AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

COUNTRY FOCUS REPORT 2024

SUDAN

Driving Sudan's Transformation

The Reform of the Global Financial Architecture

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LIST OF ACRONYMS AND ABBREVIATIONS

AEO	African Economic Outlook
AfDB	African Development Bank Group
AFSM	African Financial Stability Mechanism
AGB	African Green Bank
AGBI	African Green Banks Initiative
CFR	Country Focus Report
COMESA	Common Market for Eastern and Southern Africa
CRAs	Credit Rating Agencies
DRM	Domestic Resource Mobilization
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFA	Global Financial Architecture
HIPC	Heavily Indebted Poor Countries
IFI	International Financial Institutions
ILO	International Labour Organization
IMF	International Monetary Fund
MDBs	Multilateral Development Banks
NDCs	Nationally Determined Contributions
ODA	Official Development Assistance
PRSP	Poverty Reduction Strategy Paper
SDGs	Sustainable Development Goals
SDRs	Special Drawing Rights
SMP	Staff Monitored Program
SSTL	States Sponsor of Terrorism List
TAAT	Technologies for African Agricultural Transformation
WDI	World Development Indicators

EXECUTIVE SUMMARY

Sudan's prolonged political instability since the overthrow of President Al-Bashir's government in April 2019 resulted in an armed conflict between the Sudanese Armed Forces and the paramilitary Rapid Support Forces. The conflict has destabilized the country, with devastating social and economic ramifications, including loss of over 15,000 lives, injury of over 33,000 people, and displacement of over 11 million people with regional spillover effects. Real GDP that contracted by 37.5 percent in 2023 is the largest contraction in Sudan's history, due to destruction of the country's production capacity and disruption of economic activities, with decline in services dragging down growth on the supply side. Because of the conflict, GDP is projected to contract further by 5.9% in 2024, before a recovery of 0.5% in 2025, assuming peace is restored in 2024. There is need to immediately restore peace and political stability to create a conducive environment for macroeconomic policy formulation and implementation, and to accelerate structural reforms. Once peace is restored, Sudan must resume the comprehensive macroeconomic reforms initiated under the 2019 transitional government, aimed at creating fiscal space, restoring debt sustainability, liberalizing exchange rate market, and moderating inflationary pressures. Sudan will also need to rebuild social and economic infrastructure through cross-sectoral restoration and reconstruction of infrastructure to lay foundation for economic and structural transformation. In addition, Sudan needs to enhance resilience to climate change, improve business enabling environment, and promote economic diversification to reduce vulnerabilities to shocks as a way of supporting macroeconomic stability and economic transformation.

Structural transformation in Sudan is held back by many factors and aggravated by conflict and fragility. Prolonged international and U.S. economic sanctions prevented Sudan from benefitting from the productivity growth, which comes from economic interactions with the rest of the world. Other bottlenecks include inadequate infrastructure, limitations in human development, and lack of clear vision and strategy to drive structural transformation. Sudan would need US$24.3 billion annually until 2030 to accelerate its structural transformation process and put it in par with high-performing developing countries with current comparable levels of development. In this regard, accelerating structural transformation in Sudan requires a multipronged approach that entails: developing and implementing national industrial development strategy; restoring macroeconomic stability, as well as enhancing domestic resource mobilization and public finance management; implementing key structural reforms in the long-term, including investing in human capital development, expanding access to finance for start-ups, and building resilience to climate change; and increasing affordable financing by the International Financial Institutions (IFIs) and Multilateral Development Banks (MDBs).

Sudan has a unique opportunity to increase concessional financing if it can restore peace and resume the Heavily Indebted Poor Countries (HIPC) process. For Sudan to mobilize resources at this scale and on affordable terms for the financing of structural transformation, there is need for reforms of the Global Financial Architecture such as increasing the share of the global South in IFIs and MDBs, improving transparency in credit rating agencies, and reform MDBs to enhance funding for Africa's structural transformation through a generalized capital increase. There is also a need to engage with Credit Rating Agencies to improve their rating criteria by considering the value of natural capital, among others, in assessing a country's debt risk profile.

GENERAL INTRODUCTION

Sudan's structural change was stronger in the 2000s than that in the 2010s, largely driven by within-sector productivity growth, but was very limited in the 1990s. The slowdown in the pace of structural change in the 2010s could be attributed largely to disruptions ignited by political instability and conflicts. The ongoing conflict that started in April 2023 has reversed the social and economic gains the country made over the last 3 decades. This Country Focus Report (CFR) for Sudan articulates the need to reform the global financial architecture for accelerated structural transformation in the country. The report also takes stock of Sudan's structural transformation progress, highlighting the key drivers and barriers, and what needs to be done to accelerate the country's structural transformation. Sudan CFR replicates the African Development Bank (AfDB)'s main African Economic Outlook (AEO) report for 2024 at country level.

The CFR is structured as follows: After this introduction, chapter one discusses Sudan's recent macroeconomic performance and outlook. Chapter two takes stock of the progress of structural transformation in Sudan. Chapter three discusses the need for reforms of the international financial architecture for accelerated structural transformation in Sudan.

1

MACROECONOMIC PERFORMANCE AND OUTLOOK

KEY MESSAGES

- Sudan's real Gross Domestic Product (GDP) contracted by 37.5 percent in 2023, compared to 1.0% in 2022, the fifth consecutive contraction and largest contraction in Sudan's history. The decline is attributed to the devastating impact of the ongoing armed conflict, which has led to the destruction of the country's production capacity and disruption of its economic activities, with decline in services dragging growth on the supply side. On the demand side, the loss of income and displacement of the population has led to a reduction in consumption, thereby affecting growth.

- The conflict has resulted in about 15,000 deaths, 33,000 injuries, and displacement of over 11 million people with regional spillovers. Its impact is expected to drag into the medium-to-long term. Consequently, the GDP is projected to contract further by 5.9% in 2024, before a recovery of 0.5% in 2025, assuming that peace is restored in 2024. The recovery would be supported by reconstruction spending, especially on social services and infrastructure, and resumption of economic activity across sectors.

- Sudan's monetary, exchange rate, and fiscal policy reforms initiated under the 2019 transitional government have stalled, with significant reversal of the gains achieved before the current conflict. Inflation heightened from 164.6 percent in 2022 to 245.3 percent in 2023, largely driven by monetization of fiscal deficit, shortage of consumer goods supplies, and currency depreciation. Fiscal deficit increased from 1.7% in 2022 to 9.1% in 2023 due to reduced government revenues on account of the reduced economic activities, and increased government expenditures due to the war, as Sudan remains in public debt distress.

- Restoration of macroeconomic stability and resumption of structural reforms in Sudan is contingent on ending the current conflict. Building lasting political and social stability after the crisis will require supporting the country to address key governance challenges, including promoting political participation, entrenching democratic elections and freedom of association, and creating stronger institutional, and legal mechanisms to tackle corruption.

1.1 Introduction

Sudan is in recession following persistent economic decline that started in 2019, and aggravated by COVID-19 pandemic, multiple shocks, and the ongoing conflict. Over the period 2019-2022, Sudan's growth rate ranged between -1.9% and -1%, before dipping to -37.5% in 2023, underscoring its high instability. The sluggish economic growth combined with political instability has accentuated the macroeconomic imbalances in Sudan and deteriorated the living conditions of the population. This chapter presents an updated analysis of Sudan's economic performance for 2023, including medium-term growth projections over the period 2024-2025. It assesses the key macroeconomic indicators, fiscal and monetary policies, and changes in domestic and international financial flows, investment, and public debt. The chapter also discusses the main downside and upside risks to the outlook and provides policy options to foster high and resilient growth and supporting macroeconomic stability, and economic transformation.

1.2 Growth Performance

Socioeconomic Impact of War in Sudan: Sudan's prolonged political instability since the overthrow of President Al-Bashir's government in April 2019 resulted in an armed conflict between the Sudanese Armed Forces and the paramilitary Rapid Support Forces. The conflict has resulted in about 15,000 deaths, and 33,000 injures. The war in Sudan has had a devastating impact on the country's socioeconomic development. The socioeconomic costs can be summarized as follows:

- **Loss of Economic Output:** the war has resulted in destruction costing billions of dollars, with initial estimates of USD 125 billion during the first year of conflict. The war has also crippled the key economic sectors, including services, industry, and agriculture.
- **Destruction of Infrastructure:** despite limited information coming from the conflict affected areas, infrastructure like roads, bridges, power and telecommunication network, and government institutions have been destroyed, hindering trade, provision of essential services such as education and health, and other economic activities.
- **Displacement of People:** about 11 million people have been displaced from their homes and livelihoods, creating a burden on social service for host communities and hindering agriculture production. Close to 2 million displaced persons have crossed into the neighboring countries thereby heightening the risk of regional spillover effects of the conflict.
- **Increase in Poverty:** poverty was already widespread in Sudan before the war, estimated at 66.1 percent in 2022 (see section 1.3 of this chapter). The war has pushed many people into poverty, as they struggle to afford food, healthcare, education, and other basic needs. The loss of livelihoods due to the war and displacement of people has driven millions to poverty.
- **Food Insecurity:** the war has disrupted agriculture production and distribution systems, leading to widespread food shortage. United Nations estimates that more than half of the population (25.6 million people) are facing acute food insecurity as of June 2024, with 8.5 million people in a state of emergency (the last level before famine), while 750,000 people are facing famine. Fourteen areas in the country face risk of famine. Children are the most affected, where about 16 million children are particularly

vulnerable to famine, and malnutrition.

- **Cultural Heritage at Risk:** while no information is available on the current state of the cultural sites in the country, the historical sites, museums, and archives remain vulnerable to destruction and/or looting during the conflict, jeopardizing Sudan's rich cultural heritage.

Economic Growth: The information on which macroeconomic analysis is based has remained scarce since the outbreak of the war in April 2023. However, based on data available and assessment of the situation in the country, real GDP is estimated to have contracted by 37.5 percent in 2023, the largest contraction in Sudan's history, due to destruction of the country's production capacity and disruption of economic activities, with decline in services impeding growth on the supply side. On the demand side, the loss of income and displacement of population has led to a reduction in private consumption, thereby affecting growth in 2023. The war also affected the other components of demand such us investment and trade balance. In 2022, real GDP contracted by 1.0%, reflecting the de facto situation imposed on Sudan since November 2021, which reduced financial flows and restricted foreign direct investments. Over the period 2015-2022, the services sector contributed 54.6 percent to GDP, followed by agriculture, forestry and fishing sectors (24.2 percent), and industry sector (22.2 percent). Economic decline in 2022 and 2023 followed three years of economic contraction (2019-2021) that was largely attributed to years of macroeconomic imbalances, structural deficiencies, political instability, and COVID-19 induced disruptions. During 2020-2021, the transitional government implemented an International Monetary Fund (IMF) Staff-Monitored Program (SMP) to stabilize the economy and promote robust and inclusive GDP growth. The IMF SMP helped the transitional government to implement comprehensive reforms designed to foster macroeconomic stability and strengthen competitiveness, but the gains were short-lived due to the October 2021 military takeover of government and the subsequent intensified political instability.

