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Wealth Sharing Beyond 2011:

Economic Issues in Sudan's North-South Peace Process

Achim Wennmann

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CENTRAL
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CONGO (DRC)
UGANDA
KENYA
RED SEA
Port Sudan
Khartoum
Juba
NORTHERN
NILE
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NORTH-SOUTH BOUNDARY

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Executive summary

As a research center of the Graduate Institute of International and Development Studies, one of the principle aims of the Centre of Conflict, Development and Peacebuilding (CCDP) is to offer policy relevant research built upon strong academic foundations. As part of this objective, this publication begins a new series of CCDP working papers that aim to inform and stimulate discussion in both the scholarly and practitioner communities.

Together with studies on Nepal and Indonesia (Aceh), this working paper is part of a project jointly developed with, and generously funded by, Political Affairs Division IV of the Swiss Federal Department of Foreign Affairs. The paper provides a deeper insight into the economic dimension of peace processes. Despite an ever growing academic literature on the economic characteristics of armed conflict, there has been little work on the practical implications that these characteristics may have for peace processes and post-conflict transitions. The larger project behind this paper addresses this gap by elaborating on the value-added of pursuing an economic perspective on peace processes. An overview of this project can be found in the annex to this paper.

The paper is organized around three transversal themes that are part of the backward and forward looking functions of peace processes. In terms of the former, these themes include the role of economic characteristics of armed conflict in the engagement of armed groups, and the treatment of the economic agendas and conflict-driving conditions in peace process negotiations. In terms of forward looking functions, the paper asks if and how the inclusion of economic issues in a peace process can support post-conflict transitions.

This case study on Sudan is a reminder that economic factors do not necessarily need to be directly responsible for higher levels of violence to be able to contribute to the de-escalation of conflict and the initiation of a peace process. In Sudan, the presence of oil has often been simply considered a compounding factor to the main drivers of violence. But after nearly four decades of armed conflict, the prospect of oil revenues has changed the incentive structure for violence and contributed to the development of tactically informed choices favouring negotiation over the continuation of conflict. In his analysis, Achim Wennmann shows that identifying the incentive structures for violence among belligerents may be an important conceptual tool to assist mediators in making decisions as to when to engage armed groups and how to assess their possible attitudes towards a peace process.

Another lesson to be drawn from this paper is that resource management can be discussed without agreeing specifically on resource ownership. Decoupling resource ownership and management in the discussions on wealth sharing prevented an early collapse of negotiations in Sudan and laid the foundation for what followed. The paper also highlights that wealth sharing is complex and armed groups are rarely aware about the prospective resource availability and value. In this case, important technical questions required a series of seminars by external experts occurring over a period of many months before the parties were able to draft a text on wealth sharing that would later serve as a basis for trade-offs.

In many ways, the inclusion of wealth sharing in the *Comprehensive Peace Agreement* (CPA) was exemplary as it provided an institutional arrangement to manage relations between the north and the south of Sudan, while laying out an economic vision for Southern Sudan. Nevertheless, the inclusion of wealth sharing was unable on its own to strengthen post-conflict peace dividends. The parties did not have the level of trust needed to make institutions work effectively and there was hardly any pre-existing formal economy or capacities in the south that could be used as a starting point. Increasing militarization and new conflicts in other parts of Sudan also represented a formidable implementation environment. As the CPA is coming closer to the end of the interim period in 2011, the declining quantity and quality of oil deposits opens important questions on the viability of an independent south, and invites reflections on how to shape the future relationship between Khartoum and Southern Sudan.

While this case study only looked at one of Sudan's conflicts, the experience of peacemaking in Southern Sudan underlines the importance of developing integrated peacebuilding strategies that bridge the periods between peace process negotiations and post-conflict assistance, as well as the need to identify national and regional frameworks that could address Sudan's multiple conflicts simultaneously. This case study shows that the economic dimension should be an important component of these peacebuilding strategies.

Keith Krause
Director, CCDP

Author's acknowledgements

This case study is part of a research endeavour that began at a 2005 workshop on the subject of incomplete negotiations, organized by the Processes of International Negotiation (PIN) network in Vienna, Austria. This workshop raised questions as to the possibility of developing an economic perspective on peace negotiations. It also coincided with an interest with the Swiss Federal Department of Foreign Affairs (FDFA) to better understand such a perspective within its mediation support activities. Joint deliberations led to a pilot study that began to chart the economic dimensions involved in the mediation of peace agreements. The study – entitled *Money Matters: Economic Dimensions of Peace Mediation* – was published by the Programme for Strategic and International Security Studies (now the CCDP). Recognizing the potential complementarities of economic aspects of mediation with existing initiatives on constitution building, dealing with the past, and decentralizing governance, a second phase was jointly elaborated to deepen the understanding of economic issues by looking at their treatment in three specific peace processes. I thank the Swiss FDFA and specifically Murezi Michael for the continuous and generous support given to this project.

The present case study reflects the outcome of over one year of analyzing case specific material and conducting conversations with area specialists, including when possible those engaged directly in the specific peace process. I thank all interlocutors for their time and insight. I also thank Christine Batruch, James Bevan, Julian Hottinger, Oliver Jütersonke, Jana Krause, Simon Mason, and Luke Patey for helpful comments on previous versions of this paper. I also gratefully acknowledge the comments from the participants of a workshop on the economic issues in peace processes in Geneva, Switzerland on 13 February 2009. Special thanks also go to Meghan Pritchard at the CCDP for her invaluable work editing the manuscript and overseeing the publication process. And I thank my wife Soledad for her steady support.

Even though this report has undergone a careful review, any errors and omissions of fact or judgement are of course my own.

List of acronyms

AWS	Agreement on Wealth Sharing
BPD	(Oil) Barrels Per Day
CPA	Comprehensive Peace Agreement
GoS	Government of Sudan
GoSS	Government of Southern Sudan
IGAD	Intergovernmental Authority on Development
IGADD	Intergovernmental Authority on Drought and Development
IMF	International Monetary Fund
MDTF	Multi-Donor Trust Funds
NCP	National Congress Party
NIF	National Islamic Front
NLC	National Land Commission
NPC	National Petroleum Commission
SPLM/A	Sudan People's Liberation Movement/Army
SSLC	Southern Sudan Land Commission
UN	United Nations
UNSG	United Nations Secretary General
WB	World Bank

Introduction

The *Comprehensive Peace Agreement* (CPA) in Sudan was a landmark deal to settle one of Africa's longest civil wars between the Government of Sudan (GoS) and the Sudan People's Liberation Movement/Army (SPLM/A). It included agreements for an interim period – from 2005 to 2011 – on security, wealth sharing, power sharing, as well as on the status of the three regions of Abyei, Southern Kordofan, and the Blue Nile. It was hailed as a model to resolve Sudan's other ongoing conflicts. Crucial future steps for building peace in Sudan include elections set for 2009 and a referendum on the future status of Southern Sudan in 2011. Thus, with the end of the interim period in sight, this paper assesses the economic issues in the *Intergovernmental Authority on Development* (IGAD) peace process and explores their implications as the end of the interim period draws nearer.

The IGAD process has been exemplary as an attempt to devise a framework for wealth sharing during a peace process. Not only did it set up a resource sharing formula, but it also designed a series of institutions to manage the relations between the Government of the Republic of Sudan in the north (referred to hereafter as northern Sudan) and Southern Sudan during an interim period. The CPA is, therefore, considered a positive case example, and a starting point, for the elaboration of some practical lessons for peace process management. The main findings are:

- The presence of oil fostered engagement in a negotiated peace settlement due to the fact that the presence of natural resources changed the incentive structure of violence. The Sudan case shows that capital-intensive, non-lootable natural resources can provide an opportunity for peace processes because their commercialization depends on a certain level of security.
- Wealth sharing negotiations only unfolded after an agreement had been reached on the fundamental principles on self-determination, state and religion, and security. Although an important factor in the conflict, specific discussion of oil resources depended on the development of a mutual understanding between the parties on these larger incompatibilities.
- A deal on resource sharing was facilitated by allowing trade-offs in a single-text document; the strategic use of resource persons; a compromise between debt service obligations and economic development needs; and changes in the payment modalities for oil exports. The decoupling of resources ownership and management thus prevented an early collapse of the wealth sharing negotiations.
- The impact of resource sharing on post-conflict transitions was minimized by implementation problems associated with the lack of trust between the parties, transparency in the exploitation of oil, and capacity to implement the agreement. Other compounding factors included delays in promised development assistance, and an adverse context defined by militarization and the development of new conflicts in other parts of Sudan.
- The declining deposits of high quality oil wells in the south pose a challenge to the future viability of an independent state of Southern Sudan. Efforts should therefore be placed on developing Southern Sudan's non-oil economy and redefining Sudan's centre-periphery relations. Postponing the referendum may be a pragmatic strategy to strengthening wealth sharing agreements and the multiple ongoing peace processes in Sudan beyond 2011.

