

Final report

Reducing State Fragilities 

IGC
International
Growth Centre

Sudan in the global economy

Opportunities for
integration and
inclusive growth



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List of abbreviations

AfCFTA	Africa Continental Free Trade Area
AGOA	African Growth and Opportunity Act
AML	Anti-Money Laundering
BRI	Belt and Road Initiative
CBoS	Central Bank of Sudan
CBS	Central Bureau of Statistics
CFT	Combating the Finance of Terrorism
CLTG	Civilian Led Transitional Government
COMESA	Common Market for Eastern and Southern Africa
FDI	Foreign Direct Investment
GAFTA	Great Arab Free Trade Area
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
IMF	International Monetary Fund
M&E	Monitoring and Evaluation
MNC	Multinational Corporation
SDG	Sudanese Pound
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SMP	Staff-Monitored Program
SOE	State-Owned Enterprise
SSTL	State Sponsor of Terrorism List
UAE	United Arab Emirates
WTO	World Trade Organisation

1 Introduction

Alongside Sudan's removal from the State Sponsor of Terrorism List (SSTL) in December 2020, the Civilian-Led Transitional Government (CLTG) of Sudan has a window of opportunity to enact and implement fundamental reforms that create a foundation for strong economic relationships and can harness trade and investment opportunities to benefit the Sudanese people.

A number of reforms are already underway, including those envisioned under the International Monetary Fund's Staff-Monitored Programme (SMP), which was approved in September 2020. Sudan's SMP requirements focus on stabilising the economy, improving competitiveness, and strengthening governance, and include subsidy, exchange rate, and banking sector reforms. Importantly, removal from the SSTL and successful SMP completion would pave the way for Sudan to receive greater international support and potential debt relief under the heavily indebted poor countries (HIPC) initiative.

The CLTG has an opportunity to build economic, political, and diplomatic ties regionally and globally that support inclusive and sustainable growth and long-run development for the country. Trade, investment, and integration opportunities can be harnessed to benefit Sudanese citizens through job creation, greater domestic value addition and increased economic diversification. This has the potential to raise incomes and make Sudan's economy more resilient.

In this paper, we outline evidence that could support government's strategy to move Sudan towards an economic integration agenda that promotes inclusive growth. Specifically, we outline evidence on how the government could promote trade, investment, and integration. We also consider the role of the domestic banking sector in supporting this. We focus on:

- 1 Domestic reforms needed to create an enabling business environment
- 2 Tools and considerations to support greater economic activity
- 3 International relationships and economic diplomacy
- 4 The role of the financial sector

2 Domestic reforms to create an enabling environment

A range of domestic reforms are needed to create an enabling business environment in Sudan, which is essential for attracting foreign investment, supporting firm growth and productivity gains, and facilitating trade. [Stabilising macroeconomic fundamentals](#) and [improving Sudan's investment attractiveness](#) are two key areas for domestic reforms.

2.1 Macroeconomic fundamentals

Stabilising macroeconomic fundamentals is necessary to lower investment risk and build domestic and international confidence in Sudan's business environment. There are several macroeconomic imbalances that have burdened the Sudanese economy, especially since early 2018. These will need to be addressed if Sudan is to establish productive economic relationships, attract investment, support firm growth, and improve trade. Imbalances are associated with the following macroeconomic indicators:

- **Fiscal deficit** – Sudan has a persistent and growing fiscal deficit, resulting from government spending exceeding revenues. In 2019, the fiscal deficit was in the region of 11% of GDP.¹ The 2020 budget reflected a deficit of USD 1.6 billion.² Government spending is approximately 19% of GDP, with government incurring significant costs through provision of subsidies – both explicit subsidies on fuel, electricity, and wheat, and implicit subsidies through a very overvalued customs exchange rate. The fiscal situation is further aggravated by Sudan's very low tax-to-GDP ratio, with revenue (excluding grants) forecasted to be only 5.4% of GDP in 2020.
- **Balance of payments deficit** – In 2019, the balance of payments deficit grew to USD 1.9 billion, from USD 1.5 billion the previous year. The substantial balance of payments deficit has led to a shortage of foreign exchange which has caused sporadic shortages of essential commodities such as fuel, wheat and medicines.
- **Negative GDP growth** – The Sudanese economy has been shrinking since 2018 ([Figure 1](#)) and is forecasted to decline by 8.2% in 2020, in part due to the economic shock of the Covid-19 pandemic. GDP per capita has decreased by approximately 62% over the last five years, from USD 1,910 in 2015 to USD 730 in 2020.³

These imbalances have led to the following macroeconomic challenges:

- **Depreciating exchange rate** – The official exchange rate, set at SDG 55 per USD 1, is overvalued and a parallel rate has formed and diverged from the official rate over the last two years to its current value of around SDG 250 per USD 1 ([Figure 2](#)). It is thought that approximately 90% of transactions now take place using the parallel rate.

¹ IMF (2020). [IMF Executive Board Concludes 2019 Article IV Consultation with Sudan](#). Press Release No. 20/83. IMF Communications Department.

² Reuters Staff (2019). [Sudan passes 2020 budget with anticipated deficit of \\$1.62 billion](#). Reuters.

³ World Bank (2020). [Sudan GDP growth \(annual %\)](#).

Figure 1 GDP growth (%), 2015-2020⁴

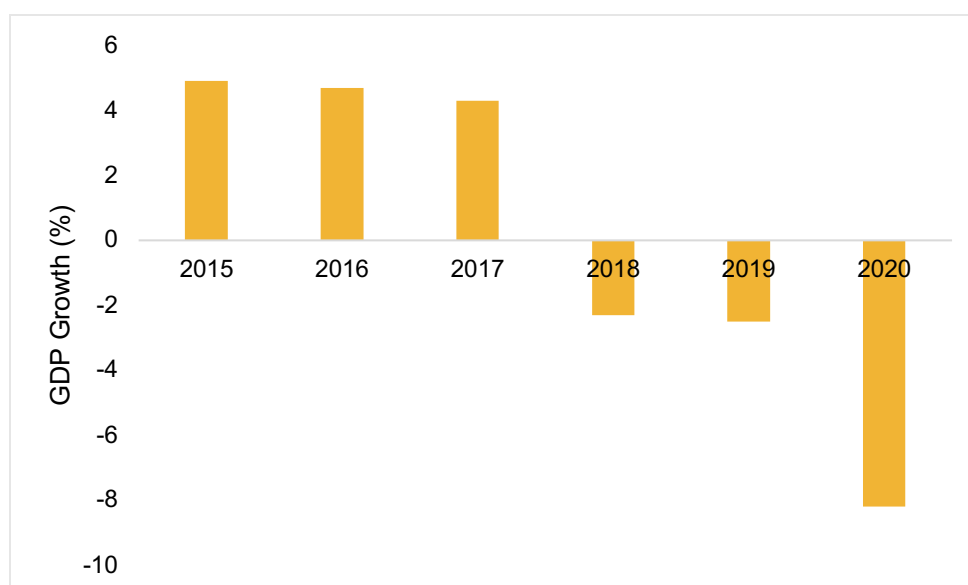
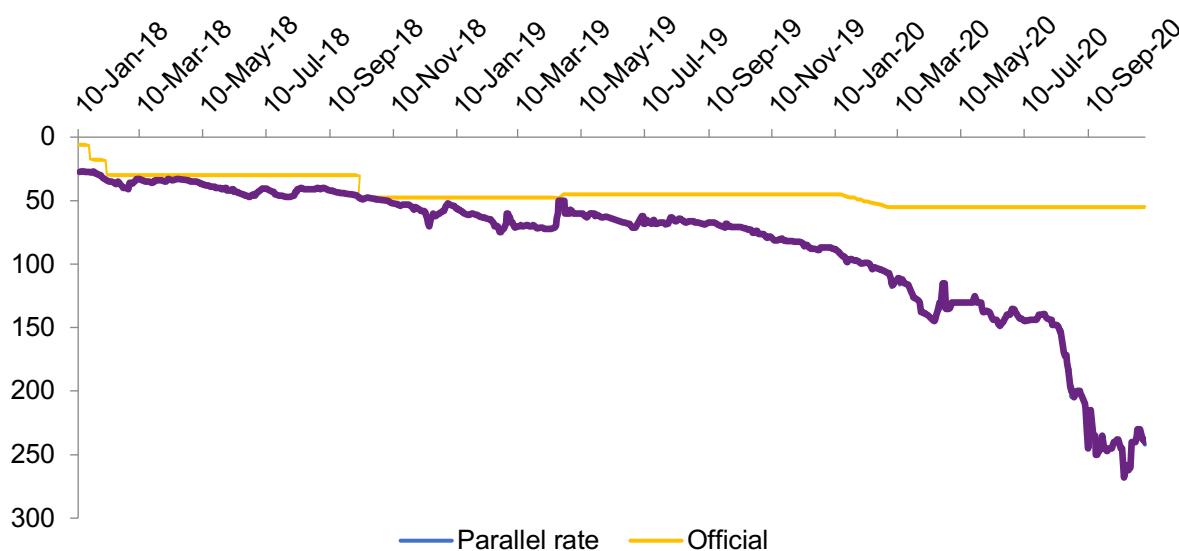


Figure 2 Official and parallel exchange rate, 2018-2020⁵



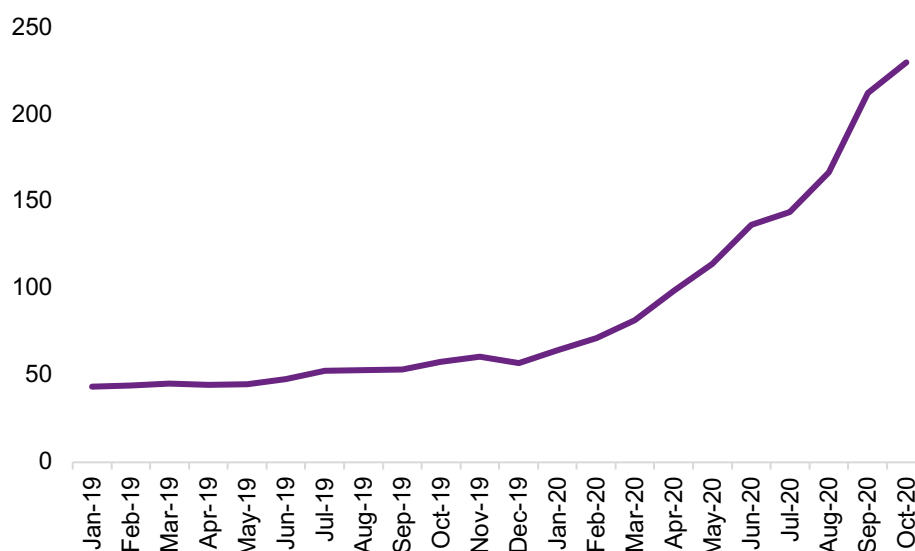
- **High inflation rate⁶** – Sudan has been monetising its fiscal deficit, and this printing of money is driving high levels of inflation. Inflation has exceeded 60% since 2018 and reached 230% in October 2020 (**Figure 3**). High inflation erodes the purchasing power of the Sudanese people and impedes their ability to purchase necessities. Standards of living in Sudan have declined markedly in recent years, indicated in part by the number of people in Sudan requiring humanitarian assistance increasing from 5.7 million in 2019 to an estimated 9.8 million people in July 2020.

⁴ World Bank (2020). [Sudan GDP growth \(annual %\)](#).

⁵ CBoS and Alnilin

⁶ Jefferis, K. (2020). Macro-economic policy reform options for Sudan. International Growth Centre.

Figure 3 CPI Inflation⁷



Sudan's external debt of nearly USD 60 billion (comprised in large part of interest on arrears) is considerable, and debt relief through the HIPC process will be essential to bring this down to a more sustainable level.

