Sudan and the International Financial Crisis: effects and response

By Hassan A. Abdel Ati
I- INTRODUCTION

The week in mid September 2008 that witnessed the unfolding or explosion of the international financial crisis (IFC), was described by economic analysts as the bloody week compared to the Big Bang of the 1930s and an historic day of failure for the American economy after so many years of success. The secondary eruption immediately affected all the western economies and gradually the effects reached almost every market in the globe. While immediate responses, especially in the west, attributed the crisis to irresponsible behaviour of consumers, the failure of personal rectitude of the borrowers, greed, unethical profits, poor monitoring over banking system, etc., key questions about the creditors and the reasons behind the excess liquidity injected into the global financial markets by the major central banks were not raised. Nor was there any questioning of new-liberalism or globalization which allowed the financial institutions to borrow, lend and collateralize then borrow, lend and collateralize again.¹

It is certain that a crisis of such a scale can not just erupt overnight and must have some major root causes. Chief among these were the ill-preparedness of banks to the crisis and their failure to forecast it; easy money policies that increased liquidity and allowed multiple transactions; investment in highly vulnerable sectors; and the unfettered markets that not only failed to trickle down development and redistribute wealth but caused the concentration of wealth and the trickling down of the negative impact to the whole globe as the drive to enrich the few has bankrupted the many².

As the economies of developing countries became increasingly integrated in the global market since the mid 1980s, they all tended to have some elements of the above mentioned characteristics in addition to their own underdevelopment problems. Because of this, the effects of the crisis were more severe on people than States’ economies.

This paper tries to: (a) draw a general profile of Sudan’s economy in relation to the IFCs to highlight the strengths that could help the economy absorb the shock and the vulnerabilities to the negative impacts of the crisis; (b) summarize and assess the government’s economic response and management of the crisis at the national level in relation to social protection; and (c) to draw some lessons from the developments and responses so far both to minimize the impact on the poor and to prevent a repeat of such an impact.

The paper is based entirely on secondary sources, including newspapers, and deductions from available and scanty information. Statistical information obtained from different “official sources” has neither been consistent nor easy to access, which made dependence on websites’ information inevitable.

² Ibid.
II- SUDAN ECONOMY: AN OVERVIEW

A. THE CURRENT PICTURE

Prior to the global financial crisis, the Sudanese economy was one of the fastest growing in the world despite two decades of international (western) sanctions. Gross Domestic Product grew from US $ 9.9 billion (IMF 1980) to US $ 57.9 billion in 2008 and was estimated to be around US$ 52.2 billion in 2009\(^3\). Economic growth rate increased from 7.1% in 2003 to 10.2% in 2007\(^4\). Foreign Direct Investment (FDI) was also among the highest in Africa with over US $3.5 billion in 2006, stimulated mainly by the discovery and export of oil, the signing of the 2005 Comprehensive Peace Agreement (CPA) and encouraged by policy reforms, favourable international energy and crop prices, and rising urban consumption\(^5\).

This rapid growth, however, was not sufficiently broad-based and significant disparities continue to exist between urban and rural areas and between regions contributing to growing inequalities, increased rural-urban migration and a fast growing urban informal sector, accounting for more than 60% of GDP. Investments and services are heavily concentrated in and around Khartoum state and in other state capitals. Regional disparities and the resultant migration have weakened agricultural productivity, deepened poverty in both urban and rural areas and raised political and social tensions.

According to the UNDP’s 2008 Human Development Report, Sudan is ranked the 147\(^{th}\) among 177 countries, compared to 141\(^{st}\) in 2006. According to a recent joint World Bank-UNDP mission, about 60-75% of the population in the North and 90 per cent in the South is estimated to be living below the poverty line of less than US $ 1 a day.

