

Title: The Role of Institutions in Improving the Performance of Investment in Sudan/ South Sudan after the Comprehensive Peace Agreement/CPA of 2005

Berhanu Denu, Addis Ababa University, Addis Ababa, Ethiopia and University of Bremen, Germany

A Dissertation Submitted in Partial Fulfillment of the requirements for the Degree of Doctor rerum politicarum (Dr. rer. pol.) at the Faculty of Economics of the University of Bremen, Germany

Author: Berhanu Denu, Addis Ababa University, Addis Ababa, Ethiopia and University of Bremen, Germany

**Dissertation Supervisor: Professor Dr. Karl Wohlmuth
University of Bremen**

Table of Contents

Acknowledgements

List of Abbreviations and Acronyms

List of Tables and Figures

Maps and Boxes

Chapter 1: Introduction

- 1.1. Overview of Sudan
- 1.2. Statement of the problem
- 1.3. Purpose of the study
- 1.4. Questions of the study
- 1.5. Hypothesis of the study
- 1.6. Significance of the study
- 1.7. Limitations of the study

Chapter 2: Economic Policy in Sudan and the Role of Institutions

- 2.1. Economic Policy Framework and Macroeconomic Development
- 2.2. Investment Policies and Performance of Investment
- 2.3. Specific Issues of South Sudan
 - 2.3.1. War and underdevelopment in South Sudan
 - 2.3.2. Economic policy of SPLM
- 2.4. Chapter Conclusion

Chapter 3: Post-conflict Reconstruction and Rehabilitating Institutions in Sudan

- 3.1. The CPA and the call for new institutions
- 3.2. The process of Institutional reform in North Sudan
 - 3.2.1. Legal and governance Reform
 - 3.2.2. Border question between North and Southern Sudan
 - 3.2.3. Wealth Sharing
 - 3.2.4. Fiscal Reconstruction
 - 3.2.5. Financial Reform
- 3.3. South Sudan
 - 3.3.1. The war and its effect on institutions
 - 3.3.2. Post-War Reconstruction process in Southern Sudan
 - 3.3.3. Economic Reconstruction
 - 3.3.4. Public service provision
- 3.4. Chapter conclusion

Chapter 4: The Institutional, Legal and Policy Frameworks for Investment in Sudan

- 4.1. Entry
- 4.2. Property rights
- 4.3. Regulatory frameworks, constitution and the legal system in Sudan
 - 4.3.1. Constitution and legal development in Sudan
 - 4.3.2. The economy and the legal system
 - 4.3.3. Investment policy in Sudan
 - 4.3.4. Economic Policy
- 4.4. Regulatory Framework at different state levels
 - 4.4.1. South Sudan
 - 4.4.2. Institutions and legal framework at state levels
- 4.5. Chapter Conclusion

Chapter 5: New Institutional Economics as a Frame for Analyzing Investment in Sudan: Methodology

- 5.1. The New Institutional Economics
- 5.2. The need to analyze the impact of institutional qualities on economic growth
- 5.3. Transaction costs, the flow and the patterns of investment
- 5.4. Literature Survey on NIE and Investment
- 5.5. Chapter conclusion

Chapter 6: Institutional Determinants of Investment in Sudan: An Empirical Analysis

- 6.1. A cross country analysis of the role of institutions
 - 6.1.1. The effect of war on investment
 - 6.1.2. Heavy dependence on primary products export and investment
 - 6.1.3. Landlocked-ness and investment
 - 6.1.4. Other Institutional Variables
- 6.2. Institutional determinants of investment in South Sudan:

- 6.2.1. The Investment climate
- 6.2.2. Transaction cost and factors that affect its level
- 6.3. Chapter conclusion

**Chapter 7: Institutional Determinants of Investment in Sudan:
A Discussion of Results**

- 7.1. Investment and Economic Policies for Sudan and South Sudan
 - 7.1.1. Institutional arrangement to deter civil war and create stability
 - 7.1.2. Institutional implications of heavy dependence on oil
 - 7.1.3. Institutional arrangement to mitigate the effect of geographical location
 - 7.1.4. Policy implications of the effect of other institutional variables
- 7.2. The Need for Institutional Reforms in South Sudan
 - 7.2.1. Governance reform
 - 7.2.2. Strengthening regional economic cooperation
- 7.4. Chapter conclusion

Chapter 8: An Agenda for Institutional Reforms and Investment Policies in Sudan

- 8.1. The Link between Institutions and Economic Reconstruction in Sudan
- 8.2. How Institutions can be obtained
- 8.3. Institutional Diagnosis of Sudan
- 8.4. What Type of Institutions for South Sudan
 - 8.4.1. Steps to be taken
 - 8.4.2. Sequencing of Steps
- 8.5. Chapter conclusion

Chapter 9: Conclusions

References

Annexes

- Annex 1: Summary of survey questionnaire**
- Annex 2: List of offices interviewed in South Sudan**
- Annex 3: List of Business Firms Surveyed in South Sudan**
- Annex 4: List of investment laws reviewed**
- Annex 5: Data Sources**
- Annex 6: Regression output of cross country analysis**

The Role of Institutions in Improving the Performance of Investment in Sudan/Southern Sudan

Thesis Presented for the Degree of Doctor of
Economics (Dr. rer. pol.)
Faculty of Economics, University of Bremen, Germany

By Denu G. Berhanu, Submitted April 2010

Abstract

This study deals with the relationship between institutions and investment performance in Sudan/Southern Sudan. The purpose of the study is to undertake a quantitative and qualitative analysis of the factors that determine the performance of investment and to suggest the appropriate institutional reforms which are deemed necessary to improve economic growth, to achieve a reduction in poverty and to get conditions of sustainable peace.

The study employs a cross country regression analysis to analyze the impact of institutional variables on investment flows for the whole of Sudan. An investment climate assessment approach is used to look into institutional determinants of private investment in Southern Sudan. A questionnaire survey of business firms has been undertaken in Southern Sudan. The New Institutional Economics/NIE is used as a framework of analysis of the secondary and primary data to establish the relationship between institutional variables and private investment decisions.

The study presents as well a review of the economic, political and social development processes in Sudan from a historical perspective, and assesses the process of reconstruction of institutions after the Comprehensive Peace Agreement of 2005. It presents a deeply analyzed review of the institutional environment in Sudan and discusses

the applicability of the NIE framework to Sudan's institutions for development by an economic analysis of the data available in this regard on Sudan. The author conducts an empirical investigation of the impact of institutions on investment performance, presents the important findings from the empirical study, discusses the findings, and sets an agenda for institutional reform in Sudan/Southern Sudan.

The study provides an in-depth analysis on investment in Sudan and as such is of great help to investors seeking investment in Sudan and to the Government of Sudan when reforming investment laws and frameworks; it is also of interest to the academia, to donor organizations, to international organizations, and to international NGOs.

The study was supported by the Volkswagen Foundation and was researched in the context of the Sudan Governance and Social Action Project (located at the University of Bremen and six partner universities in Sudan, Kenya, and Ethiopia). The study was supervised by Professor Karl Wohlmuth, IWIM, at the University of Bremen.

The author is Lecturer of Economics at Addis Ababa University, Ethiopia and is currently Guest Researcher at IWIM, University of Bremen. The author can be reached at the Email address: [berhanu denu \[bflys12@yahoo.com\]](mailto:berhanu.denu@bflys12@yahoo.com)