In light of these macroeconomic challenges, reform in this area falls primarily into two categories:

- **Fiscal reforms** – These include reforms on both the expenditure and revenue sides:
 - **Expenditure reforms** – The primary challenge here is to reduce inefficient spending commitments, such as subsidies. Fuel subsidies accounted for the bulk of explicit subsidy costs, at approximately 12% of GDP in 2019, but significant progress has been made in lifting fuel subsidies in 2020. Subsidies on other commodities such as electricity and wheat will need to be addressed in coming years. Implicit subsidies in the form of an overvalued customs exchange rate remains a chief area for reform. Reducing expenditure through curbing subsidy costs will lower the need to monetise the deficit through printing money. This will, in turn, lower inflation and slow depreciation of the SDG.
 - **Revenue reforms** – Sudan currently raises only about 5.4% of GDP in tax and increasing revenue collection is vital. There are a number of reform possibilities in this area, including broadening the tax base, rationalising existing tax exemptions, reducing the administrative costs of revenue collection, clamping down on illegal gold mining and smuggling, harnessing remittances from the diaspora for productive investments, and reforming the customs exchange rate and tariff arrangements in a way that raises more revenues from imports.
- **Exchange rate reform** – Ultimately, Sudan will need to unify the exchange rate to a single market clearing rate. This will reduce distortions in the exchange rate regime and will lower implicit subsidies, boost export competitiveness and growth, and encourage foreign currency transfers into Sudan through formal channels. It will also make doing business in Sudan less expensive, especially for firms listed on the stock exchange that currently exchange at the official rate. Additionally, it may contribute to reducing

⁷ CBS (2020).

speculation and currency trading among those with access to foreign currency at the official rate.

What exchange rate regime makes the most sense for Sudan is currently under consideration by government, but it will likely involve a gradual move to a floating regime, with some form of managed regime in the interim while fiscal consolidation is undertaken.

In brief

Macroeconomic reforms fall into two broad categories:

1. **Reducing the fiscal deficit** through curbing expenditure and increasing revenue collection. Reducing monetisation of the deficit will lower inflation and curb depreciation of the SDG.
2. **Exchange rate reform**, likely involving a gradual move to a floating regime as fiscal consolidation is undertaken.

2.2 Improving investment attractiveness

Sudan is a very attractive market for investment. With a population of 43.8 million people, the domestic market is large. Populations of neighbouring countries are also notable, accounting for an aggregate population of approximately 250 million people. Some of these neighbouring countries are among the fastest growing countries globally, including Ethiopia and Egypt, which recorded 8.3% and 5.6% GDP growth in 2019, respectively. Sudan is also geographically well placed with easy access to East and North Africa, the Gulf, and the European Union. Additionally, approximately 65% of Sudan's population is below the age of 35, indicating a young and growing workforce.

These natural attributes make Sudan a potentially extremely attractive place for both foreign investors and the existing base of domestic investors. However, investment inflows are very low, at approximately 1.6% of GDP for foreign and domestic investment over the last three years, impeded by a weak enabling business environment, macroeconomic instability, and political turmoil.⁸ Improving Sudan's business environment would involve the following:

- **Reforming the banking sector**⁹ – A well-functioning banking sector is essential to attract investment and to enable doing business. Reforms in this area are outlined in the final section of the paper.
- **Lowering the cost of doing business** – According to the World Bank Doing Business report 2020, the costs of starting a business in Sudan are lower than the sub-Saharan Africa average, although costs are still fairly high compared to the rest of the world. However, the time costs of procedures, such as importing and exporting, are significantly higher than the sub-Saharan Africa average (**Table 1**). Streamlining procedures, addressing the factors that inhibit efficient business in Sudan, and providing improved services and investment facilitation would have a big impact on easing business in Sudan.

⁸ World Bank (2020). [World Development Indicators Database](#). Average for 2016 – 2018.

⁹ Logan, S. (2020). Sudan: Reform Considerations after SSTL removal. *National economic conference 26-28 September*. International Growth Centre.

Table 1 Costs and time to import and export¹⁰

Indicator	Sudan	Sub-Saharan Africa
Time to export – Border Compliance	180 hours	97.1 hours
Cost to export – Border Compliance	USD 967	USD 603.1
Time to export – Documentary compliance	190 hours	71.9 hours
Cost to export – Documentary compliance	USD 428	USD 172.5
Time to import – Border Compliance	144 hours	126.2 hours
Cost to import – Border Compliance	USD 1093	USD 690.6
Time to import – Documentary compliance	132 hours	96.1 hours
Cost to import – Documentary compliance	USD 420	USD 287.2

- **Improving service provision** – Access to reliable utilities, including energy, water, and waste management, is needed to enable firms to operate productively and without disruptions. Efficient transport and logistics services and infrastructure are also necessary for effective firm operations. Service provision at a nation-wide scale is costly and will take time to achieve – in the meantime, Sudan could consider the development of Special Economic Zones (SEZs) or industrial parks, where improved service provision can be focused on a specific geographical area, to advance more immediate support for private sector development (see more on this below).
- **Enabling investment facilitation** – Transparent and predictable investment laws and policies are critical for attracting investment. Strong investment regulatory frameworks make it easier for foreign investors to obtain necessary information and set up businesses. Features would include efficient processes to register property and secure relevant licenses, as well as judicial and administrative capabilities to enforce contracts and assure protection of property rights. Regulatory authorities will need to be able to monitor and enforce compliance with laws and regulations, as well as certifications and standards.
- **Levelling the playing field** – Removing market distortions and curbing corruption is essential for attracting domestic and foreign investment. Laws and regulations must apply equally to all investors, whether domestic or foreign, and practices that result in unequal treatment, such as selective granting of tax exemptions, should be discontinued or, at the very least, used only when certain transparent criteria are met. Fair competition is vital if firms are to be attracted into the Sudanese market.
- **Raising domestic capabilities** – As new firms enter the Sudanese market, competition will increase and Sudanese firms will need to raise their capabilities and productivity to be able to compete effectively. Partnerships between foreign investors and domestic firms are a valuable route for enabling technology upgrading and obtaining technical and managerial know-how and these should be encouraged wherever possible. Managerial skills have been proven to be particularly important for driving firm growth and productivity and learning from other countries, such as through secondments, offers significant gains.

As of 2015, only half of Sudan’s population had ever attended formal school, while 15% and 4% of citizens had obtained secondary and post-secondary qualifications, respectively. This indicates an urgent need to invest in skilling Sudan’s workforce,

¹⁰ World Bank (2020). [Doing Business 2020: Economy Profile of Sudan](#).

including through improved primary and secondary education and ensuring that vocational and other skills trainings are linked to labour market demands and opportunities.

In brief

Reforms to **improve investment attractiveness** include:

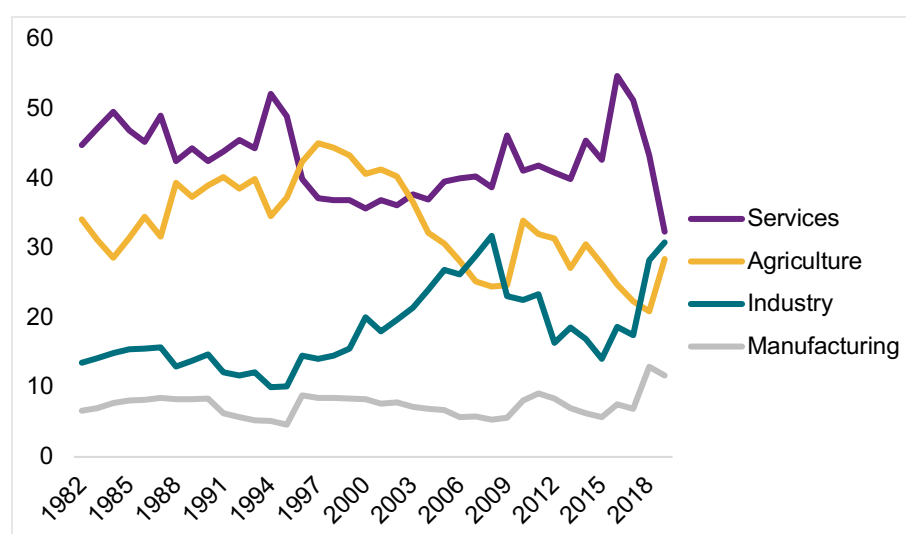
1. **Reforming the banking sector** to bring Sudanese laws and regulations into compliance with international standards (see last section of paper).
2. **Lowering the cost of doing business** through streamlining procedures, improving service provision, and enabling investment facilitation.
3. **Levelling the playing field** by removing market distortions, curbing corruption, and applying laws and regulations to all investors equally.
4. **Raising domestic capabilities** to enable Sudanese firms to increase their productivity and competitiveness through upgrading technology and obtaining technical and managerial know-how, including through partnerships with foreign firms. It will also be necessary to upskill Sudan's workforce to meet evolving labour market demands and opportunities.

3 Tools and considerations to support economic activity

Sudan's economy is dominated by services and agriculture, which make up over 70% of GDP. Although the agriculture sector suffers low productivity, some 80% of the population depends on the sector for their livelihoods. As of 2015, about 30% of Sudan's land was suitable for agricultural use. Of this amount, about one-third was being utilised, indicating a gap that offers significant private investment opportunities.¹¹ Investments in agriculture could create jobs and open up possibilities for more domestic agri-processing activities.

Manufacturing value added has been stagnant for decades and underperforms regional peers. Moreover, the oil boom of the 2000s contributed to worsening non-oil sector performance by reducing public incentives to invest in and support diversified industry. To revive the non-oil economy and increase economic diversification, reforms must address weak domestic firm capabilities in order to boost domestic manufacturing. This will reduce dependence on imports, raise export performance, and attract investment, as we discuss in the following sections.

Figure 4 Sudan's value added (%), 1982-2018



3.1 Domestic market opportunities

Sudan's domestic market has a large population of 42.8 million people, which in theory offers significant potential as a large consumer market for domestically produced goods. Purchasing power is low, however, at an estimated GNI per capita of USD 590.

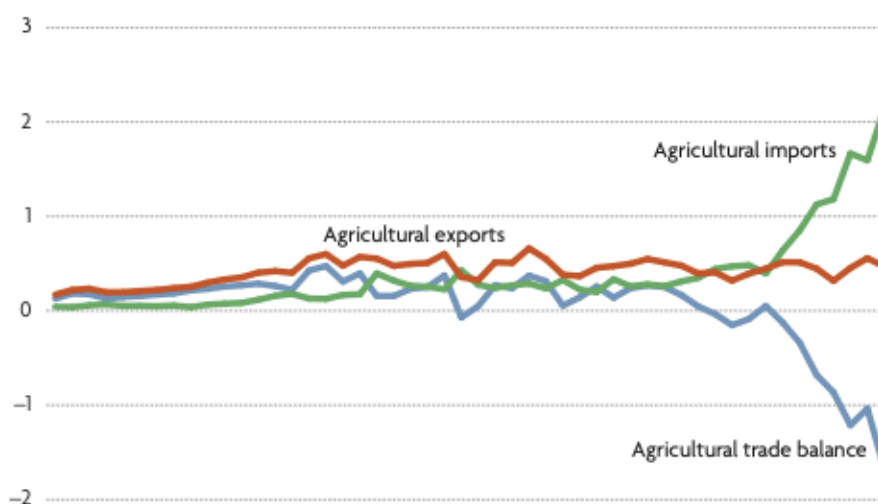
Domestic production capabilities are not currently being maximised due to a combination of unstable macroeconomic conditions, unfavourable exchange rate policies, lack of foreign exchange, poor industrial and technological capabilities, and weak infrastructure. These factors have undermined the competitiveness of domestic production and have instead encouraged reliance on foreign imports. As a consequence, import dependence, especially on agriculture products and foodstuffs, has been rising, contributing to a widening trade deficit (**Figure 5** and **Figure 6**). Stagnating exports have also been a factor in the widening trade deficit.

¹¹ World Bank Group (2015). [Sudan Country Economic Memorandum. Realizing the Potential for Diversified Development.](#)

Figure 5 Sudan's trade balance (USD), 2000-2019¹²



Figure 6 Trends in agricultural trade in Sudan (USD billion)¹³



Consumption patterns highlight that there is scope to better serve the local market through domestic production, as around 53% of household-level consumption is on food, drinks and tobacco (**Table 2**), items that have domestic production potential.¹⁴ Moreover, the breakdown of imports shows relevant product categories that could be produced in the domestic economy through targeted industrialisation policies and provision of adequate incentives to producers (**Figure 7** and **Figure 8**).

¹² CBoS (2020). Available at <https://CBoS.gov.sd/>

¹³ AfDB (2018) Sudan Economic Report. *After Two Decades of "Solitude". Targeted Strategies for quick economic wins*. Calculations based on UNCTAD Database.

