SUDAN 2017

Suwareh DARBO / s.darbo@afdb.org
Yousif ELTAHIR / y.eltahir@afdb.org

www.africaneconomicoutlook.org

SUDAN

- **Economic growth slowed in 2016 to an estimated 3% as a result of the decline in oil production and macroeconomic imbalances and is projected at 3.4% in 2017 and 3.6% in 2018 on the back of improved performance in the non-oil sector and temporary lifting of US sanctions.**
- **The government's attempts to expand the democratic space in the context of national dialogue augur well for an improved economic performance and political stability.**
- **The share of Sudan's entrepreneurs outside agriculture is sizeable but the limited number of entrepreneurial programmes, scarce technical training and the challenging business environment call for a coherent national strategy to boost and harness entrepreneurial energy and talent for inclusive growth.**

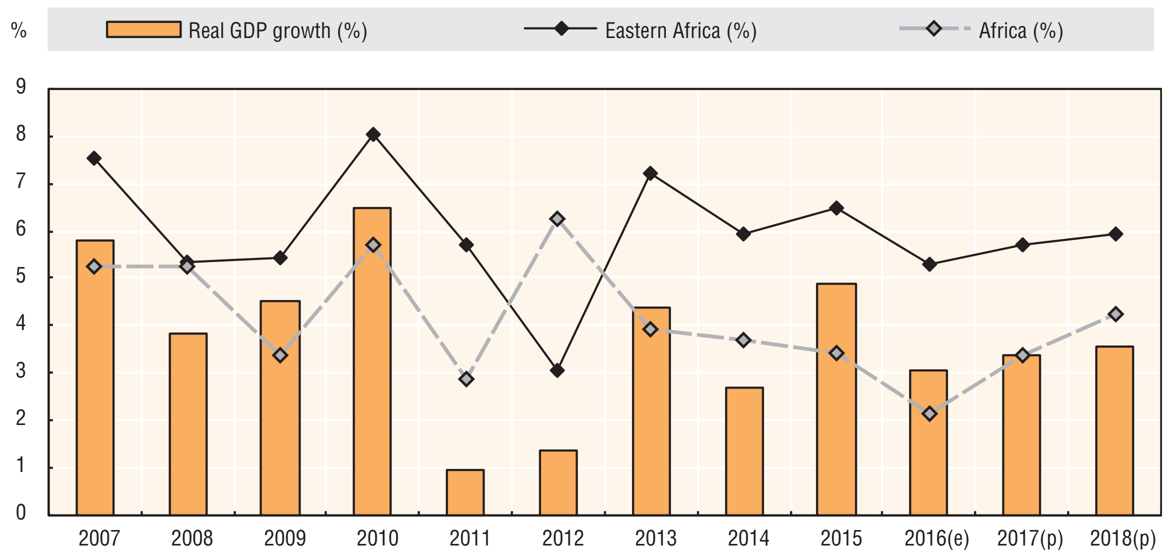
Overview

Sudan's economic growth was adversely affected by a number of factors, including the breakdown of correspondent banking relationships during the period 2014-16, declining oil revenues because of low export prices, ageing oil fields and reduced inflows of oil transit fees from South Sudan. Gross domestic product (GDP) growth is estimated at 3% in 2016, compared to 4.9% the previous year and forecast at 3.4% and 3.6%, respectively, for 2017 and 2018. In the short and medium terms, growth will be determined by developments in the agricultural and mineral sectors, skills development and prudent macroeconomic policies and structural reforms aimed at improving the business climate. Significant downside risks include continuing civil wars in some parts of the country and low global commodity export prices.

The macroeconomic imbalances and the consequent widening of the fiscal deficit by 0.2 percentage points in 2016, continue to constrain growth. Although the current account deficit narrowed by 1.1 percentage points in 2016, it is projected at a higher level in 2017 (4.9% of GDP) and expected to further widen to 5.6% in 2018. Closing the fiscal and current account deficits is a major policy priority especially in the face of low tax revenues and shortfalls in oil export receipts as well as difficulties in accessing concessional financing. However, the partial conditional easing of the US trade sanctions in early 2017 is expected to contribute to economic stability and boost foreign direct investment (FDI) and remittances from Gulf countries to the benefit of the most vulnerable.

During the period 2009-11, the share of Sudan's entrepreneurs outside the agricultural sector declined from 56.8% to 47.3%, whereas the proportion of urban entrepreneurs increased from 46.3% to 49.8% and that of female entrepreneurs rose to 17.3%, up from 14.9%. Thus, there is need to improve the business environment, given that Sudan's overall score on the World Bank's distance from frontier rating has worsened from 49.3 in 2009 to 44.8 in 2017. Generally, entrepreneurship is not encouraged as a professional career and this is reflected in the lack of a national plan for developing entrepreneurship and by the small number of technical secondary schools (98) versus academic secondary schools (3 128).

