Global Subsidies Initiative

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RESEARCH REPORT

# Recent Developments in Sudan's Fuel Subsidy Reform Process

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# 1.0 Introduction

In September 2013 Sudan introduced the third and most dramatic in a series of fuel subsidy cuts, raising prices of petrol, diesel and liquefied petroleum gas (LPG) by 65 to 75 per cent each. This came in a context of high economic pressure, following the loss of oil revenue from South Sudan after July 2011. That resulted in significant structural imbalances in the fiscal and current accounts, sending the black market exchange rate out of control and requiring the Central Bank to print money to finance excessive government spending.

The overall pricing system was not changed by the subsidy cuts, and no explicit linkage to the market was introduced, meaning that further reforms are likely to be required. However, that may be politically difficult, given the highly negative public reaction (with the worst riots seen in the capital city for at least two decades) and the lack of support for the reforms among the media and other political forces—including sections of the ruling party itself. Internal disunity appears to have been one of the main factors preventing the government from launching an effective communications strategy and broader consultations.

# 2.0 Context

## 2.1 Political Developments

In July 2011, according to the terms of the 2005 Comprehensive Peace Agreement signed between the Government of Sudan and a former southern rebel group, and in line with the results of a referendum held in January 2011, South Sudan seceded from Sudan. With it went around three quarters of the former country's oil production, which had accounted for around 50 per cent of the government budget and 90 per cent of exports. Politically, the disruption was less than it might have been, at least at first, as the sub-regional government in Juba, the new capital of South Sudan, had been operating relatively independently in the six years since the signing of the peace agreement. However, there were significant tensions in the disputed and un-demarcated border areas, especially the states of Blue Nile and South Kordofan. In these districts, fighters formerly aligned with the South Sudanese rebels, now stranded in the north, once again resorted to violence after the perceived failure of agreements on power-sharing and disarmament.

## 2.2 Economic Developments

The renewed civil war, while it remained geographically confined, increased the economic pressure on a government that was simultaneously heavily hit by the loss of oil revenue. As a result, the fiscal deficit widened from 0.3 per cent of GDP in 2010 to an estimated 3.8 per cent of GDP in 2012, while the current-account deficit expanded from 2.1 per cent to an estimated 12 per cent of GDP. Real GDP itself contracted by an average of 2.6 per cent in 2011–12, as the loss of the oil sector had knock-on impacts on other economic sectors (IMF, 2013b). Despite a boom in gold exports and good harvests, as well as efforts to limit imports, the loss of oil revenues (Sudan temporarily became a net oil importer in 2012) resulted in ongoing pressure on the balance of payments. Central Bank foreign exchange reserves had been low for some years, and the government at first resisted pressure for devaluation before putting in place a multiple exchange rate regime. As a result, the black market exchange rate spiralled out of control, from around 3.4 Sudanese pounds (SDG):US$1 in July 2011 to SDG6.3:US$1 in July 2011 and SDG7.2:US$1 in July 2013.[1]

Even more significantly, the Ministry of Finance and National Economy had difficulty financing the increased budget deficit. Sudan has an external debt burden of over US$40 billion, mostly in arrears, but has not yet been able to benefit from the multilateral debt relief for which it is potentially eligible as a Heavily Indebted Poor Country, defined by the International Monetary Fund and World Bank, which severely limits its access to international loans, especially concessional funding. The domestic government bond market is relatively small—although at risk of crowding out the private sector. In any case, by mid-2012, there were reports that the government had been defaulting on some of the *shahama* (Islamic bonds) that it had issued, reducing the appetite for new purchases by banks and investors. As a result, the authorities were increasingly forced to resort to Central Bank financing, both directly and through the Central Bank's counter-signing of Ministry of Finance guarantees of payment. The consequence, unsurprisingly, was a steady rise in inflation, from 15 per cent year-on-year in June 2011 to 36 per cent one year later (Sudan Central Bureau of Statistics [CBS], 2013).

