Sudan

2012

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Sudan

- Real gross domestic product (GDP) is expected to grow modestly in 2012 and 2013 owing mainly to the loss of oil revenue and population following the secession of South Sudan in July 2011.
- The government of Sudan has attempted to address heightened economic and social challenges through the introduction of austerity measures.
- Youth unemployment, particularly among university graduates, is high and increasing.

Overview

Since the secession of South Sudan in July 2011, Sudan has not produced comprehensive economic data. The macroeconomic data used in this note is therefore based on estimates provided by the 2012 budget document for 2011 and 2012.[1]

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[1] The Economic Commission for Africa (ECA) initiated discussions with the United Nations Development Program-Khartoum and African Development Bank (AfDB) country office in Sudan to assist the Central Bureau of Statistics (CBS) to prepare separate historical macroeconomic data for Sudan. This work is still ongoing.

According to this document, GDP growth declined from 5% in 2010 to 2.8% in 2011 due to the secession of South Sudan reducing the population by about 20% and oil revenue by 75%.

Average inflation surged to 20% in 2011, up from 15% in 2010, owing to the rise in food prices and the depreciation of the Sudanese pound. The current account deficit fell to 7.5% of GDP in 2010, but is expected to rise to 10.5% of GDP in 2011. Sudan's budget deficit was 5.0% in 2011 and is estimated to increase to 5.4% of GDP in 2012 due to the loss of oil revenue, intensifying armed conflicts and increased security threats, the creation of new states and the financing of peace agreements. As a result of US sanctions as well as Sudan's heavy debt, external borrowing options are severely limited and internal borrowing is likely to increase.

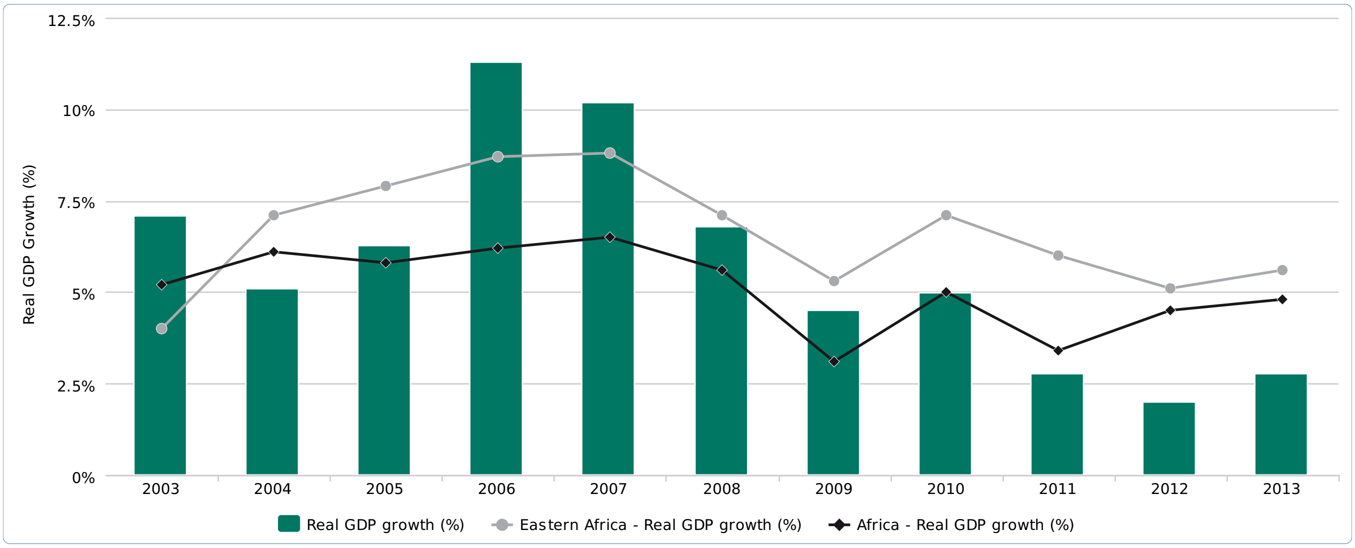
The government has put in place a three-year emergency economic programme introducing austerity measures aimed at cutting spending. This programme has partially removed subsidies on sugar and petroleum products, a step welcomed by the IMF. Sudan's fiscal policy centres on restoring fiscal prudence at all levels of government by controlling expenditure in the medium term and using the non-oil deficit as a key fiscal indicator. It also focuses on strengthening accountability in the use of public funds, and on building capacity to improve the effectiveness of resource allocation including in the states where responsibility for front line service delivery lies.

The secession of the South has led to the depletion of foreign exchange reserves. The Governor of the Bank of Sudan (BoS) has therefore appealed to Arab countries to deposit funds into the Bank of Sudan and commercial banks. Sudan is also hoping that transit fees charged to the South for using its oil pipelines will help cushion the impact of secession, but negotiations over transit fees and other disputed issues stalled in January 2012.

Sudan's medium-term growth prospects are not bright, with GDP growth estimated at 2% in 2012. This is the result of the secession of South Sudan and subsequent fiscal adjustment, the intensification of armed conflicts in Darfur, South Kordofan and Blue Nile states, the narrow production base and anti-growth macroeconomic policies, reflected in a highly overvalued real exchange rate.