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic indicators**

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	4.9	3.0	3.4	3.6
Real GDP per capital growth	1.8	-0.1	0.3	0.5
CPI inflation	16.9	13.5	15.6	12.1
Budget balance % GDP	-1.6	-1.8	-1.9	-1.8
Current account % GDP	-6.4	-5.3	-4.9	-5.6

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

In 2016 real GDP is estimated to have grown by 3%, lower than the initial forecast of 6.4% because of the breakdown of correspondent banking relationships and the reduced inflows of oil transit fees, which weighed on investment, trade and growth. However, Sudan's GDP growth is forecast at 3.4% and 3.6% respectively for 2017 and 2018. With oil production estimated at 101 000 barrels per day in 2016, lower than initially projected because of ageing oil fields and a bleak outlook for oil prices, growth is expected to be driven by continued expansion of agriculture, gold production, and services. Also, the resolution of the internal conflicts, including that in South Sudan, and improved macroeconomic stability should contribute to economic recovery. As a result of the external debt crisis and the associated difficulty in accessing concessional borrowing, the government resorted to non-concessional borrowing, albeit at a low level (projected at USD 0.3 billion in 2017) mainly to finance agricultural activities and infrastructure. The partial easing of the US trade sanctions in early 2017 coupled with the unification of the exchange rate would improve competitiveness and encourage inflows of FDI, which stood at USD 0.93 billion for the first three quarters of 2016 compared to USD 1.72 billion in 2015. Most of the FDI was sourced from the Gulf countries and targeted agriculture and energy.

Agriculture and industrial sectors are expected to generate most of the growth in 2017 contributing, respectively, 6.6% and 6.4% to GDP. Agricultural growth, which is the engine for poverty reduction, is expected to be supported by expanding the production of sorghum (the staple food), livestock and oilseeds (the main traditional exports) by, respectively, 16%, 23% and 25% in 2017. Also, the production of key import-substitutes (wheat, sugar and cement) remained buoyant and is projected to increase by, respectively, 60%, 6.4% and 81%. Gold production, mainly from traditional mining, is expected to rise to 100 tonnes on the back of the recently introduced exchange reform compared to 76 tonnes in 2016, which was 32% less than initially estimated. However, the growth and GDP contribution of services are projected to slow to 5.1% and 44.7% respectively compared to 5.4% and 46.4% in 2016.

The large macroeconomic imbalances and the consequent widening of the fiscal deficit by 0.2 percentage points in 2016, which is projected to further deteriorate by 0.1 percentage point in 2017, together with the rising CPI inflation (estimated at 30.5% at the end of 2016, up from 12.6% at the end of 2015 and projected at about 16% on average for 2017) continue to constrain growth and undermine development prospects. Although the current account deficit narrowed by 1.1 percentage points in 2016, it is projected at a higher level in 2017 (4.9% of GDP) and expected to widen further to 5.6% in 2018. Closing the fiscal and current account deficits is a major policy priority especially in the face of the low tax revenues and shortfalls in oil export receipts, coupled with difficulties in accessing concessional financing and official development assistance. Moreover, the prevalence of armed conflicts in some areas of Darfur, South Kordofan, and Blue Nile states that have resulted in an estimated 3.1 million internally displaced persons underscores the need to address the underlying cause of conflicts which will help create an environment conducive to broad-based growth. Notwithstanding, the partial easing of the US trade sanctions and the consequent resumption of international banking transactions including with the US, coupled with the formation of the government of national reconciliation in the context of national dialogue, are expected to enhance macroeconomic stability as well as Sudan's governance environment.

On the demand side, final consumption slowed by 1.1 percentage points in 2016 to 87.7% of GDP and is projected at 87.4% and 87.5% of GDP for 2017 and 2018 respectively. Also, gross capital formation declined by 0.5 of a percentage point to 16.6% of GDP and is projected at 16.2% and 15.9% for 2017 and 2018 respectively, while gross savings are projected to increase by 0.6 percentage points up to 11.2% in 2017. The government plans to raise the growth of exports and imports by 9.8% and 7.5% respectively, up from about USD 3.6 billion and USD 8.1 billion in 2016, which would boost the contribution of the external sector to growth. The greater flexibility in the exchange rate introduced after the easing of the US trade sanctions is expected to enhance the repatriation of exports proceeds and increase FDI flows as well as remittances of Sudanese migrants, which are expected to have a positive impact on the most vulnerable. However, complete aligning of the exchange rates and the implementation of the recommendations of the recent World Bank Country Economic Memorandum (2015), together with those of the International Monetary Fund (IMF) Article IV (2016), are essential for Sudan to diversify and promote pro-poor growth.

In the short and medium terms, economic outlook will be determined by strengthening non-oil growth (agricultural and mineral), skills development, prudent macroeconomic policies and structural reforms aimed at improving the business climate. However, the significant downside risks include low global commodity export prices, the absence of policy cushions, a weak business environment together with the ongoing civil wars in some parts of the country, which could further worsen the fiscal and external financing gaps, leading to lower real growth. Nevertheless, the formation of a government of national reconciliation in the context of the national dialogue bodes well for broad-based growth.

Table 2. **GDP by sector (percentage of GDP at current prices)**

	2008	2016
Agriculture, forestry, fishing and hunting	30.1	31.3
of which fishing	...	...
Mining and quarrying	11.0	5.1
of which oil	...	...
Manufacturing	11.3	10.4
Electricity, gas and water	2.4	0.9
Construction	3.2	4.8
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	8.8	16.8
of which hotels and restaurants	...	...
Transport, storage and communication	9.9	14.1
Finance, real estate and business services	9.6	7.5
Public administration and defence	11.8	6.2
Other services	2.1	2.9
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