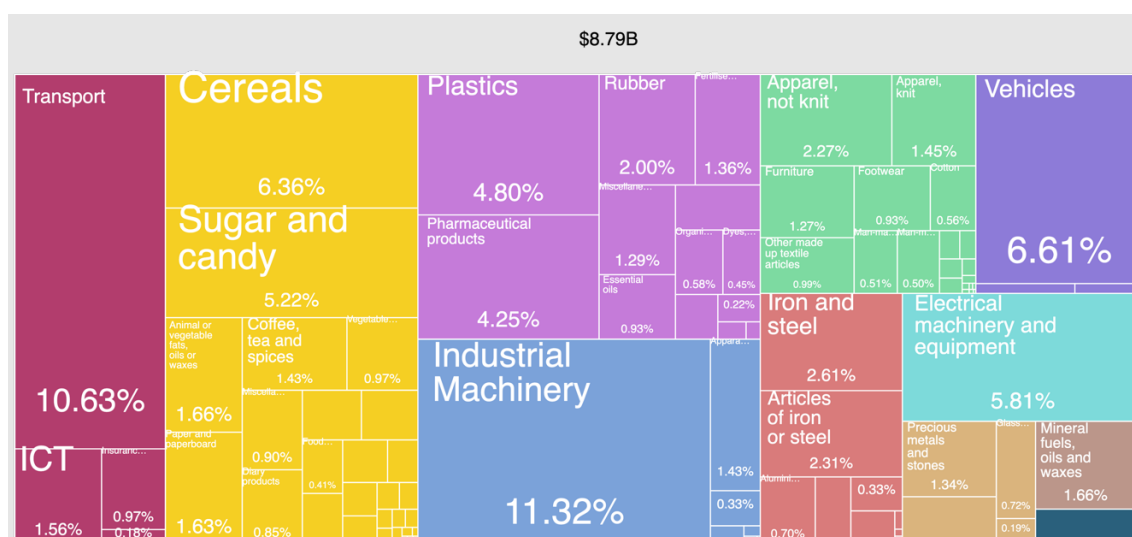
¹⁴ CBS (2015). National Baseline Household and Budget Survey 2014/2015.

Table 2 Share of product groups in total household consumption¹⁵

Items	Weight (%)
Food & Drinks	52.9
Housing & Construction	14.2
Transport	8.3
Furniture	6.9
Clothing & Footwear	4.5

This includes currently imported agricultural products such as wheat, flour, meslin, oil, sugar dairy, fruits, and vegetables. Another large category of imports that could be targeted with domestic-led growth strategies is textiles, especially through the revival of the indigenous cotton industry. Moreover, at later stages of industrialisation, production and assembly of industrial machinery, which currently constitute 11% of imports, could gain focus through industrial policy efforts. Local production of these products could meet domestic market needs, while also creating jobs, raising incomes, and potentially increasing exports.

Figure 7 Sudan's imports by category (% of total), 2018



A recent report estimates that progress on import replacement could reduce Sudan's trade deficit to around 2% of GDP.¹⁶ Aside from lower trade deficits and improved foreign currency earnings, lower import dependence achieved through development of the domestic market could have positive consequences for exporting activities. The domestic economy can serve as a platform to build relevant skills that enable Sudanese firms to perform more competitively at the regional and international level. More detailed analyses could be undertaken to understand the competitiveness of domestic products, the adequacy of locally available input materials, and whether domestic products meet the technical and quality standards needed for domestic and export markets.

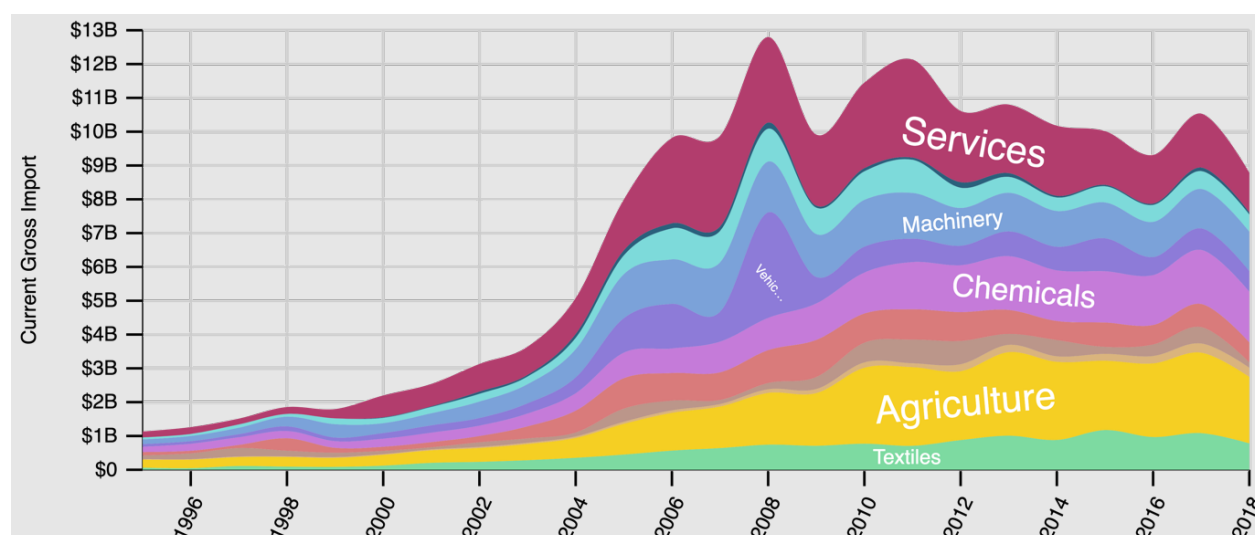
To achieve these outcomes, government would need to develop comprehensive industrial and investment promotion strategies that cover a number of aspects, such as upgrading value chains, upskilling the workforce, developing infrastructure, improving business

¹⁵ CBS (2015). National Baseline Household and Budget Survey 2014/2015.

¹⁶ AfDB (2016). *Private Sector-led Economic Diversification and Development in Sudan*. AfDB East Africa Regional Development & Business Delivery Office.

regulations, and attracting foreign investment. Policy options in this direction are detailed in later sections.

Figure 8 Sudan's import flows (USD), 1994-2018



In brief

Sudan's **domestic market opportunities** include:

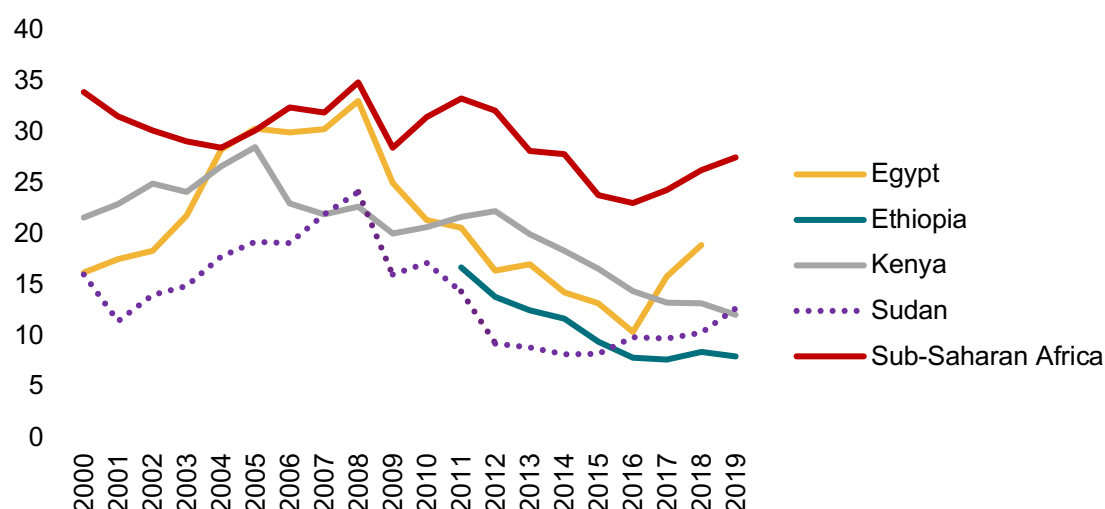
1. **Sudan's non-oil economy** holds significant potential but reviving it will necessitate investing in increasing domestic firm capabilities in diverse sectors.
2. **Significant investment potential exists in agriculture**, both in production and downstream value-added agri-processing activities. These are labour-intensive sectors that offer significant potential for job creation and income generation.
3. **Sudan's import composition** indicates that many foodstuffs that could be produced domestically are being imported. Import replacement efforts should focus on those product categories that could be produced domestically. Greater domestic production would lower Sudan's dependence on imports and raise export potential.

3.2 Export market and product opportunities

Diversifying Sudanese export markets and products is crucial to increase foreign currency earnings, reduce the trade deficit, support firm growth and productivity gains, and promote economic growth. The loss of oil exports after South Sudan's secession triggered an external balance deficit and put additional pressure on government to diversify Sudan's exports and enhance trade integration.

Sudan's exports of goods and services stand at 12% of GDP, underperforming regional peers and the sub-Saharan Africa average. Some progress has been made since 2015, although slowly, but exports remain far from the 24% of GDP peak of 2008, before South Sudan's secession. These trends are the result of weak trade integration, globally and regionally, despite its geostrategic location (**Figure 9**). Poor firm capabilities, productivity, and competitiveness, as well as high tariffs, poor infrastructure and logistics, and conflict and instability also play a role in this.

Figure 9 Exports of goods and services (%GDP), 2000-2019



Export markets – Exports remain very concentrated in a small number of foreign markets, including the Middle East and other Arab countries, especially those within the Great Arab Free Trade Area (GAFTA) (51% of total exports), and China (19% of total exports). In contrast, regional trade through the Common Market for Eastern and Southern Africa (COMESA) accounted for only 11% of exports in 2019.¹⁷ Trade relations are even weaker with Europe, the United States, and sub-Saharan Africa. Opportunities to enhance global, regional, and bilateral commercial relations through trade agreements are further explored in **Section 4**.

There are a number of key regional markets that could be a target for Sudanese exports – particularly Egypt, Ethiopia, and South Sudan – and which could contribute to diversifying Sudan’s geographic concentration of exports.

- **Egypt and Ethiopia** – Egypt and Ethiopia possess diverse natural and human resources that could offer notable product complementarities. Both of their markets are considerable, together comprising about 20% of Africa’s total population.¹⁸ However, Sudanese production capabilities would need to be strengthened for them to compete in these markets, and weak connecting infrastructure with these countries would need to be improved. Notably, trade with Ethiopia presents one of the highest value gaps of total trade.¹⁹
- **South Sudan** – Sudan and South Sudan’s interdependence, shared history, and 2000-kilometre-long land border presents strong potential for trade integration between the two countries. Some trade already takes place (including agricultural products, medicines, fuel, clothes, and shoes), but it is irregular and not currently maximised, due in part to the ongoing conflict in South Sudan.²⁰ Several goods are also exchanged through illegal channels, fostering smuggling activities.

While South Sudan itself may hold low trade potential, as its population is relatively small, at around 11 million people, and with low purchasing power, it does present

¹⁷ CBoS (2019). Economics and Financial Statistics Review. October – December 2019. Issue 2, Vol. 60. CBOS Policy Research and Statistics Department. Available at <https://CBoS.gov.sd/>

¹⁸ Ebaidalla, M. (2016). [Trade between Egypt, Sudan and Ethiopia: Prospects and Challenges for Trilateral Trade Integration](#). Working paper No. 1057. *Economic Research Forum*.

¹⁹ Global Financial Integrity (2020). [Sudan and Trade integrity](#).

²⁰ AfDB (2018). [Promoting Bilateral Trade between Sudan and South Sudan](#). East Africa Regional Development & Business Delivery Office, African Development Bank Group.

Sudan's overland trade route through to larger sub-Saharan African countries, notably Kenya, Uganda, and the Democratic Republic of the Congo. However, poor physical and technological connecting infrastructure currently limits trade potential with and through South Sudan.

