The Costs of Peace

Financing the Juba Peace Agreement in Sudan's new political economy

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This is the first paper in a series considering the future of Sudan's Juba Peace Agreement (JPA) and peace-making after the fall of Omar al-Bashir in 2019. It was commissioned by the Rift Valley Institute for the UK government's XCEPT (Cross-Border Conflict Evidence, Policy and Trends) programme. XCEPT brings together leading experts to examine conflict-affected borderlands, how conflicts connect across borders, and the factors that shape violent and peaceful behaviour. The views expressed do not necessarily reflect the UK government's official policies.

Urban workers and students led Sudan's 2019 revolution, which forced the security forces of former president Omar al-Bashir to depose their patron in April 2019. The protestors were backed by trade unions, civil activists, technocrats with PhDs, old political parties, and business leaders, all grouped around the Forces of Freedom and Change – an opposition coalition formed in January 2019, as the revolutionary wave was cresting. In August 2019, the Forces and Freedom and Change formed a transitional government with the security forces. Peace was their first priority.

Rebels from Sudan's inactive but unfinished rural insurgencies mostly stayed on the side-lines of the revolution. In October 2019, the government began peace talks with the Sudan Revolutionary Front (SRF), a grouping made up of regional coalitions of oppositionists and armed rebels from Sudan's vast, diverse and impoverished rural crisis zones. Rebel groups from Darfur and the Two Areas set up the SRF in 2011, in the aftermath of the secession of South Sudan, and in 2013, rebels from an inactive insurgency in Eastern Sudan joined them. During the negotiations for the JPA, the SRF expanded again: its leaders argued that the Darfur, Two Areas and Eastern insurgencies were part of wider, national questions, and drew in small 'rebel groups' from Northern and Central Sudan to prove the point. These groups were mismatched: the Northern/Central revolutionaries had never taken up arms and their tiny constituencies were clustered around a handful of relatively unknown political figures.

The talks between the SRF and the government culminated in the Juba Peace Agreement (JPA), which was signed in October 2020. It opens with a short agreement on National Issues, but most of its bulky text is made up of two agreements covering three peripheral insurgencies: Darfur and the Two Areas of South Kordofan and Blue Nile. Shorter texts deal with the crises in the 'near peripheries' around Khartoum, whose skewed labour and housing markets are shaping the lives of millions of people displaced from the conflict zones.

Each of the regional agreements was drafted by a larger or smaller regional coalition of rebel groups, and the resulting patchwork of protocols falls short of a unified manifesto for change. But each agreement addresses the main cause of the conflict – the unfair distribution of wealth and power. For much of Sudan's history, that unfairness had been organized in a geographically neat way: the peoples of the periphery lived shorter, hungrier, more violent lives than the people of the centre. Insurgents sought to redress that unfairness: militia commanders represented their hungry constituencies at peace talks, and peace agreements aimed at redressing the inequalities in wealth, power and human development between Sudan's moneyed centre and its diverse and impoverished peripheries – inequalities that were aggravated under Bashir's long incumbency.

Peace agreements and the redistribution of wealth

The centre-periphery divide was a legacy of colonialism. Colonial powers violently incorporated the peripheries into their Sudanese state. But they did not finance themselves from the peripheries. By the end of the colonial period, most government revenues came from irrigation fees and export duties on cotton production, which was centred on a vast irrigated scheme in Gezira, the triangle of land between the Blue and White Niles, just south of Khartoum.[1] In the decades before independence, very little of the wealth from the cotton grown around the capital made its way to the peripheries. After independence, central governments began transferring modest resources to the peripheries – these transfers peaked in the 1970s, when they amounted to 31 per cent of the state's current expenditures.[2] The transfers kept provincial governments dependent on central resources.

Sudan's economy came under strain in the 1980s, when China became a major cotton exporter, and when an African debt crisis incinerated plans to develop alternatives to cotton and invest in peripheral production.[3] These crises brought Bashir's government to power and ushered in a period of austerity and a reorientation of the export economy away from cotton and towards petroleum, which had been discovered in the southern provinces in the 1970s. In order to shift towards austerity and oil, Bashir outsourced rural governance and rural resource extraction to rural militias. These militias turned muddy southern pasturelands into oilfields. They often used sectarian or ethno-linguistic belonging as the starting point for recruitment, and used violence for social control.

Bashir's oil-and-war system changed the nature of the relationship between the centre and the peripheries. Wealth now was generated in the peripheries but it accrued in the capital.

After Sudan became an oil exporter, Bashir developed new mechanisms for managing this system. Bashir's outsourced, tribalized-militarized mode of repression helped to tribalize and militarize resistance, and dozens, perhaps hundreds of opposition militias appeared across Sudan's peripheries. Peace agreements – which increased in frequency over the past two decades – became part of the management of this fragmented system, and rebel commanders became chief protagonists. Transfers of wealth from central to state governments became a central part of peace agreements.

The 2005 Comprehensive Peace Agreement was the most consequential of these peace agreements. It ended the war between the Khartoum government and the southern-based Sudan People's Liberation Movement (SPLM), and ushered in South Sudan's independence. It was based on a formula of ceasefire, security reform, power-sharing and wealth-sharing, and in the decade after 2005, the Comprehensive Peace Agreement shaped a succession of agreements aimed at ending conflicts in Darfur, the Two Areas and the East.

The peace agreements became a mechanism for redistributing some of the wealth that was generated through Bashir's militia system. Wealth-sharing mechanisms may have privileged militia commanders and politicos, but in good times, some of the wealth trickled down. In pre-independence Southern Sudan, for example, hundreds of thousands of soldiers and government personnel received wage packets worth over a hundred dollars a month as a result of these agreements. But the value of those wages was swept away by South Sudan's war-induced macroeconomic crisis, which vividly illustrated the limitations of the Bashir peace template.

