

# **The Challenges of Post-conflict Economic Recovery and Reconstruction in the Sudan**

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## I. Introduction

The tragic situation in Darfur notwithstanding, this paper is premised on a post-conflict scenario that would result from the signing of a comprehensive peace agreement between the Government of Sudan (GOS) and the Sudan People's Liberation Movement (SPLM). Such an agreement would lead to the establishment of an inclusive new Government of National Unity (GONU), which would in turn resolve episodes of violent "micro-conflict" in the rest of Sudan (e.g. in Darfur and Eastern Sudan). Another conjecture is that the nature of conflict in the Sudan has created a dual economic system – a vibrant economy<sup>1</sup> in the north growing at an annual rate of 7.0% and a stagnant economy in the south that has borne the brunt of civil war. This last assumption would be taken into consideration when identifying the challenges of post-conflict economic recovery and reconstruction in the Sudan.

Issues of economic recovery and reconstruction in a post-conflict Sudan are now beginning to take central stage as the warring parties -- GOS and SPLM-- move toward the final settlement. For instance, Sudanese policy analysts and experts with the support of the international community have begun to assemble building blocks for a post-conflict economic recovery and reconstruction program (PERRP)<sup>2</sup>. This process of assembling blocks for PERRP is based on a separate needs assessment exercise of the two sides of the Sudan economy. Hence, the purpose of this paper is to highlight on the one hand some of the key challenges, and on the other to provoke an informed discourse on a number of possible strategic actions for addressing these challenges.

## II. The Key Challenges

As stated in the preceding section, challenges of post-conflict economic recovery and reconstruction are to be seen in the context of a dual economic system. Such an approach is consistent with the IGAD- negotiated political solution, which is based on one-country-two systems model. Three of the six protocols -- Machakos protocol of July 20<sup>th</sup>, 2002; Security Arrangements Agreement of September 25<sup>th</sup>, 2003 and Framework Agreement on Wealth Sharing of January 7<sup>th</sup>, 2004 -- that have been signed during the last two years do explicitly recognize such a model. Article 14.1 of the Framework Agreement on Wealth Sharing articulates this point as follows:

***The Parties agree, consistent with the Machakos Protocol of 20<sup>th</sup> July 2002, to have a dual banking system in Sudan during the Interim Period. An Islamic banking system shall operate in Northern Sudan and conventional banking system shall operate in Southern Sudan.***

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<sup>1</sup> Based on a recent (September 7, 2004) informal discussion in Nairobi, Kenya between the author and a senior staff of the International Monetary Fund (IMF) monitoring the Sudan economy.

<sup>2</sup> This support is through the Joint Assessment Mission (JAM) mechanism that is jointly managed by the World Bank and UNDP.

I have now established the basis for identifying the challenges of post-conflict economic recovery and reconstruction in the Sudan. Hence, a critical point of departure for this section of the paper is a brief look at some lessons of experience from post-conflict literature. This would place our discussion within the context of a dual economic system resulting from a devastating civil war. This duality would undoubtedly compound leading issues of economic development facing a country that is emerging from more than two decades of civil war. Although the effects of conflict depend on the characteristics embedded in the root causes of civil wars as well as on the specifics of the conflict (intensity, duration, territorial location and so forth), there are nonetheless common effects of conflict that could be summarized in broad terms (Deng and Kategile, 2004). A review of post-conflict literature (see for example Cliffe and Kostner, 2004; Deng and Kategile, 2004; Mack, 2002) tends to indicate that conflict more often than not:

- Destroys physical infrastructure.
- Induces the best human capacities to seek refuge abroad (if they are not killed) or to be used in the destruction of existing assets, including knowledge, acquired before the on-set of conflict.
- Diminishes fiscal resources and damages financial management systems.
- Weakens networks of civic engagement.
- Reduces service delivery capacities.
- Inhibits the functioning of governance structures, especially democratically accountable mechanisms at all levels.

