

Economic Development in Sudan

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What I would like to do in this talk is be speculatively controversial. I would like to be deliberately provocative, and try to put before you five issues, and suggest to you ways of seeing economic development issues in the Sudanese context that you may not have seen before.

Let me say that one year ago I was very, very hopeful, even though a year earlier, in 2004, I wrote a very critical analysis of the wealth-sharing agreement. I found the various elements of the Comprehensive Peace Agreement to be almost scandalous in their ambiguity and margin for deliberate misinterpretation. I was assured by colleagues involved in the peace talks that a spirit of goodwill would prevail and the two sides would work as partners. When I saw a million people in Khartoum come out to greet Dr. John Garang, I was very, very hopeful. Dr. Garang was the kind of counterweight needed to General Omer Hassan al-Beshir and the military cabal that has run the government in Khartoum. But Dr. Garang's death in August 2005 was, it would seem, a major, major blow.

I am not sure whether the SPLA will be able to exercise the leverage that it was able to promise, because Salva Kiir enjoys no popular base in northern Sudan. The regime, it seems to me, has little to fear from the SPLA, and the SPLA will only go back to the bush as a last resort. The shocking lack of progress in Darfur is more than sufficient to presage a bad half decade. So I think one should expect bad governance and limited development for the next five years. Then there will be the referendum. The conduct and outcome will depend on the vigilance of the international community and activists like you, and Sudanese studying here in the U.S. who will go back before 2011 to assume positions of responsibility. For those of you who think that nothing could possibly go wrong with the referendum, because the people of southern Sudan are nearly unanimous in their broad vision, let me counsel you to follow closely the events in Uganda and Kenya, two pseudo-democracies with very well-educated populations, and yet very significant difficulties in organizing real elections and fostering good governance.

So let me turn to economic issues, and begin with a very broad question: What will the oil wealth do to Sudan? I was last in Sudan in the early 1990s, in the western province of Kordofan. A man I worked with quite a lot was from a neighboring village close to the one where I did my research. This friend would always say, "When we start pumping the oil, we're going to be richer than America!" And I would always say, "God forbid." Not God

forbid that Sudan would become richer than America; if Sudan were like Sweden that would be just fine with me. Rather, God forbid Sudan should start pumping oil. Because then, more likely than not the villagers whom I was living with, and his neighbors in his village, would become poorer.

Oil quite often makes ordinary citizens of an oil exporting country poorer, not wealthier. This relationship is reasonably robust, and while academics debate it a lot, there's enough probability to make it a serious concern.

Why does oil make people poorer? There are three channels. The first is called the Dutch Disease. The Netherlands discovered natural gas in the 1950s, and what they found was that because the government had so much money to spend on projects, and because the earnings in hard currency meant the country could import much more, the agricultural sector and export sector were crowded out. Imagine if you were a farmer, and down the road a new refinery came into being and the government built up a huge megalopolis- it would be hard for you to hire workers to work on your farm. So in the Dutch Disease the traditional productive sectors of the economy contract, while the service sector expands. There need be no problem with that, The Netherlands after all is doing just fine, but the effects depend crucially on the quality of governance. Building roads to nowhere just because the government has the cash, well that is a guarantee for trouble down the road. (No pun intended.)

Let me be a little more specific- in the Dutch Disease the terms of trade change against the peasant who is tied to the land and to peasants who produce traditional commodities that can be replaced by imports. Sounds like women, to me. Women who make traditional products and cannot easily move to urban centers where the new jobs are. So with the oil windfall South Sudan is going to import a lot of powdered milk for the European Union. Now that is a good thing for hundreds of thousands of people in urban centers in South Sudan, and their children, who are going to have more nutritious meals. But obviously for the women who market whole, fresh milk, their livelihoods are going to be severely affected.

There are two other related channels by which oil can make people poorer. One is obviously corruption. Some of the starkest examples of ill-gotten billionaires in Africa come from the oil-exporting countries. It is now well-established that the more corrupt a country is, the slower is the growth rate of incomes, especially for the poor.

Who can then challenge these cabals of corrupt politicians and army officers? Only someone with guns and young men willing to use them; the corrupt oil economy quickly leads to civil conflict and violent repression. We have seen this in country after country. So, for the economist and political scientist, the oil economy is no blessing- it is a curse to be overcome with much hard work, and most of all a willingness by political leaders to give up some of their sovereignty and not fall prey to easy nationalism. One secret of Botswana, the fastest growing country in Africa, is that civil service remained substantially expatriate; but these were committed, long-term expatriates, not short-term consultants. This of course raises the very interesting issue of expatriate northern Sudanese in an independent southern Sudan. How will they be welcomed?

