

**SUDAN ECONOMY RESEARCH GROUP  
DISCUSSION PAPERS**

**The Post-War Reconstruction Process in South Sudan**

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## **Sudan Economy Research Group**

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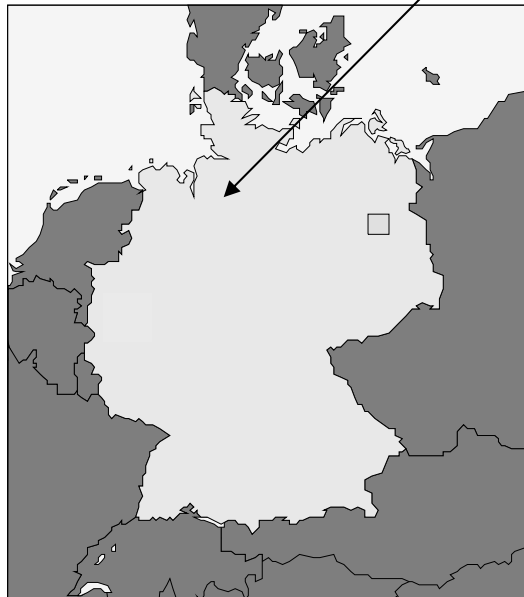
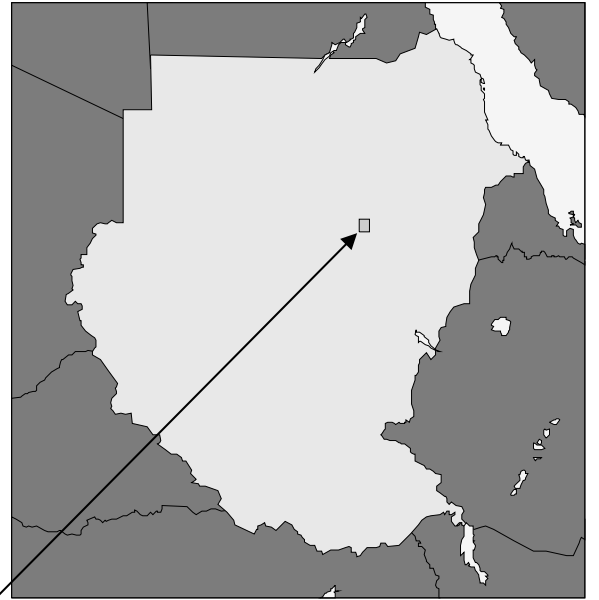
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# **The Post-War Reconstruction Process in South Sudan**

**Berhanu Denu**





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## **Acronyms and Abbreviations**

ABC - Abyei Border Commission

AEC - Assessment and Evaluation Commission

BOD - Board of Directors

CBOS - Central Bank of Sudan

COR - Capital Output Ratio

CPA - Comprehensive Peace Agreement

CPIA - Country Policy and Institutional Assessment (instrument of World Bank)

DDR - Demobilization, Disarmament and Reintegration

EIA - Energy Information Administration

FFAMC - Fiscal and Financial Allocation and Monitoring Commission

GONU - Government of National Unity

GOSS - Government of South Sudan

HRC - Human Rights Commission

ICSS - Interim Constitution of South Sudan

INC - Interim National Constitution

JAM - Joint Assessment Mission

JTC - Joint Technical Committee

MDB - Multilateral Development Bank

MDGs - Millennium Development Goals

MLACD - Ministry of Legal Affairs and Constitutional Development

MDTF - Multi Donors Trust Fund

MOEST - Ministry of Education, Science and Technology

MOEIM - Ministry of Energy, Industry and Mining (MOEIM)

NA - National Assembly

NCP - National Congress Party

NCRC - National Constitutional Review Commission

NCSC - National Civil Service Council

NEPAD - New Partnership for Africa's Development

NJSC - National Judicial Service Commission

NPC - National Petroleum Commission

NRDF - National Reconstruction and Development Fund

NRF - National Revenue Fund  
NSC - National Security Council  
NSS - National Security Service  
ORAC - Oil Revenue Allocation Committee  
ORSA - Oil Revenue Saving Account  
PIT - Personal Income Tax  
SP - Sudanese Pound  
SPLM - Sudan People's Liberation Movement  
SSLA - South Sudan Legislative Assembly  
SSFFAMC - Southern Sudan Fiscal and Financial Allocation and Monitoring Commission  
SSRDF - South Sudan Reconstruction & Development Fund  
UNDP - United Nations Development Program  
WSA - Wealth Sharing Agreement  
WFP - World Food Program

## **I. Introduction**

Sudan passed through two rounds of fighting between the Government of Sudan and Southern Sudan rebels. The wars were fought for about forty years. These long wars destroyed huge human and material resources. About 2 million people died in the fighting, and about 5 million others were displaced from their homes. Infrastructure like roads, power lines, schools, health facilities, and water supply lines were destroyed. The war also destroyed the social capital between the Northern and Southern Sudanese people. Today South Sudan is one of the least developed areas in Sudan.

However, Sudan and South Sudan are now at a historical junction that can lead to a path of development and stability. This optimistic view is based on the Comprehensive Peace Agreement (CPA) that ended the long war between the Government of Sudan and the SPLM/A. The CPA contains agreements on key issues that have been the basis of the violent conflict between the fighting parties.

It is to be recalled that the long war resulted in the devastation of governance institutions. Therefore, like any other post-conflict countries, South Sudan lacked five types of market-supporting institutions - property rights institutions, regulatory institutions, institutions for macroeconomic stabilization, institutions of social insurance, and institutions of conflict management (Rodrik, 2000). True, the SPLM had built effective war-time institutions. It had its own Civil Administration Commission (Joint Assessment Mission (JAM), 2005). However, these institutions were meant to serve the purpose of the fighting and not the objective of economic development and market exchange.

So, there is a great need for the construction of governance structures in Sudan/South Sudan. Since the reconstruction process, in most cases, starts anew in South Sudan, the process can be more challenging. Because of this, things are moving slowly in South Sudan. Three years after the CPA, the economy is not moving fast.

This paper assesses the progress made in economic reconstruction in South Sudan after the CPA. The objective of the study is to identify the obstacles that may disturb the process of reconstruction and to make suggestions for the type of measures to be considered for implementation. The paper reviews the institutional reconstruction process and the state of the South Sudanese economy.

The study has used the new institutional economics as a theoretical framework and has employed the methods of document review, personal observation and interviews with different stakeholders.

The remaining part of the paper is organized in the following manner. Section two presents a discussion of the process of institutional reconstruction. Section three deals with the process of economic reconstruction, section four presents a discussion on public services, and finally section five winds up the paper with a short conclusion and recommendation.

