

COMMITTEE OF THE CIVIL PROJECT

ISSUE PAPER F-6

POVERTY REDUCTION AND DEVELOPMENT STRATEGIES

Overview

The extent of poverty in Sudan is scandalously high. The vast majority of Sudanese citizens live in conditions of low income, high vulnerability to destitution, and poor life chances. Many Sudanese children are malnourished, and a large proportion never live to see the age of five. This level of impoverishment is not only a scandal in its own right, but is a source of political instability and even war.

Table 1: Human Development Indicators

Indicator	Sudan	Sub-Saharan Africa
Life expectancy	55	51
Infant mortality, per 1000 live births	71	91
Child malnutrition (% of children under 5)	34	-
Access to safe water (% of population)	60	47
Illiteracy (% of population age 15+)	47	42
Primary school enrollment (% of school-age population)	51	77
Boys	55	84
Girls	47	69

Source: World Bank

In the aftermath of a peace agreement and during a transition to democracy, it is essential that the Sudan Government puts in place comprehensive long-term strategies to ensure that poverty is reduced, equitable and sustainable development is promoted, and the life chances for ordinary Sudanese citizens from all parts of the country are improved.

This paper examines some of the main issues that will confront the Sudan Government as it begins to plan for equitable development and poverty reduction. The challenges of designing the right economic policies need to be addressed now: the right policies must be in place at the outset of a transition to democracy.

Poverty Alleviation and Economic Growth

Poverty and inequality in Sudan are the outcome of a very long history of unequal development, biased towards the central riverain regions and the metropolitan centres. Addressing poverty and extreme inequality is therefore a long-term political project as much as an economic project.

One of the main manifestations of poverty in Sudan is food insecurity. Although Sudan is structurally a food-surplus country—it regularly exports staple food—a very high proportion of Sudanese citizens, rural and urban, are food insecure. For the purposes of this paper, an individual or household is food insecure if it has a real fear of being unable to obtain enough food for a healthy life. ‘Livelihood insecurity’ is another manifestation of poverty. This is the real fear of unemployment, destitution or loss of essential household assets.

Growth is essential, to reduce inequity and poverty, to overcome food insecurity, and to ensure that resources are available to provide a buffer against short-term shocks such as droughts and floods. The question is, which sector should be the priority for investment, both for achieving the highest rate of return and for addressing the challenges of poverty and inequality? The following analysis looks at different sectors of the economy. This is not an either/or analysis: *all* sectors require appropriate investment and encouragement, so that they can complement one another and be developed in a coordinated manner, with no sector being subjugated to the needs of the others.

1. Growth in *the smallholder agricultural sector* has the best outlook for improving food security and reducing poverty. Leaving aside the war-affected areas, rural food insecurity is focussed in areas of traditional agriculture such as Darfur and most parts of Kordofan, and in pastoralist areas such as the Red Sea Hills. Traditionally, successive governments have neglected the smallholder sector, and have failed to provide it with the necessary inputs in terms of:
 - (i) Extension services;
 - (ii) Subsidised inputs including seeds, tools and fertiliser;
 - (iii) Small-scale credit;
 - (iv) Security of land tenure;
 - (v) Market access;
 - (vi) Environmental protection programmes;
 - (vii) Veterinary services.

In fact, to the contrary, the smallholder sector has been the victim of agricultural policies designed to favour the irrigated and mechanised sectors and designed to maximise revenue. Tax levels on gum Arabic production, for example, have been a powerful disincentive to production, which is triply unfortunate as gum Arabic not only provides an income for rural households, but it is also a very environmentally friendly crop (conserving the soil and preventing desertification) and is a source of hard currency through export. In some cases, policies have been designed to *undermine* the viability of smallholder agriculture in western Sudan, so as to encourage labour migration to the Gezira scheme and mechanised farms.

It follows that a focus on the traditional smallholder sector is an important component of any integrated programme for poverty alleviation and food security. This will require a major reorientation of Sudanese development planning. Village-based rural development can only

succeed with the full participation of the rural population. This needs a political commitment at the highest level.

The most important aspect of rural development is responding to the priorities of villagers themselves. Very often, rural people will see their immediate needs—such as safe drinking water, improved schools, better health services—as more important than an improved crop yield. These aspects of social development are linked to increased output: it is only when dynamic young people can see their future in the rural areas that any effective rural development will occur.

2. Growth in the *mechanised rainfed farming sector* will have less of an impact on poverty and food insecurity. This sector provides significant employment, but employment intensity is lower than in the traditional sector, and work is seasonal and it varies greatly from one year to the next. Moreover, many of the inputs for this sector (including tractors, spare parts, fuel etc) are import intensive, thus reducing its potential for being an engine of national economic growth. Finally, much of the profit from mechanised farming is secured by a small, wealthy group of commercial farmers, who have relatively luxurious lifestyles that involve importing cars, consumer goods, building materials, etc.

In the 1970s and 80s, the rapid growth in mechanised agriculture was often achieved at the cost of expropriating small farmers, and seriously degrading the environment. In the search for quick profit, and in pursuit of so-called ‘modern’ agriculture, thousands of smallholder farmers were dispossessed, and hundreds of thousands of hectares of land—much of it marginal—were ploughed up. Mechanised farming may produce more than smallholder farming for each item of labour input, but it is usually less productive per hectare and less sustainable. In a reversal of their earlier policies from the 1970s and early 1980s, the World Bank and other donors are no longer favourably disposed towards mechanised farming. However, in Sudan, government policy has been slow to change, and even when it has changed, private (and often unregistered) investment in mechanised farming has continued.

