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SUDAN MULTI-DONOR TRUST FUNDS

MDTF-National
Sector Policy Note

South Kordofan: A Growth Diagnostic

Jeni Klugman and Asbjorn Wee

March 31, 2008

Multi Donor Trust Fund-National
Technical Secretariat
The World Bank
Khartoum

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ABBREVIATIONS AND ACRONYMS

CBS	Central Bureau of Statistics
CPA	Comprehensive Peace Agreement
DHS	Demographic and Health Survey
DJAM	Darfur Joint Assessment Mission
FAO	Food and Agriculture Organization
FFAMC	Fiscal and Financial Allocation and Monitoring Commission
FGM	Female Genital Mutilation
FMH	Federal Ministry of Health
GER	Gross Enrolment Rate
GFS	Government Finance Statistics
GNU	Government of National Unity
GOS	Government of Sudan
HIV/AIDS	Human Immunodeficiency Virus/ Acquired Immunodeficiency Syndrome
ICA	Investment Climate Assessment
IDP	Internally Displaced Person
IFAD	International Fund for Agriculture Development
IMF	International Monetary Fund
INC	Interim National Constitution
JMC	Joint Military Commission to the
MDG	Millennium Development Goals
MDTF	Multi-Donor Trust Fund
MICS	Multiple Indicator Cluster Survey
MOA	Ministry of Agriculture
MOEI	Ministry of Economy and Investment
MOF	Ministry of Finance
MOFNE	Ministry of Finance and National Economy
NCP	National Congress Party
NGO	Non-Governmental Organization
NMPACT	Nuba Mountains Programme for Advancing Conflict Transformation
PER	Public Expenditure Review
PHCC	Public Health Care Center
PHCU	Public Health Care Unit
PPP	Public-Private Partnership
SDD	Sudanese Dinar
SHHS	Sudan Household Health Survey
SKRDP	South Kordofan Rural Development Programme
SPLA/M	Sudan People's Liberation Army / Movement
PER	Public Expenditure Review
UN	United Nations
UNMIS	United Nations Mission in Sudan
UNDP	United Nations Development Programme
VAT	Value Added Tax
WB	World Bank

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- El-Dukheri, Ibrahim. "Priorities and Focus for the Growth Analysis."
- Kulaksiz, Sibel. "The Economic Role of Women in South Kordofan – A Gender Analysis."
- Kulaksiz, Sibel. "Sources of Growth in South Kordofan: Trends and Prospects."
- Matus, Jason. "Land Reform in South Kordofan: Challenges of Implementing the CPA."

③ Searle, Bob and Alamir, Mosllem. “A Stocktake of Fiscal Management and Budget Trends in South Kordofan State.

ABSTRACT

South Kordofan in located in the heart of the Sudan. During the long running civil conflict with the south, which ended with the Comprehensive Peace Agreement (CPA) which was signed in January 2005, the state was at the hub of the worst civil conflicts in the country. The starting point is thus one where protracted effects of conflict and gross under-provision of basic services had resulted in widespread poverty and underdevelopment. Hence both South Kordofan's recovery from the conflict and its future prosperity are key aspects of the potential associated with peace in the country.

Agriculture and natural resources are the main sources of livelihood for its 2.2 million inhabitants. At the same time, conflicts over natural resource, in particular land, were historically a major source of conflict. During much of the period of investigation for this report in 2007, implementation of the relevant CPA commitments was slow, in terms of establishing the relevant institutional arrangements and improving the fiscal situation of the state. The study suggests that among the primary constraints to economic recovery and growth in SKS are its thin revenue base, inadequate federal transfers, and weak institutions. Public investment in the infrastructure and basic services needed to frame growth has been minimal. External development assistance was also limited during the period. As a result, access to infrastructure and markets was limited, which in turn also inhibited private sector activity.

This report attempts to diagnose existing constraints and prospects for growth in people's incomes in South Kordofan. Given the breadth and depth of difficulties facing the state, we focus on identifying the key areas of reform, or binding constraints, to growth. We find a combination of extremely low social returns, the prevalence of government and market failures, the weak investment climate and the limited access to finance to be the primary constraints. In turn we suggest that policy reforms directed to improving governance, improving investment climate and pro-poor public investment are priorities.

One immediate priority pertains to property rights issues which demands comprehensive land reform and clarification of customary land tenure and land dispute resolution mechanisms. Improving market connectivity, water resource management and farm productivity also emerge as keys to enhancing the investment climate in the rural sector. In urban areas, improved transportation networks and access to finance will increase private and social returns to investment. Efforts are also needed to improve the transparency, predictability and levels of intergovernmental transfers to promote pro-poor investment and developmental outcomes. It is suggested that local revenue efforts can improve as and when local service provision and governance are better established. We recognize that some initial improvements are already underway, including the roads from Dilling to Kadugli and Kadugli to Kauda, and Kadugli to Dilling and Dilling to Dashol, and the railway. Progress is expected to be visible in 2008.

An underlying theme of our approach in this report is the recognition of local level solutions suitable to the diverse environmental and production condition, traditions and social capital within the state.

PREFACE

This report is one of several analytical activities that have been financed by the MDTF. An amount of US$40,000 from MDTF resources was utilized by Bank staff to undertake the field work, commission the local background studies and finance the workshop in Kadugli that underpin the analysis and findings in this report.

Several reasons motivated the choice of South Kordofan as a priority for diagnostic analysis in the Sudan. It is located in the heart of the country. During the long running civil conflict with the south, which ended with the Comprehensive Peace Agreement (CPA) which was signed in January 2005, the state was at the hub of the worst civil conflicts in the country. The starting point is thus one where protracted effects of conflict and gross under-provision of basic services had resulted in widespread poverty and underdevelopment. Hence both South Kordofan's recovery from the conflict and its future prosperity are key aspects of the potential associated with peace in the country.

We hope that the report's findings will be valuable not only for local, state and national authorities, but also for Sudan's international partners in development.

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1.

2. ACKNOWLEDGEMENTS

This study was motivated by the need to improve the knowledge base about development in the Three Areas, in the context of potential multi-donor trust fund (MDTF) activities and a scaling up of development efforts more generally. It was carried out jointly with the state authorities, through various visits and activities over the period September 2006 – February 2007. It benefits from discussions with stakeholders in South Kordofan and Khartoum, including around the preliminary fiscal findings at a workshop in Kadugli in December 2006. A draft report was submitted to the Sudanese authorities in June 2007. Upon receipt of comments from the authorities in February 2008, the report was revised and finalized in its present form.

The team is grateful to the many Sudanese officials and experts who provided guidance and comments at various stages. In particular we would recognize the support of the national Ministry of Finance and National Economy, as well as the South Kordofan state authorities, and the Oversight Committee of the national MDTF. The UNRCO staff based in Kadugli generously facilitated access to data, guidance and logistical support for each of the visiting World Bank missions and workshops. We also benefited from the work of and interactions with other key partners, including IFAD, UNDP, UNICEF, NRC, Save the Children, and many more (see bibliography for a full list).

This synthesis report was prepared by Jeni Klugman (task leader) and Asbjorn Wee. The findings and identified priorities build on five background papers that were commissioned for the study and prepared by Ibrahim El-Dukheri (growth), Jason Matus (land), Bob Searle and Mosllem Alamir (fiscal management), and Sibel Kulaksiz (private sector, and gender). Rahi Abdula provided invaluable assistance in revising the report in response to government comments.

The study benefited at various points from the advice and wisdom of our peer reviewers, Peter Miovic, Lili Lui, and Tom Hockley (UNDP). Asif Faiz (Country Manager) provided valuable advice throughout the process, and other valuable inputs were also provided by Noel Harris (IFAD) on land and agriculture, Jack Van Holst Pellekaan (consultant) on growth and trade, Joseph Hoenen (Senior Operations Officer) on infrastructure, Yousif El-Fadil (consultant) on livestock and statistics, and Phillip Dive and Olivia Tecosky (UNRCO). Various World Bank colleagues have provided advice throughout the process, including Bill Battaile, Ingo Wiederhofer, Patrick Mullen, Sean Bradley, Bernard Harborne, Jeeva A. Perumalpillai-Essex, Magdi M. Amin and Thomas Yves Couteaudier.

3. EXECUTIVE SUMMARY

The state of South Kordofan occupies an area of about 82,000 square kilometers in the heart of Sudan, and has an estimated population of about 2.2 million. The state experienced some of the worst fighting during the civil war, and has been recognized as the "litmus test" of the Comprehensive Peace Agreement (CPA). However, more than two years after signing, progress in implementing the relevant CPA commitments has lagged, including in passing the State Constitution, and integrating the former administrations of South and West Kordofan, as well as the former Sudan People's Liberation Movement (SPLM) into a unified public service.

The people of South Kordofan largely live in and draw their livelihoods from rural areas. While the state does not suffer from absolute shortages of land and water, conflict over natural resources, and in particular land, was a key cause of the conflict. Agriculture and natural resources constitute the mainstay of the economy, and is expected to remain the main source of growth in the foreseeable future. Cropping, livestock and forestry are the main elements in households' livelihoods, while large potential also exists for horticulture and gum arabic production. The private sector is relatively underdeveloped due to lack of access to infrastructure, markets and financing, and limited by low local effective demand.

There are a range of institutional constraints to economic growth, and the absence of public investment is striking. Development spending has been constrained by a low local revenue base and insufficient federal support, and compounded by weak capacity and lack of external assistance. Delays in implementing the national intergovernmental reforms have also resulted in levels of federal support that remain below average.

The daunting challenges facing the people of South Kordofan are mirrored also in their relative poor MDG outcomes. Human developments have been adversely affected by both the chronic lack of access to services and the conflict. There are also significant disparities in service and infrastructure access within the state, with urban dwellers generally being better off, and higher rates of access to services in areas that were held by the government during the war.

There are however some positive developments, including relative peace and stability and signs of a recovery in economic activity, both in agriculture and towns. There have been few armed clashes since the cease fire agreement was signed in 2002, which has allowed for progress on de-mining and disarmament. The return of relatively educated internally displaced people (IDPs) and refugees will help to restore and increase the human capital of the state, and contribute to the reconstruction and development effort.

This report aims to explore the state's situation and prospects, and begins to identify priorities for growth and institutional reform of South Kordofan. We use a "binding constraints" framework for diagnosing the potential and obstacles to economic growth. An analysis of the available data and findings of field missions suggest that the general problem for South Kordofan appears to be one of extremely low social returns and government failures, which exacerbate market failures, a weak investment climate,

and lack of access to finance. More specifically, analysis of constraints and complementarities point to three important areas where efforts are needed, namely:

1. Addressing governance failures, which create micro-risks of conflicts over natural resources and access to productive assets, deter long term productive investments in land, and which risk marginalizing specific population groups. Disputes over access to land have been one of the key defining characteristics and a root cause to the prolonged conflict, and can be traced to the abrogation of customary land rights after 1970's when large-scale and mostly outside investment in agriculture and Gum Arabic and oil development were promoted. Land reform and clarity about the status of customary land tenure are thus urgent priorities, along with efforts to improve dispute resolution mechanisms. This is entirely consistent with the CPA vision. The establishment of national and state land commissions are critical first steps. In this context, environmentally sustainable policies for land use should be developed and implemented.

2. Measures to increase the presently low social returns to investment and a weak investment climate, grounded in deepened understanding of local constraints. Locally differentiated strategies are needed to initiate and sustain growth, though we can broadly also distinguish between rural and urban areas:

- In rural areas, improved connectivity and access to markets appear to be a priority, through investments in roads and market infrastructure, as well as improvements in farm productivity and water resource management. Off-farm activities (i.e. horticulture and gum arabic) and livestock production also have significant potential. At the federal level, the authorities could best enable development by removing key administrative barriers, including the gum arabic monopoly.

- In urban areas, improvements in the transportation network will have positive effects in opening up markets. Access to finance, including micro-credit, is identified as important for the private sector, although the overall investment climate will need to be improved through strengthening the quality of market-supporting institutions and improving service infrastructure for urban investors.

3. Improved pro-poor public investment in development. Efforts are needed to improve local revenue collection and, most importantly, to improve the transparency, predictability and levels of intergovernmental transfers. External assistance could also make a much larger contribution. Along with increased levels of financing, however, are several initiatives that the State authorities could initiate, and that could serve as starting points for more widespread reform of the fiscal management institutions and systems in the state. Improvements in the budget formulation and implementation process are needed to ensure realism, to improve the credibility of the process, and public accountability. This needs to be accompanied by better data and information to inform decisions about pro-poor spending.

An underlying theme of this report is the importance of recognizing and adapting to local level solutions in the growth strategy. Appropriate interventions vary not only because of differences in environmental and production conditions, but also because local traditions

and social capital vary. This report is an initial attempt and presents a broad typology of different economic activities around the predominant farm groups and livelihood strategies – agro-pastoralists, nomads, and sedentary farmers – and distinguished between rural and urban areas. Further disaggregation and significant local input, debate and discussions are needed to inform appropriate policy and program directions.

MAP OF THE THREE AREAS

Matrix of Suggested Policy Directions

Policy Directions	Status	Implementing Agency
Governance – Suggested Directions with Public Finance Focus		
Overall budget • Improve capacity in state budget prep, implementation and monitoring processes • Strengthen the link between locality, state and federal planning and budgeting • Improve ability to estimate and monitor basic economic activity at the state level – necessary for estimating own tax and non-tax revenues.	Included in PER state case study recommendations and tabled for consideration in PER phase 2 action plan	**State Ministry of Finance and Labour Force** **Federal MoFNE**
Revenue – own source • Increase capacity in revenue estimation and collection • Improve own-source revenue base		**State Ministry of Finance and Labour Force**
Revenue – federal transfers • Increase levels of federal support consistent with pro-poor objectives • Improve the transparency and predictability and functioning of federal transfers, including the understanding of the wealth-sharing formula • Strengthen state level data for monitoring and evaluation, as well as fiscal transfers design	GoNU transfers higher, though below budgeted plans; PSCAP will continue support to FFAMC on improving horizontal distribution	**Federal MoFNE** **FFAMC**
Development • Improve capacity to plan, execute, maintain development projects and monitor poverty reduction efforts. • Encourage the existing locality capacities to identify development priorities. • Reform development budget to decentralize funds to increase responsiveness of planning to local and service delivery, to raise development spending by localities and to improve execution	Included in PER state case study recommendations and considered by GoNU in PER phase 2 action plan; State Affairs unit established in MoFNE, but improvements needed in coordinating development transfers with local needs	**State Ministry of Finance and Labour Force** **Federal MoFNE**
Collect and manage better data to improve focus of pro-poor spending – • implement GFS budgeting at all levels of government • establish a center to develop and maintain the database	GFS training of state officials (3 from SK) conducted in Dec 2007 under PER phase 2	**Federal MoFNE**
Continue civil service integration, including		**State Ministry of**

facilitating the integration of the administrative units within each locality		**Finance and Labour Force**
Encourage greater coordination and information sharing between different levels of government		**State Ministry of Finance and Labour Force** **Federal MoFNE**
Encourage external support	Upcoming Sudan Consortium, 2008	**WB** **Federal MoFNE**
Policy Directions	**Status**	**Implementing Agency**
Enabling and Supporting Productive Activity – rural and private sector		
Establish clarity on land tenure Identify and regulate customary land at the state level Undertake institutional reform and capacity building for dispute resolution on land	Follow-up with concerned agencies	**Federal and State Ministry of Agriculture**
Review rights of women with respect to access to land	Need further follow-up with concerned agency	**State Ministry of Agriculture**
Develop and enforce environmentally sustainable land use	Follow-up with concerned agencies	**Federal and State Ministry of Agriculture**
Harmonize laws related to land such as environmental, forestry, local government, gum arabic investment, urban land use and expropriation for public use into a common and cohesive legal framework	Need further follow-up with concerned agency	**Federal and State Ministry of Environment**
Improve competitiveness through removal of administrative barriers such as monopoly and export restriction (gum arabic) and price and market controls for livestock and through a competitive exchange rate policy	Need further follow-up with concerned agency	**MOFNE**
Strengthen infrastructure connectivity and investment in physical and market infrastructure.	Planning underway	**MOFNE and State Ministry of Finance and Labour Force**
Provide greater access to credit	Follow-up on CBOS studies and plans	**Central Bank of Sudan**
Improve farm productivity and off-farm and cash based cropping	Follow-up with concerned agencies	**Federal and State Ministry of Agriculture**
Strengthen water resource management	Follow-up with concerned agencies	**Ministry of Environment**
Improve trade and marketing mechanisms	Need further follow-up with concerned agency	**Federal and State Ministry of Agriculture**
Strengthening the quality of market-supporting institutions and improving service infrastructure	**Need further follow-up with concerned**	**MOFNE and State Ministry of Finance**

for urban investors	**agency**	**and Labour Force**

1. INTRODUCTION AND OVERVIEW

The Comprehensive Peace Agreement (CPA) recognized and highlighted the importance of South Kordofan to sustainable peace in the Sudan (Box 1.1). The state occupies a large and geographically diverse area in the center of the country, and includes a variety of ethnically, linguistically and culturally distinct population groups. South Kordofan experienced some of the most severe fighting during the civil war, as well as local conflicts over access to grazing and farm land and water, and as a result has among the worst human development outcomes in Sudan. At the same time, the state is well endowed with natural resources, and has a large reserve of oil, which provides a significant potential for economic growth and poverty reduction.

Box 1.1: South Kordofan and the Comprehensive Peace Agreement

The Three Areas were the site of some of the fiercest fighting during the civil war between the North and the South, resulting in massive displacement and destruction of community and household assets. It has been estimated that at the height of the conflict approximately 30 percent of the population lived in areas controlled by the SPLM. In South Kordofan, the SPLM controlled several key areas in the localities of Abu Gibeha, Dilling, Kadugli, Rashad, and Talodi, and specifically the towns of Kauda and Julud.

Under the CPA, the central question of the South's relationship with Khartoum was resolved by the degree of autonomy granted to the Government of Southern Sudan (GOSS) and the referendum on self-determination within six years. Given that the Three Areas lie largely along what has been a contested line between North and South, they were accorded a special status by the parties (see the Abyei Protocol; South Kordofan and Blue Nile Protocol; Implementation Modalities). For Abyei, special provisions allow for self-rule, direct links to the Presidency and a referendum allowing the 'people of Abyei' to decide if they wish to remain part of the North or join the South and participate in the 2011 referendum. South Kordofan and Blue Nile, on the other hand, will remain under the jurisdiction of the Government of National Unity, albeit with special provisions.

One important element of the CPA is that it should meet the aspirations of the people of South Kordafan (and Blue Nile), through the popular consultation. This is scheduled to take place after the national elections and through the elected representatives.

The CPA also aims to "establish a framework for governance through which power and wealth can be equitably shared and human rights guaranteed" (Machakos Protocol, July 2002). To this end, the power sharing agreement provides for a unity government in South Kordofan during a three-year transition period in which there will be rotation of Governorship between SPLM and NCP and a wealth sharing agreement that entitles the state to a "fair share" of national wealth via the regular system of transfers, a special focus in the National Reconstruction and Development Fund (provided for under the CPA), and two percent of oil revenue.

While the importance of South Kordofan has been recognized at the highest level, there has been only limited progress in implementing the relevant CPA commitments. There were significant delays in passing the state constitution, but even with this now in place, the challenge of integrating the former administrations of South and West Kordofan, as well as the former Sudan People's Liberation Movement (SPLM) into a public service

appropriate to address the challenges of development remains at large. The CPA also promised large incremental financing, but so far this has not been translated into public investments on the ground.

Traditional activities suffer from weak productivity and lack of appropriate regulation over access to natural resources and assets. The local private sector had experienced a long-term decline in activities and weakened access to domestic and export markets as cotton, livestock and Gum Arabic production was damaged by the conflict. Social developments have been adversely affected by both the chronic lack of access to services and the conflict, as indicated by low and stagnating levels in several key MDG indicators.

There are however some positive developments which will be explored below. The post CPA period has seen relative peace and stability, with few armed clashes that have allowed for progress on de-mining and disarmament. There are also signs of a recovery in economic activity. The state will also benefit from an improved skill base, as relatively educated internally displaced people (IDPs) and refugees return.

Against this backdrop, this report aims to explore the situation and prospects, and begins to identify priorities for growth and institutional reform of South Kordofan, building on the commitments made in the CPA and the Interim National Constitution (INC). It is based on five background notes covering land, growth, private sector development, fiscal management, and gender, and a workshop with state and locality officials in Kadugli covering the state and locality budgets and transfer systems. Recognizing the extremely weak knowledge base and lack of data sources, an important goal is to begin to consolidate available information and data, and undertake policy-relevant analysis to underpin sound advice on development priorities and reform needs. The recommendations presented here , however, need further in-depth analysis to inform specific policy advice and initiatives, in particular to reflect the large intrastate differences in potential.