## **II. Institutional Reconstruction**

The first big step towards building institutions for reconstruction was the adoption of the Interim Constitution of South Sudan (ICSS) in 2005. The Constitution provides for the establishment of a decentralized democratic system of government. The ICSS provides for a government based on the principles of checks and balances. The ICSS also provides for an independent judiciary system. The Constitution provides for the inclusion of customary laws in the legal system that applies to the South. The sources of the Interim Constitution are stated as being the CPA, the Interim National Constitution (INC), customs and traditions of the people of Southern Sudan, the popular consensus of the people of Southern Sudan, and any other sources (GOSS, 2005). This means that the ICSS was drawn up in a manner that incorporates the interests of many stakeholders.

In accordance with the provisions of the ICSS, GOSS (Government of South Sudan), Southern Sudan Legislative Assembly (SSLA), State Governments, and other accountability institutions have been established. The Constitution and the new institutions of governance serve as the framework for economic reconstruction.

Of the main objectives of GOSS, the eradication of poverty and the fulfillment of the Millennium Development Goals (MDGs) are given top priority. The ICSS also laid down the primary responsibilities of GOSS, which include:

- ◆ the maintenance of peace and security in the South,
- ◆ reconstruction and development,
- ◆ promotion of good governance,
- ◆ the welfare of the people, and
- ◆ the implementation of the CPA, etc.

The government, which is a decentralized system, consists of three tiers - GOSS, State Governments, and local governments. In detail the government structure consists of GOSS,

State Government, County, Payam, and Boma. County, Payam and Boma are local governance structures. The Bomas are the lowest level of government and power is exercised through the participation of the community in a traditional way. The system of governance is a combination of a modern and a traditional system.

The ICSS provides for the pursuance of a market economy based on competition and absence of monopoly. A constitutional guarantee is given against opportunistic expropriation of private property unless and otherwise the law and public interests so demand. Even then, appropriate compensation will be paid. The Constitution also contains provisions for the establishment of a Legislative Assembly the prime responsibilities of which include:

- ▶ Exercising legislative functions
- ▶ Overseeing the executive
- ▶ Promoting good governance, and
- ▶ Considering and passing amendments to the constitution.

The ICSS also contains provisions for the respect of all internationally recognized human rights, treaties and conventions ratified by Sudan, freedom of religious worship, and freedom of expression, freedom of assembly and association, freedom of movement, rights of women, and rights of the child. Women are guaranteed equal opportunity with men. The constitution prohibits children from performing hazardous work that may endanger their education, health and well-being.

GOSS is required to exercise its competencies in accordance to the CPA, the provisions of the National Interim Constitution, and the Interim Constitution of South Sudan during the interim period of the six years. At the end of the six years, by 2011, the South Sudan Referendum will be conducted either for unity or for independence. This is the right of self-determination of South Sudan ensured by the CPA. The National Assembly (NA) of the Government of National Unity (GONU) is committed to promulgate the South Sudan's Referendum Commission Act.

The interim constitutions and the CPA as well as the Interim National Constitution call for the revision of the legal system and the restructuring as well as the establishment of various institutions to implement the CPA. Accordingly, the Government of National Unity (GONU) has been established. The chairperson of the SPLM is the First Vice President of the Sudan. SPLM members have also taken their shares in the GONU Cabinet and the National Assembly. Representatives of the SPLM are also participating in key commissions like the National Constitutional Review Commission, the National Judiciary Service, the South

Sudan Referendum Commission, the National Election Law Commission, the Human Rights Commission, the Constitutional Court, and the National Civil Service Commission.

Some of the legislations required for the establishment of some of the Commissions have not yet been enacted, and hence the Commissions like the Human Rights Commission, the Election Law Commission, the National Security Commission, and the Land Commission have not been established up to the end of 2007. However, representatives of South Sudan have taken their places in the commissions that have been established.

The SPLM representatives have also taken their places in such important commissions like the National Petroleum Commission (NPC) and the Joint Technical Committee (JTC). SPLM has appointed a technical team that enables it to have access to existing oil contracts and to assess contracts for projects with social and environmental problems, to participate in monitoring the Oil Revenue Stabilization Account (ORSA), and to participate in the decision on the benchmark price for oil. Representatives of GOSS and the Bank of South Sudan (BOSS) are also members of the Oil Revenue Allocation Committee (ORAC).

GOSS is also entitled to receive 50% of the non-oil revenue collected in the South. However, there are problems with regard to the non-oil revenue collection in the South. Information is lacking on state revenues. Although new taxation legislation is under preparation by GOSS, the long overdue reorganization of the taxation system requires urgent attention. A joint National Transition Team has also been established with the participation of SPLM representatives. The purpose of this is to help the establishment of transitional government structures at GOSS and states levels in the South.

The Government of South Sudan (GOSS) is an autonomous state, the power of which emanates from the ICSS, CPA, and INC. The chief executive power rests in the hands of the president, who is also the first vice president of the Government of National Unity (GONU). GOSS is composed of 24 ministries. The power of GOSS is divided between the SPLM (70%), NCP, and other parties (30%). A vice president office is also in the structure of GOSS.

Ten state governments have been established under GOSS. The state Governors exercise executive power at state level. The legislative functions are exercised by state legislative

Assemblies. The presidents of GONU and GOSS appointed the state Governors, who in turn appointed the members of the State Legislative Assemblies. The Legislative Assemblies then adopted state constitutions. The ten states in the South and the 16 states in the North together form the Council of States, which is the second legislative body. Each state consists of six ministries and these ministries form the state council of ministers. GOSS has also established various independent commissions and chambers, which help the executive to promote accountability, transparency, good governance, and to promote peace. The following are independent institutions established under GOSS:

- ▶ Anti-corruption Commission
- ▶ Public grievance Chamber
- ▶ Employee Justice Chamber
- ▶ Civil Service Commission
- ▶ Audit Chamber
- ▶ Human Rights Commission
- ▶ Fiscal and Financial Allocation and Monitoring Commission
- ▶ Peace Commission
- ▶ Demobilization, Disarmament and Reintegration (DDR) Commission
- ▶ De-mining Authority
- ▶ South Sudan Reconstruction and Development Fund
- ▶ Land Commission
- ▶ Investment Authority
- ▶ Relief and Rehabilitation Commission
- ▶ War Disabled, Widow and Orphans' Commission
- ▶ HIV/AIDS Commission
- ▶ Center for Census, Statistics and Evaluation

These institutions are established in accordance with the CPA and have their counterparts at national level. The institutions have been established by legislative acts. However, some of these legislative acts are waiting for enactment by the SSLA.

Another major measure undertaken by GOSS is the revision and adoption of new laws. This is the more important for South Sudan since the old laws in Sudan had failed to achieve progress. The Ministry of Legal Affairs and Constitutional Development (MLACD) has been entrusted with the duty of revising previous laws and drafting of new ones. The ministry has



undertaken the revision of 40 laws. Such laws like the Penal Code, Criminal Procedures Code, Civil Procedures Code, Law on Evidence, Judiciary Act, Human Rights Act, Companies Registration Act, Partnership and Names Act, Audit Chamber Act, Land Act etc. have been drafted and are awaiting approval by the Legislative Assembly.