Mechanised farming continues to be attractive because of various distortions in Sudanese agricultural and labour policies:

- (i) Subsidies for fuel and other inputs give commercial mechanised farming an unfair advantage over smallholder agriculture;
- (ii) The system of land allocation is not based on a true assessment of land value, so that commercial farmers can obtain large areas of land cheaply;
- (iii) Commercial farmers are under no obligation to maintain the fertility of the land or to return the land to its former state after use or on expiry of the lease;
- (iv) Employers only need to take on labour on a seasonal basis, leaving them to rely on the traditional farming sector or the informal sector for the remainder of the year;
- (v) Commercial farmers receive preferential access to credit and have state and parastatal marketing infrastructures at their disposal.

Poverty alleviation and food security will be enhanced by redressing these distortions, inequality will be lessened, and the overall performance of the Sudanese economy will also be improved. The priority for mechanised agriculture should be to improve the sustainability of existing schemes, rather than continued horizontal expansion into new lands.

3. Growth in *the irrigated sector* will have an impact on poverty and inequality somewhere in between the two, above. The Sudanese irrigated sector—especially the Gezira scheme—has a remarkable structure that combines centralised control over basic inputs (especially water) and outputs, but utilises smallholder tenants, and provides them with an opportunity for achieving food security and capital accumulation. Historically, the provision of social services in the irrigated areas—especially schools—has also provided opportunities for poverty alleviation.

The irrigated sector has a higher employment intensity, a similar import intensity of inputs, and greater consumption linkages than the mechanised sector. It has a high potential for providing steady growth and stable output, and contributing to food security.

In recent years, the irrigated sector has seen important measures aimed at its rehabilitation, as the basis for sustainable development. The continued development of the irrigated sector—focussing on improving the productivity of existing schemes—should be considered a priority.

4. Growth in *the manufacturing sector* is unlikely to provide significant employment opportunities and thereby reduce food security. The Sudanese manufacturing sector is small—approximately 9% of GDP—and concentrated in a small number of urban centres. In the 1970s there were some attempts at the geographical dispersion of manufacturing enterprises (such as the meat canning factory in Wau) but most of these factories did not prove viable.

Sudanese industry should not be discouraged. In time, it is probable that private investors will build up an enlarged manufacturing sector, including soft drinks, pharmaceuticals, agricultural chemicals, clothing, building materials, etc. However, government policy should concentrate on facilitating private investment in this sector, rather than making it a priority for economic policy.

Current industrial policy is focused on import-substitution and spreading manufacturing over a wide range of industries. A more viable strategy is likely to focus on producing goods for mass consumption and products related to the agricultural sector (fertilisers, insecticides, animal feed, agricultural machinery), but focussing on a selected number of efficient industrial enterprises.

5. *The service sector* in Sudan represents over 40% of GDP, ahead of agriculture. Although it is stagnating overall, there is rapid growth in some sectors, including retailing, telecommunications, financial services, private education and training, private health care, entertainment and hotels, and other service industries. Sudan is connected to the internet and connectivity and e-commerce is likely to expand in the future.

The formal service sector is generally urban, import-intensive, and skill-intensive. It offers much opportunity for the entrepreneurial skills of Sudan's urban classes. Growth in this sector is not likely to have a direct impact on poverty alleviation, though the expansion of telecommunications outside the main urban areas may be a very important contributor to lessening regional inequalities.

6. *The informal sector* represents a very large, although unmeasured, component of the Sudanese economy. The informal sector can be divided broadly into two: the income-generating activities of the poor, and the unrecorded hard-currency informal sector.

Informal income-generating activities provide a lifeline for large numbers of poor Sudanese. In rural areas these are usually described as ‘coping strategies’ or ‘famine survival strategies’. They include labour on small farms of less-poor villagers (paid in money or food), selling firewood, charcoal or grass for animal feed, collecting and selling wild fruits, carrying water and other low-status labouring tasks, working as paid domestic labour, etc. These activities can support a minority of the rural population during normal times, but at times of food shortage, demand for these products and services declines, while the supply increases. As part of a food security programme, the government could consider small-scale employment programmes to provide a safety net for this population.

The informal sector in urban areas is substantial. Informal sector activities are not confined to the poor. Many middle class people who are on professional salaries are obliged to increase their income by working second jobs, as traders or taxi drivers for example. But it is among the poor that we find whole communities entirely dependent on the informal sector.

Displaced people are some of the main informal sector entrepreneurs. They provide cheap casual labour, providing a wide range of products and services, ranging from labour in the construction industry to selling tea or cooked food in the street. By definition the sector escapes any form of regulation and taxation. Much of the urban informal sector is illegal, including the production and sale of alcohol, and prostitution. Even activities that are not unlawful may bring the entrepreneurs into conflict with the authorities—for example because street vendors occupy land without registering it. Government policies towards the sector have usually been based on attempts to suppress, control or tax it. This is an almost entirely futile approach, as entrepreneurs will always find ways around the regulations if the supply and demand exist. Wholesale repression of the informal sector in fact tends to encourage disregard for the law among informal sector operators, and to encourage corruption among law enforcement officials. In the long term, therefore, the urban informal sector has to be tolerated and even encouraged. The state can obtain some benefits if informal sector entrepreneurs generate enough capital in order to move into the formal sector, or if their informal sector activities flourish enough for it to be in their interest to register and obtain the protection and benefits that will follow, along with paying the taxes and fees.