Together with studies on Nepal and Indonesia (Aceh), this case study is part of a larger project that attempts to establish an evidence base on the management of economic issues in peace processes. This project stresses the importance of conflict-induced economic transformations, as well as the economic agendas and conditions that shape the organization and dynamics of armed conflict. It connects the political economy of conflict with the study of peace processes and seeks to distil implications for peace mediation practitioners.

The focus on economic issues in this paper does not intend to downplay the multifaceted nature of armed conflict in Sudan. The north-south conflict is part of a web of conflicts including the conflicts in Darfur and eastern Sudan, various local conflicts, as well as regional conflicts involving Chad and Uganda. In many senses, therefore, it is difficult to assess if Sudan is in a post-conflict or pre-conflict phase. Additionally, the focus of this paper on economic issues does not set the background for a materially deterministic interpretation of the north-south conflict. Oil has been a factor that contributed to conflict dynamics; it is, however, one element within a larger context of statebuilding, national identity creation, modernization, and marginalization.

After a brief presentation of the background to Sudan's north-south conflict, this paper explores the value-added provided by a better understanding of the economic characteristics of an armed conflict in the engagement of the SPLM/A and the government in Khartoum in the peace process. It departs from the notion of using the mobilization and maintenance cost of armed groups as a heuristic device to identify the role of a peace process in the overall strategy of an armed group. The third part looks at the treatment of wealth sharing issues during the IGAD peace process. It first looks at the position of wealth sharing in the overall process, before exploring the strategies that fostered agreement on such a highly contested issue. Ultimately, the paper considers how the inclusion of wealth sharing relates to post-conflict transitions in the south, highlighting the importance of going beyond the operational distinctions of "conflict" and "post-conflict". It looks first at some implementation problems for the peace process in Sudan before speculating on the role of wealth sharing beyond 2011.

Background

The signature of the CPA in January 2005 formally ended 37 years of armed conflict, which occurred in two wars (from 1956-1972, and from 1983-2004) between northern and Southern Sudan. The first war began shortly before the official independence of Sudan in 1956 and lasted for 15 years. The 1972 *Addis Ababa Agreement* initiated an 11-year ceasefire that provided for power sharing and security guarantees, and granted political and economic autonomy to Southern Sudan within the framework of a unified Sudan (ICG, 2002, p. 11). In 1983, the abrogation of this agreement by the president at the time, Jaafar Nimeiri, saw the start of another 22 years of armed conflict between 1983 and 2004. The resumption of fighting led to an estimated two million deaths and five million displaced (Lacina and Gleditsch, 2005, p. 159).

The north-south conflict has been driven by competition over political power, cultural identity, land, water and natural resources (Simmons and Dixon, 2006, p. 6). Key structural factors underlying the dispute include Sudan's incomplete process of statebuilding, elite governance, as well as attempts at national identity building around Arabic culture and Islam in a multicultural and religious country (el-Battahni, 2006; Prunier and Gisselquist, 2003). In addition, processes of economic modernization in the 1970s clashed with more traditional ways of living. Driven by urban elites, modernization in rural areas included the abolition of traditional land rights as well as the system of native administrations in order to realize large-scale projects of mechanized agriculture. The confluence of statebuilding, identity politics, and modernization fostered marginalization and deepened the antagonisms between the various peoples of Sudan (Matus, 2006; Ylönen, 2008).

During the 1940s and 1950s, an Arabic nationalist movement emerged in Sudan and became the main interlocutor for the British Government's negotiations on independence (Johnson, 2004, p. 27). In 1956, Sudan was created as an Arabic state even though the country was a multicultural bridge between Africa and the Middle East. Only 30 per cent of the Sudanese population identified themselves as having an Arabic identity while large parts in the south were predominately Christian (Jok, 2007, p. 5). Post-independence politics were conducted through a series of clan and religious networks, which drove an increasingly radical Islamic agenda. Political instability was a reflection of internal disputes between Arabic elites and marked by military coups in 1958, 1969, and 1989 (Prunier and Gisselquist, 2003, pp. 112-114).

Since the 1989 coup, Sudan has been governed by the National Islamic Front (NIF) and President Omer Hassan al-Bashir. The NIF, and its successor organization the National Congress Party (NCP), derived its power from its influence over the system of Islamic banking as well as its control of Sudan's economy and military. Additionally, the NCP maintained control of a number of well trained cadres and organizers that gradually suppressed political opposition and formed a closed politico-economic elite. The NCP's economic agenda had a moderating effect on its Islamic orientation, particularly with oil politics becoming the first priority of the Government of Sudan (GoS). Nevertheless, important divisions remained over the openness of the political system and civil liberties, leading to expulsion of Hassan al-Turabi and the creation of the Popular National Congress (ICG, 2002, pp. 33-36).

The Southern People's Liberation Movement/Army (SPLM/A) formed on the basis of increasing levels of discontent with the GoS. Led by John Garang de Mabior, the SPLM/A learned from the failures of previous rebel groups in Sudan – including bad organization, supply problems, limited financing, and inadequate training – and received support from Ethiopia (until the fall of Mengistu in 1991), Eritrea, and Uganda (Johnson, 1998, p. 54). The SPLM/A suffered a series of divisions in the early 1990s and only in 2001 was it possible to unite the various commanders under Garang's leadership (ICG, 2002, p. 47). After the CPA and the death of Garang in a helicopter crash in 2005, there has been a proliferation of separate armed groups, partly because some commanders split from SPLM/A to form their own groups (SAS, 2007, pp.320-326).

The armed conflict between northern and Southern Sudan was accompanied by eight overlapping peace initiatives between 1972 and 2005[1] including at least 25 direct or mediated talks (Simmons and Dixon, 2006, p. 17; Simon, 2006, p. 70). Most of these initiatives were driven by the strategic interests of Sudan's neighbouring states, where the conflicting parties were often manipulated as part of other political or military objectives (ICG, 2002, pp. 153-154). In 1986, the first regional framework was created with the *Intergovernmental Authority on Drought and Development* (IGADD).[2] The IGADD was founded by Djibouti, Ethiopia, Kenya, Somalia, Sudan, Uganda, and as of 1993, Eritrea, partly out of a reaction to donor pressure to resolve the armed conflicts and promote sustainable economic development (El-Affendi, 2001, p. 582). However, the IGADD also reflected all the governments' desire to prevent major disasters that could threaten its regime stability. In Sudan, the GoS feared a similar situation to that brought about in Ethiopia. There, the 1973/1974 famine contributed to the fall of Haile Sellasie, and the subsequent 1984/1985 famine weakened Mengistu's regime. In Sudan, the latter famine fostered the loss of power of Gafaar Nimeiry (Adar, 2000, p. 45).

Until 1989, the IGADD remained deadlocked. Due to the 1989 coup in Sudan, both Nigeria and the United States became engaged with the situation, and a series of meetings between the parties where fostered, which led to a renewed effort for peace, now in the framework of the *Intergovernmental Authority on Development* (IGAD). The IGAD was a regional organization aiming to address political, economic, development, trade and security issues. This process led to the 1994 *Declaration of Principles*. However, subsequent years continued the deadlock, resulting from the deterioration of relations between Sudan and its neighbours, as well as the perception of the IGAD as a partisan platform against Khartoum (El-Affendi, 2001, pp. 586-587).

In 2002, the IGAD process was revitalized with the appointment of Kenyan General Lazaro Sumbeiywo to lead the mediation process between the GoS and the SPLM/A. In addition to the IGAD member states – and particularly Kenya – the process was supported by the United States, the United Kingdom, and Norway. The latter and the European Union provided the financing for the peace process (Simmons and Dixon, 2006, p. 27). Over a period of four years, the process led to a series of mediated talks in Kenya (Nairobi, Karen, Nakuru, Nanyuki, and Naivasha), which in their totality led to the signing of the CPA in January 2005.

This brief outline of peacemaking underlines that there has been a history of about 20 years of peace mediation in Sudan. The phase leading up to the CPA benefited from the cumulated knowledge and experience of previous peace processes. Delegates from both northern and Southern Sudan had been involved in various previous peace negotiations and brought their experience to the table. It is therefore important to acknowledge that the issues on the table – self-determination, the relationship between state and religion, power and wealth sharing, and security arrangements – had been points of discussion in previous negotiations and the respective positions of the parties were known (Morrison and de Waal, 2005, p. 170). Thus, negotiations started from well established positions and the challenge for the mediators was to develop a common ground on the main principles underlying to the detailed arrangements in the protocols (Martin, 2006, pp. 139-140).

