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To: Members of the Executive Board

From: The Secretary

Subject: **Sudan—Review of Overdue Financial Obligations to the Fund and Complaint with Respect to the Suspension of Voting Rights**

Board Action: Executive Directors' **consideration** (Formal)

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SUDAN

March 9, 2021

REVIEW OF OVERDUE FINANCIAL OBLIGATIONS TO THE FUND AND COMPLAINT WITH RESPECT TO THE SUSPENSION OF VOTING RIGHTS

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INTRODUCTION

- 1. Sudan has been in arrears to the Fund since 1984.** As of end-February 2021, arrears to the Fund totaled SDR 964.61 million (about US\$1,388.33 million). Remedial measures were applied to Sudan during 1984–2000, as summarized in Attachment III.
- 2. The Executive Board last reviewed Sudan’s overdue financial obligations (OFO) to the Fund on September 23, 2020 (Attachment I).**¹ The Board recognized the challenges faced by the transitional government, particularly the economic contraction exacerbated by the pandemic. The Board agreed that policies under the new Staff Monitored Program (SMP) meet the standards associated with upper credit tranche (UCT) arrangements. The Board considered the successful implementation of reforms under the SMP as a major step towards eventual HIPC debt relief and encouraged the authorities to continue to engage with international partners to secure comprehensive support for debt relief. On December 14, 2020, the US administration removed Sudan from the US State Sponsors of Terrorism List (SSTL) which will facilitate broader/wider support for debt relief to Sudan under HIPC, eliminating one of the key obstacles towards HIPC debt relief.

¹ See *Sudan—Review of Overdue Financial Obligations to the Fund and Complaint with Respect to the Suspension of Voting Rights* (EBS/20/140, 9/16/20), and Decision No. 16876-(20/94), adopted on September 23, 2020.

3. The Board encouraged the authorities to continue their cooperation with the Fund on policies and payments. Directors noted that the authorities' home-grown comprehensive reform package includes the removal of price distortions, revenue mobilization, increased social spending, and facilitating inclusive growth. They underscored the importance of sequencing exchange rate reform and developing the foreign exchange market. Directors acknowledged that the elimination of fuel subsidies and broadening of the tax base will allow higher social and health spending while reducing the deficit over the medium term.

4. Directors supported reforms to boost governance and institutions. They welcomed the planned anti-corruption law and independent anti-corruption commission, improved oversight of state-owned enterprises, and upgrade of the central bank law to strengthen its independence. They noted that bolstering public financial management, including revenue administration and data publication, would also strengthen governance, transparency, credibility and accountability, and encouraged continued efforts to address AML/CFT deficiencies.

5. In light of Sudan's reduced payment capacity, the Board noted the authorities' intention to reduce annual payments to the Fund. Given the negative impact of the pandemic which compounded Sudan's existing difficult economic circumstances, and the limited capacity to make payments to creditors, including to the Fund, the Board noted a reduction of Sudan's annual payments from US\$10 million to US\$2.5 million beginning in 2021. In addition, it encouraged the authorities to avoid selective debt service payments, minimize non-concessional debt, make regular payments to the Fund to cover at least the obligations falling due in a regular and timely manner, and increase them as Sudan's payment capacity improves.

6. This paper reviews the latest economic developments and assesses Sudan's capacity to repay the Fund since the last review in September 2020. This review will be discussed jointly with the first review under the SMP.² Staff's latest projections reflect a somewhat better-than-expected domestic economic outlook in 2021 than projected in the September SMP staff report. Moreover, Sudan implemented key reforms, including the recent exchange rate unification. However, Sudan's capacity to repay is assessed to be broadly unchanged, given that exports have continued to decline, and foreign currency reserves are at a historical minimum.³

7. In light of Sudan's continued cooperation on policies and payments, staff proposes no new remedial measures at this time.⁴ In line with the authorities' commitment at the last review, the authorities have made monthly payments to the Fund in January and February 2021 and committed to continue to make regular payments totaling US\$2.5 million per year, broadly equivalent to the obligations falling due until HIPC Decision Point is reached, and to increase them as their capacity to pay improves. Significant progress has also been made on reforms under the

² See *Sudan—First Review under the Staff-Monitored Program*, (EBS/21/15, 03/09/2021). The Board's engagement on the first review of the SMP will be limited to endorsing its continued UCT quality.

