

Global Financial Crisis Discussion Series

Paper 19: Sudan Phase 2

Medani M. Ahmed



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February 2010

Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD
www.odi.org.uk

¹ This paper was funded by the Swedish Agency for International Development Cooperation (Sida) and is part of a wider research project coordinated by the Overseas Development Institute (ODI) London, but it does not necessarily reflect their views.

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Acronyms

ADC	Advanced Developing Country
AfDB	African Development Bank
AIDS	Acquired Immunodeficiency Syndrome
CBoS	Central Bank of Sudan
CBS	Central Bureau of Statistics
CIA	Central Intelligence Agency
CPA	Comprehensive Peace Agreement
EIU	Economist Intelligence Unit
EU	European Union
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investment
FFAMC	Fiscal, Financial Allocation and Monitoring Commission
fob	Free on Board
GDP	Gross Domestic Product
GNU	Government of National Unity
GoSS	Government of Southern Sudan
HIPC	Heavily Indebted Poor Country
HIV	Human Immunodeficiency Virus
IDA	International Development Association
IMF	International Monetary Fund
JAM	Joint Assessment Mission
LIC	Low Income Country
MDG	Millennium Development Goal
MDTF	Multi-Donor Trust Fund
MFNE	Ministry of Finance and National Economy
MICS	Multiple Indicator Cluster Survey (UNICEF)
NGO	Non-Governmental Organisation
NPL	Non-Performing Loan
NPV	Net Present Value
NRF	National Revenue Fund
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Oil Exporting Countries
ORSF	Oil Revenue Stabilization Fund
PRSP	Poverty Reduction Strategy Paper
SAP	Structural Adjustment Programme
SDD	Sudanese Dinar
SDR	Special Drawing Rights
SDG	Sudanese Ginah (Pound)
Sida	Swedish International Development Cooperation Agency
SRF	Sudan Recovery Fund
SWAA	Sudanese Working Abroad Authority
UAE	United Arab Emirates
UN	United Nations
UNCTAD	UN Conference for Trade and Development
UNDP	UN Development Program
UNICEF	UN Children's Fund
UNOCHA	UN Office for the Coordination of Humanitarian Affairs
US	United States
USITC	US International Trade Commission
VAT	Value Added Tax
WFP	World Food Programme

Abstract

This study aims at examining the impacts of the global financial crisis on the Sudanese economy. It finds that the crisis has deteriorated the terms of trade, lowered both exports and imports, slowed down foreign direct investment (FDI), caused remittances to drop, lowered aid and widened the deficits in the current account and the balance of payments. Growth declined by 4% of gross domestic product (GDP) in 2009, from 10.2% in 2007 and 6% in 2008. Budget revenues declined sharply by more than 50% in 2009 and government expenditures slowed with regard to service delivery, development and transfers to sub-national governments and to the Government of Southern Sudan (GoSS).

Expected impacts on stock and financial markets were very low given the lack of direct links to international markets and the absence of foreign investors in the Sudanese market. The Government of National Unity (GNU) responded to the decline in oil revenues by swiftly increasing VAT, from 10% to 15% in 2007 and to 20% on telecommunications in 2008, introducing a development tax of 5% and scaling up customs duties on imported cars and luxuries. It also expanded internal borrowing through the sale of Government Musharaka Certificates and resorted to deficit financing to meet spending needs. Scarcity in foreign currency inflows led to a drawing down on the country's foreign reserves to finance critical current and development spending.

The government pegged local currency to the euro. This depreciated as a result of deep recession, which led to further depreciation of the Sudanese pound. In turn, incapacity and structural rigidities in the economy meant that Sudanese non-oil exports did not become more competitive.

1. Introduction

Sudan was able to achieve and sustain high growth rates in the 1990s and 2000s within a framework of very tough self-imposed structural adjustment programmes (SAPs). The real gross domestic product (GDP) growth rate, on average, for the period 2000-2008, amounted to 7.7% annually, varying between a high of 10.2% in 2007 and a low of 6.1% in 2003. Growth is estimated at 4.9% in 2009 and projected to be around 5% in 2010. The sustained growth rates of GDP for the period 2000-2008 were achieved within a context of stable macroeconomic policies and relatively controlled and carefully guided inflationary pressures. The government was able to stabilise prices and sharply reduce inflation from a record high of 130.6% in 1996 to a single digit by the end of the 1990s.

Since 2000, oil and related sectors have been driving GDP growth, despite their relatively smaller shares in GDP composition. Agriculture (composed of irrigated, traditional rain-fed and mechanised crops, livestock and forestry sub-sectors) contributed more than 40% of GDP in the 1960s, 1970s and 1980s but declined to more than 36.2% and 35.9% in 2007 and 2008, respectively. The industrial sector (including manufacturing and mining, water and electricity, building and construction and transport and communications) contributed 33% in 2007 and 31.4% in 2008, whereas services (private and government) systematically contributed more than 30% for the whole period of 1980-2009, giving 30.8% in 2007 and 32.7% in 2008.

Sudan is increasingly becoming dependent on oil revenues and export earnings, which constituted 63% and 95% of GDP, respectively, in 2008. This oil dependency is threatening budget credibility, predictability and planning functions and also the ability to deliver services. It also endangers budgetary allocations and resource distribution to different tiers of government.

In Sudan, the degree of openness has recently been rising steadily, from a low level of 11.1% in 1990 to 33% in 2000 and 46.3% in 2005. It dropped slightly to 42% in 2007 and rose to 44.8% in 2008, making the economy more prone to external shocks (IMF data).²

On another matter, the country accumulated huge unsustainable external debts of more than \$34 billion in 2008, with very high debt burden indicators; suffered from worsening deficits in the current account and the balance of payments; and, having no access to concessional multilateral aid and official development assistance (ODA), was forced to resort to non-concessional development aid from regional development Arab funds and from China and India to finance the external deficit. As a result of enormous scarcity in foreign currency inflows because of falling export revenues and shrinking private remittances, and slow foreign direct investment (FDI) and trade, the country's foreign reserves have been steadily drawn down to finance critical current and development spending at federal, Government of Southern Sudan (GoSS) and sub-national government levels.

The crisis has caused a sharp decline in oil export revenues, deteriorating terms of trade, lower volume of remittances and slow FDI inflows, and widened deficits in the balance of trade, current account and balance of payments. It is expected to lower economic growth rates for 2009 and 2010 (in the range of 2% to 4%) relative to previously achieved higher growth rates (of more than 8%) in 2000-2007. Declining oil revenues have seriously reduced government fiscal ability to meet target expenditures and commitments and forced it to prioritise spending, cut spending on current items, slow funding of development and, more importantly, slow and lower the volume of resources transferred to sub-national governments in northern Sudan and to the GoSS.³ Sub-national governments and the GoSS

² Degree of openness is measure by the total value of exports plus imports divided by GDP and multiplied by 100.

³ Transfers to the northern states are determined by a horizontal formula developed by the Fiscal, Financial Allocation and Monitoring Commission (FFAMC) and the share of the GoSS is determined by the wealth agreement of the Comprehensive Peace Agreement (CPA). Resource sharing among various orders of governments depends, in turn, on the size of the National Revenue Fund (NRF), which includes all revenue sources deposited in an account at the Central Bank of Sudan (CBoS).

are critically in need of more transfers to meet growing demand for service delivery and social and economic development activities, as their own revenues are too low to meet spending needs.

The main aim of this paper is to examine the impacts of the global financial crisis on the Sudanese economy. Section 2 focuses on the key transmission mechanisms through which the crisis has and will affect the economy, namely, trade, FDI, remittances, the stock market, the financial sector, ODA and foreign reserves and the value of the Sudanese pound, finishing up with a summary of the balance of payments position.

Section 3 looks at the impacts of the crisis on GDP growth rates, the fiscal position, resource distribution, employment and unemployment, poverty and inflation.

Section 4 gives a critical review of policy responses, the crisis and fiscal space in Sudan, central bank monetary policy in 2010, the socio-political dimension of debt sustainability in Sudan and social policies to respond to the impacts of the crisis.

Section 5 deals with multilateral responses in Sudan, with special emphasis on International Monetary Fund (IMF) responses to both low-income countries (LICs) in general and Sudan in particular.

Finally, Section 6 gives some conclusions and policy options for the Government of National Unity (GNU) to lessen the effects of the global financial crisis and to achieve and sustain economic growth and development in Sudan. These deal with improving the economy's productive and exportable capacities, reforming its fiscal, monetary and development strategies to enhance efficiency and productivity and upgrading capacity of service delivery.

2. Effects of the crisis on Sudan: Key transmission mechanisms

This section deals directly with the transmission mechanisms through which the global financial crisis has been impacting the Sudanese economy through the external sector, namely, balance of payments components (with special reference to private capital flows).

2.1 Trade

The ratio of trade to GDP in Sudan has risen steadily, from a low level of 11.1% in 1990 to 33% in 2000 and 46.3% in 2005, dropping slightly to 42% in 2007 and rising to 44.8% in 2008, making the economy more prone to external shocks.⁴ Table 6 gives evidence of the fact that the degree of openness (in percent terms) in Sudan has been rising, from 41.1% in 2000 to 52.8% in 2008. On the other hand, Sudan's terms of trade figures have shown a cyclical trend, owing to sharp variations in oil prices in the period 2000-2009. For instance, they amounted to 2.8% in 2000, dropped sharply to -42% in 2005, rose to 20.6% in 2007, declined to -47.3% in 2008 and moved up to 7.7% in 2009 (Table 1).

Table 1: Selected economic and financial indicators, 2005-2009

	2005	2006	2007	2008	2009
Terms of trade (1993 = 100, change in %)	2.8	-42	20.6	-47.3	7.7
Net international reserves (US\$m)	1576	1139	978	600	1000
Debt (% of GDP)	78.1	68.5	58.1	70.3	65.5
Total debt service (commitment basis) (US\$m)	17.7	11.2	10.6	22	17.1
Gross savings (% of GDP)	11.6	15.6	15.1	11.6	13.0
Gross investment (% of GDP)	25.1	26.5	22.8	21.7	21.5
GDP growth rate (%)	8.3	9.3	10.2	6.8	4.9
Inflation rate (%)	5.6	15.7	8.8	14.9	10.1

Source: IMF (2009d).

Before exporting oil, Sudan depended on traditional exports, which come mainly from agriculture (irrigated, rain-fed traditional and livestock sub-sectors), with a small contribution from manufacturing and mining. Agricultural exports are mainly cotton, sesame, gum Arabic, oil seeds, sorghum and livestock products (live animals, meat, hide and skins). Manufacturing and mining exports are sugar, molasses and gold (Table 2). With the discovery of oil in 2000, Sudanese export composition and value changed drastically. Non-oil products became insignificant in value and as a percentage of total exports. Oil exports have become predominant (relative to non-oil exports), amounting to 74.8% of all Sudanese exports in 2000 and reaching a record high of more than 95% in 2008. The country has steadily become completely dependent on oil as the main source of export earnings.

Table 2: Exports by commodity, 2000-2008 (% of total exports)

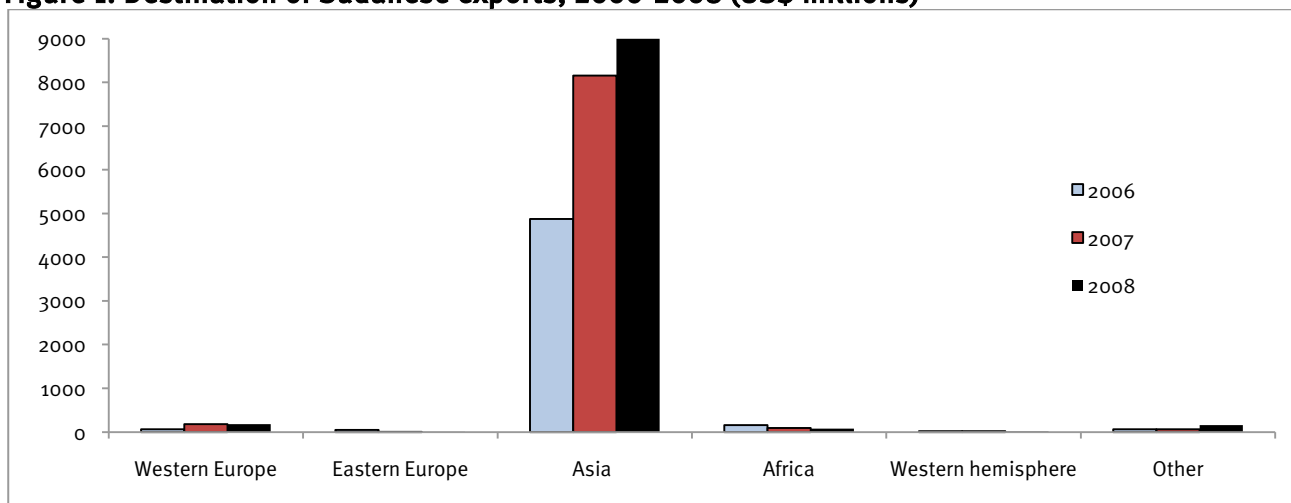
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Petroleum and products	74.8	81.0	77.5	80.6	82.0	86.8	89.9	94.6	95.1
Cotton	2.9	2.6	3.2	4.2	2.5	2.2	1.5	0.8	0.5
Gum Arabic	1.3	1.4	1.6	1.4	1.6	2.2	0.9	0.6	0.5
Gold	2.6	2.5	2.7	2.3	1.3	1.3	0	0	0
Sesame	8.1	6.2	3.2	2.9	4.7	2.5	3.0	1.0	1.2
Sorghum	0	0	0.3	0.1	0	0	0	0	0
Vegetable oil	0.3	0.5	0.3	0	0	0.5	0	0	0
Sugar and molasses	1.1	1.2	0.9	0.6	0.5	0.5	0	0	0
Livestock and meat and hide	5	1	7.1	5.4	4.1	2.8	2.2	0.9	0.3
Others	3.9	3.6	2.8	2.5	3.3	3	2.5	2.1	2.4
Total	100	100	100	100	100	100	100	100	100

Source: Based on CBoS annual report data (various years).

⁴ Trade as a % ratio of GDP denotes the degree of openness of Sudan's economy, which is measure by the total value of exports plus imports divided by GDP and multiplied by 100.

On the other hand, oil exports have also changed enormously, shifting direction from Sudan's traditional markets in Europe,⁵ the US⁶ and the Middle East to Asian countries (mainly China,⁷ Japan, Indonesia, India, South Korea, Thailand and Malaysia).⁸ For instance, Asian countries' share in Sudan's exports increased from 44% in 2000 to more than 90% in 2008 (see Figure 1 and Table 3).

Figure 1: Destination of Sudanese exports, 2006-2008 (US\$ millions)



Source: Based on CBoS annual report data (various years).

Table 3: Destination of Sudanese exports, 2000-2008 (% of total)

	Western Europe	Eastern Europe	Asia	Africa	Western hemisphere	Middle East	Other
2000	3.7	2	44.1	0	2.1	13.1	35
2001	8.3	0.6	78.2	0	0	11.5	1.4
2002	6.9	0.9	73.7	0	0	15.9	2.6
2003	5.4	0.5	80.9	0	0.1	11.8	1.3
2004	4.2	0.4	82.4	0	0.1	11.4	1.5
2005	2.7	0.2	86.1	0	0.3	7.8	2.9
2006	2.5	8.2	87.5	2.5	0.2	7.1	0.3
2007	2.1	0.1	91.9	1.1	0.2	4.1	0.7
2008	1.6	0.0	90.3	0.7	0.1	6.0	1.4

Source: Based on CBoS annual report data (various years).

Most oil products are exported to specific Asian countries (China, India, Malaysia, Japan, Indonesia and Thailand). China, Malaysia and India are the largest investors in the oil industry, from where most of Sudan's imports also come. Table 4 and Figure 2 show that more than 44% of Sudanese imports come from these Asian countries. European countries come second (a good share of the oil inputs and capital goods used in energy and infrastructural projects are imported from Europe). It is important to

5 European trade with Sudan declined in importance and value in 2000-2009 owing to economic sanctions and bad political relations caused by problems in Darfur and Southern Sudan, along with other factors. The trade balance has been showing positive signs in favour of Europe (sometimes above €100 million).