Total spending fell to 10.8% of GDP in 2016 compared with 11% in 2015 because of the partial removal of subsidies, but the shortfalls in oil revenues and slow progress in raising non-oil revenues widened the deficit to an estimated 1.8% of GDP in 2016, up from 1.6% in 2015 and projected to increase to 1.9% in 2017. Tax revenue is estimated at 5.4% of GDP, close to the 5.3% observed in 2015 and projected to drop to 5.2% in 2017 and 2018, reflecting the difficulties of tax collection in the war-affected areas. In addition, non-tax revenues excluding grants declined to 3.5% compared to 3.8% in 2015, and are projected further to fall in 2017-18. However, according to the five-year economic reform programme (2015-19) efforts continue to strengthen revenue mobilisation through enforcing compliance, reducing tax exemptions and reviewing the tax codes rather than raising taxes. In response to shortfalls in revenues, spending on development and state transfers are expected to diminish respectively by 2% and 5.1%, from 15.3% and 28.8% in 2016, but the budget allocation to social spending is estimated to increase to 6%, up from 4.4%. Nonetheless, budget allocation to operating costs remains high (13% of the budget) and is estimated to increase to 16% in 2017, requiring reform to create space for pro-poor spending.

As a result of insufficient external financing, domestic borrowing is expected to cover 43.2% of the 2017 budget deficit, up from 36.0% in 2016. Resorting to such financing is largely inflationary and can crowd out private investment. For example, credit to the private sector dropped to 6.7% of GDP in 2016, down from 7.3% the previous year. Disbursements for budget support are estimated at 0.78% of GDP in 2017 with a small grant component amounting to 0.2% of GDP. The bulk of loan withdrawals (about USD 0.44 billion) is expected from the Islamic Development Bank and the Gulf countries, while repayments of loans and interests are budgeted at 0.65% of projected GDP in 2017.

Revenue and spending execution have deteriorated to 81.6% and 103.3% respectively from projections, compared with 89.0% and 95.0% in 2015, reflecting institutional inefficiency. Accommodating budget slippages should reduce the debt burden and contain the growing inflationary pressures. Besides, the implementation of a medium-term fiscal framework including strengthening public financial management can effectively anchor the budget.

Table 3. **Public finances (percentage of GDP at current prices)**

	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Total revenue and grants	**20.2**	**10.8**	**10.4**	**9.4**	**9.0**	**8.9**	**8.8**
Tax revenue	5.7	6.3	5.3	5.3	5.4	5.2	5.2
Grants	0.0	0.6	0.5	0.3	0.2	0.2	0.2
Total expenditure and net lending (a)	**19.7**	**13.1**	**11.6**	**11.0**	**10.8**	**10.8**	**10.6**
Current expenditure	17.0	12.0	10.6	9.9	9.7	9.7	9.5
Excluding interest	16.2	11.5	9.9	9.2	9.0	8.9	8.8
Wages and salaries	4.4	4.7	3.4	3.2	3.2	3.2	3.2
Interest	0.8	0.5	0.7	0.7	0.8	0.7	0.7
Capital expenditure	2.8	1.0	1.0	1.1	1.1	1.1	1.1
Primary balance	**1.3**	**-1.8**	**-0.5**	**-0.9**	**-1**	**-1.1**	**-1.1**
Overall balance	**0.5**	**-2.2**	**-1.2**	**-1.6**	**-1.8**	**-1.9**	**-1.8**

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

Monetary policy in 2016 was largely expansionary because of the sizeable government financing needs. The Central Bank of Sudan (CBoS) continues to purchase gold at the parallel exchange rate to reduce smuggling, but surrenders the proceeds from gold exports at the official rate to the government to finance strategic imports such as fuel and wheat. Thus, broad money grew by six percentage points, up from 21% in 2015 and projected at 27.3% in 2017. Furthermore, the inefficiency of liquidity management, arising from limited Islamic financial instruments and a relatively inactive secondary market, undermined the ability of the CBoS to control reserve money. Accordingly, CPI inflation rose to 30.5% at the end of 2016, up from 12.6% at the end of 2015, which was the highest rate since 2014, driven mainly by non-food prices because of the cut in subsidies, and is projected at about 16% on average for 2017.

In November 2016, the CBoS devalued the banks' trading exchange rate by 131% with the aim of attracting remittances from Sudanese working abroad. However, the parallel market rate has depreciated, and was trading at 17% higher than the banks' rate in January 2017. On the upside, it is expected that the partial conditional easing of the long-standing US trade sanctions would revive the processing of transactions through international banking and help the CBoS to restore exchange rate competitiveness, diversify the export base, and boost FDI. Moreover, the revenue gains from the devaluation could also create space for pro-poor spending. Nevertheless, the CBoS sets two official rates; an indicative rate applicable to public transactions and customs valuation and an "official rate" applicable to commercial banks. The difference between the two in January 2017 was 46%. The elimination of the wider exchange rates bands should reduce quasi-fiscal activities, reduce the pressure on liquidity creation and increase customs tax revenues through broadening the import base.

Following the welcome partial easing of US trade sanctions, the CBoS should implement measures to mitigate risks stemming from foreign currency mismatches and strengthen its framework for anti-money laundering and combatting the financing of terrorism and its implementation. Also, promoting effective Islamic financial instruments would broaden the interbank market, increase the supply of loanable funds for the private sector and would enhance the effectiveness of monetary policy.