1.3 Other Recent Macroeconomic and Social Developments

Monetary Policy, Inflation, and Exchange Rate: Prior to the war, the Central Bank of Sudan adopted an accommodative monetary policy in 2022 to boost credit growth and revive economic activity. During 2022 and early 2023, the government of Sudan initiated a policy transition to a reserve money-targeting monetary regime, using both market and non-market-based instruments. The market-based instruments included government securities and open market operations, while the non-market-based instruments were cash reserve ratio and import finance restrictions. Government initiatives to moderate inflationary pressures such as removal of fuel subsidies, unification of the exchange rate and fiscal consolidation were halted by the conflict, with inflation rising from 164.6 percent in 2022 to 245.3 percent in 2023, largely driven by the monetization of fiscal deficit, shortage of consumer goods supplies, and currency depreciation. Generally, domestic policy variables, notably fiscal, monetary, and exchange rate policies are the main drivers of inflation in Sudan, while external factors (oil and wheat price shocks) play limited role. Productivity growth remains a key factor in moderating inflationary pressures in Sudan, underscoring the need to expand agro-industrialization once the war stops. Gains that were made under exchange rate reforms have been reversed by the conflict, with Sudanese pound depreciating by about 90 percent between 2021 and 2023.

Real GDP is estimated to have contracted by 37.5 percent in 2023, the largest contraction in Sudan's history, due to destruction of the country's production capacity and disruption of economic activities

Globally, commodity prices remained relatively high in 2023, compared to 2022, despite a decline in average energy and food prices by about 30 percent and 9.2%, respectively. The decline in energy and food prices largely depicted the effect of the subdued global demand. The tightening of the monetary policy among the advance and large economies also persisted in 2023, while the higher interest rates in the US compromised the fight against inflation in developing countries.

Fiscal Policy and Public Debt: Prior to the conflict, fiscal consolidation focused on improving revenue performance, and removal of fuel and wheat subsidies helped to ease pressure on the fiscal space. However, the fiscal deficit increased from 1.7% in 2022 to 9.1% in 2023 due to reduced government revenues on account of the reduced economic activities and increased government expenditures due to the war. The fiscal deficit largely comprises of the primary deficit which widened from 1.4% of GDP in 2022 to 8.9% in 2023. The fiscal deficit was largely financed through monetization and grants from Arab Funds, and a few bilateral development partners. The primary deficit is driven by rising government spending amid dwindling revenue collection. Total expenditure rose to about 10 percent of GDP in 2023, while tax revenues declined from 5.6% of GDP in 2022 to just 2% in 2023, largely due to the shrinking economic activities due to the war and tax regime weaknesses. To improve Sudan's primary balance and debt sustainability, the authorities must boost Domestic Resource Mobilization (DRM) following the war, particularly tax administration and natural resources management, rationalize spending, and enhance efficiency in spending. Sudan reached decision point under the HIPC initiative in June 2021, and its $56 billion external debt (163 percent of GDP in 2020) was expected to reduce by 50 percent by 2022. However, progress towards the HIPC completion point was halted as discussions with Paris and Non-Paris Club creditors were paused following the military takeover in October 2021. The US$2.5 billion 39-month IMF's Extended Credit Facility approved in June 2021 was also canceled in December 2022, and no further engagements have taken place due to the persistent political instability. Consequently, Sudan remains in debt distress, and has since drifted back into debt arrears.

External Position and External Financial Flows: Based on the limited information available, the current account deficit increased to an estimated 7.3% of GDP in 2023 from 6.6% in the previous year because of the reduced exports on account of the war. Over the period 2018-2021, over 80 percent of Sudan's goods exports comprised of gold, crude petroleum, sesame seeds, and cotton, which have been significantly hindered by the war. The current account deficit was financed by international reserves, which declined to just 1 month of import cover in 2023, compared to 2.7 months of import cover in 2022. Suspension of development support, the unconducive environment for Foreign Direct Investments (FDI), and disruptions to gold exports are expected to pile pressure on the external position and could lead to depletion of international reserves in 2024. Sudan's net FDI fluctuated over the years, ranging from US$1.06 billion in 2016 to US$573.5 million in 2022, and declined from 1.5% of GDP in 2021 to 1.1% in 2022.

Social Developments: Prior to the ongoing conflict, poverty increased from 64.6 percent in 2021 to 66.1 percent in 2022, and unemployment remained high at 20.6 percent in 2022, partly due to rising inflation and reduced economic activity owing to the heightened political instability, and the effects of multiple shocks. In addition, low labor productivity, high youth unemployment, and low labor force participation for women (48 percent for women compared to 73 percent for men) are major drivers of poverty in Sudan. Gini coefficient was 34.2 percent in 2014 and increased to 55.0 percent in 2019, reflecting worsening inequality. While the slow pace of structural transformation has held back Sudan's social outcomes, the ongoing conflict has complicated the situation, with over 50 percent of the entire population becoming food insecure, over 11 million people displaced from their homes, and millions rendered jobless. According the 2021 Human Development Index, Sudan ranked in the low human development category, at 172 out of 191 countries and a score of 0.508. While no new data is available, it is certain that the social outcomes in the country have deteriorated further over the last 14 months of the conflict.

Table 1.1: **Macroeconomic and Social Indicators**

Indicators	2019	2020	2021	2022	2023(e)	2024(p)	2025(p)
Real GDP Growth	-1.3	-1.6	-1.9	-1.0	-37.5	-5.9	0.5
Real GDP Growth per Capita	-4.3	-4.4	-4.6	-3.6	-40.1	-8.5	-2.0
Inflation	51.0	163.3	359.1	164.6	245.3	157.9	85.6
Overall Fiscal Balance, Including Grants (% GDP)	-10.0	-6.7	-0.3	-1.7	-9.1	-6.3	-2.8
Primary Balance (% GDP)	-9.9	-6.5	0.0	-1.4	-8.9	-6.1	-2.6
Current Account (% GDP)	-16.3	-17.2	-7.3	-6.6	-7.3	-6.5	-5.2
Total Population (Millions)	43.2	44.4	45.7	46.9	48.1	-	-
Life Expectancy at Birth (Years)	65.9	65.6	65.3	65.6	66.1	-	-

Box 1.1 : **Impact of Tighter International Financial Conditions**

Following years of international isolation due to external debt arrears and economic sanctions, Sudan has not had access to the international financial markets. The African Development Bank (AfDB) and other development partners supported Sudan to normalize its relationship with international financial institutions through an arrears clearance program. At the regional and international levels, Sudan's transitional government made considerable efforts to improve and normalize political and economic relations, leading to the removal of Sudan's economic sanctions and country's delisting from the US State Sponsors of Terrorism List (SSTL) in December 2020. These developments enabled Sudan to achieve the HIPC initiative Decision Point in June 2021. However, progress under the HIPC initiative was halted by the political instability, with Sudan remaining in debt distress and drifting back into arrears. Consequently, Sudan does not have access to international financial markets, other than grants from development partners. Sudan's domestic financial market is based on the Murabaha mechanism, which has limited linkage with the international financial markets. The tighter international financial conditions therefore have limited direct impact on Sudan, but is likely to slow down global economic activity, affecting Sudan through constrained trade and foreign direct inflows.

1.4 Macroeconomic Outlook and Risks

1.4.1 Outlook

Economic Growth: As a result of the conflict, GDP is projected to contract further by 5.9% in 2024 as economic activities remain subdued. However, GDP is projected to grow by 0.5% in 2025, assuming peace is restored in 2024. The recovery would be supported by reconstruction spending, especially on social services and infrastructure, and resumption of economic activity across sectors. Particularly, it is anticipated that pick up of economic activity in agriculture and mining on the supply side, and improvement in private consumption and investment on the demand side would drive the 2025 economic recovery. The growth outlook is premised on the assumption that the mediation efforts by the international community would result in restoration of political stability, and thereby resumption of implementation of the macroeconomic and structural reforms that would boost economic activities.

Monetary Policy and Inflation: Once the war is concluded, a tighter monetary policy stance needs to be implemented to complement the reforms aimed at reducing fiscal deficit monetization. Should the war end in 2024, the anticipated increase in government revenues would moderate inflation to 157.9 percent in 2024 and further to 85.6 percent in 2025. The inflation outlook is contingent on fiscal consolidation and resolution of the ongoing political instability, which could trigger the resumption of development assistance, stabilize the exchange rate, and allow for implementation of prudential monetary policies.

Fiscal and Current Account Balance: The ongoing war has halted the authorities' effort to rationalize public spending that was expected to moderate the fiscal deficit. However, the fiscal deficit is expected to reduce to 6.3% of GDP in 2024 and further to 2.8% in 2025 with the anticipation of political reconciliation in 2024. The fiscal deficit will be largely financed by domestic borrowing, external grants, and part of Sudan's $857.7 million Special Drawing Rights (SDRs) allocation (2.6% of GDP), should it become accessible to the authorities. The current account deficit is expected to improve to 6.5% and 5.2% of GDP in 2024 and 2025 respectively, reflecting the uptick in exports following restoration of peace.

1.4.2 Risks

Sudan's economic outlook is overshadowed by multiple downside risks relating to the possibility of conflict persisting beyond 2024, debt distress, vulnerability to climate change, weak institutional capacities, higher global commodity prices, and spillover effects of heightened geopolitical tensions. The persistence of multiple shocks and the emergence of Israel-Gaza conflict and heightened political tension in the Middle East could further escalate global food and energy prices, and tighten global financial markets, thereby stoking inflation, and reducing financial flows to Sudan. Continuation of the conflict in Sudan could further derail the reform momentum including impeding progress towards the HIPC completion point and has the potential to disrupt the economic recovery. Depletion of international reserves following the suspension of development assistance could aggravate exchange rate depreciation with adverse effects on inflation, debt sustainability, and broader macroeconomic stability. Sudan is one of the most vulnerable countries to climate shocks, which constitutes another important downside risk to its growth recovery.

The tailwinds include the ongoing mediation efforts by the international community to resolve the political impasse, the possibility of resumption of comprehensive macroeconomic reforms after the conflict, including the HIPC process, fiscal consolidation and monetary and exchange rate policy reforms, the readiness of development partners to support the anticipated transitional government and post conflict reconstruction as demonstrated by consistent engagement of the development partners on Sudan, and the continuation of disinflation in Western countries could help lift economic growth in developing economies, including Sudan. Ending the conflict and resuming economic and structural reforms are expected to boost investor sentiments and catalyze private investment and finance, thereby boosting economic recovery further.

1.5 Policy Options to Foster High and Resilient Growth: Supporting Macroeconomic Stability and Economic Transformation

There is need to immediately end the war and restore peace and political stability to create a conducive environment for macroeconomic policy formulation and implementation. Peace restoration remains prerequisite for any effective formulation and implementation of policies to support Sudan's macroeconomic stability and economic transformation. Sudan must build lasting political and social stability by addressing key governance challenges, including promoting political participation, entrenching democratic elections and freedom of association, and creating stronger institutional and legal mechanisms to tackle corruption. In medium-to-long term, Sudanese authorities and other stakeholders must prioritize the following policy options:

- Rebuild social and economic infrastructure through cross-sectoral restoration and reconstruction of infrastructure to lay the foundation for economic, and structural transformation.

- Enhance governance and build institutional and human capacities in the medium-term to strengthen macroeconomic management, enhance resilience to climate change, improve business enabling environment to unleash the private sector, and promote economic diversification to reduce vulnerabilities to shocks.

- Scale up domestic resource mobilization to accelerate its structural transformation. Specifically, Sudan must implement targeted reforms in tax administration and natural resources management to improve revenue performance following the restoration of peace.