Economic aspects of the engagement process

This section looks at the role of economic issues in the engagement of the belligerent parties in the IGAD process. The rationale for such a focus is that economic factors can influence the incentive structure of belligerents and also provide resources to finance armed conflict. In this way, they can contribute to the initiation, perpetuation, and/or termination of armed conflict. When seeking to engage an armed group in a peace process, it is therefore important to understand whether economic aspects are the ends or the means for belligerents, and the potential interaction of these aspects with the peace processes. In this context, a better understanding of the initial conditions – both economic and otherwise – that led to the initiation of a peace process may provide important leads on which to gauge the meaning and commitment that the parties attach to such a process. In this way, a focus on the financing and organization of armed groups may be a helpful tool to support strategic assessments as to when (or not) to engage these actors in peace processes.

A recurring explanation for the engagement of belligerents in the peace process has been the existence in Sudan of a “mutually hurting stalemate”. Parties are locked into such a stalemate when they lose faith in winning through the use of force and thus look for opportunities to cut losses by alternative ways of accommodation (Zartman, 1986, pp. 232-236). In Sudan, it has been argued that the situation of a mutually hurting stalemate has been one of the principle reasons for explaining the beginning of the peace process (Antwi-Boateng and O’Mahoney, 2008, pp. 169-170). The stalemate started after the 1995/1996 offensive led to a military tit-for-tat occurring in consecutive years.

The GoS would advance in the dry season and the SPLM/A would then retake the territory with the onset of the rainy season. This situation lasted until the GoS started escalating the conflict based on the revenue of the first petrol exports (Ofuho, 2006, p. 20; Woodward, 2006, p. 169).

For the GoS, a military stalemate existed because the government was unable to valorise the full potential of the oil wealth in the context of ongoing conflict. Many oil fields could not be exploited due to security concerns; oil infrastructure would be attacked, which disrupted supplies, and even though the GoS would have been far worse off without them, the technical capabilities of Asian companies were inadequate to maximize oil production. Some companies, such as Lundin Petroleum, made the case to all belligerents that the end of fighting and a peace process was the best strategy to ensure a sustainable oil production (Batruch, 2004, pp. 159-160).[3] On the domestic political front, support for the war was dwindling and national conscription was unpopular. In the south, the military stalemate developed out of the fragmentation of armed groups, which led to a series of local conflicts, and the continuing human losses and hardship that contributed to a general war fatigue (Woodward, 2006, p. 170).

In order to fully understand the decision for the parties to engage, a few other elements need to be considered that go beyond the existence of a mutually hurting stalemate. First, the SPLM/A was aware that it had a long term military disadvantage. Using its revenues from petrol as of 1999, the GoS started to modernize its military capacity with Russian and Chinese arms imports as well as develop a domestic arms industry (Reeves, 2006, p. 3; IISS, 2001). In 2001, the changing military balance was felt in the battlefield with an increase in conflict intensity (IISS, 2001). The SPLM/A's main military strategy was to attack oil installations and companies as an effort to undermine the oil revenue of the GoS. While the SPLM/A also increased its military capability and was partly able to challenge the GoS, it realized that if it was unable to disrupt oil flows in a comprehensive fashion, it would lose the war in about three or four years (Young, 2007b, p. 32).

A second related aspect was that the SPLM/A was unable in the long term to secure a comparable source of revenue in order to respond to the government's escalation of the conflict. Since the loss of its bases in Ethiopia in 1991, the SPLM/A had become aware of its dependence on external support and considered that it could not match the GoS's military developments and sustain an open ended conflict at a higher level of intensity (Antwi-Boateng and O'Mahony, 2008, p. 134).

Thus, the SPLM/A based its decision to engage with the peace process on the expected future strength of the adversary and its lack of future revenue sources to participate in a process of conflict escalation. John Garang has posited that "the cost of continuing the war was felt by both sides to be much higher than the cost of stopping the war. So, we stopped the war" (VAO, 2004). In this sense, "the peace process was the last and best chance for the SPLM/A to win in negotiation what it could no longer be won on the battlefield" (Young, 2007b, p. 32).

The question remains, however, as to why the GoS did not at this point pursue a fully fledged military imposition. By the end of the 1990s, the GoS was regionally isolated, suffering a number of local military defeats, and undergoing an internal power struggle. These developments fostered a new pragmatism which took distance from some more extremist positions on Islamisation as evidenced by the strategy of finding "Peace From Within"[4] and the 1997 *Khartoum Peace Agreement*. Following on the 1994 *Declaration of Principles*, the GoS gradually accepted the notion of self-determination, which ultimately featured in article 113 of the 1998 constitution and the 2002 *Machakos Protocol* (Young, 2007b, p. 10). Thus, opposition to peace based on a rejection of self-determination was no longer tenable. This situation opened avenues of engagement on other issues such as the relationship between state and religion, security arrangements, and wealth sharing.

The GoS also gradually realized that Southern Sudan would remain a problem even if settled in the short term by military means. With the challenges of maintaining control over such a vast area as Southern Sudan, the risk of resurging violence and attacks on oil installations would remain a future problem (Young, 2007b, p. 13). Particularly after the 2002 merger into the SPLM/A, the GoS was confronted with a movement having a broader support base and an increased capacity to attack the oil infrastructure (IISS, 2002).

At the same time, conflict was brewing in eastern Sudan and Darfur and the GoS made a tactically informed choice to make peace with its most powerful adversary. From this perspective, the peace negotiations were "a product of the government's need to bring a powerful rival into its coalition, while dealing with other rivals sequentially through other peace agreements" (el-Battahni, 2006, p. 13). In this way, the GoS could also consolidate support from its Islamist base, which wanted to contain the rebellion in Darfur (Antwi-Boateng and O'Mahony, 2008, p. 134).

The engagement of the GoS in peace negotiations must also be understood in the context of its desire to improve relations with the international community, and in particular with the United States. With the first oil production starting in 1999, the GoS wanted to improve its economic operating environment to attract investment and technology in order to explore other oil fields. Due to the conflict in the south, however, it was unable to reach or operate many oil fields. In addition, Sudan was targeted by the 2002 *Sudan Peace Act* of the United States Congress that underlined its international isolation.[5] After the September 11th attacks on the United States, the GoS wanted to avoid becoming part of the "Axis of Evil" and thus a target for regime change. The GoS found ways of accommodation with the United States by engaging in peace negotiations and intelligence exchange (Woodward, 2006, pp. 170-172; ICG, 2002, pp. 33-41; Young, 2007b, pp. 12-13, 41-42).

Rather than a mutually hurting stalemate that led the parties no other option then to negotiate, engagement came about instead as a tactically informed choice of the parties to engage, because a stalemate was no longer in their interests. The SPLM/A understood that the escalation of conflict would likely lead to its defeat. For the GoS, the theoretic feasibility of an escalation of the conflict was balanced by the calculation of opportunity costs at the political (continued international isolation) and strategic (reigning in a powerful adversary at low costs and reservations on long term viability of a military solution) level. While violence may have been used to affect peace process dynamics, it was not part of a calculated effort to renew the war. Thus, the IGAD process shows that parties can make tactically informed choices to relocate the fighting from the battle field to the negotiations table and thus continue their fight by other means.

The process also shows that natural resource availability – in this case oil – can help in engaging armed groups in peace processes. Different types of natural resources have been in the past considered a factor in the onset and perpetuation of conflict (Ross, 2004). However, it could be argued that especially in the case of capital and non-lootable natural resources such as oil, these resources can also be instruments to engage parties into a peace process. These resources depend on foreign direct investment and a minimum level of security for their commercialization. Hence, when the full commercial potential cannot be exploited amid an ongoing conflict, the opportunity cost of continuing violence is high.

Economic issues in the negotiation process

In the study and practice of peace processes, economic issues have been relatively neglected. A comparative analysis of different provisions in 27 peace agreements suggests that most peace agreements focus on security and political power (Suhrke et al., 2007, p. 23). In addition, the parties and mediators involved in negotiations often have a bias towards the military and political sphere. This is understandable when considering that their immediate concern is ending the fighting, ensuring a ceasefire arrangement, preparing the ground for demobilization, and developing some form of power-sharing arrangement. In addition, the negotiators for the parties involved often have a military or political background, some having lived in inhospitable conditions for many years. Yet, this focus on the political sphere stands in contrast to an ever growing evidence base on the linkages between economic factors and armed conflict.[6] There has been surprisingly little work on the practical implications that these insights may have for the mediation of peace agreements.

