Currency Inflation in Sudan

Origins and how to contain
1.0 Background

Over the course of the last decade Sudan’s economy has gone through a considerable change that has affected its economic performance and currency.

Sudan lost 70% of its oil reserve with the independence and secession of South Sudan in 2011. Since the split the two nations have faced significant challenges in maintaining the peace at the border territory and the new Southern Nation government finds itself with an underdeveloped geographic region rich in mineral resources.

The Sudan on the other hand has undergone an economic transformation to diversify its economy beyond oil and petroleum products.

The African nation like many others was recipient of a $6 billion loan in 2011 which in addition to interest rates has swelled to around $56.5 billion in 2018.

The Government of Sudan initially took the loan out to develop its infrastructure, agricultural products and boost the economy with the predicted revenue losses of the southern oil fields.

As discussed in KIS Report, Issue #02 IMF loans come with structural adjustment policy that stipulate a list of recommendations to be implemented by the Sudanese Ministry of Finance.

Following the advice of the IMF economists the Structural Adjustment Policy which stipulates selling of public assets to private hands has seen much agricultural land, business and heritage sites being privatized, i.e. sold to rich and foreign businesses.

Privatization can have benefits in relation to transforming unproductive state run institutions into higher efficiency and financially better performing institutions.

What has caused the most disruption to the Sudanese government and its citizens is the level currency inflation that is taken place.
2.0 IMF Structural Adjustment Policy

The IMF structural adjustment policy required the government of the Sudan to implement the following:

- Remove fuel subsidies
- Increase privatization of state-run firms
- Increase agricultural land for sale to foreign-investors

On February 15, 2014, a week of talks between the International Monetary Fund’s deputy director of Middle East and Africa and government officials in Sudan ended. The Finance and Petroleum Ministers and Governor of Central Bank discussed debt relief and economic reforms. The IMF promised:

"to provide the requested technical assistance and support to the productive sectors"

to encourage investment, declaring that the success of the program would directly "tackle Sudan’s external debt issue."

According to Magdi El Gizouli, Sudanese analyst and fellow at Rift Institute the IMF’s recommendations to make Sudan suitable for foreign investments meant facilitating land grabs away from Sudanese farmers into the hands of foreign oligarchs by "lifting judiciary's oversight over land sales, reforming land relations, and allowing foreign investors to grab as much land as possible."

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3.0 The effects of currency inflation

Inflation of the Sudanese pound is around 70%.

In August 2016 the Sudanese pound traded at 10.00 SDGs per dollar. By January 2018 the Sudanese pound traded at 18.00 per dollar. Today, November 2018 the Sudanese pound trades at around 49.50 per dollar. The plunge in the value of the pound has had considerable affect on the citizens of Sudan.

From food items, housing, rent, cars and mechanical parts, every aspect of life has increased in price.

- A kilo of tomato that costed 25 SDG’s in January 2018, today November 2018 the same kilo costs 68.75 SDG.
- A kilo of meat that costed 75 SDG now cost 206.25 SDG
- Rent prices have also doubled in price,
- Wages have remained the same.
- This means that items are simply too expensive to purchase.

The more expensive items become the less people purchase.

Governments around the world use price increase to limit the usage of a particular service or product. For example, in the UK the congestion charge in Central London places an £11.00 charge on those wanting to enter the city centre.

This results is that fewer drivers enter London city centre, usually only those with higher incomes or working for companies within the vicinity who are willing to pay the additional charge. Others who do not have the means to pay refrain from entering the city.

For London city council this is a successful measure of reducing city congestion, traffic, accidents and pollution from vehicles in the city centre.

Similarly when inflation is at 70% the price of everything within the Sudanese border goes up, thus making many goods and services inaccessible to low income earners.

The result is that a large chunk of the population who were hovering around middle income slide gradually into low income and poverty category. Those who could previously afford to eat and live comfortably now have to ration food and look for cheaper locations to rent and live.
3.1 Education

Free Primary schooling in Sudan is one of the national assets that has been supported by the government and remains free. However, higher education is expensive with the average college degree costing $8000. A considerable amount of money in a country whose citizens average income is around $200 per month and has an unemployment rate of about 20%.

