

State Business Relations in Sudan: The Prospects for a Dynamic Private Sector

**A Paper prepared for the ERF's research project "Supporting Hirak",
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Background issues

- The paper seeks to contribute to the ERF/Carnegie research project; which interacts with the ERF/IDRC project “Supporting Hiraak”
 - Carnegie research track looks into the nature of state-business relations (SBRs) in Algeria, Sudan, and Ethiopia, and how these might evolve in light of the changing internal circumstances
 - The TORs for Sudan paper include the following:
 - ❖ The analysis should consider the shift from public sector, 1960s, to nationalization, 1970s, Political Islam cum civil war; 1980s, the rise of oil revenues, 1990s, clientelism cum cronyism party networks for rent distribution 2010s, and state disintegration since 2011
 - ❖ A political economy analysis drawing on legacy of these historical phases including highlighting the role of structural forces bedeviling the country since independence
 - ❖ Exploration of institutional ways to neutralize these forces, including highlighting the roles of democratic accountability, decentralization, social accountability mechanisms, boosting competition in agriculture; and disciplining of politicians

The Outline of the paper

The paper contains four major sections

- Introduction, Summary, and Policy Conclusions
- Literature Review and Analytical Framework
- Review of the SBRs Development in Sudan
- Conclusions and their Policy Implications

Objectives and Conceptualization of the SBRs

❑ Objectives

1. The broad objective is to identify the major changes in the SBRs that created influential historical legacies: state-private sector, 1960s, privatization 1970s, the rise of oil revenues, 1990s, clientelism cum cronyism party networks for rent distribution 2010s, and state disintegration since 2011
2. Highlight the political economy of these historical phases
3. Explore the ways for disciplining of politicians: (e.g. democratic accountability, decentralization, social accountability mechanisms, boosting competition law etc)

❑ Conceptualization of the SBRs

- The SBRs, focusing on the LDCs is new; and dominated by the industrial relations literature
- Several related conceptual terms are used in this literature (e.g., government business relations, public private sectors relations, public private partnerships, the state-market relations, and state-entrepreneurship relations, etc; (Lemma, A. and D. W. te Velde 2015))
- Aside from the terminological issues, since Smith (1765), where the price mechanism drives efficient resources allocations, there is no welfare-enhancing role for additional mechanisms such as the SBRs

Objectives and Conceptualization of the SBRs cont.

- Thus, from the outset the SBRs involve political economy issues relating to market failure and collective action problems collective action problems that loom high in the LDCs
- Then the Q is, why the state “benevolent sovereign” engages with PS perceived as diverse households and firms and why it engages the way it does?
- Despite the importance of the Q, , **there is no agreement on an analytical framework that links the SBRs to a political economy theory, TPE**, (Whitfield and Therkildsen 2011, Whitfield et al 2015; Haggard and Maxfield 1997 and Haggard et al 2018)
- This P is not exempt from this SCs.

Objectives and Conceptualization of the SBRs cont.

- Lack of emphasis on TPE is justified by the fact that empirical studies on the SBRs focus on how these relations are configured in a specific policy rather than on why and how the policy itself is formulated, (see e.g., te Velde, 2010, and Haggard et al, 2018)
- After disparate review of arguments, Whitfield and Therkildsen 2011 posited a TPE building on three propositions:
 - i) Political survival is the key incentive for state-rulers to coordinate with private actors;
 - ii) Whether rulers share a mutual interest with the PS to create productive rents; and
 - iii) Whether they are able to craft ‘pockets of efficiency’ in the bureaucracy in charge of implementing the SBR’s policies

Objectives and Conceptualization of the SBRs cont.

- In contrast, rulers may face incentive to survive on unproductive rents via corruption cronyism, predation, etc., (North et al 2009 and De Waal 2014a)
 - no separation of roles and institutions are less mature, and
 - state itself is endogenously determined; a variety of SBRs are possible even the PS may not needed in the state-economic business. (North et al 2007 and North et al 2013)
- Hence, drawing on the literature on the SBRs; Qs addressed in Sudan case are:
 - i) How the policies adopted by the state-rulers shaped the SBRs and why some achieved better outcomes than others; i.e., why some rulers survived on leveraging rents from productive sectors, while others preferred unproductive sources?
 - ii) What are the “implied” concrete SBRs deals in each case; and how the private capitalists’ farms and firms are incorporated into the rulers’ deals; and
 - iii) What are the policy implications of these experiences for the development of a dynamic private sector in Sudan?

