Sudan’s growth was modest in 2017, estimated at 3.4%, reflecting the continued decline in oil exports, reduced domestic demand, weaker imports and macroeconomic imbalances; for 2018 and 2019, growth is projected at 4% and 3.9%, respectively.

The broad participation in the National Consensus Government introduced in May 2017 has strengthened peace and economic reforms; the permanent revocation of U.S. sanctions is expected to consolidate the gains of ongoing policy reforms.

Infrastructure continues to improve, especially in the ICT sector, but the funding gap remains huge, about 7% of GDP, requiring a national plan for advancing institutional reforms, attracting private investments, and expanding competitive and accessible infrastructural services.

OVERVIEW

In 2017, real Gross Domestic Product (GDP) grew by 3.4%. The modest rate was mainly due to the contraction of oil production and exports, reduced domestic demand, and weaker imports. U.S. economic sanctions (which were permanently lifted after two decades in October 2017) and the unfavourable business environment had undermined the full recovery of the economy from the fall in oil exports that followed the secession of South Sudan. For 2018 and 2019, growth is forecast at 4% and 3.9% respectively. It is expected to be driven by agriculture, gold production, and services. Sudan’s near-term economic outlook is favourable, in the expectation that rigorous implementation of ongoing reforms will support inclusive growth and macroeconomic stability, and consolidate gains from the revocation of sanctions. However, the heavy debt burden continues to weigh on economic growth.

Macroeconomic prospects remain challenging. Inflation escalated to 33.1% (17.5% higher than initially forecast), mainly due to exchange rate depreciation in the parallel market, the high pass-through from imports, and monetization of the fiscal deficit. However, the permanent withdrawal of U.S. economic sanctions and broad participation in the National Consensus Government that took office in May 2017 strengthened the prospects for peace and economic reforms. Notwithstanding the foregoing, implementing strong reforms that focus on exchange rate unification and withdrawal of subsidies is costly, especially for low-income groups who are highly vulnerable to their short-term adverse effects. Strengthening the business environment and public-private partnerships (PPPs) would boost reform efforts.

Sudan’s infrastructure sector contributed 15.2% to GDP in 2017. Roads are the predominant mode of transport, but the country’s road-land density is the lowest in Africa. Recent liberalization of the communication sector enhanced mobile coverage and global connectivity. Installed power generation capacity also increased; the household sector consumed about two thirds of supply. While access to improved water and sanitation facilities improved, the urban-rural divide widened. Due to the country’s heavy debt burden, arrears and sanctions, infrastructure has been financed largely from the budget and bilateral borrowing, which was estimated at just 0.8% of GDP in 2018 (compared to Sub-Saharan Africa’s average of 8%); it needs significant scaling-up. The sector is managed by a variety of institutions, highlighting the need to coordinate and develop a national strategy for infrastructure. These steps are key to implementing required institutional reforms successfully, attracting private investments, and building the infrastructure the country needs.
RECENT DEVELOPMENTS AND PROSPECTS

After the secession of South Sudan in 2011, GDP growth declined from an average of 7.1% during the oil era in 2000-2010 to an average of 3.3% in 2011-2016. In 2017, real GDP grew at a subdued rate of 3.4%. This modest economic growth performance reflected several factors: the contraction of oil exports by 28.6% (down from 7 million barrels per year in 2016); the low export price; and reduced domestic demand due to phasing-out of energy subsidies from 2016. Although U.S. economic sanctions were permanently lifted in October 2017, the unfavourable investment and business environment undermined the economy’s adjustment programme, which was negatively impacted by reduced exports after South Sudan’s secession. Growth is projected at 4% in 2018 and 3.9% in 2019. Stronger growth is expected to be driven mainly by the continued expansion of the agriculture, gold production, and services sectors. However, the heavy debt burden continues to weigh significantly on economic performance.

External borrowing was limited; official creditors deposited an estimated USD 0.8 billion in the Central Bank of Sudan (CBOS) in 2016. Non-concessional borrowing was low, amounting to USD 61.9 million in the first two quarters of 2017 to finance water harvesting. Notwithstanding the easing of the U.S. trade sanctions, since mid-2017 foreign direct investment (FDI), at USD 1.1 billion, flowed in at about the same level as in 2016. Most FDI was sourced from Arab countries and allocated to the agriculture, mining, and infrastructure sectors. With full revocation of sanctions, FDI is expected to increase. As a result, the current account may widen, mainly due to high FDI-related imports, but it is expected to narrow in the medium-term under the influence of ongoing reforms that aim to improve competitiveness and stimulate exports.

Agriculture and the services sector are key drivers of growth and in 2018 are expected to grow by 6.5% and 4% respectively. However, the contribution to exports of livestock and sesame, Sudan’s principal agricultural products, both declined, livestock from 24.2% in 2016 to 22% in 2017 and sesame from 12.3% to 10.2%. The decline was largely due to an overvalued exchange rate and a weak investment and business environment. Gold exports increased by 3.7% due to the continued decontrol of the gold trade, allowing the private sector to export 70% of gold production and sell the rest to the CBOS, which in turn compensated for the shortfall of crops exports. However, of 105 tons of gold produced in 2017, only about 36.8% was exported, signalling the need for a more effective gold exports dealership.

In line with the five-year economic reform programme (2015-2019), the 2018 budget plans to increase domestic production of key import substitutes. Accordingly, production of sugar and wheat is projected to increase to 800,000 and 1 million tons respectively; these targets represent increases of 200,000 and 400,000 tons compared to the volumes harvested in 2017.