B. HISTORICAL DEVELOPMENT:

During the late 1970s and early 1980s the development strategy in Sudan witnessed a remarkable shift, in line with changes elsewhere in the developing economies from a state dominated economy towards the free market, thanks to the increased involvement of the International Monetary Fund (IMF) and World Bank (WB). Public sector investments in manufacturing started to diminish and a series of State Owned Enterprises (SOEs) reforms were implemented to improve their performance. Greater autonomy of public corporations in terms of firm-level decision making was enhanced and the corporate SOEs were restructured, to allow companies to operate on the basis of commercial principles. A number of consumer subsidies (e.g. on sugar) were reduced and subsidies provided for the SOEs on inputs and finance were curtailed. However, the state maintained its dominance of the agricultural sector and remained committed to some subsidies on food commodities and total support of all basic social services.

\(^3\) IMF projection for 2008  
\(^4\) IMF First Review of Performance, 2007-08 Staff-Monitored Programme, June 2008, p.21  
### Table 1: Sudan Demographic and Economic Indicators

<table>
<thead>
<tr>
<th>Demographic Indicators</th>
<th>2000</th>
<th>2005</th>
<th>2007</th>
<th>2008</th>
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<tbody>
<tr>
<td>Total Population, (millions)</td>
<td>34.90</td>
<td>38.70</td>
<td>40.43</td>
<td>41.35</td>
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<tr>
<td>Annual Population Growth Rate (%)</td>
<td>2.3</td>
<td>2.1</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Life expectancy at birth (years)</td>
<td>56</td>
<td>57</td>
<td>58</td>
<td>58</td>
</tr>
<tr>
<td>Mortality rate, under-5 (per 1,000)</td>
<td>115</td>
<td>110</td>
<td>109</td>
<td>...</td>
</tr>
<tr>
<td>Immunization, measles (% of children ages 12-23 months)</td>
<td>58</td>
<td>69</td>
<td>79</td>
<td>...</td>
</tr>
<tr>
<td>Primary school completion rate</td>
<td>37</td>
<td>47</td>
<td>50</td>
<td>...</td>
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<tr>
<th>Economic Indicators</th>
<th>2000</th>
<th>2005</th>
<th>2007</th>
<th>2008</th>
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<tbody>
<tr>
<td>GDP (current US$) (billions)</td>
<td>12.37</td>
<td>27.39</td>
<td>46.23</td>
<td>58.44</td>
</tr>
<tr>
<td>GDP growth (annual %)</td>
<td>8.4</td>
<td>6.3</td>
<td>10.2</td>
<td>8.3</td>
</tr>
<tr>
<td>Inflation, GDP deflator (annual %)</td>
<td>8.7</td>
<td>12.2</td>
<td>7.0</td>
<td>15.8</td>
</tr>
<tr>
<td>Agriculture, value added (% of GDP)</td>
<td>42</td>
<td>32</td>
<td>28</td>
<td>26</td>
</tr>
<tr>
<td>Industry, value added (% of GDP)</td>
<td>22</td>
<td>28</td>
<td>31</td>
<td>34</td>
</tr>
<tr>
<td>Services, etc., value added (% of GDP)</td>
<td>37</td>
<td>40</td>
<td>41</td>
<td>40</td>
</tr>
<tr>
<td>Exports of goods and services (% of GDP)</td>
<td>15</td>
<td>18</td>
<td>20</td>
<td>23</td>
</tr>
<tr>
<td>Imports of goods and services (% of GDP)</td>
<td>18</td>
<td>28</td>
<td>24</td>
<td>22</td>
</tr>
<tr>
<td>Gross capital formation (% of GDP)</td>
<td>18</td>
<td>24</td>
<td>24</td>
<td>24</td>
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<tr>
<td>Workers' remittances (US$ millions)</td>
<td>641</td>
<td>1,016</td>
<td>1,769</td>
<td>1,850</td>
</tr>
<tr>
<td>Foreign direct investment, net inflows (US$ millions)</td>
<td>392</td>
<td>2,305</td>
<td>2,426</td>
<td>...</td>
</tr>
<tr>
<td>Official development assistance and aid (US$ millions)</td>
<td>220</td>
<td>1,829</td>
<td>2,104</td>
<td>...</td>
</tr>
<tr>
<td>Trade (% of GDP)</td>
<td>33.0</td>
<td>46.3</td>
<td>44.8</td>
<td>...</td>
</tr>
</tbody>
</table>