Economic co-operation, regional integration and trade

In 2016 the trade balance improved slightly, thanks to an increase in gold exports (about 0.3% of GDP) and the contraction of imports (about 0.8% of GDP). The government plans to raise exports and imports by 9.8% and 7.5% respectively, up from about USD 3.6 billion and USD 8.1 billion in 2016, which would boost the contribution of the external sector to growth. Non-oil exports (mainly gold, livestock and sesame) are expected to contribute on average 83% of exports over the period 2017-18. In this context, greater exchange rate flexibility following the US easing of trade sanctions and tightening of fiscal and monetary policies should narrow the current account deficit by 0.4% percentage points, up from -5.3% of GDP in 2016. Oil transit fees, transitional financial assistance and borrowing from the Gulf countries are expected to boost reserves and support the balance of payments in 2017-18.

In the first three quarters of 2016, most of Sudan's exports (55.3%) targeted the Gulf countries and the Common Market for Eastern and Southern Africa (COMESA) (18%) compared with 48% and 13%, respectively, in 2015. However, the overvalued exchange rate (about 50% in real terms in January 2016) and weak institutions and an unfavourable business environment weighed heavily on trade and economic activities in spite of high inflows of FDI of USD 1.72 billion in 2015 and USD 0.93 billion for the first three quarters of 2016. Most of the FDI was sourced from Saudi Arabia and Qatar and targeted agriculture and energy. Non-concessional borrowing, which continued to be the main source of external support, is projected at USD 0.3 billion in 2017 with 71% attracted from Arab countries. The easing of the US trade sanctions is expected to help Sudan finalise negotiations on "Everything but Arms" with the European Union and facilitate World Trade Organization (WTO) accession. Also, in 2016 Sudan signed a trade agreement with Ethiopia aimed at boosting co-operation in the areas of livestock, transport, banking and railways.

Table 4. **Current account (percentage of GDP at current prices)**

	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Trade balance	5.3	-5.9	-4.4	-5.4	-4.9	-4.7	-4.5
Exports of goods (f.o.b.)	18.0	7.2	5.4	3.3	3.0	2.8	2.6
Imports of goods (f.o.b.)	12.7	13.1	9.9	8.7	7.9	7.5	7.2
Services	-3.1	-1.2	-0.7	0.0	0.2	0.3	0.3
Factor income	-8.6	-3.6	-2.4	-2.0	-1.9	-1.8	-2.4
Current transfers	1.0	2.6	1.7	1.0	1.3	1.3	1.1
Current account balance	**-5.4**	**-8.1**	**-5.9**	**-6.4**	**-5.3**	**-4.9**	**-5.6**

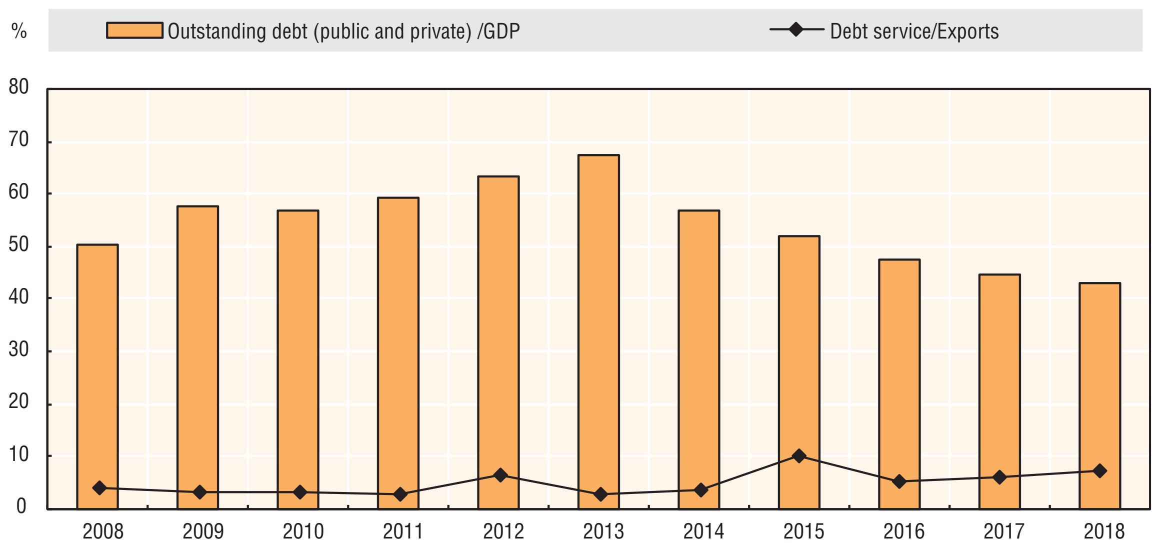
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

The recent IMF-International Development Association debt sustainability analysis (2016) indicated that Sudan's external debt is unsustainable, with all external debt level ratios well above their indicative thresholds throughout the projection period 2016-36. External debt was estimated at USD 52.6 billion at the end of 2016 amounting to 55.9% of GDP (120% at the parallel exchange rate). The debt structure remained the same over the last decade. The bulk is public and publicly guaranteed (USD 48.2 billion at the end of 2015, of which 86% are in arrears), mainly owed to bilateral creditors and almost equally divided between Paris Club and non-Paris Club creditors, with USD 1.7 billion private debt owed to suppliers. Because of limited access to official financing, as a result of huge external debt and accumulating arrears, borrowing for balance of payments support is sourced from Qatar and the United Arab Emirates and is estimated at USD 1.6 billion in 2015, with an additional USD 1 billion disbursed in 2016 and the first quarter of 2017. Domestic debt is estimated at 13% of GDP at the end of 2015, 3.2 percentage points higher than projected because of higher than expected domestic financing of the budget.