Macroeconomic prospects remain a challenge. Despite improvement in the current account, high inflation (some 17.5% more than initially forecast in 2017), the depreciating parallel exchange rate (trading in January 2018 at half its value in January 2017), and limited access to external financing (due to the heavy debt burden), continued to constrain growth. An expansionary fiscal policy, largely financed by money creation, also fuelled inflation and could further increase external imbalances over the medium term. Full policy reforms focusing on exchange rate unification and phasing out of subsidies are costly in the short term. The International Monetary Fund (IMF) has estimated that their immediate adverse impact on GDP growth could be 1-2%, while inflation could rise by 36% during the adjustment period. On the other hand, the permanent revocation of U.S. sanctions presents an opportunity to increase the benefits of

### TABLE 1. Macroeconomic indicators

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017(e)</th>
<th>2018(p)</th>
<th>2019(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>3.5</td>
<td>3.4</td>
<td>4.0</td>
<td>3.9</td>
</tr>
<tr>
<td>Real GDP per capita growth</td>
<td>1.2</td>
<td>1.1</td>
<td>1.7</td>
<td>1.5</td>
</tr>
<tr>
<td>CPI inflation</td>
<td>17.6</td>
<td>33.1</td>
<td>16.5</td>
<td>14.2</td>
</tr>
<tr>
<td>Budget balance (% of GDP)</td>
<td>-1.5</td>
<td>-1.8</td>
<td>-2.0</td>
<td>-2.0</td>
</tr>
<tr>
<td>Current account (% of GDP)</td>
<td>-4.6</td>
<td>-3.4</td>
<td>-2.5</td>
<td>-2.0</td>
</tr>
</tbody>
</table>

Source. Data from domestic authorities; estimates (e) and predictions (p) are based on the authors’ calculations.
reform, and may open new export destinations, while associated improvements in the fiscal and external balances, as well as inflation control, should strengthen medium-term growth. In the World Bank’s 2018 Doing Business report, Sudan slipped two positions, to a ranking of 170 out of 190 countries; the report highlighted the need for major improvements, particularly in protecting minority investors, accessing credit, and trading across borders. Strengthening the business environment would boost investment and productivity in key export sectors (agriculture, gold, and oil) which are crucial for accessing World Trade Organization (WTO) membership. Sudan needs to improve its rural infrastructure and reform the land tenure system to boost trade and security, especially in some areas of Darfur, South Kordofan, and Blue Nile states, which are the location of the ongoing civil war.

The IMF and World Bank debt sustainability analysis, updated in 2017, showed that Sudan’s total public debt is expected to increase from 99.6% of GDP in 2017 to an average of 104% during 2018-2019; external debt was expected to stand at 94.9% and 98.7% in the same years. The bulk of external debt is in arrears and remains unsustainable. The Government needs to take steps to qualify itself for the heavily indebted poor countries (HIPC) initiative. In this context, the Government is continuing to dialogue with the U.S. Administration and other creditors with the aim of lifting Sudan from the list of State Sponsors of Terrorism and mobilize support for debt relief. To that end, the interim poverty reduction strategy paper (PRSP), finalized in 2013, is being implemented while preparations for a full PRSP are put in place.

Higher import prices, due to exchange rate depreciation and continued import rationalization policy since 2016, weakened domestic demand. However, gross capital formation is estimated to have increased by about 1.5% relative to its level (16.2% of GDP) in 2016. Exchange rate reforms introduced in early 2018 are projected to improve exports by 20%, FDI by 13%, and remittances by 15%, which will enhance the contribution of the external sector to growth.

Sudan’s near-term economic outlook is favourable. It is foreseen that the ongoing reforms will support inclusive growth and macroeconomic stability and consolidate gains from revocation of U.S. sanctions. Also, broad participation in the National Consensus Government which took office in May 2017 strengthened the prospects for peace and economic reforms. Major downside risks include weak fiscal and monetary policies and the possible interference of vested interests in full unification of the exchange rate, which would undermine investment and growth.

### TABLE 2. GDP by sector (percentage of GDP)

<table>
<thead>
<tr>
<th>Sector and Sub-sector</th>
<th>2011</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, fishing and hunting</td>
<td>34.7</td>
<td>32.6</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>6.2</td>
<td>6.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8.9</td>
<td>6.9</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>0.9</td>
<td>0.3</td>
</tr>
<tr>
<td>Construction</td>
<td>4.8</td>
<td>3.7</td>
</tr>
<tr>
<td>Wholesale and retail trade; repair of vehicles; household goods; restaurants and hotels</td>
<td>16.8</td>
<td>17.2</td>
</tr>
<tr>
<td>Finance, real estate and business services</td>
<td>8.1</td>
<td>12.5</td>
</tr>
<tr>
<td>Public administration and defence, security</td>
<td>5.5</td>
<td>5.3</td>
</tr>
<tr>
<td>Other services *</td>
<td>0.8</td>
<td>0.6</td>
</tr>
<tr>
<td>Gross domestic product at basic prices / factor cost</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

* Other services include education, health and social work and other services.

