

## Navigating Sudanese Economy in the Transitional Period: Sudan's Path to Debt Relief

**Author Details: Farouck Hussin (Kambareesi)\*<sup>1</sup>**

Senior Economist | Macroeconomic Policy Management | Digital Economy

E-mail: fmh2117@columbia.edu

### **Abstract**

*Sudan's external debt stock amounted at US\$ 54.6 billion in 2019, of which 85 percent was in arrears. Sudan continues to be in debt distress, and is eligible for debt relief under the HIPC Initiative. The paper aimed to identify the path of debt relief taking into account the inclusion of Sudan in the state sponsors of terrorism list (SSTL) by the United States constitutes as one of the obstacles to potential debt relief. The Paper shed light on the seriousness of the external debt burden and its direct impact on Sudanese economy, this impact has been exacerbated by Sudan's large arrears, which have hindered access to many traditional avenues of external financing support to meet the developmental needs for the Transitional Government.*

*The paper uses the descriptive analytical approach and seeks to explore the potential options for the Transitional Government to make progress on the main building blocks for reaching the HIPC decision point. In order to successfully receive HIPC debt relief, the paper recommends that the Transitional Government should intensify outreach to international partners to secure debt relief, normalize relations with international financial institutions, and continue discussions with the U.S. government on the de-listing Sudan from the SSTL.*

*The Paper also recommends full implementation of macroeconomic reform, which will address the main sources of imbalances and boost inclusive growth, in order to help the Transitional Government to establish with the IMF an adequate track record of strong policy performance in the period leading up to the HIPC Decision Point.*

**Key Words:** *External Debt, Debt Relief, HIPC decision point, Economic Reform, debt sustainability analysis.*

### **Acronyms and Abbreviations**

AfDB	African Development Bank
CBOS	Central Bank of Sudan
CPA	Comprehensive Peace Agreement
DSA	Debt Sustainability Analyses
EU	European Union
FFC	Forces for Freedom and Change
GOSS	Government of South Sudan
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
IDA	the International Development Association
IFIs	International Financial Institutions
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Stagey Paper
LDC	Least Developed Country
MOFEP	Ministry of Finance and Economic Planning
MCPs	multiple currency practices
NHBPS	National Household Budget and Poverty Survey
SMP	Staff-monitored Program
SSTL	State Sponsors of Terrorism List
SEDRACS	Sudan External Debt Relief and Arrears
TSA	Treasury Single Account

QUBI                      Quasi- Universal Basic Income

### **I. Introduction**

<sup>1</sup> The views expressed in this paper are those of the author and do not necessarily represent the views of the Central Bank of Oman (CBO).

1. Sudan is a highly indebted country that has accumulated sizable arrears. Sudan external debt stock amounted at US\$ 54.6 billion, external debt rising from 176 percent of GDP in 2018 due to 193 percent of GDP in 2019 due to large currency depreciation. About 85 percent of the external debt was in arrears in 2019. Bilateral debt dominated the portfolio accounting for an average of about 75.6 percent of total debt, roughly equally divided between Paris Club and non-Paris Club, followed by commercial banks (14.4 percent) and multilateral an average of (10 percent). Resolving the unsustainable debt burden is critical to Transitional Government to developmental efforts.
2. Sudan continues to be assessed in debt distress. Sudan's public debt and external debt ratios remain at high levels (211.7 percent and 193 percent of GDP, respectively). In line with the results of past Debt Sustainability Analysis (DSA), Sudan's debt is unsustainable. All external debt ratios, except for the debt service-to-revenue ratio indicating that Sudan is under debt stress. The DSA showed deterioration in all indicators following the significant decline in GDP, exports, and also government revenue.
3. Sudan's economy has never fully adjusted to the secession of South Sudan since July 2011, which resulted in a sharp decline in its oil exports and fiscal revenues. Sudan lost 75 percent of oil production, 66 percent of exports, and 50 percent of fiscal revenues. According to the said heavy macroeconomic shock, the transitional government is facing one of the most challenging environments in the world. The country faces macroeconomic crisis, rampant inflation, massive currency devaluation, rapidly increasing arrears on international debt. The fiscal deficit has deteriorated (10.8% in 2019, and may be more than 20% in 2020) b/C of ballooning fuel subsidies (account for 79 percent of total subsidies), and weak revenue mobilization (COVID-19 has reduced revenues by 40%). The deficits were financed mainly by monetization, generating substantial inflation (136% in June 2020), and parallel exchange rate depreciation (The parallel market exchange rate depreciated from SDG85/\$ in December 2019 to SDG 150/\$ in June 2020).
4. Sudan is eligible for debt relief under the HIPC<sup>2</sup> initiative, but has not yet benefited from the initiative. The normalization of relations with external creditors, including multilateral institutions and bilateral creditors, is a key pillar of the requirements for debt relief, requiring efforts in specific areas for each class of creditor. As of now, Sudan has met almost all technical requirements to access HIPC's debt relieve initiative, including the implementation of 15 Staff- Monitored Program (SMP) over the period 1997-2020, satisfactory development an Interim Poverty Reduction Strategy Paper (I-PRSP), and signature of peace agreements between the Transitional Government with the Armed movement in October 2020. Despite the said efforts there no prospect for reaching the decision point and qualify for HIPC debt relief.
5. Sudan remains on the State Sponsors of Terrorism List (SSTL) since August 1993, which hinders external investments, and currently block progress toward much-needed debt relief and the clearance of large arrears to the International Monetary Fund (IMF) and other International Financial Institutions (IFIs). The arrears also block access to new financing from the IFIs. In this connection, the Sudanese authorities have conducted negotiations with the U.S. government to remove Sudan from the SSTL, the latest discussions were held in Abu Dhabi in September 2020.
6. Sudan has had 14 Staff-Monitored Programs (SMPs), with no immediate prospect of debt relief, the authorities have fully agreed in June 2020 to engage with the IMF in new SMP in order to establish with the IMF an adequate track record of strong policy performance in the period leading up to the Decision Point, and also as corner stone in the Transitional Government agenda for the comprehensive economic reform. Therefore, the intensive discussions with the U.S. government on the removal of Sudan from the SSTL is critical to enabling the Transitional Government to meet the requirements for reaching the decision point and qualify for HIPC debt relief.