The above stated six common effects of conflict would constitute the key challenges for the prospective Government of Southern Sudan (GoSS) and states government in the south, Nuba Mountains/Southern Kordofan, Southern Blue Nile and autonomous Abyei Executive Council (AEC) of the Ngok Dinka people. The SPLM policy makers are aware of these challenges and have recently released the **SPLM Strategic Framework for War-to-Peace Transition**. Seven key areas for strategic measures have been highlighted in the SPLM document to address the envisaged challenges. These are:

- ❖ Developing institutional infrastructure for better governance.
- ❖ Developing Physical infrastructure.
- ❖ Regenerating social capital.
- ❖ Restoring peace and harmony.
- ❖ Prioritizing agriculture as the engine of economic growth and poverty eradication.
- ❖ Transforming the SPLM from a wartime guerrilla organization to a peace time political organization in an environment of democracy and political pluralism.
- ❖ Transforming the SPLA from an insurgency-based guerrilla army into conventional armed forces that shall be a component of Sudan's national armed forces as stipulated in the Security Arrangements Agreement of September 2003.

At the national level, the prospective Government of National Unity (GONU) is likely to face three critical challenges. They are challenges in that they would compete for scarce resources, which would otherwise go for economic recovery activities. These challenges are briefly highlighted below.

### ***A. Sustaining Peace***

The first challenge is how to sustain the IGAD-brokered peace between the north and the south and to use it as a model for resolving “micro-conflicts” occurring in the rest of Sudan. Sustaining peace would require a correct understanding of the root causes of the **Sudanese crisis of state and identity**. There are two schools of thought each supported through empirical work on the causes of civil wars. Empirical works by William Easterly (2004) and Easterly and Levine (1997) have concluded that ethnic fractionalization is one of the major causes of civil wars. While Paul Collier and Anke Hoeffler (1998) have arrived at a different finding, which states that the underlying cause of civil wars is economic and not ethnicity.

The view taken in this paper is that violent conflict is largely associated with bad governance. But what is governance? A comprehensive definition of governance is given by Daniel Kaufmann, Aart Kraay, and Massimo Mastruzzi (KKM) as:

The traditions and institutions by which authority in a country is exercised. This includes (1) the process by which governments are selected, monitored and replaced, (2) the capacity of the government to effectively formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them. (2003:3).

The KKM’s definition essentially tells us that traditions and institutions by which authority is exercised must, in post-conflict environments, be inclusive. That is, they must include traditions and institutions of all the stakeholders, so as to ensure better governance at all levels relative to the one which contributed to the violent conflict in the first place.

### ***B. Transforming war-based institutions to those of participatory governance.***

The second challenge is how to “**get institutions right!**” That is, how to transform institutions of war-economy to structures and institutions of peace time that promote economic and social interactions among all the actors of the Sudan economy. Here the framers of PERRP would seek institutional designs that are sensitive to the social, economic, political and cultural characteristics of Sudan. The underlying objective of “getting institutions right” is the establishment of good governance. I believe that the

Sudanese policy analysts and experts can get “institutions right” if they were allowed<sup>3</sup> to internalize three key concepts – governance, capacity, and institutions – at the early stages of our process of institutional transformation. Stated differently, the desired output in post-conflict environments is better governance, which requires effective capacities and good institutions to produce it. This entails that the point of entry for the process of institutional transformation is the situation analysis of the prevailing types of governance, capacities and institutions in the Sudan. Such an analysis should cover all the actors at the national, sub-national/regional, and local levels.

An important point to note here is that institutions are a critical component of governance, but not synonymous with it. That is, governance is an output, while institutions are inputs necessary for the production of governance by management (i.e. capacity). Good governance then is to be viewed as a function of quality institutions. A comparative analysis of governance would guide the framers of PERRP in prioritizing steps to be taken in the restoration/establishment of participatory governance. The sequencing of actions to be taken would in turn avoid overloading the institutional reform process that aims at achieving good governance. Policy analysts in the Sudan do not, therefore, need to re-invent the wheel when they can be guided by empirical research.