The challenges facing post-conflict development in South Kordofan are massive, and will require significant efforts across the board. In this context, and based on discussions during the initial phase of the study, it was agreed that focus should be limited to key areas that we identify as the major, or binding, constraints to igniting and sustaining

growth, within the overall objective of broad based improvements in economic well-being. Three primary themes emerged from the analysis, and are explored below, namely: (i) land and conflict over access to natural resources; (ii) weaknesses in production, especially rural but also urban; and (iii) the persistent lack of public investments in development. While lack of access to basic services is an important element of the longer term development of the state, this study deliberately limits itself to growth-related aspects, and will only touch on service delivery in the context of public investments.

Our focus is on the state, and how South Kordofan might be able to move forward onto a path of accelerated growth. While federal financial support for development will be critical to South Kordofan, many of the recommendations presented below can be pursued regardless of the national policy context. However, we do also explore and highlight constraints that will involve reforms at the federal level, including obstacles related to the functioning of the system of intergovernmental transfers, and key administrative and regulatory barriers to growth, in particular for gum arabic.

The next section provides a general overview of the current situation. Section III then looks at institutional issues relevant to the state government's development strategy. Section IV outlines a possible framework for assessing growth and institutional priorities in South Kordofan, through identifying and diagnosing binding constraints.

The findings are only preliminary. The data and analysis is based on limited and sometimes inconsistent information (Box 1.2) and findings of field missions. Further analysis, and more importantly, the involvement and ownership by local stakeholders, is needed to move the process forward. In this way, a viable strategy for growth and reform can be developed and implemented at the state level.

Box 1.2: Data Availability and Main Data Sources for South Kordofan

Serious data constraints limit the depth of analysis that can be carried out at present. There is no statistical agency at the national level systematically collecting regionally-disaggregated data, and the South Kordofan administration itself does not have the statistical systems and capacity needed to establish levels and trends in key indicators. A limited amount of official data comes directly from agencies such as the Ministry of Agriculture, although no estimate is available for the gross domestic product of the state, nor on trade flows, and population estimates are outdated and do not reflect the return migratory movements that are very much defining the demographic landscape in South Kordofan today. There are nonetheless some valuable recent surveys on specific topics. The major sources of data used in this report, their coverage and shortcomings can be summarized as follows:

- *IFAD South Kordofan Rural Development Programme (SKRDP) Impact Assessment Survey (2006)* covers household income, savings, relative wealth, assets, crop yield, food security, and technology adoption. The 650 households were randomly selected from a list of those participating in the project in different areas. The original selection of households for the project was guided by the goal of targeting the poorest households in a given area, and as such does not equate the average income of the state as a whole.
- *Federal Ministry of Health et al. Food Security and Nutrition Survey (2006)* estimates the status of nutrition, health, care and feeding practices, mortality, food security and livelihoods. It covers a sample of 1,012 households in nine localities and four counties in South Kordofan as well as three administrative areas in Abyei.
- *SKS Ministry of Finance and Human Resources (2006)* looks at population, crop production and livestock holdings, natural resources, and access to services and infrastructure. However, the survey sample is not clear, nor is the methodology underlying the data collection.
- *The Sudan Household Health Survey (2006)* is the first nationally representative survey in two decades. It provides information required to assess current levels of outcomes and disparities between states. The total sample size was 25,000 households, an average of 1,000 households per state, and an average of 25 households per cluster (40 clusters per state). However, it does not permit detailed trend analysis due to inconsistency in indicators compared to previous surveys.

Other main data sources used in this report are the 1993 Sudan Census, the 1990 Sudan Demographic and Health Survey (DHS), the 2000 Sudan Multiple Indicator Cluster Survey (MICS) and the 2002 Industrial Survey, which all had a national cover.

While much data is available, the task of disentangling the statistics is made difficult by several factors:

- pre-2005 surveys cover former South Kordofan only, and even more recent work tend to cover only the former government controlled areas, while little information exists about the former SPLM areas;
- no proper data collection has been undertaken for the former SPLM controlled areas;
- no accurate population numbers exist for the state as a whole – the 2.2 million figure used in this report is based on projections from the 1983 census, which was completed when the current boundaries of the state were the same. Official CBS estimates put the population at above 1.2 million, not including former West Kordofan and the former SPLM controlled areas, while the 2006 Food and Nutrition survey estimates the population at about 3.5 million; and
- very little disaggregated data exist below the state level.

It is clear that there is an urgent need to improve data and monitoring systems to track progress over time and ensure that data on key indicators is collected and processed. This report does not purport to fully address this issue, but recognizes its critical importance to longer-term development in South Kordofan, and across Sudan

SITUATION ANALYSIS

South Kordofan occupies an area of about 82,000 square kilometers in the heart of Sudan. The climate varies from semi-dry in the north to semi-humid in the south, and relative humidity ranges from 20 to 30% during dry season and reaches about 80% in the rainy season. Rainfall ranges from 350 mm in the north to 750 mm in the south. There are two main ecological zones: wet savannah, and in the north, dry or lower rainfall savannah.

Demographics

For the purposes of this report, we use an estimate of the state's population of 2.2 million,[1] of whom just over half are women. However, population figures are hard to verify due to the extensive mobility and displacement caused by the conflict, as well as uncertainties about the numbers living in former Western Kordofan and SPLM controlled areas, and should thus be used with caution. In particular, the data does not include the large numbers of displaced populations returning to South Kordofan – about 185,000 returnees are expected in 2007 alone[2] - and the demographic profile will likely be affected by the inflows.

In addition to an increase in absolute size, the demographic profile in the state is expected to change through urbanization. Projections done for Darfur, for example, conclude that the large increases in urban dwellers due to the conflict are likely to persist over the next decade. This will in turn have a significant impact on patterns of economic activity and access to services. The relative rates of return to different areas will also affect development planning.

The state's population includes more than 50 ethnically, culturally and linguistically diverse groups. While the ethnic landscape is dominated by various Arab and Nuba groups, other groups include the Messeriya, the Humar, the Debaria, and some groups which can be traced back to West Africa, including the Fulani, the Hausa, and the

[1] This figure is based on projections from the 1983 census, which was completed when the boundaries of the state coincided with those of today. Official CBS estimates put the population at 1.2 million, but exclude former West Kordofan and the former SPLM controlled areas, while the 2006 food and nutrition survey refers to a total population of 3.5 million. See Box 2 above on data constraints.
[2] http://www.unsudanig.org/rrr/data/maps/2007%20Projected%20IDP%20and%20Refugee%20Return.pdf

Takareen. Ethnic divisions in the area are often described in aggregate terms: the Baggara Arabs, for instance, refers to a collective group of agro-pastoralists, the Hawazma Arabs also refers to an amalgamation of tribes. Likewise, the term 'Nuba' refers to the 1.5 million non-Arab people who inhabit the state, but these in turn comprise about 10 ethnicities and 92 tribes.

Social indicators

The levels of human development in South Kordofan have traditionally been low across most key indicators, and access to basic services is very limited. This has been associated with marginalization, and then the conflict and deteriorated delivery capacity. Recent data, including the 2006 Sudan Household Health Survey (SHHS), allow us to measure progress against selected MDG indicators, and suggest a mixed picture (Table 2.1). For several indicators, the situation in the state is reportedly better than national averages, and typically significantly above that reported for Southern Sudan, and Darfur. This includes the reported rates of primary enrollment and reaching grade five, access to an improved water source and measles immunization. However performance is significantly worse than the average for Northern states for several key indicators of well-being, namely infant, child and maternal mortality, female literacy, and access to improved sanitation.

The 2006 SHHS enabled the estimation of trends since 2000. Preliminary findings suggest a mixed picture with marked improvements in, for example, birth attendance (44 to 61 percent) and measles immunization rates (58 to 65 percent) and, to a lesser extent, girl-to-boy ratios in primary school (80 to 82 percent). At the same time, other indicators reflect a worsening over the period; access to improved water dropped massively, almost 20 percentage points, from 79 to 60 percent, and net primary enrolment decreasing slightly from 48 to 47 percent. While some of these changes can be attributed to data comparability problems, the findings nonetheless highlight that South Kordofan remains way off-track in reaching most of the MDGs.

Table 0.1: Comparison of Selected MDG Indicators, most recent year available

	North	South	Darfur	South Kordofan	Source*
MDG 1: Poverty and Hunger					
4. Prevalence child malnutrition (underweight)	18	48			A/B
MDG 2: Education					
6. Net primary enrollment rate	47.2	20.0	33.3	47	C/I
7a. Cohort reaching grade 5	66.0	28.0	62.3	89.4	A/B
7b. Primary completion rate	43.0	2.0	34.4	27.1	
8. Youth literacy rate (ages 15-24)	78.0	31.0	68.3	75.4	A/B
MDG3: Gender Equality					
9. Ratio girls to boys in primary education	94	40	61	82	C/I
10.Ratio literate females to males (ages 15-24)	84	35		75	C
MDG4: Child Mortality					
13. Under-5 mortality rate (per 1,000)	104	250	100	147	A/B
14. Infant mortality rate (per 1,000 live births)	68	150	65.6	95	A/B
15. One-year-olds immunized against measles	50	12	37	65	A/F/I
MDG5: Maternal Mortality					
16. Maternal mortality ratio (per 100,000)	509	1700	524	552	D/E/G
17. Births attended by skilled health staff	57	5	58	60.7	D/E/G/I
MDG6: HIV/AIDS, Malaria, and TB					
23. Prevalence of TB (per 100,000 per year)	90	325			H
MDG 7: Environment					
30. Access to an improved water source	70	27	41	60	A/B/I
31. Access to improved sanitation	64	15	60	51	B

Sources : A: UNICEF, B: MICS 2000, C: Federal Ministry of Education (FMOE), D: UNFPA, E: CBS, F: UNICEF Immunization Update,2003, G: Safe Motherhood Survey 2000, H: Federal Ministry of Health (FMOH), I: SHHS 2006.

All the available data consistently point to very limited access to services in South Kordofan. The net primary enrollment rate for children aged 5 to 12 is below half, and in 2005 there were only 12 hospitals and 61 Public Health Care Centers and 205 Public Health Care Units in the entire state (Table 2.2). Similarly, while the Northern states on average have 22 doctors per 100,000 people, the equivalent for South Kordofan is only four.[3] Access to water is limited; out of an estimated 3,200 water pumps, only two-thirds were operational in 2002.

There are significant disparities in service and infrastructure access, with urban dwellers generally being better off, and higher rates of access to services in areas that were held by the government during the war. Table 2.2 shows that there is one hospital per 115,000

[3] World Bank, 2006e

people in the northern parts of the state compared to one per 800,000 in the former SPLM areas, and one PHCC per 23,000 and 133,000 people respectively.

Table 0.2: Access to Health Services per Locality (2005)

	Health Facilities (total number)				Health facilities (per 100,000)			
	Hospitals	PHCC	PHCU	Sub-PHCU	Hospitals	PHCC	PHCU	Sub-PHCU
Former GoS area								
Kadugli	1	22	36	22	0.20	4.51	7.37	4.51
Dilling	3	11	27	10	0.61	2.25	5.53	2.05
Rashad	4	12	49	10	0.82	2.46	10.04	2.05
Abu Gibaha	2	7	20	7	0.41	1.43	4.10	1.43
Talodi	1	3	33	9	0.20	0.61	6.76	1.84
Former SPLM areas								
Rashad	0	1	9		0.00	0.20	1.84	0.00
Kadugli	1	4	26		0.20	0.82	5.33	0.00
Dilling	0	1	4		0.00	0.20	0.82	0.00
Lagawa	0	0	1		0.00	0.00	0.20	0.00

Source: NMPACT 2005. Note: PHCC/U=Personal Health Care Center/ Unit; The reference to former GOS and SPLM areas refer to the areas controlled during the civil war, which cut across locality boundaries.

For education, a study undertaken by NMPACT in 2005 found that gross enrollment rates in the former SPLM held areas were only about half of those in the former GOS held areas (15 vs. 30 percent). However these numbers might be misleading given the high prevalence of community schools, which were not fully covered by the study (Table 2.3).

Table 0.3: Comparing Gross Enrolment Rates in South Kordofan (2005)

	Current gross enrollment			Current Gross Enrollment Rate (Percent)		
	Boys	Girls	Total	Boys	Girls	Total
Former GoS areas						
Kadugli	14909	11355	26264	18.5	14.1	16.3
Dilling	20004	16767	36771	43.3	36.3	39.8
Rashad	17781	14904	32685	51.5	43.1	47.3
Abu Gibaha	12012	7086	19098	43.7	25.8	34.8
Talodi	6458	4683	11141	33.4	24.2	28.8
Former SPLM areas						
Rashad	8527	10904	19431	18.1	23.2	20.6
Kadugli	4597	9075	13672	13.2	26.0	19.6
Dilling	1728	2457	4185	6.1	8.7	7.4
Lagawa	1956	2284	4240	9.0	10.5	9.8

Source: NMPACT 2005. Note: The reference to former GOS and SPLM areas refer to the areas controlled by the two parties during the civil war, which cut across locality boundaries.

Women and Girls. Sudan is far below the Africa regional average for female primary school completion - only 44 percent of girls had completed primary school in 2004

compared to an African average of 56 percent. In South Kordofan, the ratio of girls to boys in primary school is significantly below the national average – 82 compared to 94 percent. This reflects the high dropout rate, which in turn can be traced to the double burden on girls and women, who are expected to fulfill such tasks as water collection, care of children, and take part in income generating activities.[4]

Women's health indicators are poor. In South Kordofan, women of child-bearing age average a birth every 17 months, which is associated with high child and maternal mortality ratios. Health problems are associated with complications with pregnancy and labor, complications from FGM, eschewing of ante-natal care, lack of female doctors, preference for traditional care and older mid-wives.[5]

Land Use Patterns

Over 85 percent of the population is believed to live in rural areas.[6] According to IFAD, about 80 percent of rural residents are sedentary agro-pastoralists, 13 percent nomadic-semi-nomadic pastoralists and agro-pastoralists, and the remaining 7 percent non-farmers (traders, laborers, and public servants). Accordingly IFAD estimates that about 93% of the rural population depends on their access to land to obtain almost all their sources of food and income. The nature of traditional rural activities is described below.

Land use differs across the state, corresponding to the predominant farming groups and livelihood strategies adopted locally. Distinguishing three main farming groups is a simplification but nonetheless provides a useful typology:

- Sedentary agro-pastoralist households typically cultivate three farms: *home farms* which are often terraced with early maturing crops; *near farms* often on sandy soil; and *far farms* on clay. The main crops are sorghum and millet, mostly for food, and sesame, groundnut, kerkadi, water melon and cotton, mostly for cash. Depending on their proximity to dry-season water, some groups also grow and irrigate vegetables like tomatoes, spring onions and cucumber for the market.

[4] World Bank, 2006d; average of available statistics for Abu Gibeiha and Rashad.
[5] World Bank, 2006d
[6] IFAD, 2006

- Semi-nomadic agro-pastoralists grow short-maturing crops near their home and a long-maturing crop (usually sorghum). In the southern swampy areas, some households also cultivate tobacco or maize crop in the dry season using the residual moisture in the soil. Farm sizes are normally smaller than the sedentary agro-pastoralists, and they depend more on livestock sales to cover income needs.

- Large-scale mechanized agriculture began in the 1970s and accounts for the majority of the land under cultivation. Schemes are both demarcated in licensed areas and un-demarcated, the latter expanding ad hoc on the fertile land located in the south-east. Traditionally, the main crops produced were sorghum, sesame and cotton. However as described in Box 2.1, these schemes also became a driver of conflict over land in the state.

Box 0.1: Drivers of Land Conflict in South Kordofan

There are two systems governing land in South Kordofan, and Sudan as a whole: statutory and customary. Customary law and traditional tribal territories still provide the basis for access and allocation of land, and is reportedly widely respected by local people, if not by outside authorities. The majority of people in the rural areas follow and are governed locally by the customary system. Customary land tenure is also associated with local economic livelihoods and social identity (El-Tayeb, 2006).

Customary land access has been affected by the Unregistered Land Act of 1971, which effectively made all unregistered land government property and simultaneously abolished the native administration, and the displacement of large population groups during the civil war. The rapid population increase (the 1999 Safe Motherhood Survey found a total fertility rate of 7.6 – the highest among all northern states) puts pressure on available farm and grazing lands, although as noted below, there are significantly unused areas. Each year the livestock population in the state increases by about 60 percent during the dry season, as pastoralists trek their animals to pastures, and there is also passage to the larger livestock markets in El Obeid and Khartoum.

The introduction of larger mechanized schemes created tension over land use. The schemes aimed to facilitate more efficient production of tradables (mainly cotton and sugar), and Sudanese and foreign investors were allocated among the most fertile land (Ijaimi, 2006). The allocations side-stepped traditional mechanisms governing land use, and also disrupted seasonal migration routes and forced pastoralists to find alternative grazing areas. The mechanized schemes increased the numbers and scale of local conflicts between farmers and pastoralists.

The two dominant livestock raising systems are nomadic and sedentary. In general, the former has inherent flexibility to deal with changing demand and supply of rangelands and grazing areas, while the latter face greater pressure from declining rangelands and underdeveloped markets due to more limited mobility and options.

Interestingly, land resources appear to be highly underutilized in South Kordofan. An estimated 60 percent of arable land is not cultivated at all, 40 percent of rangeland is underutilized, and 85 percent of potential horticultural land is unused.[7] However, these estimates do not take into account off-farm production and collection of food plants, which are an important source of food and income, in particular for women and poorer households, nor land which is recovering from heavy usage or land which is kept uncultivated for environmental and/or social reasons.

Since the 1970s, the national government has made various attempts to increase productivity and address the labor constraints inherent in traditional farming systems by introducing semi-mechanized farming schemes. In the late 1990s these schemes made up about three-fourths of total arable land in South Kordofan (Table 2.4). Available evidence suggests that while this policy failed to achieve consistently higher yields, it did result in increased local tension and conflicts through pushing small-scale farmers off of their land, disrupting stock routes and damaging the environment through excessive grazing and water use outside the larger farms (Box 2.1).

Table 0.4: Estimates of Arable Land (Feddan), former South Kordofan 1999

Locality	Cultivated Land		Uncultivated Land	Total Arable Land
	Mechanized	Traditional		
Kadugli	129 000	4 800	500 000	633 800
El-Dilling	763 500	200 000	1 200 000	2 163 500
El-Rashad	666 000	129 000	900 000	1 695 000
Abu Gubeiha	1 561 000	715 000	2 500 000	4 776 000
Talody	251 500	40 000	1 800 000	2 091 500
Total	**3 371 000**	**1 088 800**	**6 900 000**	**11 359 800**

Source: IFAD, 2004.
Note: Scope limited to South Kordofan as demarcated in 1999

The extension of mechanized farming without leaving the shelter belts specified by the Forest Act has led to a gradual degradation of the environment. Degradation has also come as a result of illicit logging of trees by pastoralists to clear new land and for charcoal production, and by the excessive concentration of people in the hills and around towns for security reasons during the conflict. Existing formal regulation and customary rules to regulate natural resource use and protect the environment have proved inadequate.

[7] IFAD, 2004

The extent and nature of land usage has been constrained by lack of access to water, services, and infrastructure. There are few permanent streams in the south and eastern part of the state, and the numerous seasonal streams which are formed by heavy rains during the wet seasons last for only a few months. Existing water infrastructure like *hafirs*, water yards, and boreholes are not sufficient for human and animal consumption, and are generally concentrated around towns and areas of investment.[8] Limited water services can thus be identified as a major constraint to land use, as it prevents the use of much rangeland, farm land, and forest, and exacerbates conflict over natural resources by forcing higher concentration of land users within confined areas.

In sum, although the state does not suffer from absolute shortages, conflict over natural resources, and in particular land, was a key cause of the conflict. This has important links to national policy, including the introduction of larger mechanized agriculture schemes, and the marginalization of traditional conflict resolution mechanisms. Addressing the land issue is central not only to continued peace in South Kordofan, but also to the state's most viable options for growth, as described below.

