market connections, and their knowledge to improve their competitiveness today and in the future. Access to finance, innovation networks, and appropriately skilled workers in the business ecosystem are key ingredients in the implementation of these changes. At the national level, the political environment and governing structures with their approaches to education, innovation and research affect the incentives for firms to invest in change.

These three pillars of competitiveness can be examined at three levels of the economy.

- At the **firm (micro) level**, their ability to manage resources adeptly influences their competitiveness.
- At the **business ecosystem (meso) level**, factors that support firm competitiveness but are outside the firm – including the availability of skilled workers, infrastructure and business support organizations – are important.
- The **national environment (macro) level** includes the macroeconomic and governmental factors that establish the fundamentals for the functioning of markets in the economy.

The SME Competitiveness Grid bridges a gap in composite indicators that focus on macroeconomic determinants

of competitiveness rather than local or microeconomic determinants. The importance of macroeconomic determinants is fully recognized, however, and is reflected in the 'national environment' level of the competitiveness grid. ITC's *SME Competitiveness Outlook 2015* provides a more detailed description of the SME Competitiveness Grid and the methodology behind it.

What are SMEs?

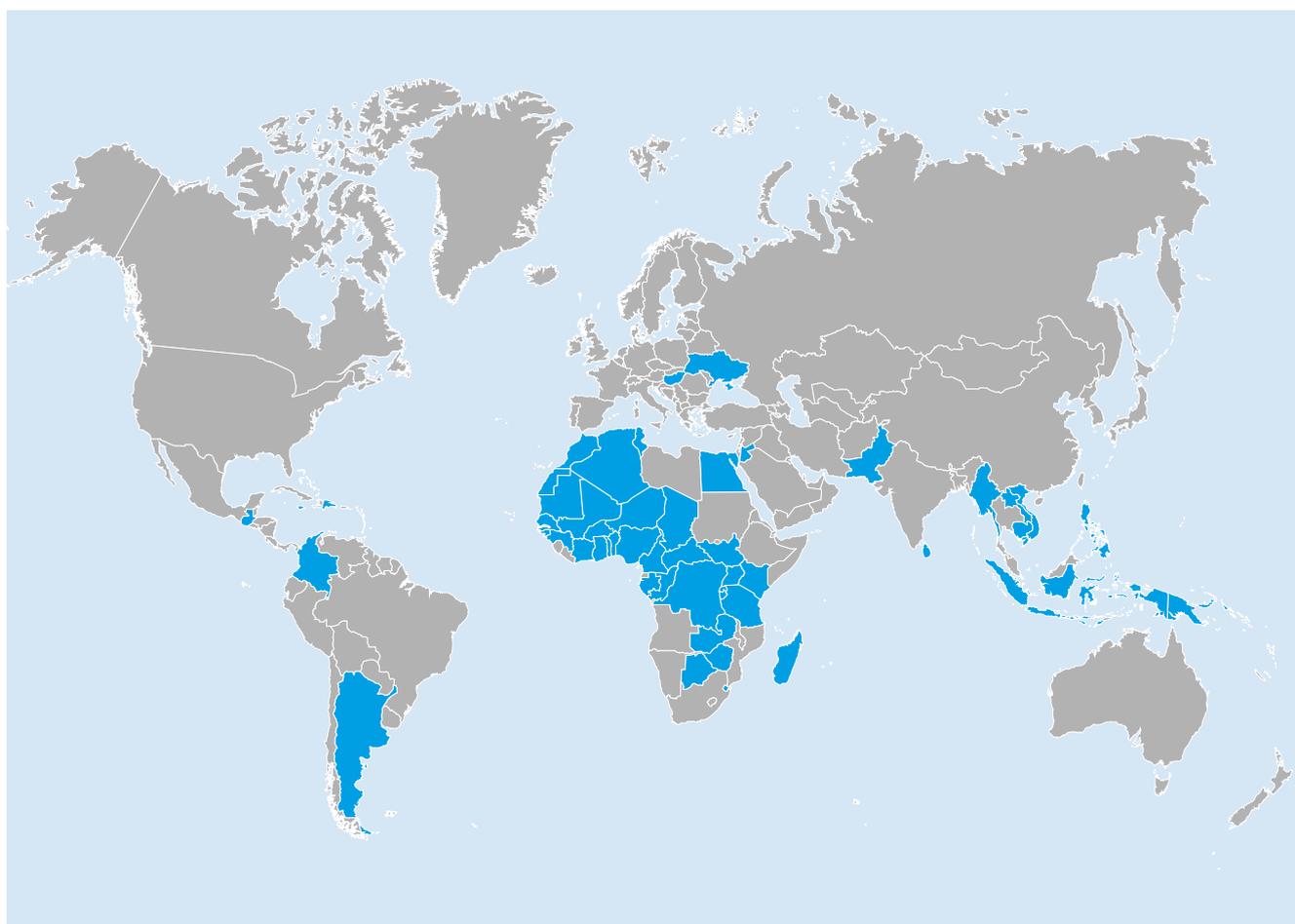
This report defines small and medium-sized enterprises as companies with fewer than 100 employees. The term 'SME' thus includes micro-sized firms, understood as those with

fewer than five employees. It also covers small companies with 5–19 employees and medium-sized ones with 20–99 employees.