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<sup>2</sup> In 1996, the IMF and the WBG launched the Heavily Indebted Poor Countries (HIPC) to reduce the debt burdens of poor countries and to ensure that no country faces an unmanageable debt burden

7. According to the latest SMP government will pursue home-grown program of reforms aimed at stabilizing the economy, improving competitiveness, and strengthening governance. Meanwhile, The Executive Board of the IMF endorsed the Staff-Monitored Program (SMP) approved by the Managing Director on September 9, 2020 as meeting the Upper Credit Tranche Conditionality (UCT) standard.

8. According to the IMF<sup>3</sup>, Sudan's external debt is high and with longstanding arrears, which severely limit access to external borrowing. In particular, Sudan remains unable to access IMF resources because of its continued arrears to the Fund. A strong track record of macroeconomic performance and implementation of reforms, together with a comprehensive strategy of arrears clearance and debt relief supported by Sudan's development partners, is required for addressing Sudan's high debt overhang.

9. While Sudan's path debt relief is not immediately in sight, it would be important for the Transitional Government to make progress on the main building blocks necessary for reaching the HIPC decision point. These include pursuing home-grown program of economic reform under SMP, completing the Household Budget Survey and the I-PRSP, consult with the multilateral institutions, including the IMF, WBG, and AfDB on modalities for eliminating arrears with those institutions, engagement with the major external creditors, donors, and institutions critical for successful debt relief, and most importantly moving forward in the negotiations and discussions with the U.S. government on the de-listing Sudan from the SSTL.

## II. Sudan Macroeconomic Developments

10. The transitional government is facing one of the most challenging environments in the world. The country faces macroeconomic crisis: rampant inflation, massive currency devaluation, rapidly increasing arrears on international debt. Sudan remains on the SSTL, limiting the country's access to concessional finance. Modest economic growth persists, and the country is marked by deep poverty and inequality.

11. Economic performance has deteriorated in 2020. The economy contracted by 2.5 percent in 2019 after contracting by 2.2 percent in 2018 and is expected to slow sharply in 2020 due to the COVID-19 Pandemic. The fiscal deficit continued to widen in recent years, to 10.8 percent in 2019 and expected to rise sharply in 2020 to 13.5 percent of GDP, driven by ballooning fuel subsidies (account for 79 percent of total subsidies), and weak revenue mobilization (COVID-19 has reduced Government revenues by 40% in the second quarter of 2020). The deficits were financed mainly by monetization, generating substantial inflation and exchange rate depreciation. The parallel market exchange rate depreciated from SDG85/\$ in December 2019 to SDG 250/\$ in September 2020. Loose policy settings are fueling inflationary pressures, Inflation stood at 166.8 percent in August 2020. The external current account deficit (cash basis) stood at 7.8 percent of GDP in 2019, mainly due to a widening trade deficit. At the same time, gross usable international reserves reached a very low level of 190 million at end-2019. The banking sector remains fragile with several banks undercapitalized.