Source: Data from domestic authorities.
MACROECONOMIC POLICY

Fiscal policy
The budget deficit widened to 1.8% of GDP, up from 1.5% in 2016, and is projected to rise further to 2.0% in 2018 and 2019 because of shortfalls in oil-related revenue, while spending is expected to remain virtually constant. Monetization of the fiscal deficit continues to increase, reflecting limited access to foreign borrowing and non-inflationary financing. The IMF estimated that the on-budget deficit is lower than the actual deficit because subsidies linked to the official exchange rates are recorded only in the central bank’s balance sheet. The consolidated deficit for 2017 was estimated at 6.5% of GDP, much of which is monetized: import duties and oil revenues assessed at the parallel exchange rate, the deficit might fall to about 1% of GDP. In line with exchange rate reforms introduced in January 2018, the customs exchange rate was revalued by more than 2.7 times relative to the previous rate of 6.6 Sudanese pounds (SDG) to the U.S. dollar (USD); but the SDG was still lower than the parallel exchange rate (0.45%). Given the close link of import prices and inflation, it is vital to mobilize non-customs revenue. Subsidies account for an estimated 17.5% of the 2018 budget, compared to 4.9% last year. The budget’s allocation for social spending, to compensate for the reduction of commodity subsidies, is small, estimated at 7% (one percentage point higher than in 2017). However, expenditure on health increased by 6% (up from 1% in 2017) and on education by 7.8% (compared to 1.2%). Increasing targeted social spending, including capital spending, would effectively offset the negative impact of the Government’s efforts to phase out subsidies by 2021.

Domestic borrowing continued to rise and is estimated to cover 57.4% of the deficit (compared to 43.2% in 2017). Effective ceilings on monetization would contain inflationary pressures and boost private-sector credit growth, which is estimated at 28.9% year-on-year compared to 40% in 2017. Disbursement for budget support is expected to increase to 1.5% of GDP (up from 0.78% in 2017), reflecting the impact of the revocation of U.S. sanctions. External loans (estimated at USD 555.6 million in 2018) and grants (USD 449.7 million) are sourced mainly from the Islamic Development Bank and the Gulf countries (45.9%), and China and India (12.7%); loan repayment are projected to reach USD 311.1 million.

In 2017, budget execution rates were 83% for both revenue and spending, compared to 81.6% for revenue in 2017 and 103.3% for spending. The lowest execution rates were from privatization (40%) and capital spending (35%). Incorporation of the medium-term fiscal framework into budget planning, and strengthening the macro-fiscal unit, would enhance fiscal consolidation.

Monetary policy
Inflation rose sharply to 33.1% in 2017, about 17.5% higher than had been forecast, but is projected to decelerate to 16.5% in 2018 and further decline to 14.2% in 2019. The continued parallel market exchange rate depreciation and the high pass-through from imports to domestic prices (estimated at 30%) are the major drivers of inflation. Also, monetary policy remained expansionary due to the high monetization of the deficit and the central bank’s continued policy of purchasing gold at the parallel exchange rate from dealers and reselling it to finance strategic...
imports (fuel, wheat, and pharmaceuticals) at the official rate, which translated into money supply growth. In accordance with the monetary programme introduced in January 2018, the CBOS devalued the official buying rate (MUR to USD) by more than 2.7, with the aim of closing the widening gap between official and parallel exchange rates. The IMF estimated that unification of the exchange rates could raise inflation by 12% but, if accompanied by monetary and fiscal tightening including structural reforms, inflation could decline significantly in the medium term. Moreover, implementing these measures would relieve the CBOS from quasi-fiscal activities.

Reserve money grew by 46.7% in 2017 (up from 27.5% last year) reflecting the rising public sector borrowing requirements. In late 2017, the CBOS launched new Government investment certificates (Shihab 2) to reduce excess liquidity. This will be further augmented by gradual unification of the exchange rates to eliminate quasi-fiscal activities related to the dual exchange rate system. It is projected that reserve money growth will decline to 27.5% in 2018 and further to 26.5% in 2019. The use of reserve money as a nominal anchor would enable the CBOS to pin down inflation expectations.

The improved implementation of policies to counter money laundering and combat the financing of terrorism, and continued restoration of bank relations after the revocation of sanctions, have significantly supported financial stability. The ratio of NPL to total loans declined from 5% in 2016 to about 4.3% in August-2017, which boosted banks’ capitalization and profitability. With technical assistance from the IMF, the CBOS is also finalizing a comprehensive reform plan that will restructure the banking sector, expand access to microfinance, and improve the efficiency of payment system. In response, credit to the private sector is expected to increase to 8.4% of GDP, up from an estimated 8.1% in 2017.

**Economic co-operation, regional integration and trade**

The current account deficit narrowed by 1.2% (down to -3.4% of GDP in 2017) because imports fell and exports rose in response to exchange rate depreciation and the import rationalization policy adopted since 2016. International import prices are expected to remain low (-2.3% on average) over the 2018-2019 period. In August 2017, gross international reserves were estimated at 1.7 months of imports compared to the conventionally recommended 3 months of imports. The 2018 budget projected the growth of exports and imports at 56.4% and 29.7%, respectively, up from USD 3.9 billion and USD 6.4 billion in 2017. However, the main downside risks relate to the sizeable inflation differential between Sudan and its trading partners. This may offset the positive effects of the ongoing exchange rate reform and undermine competitiveness. Fiscal and monetary tightening are therefore required to contain inflationary pressures. The AfDB’s Country Policy and Institutional Assessment (CPIA) in 2016 rated Sudan a ‘weak performer’ with an overall score of 2.6 (compared with an average across Africa of 3.5), highlighting the need to improve institutions and public management and enhance the business environment.