- After the restoration of peace, Sudan needs to strengthen financial and economic governance for efficient government spending and public debt management and sustainability. This would also help to create an enabling environment for increasing external financial flows as complementary sources of financing to accelerate Sudan's economic transformation.

2

TAKING STOCK OF SUDAN'S STRUCTURAL TRANSFORMATION PROGRESS

KEY MESSAGES

- Sudan's economic performance has fluctuated over the years due to political instability, macroeconomic imbalances, and external factors. These factors, coupled with the ongoing conflict, have driven Sudan into recession, recording the largest real GDP decline in its history of 37.5 percent in 2023. The positive economic growth of the 1990s was not strong enough to ensure an economic take-off and sustain economic transformation. The rapid real GDP growth of the 2000s, driven by oil production had limited knock-on effects on the other sectors. National per capita income increased from US$620 in 1998 to US$1,210 in 2010 and GDP growth averaged 7.7%. While the oil boom of the 2000s put the country on a strong growth trajectory, the civil war of the 2010s and the secession of South Sudan in 2011 reversed the gains.

- Sudan's structural transformation, which is defined as the shift of an economy's structure from low-productivity, labor-intensive activities to higher productivity, capital and skill intensive activities, is held back by many factors and aggravated by conflict and fragility. Prolonged international and U.S. economic sanctions prevented Sudan from benefitting from the productivity growth, which comes from economic interactions with the rest of the world. Confronted with a fragile environment since 1990, Sudan made little progress to create an enabling business environment and build institutions to support efficiency, and innovations in industry and firms. Other bottlenecks include inadequate infrastructure, weaknesses in land ownership, and user rights, shortage of well-trained human resources, and vision to drive structural transformation. Sudan would need US$24.3 billion annually until 2030 to accelerate its structural transformation process and put it at par with high-performing developing countries.

- Accelerating the pace of structural transformation in Sudan requires a multipronged approach that entails: ending the ongoing conflict; reconstructing institutions and infrastructure; developing and implementing national industrial development strategy; restoring macroeconomic stability, including enhancing DRM and public finance management; implementing key structural reforms in the long term, including investing in human capital development, expanding access to finance for start-ups, and building resilience to climate change; and increasing affordable financing by the Development Financial Institutions (DFIs), and Multilateral Development Banks (MDBs).

2.1 Introduction

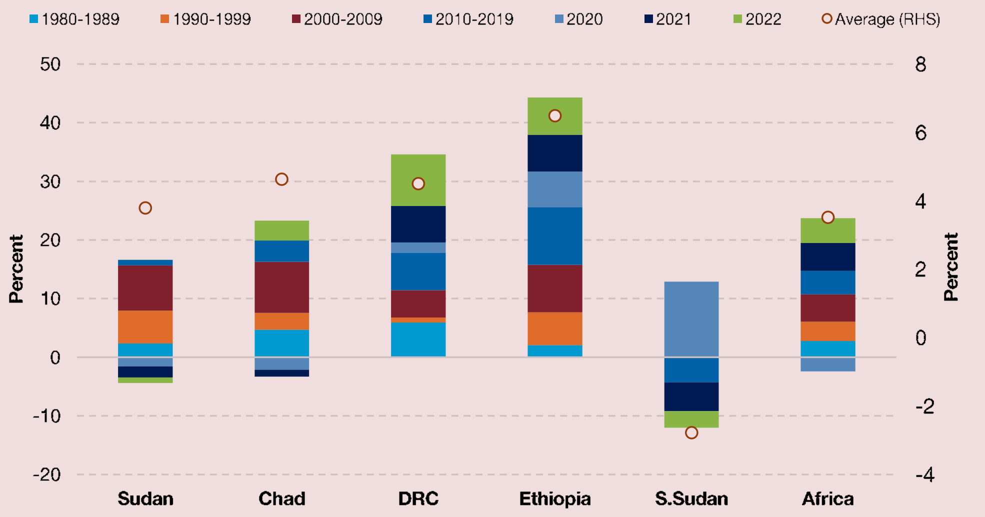
Political instability, macroeconomic imbalances, and external factors have constrained Sudan's economic growth over the last three decades, with short-lived episodes of positive and strong growth. Economic activities measured by real GDP generally experienced a positive but fluctuating trend since the 1990s, until 2019 when this trend was interrupted. Since then, real GDP growth remains negative. This chapter analyzes the extent to which this period fluctuating growth has been accompanied by structural transformation. The chapter presents a comprehensive overview of recent progress in Sudan's economic and structural transformation amid a changing world, identifies its key trends and outlines its characteristics as well as estimates the financing needs to fast-track structural transformation. The chapter takes both a historical perspective and a forward-looking approach to structural transformation, and policy priorities for accelerating structural change in Sudan.

2.2 Taking Stock of Economic Performance and Transformation in Sudan

Even though economic growth was positive in the 1990s, way above Africa's average and equal to that of Ethiopia (see figure 2.1), it remained too weak to ensure an economic take-off. In the early 1990s, the government first resorted to price, import and export controls, which hindered investment in the country. Faced with the repercussions of the controlled market regime, it switched to a more liberal overall national economic development strategy (1992-2002). However, this strategy had limited development impact as low growth and protracted internal conflict led to high poverty rates and a high inequality between urban and rural areas. In the 2000s, Sudan experienced rapid GDP growth, driven by oil production, with limited knock-on effects on the other sectors. National per capita income increased from US$620 in 1998 to US$1,210 in 2010 and GDP growth averaged 7.7%. While the oil boom of the 2000s put the country on a strong growth trajectory, the civil war of the 2010s reversed the gains. Furthermore, the ensuing macroeconomic instability resulted in higher prices of non-traded goods, hurting domestically traded goods -the non-oil sector.

The secession of South Sudan in 2011 triggered a 2.8% contraction in Sudan's real GDP from a growth of 6.5% in 2010, and a further contraction of 17 percent in 2012, due to loss of oil revenue and its economic repercussions. The oil sector, which had contributed about 16 percent of GDP and 50 percent of revenue over the period 1999-2010, fell to 2.2% of GDP in 2011-2019, and 1.5% in 2020. Economic growth in recent years remains weak and unstable due to political instability and multiple shocks. Over the past seven years, Sudan's real GDP growth declined from 4.7% in 2017, to -1.9% in 2021, before recovering to -1.0% in 2022 and plunging to -37.5% in 2023 on the account of the ongoing conflict which has destroyed the country's production capacity and disrupted economic activities. Post COVID-19 recovery was weak as economic growth remained negative in 2021 and 2022, unlike the economic dynamics observed in many countries. While the COVID-19 pandemic worsened the fall in growth, the economic slowdown started much earlier in 2018. The external multiple shocks and domestic political instability have not allowed for a stronger post-COVID economic recovery.

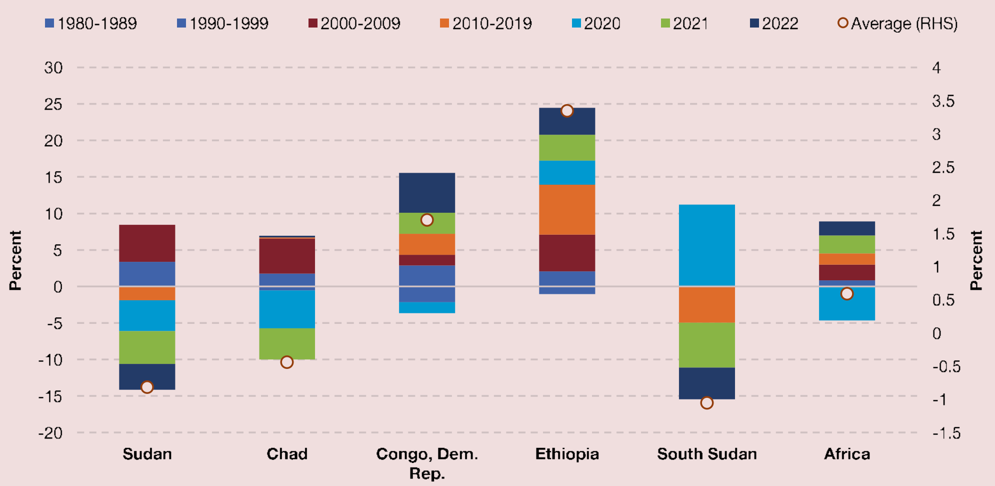
Figure 2.1: Sudan's Real GDP Growth vs Africa and Peer Countries



Note: The decades are based on simple averages.
Source: AfDB, Statistics Department and IMF, World Economic Outlook database.

The secession of South Sudan and subsequent crises also disrupted Sudan's real GDP per capita growth. Sudan's average real GDP per capita growth increased from an average of -0.1% in the 1980s to 3.4% in the 1990s, and 5.0% in 2000s, before declining to -1.8% in the 2010s and has never recovered due to multiple shocks, ranging from political instability, macroeconomic imbalances, COVID-19, and other external shocks. In the 1990s and 2000s, Sudan's real GDP per capita growth was above that of its peers (Ethiopia, Chad, and the Democratic Republic of Congo), and Africa's average (see figure 2.2). Sudan graduated to low-middle income country status after the discovery of oil during 2000s, but the weak economic performance following the secession of South Sudan in 2011, which led to a sharp decline in its national income per capita from US$1,310 in 2016 to US$650 in 2020, Sudan was reclassified to low-income country status in 2020. The ongoing war has further reversed Sudan's economic progress and halted its prospects of graduating to a low-middle income country in the near future.

Figure 2.2: Sudan's Real GDP Per Capita Growth vs Africa and Peer Countries



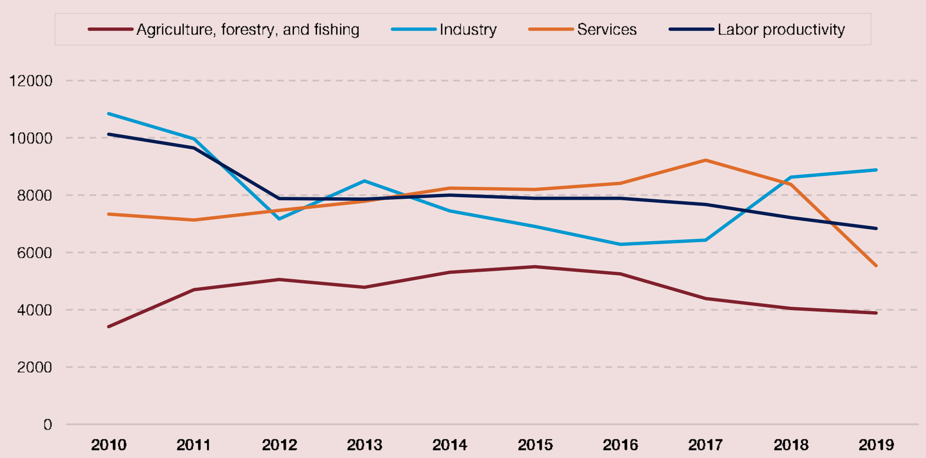
Note: The decades are based on simple averages.
Source: African Development Bank statistics and IMF World Economic Outlook database.