Source: World Development Indicators database, April 2009

### Table 2: Sudan: Selected Social Indicators

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<tbody>
<tr>
<td>Primary completion rate, total (% of relevant age group)</td>
<td>42</td>
<td>38</td>
<td>37</td>
<td>47</td>
<td>50</td>
</tr>
<tr>
<td>Prevalence of undernourishment (% of population)</td>
<td>31</td>
<td>24</td>
<td>...</td>
<td>21</td>
<td>...</td>
</tr>
<tr>
<td>Ratio of female to male primary enrollment</td>
<td>77</td>
<td>81</td>
<td>85</td>
<td>87</td>
<td>86</td>
</tr>
<tr>
<td>Ratio of female to male secondary enrollment</td>
<td>79</td>
<td>...</td>
<td>96</td>
<td>94</td>
<td>93</td>
</tr>
<tr>
<td>Immunization, measles (% of children ages 12-23 months)</td>
<td>57</td>
<td>51</td>
<td>58</td>
<td>69</td>
<td>79</td>
</tr>
<tr>
<td>Mortality rate, infant (per 1,000 live births)</td>
<td>79</td>
<td>76</td>
<td>73</td>
<td>71</td>
<td>69</td>
</tr>
<tr>
<td>Mortality rate, under-5 (per 1,000)</td>
<td>125</td>
<td>120</td>
<td>115</td>
<td>110</td>
<td>109</td>
</tr>
<tr>
<td>Births attended by skilled health staff (% of total)</td>
<td>69</td>
<td>86</td>
<td>87</td>
<td>49</td>
<td>49</td>
</tr>
<tr>
<td>Maternal mortality ratio (per 100,000 live births)</td>
<td>...</td>
<td>...</td>
<td>450</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Pregnant women receiving prenatal care (%)</td>
<td>70</td>
<td>...</td>
<td>60</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Incidence of tuberculosis (per 100,000 people)</td>
<td>174</td>
<td>192</td>
<td>212</td>
<td>234</td>
<td>243</td>
</tr>
<tr>
<td>Population with access to improved sanitation facilities (%)</td>
<td>33</td>
<td>33</td>
<td>34</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Population with access to improved water source (%)</td>
<td>64</td>
<td>67</td>
<td>69</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Fertility rate, total (births per woman)</td>
<td>5.9</td>
<td>5.6</td>
<td>5.1</td>
<td>4.5</td>
<td>4.2</td>
</tr>
<tr>
<td>Life expectancy at birth, total (years)</td>
<td>53</td>
<td>55</td>
<td>56</td>
<td>57</td>
<td>58</td>
</tr>
</tbody>
</table>

Compared to the MDGs targets, the above social indicators shows limited achievements in almost all indicators, except for immunization.
III- PRIVATIZATION IN SUDAN

As mentioned above, during the 1970s, Sudan's economy began to experience severe structural problems that inhibited economic growth, particularly problems of excess aggregate demand resulting in inflationary pressures. This was aggravated by the devastating effects of civil war in the south and severe droughts and famines. The implications were a deficit in the balance of payments and accumulation of external debts, besides the adverse effects on terms of trade.

The major shift in the structure of the national economy towards privatization in general occurred during the early 1990s. In spite of the deteriorating relationship between Sudan and the IMF, Sudan started to speedily implement self-imposed economic reforms known as Liberalization Policies under the National Economic Salvation Programme (NESP).