In 2009, labour force participation and the unemployment rates among youth were 32.9% and 22.0%, respectively, compared to 43.0% and 11% for adults. Sudan's high population growth rate has resulted in a relatively young population and a high proportion of youth of working age at a time when fewer jobs are being created. Existing youth employment programmes are not co-ordinated under a coherent national growth and employment strategy that focuses on youth and no measures have been taken to address disparities in employment along urban-rural and gender lines.

Figure 1: Real GDP growth (Eastern)



Figures for 2010 are estimates; for 2011 and later are projections.

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Table 1: Macroeconomic Indicators

	2010	2011	2012	2013
Real GDP growth	5	2.8	2	2.8
Real GDP per capita growth	2.5	0.4	-0.4	0.4
CPI inflation	13	15.3	19.8	17
Budget balance % GDP	-3.1	-4.3	-3.4	-4.3
Current account % GDP	-6.4	-7.5	-12.3	-8

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Developments & Prospects

Table 2: GDP by Sector (percentage of GDP)

	2006	2011
Agriculture, forestry, fishing & hunting	32.9	33.1
Mining and quarrying	9.6	10.1
of which oil	-	-
Manufacturing	7.4	8.6
Electricity, gas and water	2.2	1.8
Construction	4.4	4.7
Wholesale and retail trade, hotels and restaurants	15	15.6
of which hotels and restaurants	-	-
Transport, storage and communication	13.9	12.5
Finance, real estate and business services	6.7	6.6
Financial intermediation, real estate services, business and other service activities	-	-
General government services	-	-
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	5.6	5.3
Other community, social & personal service activities	-	-
Other services	2.1	1.9
Gross domestic product at basic prices / factor cost	100	100

Figures for 2010 are estimates; for 2011 and later are projections.

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The secession of South Sudan resulted in an 80% decline in foreign currency earnings and a 35.6% reduction in budget revenue. Real GDP grew by 2.8% in 2011, down from 5% in 2010. This slowdown in growth is attributable to the loss of population and oil revenues and GDP growth is estimated to decline further to 2% in 2012.

The revival of agriculture is critical for overall economic growth and poverty reduction, particularly in rural areas. The contribution of agriculture to Sudan’s GDP increased from 31.2% in 2010 to 34.1% in 2011 and is expected to rise further to 39.4% in 2012. Value added in the sector grew by 9.3% in 2011 and is estimated to grow by 15% in 2012. Agriculture is the base of the country’s employment with 45% of youth and 42% of adults directly employed in the sector.

The mining sector has been heavily affected by the decline in oil production after the separation of South Sudan. The government has intensified its efforts to expand oil production from an average of 117 900 to 180 000 barrels per day (bpd) by the end of 2012, by improving the recovery factor[1]

[1] The proportion of oil that can be recovered from the deposit during mining, as compared to the total amount of oil contained.

in existing blocks and the development of a new (Al-Rawat) oil field. Gold has emerged as a leading export commodity, contributing USD 1.5 billion to export revenue in 2011 up from USD 0.45 billion in 2010, and revenue from gold is expected to double by 2012. There are growing environmental concerns about the rudimentary informal gold extraction activities. It is estimated that more than 200 000 workers are engaged in these activities, living in camps lacking basic facilities.

The industrial sector, including mining, accounted for 20.3% of GDP in 2011, and its share is expected to decrease to 15.9% in 2012 due to the decline in oil production and related processing activities. Manufacturing value added increased by 10.8% in 2011 thanks to expansion in sugar and cement processing. The government continues to provide tax and other incentives to attract domestic and foreign investment in manufacturing under an ongoing diversification strategy. It is expected that manufacturing exports will reach 10% of total exports by 2013. The Barbar Cement Factory attracted USD 130 million of investment from Arab Gulf States in 2011, which should produce 1.7 million tonnes of cement per year.

The construction sector continues to grow, driven by the expansion of infrastructure public utilities as part of government commitments under the East Sudan and Darfur (Doha) peace agreements. In addition, the government's commitment to continued reconstruction in other conflict-affected areas, especially in Blue Nile and South Kordofan states, is expected to sustain growth in the construction sector.

The contribution of the service sector to GDP increased from 42.8% in 2010 to 44.6% in 2011 partly because of the reduction in the share of industry and the continued expansion in financial services. However, the share of wholesale and retail trade and telecommunications in services declined as a result of population loss and increased taxes on telecommunications company profit.

Domestic demand, including both public and private consumption and investment, contracted in 2011 following the secession of South Sudan with the subsequent loss of 75% of oil income and 20% of population. The decline in private consumption and investment is expected to continue in 2012-13 due to the negative impact of the post-separation adjustment and continued political risks arising from ongoing armed conflicts. The current account deficit was 7.5% of GDP in 2011 and is expected to increase to 10.5% in 2012. The government introduced a series of measures to contain import growth including banning luxury imports and the imposition of an import tax ranging from 50%-100% on 18 consumer commodities.

There is growing concern that the fiscal adjustment, which focuses on spending cuts and tax increases, will seriously undermine pro-poor service delivery and the potential for long-term growth. Federal transfers to state governments, the main financing tool for service delivery under decentralisation, accounted for only 3.3% of GDP in 2011, down from the budgeted 4.1% share.

Developments in economic policy in 2011 were affected by post-secession issues, including the dispute over the Abyei area and other borders, loss of oil revenues and the impact of the latter on the government's budget, foreign reserves and the exchange rate. To confront these challenges, the government of Sudan introduced fiscal austerity and adjustment measures as well as measures to promote non-oil exports. It also continued to negotiate with the government of South Sudan over fees for transportation of South Sudan's oil through Sudan.