Bashir-era arrangements for sharing power and wealth between militia commanders were not a stable formula for peace. The militia commanders were one factor destabilizing the formula: they had risen to power by militarizing ethnic constituencies, setting them against their neighbours, extracting local wealth and supplying it to global value chains. Their accountability to their ethnic constituencies had been eroded in the process, and power/wealth-sharing mechanisms could not easily restore them. But an even more important factor destabilizing the power/wealth-sharing formula was the economy. Money was needed to finance wealth-sharing, and to pay the wages of hundreds of thousands of soldiers, who had deserted everyday productive activities for the new militarized structures which channelled much of Sudan's wealth flows. When Sudan's economy faltered, peace agreements stopped working.

After South Sudan became independent in 2011, Sudan lost most of its oil wealth and entered a long period of economic decline and peace agreements became harder to fund. Allocations from the central government to the states fell by more than half, relative to the national budget, in the three years from 2016. The government once again used military force to manage its disinvestment from the peripheries, deploying the most capable of his many ethnic militias, the Rapid Support Forces (RSF), against areas controlled by armed rebels. In a campaign lasting from 2014-2016, the RSF pushed Darfurian rebels into neighbouring countries, and propelled other rebels towards uneasy ceasefires.

1 Atta El-Battahani and Hassan Ali Gadkarim, 'Governance and Fiscal Federalism in Sudan, 1989–2015: Exploring Political and Intergovernmental Fiscal Relations in an Unstable Polity,' Chr. Michelsen Institute, University of Bergen, 2017: 13.

2 Mekki Medani El-Shibly, *Fiscal Federalism in Sudan*, Khartoum: Khartoum University Press, 1990: 58.

3 World Bank, 'Sudan: Problems of Economic Adjustment', Washington, DC: World Bank Group, June 1987.

Insurgencies morphed into generalized insecurity, which the government (and the donors with donor fatigue) called peace.

At the same time, the RSF extended what their website describes as their 'strategic mission' to 'protect their economy,' using their forces to control gold smuggling and to 'protect' harvests in Darfur and other areas of the country.[4] The Rapid Support Forces became a means of reconfiguring the centre-peripheral relationship in a crisis, allowing the state to generate revenues from gold mines or farms across the country, rather than from a single vast colonial plantation, or a few oilfields secured by police and militias. In the period between 2012 and 2019, crops, livestock and forest goods made up half of the commodity exports reported by the Central Bank: gold and oil made up the other half.[5] This wealth is extracted from all over rural Sudan: the big service sector based in the towns consumes much of the country's imports, but contributes almost no foreign earnings. It is the wealth from the peripheries which the JPA plans to share.

The JPA and wealth sharing

After Bashir's fall, the RSF commander, General Muhammad 'Hemeti' Hamdan Dagalo, became vice-chairman of the Sovereignty Council, Sudan's collective head of state. He led the government peace delegation to Juba, and finalized the security arrangements, which are to integrate former rebels into Sudan's swollen security forces. Although the country was simultaneously going through a historic revolution and a devastating macroeconomic crisis, the militia commanders took their time. In the year the commanders spent negotiating their political futures, the inflation rate trebled, the Sudanese pound lost half its value in the parallel market, and GDP contracted by 3.6 per cent.[6] Peace negotiations, like peace agreements, gave the militarily inert rebels in the periphery an outsize political role in the transition towards elections.

Much of the drafting was done by the different rebel delegations themselves, who drew extensively on the Bashir-era template, each applying the template to their own regional track. This drafting process slowed the pace of negotiations, and it gave the final text a feeling of a multi-authored rehash, with overlaps and repetitions which were likely to hamper implementation. Drafters somewhat unimaginatively followed the wealth-sharing formula of Bashir-era peace agreements, transferring national revenues to provincial governments, and allocating money to post-conflict reconstruction funds.

The National Issues Agreement established a Peace Commission, a National Revenue Fund and a National Commission for the Division, Allocation, and Monitoring of Financial Resources and Revenue, to organize fair transfers of centrally-collected resources to peripheral areas.[7] The National Issues Agreement also included national commissions for pastoralists, nomads and farmers; for housing and services for migrant worker camp communities; and for transitional justice.[8]

The Darfur Agreement had the most detailed proposals. It also established the National Revenue Fund and a National Commission for the Division, Allocation, and Monitoring of Financial Resources, and agreed an allocation of 40 per cent of revenue from Darfurian mineral and petroleum resources located in Darfur to Darfurian administrations.[9] It also established a Darfur Peace Support and Sustainable Development Fund, worth USD 750 million a year for 10 years.[10] The implementation matrix of the Darfur Agreement says that this fund would in turn finance the Compensation and Reparations Fund, the Darfur Internally Displaced Persons and Refugees Commission, the Darfur Reconstruction and Development Commission, the Commission for the Development of Nomads and Pastoralists, the Darfur Lands and *ḥawākīr* [land titles] Commission, and the Truth and Reconciliation Commission.[11]

The Two Areas Agreement established similar institutions, but structures and wording were less precise. The Two Areas Agreement commits signatories to establish National Commissions for Land, and for IDPs, as well as a National Fund for Development and Reconstruction, along with other commissions, and to establish sub-commissions

4 Rapid Support Forces, 'Protecting the Economy'. Accessed 5 September 2022, https://rsf.gov.sd/en/pages/27/Protecting-the-Economy

5 Edward Thomas and Alex De Waal, 'Hunger in Sudan's Political Marketplace,' Occasional Paper #32, World Peace Foundation, Tufts University, April 2022, 14.

6 International Monetary Fund, 'Sudan: Staff Monitored Program,' Washington, DC: International Monetary Fund, 2020: 20; International Monetary Fund, 'Sudan: First Review under the Staff-Monitored Program,' Washington, DC: International Monetary Fund, 2021: 2.