³ In 2020, Sudan transferred US\$335 million in agreed payments to victims of terrorist attacks reducing already very low reserves. On December 14, 2020 Sudan was removed from the US State Sponsors of Terrorism list (SSTL).

⁴ Under the Fund's policy on Overdue Financial Obligations, to avoid an escalation of sanctions, Sudan is expected to demonstrate cooperation with the Fund on both policies and payments.

SMP, including the recent exchange rate unification. Given these positive developments, staff proposes that no further remedial measures be taken at this time with respect to the Managing Director's complaint on the suspension of Sudan's voting and related rights in the Fund.

8. This review also includes an update on donor coordination activities, consistent with Management's Implementation Plan in Response to the Recommendations from the IEO Report on the IMF and Fragile States (October 4, 2018).⁵

ARREARS TO THE FUND

9. As of end-February 2021, Sudan's total arrears to the Fund were SDR 964.61 million (Table 1). Since the last review, principal arrears and overdue interest and charges remained broadly stable at SDR 202 million and SDR 763 million, respectively. Principal and interest arrears to the General Resources Account (GRA) account for 91.3 percent of Sudan's overdue obligations, and arrears to the Trust Fund for the remainder.

Type of obligation	Total amount overdue (on cash basis)	Date of the longest outstanding overdue obligation
Principal	201.89	
GRA repurchases	142.66	July 18, 1985
Trust Fund repayments	59.23	July 26, 1985
Interest and Charges	762.72	
GRA periodic charges	649.78	July 18, 1985
GRA special charges	88.26	May 28, 1986
Trust Fund interest	10.96	June 28, 1985
Trust Fund special charges	13.71	May 28, 1986
Total	964.61	

Source: Finance Department.
¹ The last principal repurchase was due on July 1, 1991.

10. Sudan has been making efforts to cooperate with the Fund on payments since the last review. (Table 2). The authorities made monthly payments of US\$210,000 on January 28 and

⁵ See *The IMF and Fragile States: Evaluation Report 2018* Statement by the Managing Director on the Independent Evaluation Office Report on the IMF and Fragile States Executive Board Meeting (BUFF/18/8, March 9, 2018), and *Implementation Plan in Response to the Board-Endorsed Recommendations for the IEO Evaluation Report—The IMF and Fragile States*, (September 28, 2018) which recommended that the Fund proactively engage with stakeholders to mobilize broad creditor support for fragile states with outstanding external arrears to official creditors.

February 24, 2021, each equivalent to one-twelfth of the annual payment of US\$2.5 million expected beginning 2021, as noted in the Board decision in September 2020.⁶

Table 2. Sudan: Payment Indicators, 2017-21
(in millions of SDRs; unless otherwise indicated; as of February 28, 2021)

	2017	2018	2019	2020	2021
Overdue obligations to the Fund	965.14	968.45	964.12	964.36	964.61
Obligations falling due	2.55	3.35	3.99	2.56	1.85
Payments to the Fund ¹	5.63	0.47	8.25	1.97	0.30
Settlement of Sudan's obligations to the SDR Department using its SDR holdings	0.24	0.47	0.56	0.17	0.01
Payments owing to distribution of SCA-1/deferred charges (SDR million)	-	-	-	1.80	-
Payments to the Fund (US\$ million)	7.81	0.66	11.40	2.74	0.44
Payments to the Fund as percent of:					
Overdue obligations to the Fund	0.58	0.05	0.86	0.20	0.03
Obligations falling due	221.29	13.97	206.72	77.01	16.41
Current account receipts	0.11	0.01	0.18	0.04	0.01
Current account receipts excl. oil ²	0.10	0.01	0.16	0.04	0.01
Gross reserves ³	4.04	0.37	5.99	1.23	0.15
Net international reserves ³	(1.31)	(0.04)	(1.57)	(0.36)	(0.06)
Fiscal revenue ⁴	0.14	0.01	0.18	0.09	0.02
Total debt service paid	8.78	2.72	8.63	3.72	0.15
<i>Memorandum items (US\$ million unless otherwise indicated):</i>					
Gross reserves ³	193.30	177.59	190.42	223.19	287.86
Net international reserves ³	(596.57)	(1,510.23)	(727.82)	(766.03)	(773.14)
Current account receipts ²	7,726.46	6,623.86	6,775.90	7,017.89	7,183.35
Fiscal Revenue ⁴	5,578.23	5,090.48	6,422.57	3,085.43	1,811.50
Total debt service paid (SDR million)	64.12	17.23	95.63	53.01	201.84
Total debt service paid ⁵	88.89	24.40	132.12	73.60	290.50

Source: Fund staff estimates and projections.