In February 2016, the government held a donor-sponsored workshop to formulate a national debt policy, but the resulting national debt strategy is awaiting approval. The new deadline for Sudan to accept responsibility for the entire debt stock, as part of the post-secession agreement, expired in October 2016 without favourable prospects, partly due to the continued instability in South Sudan. It has now been extended to September 2018. Although Sudan is eligible for debt relief under the Highly-Indebted Poor Countries (HIPC) Initiative, progress towards a decision is conditional on obtaining assurances of support from creditors, normalising relations with international financial institutions, and establishing a track record of co-operation with the IMF on policies and payments. Creditors continue to stress the resolution of the internal conflicts in Darfur, Blue Nile and South Kordofan states. However, the recently endorsed constitutional amendments aiming at broadening political participation, including formation of a new national government, together with the partial easing of the US trade sanctions, could improve Sudan's outreach to its creditors.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source : IMF (WEO & Article IV).

Economic and political governance

Private sector

The easing of the US trade sanctions is expected effectively to reduce the cost of doing business, as about 65% of private manufacturing firms use imported inputs. Also, in January 2017, the CBoS partially lifted its monopoly of gold exports, allowing firms to export 70% of production and sell the rest through the bank. About 297 medium and small size firms (MSFs) that are licenced gold prospectors at the end of 2015 would benefit from the measure. However, the Federation of Sudanese Employers and Businessmen (FSEB) appealed for the recent increase of customs dollar price by about 8.2% since August 2016 to be waived. Furthermore, greater economic stability, including improved access to banks' credit, which has declined to 6.7% of GDP compared with 12.8% in 2012, is deemed a top priority. In addition, the FSEB calls for enhanced transparency, speedy accreditation and qualifications procedures to involve actively the private sector in public procurement and service delivery. A national matching programme for recruitment aiming to facilitate employer-employee links virtually does not exist. The FSEB revealed that business is facing not only a shortage of highly skilled professionals because of emigration to high-paying Gulf countries, but also middle-level skills shortages, which has adversely affected the development of the MSFs. Moreover, the recent World Bank Country Economic Memorandum (2015) found that high input costs caused by inefficient marketing and transport networks, including the regulatory restrictions, effectively contribute to the observed low productivity in agriculture, where 75% of workers are in vulnerable employment with an 86% proportion of females.

According to the World Bank Report *Doing Business 2017,* Sudan's overall ranking fell over the year by four points, down to 168th out of 190 countries. The country's worst scores were in protecting minority investors, starting a business and paying tax, which dropped to 187th, 156th and 141st rank respectively compared to 176th, 148th and 136th rank the previous year. Thus, improving the business environment through enhancing the efficiency of input markets, strengthening the transparency of the regulatory framework, redressing the shortages of middle-level professionals, reducing the cost of starting a business and protecting minority shareholders would encourage private sector-led growth to drive effectively a more diversified economy.

Financial sector

Sudan's financial sector continues to be dominated by banks operating under Islamic modes of finance and was composed of 37 banks at the end of 2016. The IMF Article IV consultation (2016) found that equity injections to recapitalise weak banks have led to the CBoS and government fully or partially owning 41% of the banks. Broad money was only 16.9% of GDP at the end of 2016, compared to 48% on average for low-income countries and the share of currency in broad money is 52.4%, reflecting weak financial inclusion and depth, which can severely undermine savings mobilisation and poverty reduction. Credit to the private sector dropped by 52.3 percentage points to 6.7% of GDP at the end of 2016 from the maximum score in 2012. Monetisation of the fiscal deficit including the quasi-fiscal operation of the CBoS and the absence of an interbank market have led to persistent excess reserves. However, the CBoS is in the process of developing an effective Sharia-compliant liquidity management instrument. Sudan's stock exchange and insurance sectors are small, with the Khartoum Stock Exchange being the principal market for stock exchange in the country. Nonetheless, the online trading system introduced in March 2016, with African Development bank (AfDB) support is expected to enhance domestic resource mobilisation such as *sukuk* bonds on which Sudan heavily depends for financing infrastructure and social services.

Though Sudan's banking system is still weaker than its sub-Saharan African counterparts, it continues to improve. Return on assets is high (4% at the end of 2015); banks' overall capital adequacy ratio was 18.7% at the end of 2015, well above the minimum capital adequacy requirement of 10%. The asset quality continues to improve with the ratio of non-performing loans to total loans trending downwards and reaching 5.1% at the end of 2015 compared to 7.1% the previous year. The partial easing of the US sanctions should enable the CBoS to strengthen the hard-won framework for anti-money laundering and combatting the financing of terrorism. The recovery in correspondent banking relationships should boost private sector activities and enhance access to financial services, especially by the most vulnerable, through remittances, export receipts, and import financing.

Public sector management, institutions and reforms

Despite the existence of a legal basis and oversight agencies for sound governance, Sudan's performance in the Mo Ibrahim Index 2016, which measures the decadal (ten-year) overall governance performance since 2006, dropped by 0.6 points, ranking it among the lowest African countries (49th out of 54). Deterioration over the decade has occurred in safety and the rule of law (-3) and sustainable economic opportunity, SEO, (-2.4) with the business environment featuring the lowest scoring sub-category of SEO (-13.3). Also, Sudan's standing in the Transparency Open Budget Index updated in 2016 remained as in 2008 (with a score of 10 out of 100) due to scant budget information and public engagement in the budget process. Weak governance creates enabling environments for corruption. According to the Economist Intelligence Unit indicators, Sudan is among the countries that made no progress in fighting corruption over the last decade and was ranked 165th out of 167 according to the perceived corruption index in 2015. The resolution of the civil war in Darfur, South Kordofan and Blue Nile states would not only effectively strengthen the institutions, but would greatly improve access to basic economic and social services. Furthermore, redressing the government's appropriation of land and systemic abuse of rural land rights, which contribute to fuelling the civil war, would enhance rural sector development and help reach a permanent peace settlement.