During the second quarter of 2017, the bulk of Sudan’s exports went to Arab countries (57.1% compared to 55.8% in 2016); the United Arab Emirates (UAE) took 40%, mainly gold exports. Exports to the Common Market for Eastern and Southern Africa’s declined by 1% to 15%. However, import sources were more diverse. FDI inflows are expected to increase to USD 1.24 billion (up from USD 1.1 billion last year), reflecting the combined effects of exchange rate reform and revocation of U.S. sanctions. Rigorous reform implementation is expected to augment the benefits of sanctions withdrawal and facilitate access to the EU’s ‘Everything But Arms’ initiative and to the WTO.

**TABLE 4. Current account (percentage of GDP)**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017(e)</th>
<th>2018(p)</th>
<th>2019(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade balance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export of goods (f.o.b)</td>
<td>-0.4</td>
<td>-4.5</td>
<td>-5.4</td>
<td>-3.8</td>
<td>-2.8</td>
<td>-2.1</td>
<td>-1.5</td>
</tr>
<tr>
<td>Import of goods (f.o.b)</td>
<td>13.6</td>
<td>5.4</td>
<td>3.3</td>
<td>2.7</td>
<td>3.0</td>
<td>3.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Services</td>
<td>-3.0</td>
<td>-0.1</td>
<td>0.6</td>
<td>0.6</td>
<td>0.5</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Factor income</td>
<td>-6.8</td>
<td>-2.9</td>
<td>-2.3</td>
<td>-1.8</td>
<td>-1.6</td>
<td>-1.4</td>
<td>-1.4</td>
</tr>
<tr>
<td>Current transfers</td>
<td>2.0</td>
<td>1.4</td>
<td>0.3</td>
<td>0.4</td>
<td>0.5</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Current account balance</td>
<td>-8.2</td>
<td>-6.1</td>
<td>-6.8</td>
<td>-4.6</td>
<td>-3.4</td>
<td>-2.5</td>
<td>-2.0</td>
</tr>
</tbody>
</table>

Source: Data from domestic authorities; estimates (e) and predictions (p) are based on the authors’ calculations.
Debt policy
The latest IMF and World Bank debt sustainability analysis showed that the stock of Sudan’s public debt has declined by 16.6% to 99.6% of GDP in 2017, but is expected to increase to 102.9% in 2018 and to 105.1% in 2019. External debt remains very high and has continued to rise following the exchange rate devaluation. It reached USD 53.6 billion at the end of 2016 (111% of GDP), reflecting the impact of devaluing the SDG by 131% in 2016. However, the debt-to-GDP ratio is estimated at 94.9% because of high nominal GDP growth, driven by a sharp increase in prices. The debt structure remained stable over the last decade. The bulk of debt is public and publicly guaranteed (USD 50.7 billion, of which 85% are arrears), mainly owed to bilateral creditors and roughly equally divided between the Paris Club and non-Paris Club creditors; USD 1.7 billion private debt is owed to suppliers.

Sudan’s access to external multilateral financing remains limited, largely because of its arrears with creditors and U.S. sanctions. During 2016-2017, official creditors (Qatar, UAE, Saudi Arabia and Kuwait) deposited an estimated USD 2.7 billion in the CBOS. In 2017, bilateral borrowing stood at USD 170 million and is projected at USD 555.6 million for 2018, mainly to finance agricultural and infrastructural projects; loan repayments are projected at USD 311.1 million. Withdrawal from approved grants is expected to increase by 14.9% (up from USD 178 million in 2017). Domestic debt was estimated to be 7.6% of GDP in 2017 and is projected to increase to 8.2% on average in 2018-2019, reflecting the deficit monetization and reduced external financing.

The deadline by which Sudan was required to accept responsibility for the entire external debt stock, under the post-secession agreement, expired in September 2016, partly due to instability in South Sudan. But the parties agreed an extension to September 2018. The development of a national debt strategy, focusing on debt management and meeting the requirements for accessing the HIPC initiative, is in train. Domestic debt markets are also being developed to finance development projects. In order to benefit from the HIPC initiative, the Government is continuing to dialogue with creditors to mobilize support for debt relief. In addition, in 2017 the Government requested a new IMF staff monitored programme. The interim poverty reduction strategy paper (PRSP), finalized in 2013, is being implemented and preparation of a full PRSP has started. According to the AfDB’s CPIA in 2016, Sudan ranked 27 out of 38 countries on debt policy, underscoring the need to enhance its capacity to manage public debt.

ECONOMIC AND POLITICAL GOVERNANCE

Private sector
As part of promoting the public-private partnerships (PPPs), the Federation of Sudanese Employers and Businessmen (FSEB) prepared a business plan for 2018-2020. The plan is aimed at promoting production and exports through expanding the total cultivated areas by 27% and raising agricultural exports by 39.8%, up from 17.2 million hectares and USD 1.8 billion, respectively, in 2017. The plan focuses on enhancing the production of thirteen crops with high export and import-substitution potentials. The cost is projected at USD 2.93 billion and expected to raise exports by USD 19.4 billion over 2018-2020. Also, the FSEB appealed for waiving the partial ban on gold, cottonseed oil, and oil cakes exports as well as increasing the credit supply notably for the letter of credit system. The Council of Ministers endorsed the plan in December 2017 and the Government pledged to contribute USD 0.87 billion for the plan’s implementation, targeting the promotion of exports logistics and infrastructure (estimated at USD 465 million), including boosting credit to exporters. The formation of a high-level PPP Joint Commission and technical committee are underway for the plan implementation. After the rollback of sanctions, investor delegations from Saudi Arabia and Turkey visited Sudan, which is expected to lend support for private sector development. In this regard, the long-term partnerships between leading companies (Dal Group and Elnefeidi Groups) and the local farmers and small businesses, can be consolidated to facilitate the internalization of FDI to boost broad-based growth.