¹ Sudan's payments include new funds received from the country and adjustments resulting from burden-shared and SCA-1 refunds and end-year balance of Sudan's SDR account.

² Current account receipts, excluding oil earnings not accruing to the government.

³ The data on gross official reserves was redefined during the June 2020 SMP mission as Gross Official Usable Reserves which include foreign exchange banknotes deposited at the Central Bank of Sudan, monetary gold and SDR holdings. As a result, both Gross Reserves and NIR dropped sharply.

⁴ Domestic fiscal revenue, net of transfers to the states.

⁵ Historic data from the Central Bank of Sudan. 2021 data from approved budget.

11. Sudan's forthcoming obligations are projected at about SDR 1.8 million (US\$2.7 million) per year from 2021 onwards, based on the end-February 2021 exchange rate and SDR interest rate⁷ (Table 3). Since the Fund's credit to Sudan is all overdue, Sudan's forthcoming financial obligations consist of charges on overdue purchases, interest on Trust Fund loans, and net SDR charges and assessments. Forthcoming obligations would increase if interest rates rose from current levels.

⁶ See *Sudan—Review of Overdue Financial Obligations to the Fund and Complaint with Respect to the Suspension of Voting Rights* (EBS/20/140, 9/16/20), and Decision No. 16876-(20/94), adopted on September 23, 2020.

⁷ The SDR interest rate is projected on a weekly basis; the exchange rate valuation is reported daily. The change in the stock of overdue financial obligations may differ from the obligations falling due net of payments made to the Fund by Sudan. Payments made to the Fund by Sudan include new funds received from the country and adjustments resulting from burden-shared refunds, SCA-1 refunds, and end-year balance in Sudan's SDR account.

12. Sudan's overdue financial obligations continue to impose a financial burden on the Fund and its members. This includes SDR 738 million in deferred income from charges in the General Resources Account (GRA) as of end-February 2021, of which SDR 610.7 million has been covered through burden sharing.⁸ Burden-shared deferred charges will be refunded to contributing members when Sudan's overdue GRA charges are repaid. Overdue Trust Fund obligations of about SDR 83.9 million, when paid, will be transferred to the Reserve Account of the PRGT.

Table 3. Sudan: Overdue and Forthcoming Obligations to the Fund¹

(in millions of SDRs; as of February 28, 2021)

	Overdue at 2/28/21	Forthcoming ²					Total through 2025
		2021	2022	2023	2024	2025	
Principal	201.89	-	-	-	-	-	201.89
GRA repurchases	142.66	-	-	-	-	-	142.66
Trust Fund repayments	59.23	-	-	-	-	-	59.23
Interest and Charges	762.72	1.86	1.84	1.84	1.85	1.84	771.96
SDR Assessments	-	0.00	0.00	0.00	0.00	0.00	0.01
Net SDR Charges	-	0.04	0.03	0.03	0.03	0.03	0.17
GRA Charges	738.05	1.52	1.51	1.51	1.51	1.51	745.63
Trust Fund Interest	24.67	0.30	0.30	0.30	0.30	0.30	26.15
Total	964.61	1.86	1.84	1.84	1.85	1.84	973.85
Total in USD	1,388.33	2.68	2.66	2.66	2.66	2.65	1,401.63
Memorandum item:							
<i>Exchange rate at 2/28/2021</i>	0.69						

Source: Finance Department.

¹ Estimated on the basis of Sudan's current outstanding Fund Credit and Trust Fund loans and position in the SDR Department. Charges are projected on the basis of current rates of charge. Forthcoming charges and interest are estimated on the assumption that forthcoming obligations are settled on time and that obligations overdue at report date will remain outstanding during the projection period. To the extent that additional obligations are settled, forthcoming charges and interest will be lower.

² Matured after February 28, 2021.

