The dynamics of the loss of oil revenues in the economy of North Sudan
Author(s): Mohammed Hussein Sharfi
Source: *Review of African Political Economy*, Vol. 41, No. 140 (June 2014), pp. 316-322
Published by: Taylor & Francis, Ltd.
Stable URL: https://www.jstor.org/stable/24858572

Review of African Political Economy, 2014
Vol. 41, No. 140, 316–322, http://dx.doi.org/10.1080/03056244.2013.876982

Routledge
Taylor & Francis Group

BRIEFING

The dynamics of the loss of oil revenues in the economy of North Sudan

Mohammed Hussein Sharfi*

Independent researcher, Khartoum, Sudan

An overview of the current economic situation

Sudan has endured considerable economic strain with the loss of substantial oil revenues in the budget following the separation of South Sudan in July 2011. Although oil revenues formed no more than 7% of GNP at the time, they represented more than 75% of state foreign exchange earnings and 45% of general government finances. According to a report by the Central Bank of Sudan, on average a monthly US$300 million of revenues was lost in the budget with the separation of South Sudan (Central Bank of Sudan 2012b). The 2013 budget has a deficit of US$1.5 billion, and the current account deficit is more than US$6.6 billion. The current inflation, which reached 40.3% in October 2013 compared with 29.4% in September 2013, has led to the shrinking of the real value of money. The purchasing power of the consumer is continuously dwindling due to fixed incomes, in addition to the lifting of some subsidies. Some academics have estimated that the real value of money has diminished by more than 60% since the independence of the South and that this situation will continue to deteriorate with the abolition of government subsidies (Isa 2011). According to a report by the Ministry of Welfare and Social Security in 2011, 46% of Sudanese are below the poverty line (Ministry of Welfare and Social Security 2011). Many observers believe the figures on the ground are far higher than those cited by government officials. A study by the Sudanese Ministry of Labour revealed that nearly 95,000 Sudanese from different sectors left the country in 2012, compared with only 10,032 in 2008 (Ministry of Labour, Public Service and Human Resource Development 2012). These numbers encapsulate the huge economic and political challenges that lie ahead of the government.

Following the secession of the South and due to security and political issues, a dispute erupted between the governments of South Sudan and Sudan over the transit of the oil pipeline and South Sudan's oil through Sudan. This context has led to obstruction of the flow of oil exports for a long time. Sudan has as a result lost a considerable amount of revenue in oil transportation fees.[1] The loss of these revenues had a direct impact on the balance of payments and the state budget that resonated in the socio-political sphere. The IMF is expecting the government debt to reach US$45.6 billion by the end of 2013. In 2009, the budget deficit of the GDP was 1.9%; in 2012 it rose to 3.9%, and to 4% in 2013.[2]

At present, there are many signs indicating that the Sudanese economy is experiencing a real crisis. These include defects in

*Email: msharfi@hotmail.com

the internal and external financial balances; galloping inflation; instability of the exchange rate; growing local debt and limited ability to pay; erosion of national reserves; diminished Central Bank ability to stabilise the economy and meet foreign exchange needs; the slowing down of private sector and banking activities; and high rates of defaults. The constant slump in the economy exposes the mid- and long-term difficulties facing the management of the national economy.

Since the secession, the government has introduced different fiscal and monetary policies and measures to mitigate the deficit in the budget. In this economic atmosphere, the government is using all means available to cut expenditures, look for state revenues other than oil and restrict imports to restore foreign exchange reserves, with uneasiness about long-term fiscal sustainability given the lack of clarity over oil revenues in the post-secession era. The decreasing financial resources and the general economic outlook continue to serve as one of the major challenges to existing political, security and socio-economic structures. Sudan is undergoing symptoms similar to those that led to the Arab Spring revolutions, including rampant corruption and high rates of unemployment, while the general economic situation is expected to deteriorate further in future. The recent domestic turbulence in the centre as a result of the partial lifting of subsidies reflects society's frustration at the gloomy economic environment. In every budget before and after secession, the government allocated the largest share of oil revenues to the security and defence sectors. These huge allocations were effectively used to maintain the current regime's political and security control, however the current economic outlook opens the door for many valid questions related to the survival of the regime. The continuing armed conflicts in Blue Nile, South Kordofan and Darfur will place more pressure on the economy.

Government remedial policies and measures

The separation of South Sudan has serious mid- and long-term effects in all sectors of the Sudanese economy. These include, inter alia, a large increase in the value of imports; a decline in the flow of foreign direct investment (FDI), especially in the initial years; devaluation of the local currency; a decrease in public revenues and public expenditures; a large decline in sources of external grants; recourse to domestic public debt; the government crowding out of the private sector to finance the increasing deficit; decline in investment deposits as a result of inflation rates; and resorting to other investment alternatives such as the dollarisation of the economy. The government has initiated various economic measures in its budgets since the secession of the South to address the deficit shock.