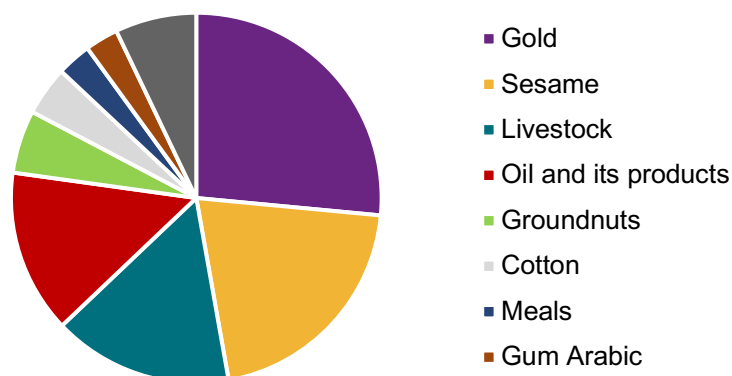
Export products – From a product perspective, Sudan's 2019 export basket is primarily composed of gold and raw or semi-processed agricultural products, including sesame and livestock. Oil and related products make up approximately 14% of total exports (**Figure 10**). If oil and gold are removed from the analysis, export product concentration still remains high.

Significant opportunities exist to expand, diversify, and upgrade underdeveloped export markets. This includes products such as gum arabic and sesame seeds, for which the country is a price setter globally, and sheep and sheep meat, for which it controls prices regionally. Moreover, groundnuts, melon seeds, hides and skins, all of which Sudan used to export in significant quantities in early post-independent years, could materialise again as major exports through the right investments and policies. Other products with export potential include sorghum, especially to the UAE and Saudi Arabia.

Achieving greater value addition with domestic products is a key objective in export promotion efforts as this would allow Sudan to achieve higher prices for its export products. Currently, value addition opportunities are not being maximised. For instance, while Sudan is the world's largest producer of gum arabic, the contribution to value addition occurring within Sudan is minimal. Efforts to upgrade value chains should focus on (i) expanding the value chain so that more downstream processing activities take place in Sudan and (ii) improving processing techniques for those stages of production that are already happening domestically. The greater the domestic value addition achieved, the higher the prices that can be realised for Sudanese exports.

Greater domestic value addition can have sizeable and positive impacts on export volumes, foreign exchange earnings, firm-level profits, job creation, and household-level incomes. Since value chain improvements happen through firms, key policy interventions should target the main constraints that prevent firms from investing and growing in Sudan. Additionally, investments should target the vocational and other skills that these industries require, but which are currently lacking in the workforce.²¹ Additional policy considerations on the role of firms and FDI are presented in the next section.

Figure 10 Sudanese exports, 2019²²



²¹ World Bank Group (2015). [Sudan Country Economic Memorandum. Realizing the Potential for Diversified Development.](#)

²² The Growth Lab at Harvard University (2020). [The Atlas of Economic Complexity.](#)

- **Livestock** – Sudan’s livestock sector has some 140 million head of livestock (cattle, sheep, goats and camels) and makes the largest contribution to agricultural GDP (about one-fifth) and export earnings (about 17%).²³ Most livestock production is practised through nomadic and agro-pastoral systems, predominantly in rain-fed traditional farming areas. Livestock exports (particularly sheep) have become an increasingly important part of the economy, competing with cash crop sales as the fastest growing non-oil export sector.

Nonetheless, the sector remains underexploited due to low productivity, as production is dominated by subsistence rather than commercial production. It also struggles to compete with other suppliers, especially for Gulf markets, due to issues of lower quality, higher costs, and unreliable supply. For instance, Sudan does not export cold or frozen meat because it lacks the required infrastructure for cold storage and transport.²⁴ This limits the productive capacity of the sector, product quality, and firms’ ability to comply with international quality standards.

- **Agriculture** – Agriculture offers considerable potential to support inclusive growth through job creation and income generation opportunities. Agriculture contributed 28.2% to the real GDP in 2018,²⁵ and exports amounted to 40.8% of total exports in 2019.²⁶ Sudan’s agricultural sector produces many of the country’s main food crops, as well as inputs to domestic manufacturing and artisanal industries.²⁷ Geographic characteristics are especially favourable to the sector’s development as much of the country’s land is highly fertile due to proximity to Blue and White Nile rivers. Irrigated farming systems along the Nile could support diversification into higher value fruit and vegetables.²⁸

The potential of the livestock and agricultural sectors are currently limited by low productivity due to continued dominance of subsistence over commercial production, use of outdated production techniques, limited access to credit, and inadequate infrastructure.²⁹ Exchange rate deterioration has also hurt export competitiveness and farmers’ profitability. That said, Sudan possesses the pre-conditions to boost and diversify its exports in these sectors, which represent a key opportunity for export expansion and diversification, as detailed in

Table 3.

²³ CBoS (2019). Available at <https://CBoS.gov.sd/>

²⁴ World Bank Group (2015). [Sudan Country Economic Memorandum. Realizing the Potential for Diversified Development.](#)

²⁵ CBoS (2018). Available at <https://CBoS.gov.sd/>

²⁶ CBoS (2019). Available at <https://CBoS.gov.sd/>

²⁷ Konandreas, P. (2009). [Assessing Sudan’s Export Diversification Potential in Agricultural Products.](#) Prepared by Maxwell Stamp PLC Ministry of Foreign Trade, Government of Sudan and the European Commission.

²⁸ DTIS (2014). [Diagnostic Trade Integration Study \(DTIS\) – Update. Reducing trade costs to increase competitiveness and resilience. Final Report.](#) Prepared for the Enhanced Integrated Framework October 31, 2014.

²⁹ DTIS (2014). [Diagnostic Trade Integration Study \(DTIS\) – Update. Reducing trade costs to increase competitiveness and resilience. Final Report.](#) Prepared for the Enhanced Integrated Framework October 31, 2014.

Table 3 Exports growth and diversification through agriculture³⁰

Livestock	There is a surge in demand for camels, goats, sheep and cattle, which is connected to a strong export demand from Saudi Arabia, other Gulf countries, and Egypt.
Meat	The major importers of Sudanese meat are the UAE, Saudi Arabia, and Egypt. Despite a strong demand from these markets, Sudan fails to compete with other suppliers due to several internal constraints, including high cost of production, issues surrounding quality and standards, and unreliable supply. There is a good opportunity to expand exports and increase value added from meat exports by addressing these restrictions and building out cold storage and transport infrastructure.
Hides and skins	Hides and skins are sold to a wide range of markets, including the United Kingdom, China, UAE, Turkey, and Saudi Arabia.
Sesame	Sudan exports about two-thirds of its sesame production and is among the main exporters of sesame worldwide. Sudan ranks second after India in area cultivated, and exports 10% of the sesame traded globally, and ranks as the fourth largest exporter as of 2010. Sudanese sesame receives favorable prices compared to sesame from other African countries because of high quality and grading.

- **Oil and gold** – Though oil reserves were significantly reduced after South Sudan seceded in 2011, oil remains an important export sector for Sudan, accounting for 14.2% of total exports in 2019.³¹ Gold exports have also increased substantially since the discovery of mineral-rich mines at Jebel Amer in Darfur, and the country is the third largest gold-producing country in the continent, following South Africa and Ghana.³² However, ongoing exchange rate and governance challenges, a lack of clear separation between commercial and non-commercial roles at the Ministry of Energy and Mining, and issues around licensing, accuracy of export reporting, and structure and corporate governance of state-owned enterprises (SOEs) significantly constrain the development of these sectors.³³ While it is vital that governance of these sectors is strengthened, Sudan’s future growth will require diversification away from reliance on primary commodities, particularly oil, which offers little by way of inclusive economic opportunities for Sudanese citizens.

³⁰ DTIS (2014). [Diagnostic Trade Integration Study \(DTIS\) – Update. Reducing trade costs to increase competitiveness and resilience. Final Report. Prepared for the Enhanced Integrated Framework October 31, 2014.](#)

³¹ CBoS (2019). Available at <https://CBoS.gov.sd/>

³² Global Financial Integrity (2020). [Sudan and Trade integrity.](#)

³³ Global Financial Integrity (2020). [Sudan and Trade integrity.](#)

In brief

Sudan has some notable **export market and product** potential:

1. **Sudan's neighbouring countries** represent significant potential export markets, especially Ethiopia and Egypt, which have large populations (comprising 20% of Africa's total population). Trade infrastructure with these countries will need to be improved in order to increase trade with them.
2. **Agriculture and livestock** hold significant potential as export product sectors for Sudan. Increasing domestic value addition and moving into higher value activities in these sectors is key to achieving higher prices for exports. Both production and value addition activities in these sectors offer considerable potential for job creation and income generation for Sudanese citizens.
3. **Diversifying export markets and products** will be important for Sudan to increase its trade volumes, reduce its trade deficit, increase foreign currency earnings, and support firm growth and productivity.

3.3 The role of large firms in private sector development

Sudan's private sector is quite diverse, spanning manufacturing, trade, finance, agriculture, and industrial processing. The country's manufacturing tradition is among the oldest in Africa and the Middle East and is mostly specialised in processing of agricultural products. The sector is dominated by small and medium enterprises (SMEs), which are often informal and concentrated around urban centres. There are few large firms, mainly located in proximity of Khartoum and Port Sudan, which locations offer the labour and infrastructure needed for large-scale production.

Foreign ownership is low, also by regional standards, and female participation in business is weak.³⁴ According to the 2014 World Bank economic survey, foreign participation in business in Sudan stands at 0.8%, against an average of 13% for sub-Saharan Africa. As a consequence of trade sanctions and low productivity and competitiveness, Sudanese enterprises have also been very isolated from global trade flows – according to a 2008 survey, only ten formal manufacturing firms have been able to export in recent years.³⁵

3.3.1 Challenges

A range of challenges have contributed to an increasingly weak and globally isolated private sector. Sanctions and SSTL designation have restricted Sudan's trade links and foreign investment flows, especially with Europe and North America. Additionally, conflict in the southern regions and political instability more broadly have impeded business activities, trade and investment. Re-joining the international economy is very important for Sudan as connecting to foreign demand could represent a real gateway for economic growth.

Domestic policies have also contributed to the weak performance of the private sector economy through unfavourable taxation policies and distortions benefitting oil-based businesses following the 2000s oil booms. State interference, through participation of SOEs or granting of privileges to politically connected businesses in many high-value sectors, including oil, transport, communication, and construction, have resulted in entrenched monopolies and weak competition, unfair exchange rate policies, and foregone tax

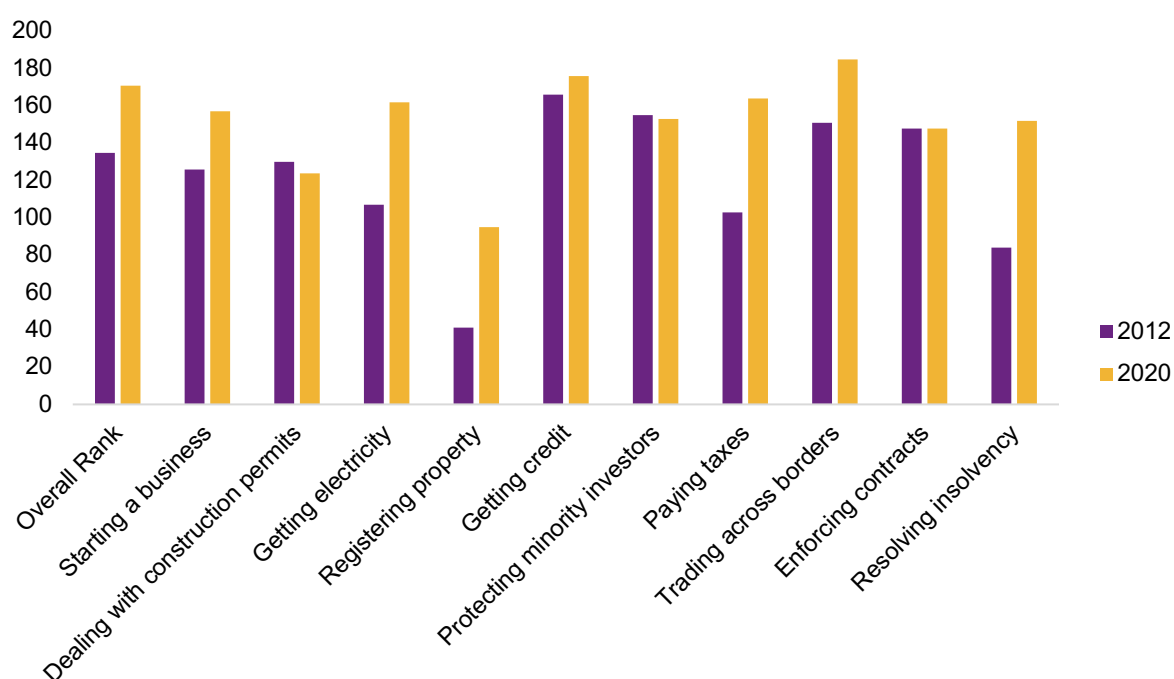
³⁴ World Bank and IFC (2014). [Sudan Country Profile. Enterprise Survey.](#)