A three-year economic stability programme 2011-14, part of a five-year 2011-16 plan, was enacted by the Parliament following the secession of South Sudan. The programme is designed to smooth the transition from oil-led growth to agriculture and manufacturing-led growth and it includes relevant social safety measures. In the short-term, the programme focuses on maintaining economic stability, promoting self-sufficiency in basic commodities, enhancing the role of the private sector and creating employment opportunities.

Macroeconomic Policy

Fiscal Policy

The second Five-Year Strategic Plan (2012-17), which aims to diversify the economy away from oil to agriculture and other sectors and the Three-Year Emergency Austerity programme, aided by the IMF, will guide Sudan's economic policy through 2012-17. While the oil decade, from 1999-2010, witnessed the strongest growth episode in the country's history, there are serious concerns about the negative impact of the post-separation adjustments on real growth and social development. The immediate impact of the post-separation adjustment was fiscal: a supplementary budget had to be introduced in the second half of 2011 to accommodate the 35.6% loss in total revenue without jeopardising growth. In 2011, the BoS raised the reserve ratio by one percentage point up from 11% for 2010 and continued to use the nominal exchange rate as a nominal anchor to achieve price stability. The success of these policies depends on the ability of the government to rein in the fiscal deficit and confront economic and political risks.

The amended 2011 budget focused on cutting spending, increasing taxes and removing subsidies. Some social safety measures were introduced to mitigate the impact of fiscal consolidation, including an SDG100 across-the-board monthly bonus for civil servants, targeted income support for poor families and students, increased transfers to health insurance and additional resources for social development funds. The amended budget was based on the worst-case assumption concerning the outcome of the negotiations on the South oil transit fees, but it fell short of accommodating the full loss of oil revenue.

In order to contain the fiscal deficit, the government removed subsides from major fuel products and sugar, with an estimated saving of 1% of GDP in 2011. The government is undertaking a comprehensive set of fiscal measures. These include reviewing tax policy, reducing VAT exemptions, reforming the structure of import tariffs and personal income tax (by lowering the tax threshold and removing exemptions for those aged 50 years and above), rationalising exemptions under the Investment Encouragement Act and clarifying tax jurisdiction issues with sub-national governments. The tax on telecommunications was raised to 30% in the second half of 2011 up from 20% and a 5-10% development tax was imposed on selected consumer imports.

As a result, tax revenue increased by 0.3% of GDP over early projections in 2011. However, the high level of unrecorded transactions in the informal sector, with an estimated share of 60% of GDP, and unchecked tax evasion continue to impact tax compliance.

Notwithstanding the fiscal reforms, expenditure reduction remained below the level needed to compensate for lost revenue, resulting in an overall fiscal deficit of 5% of GDP in 2011. The deficit is expected to increase to 3.4% of GDP in 2012. With the intensification of armed conflicts and political discontent and the creation of new states, the fiscal stance remains largely expansionary. The wage bill amounted to 44% of government spending in 2011 and is expected to decline to 40% in 2012. The relatively high wage bill in 2011 is mainly attributable to the creation of 25 000 new jobs in the public sector. The share of Federal transfers to state governments was 27% of total government revenue, 5% less than the budgeted amount, and will remain the same in 2012. Spending on social services, including health and education, was 1.1% of the budget and is projected to decline to 0.9% in 2012. Capital expenditure was 8.2% of the 2011 budget, 50% less than originally budgeted, although it is envisaged to rise to 12.2% in 2012. The challenge ahead is to balance the deficit financing mix. In addition to selling government bonds, further effort is needed to mobilise donor support for the budget under favourable terms. Sudan's high external debt stock together with the economic sanctions imposed by the US continue to limit its access to international credit markets. The government needs to improve debt sustainability and implement critical reforms to establish widespread support for debt relief.

Table 3: Public Finances (percentage of GDP)

	2003	2006	2007	2008	2009	2010	2011	2012	2013
Total revenue and grants	16	21.0	20.6	22.7	16.3	16.4	12.1	10.7	10.6
Tax revenue	5.8	7.4	6.9	6.6	7.1	6.5	7.5	5.2	5.1
Oil revenue	9.1	11.2	11.6	14.9	7.9	8.5	5.3	2.6	2.5
Grants	-	-	-	-	-	-	-	-	-
Total expenditure and net lending (a)	15.3	25.6	26	24.2	21.2	19.5	16.4	14.1	14.9
Current expenditure	12.7	21.1	21.1	20.9	18.2	16.8	14.8	11.5	11.8
Excluding interest	11.1	20.0	20.2	20	17.2	15.9	13.3	9.6	9.7
Wages and salaries	4.1	5.8	6.8	5.1	5.6	4.9	5.1	4.9	5
Interest	1.6	1.2	1	0.9	1	0.9	1.5	1.9	2.1
Primary balance	2.3	-3.4	-4.4	-0.6	-3.8	-2.2	-2.8	-1.5	-2.2
Overall balance	0.7	-4.6	-5.4	-1.5	-4.8	-3.1	-4.3	-3.4	-4.3

Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

The consumer price inflation (CPI) rate was 15% at the end of 2011 and was projected to jump to 20% in 2012, mainly due to increased food prices, which account for 52% of the CPI basket, in addition to the rapid depreciation of the Sudanese pound. The BoS conducts monetary policy largely by issuing BoS bonds or *Musharaka* Certificates (GMCs), setting reserve requirements and manipulating the exchange rate. Reserve and broad money grew by 18% and 29%, respectively, in 2011; broad money is estimated to grow by 16% in 2012. Money growth is largely driven by increased lending to government. In 2011, the BoS raised the reserve ratio to 12%, from 11% in 2010 to contain inflationary pressure. In addition, it continues to operate a premium exchange rate that is 4.77% above the official rate, as a *de facto* devaluation, in order to encourage exporters. However, in December 2011, the free market rate was 50% higher than the official rate, presenting a serious challenge to the ongoing exchange rate anchoring.