In Sudan's north-south conflict, oil has been a conflict driver in various ways. It has elevated the strategic significance of the border area due to the fact that it is in this area that most oil deposits are located. Thus, the control of these areas has become an issue of contention and oil installations a military target. Oil fostered grievances in the south as the government in Khartoum exploited the resource without providing any tangible benefits to local populations. It therefore became a rallying point that facilitated the mobilization of the SPLM/A. Over time, oil also shifted the military balance as rising government revenue was invested into military equipment. Finally, oil became an engine to entrench the rule of the NCP, whose network controlled the licit and shadow economy associated with Sudan's oil production. The following section explores how one of the central dynamics of the conflict has been managed in the peace process and how it became possible to find a negotiated solution to wealth sharing.

Wealth sharing and the peace process

The *Agreement on Wealth Sharing* (AWS) of 7 January 2004 has been one of six protocols constituting the *Comprehensive Peace Agreement* of 9 January 2005. It was preceded by the *Machakos Protocol* of 20 July 2002 and the *Agreement on Security Arrangements during the Interim Period* of 25 September 2003.

The issue of wealth sharing has been included in many previous documents. The *Declaration of Principles* of 20 July 1994 highlights that the "appropriate and fair sharing of wealth among the various people of the Sudan must be realized" (Art.3.5). General principles on wealth sharing were also featured in the *Khartoum Peace Agreement* of 21 April 1997, the Preamble of the *Machakos Protocol*, and the *Memorandum of Understanding* of 18 November 2002. Up until this point, however, the inclusion of wealth sharing did not surpass statements of principle. More detailed discussions on wealth sharing and the economic arrangements for post-conflict Sudan were only possible once other issues were first settled. The agreements reached in the *Machakos Protocol* on the issues of self-determination, the relationship between state and religion, and future security arrangements opened the way for future negotiations on wealth sharing (Tellness, 2006, 38).

These negotiations started in Karen in January and February 2003. Specialists were invited in order to deconstruct the complexity of natural resource management and to develop a common understanding among all parties (Mason, 2006, p. 85). Discussions continued in Nakuru in May 2003, where wealth sharing became part of a holistic approach that also included power sharing, security and the management of the three areas of Abyei, Southern Kordofan, and the Blue Nile States. The inclusion of all open issues into a single-text document was supposed to allow space for trade-offs between outstanding issues (ICG, 2003, p. 3).

The *Nakuru Draft Framework for Resolution of the Outstanding Issues Arising out of the Elaborations of the Machakos Protocol* of 11 July 2003 (hereafter the *Nakuru Document*) was the first time that specific provisions were formulated on the ownership of land and natural resources (art.11), a land commission (art.12), subterranean natural resources (art.13), a petroleum commission (art.14), existing oil contracts (art.15), the sharing of oil revenues (art.16), and the sharing of other revenue sources (art.16). It was an attempt by the mediators to propose a workable compromise. However, the parties' assessment of this compromise differed. The SPLM/A signalled its readiness to negotiate while the GoS abandoned the process mainly due to pressures from its Islamist constituency (Mason, 2006, p. 73).[7]

While the Nayuki talks of August 2003 remained inconclusive, the Naivasha talks of September and October 2003 produced a step forward. At this point all issues were on the table and further negotiations required a shift to a higher level of decision making. Direct talks between John Garang and Ali Osman Mohamed Taha contributed to an agreement on security arrangements in September 2003 (Martin, 2006, p. 150). As a result, the SPLM/A proposed that the issue of wealth sharing should be resolved in a similar way. Direct talks between Garang and Taha in December 2003 led to a breakthrough in negotiations and the signing of the AWS on 7 January 2004.

This sketch of the negotiation process highlights that the AWS did not simply occur independently, but rather it was part of a multi-stakeholder, year-long process that followed the attainment of an agreement between the parties on self-determination, state and religion, and security. The mediation strategy chosen contributed to reaching a deal on wealth sharing, and ultimately, also to the CPA. The mediation architecture unfolded in four phases:

- Agreement on fundamental issues and general principles in the *Machakos Protocol* to be detailed at a later stage in the process;
- Technical consultations with the involvement of experts to establish a common understanding on security arrangements, as well as power and wealth sharing;
- Results from the technical consultations were combined in a single-text document to present all outstanding issues to the parties and identify trade-off possibilities; and
- High level talks to make the trade-offs and identify common ground for the constituencies of both parties.

Throughout the process, the relationship between the parties' negotiators at the table and their constituencies, as well as the interests of observers, proved to be one of the most difficult elements to manage. A central challenge included maintaining support of the various constituencies during the negotiations as concessions were made (Tellness, 2005, p. 12; Mason, 2006, pp. 71-73; Schafer, 2006, p. 21).

In finalizing the AWS, another important step toward the CPA had been reached. A series of further negotiations led to separate agreements on the status of the three areas of Abyei, Southern Kordofan/Nuba Mountains and the Blue Nile States, and on power sharing in Naivasha on 26 May 2004. With the agreement on all major technical issues, the way was then free for the final round of talks on the CPA, culminating with its signing on 9 January 2005, which concluded a three-year mediation process.

The inclusion of wealth sharing in the CPA should, however, be placed in the context of the complexity of Sudan's economy. The AWS covered what could be called the "visible" part of Sudan's economy. It did not cover the various parallel or "invisible" economies that are part of both northern and southern patronage networks. While to some extent both parties engaged in wealth sharing out of commercial pragmatism, negotiations were accompanied by the murky distinction between the "visible" and "invisible" economy and thus what economic aspects could be discussed, and what was effectively off-limits.

Specific issues in the negotiations on wealth sharing

The AWS is a comprehensive agreement that describes the sharing of resources and institutional arrangements for Sudan's post-conflict economy in the interim period. Its preamble covers the division of oil and non-oil revenue, the management of the oil sector, monetary authority and the reconstruction of the south and other war-affected areas. The agreement establishes new institutions for the economic governance of northern and Southern Sudan including the National Land Commission (art.2.6), the National Petroleum Commission (NPC) (art.3.2), the Bank of Southern Sudan (art.14.2), the Southern Sudan Reconstruction and Development Fund (art.15.1), the National Reconstruction and Development Fund (art.15.4) and the Multi-Donor Trust Funds (MDTFs) for Northern Sudan and Southern Sudan (art.15.5). The agreement does not address the issues of ownership of natural resource but specifies that the parties agree to resolve the issue at a later date (art 2.1).

One of the main provisions is the sharing of oil revenue from wells in Southern Sudan according to a 50/50 formula. It previews that 50 per cent of net oil revenue accrues to the Government of Southern Sudan (GoSS) and the remaining 50 per cent to the GoS (art.5.6), with at least two per cent of oil revenue to be allocated to producing states or regions in proportion to their production (art.5.5). Concerning non-oil revenue, the agreement specifies various sources of revenue collection for the GoS and the GoSS, including taxes and fees (art.6). All national revenue is centralized in the National Revenue Fund (art.7.1), with 50 per cent of the revenue collected in Southern Sudan given to the GoSS (art.7.3). With these provisions, the agreement organizes the economic governance and reconstruction of post-conflict Sudan.

The issues included in the AWS have been part of a year long process of negotiations from January 2003 to January 2004. The following briefly reviews the discussions on specific issues and their management. The issues on the table were the ownership of natural resources, modalities on income sharing the management of the oil sector in the interim period and the status of existing oil contracts.

The ownership of land and natural resources

The ownership of land and natural resources was one of the most contentious issues during the negotiations because it lay at the centre of the dispute over sovereignty and national self-determination. For the GoS, state ownership of surface and sub-surface land was a prerequisite for equitable distribution and long term development planning. The government felt that it was the only legitimate and capable institution able to redistribute national resources. The SPLM/A, however, rejected the distinction between surface and sub-surface land as well as national ownership and made reference to principles of customary land use rights (Tellness, 2005, p. 13).

Following the Machakos talks in November 2002, mediators and resource experts identified that the parties' position on ownership would be irreconcilable. However, a major stumbling block for the entire agreement was removed when the parties subsequently began to accept the need to address the issues of revenue sharing and oil sector management independently from the ownership of oil (Tellness, 2006, p. 38). The parties specified this clearly: "(…) this Agreement is not intended to address the ownership of [land and subterranean] resources. The Parties agree to establish a process to resolve the issue" (art.2.1).

An opening for compromise was the wording of leaving the ownership issue "unresolved". It allowed both parties to keep face with their constituencies because they had not given in on a critical issue. They agreed to disagree and resolve the issue later, while advancing on other important economic issues. In this way, disagreement on a fundamental issue did not prevent progress on the issue of wealth sharing, which was central to the economic interests of both parties (Tellness, 2005, p. 13-14).