Analytical Framework and Method of Analysis

- In addition to the literature on the SBRs, the paper draws on the TPE of development advanced in North et al (2006, 2007, 2009, and North, Wall Webb, and Weingast, 2013; henceforth, NWWW)
- This theory assumes;
 - i) violence is a shared feature of all human societies and its control depends on the institutions and incentives created for organization of rents production that deters the use of violence;
 - ii) the state is the basic unit, and its organization is separable form of the SBRs
 - iii) the PS (households and firms) responds differently to incentives compared to the state-rulers
- . Thus, the problem of violence control and economic rent production are key axes in this theory.:
 - Ascending the space of social orders defined by these axes depends on the presence of incentives for collaborative deployment of state-power for progressive structural transformation which the is key developmental challenge.
- Progression bounded by these axes depends on three doorsteps conditions:
 - i) rule of law; ii) the perpetual state organizations and iii) the scope of controlling the organizations with violence capacity
- NWWW applied this framework to historical data and identified three types of: social orders FSO, LAO, OAO; and within the LAO three types of states are identified: a) mature; b) basic and c) fragile

Analytical Framework and Method of Analysis cont.

- In the same vein, Acemoglu and Robinson (2020), develop a PET of development to answer the key Q, why some state-rulers achieved better outcomes than others?
- In this theory the evolution of the power of society and power of the state are key axes
- AR applied similar doorsteps conditions to historical data; and showed that various trade-offs are possible in the state-society space, but not all lead to a mutually beneficial progressive structural transformation that strengthens both:
 - ✓ In one extreme, when the state dominate, authoritarianism becomes the norm and rulers decide for society
 - ✓ On the other, when the state is fragile, a complex set of informal-traditions become norms for regulating individualized society that does not trust the rulers
- ❑ A major consensus in the comparative political economy of development and SBRs literatures is that, the emergence of powerful elites who coordinate rather than fight is crucial for coercing SBRs that are also decisive for transitioning up the spectrum of the states types including types of social orders

Analytical Framework and Method of Analysis cont.

➤ A two-steps method of analysis is used:

- **The first** step links the SBRs to the general TPE of development advanced in NWWW and AR to establish qualitative scoring on the effectiveness of the state as a sovereign milieu in terms:
 - Degree of separation of the military, economic and religious organizations
 - Fulfillment of the three doorsteps conditions
 - Since land is most abundant compared to capital and labor in Sudan, it is assumed that; the control and expansion of the sovereign landmass including its business-zone of influence significantly reduce transaction costs (+tive externality of sovereignty: policing, security of property rights, and contract enforcement) that in turn boost trade and crowd-in the private sector
 - Thus, the effectiveness of the “state” is qualitatively represented in two coordinates networking a sovereign landmass in the vertical axis and transaction costs in horizontal axis
 - The progressive solution to the violence problem the configurations of the SBRs move simultaneously upwards and towards the origin reflecting gains from sovereign’s business-zone of influence and reduction in transaction costs

Analytical Framework and Method of Analysis cont.