Inflation results in a greater number of college drop outs unable to pay and complete their studies and fewer entries to skilled courses. Over time this leads to reduced number of skilled workers able to carry out jobs in industries that require higher education credentials.

3.2 Small and Medium Enterprises

With the price of raw materials rising the cost of production increases and is eventually transferred to the final price of the finished product. Higher price product again reduces the customer base and essentially the number of people who can buy your product. Causing people to choose between buying your product at a now premium rate, or purchasing the raw material and creating it themselves.

In addition to losing consumer base of the middle income, small and medium business owners also have to straggle the tide of rent rates increasing and petrol costs, making transportation and delivery that much more expensive.

Larger enterprises with deeper pockets and international trade, i.e. those who trade in dollars or other overseas currencies are able to purchase in larger quantities and undercut the price of smaller local dealers.

The SME’s (small and medium enterprises) thus face the full burden of inflation as all the odds become stacked against them. Rising, fuel, rent and cost of raw materials makes local business a very tough and risky option to continue.
3.3 Larger / International Corporations

For international and larger enterprises that have business both inside and outside of Sudan (i.e. that can trade in both currencies) then inflation can provide a world wind of opportunities.

Similar to a closing down sale where everything has been reduced in price 50% and more the purchasing power of those who have dollars becomes significantly stronger. Larger enterprises now have the ability purchase stock, shares, business and property at rock bottom prices.

The smaller businesses that were struggling due to their limitations in trading with local currency are no match for the larger/foreign enterprises that can buy and sell the same products at a much cheaper price.

The drawback however is the increase in unemployment due to the failure of the small and medium business owners who simply cannot compete and are forced to close. The benefit of larger enterprises yielding economies of scale (i.e. the power to purchase in bulk at a cheaper price) is that it can have a controlling affect on the price of goods for the consumer so prices will not spiral out of control.

In accordance with IMF structural adjustment policy cheaper local raw materials will enhance buying capacity of international traders and boost exports and productivity, bringing in more revenue for the government enabling pay of its debts sooner.

However one hitch with this solution to pay of loans by selling of local goods and assets at a cheap price is that once purchased and taken advantage of the final product may or may not be sold in Sudan.
For example, a successful Arab company from the Gulf purchases 50 hectares of agricultural land to produce grain. There is no regulation stipulating that the foreign company has to use Sudanese machinery to harvest the grain or that a portion of the harvest should be supplied to local markets to reduce the price. So the entire process of harvest, farming, cultivation and selling can be done entirely without any local economic participation or national oversight.

Sudan is the world’s largest producer of Arabic Gum – the stabilizing material used to enable soft drinks to keep its fizz. Sudanese gum accounts for 80% of the global gum trade and yearly gum exports averages around 25,000 tons. However local business cannot benefit from the produce as prices and demand are determine from the larger companies trading in dollars.

Furthermore, large enterprises in industry and manufacturing are fine-tuning their delivery with the use of machinery and artificial intelligence thus enhancing productivity (as recommended by the IMF) and improving output, however not utilizing local labour force.

An example of this is the Wadi Alsingair region in which the government handed mineral rights to Russian company MiroGold. The mine is in a small valley inhabited by a few thousand residents who are without access to hospitals, schools or properly maintained roads. The land was previously used for a variety of arable farming and local miners mining for gold. Since the deal the land has been cordoned off from locals and the company has bought its own heavy machinery complete with armed guards to protect the mining operations.

This creates an economic model that is rotated on performance using latest machinery, greater productivity, greater output however escalating local unemployment resulting in an impoverished local populace sidelined from economic activity.
4.0 Inflation Control

With local currency losing its value and citizens declining into a state of poverty what measure can be done to stop and reverse inflation?

With the lower pyramidal base of the population identified, a welfare program should be implemented to ensure that foods, rent rates and education remain untouched. This is to ensure that people do not go hungry, homeless and uneducated.