**Table 1: Sudan Selected Economic Indicators, 2015-2020**

	2015	2016	2017	2018	2019	2020*
<b>GDP growth</b>	3.7	3.5	0.7	-2.3	-2.5	-8.0
<b>Inflation (end of Period)</b>	15.5	30.5	25.2	72.9	60.2	101.0
<b>Public Finance (in percent of GDP)</b>						
<b>Total government revenue</b>	12.0	8.3	7.2	8.9	7.8	6.4
<b>o/w Tax revenue</b>	6.6	6.8	5.5	6.7	5.4	4.9
<b>O/w Grants</b>	0.7	0.2	0.2	0.2	0.5	4.6
<b>Government expenditure and net lending</b>	13.3	10.3	13.7	16.7	18.7	19.1
<b>Current Expenditure</b>	10.5	9.3	13.0	16.2	18.5	17.4
<b>o/w Wage and Salaries</b>	3.5	3.5	3.7	2.4	2.9	3.9
<b>o/w Interest</b>		0.5	0.5	0.2	0.2	0.3
<b>Capital Expenditure</b>	1.2	1.0	0.6	0.5	0.1	1.7
<b>Net Lending</b>						

<sup>3</sup> IMF. September 2020. Sudan Press Brief on SMP. IMF, Washington D.C

Primary fiscal balance, incl. grants	-1.1	-1.1	-6.0	-7.6	-10.6	-14.7
Overall Fiscal balance, incl. grants	-1.2	-1.6	-6.5	-7.9	-10.8	-15.0
Current account balance (in percent of GDP)	-6.3	-6.1	-7.2	-8.7	-7.8	-9.2

Source: IMF Article IV Consultation Report 2016 and 2019- Sudan, Ministry of Finance and Economic Planning (MOFEP).

### III. External Debts, Sudan's External Debt Position, Structure of Debt

12. The magnitude of the total external debts and the corresponding debt indicators of the Sudan increased rapidly in the 80s and 90s, until it reached US\$ 54.6 billion, or 193% percent of GDP at end of 2019. The majority of the debt came from official sources, namely multilateral and bilateral creditors.

13. Sudan is highly indebted country. Sudan external debt amounted at US\$ 54.6 billion, of which 85 percent was in arrears in 2019. The bulk of Sudan's external debt shows the vast majority of loans owed to bilateral creditors and roughly equally divided between Paris Club (\$20.5 billion) and non-Paris Club (\$20.8 billion). Multilateral organizations such as the International Development Association (IDA), IMF, AfDB, and Arab Fund for Economic and Social Development (\$5.5 billion) in 2019, and about \$7.8 billion is private debt owed commercial banks and suppliers. The major six top Paris club bilateral creditors include are Austria, France, Italy, United Kingdom, United States of America, Germany. While the major two top non- Paris creditors include Kuwait, Saudi Arabia, and China.

14. The external debt portfolio of Sudan is characterized by the increasing share of arrears which representing 85% of the total debt. Government debt represents the biggest share of the total Sudan external debt followed by Central Bank of Sudan and public corporation.

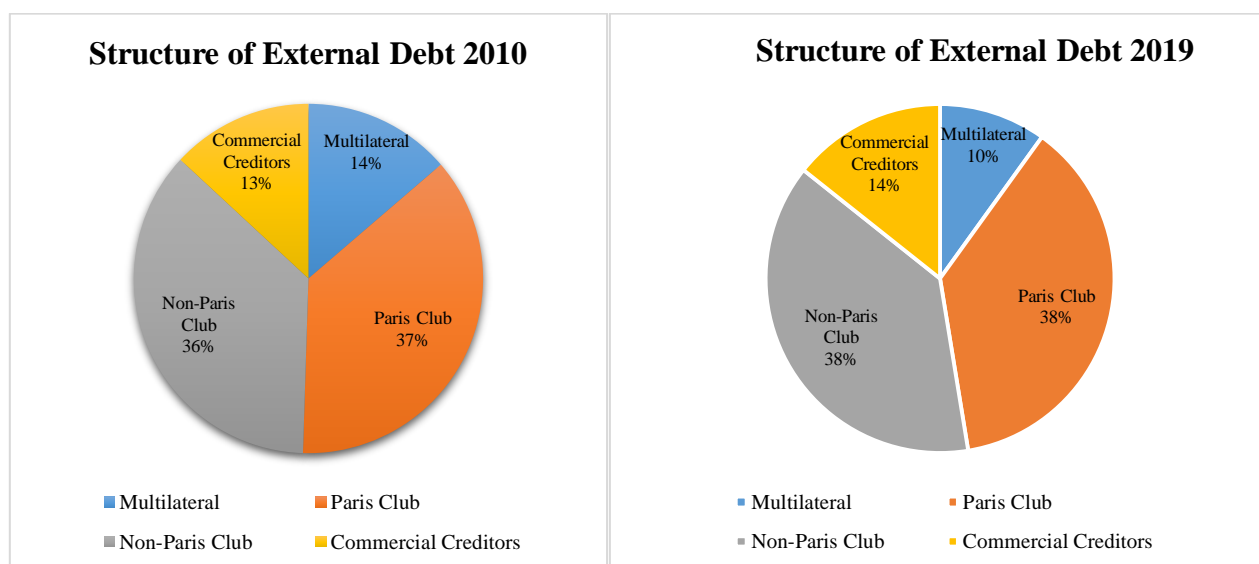
15. It is also important to note that most of the loans were directed to the agricultural sector, as the main sector in the economy, its share in the debt portfolio is 54.4 percent on average, followed by the service sector, which accounted to an average to 29.4 percent. The share of debt accumulated from concessional loans represents 24 percent of the total debt at the end of 2019; while the debt accumulated due to non-concessional loans still comprise a big share of the borrowing portfolio representing 76 percent.