The declared objectives of NESP were (a) to revitalize the Sudanese economy through reallocation of resources towards production; (b) to encourage the private sector, national or foreign, to play a more active role, (c) to reorient financial, economic and institutional structures to create a more conducive environment for private sector and (d) to maintain social stability by protecting the poor during the adjustment period.

Among the means towards the realization of those objectives were the liberalization of export prices and the provision of export subsidies, mobilizing domestic and foreign resources by creating a conducive environment for their productive use and introducing institutional reform measures with a view to removing all administrative, economic, or legal impediments to productive investment and achieving a better allocation and efficient use of resources. The main policy reforms included reducing substantially government spending on basic social services, liberalization of internal and foreign trade, removal of subsidies, devaluation of the currency, raising taxes, curbing public employment and privatizing some state-owned manufacturing and other public enterprises.

The second phase of the privatization Programme was implemented during 1998-2000 and which was particularly boosted with the discovery of oil and the dawning of peaceful settlement to the civil war. Since then, the private sector, national and foreign, started to assume a greater and expanding role in the national economy. It became increasingly responsible for provision of basic social services particularly health and education. It has also come to represent the primary employer of labour. That role was further promoted by the significant increase in Foreign Direct Investments (FDI) induced by liberalization policies and the growing oil industry. In fact Sudan has become one of most attractive countries on the African continent for FDI where large-scale investments are concentrated in oil industry, banking services, telecommunications and other services.

It is important to note that, because of the trade and economic embargo on Sudan maintained by western countries throughout the 1990s and because the expansion of the economy was linked to the oil industry, the production of which was mainly by East Asian companies, by the end of the 1990s those East Asian countries (China, Malaysia, South Korea and India) became the major trade partners. Arab countries also became major partners, with their investment concentrated in real estate, services and to a lesser extent agriculture.

Nonetheless, and after a decade of implementation, the privatization programme has achieved little of its set objectives. As indicated by the figures below:

1. Official inflation reached high levels during the mid 1990s and started to drop settling around 8-9% (Fig. 1). However, official figures do not seem to reflect the real picture as the basket upon which the aggregates are calculated is old and does not take into account the huge changes in the consumption patterns that occurred over the last decade. For example, based on the calculation of price of 5 items (sugar, bread, bottled drinking water, flour and meat) in Khartoum state, the increase in prices averaged 23%.
2. The negative balance of trade has continued to grow, reaching a maximum of $10 billion in 2007 (Fig. 2). The trade balance was negative with all partners except Asian countries, who almost monopolize the petroleum export trade (Fig. 3).

3. Since the adoption of the privatization programme, a steady decline was experienced in agricultural and natural resource products (the traditional exports) and the rising increase in dependence on oil which currently contributes about 95% of total export values (Fig. 4, 5, 6).

4. A massive change has also been experienced in the types of imports. Comparing the 1990s with 2008 (Fig. 7), the total value of imports has doubled 14 times\(^6\) between 1990 and 2008 from just about 5 million SDGs to over 35 billion, against an annual population growth rate of 2.2%. The composition of imports has also changed considerably, with the most noticeable increase in “others” which is mainly military expenditure and luxurious products.

The above, in addition to the armed conflict in Darfur, population displacement, political instability, large scale corruption\(^7\) and the contentious relationship with the international community represent the context within which the international financial crisis occurred.

\(^6\) The calculation is based on the value of the old Sudanese pound against the US dollar for the two periods (from about 100 pounds to the dollar in 1990 to about 2500 in 2008).