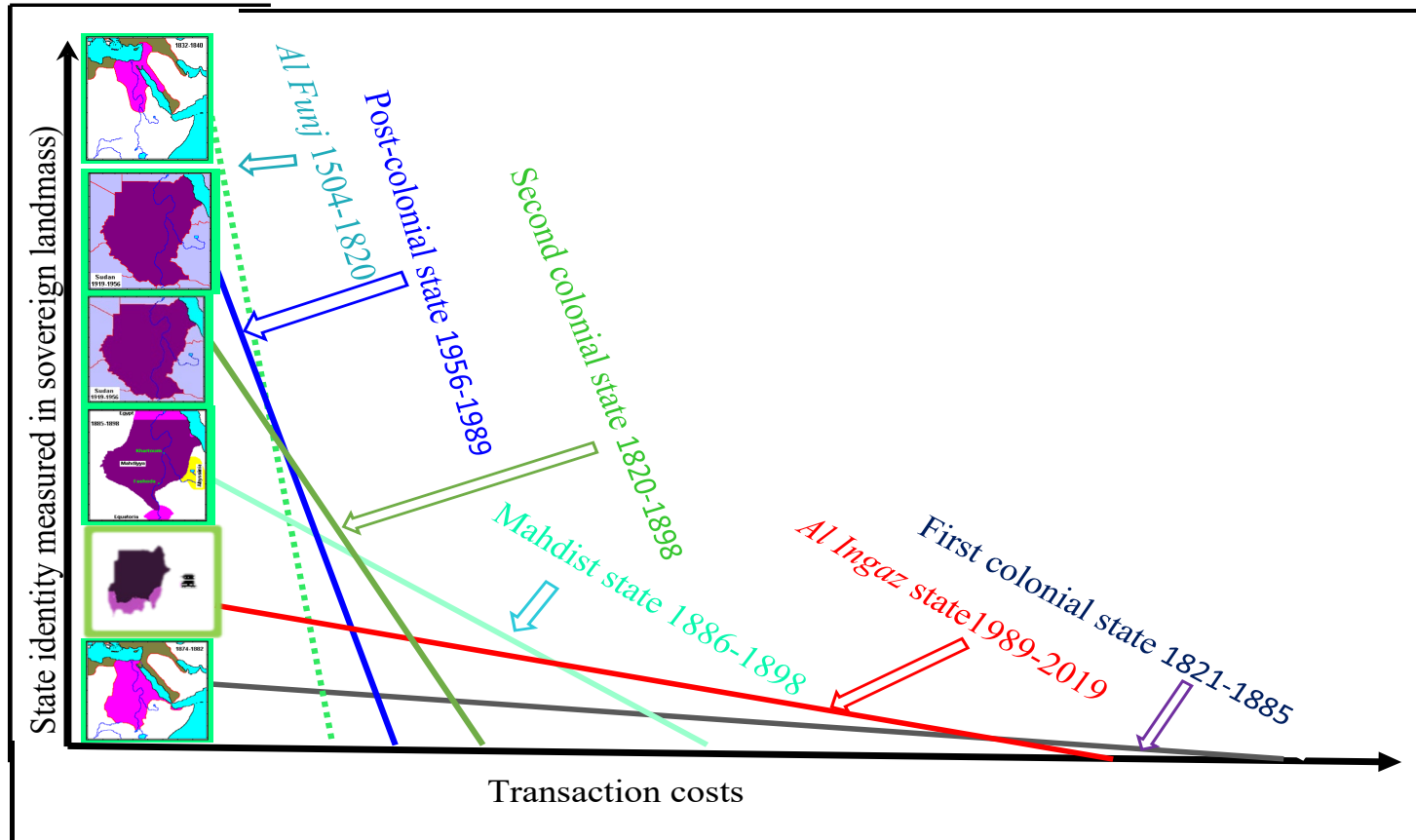
- **The second step** drew from the SBRs' literature to establish qualitative scoring of the effective deployment of the state that resulted in transformative productivity growth.
- Thus, transformative productivity growth is indicates notable shift in the path-dependent SBRs indexed by a move simultaneously upwards and towards the origin sovereign-landmass and transaction costs space
- The critical juncture approach to the theory of path dependence is used to highlight the historical peculiarities and the antecedent conditions that preceded the implementation of a SBR-policy, (North 1990 and Capoccia and Kelemen 2007)
- ✓ Issues reviewed during the juncture include;
 - i) who are the dominant state-rulers; ii) what are their “implied” SBRs’ policy for rents production; iii) why the selected policy triumphed; iv) how the private sector is impacted; and v) what are the sources of the major head and tailwinds associated with the chosen state business policy relation?
- ✓ Since observing major changes in the against a backdrop of a clear juncture of structural fluidity takes time, the review period covers 1821-2018
- ✓ Information is drawn from secondary sources to establish qualitative performance’s indicators in terms of: i) the doorstep conditions governing the transition between NWWW’s types of state; and ii) the threshold conditions for successful deployment of the SBRs that reslted in transformative growth, (Whitfield and Therkildsen 2011)
- ✓ *Al Funj sultanate* 1504-1820, is briefly highlighted in the background

The major results

Five major shifts in the configuration of SBRs after are identified based on the differences in:

- i) the sources of economic rents;
- ii) the organization of the SBRs including the mobilization of the political and economic actors;
- iii) the mechanisms that perpetuated the stability of these relations

Figure A.1. The Coevolution of Sudan's Sovereign Land-territory and Transaction Costs¹



Each change represents a relocation away from a previously better path-dependent configuration of the SBRs, reflecting shrinkage of sovereign landmass including its business-zone of influence and swell in transaction costs that heavily weigh on the development of the private sector,

The major results cont.