Another section of the informal sector is based on hard currency. The core of this is the exchange of hard currency (dinars, riyals, dollars) into Sudanese currency. This may occur either in Sudan (Khartoum, Port Sudan) or in currency markets outside the country. Those engaged in hard currency transactions are rarely poor—in fact they are usually the most affluent sections of the Sudanese population. The importance of this sector lies in its large size and the enormous quantities of currency exchanged relative to the rest of the Sudanese economy. This sector is closely linked to the ‘poor’ informal sector because the expenditure of this sector helps support the urban labour market, and because redistribution of remitted income through family networks reaches substantial sections of the population. (This is highly selective—for example there are many fewer Southern professionals remitting money to Khartoum.)

The Sudan Government has come to a *modus vivendi* with the informal urban sector. Many activities are generally tolerated as long as they are not too blatant, and as long as there is no urgent political reason for a crackdown. The security and law enforcement services

have reached an accommodation whereby they turn a blind eye to many activities, on the condition that they can obtain some benefits themselves.

Policies towards the informal sector should be based on recognising its importance and encouraging its growth. Measures such as vocational training, rehabilitation of rural areas, and promotion of small-scale manufacturing can all assist the informal sector.

Regional Inequalities

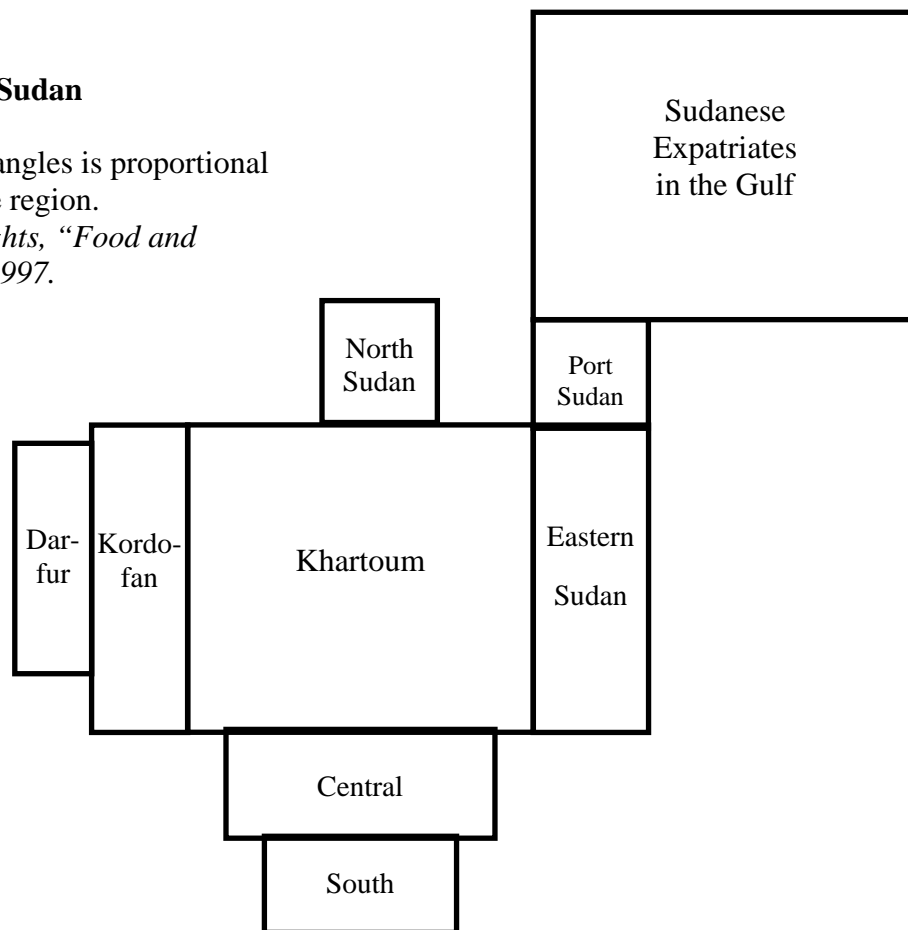
Regional inequalities are a major concern in Sudan. A huge proportion of Sudan's national income is concentrated in Khartoum, the central region and major cities. Mass migration to Khartoum and other major cities is a manifestation of these inequalities: millions of displaced people are ready to live in deplorable conditions in squatter settlements because life in the regions offers them neither hope nor security.

The following map is an attempt to present in graphic form the regional inequalities of income in Sudan. It indicates the relative incomes of the different regions, showing the immense economy of Khartoum and the small economies of the peripheral regions, especially Darfur and the South. The huge income of Sudanese expatriates in Middle Eastern countries is also striking.

Economic Map of Sudan

The size of the rectangles is proportional to the income of the region.

Source: African Rights, "Food and Power in Sudan", 1997.



