Sudan: Awaiting transitional council

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- **Prime Minister Abdalla Hamdok is pressing forward with reforms to reintegrate Sudan into the global financial system, hoping to make it a more attractive investment hub.**
- **Ever since oil-rich South Sudan became independent in 2011, plummeting FDI has been the norm for its neighbour to the north. Sudan's transitional government desperately needs to reverse this trend.**
- **With the transitional period under existential threat, Prime Minister Hamdok needs to steer Sudan with prudence for the sake of free and fair elections in 2024.**

Unrest is unattractive

Sudan's real GDP contracted by 3.6% in 2020 and is forecast to register tepid 0.4% growth this year. Eager to turn around depressing FDI performance, the transitional government intends to revive the economy by fostering a welcoming investment environment.

- Despite indications of a brighter future, Sudan is still a far cry from branding itself as a business and investment hub.
  - Sudan was positioned 171 out of 190 in the World Bank's 'Doing Business' 2020 ranking.
  - Last year, Sudan's rate of inward investment plummeted to USD 781M.
    - This represents a 6% YoY decline and the lowest level of FDI inflows since 2002.
    - Last year's figure is 66% below the peak FDI level recorded in 2012.
- After a humble FDI upturn between 2016 and 2018, the subsequent downward trend can be explained by both the political unrest following the 2019 revolution and the COVID-19 pandemic.
  - The 2020 decline is modest, especially as the pandemic has caused a 42% decline in global FDI throughout 2020.
- Sudan's inward FDI in Q1 2021 fell 48% QoQ to reach USD 134M.
  - The last time quarterly FDI figures declined so dramatically was in Q2 2019. During this period, the collapse of the former regime on 11 April and a military crackdown on 3 June heralded a 55% contraction.
- The transitional government will look to deliver on its mandate to boost the economy by drawing in sustainable investments and facilitating long term growth.
- Issued on 11 April, the New Investment Act aims to allay the concerns of insecure investors. Indeed, the easing of regulations as part of the act will hopefully create a palatable business environment.
  - The New Investment Act replaced the previous investment act of 2013, introducing fresh provisions as well as establishing additional investment authorities.
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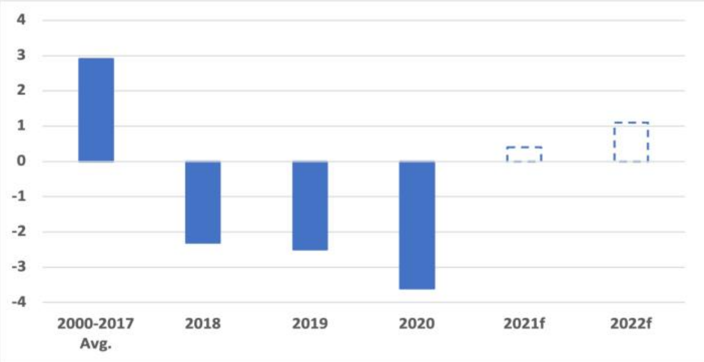
Figure 1 - Sudan's real GDP growth (%)[1]



  - It aims to create a more predictable, transparent and equitable system for investors by easing the barriers of entry which were imposed by the former regime.
  - Investment projects will enjoy benefits such as immunity from custom duties on capital imports and up to five years of business-profit tax exemption.

In addition to creating a more attractive business environment, Sudan is set to reap the benefits of debt relief as well as assistance from international donors. However, challenges remain.

- Debt relief is being managed with the IMF's Heavily Indebted Poor Countries (HIPC) Initiative.
  - When Sudan was granted relief through the HIPC, its total public external debt stood at USD 56B.
  - The application of standard debt relief by the IMF reduces this debt to around USD 30B.
  - Subscribing to the HIPC will provide Sudan with a USD 23B lifeline, bringing the country's external burden down to around USD 6B (roughly 14% of GDP) once an agreement involving all participating creditors is reached.
  - Several Paris Club creditors (namely Austria, Belgium, France, Italy and the US) are contributing the largest proportion of Sudan's debt relief.
  - Additionally, arrears owed to the World Bank's International Development Association (IDA), the African Development Bank Group and the IMF were all cleared this year.
- Although these developments are promising, challenges remain to ensure that debt burdens do not return to unsustainable levels. Long-term debt sustainability requires lenders and donors to promote prudent borrowing, suitably concessional finance, sustained economic growth, diversified exports and greater access to markets in developed countries.
- While Sudan's economy therefore looks to be on the right track, the country still has a significant way to go in order to find its feet.
  - Inflation is still forecast by the IMF to reach 197.1% this year, up from the 163.3% registered in 2020.
  - Inflation peaked in May this year, reaching 379% due to the monetisation of Sudan's fiscal deficit. This was exacerbated by shortages of food and fuel.

[1] Arabia Monitor; IMF.