Types of State that ruled Sudan over 1821-2018/¹

State type	Economic Organization (EOs)	Political Organization (POs)	Violence Capacity (VC)
Colonial LAO Turco-Egyptian (1821-1885).	All EOs and POs are controlled by the state.		All organizations with VC in neighborhood are controlled by the state.
Basic LAO Mahdist state (1886-1898).	All EOs are linked to the state.	POs are limited and controlled by the state dictatorship. Oppositions are banned and under threat.	The main VC organizations are part of the state and influential nongovernment organizations with VC also exist.
Colonial LAO Anglo-Egyptian (1899-1955)	All EOs and POs are controlled by the state.		All organizations with VC in vicinity are controlled by the state.
Basic LAO Post-colonial (1956-1988)	All EOs are linked to the state.	Most POs are controlled by the state dictatorship. Oppositions parties are under threat.	Many VC organizations are part of the state, yet significant nongovernment organizations with VC exist.
Fragile LAO Al-Ingaz (1989-2018).	All EOs and POs are controlled by the state.		All existing organizations process VC and civilian and military organizations not clearly distinguished

1/. The typology is based on the requirements for transitioning along the LAO spectrum of types of states that include the separation and consolidation of the military economic and religious organizations and the doorstep conditions. North et al (2013) provide a discussion of these conditions with application to LAO.

The major results cont.

Rents polices and their administration by types of state 1821-2019/1			
State type	Rents sources for state survival	Concrete policies implemented	Administration of the state rents policies
Colonial LAO Turco-Egyptian (1821-1885).	Tax and state-led PTEA.	Change tax from in-kind to coins; introduced land measures, and incepted the state-led PTEA.	Professional Turco-Egyptian officers assessed by local judges and junior staff.
Basic LAO Mahdist state (1886-1898).	Alms; gifts; lease rents from land confiscated from the colonizers and 10% tax on cattle and land fruits.	Change tax from in-coins to Islam tax (alms and Kharj on land in kind); and slavery ban.	Mahdist officials assisted by professional expatriate staff (30% of the bureaucrats).
Colonial LAO Anglo-Egyptian (1899-1955).	State-led PTEA; monopoly rents form finance and foreign trade and tax on land (equivalent to Kharj).	Land measures; native administration and slavery ban.	Professional British officers (Sudan Civil Servants) assessed by local judges, native administrators and junior bureaucrats.
Basic LAO Post-colonial (1956-1988).	State-led PTEA; monopoly rents form PTEA replicas and indirect trade tax.	Organization of PTEA under Al Gezira Board; nationalization and confiscation measures	Al Gezira board and professional state officials.
Fragile LAO Al-Ingaz (1989-2018).	Crony businesses; oil; quasi-legal and even illegal rents.	Al-Tamkeen; privatization; and the Act repealing PTEA and Al Gezira Board.	Al-Tamkeen prioritized loyalty over professionalism blurring professional and personal boundaries.

1/. Based on Table A.1. including the review of the SBRs and the private sector development in Sudan, (Section III) and the tripartite simultaneous conditions need successful deployment of the SBRs discussed in (Whitfield and Therkildsen 2011 and Buur and Whitfield (2013)).

Conclusions and policy implications

- ❑ Two broad conclusions could be drawn relating to the key sources of continuities and discontinuities of the economic norms governing the rulers' organization of the state and the SBRs
 - One source of continuity follows from the observation that, all elites who ruled Sudan since *Al Junj* resorted to Islam for legitimacy and for establishing law including for citizens' mobilization
 - ✓ **E.g.**, imperial treasury of *Al Funj* and *Bayt al-mal* of the Mahdist state that were inspired from *Bayt Mal Al Muslimeen* created in 620)
 - The other source of continuity related to *Al Musharaka* institution, which is a private business relation for mitigation of the investment-risks in the fertile riverain lands subjected to heavy ownership fragmentation due inheritance rule.
- ✓ The Turco-Egyptian and the Anglo-Egyptian colonizers formalized *Al Musharaka* and used it in the development of large-scale state-led irrigated cotton production in partnership with tenants (henceforth state-led-PTEA)
- ✓ State-led-PTEA becomes iconic in Sudan and is articulated in the infamous Al Gezira Land Ordinance of 1921 that governs land uses to date
- ✓ It survived in post-colonial period 1956-1988, despite the numerous changes of state-rulers featuring a path-dependent process and lock-in the SBRs initiated by the early colonizers
- ✓ It became ancestor of large-scale public-private dam-irrigated agribusiness in sugar and wheat as well as for the private agricultural entrepreneurs in semi-mechanized rain-fed large-scale agricultural schemes

Conclusions and policy implications cont.