## 2.3 Government Policy

The government had, in early 2011, formulated a Three-Year National Salvation Programme to prepare for secession, which included elements of export promotion, import substitution and fiscal tightening. However, the first two components proved slow to implement in practice, while the third remained highly problematic. In part this was

[1] Estimates based on personal research by analyst.

because the government had expected to negotiate high oil fees to be paid by South Sudan for use of the export pipeline, which would have compensated for much of the lost revenue. These were included in the original 2012 budget. After South Sudan shut down its own oil in January 2012 to prevent Sudan from taking the fees in kind, it was necessary to produce a revised 2012 budget. There were some successful attempts to increase revenue, but the preponderance of politically sensitive items, such as public-sector wages and subsidies in the budget, made it difficult to reduce spending.

As a result, the government launched a round of "austerity measures" in July 2012, including some fuel subsidy cuts, as well as plans for greater economy in government departments and at state level that were never fully implemented. These had been intended as part of a larger reform process, discussed with the IMF. However, they proved politically controversial, and as a result the government appears to have drawn back, so that the 2013 budget did not reflect the austerity plans. This, in turn, stymied efforts to agree a new Staff-Monitored Program with the IMF, which had been seen as a key part of the government's efforts to demonstrate macroeconomic rectitude in its search for multilateral debt relief. Reflecting both the mid-2012 rise in fuel prices and the ongoing Central Bank deficit financing, annual inflation rose further, peaking at 47.9 per cent in March 2013 (CBS, n.d.).

## 2.4 Political Process

The discussions over subsidy reform in Sudan have been deeply contested. The Ministry of Finance and National Economy has been the primary actor promoting change, with the support of the Central Bank and key figures in the "Economic Sector" of the ruling National Congress Party (NCP). However, the political leadership was much harder to convince of the case for change, with important regime figures such as the President of the Sudanese Workers Trade Unions Federation, Ibrahim Ghandour, being seen as longstanding opponents. Moreover, within the National Assembly, in all other political parties and among the general public, there was almost no support for subsidy reform.

Much of 2013 was taken up by a debate over whether or when the reform process should be continued. Discussions of a possible revised 2013 budget began as early as January 2013, but proposals to continue the austerity measures were constantly postponed by political leaders fearing the popular impact of external developments, such as an upsurge of fighting near the border in May, rising prices on the eve of the Muslim holy month of Ramadan (July) and widespread flooding (August). In September, agreement seemed to have been reached among the main economic actors on a package of measures to move the economy to a more sustainable basis, including gradual fuel subsidy cuts. The political leadership agreed in principle to move forward in mid-September, but delayed at the last-minute for an impromptu public relations effort. As a result, it was not until the end of the month that the planned large price increases for petrol, diesel and LPG were finally implemented.

# 3.0 Pricing

## 3.1 September 2013 Cuts

On 23 September 2013, the Sudanese government finally implemented its long-awaited fuel subsidy cuts. The price of petrol was increased by 68 per cent, from SDG12.5 to SDG21/gallon. Diesel prices rose by 75 per cent from SDG8 to SDG14/gallon, and the official price of a 12.5kg cylinder of LPG was boosted by two thirds, from SDG15 to SDG25.[2] At the same time, the official exchange rate was also devalued. These were the sharpest price increases in domestic terms yet seen in the current series of austerity measures—although the recent depreciation of the black market exchange rate significantly reduces their value in U.S. dollar terms.

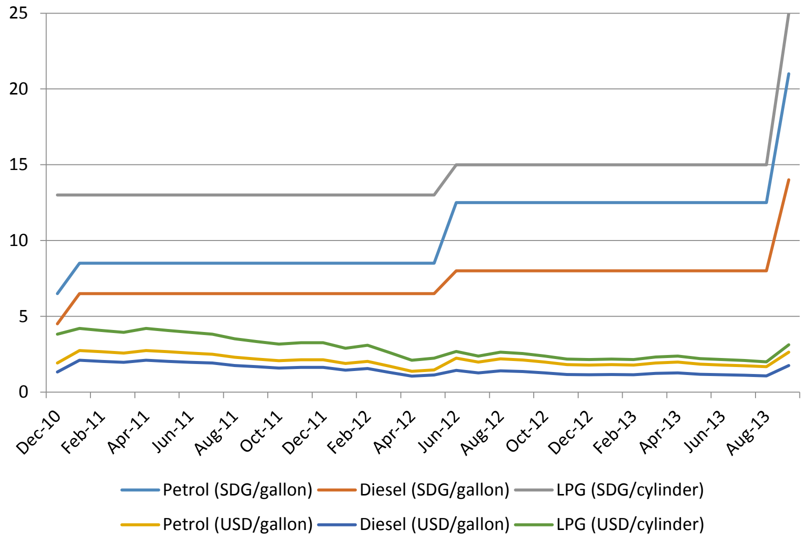


**FIGURE 1. FUEL PRICES IN SUDAN IN SDG AND US$ TERMS (ESTIMATED PARALLEL RATE)[3]**

*Sources: Analyst calculations based on collated press reports and personal research.*