Poverty and Income Levels

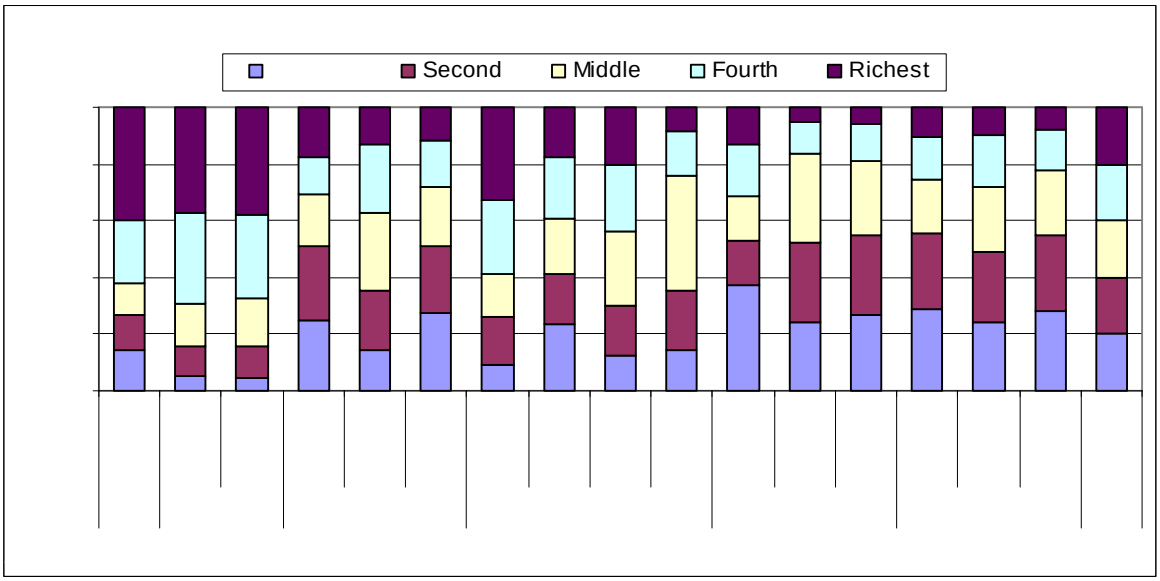
Reliable information on incomes is not available for South Kordofan. However, classification of people according to wealth status can be used to rank households and obtain a sense of well-being of households relative to other parts of the Sudan. A wealth index can be proxied on the basis on the household's ownership of various assets, including type of housing and latrine, number of adults working, land owned and actively operated, livestock holdings and ownership of productive assets.[9] Using this technique, a "wealth-score" is constructed for each household, and household wealth quintiles can be plotted for all northern states by dividing households evenly across each quintile. In Figure 2.1, these quintiles are plotted for regions and states so as to facilitate an approximate comparison of wealth levels. This shows that South (and West) Kordofan had relatively more households in the bottom two quintiles – more than half the

[8] Interview with State Ministry of Agriculture in Kadugli, November 2006

[9] Filmer and Pritchett (1998) describe the methodology in detail and construct an index for households in India, which has also been validated using data from Indonesia, Pakistan and Nepal that contained information on both consumption expenditures and asset ownership.

population - and significantly fewer in the top. The clear implication is that households in South Kordofan are relatively poor, in terms of assets owned, and much less likely to be well-off.

Figure 0.1: Wealth Distribution Across Northern States, 2000



cannot be drawn. Table 2.5 indicates that Rashad locality was relatively better off, with fewer people in the bottom quintile and relatively more in the top two, while Kadugli and Talodi localities were relatively worse off.

Table 0.5: Household Distribution by wealth and Localities, 2004 and 2005 (Percent)

	Abu Gibeiha		Dilling		Kadugli		Rashad		Talodi		Average	
	2004	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**
Very poor	21.3	16.2	33.1	9.0	41	10.8	23.7	27.3	35.5	26.3	30.9	17.9
Poor	52.4	35.9	48.3	32.8	38.1	31.7	40.3	36.6	41.2	38.1	44.1	35.0
Less poor	26	33.1	27.1	46.3	21	47.5	35.6	31.7	22	28.1	26.3	37.3
Rich	0.4	14.8	0	11.9	0	10	0.4	4.3	1.4	7.5	0.4	9.7

Source: IFAD, Final Impact Assessment (SKRDP), 2006

Table 2.5 also compares the wealth scores in 2004 and 2005. Interestingly, there were significant decreases in the size of the bottom two categories: dropping from 31 and 44 percent to 18 and 35 percent, with the most significant change in Dilling and Kadugli localities. Likewise, there was an increase in the share in the "less poor" and "rich" categories where the percentages were 37 and 10 in 2005 compared to 26 and 0.4 in 2004. This reported recovery is obviously welcome, and coincides with the signing of the CPA and the relative improvement in security in the state. However, a broader, more representative, sample is needed before firm conclusions can be drawn.

According to information collected in the 2006 Food and Nutrition Survey, presented in Table 2.6, about half of households have no regular monthly income at all, while 27 percent have an income below SD 6000 (approximately the cost of a bag of sorghum), 15 percent have income ranging from SD 6 to 20 thousand and the remaining 9 percent have incomes above SD 20 thousand (or about US$ 90 at 2006 rates). Only at the top end, then, are cash incomes approaching Sudan's average GDP per capita of $1000. Interestingly, this survey found that returnees and IDPs were better off than residents in terms of income, due to a combination of external support received and possibly better skills and capacities to engage in income generating activities.

Table 0.6: Cash Income per Month per Head of Household Classified by Status of Residency, South Kordofan and Abyei (2006)

Households	>SDD20,000		SDD6,000–20,000		<SDD6,000		None	
	F	%	F	%	F	%	F	%
IDPs	12	19.7	15	24.6	12	19.7	22	36.1
Returnees (ex-IDPs)	7	9.6	15	20.5	18	24.7	33	45.2
Residents	66	7.8	121	14.2	236	27.8	427	50.2
TOTAL	85	8.6	152	15.3	269	27.1	486	49.0

Source: FMH survey; sample of 992 households.

At the same time, when looking at levels of consumption (Table 2.7), the same survey suggested that the majority of households were located in the medium and upper classes. These analysis is based on food consumption patterns – specifically the number of days on which a household consumed each of eight food items (cereals; groundnuts; meat; vegetables and fruit; cooking oil; milk, yogurt and cheese; sugar; and wild foods) in the week prior to the interview – where respondents were grouped according to similarities in consumption patterns. This indicates that, while cash income is in general very low, the ownership of livestock and own production can enable sufficient food consumption for the family. It seems, for example, that a household with no cash income might still maintain access to basic subsistence, and could possess wealth that could be liquidated on short notice. However, this finding requires further scrutiny, as it stands counter to the high malnutrition rates reported for 2006.[11]

Table 0.7: Cash Income per Month per Head of Household Classified by Food Consumption Profile, South Kordofan and Abyei (2006)

Food consumption	>SDD20,000		SDD6,000–20,000		<SDD6,000		None	
	F	%	F	%	F	%	F	%
Low	18	7.7	28	12.0	66	28.3	121	51.9
Medium	34	9.3	64	17.6	107	29.4	159	43.7
Higher	33	8.4	60	15.2	96	24.3	206	52.2
TOTAL	85	8.6	152	15.3	269	27.1	486	49.0

Source: FMH survey; sample of 992 households.

Economic Activities

A combination of fertile soils and fairly predictable rainfall mean that South Kordofan has a relatively large potential for crop, livestock and off-farm natural resource production. Agriculture and natural resources constitute the mainstay of the economy, and is expected to remain the main source of growth in the foreseeable future. Overall, about four out of five residents of the state are involved in agriculture, hunting and/or

[11] FMH et al 2006

forestry activities. Cropping, livestock and forestry are the main elements in households' livelihoods, with about 70 percent of family income generated from selling crops, 9 percent from livestock, and 7 percent from forest products, remittances, and petty trading, respectively (Table 2.8).[12]

Table 0.8: Total Household Average Annual Income and Main Sources

Sources	Value SDD	Value US$	Percentage share
Crop production	53750	244.3	70
Forest products	5362.5	24.4	7
Livestock	6800	31	9
Trade	5825	26.5	7
Remittances	5000	22.7	7
Total	76737.5	348.8	100

Source: Shakir 2006. Note: Exchange rate used is SDD/US$ = 220

Crop Production is the main economic activity for about 85 percent of rural households, while 10 percent are agro-pastoralists and the remaining 5 percent pastoralists.[13] The main crops produced in the state are sorghum, sesame, ground nuts, okra, cotton, kerkadi (hibiscus), water melon and legumes. South Kordofan was an important cotton producing area but output fell dramatically during the war and has not recovered.

At present, the main defining characteristic of the crop sector is erratic and low productivity, which can be illustrated across years (Table 2.9) and by comparing to regional and international averages (Table 2.10). Low yields are partly explained by poor seed bed preparation (which for example increases weed growth), although they are likely also associated with the conflict and general lack of access to technology. The lack of markets for surplus may also reduce incentives for expansion of crops beyond subsistence levels. However, to be useful, the temporal comparison would have to be expanded in order to derive meaningful statistical estimates of production and yield variability and their trends.

Table 0.9: Traditional Rain-Fed Crop Yields, South Kordofan (kg/feddan)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Sorghum	262	95	393	170	170	217	282

[12] Shakir, 2006
[13] Sudan Annual Needs Assessment 2006; IFAD 2006

Millet	145	94	250	164	135	90	180
Sesame	90	68	90	110	90	90	120
Groundnuts	225	135	154	65	135	178	250
Cotton	50	113	500	142.9	90	68	113
Peas	..	..	..	..	..	75	80
Hibiscus	..	..	..	..	..	45	56

Source: IFAD, 2006.

According to IFAD, which has worked in South Kordofan for decades, agricultural productivity is also low relative to potential levels. This is clear from the gap between actual yields in Table 9, and regional comparisons. Low sorghum yields relative to household food requirements have encouraged households to diversify into cash crops like sesame and groundnuts as well as livestock trade to ensure food security, finance water usage, and enable access to cash to pay for basic social services.

Table 0.10: A Comparison of Average Yields (kg/ha)

Category	Sorghum	Millet	Sesame	Groundnut
Africa	871	619	362	762
Research in western Sudan	1,285	833	428	1,300
International Record	4,003	1,616	862	2,899
Drylands all over the world	800	600	500	1,300
North Kordofan	99	79	41	442

Source: El-dukheri et.al, 2006

Interestingly, IFAD data suggest that yields in its project areas did increase markedly between 2004 and 2005 for most staples, which may in part be traced to the peace as well as the impact of project interventions (Table 2.11)).

Table 0.11: Average Yield of Main Crops in South Kordofan, IFAD Project Results, 2004 and 2005 (kg/feddan)

	2004	2005	% Change
Sorghum	211.6	255	20.5
Millet	119.7	208.2	73.9
Sesame	106.4	178.7	68.0
Groundnut	169.7	218	28.5
Cotton	33.8	50.8	50.3

Source: IFAD, 2006

Sudan has one of the largest and most species-diverse **livestock** populations in Africa,[14] and livestock is a major commodity for trade domestically and export to Saudi Arabia and other Gulf states. South Kordofan was traditionally one of the core production areas in the country, although the state only accounted for 5 percent of the national stock in 2005 (Table 2.12). An estimated 80 percent of the livestock in the state are owned by 25 percent of population, mostly nomadic pastoralists,[15] and there are also larger-scale livestock investors who hire local groups to manage their herds.

Table 0.12: Livestock Population in South Kordofan (per live head), 2006

	Cattle	Sheep	Goats	Camels	Total
South Kordofan	2,598,531	2,030,717	1,859,886	207,162	6,696,297
Sudan	41,116,000	50,390,000	42,756,000	4,078,000	138,340,000
Percentage share	6.3	4	4.4	5	4.8

Source: Ministry of Animal Resources, 2006

It has already been noted that the introduction of larger mechanized schemes since 1970 had a large impact on livestock production. Key negative effects have included disruption of traditional migration routes and more limited access to water points. Conflicts over access to land increased during the 1970s and early 1980s, as pastoralists were forced to find new grazing land whereas regular small-holders were expanding cultivation. At the same time, the ability of the traditional dispute resolution mechanism - the Native Administrations - to manage these types of conflicts was undermined by the introduction of the new local government.

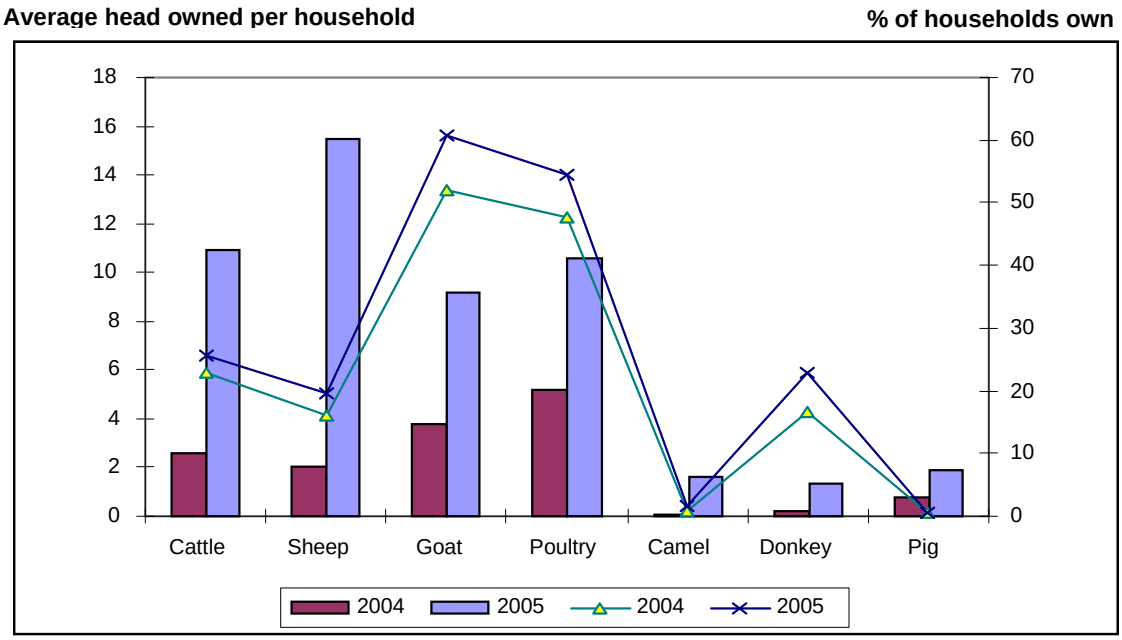
Although livestock production was depressed during the war, a recovery is apparent, reflecting better security and access to arable land. While the majority of livestock seems to be owned by relatively few, a recently completed IFAD survey showed larger

[14] FAO, 1997
[15] IFAD, 2004

improvements in household owned livestock between 2004 and 2005 (Figure 2), and suggest that *average* household holdings have increased dramatically, from less than 3 head of cattle per household in 2004 to about 12 in 2005.[16] Indeed, it is reported that today almost all rural communities keep livestock - cattle, goats, sheep, camels, poultry, and for some non-Muslims, pigs.

Livestock sales constitute one of the main sources of income and savings for most rural households.[17] While having positive effects on current well-being, these findings also indicate the risk that larger herds might have adverse effects on the environment through increases pressure on rangeland and water sources. It should be noted, however, that the data not fully representative, and there are also issues regarding the reliability of the 2004 baseline that will need to be looked into.

Figure 0.2: Average Number and Distribution of Livestock, by Household, 2004-2005



Source: IFAD 2006

Livestock from South Kordofan has traditionally been in less demand than those from other livestock producing states, attracting lower prices at the domestic market. With the

[16] As noted above, the IFAD survey only covered households in their programm, and the results are unlikely to be representative for the state as a whole.
[17] Survey carried out by UNICEF/WFP, 2006

nearest secondary market being in El Obeid (about 330 km from Kadugli), producers can either sell at lower prices locally, or seek higher prices outside the state, at the cost of depleting their stock through long treks. Market constraints appear to include the prevalence of multiple intermediaries, and the heavy taxation of animals trekked to secondary and terminal markets (up to 20 percent of the f.o.b. price).[18] Because the sale of livestock takes place in the absence of transparent mechanisms for price formation, producer incentives to improve quality are weakened. Since the average price of livestock at the local market level is much lower than the export price and the herds have increased, there is less incentive for herders to increase the off-take percentage, and as a result, the tradition of wealth accumulation and saving through increased livestock holding continues.[19] Nonetheless, South Kordofan could benefit from improved livestock productivity and markets if policies and programs were able to help address these issues, and if improvements in marketing help increase the off-take.

South Kordofan produces a variety of **horticultural** crops, including mango, lime, guava, tomato, okra, pumpkin, hot pepper, banana and watermelon. The total area suitable for such production is estimated at 300,000 feddans, of which only 14 percent is utilized (Table 2.13).[20] The number of orchards and gardens in the state is about 5000. Most (about 63 percent) of the utilized and potential areas is in the eastern part of the state.

Table 0.13: Potential Horticultural Areas, 2005 (feddans)

Locality	Total area	Exploited area	Unexploited area	Unexploited (%)
Rashad	130200	15000	115200	88.5
Abu Gebeiha	59100	11100	48000	81.2
Talodi	45450	6450	39000	85.8
Kadogli	35250	6450	28800	81.7
Diling	30000	4000	26000	86.7
Total	300000	43000	257000	

Source: IFAD 2005b

Gum arabic is a significant output in South Kordofan, which in turn nationally accounts for 10 percent of total non-oil exports.[21] South Kordofan produces about half of the national gum arabic crop, primarily by small-scale farmers for whom the cultivation

[18] World Bank, 2007c
[19] IFAD, 2005b
[20] IFAD, 2000
[21] Sudan Economic Report, 2006

forms part of their crop diversification strategy.[22] Gum arabic cultivation has a regenerating impact on the land, with positive environmental benefits. While available data suggest that in 2002, gum arabic contributed only a relatively minor share (6.5 percent) to average household income in South Kordofan, with the increased farm-gate prices in 2006, this share rose significantly, to 20 percent. Table 2.14 provides details of these revenue estimates, which were calculated for a hypothetical household of six in Kordofan, cultivating 10 feddans of sorghum, 8.5 feddans of cash crops, tending a 10-feddan acacia garden and owning ten head of sheep.

While gum arabic is critical to the revitalization in the traditional rain-fed farming areas, the sector faces significant constraints due to the national government's marketing policy, which is controlled by the Gum Arabic Company (GAC) through a government export monopoly. For decades the farmer's share of the export (fob) price for raw gum was below 40 percent, and hovered around only 20 percent between 1993 and 2000. This has kept incomes from gum arabic very low for about one million producer households, most of which are in the traditional farming areas of Kordofan and Darfur.

Table 0.14: Impact of Higher Gum Arabic Farm Gate Prices on a Household

	Area cultivated (feddan)	Labor required (hours)	Yield (kg per feddan)	Farm gate price (SD / kg)	Total value (SDD)
Sesame	3	410	290	150	130,500
Groundnuts	4	690	585	95	222,300
Roselle (Hibiscus)	1.5	175	260	220	171,600
Gum arabic (2002)	10	530	60	**70**	**42,000**
Gum Arabic (2006)	10	530	60	**250**	**150,000**
Sheep	NA		NA	NA	12,000
Casual labor	NA	NA	NA	NA	60.000
Total income (with 2002 gum price)					638,400 (*****)
Total income(with 2006 gum price)					746,400 (******)
% income from gum arabic (2002)					**6.5**
% income from gum arabic (2006)					**20**

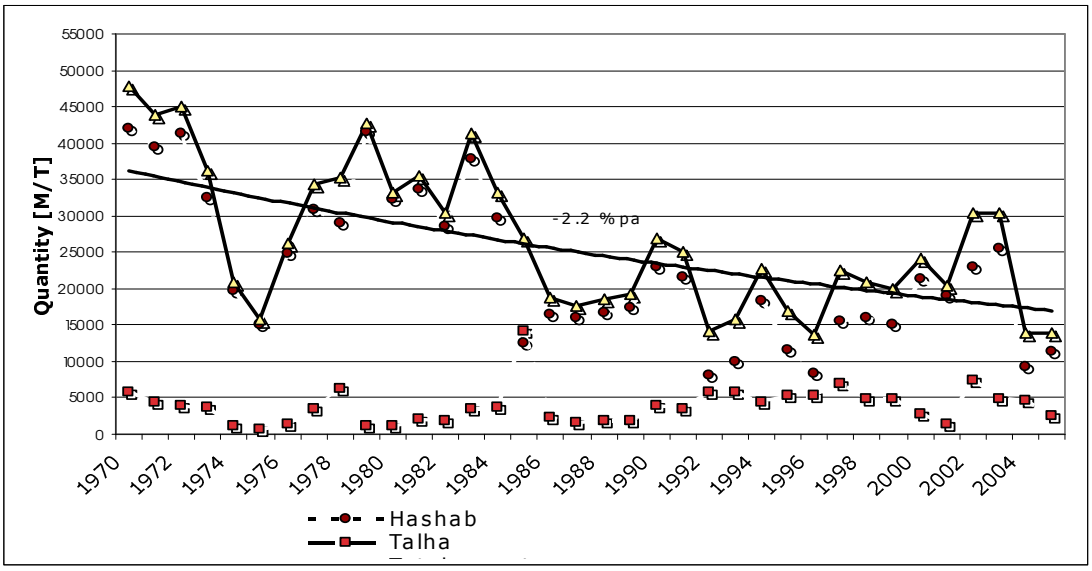
Source: Rahim A.H, Economic Analysis of Deforestation: the Case of the Gum Arabic Belt in Sudan, (quoted in World Bank, Gum Arabic Policy Note, 2007)
Notes: This is equivalent to *****US$ 3114, per household per year, around $519 per capita ($1.42/day).
******US$ 3645, per household per year, around $ 607 per capita.
Prices for sesame, groundnuts and roselle are 2002 farm gate prices for 20 Kordofan villages. The price for roselle is subject to year-to-year variation. Sheep income estimated based on sale of two head annually.
Gum arabic revenue estimates calculated on a base of 150 trees per feddan, with 400 grams per tree, Estimate for 2002 farm gate price in Kordofan is US$ 280/MT, or 20 percent of the export price, at $1400/MT; estimate for 2006 farmer price is $1250/MT, or 37 percent of the export price, at $3400/M.