7 Juba Agreement for Peace in Sudan, Agreement on National Issues, Articles 20, 22, 23, 3 October 2020.

8 Agreement on National Issues, Articles 14.1, 14.5, 19.

9 Juba Agreement for Peace in Sudan, Darfur Agreement, Chapter 2, Articles 13, 14, 25.

10 Darfur Agreement, Chapter 2, Article 29.

11 Juba Agreement for Peace in Sudan, Darfur Track Implementation Matrix.

for the Two Areas. These national commissions are not referenced elsewhere in the JPA, and the details of their structure and funding are left undecided.[12] The Darfurian negotiators secured USD 750 million a year for their fund, but the Two Areas negotiators settled for the following formulation: 'The Parties shall determine the structure, scope, mandate, oversight, and implementation of this fund within the framework of the comprehensive peace agreement.'[13]

Different approaches to development funds appeared in the Eastern Sudan Track, Central Track and Northern Track agreements. These were much shorter agreements, with no chapters dealing with security or demobilization. The Eastern Sudan Track Agreement commits the parties to reviewing the Eastern Sudan Reconstruction and Development Fund, established by the defunct Eastern Sudan Peace Agreement of 2006. Negotiators secured one-off funding worth USD 348 million from the fund.[14] The smallest groups – from the Northern and Central Tracks – hastily signed short and vague agreements with the government long before the bigger groups had concluded negotiations. The Northern/Central Tracks did not include wealth-sharing arrangements at the time of signature.[15] But after the October 2021 reshaped political possibilities of small opposition actors willing to work with the government, the Northern/Central leaderships negotiated new wealth-sharing protocols in December 2021.[16]

Table 1. The share-out of wealth in the JPA and its additional protocols[17]

Darfur Track Agreement, Chapter 2, Article 25	The Parties agree to allocate 40% of the nation's net revenue from mineral and petroleum resources located in Darfur to the region for a period of ten years. The Darfur Region shall allocate 3% of the revenue from natural resources for local population in areas from which these resources are extracted.
Two Areas Track Agreement, Article 16.1	For a period of ten years, the state/regional government shall receive forty per cent (40%) of income from the revenue of natural resources, extracted wealth from the state/region, tax revenue from the state/region, and taxes levied in the state/region, with the remaining sixty percent (60%) going to the national government.
Eastern Track Agreement Article 58	The Parties agreed to allocate 30% of the Federal government's net revenue from mineral and oil resources extracted from the states/Region of Eastern of Sudan for the benefit of these states/Region for a period of seven years.
Northern Track Agreement, Article 2	The Parties shall allocate a share of the revenues of the Merowe [hydroelectric] Dam to the two states/the region in accordance with the law.
Protocol to the Central Track Agreement, Article 1.1	Income from the revenue of natural resources, extracted wealth, taxes and other dues, and taxes levied in the state/region will be divided by a proportion of thirty percent (30%) for the regional government and a proportion of seventy percent (70%) for the national government, for a period of ten years.
Protocol to the Northern Track Agreement Article 1.1	Income from the revenue of natural resources, extracted wealth, taxes and other dues, and taxes levied in the state/region will be divided by a proportion of thirty percent (30%) for the regional government and a proportion of seventy percent (70%) for the national government, for a period of ten years.

There are two major differences here. First, over the next 10 years, the Darfur Track Agreement and Two Areas Track Agreement give 40 per cent of revenues from natural resources extracted in their state or region to state or regional governments – while the other three tracks give only 30 per cent. This provision is a major advance for state/regional governments, which hitherto were allocated a very small proportion of revenues from natural resources. Second, all the tracks bar Darfur give 60 or 70 per cent of all other revenues generated in their state or region to the

12 Juba Agreement for Peace in Sudan, Two Areas Agreement, Article 87-89 (Official English Translation: Chapter 2, Articles 37-39).

13 Two Areas Agreement, Article 89 (Official English Translation: Chapter 2, Articles 37-39).

14 Juba Agreement for Peace in Sudan, Eastern Sudan Track Agreement, Article 70 (Official English Translation: Article 72).

15 The Central Track Agreement (Article 8) established a Construction Fund for Development and Peace with a name tantalisingly similar to the National Fund for Development and Reconstruction established by the Two Areas Agreement.

16 The official, signed Arabic texts of the two wealth-sharing protocols are not dated, but media reports indicate they were signed on 15 and 16 December 2021. SUNA, '*tawqīʿ ittifāq bayn al-ḥakūma wa masār al-shimāl* [Signature of an agreement between the government and the Northern Track]' 15 December 2021. (https://suna-sd.net/read?id=728169)

17 Translations of the articles in the two protocols are unofficial.

central government – including taxes on local production. This provision is a major reversal for state/regional governments, which hitherto have kept those revenues in the state. The following section looks at these provisions in more detail.

State/regional shares in revenue from natural resources

The principle of allocating a share of revenues from natural resources to the area from which those resources are extracted was a key element of the 2005 Comprehensive Peace Agreement. It gave about 50 per cent of Southern Sudan's oil revenues to the Government of Southern Sudan.[18] Other sub-national governments were entitled to a much smaller share of these revenues: 'at least 2 percent' according to the Comprehensive Peace Agreement (the 2011 Doha Document for Peace in Darfur gave the same minimum share).[19] The JPA, in contrast, gives 30 or 40 percent shares of revenues from natural resources to regional or state governments. The negotiators have significantly upped the share of potential oil revenues – and other revenues from the natural resources of the resource-rich peripheries – that stay in the periphery.

On paper, this would help to correct a major imbalance in government finances. In the 1990s, the government devolved many spending powers to sub-national governments while cutting their budgets to almost zero. In accordance with the privatization/austerity dogmas of the time, they forced the privatization of health, education and other basic services that were the responsibility of state governments, and immiserated peripheral areas with the least resources. After 2000, the government increased central transfers to state governments, creating a situation where state governments were responsible for spending on basic services, but were dependent on central government for nearly all of their revenues. This 'vertical fiscal imbalance' – the gap between own-spending and own-revenue at the state level – is an important feature of Sudan's centre-periphery conundrum. The vertical fiscal imbalance is higher in Sudan than in neighbouring countries, and much higher in poor Sudanese states than in rich ones. The JPA may well help to correct this imbalance.[20]

Federal government shares in state/regional tax revenues

Each of the different regional tracks, except Darfur, agreed to different provisions for transferring local tax revenues *from* the periphery *to* the centre. None of the sources consulted for this paper show any precedent for remitting local tax revenues from the deeply underfunded state governments to the central government. Because of the high degree of centralization of state financial resources in Sudan, inter-governmental financial transfers have always flowed the other way.[21]

This one-way transfer system was needed to redress the 'vertical fiscal imbalance.' It was also needed because the central government, and the populations of the centre, already benefit greatly from the wealth generated by the people of the periphery. Since Sudan's oil economy contracted in 2011, the pastoralists, farmers and miners of Sudan's periphery have produced nearly all of the country's exportable wealth. Peripheral wars, which have lasted on-and-off since the nineteenth century, are all needed to organize and reorganize the extraction of the peripheral wealth that pays for the consumption of the mercantile centre.[22] The peoples of the periphery have paid for all the wars, and the JPA now requires them to pay for peace.