There are many young men and women from southern Sudan in the audience tonight, and they are full of hopes about a new country and a bright future. I hope what I am saying is not too sobering. I have been joking some of them for years now that instead of independence the referendum in six years should be to petition the United States to become the 51st state. It is a pleasantry, but there is an important element of truth there. The young men and women

of Eritrea also thought that with independence their country would have no looking backwards. They had been tempered by adversity for too long to fail. African people at independence in practically every country thought the same. How could leaders who had spent years in colonial jails not deliver a country to the common good? I do not need to answer the question- everyone from Africa- whether African or expatriate- knows how easy it has been for politicians to turn away from good governance.

Let me turn to my second point. I mentioned women earlier as the major losers from the Dutch Disease. There is another danger to women. Consider the case of that successful grower in Africa, Botswana. As you know Botswana is a diamond and cattle exporting country in southern Africa. For many years it had the highest growing income in the world. Botswana is the only African economy where ordinary people became part of a well-educated and reasonably healthy middle class. Until AIDS, that is. Botswana now has the dubious distinction of being the most HIV prevalent country, with about 35% of the adult population HIV positive. One third of the population. That rapid spread of the disease throughout a country that had been held up as a paragon of great progress- not just in incomes and education but in equality for women- compared with so many other African countries Botswana took equal rights much more seriously and deeply than other countries.

So what happened? Well, the AIDS crisis impelled anthropologists to take a closer look at gender relations in Botswana, and what they found was pretty disturbing. A new culture of gender relations had come up to replace the old culture of separate responsibilities and separate production for men and women. From a world with norms of rights and duties, came a world with norms that we all know as machismo. Urban men, in particular, came to define their identities as no longer being bound by traditional restraints. Machismo is a set of gender norms that emphasizes the importance for young men of defining and establishing their masculinity through denigration of women. While wife-beating has and continues to be socially accepted, beating and raping random unmarried women was never socially acceptable, and yet urban life has led precisely to that. An oil economy is going to aggravate sexual violence and exploitation, not mitigate it.

Again, the young men and women in this room have the responsibility for taking that experience of Botswana seriously. We already know that gender violence is high and probably rising in southern Sudan as a result of twenty years of increased militarization and population displacement. There is an opportunity with the peace agreement to reverse that trend. But the oil economy is going to exacerbate it, and young men in particular have to think hard and resist effort to make machismo become the norm. This will be very hard; demilitarized soldiers confronting the challenges of creating families in very difficult and adverse conditions are going to set the norms for young men who did not serve.

I promised controversy and sobering realities. I apologize for the seriousness of the talk. I believe that plain-speaking about problems is liberating and exhilarating. I believe that skirting around painful subjects means that people live in cognitive dissonance- all day long in public they hear how wonderful things are or how wonderful they will become, and yet when they go back to their private lives and realities they find that their brother in Gogrial or sister in Bor is not living that hopeful future.

But let me turn to something a little lighter. National currencies. Here I will speak plainly. It is my opinion that South Sudan should have insisted on its own currency, rather than be tied to the new currency, the Sudanese pound. The pound will be managed by the Bank of Sudan for the urban center of Khartoum, money will be tight because private sources

of investment have been and will continue to lead to urban housing booms that generate rising wages and prices in Khartoum, making urban residents very aware of price rises. South Sudan will have no urban housing boom that needs to be mitigated by policy of tight money. More than likely, South Sudan is going to have a classic monetary problem of a number of African states- too little money.

Let me come back to what the government of South Sudan is going to spend its money on. Well, a lot on government provision of schooling. Part of me asks whether or not the private sector- and here I mean very specifically the religious schools- cannot be a big part of that. Also, as an aside, let me mention that I do a lot of research in Burkina Faso. I have a small house in a village there, and run a small non-profit called Friends of African Village Libraries (www.favl.org). Over the years, what I have noticed is that what poor people in the village most want, and are willing to spend money on because they find it tremendously useful, is a bicycle. Nowhere in the JAM report that constitutes the basic plan for development in southern Sudan are bicycles mentioned as an important service for the poor of South Sudan, at least as far as I could find.

Instead, there is a big emphasis on roads. The JAM report that set out the plan for development spending in Sudan during the interim period called for between \$1-2 billion to be spent on roads in southern Sudan. An anecdote about the late Dr. John Garang is that when asked about his priorities for the south in the New Sudan, he said, "Roads, roads, and more roads." And that is perhaps why his widow, Rebecca Nyandeng de Mabior is Minister of Transport and Roads in the Government of Southern Sudan. But the emphasis on building roads in the south has not been subject to much critical commentary. I believe that the emphasis on roads runs the risk of ignoring the real choices of the poor, the choices that they make when confronted with their poverty. Unwittingly, the government of South Sudan may go down a path (a well-paved one) that enables the smart and the rich to take advantage of public investment, while everyone else remains mired in poverty.