## 3.2 Pricing System

It is important to note that there are still significant subsidies in place. According to a statement made in September 2013 by the minister of finance and national economy, Ali Mahmoud, the Sudanese government still subsidizes petrol by SDG10/gallon, diesel by SDG13/gallon, and cooking gas by SDG66/cylinder ("Council of Ministers Approves," 2013a).[4] Moreover, the fundamental pricing system has not been changed. Prices of fuel in Sudan are still not set by the market, but are determined by the Sudanese Petroleum Corporation (SPC), a government-owned body, which is an arm of the oil ministry. The government's share of the crude oil produced in the country is sold to SPC by the Ministry of Finance and National Economy at a fixed price—US$49/barrel for the higher-quality Nile Blend oil, and US$38/barrel for the lower-quality Fula Blend.[5]

[2] Gallons are imperial, and a standard LPG cylinder in Sudan is 12.5kg. Thus the new prices are the equivalent of SDG4.6/litre for petrol, SDG3.08/litre for diesel, and SDG2/kilogram for LPG.

[3] Sources: Analyst calculations based on collated press reports and personal research.

[4] These figures seem implausible, given international prices. However, the general point that significant subsidies remain in place is certainly accurate.

[5] These prices have not been changed in the latest round of subsidy cuts, so the fiscal benefits from the cuts are received initially by the oil ministry, and then (hopefully) remitted to the finance ministry—although the oil and security sectors have historically had a poor performance of transferring revenue to the fiscal authorities.

SPC then contracts for the refining of this oil at the Al-Jaili Refinery in Khartoum, which is owned 50 per cent by the Sudanese government and 50 per cent by the Chinese oil company CNPC. The refined products are next sold to local companies, both private (such as Aman Petroleum) and state-owned (e.g. the dominant Nile Petroleum Corporation), at a fixed price; and they in turn sell them on to consumers at prices that are regulated by the government (IMF, 2012; UNEP, 2010). It is these last two prices that have been changed by the government in the latest round of subsidy cuts—but they will remain static, rather than having any link to international oil prices.

## 3.3 Earlier Fuel Subsidy Cuts

The fuel price subsidy cuts in September were the most recent and most severe of a series that began in January 2011, at the time of the referendum in which South Sudanese voted for secession. As part of the economic preparations, the government of Sudan that month increased petrol prices by 31 per cent and diesel prices by 44 per cent. The price of jet fuel was also boosted from SDG4.6 to SDG6.5/gallon. While unpopular, these moves had a very limited impact and did not generate any massive outcry. After secession, however, the rapid depreciation of the currency wiped out the benefits of the original cut, and there were discussions of the need for further price increases in the context of the 2012 budget—although parliamentarians initially rejected the idea. However, in April 2012, an attack from South Sudan on Sudan's main remaining oilfield, Heglig, interrupted production, temporarily turning the country into a significant net oil importer. It also became clear that South Sudan was unlikely to pay large oil transit fees for use of the export pipeline any time soon. As a result, the need for a change in policy was more generally acknowledged.

In June 2012, the Sudanese government issued a revised budget for 2012 that included, among other measures, a further reduction in fuel subsidies. Petrol prices were hiked by 47 per cent, diesel prices by 23 per cent, LPG by 15 per cent and jet fuel by 46 per cent. This time, however, the negative public reaction was much stronger, in part because of the steeper petrol increase, but also because of the more straitened economic context, with GDP contracting and inflation already running at 36 per cent—in a third consecutive year of double-digit consumer price rises. The announcement was therefore followed by a series of popular demonstrations, in the capital and elsewhere. While these remained small (generally around 200 to 300 people), they were widespread, larger than had been seen for many years, and showed signs of expanding beyond the original student base. It took a significant government crackdown, including extensive use of tear gas and rubber bullets, to deter the movement, and the regime was nervous enough to cancel a major electricity price increase that had been announced a few days afterwards. This experience of protests also contributed to the delays in implementing the planned future rounds of fuel subsidy reductions. The Ministry of Finance and National Economy was unable to include them in the 2013 budget, as had previously been planned and agreed with the IMF.