**Table 2: Sudan's External Debt Stock as at end 2010 and 2019 (in millions of US\$)**

Creditor	2010 Nominal (Including Arrears)	In Percent of Total Debt Outstanding	2015 Nominal (Including Arrears)	In Percent of Total Debt Outstanding	2019 Nominal (Including Arrears)	In Percent of Total Debt Outstanding
<b>Total</b>	37,927	100	48,285	100	54,560.09	100
<b>Multilateral</b>	5,200	13.7	5,528	11.4	5,467.50	10.0
<b>Bilateral</b>	27,754	73.3	36,193	75	41,258.60	75.6
<b>Paris Club</b>	13,964	36.8	17,633	36.5	20,550.10	37.7
<b>Non-Paris Club</b>	13,790	36.4	18,560	38.4	20,708.50	38.5
<b>Commercial Creditors</b>	4,974	13.1	6,564	13.6	7,833.90	14.4

Source: IMF Article IV Consultation Report 2016 and 2019- Sudan Reports

16. The structure of external debt has been stable over the last decade (Figures 1 and 2) reflecting continued limited access to international partners to tackle to the problem of its external debt in order to pave the way for macrocosmic stability. Bilateral creditors had the biggest Share of Sudan's external debt, which represents around 76 percent, of which Non Paris club represents 38.5 percent and Paris Club 37.7 percent. The Multilateral 10 percent, while 11.4 percent goes for Commercial banks.



Source: IMF Article IV Consultation Report 2016 and 2019- Sudan Reports

17. As the IMF and IDA have jointly in their DSA for Sudan’s as of December 2019, external debt remains in distress and unsustainable (Table 3). An update to the DSA framework and discussed with the authorities indicates that all debt ratios exceed their indicative policy-dependent thresholds with net Present Value of Debt to GDP 163.4 percent (compared to a threshold of 30 percent). While debt service to export 28 percent (compared to a threshold of 15 percent). All external debt ratios, except for the debt service-to-revenue ratio indicating that Sudan is under debt stress. The DSA showed deterioration in all indicators following the significant decline in GDP, exports, and also government revenue.

**Table 3: Summary of Sudan’s Debt Burden Threshold**

Item	2019	Indicative Threshold
Present Value of Debt-to-GDP	163.4	30
Present Value of Debt-to-Exports	1193.3	100
Present Value of Debt-to-Revenues	2718	200
Debt Service-to-Exports	28	15
Debt Service-to-Revenues	17.7	18

Source: Joint WBG- IMF Debt Sustainability Analysis- March 2020 - IMF Article IV Consultation Report 2016 and 2019- Sudan

#### IV. Why Debt relief?

18. Sudan is seeking a resolution to the problem of its external debt, in this context, Sudan has exerted many efforts to address its economic and political problems and seek debt relief from the international community.

- Sudan qualifies for Debt Relief. The principal rationale for debt relief for Sudan is that it qualifies for debt relief under the criteria that have been established under the Heavily Indebted Poor Countries (“HIPC”) Initiative of the IMF and WBG. According to the most recent official estimates of poverty based on the 2014/15 National Household Budget and Poverty Survey (NHBPS), 36.1 percent of Sudanese population (or 13.4 million people) are poor. However, the overall/national poverty rates mask wide disparities across Sudan’s 18 states.
- The simple answer is for development: The Sudan, as explained earlier, is unique of being Least Developed Country (LDC) just emerged from prolonged conflict and presently experiencing multiplicity of challenges among them, in addition to huge unsustainable debt, conflict and insecurity, severe economic pressure resulting from loss of oil resources.
- Forcing Sudan to resorting to non-concessional borrowing will aggravate debt burden: to deliver on development programmes, the Transitional Government resorted to accrue more debt through non-concessional terms, which has further exacerbated the debt burden.