Note that the map does not deal with natural resources or *potential* wealth—such a map would have a very large square for South Sudan, on account of oil, fertile land, timber etc. The map represents where income is channelled at present. Thus, as the income from the oil revenues is almost entirely channelled to parts of Northern Sudan at present, the oil industry is currently increasing regional inequality and not decreasing it.

Addressing the problem of regional economic inequalities is absolutely essential to any political settlement in Sudan. The grievances of the marginalised areas sparked the war in the first place, and no lasting settlement is possible without redressing these imbalances. Other issue papers have addressed this problem from a political perspective, discussing constitutional options such as a federal state. The economics of regional inequalities are at least as important, however. This section addresses some of the main challenges that need to be faced.

Regional Dimensions to Government Income and Expenditure

Constitutional decentralisation or federalism is doomed to failure unless the regional or state administrations are financially viable.

1. Means of allocating central government revenues to regional/state governments. This issue has never been resolved in Sudanese history. Even during a period when the Sudanese government was relatively rich—the early and mid 1970s—the system of budget allocations to the Southern Regional Government never operated. Regionalisation after 1980 and the federal system of the 1990s have been implemented at a time of protracted fiscal crisis, and virtually all government institutions have been effectively bankrupt.

This history of executive abuse of regional powers suggests that very strong safeguards are needed on regional/state governments' rights to certain revenues. A federal constitution is one means of providing those safeguards. Regional autonomy or decentralisation that leaves the centre with the power over regional allocations is unlikely to be a workable solution.

2. Should regional or state governments be empowered to negotiate directly with aid donors? As aid monies will probably represent a major part of government finance, this is a possible solution to regional/state government revenues, that many fasten upon. But this will be a major controversy. Several points should be borne in mind:
 - (i) Certain sorts of aid input fall more logically under regional/state government authority, while others fall under central/federal government. NGO projects, war-zone trust fund expenditures for rehabilitation, and some bilateral and multilateral assistance can be channeled through regional or state governments, or negotiated directly with them. But the IMF and Paris Club will continue to insist on dealing with the central or federal government, because its assistance will be tied to debt repayments, monetary and fiscal policies, and other matters that can only be determined in Khartoum.
 - (ii) Under any confederal system, such as that proposed by the SPLM, the Southern Entity will certainly have the authority to enter into aid contracts. But this will not resolve the

problems that arise from the major donors' requirements of agreements with Khartoum on debt, monetary policy, etc.

(iii) The decision whether to deal with central/federal or regional/state entities is ultimately a decision that aid donors will take themselves.

3. A formula will be needed for allocating revenues from mineral and agricultural exports that provides a substantial proportion of that income to the regions. How oil revenue is to be divided between the region/state and the central government, will be a major issue. The experience of the 1970s, when the central government was extremely reluctant to pass on funds to the Southern regional administration, suggests that a robust formula will be needed. The Asmara Declaration proposes a formula whereby revenues are provided first to the region, which then allocates a share to central government.

The 'Asmara Formula' may work well if there is a single Southern Entity. But in the case of a federal constitution with multiple Southern states—and the possibility of setting up new states (as happens in Nigeria for example), it is a recipe for instability. The oil fields are located at particular places in Southern Sudan, whose inhabitants may be reluctant to share their revenues widely. For example, if Unity State were to be the beneficiary of oil revenues under the 'Asmara Formula', other Southern states would be no better off.

Strategies to Encourage Private Sector Investment in the Regions

The fundamental barrier to investment in the Sudanese regions, especially the West and the South, is poor infrastructure. It follows that rehabilitation of existing infrastructure, especially transport and communications, should be a priority. Rail, road, river transport and air links between the different regions of Sudan must be improved, along with telecommunications. If the state itself does not have the capacity to implement such projects—with or without foreign donor assistance—then partnerships with the private sector should be explored as a means of improving infrastructure.

Tax breaks and other incentives can encourage investment in rural areas. In particular, measures to promote the development of a business class in Southern Sudan are important. Formal financial services have usually not served rural areas well. The 'Islamic' model of credit, in which the bank and the recipient of the loan enter into a joint venture, sharing risks and profits, has proved more successful in the Sudanese context. Shorn of its ideological orientation, this approach should be considered.

The informal sector, especially the hard currency informal sector, demonstrates extremely marked regional imbalances. Remittance income is central to the functioning of the Sudanese economy. Partly because the Sudanese expatriate professionals are mostly from the Northern, riverain areas, and partly because of poor communications and financial services outside the major cities, relatively little remittance income is directed to the West or the South, thereby aggravating regional inequalities.

Similarly, internal migration in Sudan tends to be long-term rather than seasonal. In earlier decades, it was common to find that men would migrate from Darfur or Kordofan to work for a while in the Central or Eastern regions, before returning home with a store of cash. Now,

the family left behind commonly needs some money to be sent back in order to support them from month to month. Without good communication and financial services this cannot be done.

Regional Aspects to Water Use and Ownership

There are two main elements in inter-regional distribution of resource ownership and use.

1. Allocation of Nile Waters within Sudan. Under the Nile Waters Agreement, Sudan is entitled to 18.5 milliards (km³) from the River Nile each year, but has never actually taken that amount. Egypt is entitled to 55.5 milliards, which is all used—and the fact that the upstream states have not been utilising their entitlement has enabled the Egyptians to actually take even more. The high Egyptian entitlement is based solely on their historical rights—they used the water first.