The government continues to pursue public sector reforms through improving public financial and macroeconomic management with the help of World Bank and the AfDB. Furthermore, since 2011 Sudan has continued to improve the legal framework. In 2016, the Transparency, Decency and Anti-Corruption Act 2016 and the Health Insurance Act 2016 were promulgated. The proposed new constitution amending that of 2005 would further expand political participation and stimulate human rights through affirming the independence of the judiciary, the rule of law and separation of powers. The recent initiative to create a government of national reconciliation augurs well for strengthening governance.

Natural resource management and environment

Sudan depends on natural resources, agriculture, gold and oil. However, it is confronted with critical natural resource management challenges. The growing investment in mechanised farming, the oil industry and gold mining and the associated large-scale environmental degradation largely conflict with customary land rights. Hence, consolidation and simplification of the legal framework for land tenure is crucial for effective natural resource governance and conflict resolution. Gold exports became the main source of foreign exchange for the official sector, accounting for 31.2% of exports in 2016 and are projected to remain the same in 2017, the bulk being produced by the informal mining sector. Despite the existence of an Environmental Framework Act (2001), the lax enforcement of environmental regulations exposes many small miners (14% of the active labour force in 2014) to risks from mercury and cyanide including the pollution of rural water sources. Furthermore, the use of bulldozers with minimal control poses serious land degradation challenges. In addition, a shortage of seasonal labour for agriculture has been reported because of migration to gold mining and to urban areas. In turn, growing urbanisation has resulted in poor housing conditions and limited access to clean water. Hence, in 2016 Sudan ranked 170th out of 180 countries on the decadal Environmental Performance Index since 2006.

The continued community-based operations of the International Fund for Agricultural Development (IFAD) would help Sudan to promote decentralisation and strengthen local governance of natural resources. To that end, an estimated USD 34 million are allocated by IFAD for 2017. Also, the United Nations Development Programme (UNDP) supports Sudan in integrating its obligations under the Convention on Biological Diversity Plan for 2011-20 into its national development plans.

Political context

The ruling National Congress Party, headed by the incumbent president, has made notable progress towards resolving internal conflicts and improving relations with the rest of the world, which led to partial easing of the unilateral US sanctions imposed since 1997. In April 2016 the referendum on the permanent status of Darfur within Sudan was successfully concluded and the result confirmed the *status quo*. On 8 August 2016 a comprehensive roadmap for peace was signed by the leading opposition parties and armed rebels in Addis Ababa. The national dialogue was also completed and the recommendations focused on drafting a new constitution to establish a fair and legal political system including the formation of a new government, the government of national reconciliation. Subsequently, the Sudan Liberation Movement Second Revolution signed a peace agreement in Doha on 23 January 2017. However, three rebel movements in Darfur including the Sudan People's Liberation Movement-North in Southern Kordofan and Blue Nile States declined to join, demanding a comprehensive process to resolve Sudan's conflicts.

On 28 December 2016 the parliament ratified constitutional amendments allowing the creation of a post of prime minister, appointment of additional representatives to the parliament and the separation of the attorney-general's office from the Ministry of Justice. The formation of the new government is awaiting further constitutional amendments and consultations. The establishment of the new government is expected to enhance Sudan's political and economic governance, which has deteriorated in terms of worldwide governance indicators, given that the country's rankings on government effectiveness and the control of corruption dropped between 1996 and 2014 from 12 to 4 and 5 to 4 respectively.

Social context and human development

Building human resources

While the gross primary school enrolment ratio (GER) increased to 75% in 2014, up from 63% in 2005, educational performance varies considerably by gender and across states. In 2014, the GER ranged from 90% for the central states to less than 40% in the conflict-affected states with gender parity of 1.04 in favour of female and 0.7 in favour of males respectively. The secondary GER is less than half that of primary education (34%). A United Nations Children Fund (UNICEF) report (2014) indicated that more than three million school age children need life-sustaining education. A report by the Ministry of Education (2015) found a high dropout rate, averaging 6% and 8% for primary and secondary levels respectively. The UNICEF report (2014) showed that only 40% of the education sector's needs are funded. These outcomes call for further measures to meet the Sustainable Development Goal (SDG) target 4 on high quality primary and secondary free education by 2030.

Child and maternal mortality rates are estimated to have declined by eight percentage points in 2015, down from 83 per 1 000 live births in 2010. Also, the maternal mortality rate declined from 521 to 311 per 100 000 over the same period. In 2015, 167 178 children with severe acute malnutrition were admitted to outpatient therapeutic programmes, representing an increase of 22% in admissions over the previous year. However, more effort is needed to achieve the 2030 SDG 3 (12 child deaths per 1 000 live births) and (fewer than 70 maternal deaths per 100 000). The prevalence of all forms of tuberculosis (TB) continues to decline; reported at 88 per 100 000 in 2015 compared to 95 the previous year. Death due to TB among those affected by HIV declined from 20 per 100 000 to 18 over the same period, yet the country is among the 41 countries with the highest burden of TB-associated HIV. In spite of a reduction in reported malaria deaths by half over the last decade, down to 868 in 2015, the *World Malaria Report 2016* revealed that Sudan has reported the highest number of malaria cases in the Eastern Mediterranean Region. Between 1998 and 2014 Sudan's progress in the UNDP Human Development Index (HDI) deteriorated by five points with a scoring 0.48, ranking the country 167th out of 188 countries.