Sudan's gross international reserves declined from one month cover of imports at the end of 2010 to less than 0.9 month cover by the end of 2011, owing to reduced export revenue and external financing and continued intervention to stabilise the exchange rate. A more suitable exchange rate system is essential for the government to curb inflation, promote investment and enhance competitiveness in the context of the Five-Year Strategic Plan (2012-17). To improve the monetary stance, the government continued to repay its debt arrears to banks, resulting in a lower ratio of non-performing loans to total loans outstanding in 2011 (17%) compared to 2010 (20%). However, growth in bank credit to the private sector remains low at just 15% of growth in nominal GDP, down from 19% in 2010.

The BoS directed all commercial banks to allocate at least 12% of their investment portfolio to microfinance projects in 2012. In addition, about USD 15 million has been allocated to the Graduate Employment Fund. Banks are given incentives and encouraged to form joint finance portfolios to promote exports of cotton, livestock, gum Arabic and minerals including gold, and to finance local production of sugar, wheat, edible oil and pharmaceutical products.

Economic Cooperation, Regional Integration & Trade

Sudan's trade balance recorded a deficit of USD 0.37 billion in 2011 and is expected to deteriorate by USD 6.3 billion in 2012 due to the loss of oil revenues and increased imports of petroleum products. It is estimated that exports will decline by USD 6.0 billion in 2012, down from USD 8.5 billion in 2011, while imports will fall by only USD 58 million from USD 8.8 billion in 2011. Capital flows including foreign direct investment (FDI) are expected to decrease in the short run. However, the current account will benefit from lower payments to oil companies.

China received 73% of Sudan's exports in 2010-11, while exports to Arab States and COMESA accounted for 14% and 6.4%, respectively. Imports are relatively more diversified and are dominated by food and manufactured products at 43% and 20%, respectively. Following fiscal adjustment in the second half of 2011, food imports decreased by 50% and the share of machinery increased from 12% to 24%. Sudan is considered to be under debt stress, and foreign aid, mainly from UNDP and partners, is estimated to reach 3.5% of total imports in 2012. Sudan's international borrowing is projected to decline from USD 3.1 billion in 2011 to USD 2.34 billion in 2012, with most of the loans coming from non-Paris Club bilateral creditors.

A 26 kilometre highway linking Sudan and Eritrea was officially inaugurated in October 2011. In early 2011, Sudan, Chad and the Central African Republic (CAR), signed an agreement to establish a consultative mechanism to address joint security issues, enhance peaceful co-existence among border tribes and encourage the voluntary return of refugees. Subsequently, a number of transportation-related agreements were signed to facilitate CAR and Chad trade through Port Sudan and the construction of a railway to connect the three countries.

Table 4: Current Account (percentage of GDP)

	2003	2006	2007	2008	2009	2010	2011	2012	2013
Trade balance	0.2	-3.5	2.5	6.1	-1.3	3.6	-1	-8.6	-2.7
Exports of goods (f.o.b.)	14.5	16.0	19.1	22.4	14.9	17.1	14.5	7.9	9
Imports of goods (f.o.b.)	14.3	19.5	16.6	16.3	16.2	13.4	15.5	16.5	11.7
Services	-4.5	-7.4	-6.3	-5.3	-4.7	-4	-2.2	-2.3	-2.4
Factor income	-7.7	-8.1	-10	-10.2	-9.9	-9.2	-5.3	-3.3	-4.9
Current transfers	4.1	3.8	1.3	0	2	3.1	1	1.9	2
Current account balance	-7.9	-15.2	-12.5	-9.4	-13.9	-6.4	-7.5	-12.3	-8

Figures for 2010 are estimates; for 2011 and later are projections.

