

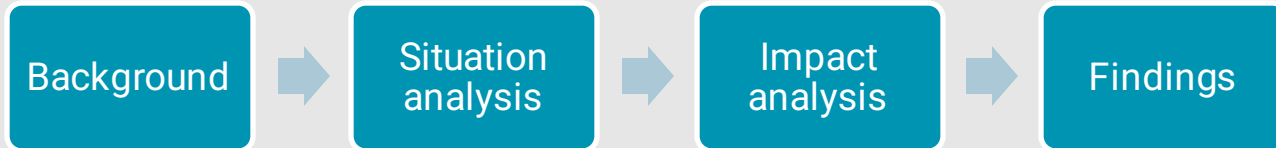
Beneath the Surface: Exploring the Economic Dynamics of Sudan's Crisis for Humanitarians

Objective

This report provides NRC Sudan with a diagnostic of the current macroeconomic challenges in Sudan, the state of the financial system, and an analysis of the key risks that these problems pose for humanitarian programming and operations.

Structure

- [Background](#) – foundational knowledge about Sudan that one needs to understand the subsequent analysis.
- [Situation Analysis](#) - unpacks the economic situation in Sudan from the perspective of money circulation at the macro, meso and micro-economic levels.
- [Impact Analysis](#) - how the identified challenges and opportunities will affect humanitarians in their programming and in their operations.
- All of which comes together to inform the final findings presented in this report.





Beneath the Surface: Exploring the Economic Dynamics of Sudan's Crisis for humanitarians

Here you'll find a diagnostic of the current macroeconomic problems in Sudan (esp. in terms of liquidity and exchange rates); and an analysis of the key challenges and risks that these problems pose for humanitarian operations.

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[A central digital hub](#) has been developed to make it easier for all stakeholders, and in particular externals to NRC, to access the depth of materials

Methodology

- Comprehensive secondary data review of 200+ resources
- 15+ specialized key informant interviews
- Expert judgement of the authors & reviewers.

Developed in September & October 2023 by a multidisciplinary team, with the support of a Reference Group composed of NRC staff.

Analysis - diagnostic

Diagnostic of the current situation is that, as long as things continue in their current trajectory, humanitarians will be operating within a weak but partially functioning formal financial system within a largely informal economy.

The focus should be on adapting to high, and possibly fast inflation. Depreciation, driven by nominal inflation, and multiple exchange rates will increase the complexity of operating in Sudan. Liquidity challenges in both SDG and USD that are stemming from both temporary and longer-term sources will have to be managed accordingly.

Analysis - prognostic

The **prognostic** is that things could get (a lot) worse in the short and medium term, and that humanitarians should prepare for highly likely devaluations (though those who have low impact for them). The situation is also somewhat likely to devolve into spirals of fast inflation and depreciation, if the authorities do not exercise some measure of restraint in their use of monetary and fiscal policy.

A scenario of true hyperinflation, with a generalised collapse of the formal financial system, is considered possible given the loss of confidence in the economy. Finally, the dollarization of the economy is considered not likely at this point, as there are no signs of it yet, but it is not entirely impossible.

Findings

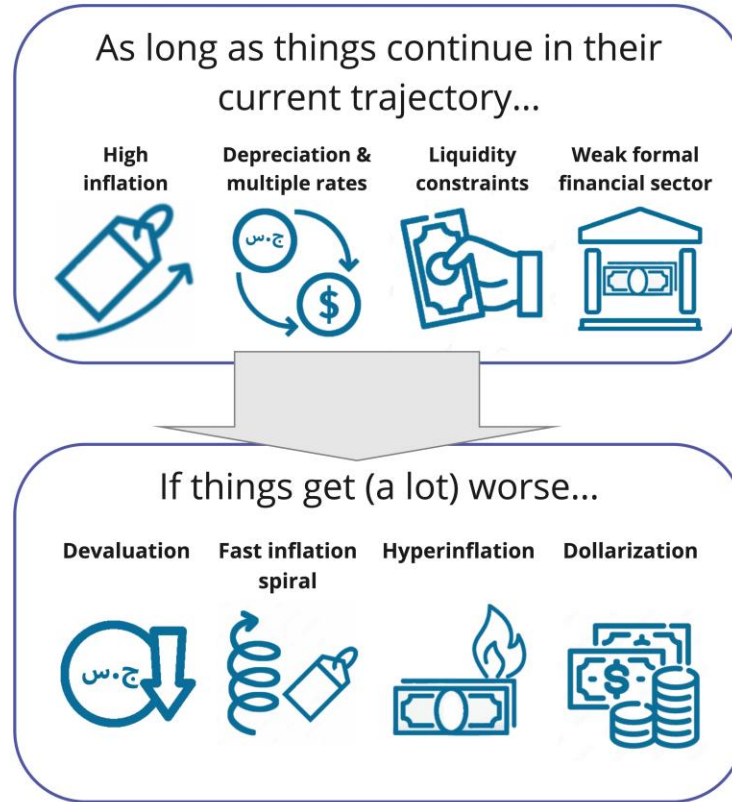
The findings are organised into two groupings relevant for humanitarians supporting Sudan.