Instead, the agreements provide long lists of possible local sources of income: here are the local sources of revenue identified in the Darfur Agreement (the Two Areas agreement is more explicit about taxing pastoralists, but has an almost identical list).[23]

21. Sources of exclusive revenue for the Government of Darfur Region/States

The Government of Darfur Region/States shall have the following exclusive sources of revenue:

21.1. Tax on the lands of the region/states
21.2. Revenue
21.3. Property tax;
21.4. Social services fees;
21.5. Consumer service fees;
21.6. Licensing fees;
21.7. State/regional personal income tax;

18 Comprehensive Peace Agreement, 2005, Chapter 3, Article 5.6.

19 Comprehensive Peace Agreement, 2005, Chapter 3, Article 5.5; Doha Document for Peace in Darfur, 2011, Article 215.

20 Mekki M. El-Shibly, 'Fiscal Transfers: Towards a Pro-poor System. Assessment of the existing Inter-Governmental Fiscal Transfers System in Sudan', Policy paper, UNDP Country Office Sudan, 2013: 30-33.

21 El-Battahani, 'Governance and Fiscal Federalism in Sudan'.

22 Thomas and De Waal, 'Hunger in Sudan's Political Marketplace,' 14.

23 Darfur Agreement, Chapter 2, Article 21; Two Areas Agreement, Article 13.

21.8. State/regional professionals' tax;
21.9. State/regional tax on individual business profit;
21.10. Indirect taxes;
21.11. State/regional production tax;
21.12. State/regional share of taxes on border trade;
21.13. Tax on agricultural production;
21.14. Tax on animals;
21.15. State/regional seal duties;
21.16. State/regional tourism tax;
21.17. State/regional tax on recreational places;
21.18. Revenue of national parks in the states/region;
21.19. Revenue of state/regional projects and investments;
21.20. Share of the region/states from oil revenue and revenue of other resources;
21.21. Central support, grants, and foreign aid through the national government;
21.22. Domestic and foreign loans and borrowing in accordance with the credit rating and in line with the national economic policy;
21.23. Any other taxes and sources of revenue that do not contravene with the taxing power of the national government

This list largely reflects the existing tax and borrowing powers of sub-national governments set out in Sudan's suspended 2005 constitution.[24] The power to contract loans from international creditors predates the JPA.[25] But international loans are an unlikely revenue source for war-affected areas of Sudan: the central government has had a hard time attracting such loans since the revolution.[26] Central support grants are more likely to get through – although the next section argues that these grants are probably declining. This means that the administrations charged with implementing the peace are likely to depend on taxes on local production. And because the JPA remits 60 per cent of state revenues from the Two Areas, and possibly other states, to the central government, this suggests that the central government will be funded by taxation on agricultural production. This is likely to be a regressive step.

In 1999, at the start of the oil boom, Sudan abolished the 15 per cent tax on marketed agricultural production, although producers still pay taxes to localities at primary markets near production areas, and traders pay sales taxes which are passed back to producers.[27] The abolition of these taxes was supposed to promote production and reduce hunger. The loss of the agricultural production tax affected state governments, even though the central government provided compensation transfers to make up the shortfall in state revenues. But the JPA requires state governments in conflict zones to remit 60 percent of local revenues to central government, which may mean that Sudan's primary producers will be paying for peace, paying for the central government, earning most of the country's foreign currency – as well as shouldering the huge burden of inflation. The JPA echoes the resilience ideologies of contemporary humanitarianism: hungry and wounded populations have to find their own way out of the mess they didn't create.

Transfers to states

Transfers from the federal ministry of finance to states are an important but fuzzy indicator of wealth-sharing in Sudan. Important – because they are the main mechanism for wealth sharing. Fuzzy – because although successive peace agreements make intricate commitments to increase transfers, to make them more equitable, to use them to reduce marginalization, and to address Sudan's big questions of distributive justice, which have been shaped and distorted by the country's vast spatial and social inequalities – the government provides very little information about them.

Budget documents report on current and capital transfers, aggregated for all states. Current transfers cover salaries and other running expenses; and capital transfers cover development spending. These transfers go to all states – including Khartoum state and the other states of Sudan's relatively developed core as well as the conflict-prone states of the periphery. Historically, these transfers have favoured richer states: in the 10 years to 2010, transfers to states along the Nile valley were up to six times as high as those to states of the western and eastern peripheries.[28] These transfers are not the only funds which move from the centre to the periphery, but because they are a line item in Sudanese budgets, they can be traced over time. They provide a way of measuring the financial commitment of

24 Articles 195, 203.

25 Interim National Constitution of the Republic of Sudan, 2005, Article 203, https://www.refworld.org/pdfid/4ba749762.pdf

26 Ministry of Finance and Economic Planning, '*muwāzana al-ḥukūma al-ittiḥādīya lil-ʿām al-mālī 2022* [Budget of the Federal Government for the 2022 Financial Year],' Khartoum: Ministry of Finance and Economic Planning, 2021: 11.

27 Odd-Helge Fjeldstad, 'Revenue mobilization at sub-national levels in Sudan,' Chr. Michelsen Institute, University of Bergen, 2016: 20.