# 4.0 *Impacts and Compensation Measures*

## 4.1 Initial Compensation Measures

The compensation measures initially announced by the Sudanese government in September 2013 to coincide with the latest round of subsidy cuts were relatively minor. It was announced that 500,000 poor households would receive a one-off payment of SDG150 (US$26, at the new official rate of SDG5.7:US$1) in social security benefits—worth around 1 per cent of the estimated annual fiscal savings from the subsidy reduction. The main initiative to compensate the population was a public sector salary increase worth SDG100–600 per month (rises of 11 per cent to 55 per cent, depending on grade). This had been promised in a presidential announcement in January 2013, but was not implemented until October 2013. Consequently, the government also stated that the increase would be back-dated to January, with a gradual payment of arrears. Half a month's salary was to be advanced to all state employees in mid-October, in advance of the Muslim Eid al-Adha holiday. After Eid al-Adha, it was also promised that the minimum state pension would be increased commensurately, to SDG425/month.

In the weeks after the fuel price increases (and consequent demonstrations), the government also announced some other piecemeal measures. State governors were ordered to form committees to ensure that poor families receive assistance. In some states, particularly the capital, Khartoum, efforts have been made to control the prices of bread, other key foodstuffs and public transport. In mid-October, the Khartoum state government allocated SDG20 million/month to subsidize bus fares, and announced plans for eight new markets to sell basic commodities at reduced prices. Given the importance of diesel to the agricultural sector, there were also some discussions of how to mitigate the impact on farmers, with the government holding a workshop on how to reduce agricultural production costs, and promising an extra US$12 million to support the 2013/14 agricultural season. The economic conference held towards the end of November (see Section 6, below) was designed to bring together these various compensatory policies, and to recommend additional ones.

## 4.2 Analysis of the Compensation Program

The compensation measures so far announced by the government seem likely to bypass many of these poor households. Almost by definition, given the high unemployment rate, none of the very poorest have a family member working for the government. In addition, there are questions over how effectively the social security payments will be targeted, as there is no objective, comprehensive means of identifying the households most in need, especially outside the major cities. Existing social security mechanisms, such as they are, tend to rely on local "Popular Committees," which are largely controlled by the ruling National Congress Party, raising potential questions about politicization of benefits. Furthermore, there is a strong macroeconomic case against reliance on wage policy for social protection, as pointed out by the IMF, which argues that such measures can boost inflation further, and undermine efforts to link wage rises to the productivity of the economy (IMF, 2013a).

The government has suggested that other measures may be introduced to assist the poor. In mid-November, the First Vice President, Ali Osman Taha, asked the Ministry of Human Resources and Labour to consider how best to provide social protection to all workers in both the government and the informal sectors ("Sudan: Taha Directs," 2013). Khartoum state officials have extensively discussed how to provide cheaper goods and public transport within the capital area, although these seem only to be partially effective. There is no clear national-level strategy to reach the unemployed, and although the government has highlighted (as on previous occasions) the potential of expanded microfinance to fill some of the gaps, no concrete plans have been announced.

## 4.3 Initial Impact

The full impact of the latest round of subsidy cuts will not be seen for some months; however, early indications are worrying. Consumer price inflation, which had been on a downward trend since March 2013, rose sharply again in October and November, back up above 40 per cent year on year, compared with 29 per cent in September. Much of the rise was driven by price increases for food and beverages, probably reflecting the fact that most food in Sudan is transported by road. Transportation costs rose by 51 per cent in October compared with the previous month (an annual rise of 104 per cent (CBS, n.d.). These increases can be attributed not only to the fuel price subsidy cuts, but also to the simultaneous exchange rate depreciation: the average prices of imported goods increased by 54 per cent year on year, compared with 30 per cent in September.[6]