The protection of the middle and low income groups cannot be solved with cash injections however, as the aid and other cash incentives often escape to the pockets of few and cash loses its value with the inflation.

Below are summarised list of strategies that could will reduce inflation and stop tide of people declining into the poverty traps.
4.1 Sustainable Farming Practices

Agriculture accounts for nearly one-third of Sudan’s Gross Domestic Product. Nearly half of the national workforce is engaged in agriculture (i.e. crop, livestock, fisheries and forestry, production) and agroprocessing industries.

Fuel subsidies for Sudan were cut in 2017 and the hike in prices has increased the cost of farming and transportation.

A way to reduce Sudan dependence on imported fuel and gas based fertilizers is by developing organic farming techniques.

Research and development centres that partner with higher academic institution should focus on organic agricultural techniques including the use of micro organism to increase the levels of organic material that could be ground locally in the fertiliser.

Organically treated compost is most fertile and over 6 times more effective than regular compost.

Using less heavy machinery, that often damages the soil by compaction and chemicals used in spraying pesticides on the soil resulting the demineralising of the soil. Rehabilitating the soil by opening up the soil and adding more nutrients will allow organic growth of fruits and vegetables, using less machinery and reduce the energy bill.

An agricultural policy to rebuild and maintain the soil, using techniques such as crop rotation advanced methods of composting and using green manure a process of ploughing young vegetation into the soil would enable the soil to support sustain and support itself. Similar to how a forest irrigates and supports itself without the use of much fuel.
The use of oxen used by the ancient Egyptians can be also put to good use to save fuel costs and to treat and rehabilitate the soil as the hooves of the oxen do not compact the soil like a tractor. Older generation farmers who know how to farm using oxen can train and teach new farmers, creating new skills and employment in the process.

Agri-business can be replaced with smaller scale farming using labour intensive, organic techniques that save fuel costs, tractor maintenance costs and expensive spare parts.

An economic policy designed to utilise nature to produce the fruits and vegetables needs of the rural villages will decrease fuel demand and stabilise price of foods.

4.2 Land Distribution

The total population of Sudan is 36.2 million; of which two-thirds live in rural areas. The national poverty rate is 47 percent; but 58 percent of the population are “poor” in rural areas. 3.9 million people are food insecure.

To increase food production and avoid famines an agricultural policy to collaborate with local farmers and find local solutions to supply shortages should be adopted. The cooperation of smaller farmers working together to cultivate the different fruits and vegetables will enable a steady supply of food and stabilise prices.

This can be achieved by allocating a portion of state run farms and splitting it to privately owned local farmers.

Smaller farms and cooperatives Cooperative in which a group of people got together to purchase seeds, crops and till the farms are better able to use the new sustainable practices vital for growing food organically.

10,000 acres of land leased rent free to small farmers with local decision making power into the choice of crops would cover the shortfalls the larger agri-business and stabilise prices of
the local market. It would give more strength to farmers trading in local currency, stabilising crop prices for locals and whilst stimulating the local economy.

Land distribution has two basic requirements:

1. Land allotted had to produce fruits or vegetables for local consumption.

2. The land was given out in Userfurt condition, which is an old roman word used to give land without paying taxes and without paying for it on the condition that it is productive. If it is not used correctly the government had the discretion to repossess.

3. Not more than 12-15% of Sudans arable land is to be distributed to small, locally owned private farms.

4.3 Food Markets

A successful land distribution policy would see food cultivated for personal consumption and enough to sell in markets.

Cooperate farmers given duties to provide certain foods will create initiatives to supply free food to elderly homes, schools, day care centres and those on the brink of poverty. Permaculture experts, individuals specialised in the field of plant cultivation from Sudan’s international acclaimed research centre to teach locals the best way to cultivate crops.

The fruits and vegetables produced from local orchards can be distributed around the city where people could purchase goods at an affordable price.