13. Sudan's capacity to repay in 2021 is assessed to remain broadly unchanged compared to the previous assessment, though sizeable downside risks remain, and the humanitarian situation is dire. The adverse economic effect of the pandemic was exacerbated by historic floods in the last quarter of 2020, which led to a significant drop in revenue collection. Nevertheless, the latest estimates suggest a smaller GDP contraction in 2020 than previously projected. While revenues are expected to pick up significantly in 2021, reserves are still extremely low, and exports contracted more than anticipated. This limits the authorities' space to service Sudan's external debt without further deficit monetization. The recent unification of the exchange rate and fiscal reforms should help unlock much needed financing from multilateral and bilateral creditors, and thereby support the successful implementation of the SMP, stabilize the economy, and improve business confidence, which in turn could foster growth. Expected inflows of foreign currency will marginally

⁸ Sudan's overdue GRA charges prior to May 1, 1986 in the amount of SDR 39.6 million and special charges in the GRA are not subject to burden sharing.

increase reserves and mostly finance project development, the peace process and social safety nets, leaving limited space for external debt service without incurring additional deficit monetization or new borrowing. On balance, while the fiscal outlook has improved, external sector weakness continues to weight on Sudan's capacity to repay despite a somewhat improved near-term domestic economic outlook, while downside risks remain given the authorities' limited institutional capacity and challenges associated with a fragile state, including the dire humanitarian situation with large numbers of internally-displaced people and refugees, and over 50 percent of the population facing food insecurity.⁹

14. The authorities have reaffirmed their commitment to continue making monthly payments of US\$210,000 (US\$ 2.5 million per year)¹⁰ until HIPC Decision Point is reached. This falls slightly short of the annual obligations falling due (US\$2.7 million).¹¹ Staff encourages the authorities to increase payments as their capacity to pay increases. In staff's view, the level of payments continues to be broadly in line with Sudan's capacity to repay assessed based on the ratio of payments to exports, revenues, and reserves, and would demonstrate continued cooperation on payments under the Fund's arrears management framework.

15. The authorities are encouraged to avoid selective debt payments. In 2020, Sudan made selective payments to bilateral and multilateral creditors (Table 4), not all of which are providing Sudan with net inflows earmarked for development projects (water sanitation, basic infrastructure). The authorities informed staff that they are paying those creditors that either restructured Sudan's debt in arrears or will continue to finance critical ongoing development projects.

16. Sudan has successfully completed the first review under the SMP. There has been significant progress on key reforms under the SMP, which remains on track, including on the implementation of the exchange rate unification.

17. Staff will reassess Sudan's cooperation on policies and payments in the context of the next review of overdue financial obligations. The assessment will review Sudan's capacity to make payments to the Fund, the amount, timeliness and regularity of payments, and debt service to other creditors. Selective payments to other lenders should be avoided as they could further complicate the clearance of arrears. Any discussion of potential debt restructuring, or relief should be anchored in the authorities' commitment to negotiate a long-term strategy with Sudan's creditors and reach a broad-based agreement with all interested parties. The assessment of cooperation on policies will be informed by progress in implementing reforms under the SMP.

⁹ See *Sudan—First Review under the Staff-Monitored Program*, (EBS/21/15, 03/09/2021).

¹⁰ See *Sudan—First Review under the Staff-Monitored Program*, (EBS/21/15, 03/09/2021), Memorandum of Economic and Financial Policies for 2020-21, ¶133.

¹¹ Members in arrears are expected to make payments at least equivalent to obligations falling due to avoid an escalation of sanctions, however, greater flexibility is accorded to post-conflict countries (see BUFF/99/48). For post-conflict cases, the key determinant for the acceptable level of payments required to demonstrate cooperation with the Fund remains the member's capacity to repay. Staff is of the view that Sudan is a borderline post-conflict case and may avail of the flexibility under the Overdue Financial Obligations policy.

ARREARS TO OTHER CREDITORS

18. Sudan is also in arrears to other multilateral, bilateral and commercial creditors

(Figure 1). At end-February 2021, arrears to the International Development Association (IDA) totaled US\$1,100.81 million (equivalent to SDR 764.84 million) and those to the African Development Bank Group (AfDB) at February 15, 2021 totaled SDR 278.61 million (equivalent to US\$401.42 million). Sudan's resumed payments to the Fund triggered a request from the WB to fulfill its *pari passu* policy.¹² Consequently, Sudan is expected to make monthly payments of US\$165,000 to the WB and US\$60,000 to the AfDB starting on January 30, 2021 and until the arrears are cleared. On February 23, Sudan made two payments of US\$165,000 each for January and February 2021 to IDA. As of March 1, no payment has been received by the AfDB.

19. At end 2020, the WB and the AfDB have initiated internal procedures to clear Sudan's arrears using available resources deposited in *ad hoc* set-aside funds.

