Briefing note

Ahmed Soliman
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Sudan Stakeholder Dialogues
Options for Economic Stabilization, Recovery and Inclusive Growth

Foreword by HE Dr Abdalla Hamdok, Prime Minister of the Republic of Sudan

CHATHAM HOUSE
The Royal Institute of International Affairs

About the Sudan Stakeholder Dialogues series

The Chatham House Africa Programme designed the *Sudan Stakeholder Dialogues* series to help identify the factors that have led to the current economic crisis, the immediate steps that need to be taken to avert collapse and stabilize the economy, and the longer-term structural reforms required to set Sudan on the path to recovery. The project is funded by Humanity United.

Three private roundtable meetings were convened in the first quarter of 2019, with the aim of generating informed and constructive new thinking on policy options and reforms that could help Sudan build a more economically prosperous, stable and inclusive nation. The *Sudan Stakeholder Dialogues* series was held under the Chatham House Rule.[1]

From the outset, the project sought to offer a neutral space for discussion to policymakers and influencers from a broad range of backgrounds: Sudanese government officials, opposition figures, economists, experts on Sudan's political economy and governance, civil society figures, representatives of international financial institutions, and other international policymakers. The Chatham House Africa Programme would like to thank all participants for their valuable insights and contributions to this project.

This paper draws together the key themes and findings from each of the three roundtables, ranging from broad structural economic issues to sector-specific priority interventions. It presents options and recommendations for Sudanese leaders, including the transitional government, in support of building a more economically prosperous, peaceful and inclusive nation.

1 When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.

Foreword

The people of Sudan have brought about historic change through their demands for a more peaceful, inclusive, democratic and prosperous future for their country. The transitional government is committed to beginning a new chapter in Sudan's history, building on the aspirations and optimism of the people.

The momentous challenges ahead – the scale of which must not be underestimated – will be tackled determinedly. Sudan has suffered decades of endemic conflict, and the government is dedicated to prioritizing a peace process that will bring about a comprehensive and sustainable peace in every region, as well as implementing a more representative and equitable system of governance for all.

Achieving a successful democratic transition will be contingent on addressing serious economic challenges, with deep reforms needed to stabilize the economy and implement structural transformation in the coming years. Wide-ranging political and economic reforms, correctly formulated and applied, must create the conditions for assured growth, development and prosperity in the long term.

The *Sudan Stakeholder Dialogues* series was designed and convened under the auspices of the Chatham House Africa Programme, with the aim of bringing together a diverse range of experts to foster constructive exchanges on options for economic recovery and reform – and creating the environment necessary to do so. Developments in Sudan during 2019 inevitably meant that the shape and focus of the dialogues changed, and as the momentum for building an alternative Sudan became increasingly manifest, the need for informed decision-making on pathways to sustainable and inclusive growth was further underscored.

Having been chief facilitator of the *Sudan Stakeholder Dialogues*, I am delighted that the substantive findings from the series will help inform Sudanese and international decision-makers as the country embarks on its critical transition phase.

HE Dr Abdalla Hamdok
Prime Minister of the Republic of Sudan

Sudan's economy: setting the scene and delivering on the potential

Sudan experienced seismic change in 2019. The fall of President Omar al-Bashir's regime in April, and the eventual appointment of a new transitional government in August, have given rise to the hope and expectation that Sudan can break with the past and build a more peaceful, inclusive and prosperous nation.

Peaceful pro-democracy protests began in December 2018. Triggered by a deteriorating economic situation, including the rising cost of essential food and other basic commodities, the protests were the mass expression of anger that had built up for the people of Sudan over three decades of repression and mismanagement by President Bashir and the National Congress Party. Eight months later, on 17 August 2019, Sudan's Transitional Military Council (TMC) and the opposition coalition of the Forces for Freedom and Change (FFC) signed a political agreement and constitutional declaration, leading to the establishment of a transitional administration that is intended to govern until democratic elections are held in 2022. The transitional institutions include the Sovereign Council, the Council of Ministers and the Legislative Council. The Council of Ministers, led by Prime Minister Dr Abdalla Hamdok, is tasked with ending internal wars and building peace, implementing a reform programme, and finding durable solutions to Sudan's pressing economic and political difficulties.

The transitional government will have to overcome enormous challenges. Sudan's politics are acutely fragile, and the economy – in need of both immediate stabilization and fundamental long-term structural reform – is on the verge of collapse. Sudan lost 75 per cent of its oil revenues with the secession of South Sudan in 2011:[2] previously, oil had accounted for 95 per cent of the country's exports and more than half of government revenue.[3] The removal of US sanctions in 2017 was expected to lead to economic recovery, but government debt continued rising, while the trade deficit and levels of foreign reserves all worsened, compounded by soaring inflation and a consistent slide in the currency value, with several devaluations unable to bridge the gap between official and black-market rates.