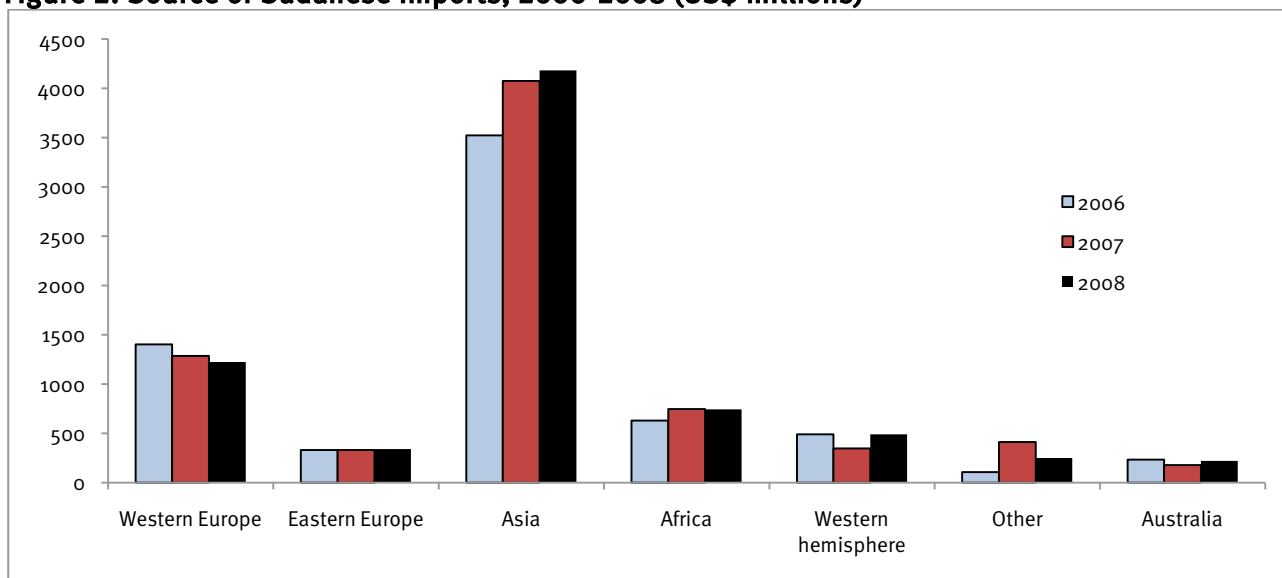
6 Sudan has been under US sanctions since 1997 (renewed in October 2009) and has no direct trade with the US except in gum Arabic (exempted from the sanctions). In June 2009, the balance was zero, deteriorating to -\$1 million in July 2009 and becoming positive in August 2009 (about \$6 million). Data are extracted from <http://dataweb.usitc.gov/scripts/REPORT.asp>.

7 Sudan-China trade has been growing enormously, amounting to \$5894.15 million in 2008, with exports of \$1274.59 million and imports of \$4619.57 million, representing 69.1% (25.7% for exports and 86.9% for imports) of all. See <http://english.mofcom.gov.cn/article/statistic/ie/200810/20081005856356.html>.

8 China (the number one consumer of Sudanese oil) imported about 24,000 barrels a day from Sudan in 2008. Japan (second) imported around 102,000 barrels a day, followed by Indonesia, India, South Korea and Malaysia. Sudanese local consumption of oil has also been rising relative to its oil production as a result of the rapid rate of growth in GDP.

point out that the effect of oil wealth on consumption has been great, resulting in a sharp rise in import volume, types and costs.

Figure 2: Source of Sudanese imports, 2006-2008 (US\$ millions)



Source: Based on CBoS annual report data (various years).

Table 4: Source of Sudanese imports, 2000-2008 (% of total)

	Western Europe	Eastern Europe	Asia	Africa	Western hemisphere	Middle East	Australia	Other
2000	31.3	5	23.3	0	2.1	23.2	5.3	9.8
2001	26	5.5	28.2	0	1	26.5	3.3	9.5
2002	27.9	5	23	0	0.6	36.8	2.8	13.9
2003	18.5	3.7	22.2	0	0.4	39.8	2	13.4
2004	18.3	6	28.9	0	0.8	25.8	4.2	16
2005	14.4	8.2	37.9	0	1.9	26.1	3.3	8.2
2006	17.39	4.1	43.63	7.79	6.06	16.93	2.76	1.4
2007	14.66	3.79	46.42	8.52	3.97	15.91	2.03	4.7
2008	13.1	3.67	44.71	7.85	7.25	17.49	3.26	2.67

Source: Based on CBoS annual report data (various years).

The oil prices boom before the crisis boosted Sudanese export earnings and created enormous windfalls, helping build foreign currency reserves relative to pre-oil years. The crisis substantially lowered the value of exports of goods and services through a decline in oil prices, expected to go from \$12.9 billion in 2008 to a record low of \$5.3 billion in 2009. According to the World Bank (2009c), oil prices are projected to decline to 52% in 2009 from an estimated \$97 per barrel in 2008, with oil export terms of trade deteriorating by an estimated 44.8%. This gloomy projection extends to include lower demand for Sudanese non-oil products (namely, livestock, gum Arabic, sesame and other agricultural commodities). The IMF has projected that Sudan will need 10 years to return to its pre-2008 export performance.

Oil dependency has been associated with shrinking of non-oil exports from agriculture and manufacturing, appreciation of the Sudanese pound and declining competitiveness of traditional exports and local services. Coupled with infrastructural deficiencies and structural rigidities, the country has faced scarcity with regard to the local supply of goods (consumables and intermediate and capital goods). With incomes from oil exports rising, more dependency on imports has emerged to meet the pressure of rising demand. The country has not taken the opportunity to redirect oil resources to broaden its productive capacity and diversify exports and the productive base to internalise growth and make it depend on broad-based agri-business, manufacturing and services sectors.

The IMF (2009e), using recent oil price forecasts, created three oil production and earnings scenarios, whereby the net present value (NPV) of oil revenues for the period 2009-2040 was estimated to be \$41 billion, \$52.9 billion and \$51 billion for the base, low and higher production scenarios, respectively. A gloomier depiction of Sudanese oil price and earning variability and uncertainty is given by the World Bank (2009c), using baseline production volumes and historical average oil prices from the 1970s up to the present time: ‘The NPV of Sudan’s oil revenues for the period 2009-2040 would fall from \$41 billion for the base IMF price forecast to \$27 billion for a return to the 10-year average oil price and \$19 billion for a return to the 10-year average oil price’. In all scenarios, the value of oil exports will not reach the 2008 level and will start declining in the next three to five years.

The IMF (2009d) has also released actual and projected data on the value of exports and imports for the period 2006-2010. The data show that both values rose in the period 2006-2008 and then started to decline sharply in the period 2009-2010, as a result of the adverse effects of the global financial crisis. For example, the value of exports amounted to \$5813 million in 2006, increased to \$8902 million and \$2394 million in 2007 and 2008, respectively, and declines to \$5939 million and \$8655 million for 2009 and 2010, respectively (Table 5). Imports are reported to exhibit a similar pattern of increase and decline, which also indicates the negative effects of the crisis. Imports amounted to \$7105 million in 2006, increased to \$7722 million in 2007 and \$9097 in 2008, then start to decline rapidly to \$6616 million and \$7051 million in 2009 and 2010, respectively (Table 5).

On the other hand, the Economist Intelligence Unit (EIU, 2009) estimates that the global crisis will lower the value of imports and exports by 19% and 32%, respectively, in 2009-2010. The trade balance will experience a deficit of \$683 in 2009 and a surplus of \$1.1 billion in 2010. However, historically, the trade balance in Sudan has maintained a deficit position.

Table 5: Sudan balance of payments, 2006-2010 (US\$ millions)

	2006	2007	2008 (est.)	2009 (proj.)	2010 (proj.)
Current account balance*	-5540	-5812	-5228	-6017	-5977
Current account balance (on cash basis)	-4903	-5074	-4438	-5252	-5166
Trade balance	-1291	1180	3297	-677	1604
Exports, fob	5813	8902	12,394	5939	8655
Imports, fob	-7105	-7722	-9097	-6616	-7051
Services (net)	-2689	-2934	-2,934	-1785	-2088
Income (net)	-2949	-4640	-5578	-4032	-5293
Current transfers (net)	1390	582	-15	478	-199
Private transfers	1034	209	-686	-282	-909
Public transfers	356	373	671	760	710
Financial account (net)	4257	4092	3645	4585	5488
FDI and portfolio investment (net)	3533	3036	2628	2396	2837
Errors and omissions	35	345	569	0	0
Overall balance	-1248	-1375	-1013	-1431	-489
* = Current account (% of GDP)	-15%	-13%	-9%	-11.50%	9.90%

Source: IMF (2009d).

The lesson to be drawn from the Sudanese trade sector’s performance is that the country should design plans and strategies to diversify its productive and export capacities in agriculture (sesame, oilseeds, sorghum, fruits, vegetables, cotton, etc), livestock (live animals and meat and beef products), manufacturing (foodstuffs, sugarcane, food oil, processed vegetables, ethanol) and mining (gold, cement, oil and other minerals). FDI and private sector investment should be encouraged and given incentives to broaden productive capacity and the government should invest and encourage investment in critical infrastructural projects and facilities that will help improve the enabling environment for investment in these sectors.

2.2 Foreign direct investment

FDI declined to zero during 1990-1995 but increased slowly in 1996 to reach \$138.9 million, \$392 million in 2000 and \$574 million in 2001 (a rate of growth of 46.4% in 2000-2001), climbed sharply to \$713 million in 2002 and nearly doubled in 2003, scoring \$1349 million (a rate of growth of 89.2% in 2002-2003). It further rose to \$1511 in 2004 and hit a record high of \$2304 million in 2005 (with an increase of 52.5% in 2004-2005) (Ahmed, 2008a).

FDI grew at an annual average of 82.3% in 2000-2005 (mainly from China, Malaysia and India), making Sudan one of the highest receiving countries in the Arab world in the same period. FDI has been directed mainly towards the oil sector (more than 80%), with the remaining share going to agriculture, construction and transportation. In 2006, more efforts were made to attract Arab investors, especially from the Gulf States, in banking, oil, energy, agriculture, industry, infrastructure and other sectors.⁹ In November 2006, an investment promotion conference for Gulf investors was held in Khartoum, organised by the Ministry of Investment and the Ministry of Finance and National Economy (MFNE).

The reason for the upsurge in FDI in 2000-2006 was the ability of the government to establish strong strategic partnerships with China, Malaysia and India and to renew its economic relationships with most of the Arab development funds and governments, convincing them to invest in strategic infrastructure projects such as the Merowe and Roseires Dams and agricultural, industrial and communications projects.

Data reported by the UN Conference for Trade and Development (UNCTAD FDI online database)¹⁰ show that Sudan received FDI amounting to \$1511.1 million in 2004 and \$2436.3 million in 2007, much higher than the FDI going to many other African countries and LICs. The Central Intelligence Agency (CIA) estimates that FDI as a ratio of GDP amounted to 18.1% in 2008.¹¹ The World Bank World Development Indicators database reveals that net FDI amounted to \$1518.7, \$1116.4 and \$2139.4 in the years 2000, 2005 and 2007 respectively (see Table 6).

Table 6: Some basic data on Sudan, 1990-2008

	2000	2005	2007	2008
Trade (% of GDP)	41.1	47.0	50.8	52.8
Net FDI (US\$m)	1518.7	1116.4	2139.4	
ODA (US\$m)	57.9	107.7	105	
Workers' remittances and compensation of employees, received (US\$m)	131.5	270.5	380.1	433.1

Source: World Bank World Development Indicators database, April 2009.

Ironically, the enormous increase in FDI occurred while US economic sanctions were being strengthened and Sudanese debt sustainability was deteriorating. Some Arab governments (Jordan, Egypt, United Arab Emirates (UAE) and Saudi Arabia) invested in agricultural projects to produce wheat, maize, vegetables, fruits and fodder in the River Nile, White Nile, Sinnar and Blue Nile states. There were many factors behind this influx in Arab investment. First, Arab countries were suffering from a huge food supply deficit; Sudan, with its abundant fertile land, has always been regarded as the breadbasket of the Arab world. Second, there was mounting distrust and risk associated with Arab investment in US and European stock markets, with investors losing vast sums during the crisis. Third, there was a greater realisation among Arab investors that investing in the real economy of Sudan and

⁹ Arab public and private investments have been directed to agriculture (production of food), manufacturing and industrial projects (cement factories), banking institutions and communications projects. Arab funds' and banks' lending have gone to major infrastructural projects (electricity generation, building of Merowe Dam and heightening of Roseires Dam), road and communications projects and Kenana and White Nile sugar projects.

¹⁰ Data reported by UNCTAD and CBoS are different because they are collected from different sources. CBoS data are more reliable and are considered to be the main source from which other institutions draw their data.

¹¹ www.cia.gov/library/publications/the-world-factbook/geos/su.html.

other Arab countries was safer and more rewarding, both materially and strategically, than investing in US government securities and toxic stocks in the West. Western governments have imposed political pressure on Arab governments to undertake serious and unpopular reforms, making them fearful about investing in these markets.

The positive results of Arab investment in Sudan will be endangered if there is a sharp decline in oil revenues, with a number of negative factors at play.¹² Such a decline will create a credit crunch, forcing Arab investors to keep their portfolios in their own countries to finance liquidity needs.¹³ As oil prices continue to drop sharply, more financial resources will be needed to meet domestic budget spending, with less capital available for investment in Sudan from the Arab countries. Sudan will face the serious risks involved in diversifying into FDI from oil-dependent countries. On the other hand, a reduction in oil export earnings will make Sudan less able to borrow and repay its debts, decrease its creditworthiness and create an unfavourable environment for investors, as risk and uncertainty rise and prospects for profit making decline.

According to the CBoS, FDI in Sudan increased from \$2304 million in 2005 to \$2511 million in 2008. It is important to mention that the net direct investment value in Sudan is always positive and sizable, whereas that outside the country is small and mostly negative (Table 7). In 2009, net direct investment will still be positive but lower than the value in 2008, owing to the effects of the crisis on many Arab investors, who will be unable to commit themselves to new investment in the face of declining oil revenues and losses incurred in stock markets and supreme government funds worldwide.

Table 7: Balance of payments, 2005-2009 (US\$ millions)

	2005	2006	2007	2008	2009*
A. Current account (1+2)	-2767.95	-4338.19	-3268.14	-1202.59	-2285.77
(1) Exports (fob)	4824.28	5656.56	8879.24	11,781.45	
(2) Imports (fob)	-5945.99	-7104.69	-7722.40	-8229.39	
1. Trade balance	-1121.71	-1448.13	1156.84	3552.09	-1420.58
2. Services, income and transfers	-1646.24	-2890.06	-4424.98	-4754.68	-865.18
Net services	-1730.47	-2586.5	-2554.12	-2126.69	
Income (net)	-1361.82	-1561.25	-2253.14	-3013.00	
Current transfers (net)	1446.05	1257.69	382.28	385.05	
B. Capital and financial account	1446.05	4482.69	2925.05	1465.90	1876.93
Financial	2880.82	4482.69	2925.05	1465.90	
1. Direct investment (net)	2304.64	3532.57	2425.60	2511.28	
In Sudan	2304.64	3541.36	2436.34	2600.50	
Abroad	-	-8.8	-10.74	-89.21	
2. Portfolio investment (net)	50.55	-26.32	30.05	-33.44	
Assets	66.76	19.09	46.65	-33.4	
Bonds and notes	27.29	19.09	46.56	-33.4	
Equity securities			-16.6	-0.05	
3. Other investment (net)	525.63	976.45	469.39	-1011.94	

Note: * Data are not available for a number of items of the balance of payments in 2009.

Source: CBoS Economic and Financial Statistical Review data (various issues).

IMF (2009d) data on the current account balance (as a % of GDP) indicates that this amounted to -15% in 2006, dropped to -13% in 2008 and is projected to increase to -11.5% in 2009. Private transfers are reported to have amounted to \$1034 million in 2006, dropped to \$209 million in 2007 and then sharply declined to -\$686 million in 2008, -\$282 million in 2009 and \$909 million in 2010 (see Table 5).

12 The rising amount of oil revenue in Sudan since 2000 has been used as an effective guarantee for external borrowing and FDI, and has enormously improved Sudan's financial credibility among Arab and Asian investors and donors.

13 Currently (November-December 2009), Dubai is still facing serious financial problems, as some of its Investment companies are not able to repay their huge outstanding external debts, generating financial risks for regional and international financial and banking institutions.

On the other hand, net portfolio investment (in assets, bonds and notes) in 2005-2009 was characterised by variation and instability in terms of volume, fluctuating from negative to positive values, declining from more than \$50 million in 2005 to -\$26 million in 2006, then increasing to \$30 million in 2007 before rapidly declining to -\$33 million in 2008 owing to the negative effects of the crisis. IMF data show that both FDI and portfolio investment (see Table 5) increased from \$3533 million in 2006 to \$3036 million in 2007, dropped to \$2628 million and to \$2396 million in 2008 and 2009, respectively, and is projected to increase to \$2837 in 2010.