Fiscal and monetary measures and policy

The debate among the government elite in the north on the financial shortfall that should be initiated by the separation of South Sudan started at a very late stage of the Comprehensive Peace Agreement (CPA) period.[3] The deferment of deliberating on a critical economic context scenario after May 2005 and having no contingency plan or way-out strategy for reducing financial deficit in the coming years reflect the lack of planning and inefficiency in the state institutions. Following the referendum and in a less than a year between October 2010 and July 2011, there were three major adjustments introduced to the government budget that were prepared on the assumption of unity and then on secession. Fiscal and monetary measures were introduced to absorb the budget deficit including reduction in public expenditure, increase in revenues from taxation and strengthening safety nets to mitigate the effects of secession.

The 2011 budget included various austerity measures: increased prices of petroleum products and sugar; a 25% cut in the salaries of 149 ministerial-level government positions; a 20% reduction in development budgets of all public corporations; downsizing of central and state governments; a 10% reduction in the budget for diplomatic missions; and the restriction of imports of a number of luxury and non-luxury items. In the 2012 budget, measures included an increase in value-added tax in the telecoms sector from 20% to 30%. The 2013 budget added further taxes in vehicle licensing and overseas travel exit fees as part of a policy aimed at expanding the tax umbrella and developing tax revenues and reviewing service charges. A three-year emergency programme, 2012–2014, was introduced that aimed to stabilise foreign exchange, increase production of strategic commodities and eliminate factors that cause a lower standard of living among the weakest sectors of society.

By the end of September 2013, the prices for petrol and cooking gas had nearly doubled. According to the government, the removal of subsidies is a vital measure in the rectification of the economy, indicating the urgency of implementing such austere measures to address current and future imbalances. The rising cost of subsidies to certain commodities contributed to the ballooning budget deficit. President Omer Al-Beshir indicated that the government-subsidised gasoline imports amounted to more than US$1.75 billion annually (*Al Sahafa*, September 23, 2013). This measure was implemented despite the fact that raising petroleum prices tends to be costly in political terms, with the former and current Sudanese governments suffering as a result from civil disorder, protests and strikes. However, it is only one factor in the shortfall and could not be held solely responsible for the government's financial difficulties. The Finance Minister asserted that the government would continue to eliminate subsidies in 2014. The lifting of fuel subsidies led to huge protests and riots triggered in the capital, Khartoum, and other parts of Sudan. It is still questionable whether the lifting of subsidies could genuinely tackle the decline in the economy.

Alternative sources of revenues

Part of the government economic strategy that would contribute to offsetting the deficit is the endeavour to attract foreign investors in the non-oil sectors such as gold mining, agriculture and tapping possible oil reserves. The government has stressed policies related to the diversification of the economy and enhancement of the productive sectors such as agriculture, gold, ethanol and oil.

The oilfields in the north produce approximately 133,000 barrels a day according to the Minister for Oil; however, he projected an increase in production by the end of 2013.[4] Most of the output is from the oilfields in the conflict-prone region of South Kordofan. Gold is playing a key role in Sudanese non-petroleum exports and the government expects its revenues to make up for the budget deficit in future. Gold is the country's biggest export commodity, with US$2.2 billion export revenues in 2012, according to the Bank of Sudan, and the government is keen to promote this sector in order to build its foreign exchange reserves. There are more than 80 gold-mining companies currently operating in the country, and one of the problems is the smuggling of large quantities of gold for sale in Dubai or Beirut. In order to tackle this challenge, the Minister of Minerals expressed the need for a regulatory framework while providing local gold-hunters with incentives to sell the mined gold in the country. The Minister projected that production will amount to 50 tonnes, which would potentially make Sudan one of the 15 biggest producers in the world, and the third in Africa behind South Africa and Ghana (*Sudan Tribune*, April 1, 2013).

The government officials in their statements envisage a focus on agriculture as an engine of growth and as a way to diversify Sudan's economy, since the huge potential of resources in the country lays the groundwork for extensive farming. However, investment in the agricultural sector is insufficient and is confronted with serious structural and policy obstacles that have led to a sharp decline in production. As a result, food imports have tripled in the last 20 years, which reflects the challenges facing the agricultural sector.[5] Other sources of revenues for the government include livestock, ethanol and gum arabic. The transit fees from the oil pipeline are another source of revenues as the government has collected US$236 million since the start of oil flow in July 2013, and oil transit fees could collect up to US$1.2 billion in transit fees in 2013 (Reuters, April 6, 2013). However, there is always the risk of an oil shutdown by the Sudanese government due to a number of political and security complications between the government and South Sudan, which would leave this vital source of foreign exchange revenues out of the budget.