The inter-state division of the Nile Waters ignores the domestic dimension. Almost all the irrigated water usage in Sudan is in the North, especially the Gezira scheme. The potential for irrigated agriculture in the South is immense. When the South begins to develop its potential, then important issues of equity in water resource usage will arise.

2. Inter-regionally shared water resources. The most important case is the Bahr el Arab/Kiir river that runs close to the boundary between Darfur/Kordofan and Southern Sudan, and which is a resource shared by the Baggara and Dinka cattle owners. The official boundary line places almost all of the river in Darfur and Kordofan. The precise demarcation of this boundary was made in the first years of the 20th century by British colonial officers, on the basis of tribal politics and British government interest. Traditional inter-tribal mechanisms were used before the war to ensure that all parties had fair access to the river. Irrespective of what constitutional settlement is reached, such agreements will be essential.

Urban Poverty

The profound regional inequalities in Sudan and mass urban poverty are two sides of the same coin. The impoverishment of the remoter rural areas has forced large numbers of rural people to migrate to Sudan's cities, where they form a large urban underclass. Urban dwellers concerned about the economic burden and even security threats to their cities posed by large numbers of migrants and displaced people should consider that the only durable solution to these problems is the development of rural Sudan.

Sudan is a rapidly urbanising society. An estimated 34% of the population is living in cities. Surveys in the late 1980s indicated that as many as one quarter of the 'food insecure' households in Sudan were located in urban areas. The majority of these are IDPs, though the hardship of ordinary urban residents including public sector employees should not be overlooked. The real value of salaries in Sudan has dwindled to a fraction of what it was thirty years ago, and most public sector workers can only survive by taking on a second or even a third job. Historically, state programmes such as the urban bread subsidy and provision of government housing have boosted the real incomes of salaried workers, but years of government austerity programmes have demolished these protections.

Studies of poverty in Sudan have found that ‘no conceivable level or pattern of growth will significantly affect urban food insecurity in the short term.’¹ There is simply no means of sufficiently boosting employment that the millions of IDPs could be lifted out of poverty, and it is highly unlikely that government finances will recover to a position which would enable state employees to receive a reasonable salary.

One way of reducing urban poverty, tried by successive governments, is to relocate IDPs back to rural areas. In theory this would decrease the supply of cheap labour and lessen the pressure on urban resources. But, even if it were a legal option, such a programme would be unlikely to succeed. At worst it would simply destroy the infrastructure developed by IDPs in their current camps, and relocate the problem of poverty to the recipient rural areas. Voluntary return to rural areas is more likely to have a positive impact, but even if development inputs are focussed in rural areas for some years to come, it will be many years before most IDPs are ready to leave the cities. Hence, the Sudan Government will have to plan on the assumption that the majority of IDPs will stay in the cities.

Gender and Poverty

Most of Sudan’s poorest are women, especially single women, and their dependents. Women face many factors that leave them particularly vulnerable to poverty. Many of these elements have been discussed in the papers that deal specifically with women’s rights. This section will discuss only those elements that can be addressed by specific economic policy changes.

1. Women command lower wages and work longer hours. This is partly because women are generally less educated and work in more poorly-paying jobs, and partly because of overt discrimination in the labour market. Women’s access to the labour market has been restricted in the name of Islamic propriety. Their ability to travel freely and operate in markets and public arenas dominated by men have been restricted. In rural areas, the gender division of labour discriminates against women: they have many of the more onerous agricultural tasks, and their labour is often remunerated in kind (especially payment by food). This makes women’s wage rates lower than men’s. (Though in times of famine it can work to the advantage of women.)
2. Women are discriminated against in inheritance and access to capital and credit. Women find it difficult to gain equal access to these resources. This is ironic as women often prove better custodians of assets than men, and women’s repayment rates for small loans is much higher than men’s.
3. One of the main factors in poverty—both rural and urban—is a high ratio of dependents to working adults. Most high-dependency ratio households are headed by women who have been left to look after children. Female-headed households are particularly common where there is a high level of migration, which tends to split families.

The implications of the above include:

¹ Simon Maxwell, To Cure all Hunger: Food Policy and Food Security in Sudan, IT Publications, 1991, p. 26.

1. Change in labour market discrimination. In the formal sector, laws can enforce equal pay for equal work, and restrictions on women's travel can be lifted. In the informal and traditional agricultural sectors, this will require cultural attitude changes.
2. Change in laws that limit women's status. These are detailed in the papers on women's rights.
3. Provision of services direct to women. The most important service that will help poor women escape from poverty is the availability of small-scale credit. The 'Islamic' credit model pioneered by the Grameen Bank in Bangladesh is a model that is suitable for Sudan. A number of Sudanese NGOs, including 'Islamic NGOs' have experimented with similar forms of small-scale credit in Sudan. Their experience can be reviewed.
4. There is a problem of some 'solutions' to female poverty that merely increase women's workload. Many programmes aimed at helping women involve training or income-generating activities that are time consuming, which does not help poor women with families who are short of time.
5. In the Sudanese context it would be logistically impossible to trace all absent husbands and fathers and insist that they remit money to their families whom they have abandoned. But a voluntary tracing service that allows for the remission of money would be workable. The ICRC tracing service is a model that can be utilised.