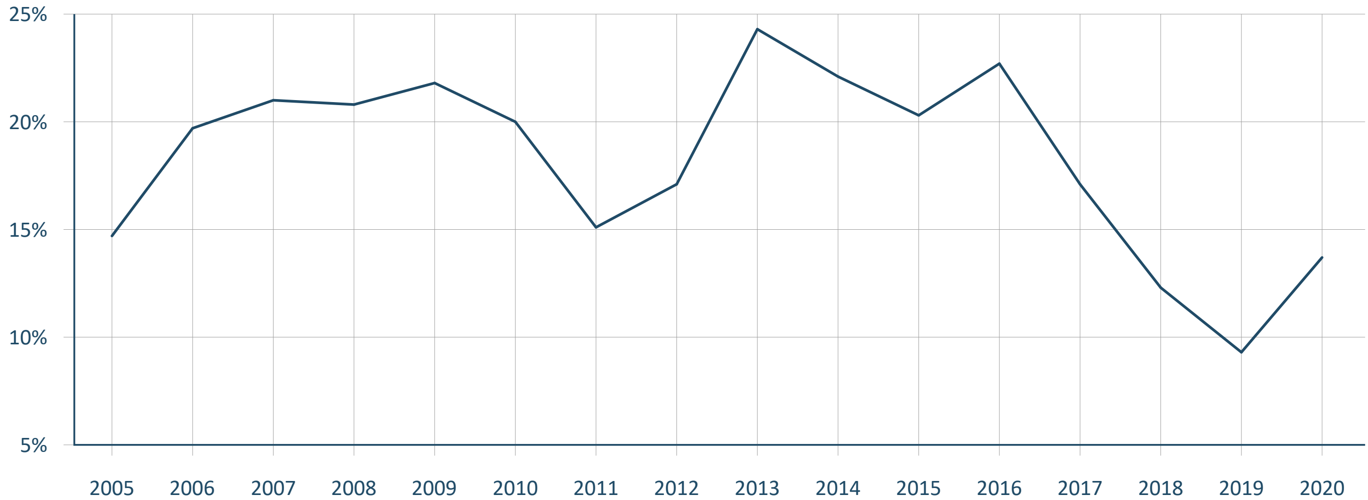
28 El Battahani, 'Governance and Fiscal Federalism,' 25.

the central government to social services and development across the country.

In the 1970s, when the government was investing in the periphery, transfers to states rose sharply, to reach almost about one fifth of total government expenditure in 1978-79.[29] During Bashir's austerity decades, government budgets contracted, and transfers to states contracted even more sharply: one finance minister reported that transfers to states fell to 4 per cent of government expenditure in 1995.[30] At the same time, responsibility for financing health and education was devolved to bankrupted state administrations.[31] The poorest states were the worst hit – the full force of austerity fell on families separated by war and displacement who were pushed towards selling their labour and now needed to fund family health and education from their own pockets, or go without. Austerity was part of a wider war against the periphery.

When Sudan became an oil exporter at the dawn of the twenty-first century, the government reconsidered austerity policies. Transfers to the states (and the new Government of Southern Sudan, the precursor to today's Republic of South Sudan) were central to the 2005 Comprehensive Peace Agreement. After the 2008 oil price spike, transfers to northern states amounted to 21 per cent of government expenditure (transfers to the Government of Southern Sudan were even higher).[32] But after South Sudan's independence in 2011, Sudan's economy contracted. Transfers to states were maintained at pre-2011 levels until 2016-19, when transfers to states fell by more than 50 per cent to reach 9 percent of total expenditures.

Figure 1. Current and capital central government transfers to northern Sudanese states (2005-2011) and all states (2012-20) as a percentage of total central government expenditure [33]



After the revolution, those figures began to increase. The January 2021 budget, the first to be adopted after the peace agreement, allocated 16 per cent of the budget to transfers to states.[34] The budget was amended in September 2021, when 20.7 per cent of expenditure was allocated to transfers to states.[35] In January 2022, the first budget after

29 World Bank, 'Memorandum on the Economy of Sudan,' Washington, DC: World Bank, 1979, 1, Table 5.2.

30 Edward Thomas, 'Fiscal Policy and Sudan's 2005 Comprehensive Peace Agreement,' in *Making and Breaking Peace in Sudan and South Sudan: The Comprehensive Peace Agreement and Beyond*, eds. Sarah Nouwen, Laura James and Sharath Srinivasan, Oxford: British Academy, 2020: 122-128.

31 Federal Ministry of Health, '25 years strategic plan for health sector', Khartoum: Federal Ministry of Health, 2003, 13.

32 Thomas, 'Fiscal Policy,' 128.

33 Calculated from World Bank, 'Sudan: Public Expenditure Tracking Survey (PETS): Case Study of the Health Sector,' Washington, DC: World Bank Group, 2011; International Monetary Fund, 'Sudan: 2013 Article IV Consultation,' Washington, DC: International Monetary Fund, 2013: 34; International Monetary Fund, 'Sudan: First Review under the Staff Monitored Programme,' Washington, DC: International Monetary Fund, 2014: 32; International Monetary Fund, 'Sudan: 2016 Article IV Consultation,' Washington, DC: International Monetary Fund 2016: 33; International Monetary Fund, 'Sudan: 2017 Article IV Consultation,' Washington, DC: International Monetary Fund 2017: 28; International Monetary Fund, 'Sudan: Staff Monitored Program,' Washington, DC: International Monetary Fund, 2020: 28; International Monetary Fund, 'Sudan: First Review under the Staff-Monitored Program,' Washington, DC: International Monetary Fund, 2021: 28

34 Ministry of Finance and Economic Planning, '*muwāzana al-ᵓām al-mālī 2021* [Budget of the 2021 Financial Year],' Khartoum: Ministry of Finance and Economic Planning, 2020, 23, 68.