[22] World Bank, 2007b

Sudan's share of the world gum arabic market has shrunk over the past twenty years, from 80 percent to about 40-50 percent, and the overall export volume has also halved during the last three decades (Figure 2.3). In addition to losses in economic terms, this has had detrimental environmental effects, as acacia trees were cleared for grain farming.

Gum arabic is an example where better national policies could, without fiscal costs, have economic welfare benefits. Over the last five years, an active processing industry has emerged in other parts of Sudan, which has started to raise prices paid to farmers for raw gum and increased the value of gum arabic exports.[23] The potential for increased production and export sales of raw gum are substantial also in South Kordofan, with considerable parallel environmental benefits, but will only be realized by improved incentives to produce gum which can be achieved through the decontrol of marketing.

Figure 0.3: Trends in Gum Arabic Exports, 1970 - 2005



total forest-generated income, firewood collection and charcoal making are the major activities (accounting for about one-third), followed by forest fruits (19 percent), gums (13 percent) and fencing material (12 percent) (Table 15). Small scale industry to extract oils from balanites aegyptica (simarubaceae) is flourishing in some areas, most notably in Abu Gebeiha town.

Table 0.15: Contribution of Forest Products to Household Forest Income, 2005

Products	SDD	%
Firewood and charcoal	1,635.6	30.5
Fruits	1,002.8	18.7
Gums	691.8	12.9
Fencing material	654.2	12.2
Leaves and bark	386.1	7.2
Honey	327.1	6.1
Palm leaves (*Saaf)*	289.6	5.4
Antiques	268.1	5
Oil	107.3	2
Total	**5,362.5**	**100**

Source: Balal, 2006

One beneficial side-effect of the conflict on the forest resources of the state had been that there has been major rehabilitation in vast areas that had been over-used, for example, by the semi-mechanized farming schemes. There is thus now large potential for the promotion and development of forest products in South Kordofan, which could contribute significantly to local incomes, food security and conservation and maintenance of the biodiversity, which is very rich and still virtually unexploited.

At the same time, rapid and unregulated firewood and charcoal production could have damaging environmental effects. The regulatory framework is weak and the state does not have a policy in place to maintain the existing large forest areas. Reforms and improvements will be crucial if South Kordofan is to avoid replicating the deforestation seen in some other parts of Sudan.

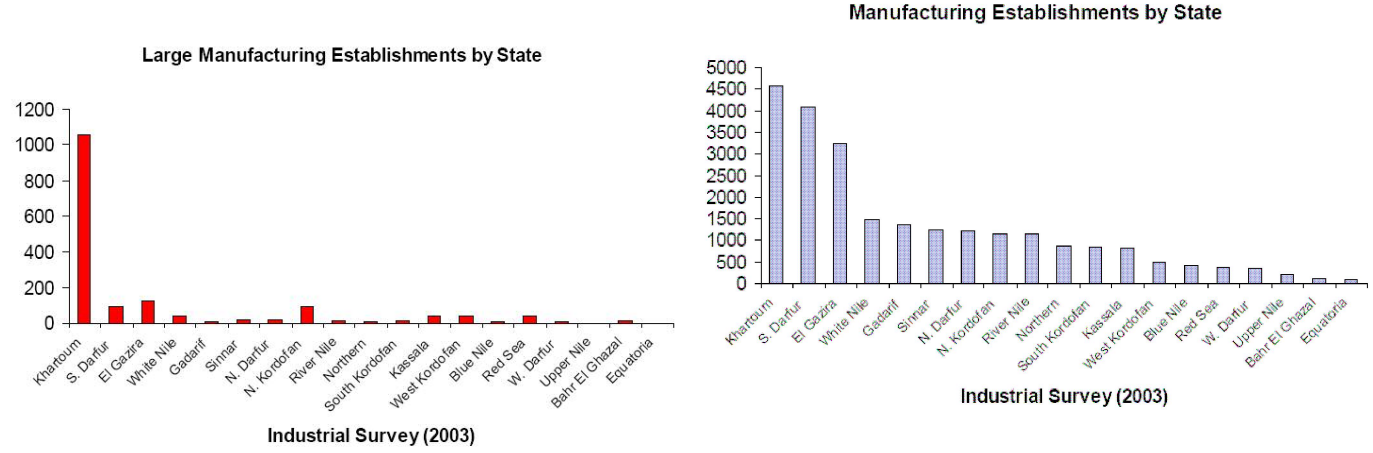
The **private sector** in South Kordofan is relatively underdeveloped as a result of protracted conflict, lack of access to infrastructure, markets and financing, and low local incomes and thus demand. According to official statistics, in 2003 the state accounted for a mere 3.5 percent of all manufacturing establishments in Sudan, and probably less, considering that many were likely non-operational at the time (Figure 4). Since 2005,

however, the sector has seen some recovery, most notably a 50 percent expansion in the construction/rehabilitation sector, associated with the post-conflict reconstruction. [25]

A large number of people are involved in off-farm activities, particularly in petty trading and small businesses, which represents an important income supplement for most households. Expanding the potential and returns to these largely informal activities will be important in the future.

Figure 2.4 shows that South Kordofan has few **manufacturing** businesses and a negligible number of larger industry establishments. At present, the manufacturing activities which do exist are dominated by small and mostly private-owned establishments using simple technologies, and focusing on consumer goods like food products and beverages. Most manufacturing activities depend on the agricultural sector for raw material, and the sector is highly labor intensive. Processing firms include oil and hulling mills, leather tanning plants, and a few textile spinning factories.

Figure 0.4: Total and Large Manufacturing Establishments by State, 2003



Before the war, South Kordofan was a major producer and exporter of cotton, but the area cultivated dropped very dramatically as a result of the insecurity and deterioration of infrastructure, to less than 2,000 feddan in 2005 (see Box 4). During the same time period, cotton as a share of Sudan's foreign export market earnings declined relative to such other products as sesame and livestock, and most cotton growers shifted to farming

[25] Trend reported by state Ministry of Investment and Chamber of Commerce officials during interviews in Kadugli, November 2006.

sesame, groundnuts, karkadad and sorghum.[26] The ginning factories still exist south of Kadugli, albeit largely dormant.

Box 0.2: The Cotton Sector in South Kordofan

Cotton was traditionally an important export for Sudan. It was introduced in South Kordofan in the early 1970s with the large irrigated mechanized schemes, and dominated crop production in a triangle that extended from Kadugli to Leri to Talodi. The sector was described as an industry because of the production relations between the privately owned Nuba Mountain Cotton Corporation and the farmers. The activities of the corporation extended from provision of seeds and pest control, to ginning at six spinning factories located in Kalogi, Talodi, Kadugli, Umbraimbita, Dilling, and Abu Gibeiha.

With the decline of the whole industry, crop area dropped to about 2000 feddan in 2004-05 as compared to about 60,000 in the late 1980s and early 1990s. There is potential for increased cotton production, both due to the potential area for cultivation (Table A), and the existence of basic infrastructure (eg. ginning factories), institutional memory, and knowledge of modern mechanized farming technology.

Table A: Suitable area for cultivation of rainfed cotton (traditional & modern)

Sector	Area in feddans
Traditional	350000
Modern (semi-mechanized)	270000
Unexploited land	2380000
Total area	3000000

Source: Ministry of Agriculture, South Kordofan State

There are however several issues that require further review before re-development of the sector could be considered. Firstly, the negative impacts of the establishment of the large mechanized schemes in the state should be assessed, and any future demarcation should be linked closely to ongoing work to recognize customary rights to grazing and farm land. Second, the whole issue of access to water for farming and livestock needs further scrutiny. In its present form, the irrigated cotton schemes prevents nomads from accessing water points, and thus exacerbates conflict but forcing these to compete with smallholders for water. Third, the government traditionally played an important role in terms of allocating land and regulating the sector, which should be reassessed given the current policy environment and the state government's capacity. Fourth, the cotton monopoly needs to be reviewed. Lastly, but not least, potential competitiveness in light of the exchange rate appreciation will need to be carefully assessed.

A major constraint to private investment in South Kordofan is the limited **access to credit** for businesses. The state's banking sector comprises the Bank of Khartoum, Al Nilein Development Bank, Sudan Agricultural Bank, Savings Bank, and the Cooperative Development Bank. The size of financing being offered by these banks in the state is very small compared to other regions in Sudan, although some increases can be traced since 2005.[27]

According to a 2006 FMH study, the majority of households had not had access to any credit during the past five years. This was explained in terms of the insecurity and the potential borrowers' lack of cash income, assets, and other collateral. Small loan sizes, geographic distance and the logistics of financial services have reportedly slowed

[26] Fakir, 2006
[27] Interviews with bank and business community officials in Kadugli, November 2006

improvements in the state's financial sector. At the same time, other credit types – such as the Islamic banking credit– tend not to play an extensive role in the state. This might be due in part to the risk aversion of existing banks and their tendency to target larger traders and owners of mechanized farming schemes who are able to offer sufficient collateral.

Overall access to micro credit is low is Sudan,[28] and the main credit offered is that of informal cash credit by family or small traders, as well as the traditional Sheil, which is provided by traders and big farmers, and which is accessible primarily for better off groups.[29]

According to IFAD, almost 36 percent of surveyed households in South Kordofan in 2005 reported **trade** (mostly petty trading) as a second occupation.[30] Since there are no official records of trade data, average volumes traded internally and export/import data are not known. Prior to the conflict, three types of markets existed in the area: permanent shops owned by local traders, permanent shops owned by traders from the north, and weekly markets. Export items included cow peas, gongolaise, ground nuts, guava, lalob, mangos, nabok, palm leaves, palm nut, pumpkin, sesame and tamarind.[31] In general, North Sudanese traders acted as middlemen and dominated the markets, and interviews with the state Chamber of Commerce indicate that this pattern still persists.[32]

High transportation costs are a large constraint to trade. For example, the sorghum price is higher in South Kordofan than in other major markets, and traders cannot compete with sorghum from other regions. As a result, sorghum exports have declined from about half a million tons during early 1990s to about 17 thousand tons in 2006. Within the state, however, prices at production sites are, on average, 30-50 percent lower than in Kadugli,[33] but competition appears to be limited.

[28] UNICONS, 2006
[29] Sheil is a credit mechanism in which a merchant extends credit to a farmer as an advance in money of in kind against the next crop.
[30] IFAD, 2006
[31] KaVang and Granville, 2003
[32] Interviews in Kadugli, November 2006
[33] El Dukheri, own calculations

Khartoum is the initial destination for all South Kordofan products which are traded abroad, to Germany, Egypt, Saudi Arabia, Syria, Thailand, Indonesia, Malaysia, and Japan.[34] However, the poor state of national transport infrastructure alongside low productivity limits the export volume, and prevents a large proportion of potentially tradable goods from reaching broader markets.

From the foregoing it is apparent that agriculture will remain the key foundation for economic activity in South Kordofan for the foreseeable future. The sector has seen some revival since the CPA, including through increased crop production and livestock holdings. However, the lack of clarity on tenure continues to constrain access to land and tensions between pastoralists and nomads are evident. At present, most crop production remains subsistence based, large livestock herds are often held primarily for saving purposes, and the potential for off-farm and cash based crops has been only marginally exploited. The continued failure to address and remove some of the barriers to production can largely be ascribed to the governance failures in South Kordofan and the associated low levels of public investments. We now turn to explore these issues in more detail.

[34] World Bank, 2007a

PUBLIC POLICY AND INVESTMENTS

The challenges facing South Kordofan are large, especially in the wake of decades of civil war and marginalization from the center. There are political, legal, financial, administrative and logistical constraints to development in the State. Since the CPA, there have been delays in forming a government, lack of integration of the civil service, lack of physical infrastructure continuing to prevent access to many areas, and weak institutional and human resource capacity to manage the process. The following sections highlight some of the key issues facing the state government as well as the state's fiscal situation with a focus on low levels of public investment.

Overview of Governance Structures

South Kordofan State has its administrative headquarters in Kadugli. The executive branch is headed by the Wali. The Wali state ministers of finance were permanent members in the former National State Support Fund (NSSF) Board. Since 2006, the state Cabinet has been composed of ten Ministers, with corresponding ministries – Finance; Social Affairs; Agriculture; Education; Urban Planning; Health; Local Government and Civil Service; Culture and Information and Youth and Sports; Economy and Investment; and Rural Development and Water Resources. Each ministry is composed of several departments (eg. the Ministry of Economy and Investment has departments for planning, investments, and commerce).

In 2005, there were about 12,500 state civil servants, and about 7,000 so-called temporary workers.[35] In addition, there were numerous unpaid public servants working across the state, in particular in the former SPLM controlled areas. In general, not much is known about the composition of the civil service, but the majority are believed to be working at the locality level, and involved in frontline service delivery as teachers and health care workers.

As in other northern states, governance in South Kordofan comprises three administrative levels in addition to the state – localities, administrative units and people's committees.

[35] UNDP, 2006

The state now has nine localities - Kadugli, Dilling, Rashad, Abu Gebeiha, Talodi, Lagawa, Kailak, Al-Salam and Abyei - each of which is headed by an Executive Committee, chaired by an Executive Director. However, the demarcation of localities is still in process, and the total number and existing borders is subject to change.

We found that the localities in South Kordofan, as in other northern states, have difficulties fulfilling their mandates. A recent study[36] which examined functioning of government financial systems in five localities in the state, with a focus on assessing whether the localities would meet the minimum qualifying criteria for managing project funds, found that all localities lacked sufficient capacities to manage and account for public finances. This was traced to a combination of weak planning and budgeting capacity, insufficient revenue base due to lack of own-source revenue as well as weak functioning of the transfer system, a lack of integration of the administrative units within each locality, and weak human resource base.

Under official government structures, most rural communities are also governed by traditional authorities or native administrations according to customary law. These largely tribal structures (which comprise the *Al-Ameer*, *Omda*, *Mack* and *Sheikh* depending on the rural areas) are primarily an extension of the judicial arm of the state government, although the chiefs also serve taxation and other administrative purposes. The involvement and relative power of the native administration differs from locality to locality, with general importance in the traditional agriculture and livestock sectors, according to MoA officials. One example is in Dilling Locality, where the native administration has been negotiating the reopening of a key migration route, which was blocked by a large mechanized scheme.

The **Power Sharing Agreement** of the CPA elaborates the new governance structure in South Kordofan. During a three-year transition period there will be rotation of Governorship between SPLM and NCP. During this transition, the SPLM and NCP hold 45 and 55 percent of the 54 Legislative Council seats respectively. Accordingly, the SPLM has held the governorship since 2005, 24 seats in the parliament, and four cabinet

[36] COWI, 2006

posts. However operationalizing the power sharing arrangements was delayed along with the new state constitution and this in turn largely paralyzed the state government. With the passing of the constitution the process of establishing a permanent state government has now been initiated.[37]

With the approval of the state constitution on 19 December 2006 the process of appointing a new state executive and legislature has started. While the practice of rotating the parliament between Kadugli and El Fula (former capital of West Kordofan) is underway, the institutional agenda remains large, and the process of integrating former West Kordofan and SPLM staff in the new administration, as envisaged and provided for in the CPA, has barely begun. There are indications of problems of coordination between the former administration in El Fula (West Kordofan) and that of South Kordofan, which are likely compounded by problems of connectivity and communication. In general, it seemed that the administration in Kadugli has little information about both the fiscal and human resource capacity of the western and eastern parts of the expanded state.[38]

More than two years after signing the CPA, the former SPLM (county) and Government of Sudan (locality) offices remain separate, and two local government systems are in effect operating in parallel: one functioning state administration in the former GOS areas, headquartered in Kadugli, and a separate system in former SPLM areas, two education systems (Arabic and English) and curricula, two health systems (with NGOs delivering social services on the SPLM side). For example, the state Ministry of Health in Kadugli runs largely in parallel with the SPLM/A's Secretariat of Health in Kauda, although providing substantially different levels of care, infrastructure, and administration. The latter is also not legally recognized, and does not receive any funds from the federal or state government, but its existence reflects that there is still much work left to be done to properly integrate the public sector structures in the state. The problem is also compounded by the fact that the former SPLM areas have a different local governance

[37] Prior to the CPA South Kordofan had 5 Localities. However, with the power sharing government, the localities were increased to 9; and it is reported that the three more localities will be added. The term locality is interchangeably used with county, the latter being frequently used by officials from former SPLM controlled areas.
[38] Interview with State MOF staff in Kadugli, November 2006

structure (Payams and Bomas rather than localities and administrative units), and are reluctant to hand over power to the new State administration.

The challenges are compounded by delays around the Abyei Boundary Commission's (ABC) recommendations and demarcating the North-South boundary, which mean that the state's territory is still undecided. State officials also expressed uncertainty regarding the status of Abyei until the ABC report is ratified. Some felt that the area would remain a part of South Kordofan until a decision is made by the Presidency.

The overall security situation in the state has been fairly stable since the signing of the Nuba Mountain cease fire agreement in 2002. There has been a transfer of cease-fire monitoring responsibilities from the Joint Military Commission (JMC) to the United Nations Mission in Sudan (UNMIS), although incidents still occur between pastoralists and farmers. However, there are still a significant number of armed forces in place on both sides, which occasionally reaches a flashpoint.

CPA implementation has also been very slow with respect to the **wealth sharing** arrangements that were provided for South Kordofan. As was historically the case, federal transfers lack transparency and predictability, and the functioning does not appear to have improved much. State finance officials appear unaware as to what South Kordofan is entitled to, as well as the underlying criteria determining the transfer amounts. We turn now to examine this and related issues in some detail.

Box 0.1: The CPA and wealth sharing: application to Southern Kordofan

The Wealth Sharing Protocol of the CPA mandates transfers of oil revenues to individual oil producing states, as well as to the Government of Southern Sudan. The WSA states that at least 2 percent of oil revenues shall be allocated to states proportional to their output. In 2006, SD 5 billion is to be transferred to Southern Kordofan as its share of oil revenues, which exceeds the 2 percent entitlement so as to compensate for 2005 when no transfer was made on this count.

The Fiscal and Financial Allocation and Monitoring Commission (FFAMC), as agreed to in the WSA, shall allocate current transfers to Southern Kordofan, Blue Nile and other war-affected areas and least developed areas according to the following criteria: Population; Minimum expenditure responsibilities; Human Development Index / Social Indicators (social development); Geographical area (cost disability); Fiscal effort; and the "effect of war". The FFAMC is presently developing formula and criteria to be applied in practice.

In addition to the budgetary allocations and the two states' share in the NRDF, the President "shall allocate an amount of money to each of the two states."

There are specific provisions on budget transparency, viz., that the states shall hold all income and revenue received in audited public accounts and shall comply with the regulations and auditing standards set by the Chamber of the Auditor General, who may audit the state's accounts. And "there shall be at the State's level accounting standards, procedures and fiscal accountability institutions operating in accordance with generally accepted accounting standards and procedures to ensure that funds are distributed according to the agreed Government budget and properly expended having regard to value for money."

Public Investment

The absence of public investment and development activity in South Kordofan is striking. Development spending has been constrained by a low local revenue base and insufficient federal support, and compounded by weak capacity.

Revenue. Similar to other northern states, South Kordofan relies on a combination of own source revenue and federal transfers. The state also receives special transfers associated with the CPA.

According to the INC, South Kordofan and other northern states have the authority to collect a variety of local taxes (Table 16). In 2006 the actual amount of local revenue collected by the state totaled about US$ 11.9 million, approximately US$5.40 per capita.

Table 0.1: State and Local Revenue Sources in Northern

Revenue Type	Revenue Items	Determination of Collection/Allocation
Own Source Revenues	State land and property tax and royalties; service charges for state services; licenses; state personal income tax; levies on tourism; state government projects and national parks; stamp duties; agricultural taxes; grants-in-aid and foreign aid; excise duties; border trade charges or levies in accordance with national legislation; other state taxes, which do not encroach on national or GOSS taxes; many other taxes as may be determined by law	Combination of fiscal base and efforts by individual states Potential bases provided in Article 193 of the INC
Shared Revenues	VAT Sharing 2% of petroleum revenues by derivation	State share of revenue on a derivation basis, established by CPA
Grants and Transfers	Historical offset for agricultural taxes Transfers for wage payments / Current Transfers Development Transfers Other Transfers Social Transfers Emergency Transfers Ad hoc Transfers Special Transfers to the Three Areas	Combination of formula, historical amounts and discretion (see below).
Borrowing	Loans and borrowing in accordance with the constitution	

Source: World Bank, 2007d

Table 3.2 shows that own revenue has risen since 2001. Departmental fees – which include user fees for public services and licenses – have become more important, whereas traditional locality revenues (eg agriculture and livestock) are less fiscally significant. Over the 2000-06 period, however, the overall relative contribution of own to total revenue fell from 30 to 13 percent, due to the increase in transfers from the centre, as we explore below.

Overall federal support to South Kordofan has increased dramatically since 2000, from about US $ 4 to US $ 36 per capita in 2006. Broadly speaking, we can distinguish two sets of transfers to South Kordofan – those which flow to all northern states, through the National State Support Fund (NSSF), and specific transfers mandated by the CPA and INC.