How to measure the competitiveness of small firms?

Measuring all dimensions of competitiveness can be difficult. ITC created the SME Competitiveness Survey (SMECS) to allow countries to collect the data they need to measure the competitiveness of their enterprises. As of October 2022, more than 36,000 firms had been surveyed in 57 countries, including Kenya, Botswana and Ghana.

Figure 17 SME Competitiveness Surveys across the world



Source: ITC.

SMECS is typically deployed in partnership with domestic trade and investment support institutions. ITC gives these institutions the software to gather and maintain an active

database on micro, small and medium-sized enterprises, and helps their staff select samples and train interviewers.

SMECS helps governments and trade support institutions better understand the needs of their enterprises. The tool is designed to combine information at the macro (national business climate), meso (local support ecosystem for businesses) and micro (firm capacity) levels to provide a nuanced picture of the capacity of a country's private sector to compete in international markets.

Policymakers and trade support institutions can use the findings to identify and address bottlenecks to competitiveness; compare the competitiveness of enterprises based on size, sectors and location; and better match firms with potential investors and buyers.

How to understand the competitiveness of small firms?

This report uses the conceptual framework described above to evaluate the South Sudan SME Competitiveness Survey data and assess the competitive position of small and medium-sized companies in the country.

The report analyses data from three levels in the SME Competitiveness Grid: national, ecosystem and firm-level. The national environment is examined based on a review of

secondary data and related literature. Firm- and ecosystem-level competitiveness are evaluated from firm-level survey data collected through SMECS.

The report is structured according to selected themes in the SME Competitiveness Grid. Themes were included in the report analysis depending on whether the data indicate that South Sudan has a particular strength or weakness in that domain, or if previous research suggests the topic is important to the country's SMEs.

A disaggregated analysis of the SMECS dataset in South Sudan yields additional insight on each theme. Subsamples from each sector are analysed to assess sector-specific challenges and strengths. Results vary by firm size, defined according to the number of employees, and women-led firms are compared to their men-led counterparts.

Where relevant, and notably in the final chapter, policy recommendations highlight opportunities to address issues that have been identified in the analysis of the data. The report presents highlights of the study of the data, given the limited space available. More analysis was conducted, and additional information can be extracted from the data.

Endnotes

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- 4 (Hoffmann & Lange, 2016)
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- 6 UNCTADSTAT. *General profile: South Sudan*. Retrieved from <https://unctadstat.unctad.org/countryprofile/generalprofile/en-gb/728/index.html>
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- 8 (*Ibid.*)
- 9 (ITC, 2021b)
- 10 International Trade Centre. *Local Business Intelligence: SME Competitiveness Survey*. <https://www.intracen.org/SMEIntelligence>
- 11 Any time 'the survey' is mentioned in this report, it refers to the SME Competitiveness Survey implemented in South Sudan.
- 12 (National Bureau of Statistics, 2020)
- 13 There are only 15 large firms in the sample. Any results included in this report that are disaggregated by size are statistically significant.
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- 15 This is in line with previous research showing that women's participation in business in South Sudan is very low. Only 18% of women own a business in South Sudan and the business sector employs just 13% of female employees (National Bureau of Statistics, 2020)
- 16 Most domestic businesses operate informally without adherence to labour regulations (Bertelsmann Stiftung's Transformation Index, n.d.). Just 18% of the firms surveyed for the SMECS are informal and the current analysis cannot cover them fully; rather, it focuses on the formal sector.
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- 58 (United Nations Conference on Trade and Development, 2013)
- 59 (Gran & Foreman, 2020)
- 60 This is in line with past research finding that major business transactions are conducted outside the banking system as nearly half of the firms have no bank account. Access to financial services has been limited due to lack of acceptable collateral, poor businesses and insufficient funds in the banking system. Many firms have resorted to the use of private guarantee accounts and equipment to get loans, which are largely arranged outside the banking system by non-financial institutions (National Bureau of Statistics, 2020).
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