35 Ministry of Finance and Economic Planning, '*muwāzana al-ḥukūma al-ittiḥādīya lil-ᵓām al-mālī 2022* [Budget of the Federal Government for the 2022 Financial Year],' Khartoum: Ministry of Finance and Economic Planning, 2021: 44, 53.

the October 2021 coup, allocations on transfers to states decreased, to 14.9 per cent of total expenditures.[36]

Figure 1 only shows the financial resources allocated to current and capital transfers in government budgets, as reported by the finance ministry or the International Monetary Fund. But not all allocated money gets spent. In the decade to 2010, budget execution rates averaged about 80 per cent. In 2021, the budget execution rate was less than half that. Development budgets, often spent on big projects, have particularly low execution rates. Second, Sudan's triple-digit inflation rates mean that the money that actually gets spent is worth less than half of what it was worth when it was allocated. The following section discusses how peace budgets, are financed in Sudan, and how transfers to states have been financed and executed since the JPA was signed.

Financing peace budgets

Sudan currently collects a mere seven to eight percent of GDP in tax revenue, which is about half the 15 percent threshold, below which states are characterized as suffering from fiscal fragility (Mansour and Schneider, 2019). Such states are barely able to finance the very basic functions of government, much less the legitimate but ambitious reconstruction and service delivery programs associated with the peace agreement.[37]

Ibrahim Elbadawi, co-author of this quotation, was the first finance minister of the transitional government, with a long World Bank career behind him. Sudan's tax-to-GDP ratio was once much higher, but declined sharply in the 1980s, when it simultaneously turned towards Islamism and austerity-privatization, reorganizing welfare and wealth accumulation around private and religious interests, and away from government budgets.[38] When Sudan became an oil exporter, tax revenues became even less important to government revenues. But after the secession of South Sudan in 2011, the government tried to increase its tax-take, to make up for the shortfall in revenues after the loss of much of its oil reserves.

The loss of oil revenues severely constrained the ability of the government to finance its budgets, which in the years after 2011 were heavily burdened by the costs of the security forces, and by fuel and food subsidies, which formed the vestiges of the social contract between the government and its urban populations, and which kept import bills high.[39] Deep in debt and under international sanctions, the government financed budget deficits by printing money, and financed its trade deficit by propping up the currency. Both were inflationary policies: by the time Bashir fell in 2019, inflation was at 50 per cent a year.

The transitional government needed to finance its peace budgets. But at the same time, it needed to deal with the macroeconomic crisis which Bashir had bequeathed them. That meant big cuts to government spending on consumer subsidies, as well as big changes to the value of the Sudanese pound. The government removed consumer subsidies on fuel, medicine and wheat and aligned official exchange rates with market rates, cutting the value of the Sudanese pound by 80 percent. Floating the Sudanese pound, it argued, would allow the government to attract foreign grants and loans, rather than printing money to pay for deficits. And cutting consumer subsidies – which were estimated to account for over a tenth of GDP and almost two-thirds of government spending – would ease pressure on those deficits.[40]

The transitional government implemented the subsidy removal and currency devaluation between 2020 and 2021. The cuts to subsidies dramatically reduced food and fuel imports, and by the third quarter of 2021, the trade deficit was cut by two-thirds.[41] The budget deficit fell from 4.9 per cent of GDP in 2020 to 0.3 percent of GDP in 2021.[42] The reforms also allowed Sudan to qualify for the Heavily Indebted Poor Countries (HIPC) Initiative, the debt relief and restructuring process led by international financial institutions, which in principle gave the government access foreign currency to manage future trade and budget deficits.

Policymakers recognized that these cornerstone policies were inflationary, but hoped that inflation would fall

36 Ministry of Finance, '*muwāzana al-ḥukūma al-ittiḥādīya lil- ᵓām al-mālī 2022*,' 44.

37 Nils-Christian Bormann and Ibrahim Elbadawi, 'The Juba Power-Sharing Peace Agreement: Will It Promote Peace and Democratic Transition in Sudan?', Working Paper No. 1490, Economic Research Forum, 2020: 30.

38 Tim Niblock, *Class and Power in Sudan: The Dynamics of Sudanese Politics, 1898-1985*, London: MacMillan 1987: 48; World Bank, 'Sudan: Reversing the Economic Decline. Country Economic Memorandum', Washington, DC: World Bank Group, 1990: 31; Edward Thomas, 'Patterns of Growth and Inequality in Sudan, 1977-2017,' Working paper, Institute of Middle East and Islamic Studies, Durham University, November 2017.

39 Thomas and De Waal, 'Hunger in Sudan's Political Marketplace,' 11.

40 International Monetary Fund, 'Sudan: Staff Monitored Program,' 2020: 24.

41 Thomas and De Waal, 'Hunger in Sudan's Political Marketplace,' 11.

42 Ministry of Finance, '*muwāzana al-ᵓām al-mālī 2021*, 70; Ministry of Finance, '*muwāzana al-ḥukūma al-ittiḥādīya lil-ᵓām al-mālī 2022*, 16.

below 100 percent in 2022.[43] But in fact inflation rose to 412 percent in June 2021, when Sudan's inflation rate was the second highest in the world, and at the start of 2022, it remained over 250 per cent.[44] Inflation was probably aggravated by the fact that the government received much less in grants and loans than they expected – because these grants and loans would have been in foreign currency, they would have helped the government stabilize the currency, manage the cost of imports, and keep inflation nearer target.

The inflation arising out of the economic reforms affected the implementation of the JPA in two main ways. First, budgetary allocations to peace funds or conflict-affected states shrivelled in value – this is discussed in the next section. Second, the inflation brought on by economic reforms shifted the balance of power within the transitional government, against the civilians. The power shift began in February 2021, when former rebels who were signatories to the agreement joined the government. The former rebels, who owed their position in government to hungry peripheral constituencies, backed the reforms unhesitatingly. Many former rebel commanders had spent educational and political careers far from Sudan, and no longer held territory in Sudan. As a result, they were disconnected from their constituencies and could afford the political costs of Sudan's drastic macroeconomic experiment.