Revenue sharing

The negotiations on revenue sharing took place in the context of the south's financial requirement for reconstruction and development, and the government's need to address its debt and financial crisis. Oil revenues were important for both parties as a principle source of future income. Overall, the modalities of revenue sharing were discussed in terms of a percentage of total revenue or federal transfers. While the SPLM/A started to set its sharing formula at 90/10 – based on claims to compensate the south for forgone revenues – it revised the formula during the Naivasha talks of September 2003 to 60 per cent for the GoSS, 35 per cent for the GoS and 5 per cent for the oil producing regions. Agreement gradually was reached on a 50/50 formula.

For the SPLM/A, the 50/50 formula was important to satisfy SPLM/A constituencies, even though not all commanders were convinced of the notion of sharing after years of oil exploitation by the north. In addition, the 50/50 formula gave the GoSS the right to directly collect taxes and fees. This meant that the GoSS was not dependent on a centralized tax collecting system from which it would receive transfers. It therefore prevented the prospect that the GoS would use transfers as a strategy to exert pressure on the GoSS. In addition, this meant that the SPLM/A would have an independent revenue base as a foundation for self-determination. In this way, it was possible for the GoSS negotiators to shift the sceptics within the SPLM/A towards acceptance of the principle of revenue sharing (Tellness, 2006, pp. 20-21)

The 50/50 deal allowed the GoS to send the message that significant oil resources had been shared. At the same time, the GoS would remain in control of oil governance through the NPC (see below). The trade-off was to accept the 50/50 formula but agree on one single institution to manage oil in the interim period. The 50/50 deal became acceptable to the GoS when its was clarified that only resources from wells in the south would be shared on that basis, thus allowing the GoS to explore 100 per cent of oil wells in the north (Tellness, 2005, pp. 22-23).

A controversial issue during the negotiations was the immediacy of revenue flows and the associated expectations of economic benefits from oil. Southern Sudan expected to immediately be able to sell oil at world market prices. Production was, however, already sold through futures contracts negotiated at pre-agreed oil rates. Before any revenues would be made, these contracts – and the lower world market prices – would have to first be respected. In order to manage the expectations of Southern Sudan, provisions on accountability and transparency in the management of natural resources, consensus decision making in the NPC, and the modalities on how to deal with existing oil contracts were included in the agreement (arts 1.9., 3.2., 4) (Wennmann, 2007, pp. 45-45).

Another issue was the limited ability of the GoS to share revenue in the first years due to its total debt of USD 21 billion and other financial problems. The World Bank (WB) and the International Monetary Fund (IMF) attached great importance to the GoS's ability to service debts and address its financial situation, and it was these issues that were the focus of the first WB and IMF proposals. The need for reconstruction and development in the south did not feature (Tellness, 2005, p. 20). Some GoS negotiators would even speak of "burden" and not "wealth" sharing during the negotiations (ICG, 2002, p. 18).

Yet another element for reaching a deal on revenue sharing was the fact that China agreed to pay for Sudanese oil with financial payments and not with Chinese consumer goods. Until then, China paid for Sudanese oil with the export of a range of goods to Sudan. This mode of payment is common for China's commercial policy in Africa and elsewhere. China's resistance to shift to financial transfer as payment for oil was a major obstacle in the negotiations. Ultimately, the issue was solved through international pressure as well as the recognition by China that an overall agreement was valuable to China's commercial interests.

The talks on wealth sharing emphasize that negotiations within the parties and with external stakeholders are equally – if not more – important then the negotiations between the parties. Support for the 50/50 sharing formula by the constituencies of both parties – albeit for different reasons – and China's acceptance to shift to financial transfers as payment for oil, were important elements to enable the attainment of an overall agreement of wealth sharing.

The management of land and oil in the interim period

The agreement created a series of institutions for the management of land and oil in the interim period. In terms of land, the GoS compromised and agreed to the establishment of two separate land commissions – the National Land Commission (NLC) and the Southern Sudan Land Commission (SSLC) (arts. 2.6, 2.7).

The GoS was able to compromise because two separate land commissions were a logical consequence of the provision on self-determination in the *Machakos Protocol* (art. 1.3). There was also a precedent of two separate institutions in the *Agreement on Security Arrangements*, which provided for two separate armies in addition to integrated units (arts.1b, 4). In addition, the GoS did not have commercial obligations as it had not sold licenses in the Blue Nile province for mechanized agriculture.

By compromising on the land commission, the GoS satisfied one of the major demands of the SPLM/A, for whose constituency it was important to include a reference to the arbitration of claims over land as well as the provision of recommendations on land reform policies, customary laws and practices, and compensation (arts. 2.6.6, 2.6.7, 2.7.6, 2.7.7).

For the management of the oil sector, the GoS did not follow the same logic. The establishment of one single National Petroleum Commission (NPC) (art.3.2) represented a departure from the two separate land commissions (arts. 2.6, 2.7), as well as previous arrangements on security. The SPLM/A did propose three separate Northern, Southern and National Petroleum Commissions during the Naivasha talks of October 2003. The GoS, however, rejected such proposals because its priority was to remain in control of all oil management (Tellness, 2005, p. 17). Agreement on one institution – the NPC – was reached through a trade-off by which the SPLM/A dropped its demand for a southern oil commission in return for a 50 per cent of share of oil revenues and better representation within the NPC. For the SPLM/A, reaching a good deal on revenue sharing was more important than having a separate oil commission (Tellness, 2005, p. 18).

Overall, the agreement on the management of the oil sector shows how important reaching a settlement was to both parties. Both sides wanted to settle modalities on leases and licences for the interim period in view of attracting investors to the areas that so far had remained unexplored due to the war.

Status of existing oil contracts

Since 1974, the GoS had been signing agreements with international petrol companies. Renegotiating existing contracts, the GoS argued, would damage the investment climate in Sudan, something that was contrary to both parties' economic interests. The SPLM/A, on the other hand argued that existing contracts were negotiated without the consent of the south and therefore were illegal. During the negotiation, the SPLM/A gradually accepted the economic rationale for the maintenance of the status of existing oil contracts (Tellness, 2006, p. 39). In the end, the SPLM/A agreed that existing contracts should not be renegotiated; it did though add a clause giving it the right to implement remedial measure should existing contracts have fundamental social or environmental problems (art.4.3).

The AWS and post-conflict transitions

With the multiplication of donor activities in post-conflict and fragile contexts, there has been a growing interest in the continuities and transformations underlying post-conflict transitions. In this context, peacebuilding can be viewed as a series of overlapping phases that are generally perceived to be necessary in order to achieve a lasting peace. As post-conflict transitions develop over the long term, they inherit flaws from previous phases, including from issues that have previously been left unresolved in order to ensure an agreement or an end to armed violence. Hence, the question remains whether moving "upstream" into the peace process may help support and consolidate post-conflict transitions, prevent conflict recurrence and contribute to violence reduction in post-conflict settings.

Even though the CPA theoretically signalled a shift from the conflict to the post-conflict phase, it is often difficult to distinguish whether the situation in Sudan is in fact that clear cut. While the CPA set out a framework for relations between northern and Southern Sudan in an interim period, both sides were simultaneously rearming. The fragility of relations was emphasized by the SPLM/A walkout of the Government of National Unity in October 2007 and the Abyei crises in May 2008 (ICG, 2008a).

Nevertheless, reaching an agreement on wealth sharing has been a major achievement of the IGAD process. Not only did oil factor largely in the onset of conflict and in its dynamics, it also represents an indigenous source for the financing of post-conflict recovery. The question therefore remains how – if at all – the AWS contributed to post-CPA peace dividends, and/or as a foundation for a long term peaceful transition. This section briefly reviews the implementation of the AWS and identifies the potential contribution of wealth sharing beyond 2011.

The implementation of the CPA and post-conflict transition

After the signing of the CPA, the AWS faced implementation problems. These were associated with the lack of transparency of oil exploitation and trust between the NCP and the SPLM/A, the absence of any full meetings of the NPC[8], and concerns about human and environmental consequences (UNSC, 2007, p. 4). Collaboration on wealth sharing did, however, show some improvement by 2008. In August, the Joint Technical Committee for Monitoring, Calculating and Sharing of Oil Revenue indicated that the GoS had steadily paid arrears for the period 2005 to 2007 with payments totalling USD 55.9 million. All payments to be given to the GoSS for the first half of 2009 were also made (UNSC, 2008, p. 5). For 2007, GoSS revenue has been calculated as USD 1,458 million (SMF, 2008).[9] Oil revenues remain the only meaningful revenue source for the GoSS. A first transfer to the GoSS of USD 800 million reportedly occurred in February 2006; this was not accompanied, however, by any indication of the period that this transfer was intended to cover (ICG, 2006, p. 8). Thus, the AWS has met with little success in engendering immediate peace dividends.