A key imperative will be to forge lasting peace in Sudan's conflict-affected regions, including by addressing the causes and consequences of marginalization, and encouraging rehabilitation and growth across the whole country. The near-term action plan must prioritize fiscal reforms, as well as measures to contain inflationary pressures and boost productivity in critical sectors. Sudan's former leaders indulged in heavy off-budget spending, which needs to be accounted for and ended. The budget, which has long been heavily weighted towards subsidies, state transfers and security expenditure, needs to be restructured to prioritize health, education and social welfare.

The biggest challenge facing the government over the medium to long term will be to dismantle the entrenched patronage networks that came to control all institutions and key sectors of the Sudanese

[2] Wallis, W. (2011), 'Sudan's economy reels from loss of south', *Financial Times*, 17 October 2011, https://www.ft.com/content/ce7f675a-f8c9-11e0-ad8f-00144feab49a (accessed 23 Sept. 2019).
[3] Suliman, K. M. (2012), *Understanding and Avoiding the Oil Curse in Sudan*, Economic Research Forum Working Paper 735, December 2012, http://erf.org.eg/wp-content/uploads/2014/07/735.pdf (accessed 23 Sept. 2019).

economy under President Bashir, including businesses owned by the military-security apparatus. This will be a complex undertaking, requiring difficult political and governance reforms to promote increased public accountability, transparency and the strengthening of anti-corruption efforts. Sudan needs a comprehensive transformation programme that gets the economy moving and creates jobs. This will require a banking system able to provide the private sector with access to finance; support for Sudan's productive sectors, especially agriculture and industry; and meeting infrastructure needs, including energy, transport and communications.

Notwithstanding these challenges, Sudan's transitional government has a unique opportunity to develop a long-term economic vision, as part of a new national narrative of an inclusive and equitable system. Such a vision will be vital to building legitimacy, not least given the reality that the economic situation is likely to decline further before it improves. Without public buy-in, painful short-term reforms – such as possible changes to subsidies – will be met with resistance. Moreover, the transitional government must put in place adequate provisions to protect the most vulnerable citizens and ensure that they are not even more adversely affected than they have been. Ensuring that the political and economic reform agenda is broad-based and collaborative – including women and young people, disadvantaged groups and peripheral areas of the country – will be the best way to build an enduring system of civilian-led governance founded on equal citizenship and representative institutions.

A coherent vision will also be vital to building international confidence. Shortly after his appointment as prime minister, Dr Abdalla Hamdok stated that Sudan will need some $8 billion in foreign assistance over the next two years to cover import costs and stimulate economic recovery, and an additional $2 billion in foreign reserves deposits to halt the currency decline within three months.[4] If the Sudanese authorities continue to engage meaningfully, international partners should work with them on key initiatives to build a social safety net, making resources available to protect the most vulnerable and mitigate the worst impacts of reform, and look to progressively tackle issues such as the US designation of Sudan as a sponsor of terrorism, as well as providing debt relief and investment. Coordination of external support will be essential.

Building an environment for reform: laying the foundations for recovery

The scale of change envisaged over the coming years, and the intensity of current socio-economic pressures, mean that many essential reforms will be highly politically sensitive in Sudan. In order for economic reforms to be meaningful, while at the same time establishing public confidence, they must occur in parallel with sustained political transformation and the forging of a new social contract, built on a comprehensive and just peace. This will also necessitate governance reforms that prioritize broader political participation, respect for human rights, increased public accountability and transparency, and strengthened anti-corruption efforts.

[4] *Sudan Tribune* (2019), 'Hamdok says he plans to make Sudanese economy productive', 24 August 2019, http://www.sudantribune.com/spip.php?article67991 (accessed 25 Aug. 2019).

Alongside these reforms must come a restructuring of Sudan's security sector, which currently includes some of the most influential figures in the country's political decision-making process. The correct sequencing of reforms will be essential. Many laws will need to be amended to remove restrictions on freedoms, but legislative reform alone is not sufficient. Real change depends on having the political will to implement laws and respect the constitution.

Under the Bashir regime, lines between the legislature, executive and judiciary became increasingly blurred, and were further compromised by the 'shadow' role of the security services in many sectors. The judicial institutions' domination by the security services, for instance, undermined confidence in the legal process and caused significant disruption to small and medium-sized enterprises. Reform of the public sector and financial institutions must be accompanied by deeper systemic changes to the central decision-making processes of government. The establishment of a constitutional charter for the transitional period,[5] setting out the roles and responsibilities of the transitional institutions, provides the government with an opportunity to improve coordination, reduce interference and remove parallel levels of decision-making. Public institutions such as the central bank of Sudan and elements of the judiciary must have their independence enshrined in law in order to protect their oversight capacities, including the central bank's ability to set monetary policy.