2.3 Remittances of Sudanese working abroad¹⁴

In recent years, remittances have become an important external source of finance for the economy (not less than 5% of GDP) and a significant supplier of foreign currency. Data on remittances vary according to different sources. As we see below, data reported by the World Bank are mostly obtained from the MFNE. Data reported by the IMF are obtained from the CBoS, which tends to be low.

Table 8: Remittances in Sudan, 2000-2008 (US\$ millions)

	2000	2005	2007	2008
World Bank	\$640	-	-	\$1850
IMF	\$131.5	\$270.5	\$380.1	\$433.1

Sources: IMF (2009d); World Bank (2009c).

No data are available for 2009 to show if remittances from Sudanese working abroad are indeed declining. However, one would expect that remittances will decline in 2009 compared with their 2008 level, owing to the adverse impacts of the crisis on Gulf States (where most Sudanese working abroad are residing). The EIU (2009) reports that workers' remittances are expected to decline as a result of the global recession. Financing of the deficit is going to be difficult from external sources, and the government will most likely cut down on imports.

Historically, data on migration and return migration have not been available and/or consolidated by any specific national institution. No monthly records are available in terms of number, category, gender and/or profession. The Sudanese Working Abroad Authority was set up in the 1970s to establish and create a comprehensive database on Sudanese expatriates. It was entrusted with creating active links and contacts with expatriates and providing travel services and facilitation. It apparently has not been able to fulfil this role. Its other objective has been to channel expatriates' remittances via official banking channels. In fact, most remittances escape official records, as they are channelled through the black market or parallel market channels, where conversion rates for the US dollar and other foreign currencies are much higher than those offered by banks and foreign exchange bureaus. The Sudanese pound has been overvalued, based on administrative factors not economic ones.

Different governments in Sudan have been trying hard since the 1970s to encourage migrants to transfer remittances through official channels but have failed. The differential exchange rate is not the main reason people choose informal channels to transfer money to their relatives from abroad: reliability, efficiency and speed are features of informal channels compared with formal ones. Different governments have also tried to promote and encourage migrants to invest in productive projects but attempts have not been successful, as the returns on such investments have not been realised or have been very low (one example is the Sundos Agricultural Project, south of Khartoum). Some limited attempts have also been made to attract remittances by selling government land to build houses in urban areas, especially in Khartoum.

¹⁴ Remittances are an important source of financing of consumption and investment in many African states. Remittances to sub-Saharan Africa increased to \$29 billion (2.5% of GDP) and in developing countries to \$283 billion in 2008, but these values are expected to fall in 2009 and after (AfDB, 2009). For individual African states, in 2007 remittances as a share of GDP were as high as 10% in Sierra Leone, 8% in Guinea-Bissau and 7% in the Gambia. Remittances by Africans living in Europe and North America – where the bulk of remittances to Africa originate – are projected to decline, with adverse implications for poverty reduction in fragile states.

In short, most remittances are sent outside official banking and public institution channels. Reported remittance figures are therefore very low compared with the reality, and do not reflect actual amounts transferred by Sudanese working abroad. It is clear, though, that remittances from abroad are generally essential to the Sudanese economy and to maintaining the livelihoods of the majority of poor and middle-income families in Sudan.

2.4 Stock market

2.4.1 The stock market and economic growth

In Sudan, no concrete research has been carried out to examine the impact of the stock market on economic growth and development in the country, mainly because of the small size of the market, its limited liquidity and lack of information on the possible and potential effects of the stock market on growth. The stock market, if developed, could provide a promising source of financing for different economic, trading, commercial, industrial and development activities.

Urgent steps are needed to remove serious barriers to the development of the stock market. The aim is to enhance efficiency, productivity and private investor confidence. The stock market can generate resources for investors and increase savings, which can finance corporate and private sector investment and thus strengthen growth prospects and opportunity. In other words, the potential of the stock market in Sudan is great, provided it receives strong support and is given the fiscal and economic incentives necessary for it to grow and prosper. The market will be able to generate enormous capital to finance development projects and service delivery in the country. It could give substantial financing to the productive sectors and become a major source of funding for development in Sudan, with Government Musharaka Certificates (Shihama) and Sarih investment securities as potential sources of revenue generation for the economy. A vibrant and dynamic stock market could help Sudan move towards finance-led growth.

Some of the problems handicapping the development of the stock market in Sudan are:

- Small size of the market, both physically and in terms of operations;
- Low liquidity;
- Lack of transparency owing to lack of implementation of public financial management requirements, entitlements and procedures;
- Lack of adequate and operational infrastructure and logistical capacities;
- Underdeveloped legal and procedural arrangements and laws governing and regulating the work of the stock market (for instance, the Private Companies Law may not be fully useful for the development of the stock market). There is an urgent need to reform laws and set institutional structures and arrangements in order to encourage firms and companies to register, disclose their accounts and disseminate information on actual performance and financial standings, with publication of their audited accounts at the end of each fiscal year.

If such reforms are successfully undertaken and a more strategic look is adopted regarding the positive role of the stock market with regard to growth, the market will be able to play a critical role in terms of supply of savings for corporate and private sector companies to undertake investment. However, serious fiscal and monetary policies must be created to encourage productivity and development and to strengthen the enabling environment for sustained investment and economic growth. The outcome of this would be generation of more jobs and a reduction in unemployment and the poverty level and intensity.

2.4.2 Impact of the crisis on the stock market

The impact of the global financial crisis on the stock market in Sudan is limited because of the small number of transactions and the limited size of the market, which has no direct link to regional or international financial markets and also no foreign investors. Table 9 presents some data on the actual size of stock market dealings, the number of companies involved, capitalisation and volume of circulation of shares. The stock market continues to have very few registered companies, not exceeding 53 in 2008. The amount of capitalisation is very small, but increased from SDG3.689 million in 2004 to

SDG10.121 million in 2007, then declined to SDG8.541 million in 2008.¹⁵ The increase in capitalisation is a result of CBoS policy to reform banks and increase their financial ability to perform their functions more efficiently and become profitable and competitive. Banks in Sudan have been suffering from a very high ratio of non-performing loans (NPLs) with a very high degree of financial risk. Part of the CBoS reform policy is to raise paid-in capital to a minimum of SDG6 million.

Table 9: Khartoum Stock Exchange secondary market, 2000-2009

	No of transactions	Listed companies	Capitalisation (SDG.m)	No of stocks in circulation	No of certificates in circulation (millions)	No of shares in circulation (millions)	Volume of circulation (millions)
2004	364	48	3.689	0.007	0.02	17 4.855	0.0406
2005	380	49	7.473	0.060	0.04	142.875	0.0565
2006	667	52	9.312	0.022	0.2	48.865	0.0615
2007	662	53	10.121	0.088	0.3	5.524	0.1805
2008	598	53	8.541	0.607	0.4	22.99	31.802

Source: CBoS data.

The volume of circulation did not exceed SDG31.810 million in 2008, which clearly indicates the small size of the stock market and also shows the great efforts that need to be undertaken to reform it before the country can benefit from its development potential.

Share values increased substantially (almost doubled) for all categories from 2005 to 2009, yet it is interesting to note that the number of shares for some sectors had declined in May 2009, compared with the number of shares in December 2000 and 2005. However, the total number of shares for all registered companies in all sectors rose between 2000 and 2008 and then sharply dropped in 2009 (Tables 10 and 11).

Table 10: Trading of shares on the Khartoum Stock Exchange, Dec 2005-May 2009

	Dec-05 (no. of shares)	Dec-05 (SDG '000s)	Dec-06 (SDG '000s)	Dec-06 (SDG '000s)	End-Dec-08 (SDG '000s)	May-09 (no. of shares)	May-09 (SDG '000s)
Banking	37,174,759	1216	112,306,837	142	612	3,747,656	2,640.10
Commercial	1,119,933	0.3	22,893,905	233.1	748.8	1000	0.10
Industrial	2,581,807	505.7	7,424,065	1,485.10	1.8	2,344,983	1,174.20
Financial services					129.6	98,400	246.3
Sudatel	7,912,372	4350.10	188,422	1,312.50	83,657.80	2,329,533	8,597.70
Other	76,318	78.5	2321		1.30		0.00
Total	48,865,189	6150.40	142,814,550	3,172.20	85,151.30	8,521,572	12,658.40

Source: CBoS Economic Brief data (various issues).

Table 11: Khartoum Stock Exchange data, 2000-2008

	No. of shares (000s)	Volume of dealings (SDG.m)	No. of companies	Capital market (SDG.m)	No. of contracts
2000	14,169,188	59.14	44	1008.606	942
2001	8,768,897,478	168.37	44	1201.39	1240
2003	9,745,457	244.104	47	1929.85	3207
2002	4,060,237	249.06	46	1559.24	2585
2004	2,186,127	447.723	48	3689.88	3192
2005	1,731,670	1216.833	49	7473.27	3673
2006	7,567,782	2068.054	52	9312.42	5842
2008	22,990,225	851.513			154

Source: CBoS Sudan Economy in Figures data.

¹⁵ SDG is the Sudanese ginah (Sudanese new pound), which replaced the old Sudanese dinar (SDD) in 2005, whereby SDG1 equals SDD100 (and SDG2 equalled \$1 in 2005).

Here are some examples of the decline in shares between 2005 and 2009 (see Table 10).¹⁶ For instance, banking sector shares shrunk from 37,174,759 in 2005 to 3,747,656 in 2009; commercial sector shares from 1,119,933 in 2005 to just 1000 in 2009; and the Sudanese telecommunications company (Sudatel) from 7,912,372 in 2005 to 2,329,533 in 2009. The same pattern of decline in the number of shares in other sectors is evident.

In summary, the small size of the stock market, its lack of connection with regional and international markets and the absence of foreign investors are critical factors that have protected the Sudanese stock market from being impacted negatively by the global financial crisis. However, there is a narrow window through which the stock market has been and will be affected, that is, through the very few companies and banks that are registered in both Sudanese and Gulf States stock markets. Gulf markets have been impacted severely by the crisis and prices of shares and stocks declined in 2009. Sudatel is one example of a Sudanese company registered in both markets, whose shares have suffered slightly from lower share prices as a result of crisis impacts.

2.5 Financial sector and the global financial crisis

The financial sector in Sudan¹⁷ is very weak in terms of capitalisation, financial depth, mobilisation of domestic savings, financing of development and provision of services to people in rural areas and remote states. Table 13 presents data on sectoral distribution of banking financing in 2000-2009, showing that most has gone to fund non-developmental activities, concentrating on services and commercial activities. For example, agriculture and industry received a low percent of financing – ¹⁸ 12.7% and 9.3% in 2009, respectively – whereas exports received 20%, other activities 30%, imports 7.5% and transport 12.3%.

Table 12: Sectoral distribution of banking stock finance, 2005-2009 (% of total)

	Agriculture	Industry	Local trade	Exports	Imports	Transportation and storage	Other
2005	8.5	10.8	35.8	8.8	3.2	7.6	25.3
2006	11.2	9.5	24.3	4.3	2	10	38.7
2007	9	9	20	2	16	8	36
2008	10.9	1.1	2.3	15.4	7.0	11.2	42.1
2009*	12.7	9.3	2.2	20	7.5	12.3	36

Note: * = Data are available for March 2009.

Source: CBoS Economic Brief data (various issues).

On another matter, the CBoS has been carrying out serious institutional and financial reform of all banks in the country: restructuring of banks, integration of small banks into larger ones and raising of capital to a minimum of SDG60 million for each bank. The objective of the reform policy has been to improve financial performance, scale up efficiency and reduce administrative and operation costs, as well as lower the ratio of NPLs to gross loans, reduce financial risks and enhance profitability. According to the IMF, in recent years the Sudanese banking sector has faced real threats and risks as a result of the very high ratio of gross NPLs to loans. The CBoS has taken this seriously as a sign of weakness, handicapping the development and growth of the banking sector. The ratio of gross NPLs to loans amounted to 26% in 2007 and declined to 22.3% in 2008 as a result of efforts by the MFNE to reduce domestic government arrears (Table 13).

¹⁶ The author could not obtain yearly data to capture the possible effects of the crisis on the stock market shares.

¹⁷ Similarly, financial sectors in many fragile African states are suffering from a number of problems caused by the effects of the crisis. Lines of external credit have been severed and the cost of borrowing has become very high. The high degree of foreign ownership of banking capital in Africa is posing a risk of capital withdrawals in times of credit crunch and in recession. Foreign ownership of banking capital is 100% in Djibouti and Guinea, 80% in the Gambia and Togo, over 60% in Côte d'Ivoire and between 40% and 60% in Angola, the Democratic Republic of Congo and Zimbabwe (AfDB, 2009b).

¹⁸ Even these low percentages of financing to the productive sectors come as a result of direct instruction by the CBoS. Banks often finance trade, exports, imports and other services.

Table 13: Financial soundness indicators, Dec 2007-Mar 2009 (%)

	Dec-07	Dec-08	Mar-09
Asset composition and quality			
Gross NPLs to loans	26	22.3	23.5
NPLs net of provisions to gross loans	22.2	19	18.8
Loans provisions to NPLs	14.6	14.9	19.9
Capital adequacy			
Regulatory capital to risk-weighted assets	22.5	10.5	

Source: IMF (2009d).

The ratio of gross NPLs to loans rose from 14.6% in 2007 to 14.9% in 2008 and to a high of 19.9% in the first quarter of 2009 (IMF, 2009d). The rise in this ratio reflects an improvement in the ratio of gross NPLs to loans as a result of central bank efforts to pressure banks to improve their financial performance and to comply with financial and accounting regulations. Another sign of weakness in the banking sector can be observed in the capital adequacy ratio, which deteriorated from 22.5% in 2007 to nearly 11% in 2008. The IMF ascribed this to the problems faced by some banks and also the negative impact of the crisis on banks with regard to availability of financial resources. There are signs of tightening credit conditions, which can be attributed to a number of factors: shortage of liquidity, adverse effects of the high ratio of gross NPLs to loans in some banks and central bank instructions to commercial banks to reduce lending to their clients.

The banking sector in Sudan is generally less affected by the crisis¹⁹ as its link with regional and international financial sectors and institutions is either very limited or non-existent. This is attributed mainly to the small size of its activities and the underdevelopment of the sector, and also to adoption of the Islamic Banking System, which does not use conventional Western lending and borrowing tools and practices and does not use interest rates in its financial dealings at all. Moreover, Sudanese banks do not receive international or regional bank lending and therefore are not expected to be influenced adversely by the crisis. Adverse effects will be confined to a few foreign-owned banks, resident in Sudan and registered in UAE stock markets, whose share prices have dropped.

However, the enormous decline in oil prices and export earnings has also resulted in a sharp drop in budget revenues, exacerbated the foreign currency shortage, accentuated trade and current account deficits and increased pressure on the Sudanese pound to depreciate. The cumulative effect of these factors will further slow banking activity as more shortage of liquidity will be felt in the economy, more strongly in Southern Sudan, which has very limited banking capacity, facility and experience to deal with external shocks and a huge scarcity of finance and resources. Southern Sudan lacks banking services (after the expulsion of Islamic banks following the implementation of the CPA in 2005) and depends on very limited conventional banks. Firms and companies in the south in particular lack access to bank finance. A few Kenyan and Ugandan bank branches operate in Southern Sudan (mainly in Juba), but these do not meet the need for finance and banking services.

2.6 Official development assistance

After the signing of the CPA in 2005, Sudan has been receiving donor aid and support through Oslo 1 and 2 donor commitments for the period 2005-2011. Multi-Donor Trust Funds (MDTFs) were created and managed by the World Bank to fund projects in Northern and Southern Sudan. Total aid commitments under Oslo 1 and 2 amounted to \$839.4 million (of which \$246 million (29%) was for the north and \$593.4 million (71%) for the south). The actual amount received was \$784.8 million, the north receiving \$260.9 million (33.2%) and the south \$523.9 million (66.8%).²⁰ In May 2008, Norway hosted the third meeting of the Sudan Consortium, where donors reviewed developments in the implementation of the

19 Similarly, African banks escaped the crisis owing to a lack of direct links with international capital markets and banks, but suffered from declines in short-term credit and private capital flows, which threatens trade.

20 Reuters reported that Sudan asked donors for \$6 billion, not including \$42 billion in humanitarian aid. Donors pledged \$4.1 billion in Oslo 1. GoSS said it received only \$5500 million of the \$4.1 billion (McDoon, 2007).

CPA and Joint Assessment Mission (JAM) commitments to date (2005-2007) and agreed on recovery and development priorities for 2008-2011. Donors pledged about \$4.8 billion in support of humanitarian, recovery and development efforts in the whole country for 2008-2011. Part of the funds will be managed by the MDTF administration under the guidance of the World Bank (to receive \$650 million) and part by the newly created Sudan Recovery Fund (SRF), which will be managed by the UN.