- In the lens of the industrial policy approach, the major sources of the tailwinds that supported the continuity of the state-led-PTEA related to:
 - i) strengthening of the existing institutions of private property rights against uncompensated up-takings by the state, ii) massive mobilization of much broader segments of population beyond those who control and administer the state; iii) the implementation of comprehensive land measures that boosted land productivity; and iv) pack up of the bureaucrats; who effectively implemented the state's plans.
- Domestic private businesses significantly boomed on the back of the colonizers need to develop the state-led PTEA.
- Outside the the state-led PTEA, business continued as usual in nomadism, agriculture and trade benefiting from actors' knowledge of the difficult and hostile terrains uncontrolled by the colonizers
- Those who lost the protection of the precolonial system including those with less access to the colonial institutions overtime they became dependent upon the most privileged ones

Conclusions and policy implications cont.

- The other source of discontinuities related to withdrawal from the state-led PTEA that occurred during the rule of the Mahdist and *Al Ingaz* states. But the alternative rents source put in place; and the ways of mobilizing the private sector completely differ:

The Mahdist state

- Followed a bottom-up approach for rallying for Islam to unify people under flagship against the exploitative colonial state, where there is no unified flag to speak of
- State-led PTEA stalled due to the soar relations with the colonizers, the destinations markets, but inherited state-led PTEA's infostructures were used in the development of the domestic economy (a key element of continuity)
- *Bayt al-mal*, the fiscal institution, restored *Al-Funj* in kind taxes-the major alternative rent source- and tolerated defector currencies, both policies are crafted in compliance with *Tanzimat*' standards of the Ottoman Empire
- State-pack up of bureaucrats with 30% outsourced on merit
- Private businesses benefited from i) the slavery ban which boosted wage labor, and ii) the tax reform that significantly released the private sector from the burden of the exploitative colonial taxation

Conclusions and policy implications cont.

Al Ingaz state

- Inspired by the desire for the renewal of religious understanding; and used top-down approach to rally for Islam in the context of comprehensive call for Islam; Pan Islamism and the revival of *Al-Jhad*
- *Al-Tamkeen* is used for the execution of state plans; which is based on; i) Networking the security (military and police), economic, and religious organizations for consolidation of support and strengthening ties with loyalists across these organizations, (Stokes 2005; Baldo 2016 and Kostelyanets 2021);
- ii) Shifting the political budget funding from the state-led PTEA towards rent-extraction from three sources tapped in sequential order:
 - a) Policy distortions and privatization favoring cronies, (Suliman 2007);
 - b) Exploitation of oil reserves discovered in 1974 and the establishment of "gray companies" for capturement and distribution of rents triggered by upstream and downstream oil businesses, (Gaafar 1995 and Freedom House 2015);
 - c) Rents from multiple exchange rate system, (de Waal 2014a); and
 - d) Lease rents from *Mashrou Al Nahda Al Zeraya* 2000 and *Mashrou Al Nufra Al Zeraya*, 2005, *MNZs*, (Verhoeven, 2012 and McGinnis and Mugira 2019).

Conclusions and policy implications cont.

Al Ingaz state

- According to NWWW theory, *Al Ingaz*'s funding and rents distribution strategies are common in the LAO's range of states,
- Thus, the Q is why *Al Ingaz* regressed from the "basic state" to the fragile one, and why the state itself disintegrated in 2011? Full answer would require additional studies; however, the following points could inform the learning from *Al Ingaz*'s experience:
 - Firstly, *Al Ingaz*'s rulers conflated Sudan's territorial identity; the jure sovereignty and the de facto state's sovereignty; the sovereignty gaps are seen by international community as serious obstacle to global peace, it ponded by a flurry of sanctions:
 - A) In 1993, Sudan is *enlisted* with states sponsoring terrorism (SSTL) followed by accusation of genocide and crimes against humanity.
 - B) multiple sanctions are imposed by the USA, the EU and the UNDP including shutout from the Society for Worldwide Interbank Financial Telecommunication, (SWIFT).
 - C) Despite the bail-out of oil's rent in 2000-2010; the triggered negative circular and cumulative causation overtime inhibited economic stability and the growth of business and the private sector
- These developments are unprecedented in the contemporary LAO's range of states and in 2006 Sudan topped the rank of the fragile states (Fund for Peace's Fragile States Index)

Conclusions and policy implications cont.