With a high share of inputs in total imports (about 56.1% in 2016) the continued depreciation of the parallel exchange rate and the associated substantial pass-through to import prices would raise the cost of doing business. Also, as indicated by the World Bank’s 2018 Doing Business report, Sudan slipped down two positions ranking of 170 out of 190 countries, with major improvements needed particularly in protecting minority investors, accessing credit, and trading across borders. Strengthening the business environment would boost the implementation of the FSEB’s business plan and also facilitate the accession to WTO and the EU’s “Everything but Arms” initiative.

Financial sector
Sudan’s financial sector is composed of 24 joint venture commercial banks, one state-owned, 7 foreign including 5 specialized banks (4 state-owned) and 15 insurance companies at end-2017. The banks dominate the financial sector, which operates under Islamic modes of finance. The number of branches increased by 5% up from 696 last year, with 42.6% located in...
Khartoum state. The credit-to-GDP ratio declined over 2013-2017 by one pp to 10.7% reflecting the weak financial depth. However, the mobile payment system introduced in April 2017 is expected to improve financial inclusion, access to credit and competitiveness. The high monetization of the fiscal deficit, the rising quasi-fiscal operations and the absence of an interbank market contributed to the ineffectiveness of the CBOS’ liquidity operations. In this regard, the CBOS with technical assistance from the IMF is finalizing a comprehensive reform plan aimed at restructuring the weak banks, expand access to microfinance and improve the efficiency of payment system. The reform plan is expected to raise credit to the private sector to 8.4% up from an estimated 8.1% of GDP in 2017. Dealings in the Government Shahama certificates dominate the Khartoum Stock Exchange (KSE), amounting to about 99.8% of KSE trading in 2016. The economic reform, underway would enhance the KSE to mobilize resources for long-term financing of private business.

The banking sector is profitable and well capitalized as reflected by the declining ratio of nonperforming loans to total loans, which dropped to 4.3% in August-2017 from 5% last year, and existence of adequate regulatory capital. The recent revocation of sanctions would significantly reduce the cost of financial services and boost the reintegration of the banks into the global financial system. In an effort to strengthen the hard-won framework for Anti-Money Laundering and Combating the Financing of Terrorism, the financial intelligence unit (FIU) joined the Egmont Group of FIUs in June 2017. Also, efforts to upgrade bank supervision to avert financial stability risks continue. The CBOS plans to be included in the IMF’s new Financial Sector Stability Review instrument aimed at supporting financial sector development.

Public sector management, institutions and reforms
Weak institutions continue to undermine the quality of public administration, including transparency and economic competitiveness, requiring deep seated reform. The AfDB’s CPIA ranked Sudan 33 (of 38 countries) in 2016. It found Sudan performed poorly in protecting property rights (ranked 33), transparency (33), and the quality of budgetary and financial management (30). The Open Budget Index reduced Sudan’s score from 10 (out of 100) in 2016 to 2 in 2017: it scored least well in the category ‘public engagement in the budget process’ (0) and highest in the category ‘budget oversight’ (31). In Transparency International’s latest Corruption Perception Index, Sudan was scored slightly higher (14/100) than in 2015 (12/100); but its global rank remained very low (170 of 174 countries).

The Auditor General’s 2016 report estimated tax leakages represented 10.3% of total tax revenue and illegal earmarks 0.3%, highlighting the need to improve tax collection. In this regard, the Government continues to tighten the noose on corruption. A high-level committee and eight sub-committees were established to coordinate this effort. 151 laws have been singled out for amendment or upgrading, which should also facilitate participation in the WTO. The Auditor General Act was amended in 2017 to allow the auditing of entities with at least 1% Government ownership, and establish a special prosecutor unit to sue cases of abuse of public funds. Ongoing reforms, notably to unify the exchange rate, should minimize rent-seeking activities and create a more level playing field for businesses. In addition, the full certification of land tenure, including community-owned land, would boost security and access to basic economic and social services, especially in some areas of Darfur, South Kordofan, and Blue Nile states.

Natural resource management and the environment
Sudan depends on natural resources (gold and oil) for budget support, which contributed 1.8% and 0.8% of GDP in revenue, respectively, in 2017. Agriculture generates about one-third of the GDP and employs 45% of the labour force. About 75% of agricultural workers are in vulnerable employment, of low productivity, subject to climate variations, pests, diseases and erratic growing conditions. Redressing the worsening environmental conditions, especially in rural areas, should enhance productive employment, contribute to poverty reduction, and slow rural-urban migration.