Sudan has national programmes to combat TB, HIV/AIDS and malaria as well as a national supply chain system to ensure effective delivery of medicines and health services. However, these programmes, including those for universal primary education are underfunded. The World Bank status report (2016) on Interim Poverty Reduction Strategy Paper (I-PRSP) 2013 found that actual health expenditure remained at 1% of GDP over 2012-14 requiring considerable scaling up for the SDGs to be met.

Poverty reduction, social protection and labour

As shown by the latest National Baseline Household Survey NBHHS (2009), funded by the AfDB, the rate of poverty is high, affecting 46.5% of the population and with high rural-urban disparity (57.6% versus 26.5%, respectively). The findings of the second NBHHS, expected in 2017, would update information on the poverty profile, which could have been affected by the loss of 75% of the oil fields and the continued multiple internal armed conflicts, which undermine economic opportunities and social development. The five-year Economic Reform Programme adopted in 2014 and the Interim Poverty Reduction Strategy Paper (I-PRSP) finalised in 2013 continue to guide the poverty reduction efforts. The government, with the help of the World Bank, prepared the I-PRSP status report (2012-2014), which drew lessons to influence the final PRSP. The report endorses the four main policy pillars of the I-PRSP and found that, while Sudan's pro-poor budget spending increased from 4.2% of GDP in 2012 to 5% in 2014, the African countries that reached Highly Indebted Poor Countries (HIPC) decision point spend on average 9% of GDP, which calls for further efforts and more fiscal space for reducing poverty given the magnitude of poverty and ongoing conflicts in the country. Also, the report argues the need for an improved definition of pro-poor expenditures including putting in place a mechanism for prioritising them. Feedback of the analysis to subsequent expenditure allocations awaits full implementation.

The bulk of pro-poor spending is administered by the Ministry of Finance and Economic Planning and Ministry of Social Welfare, Women and Child Affairs and the coverage is universal, mainly through fuel and wheat subsidies and allocation by the *Zakat* Chamber, (*zakat* is a compulsory charity). Non-government Social Safety Nets (SSNs) include the World Food Programme, the Food and Agricultural Organization, the IFAD, and the UNICEF. In this regard, the IMF Article IV consultations (2014 and 2016) urged the government to review the current SSNs programmes and develop a comprehensive medium to long-term social protection strategy.

The International Labour Organization (ILO) in 2014 estimated that informal workers make up 60% of all employment, and if the unemployed are added, the proportion of vulnerable participants in the labour market could be 80%, requiring greater efforts for protecting labour, given that Sudan does not have an unemployment insurance scheme. The report also found that the young not in employment, education or training accounted for 28% of young people, calling for effective financing strategies to expand the coverage of formal technical and vocational training for skills development as well as the coverage of the SSNs. Moreover, the report outlined a framework for a national employment strategy, which could be integrated with the national development plan to ensure minimum standards, protection and efficient use of labour.

Gender equality

Females made up 49% of the population according to the latest Labour Household Survey (2011). Although Sudan's 2005 constitution enshrines female emancipation from injustice, promotes gender equality, including in wages, and encourages the role of females in family and public life, gender discrimination is rampant because of the lack of implementation capacity, civil conflicts, as well as cultural and social values. More than 90% of females in the country have been subjected to female genital mutilation; 48% of them are illiterate compared to 12% for men and their rate of labour force participation is 14.1% against 38.4% for males. Sudan is among the poorest ten performers on the Gender Inequality Index, with a ranking of 135th out of 155 countries in 2014. Also, the Social Institutions and Gender Index (SIGI) 2014 places Sudan among the countries with very high levels of discrimination against women in social institutions, giving it a score of 0.555. The worst score (0.9781) was on restricted physical integrity, suggesting that, notwithstanding the criminalisation of violence against women by Sudan's Criminal Law of 1991, additional measures are needed to protect women against domestic violence. Moreover, the ratification of the Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW) Protocol would help end discrimination and promote gender equality.

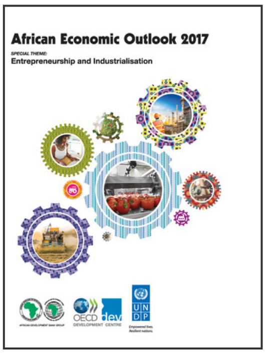
Thematic analysis: Entrepreneurship and industrialisation in Sudan