2.3 Sudan's Structural Transformation: Drivers, Bottlenecks, Opportunities

2.3.1 Sudan's Structural and Economic Transformation

Before the war, Sudan's labor productivity had evolved differently depending on the sector, economic changes, and specializations, but declined steadily since 2014 (figure 2.3), highlighting an unfavorable economic context in the country. Sectoral differences in labor productivity could be attributed to disparities in technology absorption, labor skills, and capital utilization intensity. The low productivity in agriculture and declining labor productivity in the informal services is not surprising given their low adoption of technology and deficiencies in human capital. The increasing productivity of labor in the industry sector underscores the importance of manufacturing in upgrading skills. This dynamic suggests that the industry sector is the one in which the country is achieving substantial productivity gains, and therefore, could constitute a lever for sustainable and resilient growth, and structural transformation. However, in recent years, labor has failed to move to the relatively high productivity industry sector. This could be attributed to structural rigidities hindering the development of the industrial sector itself including limited access to capital, weak business environment, weak infrastructure, limited skills, and weak institutions and governance.

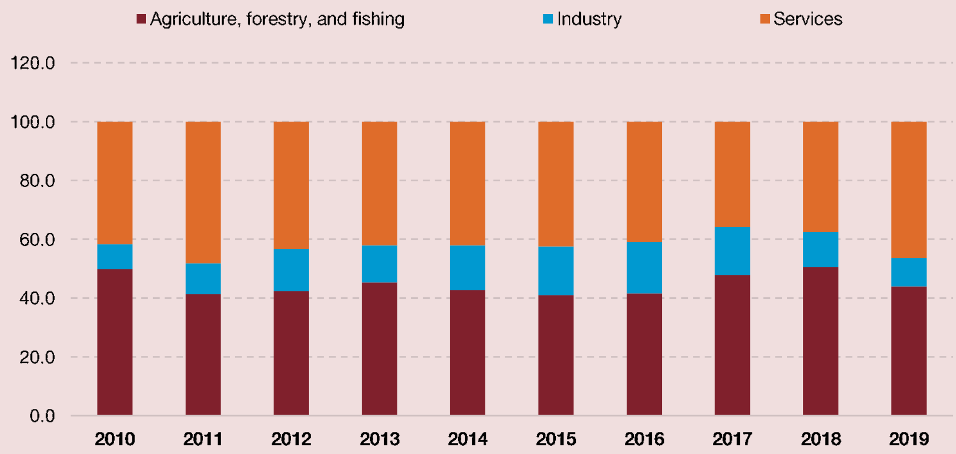
Figure 2.3: Labor Productivity: Sectoral Value-Added Per Worker (Constant 2015 US$)



Source: World Bank, WDI

The shift in sectoral labor employment from low productivity agriculture sector to another low productivity services sector, instead of shifting to the high productivity industrial sector, confirms the slow pace of structural transformation in Sudan. Between 2010 and 2019, the share of employment in the agriculture sector fell from 49.7 percent to 44.0 percent in favor of the services sector, where the share of employment increased from 41.8 percent to 46.4 percent (figure 2.4). Growth in the services sector was largely driven by the expansion of wholesale & retail trade, restaurants, hotels, and finance, insurance, real estate sub-sectors. Over the same period, the share of employment in the industrial sector remained stable (13 percent on average), in line with the sector's contribution to GDP, highlighting a weak structural transformation.

Figure 2.4: Sectoral Distribution of Employment



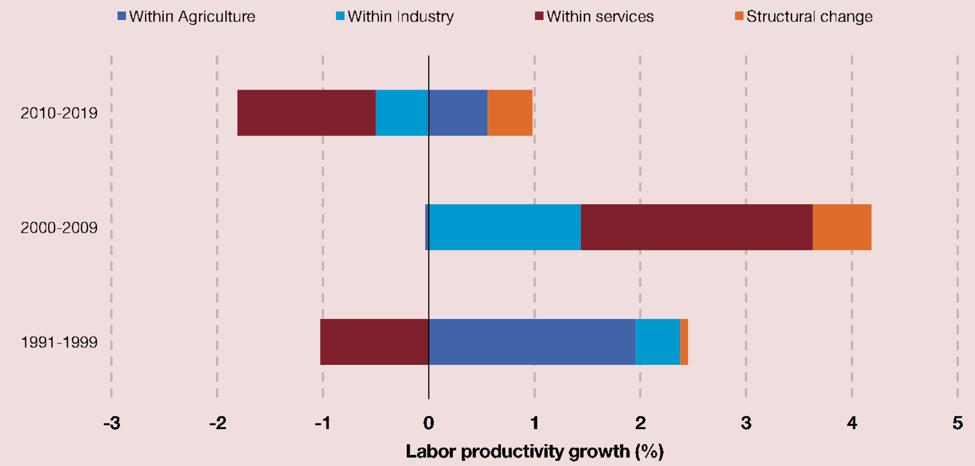
Source: World Bank, WDI

The surplus labor released by agriculture has largely been absorbed by services, while employment in industry has remained flat. Since the share of agriculture in GDP was halved, there has been a significant movement of workers out of the sector, from 61 percent of total employment in 1990 to 44 percent in 2019. Moreover, the shift of labor out of agriculture did not result from an increase in agricultural productivity, but rather from a move to escape low- productivity yields. Over the past two decades, the modest increase in production in the agriculture sector has come from an expansion of the areas harvested in traditional rain-fed farming areas, rather than from increased yields. Except for a few firms operating in Khartoum, weak agricultural performance stems from the low adoption of available technology including improved seeds, farm irrigation, good practices, fertilizers, and pest control. Labor productivity in agriculture varies significantly by region and farm size. Gezira and Khartoum have relatively high labor productivity, primarily because their large firms are more productive.

2.3.2 Unpacking Sudan's Structural Transformation Through Labor Productivity Decomposition

To compute structural change in Sudan, this section uses pre-conflict sectoral value-added data from the World Development Indicators (WDI) and sectoral employment data from the International Labour Organization (ILO). The sectoral value-added data from the WDI is aggregated into three broad sectors: agriculture, industry, and services, and does not distinguish between the sub-sectors. 2024 AEO reveals that structural change occurred more rapidly in low-income countries over the last two decades, largely because low-income countries have a high proportion of agricultural labor. Sudan's data confirms this, as the surplus agricultural labor tends to drive faster structural change. The shrinking agricultural activity and productivity in Sudan (on account of several factors, e.g., conflicts, climate change, etc.) drives out surplus labor from the sector. Sudan's structural change was stronger in the 2000s than that in the 2010s (see figure 2.5), driven by within-sector productivity growth (particularly industry and services sectors), but was very limited in the 1990s. Within the agricultural sector, labor productivity growth was a drag to economy wide labor productivity growth in the 2000s, but a major contributor in the 1990s and 2010s. However, it is worth noting that throughout the entire 3 decades (1991-2019), structural change was growth generating in Sudan, though very minimal in 1990s. Another notable trend is that while productivity growth within industry was positive in Sudan in 1990s and 2000s, it became negative in the last decade. The negative productivity growth in the industrial sector in the 2010s could be attributed to the breakout of civil war that resulted in secession of South Sudan in 2011, that led to loss of 75 percent of oil revenue, and the emergence of informal activities in Sudan (mining, manufacturing, etc.), which employ more labor but with limited productivity.

Figure 2.5: Aggregate Labor Productivity Growth: Contribution From Within and Structural Change, 1991–2019

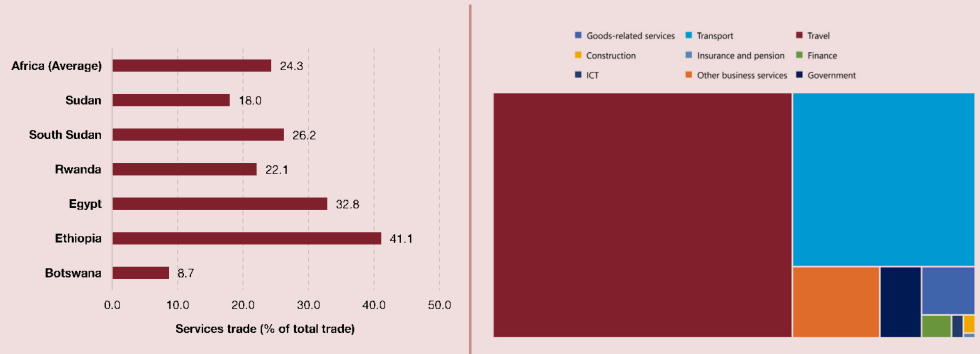


Source: Staff calculations using employment and value-added data from the ILO and WDI, respectively.

2.3.3 Rapid Growth in Income and Jobs Embodied in Services Export: New Evidence

As in many African countries, the services sector is becoming a dominant employer of labor and deriver of economic growth on the supply side in Sudan, despite its relatively low labor productivity. Sudan's services trade as a percentage of its total trade was estimated at 18.0 percent in 2022, below Africa's average of 24.3 percent (figure 2.6a). Africa's services exports are concentrated in traditional services sectors, mainly travel and transport, which are intensive in the use of low-skilled labor, accounting for 73.1 percent of services exports in 2005, but their share dropped to 63.8 percent in 2022 as high knowledge-intensive services, in particular insurance, pension, finance, and ICT services, gained further traction (2024 AEO). For Sudan, travel and transport alone accounted for 89 percent of services exports for the period between 2015-2022 (figure 2.6b). The predominance of traditional services in Africa's services trade may be explained partly by the high fragmentation of trade in professional, education, and health services stemming from restrictive policies that govern participation in these sectors, such as nationality requirements, regulatory heterogeneity for licensing, and educational qualifications—as well as the high cost of travel, and visas. Medical tourism, though, is gaining traction in some African countries such as Tunisia and South Africa, with these countries earning substantial foreign exchange.

Figure 2.6: Services Trade in Sudan Compared to Peer Countries and Africa



a. Services Trade, 2022

b. Sectoral Distribution of Services Exports in Sudan, 2015-2022, %

Note: Services are clustered into the followed subsectors: goods-related services, transport, travel, construction, insurance and pensions, finance, ICT, other business services (such as research and development or professional and management consulting services), government services, and other services.
Source: Staff calculations based on UNCTAD and World Bank's World Development Indicators databases.

2.3.4 Drivers to Accelerate Structural Transformation

While Sudan's structural transformation was weak even before the current war, it is expected that the situation has deteriorated further. The little progress made before the current war could be attributed to several key factors. Evidence from the analysis in 2024 AEO emphasizes the centrality of structural transformation—labor reallocation and within-sector productivity growth—in fueling economic growth in African countries, particularly in the 1990s when growth was generally subdued. The 1990s growth in Africa contributed to significant reduction in extreme poverty and inequality in the continent. The analysis at the continental level reveals the main drivers of structural transformation that need to be the focus of policy initiatives to unlock the process. Using the 2000-2019 data for 48 African countries (including Sudan), and applying an exploratory regression approach, 2024 AEO identifies the main pull factors of structural transformation in Africa as a competitive exchange rate system, well-defined and functioning institutions, and gross fixed capital formation. On the other hand, stringent labor market regulations are found to act as push factors, dragging structural transformation.