- Geopolitical and Strategic Considerations. Sudan has assisted the United States in fighting terrorism by according to the successive reports of the State Department. Sudan seeks a cooperative and mutually beneficial relationship with the United States to consolidate peace and prosperity.
- Loss of concessional assistance and development opportunities: Sudan lost several billions of dollars of concessional loans needed for infrastructure, basic services such as health, education, and food security. At very conservative estimates, the Central Bank of Sudan (CBOS) estimated around 10 billion dollars of lost concessional loans that could be used for basic infrastructure and social services, in addition to over a billion dollar loss due to reliance on commercial borrowing. External and internal borrowing increased as a result of hindered concessional loans.

## **V. Path to Debt relief Efforts to restore stability, engage with creditors, and adopt a poverty reduction strategy**

### **A. Painful, but necessary policy reforms**

19. The Transitional Government has implemented a number of painful, but necessary packages for economic adjustment and actions. These reforms aim to improve the country's economic and financial conditions that deteriorated for more than three decades, and in the aftermath of the former president ouster, and his National Congress Party (NCP) regime on April 11<sup>th</sup> 2019. The main objectives of these reform packages is to restoring macroeconomic stability, improving the business-enabling environment, and providing social protection for the most vulnerable as the economy transitions to a higher growth path. It is worth noting that, regime change has created space for the authorities to pursue major reforms. These reforms have focused on the following areas:

- Regulatory Environment: The Transitional Government has to enact the right laws and regulations to contain the mounting challenges of the presence of shadow/informal economy in Sudan by filling existing gaps in the laws and regulations by developing a regulatory framework for dismantling the heavy legacy of the former regime, curbing corruption, and enhancing governance.
- Fiscal consolidation through revenue mobilization and streamlined current spending, including a gradual phase-out of fuel subsidies accompanied by increased public investment; while improving social safety nets/ Quasi universal Basic income (QUBI) with better targeting of social assistance to the most vulnerable, and systematic monitoring and evaluation of the social safety net system.
- Tax policies and revenue mobilization with a view to enhance non-oil revenues, including strengthening Value Added Tax (VAT) collections and the streamlining and reductions in tax exemptions along with digitization of the whole processes of revenue collection and taxation. The transitional government applied partial liberalization of fuel subsidies in its pursuit to reduce budget deficit and enforce fiscal consolidation. These measures have been accompanied by widening the coverage and expenditures on social spending to mitigate any negative effects on the poor.
- Public financial management focusing on budget execution including Treasury Single Account (TSA) for financial controls, implementing effective cash management and fiscal reporting, transparency of budget operations and improvements in budget classification. Public financial management has been improved significantly following the introduction of the TSA and a newly integrated financial management system.
- Tightened monetary policy that helped reducing inflation rates. There is a need for changing the conventional thinking in the wake of December 2019 revolution, especially the role of monetary policy “curbing inflation and achieving price stability” to be, instead, more pro-employment to ensure inclusive and sustainable economic growth. Monetary policy should be tightened to contain rising inflation. The key to monetary tightening is eliminating deficit monetization. The CBOS should urgently develop effective monetary instruments with which they could raise market rates of return to appropriate levels.
- The exchange regime full exchange rate liberalization would substantially increase fiscal revenues. Moreover, exchange rate liberalization is critical for restoring macro stability and strengthening

investment and growth. It would bolster competitiveness and transparency, eliminate the multiple currency practices (MCPs) and associated distortions.

- CBOS Independence is crucial: Fiscal dominance has weakened CBOS independence and the credibility of monetary policy, increasing inflationary expectations, and has facilitated the use of multiple exchange rates.
- Reforms of the regulatory environment and incentives for private sector development including the amendment of the Investment Encouragement Act to promote domestic and foreign investments in agriculture, industry and services. Some reforms of the regulatory environment for private sector development were undertaken, including the withdrawal of the government from some sectors of economic activity, adoption of an investment act to promote private investments, removing structural impediments, investing in infrastructure, enhancing saving mobilization and leaving more space for the private sector to participate in the economy.
- Payment Systems Development: CBOS plays a pivotal role in maintaining the safety and integrity of the payment systems. CBOS provides the solid foundation by acting as guardians of the stability of money and payments. The Covid-19 pandemic has confirmed the importance of CBOS in payments, i.e. Mobile Payments help the General Public as an Effective cash transfer mechanism. Mobile money is as an effective and physical-distancing-friendly option to deliver cash transfers in large scale, given that ownership and use of mobile phones in Sudan is very high.
- The Digital Transformation of financial sector is key: The digitalization of financial services will improve and expand provision of financial services. Moreover, the introduction of Innovative Technologies for banking regulation & supervision such as Supervisory Technology (Suptech) reinforces the case for further improving risk management at Sudanese banks.
- In the context, Ministry of Finance & Ministry of Labor and Social Development are leveraging mobile payments to provide Social assistance and cash transfers (QUBI) to targeted segments. Mobile money can therefore help rural Targeted families gain access to government transfer programs without traveling long distances or waiting in lines, or even having a bank account.
- Coordination between CBOS and Ministry of Finance and Economic Planning (MOFEP) to ensure greater harmonization of monetary and fiscal policy to achieve the desired impact on the real productive sector, it should also promote long-term growth, poverty reduction, improve income distribution, financial inclusion, unemployment, education, health care, smart reform of subsidy, high quality infrastructure, and accelerating structural transformation.