First payments to the GoSS only began over one year after the CPA had been signed. Comparable implementation delays also occurred with the MDTFs. During and after the 2005 Oslo Donor's Conference on Sudan, a total of USD 611.3 million had been pledged for the period 2005-2007. However, donor payments lagged behind, with USD 149.6 million paid in 2005 and USD 132.2 million having been paid until September 2006.[10] The first disbursement only occurred on 3 March 2006 (Scanteam, 2007, pp. 86, 123).

Despite these considerable sums, suspicions remain whether the transfers actually complied with the AWS sharing formula. These suspicions are compounded by the lack of transparency in Sudan's oil sector. Independent verification of oil contracts with international firms, levels of oil exports and price arrangements are not currently possible and this prevents any exposure of undeclared production, kickbacks, and corruption (ICG, 2008a, p. 13). The lack of progress on the demarcation of the north-south borders also prevented the establishment of clear parameters to calculate the oil wealth in the border areas (ICG, 2006, p. 7). With the *Abyei Roadmap Agreement* of 8 June 2008, the demarcation has been delegated to arbitration by the Permanent Court of Arbitration in The Hague; however, no clear deadlines have yet been set (art. 4).

There are a number of reasons why the AWS did not lead to a more substantial peace dividend. The limited absorption capacity of the GoSS has been a major factor preventing the contribution of the AWS to peace dividends and long term economic recovery. The GoSS has a lack of capacity to systematically collect, store, manage, and allocate oil and non-oil revenue (ICG, 2006, p. 8). There have also been allegations that the lack of capacity to manage oil revenues fostered corruption within the SPLM/A (Jooma, 2007, p. 12). The lack of pre-war development and the duration and impact of the armed conflict had already been identified in 2005 as a likely inhibiting factor for economic dividends after the CPA (Bude, 2005, pp. 35-36).

The implementation context of the CPA was hardly a conducive environment for the AWS to make a constructive contribution to post-conflict transition. While the CPA stopped the conflict between the GoS and the SPLM/A, fighting escalated in Darfur and with Chad while armed groups proliferated along different and changing alliances (SAS, 2007, pp. 320-326). Sudan also became increasingly militarized including large scale military assistance from China, increasing levels of weapons imports, and the development of an indigenous arms manufacturing industry (HSBA, 2007a, p. 6; HSBA 2007b, pp. 4-6). The monumental task of demobilizing and reintegrating about 180,000 ex-combatants has even now yet to be realized (IRIN, 2008). In addition, there has been hardly any development of confidence-building measures between the parties. United Nations Secretary-General

(UNSG) Ban Ki-moon emphasized that “the lack of mutual trust and confidence between the NCP and SPLM/A remains the main challenge for the implementation of the [CPA]” (UNSC, 2008, p. 15). The SPLM/A even temporarily withdrew from the Unity Government in October 2007.

There were also content-specific limitations of the AWS that limited its contribution to economic recovery. The first derived from its partial treatment of water and land. Water issues were not a primary interest of the GoS and GoSS, and their inclusion would have extended the peace processes to Sudan’s neighbours, which would in turn have complicated negotiations (Rogier, 2005, p. 41; Shafer, 2007, pp. 6-8). Furthermore, the AWS only included land issues in vague terms as part of the Land Commissions (Jooma, 2005, p. 14). The inability to systematically address land rights underlines the continued existence of unresolved local conflicts that have been exacerbated by population movements and environmental changes (IISS, 2007, p. 263).

Moreover, the AWS – and indeed of the entire CPA – represents an elite-driven compromise that reinforced existing power relations in the north and south (Young, 2005, p. 101-102). The SPLM/A used the CPA to gain legitimacy in the south and establish control over resources, while the NCP used it to strengthen its power base in the north (Jooma, 2007, p. 11; IISS, 2007, p. 263). In consequence, the CPA sidelined other parties and civil society and prevented the emergence of a broad and community based peace process (Antwi-Boateng and O’Mahoney, 2008, p. 154). The lack of inclusiveness in the CPA – specifically the omission to reach out to other communities after 2005 – increased the frustrations of marginalized groups. These included, for example, the Nuba and Misserija in Southern Kordofan, for whom post-war promises of economic development and government services failed to materialize (ICG, 2008b, p. 5-7).

Thus, the AWS was unable to foster immediate post-agreement peace dividends. While the GoSS did receive oil revenue, its lack of capacity to plan, allocate, and spend these resources have limited the potential of the AWS to contribute to economic recovery. The AWS is therefore a potent reminder that money alone is not the key to meaningful economic development. Governance capacity, the implementation environment, and weaknesses deriving from the content of an agreement are all factors that have their bearing on the materialization of peace dividends and economic recovery.

These observations, however, need to be measured against the objectives and possibilities of the AWS and the IGAD process. The first section underlined that the GoS and SPLM/A engaged with the peace process to continue fighting by other means. The CPA is therefore a reflection of short-term military, political and economic interests and underlines that it was more about the mistrust of the parties, as well as “self-interest, and ambiguous agendas than any shared commitment to addressing the country’s key problems and building a common future” (Rogier, 2005, p. 41). In this context, the IGAD framework was never designed, nor mandated, to negotiate outside the bounds of what was perceived as acceptable by the parties. The AWS emerged from an interest convergence on oil revenue rather than creating sustainable economies or addressing Sudan’s multiple disputes. The limits of broadening the agenda were also emphasized when external parties attempted to extend the mandate beyond the north-south conflict. The GoS simply threatened to leave the negotiations should Darfur be put on the agenda.[11]

Wealth sharing beyond 2011

The scheduled referendum of 2011 invites reflection on the contribution of wealth sharing to the future peace process. UNSG Ban Ki-moon has stressed that "whether the verdict is unity or separation, the sides cannot ignore their interdependence and common interests" and encouraged the parties "to initiate discussions on a long term wealth-sharing agreement beyond 2011 (…)" (UNSC, 2008, p. 16). The following discussion explores the estimated resource pool that would qualify for wealth sharing and identifies political value wealth sharing after 2011.

Sudan's proven oil reserves increased from 0.7 billion barrels in 2001 to 6.4 billion barrels in 2005. However, most of Sudan remains unexplored and additional reserves may be found in future surveys (ECON, 2008, p. 21).[12] Sudan's oil exploration increased from just 4,800 barrels per day (BPD) in 1997 to 180,000 BPD in 2000. In April 2008, the Sudanese Oil Ministry announced production of 500,000 BPD and the target to reach 600,000 BPD by mid 2009 (Ford, 2008, pp. 3-4). This trend in production has been accompanied by an increasing pipeline capacity estimated at 450,000 BPD in 2007. However, pipeline capacity is expected to increase after proposed technical innovations to 900,000 BPD by 2009/2010 (BMI, 2008). Reported net government revenue from crude exports amounted to USD 3.2 billion in 2007 and is expected to increase to USD 6 billion for 2008 (SMF, 2008; IMF, 2008, p. 41). Oil revenues have been estimated to remain at current levels for approximately another decade (ECON, 2008, p. 21).

The occurrence of oil – particularly the most commercially viable AAA oil[13] – is concentrated in the Abyei region and the Melut basin in eastern Sudan. This is why border demarcation between northern and Southern Sudan, and the status of Southern Sudan, has had significant commercial implications. Thus far, production and pipeline construction has focused on these areas with production in the Abyei oil fields (blocks 1,2 and 4) declining after years of intensive exploitation.[14] It is estimated that more than half of the reserves in Abyei have been exploited while the Melut basin remained largely untapped by 2006 (ECON, 2008, p. 22; ICG, 2007, p. 9).[15] Abyei's declining production is believed to be the result of a GoS policy to extract as much as possible prior to the referendum in 2011. However, due to the lack of transparency of Sudan's oil sector, it is impossible to verify these allegations (ICG, 2008a, p. 13).

Thus, the pool of resources available for future resource sharing will be smaller by 2011 than they were in 2005. This in turn has implications for the significance and functions of resource sharing in a future peace process. Its significance could be lower if there are fewer resources to share and if the quality – and hence the commercial value – is lower. This in turn would reduce the place of oil in Southern Sudan's independence process and emphasize the urgency to develop the non-oil economy and state capacity to collect government revenue. The decline of oil as a revenue source for an independent Southern Sudan also calls into question its economic viability and may therefore increase pressures on the GoSS to explore alternative political and economic arrangements as part of unity with Sudan. The discovery of new oil deposits in the south would not solve, but only delay the need to address the issue of the economic viability of Southern Sudan.

Despite a reduced pool, resource sharing will stay an important part of any future peace process. For at least another decade, the south will remain dependent on the GoS in the commercialization of southern oil deposits. The pipeline remains the only opportunity to bring southern oil onto the world market. The declining share of AAA oil in southern oil deposits makes alternative pipelines, or export on roads or rail links to East Africa less commercially viable. It also reduces incentives to build this infrastructure.