### ***C. Combating poverty and the sense of marginalization and exclusion in all regions of Sudan.***

The third challenge is how to combat pervasive poverty and the sense of marginalization, hopelessness and exclusion in the Sudan. This is a policy statement cited from the speech of Dr. John Garang de Mabior, Chairman of the SPLM on the occasion of the signature of the Nairobi Declaration on 5<sup>th</sup> June 2004 at the Kenya State House. There are two types of poverty in the Sudan. One is conflict-induced poverty resulting mainly from political, economic and social exclusion. The other is structural resulting from socio-economic factors and ill-conceived public policies.

The two types of poverty in the Sudan would require different policy actions. For instance, a recent work by Ali Abdel Gadir Ali indicates that “the growth elasticity of the head-count ratio for Southern Sudan is very low implying that a percentage point increase in per capita GDP is expected to reduce poverty by only 0.23 percentage points. We suggest that this is a reasonable expectation given that the region was in conflict for a long period of time” (2004: 9). Ali gives the growth elasticity of the head-count ratio for Northern Sudan to be very high (-1.7) – the policy implication of this is that a percentage

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<sup>3</sup>The designs of post-conflict recovery and reconstruction programs are most likely to be driven by the donor community than by the countries themselves. Donors have initiated a new assessment tool known as the Joint Assessment Mission (JAM), which is usually jointly led by the World Bank and UNDP on behalf of the UN system. JAM sets priorities that are quantified and presented to the donor community for funding at a donor conference. For instance, issues of institutional reform and capacity building were resisted by the Bank in case of Sudan and it was only after the Sudanese insisted that they were added to the list of clusters constituting the JAM.

point increase in per capita GDP is expected to reduce poverty in the north by 1.7 percentage points, which is about 7.4 times that of the south.

Combating poverty and the sense of marginalization and exclusion would therefore call for more than growth-oriented policies within the framework of PERRP. This in itself is likely to lead to policy conflict. However, framers of the wealth sharing agreement seem to have realized this, especially with respect to the conduct of monetary policy. For instance, articles 14.2 and 14.3 respectively state:

***14.2. The Parties agree that conventional banking facilities are urgently needed in Southern Sudan. The Parties therefore agree to establish, during the Pre-Interim period, the Bank of Southern Sudan (BOSS) as a branch of Central Bank of Sudan (CBOS) consistent with paragraph 14.1 above.***

***14.3. The Parties agree to restructure, during the Pre-Interim Period, the CBOS so as to reflect the duality of the banking system in Sudan. The CBOS shall therefore use and develop two sets of banking instruments, one Islamic and the other Conventional, to regulate and supervise the implementation of a single monetary policy through: (i) an Islamic financing window in Northern Sudan under a deputy governor of CBOS using Islamic financing instruments to implement the national monetary policy in Northern Sudan; and (ii) the Bank of Southern Sudan (BOSS), headed by a deputy governor of CBOS, to manage the conventional window using conventional financing instruments in implementing the same national monetary policy in Southern Sudan.***

### **III. Strategic Actions for Addressing the Key Challenges of PERRP**

By way of addressing the above stated three challenges at the national level, the GONU would pursue what I call 5Rs. These are:

- ❖ Re-establishing institutional infrastructure.
- ❖ Rehabilitating physical infrastructure.
- ❖ Reinvesting in human capital.
- ❖ Revitalizing social capital.
- ❖ Regenerating economic growth.