Table 0.2: Southern Kordofan State Non-oil Revenue, 2000 to 2006 (Million SDD)

Item	2000	2001	2002	2003	2004	2005	2006
Total Revenues	2285.9	3211.9	3088.3	5479.2	6470.2	9782.1	20033.6
State Own Revenues	679.6	860.1	739.2	1728.8	2046.9	1587.4	2607.2
Ministries Departmental fees	261.3	355.7	214.2	513	1074.6	1103.9	
Localities Revenues	235.5	150.4	184.9	217.9	280.5	340.7	
Transferred taxes	32.4	54.1	91.7	997.9	183.7	142.7	
Duties	0.7	0	0	0	0	0	
Centralized items	149.7	300	248.3	0	508.1	0	
Transfers	1606.3	2351.8	2349.1	3750.3	4423.3	8194.8	17426.3
Transfers as percent of total	70.3	73.2	76.1	68.4	68.4	83.8	87

Source: State MOF

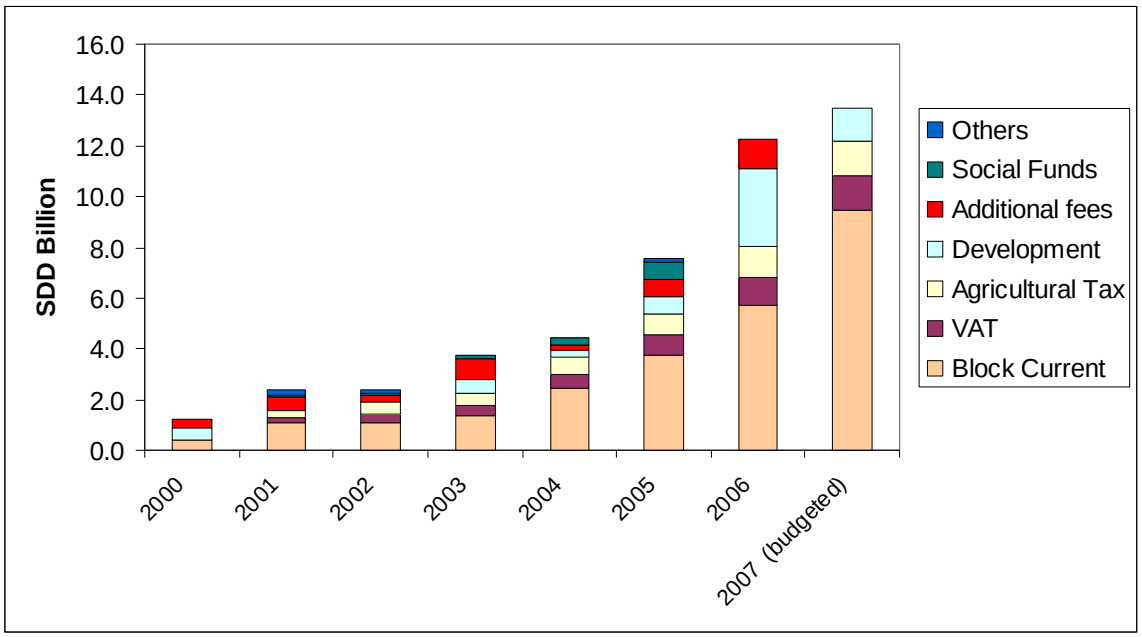
The NSSF transfers to the northern states consist of a combination of shared revenues, grants and other transfers. As described in the JAM, The system is complex and opaque, though presently under reform. At present, NSSF transfers include:

- block current transfers;
- transfers for social funds;
- earmarked development transfers;
- sharing of value added tax (VAT);
- agricultural taxes compensation (replacing the agricultural product tax, which was abolished in 1999)[39];
- Additional fees on benzene;
- graduates' wages; and
- emergency transfers.

Figure 3.1 shows that the NSSF transfers to the state have increased ten-fold in nominal terms, from above one billion SDD in 2000 to about 12.5 billion in 2006. The transfers were scheduled to increase further in 2007, to 13.5 billion SDD.

[39] In 2005, this allocation included a fuel (benzene) subsidy to offset a fuel price increase in Khartoum. In 2006, the subsidy was reported as a separate item.

Figure 0.1: NSSF Transfers to South Kordofan, 2000 – 2007 (Billion SDD)



Source: NSSF Annual Report. Notes: 2000-2006 figures are actual outturns. 2007 is planned.

Since 2005, all northern states have received earmarked current transfers from the annual federal budget which are dedicated to higher education, police and judiciary, and social subsidies. The latter includes students' bursaries, prisons' food, health insurance, and free hospital casualty treatment. We do not have disaggregated figures by state on these transfers.

Current transfers have amounted to about half of total NSSF transfers since 2005, and were scheduled to exceed 70 percent in 2007, while agricultural tax compensation and VAT sharing were fairly marginal (Figure 3.1). Similar patterns can be seen in other conflict affected northern states,[40] which can be traced to relatively limited economic activity, and the fact that the base was set at a point when collection was low due to the conflict. At the same time, the VAT transfers do have a redistributive element, as the majority of these funds are collected in Khartoum, and the share received by South Kordofan exceeds what is actually collected in the state.[41]

There were large increases in regular development transfers to South Kordofan in 2005 and 2006. In 2006, this accounted for about one-fourth of the total NSSF transfer, at

[40] World Bank, 2007e
[41] World Bank, 2007e

above US$6 per capita, although these were projected to fall by more than one-third, to less than 10 percent of the total, in 2007. The state's share of the total development transfers has also remained low, at about 5 percent over the past four years, and down from 10 percent in 2000. On a per capita basis, at $6.20 per capita, South Kordofan received almost 40 percent less than the northern states average of US$ 10.50 in 2006, even if significantly more than other conflict-affected states like South and West Darfur.

While total transfers to South Kordofan have increased significantly over the period, it is surprising, given the commitments in the CPA to the Three Areas, that the state's *share* in total transfers has *fallen*. Its share of transfers dropped from 7 to 5 percent, compared to a share in the northern state population of about 9 percent. We should also include the share of former West Kordofan state, which averaged about four percent of the total between 2000 and 2005. If we assume that half of former West Kordofan's share would be reallocated to the newly enlarged South Kordofan, the share of transfers has in fact halved from the 2000 level of 10 percent.

Under the CPA, South Kordofan is entitled to two additional transfers: 2 percent of the revenue derived from oil produced within its boundaries, and special development transfers. These are relatively significant: in 2006 these amounted to about 40 percent of total transfers, and were budgeted to reach almost 45 percent of total transfers in 2007 (Table 3.3).

Table 0.3: Increase in Transfers to South Kordofan State, 2004- 2007 (Million SDD)

Item	2004	2005	2006	2007 Budget
NSSF	4,423.3	7,548.8	12,258.0	13,476.0
Oil Revenue	-	659.7	4959.9	4,870.0
Development	-	0.0	3375.0	6,000.0
Total	4,423.3	8208.5	20592.9	24,346.0
CPA as share of total (%)	0	8.0	40.5	44.6

Source: World Bank, 2007e. Note: Figures exclude earmarked current transfers for higher education, police, and judiciary for wages & salaries and goods & services, and social subsidies.

According to MOFNE (Table 18), South Kordofan received about 5 billion SDD (US$ 20.7 million) in oil transfers in 2006, which was about one-fourth of the state's total

revenue. However, the state authorities are reportedly not informed of any data, price or other information behind the distribution but are simply told what the share is. Discussions indicate that state officials lack details as to how the sharing calculations are done. In addition, there is some confusion as to whether the state is also entitled to the oil revenue for Abyei, pending clarity on the area's boundaries. As shown in Table 3.4, the arrears in oil transfers at the end of 2006 stood at US$ 4.5 million. These arrears were largely cleared during the first quarter of 2007 (US$ 4.2 million).

Table 0.4: Oil transfers to South Kordofan State, 2005-2007 First Quarter (Million SDD)

	Budget	Actual	Execution Rate (%)
2005	1300	659.7	50.7
2006	5300	4959.9	93.6
2007 (Budget)	4870	--	--
January 2007	405.8	208.6	51.4
February 2007	405.8	937.4	231.0
March 2007	405.8	491.8	121.2
First Quarter 2007	1217.5	1637.7	134.5

Source: MOFNE

The CPA protocol providing for special development transfers for South Kordofan and Blue Nile[42] is vague on the actual amounts and transfer modalities. For 2006 MOFNE unilaterally decided to allocate SDD 5 billion to each state, and SD6 billion was granted to Abyei. However, by the end of 2006, South Kordofan had only received 3.3 billion SDD under this heading of which at least 2 billion of this was transferred as bonds and not included in the budget. For 2007, the total budgeted amount was 12 billion, although it is unclear how this will be split between South Kordofan and Blue Nile, and reports from MOFNE show that none of the funds were disbursed during the first quarter.

The modalities associated with these special development transfers pose several problems. First, while the transfer was included in the annual budget submission that was adopted by the national parliament, the state authorities in South Kordofan had not been informed of this decision, and were unaware of how and when the transfers would arrive, which in turn hampers their ability to plan. Second, part of the development allocations were presented as government bonds that the state could translate into development

[42] In the Federal Budget the transfer is labeled "Nuba Mountains and Blue Nile"

projects, rather than cash transfers. Thus the transfers remain largely off-budget, which raises accountability and planning concerns.

This picture is consistent with the findings of the World Bank's Public Expenditure Review that progress in increasing fiscal support to South Kordofan has been slower than expected. Even with the CPA transfers, the state still receives a lower share of the total pot than had the former South and West Kordofan states.

Several questions arise, which are addressed in the final section below, including, are the CPA transfers crowding out regular support through NSSF, and how the transfers compare to the JAM commitments, and emerging priorities of the state three years after the CPA.

Locality transfers. According to the assignment of expenditure responsibilities established by the INC, the responsibilities for delivery of primary health and basic education lie with lower levels of government, and these levels should therefore, constitute a significant share of state development spending. In general, the level of reliance on transfers for the locality level is large, and particularly so in Southern Kordofan where own revenue collection has eroded over time due to the conflict and insecurity. However, Table 17 above shows that some revenue is still being collected by the localities – about 22 percent of the state's own revenue in 2005 - the second largest item after departmental fees.

Little information was available on the transfers between state and locality, but state finance officials indicated that these cover wages and salaries, as well as minimum levels of operational costs. No development expenditure takes place at the locality level except through state and federal development projects.

Expenditure. Alongside the trend evident for the national government and most northern states, South Kordofan's expenditure has increased significantly over the last three years – in nominal terms, almost five times from 2003 – 2006 (Figure 3.2). This was mainly directed to chapter one (salaries and allowances), which rose faster than the overall rate. Development spending remained very low over the whole period. More

generally, despite the stated commitment of the GNU to accelerate development in war affected areas, on a per capita basis, total state spending, at US$ 36, is similar to the northern state average.

Figure 0.2: South Kordofan: Per Capita Expenditure, 2000-2006 (SDD)

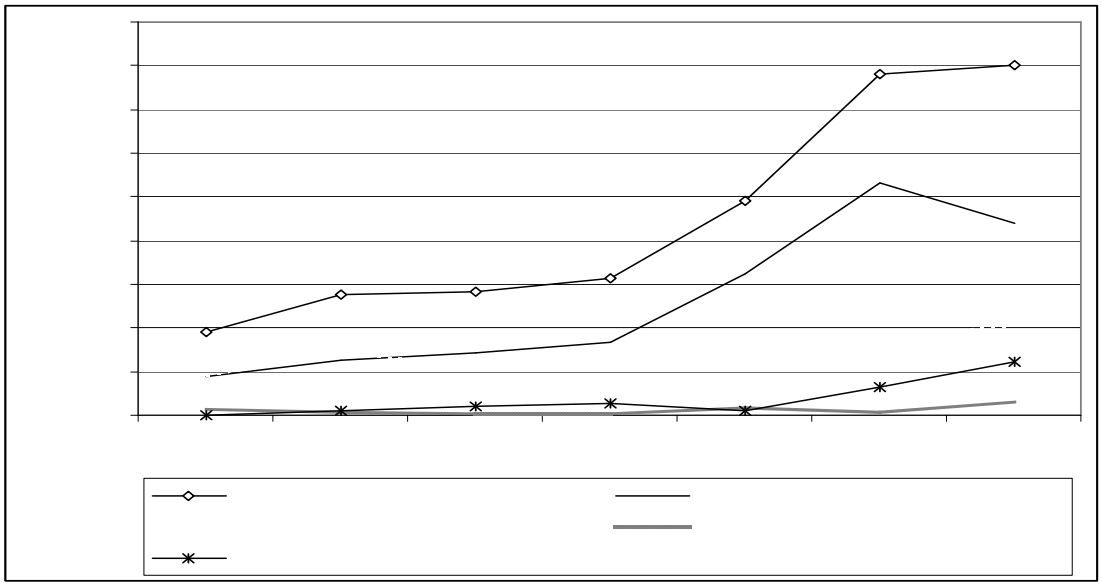
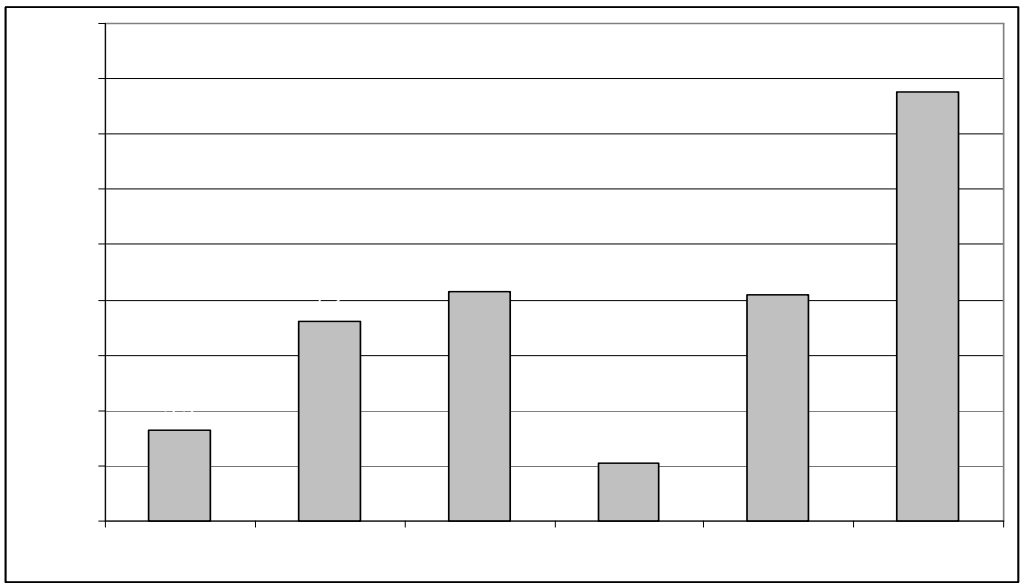


Figure 0.3: South Kordofan Development Spending, Percent of Budget, 2000-2006



www.worldbank.org/wbi/governance/pefa

Box 0.2 Status of Development Infrastructure in South Kordofan:

Transport infrastructure is weak and deteriorated and represents a major constraint to growth, as it prevents access to markets and transportation of tradable goods. The railway passes through Babanousa in the west of the State, but is operating at a bare minimum due to long term deterioration of the stock. All season roads link Kadugli with El Obied in the North and Bentiu and Warrap in the South, but the roads network is generally in poor condition and most of the major routes are in need of repair with the exception of the important Dilling-Khartoum corridor which is now being extended to Kadugli. The airport in Kadugli is small and insufficient, but has seen some improvements due primarily to the establishment of the UN mission and associated handling volumes.

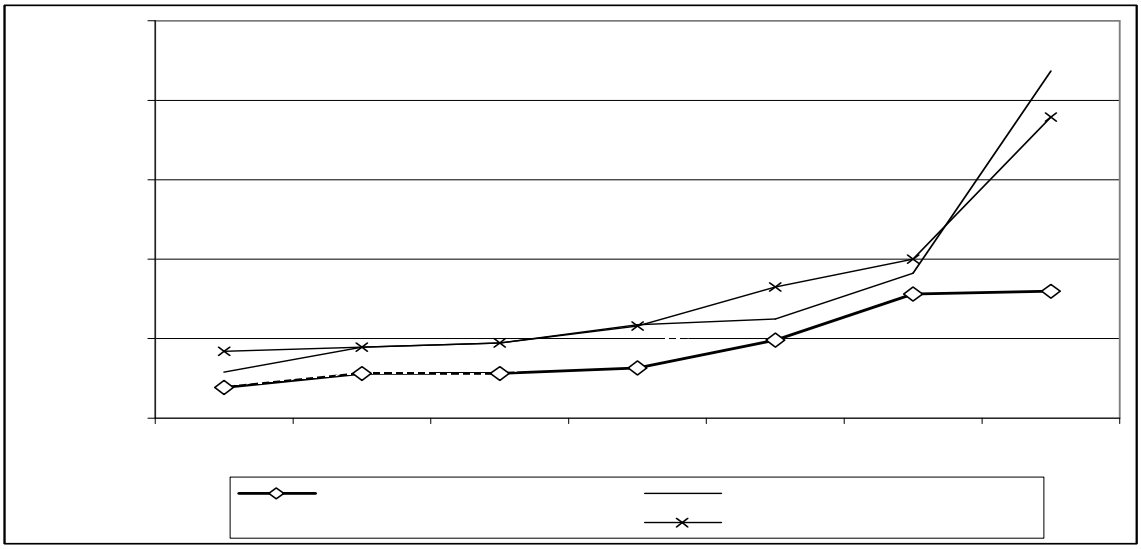
Electricity services are minimal, and the state is not connected to the national grid. Dilling and Kadugli are served by small diesel generators, but overall current electrical capacity is only 4.76 megawatts.

Water and sanitation. Only rudimentary water and sanitation services are provided, and these are concentrated in big towns only. There is no piped network, and supply is handled by private water-sellers and delivered by cart.

Social Services. Education and health services are generally provided by the state authorities, but the stock of physical infrastructure is severely depleted, as indicated by the relatively weak social indicators listed above. Hospitals are missing (only 12 serving the whole state population), and the few that are operational are located in the towns. Schools and water points are equally depleted, and most social services are delivered by the many NGOs that are operating in the state.

Budget Credibility. Figure 3.4 shows that the revenue and expenditure credibility of the South Kordofan budget has been very weak, at least since 2000. Budget performance, as defined by the degree to which actual revenues and expenditures deviate from plans, has been poor even by Sudanese standards for most years. Revenue shortfalls averaged about 60 percent over the period 2000 - 2005, and development expenditure, in particular, fell short on average by more than 80 percent. In 2006, the annual budget of the state was ratified only in July due to legislative obstacles, which likely delayed expenditure execution. The state annual budget has not been bound to annual plans in design and execution.

Figure 0.4: Trends in Actual and Budgeted Revenue and Expenditure (per capita SDD, 2000-2006)



2.1

heightened the need for adequate public financial management systems and practice at the sub-national levels, as well as the need for clear guidelines for financial management, intergovernmental coordination and the roles and responsibilities of different levels of government.

On the revenue side, financial management capacity is weak, which contributes the state's poor own revenue collection record. For example, there is limited ability to measure basic economic activity in the state, which is necessary for estimating own tax and non-tax revenues. The State MOF has a weak record in accurately forecasting both own and transferred revenues, even on an annual basis. This in turn has resulted in the problems with budget credibility outlined above.

The way in which the state budget is presented also seriously impedes the transparency of fiscal operations and the ability to plan, execute, and monitor state spending. At present, the budget classification is in economic terms, following the national budget practice, and does not reveal the use of government funds according to functional or administrative units. This prevents a good understanding of how funds are used and at least some State officials seem frustrated at not having functional information available. Efforts are ongoing at the central government level to move to a functional representation of public finances (consistent with the IMF's Government Finance Statistics or GFS), although progress has been slow. This bodes poorly for the needed state-level reclassification, given the relatively weaker starting point, and compromises the prospects for a consolidated budget.

Similar problems are found at the locality level, where financial management capacity is even more constrained due to a combination of weak systems and human resource capacity and poor access to information about budget allocations by the federal and state governments. The 2006 Local Government Assessment and the PER both found that the localities have limited revenue estimation, planning and budgeting capacity, similar to that in other Northern States. However, some positive signs were seen in terms of financial management, including in Dilling, where all books of accounts were up-to-date

and maintained, and financial accounts were prepared at the end of the fiscal year and presented to the state MOF.

Box 0.3: South Kordofan Five Year Strategic Plan, 2006 - 2011

In February 2006, South Kordofan completed a five year Strategic Plan covering development projects for the period 2006 to 2011. The plan is in many ways a far-reaching document that shows significant depth of planning and foresight. It was developed by the State Planning Council in coordination with all nine line ministries and localities. It uses the National Strategic Plan as a starting point, to seek compatibility with this overall framework.

The plan provides a valuable inventory of current efforts and facilities across many areas of development activity. It goes on to identify the following areas of reconstruction as priorities for the coming five years:

1. Institutional development and capacity building for the public administration
2. Rehabilitation and rebuilding of social service facilities and infrastructure
3. Peace building and reconciliation
4. Efforts to provide for returning populations
5. Legislative reform to include customs and traditions of different ethnic groups
6. Instigate growth through exploitation of land, agriculture, water and animal wealth, as well as create underpinning for re-establishment of industry, mining and tourism.