Prospects for compensating for the loss of oil revenues

Various factors related to the structure of the economy, the government's inconsistent policies, and the political and security environment would impede the ability to make up for the loss of oil revenues. Economists deem the conditions of the Sudanese economy in the mid and long term to be bleak despite government assurances that it will be able to adapt to the loss of revenues. In the last 10 years, the government did not implement comprehensive policies that could promote the non-oil sectors to serve as future viable economic alternatives. A large share of oil revenues before the secession was allocated to unproductive activities with an exponential increase in trivial government expenditure, while less has been available for productive investments.

The marginalisation of other sectors has led to a considerable decline in export earnings from the non-oil sector.[6] Some studies indicate that non-oil export earnings have plummeted by more than 50% compared to the pre-oil period (Adem Tahir 2010). Gezira, a large agricultural scheme, is collapsing due to mismanagement and underinvestment (only a fraction of its more than 2 million feddans[7] was being cultivated in recent years). Both the irrigated and the rain-fed agricultural sub-sectors encounter serious challenges that inhibit the growth in agricultural production such as, inter alia, the inefficiency of agricultural production and marketing systems, and embedded managerial and financing problems.[8] The three-year programme announced by the government estimated an increase in the agricultural output contribution to the GDP from 35.8% to 40% by the end of the period.[9] Agricultural productivity problems in addition to the rain-fed drought forecasts raise questions about the optimistic government figures. The official economic figures offered by the government are usually misleading and theoretical in order to instil a sense of optimism for purely political reasons.[10] The malfunctioning trends in this major alternative sector suggest that failure to cover the oil deficit will continue in the mid term.

There are high expectations from the government that gold production will largely compensate for the budget deficit. However, there are doubts over the government projections of gold production growth, with oversimplification of estimates and no solid evidence that large quantities could be discovered without much effort. It is uncertain if revenues from this sector will continue to be high as the revenues in 2012 that reached US$2.2 billion. Different reports indicate that production is dwindling as gold exports dropped from 14 tonnes in the first quarter of 2012 to 8 tonnes in the first quarter of 2013 (Central Bank of Sudan

2012a). This was clear in the gold and chrome revenues from January to September, amounting to US$854 million (*Al-Sahafa*, October 23, 2013). However, this sector will still be vital to absorb the economic crisis in the north in the mid and long term in the event that there is, as projected, a yearly production output increase of 25%.

Debt is another factor which will complicate the management of the deficit in revenues in the mid and long term. The current debt figure of US$46.5 billion reflects the heavy debt burden on Sudan, and all indications are that creditors are unlikely to grant debt relief because of concerns about conflict and human rights.[11] The main creditors of Sudan are the IMF and the World Bank from the multilateral lenders, Kuwait and Saudi Arabia from the bilateral non-Paris Club, and the United States and Austria from the bilateral Paris Club (Adem Tahir 2010). Due to the present decline in export revenues, the slowdown in trade, the fall in FDI and private remittances, and the widening current account and balance of payments deficits, the value of the Sudanese pound is anticipated to maintain its corrosion relative to foreign convertible currencies. The volatility of foreign exchange rates and the high political risk will continue to hinder the flow investments from inside and outside Sudan.

The government continues to expand the state apparatus as new states are being formed and large numbers of ministers are appointed with extravagant expenditure. The parliament continues the calls to reduce salaries and perks to officials in the government through amending the compensation law, but in the 2012 budget bill this measure was excluded, drawing strong criticism from lawmakers.

The conflict in Blue Nile, South Kordofan and Darfur will continue to put extra pressure on the state's financial resources, which consequently affects the budget. In the last decade, the regime allocated substantial financial resources to the military and security apparatus and this pattern continues to the present day. The enhancement of the security forces' capacity as well as weapons imports will continue to be a priority in government expenditures. Increased attention will be paid to these sectors in this time of regional conflicts and political turmoil. Oil installations in South Kordofan, which form the largest part of oil production in the north, will continue to be targeted by rebel groups from Darfur and Greater Kordofan. Investments in sectors like agriculture, mining and oil will be affected due to the ongoing military operations in the regions.[12] The oversized federal and state government and the patronage system created by the regime will place a heavy burden on government finances.