#### **A. Re-establishing Institutional Infrastructure**

A strategic and immediate action is for the GONU to “get institutions right.” The challenge here would be how to design institutions that are sensitive to local constraints and opportunities (Rodrik, 2003) without compromising the requirements of institutional quality. There is now an emerging consensus within the development policy community that high quality institutions on the one hand “exert a very strong determining effect on aggregate income” (Rodrik, 2004), and on the other “mitigate ethnically-based social

conflict that lowers growth” (Easterly, 2004). This consensus is of particular relevance to the Sudanese situation. It would enable the framers of PERRP to sufficiently address legitimate concerns and competing visions of the main actors behind violence, especially ethnically-based violent social conflicts in the Sudan. The quality of institutions would determine, in light of competing interests of various actors, the success or failure of processes of war-to-peace transition. This is because empirical research on institutions indicates that institutions “shape the visions, the interactions, the decisions and routines of economic agents at all levels within and outside organizations and markets; they form the processes of technical and organizational change” ((Nielsen and Johnson, 1998:xvii).

Hence, restoring institutional infrastructure in the Sudan would demand the formulation of what John R. Commons (1959) calls “working rules of collective action in restraint, liberation, and expansion of individual action.” These working rules must be inclusive of visions of all the Sudanese in order for them to be collective “rules and conventions” of the whole society that regulate their behavior and interactions (North, 1990; Ruttan and Hayami, 1984). This would in turn contribute toward sustained peace in the post-conflict Sudan.

Re-establishing the basic structures of governance is normally one of the first tasks of governments formed to manage the war-to-peace transition. The challenge here is how to make these structures inclusive, so as to eliminate the existence of deeply entrenched animosities between the actors enlisted in institutions and organizations that existed before a comprehensive peace agreement was enacted. Post-conflict countries have now a range of indices (e.g. index of governance, index of institutional quality, etc.) that would guide them in designing appropriate policy measures. For instance, Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi (KKM, 2003) have constructed six broad indices of governance covering 199 countries over four periods (1996, 1998, 2000, and 2002), which can act as a useful benchmark/framework for post-conflict countries in designing inclusive systems that embrace traditions and institutions of all the stakeholders/actors in the exercise of the authority of a country for the overall well-being of its citizens irrespective of ethnicity, gender, race, region or religion.

## ***B. Rehabilitating Physical Infrastructure***

Rehabilitation of physical infrastructure is critical, from the perspective of GONU, in sustaining peace and in combating poverty and the sense of marginalization and exclusion in all regions of Sudan. Southern Sudan economy has to be integrated into the Sudan economy if the three key challenges mentioned earlier are to be met. The key to economic integration of a land lock region like Southern Sudan is infrastructure, especially an efficient roads network. Southern Sudan with a land area of 648,000 km<sup>2</sup> does not, for instance, have a single kilometer of paved road<sup>4</sup> other than inside the three garrison towns of Juba, Malakal and Wau (Deng et al, 2003). The inability of successive governments of Sudan in Khartoum to develop the physical infrastructure of Southern

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<sup>4</sup> There are now are now paved roads in the oil fields of Western Upper Nile.



Sudan has essentially undermined integration of the regional economy into the national one.

There was, however, some improvement at the end of the first civil war (1955 – 1972), when under the Addis Abba agreement a limited authority was given to the regional government in Juba to establish appropriate institutions for developing a network of physical infrastructure. This led to the construction of a road network of more than 2,500 kilometers (km) of gravel-surfaced roads connecting Juba to Wau (840 km) in Bahr el Ghazal, Juba to Malakal (728 Km) in Upper Nile and to countries bordering Southern Sudan (Deng et al, 2003). A journey backward toward history of Southern Sudan would show that the first decade (1972- 1982) of post-Addis Ababa Agreement has been, so far, the golden decade of development in this part of the country. But these efforts at infrastructure development were not sufficient to improve the general living conditions of ordinary Southern Sudanese people, hence the eruption of the second civil war on 16<sup>th</sup> May 1983.