There are eight economic risks, each containing 1-5 specific actions (24 recommendations/preparedness actions in total).

Legend: To guide staff in finding key points most relevant to them, different symbols are used for different types of recommendations:

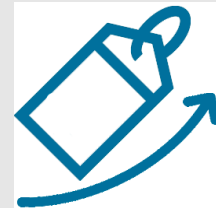
- Programmatic
- Operational
- Policy and advocacy
- Actionable by multiple teams

Recommendations that are specific to CVA (CVA) or related to market-based programming (MBS) are also indicated with dedicated symbols.



**As long as things continue in their
current trajectory...**

1. High inflation



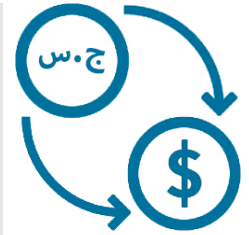
1.1. Ensure that inflation is forecasted in all calculations and documents: programmatic costs, budgets, BOQs, contracts, etc


1.2 Use SMEB data to forecast and monitor inflation

1.3 Consider adjusting your targeting approach to give bigger weight to socio-economic considerations. Also plan on adjusting your targeting approach over time

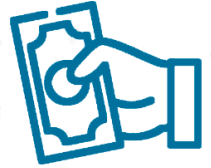
1.4 Use a cash first approach and adjust the design of your cash component to account for inflation



2. Depreciation and multiple rates



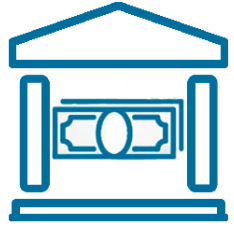
- 2.1 Limit liquidities and outstanding balance on local accounts & work from bank accounts in foreign currency
- 2.2 Peg all values and calculations in USD (in contracts, budgets, programmatic payments)
- 2.3 Anticipate commitment & disbursement deadlines
- 2.4 Leverage your capacity to absorb (nominal) inflation in contract negotiation with local suppliers and partners to obtain better terms
- 2.5 Use a cash plus approach and CVA best practices that clarify value of the transfer and facilitate the tracking & reconciliation processes 

3. Liquidity constraints



- 3.1 Increase the level of communication with your existing FSPs and adjust your procedures to account for their new constraints and capacities
- 3.2 Make many framework agreements for as diverse a set of delivery mechanisms and with as many different partners as possible
- 3.3 Conduct a broad stakeholder analysis to identify actors that could be a potential source of liquidities for you
- 3.4 Monitor the quality and availability of specific currency denominations, adjust transfer sizes accordingly, and consider mixing currencies if appropriate 
- 3.5 Consider available options for broader supply-side support to help key local stakeholders deal and recover faster from the impact of liquidity constraints 

4. Weak formal financial sector




- 4.1 Consider embedding across all of your programming elements of financial inclusion targeted at households and at businesses
- 4.2 Support a broadening of the use of informal financial service providers by the aid community in Sudan for both operational and programmatic payments
- 4.3 Safe & Inclusive Programming (SIP) Pay extra attention to changes in local dynamics in terms of threats, vulnerabilities, and capacities as well as to the use of specific negative coping strategies

If things get (a lot) worse...

5. Devaluation



5.1 Review any contractual payments or programmatic value that is still defined in local currency and ensure that your holdings in local currency are liquidated before the devaluation takes effect

5.2 Update your understanding of key elements of the structure of the economy with regard to external trade and consider additional support to import-dependent segments of the population 

6. Fast inflation / depreciation spiral

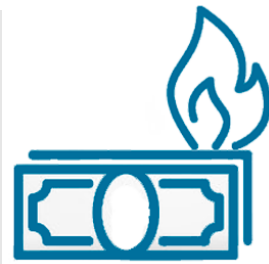


6.1 Check whether contracts and 'invisible' payments can be set in foreign currencies in order to limit your exposure to underspent budgets

6.2 Adjust the scope of your programming as well as you're targeting and your delivery to the expected increase in levels & severity of needs


6.3 Encourage the international community to advocate with the authorities for the pursuit of the efforts initiated in 2019 to strengthen and advance the financial system

7. Hyperinflation



7.1 Review your implementation and operational models

7.2 Activate dormant delivery mechanisms and favour digital exchange mechanisms

7.3 Consider shifting the nature and modalities of your programming 

7.4 Seek additional flexibility in funding, be selective with donors, and cautious with programmatic commitments

8. Dollarization



8.1 Consider switching to using USD in all operational payments and carefully discuss the appropriateness of switching to USD for programmatic payments

9. Systemic impact for the humanitarian community in Sudan

1. Embrace and support the informal financial sector
2. Leverage financial inclusion (both informal and formal) as a way to speed up economic recovery of both households and the financial system as a whole
3. Consider systematic supply-side support and market-based programming for critical sectors in complement to more traditional demand-side interventions

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- Special thanks to Rachid Moujaes, for commissioning and framing the scope of work and inclusively chairing the Reference Group.

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