20. These reforms helped Sudan to continue its economic recovery and build the foundation for a broad-based diversified economy. Remarkable progress has been made towards restoring macroeconomic stability, containing fiscal deficit, reducing inflation and promoting economic growth.

## **B. Interim Poverty Reduction Strategy (I-PRSP) document**

21. Sudan has developed an Interim Poverty Reduction Strategy Paper (I-PRSP). Sudan's I-PRSP was assessed by the staffs of the IMF and the World Bank and was tabled/discussed by both Boards in September 2013. More over Sudan implemented the I-PRSP and The Government in collaboration with the donors decided to assess the status of implementation of the IPRSP (2012-2014) to cover achievements and obstacles towards full-fledged poverty reduction and draw lessons learned to inform the drafting of I- PRSP.

22. The status report proved that Maintaining government pro-poor spending, hovering around 5 percent of GDP (or nearly half of total public expenditures) is a significant achievement given the other adverse conditions facing the government namely sanctions, external debts, low level external financing and loss of 90% of exports and 55% of revenues as a result of the secession of South Sudan. Comparison with African countries that reached HIPC decision point shows the average for poverty reducing expenditures is 9 percent of GDP with wide variation, for example, Ethiopia (15 percent of GDP, Uganda (10 percent of GDP), Mozambique (16 percent of GDP) while Chad, Zambia and Sierra Leone have much lower ratios than the HIPC average (about 5 percent of GDP). Unlike Sudan, a substantial financial assistance was behind these figures for the abovementioned HIPCs countries.

### C. Sudan efforts for HIPC's

23. According to the IMF Sudan is eligible for debt relief under the HIPC initiative, but has not yet met all the qualifications. Importantly, it still needs to obtain assurances from bilateral official and commercial creditors that they are willing to consider providing debt relief. As of now, Sudan meets the following conditions for the HIPC initiative.

- Sudan faces an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms; and it has developed an Interim Poverty Reduction Strategy (I-PRSP) document. Sudan's I-PRSP was assessed by the staffs of the IMF and the World Bank and was discussed by both Boards in September 2013. Sudan is currently developing a full PRSP.

To reach the Decision Point, Sudan would still need to undertake the following:

- Obtain assurances of support for HIPC debt relief from a large majority of creditors representing at least 70 percent of HIPC-eligible debt.
- Establish with the IMF an adequate track record of strong policy performance in the period leading up to the Decision Point, under an SMP judged by the Executive Board to meet the policy standards associated with upper-credit tranche arrangements; and
- Clear its arrears with the IMF, and have a fully financed plan and a timetable to clear arrears with the World Bank and the African Development Bank to restore its eligibility to borrow from these sources.

24. The resources required for the IMF's participation in the HIPC Initiative have not yet been identified. As the costs to the IMF for providing debt relief to Sudan were not included in the original costing estimates for the HIPC initiative, additional financing will need to be secured when Sudan is ready to clear its arrears and embark on the HIPC initiative.

### D. Sudan Prospects for debt relief

25. Sudan is eligible for debt relief under the HIPC initiative, but has not yet benefited from the initiative. The normalization of relations with external creditors, including multilateral institutions and bilateral creditors, is a key pillar of the requirements for debt relief, requiring efforts in specific areas for each class of creditor. As of now, Sudan has met almost all technical requirements to access HIPC debt relieve initiative, including the following requirements. Sudan is eligible for debt relief and had made sufficient efforts to satisfy the requirements of HIPC Initiative criterion (Table 4).