Sudan signed a Memorandum of Understanding with the US Treasury on bridge financing operations to clear the World Bank arrears, and one with the UK to clear the AfDB arrears. The WB arrears clearance process is well-advanced and is expected to be completed by end-March 2021. Clearing these arrears would restore Sudan's eligibility to receive multilateral grants from these institutions. At end-2020, Sudan's external debt, including to commercial creditors, is projected at US\$57.5 billion (238.9 percent of GDP), of which approximately 89 percent is in arrears, while total public- and publicly-guaranteed debt would reach 249.1 percent of GDP.¹³

20. Sudan's debt to multilateral and most bilateral creditors continued to increase in 2020

(Figure 1). However, in 2020, Sudan made selective debt service payments of US\$29.6 million to a few creditors (Table 4) and received US\$18 million in new loan disbursements to finance Sudan's large development needs.¹⁴ During 2020, Sudan also received grants of US\$146 million. A joint WB/IMF debt reconciliation exercise to ensure consistency of debt data between Sudan and its creditors was launched at end-August 2020. As of January 31, 2021, the end-2019 debt stock reconciliation is well-advanced. The reconciliation of the 2020 debt stock is also underway.

¹² The World Bank's arrears clearance framework includes a *pari passu* requirement, which calls for a pro-rated debt service payments by a debtor country to the IMF, WB and AfDB during the pre-arrears clearance period and arrears repayments in the context of the HIPC debt relief initiative. While the World Bank's *pari passu* policy is not legally binding on the IMF, which is bound only by its own policies and procedures, the IMF supports close collaboration among IFIs.

¹³ The sharp increase of debt in percent of GDP stems from the spike in exchange rates. These are staff estimates based on the 2011 debt reconciliation exercise conducted after the secession of South Sudan, the authorities' data, and staff calculations to address data gaps or resolve inconsistencies. Data will be updated upon completion of the ongoing debt reconciliation exercise.

¹⁴ The authorities communicated that in 2020 they received inflows from the Islamic Development Bank (IDB) (US\$18 million), and in 2021 they will receive inflows from International Fund for Agriculture Development IFAD (US\$20 million) and the IDB (US\$54.9 million). Data on debt service and disbursement is available with a long lag.

Table 4. Sudan: Debt Service Payments, 2015-20
(in millions of U.S. Dollars)

	2015	2016	2017	2018	2019	2020 ¹
IDA	-	-	-	-	-	-
African Development Bank	-	-	-	-	-	-
Arab Fund for Economic and Social Development	80.6	30.1	30.1	-	15.8	-
Arab Monetary Fund	85.5	25.3	25.3	22.1	81.7	13.0
International Fund for Agriculture Development	-	-	-	-	5.3	5.7
International Monetary Fund ²	10.0	7.5	7.5	-	10.6	2.5
Islamic Development Bank	17.6	22.1	22.1	-	6.8	5.0
OPEC Fund for International Development	12.0	-	-	-	5.3	-
Official Bilateral Creditors	116.5	18.0	4.0	2.3	6.6	-
Kuwait Fund	27.3	5.8	4.0	1.0	-	-
Kuwait Govt.	-	-	-	-	6.6	-
Saudi Fund	-	7.0	-	1.3	-	-
China	32.7	3.0	-	-	-	5.9
India	-	2.2	-	-	-	-
Iran	4.0	-	-	-	-	-
Malaysia	52.5	-	-	-	-	-
Total	322.2	102.9	88.9	24.4	132.1	32.1

Source: Central Bank of Sudan and Ministry of Finance.

¹ Data as of December 31, 2020.

² On March 25, 2020, Sudan's share of the SCA-1/deferred charges distribution pursuant to the process for Somalia's arrears clearance (SDR 1.8 million) was used to reduce Sudan's GRA principal arrears, in line with the Fund's policies on the distribution of charges to members in arrears and the authorities' instructions to attribute their payments to overdue GRA principal rather than charges.