Tackling corruption will require support for the rule of law and the building of accountable institutions at local and national levels. Serious efforts will be required to eliminate *al-tajneeb*,[6] and end the practice of ministries keeping money aside for off-budget spending. Reports of the auditor-general have drawn attention to off-budget government spending, but have elicited no meaningful action.[7] The transitional government should investigate the auditor-general's findings and implement reforms, starting by authorizing Sudan's ministry of finance to coordinate the budgets of all other ministries, including having greater oversight of the economic cluster of ministries.

Economic activity in Sudan is concentrated in a small number of companies, many of which are government-owned, and there are widespread accusations of the theft of public funds. Stabilization, including reform of agriculture or industry, will require the restructuring of private assets and dissolving of parastatal companies operating unlawfully. Hundreds of public and semi-public companies created by the former regime have in effect operated as vehicles to siphon off public funds, pay for political loyalties and facilitate Sudan's political economy of corruption.[8] The establishment of an anti-corruption commission and improvements in the business environment will help to reverse long-embedded bad practices and benefit companies that work in a positive and socially responsible manner.

[5] An English-language translation of the August 2019 Draft Constitutional Charter for the 2019 Transitional Period, prepared by International IDEA, is available at http://constitutionnet.org/sites/default/files/2019-08/Sudan%20Constitutional%20Declaration%20%28English%29.pdf (accessed 25 Aug. 2019).
[6] Meaning setting aside part of some state institutions' revenues generated from bribes paid by citizens for routine transactions. These funds are not included in the state's general budget.
[7] Radio Dabanga (2019), 'Financial excesses 'SDG 560 million' in Sudan states', 19 March 2019, https://www.dabangasudan.org/en/all-news/article/financial-excesses-sdg-560-million-in-sudan-states (accessed 25 Aug. 2019); Radio Dabanga (2018), 'Auditor-General: 15 Govt. companies manipulated 2016 accounts', 7 February 2018, https://www.dabangasudan.org/en/all-news/article/auditor-general-15-govt-companies-manipulated-2016-accounts' (accessed 25 Aug. 2019); Radio Dabanga (2017), 'Financial irregularities in all Sudan states, auditor-general reports', 24 November 2017, https://www.dabangasudan.org/en/all-news/article/financial-irregularities-in-all-sudan-states-auditor-general-reports (accessed 25 Aug. 2019).
[8] Baldo, S. (2018), *Sudan's Self-Inflicted Economic Meltdown*, Enough Project Report, November 2018, https://enoughproject.org/wp-content/uploads/SudanEconomicMeltdown_Enough_November2018-web.pdf (accessed 19 Sept. 2019).

Stabilizing the economy: implementing a near-term action plan

Sudan's near-term economic focus should be on implementing urgent fiscal reforms and containing inflationary pressures, notably stopping the excessive printing of money by the central bank. The transitional government has the legitimacy and trust necessary to reform the budget and cut spending. Sudan's official budget deficit is 3.7 per cent of GDP,[9] although many estimates place it much higher. The national budget should be restructured, with a particular focus on the military/security apparatus, state transfers and subsidies, which together make up 70 per cent of the official budget,[10] and realigned to give greater priority to health, education and social welfare, which together are currently allocated less than 10 per cent.[11]

The Bashir regime securitized the budget, with security sector wages accounting for approximately 60 per cent of all government salaries.[12] Reducing military personnel and costs while maintaining a capable security sector will be a politically sensitive and difficult process requiring support from the armed forces and its leaders in the transitional administration.[13] (It should be noted, however, that the policy challenges presented by the broader issue of security sector reform in Sudan were largely beyond the scope of the *Sudan Stakeholder Dialogues* series).

The issue of subsidy removal is also highly sensitive, and an immediate reduction in expenditure across the board could potentially be counterproductive. This is due to a mix of factors including the likely hindering of growth and creation of additional hardship for the most vulnerable, which would erode trust in the transitional authorities. But the current system is a major drain on public revenues, benefiting wealthier citizens and fostering corruption, while also being an inefficient way to help the poorest members of society. Subsidies reduce the resources available for social expenditure and investment in the future, as well incentivizing informal exports to neighbouring countries. A gradual process of subsidy reform will be required in order to mitigate the impact of price shocks arising from the removal of subsidies; one way forward could involve instituting a two-tier pricing system for essential foods like bread, with the aim of protecting the most vulnerable, although this needs further detailed examination. Sudan's government should, as a signal of intent, start by imposing austerity measures on itself – by cutting back on ministerial remuneration, travel costs and extravagant public celebrations, for instance – while ring-fencing development spending.