In Sudan, the three identified pull factors performed poorly over the years, underscoring the slow pace of structural change in the country. Sudan operated under a noncompetitive exchange rate regime until 2021 when the authorities implemented exchange rate reforms, including liberalization of the foreign exchange market, and unification of exchange rates. Sudan's institutional capacities have been weakened by persistent political instability and conflicts, and high turnover of government employees seeking quality jobs elsewhere. Furthermore, Sudan's gross fixed capital formation remains subdued, ranging from a peak of 65.3 percent annual growth in 1996 to a low of -60% annual growth in 2012. Annual growth in gross fixed capital formation has remained negative since 2009. To accelerate structural transformation in the post conflict era,

Box 2.1: Potential and Existing Opportunities for Structural Transformation

Energy: Sudan is endowed with immense energy resources, comprising both non-renewable resources such as fossil fuels, and abundant renewable resources such as solar, wind, hydro, geothermal, and biomass energy. The country has a high hydroelectric potential based entirely on its location on the Nile and other watersheds and has an average annual global horizontal irradiation value of between 2,000 and 2,500 kWh/m2. In the northern and western regions, it benefits from high wind speeds, and high solar radiation over the entire territory. Wind speeds more than 7 m/s are also recorded in the Red Sea hills, and inland mountain ranges. It is also one of the African countries, along with Algeria, Angola, Libya, and Nigeria, which together hold 90 percent of the continent's oil reserves. Despite its energy potential, about 40 percent of the Sudan's population had no access to electricity in 2021. The share of the population with no access to electricity is expected to have increased on account of the ongoing conflict. Except for biomass, which is used inefficiently, and hydroelectricity, the country's energy potential is largely untapped, leaving Sudan dependent on fossil fuels, and imports. The country relies on interconnections with Ethiopia and Egypt.

Agriculture: Agriculture forms the bedrock of the Sudanese economy, employing almost half of the workforce. About 63 percent of the land area of the country is classified as arable land, though only 25 percent is under cultivation, highlighting huge potential of the sector. Over the period from 2000 to 2022, the agriculture sector contributed around 31.2 percent to the GDP, ranking second after services at 48.7 percent. The sector is characterized by three agricultural production systems including irrigated, mechanized rainfed, and traditional rainfed farming systems. Of these three production systems, the rainfed agricultural system remains the key contributive subsector for the dynamics of growth and poverty reduction in Sudan. Dryland agriculture represents about 88 percent of the national cultivated area and contributes about 75 percent to the national production of food grains. The country has a diverse crop portfolio grown under various agroclimatic conditions, including cereals, oilseeds, industrial crops, crop forages, legumes, and horticultural crops. Sudan also has huge potential in forestry, livestock, and marine resources, which could be harnessed to accelerate structural transformation.

Natural Resources: Sudan is rich in non-renewable natural capital such as minerals, as the geology of Sudan is dominated by the basement complex formation that covers more than 50 percent of its area. The extractive industry in Sudan, especially mining, contributes about 90 tons of gold to the global market per annum, making Sudan the 10th largest gold producer in the world. The extractive sector significantly contributes to public and private finance in Sudan and the country heavily relies on them for public revenue. In 2021, Sudan earned about US$4.4 billion in rents, accounting for an average of 12.8 percent of GDP, having dropped from 15.7 percent of GDP in 2010, but up from 12.4 percent in 2020 (AfDB, 2023). The flow and amount of natural resource rents are affected by the bargaining between Sudan and multinational companies. Other mineral resources that are not yet explored include gypsum, iron, natural gas, silver, copper, phosphates, lithium, zinc, lead, nickel, aluminum, and cobalt. However, the current conflict in Sudan compromises the country's ability to extract these resources to boost structural transformation. Leveraging on taxing mineral resource rights of the country, especially gold and oil to generate additional revenue for the post-conflict economic recovery, and structural transformation is critical.

Sudan will need to return to the comprehensive macroeconomic reforms initiated under the transitional government, accelerate strengthening of institutional and human capacities, and create favorable business environment for investment and reconstruction.

The analysis in 2024 AEO reveals that the regression coefficient of structural transformation variable on total natural resource rent (in % of GDP) is negative and statistically insignificant, indicating that natural resource dependence does not significantly drag structural transformation. The coefficient of exchange rate undervaluation index is positive and statistically significant at 1%, implying that currency undervaluation (overvaluation) enhances structural transformation. The index of labor market regulation has a negative and statistically significant coefficient. With higher values of the index implying stringent labor market regulation, this finding confirms that although such stringency benefits workers by guaranteeing job security, this often comes at the cost of limited labor mobility and hence job reallocation. It also binds employers to retain workers, regardless of their efficiency and contribution to labor productivity, which is costly to firms and a major drag on their productivity. With persistent cross-sector productivity gaps in multiple African countries, this suggests that this stringency is likely to impede structural transformation. Also, the results show that well-defined and functioning institutions positively drive structural transformation in Africa by reducing transaction costs and information asymmetry, with the estimated coefficient being out positive and statistically significant. This aligns with Mensah et al. (2016), which found that institutions, governance, and fiscal reforms are essential drivers of structural transformation in Africa. Finally, the coefficient of gross fixed capital formation index is found to be positive and statistically significant at 5%, indicating that gross fixed capital formation drives structural transformation in Africa.

2.3.5 Key Bottlenecks to Fast-Paced Structural Transformation

Sudan's structural transformation is hindered by a myriad of factors and aggravated by conflict and fragility. Prolonged international isolation and U.S. economic sanctions prevented Sudan from benefitting from the productivity growth achievable in an open economy, and accessing the financing required to accelerate structural transformation. Confronted with persistent insecurity, conflicts and a fragile environment since 1990, Sudan made little progress to create an enabling business environment and build national and subnational institutions to support efficiency, and innovations in industry and firms. Instead, businesses were confronted with administrative barriers including complex licensing, overlapping taxes, and land tenure issues. In the absence of employment creation and productivity growth in the modern industrial sector (specially manufacturing), employment remains concentrated in low-productivity services. Another obstacle to structural transformation has been the seasonality, inconsistency, and insufficiency of agricultural raw materials supply. These constraints have hurt prospects for private investment in product development and processing.

Climate change vulnerability also hinders structural transformation in Sudan. Increased frequency of droughts, high rainfall variability over the last decades have put stress on rainfed agriculture and pastoralist systems, the dominant livelihoods in rural areas, placing Sudan among the most vulnerable countries in the world. The country is exposed to several geophysical and climate-related hazards which are increasing in frequency and magnitude. In 2020, with respect to the Notre Dame Global Adaptation Index, Sudan was ranked 177th out of 182 (with a score of 32.3), reflecting high vulnerability and low readiness. Climatic disasters in Sudan over the period from 1975-2022 affected nearly 48 million people and causing 151,617 deaths. While flood events caused damages estimated at over US$ 1.2 billion.

Weak infrastructural development is another bottleneck to structural transformation, as Sudan's road, and rail transport infrastructure remains inadequate. Infrastructure destruction due to the ongoing conflict has only exacerbated the situation. Also, weaknesses in land ownership and user rights remain major obstacles to successful implementation of a sound program of agriculture-led industrialization, and transformation. Limitation of skills in line with the ambitions of structural transformation resulting in industrial growth, and limited human and institutional capacities to drive the national development agenda remain key obstacles to structural transformation.

Slow progress in agricultural value chain development and limited access to regional and global markets have further held back the pace of structural transformation. Sudan has enormous agricultural potential that could be exploited through the development of several value chains. The key value chain opportunities include cereal crops, oilseeds (notably sesame), horticulture, gum Arabic, and livestock (meat and dairy products). Developing Sudan's agricultural value chains can be accelerated by improving the business environment and adapting new technologies to increase productivity. This would require preparation of policies and strategies to promote structural transformation and enable expanding of investments in public services (notably feeder roads and storage facilities) and creating an enabling environment that fosters private investments along agriculture value chains.

Financing structural transformation in Sudan remains an uphill task on the account of weak fiscal performance and limited external financing, which has been exacerbated by the current war. Sudan faces a weak capacity to mobilize tax revenues and ensure efficiency of public expenditure, due to the high informality of the economy and perceived corruption. Between 2016 and 2022, Sudan's government revenue, excluding grants, as a percentage of GDP was only 7.4%, compared to 17.9 percent in the COMESA region. Indeed, Sudan still faces serious challenges in revenue generation, which exacerbates the fiscal deficit. Government efforts to raise revenue are hampered by a narrow tax base and limited tax compliance. Tax revenue mobilization has shown a downward trend since 2018, decreasing from 7% to 2.1% of GDP in 2022. Beyond revenue mobilization difficulties, Sudan is grappling with a heavy debt burden and weaknesses in public debt management. Sudan has been in debt distress since 2016, with external debt reaching 167.5 percent of GDP in 2020, before declining to 118.5 percent in 2022, largely due to clearance of debt arrears. For many years, Sudan has been isolated from the international financial market due to economic sanctions and accumulation of public debt arrears. Persistent political instability and the ongoing conflict have reversed the recent gains from efforts to normalize Sudan's relations with international community and address public debt crisis.

Financing structural transformation in Sudan remains an uphill task on the account of weak fiscal performance and limited external financing, which has been exacerbated by the current war.

2.4 Finance to Fast-Track Sudan's Structural Transformation

2.4.1 Sudan's Structural Change Strategy

The implementation of Sudan's Twenty-Five-Year National Strategy (2007-2031) has been repeatedly disrupted by government transitions, political instability, and conflicts. The strategy aimed at building a unified, secure, civilized, advanced and progressive nation, based on the nation's values, established moral codes, and settled cultural traditions. Particularly, the strategy aims to drive Sudan's economic transformation by identifying the need to develop the economy through integrated information and knowledge, and upgrade intellectual capabilities to mobilize the factors of innovation, growth and diversification; build and improve the basic institutional, legal and procedural structures regulating the economy, thereby fostering transparency and combating corruption and economic waste; achieve structural balance in the national economy with a view to diversifying production, increasing productivity, and improving services and quality; conduct financial and fiscal reforms, and strengthen and develop the banking system; and strengthen the competitiveness of the national economy; among others. The Twenty-Five-Year National Strategy (2007-2031) has been subdivided into several medium-term plans but is yet to achieve much as the country is embroiled in a civil war.

The persistent political instability has made it impossible for Sudan to develop and implement comprehensive structural change strategies within its national development plans. Prior to the current conflict, Sudan embarked on the implementation of an ambitious Poverty Reduction Strategy Paper (PRSP 2021-2023), which presented a comprehensive strategy to reduce poverty and spur growth in Sudan. If fully implemented, the PRSP 2021-2023 would have accelerated the pace of Sudan's structural and economic transformation. The PRSP 2021-2023 was anchored on five pillars which are critical for the country's structural and economic transformation, namely, promoting macroeconomic stability; fostering inclusive and sustainable economic growth; boosting human and social development; promoting peace and providing equal opportunities for all Sudanese people; and strengthening governance and institutional capacity. In addition to these national strategic frameworks, there is need to develop a targeted industrial development strategy to guide the country's move towards becoming an industrialized economy.