³⁵ World Bank (2009). [Sudan Investment Climate Assessment.](#)

revenue.³⁶ Additionally, excessive public sector borrowing has crowded out access to commercial credit for businesses, and a lack of access to affordable credit has limited firm-level growth.³⁷

According to the 2020 World Bank Doing Business Survey, the ease of starting and operating a business in Sudan has deteriorated significantly in the last decade: from being ranked 137th in 2012, today it occupies the 171st position out of 190 countries. Indicators of cross-border trade and access to credit are especially poor, followed by the payment of taxes, and the ease of obtaining permanent electricity connection and of starting up business operations. In 2020, it takes 7.5 days to deal with border compliance requirements for exporting, as opposed to the sub-Saharan average of 4 days. Associated compliance costs are also elevated (USD 967), at 1.6 times the regional average. Cost and time requirements of importing follow similar trends.³⁸

Figure 11 Sudan's Ease of Doing Business rankings, 2020 vs 2012³⁹



Tackling the critical constraints holding back the productivity and competitiveness of the private sector can enable Sudan to get on a path of sustainable economic growth by attracting FDI and enabling the most productive and competitive firms to break into regional and international export markets. In addition to providing business with opportunities to learn and grow, exporting would also enable Sudan to earn the foreign currency needed to bring down the country's balance of trade deficit and stabilise the SDG. To remove distortions and encourage firms to export, it is important that requirements for exporters to sell foreign exchange to CBoS at the official exchange rate are removed.

³⁶ International Crisis Group (2020). [Financing the Revival of Sudan's Troubled Transition](#). Crisis Group Africa Briefing, 157.

³⁷ AfDB (2016). [Private Sector-Led Economic Diversification and Development in Sudan](#). African Development Bank Group, East Africa Regional Development & Business Delivery Office.

³⁸ World Bank (2020). [Doing Business 2020: Economy Profile of Sudan](#).

³⁹ World Bank (2020). [Doing Business 2020: Economy Profile of Sudan](#).

3.3.2 The role of large firms: why do they matter?

Structural transformation, or the process by which workers move from less productive to more productive activities and sectors, is essential for economic growth. Importantly, it is a private sector-driven process and so requires a growing private sector. Notwithstanding the value of SMEs in enhancing economic diversity and supporting livelihoods, it is **large firms** that make the largest contribution (both directly and indirectly) at microeconomic and macroeconomic levels in low-income contexts.

The most significant benefit that large firms bring is productivity, or the ability to produce at lower cost. At greater scale, firms are able to make better and more efficient use of existing resources. As their profitability increases, they are able to invest in innovation, quality improvements, human capital, and geographic expansion. Recent research on developing countries confirms that, particularly in the manufacturing sector, 6 out of 10 large enterprises are also the most productive.⁴⁰

These size and productivity benefits are not seen with SOEs, however, as they tend to be less productive and efficient than firms under private ownership. This is due to a combination of the multiple social and commercial goals SOEs are required to pursue, weaker oversight, and greater state protection that undermines the drive for innovation and productivity gains.

Large foreign firms tend to be more productive than domestic ones due to greater knowhow, better access to technology, foreign inputs and markets, and use of risk mitigation instruments, such as political risk insurance which may enable higher risk but more profitable investments (but is often not available to domestic investors).

Large firms are also associated with a wide range of desirable productivity- and growth-enhancing characteristics in low- and middle-income markets, including:

- **Age** – Large firms show better survival rates than their smaller counterparts. On average, they are 15 years older.
- **Managerial capability** – They are more likely owned by a single person and tend to be led by more experienced managers in relevant sectors.
- **Outward orientation** – Larger-scale firms tend to export more. They demonstrate greater ability to operate competitively in international markets (a sign of greater productivity), are able to access foreign inputs more easily, and can comply with international quality standards. Although their greater external exposure may make them more vulnerable to external shocks, they also enjoy larger cash reserves that allows them to better respond to shocks.
- **Innovation and human capital** – Large firms invest more in innovation and skilling their workforce, and these investments constitute a critical driver of productivity and competitiveness. Smaller establishments often lack the capital and skills to undertake high fixed-cost investments such as those in research and development.
- **Wages** – Workers employed in bigger businesses tend to receive higher wages, enjoy greater job stability, and social protection benefits, such as health insurance, parental leave, or unemployment support. Larger firms are associated with more decent jobs.

Larger firms have disproportionately greater impacts on **economic aggregates**. In lower-income economies, research shows that a handful of large firms tend to drive the bulk of wider economic performance, including employment, productivity, tax, and GDP. For

⁴⁰ Ciani, A., M. C., Hyland, N., Karalashvili, J.L., Keller, A., Ragoussis, & T. T., Tran (2020). [Making It Big: Why Developing Countries Need More Large Firms.](#)

instance, in Ethiopia, the largest manufacturing firm contributes 10% of the country's GDP, while, in Morocco, 97% of net employment growth comes from large-scale businesses.

A critical contribution of large firms, particularly relevant to the context of Sudan, is their ability to generate **direct and indirect spillovers** towards domestic markets and firms, including SMEs. These effects are enabled by linkages through value chains and spatial concentration of economic production clusters. For example, large firms invest more in training a skilled workforce, who can then move on to start their own firms – in this way, large firms can benefit smaller firms through promoting job mobility.

A classic example of this is the Bangladeshi garment industry, which was kickstarted by a handful of Desh Garments factory-line workers and managers of who received training in South Korea from Desh's business partner.⁴¹ The development of the national garment sector was galvanised through processes of imitation and knowledge transfers as Desh's workers were hired by competitors and started their own firms. Production at scale can also stimulate the development of satellite businesses, such as specialised input suppliers, retailers, or providers of accessory services, such as marketing firms. Through these linkages, smaller firms have an opportunity to increase sales, productivity, export revenue, and job creation.

3.3.3 The origins of large firms and the role of trading companies

Large firms are critical for private sector development, yet their scarcity in low-income contexts raises questions about where they come from and how they can be created. Firms that start off as large firms tend to be associated with foreign ownership, political connections, and individual wealth. Access to large financial resources is central to creating large firms. Studies of large firms in some sub-Saharan African countries have shown that the leading industrial firms in these countries did not start out as small firms that grew over time, but rather started out as medium or large firms that grew further. There are very few instances of small firms growing into large firms in an African context.

Interestingly, in the sub-Saharan African context, most large manufacturing firms started off as **trading companies** that shifted horizontally into manufacturing.⁴² The key factor that allows traders to transition and succeed as larger manufacturers seems to be associated with their deep knowledge of local and international market dynamics and supply chains, rather than technological know-how, which in certain sectors can be relatively easy to master. Their insight as trading companies allowed them to identify products with import replacement potential, and their international experience enabled them to recognise the type of investment needed to harness such opportunities.

These dynamics are a key consideration for Sudan to bear in mind when thinking about how to support the entry of large firms into the domestic market. In a context where there are significant imports of products that could instead be produced domestically, it would be worthwhile to explore whether any importing firms could be supported in shifting horizontally into manufacturing.

⁴¹ Romel, M. & S. Klepper [Industrial Development Through Tacit Knowledge Seeding: Evidence from the Bangladesh Garment Industry](#), *Management Science* 2018 64:2, 613-632.

⁴² Sutton, J., & N., Kellow (2011). [An enterprise map of Ethiopia](#). International Growth Centre.

In brief

Large firms are critical for driving economic growth and structural transformation. They have significant impacts on economic aggregates and are associated with more decent jobs. Considerations for Sudan include:

1. **Attracting large foreign firms** to enter Sudan through attracting FDI (see more in next section).
2. **Supporting growth of domestic firms.** There are few instances of small firms growing into large firms in Africa. Rather, large firms tend to start life as medium or large firms. To support large domestic firms in Sudan, government should:
 - **Improve credit access** as this is a key constraint for large firms as they require larger financial resources to start operations. High public borrowing has crowded out lending to commercial entities on affordable terms.
 - Explore whether any **trading companies could be supported to shift horizontally into manufacturing.** Many of Africa's large manufacturing firms started life as trading companies that shifted horizontally into manufacturing.
3. **Ensuring competition** is a major consideration where large firms are concerned as they can create oligopolies in undeveloped markets if competition is not protected.

3.4 Attracting FDI and ensuring spillovers to the domestic market

Years of conflict and isolation due to trade sanctions significantly limited Sudan's capacity to attract FDI.⁴³ FDI and large firms are critical for economic growth and the scarcity of both in Sudan highlights the need to develop effective policies to (i) attract FDI and (ii) better link foreign and domestic firms to maximise potential positive spillover effects.

3.4.1 Attracting FDI

To design effective policies and tools to attract FDI, it is critical to understand **what factors matter for investors** when they make investment decisions. Investors want an operating environment that minimises investment risk and promotes firm-level productivity and competitiveness. They also want access to raw materials and resources for production, and they want to be able to sell their products to large and growing markets.

Key factors that **encourage** investment include:

- **Reliable services**, especially reliable and affordable electricity, telecommunications, infrastructure, transport and logistics, and water.
- **A predictable regulatory framework**, including transparent and predictable laws and regulations, and streamlined administrative processes and requirements for import, export, and business operations that minimise time and financial costs.
- **Effective institutions** that are transparent and without systemic corruption are vital for investor confidence, for example, efficient customs authorities are essential to attract FDI and increase trade.

⁴³ Mansfield, D. & M. M., Markhof (2016). [Business Environment Reform Facility Diagnostic Review of Business Environment Constraints: Sudan](#). Business Environment Reform Facility. Department for International Development.

- **Supportive trade facilitation services** that lower the cost of trading and minimise customs clearance times.
- **Skilled workforce** whose skills are aligned with labour requirements of foreign firms is needed to attract FDI and to maximise job creation opportunities for the local workforce.

Factors that **discourage** investment include:

- **Barriers to trade and investment**, such as overvalued exchange rates, high tariffs, and other distortions that increase trade costs and diminish export and import efficiency.
- **High risk and uncertainty** arising from political and economic instability.

Tax incentives receive a lot of attention in policies to attract FDI, and some foreign investors insist on tax holidays, often arguing that this preferential treatment is needed to compensate for risky investment environments. However, evidence shows that the provision of financial incentives does not always result in improved firm outcomes. In the context of SEZs (discussed below), studies have shown that financial incentives do not correlate with SEZ outcomes.⁴⁴ By contrast, laws and regulations aimed at improving the enabling business environment matter a lot more when explaining firm performance.

Instead of granting tax incentives, the Sudanese government should focus on strengthening the factors that are proven to matter for investment decisions and firm performance.

Investment promotion agencies (IPAs) can be a valuable tool to attract FDI and provide investors with the services and support needed for efficient operations. IPAs have been seen to be particularly valuable in targeting potential new entrants or incumbent firms in the manufacturing sector. Their key activities include relationship-building, matchmaking, branding, information sharing, as well as ad-hoc services to investors, such as identifying specialised workers. Their work is especially important in reducing information barriers that otherwise dissuade investors from domestic markets.

IPAs often coordinate policies such as access to finance, reliable and affordable service provision, and investment facilitation services. Enabling re-investment by existing investors is more cost effective than attempting to bring new investors into a country, therefore, providing solid investment aftercare services is vital. This generally entails supporting investors with ongoing challenges that may arise and advocating on their behalf with government.

IPAs have, however, often been associated with poor transparency and the provision of unfair advantages to certain firms – it is important that investment incentives are applied fairly and equally so as not to undermine competition. Caution should also be taken to ensure that the entry of large firms into the domestic market does not give rise to damaging dynamics such as tax avoidance and the establishment of oligopolies. The adoption and implementation of effective competition law and policies are particularly important for this.