Priority actions in the medium term should include the protection of the central bank's independence from political interference, and restoring its status as a lender of last resort. A unified exchange rate policy is needed to establish a conducive and competitive environment for productive investment that does not stifle agricultural production and industry, or have a negative impact on

[9] Alamin, M. (2018), 'Sudan Plans 39% Spending Boost in 2019 Budget as Inflation Soars', Bloomberg, 19 December 2018, https://www.bloomberg.com/news/articles/2018-12-19/sudan-plans-39-spending-boost-in-2019-budget-as-inflation-soars (accessed 23 Aug. 2019).
[10] In the 2019 budget: military, security and police 23 per cent; state transfers 22 per cent; subsidies 25 per cent). Figures provided during Sudan Stakeholder Dialogues Roundtable 3, 27–28 March 2019, Nairobi, Kenya.
[11] Figure provided during Sudan Stakeholder Dialogues Roundtable 3, 27–28 March 2019, Nairobi, Kenya; Also Radio Dabanga (2017), 'Large spending on army: Economists criticise 2018 budget', 27 December 2017, https://www.dabangasudan.org/en/all-news/article/large-spending-on-army-economists-criticise-2018-budget (accessed 10 Aug. 2019); and Baldo, S. (2019), 'Sudan: Hidden Economic Stakes in Ongoing Power Struggle', Enough Project via Medium, https://medium.com/@EnoughProject/sudan-hidden-economic-stakes-in-ongoing-power-struggle-384d169b7245 (accessed 19 Sept. 2019).
[12] Ibid.
[13] The Sovereign Council, Sudan's highest decision-making authority, includes five military members, as well as six civilians. For the first 21 months of the transition, this body is being led by General Abdel Fattah al-Burhan, the head of the armed forces.

citizens' savings. Once these measures are in place, Sudan can move towards a flexible exchange rate system that will gradually reduce the gap between the official and parallel market rates.

In the near term, there is a need to identify a set of viable economic interventions – that are relatively less vulnerable to political pressures – in order to keep Sudan's economy moving and set the country on the path towards reform. Identifying first steps to recovery could be carried out by an economic taskforce established by the ministry of finance and including the central bank, international financial institutions and representatives of the private sector. Focusing on well-sequenced interventions, such as establishing essential working capital facilities that can pave the way for bridging finance, help to reset the clock on debt, and assist with longer-term reforms.

Debt and financial management

The sustainable management of Sudan's sovereign debt burden, which amounts to between $50 billion and $60 billion,[14] is central to any long-term economic reform strategy. In the short term, resuming serious dialogue with the World Bank and the IMF will be critical to building confidence with the international community and unlocking long-term external support, including through the Heavily Indebted Poor Country (HIPC) initiative. Sudan's previous government attempted 14 IMF staff-monitored programmes, none of which made significant progress, suggesting the need for a new approach on both sides and for a reframing of the conversation surrounding debt relief.

Sudan's debt burden is currently a 'phantom debt', which the former government had not been servicing: the Bashir regime had instead focused on seeking short-term capital inflows – from non-concessional finance from Chinese and Gulf Arab lenders to off-budget gold exports – which have contributed to increased indebtedness, rising inflation and currency devaluation. Sudan's debt needs first to be accurately calculated. The difficulties in obtaining an accurate assessment of debt are compounded by Sudan's multiple exchange rates, which obscure its true extent. Debt relief and reaching agreement with diverse creditors is likely to be a protracted process. Sudan must balance the need for short-term assistance with the enduring risks of continued high-cost borrowing.

In order to better support the new government, international financing must be more coordinated, must flow through transparent mechanisms, and must be conditional on specific reforms. Innovation by international financial institutions will be required in order to end the current stalemate, whether through specific portfolio operations in agriculture and industry, or via routes – such as the African Development Bank's (AfDB) Transitional Support Facility – that have not been affected by sanctions. International lenders will need to restructure non-concessional debt, and Sudan would benefit from capacity support in public financial management.

[14] African Development Bank (2019), *African Economic Outlook 2019*, p. 178, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2019AEO/AEO_2019-EN.pdf (accessed 11 Aug. 2019).

Economic recovery: developing mid- to long-term strategies

There is an opportunity for Sudan's transitional government not just to take action to stem the immediate economic crisis, but to develop a new national vision of establishing a more inclusive, representative and equitable system of economic governance for all sectors of society. This comes as Sudan nears the end of its largely unsuccessful five-year economic reform plan for the period 2015–19. Creative leadership is required to align Sudan's abundance of youth, natural resources and favourable geopolitical location within a national project that will reassure the domestic population and signal to the international community that a genuine long-term strategy for reform is in place. In order to stimulate the generation of revenue and employment, the transitional government will need to develop strategies to boost growth and improve regulation in key productive sectors such as agriculture and livestock, manufacturing, services and extractives.

Agriculture and industry

The agricultural sector has the potential to be a cornerstone of Sudan's economic recovery. Agriculture contributes over 30 per cent of Sudan's GDP, and the sector is the dominant source of employment, deeply linked to the wellbeing, stability and social security of the Sudanese people. However, the sector has been vastly underperforming, with less than a quarter of the estimated 70 million hectares of arable land in Sudan under cultivation. A lack of investment and poor productivity has minimized yields and undermined the competitiveness of Sudan's exports – which stand at approximately $2 billion annually, as against total imports of $9 billion. Only 10 per cent of farms are using modern irrigation, with most still reliant on traditional rain-fed methods.[15] The Gezira scheme, once the largest irrigation project in Africa, has fallen into serious disrepair due to administrative mismanagement and corruption.