2.4.2 Financing Needs and Financing Gap

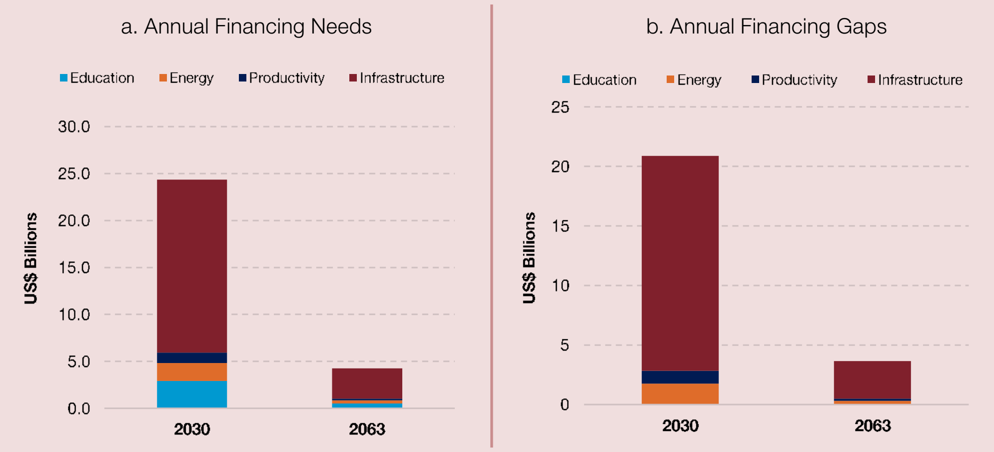
Although estimates did not consider the damage caused to infrastructure by the war due to data constraints, the Bank estimates show that Sudan would need US$24.3 billion annually until 2030 (way above Africa's average of US$9.2 billion) to accelerate its structural transformation process and put it in par with high-performing developing countries with current comparable levels of development[1]. With reference to the deadline for the Agenda 2063, the annual financing needs reduce to US$4.3 billion, compared to Africa's average of US$ 1.6 billion. The financing needs are expected to have increased sharply due to the ongoing war, and the related destruction of social and economic infrastructure. More than 75 percent of these needed resources are in infrastructure (SDG9), underscoring the dearth of investment in these sectors (see figure 2.7). This is followed by education (SDG4) which requires 11.9 percent of the needed resources. However, given the destruction of economic and social infrastructure in Sudan on the account of the ongoing conflict, the financing needs is expected to have risen significantly. When the war ends, there would be need to undertake a comprehensive assessment of damage of the economic and social infrastructure and estimate the cost of reconstruction.

Considering Sudan's performance on these critical sectors (SDGs 4-Education, 7-Energy, 8-Productivity & 9-Infrastructure)

[1] The report refers to the World Bank's current country classification by income level: developing countries are defined as countries with a GNI per capita below US$13,846. High-income countries are those with a GNI per capita of US$13,846 or more.

–prior to the current conflict, and their projected values which is assumed to change proportionally to GDP per capita, the annual financing gap to fast-track structural transformation in Sudan is estimated at US$20.9 billion under the SDG framework (above Africa's average 7.4 billion and US$3.7 billion), assuming the Agenda 2063 deadline (compared to Africa's average of US$ 1.3 billion), with a longer time horizon and spread of investment across each SDG target. Again, industry, innovation and infrastructure remain the main contributor to Sudan's financing gap (86.1 percent), followed by education at 13.5 percent. The Bank's High 5s operational priorities (Light up and Power Africa; Feed Africa; Industrialize Africa; Integrate Africa; and Improve the Quality of Life for the People of Africa) would help accelerate structural transformation in Sudan if mainstreamed in the country's development plans. Although Sudan is at a nascent stage of implementing the High 5s, the progress it made prior to the current conflict to intervene in energy through "Desert to Power initiative" and the Technologies for African Agricultural Transformation (TAAT) represent strong steps towards boosting structural transformation. The magnitude of the estimated financing needs and gap and the ongoing war cast doubt on Sudan's ability to mobilize such enormous resources within the timeframe of the SDGs which is just 6 years away from the agreed 2030 deadline. Sudan, as many other countries, face funding and fiscal squeeze brought about by the effects of the COVID-19 pandemic, climate change and exacerbated by rising costs of fuel and food, stoked by multiple shocks – and likely to be amplified by the disruption in trade route, due to spill-over effects of the multiple shocks. Sudan's case is exacerbated by the ongoing conflict which has reversed the economic and social gains made over the years, constrained both domestic and external financing, and attracted new sanctions as the country slides back into debt arrears. Sudan's annual financing gap (as % of GDP) for structural transformation by 2030 and 2063 is estimated at 44.3 percent of GDP and 7.7%, respectively, without taking into consideration the devastating impact of the ongoing war.

Figure 2.7: Estimated Annual Financing Needs and Gap to Fast-Track Structural Transformation in Sudan by 2030 and 2063

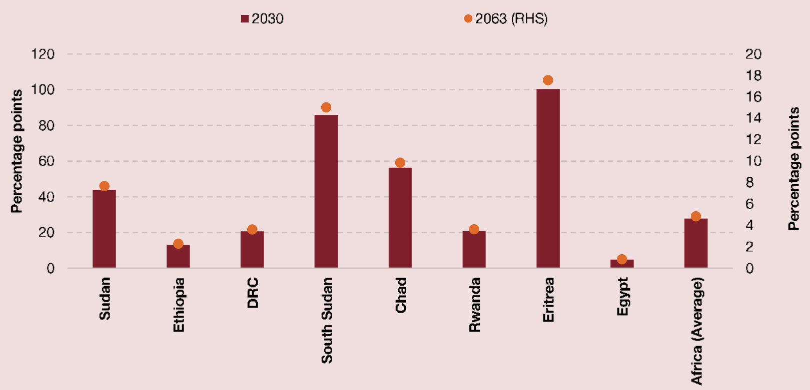


Source: Staff computations based on database from Sachs et al (2023), UNESCO, CIA, EIA, NASA, IMF, and World Bank.

2.4.3 Closing the Financing Gap Through Domestic Resource Mobilization (DRM)

Although Sudan is in a state of war and grappling with multiple economic, social, and political challenges, the primary responsibility to finance the structural transformation of its economy lies with its authorities. Once peace and stability are restored, closing Sudan's estimated financing gap will require, among others, boosting government tax revenues and enhancing public spending efficiency as well as a strong political will. Sudan's tax revenue declined sharply from about 7% of GDP in 2018 to just 2% in 2023, way below Africa's estimated average of 17.5 percent. On the other hand, total expenditure rose to about 10 percent of GDP in 2023, signifying the widening financing gap. Additional efforts will thus be required to improve domestic resource mobilization if Sudan aims to accelerate its structural transformation in the coming years or decades. Prior to the current war, Sudan needed to increase its tax-to-GDP ratio (pre-war) by about 43.9 percentage points (compared to Africa's average of 27.8 percentage points) to be able to close its structural transformation financing gap by 2030, assuming that all the mobilized additional tax revenues are efficiently deployed and allocated to that objective (figure 2.8). An increase of 7.7 percentage points will be required for Sudan to close the gap by 2063, compared to Africa's average of 4.9 percentage points.

Figure 2.8: Required Increase in Tax-to-GDP Ratio to Close the Estimated Annual Financing Gap in Sudan, Peer Countries, and Africa

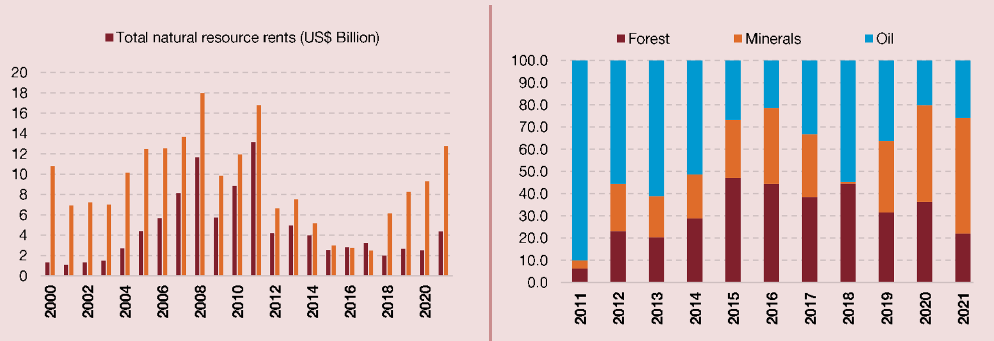


Source: Staff calculations based on methodology described in annex 2.2 of 2024 AEO and database from African Development Bank statistics, Sachs et al. (2023), UNESCO, CIA, NASA, IMF, and World Bank.

Mobilizing these amounts of tax revenue will be a daunting task for Sudan, a transition state that is currently at war and is grappling with institutional weaknesses and unfavorable business environment. Assessing whether Sudan can achieve such tax efforts, given its tax capacity, reveals that Sudan's estimated level of tax-to-GDP ratio deemed necessary to close its financing gap surpasses its maximum achievable level given its macroeconomic, demographic, and institutional characteristics. This implies that the tax-to-GDP ratio required for structural transformation if 2030 is considered as the target year is unattainable. However, when the 2063 deadline is used, the tax-to-GDP ratio required for structural transformation becomes attainable. This finding suggests that, over a longer timeframe, and with consistency in booting tax performance and expenditure efficiency, domestically mobilized resources might be sufficient to close Sudan's financing gap for structural transformation. This could be accelerated by the reforming of the global financial architecture to enable Sudan to access additional external financing to undertake institutional and structural reforms to enhance fiscal performance. More importantly, Sudan needs to maintain lasting political stability and peace to allow the economy to generate revenues needed to bridge the huge financing gap for accelerated structural transformation.

Critical and rare earth minerals present an opportunity to mobilize resources to complement Sudan's tax revenues for financing structural transformation. Sudan has abundant natural resources, including metals and petroleum, and significant arable land suitable for cultivation, and pastoral activities. These natural resources play a pivotal role in Sudan's economy, constituting a major source of export earnings and government revenues (see figure 2.9). In 2021, Sudan earned about US$4.4 billion in rents, accounting for an average of 12.8 percent of GDP. These rents concern mostly forest, oil, and minerals. In recent years, minerals (particularly gold) constitute a larger proportion of Sudan's natural rents, accounting for about 52 percent in 2021. If well valued, managed, and harnessed, revenues from these natural resources have the potential to generate resources to complement existing domestic resources for financing structural transformation. To fast-track structural transformation in Sudan, the international financial architecture, with the contribution from the private sector, should therefore be an integral part of the financing strategy for structural transformation, not only to complement domestic resources but also to facilitate access to more affordable external resources.

Figure 2.9: Total Natural Resources Rents as Percentage of GDP



a. Trends in Sudan's Total Natural Resource Rents

b. Trends in Sudan's Components of Natural Resource Rents, percent

Source: Staff computations using World Bank's World Development Indicators

2.5. Concluding Remarks and Policy Recommendations

Sudan's national development plans aim at accelerating the country's economic and structural development by focusing on building sustainable peace and stability, enhancing macroeconomic stability, developing industrials/agro value chains and private sector development, and enhancing access to basic social services, among other goals. But the implementation of these strategies has been disrupted with government transitions, political instability, conflicts, and other domestic and external shocks. Furthermore, Sudan is yet to develop an industrial development strategy that is necessary to unlock its industrial potential. An industrial development strategy should target reducing costs of doing business, increasing access to finance, building the required human capital, and developing industrial zones and/or clusters with appropriate services and infrastructure for attracting investors. Consequently, Sudan's structural transformation remains weak, and have been adversely affected by the ongoing conflict. The country needs about US$24.3 billion annually until 2030 to accelerate its structural transformation process and put it in par with high-performing developing countries with current comparable levels of development. Sudan's access to external financing was further constrained by economic sanctions and public debt arrears, and the current conflict has further isolated the country from the international community.