From the perspective of the GoS, the case for a limited role of wealth sharing can easily be made. Sudan is a classic "rentier state" whose reliance on natural resources and external actors in national revenue generation fosters elite driven politics and weak state-society relations. With a great part of AAA oil having been pumped out of Southern Sudan and other oil fields coming available, national revenue is less dependant on southern oil, thus, reducing the GoS's interest in wealth sharing.

The value of wealth sharing may be more about politics, however, than economics. After the CPA, Khartoum strengthened its control over the economy including oil exploration and export, large scale agricultural industries, the military sector, and private banking. While the communities associated with these sectors have benefited from Sudan's economic growth, the legitimacy of the ruling NCP has become increasingly questioned by those who lost out (Jooma, 2007, p. 10). At the same time – and in preparation for the national elections planned for 2009 – one faction of the SPLM/A seeks to build a national platform based on alliances with other groups to provide a political alternative to the NCP (ICG, 2008, p. 1, 7). In parallel, the GoS may be exposed to increasing external economic pressures due to fiscal deficits, lower oil prices, and continued sanctions. In addition, the GoS heavily borrowed from outside investors against future oil revenue thus increasing the leverage of those external investors (ICG, 2008a, p. 13). In the context of rising domestic and external pressure, negotiations on resource sharing could be an economic tool to diffuse domestic and international political opposition at a minimal economic cost.

Another opportunity for resource sharing departs from postponing the 2011 referendum. The CPA is a flexible agreement that is open to change as long as both parties agree to it. In principle, the parties to any treaty are free to renegotiate if they are in agreement to do so because treaties are based on consent.[16] Parties could therefore agree to renegotiate the entire CPA, or parts of it. The *Machakos Protocol* only indicates that "the parties shall refrain from any form of *unilateral* revocation or abrogation of the Peace Agreement" (art.2.6, emphasis added). Thus, if both parties agree to postpone the referendum, they would not contravene the CPA.

Certainly, a number of problems would need to be overcome before postponement could be envisaged. The GoS would need to assure increasing transparency in the oil sector in order to show that it is not using the postponement as a smoke screen to pump all commercially viable reserves out of Abyei. The GoSS would need to manage internal frictions between those advocating unity versus secession (ICG, 2008a, p. 1). The failure to unite the SPLM/A and other southern stakeholders behind one vision for Southern Sudan would play in the GoS's favour and facilitate divide-and-rule tactics (Jooma, 2007, p. 12).

An economic rationale may be able to shape attitudes towards the postponement of the referendum, or at least the extension of the interim period. A delay of the referendum provides time to make the AWS work while Southern Sudan gains time to develop its administrative capacity and non-oil economy. It would be highly unlikely that Southern Sudan would get a better deal with the north on southern oil deposits if it was an independent state.[17] The GoS could use the delay to make unity a more attractive option and launch a process of redefining centre-periphery relations in Sudan while keeping the NCP's grip on power.

These rationales of postponement are still far from a political reality and when considering the military build-up on both sides, one may indeed question their relevance. However, it has been argued that there exists a possibility that "both parties calculate that a return to war is not in their best present interests, and they have more to gain working together" (ICG, 2008a, p. 1). The GoSS needs the north to commercialize southern oil deposits unless the discovery of new high quality oil deposits attracts the external investments necessary for an alternative pipeline. In the meantime, the failure to ensure collaborative relations would leave the south independent, but cash-strapped and poor. The GoS requires stability in oil producing regions and along the pipeline, higher levels of investment and technology, and better relations with the rest of the world in order to commercialize oil resources. A renewed armed conflict would therefore mean great opportunity costs for both parties. The NCP has been characterized in a way that "considerations of bottom line economics far outweigh those of ideology" (Jooma, 2007, p. 10). If this applies more widely in Sudan, a focus on economic issues in a future peace process – such as revenue sharing from oil, land and water management, or fiscal decentralization – may help not only to resolve the north-south conflict, but also redefine relations between the national government and Sudan's other regions.

Conclusions

The objective of this case study was to expand the evidence base on the role of economic issues in peace processes. It looked at the economic factors behind the engagement of the GoS and the SPLM/A in the IGAD framework, and analyzed how economic issues – and in particular wealth sharing – have been negotiated and related to post-conflict economic recovery. It also explored the possible role of wealth sharing for peace processes beyond 2011. Overall, the case study underlines the importance of an economic perspective in the analysis and practice of peace processes.

The paper highlights that due to a combination of tactically informed choices and opportunity costs of the use of violence, negotiations could have the potential to evolve into a comprehensive process in which the parties continue fighting, but by other means. In this process, the presence of oil was an import factor and allowed a peace process to be presented as a strategy for commercial pragmatism and a precondition for oil production to flourish. The engagement of the GoS and the SPLM/A also shows that the initial condition of a peace processes can provide indicators on the possible evolutions of a peace process. The SPLM/A joined the peace process after realizing their future military inferiority and inability to maintain the pace of conflict escalation driven by the GoS. Engagement was therefore not a result of a mutually hurting stalemate but rather a strategy to gain at the negotiation table what could no longer be won on the battlefield. The GoS had the financial means to continue a military agenda, but held back from this option for strategic and political reasons, and to facilitate the commercialization of oil.

In terms of managing economic issues during a peace process, the case study has the following findings:

- Wealth sharing negotiations gained momentum after fundamental principles on self-determination, state and religion, and security had been agreed upon in the *Machakos Protocol*. They then unfolded in a sequence that included technical consultations, negotiations on a single text document, and high level decision making.
- The *Agreement on Security Arrangements* provided a template for an institutional framework of economic governance. The framework included one joint and two separate institutions with the exception of the NPC. This arrangement created the flexibility to satisfy central demands for national institutions while supporting institution building in Southern Sudan in line with the option of southern secession after the referendum.

- Negotiations on wealth sharing were facilitated after agreement was reached to leave the ownership of resources "unresolved" in the short term, and to continue negotiating resource management issues. The AWS negotiations therefore show that it is possible to talk about resource management without agreeing on ownership.
- Key enablers for a deal on revenue sharing were (a) a trade-off by which the SPLM/A agreed to a centralized NPC and the GoS agreed to the 50/50 resource sharing formula for Southern Sudanese oil deposits; (b) the use of experts that deconstructed the complexity behind oil management and developed a joint understanding on oil reserves and future revenues potentials; (c) the balancing of demands for debt service payments and the economic development needs of Southern Sudan, and (d) the acceptance of China to shift from barter to financial payments for oil exports.

Despite the inclusion of a forward looking framework for the management of natural resources in the CPA, there have been few immediate peace dividends and long term development prospects for Sudan remain difficult. While resource sharing became more systematic in 2008, its effect on long term economic recovery has been limited by the extremely low level of development in terms of the pre-existing economy, missing administrative capacity, an adverse implementation environment, and unresolved land and water issues. In addition, there were major delays in promised development assistance.

As Sudan is approaching the end of the interim period in 2011, reserves of high quality oil in southern wells are declining. The GoSS may therefore become increasingly challenged to mobilize the resources it will need to be an independent state. Efforts should therefore concentrate on developing Southern Sudan's non-oil economy and administrative capacity while transforming central politics in order to foster the resolution of Sudan's multiple conflicts by redefining centre-periphery relations. Postponing the 2011 referendum may become a pragmatic requirement in order to strengthen development benefits for Southern Sudan, and encourage the government to rethink centre-periphery relations. In this context, wealth sharing may become a political tool to ensure unity among southern actors, and manage domestic and external pressure on the NCP, while building a foundation for Southern Sudan's future transformation as a state.

Endnotes

1 These peace processes included the Addis Ababa talks (Ethiopia 1972), Koka Dam talks (Ethiopia 1986), Addis Ababa talks (Ethiopia and Egypt 1989), Abuja talks (Nigeria 1992-1993), regional peace talks (IGADD 1993-1994), the "Peace From Within" talks (1992-1997), the Egyptian and Libyan initiative (Egypt and Libya, 1999-2002), and the Sudan peace process (IGAD 1997-2005) (Simmons and Dixon, 2006, p. 17). For a chronology see Simon (2006, pp. 93-96).

2 In the first few years, the reference to "drought" was dropped in the organization's name which led to its shorted acronym IGAD.

3 Lundin Petroleum's Member of the Board and former United Nations Special Envoy for the Balkans, Carl Bildt, was involved in diplomatic initiatives that argued that "oil represented an incentive for peace in so far as oil activities could not be pursued in a war context" (Batruch, 2004, p. 160). The commercial interest of China has also led to its increasing diplomatic engagement in relation to the Darfur conflict and support for a political settlement (Large, 2008, p. 38).