The management of the national economy will not lead to effective reform programmes without reviving the authority of the state's financial institutions, which is steadily declining over the technical content of economic policies, measures and decisions. The Ministry of Finance find itself under the influence of the regime's various power centres determining the priorities of spending rather than the technocrats in the Ministry.[13] The neglect of strategic economic planning is an important dimension contributing to the failure of policies. The high growth rates in the economy in the pre-separation period are not the result of rational government policies but of significant oil revenues. These revenues led the government to overlook the existing structural problems in the economy. These distortions will continue to have a deep impact on the strength of the Sudanese economy for a long period of time. This vital aspect will certainly continue to impede the ability of the government to reduce the budget deficit.

Conclusion

The structural deficiencies in the economy along with the domestic, regional and international political environment pose a real threat to the success of economic policies to balance and reduce the budget deficit, as well as to the political survival of the regime. It is exceedingly difficult to envisage that the government's fiscal and monetary measures and the alternative sources of revenues will be sufficient to remedy the distorted economy under the current regime. The objective of creating a competitive economy in Sudan depends primarily on structural reforms which can facilitate the diversification of Sudan's economic base, strengthen non-oil sectors and reduce the country's reliance on imported goods. The ability of the Sudanese government to confront these economic challenges will continue to be the main issue facing the future survival of the regime.

Note on contributor

Mohammed Hussein Sharfi earned his doctorate from the University of Reading, UK, on Sudanese foreign policy. He has worked in the human rights field and in political affairs in the UN in Switzerland and Sudan, and produced many analytical reports, early warning notes and briefings as part of his work with the UN Mission in Sudan as an information analyst in the Joint Mission Analysis Centre from May 2006 to July 2011. His research interests are in foreign policy in Africa and the Middle East, political and economic developments in Sudan, and decision-making processes in Africa, the Middle East and the Gulf region.

Notes

1. All oil facilities (pipeline, refineries and port) to transport oil from South Sudan are present in the north.
2. Interview with Ministry of Finance official, Khartoum, July 2013.
3. The Comprehensive Peace Agreement was signed between the government of Sudan and the Sudan People's Liberation Army/Movement in 2005, and included set of protocols to end 21 years of civil war in Sudan.
4. Interview with Dr Awad Al-Jazz, the Oil Minister, Sudan Radio, May 31, 2013.
5. In 2010, food imports increased to US$1.7 billion compared with US$72 million when the Comprehensive National Strategy was announced in the 1990s.
6. Oil has played an unfavourable role in the process of acceleration of growth and future development of diversification of the economy. This factor has a considerable impact on the attitude and policies of the government.
7. A feddan is a unit of area equivalent to 0.42 hectares.
8. Rain-fed agriculture also faces huge obstacles including lack of machinery, shortage of labour and high prices of agricultural inputs.
9. The unsuccessful outcome of the agriculture revival, farmers' financial situation and problems related to irrigated projects make such projections far from feasible.
10. An example of figures that does not correspond to realities: the three-year programme stated that public expenditures will be cut by 22%; an exaggerated figure in a budget that lost a significant percentage of its oil revenues with no solid measures to radically restructure the overlarge state institutions.
11. The bulk of the funds that currently come to Sudan from international donors are mainly disbursed through UN agencies and non-governmental organisations. Debt has become one of the outstanding post-referendum issues.
12. Media reports suggest that agricultural investment related to farming (3 million feddans) in Blue Nile and South Kordofan was severely affected as a result of the ongoing conflict. It is also reported that the security situation led to the withdrawal of foreign and Arab investors from both states.
13. The large number of governmental and semi-governmental enterprises controlling the major activities in the economy leads them to rival the private sector in unfair competition. This is an example of mismanagement. The recent leaked US embassy memo from WikiLeaks presents a factual picture of the dominance of the ruling National Congress Party enterprises over the market and the patronage system (http://wikileaks.org/cable/2009/04/09CAIRO567.html).

References

Adem Tahir, Getachew. 2010. *Overview of Recent Socioeconomic Development Trends in Sudan.* November 17, Khartoum.

Central Bank of Sudan. 2012a. *Report on External Trade.* June.

Central Bank of Sudan. 2012b. *Report to the National Assembly*. June.

Isa, Swar Aldehab Ahmed. 2011. Statement, Wages Level Workshop. November, High Council of Wages.

Ministry of Labour, Public Service and Human Resource Development. 2012. "Report on the Migration Statistics of Sudanese Cadres." November. Khartoum: Author.

Ministry of Welfare and Social Security. 2011. "The First Human Development Report: The Role of Peace in Human Development." June. Khartoum: Author.