Sudanese living of just $2 can now supplement their income through the selling of fruits and vegetables.
Sudanese granted rights in rural areas will create employment opportunities and lighten the burden of over population in Khartoum city, a city undergoing mass urbanisation and struggling to meet infrastructure, healthcare and sanitation needs.

## 4.4 Transportation

Across the world citizens have become used to acquiring different transportation systems to get to their destinations

As mentioned in KIS article #18, Urban Transport Infrastructure is a key ingredient to meet development and reduce long term transportation issues the city may face.

### In order to meet the current and future traffic demands the following actions should take place:

- Rehabilitating and expanding the existing infrastructures.
- Deploying large-capacity multimodal transport systems including river transport, bus rapid transit systems, tramways and metropolitan railways to connect Khartoum polycentric and its sprawling outward growth.
- Mitigating environmental pollution and enforcing stringent road safety measures.
- Reviewing traffic laws to tighten traffic regulations and control traffic flows.

However when facing fuel shortages such as in the Summer of 2018 where fuel shortages caused weeks of unrest and unforeseen queues at petrol stations, than the population has to be prepared for a different modal system.

In Copenhagen, the capital of Denmark cycling is still the
preferred mode of transport for the city’s inhabitants. 41% of all trips to work and study to/from Copenhagen is by bike and 62% of Copenhageners choose to bike to work and study in Copenhagen. In total, 1.4 million km is cycled in the city on an average weekday which is an increase of 22% since 2006.

Source: Cycling Embassy of Denmark
As fuel prices continues to send cars off-road, innovative ways of carbon free travel should be adopted. Citizens are encouraged to hitch hike and to share transport with neighbours and colleagues wherever possible.
4.5 Energy Alternatives

Sudan, Africa’s largest producer and exporter of sugar, only recently built its first biomass energy station complete in June 2016. In a country where power outages are still very common and sugar is in abundance the potential for biomass stations across the country is great. Crop waste can also be used to produce energy.

Solar energy, averaging 6.1 kWh/m² is particularly significant in Sudan, and is considered one of the best solar resources globally. It is well distributed throughout the country, and high potential in the Darfur Region, facilitating the provision of energy services to rural settlements that are unlikely to be reached by modern energy infrastructure (electric grid and pipelines).
Access to clean, affordable, sustainable energy is thus an enabling factor for economic development and poverty reduction. Solar panels have the capacity to reduce the nations dependency on fuel and cut the electricity bill.

Figure 2 – Solar Irradiation Map
5.0 Conclusion

Through sustainable economic practices tailored to meet the needs of the people, nations can rise above financial downturns.

The economic strategies mentioned in this paper are not fixed and are centred on alleviating inflation through poverty control techniques, however these methods can still be aggravated by further inflation.

Inflation of the currency is a crippling phenomenon and without the correct permanent treatment a nation can find itself losing value in its assets at an astonishing rate.

Sudan’s most important export is gold (70 %) followed by livestock (25 %). Sudan’s gold production in the first quarter of 2018 reached 36.5 tons with around 778.548 million Sudanese pounds (42.9 million U.S. dollars) of revenue. With inflation of the Sudanese currency however Sudan receives less money with the same amount of gold produced.

A simple and straightforward alternative to this predicament is to cease trading in dollars and peg its currency to gold.
This method would stop the devaluation of Sudanese assets, foods and minerals and enable the economy to climb the steep mountain of debt and interest by the IMF.

The current inflation occurs because of the markets ability to manipulate Sudanese pound to the dollar – depending on demand and supply of the dollars itself.

Governments and economists often overlook the fact that paper currencies do not have any actual value itself and are tokens of other tangible assets. Experiencing inflation will teach you that.

Trading in paper as an asset in itself is haram and leads to speculation, inflation and causes a plunder of the nations assets. Trading in real tangible assets such as gold will enable the
nation to stabilise its currency, maintain the value of the assets that it holds and pay back the IMF loan at an earlier date.

In the meantime the nation should cut its dependency on fuel and look to implement strategies such as that of the transportation culture of Copenhagen.
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