The reason for the review of the administrative and governance structure is that an understanding of the governance structure helps us to understand the possibility for economic development. This is so since the type of the institutions of governance are major determinants of the performance of the economy. This research starts from the premise that good institutions in the form of laws and organizations that emerge on the basis of the laws are the main determinants of economic progress. The legal system in South Sudan, which is based on the provisions and basic principles laid down in the interim constitutions of both the national and the South Sudan governments, is democratic because it contains provisions for an elected, decentralized government that has to be transparent and accountable for its actions. With regard to the economy, the interim constitutions guarantee, although partially, property rights. Property rights refer to the rights of individuals to use, sell, rent, destroy, modify or transfer and transform their property (Clague, 1997, p. 21). The structure of property rights depends on the behavior of the state on the one hand and the custom, social norms and the ideology on the other hand (Clague, 1997). Throughout history, property rights have undergone considerable changes. Property rights can result in efficient resource allocation since individuals can freely enter into enforceable contracts. The degree to which property rights are protected indicates the extent of the incentives being provided for private individuals to enter into contracts.

The market economy is an exchange economy. It involves the participation by individuals in buying, selling, transferring, transforming, employing and being employed. All of these activities can be undertaken efficiently if the parties in the exchange process are protected against possible losses. The required protection can be provided by a third party on behalf of those in the process of exchange. This third party should have monopoly of coercive power to enforce the contractual agreement entered into. This third party is the state. The state can be an authoritarian administration, which pursues repressive measures against opposition groups and undertakes arbitrary expropriation of private property. On the other hand, democratic governments ensure political freedom and protect property rights. Although still complete consensus has not yet been reached on the relation between economic growth and

democratic governance, a large number of empirical works show a positive relationship between the two (North, 1990).

It is possible to identify two types of property rights - formal and informal property rights. When formalizing property rights is costly, those who cannot afford the cost of formalization will resort to the formation of informal property rights (Schmutte, 2002). Informal economic activity is any activity which is conducted without a license from the formal legal system. There can be different systems of property rights that are generated in different geographical locations, ethnic groups, or other social norms within a country (Schmutte, 2002). So De Soto argues that as exchange grows among different property rights systems, at a point they come to a convergence into a single system. So, governments should not hand down one system of property rights but should understand what exists already, and to see how people practice it and formalize it (Schmutte, 2002).

This view of the convergence of different systems of property rights into a single system in an evolutionary way may not fit the situation in South Sudan. Indeed the numerous different communities have their own specific systems of property rights. The communally protected property rights are based on traditional methods of production and exchange. For example, community land ownership is exclusive and such property rights can turn counter certain development processes. The government then needs to develop and to implement a formal framework of property rights while ensuring the collective interest of each community. For instance, a mixture of individual and communal ownership of land can be formalized in an act dealing with land ownership, for the land which currently belongs to the community in South Sudan.

Collective goods like communal ownership of land might face the problem of a free rider. The concept of a free rider refers to the non-excludability of property of collective goods. Large groups, such as members of a community, may not commit themselves to contribute equal efforts to the management of a commonly owned property such as land. They need selective incentives to efficiently manage the property. Private property rights may be required to manage resources efficiently, especially when the resources become scarcer due to increased demand. Shortage of land due to population growth is a good example of this condition.

Another important provision of the Interim Constitution of South Sudan is the one which relates to the decentralization of power. Although the Government of Sudan started to pursue decentralization since 1992, its practicability had been limited due to problems like the lack of sufficient political commitment, the civil war, insufficient transfer of resources, and lack of the necessary skilled manpower. After the CPA, devolution of power has been guaranteed constitutionally, and state governments as well as local governments have been established as autonomous units. The state level governments have clear geographical boundaries for the exercise of their powers and also can obtain resources to finance their activities.

Decentralization is expected to promote good governance, efficiency in the use of scarce resources, improved quality of public services provision, protection of the interests of minorities, and can also create a sense of belongingness to the system of governance among the local population. Decentralization, which involves the transfer of authorities to local units, is believed to weaken the tendency towards dictatorship and corruption at the center. Two important points should be considered in the process of decentralization. First, decentralization involves a process of fundamental change, both at the center and the lower levels. The restructuring and reorganization process implies that business cannot be conducted in the same way as before. Changes in the existing legal system, and restructuring and reorienting the political, economic, social, and cultural life of a country should be considered in relation to decentralization. According to UNDP (1998, p. 1), “decentralization is a mixture of administrative, fiscal and political functions and relationships. In the design of decentralization systems all three must be included”. So, it can be said that decentralization can significantly reduce both the physical and the psychological distance between the central government and the local level governance units.

The second point about the decentralization is that it is a measure implemented within one system, and both the center and the local units are co-responsible for the efficient functioning of the system. This means that the different levels of authorities should not consider themselves as independent from one another. They are rather interdependent with all their activities to be conducted in close cooperation among the different levels of authorities.

In the case of South Sudan, decentralization via devolution of power of GOSS is the most appropriate approach because of the following reasons. First, South Sudan is a vast country with most of the areas geographically isolated from the central administration. Sufficient

information on the situation in each locality is lacking both at Juba and Khartoum. There is lack of communication networks between the centers on the one hand, and the states and the local units on the other. So it is only through the devolution of authority that it can be possible to improve the provision of basic social services, including the provision of security and the fair representation of minorities in matters that affect their lives. Second, South Sudan is highly ethnically fractionalized. In the rural areas, each ethnic group resides in a specific area as a community and has a claim to the territory within which it resides. Thus decentralization provides these numerous ethnic groups with the opportunity to establish local governments that best suit their needs, and that can promote local development. Third, the history of South Sudan has been one in which the various local communities have been forcibly subjected to the needs and interests of the ruling elites from above, without consideration for local culture and interests. Such an approach had created hatred and suspicion for measures from the central authorities. The tendency for separation has been stronger. Thus decentralization can reverse such a tendency and can promote mutual benefit and voluntary unity. In the South government authority has been separated at three levels, the GOSS level, the state Government level, and the local Government level.

The ICSS laid down the principles of Devolution of powers as:

- a) Affirmation of the need for norms and standards of governance and management at the state and local government levels that reflect the unity of Southern Sudan while recognizing the diversity of its people;
- b) Acknowledgement of the role of the Government of Southern Sudan and of the states in the promotion of the welfare of the people and protection of their human rights and fundamental freedoms;
- c) Recognition of the need for the involvement and participation of all people of Southern Sudan at all levels of government as an expression of unity; and
- d) Pursuit of good governance through democracy, separation of powers, transparency, accountability and respect for the rule of law to enhance peace, socio-economic development and political stability (GOSS, 2005).

The preceding section shows that the legal environment is conducive to promote decentralized governance. However, it must also be pointed out that decentralization is by no means a guarantee for the democratization of the system. Contrary to expectations, decentralization might result in local level corruption, nepotism, money politics, and political

gangsterism (Hadiz, 2004). It is important to consider the possibility that decentralization can be hijacked by specific interest groups to benefit at the expense of the local population.