Al Ingaz state

- Secondly, the alternative rents sources put in place (ideology-induced policy distortions, privatization, oil-rents, and the MNZs;) displaced the broad-based state-led PTEA the historic source of collective security to the small-scale businesses in irrigated and dry sub-agricultural sectors
- Labor-intensive railways, the backbone of the agricultural exports' infrastructure, was brought into decline
- Labor released from agriculture and related infrastructures i) entered into low productivity activities; ii) joined the combatants against the state or iii) the pool of the unemployed mainly in the urban areas that overtime formed strong constituencies pressing for expensive food and energy subsidies
- These developments forced the rulers to push fragility to the limit and trade-off their survival against the loss of sovereign landmass which is unprecedented policy deal in Sudan's history.
- The Mahdis and Al Ingaz experiences support NWWW's conclusion that, religion matters to the extent it is deployed by elites to promote competitive collaborations or block competitive solutions

Conclusions and policy implications cont.

Overall, the comparative analysis showed that;

- i) all the SBRs that bourgeoned in Sudan relied on policy controls which were inimical to free markets and involved gainers and losers at least in short to medium term,
- ii) all successful SBRs were based on existing business norms to build trusts for internalization and citizens' mobilization; and
- iii) were all headed by broad-based policies that promote business in general.
- iv) rulers' commitment to transparent rules of the game is crucial for softening the negative externalities of the state rent-extraction policies as well as for ensuring the stability of policy environment.

Policy conclusions

Firstly, the articulation of reform agendas (including SBRs) by political actors and popular discourse is not enough; marshaling the political will and the state power remains major determinants of the reform implementation

Secondly enactment of transformative SBR requires full authorization of state-bureaucrats who know the policy agendas and the methods of negotiating and coordinating the execution process.

E.g, of bureaucrats tolerated by rulers for policy operations include; i) the bureaucrats of *Bayt al-mal* during the Mahdist state, ii) Sudan Political Civil Service during the Anglo-Egyptian colonial rule; and iii) Al Gezira Board during 1954-1988.

Thirdly, the delay of the implementation of the stabilization policy negotiated in the context of the HPICs which is *sine qua non* condition for the success of any SBR, provides an example of the incompatible of the political trains of thoughts on the reform agendas; i.e.,

i) interests in the policy, ii) power to commit to it and iii) know-how to implement it

Fourthly, the policy-voids would be filled anyway by foreign intervention and or by the politicians own-contrivances

Fifthly, sanctioned NDAs are needed for filling the policy void and anchoring the perpetual alternation of civilian and military rules

Finally, and SBR plan should not sidestep the compensation of the losers and their interests should be upfront negotiated in the policymaking process

Policy conclusions cont.

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- IV) he policy-voids would be filled anyway by foreign intervention and or by the politicians own-contrivances
- V) anctioned NDAs are needed for filling the policy void and anchoring the perpetual alternation of civilian and military rules
- VI) Any SBR plan should not sidestep the compensation of the losers and their interests should be upfront negotiated in the policymaking process

Policy conclusions cont

VII) As in the case of the state-PTEA, land reform can play a crucial role in raising productivity and citizens mobilization but it requires compatibility of the political trains of thoughts as reflected by delays of the the overdue land reform per CPA 2005

Revival of *Al Sheikhdum* admirative system could play important role in the effective management of the competing habitats; entitlements and interests especially in the ruralities.

VIII) Redressing the structural causes of the phenomenal Sudan's inflation requires the separation of the monetary system from the state finance,

a) the easiest short-cut is to upscale the microfinance facility, currently managed by the Central Bank, to contractual agricultural credit facility and entrusted it with bonus to the commercial banks

b) strengthening mobile banking and e-money could help business communities though boosting exchange; cash management, and updating on the firms' health.

Thank you