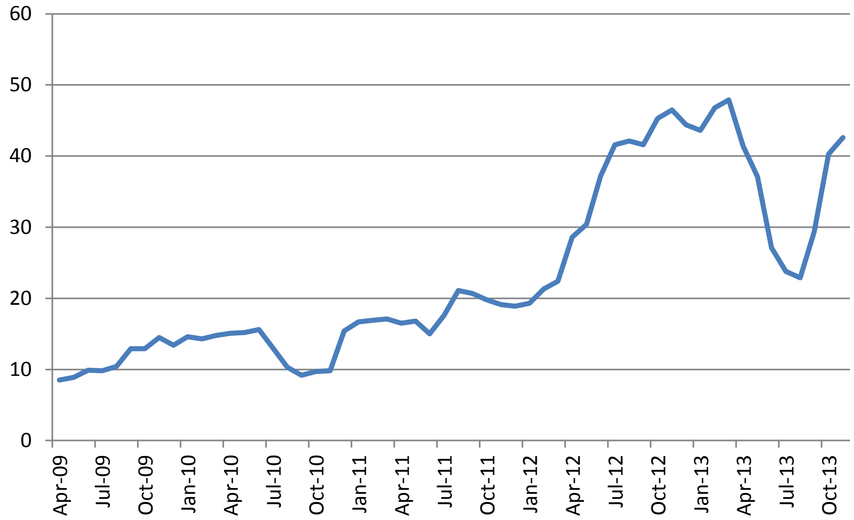


**FIGURE 2. ANNUAL CONSUMER PRICE INFLATION IN SUDAN**

*Source: CBS, n.d.*

There was also extensive anecdotal evidence of price rises. Local newspapers reported that the prices of sheep sold for sacrifice at Eid al-Adha, in mid-October, reached unprecedented heights, doubling compared with 2012 (Ibrahim, 2013). At the same time, the prices in Khartoum of flour, eggs and sugar were estimated to have risen by 25 per cent, 12 per cent and 8 per cent in a week, respectively; and fruit and vegetable prices rose even more sharply ("Market Chaos, Commodity Prices," 2013). One particularly problematic issue concerned LPG cylinders, which were apparently not being sold at the new price fixed by the government (i.e., SDG25), but at SDG35 or even SDG50 per 12.5kg cylinder (Al-Yowm al-Taly, 2013a; 2013b). In early October, the government stepped in and established direct-sale centres using the official price in Khartoum, but the issue persisted; by late November the oil minister was threatening to withdraw distribution companies' licences, while the security services were promising even harsher measures for those selling at more than the official price. Since many bakeries use LPG, this difficulty has driven up bread prices and created some shortages, despite the government's ongoing efforts to keep these under control by heavily subsidising wheat flour.

[6] The official customs exchange rate was changed from SDG4.4:US$1 to SDG5.7:US$1 at the same time as the latest subsidy cut. Many imported goods are in fact bought using currency purchased at the black market rate, which initially depreciated from SDG7.5:US$1 to SDG8.5:US$1 on the news of the subsidy cuts, although it later moderated to around SDG7:US$1.

## 4.4 Anticipated Impacts

In the absence of mitigating factors, the rise in inflation driven by the petrol and diesel subsidy cuts seems likely to continue over much of the next year—although long-term inflation expectations should be downgraded, given that Central Bank deficit financing had recently become the major driver of inflation in Sudan. The IMF has calculated that only 3 per cent of spending on fuel subsidies in Sudan (or SDG1 out of SDG33) benefitted the poorest quintile of the population. Even so, the more generalized inflation, livelihood adjustment costs (e.g., some households may need to move away from use of LPG for cooking, and return to charcoal burning, with problematic environmental and social consequences) and much greater sensitivity to even small changes in disposable income mean that the subsidy cuts are still likely to have a significant impact on the poor. The World Bank estimates that the poorest quintile in Sudan spend 4.1 per cent of their household income on gas cylinders, compared with 1 per cent for the wealthiest quintile (Anonymous, personal communication, May 28. 2013). There are also particular concerns regarding agriculture, which employs an estimated two-thirds of the working population and is a key driver of growth in Sudan. The sharp rise in diesel prices will raise costs in this sector, with major consequences for farmer incomes and potentially for GDP as the market adjusts.

