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Theme of Dissertation research:

The role of institutions in improving the performance of investment in Sudan after the Comprehensive Peace Agreement (CPA) of 2005

This study is a PhD dissertation research. The study is a component of the project on the reconstruction of governance in Sudan after the Comprehensive Peace Agreement between the Government of Sudan and the SPLM/A on January 9, 2005. The research focuses on the review and the analysis of the institutional arrangements needed for economic reconstruction in post-conflict countries.

The Objective of the Study

The ultimate aim of the study is to suggest the appropriate type of institutional arrangements that may help to promote economic progress, reduce poverty, and achieve sustainable peace in Sudan. For this purpose, the study deals with the following broad issues relating to Sudan. First, a historical and theoretical analysis of the causes and effects of the civil war in Sudan is undertaken. The causes and the outcome of the long civil war between the North and South Sudan is discussed and analyzed in relation to its impact on the institutions and the economic situation in Sudan and South Sudan. Second, the evolution of economic policy and institutional arrangement in Sudan is reviewed. The study also undertakes a critical review of the political and legal developments in Sudan. Third, a cross country analysis of investment flows is undertaken from an institutionalist point of view done as a comparative study to see the relative economic performance of Sudan. Fourth, an analysis of the business climate and the cost of doing business in South Sudan is conducted to look for an appropriate alternative arrangement of institutions and policy reforms that help to achieve rapid economic development, growth, and sustainable peace. A transaction cost approach is employed in the analysis of the institutional determinants of private investment in order to see how difficult it is in South Sudan to open a business and to work as an established business. Fifth, an analysis of the legal and the administrative framework in South Sudan is undertaken to see the current institutional environment and the institutional arrangements. Finally, recommendations are provided for policy intervention to improve the situation.

The Methodology

From the literature review, the institutional framework for analyzing the development prospects for a post-conflict economy was developed. This study focuses on the institutional determinants of investment. A conceptual framework that links institutional environment to the performance of the economy was developed to serve as the framework for the analysis of the role of institutions in enhancing the performance of private investment. Institutions are taken as rules, laws, norms and conventions that govern human interactions and the associated organizations.

The Conceptual Framework

The framework for this proposed research is the institutional economics' approach to economic development. "The New Institutional Economics (NIE) is an interdisciplinary enterprise combining economics, law, organizational theory, political science, sociology and anthropology to understand the institutions of social, political and commercial life" (Klein, 1999). Generally, the NIE criticizes the Neoclassical Economics but it retains the theory with modifications to encompass institutions. So it can be said that the New Institutional Economics incorporates a theory of institutions into the study of economics.

NIE explains what institutions are, how they arise, what purposes they serve, how they change over time, and how they can be reformed (Klein, 1999).

The Empirical Results

By employing the institutional framework, this research has included institutional quality in the regression analysis of panel data for 110 countries. The dependent variable is the ratio of investment/GDP. The explanatory variables include real GDP per-capita, the size of population, distance from the equator, access to credit, indexes of the legal system and of the property rights, constraints on the power of the executive, the extent of openness, government consumption, ethnic fractionalization, secondary school enrolment, the price of investment goods, the lagged value of investment, dummy variables for civil war, the dependence on primary product export, land-locked-ness, and regional locations. The result shows that real GDP per-capita, distance from the equator, access to credit, indexes of the legal system and of the property rights, constraints on the power of the executive, and the extent of openness, show significantly positive coefficients (at .01 level), while government consumption, ethnic fractionalization, the price of investment goods and the lagged value of investment, dummy variables for civil war, dependence on primary product export, and land-locked-ness show significantly negative coefficients. The regional dummies for Sub Saharan Africa (SSA), Middle East and North Africa (MENA), Latin America, Asia and the Pacific, and Eastern Europe show negative coefficients while only the OECD dummy assumes a positive coefficient. A model for civil war shows that ethnic fractionalization, population, and openness are among the risk factors and that better institutions can deter the danger of a civil war. For South Sudan, the survey data on the investment climate show that the institutional arrangement is still poor to attract substantial investment.

The Policy Implications

Effective measures are required to strengthen the peace building process, to improve public services and to initiate economic development. Sudan/South Sudan needs to adhere to the peace agreement and to refrain from measures that may provoke another civil war. The result implies that a good investment performance requires a peaceful environment with growth-promoting institutions. Thus, Sudan and South Sudan need to undertake substantial reform measures. The empirical result has important policy implications for investment. The Governments of Sudan/South Sudan have to pursue a policy to strengthen a legal system that protects property rights of investors, and a policy of installing a democratic system of governance that prevents government authorities to resort to any form of expropriation of private property. Since Sudan/South Sudan need external assistance to improve the investment climate, they need to pursue policies that enable them to cooperate effectively with donors and the international community. Sudan also needs to further open its economy and remove obstacles that discourage investors, especially foreign investors. Promotion of the non-oil economy, especially agriculture, industry, and tourism is important.

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