Although widespread and serious corruption has not been observed so far in South Sudan, there is a possibility for this problem to emerge as the economy shifts more and more to the monetization of economic transactions and as growing money receipts from oil revenue and from external aid materialize. In any case, to achieve the intended goals of decentralization, GOSS has to conduct extensive training programs for GOSS, state and local officials in how to apply decentralized and participatory administration. After long years of civil war, it is reasonable to expect that local authorities may not have the capacity to promote self rule, participatory administration, accountability, and transparency.

### **III. Economic Reconstruction**

Economic reconstruction in a post-conflict country is one of the most challenging tasks. However, the success in achieving a satisfactory economic recovery in the post-conflict period is a determining factor for the sustainability of the fragile peace. People's expectation is great and fast. In South Sudan, the long war had devastated normal economic activities. Just at the time of signing of the CPA in 2005, Southern Sudan had no functioning infrastructure, no exchange economy-supporting institutions, and no efficient supply of public services. The country had to start from almost nothing. As it has already been presented in the preceding parts, SPLM started the interim period with efforts to put government structures in place. Among the new government structures, the following ministries and organizations have been directly entrusted with economic tasks:

- ▶ Ministry of Finance & Economic Planning
- ▶ Ministry of Commerce, Trade and Supplies
- ▶ Ministry of Industry & Mining
- ▶ Ministry of Agriculture & Forestry
- ▶ Ministry of Transport & Roads
- ▶ Ministry of Telecommunications & Postal Services
- ▶ Electricity Corporation
- ▶ Ministry of Animal Resources & Fisheries
- ▶ Ministry of Water Resources and Irrigation
- ▶ Ministry of Housing, Land, and Public Utilities

- ▶ Auditor General's Chamber
- ▶ Southern Sudan Fiscal and Financial Allocation and Monitoring Commission (SSFFAMC)
- ▶ South Sudan Reconstruction & Development Fund (SSRDF)
- ▶ Center for Census, Statistics and Evaluation
- ▶ Investment Authority
- ▶ Anti-Corruption Commission
- ▶ South Sudan Land Commission
- ▶ Judiciary of South Sudan
- ▶ Bank of South Sudan (BOSS)

These institutions are important in regulating, managing and monitoring the economy. Although most of these organizations have been put in place, some of them are not yet fully operational. For instance, the Land Commission, the Reconstruction and Development Fund, the Investment Authority, and the Auditor General's Chamber are not yet fully functional, mainly due to delays in the enactment of the necessary acts. However, the framework of the institutions is in place.

From the preceding sections, it can be seen that the task of putting the necessary economic management institutions in place takes most of the time and of the resources immediately after war in the post-conflict period. Not only are time and resources required for establishing offices and enacting the appropriate legislation, but there are also activities like demobilization, disarmament and reintegration (DDR), and the efforts of resettling returnees from refugees abroad and from internally displaced persons. There have been about 4 million displaced persons due to the war. All of the disastrous impacts of the war have had a negative impact on the pace of economic reconstruction. The resource needs of the reconstruction process are huge. The scarcity of resources does not allow the country to undertake all the necessary activities simultaneously.

The Government of South Sudan is a newly established government without full sovereignty. In terms of major decisions, the Government is constrained by its commitment to the CPA, the Interim National Constitution, and the decisions of the Government of National Unity. With regard to revenues, GOSS started with almost total dependence on donors' support and the transfer of oil revenue from GONU. Non-oil tax revenue is almost non-existent.

However, it should be noted that the dependence on oil revenue carries two dangers. First, the world-price of oil fluctuates and this creates problems in sticking to longer term plans. Second, empirical evidence show that heavy dependence on primary products like oil is one of the main causes for the onset and extended duration of civil wars in the developing countries. So, South Sudan's, and indeed the whole of Sudan's, heavy dependence on oil export carry the risk of another round of civil war in Sudan. In order to avoid such a danger from happening, South Sudan has to use the oil revenue on activities that promote the development of the other sectors.

The diversification of revenue sources is also of great importance. GOSS has to prepare the ground for a shift from oil and grant dependency to tax, non-tax, and other sources of revenue. One important measure is to reorganize the tax administration and the tax collection. A successful tax reform in South Sudan requires the implementation of several complementary measures. First, there should be sufficient training of tax personnel. Since South Sudan is just starting "from nothing", capacity building through training in tax administration is of greatest importance. It is necessary to take account of the fact that a general training on tax issues may not pay due attention to local specifics and the specific strategy chosen by the Government (Tanzi/Pellechio, 1997, pp. 280 - 281). Therefore, training should focus on local economic, social, institutional, and organizational situations. Second, the appropriate resources need to be allocated to tax reform, tax administration, and tax-collection. Again, since South Sudan is starting anew and it is constrained by the amount of the resources it can raise and the extent of its sovereignty, the appropriate strategy is to focus on the reform package with top priority.

The training is by no means limited to tax officials. Tax payers should also be given the necessary information to develop a sense of voluntary compliance. Since South Sudan has just started to collect some taxes, many tax payers regard the imposition of taxes as an unbearable burden. For example, according to the author's personal observation, most public employees regard the flat rate (10%) personal income tax (PIT) as a heavy burden. This shows a lack of understanding about the civic responsibility of tax payment on the part of the tax payers. Most small businesses have complained that the import taxes they are asked to pay are of an unbearably high rate. So, training of tax payers can reduce the resistance to pay taxes.

In addition to training, a good system of incentives should be put in place for the tax administrators and for the tax payers. Improved salary scales should be established for employees at the tax administration offices in order to minimize possible temptation for corruption. Tax payers should be provided with better quality of services, such as short waiting time and convenient time for payment. Further more, since South Sudan is in the wake of establishing all necessary elements of an administration apparatus, it is advisable to establish an autonomous revenue authority.

The tax reform process after conflict and for reconstruction is complex (see Addison/Chowdhury/Murshed 2004) and should take into account the efficiency, equity and effectiveness issues in designing the tax structure. Tax efficiency refers to the minimization of the administrative cost incurred to raise each dollar of tax revenue. Effectiveness of a tax refers to the level of voluntary compliance of tax payers. Equity in taxation refers to the general principle of equal sacrifice of utility by all tax payers. The most commonly used equitable taxation is a progressive taxation, which applies increasing rates as taxable income rises. The tax structure should also be simplified to make it easily understandable to tax payers. Complex tax structures can lead to corruption on the part of tax collectors.

