

**EXECUTIVE
BOARD
MEETING**

EBS/21/60
Correction 1

June 25, 2021

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Sudan—Enhanced Heavily-Indebted Poor Countries Initiative—Decision Point Document**

Board Action: The attached corrections to EBS/21/60 (6/21/21) have been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Pages 2 and 28

Questions: Ms. Baker, MCD (ext. 34041)
Mr. Weller, MCD (ext. 39312)
Mr. Impavido, MCD (ext. 37121)

over 30 percent in 2014–2015, and the situation has subsequently likely deteriorated further. Starting from 2021, social spending will increase significantly thanks in part to the roll out of the Sudan Family Support Program. Sudan posts very poor human development indicators for its level of GDP. In the 2020 World Bank Human Capital Index (HCI) and the 2020 Human Development Index (HDI), Sudan ranked 160 out of 174, and 170 out of 189 countries, respectively. Lack of access to basic water and sanitation is a key contributor to the low HDI. More than 40 percent of the population still lacks access to safe drinking water, and more than 60 percent lacks basic sanitation.

Sudan urgently needs a comprehensive solution to its debt problem to access adequate financing for its development objectives and poverty reduction agenda.

According to the latest joint World Bank-IMF Debt Sustainability Analysis, Sudan is in public and external debt distress and its debt outlook is unsustainable without full delivery of HIPC, MDRI, and beyond-HIPC debt relief. Sudan’s external public and publicly guaranteed debt was estimated at US\$56.6 billion in nominal terms at end-December 2020. Most of this debt (about 91.7 percent) was in arrears, which severely limits access to regular financial support from multilateral and official bilateral creditors.

Sudan meets the requirements to reach the Decision Point under the HIPC Initiative.

A Debt Relief Analysis (DRA) shows that Sudan qualifies for debt relief under the HIPC Initiative’s “export window” based on end-2020 data. After full application of traditional debt relief mechanisms, the country’s NPV of external PPG debt is estimated at US\$30.9 billion at end-2020, equivalent to 610.7 percent of exports of goods and services. The amount of debt relief needed to bring Sudan’s NPV of debt-to-exports ratio down to the HIPC threshold of 150 percent is estimated at US\$23.3 billion in end-2020 NPV terms. This implies a common reduction factor of 75.4 percent. As of June 3, 2021, creditors representing around 72.6 percent of the NPV of eligible debt have committed to provide their share of debt relief under the HIPC Initiative.

Sudan has also fulfilled ~~the other~~ requirements to reach the Decision Point. Sudan has (i) adopted its Poverty Reduction Strategy Paper in May 2021; (ii) established a satisfactory track record under an IMF SMP- and IDA-supported programs; (iii) cleared its arrears to ~~the World Bank~~ IDA and the African Development Bank (AfDB), ~~the Arab Fund for Economic and Social Development (AFESD) and the Islamic Development Bank (IsDB)~~ and is set to clear its arrears to the IMF; and (iv) agreed on a set of appropriate Completion Point triggers with IDA and IMF staffs that promote stronger public financial and debt management, improved governance, improved social protection, and private sector-led growth.

On reaching Completion Point, Sudan would also qualify for debt relief under the Multilateral Debt Relief Initiative (MDRI) from IDA and the African Development Fund and beyond-HIPC assistance from the IMF. MDRI debt relief from IDA and AfDB would fully cancel Sudan’s debt owed to these two institutions disbursed before end-

45. Most of Sudan’s estimated external PPG debt (about 91.7 percent) was in arrears at end-December 2020, much of which corresponds to arrears on interest payments and penalties. Arrears on Sudan’s external PPG debt at end-December 2020 are estimated at US\$51.9 billion. This included arrears to IDA (US\$1.1 billion), the IMF (US\$1.4 billion) and the AfDB Group (AfDB, US\$0.4 billion). By end-2020 arrears had accumulated to all multilateral creditors with the exception of the International Fund for Agricultural Development (IFAD), and the Islamic Development Bank (IsDB).^{25,26} Arrears represent 52.3 percent of Sudan’s debt owed to multilateral creditors. Arrears were estimated to represent close to 95.8 percent of the debt owed to official bilateral creditors and 100 percent of the debt owed to commercial creditors.

C. Possible Assistance Under the HIPC Initiative

46. Sudan qualifies for debt relief under the HIPC Initiative’s “export window.” After full application of traditional debt relief mechanisms, Sudan’s NPV of external PPG debt at end-2020 is estimated at US\$30.9 billion. This represents 610.7 percent of the country’s exports of goods and services, significantly exceeding the 150 percent threshold set for this indicator in the context of the HIPC Initiative framework.

47. Reducing Sudan’s NPV of debt-to-exports ratio from 610.7 percent to the 150 percent threshold would require US\$23.3 billion of HIPC Initiative debt relief in end-December 2020 NPV terms (Table 4). This implies a common reduction factor of 75.4 percent. Based on proportional burden sharing, the amount of HIPC debt relief from multilateral, bilateral and commercial creditors is estimated at US\$4.6, US\$17.0 and US\$1.7 billion, respectively.

48. Status of creditor participation. ~~All~~ Most multilateral creditors have committed to provide their share of debt relief under the HIPC Initiative. In addition, Paris Club and some key non-Paris Club creditors have provided the necessary financing assurances. Overall, financing assurances from creditors accounting for around ~~72~~ 75 percent of the total HIPC Initiative assistance to Sudan have been obtained. Following the Decision Point approval, the Sudanese authorities will reach out to all external creditors and request the full provision of the expected HIPC Initiative debt relief on eligible debt.

²⁵ Islamic Development Bank rescheduled Sudan’s arrears in late 2020. In August 2020, Sudan made US\$ 5 million payment towards arrears clearance and the remaining amount of US\$118.5 million was agreed to be repaid over five years between 2021-2025.

²⁶ In addition, arrears to the Arab Fund for Economic and Social Development (AFESD) were rescheduled in 2019. The authorities repaid interest arrears on April 24, 2019 and principal payments in arrears were rescheduled. By end-2020, Sudan had accumulated US\$30.6 million in arrears to AFESD.