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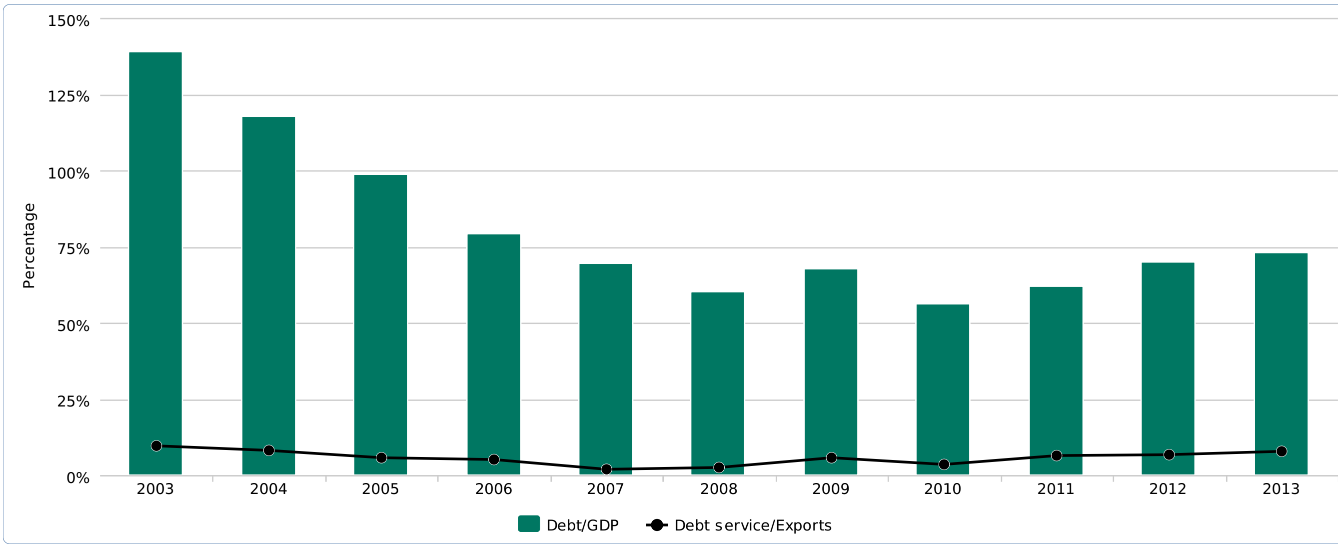
Debt Policy

At 61% of GDP, Sudan's external debt - which for Sudan and South Sudan combined reached about USD 39.7 billion at the end of 2011 - exceeds the county's debt stress threshold. In addition, 84% of this debt is in arrears. Public domestic debt was 7.8% of GDP in 2010, and was estimated to increase to 10.8% per year for 2011-12, reflecting the rise in public sector borrowing requirements. Sudan's external debt is unsustainable in the absence of debt relief, and with no access to concessional loans, the government continues to borrow from non-Paris Club bilateral creditors.

Sudan's ability to borrow and debt servicing capacity were further constrained in 2011 by the decline in oil revenue. The government is keen to qualify for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative and Sudan's Debt Technical Working Group met in February 2011 and agreed on a work programme. Sudan's overall score on the 2011 World Bank - AfDB's Country Policy and Institutional Assessment (CPIA) debt policy is 2, the lowest in Africa, and is likely to worsen without debt relief due to the growth in non-concessional borrowing and the accumulation of arrears.

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



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Economic & Political Governance

Private Sector

Sudan's rank on the 2012 World Bank *Doing Business* report is 154 out of 183 economies, unchanged from 2010. Sudan also ranks 35th out of 40 economies on the WB-AfDB CPIA-Business Regulatory Environment rating. Improving the business climate is not only important for enhancing the role of the private sector in investment and development, but also for overall economic governance and management. In particular, efforts must be made to widen access to credit and increase tax yields. Commercial banks' procedures for lending are stringent, particularly for small and medium enterprises (SMEs) and this also applies to public programmes. The Blue Nile State Graduate Employment project was suspended due to the high costs of finance. Banks must be encouraged to provide sufficient credit under the microfinance facility to support small enterprises targeting youth.

On the positive side, according to *Doing Business* 2011, Sudan ranks among the top 37 countries in terms of ease of registering property, because of the time needed to register property (9 days, compared to 65 days for the sub-Saharan average) and because of its affordability (3% of property value). But Sudan lacks an effective intellectual property rights regime, although some progress is being made, with support provided by the World Intellectual Property Organization (WIPO).

Financial Sector

Sudan's financial system is dominated by commercial banks and medium- and long-term financing through bonds and equity markets is very much underdeveloped. Recently the BoS introduced a number of measures to boost financial services and strengthen the regulatory and supervisory framework focusing on loan provisioning and capital adequacy. All banks were required to raise their minimum capital requirement to SDG 100 million by end-2011, up from SDG 80 million in 2010.

Restructuring of Omdurman National Bank, the largest commercial bank with a non-performing loan rate of 50%, is underway, albeit with delays. Khartoum Stock Market facilitates trading in government bonds (Shahama Certificates) on a short-term basis; the volume of dealings stood at SDG 3.5 billion in 2011. The WB-AfDB CPIA-Financial Sector Development rating ranks Sudan 40th out of 41 economies in 2011. Much remains to be done to improve financial services. In particular, deregulating the cost of finance, capital account opening and liberalising cross-border trade will enhance the quality of credit disbursal and the contribution of the financial sector to growth. Formal financial services in Sudan remain concentrated in major cities and financial sector development policy should pay special attention to the needs of rural inhabitants and small enterprises.

Public Sector Management, Institutions & Reform

Sudan has not yet completed a Public Expenditure and Financial Accountability (PEFA) assessment. Often there is a large disparity between planned and actual budget outcomes, reflecting lack of realism of the budgeting process and weak fiscal discipline. The fall in oil revenues may further reduce the accuracy of domestic revenue forecasts, in turn affecting budgeted expenditure allocations and assessments of overall budget performance.

The government initiated a Public Spending Tracking Survey in the health sector in May 2011. The results revealed considerable limitations in effective allocation of funding to the health facilities where the services are delivered and the need for more credible budgeting. The limited trickledown of Federal funds to lower levels, state governments and health facilities could complicate the process of decentralisation, especially following the reduction of vertical transfers to state governments under the austerity programme in the second half of 2011.