\(^7\) The 2009 Transparency International report rates Sudan as 176th (out of 180) in its corruption scale
Fig. 1: Inflation Rate 1988-2008

Source: Central Bureau of Statistics, Sudan

Fig. 2: Sudan Trade Balance 1989-2008 (1000 SDG)

Source: CBS, Sudan

Fig. 3: Sudan Trade Balance by Partners 2000 & 2006

Source: CBS, Sudan
Fig. 4: Agricultural & Natural Resources Exports 1990-2008

Source: CBS, Sudan

Fig. 5: Composition of Sudan Exports 1990 and 2008

a. 1990

Source: CBS, Sudan

b. 2008

Source: CBS, Sudan

Fig. 6: Petroleum Exports 1990-2008

Source: CBS, Sudan
Fig. 7: Composition of Sudan Imports

b. 1990

Source: CBS, Sudan

b. 2008

Food stuffs
Production materials
Consumable goods
Medicines & Pharmaceutical Prod.
Others

53% 2% 14%
At a time, when leaders in the strongest economies and countries have been trying hard to avert or reduce the negative impact of the financial crisis on their economies and citizens, Sudanese officials were in disarray with regard to the potential repercussions of the crisis on the country. Some, including the Minister of Finance, initially opted to deny any effect of the crisis on Sudan’s economy because of the defacto “protection” resulting from the “western” economic embargo against Sudan for over 15 years, the absence of any economic ties with the Western (American) economies, the limited investment of the Central Bank of Sudan in international financial markets, and the de-linking of Sudan’s currency from the US dollar in favor of other currencies (Euro). By the beginning of 2009, some officials saw the crisis as a temporary situation and predicted that it will soon come to an end, at a time when it was actually starting to impact on Sudan. Others were even more optimistic, as they perceived the crisis as a potential blessing, predicting that investors will actually direct their investments to Sudan as a "protected" economy or a safe haven with lower risks than other markets.

In reality, today, the interconnectedness and interactions within the global market do not exclude or allow any economy to be excluded from the impact of the crisis. Obviously, the limited engagement in the international market has delayed the impact and reduced the initial shock but it also increased the indirect and long term effects especially for countries that rely heavily on foreign aid and assistance.

Some evidence of the scale of the crisis and its possible impact can be gathered from the following international reports and statements:

- Oxfam GB, in statement in December 2008, noted that international assistance (currently estimated at 104 billion US$) is the first victim of the financial crisis. The international NGO said that the cuts in or delay of aid delivery by donor countries comes at times of high unemployment, poverty and disasters in recipient countries;

- The agenda of the G8 and also the G20 which used to focus on the issues of poverty and economic growth and in reaffirming their commitment to development assistance, in its last summit were focused on saving the financial sector, mainly in the North (West), ironically with some resources from the South;

- The UN secretary General, Ban Ki Moon, addressing the African leaders meeting in New York in November 2008, stated that Africa needs $72 billion US dollars to achieve the MDG targets and that none of the African countries was on the right path to meet those targets, especially those relating to the eradication of poverty. He also stressed the extra need for foreign aid to Africa to meet the challenges posed to Africa by the food crisis, climate change, HIV/AIDS …etc;

- The expected drop of Arab countries’ assistance (estimated at 128 billion US$ in 2006) to poor countries, including Sudan. The Gulf States contribute about 94.6% of that and the drop in oil prices (by 60%) and the shock to the Gulf markets is expected to reflect in a massive drop in the size of aid to poor countries;

- The inevitable cut in humanitarian and development assistance which is estimated to amount to between 6-8% of the national Development Budget.

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8 Statement by Mr. Azhari Eltayeb El Faki official spokesman of the CBS
9 In some states, assistance account to over 60% of the development budget e.g. Southern Sudan and Blue Nile State.
At the national levels:

- The huge deterioration of the productive sector, especially food production has transformed Sudan from an exporter to an importer of food products. (See figure 6, 7);

- The sharp drop in foreign investment in the productive sector and the concentration of incoming flows into luxurious consumption goods (mobiles, entertainment, etc..) away from the needs of the poor. The drop was reflected in the sharp rise of the price of the US dollar by about 12% in a span of 4 weeks with a parallel drop in the price of the Euro by 10.7% at a time when the value of the US dollar was falling all over the world. This on the one hand, confirms the effective linkage of the economy to the US dollar and, on the other, shows the abnormal behaviour of the economy with regard to currency prices compared to the international trends. It also points to the distance and/or contradiction between officially stated policies and the economic realities in what is supposed to be a free market economy;