4 "Peace from Within" was a government-led process with Southern Sudan that led to he 1997 Peace Agreement. It included discussion on federalism and participatory democracy but also provisions on Islamic legislation and a new education system with 14 new universities (see WRITENET, 1998).

5 The *Sudan Peace Act* sought to prevent international financial assistance and investments to benefit Sudan's oil exploration, to support Southern Sudan and to end human rights abuses all over Sudan (USDS, 2002).

6 For an overview of this literature see Arnson (2005) and Humphreys (2003).

7 The provision on a "Sharia-free" Khartoum was one of the main triggers for opposition of the GoS to the Nakuru Document (Martin, 2006, p. 148).

8 However, a joint technical committee met regularly to calculate oil revenues and shares (UNSC, 2007, p. 4).

9 These figures by far exceeded initial estimates by the International Crisis Group, who forecasted that the oil share of Southern Sudan would amount to a total of USD 756 million for the period 2005-2007 (ICG, 2007, p. 9). Monthly figures from July to December 2007 suggest that the revenue increase is most likely due to higher oil prices (SMF, 2008).

10 In 2005, USD 49.0 million was earmarked for Northern Sudan and USD 100.6 million for Southern Sudan. Until September 2006, these figures amounted to USD 47.6 million for Northern Sudan and 84.7 million for Southern Sudan (Scanteam, 2007, p. 86). For a review of the constraints on implementation of the MDTF see Scanteam (2007, 93-99). During the 2008 Oslo Donor's Conference on Sudan USD 5 billion was pledged for the period 2008-2011 and will be channelled through the MDTF administered by the World bank and the Sudan Recovery Fund and managed by the United Nations (Sudan Tribune, 2008).

11 A possible reason why Darfur was excluded from the IGAD process was the GoS's willingness to cooperate on terrorism intelligence exchanges that reduced the leverage of the United States on the GoS to accept extending the IGAD process to manage the Darfur conflict (Mason, 2006, p. 74).

12 Figures on oil production, revenue, and reserves need to be interpreted cautiously because the lack of transparency of Sudan’s oil sector and business operations prevents verification.

13 Triple A (AAA) quality petrol is a liquid oil (as opposed to oil paste or rock oil) with various levels of sulphur content. It requires minimum refining and is therefore highly profitable.

14 While the forth quarter of 2006 and the first and second quarter of 2007, blocks one, two and four produced around 250,000 barrels per day, production decreased to around 200,000 barrels per day in the second quarter of 2008 (EIU 2008, p. 12). Declines have been most severe in blocks one and two (the Unity and Heglig fields). Block four (Neem field) has so far offset these losses with increased production. Declines in output have been evidenced by a 65 per cent water ratio. (ECON, 2008, p. 22).

15 One estimate holds that out of total commercial reserves of about 1.7 billon barrels of blocks one, two and four, about one billion barrels remain at the end of 2006. Blocks three and seven in the Melut basin have remaining commercial reserves of 779 million barrels out of a total of 803 million barrels (ECON, 2008, p. 22).

16 The author acknowledges comments from Andrea Bianchi, Professor of Public International Law, the Graduate Institute of International and Development Studies, Geneva, Switzerland.

17 The GoS may simply increase the transit fees though the pipeline for Southern oil, thus reducing the profit margin for the south.

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About the author

Dr. Achim Wennmann is a Researcher at the Centre on Conflict, Development and Peacebuilding (CCDP) of the Graduate Institute of International and Development Studies, and has directed the project, *Economic Issues and Tools in Peace Processes*, since its inception in 2006. His research interest extends to the economic characteristics of armed conflict and conflict dynamics, especially in relation to the financing and mobilisation cost of armed conflict and violence, and their costly effects. Previously, he has worked on conflict financing, conflict economies, and transnational organised crime networks, as well as peacemaking in the South Caucasus. Other current research looks at international cooperation in fragile states and armed conflict situations. Selected publications are:

- "Getting Armed Groups to the Table: Linking the Political Economy of Conflict with Peace Processes." *Third World Quarterly*, Vol. 30, No. 6 (forthcoming 2009).
- "Economic Provisions in Peace Agreements and Sustainable Peacebuilding." In *Négociations*, No. 11 (forthcoming 2009).
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- "The financing of non-state armed groups: Combining the availability of revenue sources and the cost of conflict" in *Contemporary Security Policy* (forthcoming 2009).
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- "Resourcing the Recurrence of Intra-state Conflict: Parallel Economies and Their Implications for Peacebuilding." *Security Dialogue*, Vol. 36. No. 4 (2005), pp.479-494.

In 2008, Achim Wennmann was also co-editor (with Keith Krause and Robert Muggah) for the Geneva Declaration Secretariat of the *Global Burden of Armed Violence Report*.

Contact: achim.wennmann@graduateinstitute.ch.

Annex: project background and conceptual remarks

This working paper is part of the current project on *Economic Issues and Tools in Peace Processes* that the CCDP is conducting for the Swiss Federal Department of Foreign Affairs. The project has two specific objectives: to explore the opportunities and limitations for peace process management deriving from an economic perspective on armed conflict; and to assess if and how the inclusion of economic issues in a peace process can support post-conflict transitions. A better understanding of the economic dimensions of peace processes promises uncharted opportunities for the planning and management of peace processes and contributes to mediation support initiatives at the national and multilateral levels.

The project defines peace processes as “measures deployed to resolve differences, and settle disputes or conflicts, through diplomacy or other methods of peaceful settlement rather than violence” (Ramcharan, forthcoming 2009, p. 228). The use of the term “peace processes” relates to the period from the engagement of armed groups into peace initiatives until the completion of a peace agreement that ends the violence between the main protagonists of an armed conflict. It therefore connects to an understanding of peace processes as a strategy to end armed conflict. In contrast, the term “post-conflict transitions” refers to the period after a peace agreement in which the antagonists seek to find resolution of their differences. The distinction between conflict and post-conflict is useful analytically because the ending of armed violence is a major qualitative difference that frames external assistance and opportunity structures.

The term “economic issues” relates to “political economy” which captures “the parallel existence and mutual interaction of ‘state’ and ‘market’ in the modern world” (Gilpin, 1987, p. 8). This interaction is based on the theoretical starting point that “market” and “state” logic are in fact independent. The former is concerned with the location of economic activity where it is most productive and profitable; the latter is about the capture and control of economic growth and capital accumulation (Heilbronner, 1986, pp. 90-91). Political economy places the focus on the interaction of these logics and their mutual effect on the other. The work of Paul Collier and colleagues, for example, assumes the independence of “market” logic, while Michael Pugh and Neil Cooper adopt a political economy perspective (Collier et al., 2007; Pugh et al., 2008). While the application of a political economy approach may appear limited to contemporary armed conflict due to the absence or fragility of the state, it is nevertheless important; rebel groups and patrimonial networks often use a “state” logic to control the economy and territory – such as is the case in de-facto states – while using a “market” logic to maximize their gains – such as in warlord politics (Pegg, 1998; Reno, 1998).

Economic issues are part of backward and forward looking functions of peace processes. The former relates to past violence and injustices, and captures economic causes or drivers of conflict. Issues can include natural resources management, the reduction of socio-economic inequalities, or the compensation of victims for past atrocities. Economic issues can also be part of forward looking functions of peace processes that define new political, economic, or societal foundations. Important economic elements include frameworks for new economic institutions, employment creation, or land reform. In this sense, the first objective of the project connects to the backward looking functions of peace processes, the second to forward looking functions.

Nepal, Sudan (north-south), and Indonesia (Aceh) have been selected as case studies because they all had important economic components as key issues of incompatibility or conflict drivers. In Nepal, these included socio-economic inequality; and in Sudan and Aceh, the control and management of natural resources and different degrees of (economic) autonomy. The choice has also been influenced by the available evidence on the peace processes and post-conflict transitions. The case study approach has additionally been selected in order to develop a context-sensitive understanding of the treatment of economic issues in peace processes. Such an approach is conducive to analyzing the overlap between the economic political, military, social and other spheres, the independence of which is difficult to determine completely.

The publication of the three case studies closes the second stage of the project, which now looks closer at the specific role of economic tools in peace processes. These tools include income sharing arrangements, private sector investment, and development assistance. Findings from this final stage of the project will be distilled into a series of upcoming CCDP Issue Briefs.

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GRADUATE INSTITUTE OF INTERNATIONAL
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ccdp
The Centre on
Conflict, Development
and Peacebuilding

Graduate Institute of International and Development Studies
20, rue Rothschild
P.O. Box 136
1211 Geneva 21
Switzerland
E-mail: ccdp@graduateinstitute.ch
Website: http://www.graduateinstitute.ch/ccdp