The investment plan together with the detailed project proposals and costing produced by the state authorities serve as useful background documentation for the way forward. However, the document lacks a clear prioritization of activities within each of the core focus areas, and the interventions are not sequenced.

In terms of the process, the extent of engagement of a broad group of stakeholders is not clear. For example it is not clear how much non-governmental participation was involved in the preparations, the nature of consultations with the private sector, and so on. These aspects might be strengthened in future iterations.

Moreover, there are questions related to the cost estimates presented. Specifically, it appears that the overall budget is unrealistic, and that the programming is over-centralized.

- The aggregate cost is estimated at about SDD165 billion over five years, which is about US$ 68.40 per capita annually. In contrast, federal development transfers to the state amounted to only US$ 6 per capita in 2006.
- External assistance amounted to about US$ 30 per capita (UN Resource Tracking Service), but is largely directed towards food aid and humanitarian activities. Even if there is a drastic decline in the need for humanitarian assistance that allows for the international financing can be entirely reallocated to recovery and development, about half of the financing remains unidentified.

Out of the total cost, only about 21 percent is directed towards projects at the locality level, which runs contrary to the agreed policy of decentralization, where the localities have the main responsibility for service delivery.

Development planning and management capacity. The poor track record on development spending has gone hand in hand with very limited capacity at the state level to plan and maintain development projects. Most of the planning in the Sudan is

centralized at the federal line ministry level in Khartoum, with weak communication to state line ministries.

It appears that the link between locality, state and federal planning and budgeting is weak, and development priorities for the state are determined in a top-down way, mostly at the state and federal levels, as indicated by the fact that most localities do not have a separate planning unit, and do not submit proper development projects as part of the annual budget submissions.

Planning is also made difficult by the fact that there are wide deviations between annual budget plans and actual outturns, which have widened over time. As explained above, CPA specific development transfers are mainly off budget, and thus not included in the annual budget nor accounted for.

A consistent message from state officials was that communication between the state and federal ministries (including functional line ministries) regarding development projects is weak and that guidelines are needed to clarify the specific roles of each level of government, in terms of planning, execution, and monitoring development projects.[44] Often state finance officials did not have knowledge of national development projects under implementation in their own states. This situation highlights the need for a more strategic overall public investment program.

In March 2006 the planning department was transferred from the state Ministry of Finance to the state Ministry of Economy and Investment, thus weakening further the link between the budgets and planning processes. The situation should improve somewhat once the planning department completes its first full budget cycle, but for the time being the department acts primarily as a coordinator, sending priorities from the state line ministries to MOF and distributing parts of the funds the other way. To ensure the sustainability of a scale up in public investment, there is a critical need to involve and strengthen the state and local development institutions, in particular at the lower level.

[44] Workshop in Kadugli, 14 December 2006

Data limitations. Currently the state does not have significant capacity to underpin revenue estimations and budget formulation. Information from the federal ministry on transfers often appears to run late. Better capacity and data for revenue estimation is a key factor for improving budget credibility. For example, there is a need for a reliable system of recording of all sources of tax- and non-tax revenues and inputting these into a computer for documentation and easy retrieval and presentation purposes. In part this relates to the intergovernmental transfers, but a better handle of own source revenue at the state and locality levels is also needed to ensure that expenditures are based on a more realistic estimation of income. This would also have important bearings on the state's ability to plan across years. The weak financial institutions and multiple banking procedures also have a role behind the delays in federal transfers. Further efforts are needed to document their role in intergovernmental transfer of revenues and to determine key areas of action.

Administrative reforms. There are a number of points that need further investigation so as to promote fair and pragmatic measures to enhance administrative reforms and governance. More reliable data is a priority. The impacts of ethnic diversity and political dualism on participation, accountability and transparency warrant further consideration. The skewed distribution of intra-state sharing formula of resources and revenues in favor of newly created center at the state ministerial level and the indirect national support provided by joint agencies such as Western Kordofan Corporation for Services and Development, Nuba Mountains Agricultural Corporation and War affected Areas Reconstruction Fund all issues requiring further investigation.

External assistance to Southern Kordofan remains largely humanitarian in nature. Although accurate figures are difficult to obtain, the UN Workplan 2006 included a US$100 million appeal for the state, against which about two-thirds was actually raised, mainly from the UN itself, the US, the Common Humanitarian Fund and the EC. In addition, by the end of 2006, the World Bank had committed approximately US$19 million for an emergency project for the state through the MDTF-N (see Box 3.4).

The composition of donor assistance indicates that the bulk is still directed to humanitarian activities. Of the almost US$70 million recorded by the UN Resource Tracking Service for 2006, more than 62 million were for humanitarian purposes, while only about 6 million were allocated for recovery and development. The 2007 appeal requested about US$36 million for recovery and development, but analysis of the first quarter showed that only about US$1 million, or 5 percent, had been received.

Table 20 compares total assistance for Southern Kordofan to other areas of Sudan, and shows that Sudan as a whole averages US$40 per capita, while Southern Kordofan only receives US$31. It is notable that Southern Sudan, with arguably similar needs, received much more on a per capita basis, about US$50, and Darfur, with its enormous humanitarian effort, was more than three times higher.

Table 0.5: Overall External Assistance to Sudan 2006, Per Capita Comparison across Regions

	Population (million)	External Assistance* (USD million)	per capita (USD)
Darfur	6.5	632.90	97.4
Southern Sudan	7.1	355.9	50.1
Southern Kordofan	2.2	69.1	31.4
Sudan Total	32	1277.7	39.9

* Includes UN Work Plan and the MDTFs. Population numbers from JAM.

The foregoing suggests that donor financing, especially for development, has been slow to materialize for Southern Kordofan, and that increased levels are urgently needed. In addition, renewed attention is needed to ensure that the funds that do flow to the state are utilized in a co-ordinated ways, consistent with local priorities, and subject to evaluation and monitoring against stated objectives. In particular, there are several development initiatives and efforts underway, as described in Box 3.3, and improved coordination will be important among international development partners to avoid overlapping initiatives and ensure economies of scale.

Box 0.4: A Snapshot of ongoing Development Efforts by International Partners in South Kordofan

Existing and ongoing development work in Southern Kordofan is being supported by development partners. A snapshot of key initiatives relevant to this growth framework is presented below:

- The Nuba Mountain Programme Advancing Conflict Transformation (NMPACT) – Supported by USAID, the World Bank and others, NMPACT was established as an aid coordination mechanism following the ceasefire in 2002, and aims to expand the opportunities of the peace to address both immediate and longer-term needs in the Nuba Mountains.
- The South Kordofan Rural Development Program, which is operated by IFAD, has been implemented since 2004. The program aims to improve and sustain the living standards of smallholder farmers and pastorals households, including those headed by women, in South Kordofan state. It also includes a Western Resource Management Programme, which focuses on improving natural resource governance through the establishment of legislative, organizational and market incentives to promote and sustain viable and equitable access to land and water, and environmental sustainability.
- USAID's has several ongoing activities, the largest being the Customary Land Security Project managed by ARD that has built on the Pilot Land Project. It includes legal advice on drafting relevant legislation, a state land advisor, and support to communities to identify and map their customary domains.
- UNDP's Governance Program has undertaken a review of Southern Kordofan's administrative and civil service structure and wage bill, and is advising the state government on civil service integration.
- UNMIS Civil Affairs is working with the State Parliament on the legislative process, and implementation of the power sharing agreement more generally speaking.

The Multi-Donor Trust Fund (MDTF-N), which was established to implement the JAM, is currently scaling up in Southern Kordofan through several national projects, including for Health, Infrastructure, Livestock and Community Driven Recovery. In addition, the MDTF is in the process of finalizing an emergency project for the state, which will be implemented directly with the state authorities.

Box 0.5: Elements of an emerging MDTF program for South Kordofan

A Multi-Donor Trust Fund (MDTF) project is currently being finalized for support to South Kordofan. The objective is to contribute to the supply of urgently-needed basic services and facilities, such as access to water, education, and improved rural roads to conflict-affected populations, and to improve the capacity of the local authorities in performing their roles towards the population.

The project is being designed to address the following development issues:

1. Political aspects through targeted assistance to the implementation of the CPA in terms of encouraging fiscal transfers to the Three Areas,
2. Socio-economic aspects through interventions addressing the access to basic services (water, education), infrastructure, and some support to the economic development of the population, and
3. Institutional aspects, including through support to and capacity building for government institutions, civil society, and other key actors. It will also assist with the development of a comprehensive data collection system for development planning.

The emergency project will address a number of emergency needs in basic services and capacity building in the short term (6-9 months), and will be followed by a more comprehensive longer-term recovery and development projects that will feature a more comprehensive and integrated approach addressing the need for lean, efficient, effective and transparent government institutions.

During the first phase, the following priorities will be addressed:

1. Construction and rehabilitation of improved water sources, including though procurement of a drilling rig and 100 hand pumps
2. Rural roads maintenance and spot improvements, including construction of three small one-lane bridges and eight box culverts
3. Improve and expand access to primary schools, though provision of school kits and school equipment.
4. Improve system for vocational training through financing of programs for young people, women and other vulnerable groups in rural areas to enable them to gain technical skills and to develop livelihoods
5. Humanitarian demining to clear suspect areas in about 40 communities in the state
6. Provide livelihood support to rural households, including through distribution of kits of locally-produced hand tools to a minimum of 4,000 households
7. Capacity building for state and local governments, including in project management and implementation, as well as construction of basic office facilities and provision of equipments and vehicles
8. Anti-malarial efforts through marketing and distribution of long-lasting insecticidal nets (LLINs) with the objective of raising coverage to 80 percent of rural households in South Kordofan.

ASSESSING Prospects for GROWTH

OVERVIEW

More equitable and broad-based poverty reduction is recognized by the CPA as key to sustainable peace in Sudan, and in particular in areas most affected by conflict and underdevelopment. While many of the CPA commitments deal with democratization and improved equity in political decisions and public resource allocations, it also recognizes that sustained peace will ultimately prevail only if access to income-earning opportunities and services improves through concerted development efforts. These should thus target conflict-affected areas, and South Kordofan was specifically recognized as the "litmus test" of the CPA.

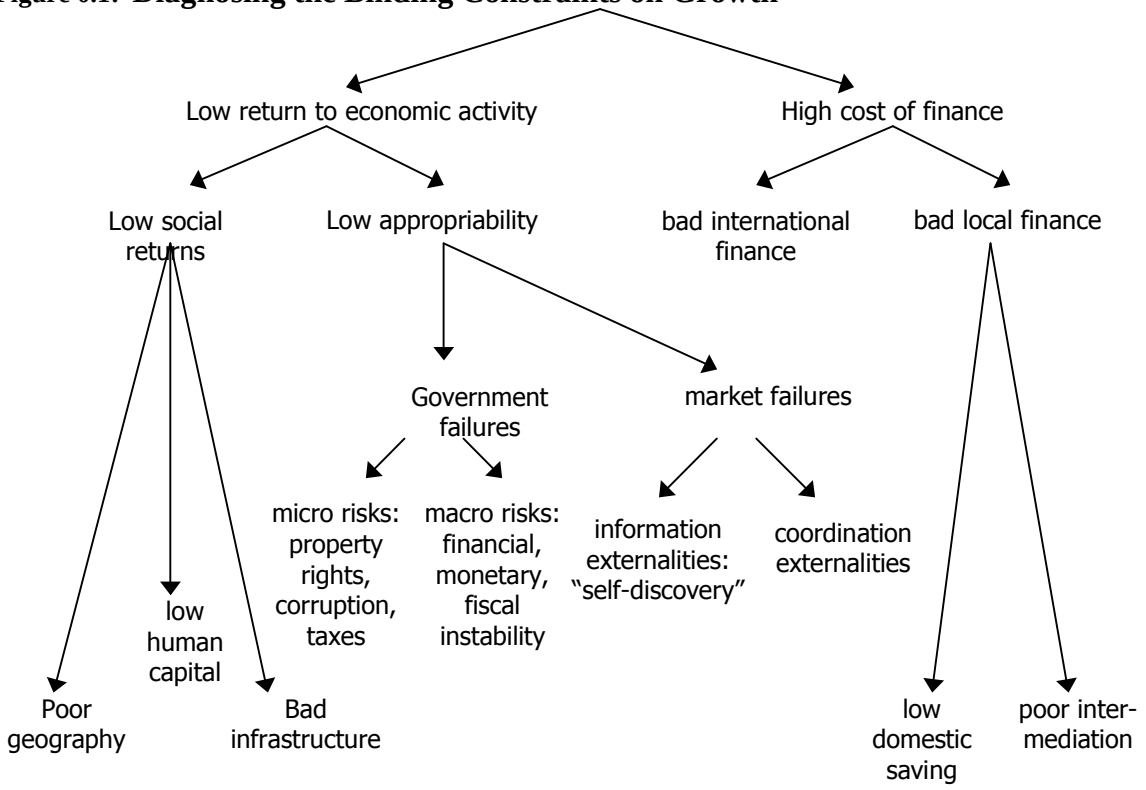
What policies and investments make sense in this context, and how can they be designed to accelerate economic growth in South Kordofan? Answering these questions involves identifying the specific constraints and complementarities around growth and creating the underpinnings for effective and efficient institutional support and reform. The goal of this section is to begin to identify elements of a growth strategy for South Kordofan, recognizing the specific constraints of the conflict and the extremely low starting point.

What do you do when everything is a priority and when basic institutional and human capacities needed to implement reforms is lacking? Recent thinking and literature, led by Hausmann, Rodrik and Velasco (2005), has de-emphasized seeking to move concurrently on all fronts. There is no evidence that either a comprehensive ("do all reforms") or a scattershot ("do any reform you can") approach will generate a sustainable growth path. A more useful approach can be to assess the binding constraints to growth, in an ongoing, sequential manner. What is an appropriate strategy should depend on the particular economic and institutional structures and will vary across sector and spatial location. Indeed, it will depend to a large degree on the local context, and involves flexible approaches, with experimentation and built-in learning. An underlying theme is that success will largely depend on the extent of which local ownership of priorities are forged.

While this approach is context-specific, Hausmann, Rodrik and Velasco propose a broad categorization of types of constraint on private investors in terms of: (i) social returns to investment; (ii) the appropriability of these returns by investors; and (iii) the availability and

cost of finance. A decision tree can be used to schematically identify the constraints (Figure 0.1), in which a potential investor starts from the top of the tree, where she faces the potential low return on his investment and a high cost of money. The role of the policy maker is to look at the "lower parts of the tree" to see which policies and public investments would make private investments appear more profitable to the potential entrepreneur/farmer, and in turn try to address these in predictable and credible ways that would encourage investment.

Figure 0.1: Diagnosing the Binding Constraints on Growth



Source: Hausmann, Rodrik and Velasco 2005.

The specific components of the above framework are difficult to apply in South Kordofan, given the extremely low starting point, the cross-cutting importance of conflict prevention, and the serious lack of accurate data and information. Nonetheless, identifying key binding constraints provides a useful starting point for a medium-term growth strategy for the state. Many of the potential constraints are similar to those faced by other Northern states, including: risk of conflict, problems of geography and access, marginalization and lack of public investment, lack of human capital, weak infrastructure, low productivity and pervasive market failures, and a weak financial system. This already looks like a long list for focusing

policy within a binding constraints approach. However, the point is not to push the framework to identify *the* binding constraint but to use this as an organizing frame.

This approach is valuable in determining the premium to be placed on local and context specifics. Through identifying the real binding constraints, it might also be possible to move the development process forward in areas where the state is not dependent on national decisions. It might also highlight areas where local policy makers could exert pressure on their federal counterparts for reform.

APPLICATION TO SOUTH KORDOFAN

Viewed through this type of lens, the general problem for South Kordofan appears to be one of extremely low social returns and government failures, which exacerbate market failures, a weak investment climate, and lack of access to finance. Such a situation is by no means unique, and can be found in other post-conflict contexts. The destruction of assets and trading patterns, political and economic marginalization, changing economic patterns, and a loss of human capital due to migration are all associated with the conflict.

In a context like South Kordofan's, a constraints approach could be used to prioritize consistent with poverty reduction priorities. The vastness of needs, the limited funding available, and the multitude of partners engaged means that a growth framework is needed to direct spending towards those areas that will have long term positive effects on subsequent development efforts. For example, careful analysis may (or may not) show that giving initial priority to connecting major markets and towns, might have a more profound impact on long run growth than efforts to connect rural areas through feeder roads. At the same time, the general lack of disaggregated data means that a lot more work needs to go into the design of specific programs for poverty reduction efforts.

This section reviews constraints and complementarities in what have emerged as the three most important areas, namely:

(i) governance failures to address micro-risks associated with conflicts over natural resources and access to productive assets;

(ii) poor productive capacity in both rural and urban areas due primarily to low social returns to investment and a weak investment climate; and

(iii) systemic constraints to public investment.

As stressed above, the design of a growth strategy must take local conditions into consideration. Appropriate interventions vary not only because of differences in environmental and production conditions, but also because local traditions and social capital vary. We have already presented a very broad typology of different economic activities around the predominant farm groups and livelihood strategies – agro-pastoralists, nomads, and sedentary farmers – and distinguished also between rural and urban areas. However this is a simplification, and further disaggregation and significant local input in further assessments are needed to inform appropriate directions.

Continued reforms of national policies will be important in order to remove administrative barriers to growth and create a conducive environment for private investments. In particular, progress is needed on implementation of commitments to improve the transparency and equity of the decentralized intergovernmental transfer system, along with increased efforts to reallocate budget expenditures away from non-pro-poor activities, capacity development at state and locality levels to enable service delivery according to the decentralized assignments outlined in the INC, and a continued commitment to the CPA. These constraints will be recognized and highlighted below, recognizing that the state authorities can assert pressure on the national government in certain areas, that would, if fixed, have positive effects on local efforts and initiatives.

At the same time, this report recognizes that several exogenous factors will have a large impact on the success of failure of a growth strategy in the state. These include:

- The level of security in South Kordofan, which depends on the speed and level of disarmament, continued formation and operation of the Joint Military Units and the effectiveness of these, and continued inclusion of other armed groups in the existing power structures.

- The rate and pattern of return to specific areas in South Kordofan. Although uncertain, indications are that many returnees will return to areas that have been more affected by the

conflict.[45] If so, then this will potentially have both positive and negative implications for growth. Impacts on the positive side include additional and improved skills brought by returnees, which will benefit the reconstruction process and help meet capacity needs for service delivery. On the negative side, one might see: increased competition over access to basic services, as more people will depend on the already limited provisions; greater stress on natural resources, and potentially increased conflicts over land; and larger risks of environmental degradation.

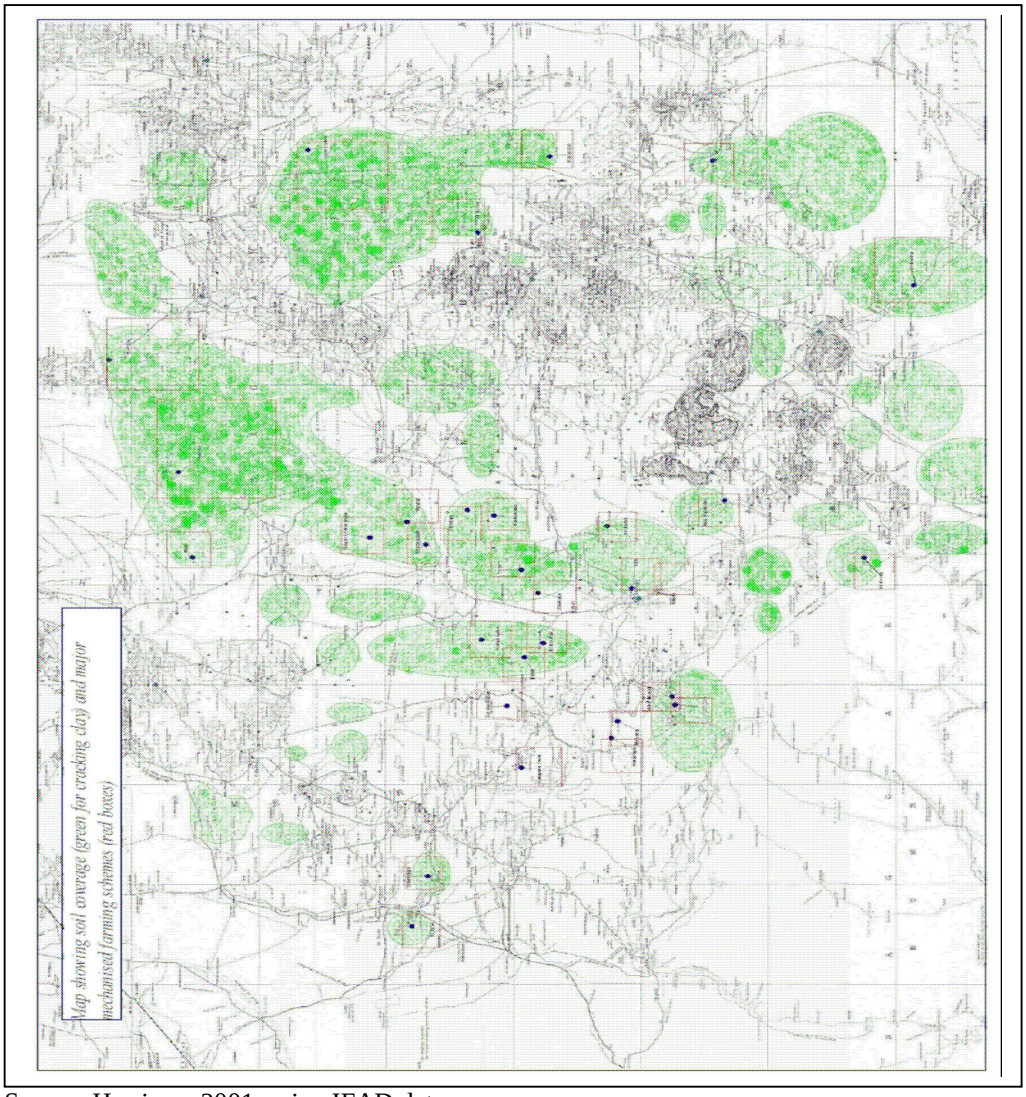
While these factors are not addressed here, further analysis and discussions will be needed to ensure that recommended policy reforms and interventions take possible negative impacts into consideration. As in any post-conflict situation, the political and security environment is highly fluid, and special caution must be applied to ensure that a growth strategy complies with the basic principles of "do no harm". In South Kordofan, this can probably be best achieved through a careful and inclusive process that provides solutions with local ownership, combined with the necessary capacity to implement and evaluate the impacts.