Over the last decade, from 2007 to 2016, Sudan's industrial sector generated 26.6% of GDP and grew by an average of 5.3% per annum. The largest proportions of GDP are contributed, respectively, by manufacturing and handicrafts (14.4%), oil (6%), building and construction (3.3%) and electricity and water (2.5%) growing, respectively, by 10%, -4.3%, 5.5% and 6.7% per annum. The negative growth of mining reflects the loss of oil fields after the secession and low production caused by the ageing of the remaining fields. Other mining activities, mainly gold, grew on average by 39.7%, but contributed 0.4% of GDP. According to Sudan's Labour Force Survey (SLFS) conducted at the end of 2011, industry employed 15% of the labour force compared with about 10% according to the NBHHS (2009), but the value of output per worker dropped by about 30%: down from SDG 18 804 at 1982 prices, and the bulk of change of value added per capita, averaging 5.2%, is generated by change in employment (47.7%) and the contribution of inter-sectoral shifts (184.7%). Sudan does not have an explicit industrial strategy. However, the Ministry of Industry and Investment at the federal and state levels participates in the sector's supervision, the federal Industrial Research and Consultancy Centre undertakes the research and advisory facilities to industry and the Standards Metrology Organisation is entrusted with ensuring compliance with standards both at the level of raw materials and inputs and the final products. A coherent framework is needed to co-ordinate the planned interventions by these diverse institutions. Sudan's Private sector is sizeable; it contributed 89.9% of consumption, 76% of investment and generated about 79% of employment over the last decade. Entrepreneurship development is lacking and largely driven by Private sector initiatives (e.g. Youth Innovation and Entrepreneurship Community). A recent report by the United Nations Centre on Transnational Corporations (2015) calls for the establishment of a sound industrial strategy and the strengthening of business associations through institutionalisation of public-private partnerships (PPP) and the operationalisation of the Anti-Monopoly and Competition Council. Moreover, with the help of the AfDB, a recent mission (2016) identified various areas of potential joint initiatives for supporting PPPs in Sudan, including development of policy, legal, regulatory and institutional frameworks, capacity building, development of communication strategy and initial PPP project pipeline.

Between the NBHHS of 2009 and the SLFS of 2011, the prevalence of entrepreneurs, measured by the proportion of the self-employed (employer and own account workers) in non-agricultural activities, declined from 56.8% to 47.3%, whereas the share of urban entrepreneurs increased from 46.3% to 49.8% and the share of women rose to 17.3% from 14.9%. Also, the average entrepreneur's age increased by about two years, to 41 at the end of 2011. The resulting growth of entrepreneurship in agriculture reflects the recent drive for diversification out of the oil sector as well as the dual nature of Sudan's agriculture (modern, irrigated and large scale mechanised farms versus the traditional subsistence-oriented rain-fed sector), where the former has been for years the main entrepreneurial venture. However, the educational attainment of entrepreneurs outside agriculture is higher (four years on average compared to two). The proportion of employers who create jobs is small, 16.1% in 2009 operating mainly in services, and further declined to 14.2% at the end of 2011, while the ratio of self-employed increased by about two percentage points between the two surveys up to 85.8% in 2011 with about 61% working in services. The micro and the small enterprises (MSEs), which are largely informal, accounted for 98% of total enterprises in the country. Also, the supply chain is dominated by intermediate customers (traders and distributors) with low capitalisation levels. This pattern indicates the need for measures to ease business given that Sudan's overall score on the World Bank's distance from frontier worsened from 49.3 in 2009 to 44.8 in 2017. Moreover, value addition in the MSE sector could be upgraded through enhancing local fabrication of tools, machine leasing schemes and tax incentives geared towards promoting synergies between MSEs and large firms.

Generally, entrepreneurship is not encouraged as a professional career. Entrepreneurship education is not fully integrated into basic and secondary education nor is there a complete education programme of entrepreneurship leading to a bachelor degree. In this regard, the ILO report (2014) found that the number of technical secondary schools (TSSs) has been decreasing over the past 20 years. In 2013, there were only 98 TSSs compared to 3 128 academic secondary schools pointing to an overemphasis on academic education to the detriment of technical education and vocational training. In 2013, a group of young Sudanese in collaboration with the British Council and Embassy together with Sudanese sponsors established the "Innovation and Entrepreneurship Community", called *mashrouy*, aimed at enhancing awareness of entrepreneurship as an alternative employment route, including provision of business incubation.

Sudan has not conducted a national survey to assess the entrepreneurial environment. The active entrepreneurs' programmes are limited and sporadic, organised either by the public sector or by non-governmental organisations and social communities with the support of donor funding. However, the Federal Ministry of Human Resources Development and Labour supervises five vocational training centres with an intake capacity of 2 040 aimed at providing employable skills to enable young women and men to enter the labour market, and engage in productive activities. Since 2008 the Ministry of Social Welfare, Women and Child Affairs and the Sudanese Businessmen and Employers Federation have continued to co-ordinate the retraining programmes of graduates through "Start Your Project" and the "Small Business Incubators" to run their own projects to be funded by microfinance, a facility initiated by the Sudan Multi-Donor Trust Fund in 2008. In 2016 the CBoS, which administers the microfinance sector, scaled up allocation to SDG 50 000 per microfinance project, up from SDG 20 000. Also, in 2016, the AfDB signed a USD 29 million five-year agreement to boost youth entrepreneurship. The programme will identify innovative young people with the potential to become entrepreneurs who are willing to pursue business opportunities in agriculture and the agro-industrial sector. Aware of the need for a national employment policy framework, the government sought the assistance of the ILO in 2013. The implementation of the strategies recommended in the ILO report, which emphasise the enhancement of workers' and entrepreneurs' training as well as the reduction of entry costs by having a one stop-shop for MSEs registration, would harness entrepreneurship energy and contribute to productive employment.



From:

African Economic Outlook 2017

Entrepreneurship and Industrialisation

Access the complete publication at:

https://doi.org/10.1787/aeo-2017-en

Please cite this chapter as:

African Development Bank/OECD/United Nations Development Programme (2017), “Sudan”, in *African Economic Outlook 2017: Entrepreneurship and Industrialisation*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/aeo-2017-59-en

OECD