Budget oversight provided by Sudan's legislature is weak because the legislature does not have full powers to amend the executive budget proposals at the start of the year or approve any changes made to the budget over the course of the fiscal year. Similarly, Sudan's Supreme Audit Institution is hampered by a number of factors, including: lacking full legal discretion to determine what it will audit; insufficient resources to meaningfully exercise its mandate; not issuing timely audit reports on the final expenditures of national departments; and lacking proper channels of communication with the public. Moreover, there is no adequate reporting on the follow-up steps taken by the executive to address audit recommendations.

However, Sudan has made some progress in public finance management in recent years, largely because it began publishing an Enhanced Budget Year-End Report and Audit Report. Currently, the budget classification system provides a relatively adequate picture of general government activities, but budget monitoring and control systems are inadequate. Measures have been adopted to: strengthen control mechanisms in public spending in order to reduce delays in the preparation and submission of public accounts to the legislature; and, to ensure that little action is taken on budget reports and audit findings as well as transparency in transfers to states.

Corruption is perceived as rampant and Sudan remains one of the planet's most corrupt nations according to Transparency International's Corruption Perceptions Index for 2011. Sudan was ranked 176th out of 182 countries, with its corruption perceptions index at 1.6. The inspector general reported that many agencies have refused to be audited or to give access to their records. There are no laws providing for public access to government information, and the government does not provide such access. Sudan is ranked 48th (out of 53 countries) in the 2011 Ibrahim Index, reflecting its poor governance performance on a continental level.

Natural Resource Management & Environment

Sudan faces critical environmental challenges, including severe land degradation, deforestation, desertification and other impacts of climate change that threaten the prospects of lasting peace and sustainable development. Poverty remains the main cause of the extensive use of marginal land, water and forest resources, further burdening the already fragile and limited environment base. There are clear linkages between the patterns of utilisation of environmental resources and the ongoing conflict in Darfur, as well as other historical and current conflicts in Sudan.

The proportion of the population with access to clean water and sanitation is 59.3% and 31.2%, respectively, and varies considerably across states. Over the past few years, and with the support of the Global Environment Facility (GEF), the UNDP has assisted the Government of Sudan to prepare its National Biodiversity Strategic Action Plan and identify its country-specific priorities in relation to biodiversity conservation. In addition, the government has prepared its Second National Communication on Climate Change. The UNDP is currently supporting the Higher Council for Environment and Natural Resources to prepare Sudan's National Adaptation Programme of Action on Climate Change and a National Implementation Plan to phase out Persistent Organic Pollutants (POPs). Both documents were approved by the Government of Sudan and submitted to the appropriate GEF Secretariat. The UNDP is also assisting national and international partners to formulate a strategic environmental framework for the management of trans-boundary waters and environmental challenges in the Nile River Basin.

In an attempt to join the international community's endeavours to address environmental issues, Sudan has ratified the Global Environmental Conventions in line with the global environmental objectives agreed at the UN Conference on Environment and Development, Rio de Janeiro, in 1992, and related international instruments.

Political Context

Following the secession of South Sudan, a new cabinet was formed in December 2011 after five months of intense consultation among political parties led by the ruling National Congress Party (NCP). The new broad-based cabinet includes representatives from 14 other parties and representatives of former rebel groups that have signed peace agreements with the NCP government. Other major opposition parties declined to participate, including Umma and People's Congress Parties. With 60 cabinet ministers, the new government is the largest in Sudan's political history, reflecting the complexities and the political challenges confronting the country. At the same time, the armed opposition has formed the so-called *Kauda Alliance* to bring pressure on the government and demand regime change.

Commitment to implementation of the austerity programme presents the most serious challenge to political stability in Sudan. Inflation continues to soar especially with the surge in livestock and meat exports to compensate for the shortfall in oil revenue and disruption in the supply of livestock due to civil unrest. The government put in place measures to curb consumer price inflation, including reducing meat prices and curbing currency speculation. The prices of edible oil and some vegetables have fallen, thanks to the favourable agricultural season.

Six newspapers were suspended after secession due to their affiliation with South Sudan. Also the "Ra' al-Shaab" and "al-Wan" newspapers were suspended, respectively, in October 2011 and January 2012 for violating media and publication laws.

Social Context & Human Development

Building Human Resources

The Government's social sector policy seeks to expand the provision of basic services in health, education, water and sanitation. It emphasises high and quick impact projects for displaced persons and returnees as well as scaled up responses to HIV/AIDS.

The Central Bureau of Statistics 2009 data, showed that the gross enrolment ratios in basic education for females and males were 55.0% and 58.0%, respectively, and gross enrolment ratios in secondary education were 32.0% and 41.0%, respectively. The under-five mortality rate was 106 per 1 000 live births and the incidence of HIV/AIDS increased from an estimated 1.6% in 2002 to around 2.3% in 2010. Prevalence of malaria and tuberculosis are estimated at 17% and 10%. Sudan ranks 39th out of 41 African countries on the WB-AfDB's CPIA-Building Human Resources Index for 2011. Sudan may not be able to meet the Millennium Development Goals (MDG) targets 2, 4 and 6 without seriously boosting the capabilities of its health facilities to combat malaria, tuberculosis and HIV/AIDS, which are the main causes of hospital deaths.