- The instability created by the drop in oil prices. For example, the 2008 national budget was based on an assumed price of 65 US$/barrel but prices dropped to 45 US$/barrel, in addition to the expected drop in demand for oil caused by the crisis;

- The ever increasing costs of defense and security (Fig. 7.b) and the preparations for the elections in 2010 which are estimated to cost about 1-2 billion US$.

All the above provide strong evidence of the fallacies about the limited or positive impact of the crisis on the Sudanese economy.

In addition, the effect of the international financial crisis on the Gulf states is also expected to have serious repercussions on the Sudanese economy, including:

(a) A drop in remittances transferred by expatriates and workers due to price rises in the Gulf states;

(b) Possible redundancies of thousands of unskilled workers in the construction sector as well as professionals in the financial, commercial and services sectors with the impact on both families and the economy;

(c) A drop in ODA, investment and humanitarian assistance.

Reaction to the crisis has also been sluggish and disproportionate, as indicated by the measures taken:

- The Central bank of Sudan (CBS) directed commercial banks to direct available liquidity to productive investment to avoid liquidity accumulation and increase of inflation;

- Commercial banks went into a state of uncertainty and lack of confidence due to the large number of defaulters in the extended loans. The CBS response was to form of a committee “to study reasons for default and limited forecasting capacity”;

- CBS limited credit extension to 25% of banks cash stocks.
V- NATIONAL BUDGET RESPONSE

The 2009 budget, was supposed to be a crisis management budget and hence expected to include measures to minimize the short term impact of the crisis and precautionary measures to avoid a repeat or the worst of the crisis in the medium and long term and also to respond to the sharp decline in local production and to the drop in international oil prices. Economists also expected the budget to, at least, (a) come free of any new taxes or duties on incomes of the fixed and low income groups or business to avoid price increases, (b) include measures to absorb the secondary shocks of the crisis (e.g. drop in loans, credit and FDI flows and ODA) and strategies to sustain development activities and (c) to design new measures to assist the poor, at least to compensate for the drop in the international humanitarian assistance. None of those expectations were realized.

Ironically, the official response in the international arena contradicts the statements made inside the country which played down the scale of the crisis. For example, the Sudan report to the Second UN General Assembly Committee in late 2008, stated that Sudan’s foreign debt in 2008 was 31.9 billion US$ which amounts to over 65% of the Gross and National Domestic Product and 486% of the value of the national exports. The report warned from the effects the international financial crisis on the country's ability to honor its commitment towards the international community (debt servicing) and to the implementation of the Comprehensive Peace Agreement, top on its agenda is the issue of wealth sharing.

Unfortunately the budget came, once again, as a budget with high military expenditures. The Minister of Finance in his statement to Parliament in November 2008, focused on the challenges of the conflict in Darfur, the rehabilitation of war affected areas, the cost of peace, elections and the drop in foreign assistance … etc; which were used to justify the levying of new taxes on people. The budget expresses the insensitivity of policies to the implications of the crisis on the citizens or the needs of the poor as it focused on the country's image and political agenda, which also explain the playing down of the crisis impact.

The budget did not include any alternative measures to the likelihood of any funding stoppage that could halt development projects and add to the already high unemployment rates, influence the emergency programmes linked to the implementation of the CPA, with the direct effect of that on the provision of basic services, especially water, health and education, that have by and large in most rural areas became dependent on external assistance.

Thus the 2009 budget:
- was a war and security oriented budget;
- was dependent on the quick unsustainable commodity (oil) revenues in the presence of several sustainable alternative sources in agriculture, livestock and other natural resources;
- did not indicate any vision towards overcoming the crisis and/or absorbing its impact on the poorer segments of the community. There were no salary increases for public sector workers and no subsidies or support to other poorer groups of population;
- did not include any mechanisms to adjust to or escape sudden price changes in international oil prices or interest rates.