Access to Land

Disputes over access to land have been one of the key defining characteristics and a root cause to the prolonged conflict. This has been traced to the abrogation of customary land rights after 1970's when large-scale and mostly outside investment in agriculture and Gum Arabic and oil development were promoted (Map 1).[46] The war in turn further reduced people's access to natural resources and distorted the distribution of services and infrastructure.

Map 1: Soil Coverage (Green for cracking clay) and major Mechanized Farming Schemes (Red Boxes)

[45] Interview with representatives of the International Organization for Migration (IOM) and UNHCR in Kadugli, November 2006
[46] Harrigan, 2001



Source: Harrigan, 2001, using IFAD data

Evidence suggests that large-scaled agricultural schemes did boost food production (accounted on average for about 60 percent of total production in the 1980s and 1990s), but at the same time caused other problems. About three-fourths of investors were from outside the state,[47] and the land was often taken from customary title holders, causing disruption to traditional land use patterns and displacement. The direct benefits for the local population were also limited, with relatively limited employment generated and marginal contributions to livelihoods and the state economy. Most importantly, however, the new schemes restricted and blocked some nomadic stock routes, thus disrupting their traditional migration pattern. Dry-season water points were often located within the schemes, thus forcing nomads to look

[47] Ijaimi, 2006

for alternative routes that put them in greater contact and competition with sedentary communities.

The CPA recognized that a durable solution to the conflict needs to include securing the rights and access to land for the majority of people in South Kordofan. However, the institutional and regulatory framework is weak and requires reform in order to effectively address the underlying complexities. Structural constraints include: (i) the legal vacuum for the regulation of natural resources in absence of a State Land Commission; (ii) the multiplicity of initiatives to organize pastoralists, open stock routes, demarcate tribal lands and prepare land claims, which might create new realities on the ground that are outside of any legal system; (iii) poor coordination among actors and weak policy environment; and (iv) weak capacity of the range and pasture administration at state and federal levels which inhibits harmonization of these various initiatives.

While customary law had traditionally governed land use in South Kordofan and Sudan more generally (Box 4.1), the 1970 Unregistered Land Act, stipulated that all unregistered land was to be considered as the Government's property. In effect, this allowed the state to take customary land at will, if necessary by force and without compensation to the "customary-title bearers" (see Section 2).

Box 0.1: An Overview of Customary Land Arrangements

Traditionally, there have been two systems governing land in Southern Kordofan and Sudan as a whole since the 1970s. One is state or statutory system and the other is customary. The majority of people in rural areas follow and are governed locally by the customary system, which provides the rules and systems to govern peoples' access and use of different natural resources. Customary land tenure is also a source of identity, and access is largely through inheritance. The land can also hold religious significance and it provides a "concept of a permanent home" (FAO, 1996).

Customary land tenure can be defined as the: "rules accepted by a group of the ways in which land is held, used, transferred and transmitted…recognized as legitimate by the community… and usually explicit and generally known." (FAO, 1996)

In South Kordofan, there are several features of customary land tenure, including:

1. It can vary between groups, and the rules and governing authority over land can change over time.
2. It is community based, mostly governed through the native administration and therefore cannot be imposed from outside of the community.
3. The customary land area or domain (Wily, 2005) in which customary rules apply for a community include land for agricultural use, homes, grazing, fallow and off-farm production, as well as water, forests, grass and swamp lands.
4. Customary ownership does not necessarily equate to full ownership rights. Generally land within the customary domain cannot be transferred outside the community.
5. Full membership within a customary domain is largely inherited and through the male line (Egemi, 2006) but can be granted to families and even tribal groups from outside of the domain.
6. Customary land tenure systems can accommodate a range of users through systems of layered primary and secondary rights. Farmers, pastoralists, private investors, displaced people, and returning people can all access customary domains.
7. The distribution of land is responsibility of headman or Sheik who "*has the right to divide the land within his domain among his villagers as well as to allot land to outsiders or to settle a dispute if he wishes to do so* (Egemi, 2006).
8. The customary domain boundaries and rules are generally understood by locals but rarely documented.

Also in the early 1970s, the national government proceeded to abolish Native Administration and thus to strip tribal and customary authorities of their functions concerning allocation and management of natural resources and management of local conflict. The Native Administration was formally reinstated in 1987, but attained a much weaker role as the national government remained directly involved in selection of its leaders. More open conflict from the mid 1980s led to a polarization and militarization of the South Kordofan society, which resulted in an increase in violent conflicts and an increased strain on local authorities to solve disputes.[48]

Thus the CPA recognized that a successful land reform process is fundamental for both peace and recovery. This is clearly a daunting endeavor, which will take time to achieve. The following factors should be considered at both the local and national level to create a more conducive environment for access to land that can serve as a foundation for more rapid and equitable growth:

[48] Egemi, 2006

At the state level, the authorities could move ahead with several initiatives that would have a positive impact both in terms of immediate actions to decrease conflict over natural resource use, and longer term initiatives that would improve the institutional and policy environment for sustainable land use. In particular, the following could be explored:

- *Institutional reform and capacity building for dispute resolution.* Several local initiatives are currently underway to decrease tensions between sedentary framers and nomads, including efforts to open up migration corridors in existing mechanized schemes around Dilling. There is, however, an urgent need to build and/or reestablish institutional capacity to successfully manage such disputes. The native administration will likely have an important role in this, although further clarification on its mandate and composition will be needed, and the native administration will also need to be provided with the necessary capacity to better reflect the legal ramifications of land tenure, once these have been agreed.

  In addition, the State Land Commission will have an important role to play in terms of clarifying and regulating land tenure, but there is currently a clarity around this. In particular, the state authorities should seek clarity as to whether the establishment of the state commission will need to await the appointment of the national land commission.

- *Identifying and regulating customary land.* Because little land has been officially registered, rights to customary land are primarily based on traditional claims by tribal communities. A more detailed surveying and land mapping exercise is thus needed to identify and register customary land, and demarcate existing and future tenure rights.

- *Review rights of women with respect to access to land.* Women presently account for a slight majority of the state's population and a significant part of agricultural and off-farm activity. It will be important to enable the evolution of traditional and statutory systems consistent with improved gender equity, recognizing women's property rights.

- *Enforce environmentally sustainable land use.* As pointed out above, while land is plentiful in South Kordofan, environmental degradation has been significant as a result of adverse effects associated with the introduction of the mechanized schemes. Efforts to improve land use and production levels should aim to optimize not only economic gain

but also environmental benefits. In particular, the authorities should enforce rules and regulations related to forest levels in the mechanized schemes, and also look at options for increasing coverage beyond the current level of 10 percent. In addition, options for community forestry management could be explored, and alternatives to use of firewood and charcoal could also be encouraged.

- *Improved coordination.* Currently several land initiatives are ongoing, and coordination efforts are needed to ensure that a cohesive land reform process is implemented. This should include a clear leadership by the state authorities, mapping of customary land holdings, and be based on the outcome of the land commission's work. To date, weak coordination in power sharing have been a major constraint to land reform.

Federal reform needs around land need to aim at clarifying the legislative framework, recognizing customary and local access to land, removing key obstacles to local solutions and providing access to land solutions on the ground. In particular, the following could serve as a useful starting point and platform for more widespread reform:

- *Proceed with needed land reforms.* The CPA recognizes that customary tenure is important and should be recognized in the land reform process. Customary land systems, with strengthening, modernization and with appropriate incentives, should be able to manage individual and collective rights. The systems need to be able to evolve to accommodate peacefully competing sedentary and nomadic claims, large-scale private investment, resettlement, land for public use and expanding communities.

A major challenge will be to harmonize all the related laws including with respect to the environmental, forestry, local government, gum arabic and mechanized investment, urban, confiscation of land for public good and many others into a common and cohesive legal framework, consistent with modernization needs and international good practice. The state constitution has just been ratified. However, while reflecting closely the language in the CPA, it does little to deepen the discussion on land rights. The federal government is reportedly preparing model laws for the states to review, some of which relate to land, including the forestry and local government laws. In the absence of enabling legislation providing a more detailed framework, institutional reform may be difficult.

- *Institutional reforms and capacity building.* The yet-to-be established National and State Land Commissions will have a significant impact in structuring and guiding land reform, but will face several challenges. According to the INC and CPA, the commissions will be limited to recommending reforms to the national and state governments on new laws and policies, and dealing with willing parties. The strength of its recommendations and powers of adjudication are not clear. The commissions will deal with multiple and sometimes competing agencies at varying level of government responsible for drafting laws, adjudicating claims (ie courts), overseeing land management and implementing policy especially in agriculture, rural development, water and forestry.

While addressing the above recommendation, several important developments and issues should be kept in mind. First, the situation is dynamic, and flexibility is needed. Livelihood strategies are in rapid transition from the coping strategies people adopted during the war to greater investment in productive activities. Many rural communities are trying to return to pre-war activities investing heavily in crop and livestock production. At the same time, evidence suggests that there have been, and continue to be, large increases in population and livestock herds. Many people are returning from urban areas in the north with new skills, and as a result the urban areas in South Kordofan are expanding. The peace also allows people to shift their land use patterns, taking up more land, while at the same time nomads are returning to areas that were insecure during the war.

Second, recognizing customary land tenure does not necessarily equate to promoting traditional farming or livestock management practices. It can also provide a framework for large-scale private investment for both the people within the customary domain and outside investors. One key change from the pre-CPA system would be a change in the relationship between potential and actual investors and people with rights in land. Instead of leasing land exclusively from the government for agriculture or harvesting forest products without consultation or compensation of the customary right holders, now the investor and people with customary rights in that land would work more closely together.

Lastly, the expected benefits of a successful land reform process should be recognized from the beginning. These include better natural resource management, more secure investment

and broader economic benefits reaching the poor, as well as stronger local conflict management mechanisms.

Poor Productive Capacity and Low Social Returns

Most households in South Kordofan derive their livelihood mainly from crops, which will likely constitute the main driver of growth for years to come. At present, however, the sector suffers from low and erratic productivity and a subsistence based production pattern, limited trade and limited income-earning opportunities.

Applying thinking about binding constraints suggests that the defining characteristic of the productive sectors in South Kordofan is that of low returns to economic activity, although the effects are manifested in different ways in rural and urban areas. We turn now to review these patterns and their implications, and suggest reforms and interventions that could have a positive impact in terms of improving production capacity and providing the underpinnings for more diversified economic growth.

Rural Development

Close to 90 percent of the South Kordofan population live in rural areas, and the crop and livestock production has its base here. What are the major constraints facing farmers and herders to improved productivity in the traditional sectors in rural areas? Largely, the persisting low returns can be associated with remoteness and poor infrastructure, insecurity, and low technology that have in turn resulted in failures to stabilize and improve yields and diversify production patterns, and low marketed surpluses. For crop and livestock production, there is an additional problem of uncertainty over the appropriability of returns, owing to the insecurity and conflicts over access to land and water.

A snapshot of the prevailing situation can be seen below:

- Low productivity in the **crop sector** can ultimately be associated with the remoteness of South Kordofan and the negative effects of the war. The conflict damaged infrastructure (eg. transportation, communication, electricity supply) and the competitiveness of the state's produce. This in turn led to a vicious cycle of low incomes and disincentives to invest in new technologies. One illustration of this trend is the deterioration of the large-scale mechanized sector, which during the 1970s and 80s contributed a substantive share

of national export volume for cotton and sugar, but which by the mid-1990s had virtually ceased operation.

- Similar patterns can be traced for the **livestock sector**. The livestock market in Kadugli was large and vibrant until the early 1990s, although oriented around local transactions rather than exports abroad. The market almost disappeared by the late 1990s as a result of the conflict, but has experienced some revival since the ceasefire in 2002. Livestock owners also faced greater pressure from declining rangelands and competition over water. Livestock nonetheless represents an important source of wealth and constitutes the main form of household saving, underlining its continuing importance in the economy.[49] Constraints include the high marketing costs due to long treks, the low off-takes in herd levels that put an increased pressure on rangelands, heavy taxation on animals by local authorities, and an elaborate sales and marketing system that includes several intermediaries before the livestock reaches the terminal market. The average price of livestock that can be obtained in South Kordofan is significantly lower than the export price.[50]

- **Gum Arabic** possibly represents the largest trade potential, as the state produces close to half of the total crop in Sudan (in 2000 the export value was about US$ 53 million). Gum arabic is primarily produced by small-scale farmers in rural areas, and the cultivation could be an important part of a diversification and growth strategy, including in the more remote rural areas. However, the competitiveness of the whole sector is hampered by the current price policy (state monopoly), and the lack of capacity to collect and process the gum locally. The reforms which are needed were identified in the World Bank Gum Arabic Policy Note (2007), namely the need to reform the marketing policy (currently government monopoly) and create improved incentives for farmers to produce gum once the market has been decontrolled.

- **Horticulture** also has a large potential, as available land is underutilized. Expanded production, however, faces problems of access to water, processing infrastructure, and transportation constraints.

[49] IFAD, 2004
[50] World Bank, 2007a

Several cross- cutting issues are emerging. These are dominated by the negative effects of lack of infrastructure, both for transportation and processing, the difficult geographic circumstances – in particular long distances and lack of water in certain remote areas - and capacity constraints due to low technologies. To address these constraints, the state and federal authorities could focus on the following recommended actions:

At the state level, the authorities could initiate several efforts that would have positive effects on the private sector's abilities to generate economic growth. In particular, short term efforts should focus on the following:

- *Strengthened infrastructure connectivity.* The roll-out of transport infrastructure, especially rural roads, is a fundamental requirement for reducing costs, and allowing improved access to markets. Some initial improvements are already underway, including the roads from Dilling to Kadugli and Kadugli to Kauda, and Kadugli to Dilling and Dilling to Dashol, and the railway. Progress is expected to be visible in 2008. There are mechanized and large-scale agricultural activities in Dilling which will benefit tremendously from the road construction and improved marketing of produce. This area in the eastern part of the State supplies many imported and locally produced goods and deeper economic analysis is needed to fulfill its potential in production and employment generation as well as its role in transforming the state from its subsistence base. However, the state authorities should strengthen the infrastructure network through encouraging construction of a basic rural roads network initiative along with telecommunications and rural electrification.

- *Investments in market infrastructure*. This is particularly important for the livestock sector, as well as for crops like horticulture and gum Arabic. One option could be to selectively encourage the establishment of certain markets that are likely to have a significant catchment area. Such markets would serve to reduce the handling costs for producers in the catchment area as well as nomads along their stock route. Another example could be the introduction of improved grades and standards, which could have a positive effect on marketing and reduce handling costs. The competitiveness of the whole sector is also hampered by its price policy.

- *Improve farm productivity.* The traditional sector is facing significant structural constraints, and there is a need to better adapt technologies to the diverse local conditions that exist for crop, livestock, and other activities. Technological development and investments to improve input and output markets have particular relevance for horticulture and gum processing, but access to technology to improve farm productivity and expansion of capacities for small-scale gum collection are also important. Research show that productivity per tree could increase by around 50 percent through better tapping methods.[51] At the same time, improved knowledge is needed about crops, livestock (veterinary and other), forests and water. One suggestion would be to cluster this around existing colleges and universities in the state, and include a strong emphasis on extension even from the initial stages.

- *Water resource management.* Local systems of water resource management, from small scale irrigation to water harvesting, can play a role in allowing more regular availability and reducing risks related to inadequate and fluctuating rainfall.

- *Off-farm rural.* As indicated above, non-timber forest products, gum arabic and horticulture production are all important for the livelihoods of people in South Kordofan. Enhancing the market access will likely help improving the marketing of these products, and together with private investments in packaging and processing facilities, will likely result in greater scope for off-farm income earning opportunities.

- *The special case of pastoral areas.* Pastoralists are suffering both from long-term exclusion from some of the most fertile rangelands and continuing vulnerability to weather-related shocks and herd loss. In addition, the conflict reduced trading at local markets, and forced herders to face long treks to reach livestock markets in North Kordofan. However, there is considerable potential, provided that there is a well-designed strategy of consultation and engagement with pastoralist communities to inform efforts to improve service provision (for example veterinary and market information services). At the present, the programs targeted to pastoralists include seed broadcasting and the opening of the corridor. Supply chain development to link more directly to markets,

[51] World Bank, 2007a

possibly through establishment of terminal markets in Babanosa where the railway could alleviate the current transportation problem, could also be considered.

The federal government could focus on initiatives that would improve trade and marketing mechanisms. A successful strategy for improved productive capacity requires an appropriate enabling environment. A higher growth rate in the agriculture sector may be possible but only if the exchange rate, government support services, and incentives for private sector investment in agriculture are appropriate. This should include the removal of many of the administrative barriers currently facing the sector, including the raw gum arabic monopoly and some of the remaining price and market controls for livestock.

Furthermore, exchange rate trends appear to be damaging the agricultural sector. The appreciation of the Dinar has significantly eroded the competitiveness for Sudanese agricultural products on the international export market, as well as higher competition on the domestic market with cheaper imported foodstuffs. Exchange rate policy is relevant to a strategy for improving yields and competitiveness of agricultural produce from South Kordofan, and other poor regions of the country, over the coming years.

Approaches responsive to the prevailing local conditions need to be developed, which are adaptive and experimental, and learn over time from results. Shifting to a locally adaptive approach that recognizes the heterogeneous character of local constraints and possibilities is desirable and involves further consultations at the state and locality levels. The types of intervention that will open up productive possibilities or relax constraints will vary across areas, ranging from local water management, to techniques for tilling black soils, to crop product shifts (for example to horticulture or gum), to intensification of small livestock development. In the poorer areas in the Nuba Mountains and the western parts of the state, there are likely to be local areas of higher potential in specific areas of better soils, or more highly skilled and entrepreneurial farmers, who could be facilitated by activities to support water management, for example. Area-based rural development programs have been piloted (eg NMPACT), and should be explored also in other areas of the state (see Box 10).

Box 0.2: Lessons Learned from the NMPACT Community Empowerment

The World Bank initiated a Community Empowerment Project (CEP) in the Nuba Mountains in December 2003. The project aimed to support community efforts for reconstruction and self-reliance, strengthen trust and cooperation between parties, ensure that reconstruction and development assistance addresses the needs and priorities of the people of the Nuba Mountains, and serve as a pilot for coordination and community-

driven reconstruction efforts that could be replicated in other parts of Sudan once a peace agreement was reached.

A Community Empowerment Fund (CEF) constitutes CEP's main vehicle for civic empowerment. While the project is still under implementation, there are indications that the project is having a tremendous impact in terms of strengthening the self-reliance and local governance in the target communities. In particular, project activities have led communities to:

- independently managing their project resources and sourcing micro-project inputs,
- securing guarantees from state and local authorities to support newly constructed public facilities,
- establishing user fees to ensure continued service provision after project close,
- modifying the size of beneficiary groups to ensure sustainability of income generating activities, and
- indicating a willingness to use own resources to extend CEF-financed structures.

Furthermore, evaluation reports recount examples of enhanced local accountability and governance, for example by communities taking action to change development committee membership when members were found to be ineffective or unresponsive, holding the committee accountable in rare cases where funds have been misappropriated (only reported in two of the 37 sub-projects financed to date), and turning around failing sub-projects through local level initiatives. A potent example is from Lambol village in Lagawa County, where the VDC treasurer succeeded in taking off with 700,000 SD (about $2,500). The village tracked him down to Khartoum, had him arrested and brought back to the village. Not only were all the funds returned, but the culprit had to pay an additional fine into the village bank account.