In the long-term, one of the best means of reducing female poverty—and also for improving children's prospects—is providing education for women and girls. A good level of mother's education is reflected in increased rates of child survival, and children's likelihood of getting an education themselves. It follows that improved educational access for women and girls will be one of the most important means whereby the next generation of Sudanese can pull themselves out of poverty. Such measures must be combined with cultural and legal changes that make it possible for women to participate fully in the social and economic life of the Sudanese nation.

Role of the Private Sector

Sudan has a substantial capitalist class. Historically, this class has been divided, and it has always had political implications. Until the 1970s, the division was broadly between the trade-based Khatmiya merchants and the agriculture-based Umma capitalists. In the 1970s, a new entrepreneurial class associated with the state developed, partly utilising government contracts and foreign aid for capital accumulation. One aspect of this was the growing commercial activities of military officers. In the late 1970s and '80s, another sector associated with the National Islamic Front was able to control the emergent new sectors of 'Islamic' finance, building materials and the media, as well as penetrating many of the other old-established economic sectors such as import-export trade, transport and commercial agriculture.

A striking feature of the Sudanese capitalist class has been its tendency to invest its profits in Khartoum and a handful of other major urban centres. Until the 1970s, the main opportunities for capital accumulation lay in trade and agriculture, but profits earned from these activities were not mostly re-invested in the rural areas, but instead invested in Khartoum. This pattern has continued, and in addition, since the late 1970s there has been enormous flight of capital from Sudan to Egypt and the Gulf.

The Sudanese capitalist class is part of the globalised economy. Sudanese entrepreneurs have major international investments, while many transnational companies have invested in Sudan over the years. This will certainly continue, and will be necessary in order for Sudan to have access to the capital it needs for development purposes. Any programme of economic rehabilitation and development for Sudan will have to rely heavily on the private sector, both national and international.

The following need to be considered: dismantling military-economic linkages, combating corruption, and a code of conduct for investors. The oil industry requires special attention.

Dismantling Military-Commercial Linkages

The commercialisation of the Sudanese army has been a feature of the 1980s and '90s. The military-commercial links work in both directions.

In the early 1980s, President Nimeiri established a number of military economic corporations, that gave senior army officers control of many commercial enterprises. This was strongly opposed by western donors including the World Bank which obliged Nimeiri to dismantle the highest level of the 'military-commercial complex,' namely the Military Economic Board. However, even though the formal institutions were abolished, the legacy of this linkage remains. Many army officers are present on the boards of Sudanese companies, both parastatal and private sector.

At a less formal level, some military officers have found it worthwhile to use their positions to engage in trade, and in some cases make their fortunes. An officer stationed in the South has many opportunities to use his influence for financial gain. For example, there is money to be made from the high prices of basic goods that exist in garrison towns such as Juba or Wau. If the army controls the major supply routes into these garrison towns, then army officers can make substantial profits. There is also money to be made by extracting payments at checkpoints, selling timber, trading in contraband goods, or selling on looted items ranging from furniture to cattle.

Meanwhile, for many businessmen operating in Sudan, it is essential to have a close working relationship with security and the army. The nature of a military dictatorship with an extensive security apparatus is such that traders and investors have to keep the security services happy. Staff members of all public and private enterprises have been required to undergo training in the Popular Defence Forces. In any area of insecurity—and by the late 1990s this includes Western and Eastern Sudan as well as the South—traders may require permits or escorts from the military. Commerce therefore becomes militarised. Anti-government forces are also not immune from the pressures to combine military action with commercial enterprise.

The 'military-commercial complex' has disturbing implications for the private sector in Sudan. If private companies have privileged access to the means of organised violence (the army, militias, or security forces), then the opportunities for coercion, illegal activities, or

destablisation are very serious. Meanwhile, if the army and security forces are partly engaged in profit-making activities, this undermines the neutrality and professionalism of the armed forces, with serious implications for democratic politics.

The demilitarisation of the commercial sector is an important element in building a post-war Sudan. This will include:

1. Demobilisation of militias and private security forces;
2. Restrictions on serving officers engaging in commercial activities;
3. Return to the strict regulations that previously existed concerning the vetting of supplies procurement tenders.

Code of Conduct for Investors

Conditions of insecurity, particularly where there are quick profits to be made and mineral resources to be exploited, tend to attract bandit capitalists, who are concerned only with turning a profit as quickly as they can, regardless of the social and economic consequences of their actions. Already, Sudan has witnessed both national and international bandit capitalists drawn to the war zones. The ending of the war will not mean an end to the interest of such groups. It is therefore very important that a democratic government in Sudan should draw up a code of conduct—either voluntary or enforced by law—for investors.

In a peaceful Sudan, an investment code of conduct should cover, among other things:

1. Labour relations, including trade union rights, safety at work, non-discrimination in employment, etc.
2. Environmental protection, including liability for any environmental effects of activities, a commitment to environmental sustainability.
3. Host community development; investors must pay attention to the social and economic needs of the communities in which they work.
4. A commitment to human rights. International corporations often dispense more resources than governments, and have responsibilities to uphold basic human rights in the areas in which they work.
5. A prohibition of militarisation of security. National and international companies operating in Sudan should be committed to using solely the legitimate national police force and recognised security companies, and not to employing mercenaries, paying protection money to militias, etc.
6. Transparency. All records of major investors should be in the public domain. Enterprises should be required to publish their accounts, and all details of major contracts should be made publicly available.