In response to the crisis and its negative impacts on LICs, the IMF increased concessional resources to sub-Saharan Africa from \$1.1 billion in 2008 to \$2.7 billion between January and mid-July 2009, to reach projected demand of \$17 billion in 2014. LICs will receive relief on all interest payments due to the IMF through 2011 on its concessional lending instruments. The IMF also will create permanently higher concessionality, with a tool to update interest rates after 2011. It has approved Special Drawing Rights (SDR) equivalent to \$250 billion, which will be distributed to members according to their quotas. A number of new facilities for LICs are being introduced: an extended credit facility, which provides flexible medium-term support; a standby credit facility, which is short-term support; and a rapid credit facility, which is emergency support with minimum conditionality. Conditionality in IMF programmes has been streamlined to focus on core objectives, and programmes place a strong emphasis on poverty alleviation and growth, where social and priority spending are stressed. Support is enhanced by higher levels of pro-poor spending. However, Sudan has not received concessional resources from the IMF or the World Bank to mitigate the adverse effects of the global financial crisis.

Sudan's chance of obtaining aid from Organisation for Economic Co-operation and Development (OECD) donors, which are themselves facing fiscal pressures, is most unlikely, given its enormous unresolved external debt problems (amounting to more than \$34 billion). Sudan has the highest debt sustainability indicators (worst burden indicators) among LICs. The country has not been given the opportunity to benefit from World Bank and IMF debt relief initiatives because of political factors and US and European economic sanctions and economic and financial pressures. Thus, the country has no way to obtain external resources through ODA or OECD aid flows, or from the Heavily Indebted Poor Countries (HIPC) Initiative, so is left with only local solutions of internal borrowing and raising taxes.

Theoretically, foreign aid to Sudan is expected to decline 2008-2010, for a number of reasons: the crisis, shortage of credit lines from donors and international banks, recession and credit crunch in advanced developing countries (ADCs) and US sanctions (Annex 1). However, having committed to support Sudan in the post-CPA era and reiterated this in May 2008, donors have promised to give aid of \$4.9 billion via MDTFs. It remains to be seen if this aid will materialise, given the Darfur problem and the government's expulsion of some international non-governmental organisations (NGOs) in 2009.²¹

The country has accumulated huge public debt, suffered from a current account deficit of nearly 10% of GDP and had no access to concessional multilateral aid and support. As such, it has been forced to resort to non-concessional development aid from regional development funds and bilateral donors like China and India. As a result of the decline in foreign currency caused by falling export revenues and private remittances on the one hand, and lack of access to concessional aid on the other, the country's foreign reserves have been steadily drawn down by the government to finance critical current and development spending at federal, GoSS and sub-national government levels.

The IMF and MFNE agree that non-concessional borrowing should be minimised. However, information reported by the IMF (2009d) for 2007-2009 shows that Sudan has taken out non-concessional loans from non-bilateral donors, namely, regional development funds. As reasons behind this, the GNU cites lack of access to concessional loans, a sharp reduction in oil revenues, a drop in net international reserves and a critical need to finance development and peace-related programmes.²² In 2007, the GNU took \$339 million in loans, of which \$194 million (57.2%) was concessional and the rest (\$145 million,

21 Bank of International Settlements data are obtained from its official website www.bis.org/statistics/pcsv/panx9a/csv.

22 Most of Sudan's non-concessional borrowing is from non-bilateral sources (Saudi Fund, Kuwait Fund, Abu Dhabi Fund, Arab Fund for Economic and Social Development and the Organization of the Oil Exporting Countries (OPEC)).

or about 42.8%) was non-concessional. In 2008, loans contracted increased to \$1105 million, of which \$679 million was concessional (61.1%) and \$426 million was non-concessional (38.9%) (Table 14).

Table 14: New loans contracted, 2007-2008 (US\$ millions)

	2007	2008
Total contracted loans	339	1105
Concessional loans	194	679
Of which bilateral	124	10
Of which non-bilateral*	70	669
Non-concessional loans	145	426
Of which bilateral	0	0
Of which non-bilateral	145	351
Of which Islamic bonds	0	100

Note: * = Non-bilateral includes regional development funds (Saudi Fund, Kuwait Fund, Abu Dhabi Fund, Arab Fund for Economic and Social Development and OPEC).

Sources: MFNE and CBoS data.

The government has recognised the high debt burden effect of non-concessional borrowing and has stated its intention to limit this to \$700 million in 2009.

2.7 Foreign reserves and the value of the Sudanese pound

Sudan chose to use oil revenue to finance its growing demand for expenditures in the 2008 and 2009 budgets to meet critically needed current and development spending, and also to boost its newly created Oil Revenue Stabilization Fund (ORSF). Sudan's reserves of foreign exchange and gold were estimated at \$1399 billion on 31 December 2008 and \$769 million on 31 December 2009.²³

However, the extent of the negative effects of the decline in oil revenues caused by the crisis has been enormous, and the ORSF has been almost completely wiped out. The country started to withdraw regularly and repeatedly from the account in order to be able to meet increased expenditure commitments to sub-national governments and in the Southern Sudan region. The account stood at below \$150 million by the end of the second quarter of 2009, with each amount withdrawn divided on a 50-50 basis. This situation has been exacerbated by the lack of foreign aid (see above). It is interesting to observe that, even though Sudan's policy choices in using its oil revenue surplus have been objective, dictated mostly by compelling political and economic factors, this has still not rescued the country from being hit hard by the massive effects of the global crisis.

According to the World Bank, the cumulative effect of declines in FDI and private remittances will have cost Sudan around \$6 billion less in terms of inflows of foreign currency in 2009 compared with 2008. Faced with a sharp decline in foreign currency reserves, the CBoS imposed tough restrictions on transfers of foreign currencies abroad through banks and/or via foreign currency exchange bureaus (the maximum amount for external transfer is \$1400 per person per day). The bank also set a limit on the amount of foreign currency allowed for travel abroad.

Looking at revenue and expenditure to see possible transmitted effects on the supply of foreign currency and on the value of the Sudanese pound, a sharp decline in oil revenues (about 68% to 70% at the peak of the crisis) has reduced the volume of inflows of hard currencies to Sudan, resulting in a foreign currency deficiency. The shortage of reserve currencies has exerted strong pressure on the Sudanese pound to fall (it fell by 20% to 30% in 2009), making imports more expensive.

The cumulative effect of the decline in export revenues, the slowdown in trade, the fall in FDI and private remittances and the widening current account and balance of payments deficits will further lead to a deterioration of the Sudanese pound's value relative to foreign convertible currencies. If the CBoS

²³ See the CIA website: <https://www.cia.gov/library/publications/the-world-factbook/fields/2188.html>.

does not adjust the exchange rate, this will lead to a further reduction in the country's amounts of foreign reserves, as was experienced in the second quarter of 2009.

2.8 Summary: Balance of payments effects

The trade balance in Sudan has exhibited a deficit in most years since 1980, except for in a very few years, when agricultural production was excellent and prices were higher than average. Since 2000, returns on oil exports have improved the trade balance position (2000, 2001, 2003, 2004, 2005 and 2006). In 2002, 2007 and 2008, the value of imports rose higher than that of export earnings, leading to balance of trade deficits.

The current account deficit is expected to increase to an average of \$2.9 billion (5.5% of GDP in 2009-2010) (EIU, 2009). On the other hand, the African Development Bank (AfDB, 2009a) projects the current account balance to amount to -6.73% of GDP in 2009 and -6.8% of GDP in 2010.

The financial account item of balance of payments performance is relatively good, as net direct investment and other investments have been positive and growing as a result of strong commitments from some Arab governments, Arab funds and Arab banks to investing in and lending to strategic development projects in Sudan.

Meanwhile, the services, income and transfers account item exhibited a negative value from 2005-2009, originating from its net services and income components. The net transfers component showed a positive but rapidly declining value as a result of the effects of the global financial crisis on private transfers from Gulf oil-producing countries and elsewhere.

The overall balance of payments has been showing a deficit for the period 2005-2009.

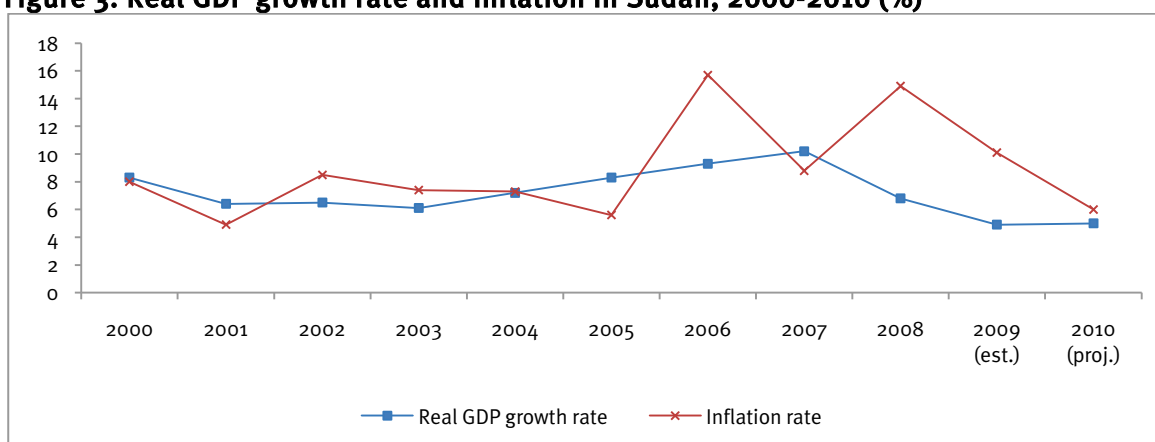
3. Growth and development effects

3.1 National-level growth effects

The Sudanese economy has been able to sustain relatively very high rates of GDP growth in the 1990s and especially in the 2000s. Since 2000, the oil sector (oil production, operations, drilling, pipelines, refineries, marketing, management and logistics, etc) and related sectors (communications, electricity and water and services) have been driving growth in GDP, despite their relatively small shares in GDP composition.

According to the CBoS, the real GDP growth rate on average for the period 2000-2008 amounted to 7.7% annually, varying between a high of 10.2% in 2007 and a low of 6.1% in 2003. Growth is estimated at 4.9% in 2009 and is projected at around 5% for 2010 (Figure 3). The rate of inflation will fall as a result of lower food prices worldwide and strict monetary policy implemented by the CBoS.

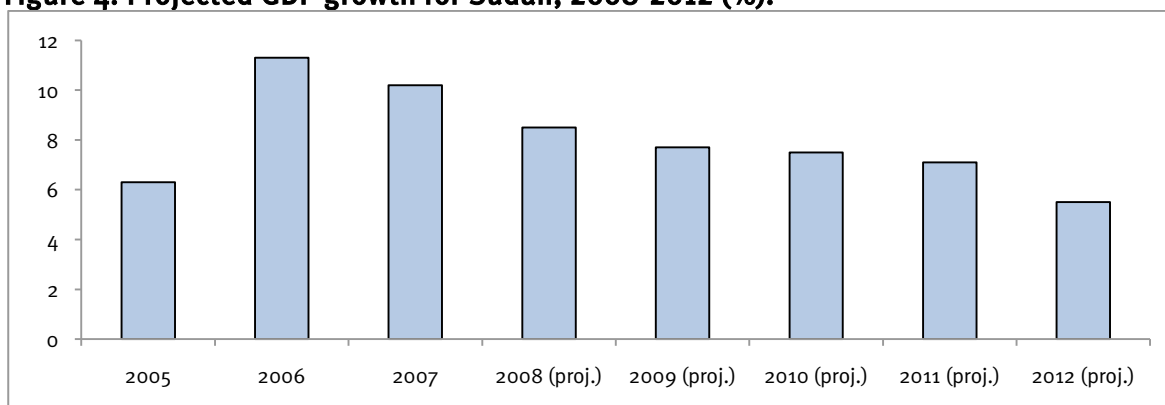
Figure 3: Real GDP growth rate and inflation in Sudan, 2000-2010 (%)



Sources: CBoS data (2000-2008); IMF and World Bank (2008b) for 2009-2010.

On the other hand, Deepak Mishra, World Bank Senior Economist to Sudan and Ethiopia, has made projections for the GDP growth rate until 2012 at 7.7% for 2009, 7.5% for 2010 and 5.5% for 2012 (Figure 4).

Figure 4: Projected GDP growth for Sudan, 2008-2012 (%).



Note: Projection of growth rates for Sudan here are from Mishra (2008), who used data obtained from the World Bank. Variations between rates of growth owe mainly to difference of data sources. CBoS data are more authentic and in most cases the IMF and World Bank rely on them and then make their own future projections.

Sources: IMF (2008a; 2008b); Mishra (2008); World Bank (2008b).

AFDB (2009a) data for the period 2008-2009 post the estimated growth rate of GDP for Sudan in 2008 at 10.7% and the projected growth rate for 2009 at 11%. On the other hand, the EIU (2009) forecasts

that, as a result of global economic pressures and domestic problems, real GDP growth will shrink to an average of 3.1% in 2009-2010 (lower than AfDB, World Bank and Sudanese budget projections).

These GDP growth rates have been achieved within the context of stable macroeconomic policies and relatively controlled and carefully guided inflationary pressures. High growth rates in the 1990s were achieved within a framework of very tough self-imposed SAPs, curbing government spending on social services, increasing tax revenues to balance the budget and tightening credit expansion and control of money supply and aggregate demand in order to fight inflation. The strategy also encouraged FDI in oil and related sectors, banking, electricity generation, industry (sugar, some limited heavy industrial plants) and infrastructure. The Investments Acts were amended several times to provide unprecedented generous fiscal and non-fiscal concessions and incentives. The government was able to stabilise prices and sharply reduce inflationary rates from a record high of 130.6% in 1996 to a single digit by the end of the 1990s. It is interesting to note mixed results of SAPs: growth rates of GDP were high, inflation rates were controlled and macroeconomic stability was achieved (prices and exchange rates were stable) and yet poverty incidence and levels have been growing over time. The social cost of the high economic growth rates experienced during the 1990s was very high in terms of worsening poverty and decline in people's welfare and wellbeing (Khan, 2005).

There is a fear that Sudan will not be able to achieve as high growth rates in the short term as in the past five years or so, given the sharp drop in export earnings and in oil revenues, affecting the central budget's service delivery projects. Negative effects of this on the inflow of investment into Sudan, exacerbated by a failure to provide incentives and to improve the investment enabling environment, will result in a slowdown in the anticipated growth in foreign investment and GDP. This will cause a rise in both unemployment and poverty levels. Despite some gains and progress on the Millennium Development Goals (MDGs) in the years before the global financial crisis, the chance of achieving the goals by 2015 is getting smaller and more remote in many African countries (AfDB, 2009a).

3.2 Impact of the crisis on the fiscal sector: Budgetary effects

Since 2000, Sudan has relied increasingly on oil revenues to finance service delivery and development, as well as recurrent administrative, security and military activities. In 2007, oil revenues comprised 63.6% of total revenues. The remaining 36.4% came mainly from indirect taxes (VAT, customs and other indirect taxes), with a small percentage coming from direct taxes (personal income tax, business profit tax, stamps). An even smaller share of total revenues comes from returns on sales of property and privatisation of parastatals (CBoS data). Table 15 gives data on tax and non-tax revenue as a percentage of GDP and on expenditure and revenue as a percentage ratio of GDP. Before 2000, tax revenue as a percentage of GDP constituted a bigger share than non-tax revenue. Since 2000, the year oil exports began, non-tax revenue generally and oil revenue in particular have become very important.