**Table 4: The HIPC Initiative qualification requirements: Sudan Status**

The Eligibility Criteria	Sudan Status
<p>– Face an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms</p> <p>– Debt burden indicators are above HIPC thresholds, as established in Bank/IMF DSA. NPV of debt-to-export ratio 100% and NPV of debt-to-Government revenues ratio 200%, while NPV debt-to-GDP ratio is 30%.</p>	<p>– Sudan is a HIPC country and preliminary calculation of debt sustainability indicators in 2019 indicates that it is still under debt stress and is eligible for HIPC relief.</p> <p>– NPV of debt-to-export ratio in 2019 was 1193.3% well above the respective threshold. As for the NPV of debt-to-revenues ratio it was 2718%. The NPV of debt-to-GDP in 2019 was 163.4%.</p>
<p>– Satisfactory performance under IMF- &amp; IDA-supported programs (SMP) to be eligible for reaching the decision point.</p>	<p>– Sudan has had 15 Staff Monitored Programs (SMPs) since 1997 up to 2020. These programs provided the authorities with comprehensive frameworks to design and implement policies and reforms to address economic challenges. They helped to stabilize the economy through tight fiscal and monetary policies and supported the modernization of tools to manage the economy, including through reforms in monetary policy operations, tax policy, and public financial management. These programs also facilitated the provision of technical assistance from others.</p>



– Satisfactory interim poverty reducing strategy in place (including I-PRSP).	– Sudan has prepared an Interim Poverty Reduction Strategy Paper (I-PRSP), which stresses the importance of social sector development in the poorer states and actually, it has been implemented for the last 3 years. Sudan is now in a process of evaluation of I-PRSP and preparation for a national (I- PRSP) with technical assistance and support from the AfDB, EU, and the World.
<b>Good Governance</b>	Transitional Government signed successive peace agreements with the Armed movement in September 2020. The political environment has improved with progress on the successful peace talks with remaining movements. Given that, achieving comprehensive peace agreement is the top priority for the Transitional Government since the Cabinet reshuffle in September 2019.
<b>SEDRACS</b>	Sudan designed an External Debt Relief and Arrears Clearance Strategy (SEDRACS) and updated in 2015 to serve as the framework document that will guide the outreach to the international community on external debt relief issues.

Source: CBOS, External Debt Unit

### **E. Major Challenge: Sudan remains on the state sponsors of terrorism list (SSTL)**

26. The unilateral economic sanctions imposed by US on Sudan have adversely affected Sudan’s access to debt relief and consequently access to concessional loans needed for infrastructure, basic services such as health, education, and food security. A major devastating development for the Sudanese economy as a result of the sanctions was the breakdown of the relations with correspondent foreign banks, this was a result of the prosecution by the U.S. of BNP Paribas in early 2014 for breaking U.S. sanction against Sudan and other countries under sanctions and was fined US\$8.9 billion by the U.S. authorities. This has led over compliance by correspondence banks with US sanctions against Sudan. As a result trade activity as a whole has been negatively affected, decelerating growth because exports and imports were dropped significantly, shortage of foreign exchange has worsened and led to large currency depreciation of the exchange rate, thereby fueling inflation and undermining macroeconomic stability. These adverse developments will impact the poor and the most vulnerable segments of the population and will most likely increase poverty rates in Sudan.

27. Despite the US removal of economic and commercial sanctions in October 2017, Sudan remains on SSTL since August 1993, which hinders external investments, progress toward HIPC debt relief. In this connection, the Sudanese authorities have conducted negotiations with the U.S. government to remove Sudan from the SSTL, the latest discussions were held in Abu Dhabi in September 2020.

28. It is worth noting that, removal from the SSTL is necessary for the elimination of statutory prohibitions on U.S. aid to Sudan, which currently block progress toward much-needed debt relief and the clearance of large arrears to the Fund and other International Financial Institutions (IFIs). The arrears also block access to new financing from the IFIs.

29. Sudan has had 14 Staff-Monitored Programs (SMPs), with no immediate prospect of debt relief, the authorities have fully agreed in June 2020 to engage with the IMF in new SMP in order to establish with the IMF an adequate track record of strong policy performance in the period leading up to the Decision Point, and also as corner stone in the Transitional Government agenda for the comprehensive economic reform. Therefore, the intensive discussions with the U.S. government on the removal of Sudan from the SSTL is critical to enabling the Transitional Government to meet the requirements for reaching the decision point and qualify for HIPC debt relief.

### **F. Engagement with Creditors**

30. Civilian- Led Government should intensify outreach to international partners to secure debt relief. In order to successfully receive HIPC debt relief, Sudan must reach out to its major creditors, normalizes

relations with international financial institutions. The government will consult with the multilateral institutions, including the IMF, WBG, and AfDB on modalities for eliminating arrears with those institutions, with a view to eventually seeking comprehensive debt relief through the HIPC process.

31. It is worth mentioning that Sudanese authorities met with Sudan's major creditors on the sidelines of the IMF/World Bank Annual Meetings in October 2015 at Lima, Peru for resolving the unsustainable debt burden and most importantly as part of the outreach program spelt out in the 'Zero Option' Agreement on debt apportionment between Sudan and South Sudan. Discussions were focused on debt relief for Sudan with respect to prospects for acquiring debt forgiveness; demands/expectations from Sudan by creditors to make this process achievable and the expected timeframe for debt relief to be considered and granted.