There is no clear picture of taxes in South Sudan at present. The CPA contains the agreement that taxes collected in the South are to be shared at a 50% rate between GOSS and GONU. The 2004 Wealth Sharing Protocol (Agreement 2004) includes the agreement between the two parties that all levels of government have an exclusive right with regard to the taxes they collect. Some taxes such as customs duties are categorized as nationally collected taxes. The revenue from such taxes is divided equally between GONU and GOSS. Fees and charges, personal income taxes and business taxes are collected at state and county levels. Business profit tax is currently at the level of introduction. However, there is confusion both on the part of tax administrators and tax payers. Some tax administration authorities have even expressed the view that the imposition of a business profit tax is to be postponed to the time after the 2011 Southern Sudan referendum. There is a strong resistance to pay business profit tax.

The Wealth Sharing Protocol and the Implementation Modalities of the Framework Agreement on Wealth Sharing (see Agreement 2004) call, among other things, for the equalization and the allocation of the nationally collected revenues. On the other hand, all



levels of government, GONU, GOSS, and states are given exclusive power over the revenues raised from taxes (income tax, business tax, and excise tax), fees and charges, as well as the loans taken under their competencies. The ICSS of South Sudan also includes the provision that collecting direct and indirect taxes is among the powers of state governments. Thus, while there are such general legislative frameworks for the collection of taxes, so far there is no tax law based on the constitution and the CPA. However, some states have gone further and can be regarded as exceptions. For example, the state of Central Equatoria has established an Independent Revenue Authority and has also compiled a list and the rates of taxes and non-tax revenue charges.

In general, there is a great need for reforming tax administration and tax collection in South Sudan. A unified and coordinated process in tax management is needed. Currently there are instances where taxes are collected by persons who are not mandated to collect taxes. To overcome such problems, tax legislation is of an urgent priority. An Independent Revenue Authority needs to be established by GOSS. The revenue authority should draw up its strategy for tax reform and tax management. GOSS also needs to establish and strengthen the Auditor General's Chamber. Public finance management must conform to internationally recognized accounting standards. Such practices can be enhanced by the existence of a strong and independent auditor general's office.

#### **IV. Public Services Provision**

One of the rationales for decentralization of governance is to improve the provision of public services, like improved supply of social services (schools and health facilities), infrastructure (roads and electric light and power), improved environmental health (safe disposal of waste materials), etc.

Although there are virtually no data on all of these items, one can objectively assess the state of public services in South Sudan. First, there are no all-weather gravel roads, let alone asphalt roads, even in such towns like Juba and Yei. Efforts at building roads in some parts of Juba town has just began after a long delay, partly due to failure of contractors to honor their commitment in time. Lack of capacity in contract management has also contributed to the failure to achieve progress in infrastructure development. With regard to the roads linking the capital with the different states, an emergency road project was launched and some roads that were previously closed have been reopened. For example, the Juba-Yei-Kaya road, the

Juba-Bor road, etc. were reopened. However, these roads, especially the Juba-Yei road, are in the worst condition. Thus, the emergency road project could not result in roads of long durability. And when one considers the total dependence of South Sudan on imports, which are mainly transported by land, the extremely bad roads are of a great risk to the people in the whole of South Sudan. For example, during the rainy seasons and the recent post-election crisis in Kenya, shortage of every-day consumption goods has dangerously affected the people.

The author's personal observation shows that GOSS and donors have not so far been able in improving land communication in South Sudan to a satisfactory degree. However, there are some optimistic plans of road maintenance, construction and de-mining. Donors have been providing financial support. For instance, Japan has donated a total of \$22 million for improving the roads in South Sudan between 2005 and 2008. With the help of Japanese financial support there is a plan to pave and maintain the Yei-Farasika and Rumbek road, of which about 85 Km is to be constructed and 596 Km to be maintained (Juba Post 22-29 February, 2008).

The World Food Program (WFP) has also been paving roads to serve the purpose of transporting food items from neighboring countries of South Sudan. Multi Donors Trust Fund (MDTF) and GOSS have pledged a total of Sudanese Pounds (SPs) 240,000,000 for the construction and rehabilitation of roads, and for air, rail and water transport during the year 2008 (GOSS/Government of Southern Sudan, 2008, p. 119). Roads and the development of other means of transport stimulate economic development. Good and cheaper means of transport can reduce cost of transportation and encourage the movement of people and goods. Reduced transportation cost reduces transaction cost and thus improves economic activities.

Another problem of infrastructure is related with the supply of electric power. Despite the effort to rehabilitate the power stations in towns like Juba, Malakal and Wau, there is an extreme power shortage in the whole of South Sudan. Most of the business firms get power either from their own diesel generators or by paying rent to owners of generators in their neighborhood. Under such a condition, investors find it difficult to invest in economic activities that require an uninterrupted supply of electric power. This is partly the reason why there is currently no manufacturing modern industry base in South Sudan. Even when there is electric power supply produced by private firms as in Yei, the cost is too high to be afforded

by households and small businesses. GOSS has to do whatever it can to improve the supply of power. Southern Sudan Electric Corporation (SSEC) has been established and has formulated a plan to improve the power generating capacity of the stations at Juba, Malakal and Wau. However, some more effort is needed, both by the donors and GOSS, to look for quick means to construct power plants and to increase the supply of electric power. Unless the power supply is improved, industries like building materials production (cement, bricks, metals, wood, etc.) cannot be undertaken. These items are of prime importance for the post war reconstruction efforts.

Another public service area which has not shown much progress is the water supply and sanitation service. Although some boreholes have been dug in different communities, there is a serious shortage of pure water in the urban areas. Almost all guest houses, restaurants and hotels use water bought from private firms who distribute water from the Nile using their own water tankers. It is expensive and can also be unsafe.

The education and health sectors are also not showing fast progress. These service sectors were the most devastated ones during the war. Schools and health facilities were destroyed. Universities were forced to migrate to Khartoum. GOSS has been trying to rehabilitate, to build and to maintain schools, and to develop curriculum. However, serious problems are still unresolved. Lack of school buildings is one of the main problems. 80% of the schools are under trees and in temporary shelters. 80% of the teachers are untrained. The attempt at building schools has been frustrated by the lack of building materials and extremely high construction cost (Interview with MOEST/Ministry of Education, Science and Technology, 2008). The effort to establish a uniform curriculum has been underway but there is not yet a complete curriculum for all levels of education. The legacy of the war period has been a very messy system. The students in the government-controlled areas of Juba, Wau and Malakal have been using Arabic and the curriculum that was developed by the government in Khartoum. The areas under SPLM control had developed their own curriculum and used English and local languages as instruction media. Returnee students from the neighboring countries like Uganda, Kenya and Ethiopia had been studying under different curricula of the countries where they were living.

The health sector is also one of the social service areas in which progress is slow. Although there is no data on the true state of health in South Sudan, some available estimates show that

the health indicators of Southern Sudan are much worse than those of the average for sub-Saharan Africa (JAM/Joint Assessment Mission, 2005). The availability of public service facilities is important in determining the level of private investment. Especially private foreign investors need a sustainable supply of skilled human resources, power, and availability of good transportation and communication networks, and good environmental health conditions and health facilities besides a large market. The lack of efficient social services and transport affect the decision to invest by increasing the transaction costs. The relatively high transaction cost, in areas like manufacturing, is one of the causes for the concentration of private economic activities in simple consumer goods merchandising. Besides of lowering the profit of the business firms, higher transaction costs also affect consumers through the extremely high consumer prices. Thus, in order to attract more foreign investment and to put the economy on a dynamic path of development South Sudan must improve its public services concurrent with the activities of governance reconstruction.