Thus, the measures taken by government were immediately transferred as a further burden onto the public, through:
- direct income tax;
- increases in import and production taxes resulting in sharp rises in consumer prices and for some commodities creating scarcity and leading to astronomical price increase

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10 One MP, Mr. Suleiman Hamid, in the Parliament debate of the budget stated that public sector workers salaries constitute 43% of their cost of living.

11 Sugar prices rose by 100% in two weeks late 2008, from 70-80 SDG per 50-Kgm sack to over 140 and despite the abundance of commodity, prices dropped slightly but it is still sold to consumers at about 120.
shrinkage in supply of goods, especially imported goods;

- erosion of the purchasing powers and hence slowing of market transactions.

VI- THE POSSIBLE IMPACT OF THE INTERNATIONAL FINANCIAL CRISIS ON SUDAN

1- The sluggish or zero growth of the major global economies is expected to reduce the demand for oil and cause its price to drop. That would immediately reflect on the national revenue as oil constitutes about 95% of the total national export value;

2- Insurance on all commodities is expected to increase which will, on the one hand, raise consumer prices for the public and, on the other, reduce or slow development projects, the thing that affects employment and supply of goods, especially food products;

3- Except for Chinese and Malaysian investments in oil, most of the other foreign investment is dependent on Western banks’ credit or guarantees (especially the Gulf) which is likely to reduce or halt investment flows;

4- The main problem and vulnerability is the reliance of the budget almost totally for its revenues on the international oil prices, which leads to a chain reaction on other revenue sources, such as customs, imports and production tax, financing of export, debt payment/servicing as well as the expected drop in loans, grants and investment which will be influenced by lack of confidence of both creditors and investors;

5- The poor management of the crisis and the continuation of the Darfur conflict will continue to deny Sudan the benefit of debt cancellation or reduction initiatives (of the HIPC and NEPAD), credit guarantees as well as the poverty eradication related international commitments;

6- The impact will be more severe on Southern Sudan as it depends 100% on oil revenues and foreign assistance and largely uses the dollar as the main currency in circulation. That, in addition to instability, poor management and large scale corruption in the banking sector;

7- The recent crisis in the Dubai market is also expected to have a more direct and quicker impact on Sudan’s economy than the global crisis, because of:
   (a) the shrinkage in the Gulf labour market demand and unskilled foreign workers will be its first victim;
   (b) a drop in investment flows caused by problems in funding and financial and market uncertainties;
   (c) a drop in the Gulf states’ investments and commitments towards foreign development assistance to poor countries, including Sudan.

A recent (2009) IMF report graded Sudan among the most vulnerable low-income countries in the global financial crisis due to its high vulnerability to trade, aid and remittances shocks. The IMF adjusted its 2009 GDP growth projections for Sudan downwards by 6.7%, representing the fourth largest adjustment of the 71 low-income countries assessed\textsuperscript{12}.

For 2009 and due to the global shock resulting in lower global oil prices, stagnating domestic oil production and related reduction in government spending\textsuperscript{13}, the annual growth rate is estimated to have slowed down to 3.9%\textsuperscript{14}. Sudan’s Net FDI also registered a sharp drop by some US $500 million by June 2008, partly due to the completion of several major infrastructure projects, but mainly because of the net fall in private transfers, mainly

\textsuperscript{13} World Bank Sudan Economic Brief April 2009
\textsuperscript{14} IMF, World Economic Outlook Database, April 2009, www.imf.org
remittances, by some US$ 800 million compared their level in 2006\textsuperscript{15}. The global financial crisis is expected to further reduce both categories by another 30-36\%\textsuperscript{16}.