32. Sudan also undertook Roundtable on Sudan External Debt with Key IMF Executive Directors' and Donors on the margins of the IMF/ WBG annual meetings in October 2016 at Washington D.C. Sudan. The purpose of the meetings would be to garner the support of Sudan's major creditors for obtaining external debt forgiveness.

### **G. The Zero Option Agreement**

33. Under this initiative, the Republic of Sudan would bear the entire burden of the external debt provided that the donors and the international community provide full debt relief to Sudan before September 2016.

34. Following the secession of South Sudan in July 2016, the two countries agreed on the Zero option scenario. While Sudan and through the agreement, is supposed to shoulder the external debt, a joint outreach is supposed to be conducted by the two countries with the support of the African union.

35. The progress in this initiative remains very slow while the remaining time for the agreement October 2019 by another two years. Absent timely progress in debt relief, Sudan's external debt will need to be apportioned with South Sudan based on a formula to be determined which could undermine recent progress in peace building in the region.

## **VI. Conclusion and recommendations**

36. The support of the international community is critical to the success of Sudan's reform strategy and debt relief under the Enhanced HIPC Initiative, Sudan continues to cooperate with the IMF on economic policies, and limit borrowing on non-concessional terms as much as possible.

37. Transitional Government must reach out to its international partners to secure debt relief. This will entail: (i) reaching out to creditors with a view to seek a fast-track debt relief process; (ii) minimizing non-concessional borrowing; and (iii) strengthen cooperation with the IMF. The government will consult with the multilateral institutions, including the IMF, WBG, and AfDB on modalities for eliminating arrears with those institutions, with a view to eventually seeking comprehensive debt relief through the HIPC process.

38. Transitional Government should design comprehensive macroeconomic reform program, which will address the main sources of imbalances and boost inclusive growth, including strengthening domestic revenue mobilization, exchange rate reform, and phasing out of fuel subsidies, accompanied by an expansion of social safety nets to mitigate the impact of adjustment on vulnerable segments and measures to fight corruption.

39. Furthermore, stability in the exchange rate should be pursued and the depreciation of the Sudanese pound should be avoided by the government as the continuous depreciation of the national currency has been found to negatively impacts Sudan external debt stock, due to large currency depreciation external debt rising from 176 percent of GDP in 2018 to 193 percent of GDP in 2019.

40. Transitional Government should diversify the nation's export base so as to increase export earnings and promote industrialization in order to reduce import dependency, which if well managed together and in a consistent manner should lead to reduce the ratio of external debt to exports and stimulate further economic growth.

41. Transitional Government should intensify outreach to international partners to secure debt relief. In order to successfully receive HIPC debt relief, Sudan must reach out to its major creditors, normalizes relations with international financial institutions.

42. Transitional Government should continue discussions with the U.S. government on the de-listing Sudan from the SSTL. The role of the United States is crucial in the process of debt relief and without its support, not much could be done.

43. Transitional Government should exert more efforts in Preparation for a national (I- PRSP) to finalize a full poverty reduction strategy by end-December 2020.

## VII. The Way forward

44. While Sudan's path debt relief is not immediately in sight, it would be important for the Transitional Government to make progress on the main building blocks necessary for reaching the HIPC decision point. These include pursuing home-grown program of economic reform under SMP, completing the Household Budget Survey and the I-PRSP, consult with the multilateral institutions, including the IMF, WBG, and AfDB on modalities for eliminating arrears with those institutions, engagement with the major external creditors, donors, and institutions critical for successful debt relief, and most importantly moving forward in the negotiations and discussions with the U.S. government on the de-listing Sudan from the SSTL.

45. Seeking concessional borrowing and wide support for arrears clearance and debt relief. Ongoing outreach efforts with IFIs and other creditors will continue to secure a firm commitment from international creditors to provide comprehensive debt relief and the removal of economic sanctions. Normal relations with the IFIs would open up blocked sources of concessional financing to meet the sizable development needs for growth and poverty reduction, create new strategic economic policy options and enhance the economic prospects of Sudan.

46. Shifting resources and attention from conflicts to investing in sustainable broad-based development. New opportunities are emerging for Transitional Government to resolve internal conflict through the ongoing negotiated peace agreements with Armed Movements. A comprehensive roadmap for peace was signed with Revolutionary Front in Juba in October 2020. With the ongoing efforts for a lasting and comprehensive peace throughout the country, Sudan has its greatest opportunity in a generation to concentrate on improving the lives of Sudanese, consolidate, and sustain peace needed to build an economic foundation for a diversified, inclusive and sustainable development path. Support from the international development community, particularly drawing from the accumulated international experience on post-conflict recovery and peace building, will enhance the prospects for sustained peace and economic developments and debt relief.

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