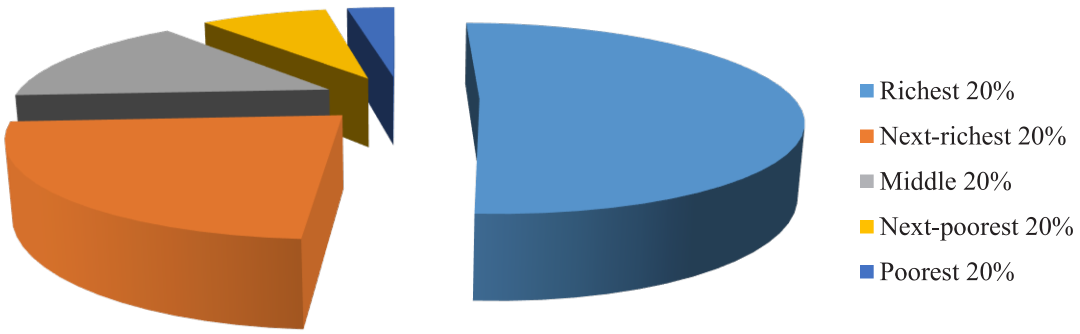


**FIGURE 3. BENEFITS TO SUDAN'S POPULATION FROM FISCAL SPENDING ON FUEL SUBSIDIES**

*Source: IMF, 2012.*

# 5.0 Perceptions and Communications

## 5.1 Government Communications Strategy

Until the final fortnight before the announcement of the fuel subsidy cuts, the government communications strategy was confused, largely because an internal consensus had not been attained or enforced. After agreeing the economic reform package in mid-September, the ruling party seems belatedly to have realized that a public relations effort was needed, cancelling the planned launch. Over the next week, the leadership launched high-profile "consultations" with civil society, opposition parties, unions, student groups and professional groups, among others, which were reported in the press. At the same time, the security services cracked down on negative reporting among the many newspapers that remained staunchly opposed to subsidy cuts, and dissenting voices were excluded.

The last-minute "consultations" seem to have been focused on making the economic case for subsidy cuts rather than genuinely receiving input. This case was based on the high cost of fuel subsidies (SDG24 billion in 2013, according to announcements by the president and finance minister, although this figure seems inflated), and the fact that they benefitted rich foreign embassies and smugglers to neighbouring countries, not only deserving Sudanese. The finance minister also argued that the subsidy cuts in July 2012 had contributed to a recent decline in inflation. However, the link between inflation and the budget deficit is still not widely discussed. The President finally announced the cuts in a press conference, but did not give exact figures: these were discovered by consumers the next day when they went to buy fuel products, with the price rises being in general much steeper than had been expected.

## 5.2 Views of Vocal Groups

Despite these efforts, the subsidy cuts were almost universally condemned by ordinary Sudanese, in part because they were not accompanied by any parallel efforts by the government to cut spending on itself, or on the military. The government was also blamed for failing to boost agricultural production, and was mocked following reports that at one of the pre-announcement rallies (with students affiliated to the ruling party) the president and finance minister pointed out that it was only their 1989 Islamic Revolution that had given the Sudanese people hot dogs and pizza, respectively. Until they were forced to fall into line in the week preceding the official move, newspaper editors tended to oppose any subsidy reduction, citing the existing economic pressures on ordinary consumers. The powerful Sudanese Consumer Protection Society was also strongly hostile, as were farmer groups.

Opposition parties, which are very small and weak in Sudan, were also strongly opposed to the subsidy cuts, in part because they provided the first opportunity for many years of unifying behind a single agenda (opposing the economic reforms) and gaining popular approval at the expense of the government. Given their minimal chance of entering government, these parties are arguably less concerned with how the country's structural fiscal and balance of payments problems can be addressed in practice. Some bodies closely controlled by the ruling party voiced a qualified and seemingly forced endorsement (e.g., the Women's Union and the Bar Association), but otherwise, almost the only approval that was publicly voiced regarding the economic reforms was from the IMF and the World Bank, which praised them at their Annual Meetings in Washington D.C. in early October, in the context of a meeting about Sudan's ongoing quest for debt relief ("IMF & World Bank call on Sudan," 2013).