⁴⁴ Farole, T. (2011). [Special economic zones in Africa: Comparing performance and learning from global experience](#). The World Bank.

Box 1 The Ethiopian Investment Commission⁴⁵

The establishment of the **Relationship Building Programme**, within the **Ethiopian Investment Commission** (EIC), offers valuable insights on the set-up and management of IPAs. The programme aimed to build constructive relationships between investors and the government and to take prompt action on issues that may arise. Through a two-tier meeting structure (fortnightly meetings to discuss live issues and quarterly meetings for a comprehensive review of larger issues) and a tracking mechanism that ensured timely, customised support to firms, the programme has been able to build investor confidence in the local market and institutions, reducing perceived risks of re-investment.

The EIC further stimulates supply chain development by bringing together potential business partners. By hosting dialogue forums, it enables international firms to understand the constraints and capabilities of local SMEs and helps local firms to appreciate the challenges and demands of international players, particularly with respect to quality standards, technical and business requirements. Due to EIC's efforts, vertical linkages were secured between local firms and top multinationals, including H&M, Unilever, Nestle, and PepsiCo.

Ultimately, the IPA established by the Ethiopian Government represents a low-cost but highly effective policy option that countries like Sudan could realistically copy.

3.4.2 Ensuring positive spillovers for the domestic market

Securing FDI does not automatically generate economic gains for the domestic market, such as job creation, skills upgrading, technology and know-how transfer, access to external markets, and scale. Government will need to take specific action to ensure effective linkages are formed between foreign firms and the domestic market to enable these spillovers. Research shows that vertical linkages, where domestic firms are integrated into the supply chain of foreign firms, generate the most beneficial spillovers.

Active government intervention through use of specialised policy tools is needed to match FDI requirements with domestic industrial capabilities and opportunities.⁴⁶ Some relatively low-cost policy tools include:

- **Local content units (LCUs)** – These aim to facilitate vertical linkages between foreign firms and domestic firms in order to maximise the benefits of FDI, including job creation for nationals and integration of domestic firms into the supply chains of foreign companies. LCUs are most frequently associated with the extractive sector, but can be expanded to cover other sectors too. LCU activities include facilitating dialogue between foreign and domestic firms and identifying opportunities to establish linkages with domestic suppliers.

It is important that LCUs do not distort the market by, for example, mandating unreasonable local employment targets or requiring that a certain percentage of inputs be sourced locally. Such requirements undermine firm competitiveness, deter FDI, and are generally incompatible with international trade agreements. However, there are ways that they can encourage greater linkages between foreign and domestic firms in **non-distortionary ways**, including by coordinating closely with enterprise development centres and focusing on addressing information gaps through establishing a supplier database.

- LCUs are often supported by **enterprise development centres**, which are tasked with deepening domestic industrial capabilities and building skills, including through

⁴⁵ Sen, R. & S. Logan (2016). [Maximising the impact of FDI on domestic industrial capabilities and job creation](#). Policy Note 2016. International Growth Centre.

⁴⁶ Sen, R. & S. Logan (2016). [Maximising the impact of FDI on domestic industrial capabilities and job creation](#). Policy Note 2016. International Growth Centre.

vocational training, secondment or shadowing initiatives. These schemes should be aligned to labour market needs and should be established early on in the contractual relationship between government and foreign firms.

- Developing a **supplier database** is an effective way to make reliable information on the capabilities of domestic companies available to foreign firms looking to partner or transact with local firms. The database captures relevant information about domestic firms, including their sector, location, contacts, quality certification, tax and transaction history, and years of operation. This allows foreign firms to scope out the market and identify local firms with relevant expertise with whom vertical linkages could be developed. The database should only include firms whose capabilities have been vetted, such as through requiring completion of certain standards checks in order to achieve “approved vendor” status.

The supplier database could also support other policy objectives, such as encouraging formalisation by requiring that firms be formally registered in order to be included on the database. This could have positive impacts on expanding the tax base and could also reduce tax evasion through greater oversight over firms’ tax compliance records. Access to finance can also be enhanced, as banks are more likely to extend credit to a company if they have adequate information on its financial history.⁴⁷

Box 2 Establishing an LCU in Tanzania⁴⁸

The discovery of offshore gas prompted the Government of Tanzania to establish an **LCU**, embedded in the Prime Minister Office. The objective was to maximise benefits of the gas industry so that they extended to the wider economy, through integration of local business into the supply chain. Vertical integration was regarded as an important tool to achieve both job creation and firm-level development.

Government efforts involved establishing a system of contractual relations between a lead multinational corporation (MNC), a local sub-contractor, and an array of smaller, domestic businesses which linked to the MNC through the sub-contractor. The LCU has been working to build information on existing companies and to facilitate meetings with both international and domestic firms to identify opportunities for engagement and integration. An overarching aim of the LCU is to ensure that training for SMEs in the construction sector is included in MNC-SME contracts, in order to qualify these SMEs as approved vendors.

While the impact of Tanzania’s LCU is still unclear, government’s proactiveness in institutional development from the beginning is an inspiring example that other countries could learn from.

⁴⁷ Spray, J., & V., Steenbergen (2017). [Made in Rwanda Establishing a publicly available supplier database for Rwanda](#). Policy Note December 2016. International Growth Centre.

⁴⁸ Sen, R. & S. Logan (2016). [Maximising the impact of FDI on domestic industrial capabilities and job creation](#). Policy Note 2016. International Growth Centre.

Box 3 Rwanda's Supplier Development Programme⁴⁹

The **Supplier Development Program** was piloted by TradeMark East Africa and aims to strengthen linkages between large firms and local SMEs in Rwanda. The programme aimed to identify opportunities where a buyer who normally sources inputs from abroad could potentially start purchasing from local companies instead. The programme targeted buyers spending over USD 250,000 on a product each year, and was articulated in three phases:

1. Mapping imports of 30+ companies and identifying products and services with potential for import replacement (8 products and services with import replacement potential were identified)
2. Identifying and enrolling suppliers into the programme through agreements
3. Developing action plans to secure buyers' contracts

In two years, the programme led to two significant deals (of USD 150,000 and USD 450,000 a year). While these results were considerable, they fell short of the programme's target of five high-stake deals. Nonetheless, the following lessons could improve the effectiveness of comparable initiatives:

- Invest heavily to improve quality standards of local firms, as several deals did not materialise because buyers lacked guarantees on product quality
- Leverage government's ability to purchase from suppliers. This can help reduce perceived risks associated with local firms by ensuring long-term, predictable contracts with government.
- Adopt realistic targets. Setting lower thresholds (e.g. USD 50,000) for supplier opportunities to be included in the initiative is likely to unlock a greater number of deals.
- Develop a supplier database containing key information about local firms. Hold matchmaking forums between suppliers and buyers to facilitate mutual understanding and engagement.
- Complement the programme with export promotion efforts to help suppliers achieve scale. Indeed, the feasibility of deals in the Rwandan experience was closely related to the suppliers' ability to produce at scale.

⁴⁹ Steenbergen V. & J. Sutton (2017). [Establishing a Local Content Unit for Rwanda](#). Policy Note April 2017. International Growth Centre.

In brief

FDI is critical to support firm-level growth and economic diversification. Investment promotion efforts should focus on policies that:

1. **Attract FDI** by focusing on the factors that matter to investors in investment decision-making. These include reliable services, adequate infrastructure, effective institutions, transparent regulatory frameworks, and trade facilitation support. It is also necessary to address factors that discourage investment, including lowering barriers to trade and reducing risk and uncertainty. **Tax incentives** have less of an impact on investment decision-making and firm performance, and result in foregone tax revenue for government.
 - **IPAs** can be effective in attracting FDI and supporting foreign firms in the domestic market by, for example, reducing information gaps. However, stringent rules must be implemented to ensure that IPAs act fairly and transparently.
2. **Promote positive spillovers** to the local economy through establishing supplier linkages that facilitate transfer of technology and know-how, job creation, and skills upgrading. Policy tools that support these efforts include **LCUs, enterprise development centres, and supplier databases**. It is important that efforts to establish linkages between foreign firms and local companies are non-distortionary.

3.5 Special Economic Zones

SEZs are an effective policy tool to address some, but not all, market weaknesses. It is important to clearly diagnose what the market failure you are focusing on is you can assess whether SEZ policy is the best policy response. In Sudan, a weak enabling environment is the main problem – the factors contributing to this are wide-ranging, including inadequate infrastructure, weak service provision, and poor institutions and regulatory frameworks. Attempting to address these weaknesses on a nation-wide scale would take time and resources that Sudan does not currently have. In Sudan's context, SEZs could be an impactful policy response.

SEZs enable government to focus limited resources and capacity on providing infrastructure, reliable utilities, trade facilitation support, and other services to firms in geographically defined areas. This makes the operating environments in the zones more efficient while broader national reforms are still ongoing. SEZs have been increasingly used by policymakers in developing countries as way to promote industrialisation, attract FDI, create jobs, and boost exports. Over the last two decades, the number of SEZs in the world has increased six-fold, from about 900 zones in 1998 to 5,400 in 2018.⁵⁰

3.5.1 SEZs and Sudan's National Strategy

It is essential that SEZs are aligned with national economic and industrial policies. They require strong government support and coordination and should be situated within a long-term national development strategy. To maximise benefits from SEZs, governments and zone management would need to consider local comparative advantages and align to

⁵⁰ UNCTAD (2019). [World Investment Report 2019: Special Economic Zones](#). United Nations Conference on Trade and Development.

priority sectors.⁵¹ A 2020 World Bank analysis of Sudan's agriculture value chain suggested prioritising gum arabic, sesame, livestock for meat, horticulture, and dairy.⁵²

The identification and selection of priority sectors should be based on their ability to service the goals behind the SEZ, such as attracting FDI or promoting exports. In Sudan's case this could mean a focus on goods in high demand in strategically important markets. For example, gum arabic is highly sought after in European markets (France in particular), the US, and India. Gum arabic is also an important source for foreign currency earnings in Sudan.⁵³ Sesame provides another example, serving as an important export cash crop with the majority of demand coming from the Middle East and China.⁵⁴

3.5.2 SEZs and economic spillovers

Firms in SEZs benefit from proximity to other productive industries in the SEZ, which can result in agglomeration benefits. SEZs may also facilitate sharing of ideas by providing an environment that encourages multinationals to invest and transfer production and marketing know-how to other firms.⁵⁵

It is essential to ensure that SEZs are also connected with the rest of the domestic economy to **enable spillovers to local firms** outside the zones. SEZs in India have significantly increased economic activity in areas around the zones, promoting structural change by encouraging movement into a larger and more productive formal sector.⁵⁶ SEZs can support important economic spillovers by facilitating buyer-supplier relationships between firms inside the zone, many of which tend to be foreign, and domestic companies outside.

The presence of FDI provides new market opportunities for local firms to increase their sales, provided they can achieve the necessary quality requirements. Business interactions can also generate productivity gains for domestic suppliers.⁵⁷ Therefore, governments and zone management should actively facilitate these linkages through policies that strengthen supply chain linkages or encourage sub-contracting relations.⁵⁸

⁵¹ Zeng, D. (2016). [Special Economic Zones: Lessons from the Global Experience](#). *PEDL Synthesis Paper Series, 1*. Private Enterprise Development in Low Income Countries (PEDL).

⁵² World Bank (2020). [Sudan: Agriculture Value Chain Analysis](#).

⁵³ World Bank (2020). [Sudan: Agriculture Value Chain Analysis](#).

⁵⁴ World Bank (2020). [Sudan: Agriculture Value Chain Analysis](#).

⁵⁵ World Bank (2020). [Sudan: Agriculture Value Chain Analysis](#).

⁵⁶ Hyun, Y. & S. Ravi (2018). [Place-based Development: Evidence from Special Economic Zones in India](#). *Working Papers Series dp-306*. Boston University, Department of Economics.

⁵⁷ Alexianu, M., Khandelwal, A., Saab, M. & Teachout, M. (2019). [Doing Special Economic Zones right: A policy framework](#). *Synthesis Brief*. International Growth Centre.

⁵⁸ Zeng, D.Z. (2015a). [Global experiences with Special Economic Zones: Focus on China and Africa](#). *World Bank Policy Research Working Paper 7240*. World Bank.