The CEF has also had large positive impacts in terms of strengthening the influence of women and youth in target communities, as well as positive capacity building impacts for local implementing NGOs.
However, a remaining challenge relates to linking the project to local authorities to ensure longer term sustainability of activities, and to strengthen the peace building focus among communities that are in conflict with each other.

Urban Development

While agriculture and livestock will remain the key to economic growth for the foreseeable future, the rise of urban centers will be crucial to trade, marketing and services. In particular, the urban based private sector will be important to facilitate increased competitiveness and the ability to market products in South Kordofan.

In urban areas, the problem of low returns can be traced to weak service infrastructure, a poor investment climate, and associated problems with market integration. Weak market integration is in turn influenced by the lack of transport and associated high costs that result in low competitiveness even on the domestic market, and thin trading networks.

Today, only about 12 percent of the total state population lives in urban areas, particularly in towns like Kadugli, Dilling and Rashad, where populations numbering 270, 325 and 225 thousand respectively in 2004. However, the rate of urbanization may be expected to increase in the coming years. Despite the deteriorated infrastructure, a significant number of people are engaged in off-farm activity, with petty trading and small business accounting for an

estimated 10 percent of total economic activity in the state.[52] There are indications that cash-earning activities are becoming more important to household livelihoods, including to finance access to services. Since 2005, urban centers have already experienced a marked increase in trade through local shops, although a quick survey suggested that the supply is limited and fairly similar across vendors.

Looking ahead, small and micro-enterprises -- in all economic sectors be they agricultural, industrial or trade and service oriented -- are likely to be the most viable option for most potential entrepreneurs. These activities have much to contribute to the development of the region. A cash economy is slowly replacing the subsistence economy in South Kordofan. This is an inevitable part of the development process and will open many opportunities. In the short term, however, price fluctuations, low market access, non-competitive markets, low levels of education, few alternative income-generating opportunities, few assets, and very limited access to capital and financial services can increase the vulnerability of poorer households who account for most of the rural population.

However at present, local private businesses and investors find it difficult to compete with producers in other northern states and imports. Below we review different constraints to the investment climate – access to capital, weak industrial supply response, infrastructure and market functioning, and administrative costs – and assess current problems and policy implications. The high transaction costs also explain the reluctance of banks to offer financial services to small and micro entrepreneurs.

Finding appropriate funding was singled out as one of the major problems faced by the majority of micro-entrepreneurs interviewed for the purposes of this study. None of the Banks in Kadugli are currently offering micro finance to small businesses. A number of UN agencies and international and local NGOs have been offering these services (e.g. International Fund for Agricultural Development, UNDP, Concern, Ru'ya Association, Azza, and the Nuba Relief, Rehabilitation and Development Organization), although the impact has been limited.[53] To improve the situation, the Central Bank has developed a strategy for encouraging micro credit, although the impact has so far been limited (see Box 4.3).

Box 0.3: CBOS Strategy for Encouraging Micro-Credit

[52] IFAD, 2006
[53] FMH et al., 2006

In 2006 the Central Bank of Sudan (CBOS) launched a microfinance development strategy aimed at facilitating sustained access to financial services for the economically active poor in rural, semi-urban, and urban areas. The objective of this strategy was to enable the micro-enterprise sector to access financial services that include savings, cash transfers and insurance by developing a microfinance industry that is institutionally and financially sustainable, and integrated within the broader formal financial sector.

In essence, the strategy aimed to expand micro finance through:

1. Facilitating the licensing of new local MFIs and descaling of existing banks to serve as specialized microfinance institutions.
2. Using less costly and more innovative approaches to facilitate delivery of services, e.g. use of mobile banking
3. Reviewing and making more flexible requirements for bank branches such as security standards, working hours, daily clearing of accounts or limitations on location.
4. Creating linkages between banks and NGOs & Community Based Organizations (CBOs) particularly in the remote rural areas where banks have difficulty reaching the poor.
5. Pricing microfinance products on the basis of adequate costing with the aim of stimulating their supply.
6. Creating a better understanding of the demand side and ensuring better targeting of credit worthy, economically active clients. This is to be achieved by mapping the un-served or underserved markets, defining the clients and studying their needs through detailed market studies

The reluctance of banks to offer financial services to small and micro-entrepreneurs is mostly related to the relatively high 'transaction costs'. Micro loans are small in size yet the associated administrative costs are similar regardless of size. Small entrepreneurs are perceived as being risky clients because they cannot offer the needed collateral and do not keep proper books.

As a result, small entrepreneurs rely mostly on advance payments by customers, savings and accumulated profits, as well as loans from friends or family members. However such resources are limited given the low average levels of cash income in the state. The establishment of sustainable financial services could help small traders to improve market access and competition, and enable small farmers to cope with price fluctuations and to invest in agricultural inputs. In other parts of Sudan, the promotion of traditionally known *sanduq* savings groups has proven successful in addressing the needs of the most vulnerable groups. In addition, their traditional bias towards female-headed households is an advantage, and their chances of being sustainable over the long term are better than those of classical microfinance approaches because they do not depend on money-lending institutions or require a centralized repayment mechanism.

Manufacturing supply response to several years of peace and macroeconomic stability remains weak in Sudan. This has generally been traced to supply-side rigidity, infrastructural

bottlenecks, high cost structure, and domestic demand constraints in the face of vast majority with inadequate purchasing power.[54]

Micro and home-based enterprises engaged in the processing of domestic raw materials seldom edge into higher value added products that ensures enhanced earnings. Raw materials are generally not processed in value-adding activities. Another constraint is that the supply and reliability of utilities seem inadequate, exemplified by the low access to electricity and high cost of communication and the poor road conditions.

Infrastructure investments in the state were limited even before the war. Inadequate transportation linkages limit the availability of commercial inputs (seeds, fertilizers, chemicals) and restrict access to markets. Now, in northern and western parts of the state roads are being constructed, including the road from El Obeid to Dilling, which is now paved and is being extended to Kadugli, and the road from Dilling to Abyei. However, secondary/feeders are non-existent or exist as seasonal tracks only, and in general the roads network does not extend to the eastern and southern parts of the state. Remote areas especially need to be linked to the transport grid. Other infrastructure services, particularly power and water, remain to be improved. Prioritization and sequencing will be needed as well as serious considerations about the trade-offs between different choices, given costs involved. At the same time, alternative options for rapid implementation should be explored, including the use of public-private partnerships that would provide additional benefits to the local private sector.

Administrative barriers face the private sector in terms of business registration, immigration, and customs. At present, new formal sector businesses face lengthy delays in the registration process. Findings from the ongoing Diagnostic Trade Integration Study show that quantitative restrictions, seasonal limits, and outright bans are imposed on some agricultural products, including sugar, oilseeds, fava beans, and raw cotton, as well as some industrial products, including cotton yarn. Export restrictions continue to exist for raw gum arabic (export monopoly) and hides and skins (15 percent export tax).[55]

[54] World Bank, 2006a
[55] World Bank, 2006f

Multiple taxes imposed at the national and state level and inefficient administration increase business costs and uncertainty. Efforts to introduce unified tax collection offices have not yet been effective. VAT administration is weak with little expectation by the private sector that they will be able to recover refundable VAT payments.[56]

Given these constraints, the state and federal authorities need to work on jointly reforming the investment climate. Initial policy options to be considered could include:

- *Improving the transport network.* The long-term aim should be to integrate the state through connecting the major towns, and to link to external markets, most notably in El Obeid and Khartoum. Part of this is already being achieved through the Kadugli – Dilling corridor, but more efforts are needed to connect with the resource rich areas of the south-eastern parts of the state, as well as to connect with the former West Kordofan. The latter would also bring additional benefits in terms of providing access to the railway in Babanosa, which is being rehabilitated. There is a need to look at options for rural roads to provide improved access to farmers, and to integrate local producers in the supply network.

- *Provide access to credit.* Given the large constraints to, and risk averseness of, the formal banking sector in Sudan, options to introduce micro-credit schemes in South Kordofan could be explored. Such schemes have proven successful in instigating small-scale private investments in other parts of the world, and experience from elsewhere shows that NGOs are likely to be the most viable delivery mechanisms. A range of reforms could be proposed to encourage microfinance and leasing, which tend to rely less on traditional forms of collateral as a short-term solution.

- *Strengthen the quality of market-supporting institutions and improving service infrastructure for urban investors.* The ongoing Investment Climate Assessment (ICA) will help identify key constraints and reforms needed, and its recommendations should be useful to point out reforms needed at national and state levels. At the same time, the authorities could immediately start to streamline the business registration process and look at the current level of taxes that are being imposed on traders. Lastly, as described below, land registration poses the largest impediment for investment in the region due the lack of clear

[56] World Bank, 2007e

property rights outside of city boundaries, and the legal framework for property rights should be clarified.

It will take time to build the capacity needed, which includes the development and utilization of infrastructure, logistics, communications and entrepreneurial skills that are part of larger scale trading. The reconstruction period can be used to encourage a more vibrant private sector in the state through application of public-private partnerships (PPP) in construction activities and infrastructure projects.

Inadequate Public Investment

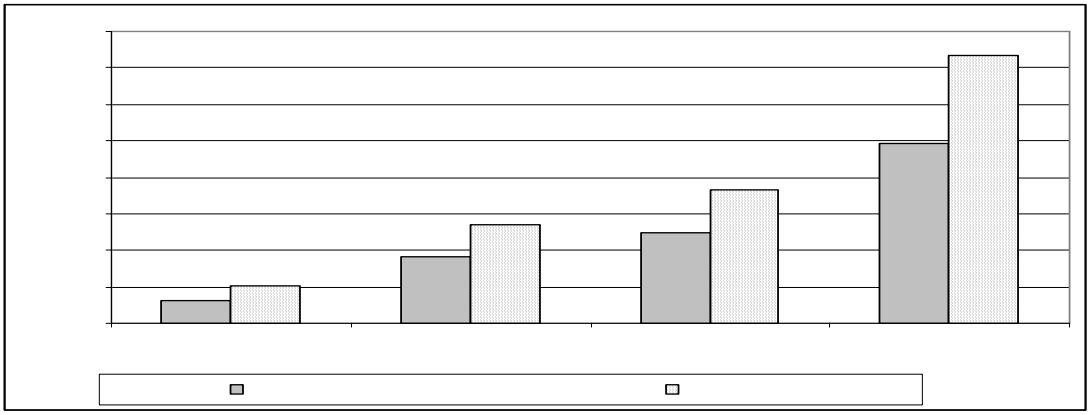
There has been only limited public investment and development activity in South Kordofan to date, certainly relative to development needs. Some government projects are now underway, including the South Kordofan Road Development Program (SKRDP) is now in its second phase. In 2006, total federal support to the state was about US$ 25 per capita, compared to an average of over US$ 45 for the northern states overall. Development spending in particular has been constrained by weak local revenue base and insufficient federal support, and compounded by weak capacity and low external financing.

As highlighted above, South Kordofan's own revenue remains weak and insufficient, and the reliance on transfers from Khartoum has, over time, increased dramatically. This picture can be seen throughout the northern states. While transfers are a key feature of fiscal decentralization and necessary to effect redistribution to poorer states, the lack of transparency and predictability of these transfers compromises basic fiscal management. Some transfers are conditional or tied, which limits states' autonomy. Development transfers, for example, require submission of proposals from the state authorities to, and approval from, MOFNE.

Trends in GNU budget allocations for the Three Areas in general, and South Kordofan in particular, against the commitments laid out in the JAM has been slower than expected (Figure 4.2). In 2005-2006 federal support was around 35-40 percent below what had been agreed in the JAM. For 2007, the JAM projected a rapid increase in financial support directed to the Three Areas (US$364 mil, up from US$270 mil in 2006). According to the 2007 budget, the GNU plans an increase to US$248.8 mil, compared to US$182.8 mil in 2006. While this is still 32 percent below the amount envisioned under the JAM, given the shortfalls

in external financing relative to expectations, it is consistent with the JAM target of two-thirds domestic financing of development efforts.

Figure 0.2: Estimated JAM costs for Three Areas, versus reported transfers



These include: (i) very weak sub-national autonomy and increasing dependence on federal discretion regarding policies and spending; (ii) poor budget credibility; (iii) lack of transparency and accountability in public spending; and (iv) lack of effective financial management systems and capacities.

To ensure appropriate returns and sustainability of expected increases in public investment, modalities need to shift away from the over-centralization that tends to characterize the Sudan. There is a critical need to involve and strengthen the state and local development institutions and a broader set of stakeholders in development planning, implementation and monitoring through consultations and improved accountability in local government structures. The PER suggests capacity building should include strengthening state-level project appraisal and management capacities, encouraging and utilizing the existing locality capacities to identify development priorities, and beginning to strengthen fiscal management at the locality level. An improved approach could involve a combination of the state and local levels driving the identification of priorities, and in turn driving the funding and strategic management, alongside an active capacity building push that will help sustainability over the medium term.

The foregoing suggests elements of an agenda for capacity building in South Kordofan, though a more detailed assessment would be useful to better highlight specific areas of needs and sequencing between different interventions. Immediate needs include capacity building in overall budget processes, revenue estimation and collection procedures, and development planning and execution. However, it is important to underline that these efforts would be largely wasted if there is no significant progress on the reform agenda (see Section 3).

A workshop in Kadugli in December 2006, attended by federal, state and locality representatives, shed some light on the massive capacity needs of the state to improve fiscal and financial management. In particular, government officials highlighted the need to improve the state and locality fiscal autonomy, make intergovernmental transfers more transparent, secure better data to improve resource allocation and focus on pro-poor spending. In addition, the need to further develop the planning, budget and implementation processes was highlighted, as was the role of a better system for monitoring indicators and impacts to inform decisions on development spending. At the end of the workshop, and action plan was agreed

on, and the state authorities have formed a steering committee that is working to implement the workshop recommendations (Box 4.4).

Box 0.4: An Action Plan to Improve South Kordofan's Budget

A budget workshop was jointly organized by the State Ministry of Finance and the World Bank in Kadugli in December 2006, and attended by representatives from all the state ministries and all nine localities. The discussions highlighted the weak state of budgeting and planning in the state, and focused on identifying key capacity and institutional constraints that could lead to improvements in public resource allocations and poverty reduction.

At the end of the workshop, the following eight-point action plan was jointly developed, that aimed to:

1. Improve state and locality level fiscal autonomy
2. Make intergovernmental transfers more transparent
3. Better data to improve focus of pro-poor spending
4. Improve budget processes: preparation, implementation and monitoring
5. Improve development planning and execution
6. Increase capacity for effective and transparent budget planning and execution
7. Establish a center to develop and maintain the database
8. Establish the mechanisms to follow up on and execute the above recommendations

A steering committee was established, comprised of all nine Director Generals and the Secretary General of the state government, and charged with implementation of the action plan. The committee will meet biannually.

Based on the foregoing, it is clear that increased efforts are needed to increase development financing available to South Kordofan, along with improved budget management and accountability. To facilitate these efforts, increased financing is needed, and the following measures should be considered in this respect:

- *Continued commitment at the national level to increase levels of federal support, consistent with pro-poor objectives.* The federal government is encouraged to meet its commitments in the JAM for increased pro-poor spending. A completion of ongoing work by the Fiscal and Financial Allocation and Monitoring Commission (FFAMC) to improve the criteria underpinning these transfers will be important, but equally crucial in the short term will be a greater clarity on the structure and formula of federal transfers, and the special allocations for oil and development associated with the CPA. The World Bank Public Expenditure Review state case studies documented fixed shares of federal transfers which show that NSSF uses a criterion that is outdated. Neither the degree of states' security and economic situation and structural changes appeared to have been taken into account. The size of each state's development transfer is designed to be determined by a criteria-based methodology which includes economic outcomes, social welfare, geographic changes, implementation costs of the projects, strategic importance and environmental effects and consistency with national planning. However this not seem to be the case in practice. The persistent track record of centralized control of development

spending and the low level of information about transfers given to the state government makes it difficult to plan and implement important development programs across years.

- *Improved efforts at the state and locality levels to increase the own source revenue base.* Currently, the state heavily relies upon current transfers. While federal support will remain crucial also in the future, the state authorities could decrease their reliance on transfers through efforts to improve own revenue estimation and collection capacity. The system was largely destroyed during the conflict due to insecurity and institutional failures, but could be reestablished through a concerted effort to build collection capacity at the locality level. This would first and foremost require a greater clarity on the taxes and revenues assigned to the locality and state, and would also benefit from greater clarity in terms of budget and planning processes. One area of improvement could be in the VAT mobilization, which at the present is very weak.

- *Significant increases in the level of external support.* This analysis has highlighted that external support is far below agreed targets for recovery and development. While this can be associated with continued humanitarian needs and delays in key governance reforms needed to facilitate more rapid development efforts, international donors should urgently increase their commitments to the three areas. At the same time, efforts should be explored to improve the effectiveness of delivery in South Kordofan through better monitoring and evaluation of expenditures, and implementing partners should be held accountable through the same means and targets as are imposed on government actions.

Several initiatives appear to be potential ways in which the State authorities could initiate more widespread reform of the fiscal management institutions and systems in the state. This would strengthen the ability of state and locality authorities to more effectively plan, implement and monitor development programs and projects, and improve public investments in needed social services and poverty reducing initiatives. There are several inter-related aspects.

- *Generate better data to improve budget management and the focus of pro-poor spending.* This could include preparing a sectoral breakdown of 2000-2006 expenditures for the state and localities (including project-level disaggregation of development spending), to enable

an estimate of pro-poor spending (using the agreed on definition).[57] Steps could be taken to measure and review trends in civil service size and composition, identifying those providing pro-poor functions – eg primary schools, and to develop options for improved data collection and information sharing, especially with the locality level: including private sector and agricultural activity as well as access to services.

A *statistical unit could be established*, responsible for better data collection that can underpin budgeting decisions. In addition to revenue estimation at state and locality levels, this could include social and income data to ensure a pro-poor focus in budget allocations, and disaggregated data on economic activity

- *Continue civil service integration.* Actions here include establishment of the state payroll in the former SPLM areas, and reviewing the size and composition of the civil service.

- *Improve budget processes: preparation, implementation and monitoring.* An important step will be to review revenue sharing arrangements for taxes and fees collected in localities, and to prepare a summary of current actions taken to make budget plans and outturns publicly available. Efforts to improve information sharing overall will be necessary, but in addition, important gains could be made through clarifying the framework, including preparing budget guidelines, the roles and responsibilities of the state and localities in budget management, and ensure clearly defined targets to reduce budget deviations (plans relative to actuals), over time.

- *Improved development planning and execution* could also be achieved through obtaining federal data on quarterly and annual development transfers (budgeted and outturns) and details of plans for federal development spending within South Kordofan. Guidelines are also needed to streamline development planning, including the role and responsibility of various local parties (e.g., state MoF and line ministries, localities, development partners).

- *Capacity building to ensure effective and transparent budget planning and execution.* A first step could include listing priority needs in the areas of budget management, including project management, procurement, intergovernmental fiscal relations, and awareness of pro-poor policy options and principles of good governance.

[57] World Bank, 2007e

Similarly, the issue of non-salary recurrent costs (i.e. textbooks and drugs) should be factored into the budget more explicitly to help ensure that poorer families do not have to bear the burden or are prevented from accessing services due to financial reasons.

Public investments should focus on furthering the decentralization agenda, including through *building service delivery capacity in the localities*. Community schools, health centers, and water pumps will have a direct impact on peoples' lives, and through training and involving local communities the efforts would get a longer term focus and chance of success. These efforts should emphasise the utilization of existing local structures for implementation of recurrent activities as a possible way to improve sustainability and accountability.

There is a need to review and clarify fiscal responsibilities (revenue and expenditure assignments) and the legal framework, and through making intergovernmental transfers more transparent. This work is already underway at the national level through the Fiscal and Financial Allocation and Monitoring Commission (FFAMC), and should include a review of the federal responsibilities for development spending at the state level, based on the recognition that overly decentralized financing of public good may lead to under provision due to problems with coordination and planning across years. The state can contribute to this process through reviewing monthly execution reports from MOFNE on actual transfers against own records, preparing monthly execution reports to the localities, and developing options to make the transfers of funds from the State to lower levels formula-based, predictable and transparent. In this respect, it is important to point out that the transfer system should ideally have built-in incentives for local revenue efforts, rather than focus on gap filling in the context of pro-poor needs.

Other reform initiatives at the national level will also have important implications for the state, including the ongoing efforts to further decentralize and improve pro-poor spending in the federal budget, capacity building efforts to improve public financial management at the federal and state levels, the implementation of GFS budgeting at all levels of government, and ongoing efforts to ensure equitable sharing of the oil income. To ensure that these national efforts are factored into planning and initiatives at the state level, the South Kordofan authorities should encourage greater coordination and information sharing between different levels of government. A steering committee that has already been established (see Box 10) could potentially be a good vehicle to ensure this coordination. At the same time, the above

initiatives could be commenced immediately, and would have a positive impact on the state's ability to gain synergies with federal initiatives once these are advanced.

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