There is a real opportunity to improve production levels through expanded agro-industry, and manufacturing can add significant value to agricultural outputs – for example, by producing cotton garments, exporting processed meat, and supplying leather and hides to industry. Moving towards a system of supplemented irrigation and encouraging the use of fertilizers would increase smallholders' production capacity and would improve predictability and access to formal markets. Other potential growth areas include dairy production, investment in wildlife and forestry, and the introduction of new livestock breeds.

Larger farms could benefit from introducing mechanized systems, and green and sustainable technology could bring comparative advantage, particularly in renewable energy sources. Developing these areas will require 'smart capital' – bringing skills transfer as well as investment to build capacity within Sudan. A national centre of research should be established to lead this strategy, which could be funded partly by the private sector. Central to any strategy should be the engagement of currently marginalized areas, with the aim of ensuring that industrial growth is inclusive and equitable.

[15] Figures provided during Sudan Stakeholder Dialogues Roundtable 3, 27–28 March 2019, Nairobi, Kenya.

Services

Although the service sector is estimated to account for around 45 per cent of Sudan's GDP,[16] this figure may be more reflective of weaknesses in agriculture and manufacturing than of the service economy's strengths. Modern services companies – such as in marketing or distribution – have appeared in recent years, but these mostly remain extremely small, and the sector is dominated by telecoms and banking. Within telecoms, prepaid mobile subscriptions currently account for approximately 95 per cent of the Sudan's 31 million mobile users, but internet services now represent the main driver of growth, while also offering significant opportunities through coordination with other sectors such as banking.[17] Mobile penetration in Sudan stands at 73 per cent, but the 'banked' population is estimated at just 6 per cent – suggesting that the introduction of e-banking mobile technologies could help Sudan to leapfrog traditional development and financing pathways.[18]

Extractives

Gold and oil production are vital sources of revenue for Sudan. The oil sector was a key lifeline for the former regime, which had been looking to increase output to offset recurrent fuel shortage crises.[19] However, a chronic lack of transparency has made the scale of the industry difficult to access, with different figures circulating for both reserves and current production levels. Sudan is Africa's third largest producer of gold, with production in 2018 officially stated to be 93 tons (equivalent to $4 billion),[20] and gold is now Sudan's main source of hard currency. However, artisanal mining still accounts for approximately 80 per cent of activity, and inconsistent regulatory policies, heavy taxation,[21] corruption and patronage have incentivized the smuggling of up to 75 per cent of gold from the country.[22] Irrespective of the lack of verifiable data, it is clear that revenues from oil and gold have not translated into significant investment in infrastructure and service provision. The transitional government should begin planning and consultations with a view to establishing a sovereign wealth fund that ensures sufficient revenues from national resources are invested in the provision of infrastructure, services and social welfare.

Common challenges facing the productive sectors

Reforms are needed on several fronts if Sudan is to maximize growth in its productive sectors. Inflation and the persistence of multiple exchange rates have destroyed competitiveness within agriculture and industry. This not only creates difficulties for potential exports, but also impedes

[16] Darbo, S. (2018), *2018 African Economic Outlook Country Note: Sudan*, African Development Bank, p. 3, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/country_notes/Sudan_country_note.pdf (accessed 23 Sept. 2019).
[17] Figures provided during Sudan Stakeholder Dialogues Roundtable 3, 27–28 March 2019, Nairobi, Kenya.
[18] Ibid.
[19] Ba Baker, S. al-Y. (2018), 'Sudan Targets Increasing Oil Production to 31 Million Barrels', *Asharq Al-Awsat*, 21 May 2018, https://aawsat.com/english/home/article/1275426/sudan-targets-increasing-oil-production-31-million-barrels (accessed 12 Sept. 2019).
[20] *Sudan Tribune* (2019), 'Sudan produces 93 tons of gold in 2018: ministry', 17 February 2019, http://www.sudantribune.com/spip.php?article67083 (accessed 12 Sept. 2019).
[21] Sudan's gold industry has been constrained by the presence of 11 different and frequently contradictory regulations on production across the local, state and federal levels. These include a 33 per cent tax on all gold sales, along with a requirement that gold is sold to the government at the official currency rate, effectively equating to an additional 50 per cent tax when set against the black-market rate. Figures provided during Sudan Stakeholder Dialogues Roundtable 3, 27–28 March 2019, Nairobi, Kenya.
[22] Elhashmi, E. E. (2017), *The Politics of Mining and Trading of Gold in Sudan: Challenges of Corruption and Lack of Transparency*, Sudan Transparency Initiative Report, Sudan Democracy First Group, p. 5, http://www.democracyfirstgroup.org/wp-content/uploads/2017/11/Gold-report-English.pdf (accessed 10 Sept. 2019).

imports of agricultural inputs for companies that have been unable to compete with the government-affiliated enterprises that benefit from preferential rates.