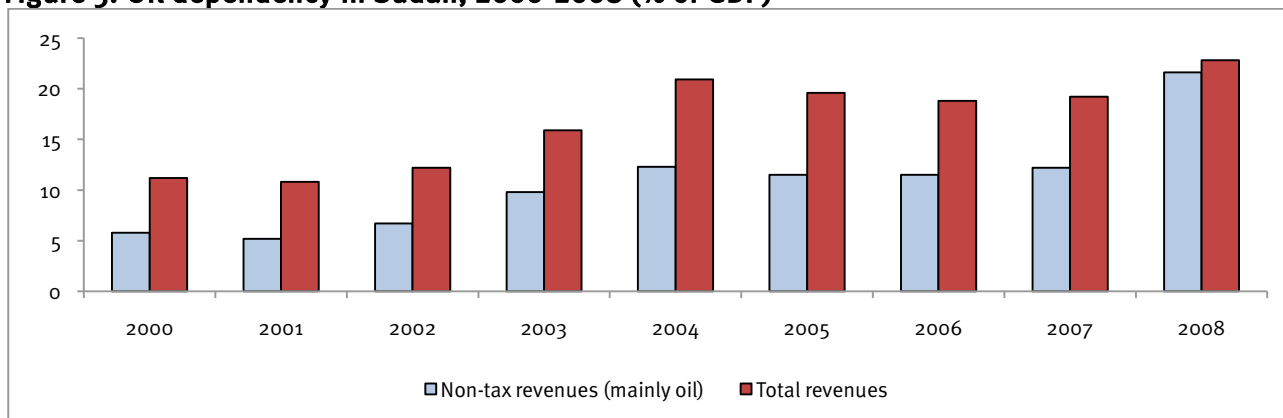
Table 15: Source of government revenue, 1980-2008 (% of GDP unless otherwise stated)

	Expenditure	Revenue	Of which oil revenue (% of total revenue)	Tax revenue	Non-tax revenue	Direct tax	Indirect tax
1980	21.7	15.9		10.8	5.0	2.4	8.2
1985	17.5	14.3		6.8	0.9	1.5	5.3
1990	9.5	8.6		5.5	3.6	1.3	3.7
2000	11.9	11.2	15.6	5.4	5.8	1.3	4.1
2001	12.4	10.8	28.5	5.5	5.2	1.2	4.4
2002	13.4	12.2	54.7	5.5	6.7	1.1	4.5
2003	16.5	15.8	54.8	5.9	9.8	1.2	4.8
2004	22.5	20.9	59.0	8.6	12.3	1.5	7
2005	22.2	19.6	58.9	8.0	11.5	1.5	6.5
2006	22.8	18.8	61.0	7.3	11.5	1.2	6.2
2007	22.5	19.2	63.6	7.0	12.2	1.4	6.8
2008	21.5	20.5	64.5	6.4	13.8	0.7	5.6

Source: Ahmed (2008a). Oil revenue as % of total revenue from CBoS data.

Rising oil revenues since 2000 have steadily augmented the share of oil revenue in total revenue, which increased steadily from 15.6% in 2001 to 58.9% in 2005, 61.0% in 2006, 63.6% in 2007 and 64.5% in 2008. On another matter, Sudan's tax revenue potential is great and the revenue ratio to GDP has been and is still below the average ratio for many LICs and far below that of the ADCs.

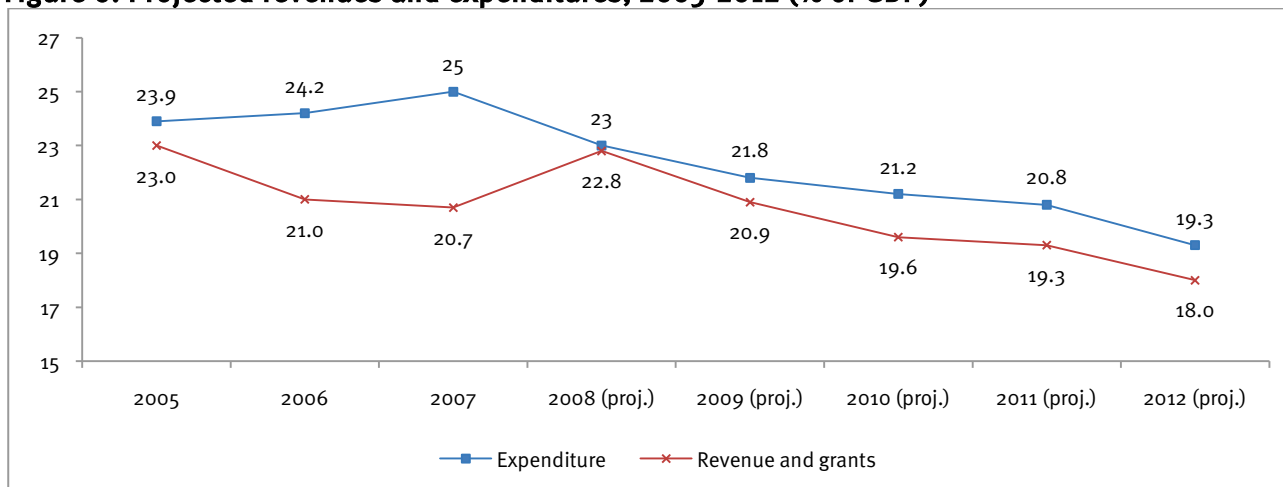
Figure 5: Oil dependency in Sudan, 2000-2008 (% of GDP)



Source: CBoS annual reports (various years).

Because of the global financial crisis, the World Bank predicts that the ratio of government revenues to GDP will decline from 22.8% in 2008 to 19.6% in 2010 and 18.0% in 2012. Expenditures will decline from 23% in 2008 to 21.8% in 2009, and reach even lower levels in 2010 (Figure 6).

Figure 6: Projected revenues and expenditures, 2005-2012 (% of GDP)



Sources: IMF (2008a; 2008b); Mishra (2008); World Bank (2008b).

The IMF has provided some even lower projections for revenues and similar projections for expenditures as a percentage of GDP in 2010. The revenue ratio to GDP will drop to 16% by the end of 2009 and is projected to decline to 16.6% in 2010, whereas expenditures are projected to decline to 19.8% in 2010 (almost the same as the World Bank projection) (IMF 2008a; 2008b).

The 2009 budget scored a deficit of 6% of GDP and the 2010 budget proposal indicates a deficit of around 4%.²⁴ The EIU in 2009 estimated that the budget deficit would be 2.5% of GDP in 2009, falling to 1.6% of GDP in 2010. The IMF (2009d) also projected that the budget deficit would be around -6.9% by the end of 2009, projected to fall to -3.2% as a result of expected improvements in oil prices. In 2008, Deepak Mishra of the World Bank projected that the budget deficit would amount to just 0.9% in 2009 and would rise to 1.6% in 2010, scoring 1.5% and 1.3% in 2011 and 2012, respectively.

²⁴ Deficit figures for 2009 and 2010 were reported by the Minister of Finance, when presenting the salient features of the 2010 budget proposal at the National Assembly.

On the expenditure side, the sharp decline in oil revenues meant a critical choice: to cut down current spending and/or to delay spending on development projects. In both cases, prioritisation of outlays became important. It is important to note that governments in the Sudan have a long history of inflexibility with regard to curbing public expenditure, for various political, security, social and economic reasons. As a result of the decline in oil revenues, the 2009 budget faced enormous pressure to meet its current and development expenditure commitments. It concentrates on meeting critical current spending on wages and salaries and other strategic recurrent spending items. The MFNE first quarterly report on the 2009 budget indicated that actual oil revenues were only 50% of budgeted figures.²⁵ As a result, actual expenditures were sharply reduced from the 2008 level, with a serious deviation from budgeted targets. The government had to revise spending priorities for some social and development projects in the face of this.

On the revenue side, the GNU resorted to increasing taxes to fill the fiscal gap created by the sharp decline in oil revenues, raising VAT²⁶ from 10% to 15% (and to 20% for communications) and customs on imported cars and luxuries to more than 100%.

The potential to generate more tax revenue is great: Sudan is still below average on this among LICs and ADCs (the ratio of revenues to GDP has not exceeded 22% at best). Structural problems have handicapped the expansion of production capacity and real income, thus limiting revenues from direct taxes. The government has increasingly depended on indirect taxation of consumables and imports, placing a burden on the general population and increasing poverty in the country. Tax revenue potential in Sudan can be realised only if more comprehensive technical, institutional, administrative and management reforms are carried out, to improve revenue augmentation and mobilisation capacities, on the one hand, and to achieve efficient and cost-effective expenditure management and control capabilities, on the other. Efficient, vibrant, accountable and transparent public financial management and financial and fiduciary accountability systems are critically needed at all levels of government, for revenue generation and for efficient expenditure administration and management.

3.3 Impact on resource distribution among different tiers of government

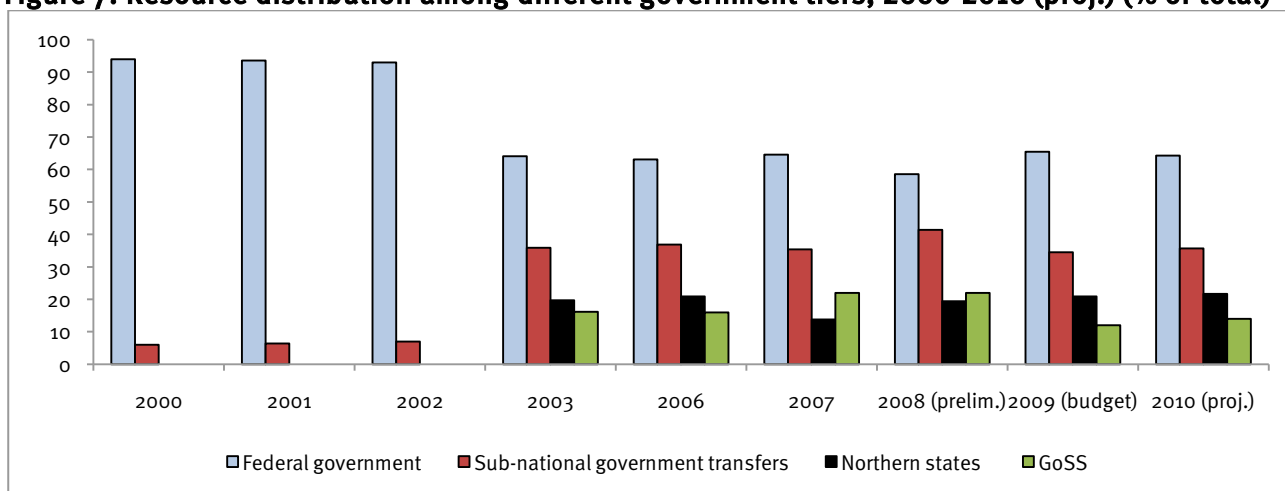
Since implementation of the CPA, more resources have been transferred to the southern and northern states from the NRF. In 2005, the first year of the CPA, transfers to the GoSS amounted to more than 13% of total federal government resources, while the northern states received slightly more than 23% and the federal government 64%. Data from the CBoS show that the 2006 GNU share declined to 63.1% and more resources were transferred to the northern states and Southern Sudan, amounting to 36.9%, of which the GoSS got around 16% and the northern states collectively received about 20.9% (see Figure 7). The CBoS annual report for 2008 reported that the northern states received 28% of total government revenues and the south got 31.3% in 2008 (the GNU share was 40.7%).

The IMF also provides important information on gross national revenue and its distribution among different tiers of government in Sudan for 2007-2010 (data for 2009 are budget figures and those for 2010 are projected). The GoSS share of total transfers going to sub-national governments (as a percentage of GDP) amounted to 3.6% in 2007, 5.1% in 2008 and 2.7% (projected) for 2010. The share of the northern states was 5.7%, 4.5%, 4.8% and 4.0% for 2007-2010. There is a clear decline in the figures for 2009 and 2010 compared with 2007 for both the GoSS and northern states (Figure 7).

²⁵ At the preparatory stage of the budget, a per oil barrel price estimation is made for budget revenue and continued up to the end of the fiscal year. It is therefore important for the budget to have an efficient means of projecting and forecasting oil prices and other sources of revenues. More importantly, the budget should depend on an objective and reasonable per barrel price estimation, otherwise a budget revenue deviation will take place and damage budget credibility. In case of any decline in oil revenues below the target volume, budget adjustments become a must, either swiftly substituting loss of revenue via more taxes – which requires going to Parliament – or reducing expenditure on either current or development items (most likely development), which means failure to meet budget objectives and generates political problems.

²⁶ VAT increased from SDG2081.5 in 2007 to SDG2934.1 in 2008, a 40.9% increase in response to the decline in oil revenues.

Figure 7: Resource distribution among different government tiers, 2000-2010 (proj.) (% of total)



Sources: Data for 2000-2007 are obtained from CBoS annual reports and the MFNE. Data for 2008-2010 are obtained and adjusted to % format from IMF (2009d).

It is important to note that in the south, west and other war-affected areas in Sudan, sustaining peace is the fundamental requirement to solve social, economic and political problems. One factor that helps in achieving this objective is the sustained transfer of financial resources. Most sub-national governments in Sudan do not have the fiscal, technical and administrative capacity to generate adequate revenues from their own sources to finance service delivery and development efforts: most of them are dependent on federal transfers. On the humanitarian side, transfers can help reduce the vulnerability of the poor to disease, unemployment, natural disaster, economic crisis, harvest failure, hunger, disability and maternal and infant mortality. Reducing the risk of epidemics such as HIV/AIDS and malaria via public health programmes should be a top priority, in addition to the construction of dams to reduce the risk of flooding, especially in the south. Indeed, increased spending on these critical services and activities is important for achieving the MDGs in Sudan, which require spending of no less than 30% of budget allocations (see Ahmed, 2008b). The crisis has impacted negatively on the fiscal capability of the GNU, making it unable to meet expenditure commitments, raise adequate revenues for service delivery and development and transfer adequate financial resources to sub-national governments to enable them to achieve their budget targets and commitments.

3.4 Employment and unemployment in Sudan²⁷

In Sudan, two Migration and Labour Force Surveys, in 1990 and 1996, showed the economic participation rate as rising from 39.3% to 45.5%. The average annual rate of growth of the population was 2.6% in 1983-1993. The labour force grew by 4.9% per year over the same period, even faster in urban areas (about 7.4%). Female rate of growth in urban areas was 11.6%, compared with 6.8% in the rural areas (the male rate of growth in rural areas was just 3%).

The information in Table 16 shows that the proportion of the employed aged 10-14 increased from 1.8% to 4.6% between 1990 and 1996. For those aged 65 and above, the rate rose from 4.7% in 1990 to 5.3% in 1996. Even when people reach retirement age, they still opt to work to support themselves, as poverty is spreading and intensifying. On the other hand, the working age population (15-64 years) increased from 39.7% in 1990 to 44.3% in 1996.

²⁷ There are no current and updated data on employment and unemployment in Sudan. There have been no recent studies on employment, unemployment or labour market and labour force specifications. Therefore, the discussion here is at best a survey of old information and studies on these issues. Discussions on the impact of the crisis on employment and poverty (next section) should be taken as expectations only, given the lack of current data to measure actual effects.

Table 16: Employment characteristics in Sudan, 1990-1996

	% of total employed 10-14	% of total employed 65+	Working age population 15-64 (%)
1990	1.8	4.7	39.7
1996	4.6	5.3	44.3

Source: McKinley (2005).

This is an indication that high rates of economic growth of the 1990s resulted in increases in the employment rate. According to McKinley (2005), most growth in employment generated by economic growth was concentrated in the urban informal sector and in low-paying services and trading activities.

More recent information on employment has just been released by the World Bank, which shows that the ratio of employment to population above 15 years old remained constant, at around 47%, for 1995-2008. Moreover, the employment to population aged 15-24 ratio decreased, resting at slightly more than half of that for the population over 15 (Table 17).

Table 17: Some social data on Sudan, 1990-2008

	1990	1995	2000	2005	2008
Employment to population ratio, 15+, total (%)	46	47	47	47	47
Employment to population ratio, ages 15-24, total (%)	29	30	27	25	24
GDP per person employed (annual % growth)	4	2	5	4	5
Aid per capita (current US\$)	30	8	6	47	52
Debt service (public and publicly guaranteed and IMF only, % of exports, excluding workers' remittances)	5	10	13	8	4
Trade (% of GDP)	11.1	14.8	33.0	46.3	44.8
Gross national income per capita, Atlas method (current US\$)	480	380	320	590	1,130
Gross national income, Atlas method (current US\$b)	13.0	11.7	11.1	22.9	46.5
Gross capital formation (% of GDP)	11.2	14.1	18.3	23.7	23.6
Life expectancy at birth, total (years)	53	55	56	57	58

Source: World Bank World Development Indicators database, 2008.

The second Migration and Labour Force Survey (Ministry of Manpower, 1996) found that the labour force was very mobile, characterised by internal migration in the 1980s and 1990s. Step-by-step migration, from rural areas to rural urban cities and then urban cities was prevalent: 38% of migrants had moved from rural centres to large urban areas. Migrants were better educated (70% were literate in 1993) and young. Internal migration was accompanied by emigration to oil-rich Arab countries (84% of all emigrants). According to the draft Human Development Report (Bashir, 1998), 86% of emigrants were literate in 1993, 62% had secondary or higher education and 25% had a university degree.

According to Ibrahim et al. (2001) the total labour force increased from 8.6 million in 1998 to 9.5 million in 2001 (a 10.5% rate of increase)(see Figure 8). Each year, about 300,000 people enter the labour force seeking jobs. A sectoral distribution indicates that, in 1996, 53% were employed in agriculture, 20% in services, 6% in manufacturing and about 3% in construction.