About 80% of Sudan’s gold output (estimated at 105 tons in 2017) is informally produced, mainly by mercury-and cyanide-based processing, including use of bulldozers with minimal excavation control. In 2017, the Ministry of Minerals endorsed a plan to introduce alternatives to mercury, with a view to banning its use by 2020. According to a report in 2016 by the United Nations Children Fund (UNICEF), 68% of Sudanese had access to improved water sources in 2014 (compared to 61% or 2010), but rural-urban disparities remained high (63% versus 78%). The ratio of people with delivered water slightly increased to 11%, mainly in urban areas. Between 2010 and 2014, use of improved sanitation facilities increased to 32.9% (up from 27%), again with high differences between rural use (22%) and urban use (57%). However, in 2017 and advisory committee, representing the Federal Ministry of Environment, UN Environment, and UK aid, approved a work plan that set priorities for the environment and climate resilience and targeted the most vulnerable areas. Also in 2017, Sudan ratified the Paris Agreement on climate change, reflecting its commitment to sustainable development.
Political context

In accordance with recommendations made by the national dialogue, the National Consensus Government was formed in May 2017. Twelve of the 31 ministerial portfolios were allocated to opposition parties involved in the dialogue, which broadened participation and strengthened prospects for peace and economic reforms. However, the new constitution has yet to be drafted. In July 2017, the UN reported major progress in the humanitarian situation. The situation nevertheless remains difficult because of an estimated 220,000 people who were newly displaced in 2016. Following the permanent rollback of sanctions, the Government continues to work to remove Sudan from the list of State sponsors of terrorism and to mobilize diplomatic support for much needed debt relief. Through Sudan’s disarmament, demobilization, and reintegration (DDR) programme, 8,000 combatants were reintegrated in 2017. Strengthening the DDR’s institutions would further contribute to peace consolidation in Darfur, Blue Nile and South Kordofan states.

In January 2018, bread riots broke out in major cities against cuts in wheat subsidies. Anti-riot police fired tear gas to disperse the protesters. Copies of El Jareeda, El Midan, and El Tayyar were confiscated for covering the riots. About one hundred protesters and the leaders of opposition parties (the Sudanese Congress Party and the Communist Party) were detained for questioning. Sudan Vision gave Sudan a higher score in 2016 in the categories ‘Government effectiveness’ (7.2/100) and ‘rule of law’ (9.1/100) than in 2015, highlighting the score in 2016 in the categories ‘Government effectiveness’ (7.2/100) and ‘rule of law’ (9.1/100) than in 2015, highlighting the need to strengthen political stability, control of corruption, and accountability.

SOCIAL CONTEXT AND HUMAN DEVELOPMENT

Building human resources

The latest multiple indicator cluster survey (MICS), released in 2014, found that the net primary school enrolment ratio (NER) was 68%, with gender parity of 1.03 in favour of boys. The urban-rural ratio was 1.41, and the ratio between poor and rich was 1.95. Effective measures are needed to redress NER disparities and achieve the SDG’s target of universal free primary education. The UNICEF report (2015) showed that 21.1% of school-age children are not enrolled, with that enrolment was particularly low in Blue Nile (42.5%) and Darfur (28.7%). Under-5 malnutrition remains a challenge. Two million children are malnourished, including 550,000 with severe acute malnutrition (SAM). However, Sudan remains committed to free and compulsory primary education. With the assistance of UNICEF and development partners, each State has developed an education strategy, which has been consolidated in the national five-year education sector strategic plan for 2017-2021. Within this framework, the humanitarian response plan aims in 2018 to enrol about half a million children who do not go to school, and nourish 250,000 children with SAM.

Between 1990 and 2015, child and infant mortality rates declined from 135 to 63 per 100,000, and maternal mortality rates from 720 per 100,000 to 311. However, both rates are far above the regional average and the SDG targets. The prevalence of all forms of Tuberculosis (TB) continues to decline. In 2016 it stood at 82 per 100,000, down from 128 in 2000. Mortality from TB among people infected with HIV also declined from 25 to 14 per 100,000 over the same period. HIV/AIDS prevalence and mortality rates are low, though they have risen. Malaria deaths declined to 698 in 2016 from 868 the year before, but the proportion of in-patients (10.3%) and out-patients (8.5%) with malaria in 2016 was very high.

The UNDP Human Development Report (HDR) ranked Sudan 164 out of 188 countries in 2016 (165 between 2010 and 2015). It called on the Government to increase its efforts to improve institutional capacity and provide universal basic social and economic services. Increased funding for national programmes to combat TB, HIV/AIDS and malaria is needed to enhance treatment, screening and prevention.

Poverty reduction, social protection and labour

The HDR in 2016 found that Sudan’s multidimensional poverty headcount (which measures the non-income dimensions of poverty) was 38.2% higher than the income poverty headcount. An estimated 14.9% of the population lived on less than USD 1.90 per day in 2011 (purchasing power parity). This implied that those living above the income poverty line could still face deprivations in education, health, and other living conditions. 31.6% of the population is estimated to live in severe poverty. The main factors causing poverty were living conditions (48.9%), followed by poor education (30.4%) and health (20.7%). The five-year economic reform programme for 2014-2019 and the interim PRSP continue to guide poverty reduction efforts.

To compensate for negative impact of phasing out wheat and fuel subsidies, the 2018 budget raised social spending by 101% (to SDG 10.2 billion) by comparison with 2017. The Ministry of Social Welfare, Women and Child Affairs and the Zakat Chamber, which administer the bulk of pro-poor spending, received more resources, which should help the transition to less costly and more efficient social protection programme. The main non-Governmental assistance programmes focus particularly on vulnerable groups in war-affected states and are delivered by the World Food Program (WFP), the Food and Agricultural Organization (FAO) and UNICEF. Some of these programmes...
suffer from shortage of funds. In 2015, the UNICEF Sudan office appealed for USD 116.9 million to fund emergency programmes, but covered only 41.8% of its demand, which highlights the need to reach out to donors, especially after the permanent removal of the U.S. sanctions.