## 5.3 Public Reactions

The morning after the announcement of the fuel subsidy cuts, the most serious riots seen in Khartoum for many years broke out, accompanied by other protests in various parts of Sudan. These were led largely by young men and teenage boys, who burned petrol stations, buses and cars in some areas. Over the subsequent days, there were also some popular demonstrations, including marches of thousands of protestors from a much broader demographic than previous, smaller demonstrations. Youth activists heralded an Arab Spring in Sudan, and rebel groups intensified their calls for a popular uprising, while some informal professional bodies called for strikes. However, these died away within a few weeks, in the face of an intensive security crackdown (see below).

More serious for the government was the dissent expressed by a number of prominent NCP insiders, led by the high-profile former presidential adviser, Ghazi Salahuddin al-Atabani. Atabani and 31 others signed a memorandum to the president pointing out that the legitimacy of his rule was at stake, and calling for a policy reversal, including the suspension of the economic reforms and appointment of a cross-party national economic team to address the crisis, among other measures. This group now seems set to form a new political party. While the press was quite closely controlled at the time of the rioting, subsequently more critical editorials about the economic reforms re-emerged, especially with the publication of the October inflation data, showing a rise to 40 per cent (taken as undermining the finance minister's argument that the long-term effect of the cuts would be to reduce inflation).[7]

## 5.4 Government Response

The Sudanese government cracked down heavily on the rioters and demonstrators, with an estimated 600 to 800 arrests, both on the streets and in people's homes ("Over 600 protesters," 2013). Police and plainclothes forces used tear gas and, according to many reports, live ammunition. The government initially acknowledged around 30 deaths; later, that figure was increased to 84 by the justice minister; but advocacy groups claimed that more than 200 people were killed ("Sudan raises death toll," 2013; Amnesty International, 2013). Schools were closed for three weeks, and the internet shut down for long periods. The government blamed "saboteurs" connected with rebel forces and funded by foreign interests for the violence. Another strategy was to seek to refocus attention on external grievances, such as the U.S. failure to issue President Bashir with a visa to attend the UN General Assembly that month. The security forces cracked down further on the press, with some national newspapers confiscated and suspended, while two journalists were found guilty in late November in a case related to printing public criticism of the fuel subsidies. Atabani and some of his associates were expelled from the ruling NCP.

The government has also made some efforts to launch a more constructive strategy, with efforts to set up a system (headed by a vice-presidential committee) to monitor the impact of the economic reforms. This culminated in an economic conference held on November 23–24, which was intended to launch a full national dialogue on economic issues, to be incorporated in the 2014 budget. The conference included economists, politicians and business leaders; in the event, however, the process seems to have been fairly tightly controlled, and the recommendations did not even mention the controversial issue of subsidy reform.

[7] For a classic example, see Sudan Vision (2013b).

## 6.0 Looking Forward

The then-finance minister, Ali Mahmoud Abdel-Rasool, at the beginning of November announced plans to launch a new round of subsidy cuts, including on fuel, in 2014 ("Sudan to continue," 2013). There were press reports that he planned in January to increase the price of petrol by a further 90 per cent, to SDG40/gallon ("Orbits," 2013)—although this is an implausible level at current exchange rates. More broadly, the government's future economic strategy plans were outlined at the national economic conference held on September 23–24. The recommendations were:

- To institute a further dramatic reduction in government spending, through scaling down state structures and reducing government salaries.
- To establish an anti-corruption commission.
- To increase investment spending.
- To review operations of the body administering zakat (Islamic charitable donations).
- To strengthen coordination between fiscal and monetary policies.
- To restructure the banking system.
- To further export-promotion and import substitution.
- To develop a comprehensive economic strategy for the next five years with input from other political forces.

The then-First Vice President, Ali Osman Taha, concluding the event and announcing the formation of a specialized follow-up mechanism, emphasized the importance of a greater role for ordinary citizens, and the provision of improved data. Many of these plans are in line with theoretical best practice. In reality, however, it will be an uphill struggle to bring ordinary citizens on board at a time when their living standards are falling dramatically, while the other political forces seem to have decided that their best strategy for winning support is simply not to engage with the government on these issues. Moreover, most of these ideas for reform are not new, and have long proved difficult to implement.