3.5.3 Evaluation before and after establishing a SEZ

Even when SEZs are identified as appropriate policy responses, a decision to establish an SEZ should ultimately be based on a **cost-benefit analysis**. Considerations for this analysis are outlined in **Table 4**. SEZs are costly ventures and often involve use of public funds. The **opportunity cost** of these investments should be considered, with the cost of SEZs weighed against other potential use of public funds to determine whether an SEZ is the most effective use of public funds.

SEZ performance should be subject to continuous **monitoring and evaluation** (M&E). Effective M&E measures the performance of the zone against its objectives, informs decisions to improve on SEZ policy, and supports policymakers in enforcing regulations, such as environmental standards.⁵⁹

Establishing an M&E unit at any potential SEZ in Sudan will be essential for tracking the performance of the zone against the main objectives such as forming regional and global linkages, attracting FDI, providing reliable services and trade facilitation support.

For example, Sudan's current Red Sea Free Economic Zone has stated objectives of attracting FDI, increasing exports, creating jobs, increasing the human capital stock, and developing the surrounding area.⁶⁰ Each of these overarching objectives could be broken down into a series of key performance indicators to be monitored by an M&E unit.

Table 4 SEZ cost-benefit analysis⁶¹

Direct economic contributions	<ul style="list-style-type: none"> • Attraction of FDI • Job creation • Export growth • Foreign exchange earnings
+	
Indirect economic contributions	<ul style="list-style-type: none"> • Supplier linkages beyond the zones • Indirect and induced job creation
=	
Combined economic impacts	<ul style="list-style-type: none"> • Additional GDP growth
+ / -	
Net cost of/revenue from zones	<ul style="list-style-type: none"> • Investment expenditures • Operating costs • Foregone revenue and subsidies • Income from zones
=	
Fiscal/financial viability of zones	<ul style="list-style-type: none"> • Payback time of zone investment • Fiscal burden
+	
Dynamic economic contributions	<ul style="list-style-type: none"> • Technology dissemination • Skills and know-how transfers • Industrial diversification and upgrading • Enhanced regional economic cooperation
+ / -	
Social and environmental impacts and externalities	<ul style="list-style-type: none"> • Labour conditions • Environmental impact • Appropriation or misuse of land • Illicit flows
+ / -	
Policy learning and broader reform impact	<ul style="list-style-type: none"> • Pilot function of zones • Catalyst function for reforms • Reduced motivation to reform
=	
Overall sustainable development impact	<ul style="list-style-type: none"> • Evolution of the role of zones in the economy • Long-term zone transformations

⁵⁹ Farole, T. (2011). [Special economic zones in Africa: Comparing performance and learning from global experience](#). The World Bank.

⁶⁰ Sudanese Free Zones & Co. Available at <https://www.sudanfreezone.com/en/areas/red-sea-free-zone/>

⁶¹ UNCTAD (2019). [World Investment Report 2019: Special Economic Zones](#). United Nations Conference on Trade and Development.

Box 4 South Africa's SEZ M&E Unit⁶²

In South Africa, a central SEZ Advisory Board is responsible for overseeing the M&E of SEZs and feeding these metrics back to the Department of Trade and Industry to inform future policy decisions. This oversight, and the transparency of the performance information gathered, helps put pressure on individual SEZ management boards to deliver on targets. The M&E framework established by the SEZ Act sets out a large list of indicators to be tracked, including costs – a central, but rarely considered, factor among SEZs worldwide. The indicators tracked for each zone can be grouped under three categories:

Management indicators	<ul style="list-style-type: none"> • Business plan and financial statements • Progress report on key performance targets • Progress reports on specific SEZ programmes (e.g. setting up a one-stop shop) • Infrastructure report
Output indicators	<ul style="list-style-type: none"> • Investment brought in the zone • Jobs created • Land allocated • Revenues raised from land sales and rental income • Exports
Input indicators	<ul style="list-style-type: none"> • Operating staff costs against target • Infrastructure capital costs and timeframes against targets • Top structures/factories' costs and timings • Operational costs against target

3.5.4 Location matters

To be a catalyst for structural transformation, zones need to be linked to key elements of trade infrastructure, including ports, railways, and highways, with good logistics and customs services.⁶³ They should also be located near urban areas to ensure a close source of labour for the zone, to facilitate linkages to firms in the local economy, and to leverage industrialisation and urbanisation synergies.⁶⁴

Sudan's Red Sea Free Zone demonstrates these features. It is located on the coast of the Red Sea and on the national road, 38km south of Port Sudan and is serviced by the port of Suakin and the Bashaer oil port and has access to Port Sudan Airport. Leveraging its strategic location, the zone focuses on facilitating port and airport customs procedures.⁶⁵ Sudan has relatively onerous licencing requirements, which pose a challenge for corporate entities seeking to provide internationally competitive logistics facilities and services. To mitigate these constraints, the Red Sea Free Zone provides firms in the zone with the necessary infrastructure and services for customs clearing and valued-added services.⁶⁶

In light of Sudan's current fiscal and institutional constraints, SEZs present a potentially impactful policy response to attract FDI and boost exports. Nonetheless, the decision to establish an SEZ should be the product of a careful cost benefit analysis, and zone performance should be subject to continuous monitoring and evaluation. SEZs should be located near key trade and transport infrastructure and urban centres in order to access the necessary labour force and promote economic spillovers. Furthermore, when considering

⁶² Department of Trade and Industry's. SEZ Performance M&E Framework.

⁶³ Zeng, D. (2016). [Special Economic Zones: Lessons from the Global Experience](#). PEDL Synthesis Paper Series, 1. Private Enterprise Development in Low Income Countries (PEDL).

⁶⁴ All of the first four Chinese SEZs, which are often cited as a paradigm of successful SEZs, were located in coastal areas near thriving markets like Hong Kong, Macao, and Taiwan (Wong & Johanne, 2017).

⁶⁵ Sudanese Free Zones & Markets Co – Red Sea Free Zone. Available at: <https://www.sudanfreezone.com/en/areas/red-sea-free-zone/>

⁶⁶ World Bank (2014). [Republic of The Sudan: Diagnostic Trade Integration Study](#). The World Bank Group, Macroeconomic and Fiscal Management Africa.

which services and incentives should be offered to investors, SEZs in Sudan should focus on providing access to reliable and affordable utilities and navigating regulations. In doing so, they may be well positioned to improve the ease of doing business.

In brief

SEZs can play an important role in driving private sector development in Sudan:

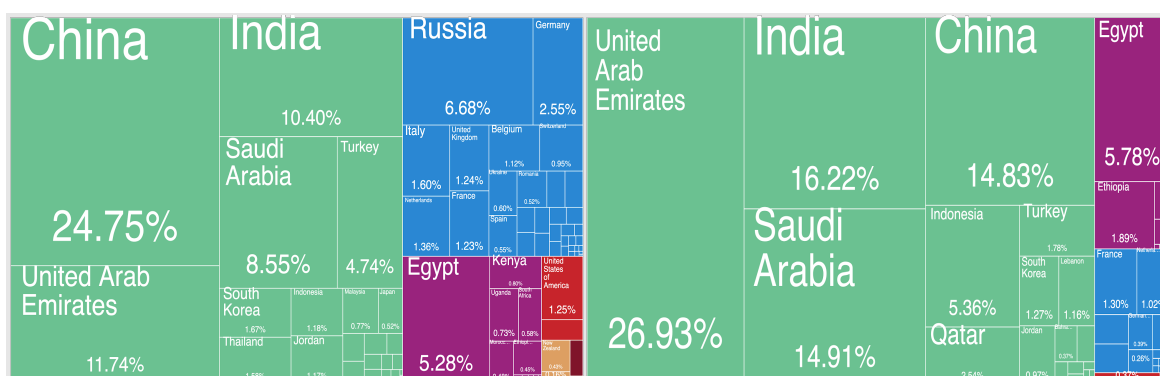
1. They can provide **improved services and infrastructure** to firms in a geographically defined area to overcome the country's weak enabling environment while nation-wide reforms are undertaken.
2. To **maximise SEZ effectiveness**
 - Their **strategies** should align with national development priorities and should aim to address clearly articulated market failures
 - They should be **strategically located** near trade infrastructure and urban centres
 - **Strong integration** between firms in SEZs and those in the rest of the economy is essential to **maximise positive spillovers**
 - **M&E units** should be established to track SEZ performance against its targets and to provide data to inform strategy and policy improvements
3. The decision whether to establish an SEZ must be based on a careful **cost-benefit analysis**.

4 Trade integration

Sudan's advantageous geostrategic location connects it to the Middle East and sub-Saharan Africa, as well as Asian and European markets. However, to date, Sudan's membership of trade blocks has been limited, especially at the global and multilateral level, partly due to decades of trade sanctions. Sudan is currently a member of COMESA, GAFTA, and benefits from the "everything but arms" European Union initiative. The lifting of sanctions in 2017, and Sudan's more recent removal from the SSTL in December 2020, represent a good opportunity for Sudan to deepen global economic integration by entering into bilateral, regional, and global trade agreements.

Participation in trade agreements typically generates benefits such as lower trade costs, greater international competitiveness, more effective institutions, and stronger diplomatic ties. Trade agreements may also assist in developing essential trade infrastructure and in increasing FDI, which could help shift capital and labour toward more productive sectors.

Figure 12 Sudan import (left) & export (right) partners in 2018⁶⁷



4.1 Bilateral trade agreements

With the lifting of sanctions and SSTL designation, Sudan is in a strong position to pursue bilateral trade agreements. These can prove especially instrumental to break into middle- and higher-income markets and might demand lower time and financial resources to achieve than that required to access to global platforms. For this reason, alongside efforts to join global institutions, Sudan should also prioritise bilateral agreements as they may provide an effective, short-term strategy to scaling integration at lower cost. The world's two largest economies, the US and China, both offer notable opportunities for Sudan.

African Growth and Opportunity Act (AGOA) – Improved diplomatic relations with the US opens up the possibility for Sudan to become eligible to join AGOA. AGOA offers preferential treatment for select products (over 5,000 products spanning apparel, agriculture, minerals, and footwear) exported to the US from African countries, conditional on the implementation of policies favourable to a market-based economy, the rule of law, and political pluralism, among other requirements.

Evidence suggests that AGOA has produced large, positive effects for its members, with over 300,000 direct jobs created and a tripling of export volumes as of 2016 – notably,

⁶⁷ The Growth Lab at Harvard University (2020). [The Atlas of Economic Complexity](#).

exports of apparel increased by 42% and oil by over 100%.^{68,69} Evidence from the apparel sector also points to positive impacts on firm-level productivity due to a reallocation of resources from less to more productive firms.⁷⁰

Belt and Road Initiative (BRI) – The BRI represents an opportunity for Sudan to upgrade its trade infrastructure and deepen economic ties with China. The BRI is an ambitious programme to connect Asia with Africa and Europe via land and maritime networks along six corridors, with the aim of improving regional integration, increasing trade, and stimulating economic growth.⁷¹ The programme is expected to involve over USD 1 trillion in investments, largely in infrastructure development for ports, roads, railways and airports, as well as power plants and telecommunications networks.⁷²

Sudan stands alongside 45 other African countries who have signed a memorandum of understanding as part of the BRI.⁷³ China is already Sudan's second largest trading partner and largest export market at USD 2.2 billion annually.⁷⁴ Furthermore, Sudan has experience partnering on with China on capital intensive infrastructure projects, particularly in the oil sector. Improved trade and energy infrastructure from participation in the BRI would be expected to improve firm productivity and support private sector development in Sudan.

4.2 Regional trade integration

Although there is much potential for Sudan to serve as a trade corridor, particularly for its landlocked neighbours – Chad, Central African Republic, Ethiopia, and South Sudan - regional integration is currently weak. In fact, Sudan has much stronger commercial ties with the Middle East, China, India, and Russia (**Figure 12**) than it does with regional partners.

Greater trade integration and improved trade infrastructure could see Sudan develop a trade corridor to Port Sudan similar to the Lamu Port-South Sudan-Ethiopia-Transport (LAPSSET) corridor. Enhanced regional cooperation could support development of shared connectivity structures, such as ports, railways, road corridors, and broadband networks linked to functioning hubs in neighbouring countries.