According to the HDR, in 2016 48.1% of Sudanese older than 15 were active in the labour force. Women were highly under-represented (24.3%) compared with men (72.7%); this is low compared with the average in low-income countries (60.3% and 71% respectively). 60% of those who participate in the labour market (including those informally mining gold) were considered to be vulnerable, indicating the need to increase protection and vocational training to develop skills. In 2017, about 50 000 Sudanese working in Saudi Arabia returned home after the Saudi Government introduced austerity measures. It is estimated that about 2.5 million Sudanese live in the oil-rich Gulf States. In this context, there is an urgent need to enable the Immigration and Border Management Department to respond to the needs of returning migrants, most of whom are semiskilled or unskilled. The International Labour Office (ILO) developed a national employment strategy in 2014 at the Government’s request, integrating this in the national PRSP that is being prepared would effectively reduce job vulnerability. In addition, the Ministry of Minerals’ plan to ban mercury in favour of alternatives will improve occupational safety and health.

Gender equality
Notwithstanding the constitutional provision for gender equality, the HDR for 2015-2016 revealed that gender disparity increased in 2015-2016 from 1.23 to 1.27 in favour of males, reflecting Sudan’s lack of implementation capacity. As noted, gender disparity is evident in the labour market. Girls also enjoy fewer average years of primary schooling (3 compared to 4.1), and only 13.7% of women and girls have attended secondary education (compared to 18.8% of boys and men). The ancillary costs of schooling (books, uniforms, travel) and in many cases the distance of schools, as well as cultural and social norms, continue to prevent many girls from attaining even basic education. Sudan’s score in the Gender Inequality Index declined by 0.016 points to 0.575 in 2015 (0.591 in 2014). However, women increased their parliamentary representation to 31% in 2015 from 23.8% the year before. Following amendments made to the 1991 Criminal Law in 2015, Sudanese law addresses sexual violence and sexual harassment more effectively. Sudan should consider reviewing Article 152, which prohibits wearing indecent clothing (largely applied to females) to ensure consistency with international law. Likewise, ratification of the UN Convention on the Elimination of all Forms of Discrimination Against Women would promote gender equality and women’s empowerment.

THEMATIC ANALYSIS: INFRASTRUCTURE FINANCING

Sudan’s infrastructure sector, which includes the transport, communication, power, water, and sanitation sub-sectors, contributed 15.2% to GDP in 2016, the same as the previous year. Sudan’s total road network is estimated to cover 32 221 km of which 24.3% are paved and 13.6% gravelled. The rail network covers about 4 180 km. Both networks amounted to about 1.9 km per 100 km², among the lowest rail and road densities in Africa. Road is the predominant mode of transport, accounting for 95.6% of freight and 86.7% of passenger traffic in 2016, respectively, up from 84.1% and 89.1% the year before. Historically, rail was the main mode of transport; however, lack of funds for maintenance and renewal and competition from the road transport industry, as well as the impact of U.S. and European sanctions, have significantly undermined its development. The cost of road freight is comparable to the African average of USD 0.05 dollar per ton/km. Although internal road corridors are developed, the main road arteries are centred on Khartoum as a hub and there is limited connectivity to other areas, with the exception of cross-border roads to Egypt, Eritrea, Ethiopia, and South Sudan. The traffic along most roads is sparse and there is negligible roadside support in case of accidents or breakdown. Connectivity with communities in the war-affected states of Darfur, Blue Nile and South Kordofan is particularly limited because travel is not secure.

Sudan has several ports along its 853 km coastline on the Red Sea. These also serve several landlocked countries, including Chad, the Central African Republic, South Sudan, and also Ethiopia. However, container turnaround is 27 days at Port Sudan, a rate that is more than four times the best global rates and among the worst in Sub-Saharan Africa. It is crucial to improve the port’s logistic services. In 2010, river transport freight volume amounted to about 114 000 metric tons; but traffic halted after the border with South Sudan was closed in 2016 due to lack of security. This problem requires a political solution. Sudan’s per capita airline seat capacity is higher than that of most neighbouring countries, except Kenya and Egypt; it increased to 2.9 million in 2016 (up from 0.2 million in 2007). However, an ageing fleet and lack of regulatory oversight in the air transport sector present daunting challenges.

The liberalization of the ITC sector enabled Sudan’s mobile network to cover 50% of the country. It is connected by five international cables and has installed 33 000 km of local fibre optic cables. In 2016, 86% of the population had access to mobile services and 25.7% were connected to the internet; the quality
of the service improved price fell. Installed power generation had increased from 1 000 MW in 2000 to 4 227 MW by 2017; dams at Sitat, Kajbar and Dagas have the potential to add 4 237 MW by 2020. By source, renewable energy (mainly hydro) was responsible for 49% of generation, steam 31%, combined cycle 14%, diesel 5%, and gas turbines 1%. Electricity consumption increased by 12.4% to 11 795.5 gigawatt hours in 2016; 56.7% was consumed by households and only 6.1% by agriculture, which was responsible for 45% of employment. Although water production increased by 1.9% in 2016, by up to 4.2 million cubic metres per day compared to the previous year, consumption grew by 4.9%. Between 2010 and 2014, access to improved water sources increased by 7% (to 68%), but rural-urban disparities also rose (by between 9% and 15%). Several states are particularly deficient in improved water sources: they include Darfur, the Red Sea, and North Kordofan. The Federal Government is responsible for the construction of major water projects (dams and reservoirs), though their management is often delegated to state Governments. Between 2010 and 2014, the usage of improved sanitation facilities has increased by 6% to 32.9% and rural-urban gap has also increased from 29% to 35%. In 2016, with UNICEF, the Government developed costed sector strategic plans for education and water, sanitation and hygiene (WASH) for 2017-2021. These will be integrated into the PRSP.