Figure 8: Labour force and employment estimates, 1998-2001 (millions)

Source: Ibrahim et al. (2001).

Data on unemployment are scanty and old (Ministry of Manpower, 1996). Table 18 shows that the highest rate of unemployment was 28.4%, found in the 15-25 age group, followed by that in the 55-64 group (12.1%), the 65+ group (11.4%) and finally the 25-54 age group (10.3%). The overall rate of unemployment was high, amounting to 15.1% for all age groups in the country.

Table 18: Unemployment according to age group, 1996 (%)

	Aged 15-25	Aged 25-54	Aged 55-64	Aged 65+	Total
% unemployed	28.4	10.3	12.1	11.4	15.1

Source: Ministry of Manpower (1996).

There is no information for recent years, but widespread incidence of poverty indicates that unemployment is most likely on the rise. Some reports estimate that unemployment was at 18.7% in 2002, with the population below the poverty line at 40%.²⁸ The total labour force was estimated at 11.92 million, with the labour force in agriculture at around 80%, industry 7% and services 13%.

3.5 Effects on poverty in Sudan²⁹

Data on poverty are scanty, based on individual studies and limited surveys carried by institutions and individuals (Ali, 1994; Nur, 1997; UNDP, 2006). There has been no comprehensive household survey or recent census to generate reliable information on income and consumption of the different groups in Sudan. However, the results of these limited studies do show some features of poverty and the characteristics of the poor in the country. Ali (1994) demonstrated that rural poverty had increased from 64.17% in 1978 to a record high of 93.16% in 1993. Urban poverty was substantially lower than rural poverty in 1978 (about 20.5% compared with 64.2%), but this increased rapidly, to 84.4% in 1993. For the whole of Sudan, poverty incidence increased from 51.6% in 1968 to 91.1% in 1993 (Table 19).

Table 19: Poverty measures in Sudan, 1968-1993 (%)

		1968	1978	1986	1993	1986	1993
Incidence	Rural	62.68	64.17	83.12	93.16	65.36	64.17
	Urban	15.9	20.51	52.86	84.43	25.15	30.05
	Sudan	51.59	54.26	77.8	91.41	56.47	58.48
Depth	Rural	28.11	30.56	51.67	62.61	32.57	34.65
	Urban	4.56	8.58	24.38	47.78	14.23	22.16
	Sudan	24.66	23.12	45.43	-	21.96	21.00
Severity	Rural	38.00	48.00	66.21	-	-	--
	Urban	41.00	40.00	55.14	-	-	--
	Sudan	44.00	46.00	64.08	-	-	--

Source: Compiled from Ali (1994), in Mahran (2006).

A more recent study, carried out by Khan (2005), showed that incidence of poverty in 2004 was higher in rural areas but the rate of growth of poverty incidence was far higher in urban areas, in part because of rural-urban migration. Data from the Central Bureau of Statistics (CBS) show that 1978-1986 witnessed a sharp decline in agricultural production and per capita agricultural output, resulting in a rapid increase in rural poverty in Sudan. The rural poor are often more vulnerable to a wide range of factors and risks that lead to accentuation, deepening and widening of poverty (see Annex 3).

Ali (1994) estimated incidence of poverty in rural areas in Sudan during the 1980s at about 83% percent. Nur (1997) gave a figure for rural poverty in 1992 in the range of 71% to 86% in northern Sudan (he attempted to calculate the basic caloric needs of people consuming basic local foodstuffs).³⁰ On

²⁸ See www.cia.gov/library/publications/the-world-factbook/geos/su.html and www.hmnet.com/sudan/edu.html.

²⁹ There are no current data on poverty in Sudan (although an interview with the CBS revealed that the CBS and MFNE are currently conducting a study on poverty as part of the MFNE effort to prepare its poverty reduction strategy paper (PRSP). The discussion in this section represents only expectations of the possible impacts of the crisis on poverty in Sudan.

³⁰ See also Nur (1995).

the other hand, Ibrahim et al. (2001) estimated incidence of rural poverty at about 65% in 1990 and 94% in 1996. It is not really clear how they calculated the poverty line. The PRSP prepared by the MFNE in 2005, using human deprivation as an indicator of poverty, gave a range of 50% to 60% for poverty (Atabani, 2005). Using a combined rural survival deprivation index based on data from the UN Children’s Fund (UNICEF) Multiple Indicator Cluster Survey (MICS) indicators for different states shows that the highest poverty levels are found in the rural areas of the Red Sea, the Blue Nile, Kassala, Southern Kordofan and Northern Darfur.

Other studies have suggested varying levels of poverty. For instance, the CIA estimates a population below the poverty line of around 40% in 2004 and an unemployment rate of 18.7% in 2002.³¹

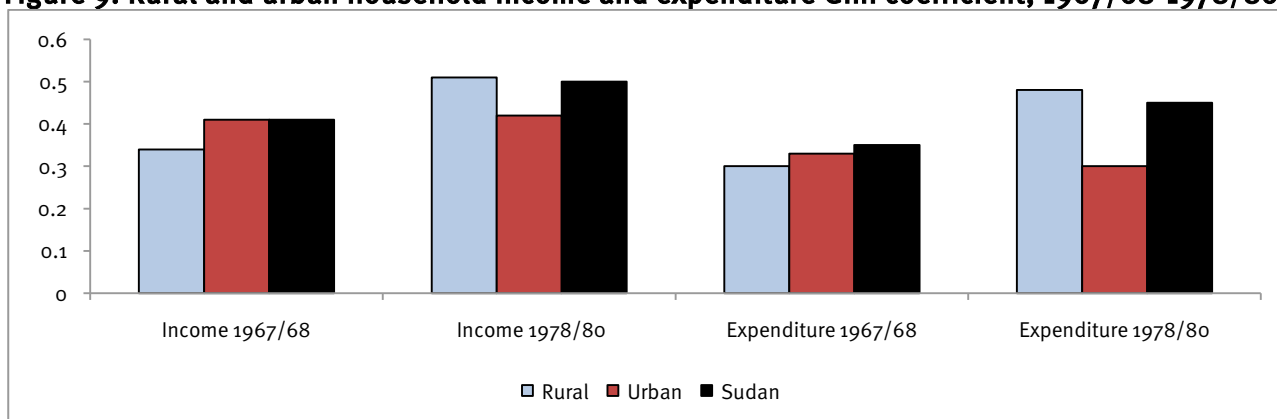
The last household survey on income and expenditure was carried out in 1978 and the last population census was carried out in 1993. Therefore, there is no reliable and updated information on income distribution. Most of the existing data have been generated from limited surveys and studies (see above). The data presented in Table 20 present Gini coefficients for subsistence families in urban and rural areas in Sudan for 1967, 1978, 1980, 1990 and 1996. It is clear that income inequality was systematically increasing for both rural and urban populations. The Gini coefficient increased from 0.34 in 1967/68 to 0.65 in 1996 for the rural population and from 0.41 to 0.72 for the urban population, maintaining an almost similar ratio for each group in the same period. Income inequality is discernable for the whole country for all groups (Figure 9).

Table 20: Subsistence families in urban and rural areas Gini coefficient, 1967/68-1996

	Rural	Urban	Sudan
1967/68	0.34	0.41	0.41
1978/80	0.51	0.42	0.50
1990	0.69	0.56	0.61
1996	0.65	0.72	0.74

Source: Ibrahim et al. (2001).

Figure 9: Rural and urban household income and expenditure Gini coefficient, 1967/68-1978/80



Sources: CBS (1968; 1980).

The share of the poorest 50% of the population in total income declined from 23% in 1967/68 to 18% in 1978/80, whereas the income share of the top 20% rose from 48% to 53% in the same period. The move from a moderately unequal to a very unequal income distribution is reflected by the Gini coefficient moving from 0.41 to 0.50. It is also evident that growing income inequality in rural areas has made up the major contribution towards overall income inequality (the Gini coefficient in urban areas remained almost the same).

Although up-to-date information on income inequality is lacking, one would assume that the same pattern of income distribution has continued. Despite the economic growth of the late 1990s and after, incidence of poverty intensified and spread (Ali, 1994; Nour, 1997): growth did not trickle down to the

³¹ See www.cia.gov/library/publications/the-world-factbook/geos/su.html and www.hmnet.com/sudan/edu.html.

most needy people and regions. With income inequality deteriorating, it is possible that the benefits of growth have not been shared by all income classes, especially the poor (Khan, 2005).³² Meanwhile, the recent sharp decline in budget revenues as a result of the negative impacts of the global crisis on oil prices has constrained the GNU's ability to secure funding to improve living standards and to finance and implement development projects. Vulnerable groups, including women and children, most likely are being and will be hit hardest by the crisis, and by continuing soaring food prices, further aggravated by poor rainfall in 2009.

Some observers feel that the greatest negative effect will be felt by the GoSS, which will probably not be able in the short run to compensate for the sharp drop in oil prices. As a result of the crisis, the GoSS (which in its budget was 98% dependent on oil revenues) ordered a 10% salary cut for senior officials and a clampdown on hotel costs of officials without their own house. This caused serious political tensions among salaried workers (who constitute more than 80% of current spending) and fostered insecurity and social and tribal conflicts (Sudan Watch, 2009a). Apparently, veterans went on to close the Ugandan border and stopped vital trade with Uganda, leading to shortages in goods. Competition over water and grazing land has accentuated tribal conflicts, and availability of modern arms has increased violence and human and material losses among warring factions.

The UN Office for the Coordination of Humanitarian Affairs (UNOCHA) has warned that the south will be facing a food gap of \$50 million, with about 22,000 metric tonnes of food aid urgently needed. The World Food Programme (WFP) estimates that it might need about \$40 million for food and transport costs. UNICEF needs about \$75 million to provide nutritional support, whereas the Food and Agricultural Organization (FAO) requires more than \$800,000 for its activities (UN News Service, 2009). The human situation in the south will deteriorate with the escalation of conflict, war, food supply shortages, lack of rain and inability to implement food and development projects.

The south is still suffering from acute infrastructural deficiencies: shortage of usable and reliable roads; inadequate safe and reliable water supply; lack of electricity generation capacity and distribution networks; lack of reliable and efficient transport and marketing services; and complete absence of industrial and agricultural projects to meet local consumption needs and for export. The south lacks credible and quality educational and health services at different levels and skilled and professional manpower in many fields of specialisation. The region is in dire need of social and economic development efforts, technical and human resources and infrastructural investment.

As we have seen, the region has been dependent on oil revenues transferred by the GNU to finance current and development programmes and to finance consumer and capital goods from abroad. Food supplies from abroad constitute a major proportion of local consumption needs, as local capacity to produce food is severely constrained. Recently, sharp reductions in oil revenues, coupled with poor rains and widespread tribal conflict, have created food shortages and disrupted farming activities, bringing the region to the brink of crisis. UN Deputy Coordinator for South Sudan, Lise Grande, warns that Southern Sudan is facing critical food shortages and mass displacement of its people as a result of widespread intertribal conflicts, with more than 2000 people killed and 250,000 displaced in 10 southern states (Sudan Watch, 2009b). She attributes this to the sharp decline in oil revenues (the south lost 40% of its oil revenues) caused by the global financial crisis, which brought to a halt critically needed development projects. Ongoing tribal wars and fighting are endangering the CPA and the security of the whole country. The situation is putting the upcoming elections at risk, with particular concerns for the situation of women and children (Javno, 2009).

Sudan, like many LICs, is facing the challenge of reducing job losses and reversing the decline in people's welfare and incomes in the midst of falling investment rates and GDP growth rates. Being mainly an agricultural economy, endowed with huge natural resources, water and land, the country has to attempt to achieve food security by raising the productivity and incomes of predominantly small-scale producers. Encouraging private investment in agriculture and productive agricultural

³² See also Khan (2001).

development, within the context of the overall development of an agri-business value chain strategy, will be the real challenge for Sudan in the long term. In fact, food security is ultimately dependent on adopting sustainable social safety nets, to protect vulnerable groups and enhance social protection via early warning systems on droughts and food, speedy cash transfers, public projects and community development programmes. These interventions could be made more useful through institutional and infrastructural capacity development and preparedness, to achieve speedy and timely interventions and rapid assessment of and response to food insecurity. Unfortunately, most of these initiatives have yet to be implemented in Sudan to mitigate the negative effects of the global financial crisis.

3.6 Inflationary effects

The expected decline in the growth rate and production, coupled with the rising tax burden and the sharp increase in deficit financing to offset rapidly shrinking oil revenues, will all cause a downward economic spiral and result in an extremely volatile monetary situation, which will fuel macroeconomic instability and inflationary pressures.

The global financial crisis is expected to increase inflation pressures for a number of reasons. First, on the expenditure side, it is important to mention that governments in Sudan historically do not have a good record of being willing or able to curb public expenditure, for obvious political, security, social and economic reasons. They tend to adopt expansionary fiscal policy, which often imposes upward pressure on prices to rise. One means of financing current and development activities has been through deficit financing and borrowing from the central bank, commercial banks and the public by selling securities and bonds. Different governments in Sudan have also borrowed heavily from abroad, resulting in huge external debt, amounting to \$34 billion in 2009. On the other hand, public financial resources have been wasted through mismanagement and absence of reliable public financial management and fiduciary accountability systems, which has made different governments unable to manage and use financial resources cost effectively, accountably and transparently.

Fiscal discipline and prudence are not easily attainable on the expenditure side, and the failure to mobilise revenues through sound tax generation and management has highlighted the urgent need for institutional reform and substantial capacity building. The increasing budget deficit arising from expansionary fiscal policy has added more inflationary pressure and exerted an enormous effect on the money supply growth rate. The effect of these factors has been to fuel inflationary pressures and lower the value of the Sudanese pound. For example, IMF data show that consumer price inflation averaged 16% in 2008,³³ and is expected to be higher than this in 2010. Depreciation of the Sudanese pound is expected to fuel imported inflation through imported consumer, intermediate and capital goods, on which the country has been heavily dependent. In 2010, government spending is expected to increase by 20% (EIU, 2009) as a result of projected increases in spending on elections and security. Combined, increased deficit financing, expanding government spending and depreciation of the Sudanese pound will all push up inflationary pressures. Inflation reduces economic growth, hurts the poor, creates social and political instability and is very difficult to bring back down when it gets out of hand. Therefore, the primary goal of monetary policy should be price stability and control of inflation. For this reason, high public debt should be carefully managed, as it will slow growth in the future by discouraging FDI and raising inflationary pressures.

33 The CBoS reports that inflation in 2007 amounted to 8.1% and increased to 14.3% in 2008.

4. Policy responses to the crisis: A critical review

The initial response of the MFNE to the global crisis was very slow and apologetic, and somewhat of a denial of any negative effects on the Sudanese economy. The government over time became more responsive and admitted some difficulties facing the 2009 budget. One step taken by the MFNE was to form a joint technical committee, with representatives from the CBoS and MFNE, with the aim of examining any possible effects of the crisis on the economy and advising the GNU on possible policy options to mitigate these. The committee (which does not include private sector representatives) has not yet publicly disseminated any findings or mentioned whether or not it has submitted or will submit a report. The work of the committee is most likely being confined within the MFNE and may not be publicly disseminated, as the committee's mandate is to report back to the MFNE only.

On 18 June 2009, the Minister of Finance and National Economy and the Governor of the CBoS wrote a joint letter of intent to the IMF, mentioning that Sudan had been affected by the global crisis and that the country would like the Fund's help to deal with its impacts (IMF, 2009c). The letter was published by the IMF, with a staff-monitored programme agreed for 2009 and 2010. The publication of the joint letter of intent was a major step forward for the country in terms of admitting the negative effects of the crisis on the economy. After this, many officials started talking publicly about possible negative impacts on different sectors of the economy. The IMF itself mentioned the slow response of the GNU with regard to the crisis, especially in the area of exchange rate inflexibility and foreign currency policy.

The CBoS has been more proactive and realistic, announcing monetary policy to reform the banking system, improve banking supervision, restructure and raise banks' capital and deal with the problem of high NPLs. The ratio of gross NPLs to loans amounted to 26% in 2007, declining to 22.3% in 2008, because of MFNE efforts to reduce domestic government arrears. Loans provisions to NPLs rose from 14.6% in 2007 to 14.9% in 2008 and to a high of 19.9% in the first quarter of 2009 (IMF, 2009d). This reflects an improvement in the ratio of gross NPLs to loans thanks to CBoS efforts to pressure banks to improve their financial performance and to comply with financial and accounting regulations. Therefore, the CBoS succeeded in reducing NPLs, and has tried hard to raise the capital adequacy ratio, but more needs to be achieved in 2010.