In light of the prevailing conditions in Southern Sudan, urgent actions are required to rehabilitate transport system (e.g. roads network), telecommunication, public utilities (e.g. electricity and water), etc. Rehabilitation of these systems would undoubtedly send signals to the private sector to participate in the post-conflict economic recovery and reconstruction, which could contribute in generating growth at the early stages of the war-to-peace transition. Both the GoSS and GONU must work closely in the rehabilitation of physical infrastructure. Specifically, the focus would be on:

- Rehabilitation and maintenance of roads network in Southern Sudan totaling 7,000 kilometers of gravel-surfaced all weather roads.
- Mine clearance.
- Rehabilitation of Wau – Aweil-Babanousa railway link.
- Rehabilitation of navigation services, e.g. a 1,436 km long Juba-Malakal-Kosti river transport.
- Reconstruction of postal services in all the County headquarters
- Installation of VSAT-based telecommunications through a tripartite public-private-cooperative sectors partnership<sup>5</sup>.
- Re-installation of public utilities in all the major towns.
- Restoration of water sanitation facilities.
- Rehabilitation of major airports.

### ***C. Reinvesting in Human Capital***

The impact of conflict on human capital is more acute in Southern Sudan than in the rest of the country. As a post-conflict region, expectations would normally be with respect to the provision of basic social services – education, health, including HIV/AIDS and water

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<sup>5</sup> VSAT stands for a Very Small Aperture Terminal.

sanitation. Management of these expectations would call for urgent actions with respect to the following:

- Rehabilitation/establishment of primary schools in all the Bomas/localities in the Sudan with the view of achieving a compulsory universal primary education by the end of the Interim Period.
- Rehabilitation/establishment of primary health care units in all the Bomas/localities in the Sudan.
- Establishment of accelerated learning centers for adult education in all the Counties.
- Provision of block grants to the States to establish secondary schools in all the Counties by the end of the Interim Period.
- Support to the establishment of vocational training centers/schools in the war-affected areas of Sudan.
- Restoration of international standards of academic excellence to the national and state universities and colleges.
- Encouragement of development of private health care facilities and training centers, including private schools and hospitals.
- Effective participation of the private sector and non-profit organizations in the delivery of social services.

It is envisaged that reinvesting in human capital would in turn improve institutional quality (i.e. civil service) of post-conflict governments at all levels in the Sudan. So the task is to re-build inclusive, but efficient and effective civil service system, which is one of the main components of institutional quality (Easterly, 2004). Moreover, an efficient civil service would accelerate restoration of systems of accountability and transparency in the management (i.e. mobilization, allocation and utilization) of public resources. And transparency and accountability would reduce chances for corruption and misuse of scarce resources. That is, a new system of accountability and transparency would in turn ensure that the budget is a “financial mirror of society’s economic and social choices” (Schiavo-Campo et al, 1999).

#### ***D. Revitalizing Social Capital***

Revitalization of networks of civic engagement would raise “social capital or trust,” (Easterly, 2004) that would in turn contribute toward social stability and peace in the aftermath of conflict. Robert Putnam uses the term social capital “as reserves of mutual assistance created through norms and networks of civic engagement, just as monetary

capital accumulated through one set of activities to others, thereby mobilizing collaborative action to further community well-being” (1995:256). This strategic policy centers on community empowerment and social inclusion and would be enhanced through the following actions:

- Improve governance by incorporating excluded groups in the traditions & institutions by which authority is exercised in the Sudan.
- Create an enabling policy environment for the local communities and vulnerable groups to re-establish their social capital through networks of civic/communal engagement.
- Ensure free religious institutions & private/public religious expressions and protect the separation of state from the church/mosque.
- Ensure gender equality, property rights, including communal land ownership, freedom of movement, choice of residence, choice of marriage and size of family.
- Guarantee equality of opportunity, including freedom from exploitation, slavery or dependency on landlords, employers, etc.
- Establish an inclusive political process through which all Sudanese citizens participate in the selection (appointment and removal) of governments without resorting to violent and/or unconstitutional methods.
- Allow freedom to develop ideas/views, institutions and personal autonomy apart from the state.
- Give full political rights to enable the vulnerable groups and local communities to effectively participate freely in the Sudanese political process.
- Provide guarantees for full independence of the media