Other than the global factors, Sudan is particularly vulnerable to the crisis and the direct impact of the IFCs on Sudan economy and the inability to absorb the shock were prompted by:

1- The systematic increase since 1998 on the dependence on oil as source of external revenues with a parallel drop in other traditional sources in which Sudan has a comparative advantage. It is worth noting that up to the mid 1990s, the fuel bill used to cost Sudan about 51\% of its foreign earnings and in less than a decade of oil industry, oil export started to contribute over 90\% of Sudan total export value. This indicates the decline in all productive sectors, especially agriculture that used to contribute between 60-70\% of the GDP and export. This, by implication, has negative effects on primary producers, the thing that has been detrimental to their livelihoods and to the productive sector of the economy as a whole;

2- The failure to capture the opportunity of the food crisis to re-direct the economy on the right track through using oil revenues to expand and improve agricultural production and increase its competitive position in the international market;

3- As the large economies go into recession or slow-down stage, this reduces the demand for, and depresses price of primary products. That is expected to sustain the present structure of the national exports, with oil dominating exported commodities;

4- The heavy reliance on international donations, particularly for the rehabilitation efforts and humanitarian needs that target the most vulnerable groups in the country. Any significant reduction in this area will remove the only form of systematic social protection in the country, especially in rural areas.

VII- CONCLUSION

A- WHAT NEEDS TO BE DONE?

1- The crisis should be taken seriously by policy makers, in line with the leaders of the leading economies, not only to absorb the shock but also to avoid the long term payment of the costs of the crisis for the large economies;

2- Taking more serious and bold measures to reduce public expenditure, especially on defense, security and political propaganda with a view of balancing revenues and expenditure and to halt the internal and external escalating debts;

3- Diverting resources to productive sectors, especially agriculture upon which over 60\% of the population depend, including the revitalization of agricultural cooperatives, to secure food production locally and to diversify income sources;

4- Building a financial price adjustment reserve to avoid fluctuations in oil prices;

5- Bringing an immediate halt to the ongoing privatization programmes in agricultural and livestock sectors to enhance production, ensure the protection of workers in these sectors and increase investors’ and creditors’ confidence in those sectors;

\textsuperscript{15} IMF First Review of Performance ,,,,, , June 2008, p.6
\textsuperscript{16} IMF Report on the implications of the Global Financial Crisis for Low-Income Countries, March 2009, .48,
6- Taking immediate, temporary protection measures targeting low income groups through direct support of social services provision and increasing producers’ access to credit and to the market;

7- Gradual reduction of the heavy dependence on foreign donors, NGOs and UN agencies for the provision of basic services;

8- Maintaining high levels of transparency on the crisis, financial accountability and combating corruption;

9- Reviewing and reforming the banking system financing policies that should be based on economic merits and irrespective of political factors and lowering interest rates on credit in order to raise confidence in the banking system to reduce capital flight and to attract national capital abroad as well as hoarded money to the banking system;

10- Collaboration with the Arab and African countries in addressing the global crisis collectively to encourage bilateral relations as opposed to the current competition, and in the process benefiting from the comparative advantages of the national resources.

B- WHY THE POOR DID NOT APPEAR?

1- In Sudan the global financial and economic crisis is often treated as one of the many crises people have been living with for sometime; crises such as the protracted civil war, political instability, environmental degradation, internal displacement and poverty that affects over 65% of the population. Because crisis is no stranger to Sudan, the poor and the institutions that support them have not reacted with urgency or concern;

2- The poor in Sudan are the least engaged with the banking system and the real estate sector;

3- The poor are generally continuously in debt and when they borrow they focus on short term;

4- The effects of the global crisis appear to be concentrated on the urban poor, the fixed income (salaried) groups and those engaged with the service sector which is the fastest and most vulnerable sector. These segments of society were affected by both the direct tax increases and that of food price rises originating from new taxes and the VAT levied on production, even in the informal sector.
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