Furthermore, excessive duties and taxes on exports are stifling growth in the private sector. The former government used the productive sectors for patronage and to secure loyalties, creating huge inefficiencies and leaving companies tied to political interests and the security services. The gold trade in Jebel Amir, for instance, is controlled by Sudan's Rapid Support Forces (RSF) – a formal part of the Sudanese armed forces and influential within the transitional authorities. The RSF and other security agencies will need to be part of Sudan's reform processes, including formalizing hitherto opaque financial dealings. Banks and telecommunications companies have also been subject to significant political interference: in the case of the former, to provide financing on non-commercial terms; and in the latter case, to restrict internet access during periods of social upheaval. Such political entanglements often restrict the space for newer or smaller actors across sectors.

The expansion of the productive sector is also being held back by limited infrastructure, including transport and communications, which hinders the supply and delivery of goods for industry. Unreliable energy presents difficulties for manufacturing and agri-processing. Dependence on generators for electricity means that all productive sectors remain highly sensitive to diesel costs. Long-term investment in infrastructure is critical, enabling the development of multiple growth poles across Sudan and connecting these via trans-regional initiatives along the coast or across a central agricultural belt.

A further challenge is a lack of technical expertise in Sudan to help companies implement reforms or develop business strategies. The negative effect of this lack of expertise has often been compounded by an unwillingness to change or replace poorly performing executive structures, especially those with political connections, or *wasta*,[23] as well as an inability to develop and retain capable middle management.

Accessing financing and neighbouring markets

Investment will be critical to financing improved performance in the productive sectors. There is a lack of long-term domestic financing and insurance available in Sudan, and traditional bilateral funding from donors such as the EU is constrained. Potential new sources of investment from the European Investment Bank and regional institutions such as the AfDB and the Eastern and Southern African Trade and Development Bank (TDB) could help bridge the gap. At the end of 2018, for instance, the AfDB approved a $75 million loan to DAL Group, one of Sudan's largest food and agriculture businesses, in order to expand its vertically integrated food and agriculture operations.[24]

[23] The term *wasta* refers to a system of loyalty through personal networks, otherwise known as nepotism, which many people use to get an advantage without being adequately qualified.
[24] African Development Bank (2018), 'Sudan: African Development Bank approves US$75 million to DAL Group Co. Ltd to transform country's food and agriculture', 17 December 2018, https://www.afdb.org/en/news-and-events/sudan-african-development-bank-approves-us-75-million-to-dal-group-co-ltd-to-transform-countrys-food-and-agriculture-18868 (accessed 11 Aug.2019).

Sudan's agricultural and industrial potential is amplified by the proximity of large and easily accessible markets, such as neighbouring countries in the Intergovernmental Authority on Development (IGAD) region, with a combined population of some 250 million; or the Common Market for Eastern and Southern Africa (COMESA), with a population of around 460 million; as well as with the wealthy Gulf Arab states, which have significant food import requirements.

Sudan's economic recovery is significantly linked to that of South Sudan, due principally to the oil economy and cross-border trade potential, as well as sizeable remittance flows. A failure to adequately prepare for the proper integration of the two countries' economic activities following the independence of South Sudan in 2011, as well as the subsequent civil war in the south, has had a devastating impact on Sudan's economy. A new partnership that can facilitate greater integration and formal trade between Sudan and South Sudan is in the interest of both countries. In September 2019 Prime Minister Dr Abdalla Hamdok and President Salva Kiir of South Sudan took a step towards this by agreeing to reopen certain border areas between the two countries.[25]

Building the Sudan of the future: inclusion and capacity development

The transitional government will need to focus on building a more inclusive and equitable system of economic governance that is representative of all sectors of society in Sudan. Disadvantaged populations from conflict zones and other peripheral areas of the country need to be properly included in the reform agenda. Providing greater opportunities for young people within the labour force and ensuring the meaningful participation of women in decision-making will be essential to building enduring and representative institutions.

Peacebuilding as the foundation for sustainable growth

Conflicts in many of Sudan's peripheral areas have lasted for decades. One of the transitional government's top priorities is to achieve a comprehensive peace agreement and work towards creating lasting peace in conflict regions, including Darfur, the Two Areas (South Kordofan and Blue Nile) and Eastern Sudan. A peace dividend would allow a reduction in security expenditure and enable growth, boost local populations in largely rural regions – including through the provision of gainful employment – and allow infrastructure development and improved agro-industrial output.