### ***E. Regenerating Economic Growth***

I have stated earlier that Sudan exhibits two economies – a vibrant economy in the north and a stagnant one in the south. The policy implication of this duality is that macroeconomic policy framework will have to take into account the needs on the one hand of a post-conflict economy of the south, and on the other the requirements of economic stability of the economy of the north. For the economy of the north the IMF has already established stringent monetary and fiscal targets aimed at maintaining macroeconomic stability. Such a policy prescription is consistent with the required GDP growth rate of 6.75% (Ali, 2004) over ten years in order to reduce poverty by half in Northern Sudan by the year 2015. Sudan (i.e. Northern Sudan) has already achieved this rate according to the IMF (see footnote 1 of this paper) and what is needed is to maintain

macroeconomic stability.

The framers of PERRP are, in my view, some what lucky in that Ali (2004) has already provided growth scenarios in the context of reducing poverty by half by the year 2015; which is one of the Millennium Development Goals (MDGs). This can be achieved through differential GDP growth rates between the two economies of Sudan. We have already seen that of the north in the preceding paragraph. The economy of Southern Sudan will have to grow by 30.77% during the same period as that of Northern Sudan in order to achieve a national growth rate of GDP of 7.88% required for Sudan as a whole to reduce its poverty by half by 2015. These figures when translated into investment requirements, Ali finds that Sudan would require annual investment rate of 34.2% of its GDP, with Northern Sudan investing 24.6% of its GDP and Southern Sudan investing 227.1% of its GDP over a ten-year period.

In light of Ali's growth scenarios, the national macroeconomic policy framework would have to be initially anchored on expansionary path. The next task would then be to identify the sources of growth in both the north and the south. Agriculture, construction, and service sectors in addition to the petroleum sector are likely to be the leading sources of economic growth, especially in Southern Sudan. This would undoubtedly call for creating an enabling policy environment for both the development of the private sector and the flow of foreign direct investment. However, a conducive environment for foreign investment would be a function of good governance. Here, strategic policy actions for sustained economic growth would have to monitor the overall index of governance that has been constructed by KKM and consists of the following six indices:

- a) Voice and accountability;
- b) Political stability and absence of violence;
- c) Government effectiveness;
- d) Regulatory quality;
- e) Rule of law; and
- f) Control of corruption.

It would also require urgent actions with respect to "getting institutions right," such as:

- Establishment of all the institutions that have been agreed upon in the various protocols constituting the comprehensive peace agreement (e.g. land commissions, NPC, BOSS, SSRDF, NRDF, FFAMC, etc.).
- Promotion of traditional institutions and structures for conflict resolution, prevention and management (e.g. Wunlit model of Dinka-Nuer).
- Complete transformation of war-based institutions to structures and institutions of democratic governance (e.g. independent judiciary, executive and legislature) at all levels (national, regional, state and local).

- Formulation and adoption of a new constitutional order that promotes pluralism and guarantees basic universal principles of liberty, freedom, human rights, including property rights and pursuit of happiness.
- Establishment of regulatory frameworks that promote privately owned media/press, civil society organizations, etc.

#### **IV. Conclusion**

I would like to highlight the following points by way of conclusion:

- That one of the primary tasks for framers of PERRP is to ensure that it incorporates legitimate concerns and aspirations of all the major stakeholders in the Sudan.
- That “getting institutions right” must take into account the:
  - i) Duality of the Sudan economy emanating from the long period of civil war.
  - ii) State of governance as exhibited by Kaufmann’s indices of governance;
  - iii) Elements of institutional quality – components of good institutions; and
  - iv) Characteristics of the main actors behind violent conflicts.
- That building national consensus around the 5Rs – strategic actions for addressing the key challenges would lower the risk of the Sudanese going back to war and increased the chances for sustainable economic development in the post-conflict Sudan.

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