Legislation on these items is only one part of the story. The laws and institutions will have to be used properly by concerned citizens and organisations in order to work properly. This underlines the importance of an active civil society to act as a watchdog on the major activities of the private sector. Training of financial and economic journalists is another important component, so that newspapers can investigate in a thorough and professional manner.

Combating Bureaucratic Corruption

This phenomenon has been present in Sudan for well over twenty years and is not diminishing. A mixture of low salaries, high job insecurity, over-regulation by government offices, and lavish offers of bribes from private sector businessmen, have made corruption an ever-present phenomenon in Sudan. It must be tackled by a comprehensive programme, including:

1. Reducing the size of the civil service and paying a reasonable, index-linked wage, on a regular basis.
2. Reducing the regulatory powers of government offices over private business, creating simpler and more transparent mechanisms for issuing licenses and permits etc.
3. Creating the office of an ombudsman to give citizens recourse against the arbitrary actions of bureaucrats.
4. Politicians, on taking government office, should be required to declare their income, assets and interests.
5. Key tasks relating to negotiating government contracts, import and export licenses, and trade protocols should be the responsibility of committees, and should not be the sole prerogative of any individual, including the minister of trade.

The Oil Industry

The main international investment in Sudan is currently in the oil industry. Unfortunately the oil industry has a somewhat mixed record of corporate ethics including respect for the environment and human rights. The companies that have been attracted to work in Sudan have tended to be those for whom ethics is not a high priority. The following points should be emphasised:

1. Respect for local communities in oil extraction areas and along the route of the pipelines. Current land law awards all land ownership to the state, which means that successive governments have not felt obliged to provide compensation for people who lose land to oil drilling or pipeline construction. In the war-affected areas, the Sudan Government has also destroyed villages and cleared entire areas of their population so that oil extraction can proceed.

These approaches to the local community are profoundly mistaken, contrary to basic human rights, and counterproductive. It is important that all oil operations are conducted in a manner that respects the local populace, and compensates them for loss of land, loss of other assets, and inconvenience. In the long run, the government and the oil companies will find that this is also in their interest. Communities that have been fairly treated will also treat the oil installations and staff with respect. But communities that have been exploited and abused may treat them with equal disfavour. It only takes small-scale sabotage for a pipeline to be put out of action.

Some oil companies tend to respond to this situation with small, nominal projects to assist the local communities. In Sudan, oil companies have made small gestures such as supporting schools or clinics. This is grossly inadequate. A policy of supporting human rights, community rights, and local livelihoods should be much more far-reaching, and begin with support for democratic process at the national level, and include enforceable agreements

to contribute a share of profits to welfare and development schemes that are decided upon by the elected government.

2. An environmental policy. The destructive impact of oil companies' operations in Ogoniland in Nigeria is a terrible advertisement for what can happen if standards are not adhered to.

Sudan is a particularly dangerous environment for the oil industry in this respect because a major industrial accident, such as an oil spillage, in the vicinity of the Nile would have a very severe impact downstream on all those who depend on the Nile for their livelihoods or drinking water. The impact could be felt as far downstream as Egypt. The current pipeline crosses the Nile and Atbara rivers, and oil is also transported by barge from the Melut oilfields. Even in the absence of conflict and the threat of sabotage of oil pipelines or transport facilities, the risks of accidents should not be minimised.

Regional Economic Cooperation and Integration

Sudan trades little with its neighbours. In 1986, Sudan's imports from its African neighbours (including Egypt) were only \$34.7m, and its exports to its African neighbours a mere \$19.2m.² Overall, only about 3% of exports in the Inter Governmental Authority on Development (IGAD) region (Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Uganda and Sudan) are directed to other IGAD member states, and Sudan's share is the lowest. A large proportion of the cross-border trade that actually occurs is informal or illegal. Attempts to improve subregional economic cooperation, in particular focussing on infrastructural projects, looked promising in the early 1990s, but foundered quickly after Sudan antagonised most of its neighbours, which retaliated by ending cooperation and severing relations. Under the auspices of IGAD and the Common Market for Eastern and Southern Africa (COMESA) some future development is possible. However, there are formidable obstacles to successful regional economic integration.

1. Sudan is huge and neighbours many different countries with radically different economies, each of which has different priorities concerning economic cooperation. Economic cooperation and integration may benefit stronger partners at the expense of weaker ones—in this case, Libya and Egypt could be the principal beneficiaries of free trade with Sudan. By the same token Kenya and Uganda might dominate the markets of large parts of Southern Sudan. A standard 'common market' approach with all neighbours is therefore rather difficult.
2. Because most cross-border trade is informal, measures to reduce tariff barriers are marginal. More important is removing unofficial roadblocks and ensuring that permits are issued rapidly and without payments of bribes.
3. None of the countries of north-east Africa, Sudan included, are likely to want to abandon sovereign control of large areas of economic life, placing authority and control in an inter-governmental body. There are too many jealousies and suspicions between the countries of the region to allow effective cooperation at present.

² Source: Economic Commission for Africa.