Historical marginalization and ethnic divisions have fed into serious conflicts in many of Sudan's geographically peripheral areas; these enduring conflicts have caused huge loss of life, mass displacement and a humanitarian crisis. Millions of Sudanese are internally displaced or living as refugees, having suffered aerial bombing, destruction of their villages, occupation of their land by 'new settlers', and denial of humanitarian assistance. Eastern Sudan still has some of the country's lowest development indicators. The perception among communities in conflict-affected and other peripheral areas is that the extent of their suffering under the Bashir regime has never been

[25] Waakhe, W. S. and Atit, M. (2019), 'Sudan, South Sudan Leaders Agree to Reopen Borders', Voice of America, 13 September 2019, https://www.voanews.com/africa/sudan-south-sudan-leaders-agree-reopen-borders (accessed 13 Sept. 2019).

properly understood or sufficiently acknowledged by those in central Sudan, and any perception that they will continue to be sidelined in decision-making will be a source of anger. The 'divide and rule' policies of the previous regime, including encouraging tribalism and arming tribes against each other, has seriously damaged the social fabric and created polarization.

There is an urgent need for a peacebuilding response that addresses centre–periphery relations, security, transitional justice, and issues of returns, compensation and restoration of land and property in a way that brings communities together to promote reconciliation and peaceful coexistence, and that includes IDPs, refugees and other marginalized populations in the new governance structures so that their voices will be heard.

An inclusive peacebuilding process must also extend to other marginalized groups, such as communities affected by the Bashir regime's dam-building programme, which forced the displacement of tens of thousands of people from the Nile Valley to arid desert locations without proper compensation. Many other Sudanese have lost their lands as a result of arbitrary expropriation of large tracts of territory under the former regime, either for its direct benefit or to lease to foreign investors. Others have lost their jobs in the civil service, the army or other professions, or have been forced to close their businesses as a result of ideological purges and the practice of *tamkin* (empowering regime loyalists), causing many to move abroad and thereby depriving Sudan of many of its most talented people.

Promoting decentralization and multiple poles of growth

Sudan's economy is disproportionately based in Khartoum, with the capital estimated to account for up to two-thirds of national GDP,[26] widening the gulf between the centre and peripheries. Sudan's states are highly dependent on transfers from the federal state apparatus in Khartoum, and as such are deeply embedded within networks of political patronage. Many states are not only resource-poor, but have also failed to manage what resources they have efficiently, with the majority of their spending being allocated to salaries. In some areas, multiple taxes on the movement of goods have created particular difficulties for the competitive pricing of livestock and their transport to Sudanese ports.

At the federal level, moreover, the Fiscal and Financial Allocation and Monitoring Commission (FFAMC) has long been subject to political interference, despite being mandated to increase transparency in state transfers. The long-term aim should be to facilitate multiple poles of growth across Sudan, supported by the review and implementation of fiscal federalism, with the aim of rationalizing expenditure, restructuring transfers to enable greater allocations to less developed and marginalized states, and reducing political nepotism and patronage. This will require reforming the FFAMC with the aim of preserving its autonomy, promoting transparency and applying a rules-based fiscal policy across all states.

[26] Figures provided during Sudan Stakeholder Dialogues Roundtable 1, 22–23 January 2019, Oxfordshire, United Kingdom.

Youth, women and future opportunities

The lack of transparency in Sudan's economic environment has left young people unable to see a route to employment. Many have left the country, or are determined to leave to seek opportunities elsewhere, and some have been drawn into militarized movements. More than half of Sudan's 40 million population are under the age of 25,[27] and there is a clear disconnect between the country's young population and its very much older leaders. Sudan's younger generations must have a prominent role in shaping the country's future, and they have been calling for greater representation, improved education and enhanced employment opportunities.

Women, in particular, suffered under the former regime's repression, and potentially have most to gain from changes in governance. The transitional authorities should commit to ensuring greater representation for women and young people in the new governance structures and decision-making bodies. The new prime minister's inclusion of four women in his 18-member cabinet, including Sudan's first female minister of foreign affairs, has been widely welcomed as a progressive step.[28] This needs to be built on.

At the forefront of Sudan's long-term considerations will be the challenge of the very rapid growth in the country's labour force, with more than 130,000 young entrants expected annually.[29] Sudan currently falls far below the expected benchmark of social spending for an emerging economy. Education was allocated just 2 per cent of the budget under the Bashir regime,[30] and the system is failing to provide graduates with the necessary skills for the labour market. Furthermore, a programme of economic diversification will be essential for generating productive and sustainable employment opportunities. There is also a need to promote measures to encourage youth involvement in formal enterprise and entrepreneurship, and to remove barriers to doing business.

The effectiveness of the civil service is also highly reliant on having an appropriately skilled workforce. The instrumentalization of the civil service as a patronage tool has left Sudan with a bloated and inefficient public administration. A professional and sustainable civil service must be representative of all sectors of Sudanese society: the inclusion of women, young people, disadvantaged groups and citizens from the peripheral areas of the country must be prioritized within any reform agenda, along with the development of a culture of service.