The most limiting factor in assessing the state of economic reconstruction in each sector is that micro data are unavailable. For example, there is no data on the level of agricultural production. In order to generate information, the Center for Census, Statistics and Evaluation has been established. However, due to the lack of adequate communication and infrastructure, it is not easy to come up with the necessary economic and social data within the short run. Furthermore, there is no reliable secondary data on the level of private investment. It is even difficult to get an exact number of investors who have been licensed over the last three years.

The lack of data and the inability to generate some vital information on South Sudan after the CPA is the result of a lack of capacity and experience. As a post-conflict country, South Sudan had no mechanism in place that could have generated the necessary data. Thus it is necessary to establish a mechanism, legal and organizational, that can generate information on the different aspects of the economy and of the social and cultural state of conditions in a concrete manner. This should not be postponed for a long time to come. An evolutionary approach to the task cannot be of help for the immediate need. A quick approach has to be adopted to undertake an immediate compilation of data that can be put to use for the planning of public actions. One measure which is necessary to improve the availability and the supply of information is to adopt legislation that forces all government offices to create a data base for their activities.

Despite the lack of information, the economy of South Sudan can be assessed on the basis of personal observation, interviews, and some scanty estimates from different sources. Personal observation shows that the economy is mainly based on agricultural production. This is so because the industrial sector is not functioning currently. All of the industries established before the onset of the war ceased to function due to the unfavorable situation during the war. There is plan to rehabilitate some of these industries. There is also a plan to issue licenses and sites for private investors who have applied to invest in industrial undertakings (GOSS 2008, p. 57). It can be said that the legal, regulatory and institutional arrangements for the industrial sector are just at the formative stage. True, the Ministry of Energy, Industry and Mining (MOEIM) has been established and some Acts and Policy Frameworks have been drafted. However, there are yet no concrete steps towards the promotion of the industrial sector.

The development of the industrial sector is of paramount importance in the economic reconstruction process. A dynamic industrial sector facilitates the expansion of urban employment, the transfer of technology, the transfer of industrial skills from more developed countries, the promotion of modernized agricultural production, and the development of the services sector. South Sudan is foregoing all of these benefits. At present, three years after the CPA, all manufactured consumer and producer goods are imported from neighboring countries. This total dependence on imports does not have much positive impact on the long term development of the country. The imported consumer goods have no linkage effect with the agricultural sector and cannot contribute to the growth and modernization of the sector. Therefore, there is real danger to the economic revival of South Sudan due to a lack of stimulus for industrial development. This begs for a sort of an emergency measure for industrial rehabilitation by GOSS. This is so because of the three main actors in industrial development, GOSS, domestic private sector, and foreign investors, only GOSS is at the moment positioned to take measures that can stimulate the process of industrial development. The domestic private sector is weak and needs some time to take up its role satisfactorily. Foreign investors are waiting to see what will happen after the election of 2009 and after the 2011 referendum. Under such conditions, the government has the responsibility to initiate the development of the industrial sector. This initiation of development can start by investment in infrastructural buildings, power generation, financing of education and health programs,

construction of urban housing, and training of a large number of people in modern business management skills.

In the process of initiating the development of the industrial sector, and of course of all the economic sectors, GOSS needs to consider certain critical issues of economic development. The first critical issue concerns the clear understanding of factors that affect economic development. Hence, one can identify the physical/material, human and institutional factors for development. On the physical aspect side, the natural environment (land, water, and minerals), infrastructural development (roads, power plants, communication systems, etc), housing, factory buildings, schools, health facilities, etc. can be mentioned. The human resource part encompasses technically skilled manpower, entrepreneurship, and a healthy and diligent population. The institutional component of development includes the formal legal and regulatory environment, the capacity of government institutions to enforce the rules effectively, and the cultural environment and the degree of adaptability to changes. So, growth can be represented by all these factors in the following functional form:

$$G = f(L, K, M, H, A)$$

Where  $G$  = the growth rate,  $L$ = the change in the number of people in employment,  $K$  is the rate of change in the capital stock or simply the rate of investment,  $M$  is land,  $H$  is the human capital, and  $A$  represents the institutional arrangement. So, unlike the neoclassical growth models which operate with a production function of two factors of production only (labor and capital) with constant returns to scale, we include the institutional arrangement as one of the factors affecting economic growth. By assuming land as given for all countries, the sources of growth can be reduced to the change in labor, investment, growth in human capital, and the improvement in the institutional arrangement. The institutional factors include such items as: voice and accountability, political stability and the absence of violence, government effectiveness, regulatory quality, the rule of law, and the control of corruption. These items are components of governance.

Empirical findings show that a one standard deviation improvement in governance results in a threefold growth of per capita income (Gelb/Ngo/Ye 2004). So, South Sudan has to implement the measures of good governance in order to achieve economic progress, to

strengthen the bases for sustainable peace, and to start a movement in the path towards attaining the Millennium Development Goals (MDGs).

If we turn to the capital and human components of economic growth, we can make use of the neoclassical models and see what concrete measures can be taken to achieve fast growth.

Most of the neoclassical growth models are extensions of the Harrod-Domar model (Shirivastava 1996), in the form of:

$$\frac{dy}{y} = \frac{s}{y} \div \frac{I}{dy} = \frac{s}{y} \times \frac{dy}{I}$$

Where  $\frac{dy}{y}$  = growth rate of income (g)

$\frac{s}{y}$  = savings ratio (s)

$\frac{I}{dy}$  = capital output ratio (COR) e. g. 5, etc.

$\frac{dy}{I}$  = the reciprocal of capital output ratio (x).

And so the growth rate can be rewritten as:

$$g = sx$$

To this, we can add technology, population growth rate, depreciation, and institutional variables.

For instance, with a population rate of growth and a depreciation of capital the growth equation can be simplified to;

$$g = sx - (n+d)$$

Where g = growth rate,

s = the saving rate

x = the Capital Output Ratio (COR) reciprocal,

n = rate of population growth

d = the annual depreciation rate of capital

The achievement of any desired rate of growth depends on the rate of saving, the COR, and the rate of population growth as well as the annual rate of depreciation of capital.

For instance, given a population rate of growth of 3% p.a., a capital output ratio of 5, and an annual rate of the depreciation of capital of 2%, the achievement of a growth rate of 5% p.a. requires:

$$5 = 1/5 s - (3+2)$$

$$5+5 = 1/5 s$$

$$s = 50 \%$$

That is, a 50% rate of saving is to be made and invested because in the long run saving must be equal to investment.