The government response to the sharp decline in oil revenues has focused on the fiscal side. The GNU swiftly increased VAT, from 10% to 15% in 2007 and even to 15% on telecommunications in 2008, introduced a development tax of 5% and substantially scaled up customs on imported new cars and other imported luxuries. The raising of customs on imports is a protectionist policy and will lessen the degree of liberalisation of foreign trade and the openness of the economy. It will deprive people and investors of the chance to benefit from low prices of consumer intermediate and capital goods.

The GNU has also expanded internal borrowing through the sale of more Government Musharaka Certificates (Shihama) and Sarih investment securities, and has resorted to deficit financing to meet spending needs for different orders of government. On the expenditure side, the government in its IMF programme for 2009-2010 intended to adjust figures for cash and commitment deficits, from 8.8% of GDP in the approved budget (at current oil prices) to 4.8%. It is also committing itself to reducing arrears by 0.6% of GDP in order to bring them to around 1% of GDP by the end of the 2009 budget. Furthermore, the government expects less or limited external financing and will therefore attempt to tighten fiscal and monetary policy. Government transfers of resources to sub-national governments will remain the same, and can only be increased if oil prices pick up and surpass \$70 per barrel.

4.1 The crisis and fiscal space: Some options

Sudan lacks the fiscal space to adopt a comprehensive and generous fiscal stimulus plan. An expansionary fiscal policy should be able to lessen the negative macroeconomic and social impacts of

the global financial crisis. A second fiscal option was to expand the budget deficit in order to maintain target expenditure allocations set in the 2009 budget and to respond to critical needed spending in the areas of security and service delivery in war-torn areas. Being an oil-exporting country has created the temptation for the government to expand deficit financing by relying on previous oil boom surpluses. The deficit actually expanded from 2% to 3% of GDP in 2006/07 to 6% of GDP by the end of the 2009 budget. The shrinking of oil revenues is thus being partly compensated by deficit financing and also partly by internal borrowing from the public through sales of Government Musharaka Certificates and investment securities. The former pay out 15% to 17% a year; the latter offer less profit. The banks are not offering competitive profit rates for their customers and as a result opted themselves to invest in these, forcing the central bank to limit banking sector purchases of these certificates to a maximum level of 30%. Private sector borrowing from the banking sector has largely been reduced as banks opted for less risk lending.

Sudan has not been able to sustain adequate spending on progress towards the MDGs, especially on health, education, water and sanitation, or to provide support for low-income populations and follow pro-poor spending policy. The challenge facing the government is to maintain and expand spending on infrastructural services, like roads, electricity, dams and storage capacity, and to provide incentives for the productive sectors to produce for local consumption and export. The promotion and diversification of traditional non-oil exports is becoming a hotly debated issue, as the only way out of oil dependency, which has increased the country's vulnerability to external shocks. Expanding productive capacity in agriculture, industry and services is also critical to meet the growing demand for food and other goods and to lessen the mounting import bills of these commodities.

Sudan is facing limited options with regard to obtaining additional external resources to finance budget deficits in the face of growing need for spending on social and development activities, with limited internal revenue sources. Foreign aid and support for Sudan are critical but are currently not available from ODA sources, and are risky from regional Arab funds, banks and governments, as the Arab countries themselves are dependent on the same oil exports and vulnerable to oil price variations. It is not yet clear if capital flows from the Arab funds, banks and governments will come in the short run. Sudan has also drawn down on foreign reserves, and was able to adjust and fill in part of the fiscal gap in the second half of the 2009.

4.2 Central bank monetary policy in 2010

Dr. Sabir M. Al-Hassan, Governor General of the CBoS, has said that the 2010 budget will be a real challenge and that new monetary, credit and economic policies need to be adopted in the attempt to maintain macroeconomic stability. The country should try hard to diversify exports and stop depending on a single exportable commodity. It should depend more on its internal resources, remove barriers to investment, simplify administrative and procedural requirements for investors and minimise costs and time involved in registration and commencing of operations. There is an urgent need to remove any contradictions in policies and procedures between federal and state laws regarding foreign investment. Dr. Al-Hassan went on to say that the Islamic economic system has great potential but unfortunately this has yet to be realised, and that hopes should not be rested on attracting foreign investment. He also called for the adoption of more effective and sound monetary policy to maintain economic stability and sustain growth of GDP. The financial sector should be reformed and strengthened to actively participate in financing development projects.

In Southern Sudan, decision makers have also been concerned about the danger of depending on oil as the only source of budget revenue and have tried hard to diversify revenue sources and maximise the revenue potential of border trade with neighbouring countries. Non-oil revenues from customs on border trade with Kenya and Uganda collected monthly have increased to SDG7 million for the first time in the region. The GoSS has acknowledged the need to improve on technical and human capacity in tax collection and administration to increase non-oil revenues and improve budget credibility.

4.3 The socio-political dimension of debt sustainability in Sudan

The chances of the country being able to solve its alarming external indebtedness depend on a favourable external political and economic environment. Sudan is still suffering from the negative impacts of economic sanctions and pressures imposed by the US and European countries, which have deprived it of the opportunity to benefit from multilateral debt relief initiatives and concessional aid programmes (despite the fact that Sudan meets debt burden indicator requirements). The world community is demanding the immediate settlement and solution of the complex Darfur and Southern Sudan problems before the country can be allowed to benefit economically from any debt relief initiatives and programmes. It is going to take a long time to achieve this; in the short term, the country will labour under the severe pain of continued Western political and economic pressures and will find it difficult to ease its devastating external debt problems. Coupled with the negative impacts of the crisis, the Sudanese economy will be unable to live up to its growth potential. The people will suffer from declining incomes, fewer jobs and deteriorating welfare levels, and the economic and social conditions of the most vulnerable sections of the population (women, children and disadvantaged groups) and the poor will further deteriorate, fuelling conflicts, insecurity and wars in deprived areas of the country.

4.4 Social policies to respond to the impact of crisis

Generally, Sudan will be faced with the challenge of reducing job losses for graduates and unskilled labourers and reversing the decline in people's welfare and incomes associated with falling investment, declining GDP growth rates, shrinking remittances and concessional aid and sharp cuts in government expenditure on essential social services and development.

- Sudan will need substantial FDI and ODA in order to achieve food security by raising the productivity and incomes of the predominantly small-scale producers (more than 75% work in the traditional agricultural sector). Encouraging private investment in agriculture and launching a productive agricultural development plan, within the context of the overall development of an agri-business value chain strategy, will be the real challenge in the long run for the country.
- Food security ultimately depends on adopting sustainable social safety nets to protect vulnerable groups and enhance social protection, via early warning systems on droughts and food, speedy cash transfers, public projects and community development programmes. These interventions could be made more useful within a context of wider institutional and infrastructural capacity development, speedy and timely intervention and rapid assessment of and response to food insecurity in rural areas, especially in Southern Sudan.

4.5 Multilateral responses

IMF responses of increased concessional resources to LICs may not be directly beneficial to Sudan, as the country is still waiting to solve its accumulated debt arrears to the Fund and the World Bank, and before that its huge external debts (of \$34 billion) (IMF, 2009b). Debts to multilateral institutions (World Bank, IMF, International Development Association (IDA) and Arab Monetary Fund) account for \$2847 million, about 28.4% of total debt obligations. Sudan has arrived at an agreement with the IMF to reschedule its debts and has started repaying debt service arrears.

The IMF–Sudan relationship is relatively strong compared with that of Sudan with the World Bank. The Fund has a strong presence on the ground and offices within the CBoS headquarters. It does some technical cooperation and capacity building programmes with the MFNE. Moreover, as we have seen, the IMF has continued to hold strong technical and staff-monitored programmes in Sudan. The World Bank, on the other hand, has not yet signed an agreement with the GNU to settle its accumulated debt arrears, although it continues to offer some limited technical assistance in many areas. The Bank has opened a country office in Khartoum and has been helping out in technical and research areas on

issues concerning public expenditure review, JAMs for the CPA and also a JAM for Darfur and on a broad-based growth strategy for Sudan.

IMF and World Bank responses to mitigate the effects of the crisis in Sudan will most likely be limited to technical assistance and research on specific areas of interest to the government and these institutions. The IMF staff-monitored programme for 2009-2010, mentioned above, will be the major contribution of the IMF in helping the country dealing with the effects of the global financial crisis.

5. Conclusions

5.1 The impact of the crisis: An update

In the long term, Sudan, having overcome the worst of the crisis, stands a good chance of sustaining GDP growth; strengthening its investment enabling environment and encouraging FDI; diversifying its revenue sources and mobilising internal revenue potential; cost effectively managing expenditures in different orders of government; generating jobs and incomes for many unemployed people; achieving equitable resources distribution; diversifying productive exportable capacities and becoming more competitive in international markets; spending more on pro-poor and pro-growth service delivery and infrastructural facilities; mitigating negative effects on poor and vulnerable groups of the population; and improving the welfare and quality of life of the people of the country.

5.2 Policy options for Sudan

5.2.1 Fiscal policy

- The government should attempt to design and implement an objective budget based on a low per barrel price of oil to prevent any future loss of government revenues. The government should attempt to avoid fixing a high per barrel oil price in the budgeted revenue to forestall any adverse effect of a sharp reduction in oil prices in the course of the fiscal year (as in 2009).
- The GNU should adopt a strategy to compensate for the sharp decline in oil revenues, the sluggishness of private capital inflows, the shrinking of FDI and lowered aid and remittances, through the mobilisation of domestic resources. This could be done by strengthening and spreading banking activities all over the country to mobilise domestic savings, creating new instruments to encourage savings and investments and adopting prudent fiscal reforms. This could include tax system reforms (simplified and more transparent tax codes, a viable tax registration system, broadened tax bases, strengthened tax administration); improved supervision to increase accountability and improve revenue administration; efficient public financial management and fiduciary accountability systems to manage resources cost effectively; priorities for spending and expenditure commitments; control methods and expenditure tracking systems; etc.
- The GNU should also resort to selling more Government Musharaka Certificates to generate more revenue and lessen dependency on oil revenues in the budget.
- The GNU should take serious fiscal measures to rationalise and prioritise expenditure outlays. The government should strictly observe budget credibility and adhere to approved plans of spending with efficient, objective financial guidelines and laws carefully followed. There should be expenditure commitments at every level of government, with a corresponding release of cash balances to meet target spending, and an effective expenditure tracking system.
- The GNU should utilise its oil revenues and internal revenue sources (from selling securities and bonds and also from taxes) to increase spending on pro-poor and pro-growth service delivery and infrastructural facilities and mitigate negative effects on low-income, poor and vulnerable groups of the population.

5.2.2 Monetary policy

- The CBoS should establish an early warning system to detect elements of loss, failure or default in the banking sector and move with haste to protect banks with a high ratio of NPLs from collapse. In short, reliable monitoring and evaluation systems must be established for the supervision of banks to ensure their compliance with financial and accounting laws and procedures.

- The CBoS should implement strict measures to limit the power of bank directors when lending to financially unqualified investors, and make them adhere to financial and accounting regulations and laws. Some directors (as a result of mismanagement and lack of supervision and regulation) have advanced substantial loans to investors who are financially not credible, resulting in outstanding debts and near collapse of these banks.
- The GNU should maximise use of the OSRF to mitigate the negative effects of external shocks and crises caused by variability in oil prices.
- The challenge for the GNU is to adopt monetary policy that will lead to augmenting the OSRF in the face of declining oil revenues and negative effects of the crisis. It could provide financing for essential social and development spending when external finance is slowing down, remittances are declining, trade is shrinking and concessional aid is drying up.

5.2.3 Development strategy

- The government should diversify the productive and exporting capacities of the agricultural, industrial, mining and livestock sectors by directing FDI to these sectors, giving fiscal and non-fiscal incentives to private investors to invest in these sectors and adopting sound exchange rate policy. In the past, the CBoS has retained a highly inflated and overvalued exchange rate, which has adversely affected Sudanese non-oil exports, making them less competitive in international markets.
- The GNU should also attempt to strengthen the country's export production capacity through the careful design and implementation of export-based production activities in agriculture, livestock, oil, mining and manufacturing. The adoption and use of appropriate technology in production, distribution and marketing activities in these sectors, coupled with well-planned and executed infrastructure, would allow the country to maximise its return on exports.
- Government development policy should encourage the establishment of labour-intensive, employment-generating agri-business, textiles, sugarcane and food projects.
- The GNU should attempt to coordinate between fiscal and monetary policies to achieve and sustain macroeconomic stability growth and development.

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Annex 1: Impact of US sanctions on debt relief and aid for Sudan

Sudan is technically qualified to benefit from HIPC but, as a result of US economic sanctions and European pressures, cannot be considered for it. Had Sudan received debt relief and concessional aid from multilaterals and donors, it could have sustained its huge debts and released resources for poverty reduction by expanding spending on social projects, education, health, sanitation, water and electricity and infrastructure; reducing the debt service and lowering debt burden indicators; and improving debt management and debt vulnerability (if following a rational borrowing strategy).

The US unilaterally imposed economic sanctions on Sudan in 1997 on the grounds that it had supported international terrorism and endangered American interests in the region. European countries supported US policy, stepping up economic and political pressures and slowing and virtually stopping ODA and debt relief to the country in the 1990s. In 2007, the US stepped up the sanctions, demanding that the government halt the violence in Darfur. This added two companies to the sanctions list: Sudatel and Al-Sunt, a joint venture to develop the White Nile eastern bank in Al Mugran, between Osama Dawoud's private Dal Group (managing the project) and the Khartoum state.

The MFNE played down the importance of the economic sanctions and said that the country would not be affected, as most of its trade and investment activities are carried out with Asian partners (China, India, Malaysia, Indonesia, Thailand, South Korea and Japan). However, the CBoS responded rapidly with measures to reduce foreign currency transactions and lower the volume of imports.

Despite the economic sanctions imposed in 1997, Sudan's economy has been able to grow faster than that of many sub-Saharan African countries, at real GDP rates averaging more than 7% for a decade, and by more than 10% in 2007. In 2009, US Secretary of State for Foreign Affairs, Hillary Clinton, declared a new US policy on Sudan. This includes some incentives to the government to improve the security and humanitarian situation on the ground in Darfur, speed up the process of implementing the CPA and improve records on fighting international terrorism. Failing to achieve these objectives will mean that the US government will further strengthen economic sanctions, and impose new ones. The US government in its new policy towards Sudan classified the situation in Darfur as 'genocide'. The new policy retains economic sanctions and does not outline what is required of the Sudan government. The government has officially rejected the use of the term 'genocide' and has asked the US government to adopt a clear and objective policy towards Sudan, also saying that it look positively at some of the declared policy issues and hopes that the new policy will help solve the Darfur problem and lead to lifting up of sanctions.

The effects of continued US sanctions against Sudan will be negative, as they will lessen its opportunities to receive concessional aid from multilateral institutions and donors and will prolong and exacerbate its external debt problems. Sustaining economic growth and development, reducing poverty and improving people's welfare will depend on solving these enormous external debt problems, releasing resources to finance social and economic development projects and a securing sustained supply of external concessional aid and ODA in the long run.

Annex 2: Statistical tables

Table A2.1: European Union–Sudan trade balance, Jan 2000-Jan 2009 (monthly, in US\$ millions)

	EU exports to Sudan	EU imports from Sudan	EU trade balance with Sudan
Jan-00	32	28	4
Jan-01	38	36	2
Jan-02	37	28	10
Jan-03	35	18	17
Jan-04	52	12	40
Jan-05	66	30	36
Jan-06	111	5	106
Jan-07	95	13	82
Jan-08	80	9	70
Jan-09	58	6	52

Source: USITC DataWeb.

Table A2.2: US–Sudan trade balance, Jan 2000-Jan 2009 (monthly, in US\$ millions)

	US exports to Sudan	US imports from Sudan	US trade balance with Sudan
Jan-00	0	0	0
Jan-01	0	1	-1
Jan-03	4	0	4
Jan-04	0	0	0
Jan-05	11	1	10
Jan-06	5	1	4
Jan-07	2	1	1
Jan-08	20	0	20
Jan-09	17	1	16

Source: USITC DataWeb.