Sudan's size and economic relevance gives it favourable prospects of accession to regional trade blocks. Two important groups for Sudan to consider pursuing participation in are the East African Community and the Africa Continental Free Trade Area.

East African Community (EAC) – The EAC is a critical regional trade block that offers opportunities for Sudan to attract FDI and improve its trade and economic integration within the region. Other members of the EAC include Kenya, Tanzania, and Rwanda, with Burundi and South Sudan having joined the EAC but being less functional members.

Evidence from Uganda indicates significant country-level gains driven by EAC accession, including export costs falling by almost half and rising export volumes.⁷⁵ Membership of the EAC may also encourage a fast-tracked convergence to regional standards and regulations. Sudan's relatively larger size and economic weight compared to other EAC members may also mean that Sudan could enjoy influence in the decision-making of the group.

⁶⁸ Boateng, G., & Southern Voices Network Scholar (2016). *Utilization of AGOA in ECOWAS for Economic Transformation*. The Southern Voices Network: Research Paper No. 12. Wilson Center. Africa Program

⁶⁹ Mulangu, F. (2012). *Preferential Trade Agreements, Employment, and Productivity: Evaluating the Impacts of AGOA and its Apparel Provisions on African Firms*. African Center for Economic Transformation (ACET)

⁷⁰ Mulangu, F. (2012). *Preferential Trade Agreements, Employment, and Productivity: Evaluating the Impacts of AGOA and its Apparel Provisions on African Firms*. African Center for Economic Transformation (ACET)

⁷¹ EBRD (2020). *Belt and Road Initiative*.

⁷² EBRD (2020). *Belt and Road Initiative*.

⁷³ Development Reimagined (2019). *Countries Along the Belt and Road, What Does It All Mean?*

⁷⁴ World Bank (2017). *World Integrated Trade Summary: Sudan*. World Bank Group.

⁷⁵ Spray, J. (2017). *Export transitions, productivity, and the supply chain Assessing the influence of EAC trade costs reductions in exports and export supply chains*. IGC Working Paper. International Growth Centre.

In theory, additional benefits include greater access to physical trade infrastructure, which would lower the current high transport costs that result from inadequate road networks and collapsed railroads.⁷⁶ In practice, however, a key limitation will be that Sudan can only access other EAC countries through South Sudan. Ongoing conflict and instability in South Sudan, as well as a lack of transport infrastructure across South Sudan, means that Sudan does not have easy or safe overland routes to other EAC countries.

Africa Continental Free Trade Area (AfCFTA) – The AfCFTA stands to be the largest free trade area in the world in terms of the number of participant countries, with the exception of the World Trade Organisation. It aims to cover all 55 members of the African Union, representing a market of 1.2 billion people and a GDP of USD 2.5 trillion. Established in 2019, the AfCFTA is being implemented in phases, focusing on liberalisation of goods and services trade first, followed by harmonisation of regulatory protocols.⁷⁷ The current timeline aims to achieve reduction of trade duties within five years; however, Sudan, along with six other nations, has special dispensation to reduce these more gradually over 15 years.⁷⁸

The United Nations Economic Commission for Africa (UNECA) estimates that AfCFTA has the potential to boost intra-African trade by 52.3% through eliminating import duties, and to further double trade if non-tariff barriers are also reduced.⁷⁹ While it is difficult to predict the sector-specific implications of a free trade agreement like AfCFTA, past research on the implications of greater regional integration through COMESA indicate that joining the trade block could boost Sudan's agricultural exports to other member countries.^{80,81}

Sudan stands to benefit considerably from AfCFTA due to the economic integration opportunities it offers beyond the Horn and East Africa region. The more generous timeline offered to Sudan to bring trade policy into alignment with the agreement offers Sudan an opportunity to leverage technical support from other African countries who have to achieve alignment faster. A first important step to showcase the country's commitment to the initiative would be to ratify the agreement in parliament (to date, Sudan has only signed it).⁸²

4.3 Global trade integration

World Trade Organisation (WTO) – After 13 years of impasse, Sudan's negotiations for accession to the WTO resumed in 2017.⁸³ Progress has been slow, with the WTO highlighting the need for Sudan to designate a chief negotiator and a national team.^{84,85} Member countries represent over 90% of world trade and membership facilitates relations among WTO member states. Accession to the WTO would guarantee Sudan Most Favoured Nation tariff rates, which could improve the performance of the export sector. Accession would also demonstrate a strong signal to investors and trading partners about Sudan's commitment to market-friendly policies and institutional improvement.

On the downside, the accession process is heavy on time and resource requirements, demanding from the government a high level of commitment and significant investment in capacity building. These requirements pose an obstacle given the considerable reforms

⁷⁶ Alemi, C. D., J., de Melo, & A. R.N., Haas (2016). [Recommendation for South Sudan to join the East African Community](#). Policy Note February 2016. International Growth Centre.

⁷⁷ Trade Law Centre (2020). [Status of AfCFTA Ratification](#).

⁷⁸ Trade Law Centre (2018). [African Continental Free Trade Area FAQs](#).

⁷⁹ Trade Law Centre (2018). [African Continental Free Trade Area FAQs](#).

⁸⁰ TradeMark East Africa (2020). [The AfCFTA – lessons from the free trade area of the Americas](#).

⁸¹ Elbushra, A. A., Karim, I. E. A., & Suleiman, I. (2011). [The role of COMESA in promoting intra-regional agricultural trade: Case study of Sudan](#). *Journal of the Saudi Society of Agricultural Sciences*, 10(2), 59–64.

⁸² Trade Law Centre (2020). [Status of AfCFTA Ratification](#).

⁸³ WTO (2017). [Positive momentum for Sudan's WTO membership negotiations](#). WTO News.

⁸⁴ WTO (2019). [WTO Accessions Newsletter](#). Issue N. 102.

⁸⁵ WTO (2020). [Accessions: Sudan](#).

government is already undertaking, which are stretching capacity and resources. However, it is an area that may lend itself to requesting technical assistance support from donors.⁸⁶

In brief

Sudan should leverage opportunities offered by its geostrategic location to deepen **economic integration** through trade agreements:

1. **Bilaterally**, by pursuing bilateral agreements, including with the US (through AGOA) and China (through BRI). Bilateral agreements are an effective way to access middle- and higher-income markets and the process involves lower time and financial resource commitments than global integration efforts.
2. **Regionally**, EAC and AfCTA represent key groups that would offer Sudan access to shared connectivity structures and act as a stepping-stone to global markets.
3. **Globally**, despite the process being cumbersome and expensive, Sudan should work towards accession to the WTO. This would guarantee preferential tariff rates to most world economies and signal commitment to market-friendly policies and institutional improvement. Technical assistance from donors could be forthcoming for WTO accession efforts.

⁸⁶ Alemi, C.D., J., de Mela, & A. R. N., Haas (2016). [Pursuing WTO accession: Advantages and disadvantages for South Sudan. Policy Brief July 2016.](#) International Growth Centre.

5 The role of the banking system

Sudan's economic isolation has also resulted in the domestic banking systems being notably undeveloped. The financial sector remains small, including in comparison to regional peers, and suffers from low financial intermediation and inclusiveness, especially outside of major urban centres.⁸⁷

As Sudan begins efforts to re-establish economic ties with the rest of the world, there is a clear need to strengthen the domestic financial sector. Doing so will facilitate investment, expand financial access, and enable growth and job creation. The following priorities should be considered to ensure that Sudan's financial market will be adequately equipped to support the country's economic growth:

- **Reforming the banking sector⁸⁸** – Having a well-functioning banking sector is essential to attracting FDI and enabling business. Reforms to improve the laws and regulations governing the sector, as well as compliance and enforcement mechanisms, should aim to decrease risk for investors, increase transparency, and provide timely and accurate information, including to enable investors to conduct due diligence on potential clients and partners. Reforms will also need to mitigate the perceived corruption that deters international banks and investors from doing business in Sudan. Specifically, consideration should be given to:
 - **Complying with international standards** – Banking laws and regulations will need to meet international standards, including anti-money laundering (AML) and combating the financing of terrorism (CFT) laws and regulations. Strengthening AML/CFT laws and regulations will be an important signal to the international community that Sudan is committed to protecting the integrity of its financial system. Importantly, the AML/CFT laws and policies must be enforced and compliance ensured. This will necessitate, among other things, that (i) banks be obliged to report suspicious activity, and instances of suspected corruption or terrorism financing should be investigated, and (ii) actions be carried out that target sectors at risk of money laundering and illicit financial flows, notably the gold sector.
 - **Improving banking supervision** – The Central Bank of Sudan (CBoS) should monitor and enforce banks' compliance with applicable laws and regulations. This can be done through safeguarding mechanisms such as the CBoS auditing banks, with suspicious behaviour being investigated and prosecuted.
 - **Reducing use of informal channels** – Bringing a greater share of financial transfers into Sudan through formal channels is important for increasing financial oversight and lowering the risk of funds being used for illicit financing. Addressing the divergence in official and parallel exchange rates and lowering the costs of transferring funds through formal channels is necessary to encourage use of official systems. Greater usage of formal channels would also boost government's access to foreign currency.
 - **Encouraging proactive engagement** – Sudan's banks and banking regulators should be encouraged to engage with international banks to understand the improvements needed to satisfy international banks' requirements to provide correspondent, lending, and other financial services. The government should also encourage banking officials to engage in dialogue with relevant international

⁸⁷ AfDB (2016). [Private Sector-led Economic Diversification and Development in Sudan](#). AfDB East Africa Regional Development & Business Delivery Office.

⁸⁸ Logan, S. (2020). Sudan: Reform Considerations after SSTL removal. *National economic conference 26-28 September*. International Growth Centre.

institutions to learn from international best practices that can be implemented in the Sudanese context. The creation of domestic compliance institutions, such as a Financial Ombudsman, could also be considered.⁸⁹

- **Ensuring competition** – There are 37 banks currently operating in Sudan: 32 are commercial banks and two are specialist banks that provide credit to targeted sectors. CBoS and government entities hold shares in almost all commercial banks and there has historically been some degree of political interference. The Bank of Khartoum, majority-owned by the UAE, is the largest bank with 17% of market share. As of 2019, the banking sector's assets accounted for 25% of GDP, with the five largest banks capturing 55% of sector assets. The rest of the financial sector consists of small-scale insurance companies, microfinance institutions, foreign exchange bureaus, and remittance companies.

Encouraging greater competition in the sector is necessary to improve service delivery and geographical coverage (in terms of both services provided and locations covered), and to reduce risks of uncompetitive behaviour or collusion among top banks.⁹⁰

- **Promoting financial inclusion** – Sudan suffers from very high levels of financial exclusion, with 85% of adults being unbanked. Access to credit is also constrained. Although mobile payment technology exists, cash is widely used in retail payment because of low confidence in the financial sector. CBoS can play an important role in maintaining the safety and integrity of payment systems and in achieving increased consumer confidence in order to promote greater financial inclusion. Moreover, there is a need to improve provision of financial services, which could be achieved effectively through greater investment in digitalisation.
- **Improve information availability** – CBoS is responsible for regulating the financial system in Sudan. Although there is some compliance and participation in terms of information sharing from commercial banks, information from non-bank financial institutions is limited, which makes monitoring and enforcing regulations challenging. Support is needed across the board to build CBoS' capability to collect information from all institutions.

⁸⁹ An institution tasked with settling disputes between consumers and financial institutions.

⁹⁰ IMF (2020). [Sudan Selected Issues](#). IMF Middle East and Central Asia Department.

In brief

Reform of Sudan's **banking sector** is critical to supporting private sector development and promoting economic growth. Key elements include:

1. **Complying with international standards**, including AML and CFT requirements, to improve financial oversight and encourage greater use of formal channels for financial transfers into Sudan.
2. **Promoting competition** among financial and non-financial institutions to improve service delivery and geographical coverage, and to ensure fairness and efficiency in the system.
3. **Expanding financial inclusion**, including for marginalised groups and regions. Digital technologies can prove especially effective in achieving this. CBoS should continue to build confidence in the banking sector by investing in the safety and integrity of payment systems.
4. **Collecting and monitoring information** on financial institutions on an ongoing basis to ensure compliance and transparency and enforcing information-sharing obligations.

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