To achieve a higher growth rate for a given level of saving, a reduction in the COR and/or of the rate of population growth is needed. If, for example, the COR is reduced to 4 and population growth rate is 2% p. a., and the saving ratio is kept at 50%, the growth rate (g) will be

$$g = 1/4 \times 50 - (2+2)$$

$$g = 12.5 - 4 = 8.5 \%$$

i.e., for a lower COR and a lower population growth rate, a higher rate of growth can be achieved with the same savings ratio.

The important question is about how to mobilize the required high savings. Given the situation of South Sudan, the idea about the mobilization of a high rate of savings and investment may seem absurd. However, a lesson from history of economic development of Japan during the 19<sup>th</sup> century can be of help. To overcome the shortage of funds for investment in the industrial sector, the government there has used the agricultural surplus by transferring it through taxation to strengthen industrial entrepreneurship and business management culture. The Japanese government expanded education domestically and sent masses of the youth abroad for education. In the mean time, the government established state-owned enterprises, which it later on privatized when it was convinced that the private sector had reached a point where it could efficiently manage the enterprises. Some of these lessons can be of help to South Sudan although it has to be treated somewhat differently because of its post-conflict nature and the semi-autonomy status.

South Sudan has no surplus-producing agriculture at the moment. Many food items are imported, such as processed foods, vegetables, beverages, etc. Domestically produced agricultural goods are millet, sorghum, maize, etc. The majority of the population also keeps



livestock. Therefore, although the economy of South Sudan is heavily dominated by agriculture it is also import-dependent on certain food items. Thus it is difficult to impose heavy taxation on the farm population as the majority of whom is living under grinding poverty. However, the country has an oil sector which can substitute the agricultural sector as a source of investible funds. Furthermore, South Sudan, as a post-conflict country, can have access to foreign aid. Such an opportunity has been created by the MDTF, to which donors have contributed generously. Thus, what is needed is to appropriately allocate the oil money and the foreign aid between productive investment and other activities.

Another source of investment is foreign private investment. This can even be a huge source given the huge natural resource base of South Sudan. However, in order to attract foreign capital, GOSS has to undertake several fundamental measures. First, GOSS has to eliminate the recurrent instability in South Sudan by bringing under control all potential sources of violent conflict. Among other things, this can be done by the further integration of armed groups and by mobilizing the different communities to participate in the peace-building process. An important measure in this regard is to open employment opportunities that can siphon off the unemployed youth and the demobilized ex-fighters who can be a source of violent activities. Another necessary measure is to improve roads and other communication facilities. This enables the interaction and integration of the currently isolated communities and states, and creates employment. A further important measure is that GOSS has still to remove regulatory barriers to foreign investment. Entry should be smooth and this starts from simplifying the immigration process. At the moment, a foreigner has to get registered with the police if she/he is intending to stay for more than 3 days, and has to renew the permit for staying every month. Such a practice can be viewed as costly.

Generally, the interim government of South Sudan has to establish a policy framework which can be positively assessed by the donor community and the Multilateral Development Banks (MDBs). For example, the World Bank uses its Country Policy and Institutional Assessment (CPIA) instrument to allocate its concessional loans and multilateral aid funds. Researchers on post-conflict reconstruction observe that the flow of external aid is policy-sensitive. For example, Collier and Hoeffler (2002b, p. 5) write that aid is subject to diminishing returns. That is, there will be a saturation point at which additional aid will no longer contribute to growth. However, the authors state that if there is a better policy, the saturation point can be after a longer time than otherwise in the post conflict period. That means, with good policy

and more favourable institutional arrangements, the point at which the marginal contribution of aid becomes zero can be prolonged.

Researchers break down the time horizon for the reconstruction period into sub-periods to identify the types of measures that correspond to the sub-periods. Collier and Hoeffler identify three 4 year episodes, “the peace onset and two others” (Collier / Hoeffler, 2002b, pp. 5 - 6). The authors point out that post-conflict growth shows a supra-normal growth rate between the 4<sup>th</sup> year and the 7<sup>th</sup> year after the onset of peace. Generally, it is observed that the growth rate shows an inverted “u” pattern during the first decade of the peace period. This means that the growth rate rises continuously during the first decade and then starts to fall. The stages during the first decade can be broken down into the first 2 years, the second 4 years and the third 4 years for convenience of discussion. The first 2 years is the time for the peace onset and much economic development may not be seen. The next 4 years is the period when the economy bounces and grows faster. The second 4 years (72 months after peace onset) can be taken as the time when the aid-dependent economy starts to decline in terms of the growth rate. The stages are interdependent and there cannot be a clear demarcation among them. In the case of South Sudan, although the lack of published data still creates problems to substantiate the comment, development has picked up during the current first decade of the CPA. Businesses are reviving; many domestic and foreign investors have made investment in hotels, health facilities, schools, and wholesale and retail merchandising activities. Furthermore, construction work has grown. Some of the roads and government offices have been built. So the situation is in harmony with the growth pattern observed by Collier and Hoeffler during the initial stage. However, the sustainability of the process depends on several future events.

As regards the priority of policy measures, social policies like poverty reduction, resettlement and reintegration, and humanitarian measures like support and rehabilitation of those who have been victims of the war in various forms have to be given priority. Then sectoral and macro policies are to follow in that order. Approaches to reconstruction of governance can take the form of economic, political, and corporate governance and require the appropriate combination and balance (see Wohlmuth 2007, pp. 3 - 37). On the other hand, NEPAD (NEPAD, 2005, pp. 6 - 10), identifies three phases in which the post-conflict reconstruction process should proceed. The three phases are:

- 1) the emergency phase,

- 2) the transition phase, and
- 3) the development phase

The three phases of reconstruction are said to have five dimensions, which include:

- 1) Security,
- 2) Political transition,
- 3) Socio-economic development,
- 4) Human rights and justice, and
- 5) Resource mobilization, management and coordination.

During the emergency phase priority is to be given to measures that establish “a safe and secure environment, determine the governance structures, participation and political transition, provide for emergency humanitarian needs and develop mechanisms for addressing past and ongoing grievances, coordinate the internal and external actors” (NEPAD 2005, pp. 7 - 8). In the transition phase the focus has to be on the development of the internal capacity. Efforts have to be directed to rehabilitation and construction of social services, economic infrastructure, and transforming of the security sector (like the police, the army, etc.). At the development stage, post-conflict countries are expected to implement measures that further deepen the socio-economic reconstruction, the social capital, and that improve further the implementation of development programs.

Other writers on post conflict reconstruction suggest measures that are believed to address the probability of another round of war. For instance, it is suggested (Ali/Elbadawi/Battahani 2005) that a democratic system of governance should be made the central point of post-conflict reconstruction of Sudan, if sustainable development and stability are to be achieved. Researchers on post-conflict reconstruction rightly suggest that the immediate focus should be on the measures to eliminate the factors that might lead to another round of civil war.