The security men in the coalition could also afford the political costs: they controlled much of the foreign currency in the country and were able to insulate themselves from inflation. In contrast, the civilian politicians, who derived their legitimacy from the bravery of bread-and-freedom protesters. The burden of inflation fell heaviest on their erstwhile supporters, the people who could not afford to eat. They made up about half the population in 2021.[45]

The transitional government tried to cushion the inflationary blow of its policies while at the same time investing in peace. Health, education and government wages were doubled in the 2021 budget, and the Family Support Programme was established, aiming to provide cash transfers to 80 per cent of families, at a value of 5 US dollars per household member per month, over a one-year period, after which it would be retained for the poorest families. But pay increases and health and education spending did not keep pace with inflation – teachers were no richer when their pay was doubled, because prices had gone up so fast. The Family Support Programme, funded almost entirely by foreign aid and tied to the value of the dollar, was slow to get off the ground: about a million families, most of them in states not affected by conflict, received one or more monthly payments. The programme was suspended in October 2021, when a coup ended most foreign aid to Sudan. The coup was led by the security men and backed by most of the former rebels in the transitional government – the two elements of the governing coalition most complacent about inflation.

Economic reform and inflation shaped the politics of the coup. They also constrained government investment in peace.

Financing peace: the budgets of 2021 and 2022

It is not easy to work out 'the flow of funds towards peace' from Sudanese budget documents. This paper focuses on several indicators: current and capital transfers to states affected by conflict, and peace-building funds. Budget documents do not present these figures very legibly: it is possible to track capital transfers to individual states, but current transfers to states aggregate conflict-affected and non-conflict-affected states. Transfers to peace funds are also only fuzzily legible too, because the budget appears to allocate some funds towards peace bodies established under defunct peace processes, such as the Peace Building Fund. Allocations are set out in some detail, but rates of execution are not. Taking into account some of these limitations in budget documents, this section tries to quantify peace budgets since the JPA.

In the 2021 budget, the peace partners – the former rebel movements – estimated that the financial requirements of the JPA were 184 billion pounds.[46] That was roughly the same as the budgeted allocations for consumer subsidies, or for the health and education sectors together. But the peace budget was only allocated about 30 per cent of the financial requirements it identified. Inflation deeply eroded the value of these allocations, and an amended budget in September 2021 increased the face value of the peace budget – but decreased the real value of the budget, taking into account inflation. Execution rates for the budget were

43 International Monetary Fund, 'Sudan: First Review under the Staff-Monitored Program,' 2021: 6

44 Central Bank of Sudan, 'The Economic Review, Issue 02/2022,' Khartoum: Central Bank of Sudan, 2022: 4.

45 Integrated Food Security Phase Classification, 'Sudan High Levels of Acute Food Insecurity Driven by Currency Devaluation, Inflation and Localized Conflicts,' IPC Acute Food Insecurity Analysis April 2021 - February 2022, May 2021, https://www.ipcinfo.org/fileadmin/user_upload/ipcinfo/docs/IPC_Sudan_AcuteFoodInsecurity_2021Apr2022Feb_report.pdf)

46 Ministry of Finance, '*muwāzana al-ᵓām al-mālī 2021*,' 95.

low. The January 2022 budget increased the face value of funds allocated to peace, but taking into account inflation, the real value of allocated peace funds decreased.

- 2021 budget: Financial requirements of the JPA were estimated to be 184 billion Sudanese pounds – about 3.3 billion US dollars (at the time, the official exchange rate was 55 Sudanese pounds to dollar).[47]
- 2021 budget: Allocation to 'Peace' funds was 54 billion Sudanese pounds (worth 982 million US dollars at January 2021 rates). [48]
- 2021 budget: The balance of the financial requirements for 'Peace' were a fundraising priority.[49]
- 2021 budget: 'Peace' funds were composed of 60 per cent of development projects allocated under the budget, plus 7 per cent of transfers to states, plus an American grant worth 19 billion dollars. The 7 per cent of transfers to states is also designated 'the Peace Building Fund.'[50]
- 2021 budget: 'Development projects' made up the biggest slice of peace funds. They are divided into two categories – Federal Development (Annex 3), worth 115 billion Sudanese pounds; and State Development, worth 88 billion Sudanese pounds (Annex 4). Many of the projects listed in these annexes are implemented in conflict zones. Conflict-affected areas of Kordofan and Darfur were allocated over half of the Federal Development roads budget, and about a third of the Federal Development electricity budget, for example, but much less of the agricultural development and livestock budgets.[51]
- 2021 budget: State Development (Annex 4) includes a list of reconstruction funds explicitly mentioned in the JPA:[52]

Fund	Value
Blue Nile State Reconstruction Fund	0.5bn SDG
[Darfur] Commissions and the Reconstruction Fund for Development	6.1bn SDG
Darfur Development Strategy	0.1bn SDG
Eastern Sudan Reconstruction Fund	4.3bn SDG
Peace Support Fund/South Kordofan	1.0bn SDG

- 2021 budget: Allocations to the 'Peace Building Fund' would only be disbursed after feasibility studies for realistic programmes are submitted to donors to fund, suggesting that the ministry anticipated low execution rates. (MOF 2021: 96).

In the course of 2021, the annualized inflation rate reached 422 per cent, and the value of allocations made in January fell sharply. For example, the 12 billion Sudanese pounds in reconstruction funds allocated in January 2021 were worth 217 million US dollars at the official rate back then – but were worth USD 32 million at actual exchange rates, which averaged 371 Sudanese pounds to the dollar in 2021 (MOF 2022: 7). In September 2021, the budget was amended to reflect the fall in the value of the currency (al-Taghyeer, 23 Sep 2021). But increases were once again below inflation: the 2022 budget suggests that transfers to states were increased from 88 billion Sudanese pounds to 231 billion Sudanese pounds – an increase of 262 percent, that fall short of the 366 per cent annualized rate of inflation in September 2021.