The public often sees no downside to roads, assuming that building roads must be a desirable anti-poverty investment by any public authority. Are not roads essential for development? In a recent opinion piece in *The Economist*, Jeffrey Sachs made the following observation (2004): "Without a multi-lane highway from Kampala, the capital, to the port of Mombasa in Kenya, and without a network of roads connecting villages to such a highway, the economy is trapped in a straitjacket." The statement is appropriate for a newsmagazine, where hyperbole is to be expected, but is plainly just hyperbole: the Ugandan economy grew rapidly over the 1990s, but then slowed in the early 2000s, plainly because of deterioration in governance, and all without a highway and network of roads of the sort envisioned by Sachs and presented as essential in its entirety. There was no straitjacket.

For the past decade economists have been fairly skeptical of large investments in infrastructure. The World Bank's World Development Report for 1994 was entitled *Infrastructure and Development*, and largely advocated the position that better management of infrastructure was more important than investment in new infrastructure. More recently the mood has shifting back to viewing infrastructure investment positively. A recent report asserts that, "the development community is increasingly in agreement that providing adequate hard infrastructure (i.e., capital-intensive infrastructure such as rural telecommunications, electrification, and rural roads) is an important step in the process of alleviating poverty and providing a more equitable set of opportunities for citizens in developing countries."

Reflection suggests that the response to this question of whether roads are essential must be to rephrase the question. There are a number of considerations in rephrasing. First, it is worth bearing in mind that rural roads are not necessarily an investment, in the sense of yielding large returns for the future. Rural roads deteriorate quickly when small budgets have been allocated for proper maintenance. Moreover, because the quality of rural roads is so difficult to verify, road contractors have strong incentives to under-deliver quality. So the budgeted cost of the road (with predictable but unbudgeted maintenance and quality monitoring) may be for a short-term consumption good. What donors and citizens are paying for is a road for four years, not a lifetime investment. Indeed, it is not uncommon in Africa to see vehicle traffic eschewing the tarmac in favor of the dirt side road that was bulldozed during the building of the tarmac. A second and related point is that because road quality is so difficult to verify, opportunities for corruption abound in road construction projects

So I am skeptical about spending \$1-2 billion on roads in just a few years in southern Sudan. Remember, that is between \$125-250 per person (if the population is 8 million). For a family of four, this is almost \$1000 over two years.

Perhaps, and this is my fifth and last point, oil money should be given away to promote accountability and create an “identity society.”

When a government has a large windfall and little capacity for delivering services to its citizens, one option is to enable the citizens themselves to make investment expenditure choices. The Alaska oil dividend is a case in point. The extension of the South African old-age pension in 1994 to cover the entire aged, black population, formerly excluded from the government white-only pension, is another case. Many people think that cash transfers will be wasted. They envision spendthrift villagers buying beer. But in a careful study of the effects of the pension, Case and Deaton (1996) conclude that, “pension income is spent in much the same way as other income, and that a rand is a rand, regardless of its source.” Another study by Duflo (2000) is more nuanced, “Estimates suggest that pensions received by women had a large impact on the anthropometric status (weight for height and height for age) of girls but little effect on that of boys. No similar effect is found for pensions received by men. This suggests that the efficiency of public transfer programs may depend on the gender of the recipient.” Maitra and Ray (2003, Maitra and Ray, 2004) also find significant effects of the pension scheme in reducing poverty.

Let me mention one last study. Miguel (2005) has done a study of how the incidence of witch-killing varies in rural Tanzania with rainfall and income. When times are tough, the young tough guys take out their frustration on elderly, powerless widows. They call them witches and kill them. An income supplement not only enables the very real poverty of these widows to be alleviated, but also might keep them alive.

Administering cash transfer schemes is hard, but I submit to you that it is not as hard as administering international road contractors. Moreover, it has a number of virtues. One is that more accountability may be created. If the government pension or transfer does not arrive each three months, people know it right away and act on it- they will be outside the office of the district commissioner day and night. If the road is slow in being built, who will protest? Second, a cash transfer scheme begins the process and gives a strong incentive for creating an identity society. Many of you who have traveled in Africa know the problem- you’ve traveled with rural women who have no identity cards. Many children are born with no birth certificates. They have a hard time participating in the modern formal sector of an economy because they have no verifiable proof of their identity. A cash transfer scheme

creates the right incentives to build up that identity economy, which is a central element of the digital revolution that the rest of the world is going through.

So these are my five points.

- a. Be very skeptical of the benefits of an oil economy to the marginalized, and especially women.
- b. Be also concerned about how rapid development, even egalitarian development in terms of equal social spending on girls education and health care, may result in a local culture of machismo, replacing one set of shackles on the flourishing of women with another set of shackles
- c. Watch closely the monetary policy of the Bank of Sudan and how easily credit is extended in southern Sudan and whether the urban housing market in Khartoum in effect becomes the barometer by which monetary policy is determined
- d. Be skeptical of road development, an almost sure-fire way to undermine clean government
- e. Shift spending priorities to cash transfers to the elderly and to families with school children, prioritizing women