Accelerating the pace of structural transformation in Sudan will thus require a multipronged approach that entails:

- Ending the ongoing conflict in Sudan. In the short-term, a key precondition to mitigating the political and macroeconomic instability and putting the country on the path of economic transformation is the need for Sudanese authorities and the international community to end the ongoing conflict and provide a clear roadmap to transitioning to a stable political environment, guided by the principles of fair representation and inclusiveness in the political process. This is necessary for the effective implementation of any economic policy.

- Reconstructing institutions and infrastructure by the government with the support of development partners and the private sector. Even prior to the current conflict, Sudan's institutions and infrastructure were weak. The ongoing conflict has significantly reduced the stock, quality, and penetration of basic infrastructure and services in the country. The destruction of education, health, energy, transport, agriculture, water supply, and sanitation infrastructure, among others, has not only devastated the livelihoods of the people of Sudan, but also damaged the production capacity of the country and significantly reduced the overall economic competitiveness, and development. Consequently, to accelerate structural transformation in Sudan, it is paramount that the immediate post-conflict priority should be on the cross-sectoral restoration and reconstruction of infrastructure and strengthening of institutional capacities.

- Developing and implementing national industrial development strategy. The Sudanese government needs to develop an industrial development strategy that aims at promoting structural transformation, tailored to areas of the country's comparative advantage, and implement it consistently. Learning from global best practices, Sudan should anchor strategy implementation on the law to avoid policy reversals that come with political transitions. Continuous and systematic implementation of public policies will create certainty and stability to attract domestic and foreign capital into areas supportive of the country's structural transformation agenda.

- Restoring macroeconomic stability, including enhancing DRM and public finance management with the support of the DFIs. Sudan's DRM should target reforming in tax administration and natural resources management, while strengthening financial and economic governance for efficient government spending, and public debt management and sustainability. Monetary policy reforms should include keeping inflation low and moderating exchange rate volatility to reduce capital flight.

- Implementing key structural reforms in the long-term, supported by development partners. Emphasis should be placed on strengthening structural factors for sustainable and inclusive growth, including investing in human capital development; expanding access to finance for start-ups; building resilience to climate change and accelerating just transition; and consolidating industrialization clusters including through investments in special industrial zones in lagging regions, in partnership with the private sector, to promote competitiveness.

- Increasing affordable financing by the DFIs and MDBs. Sudan should be supported to improve its access to concessional and affordable financing in key sectors that are vital for structural transformations, such as infrastructure, energy, education, and overall productivity.

3

FINANCING STRUCTURAL TRANSFORMATION IN SUDAN: THE NEED FOR REFORMS OF THE INTERNATIONAL FINANCIAL ARCHITECTURE

KEY MESSAGES

- Prior to the conflict, Sudan's structural transformation demanded significant investments in infrastructure, human capital, climate action, and productivity enhancing technology. However, there are important changes in the world that have challenged the ability of the global financial architecture to handle the emerging country, regional, and global needs. Therefore, the allocation of voice in the governance of the international financial system needs to reflect these dynamics for a fairer distribution of power and influence to unlock vital resources for investments.

- Sudan is off-track to achieve structural transformation and the situation has further been aggravated following the war that started in April 2023, as Sudan lost the sources of Official Development Assistance (ODA), the FDI, and remittances. The economic sanctions imposed on Sudan and the country's positions on the United States Sponsor of Terrorism List (SSTL) represent the major challenges for Sudan to get financing from the international markets. Sudan's low credit rating has also constrained the country's access to foreign financing.

- Sudan is one of the highly vulnerable countries to climate change globally and in Africa due to its location in the fragile Sudano-Sahelian zone, unsustainable exploitation of natural resources, and weak institutional and human capacities. Sudan has also limited readiness to access international finance and mobilize domestic resources for investments in adaptation, and mitigation.

- For Sudan to mobilize resources at scale and on affordable terms for the financing of structural transformation, there is need for reforms of the Global Financial Architecture (GFA) such as increasing the share of global South in IFIs and MDBs and improving transparency in credit rating agencies. Furthermore, the IMF/World Bank Debt Sustainability Framework needs to be updated to reflect the changing structure of economies and the impact of shocks such as pandemics, and climate change.

3.1 Introduction

According to information available before the conflict, Sudan needs significant investments to meet the challenge of achieving structural transformation while dealing with the threat of climate change, and global shocks that have negative spillover effects on the country. While a substantial part of the investment will have to be financed by Sudan, there is also a pressing need for increased external financing, from both public and private sources. However, the current external financing falls short of what Sudan requires. This chapter discusses Sudan's share of global climate finance, which remains marginal despite being one of the countries that is most vulnerable to effects of climate change. The resources to support Sudan's structural transformation imply a radically reformed and strengthened global financial architecture fit for purpose to mobilize resources at scale, and affordable terms. This chapter also deals with the international calls for reforms that present an opportunity for Sudan to ensure that the reformed global financial system is responsive to its needs, particularly to finance its structural transformation, High 5s, and the SDGs as well as climate action, and other global public goods. The chapter emphasizes that reforms of the international financial architecture should not only target the MDBs but also extend to bilateral, and private sector creditors.

3.2 Sudan's Stand on the Need to Reform the International Financial Architecture (IFA)

The world has changed in three important ways that have challenged the ability of the global financial architecture to handle the emerging global dynamics. First, the share of the Global South in the world's GDP has more than doubled over the last three decades, rising from 16 percent in 1991 to 37 percent in 2021 and their share of the world's population rose by 5% points over this period. For Africa in particular, the share of its GDP in the world economy has increased in two decades from 1.9% in 2002 to 2.9% in 2022, and its population has increased from 12 percent of the world's population in 1990 to 18 percent in 2022. The allocation of voice in the governance of the international financial system needs to reflect these dynamics for equitable distribution of power, and resources.

Repeated calls for reforming the international financial architecture have come from the United Nations (UN), the Bridgetown Initiative, and the G20, as well as from many experts and academic writers. In 2021, the United Nation's Secretary General presented a report titled "Our Common Agenda" that outlines the global response to global problems. The report stresses the need to re-embrace global solidarity and strengthen the multilateral system, including the global financial architecture, to make it more inclusive and reflective of the world of the 21st century. It was followed by a series of high-level evidence-based policy engagements in preparation for the "Summit of the Future." The UN argues that the existing international financial architecture has failed to mobilize the stable and long-term financing needed to combat the climate crisis and achieve the SDGs.

It has, therefore, been reemphasized that the current international financial architecture that was developed after the Second World War is no longer fit for purpose and there are growing needs for reforms. This call for reform presents an opportunity for Sudan to ensure that the reformed system provides it with a greater voice and better serves its legitimate needs: increasing and fair access to emergency financing, dealing with the debt problem, and providing additional and affordable financing needed for structural transformation, achievement of higher and inclusive growth; and for climate action. To deal with this situation, the UN recommends reforms in six areas: global economic governance; debt relief and the cost of foreign borrowing; international public finance; global financial safety nets; policy and regulatory frameworks for capital markets; and the global tax architecture. Reforms of the international financial architecture also need to include actions to increase Africa's access to financial safety nets. Three actions could be envisioned including: (1) delink access to IFIs and MDBs financing from quota based to need based; (2) introduce state contingent clauses in the loan agreements with the IFIs; and (3) create an African emergency finance facility or institution. In this regard, Sudan needs to collaborate with African leaders to put in place a system to coordinate their positions and speak with one strong voice at the different summits to ensure that global financial reforms reflect the continent's priorities.

Even before the conflict stated, Sudan used to face difficulties to mobilize funding from international market, as it was deprived of foreign financing for the last three decades due to inclusion in the SSTL. Therefore, the country was not dependable on external funding – a situation that has availed limited foreign resources for Sudan to finance structural transformation. Following the removal of Sudan from SSTL in 2020, the country could access the international capital market after the restoration of peace and resolving the current conflict. However, there is a need for reforms of the global financial architecture to empower Sudan with a stronger voice and allow equitable access to foreign financing, debt resolution mechanisms, and sustainable development financing, including climate action, while ensuring Sudan's meaningful participation in resource allocation decisions. Sudan, like any other Africa country, needs access to more emergency financing to cushion it from the impact of the exogenous shocks. This became very clear during the pandemic as well as during the spike in food prices caused by multiple shocks, which necessitate the creation of an African emergency facility.

The G20 proposed "The Triple Agenda", which recommended a three-pronged approach to reform the MDBs, will help African countries to benefit from the reforms. Specifically, adopting a triple mandate of eliminating extreme poverty, boosting shared prosperity, and contributing to global public goods; tripling MDB's sustainable lending levels by 2030; and creating a third funding mechanism which would permit flexible and innovative arrangements for engaging with private investors will enable Sudan to increase foreign financing. The reforms also proposed "one-country one vote" in the governance of IFIs and MDBs, which can benefit Africa, given its large number of countries. Furthermore, the rating of African countries by global credit rating agencies tend to ignore the value of natural capital and associated ecosystem services in assessing a country's headroom and debt risk profile. To reduce perceived risk of private investment within countries, multilateral development banks like the AfDB can work with international credit agencies to help reduce the amount of subjectivity in credit ratings assigned to African countries including Sudan. This will reduce the risk factors assigned to African countries and improve their position to access financing from international capital markets.

3.3 Mobilizing Additional Resources for Africa's Structural Transformation

Africa's plans for structural transformation entail an increase in total factor productivity through two channels: technological improvements and physical and human capital investments to raise within sector productivity (e.g., to increase agricultural yields); and a shift of productive resources from low productivity to high productivity sectors (usually a reallocation of resources from agriculture to industry and services). Achieving significant progress in structural transformation requires policy and regulatory reforms to encourage innovation and entrepreneurship, as well as major investments in infrastructure, human capital, and technology. To succeed in its structural transformation and reach the SDGs, Africa needs investments of about US$1.3 trillion per year. Sudan fast-tracking structural transformation will require filling a financing gap of US$24.3 billion annually, which is far to be covered by ODA, FDI, external debt or remittances. Sudan mobilizes annual ODA of about 3% of GDP while the country receives remittances of around 2% of GDP and attracts about US$.8 billion as FDI (2.2% of GDP) in 2022. Given that these amounts are far below the needs, this situation has changed considerably following the war that started in April 2023, where Sudan lost its external and domestic sources. Therefore, ODA, the FDI, and remittances attainable for Sudan are not sufficient to close the financing gap to fast-track structural transformation. This motivates the need for reforming the global finance architecture for improved external resource flows into Sudan.

The G20 has called for a recycling of US$100 billion equivalent of SDRs to developing countries through the MDBs. This follows the IMF's largest ever allocation of US$650 billion (or 456.5 SDR billion) into the world economy in 2021 to help countries deal with the economic fallout from the pandemic. However, out of the US$650 billion in SDRs issued by the IMF in 2021, only US$857.7 million, or 0.13% of the total, was allocated for Sudan. Although Sudan was not able to access the amount being in arrears, this allocation is inconsistent with the country's development priorities and its underlying challenges.