In the last decade, infrastructure financing in Sudan has depended on the public budget and bilateral borrowing from oil-rich Arab states and China. Funding from traditional multilateral institutions (the AfDB and World Bank) is currently on hold due to the country’s debts and arrears. Access to international commercial debt financing is still severely constrained by U.S. and European sanctions. The inflow of official development assistance remains limited and amounted to USD 0.450 million in 2017. The African Development Bank’s (2016) study on the potential of private sector-led economic diversification showed that, in order to achieve a moderate real GDP growth of about 6% by 2030, up from the current 3.5%, Sudan will need to invest USD 51 billion (at 2012 prices) in infrastructure. This translates into increasing infrastructure financing from a base of 2.3% of non-oil GDP to 3.7% in 2018. The share of infrastructure financing in the 2018 budget is estimated at 0.9% of non-oil GDP, of which 0.7% is allocated to power and about 0.2% to the transport sub-sectors. This budget outcome indicates that Sudan’s infrastructure funding gap is huge, and requires an increase in both public and private funding. The experiences of Sub-Saharan countries suggest that Sudan should sustain investment in infrastructure up to 8% of GDP. In the recent past, the bulk of public infrastructure funding has been allocated to the power and transports sectors. Private sector funding focused on the ICT infrastructure with limited allocation to railways. Power projects under construction or about to commence have committed funding of about USD 1.4 billion; also, about 822 km of roads are under construction and 511 km of roads are under repair. For railways, 220 km of rail are being built and 474 km under repair. Sudan could develop a costed programme for infrastructure development on the basis of the AfDB study and identify specific infrastructural projects suitable for private financing. At present, in addition to ICT, private investments have focused on power, vehicle fleets, and port logistics. There is a need to identify and design new projects suitable for PPPs.

Sudan’s infrastructure sector is managed by a range of institutions and is undergoing reform. The Ministry of Transport, Roads, and Bridges (MTRB) supervises the whole transport sector aided by semi-autonomous regulatory agencies, including the Civil Aviation Authority, Sudan Railways Corporation, National Highways Authority and the Sea Ports Corporation. The power sector is managed by Sudan Hydro Electricity Generation Company, Sudan Thermal Generation Company, Merowe Electricity Company, Sudan Electricity Transmission Company and Sudan Electricity Distribution Company. Water and sanitation are managed by the Public Water and Environmental Sanitation Corporation, the Ministry of Irrigation and Water Resources, the Ministry of Environment and Physical Development and the Ministry of Health. The Ministry of Information and Communications and the National Telecommunication Corporation (NTC) regulate and manage the ICT sector. A national transport master plan developed in 2010 foresees the restructuring of the MTRB. A water, sanitation and hygiene (WASH) policy adopted the same year established a National Commission to coordinate water sector management. All federal institutions have state level counterparts, which require coordination. The formation of a national agency for infrastructure planning and design would promote private investment, enhance governance, and strengthen budgeting and budget execution in the infrastructure sector.

While the introduction of electronic payment for electricity and water in 2009 increased revenue collection and reduced evasion, revenue collection from other utilities remains a challenge. For example, road user charges are levied at federal, state, and local levels resulting in cumbersome procedures at border crossing points and high transport and transaction costs. Also, road levies collected by the sub-national governments are not reflected in the Federal Government’s budget or duly transferred to develop the road network. Until recently, value added tax on ICT was set at 30% with a 30% profit tax, but the latter was replaced by a 2.5% tax on gross revenues after the service provider complained. The proceeds of the profit tax are allocated to NTC (56.5%) and the balance is transferred to the ICT development fund, which was established to expand ICT coverage and services. With the exception of the ICT sector, companies operating in the infrastructure sector are state-owned. In view of the
country’s debt burden, it would be appropriate to pass laws to facilitate PPPs in the sector. These could allow shares to be sold to the public via the stock exchange, permit strategic investors to acquire equity, and facilitate the issue of infrastructure bonds targeting the financial sector.

The permanent withdrawal of economic sanctions opens the way for infrastructure financing by foreign stock markets and facilitates access to much needed capital goods and spare parts. In addition, subsidies, especially in the power sub-sector, largely benefited upper income groups, and their withdrawal will create fiscal space for infrastructure funding. However, the AfDB’s country policy and institutional assessment (CPIA) placed Sudan among Africa’s poorest performers; it was ranked 32 out of 38 countries on infrastructure and regional integration. The AfDB called on the Government to introduce measures to improve the coverage and quality of infrastructure. Development of a national strategy for infrastructure planning is key to the successful implementation of legislative and institutional reforms that will enable the country to attract private investments and establish infrastructure services that are competitively priced and accessible.