4. The institutional capacity to implement integration and cooperation measures is low. A high degree of coordination is required between the authorities in neighbouring countries. International agreements will have to be incorporated into domestic law and—equally importantly—into national administration.
5. The demands of structural adjustment measures may run counter to preferential trade agreements with neighbours. Major donors including the IMF may insist on liberalisation of the economy to make exports competitive in world markets. On occasions this may be at the expense of agreements with neighbouring countries.
6. Many governments are unwilling to forgo the revenue provided by import tariffs. Tanzania, for example, has suspended its membership of COMESA because it is unwilling to reduce tariffs.
7. Regional organisations are weak. IGAD and COMESA are some of the weakest international institutions.

The gains from regional economic cooperation will probably be modest. But that does not mean they should be ignored. Sudan's exports are dissimilar to most of its neighbours. Ethiopia, Kenya and Uganda have very similar sets of exports; Sudan does not. Studies by IGAD indicate considerable potential for intra-regional trade. Some of the benefits include:

1. Sudan produces a number of agricultural products relatively cheaply and in large quantities that are in demand in the subregion, specifically sorghum and sesame. There is a real, if limited market in the subregion.
2. Sudan has a demand for manufactured commodities that can be met, in part, by neighbouring countries including Egypt, Eritrea and Kenya.
3. Sudan has the most dynamic and well-capitalised private sector in the subregion, with excellent financial services and links to the Arab countries. A liberalisation of capital markets in the subregion would enable Sudanese entrepreneurs to play a wider role.

Regional economic cooperation and integration can play a minor but positive role in Sudan's economic rehabilitation. The transitional government in Sudan should therefore play an active role in IGAD and COMESA, but without expecting that this will play a major role in overcoming Sudan's economic difficulties.

Democracy and Development

Ultimately, development is concerned with improving the life chances of individual people. It is concerned with increasing their freedom to choose the way in which they live their lives; their liberty to engage in social, cultural, civil, political and economic activities. Although

democratisation and development can be pursued independently in the short term, in the long term they are intimately linked.

It is often argued that development is more important than democracy. The argument has three components, but each one is highly questionable.

1. *'Poor people want bread, not democratic freedoms.'*

This argument is made by non-democratic governments which have no intention of allowing their citizens to make the choice for themselves. In fact, when poor people are given the chance, they always make the choice in favour of democratic freedoms. One reason is that they do not believe it is an either/or choice: they believe they can have both. And they are right. During the 1985 Popular Uprising in Sudan, the protesters wanted *both* democracy *and* an end to famine and economic crisis.

2. *'Authoritarian governments are better than democratic ones at delivering economic development.'*

This argument is often associated with President Lee of Singapore. While Singapore may be an economic success story, in fact the general rule seems to be the reverse: most democratic states have better economic performance than most authoritarian ones. The differences tend to show up most in times of crisis. In authoritarian states there is typically more corruption and less transparency, so that economic crisis hits harder, and economic remedies are less easily available. In Sudan, *no* governments have a good economic record, so a fair comparison cannot be made.

3. *'Democracy and social services are a luxury that can come later, when economic development has been achieved.'*

In fact, history shows that good education, good primary health care, and a good measure of personal freedom greatly helps with economic development. Top-down economic planning or economic control by a cartel of big businesses can achieve short-term successes, but sustained growth and protection from major economic crises requires an open, democratic society. In Sudan, autocratic regimes have been marked by a high level of corruption and export of capital. One of the challenges of a democratic regime is to create a more open and transparent business sector.

It follows that democracy and development go hand-in-hand. Democracy is valuable not only in its own right, but because it is an integral part of sustainable development. Democracy contributes in two main ways:

1. Democracies usually promote educational and health-care systems. These forms of social development are important to long-term sustainable development. For example, the productivity of a well-educated workforce is higher than a poorly-educated one; as women acquire more education the fertility rate tends to fall; and a more educated populace is more able to sustain the basic moral values that can allow development to succeed.

2. Democracy enables the market to function better. The only possible route to economic development is through the market economy. Where there is transparency and accountability, markets function best. Corruption thrives in the dark, and corruption is the number one enemy of an effective functioning market. Ultimately, a market economy is based upon citizens exercising their freedom of choice, and the basic value of freedom is promoted through democracy.

While recognising the close interlinkages between democracy and development, it is important not to be complacent. A democratic system in crisis can fail to deliver economic development, and it can therefore bring a political crisis on itself. It is essential that Sudanese democrats have an effective programme for combating economic crisis and overcoming extreme poverty, or they—and the whole democratic system—will face a crisis of credibility. As stated by the late Mohamed Ahmed Mahgoub, the art of democracy can only be mastered by people practising it.

Implications

One of the main challenges for a future Sudanese government committed to democracy is how to tackle the enormous problem of poverty in Sudan. This problem must be tackled at every level, from the macroeconomic challenge of negotiating an easing of the debt burden down to the micro-level of designing programmes that can address the needs of the poorest of the poor, especially women in rural areas and displaced people in cities.

Many of the suggestions in this paper will be vigorously debated by economists. Some will certainly be rejected as inappropriate or ineffective; others will need major revisions before they can be sensibly applied. That is fine. The most important challenge at this stage is for Sudanese democrats to acknowledge the importance of the issue of poverty, and to engage in an open debate about how it should be tackled.