Overall, education and training services are very mixed. While such services have technically been expanded, many children in rural areas, especially girls, lack access to even basic schooling. Secondary and higher education has expanded but the facilities are limited and the quality is low.

Poverty Reduction, Social Protection & Labour

Despite large endowments of natural resources, Sudan's economic performance has been greatly affected by the civil war and related governance problems. With increased spending on defence and security as a result of armed conflicts, budgetary allocation to infrastructure, health and social services has dwindled. Conflict and internal displacement of civilians have resulted in food insecurity in parts of the country and continue to cause egregious suffering and loss of life. According to the CBS 2009 baseline household survey, 46.5% of Sudanese are considered poor. Furthermore, growth has not been broad-based enough to make a dent in the incidence of poverty. High income inequality and skewed resource allocation in favour of the security sector implies that poverty reduction will remain a serious challenge.

However, the government has realised that poverty reduction is both an economic and political imperative. In 2011, it prepared an Interim Poverty Reduction Strategy Paper to address the daunting challenge of poverty and to meet the requirements for accessing debt relief.

Due to the political situation, social protection institutions are few in Sudan. The distribution of wealth is highly unequal along both social and regional lines and subsistence agriculture remains the predominant form of employment. Economic growth continues to be unevenly distributed, and as a consequence inequalities continue to widen. As a result of insecurity in parts of Darfur and along Border States, displacement and loss of livelihoods are expected to continue and malnutrition rates are likely to deteriorate in the coming months because of lack of proper access to food. The state offers only the most rudimentary medical services in urban areas, and even those are not free. Local and national NGOs also provide some services, but barely meet the population's health needs.

The labour force is estimated at 7.1 million and the unemployment rate was 15.8% in 2011. The agricultural sector provides employment for about 42% of the total labour force; public service and trade employ 19% and 11%, respectively. Since the 1990s there has been a boom in the informal sector and a proliferation of smaller employers; an estimated 60% of the workforce is directly engaged in the informal sector. As a result, labour codes are not consistently applied. The non-salary cost of employing a worker is moderate, but dismissing a redundant employee is burdensome and costly. Regulations pertaining to working hour limitations are somewhat flexible. Recruiting suitably trained staff is difficult and Sudan fares poorly in regional terms. According to the *Doing Business* Employing Workers measure, Sudan ranked 153rd out 183 in 2010.

Gender Equality

Gender inequality is striking in Sudan in the sense that women are not equal to men in terms of education, literacy, and quality of life. 48% of women are illiterate; the gender inequality index in Sudan is 0.708; and, the maternal mortality ratio is 750 women per 100 000 female live births. Moreover, Sudan has neither signed nor ratified the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW).

Divorce proceedings are unequal: both husbands and wives can ask for divorce but obtaining it is much more difficult for women than for men. There are no specific laws prohibiting domestic violence, which is common. The police normally do not intervene unless contacted. Sanctions exist at the level of the community to deal with such situations; however, they are ineffective as a deterrent. While in traditional communities women are often expected to stay at home after marriage, among educated women, particularly in the cities, it is increasingly common for women to remain employed after marriage.

Many social factors constrain women's labour force participation and employment in Sudan. Generally, women tend to be full time homemakers, and traditions and culture limit their mobility. The female labour force participation rate and share in employment were 19.7% and 24% in 2009 respectively, whereas the corresponding rates for males were 53% and 79%. Private formal and informal employers are discouraged by the maternity leave law, which entitles female workers to leave with pay for two months in confinement. Hence, women are more commonly employed in the government sector and NGOs than in the private sector. The share of women-owned enterprises (self-employed and employer) was 5.2% in 2009, versus 36.3% for men (CBS 2009). This is mainly due to gender-specific barriers that go beyond the challenges confronting all small enterprises in terms of accessing information, credit and markets. Women's political representation has improved; for example their share in the legislature has surged from 10% to 25.6%, thanks to the Comprehensive Peace Agreement (CPA), which reserves a 25% minimum quota for female parliamentarians.

Thematic analysis: Promoting Youth Employment

Youth aged between 15 and 24 accounted for 17% of Sudan's total population of 30.5 million in 2008. Data from the 2009 national household survey shows that the labour force participation and the unemployment rates among youth were 32.9% and 22%, respectively, compared to 43.0% and 11% for adults.

Both supply and demand as well as institutional factors impact youth participation and unemployment rates in Sudan. Sudan's high population growth rate has resulted in a relatively young population and a high proportion of youth in the working age group at a time when fewer jobs are being created. The youth are also more geographically mobile than other cohorts; their urbanisation rate was 40.5% in 2008 compared to 31.4% for adults. The high rate of youth urbanisation is partly due to labour migration in search for better livelihood in cities and partly due to population displacement caused by continuing conflicts in the country. In addition, after the Comprehensive Peace Agreement of 2005, a significant proportion of the returnees and ex-combatants, many of whom were below 30 years of age, chose to resettle in urban areas according to UNDP data. High rural-urban disparities in allocation of infrastructure, investment, and services fuel the high rates of migration among youth, weakening agricultural productivity and deepening poverty in both rural and urban areas.