[27] World Population Review (2019), 'Sudan Population 2019', http://worldpopulationreview.com/countries/sudan-population/ (accessed 11 Sept. 2019).
[28] *Sudan Tribune* (2019), 'FFC, Hamdok reach deal on Sudan's transitional cabinet', 5 September 2019, http://www.sudantribune.com/spip.php?article68055 (accessed 5 Sept. 2019).
[29] African Development Bank (2019), *African Economic Outlook 2019*, p. 178.
[30] Quartz Africa (2016), 'Sudan could spend up to 70% of its budget on several war fronts this year', 12 February 2016, https://qz.com/africa/615938/sudan-could-spend-up-to-70-of-its-budget-on-several-war-fronts-this-year/ (accessed 10 Aug. 2019).

Conclusions

Successful economic transition in Sudan will require the establishment of a conducive environment for reform, built on political transformation, the forging of a new social contract, and a comprehensive and just peace. Sudan's transitional authorities have the opportunity to undertake near- and long-term economic reforms, and at the same time establish public confidence.

Achieving comprehensive peace is essential for economic reform and democratic transition, and sustained economic growth is necessary to underpin a durable peace. Moreover, economic transformation will necessitate governance reforms that prioritize broader political participation, respect for human rights, increased public accountability and transparency, and strengthened anti-corruption efforts. The right sequencing of political, economic, security sector and social reforms will be imperative to ensure consistency.

The reform of public sector and financial institutions must be accompanied by deeper systemic changes to the central decision-making processes of government, ensuring a separation between different state functions that allows them to operate independently. Furthermore, a professional and sustainable civil service needs to be established that is representative of all sectors of Sudanese society. Public institutions such as the central bank and the judiciary must have their independence enshrined in law. To ensure greater transparency and public accountability, Sudan's ministry of finance should be charged with coordinating the budgets of all other ministries; linked to this, it must have greater oversight of the economic cluster of ministries.

The transitional government urgently needs to develop a near-term action plan to stabilize the economy and prevent collapse. This should prioritize the pursuit of fiscal reforms and measures to contain inflationary pressures. There is a need to identify an achievable set of economic interventions, relatively immune from political pressures, that can keep Sudan's economy moving and set the country on the path towards reform. Additionally, Sudan's national budget should be accurately calculated and transparently restructured. Security, state transfers and subsidies have together accounted for 70 per cent of spending under the official budget; and priorities must be realigned to ensure greater emphasis on health, education and social welfare, which are at present together allocated less than 10 per cent of the budget.

The sustainable management of Sudan's sovereign debt burden, which amounts to between $50 billion and $60 billion, must be central to any long-term strategy. In the short term, resuming serious conversations with international financial institutions will be critical to building the confidence of the international community and unlocking external support.

The transitional government has a clear opportunity to develop a long-term national economic vision, and to forge a narrative of building a more inclusive and equitable system of economic governance that is representative of all sectors of society. Sudan needs a comprehensive strategy to develop its productive sectors as drivers of growth, in particular through agro-industry. A national centre of research for the development of the productive sectors should be established to lead this strategy. The transitional government should also work to fully account for and formalize revenues from oil and gold production. Careful planning should be undertaken ahead of establishing a sovereign wealth fund that ensures sufficient revenues from national resources are reinvested in infrastructure, services and social welfare provision.

The current system of federalism must be comprehensively reviewed. The long-term aim should be to apply a rules-based fiscal policy across all states that will facilitate multiple poles of growth across Sudan. The aim should be to rationalize expenditure, and to restructure transfers to enable greater allocations to less developed and marginalized states and rehabilitate the conflict areas.

Moreover, Sudan's long-entrenched patterns of power and privilege, political nepotism and patronage networks need to be addressed, including the causes and consequences of marginalization. There is an opportunity to address the role of women, who have been among the leaders of the uprising, through significant changes in governance. The government must commit to ensuring the greater representation of women and young people in governance structures and decision-making bodies, and take account of the priorities of Sudanese youth in the reforms that will shape their future. This includes prioritizing better access to high-quality education and enhanced employment opportunities.

Ultimately, by ensuring that the political and economic reform agenda is broad-based and inclusive – of women and young people, disadvantaged groups and peripheral areas of the country – Sudan's transitional authorities can build an enduring system of civilian-led governance founded on equal citizenship and representative institutions.

About the author

Ahmed Soliman is a research fellow of the Africa Programme at Chatham House, focusing on the Horn of Africa. He works on the politics of Sudan, South Sudan, Somalia, Ethiopia and Eritrea, producing policy relevant research that influences thinking on the region. Ahmed is the author of a number of research publications and comment pieces, and leads on events, publications and briefings on the Horn of Africa at Chatham House. He regularly contributes to media reporting on the region.

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For more information please contact:

Tighisti Amare, Assistant Head, Africa Programme, Chatham House
T: +44 (0) 20 7527 5718
E: tamare@chathamhouse.org | @AfricaProg
www.chathamhouse.org/about/structure/africa-programme

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The Royal Institute of International Affairs
Chatham House
10 St James's Square, London SW1Y 4LE
T +44 (0)20 7957 5700 F +44 (0)20 7957 5710
contact@chathamhouse.org www.chathamhouse.org

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