The October 2021 coup undermined the execution of the 2021 budget – the ability of the finance ministry to implement, monitor, amend and report on the money it had allocated. But the coup was not the only factor affecting budget execution. A second major factor affecting 2021 budget execution preceded the coup: donor funding for Sudan's multi-dimensional reform and peace processes was much more modest than expected. The 2022 budget reported that grants amounted to 167 billion Sudanese

47 Ministry of Finance, '*muwāzana al-ᵓām al-mālī 2021*,' 26.

48 Ministry of Finance, '*muwāzana al-ᵓām al-mālī 2021*,' 26.

49 Ministry of Finance, '*muwāzana al-ᵓām al-mālī 2021*,' 96.

50 Ministry of Finance, '*muwāzana al-ᵓām al-mālī 2021*,' 26.

51 Ministry of Finance, '*muwāzana al-ᵓām al-mālī 2021*,' 74-78.

52 Ministry of Finance, '*muwāzana al-ᵓām al-mālī 2021*,' 93.

pounds over the year – about USD 400 million, or about 12 per cent of total revenues.[53] This was significantly less than what the finance ministry had expected.[54]

A third factor undermining budget execution, and the flow of financial resources towards the goals of peace were the economic reforms themselves. The different elements of the transitional government, the international financial institutions and the donors were unanimous in support of the reforms, but they gave Sudan the world's second-highest rate of inflation, and spread hunger, poverty and insecurity. Economic reform made it difficult for the budget to go according to plan.

In January 2022, the finance ministry estimated that 58 per cent of the 2021 budget had been executed, and it explained the low execution rate as a result of 'internal disturbances' and the suspension of support from international financial institutions in the last quarter of the year.[55] All this affected the flow of funds towards peace. The 2022 budget is short on detail, but it reports that a 36 per cent estimated or actual execution rate for 'grants,' which include current and capital transfers to states, and allocations for the Peace Building Fund. 'Grants' had the lowest execution rate of all budget items listed.[56]

In the 2022 budget, some of these allocations are set to rise. The rises are relative to the allocations in the 2021 budget, amended for inflation in September that year.

Table 2. Grants related to peace in 2021 and 2022

	Jan 2021 budget allocations	Sep 2021 inflation-adjusted budget allocations	Jan 2022 budget estimates	Percentage change, Sep 2021-Jan 2022
Current transfers to states	88	231	376	+63
Capital transfers	88	242	101	-58
JPA obligations	Not listed	159	233	+46

Because inflation is running at over 200 per cent, the apparent increases in the peace budget are in fact reductions.

Do peace budgets bring peace?

For most of the twenty-first century, Sudan's wealth has been generated from primary products grown, raised or mined in its resource-rich, populous and diverse peripheries, which flowed to its mercantile centre. Conflict helped to create this system, and conflict also displaced and deskilled millions of farmers and pastoralists, forcing forced them into low-paid agricultural labour on distant farms and mines. On their own, peace funds and transfers to states were not enough to address imbalances created by this structurally violent production system.

It was too much of a challenge to invest in workers and production systems and the kind of social services that could ease the many burdens on the women and men producing Sudan's exportable wealth. Instead, the transfers to states were mostly spent on the wage bills of provincial governments, building up a provincial salariat whose interests coincided with peace-agreement transfers, rather than developing less gruelling production systems and more accessible social services.[57]

The JPA has the ambition to address the structural violence of Sudan's production systems. It made some important changes to Sudan's power/wealth-sharing formula. It included provisions for transitional justice, whereas past agreements openly or tacitly provided for amnesty-amnesia about past abuses. It had a relatively clear-eyed analysis of the root causes of Sudan's social crises – social and

53 This figure does not include 14 billion Sudanese pounds worth of loans.

54 Ministry of Finance, '*muwāzana al-ḥukūma al-ittiḥādīya lil-ʿām al-mālī 2022*, 12, 17, 53.

55 Ministry of Finance, '*muwāzana al-ḥukūma al-ittiḥādīya lil-ʿām al-mālī 2022*, 13.

56 Ministry of Finance, '*muwāzana al-ḥukūma al-ittiḥādīya lil-ʿām al-mālī 2022*, 15. 'Grants' also include payments to international organizations and some government units.

57 Thomas, 'Fiscal Policy'.

ecological pressures on land and rural workers, defunded social services, and the huge burdens of displacement. Previous agreements had included similar funds and commissions, but their funding and results were extremely modest. The JPA, on paper at least, paid more attention to detail: alongside commissions on land rights, pastoralism, water, revenue allocation, religious freedom, and displaced persons, it set up the first national housing committee for migrant worker camps.

These are important provisions, but there has been absolutely no progress on implementation. Only a handful of processes and almost none of the structures established by the JPA have come into existence: rebel leaders have been given posts in national and state governments, the Peace Commission has a legal if not institutional existence, and the Darfur Permanent Ceasefire Committee has begun some activities. But institutions designed to finance peace, and to reverse the hyper-centralization of wealth, have not yet appeared.

The biggest challenge facing wealth-sharing institutions is Sudan's economic crisis. This crisis may explain some of the financial provisions of the JPA: rebels had little expectation of attracting central resources to their war-damaged societies. Instead, they hoped for a larger share of revenues from local natural resources; instead, they even promised to share local tax revenues with the central government. This devolution of revenue powers and rights to states is a sign of economic stress. Sudan's most consequential peace agreements – the Addis Ababa agreement of 1972 and the Comprehensive Peace Agreement of 2005 – were signed at moments of economic optimism. The JPA, in contrast, was signed during one of Sudan's deepest hunger crises.

These pressures only increased after the October 2021 coup. Sudan's had undertaken exceptionally harsh economic reforms, which aimed at allowing the government to reduce its deficits and finance them from international grants and loans. Much of this finance has been cut off by the coup, and the government – now made up of former rebels and their former adversaries in the security forces – will be tempted to use what peace financing is available to shore up their positions and finance their own political and security networks, rather than to address Sudan's multidimensional social crisis. The JPA still provides processes and institutions that could address that crisis, but the current government's sacrifice of constitutional legitimacy for the sake of power greatly complicates the legal and political processes needed to set up those institutions.

This deadlock presents international donors with many dilemmas. The JPA may have been used to sabotage the constitution but it is the only political process that diplomats and UN officials can afford to support. Some are turning their attention towards financing security arrangements in Darfur, unwarily hoping that the security-arrangements version of peace might lead to something better. But peace is more likely to lie in better housing for migrant workers and support for millions of farmers, pastoralists and wild food collectors whose labours create much of the country's wealth. These root cause issues are key to peace.

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