- Sudan's unemployment rate also remains high; it is forecast to hit 28.4% this year before reaching 29.7% in 2022 and then plateauing. These represent the highest rates of the past 40 years.
  - Unemployment has already reached 26.8% this year.

➢ Climbing inflation, unemployment rates and shortages of basic goods like fuel and food have severely impacted the ordinary Sudanese.
- Protesters took to the streets in June after the government removed petrol and diesel subsidies, even though the price of fuel continued to climb.
- Although reforms are in line with the IMF's recommendations, the short-term outlook could spell trouble for the transitional government.

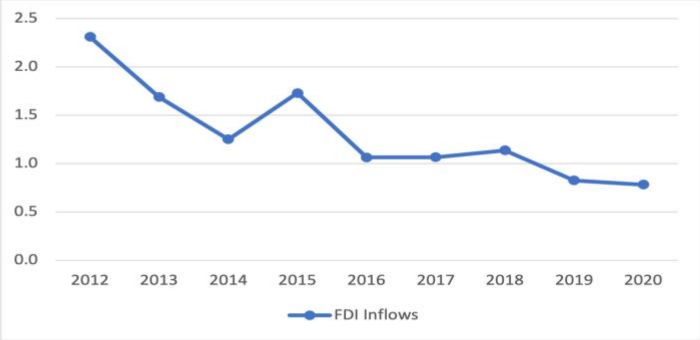
Breaking ranks to unite a country

With reports of infighting among the joint military-civilian government, volatility may come to define Sudan's road to democracy.

➢ Since his inauguration two years ago, Prime Minister Hamdok has made repairing Sudan's image on the global stage the focal point of his tenure.
- Hamdok took his seat in September 2019, after the fall of the country's former president (and military strongman), Omar al-Bashir.
- Thus far, Hamdok's government has been successful in scoring some major diplomatic wins.

➢ One such milestone is the October 2020 Juba Peace Agreement.
- The agreement includes signatories from the transitional government, the Sudanese Revolutionary Front (SRF) and Minni Minnawi's Sudan Liberation Movement (SLM).
- The deal intends to achieve (and maintain) peace and stability in Sudan. It covers a number of protocols such as reorganising the security forces and redistributing wealth, as well as basic economic and land rights.
- The implementation of the agreement has been slow, while power-sharing is contentious at best.
  - Prime Minister Hamdok has had to juggle a delicate balancing act in order to meet the demands of both his government and Sudan's military leaders.
- Nevertheless, a larger portion of the government's budget was successfully allocated to health and education than to military spending.
  - Ever since Sudan's independence in 1956, the country's political sphere has been characterised by the dominance of the military.
  - Collective memory leaves the public doubtful of the military's willingness to concede power.
  - At the street level, a chasm between the military and civilian blocs is palpable. However, the military is undoubtedly more organised and unified than its civilian counterparts.

Figure 2 - Sudan's annual FDI inflows (USD in billions)[2]



➢ An additional milestone is the removal of Sudan from the US list of State Sponsors of Terrorism (SST).
- The move not only paves the way for Sudan's reintegration into the global marketplace, it permits international investors to enter Sudanese markets.
- In May 2021, the French president Emmanuel Macron hosted a high-level conference pledging his support for Sudan's reintegration.
- However, attracting new investors could be slow if they are unconvinced by the country's ostensible political stability.

➢ While the prime minister arguably achieved a degree of diplomatic success in securing these various political objectives, the same success has yet to make an appearance domestically.
- Public protests took place this year from 3 to 30 June to commemorate the 2018 revolution. They also called for the resignation of the government.
- Discontent with slow progress regarding reforms has been exacerbated by economic crises, shortages of basic goods and an inability to address natural disasters which have plagued the country during the summer months. These include floods and locust swarms.
- If the transitional government drifts, the path to elections may be jeopardised.

The credibility of Sudan as a future investment destination will depend largely on the transitional government delivering free and fair elections in 2024.

➢ Hamdok needs to extinguish political instability; he has cautioned against the dangers of division within the transitional bloc.

➢ In an attempt to safeguard the transition, the prime minister recently launched an initiative entitled: 'The Way Forward'.

- The initiative contains a proposal to develop a national programme to unify the transitional bloc and dismantle any remnants of al-Bashir's regime.
  - It is yet to be seen how successful Hamdok's 'Way Forward' really is.

[2] Arabia Monitor; UNCTAD.

- Hamdok has also redoubled efforts to safeguard the transition by calling for the establishment of the Transitional Legislative Council.
  - Sudan has effectively been without a parliament since the revolution in 2019, despite a mandate in the constitutional charter for the council to be formed in 2020.
    - There has been little progress with the formation of the council since Hamdok pressed for it again in June.
- While Hamdok still has time to ensure elections are executed properly, he is up against a cascade of opposition.
  - The elections may yet be delayed, while the military might also try to acquire more power. However, with international players buttressing Hamdok's efforts, it is unlikely that the civilian government will surrender control. Contentious politics and instability will continue to be a headline for the foreseeable future.

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