Prior to the war, domestic resources mobilized by Sudan were significantly insufficient to finance structural transformation. Historically, tax revenue in Sudan as a percentage of the GDP is relatively small, with low levels of taxation on the non-oil economy. In 2012, Sudan tax revenues comprised of 7% of GDP, which has witnessed modest improvement reaching 10 percent of GDP in 2014. However, tax revenue has decreased to 6% of GDP in 2022 and further reduced to 2% in 2023, following the ongoing conflict launched in April 2023. Sudan's tax is lower than that of Ethiopia (7%), Uganda (12.5 percent), Ghana (14.1 percent), Senegal (18.7 percent), Zambia (16.8 percent), and Cote d'Ivoire (14 percent). The low tax rate stems from a narrow tax base, low tax rates, weak administration, and high levels of exemptions. Sudan has the potential to raise government taxes to about 18 percent of GDP by 2030 – a revenue performance that would be roughly comparable to some comparator countries and will support Sudan to achieve sustainable growth. Reforms of the global tax architecture would help improve domestic resource mobilization by containing illicit financial flows, and tax avoidance.

To make progress in structural transformation, Sudan first needs to stop the war and achieve political stability and realize peace to create a favorable environment for private investments. The government also needs to undertake the following to increase labor productivity:

- Establish macroeconomic stability as an essential foundation for substantial increases in private sector-led economic activity.
- Increase public and private investments in the physical infrastructure of Sudan, especially transportation, electric power, and communications services.
- Promote timely and cost-effective business processes, and appropriate

regulatory oversight of business activity to create a conducive environment for investment by the private sector.

- Introduce programs that promote improvements in the mobilization of domestic savings in the form of financial assets that are held by banks and other entities responsible for domestic financial intermediation.
- Build capacities by government in the public sector at the national and state levels for provision of basic services that support the proposed expansion in private business activities, including skills development programs for the labor force.

3.4 Dealing with Sudan's Debt

Given its isolation from the international community for last three decades, it was not able to access new foreign debt to finance its structural transformation but drifted into debt distress due to debt arrears accrued from earlier borrowings. The economic sanctions imposed on Sudan since 1997 and the country's positions on the SSTL, represented major challenges for Sudan to get financing from the international markets. Furthermore, the Sudan's low credit rating has been one of the main barriers for the country to access foreign financing. Prior to the war, Sudan was rated by the three major rating agencies (S&P, Moody's and DBRS) at 15 (CCC+) at the same level with Niger, Mali, and Ethiopia. This has further been aggravated by the country's political instability that would downgrade Sudan's rating, thereby reducing its ability to get financing from the international market.

According to the latest joint World Bank-IMF Debt Sustainability Analysis, Sudan was in public and external debt distress even before the war. While domestic debt is small representing only 8% of GDP, Sudan's public external debt-to-GDP ratio increased from 164.7 percent of GDP in 2019 to 172.9 percent in 2020 and was estimated to reach 176.1 percent of GDP in 2023. Sudan's external public and publicly guaranteed debt was estimated at US$56.6 billion in nominal terms at end of December 2020. The debt outlook for Sudan is unsustainable without full delivery of HIPC, MDRI, and beyond HIPC debt relief. Most of this debt (about 91.7 percent) was in arrears, which severely limits access to regular financial support from multilateral and official bilateral creditors. Sudan reached "Decision Point" under the HIPC in June 2021, and its USD 56.6 billion external debt (172.9 percent of GDP) in 2020 was expected to reduce by 50 percent in 2022. However, Sudan's progress towards "HIPC Completion Point", by 2024 as previously envisaged, stalled as discussions with Paris and Non-Paris Club creditors were paused following the military takeover in October 2021. Prior to reaching the Decision Point, development partners including the Bank, the World Bank, and the IMF supported Sudan to clear its debt arrears. However, Sudan's public debt remain unsustainable and there is a high risk that the country falls back into arrears to IFIs, including the Bank.

Addressing Africa's debt conundrum including Sudan requires reforms of the global debt and financial architecture to avoid the further build-up of unsustainable debt, as well as actions to facilitate restructuring of the existing stock of debt. To facilitate debt restructuring, there is a need to: (1) implement a debt relief to free up resources for development financing; (2) create a sovereign debt authority and a sovereign insolvency system; (3) G20 countries to enact legislation that encourage private lenders to participate in debt workouts; and (4) implement the new IMF policy of lending in arrears that would also open the door for MDBs to lend to countries during protracted debt negotiations, which will benefit Sudan considerably since the country is in arrears for quite some time.

Following the completion of the HIPC process, Sudan needs to enhance its debt management capacity and develop notional, intertemporal fiscal rules to avoid over-borrowing, and getting into debt crises. There is a need to strengthen domestic fiscal councils and debt management offices, and to enhance the transparency of debt transactions to ensure debt sustainability. This can be achieved by improving the capacity of fiscal councils and making them independent with clearly defined mandates to undertake surveillance on fiscal management and offer policy advice to governments. Furthermore, the current DSF developed by the World Bank and IMF needs to be updated to reflect the changing structure of economies and the impact of shocks such as pandemics and climate change, on economies, especially those in Africa. Many low-income countries have natural capital that is not captured as part of their wealth in assessing their headroom for debt accumulation. The DSF does not include climate or other sustainability and fragility risks such as need for increased military spending to curb threats of insurgence, nor do they account for crucial investment needs for climate adaptation such as need to repair damaged infrastructure induced by cyclones or floods that could impair fiscal buffers of a borrowing country or the financing needed to achieve the 2030 Agenda for Sustainable Development. Moreover, the fact that the methodology used to assess debt sustainability is not publicly available, makes it difficult to replicate it independently and validate the findings.

There is also a need for a "debt relief for climate initiative". This should be tailored towards supporting African countries that may include reductions of both bilateral and multilateral debt to finance climate mitigation and adaptation. Under this proposal, eligible countries including Sudan would be provided with partial debt relief in exchange for their commitment to investing the savings from debt service into climate-related projects such as: renewable energy or forest protection on the mitigation side; or irrigation and food security on the adaptation side. There is also the need for African countries to tap into domestic opportunities to improve their debt situation. As such, reforms geared towards improving public expenditure management will be crucial as many of African countries are experiencing a rise in recurrent expenditure, reflected in large public wage bills.

3.5 Financing Climate Action

Africa's progress on structural transformation is threatened by climate change. Recent evidence shows that climate change has caused losses amounting to between 10 and 15 percent of GDP per capita growth in African countries, with countries in West and East Africa projected to bear the brunt of impacts. Sudan is one of the highly vulnerable countries to climate change globally and in Africa due to its location in the fragile Sudano-Sahelian zone, unsustainable exploitation of natural resources, and weak institutional and human capacities. Having contributed less than 0.06% to the total global annual emissions, Sudan is disproportionately affected by climate related risks such as floods and droughts that threaten its development gains given its marginal contribution to the global emissions. The carbon footprint of Sudan on a per capita basis was only 0.43 tCO_2 in 2020, compared to developed nations such as the United States and China whose carbon footprint was 14.34 tCO_2 and 7.41 tCO_2, respectively. The negative effects of rising temperatures in Sudan are numerous, including increased mortality and morbidity (i.e., infant mortality rate was 38.9 deaths per 1,000 live births in 2021), loss to GDP per capita (i.e., GDP per capita reduced to US$472 in 2023 compared to US$836.7 in 2019), labor productivity losses, trade depression, conflict and civil war and worsening social inequality, including widening gender gaps in human capital outcomes from education to employment and income.

Prior to the war, Sudan was committed to reducing greenhouse gas emissions by 38 percent in the energy sector, 45 percent in the forestry sector, and 20 percent in the waste sector by 2030 compared to business-as-usual. Sudan's updated 2021 Nationally Determined Contribution (NDC) affirms the country's commitment to implementing climate change mitigation and adaptation actions as a national priority. The country was making efforts to address climate change including investments in climate change adaptation, addressing losses and damages from climate change, investments in natural resource management, and in reducing social inequalities. However, following the conflict that started in April 2023, climate change activities have not been given priority. The estimated cumulative financing needs for Sudan to respond adequately to climate change range from about $22.7 billion to $28.2 billion, averaging $25.5 billion in 2020–30. On an annual basis, this comes to about $2.5 billion, with lower and upper amounts of $2.3 billion and $2.8 billion, respectively. Sudan has accessed limited foreign financing for climate finance and green growth over the last three decades due to its inclusion on the SSTL, and economic sanctions, which were lifted in 2020.

The MDBs and bilateral partners can play a bigger role in climate financing by allocating funds for climate adaptation projects that are directly linked to development, and economic transformation. One way of protecting funding for development is to create a special institution that would only finance climate mitigation, leaving the existing MDBs to finance development and adaptation; an "African Green Bank (AGB)." The AfDB has already launched the African Green Banks Initiative (AGBI) to create an ecosystem of Green Banks throughout Africa, with the aim to mobilize additional climate finance geared towards green and sustainable growth in the continent. As such, AGBI provides a model for deploying green financing across the continent by leveraging private and public sector investments that supports African countries' climate ambition in line with their NDCs. There is also potential for the expansion of carbon markets for both financing climate mitigation and adaptation and spurring economic development in Sudan following the war. Furthermore, following the restoration of peace, Sudan needs to increase concessional financing, and adopt policies that could crowd in more private sector investment through changes to the regulatory environment both domestically and internationally to reduce the perceived risk investors face.

Reforms of the GFA would give Sudan a unique opportunity to increase concessional financing if it can restore peace and resume the HIPC process.

3.6 Policy Recommendations

The world has changed, and therefore, challenged the ability of the global financial architecture to handle the emerging global and regional needs. Mobilizing resources at scale and on affordable terms for the financing of structuring transformation will require the following policy reforms. However, Sudan's immediate priority is to end the ongoing conflict and restore peace and stability. In the medium-to-long term, it could benefit from the following policy reforms:

- Reforms of the Global Financial Architecture (GFA): This necessitate improving transparency in credit rating agencies: Engage with Credit Rating Agencies (CRAs) to improve their rating criteria by considering the value of natural capital in assessing a country's debt risk profile. Reduce the amount of subjectivity in credit ratings assigned to African countries by increasing transparency and distinguishing between the model-based and discretionary components of their sovereign ratings. In addition, a greater voice should be given to Africa in MDBs and IFIs, aligned with its growing share of world GDP and population. The IMF and the World Bank could further democratize their decision-making processes by introducing a double majority rule for most decisions and change the rules allocating IMF quotas and voting rights at the World Bank to reflect new economic and demographic realities.

- Reforming the global tax architecture to curb tax avoidance and illicit financial flows: The international community should carry out reforms of the international tax architecture, especially by further increasing the global minimum corporate tax and tax evasion, which is especially harmful for Africa and Sudan in particular, given its low tax base.

- Making room for more efficient domestic and international debt management: The difficult debt situation in some African countries including Sudan should not jeopardize the continent's ability to raise the funding necessary for its structural investment. Existing debt resolution and initiatives, such as the G20's Common Framework, are deemed too slow and cumbersome, and must be reconfigured to streamline debt resolution processes. Reforms at the global level could see the G20 propose legislation to facilitate, streamline and speed up debt restructuring and resolution while facilitating private creditors participation.

- Funding Sudan's transformational projects with Sudan resources: Sudan and other African countries have no intention to rely solely on international aid to fund their ascension. Capitalizing on its domestic resources, including leveraging its abundant natural capital and people, they should also embark on reforms to deepen their financial sectors so that they can play their roles of providing emergency finances in times of crises. For instance, the creation of an African Financial Stability Mechanism (AFSM) with the sole mandate of debt refinancing should be explored to complement the work of IFIs and ensure that African countries always have access to adequate and affordable financing, and particularly during times of crises. The AFSM would alleviate countries' short-term liquidity constraints by enhancing credit and augmenting liquidity on domestic, and international debt markets.

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