Other supply-side factors relate to the low level of initial schooling and lack of matching mechanisms that smooth the school-to-work transition. Schooling at primary level is free in Sudan, but secondary and tertiary education are not. Career advice services and job counselling are less emphasised in secondary and tertiary education. Employers frequently experience difficulties in finding skilled workers despite the high unemployment rate. High school and post-school graduates accounted, respectively, for 49% and 28.7% of unemployed youth in 2008. The high unemployment rate among high school graduates is mainly due to lack of basic knowledge and skills for gainful employment, which also diminishes the prospects for their participation in training activities over their working life.

The growing graduate unemployment, at a time of rapid expansion in tertiary education is a major concern in Sudan. There is evidence of mismatch between tertiary education outcomes and the skills that employers require. Indeed, the percentage of students enroled in humanities (62%) is almost twice that of those who enrol in sciences (32%), whereas employment opportunities for youth are concentrated in agriculture (42%), public services (19%) and trade (19%). As a result, many graduates work in jobs requiring lower qualifications.

Demand side factors are equally important. Strong oil-driven growth in Sudan over the last decade has been accompanied by growing unemployment due to Dutch Disease and limited investment in the non-oil sector. The surge in aggregate demand following the oil boom was largely met through increased imports with limited spillovers to the rest of the economy. Agriculture, which provided employment for 45% of youth in 2011, has become less competitive and agricultural exports declined significantly owing to the overvalued exchange rate, reducing incentives especially for young farmers.

In the absence of unemployment insurance and declining jobs in the formal sector, many of the unemployed end up in the informal sector where productivity and wages are very low. The informal sector accounts for 60% of national income, but over 90% of income and employment in rural areas. In contrast, 90% of large-scale firms are concentrated in the capital, Khartoum.

The unemployed youth are disadvantaged due to their relative inexperience and lack of relevant skills. Thus, 21% of private employers in Khartoum's formal sector reported in a Ministry of Labour survey preferring foreign workers due to their efficiency and skills. The 2009 and 2010 *Doing Business* report showed that Sudan's rank on employing workers has deteriorated from 144, out of 181, to 153 out of 183 countries reflecting, among others, the difficulties of finding workers with basic skills as well as the rigidity of hiring and firing regulations.

Many social factors relating to gender stereotyping constrain young women's participation and employment in Sudan. According to CBS 2009 data, participation and unemployment rates for females aged between 15 and 25 years were 9.5% and 26% respectively, whereas the corresponding rates for young males were 23% and 74%. Unemployment is relatively low among young women (19%) compared with men (46%), mainly due to the low labour force participation rate of the former. In addition, young women are more likely than young men to work in unpaid family work, (49% versus 22%), rather than remain unemployed.

Youth unemployment is also driven by structural and institutional factors including lack of employment information, career orientation and ineffective labour market institutions. Job opportunities are not frequently advertised through the labour market: only 26% of formal private employers in Khartoum recruit workers through the labour market and the informal sector relies completely on family connections and personal networks for recruitment.

There is a heightened sense of awareness about the challenge of youth employment in Sudan since the decision to double the intake of the institutions of higher learning in Sudan was taken in 1991. A National Project for Accommodating Graduates was introduced in 1999. This was followed by a more inclusive youth employment programme, introduced in 2008 in collaboration with the UNDP, that was subsequently transformed into a Graduate Employment Fund supported by the Ministry of Social Welfare, Women and Child Affairs (MSWWCA) and Sudan Multi-Donor Trust Fund. With a budget of USD 319 million, the Programme aimed to provide employment for 300 000 graduates (which equates to 50% of all unemployed graduates for the 2000-09 period) in the government as well as the private sector by facilitating migration, and retraining, and encouraging self-employment in small and medium projects. Other related graduate employment programmes include “Start Your Project” and the “Small Business Incubators”. The former started in 2008 and is organised by the MSWWCA and the Sudanese Businessmen and Employers Federation to retrain graduates to run projects funded by microfinance. Trainees are directly supervised by experts over a one- to three-year period to increase their business skills and successful candidates can start their own businesses with funding from the Khartoum Bank.

The impact of these initiatives has been limited. During 2010-11, only 350 graduates were enroled in special retraining programmes focusing on project start-up. Another 280 graduates were engaged in various business lines, including marketing services, business management, poultry and furniture assembly.

The programme entitled, “Creating Opportunities for Youth Employment in Sudan”, became operational in 2008 is expected to end in 2012. Eleven UNDP affiliates pledged to contribute USD 15.7 million to the programme fund and 16 government organisations were involved in its implementation. The programme builds on the strategy prepared by the Federal Ministry for Youth and Sports to train 5 million youth, and on the national vision to enhance financial services for youth through microfinance.

The existing youth employment programmes continue to face the usual challenge of facilitating school-to-work transition, in addition to facilitating the transition of the victims of civil wars and ex-soldiers into civil society. Existing programmes are not co-ordinated under a coherent national growth and employment strategy that focuses on youth and no measures have been taken to address disparities in employment along urban-rural and gender lines. The programmes focus on retraining youth through existing vocational training facilities, which are male-dominated (77%). Sudan’s youth employment policies should be based on a comprehensive national growth and employment strategy that address challenges of labour market segmentation, skills mismatch, and information gaps.

Notes

[1] The Economic Commission for Africa (ECA) initiated discussions with the United Nations Development Program-Khartoum and AfDB country office in Sudan to assist the Central Bureau of Statistics (CBS) to prepare separate historical macroeconomic data for Sudan. This work is still ongoing.

[2] The proportion of oil that can be recovered from the deposit during mining, as compared to the total amount of oil contained.