The situation was further complicated by a major cabinet reshuffle in December 2013, which replaced the finance minister, the vice president, the central bank governor and the oil minister, among others. While the new Finance Minister, Badreddin Mahmoud Abbas, is a former central banker and has committed himself to significant economic policy continuity, the new budget he has presented to parliament for 2014 does not include further fuel price increases. Overall, it is clear that there are significant risks to the continued implementation of fuel subsidy reforms. As with this latest round of cuts, the economy may need to go back to the brink before the political leaders are convinced of the case for further change.

In addition, there remains some risk of a reversal of policy: for example, almost any conceivable alternative government would be committed in theory to reversing the subsidy reforms (though their economists might advise against). Even members of the ruling NCP, the day before the November economic conference, dropped hints that the result might be to reverse the reforms ("Sudan's NCP hints," 2013). At the same time, one national newspaper, *Al-Jareeda*, published an official internal report suggesting that the fuel subsidy cuts should be partly reversed in order to address the problems of inflation and capital fight that could threaten national stability.

## *7.0 Lessons Learned*

The Sudan example is a case study of a subsidy reform process with minimal public and institutional buy-in. The executive was internally divided, delayed action until mitigation measures were difficult, had almost no communications strategy and was unable to express the strong economic rationale for subsidy cuts in terms that were at all comprehensible to the general public. The final outcome remains to be seen, and a fuller set of lessons can be identified once the full impact is clearer. However, the result so far seems to have been a process that was both less comprehensive and more controversial than it needed to be. Moreover, while a reversal of the decision seems unlikely on economic grounds, there continues to be significant political support for the reinstatement of subsidies, which will have an impact on future decisions.

### 7.1 Pricing

a) **One-off price changes that do not affect the whole fuel pricing system merely defer the problem, particularly in countries facing rapid currency depreciation.** This was the third round of fuel price increases in Sudan in three years, but the deterioration of the black market exchange rate meant that in fact the international-equivalent petrol price was lower than at the outset. It is clear that another set of subsidy cuts will be needed soon, and public opposition is likely to be even stronger.

b) **Technical complexity and lack of public understanding can inhibit attempts to reform the pricing system.** There has not yet been any discussion of the possibility of linking fuel prices to international benchmarks in Sudan, in part because of the fact that most of the local media do not understand how the system actually works, but also arguably because of doubts over officials' capability to implement.

### 7.2 Mitigating Impact

c) **Measures to mitigate the impact of price changes need to be planned and announced in advance if public panic is to be avoided.** The announcement of the fuel price increases was accompanied by vague promises, and an increase in the minimum wage, but not by a concrete set of measures to offset or graduate the impact on the poorest or even on business. This seems to have been a significant factor driving the public demonstrations and rioting.

d) **If the subsidy reform is left until a time of economic crisis, then there will be fewer resources available for impact mitigation.** In Sudan, fuel subsidy reforms have repeatedly been delayed to the last possible moment to avert intolerable fiscal pressure. As a result, the government has been left with fewer options for mitigation. If the pricing system had been changed earlier, not only could the adjustment shock for consumers have been graduated, but also there would have been more government money available to protect the poorest.

### 7.3 Building Public Support

a) **Internal government divisions can be a key factor complicating fuel subsidy reforms.** Splits within the government make it hard to decide on and commit to reforms. They also limit its capacity to offer trade-offs to opponents.

b) **Building coalitions of support can be extremely difficult in a polarized and uneven political environment.** While the advice generally given to governments of building broad-based political support is good, it can be near-impossible to implement in a polarized environment such as Sudan, where the government is actively engaged in a civil conflict with rebel groups. In such cases, regardless of the merits of the arguments, the opposition is unlikely to lend the government its support on such a controversial issue, which may seem to offer a once-in-a-lifetime prospect of overturning the existing political order.

c) **Public education on fuel subsidies needs to be a long-term effort.** There has been no realistic public debate about the merits or otherwise of subsidizing fuel in Sudan, in part because subsidization in general continues to be a key plank of government policy. As a result, the efforts to convince the public of the merits of each cut begin in earnest only a few weeks in advance, and focus on the pressing economic crisis rather than the advantages of more fundamental reforms. The result has been a very low level of public understanding of the relevant issues, and a lack of support from a public that perceives the government to be cutting subsidies on fuel while continuing to spend lavishly on its own operations and on the military.

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