Table A2.3: Sudan MDTFs – commitments and contributions as of 30 June 2009

	Oslo I & Post Oslo I						Oslo II						Combined Oslo I & Oslo II					
	Commitments*			Receipts*			Commitments*			Receipts			Cumulative commitments*			Cumulative receipts		
	2005-2007			2005-2007			2008-2011			2008-2011								
	NS	SS	Total	NS	SS	Total	NS	SS	Total	NS	SS	Total	NS	SS	Total	NS	SS	Total
Netherlands	94.1	92	186	101.7	99.8	201.5	3.9	41.1	45	3.9	38.4	42.3	98.0	133.1	231.1	105.6	138.2	243.8
UK	50.2	45	95.2	50.3	45	95.3	7.04	28.2	35.2	7.4	29.8	37.2	57.24	73.2	130.44	57.7	74.8	132.5
Norway	38.1	69.3	107	40.2	69.3	109.5		87.1	87.1		22.4	22.4	38.1	156.4	194.5	40.2	91.7	131.9
Canada	13.6	40.6	54.2	13.6	40.6	54.2	3.9	19.6	23.5	3.9	19.6	23.5	17.5	60.2	77.7	17.5	60.2	77.7
EC		59.8	59.8	0	59.8	59.8			0			0	0	59.8	59.8	0.0	59.8	59.8
Sweden	12.1	25.8	37.9	13.9	25.8	39.7	4.2	8.2	12.4	4.4	8.2	12.6	16.3	34.0	50.3	18.3	34.0	52.3
Spain	7.4	7.4	14.8	7.4	7.4	14.8	6.3	9.5	15.8	6.8	9.5	16.3	13.7	16.9	30.6	14.2	16.9	31.1
Finland		16.1	16.1	0	16.1	16.1		13.98	14		4.2	4.2	0	30.08	30.08	0.0	20.3	20.3
Germany		12	12	0	12	12.0			0			0	0	12	12.0	0.0	12.0	12.0
World Bank	5	5	10	5	5	10.0			0			0	5	5	10.0	5.0	5.0	10.0
Denmark		6.3	6.3	0	6.3	6.3		1.7	1.7			0	0	8	8	0.0	6.3	6.3
Italy		3.4	3.4	2.1	3.4	5.5			0			0	0	3.4	3.4	2.1	3.4	5.5
Egypt		1	1		1	1.0			0			0	0	1.0	1.0	0.0	1.0	1.0
Iceland	0.2	0.3	0.48	0.2	0.3	0.5			0			0	0.2	0.3	0.5	0.2	0.3	0.5
Greece	0.1	0.0	0.06	0.1	0	0.1			0			0	0.1	0	0.1	0.1	0.0	0.1
Total receipts	220.8	384	605	234.5	391.8	626.3	25.3	209.4	234.7	26.4	132.1	158.5	246.0	593.4	839.4	260.9	523.9	784.8
IDA fees				1.0	2.1	3.1										1.0	2.1	3.1
Investment income				19.94	34.89	54.83										19.9	34.9	54.8
Cumulative MDTF proceeds				253.4	424.6	678.0				26.4	132.1	158.5				279.8	556.7	836.5

Notes: * Commitment means administrative agreement signed. ** Receipts were higher than total commitments for Oslo I owing to exchange rate variation from the time of the signing of the agreements to the time of funds receipts. SS = Southern Sudan; NS = Northern Sudan.

Table A2.4: Funding status of MDTF national Sudan portfolio, as of 30 June 2009

JAM Sudan (a)	Projects	Appraised project (est.)	Notional financing of appraised project/ programme		Allocated financing for initial (or later) phases		Financing gap for remaining phases		Actual disbursements (US\$m)		Phase 1 (years)	Grant/ amendment signing date	Grant effectiveness date	Grant closing date	
			MDTF	GNU	MDTF	GNU	MDTF	GNU	MDTF	GNU					
Approved projects/GA signed															
1	Capacity Building	Technical Assistance Facility	5.7	5.0	0.7	5.0	0.7			-2.90	-0.68	3.5	16/1/06	6/4/06	30/9/09
7	Community-Driven Recovery	Community Development Fund Phase I/ Slice I	75.0	45.0	30.0	15.0	10.0			-24.90	-10.00	4.2	16/1/06	26/4/06	31/7/10
		Community Development Fund Phase I/ Slice II				27.8	22.2				-7.87		12/1/08	12/1/08	31/7/10
8	Census	5th Population Census Phase I (National) (c)	87.6	19.1	68.5	7.1	14.3			-7.10	-14.30	2.9	8/5/06	31/7/06	31/12/08
		5th Population Census Phase II (National) (c)				12.0	54.2			-12.00	-50.33		16/8/07	16/8/07	31/12/08
2	Judiciary and Legal Administration	Capacity Building of the Judiciary	10.0	5.0	5.0	5.0	5.0			-5.00	-0.25	2.8	23/8/06	23/8/06	30/6/09
6	Roads and Rail	National Emergency Transport Rehabilitation	370.0	123.0	247.0	43.5	85.6	79.5	161.4	-11.85	-17.71	4.4	29/10/06	24/1/07	30/6/11
		National Emergency Transport Rehabilitation (Supplemental)	43.8	43.8	0.0	43.8									30/6/11
5	Health System Investment and Basic Health Service Delivery	Decentralised Health System Development	70.0	23.0	47.0	6.0	13.0	17.0	34.0	-3.30	-3.11	2.9	29/10/06	29/1/07	31/12/09
4	Private Sector	Private Sector	20.0	10.0	10.0	10.0	10.0			-1.01	-10.00	4.2	22/5/07	14/4/08	30/6/11

	Development	Development (Rural Microfinance – Small Enterprises)													
3	Econ. Policy	National Currency (d)	145.0	25.0	112.2	15.0	120.0			-25.18	-120.74	1.6	22/5/07	22/5/07	31/12/08
		National Currency (Supplemental)				10.2					0.00		25/12/07	25/12/07	31/12/08
	Cross-Sector	S. Kordofan – UNICEF	14.7	7.9	6.9	5.4				-5.35	0.00	0.8	25/7/07	25/7/07	31/5/08
		S. Kordofan – UNIDO				1.1				-0.25		1.6	7/10/07	7/10/07	30/4/09
		S. Kordofan – State				1.0	6.5			-1.11	-1.14	2.0	29/8/07	8/1/08	31/12/09
4	Agriculture and Livestock	Improving Livestock Production and Marketing	20.0	8.0	12.0	4.0	3.7	4.0	8.3	-0.93	-0.77	2.8	29/8/07	29/8/07	30/8/11
	Cross-Sector	Blue Nile – State	15.3	1.1	8.0	1.1	8.0			-0.27	-2.34	1.3	3/12/07	29/6/08	30/9/09
		Blue Nile – UNIDO		0.4		0.4				-0.40		1.7	24/1/08	24/1/08	30/9/09
		Blue Nile – UNICEF		5.8		5.8				-5.58		1.7	31/1/08	31/1/08	30/9/09
1	Public Service Reform and Decentralisation and Local Government	Capacity Building for Public Sector Reform and Decentralisation	10.0	5.0	5.0	2.5	2.5	2.5	2.5	-0.32		1.8	11/9/08	11/9/08	30/6/11
		Subtotal (1)	887.1	327.1	552.3	221.7	355.7	103.0	206.2	-107.5	-239.2				
Projects in the pipeline: Approved FPPs (GA/amendment not signed)															
4	Agriculture and Livestock	Providing Better Incentives to Poor Gum Arabic Producers (e)	10.0	7.0		7.0						3			
5	Basic Education and Technical, Vocational and Adult	Basic Education	15.0	15.0	0.0	15.0	0.0					2			

	Education														
	Cross-Sector	Abyie	6.0	6.0	0.0	6.0	0.0					1.5			
4	Health System Investment and Basic Health Service Delivery	Decentralised Health System Development (Supplemental) (f)	6.0	6.0		6.0	0.0					4			
		Subtotal (2)	37.0	34.0	0.0	34.0	0.0								
Projects in the pipeline: Projects under preparation															
4	Agriculture and Livestock	Agriculture Extension Services	30.0	15.0	0.0	15.0	0.0					3			
		Subtotal (3)	30.0	15.0	0.0	15.0	0.0								
		Total (projects 2005-2008)	954.1	376.1	552.3	270.7	355.7	103.0	206.2	-107.5	-	239.2			

Notes:

- (a) Joint Assessment Mission Volume II: Cluster Costing and Matrices, 18 March 2005.
- (b) Jam Clusters 1) Capacity Building and Institutional Development; 2) Governance and Rule of Law; 3) Economic Policy; 4) Productive Sectors; 5) Basic Social Services; 6) Infrastructure; 7) Livelihoods and Social Protection; 8) Information and Statistics.
- (c) Census National Project total project cost includes both North and South. MDTF contribution comes from both MDTFs, while the government contribution comes only from the GNU budget. The amounts mentioned as GNU contribution – Phase I and Phase II - include both North and South.
- (d) New Currency National Project closed on 31 December 2008.
- (e) Gum Arabic: International Fund for Agricultural Development (IFAD) will make an additional contribution of \$3 million (channelled through the World Bank).
- (f) Decentralised Health System Development (Supplemental): Additional funds will target programmes and activities specific to reduce maternal mortality.
- (g) Decentralised Health System Development (Supplemental): Additional funds will target programmes and activities specific to reduce maternal mortality.
- (h) National Emergency Transport Rehabilitation (Supplemental): Additional funds for completion/second sections of Kauda-Kadugli (SK) and Kurmuk-Damazine (BN) roads.

Table A2.5: Southern Sudan MDTF: Sources and uses of funds (in US\$'000s) as of 30 June 2009

Source of funds	CY05	CY06	CY07	CY08	CY09	Cumulative amount	6- month projection
A. Net donor contribution:	99,351.6	121,560.8	153,421.7	87,479.5	94,743.0	556,556.7	40,840.0
1. Donor contribution received	99,204.0	115,758.3	141,192.4	75,268.3	92,300.7	523,723.7	37,000.00
2. Investment Income	387.4	6381.5	12,726.5	12,568.1	2827.2	34,890.7	4000.00
3. IDA overhead (0.4%)	(239.8)	(579.0)	(497.2)	(356.9)	(384.9)	(2057.8)	-160
Uses of funds							
B. Commitments:	72,384.6	71,000.0	86,491.2	21,000.0	4438.9	255,314.6	
1. Grant agreements signed	70,000.0	68,000.0	80,635.5	16,000.0	-	234,635.5	
2. Programme administration (cumulative budget)*	1000	3000	4000	5000	2500.0	15,500	8000
3. Monitoring agent contract	1385		1856	-	1938.9	5179	-
C. Net commitment authority available (A-B)	26,967.0	50,560.8	66,930.5	66,479.5	90,304.1	301,242.0	
D. Grant agreements in the pipeline**							-
E. Proposed supplemental grants***							-
F. Phase II of projects****						450,000	
G. Projected commitment authority						(115,918.00)	
Disbursements							
Investment operations (recipient executed)	Grant Amount	CY06	CY07	CY08	CY09	Cumulative disbursements	Disbursed %
Rapid Impact Emergency + Support to the Commissions****	25,500	(16,376)	(1592)	(2032)	-	(20,000)	78
Supplemental Rapid Impact Emergency – Public Works****	8760	-	(5000)	(3760)	-	(8760)	100
Sudan Emergency Transport and Infrastructure Development – Other****	19,890	(6,402)	(4147)	(6761)	(2229)	(19,538)	98
Core Fiduciary Systems Support	5574	-	(500)	(1154)	(429)	(2082)	37
Fifth Population Census ****	5300	(4,000)	(1300)	-	-	(5300)	100
Fifth Population Census – Phase II****	10,000		(10,000)	-	-	(10,000)	100
Umbrella Health Programme	20,000	(4,000)	(2168)	(7023)	(4079)	(17,270)	86
Education Rehabilitation + Supplemental	25,500	(2,500)	(481)	(2764)	(1523)	(2668)	29
WFP Emergency Roads – Sudan Emergency Transport and Infrastructure Development****	30,110	(30,110)	-	-	-	(30,110)	100
Rural Water Supply and Sanitation	15,000	-	(1518)	(6912)	(799)	(9228)	62
Capacity Building, Institutional and Human Resources Development	8240	-	(2262)	(1187)	(2072)	(5521)	67
Livestock and Fisheries Development Project	7670	-	(1602)	(671)	(992)	(3265)	43
Police and Correctional Services Support****	5312	-	(5312)	-	-	(5312)	100
Private Sector Development	6780		(1008)	(969)	(392)	(2369)	35

National Currency Project	15,000		(6000)	(9000)	-	(15,000)	100
Support to Agriculture and Forestry Development Project	10,000		-	(2487)	(728)	(3215)	32
HIV/AIDS	16,000			(1893)	-	(1893)	12
Total signed grant agreements	234,635						
1. Total disbursements – investments		(63,387)	(42,889)	(46,612)	(13,243)	(166,131)	71
Programme management (Bank-executed)	CYo5 (Actual)	CYo6 (Actual)	CYo7 (Actual)	CYo8 (Actual)	CYo9 (Actual)	Cumulative disbursements	
MDTF Technical Secretariat	(113.4)	(1087.9)	(2143.7)	(2185.0)	(1003.7)	(6533.6)	
Project processing costs (preparation/supervision)	(514.2)	(1475.2)	(1973.6)	(2322.6)	(1159.5)	(7445.1)	
Monitoring agent		(617.3)	(777.8)	(1518.5)	(324.3)	(3237.9)	
2. Total disbursements – programme management	(627.6)	(3180.4)	(4895.1)	(6026.1)	(2487.4)	(17,216.6)	
Total cumulative disbursement (1+2)	(627.6)	(66,567.6)	(47,784.5)	(52,638.2)	(15,730.0)	(183,347.9)	

Notes:

*Programme administration cost is the cumulative approved budget for running the Technical Secretariat and the cost of project preparation and supervision.

** Projects expected to be signed in next six months include:

*** Proposed Supplemental Grants: Phase II: Sudan Emergency Transport and Infrastructure Development – Urban (\$40 million); Sudan Emergency Transport and Infrastructure Development – Transport (\$200 million); Education (\$25 million); Health (\$85 million); Gender (\$10 million); Agriculture (\$20 million); Water Supply (\$15 million); various amendments (\$55 million).

**** Projects/components being implemented by UN agencies amount to more than \$78.3 million.

Annex 3: Why has poverty spread in Sudan?

There are a number of explanations for the expansion of poverty in Sudan in the 1970s, 1980s and 1990s. Ali (1994) attributed it mainly to the adoption of structural adjustment in the 1978-1986 period. Other scholars mention the bad performance of the economy, further aggravated by unfavourable climatic conditions, drought and desertification, which severely affected agricultural production in the 1980s (Mahran, 2006). Agriculture is currently suffering from low productivity, low yield and institutional problems (Khan, 2005). Also, the deterioration of Sudanese export competitiveness and terms of trade has hit the rural poor hard in terms of income and employment.

On the policy side, agriculture has suffered badly from adverse fiscal policy, namely, significant effective taxation, both explicit and implicit. The bias was obvious in the cases of cotton and groundnuts, whose exports were valued at the (lower) official exchange rate while producers' inputs were evaluated at the (higher) parallel rate, creating disincentives for producers (The Consultative Panel, 1977).

The most important factors have been: fluctuating weather; deteriorating health services and conditions; market inaccessibility or distortions; fluctuating prices and volumes with regard to what the poor produce or own; lack of investment in critical infrastructural services in rural areas; national economic, monetary and fiscal policies that discriminate against the poor on the basis of gender, religion, race or ethnicity; political instability and civil strife; corruption of politicians and a rent-seeking bureaucracy that wastes scarce resources; a rapidly growing population with an increasing dependency ratio; external shocks relating to bad terms of trade; falling export values and a rising import bill; and severely mounting external indebtedness and debt burden indicators (Ahmed et al., 2004).

Ali (1994), summarised by Suliman (2005), carried out a study to measure poverty in Sudan using the Head Count Index for the period 1968-1992. Ali gave figures for rural and urban areas as well as for the whole country. Rural figures amounted to 62.9%, 64.2%, 83.1% and 93.2% for the years 1968, 1978, 1986 and 1992, respectively. Figures for urban areas were much lower: 15.9%, 20.5%, 52.9% and 84.4% for the same years. Figures for the whole country showed an increasing trend in the same period, that poverty was spreading and becoming a serious problem, with ratios of 51.6%, 54.3%, 77.8% and 91.4% for the years 1968, 1978, 1986 and 1992. Ali also showed that poverty in Sudan was accentuated by the rising trend of inflationary rates in the same period, and argued that poverty was highly sensitive to real per capita consumption. He calculated the elasticity of the headcount ratio with respect to per capita consumption in the period 1968-1999 and for the 1990s. Elasticity for the 1990s was -1.2%, indicating a direct relation between growth in consumption per capita (generated by an increase in real income or net gains in real consumption through a reduction in the cost of consumption) and a reduction in the headcount ratio.



Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD
UK

Tel: +44 (0)20 7922 0300

Fax: +44 (0)20 7922 0399

Email: publications@odi.org.uk

Website: www.odi.org.uk