Empirical studies show that a multitude of factors is responsible for the onset of civil war. Broadly considered, economic and political factors cause civil wars. The economic theory of civil war (Collier et al. 2003; Elbadawi/Sambanis 2002; Yartey 2004) regards economic factors, like abundance of natural resources (such as oil, diamonds, gold, etc., resulting in the onset of civil wars. The decision of rebels to participate in civil war is also linked with rational utility maximization. It is argued that rebels participate in war by comparing expected benefits from fighting with the expected cost to be incurred (Addison/Murshed

2005, Yartey, 2004). The political theory of civil wars views factors like lack of democracy, human rights abuse, and weak law enforcement, etc. as causing civil wars. Thus, empirical studies show that poor growth, poverty, lack of political rights, ethnic and linguistic fractionalization, the size of the population, the abundance of natural resources, the past history of civil war, colonial history, and external interventions are among the major factors that cause and prolong civil wars in Africa (Collier/Hoeffler 2002a; Elbadawi/Sambanis, 2002, 2000). It is all the same with the civil wars in Sudan. So, post-conflict policy in Sudan has to focus on addressing these factors which, if unresolved, are believed to result in another civil war. Parties to the peace agreement might be motivated to renege in order to secure an expected higher benefit from continuing the fighting. The government might choose to continue to fight the rebels. This decision of the government can be based on the consideration of the income it can get by continuing fighting and the probability of its downfall if it chooses to fight (Addison/Murshed 2005).

When parties to the peace agreement renege, the international community uses various commitment technologies to enforce the peace agreement. Military sanction is one such technology. However, the commitment technologies may not be effectively implemented due to the conflicting interests of the influential international community members. In the face of all the post-conflict complications and lack of fast economic reconstruction, a democratic development government is needed. A democratic government, which conducts its activities on the basis of democratic principles of respect for human rights and political inclusiveness on the one hand, and consists of a strong and motivated bureaucracy of professionals which designs and implements sound developmental policies on the other hand, is required (Zafarullah/Huque 2006). The government should adopt policies on consensus rather than on pure discretion. Since South Sudan consists of many communities with different culture, language, history, and resource endowment, GOSS has to mobilize these diverse communities in the effort to implement development projects.

Another critical issue of the post-conflict reconstruction process in South Sudan refers to the strategy of economic development which is about the prioritization of sectoral development. The question of priority depends on many factors. The availability of capital, skilled human resources, and the linkage effects of the sectors, among other things are to be considered. At present, three years after the CPA, much has not happened in terms of economic development. Things are moving very slowly. Still there is the whole dependence on imports.

So, the first priority is to be given to the rehabilitation of agriculture. This is dictated by the pressing need of ensuring the supply of agricultural products for domestic consumption. Both extensive and intensive agriculture can be undertaken. South Sudan has a large area of land, which is suitable for extensive mechanized farming. Since private investment is not forthcoming at the moment, the government needs to start with some large farms, and if possible, in a joint venture form of investment, or if not possible in this way, on its own. However, the government should always be committed to a market-driven economy. In the long run, the large state farms can be transferred to private hands. In addition to promoting large mechanized farms, GOSS should also promote the small-scale farms in the hands of millions of rural households. Since individual household farms are small, intensive farming can be applied with the intensive use of modern inputs like fertilizer, high yield seeds and insecticides.

In this way agricultural productivity can be increased and the income of the small farmers can also rise. In addition to the saving of foreign exchange as an import substitution takes place, increased agricultural output and growth in the income of agricultural households will create a growing demand for industrial output. Furthermore, in view of the international shortage of food items, surplus agricultural output can be exported. So, priority should be given to the development of agriculture, which has been hit hard by the long years of fighting. However, priority for agricultural development does not mean ignoring the other sectors. The industrial and services sectors should also be given due attention. However, the argument here is that the bulk of public (government) investment and expenditure should be allocated to the agricultural sector. On the other hand, the development of the industrial and services sectors can more and more be left to private entrepreneurs.

Regarding the targets of development, GOSS can use the MDGs as a signpost. Of course, it would have been better if the effort to achieve the MDGs could be combined with some form of a national poverty reduction strategy. However, in the face of a lack of the necessary data and the capacity to formulate one's own poverty reduction goals, it is appropriate to use the internationally set targets. The idea here is not about whether South Sudan is able to achieve the MDGs. But what is being emphasized here is that the targets for the MDGs can be used as guiding principles.

## V. Summary and Conclusions

Many factors, economic, social, political, and historical factors, have contributed to the long years of fighting between North and South Sudan. The negative impact of the civil war has been very great in terms of lost human lives, foregone economic development, and destroyed physical and social capital. About 2 million people lost their life and about 5 million were displaced from their homes. South Sudan has remained poor and the incidence of poverty is estimated at about 80%. The illiteracy rate is too high at about 90%. The country mainly depends on imports (for urban demand) and on food aid.

Although the government structure has been established the economy is not showing the expected fast growth after the CPA. Private investment is limited mostly to small-scale construction activities, hotels and catering, and petty trade. The industrial sector is still dormant, and agriculture has remained at the same state as during the war. Given this state of affairs the Government of South Sudan and the SPLM, while always ensuring commitment to the respect of the property rights and the principles of market economy, should enhance their intervention and promote the sectors where private investment is not forthcoming. This requires that the government should establish some key industrial and agricultural enterprises which can serve as demonstration projects for private investors, especially the domestic entrepreneurs. The government can use external aid and the revenue from oil to stimulate the development of the productive sectors.

The following measures are recommended to sustain peace and to promote development:

- 1) Reduce poverty, through improved development and employment creation. Improve the distribution of income and allocation of revenue and aid.
- 2) Reduce dependence on oil money through diversification of the economy. Make the best use out of the revenue from oil.
- 3) Intensify the rehabilitation and the building of physical infrastructure, and strengthen social capital (trust) and cooperation among the different strata of the population, ethnic groups, communities, parties, etc.
- 4) Strengthen property rights as provided in ICSS and the investment codes, and avoid any opportunistic take over of property.

- 5) Strengthen the rule of law, i.e. the enforcement of law, by building the capacity of courts, police, and other security groups.
- 6) Implement tax reform and strengthen the revenue collecting institutions through new tax legislation.
- 7) The mechanism of strengthening the formation of the formal economy should be given emphasis through such measures as simplifying regulatory measures (reduce the license fees, minimum required initial capital, etc.).
- 8) Continuing on-going demobilization and reintegration of soldiers and militia as well as raising the capacity of armed personnel through continuous training is necessary.
- 9) Intensifying of de-mining process and ensuring of safety is also another urgent task in South Sudan.
- 10) A measure that ensures the smooth allocation of land for different purposes should be put in place.
- 11) The problem of lack of credit should be dealt with efficiently and satisfactorily.
- 12) Since relative peaceful situations can be illusive, the international community should always be watchful about developments in both parts of Sudan. The history of Sudan is full of unexpected turnarounds to create skepticism about the peaceful implementation of the CPA.

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