21. Sudan has yet to fulfill all the requirements under the Heavily-Indebted Poor Countries (HIPC) Initiative. Sudan is eligible for debt relief under the enhanced HIPC Initiative.¹⁵ To reach the HIPC Decision Point, Sudan should meet the following requirements (i) establish a satisfactory track record of strong policy performance under a UCT-quality SMP, in practice for a minimum period of 6 months immediately preceding the Decision Point;¹⁶ (ii) demonstrate that debt burden indicators are above the HIPC Initiative thresholds using end-2020 data;¹⁷ and (iii) complete a satisfactory Poverty Reduction Strategy Plan (PRSP). Before reaching HIPC Decision Point, Sudan will also need to clear its arrears to the IMF, the World Bank and the African Development Bank, mobilize the resources necessary to ensure that international financial institutions, including the IMF, can provide their share of debt relief, and secure assurances of support for HIPC debt relief from a

¹⁵ Sudan meets the following HIPC eligibility criteria under the HIPC Trust Instrument: (i) income criterion; (ii) indebtedness criterion; and (iii) it has adopted a Staff-Monitored Program (SMP) that the IMF Executive Board endorsed as meeting the policy standard of an Upper Credit Tranche (UCT) arrangement for establishing a track record under the HIPC Initiative.

¹⁶ Programs that count toward qualification include those supported by a PRGF, ESF or Extended Arrangement or, on a case-by-case basis as determined by the IMF Board, an SBA, RAP, EPCA, or an SMP when the IMF Executive Board agrees that its macroeconomic and structural policies meet the policy standard of an UCT arrangement or PRGF-supported program.

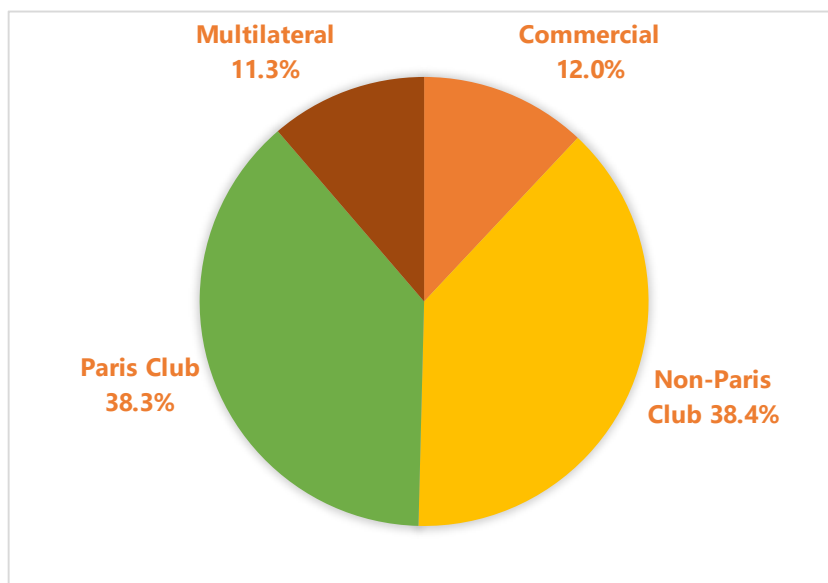
¹⁷ This requirement will be considered met after completion of the joint Sudan-IMF-WB external debt reconciliation exercise.

large majority of its creditors. Given that the three protracted arrears cases (Liberia, Somalia, and Sudan) were excluded from the original HIPC costing exercise, the Fund will need to secure resources to finance its share of debt relief for Sudan. Firm financing commitments from contributors will need to be in place prior to arrears clearance and the HIPC Decision Point.

Figure 1. Sudan: Structure of Public and Publicly-Guaranteed Debt

	2010		2019	
	In US\$ million	In percent	In US\$ million	In percent
Total PPG	37,927.00	100	49,795.10	100
Multilateral	5,196.00	13.7	5,648.05	11.3
Bilateral	27,762.56	73.2	38,191.06	76.7
Paris Club	13,957.14	36.8	19,074.90	38.3
Non-Paris Club	13,805.43	36.4	19,116.15	38.4
Commercial	4,968.44	13.1	5,956.00	12.0

Source: Joint IMF-WB debt reconciliation exercise, Sudanese authorities. Pie chart refers to 2019 data.



RECENT DEVELOPMENTS AND POLICY PERFORMANCE

22. Sudan's economic conditions remain extremely challenging, but the authorities have made progress in addressing the long legacy of economic distortions. The recent exchange rate unification, as well as policy actions to reduce unsustainable subsidies and improve the business climate, will help to advance fiscal consolidation, economic stabilization, and sustained, inclusive growth. Yet, the situation on the ground remains very fragile and risks to the implementation of the reform program remain sizeable. Staff estimates growth of -3.6 percent in 2020, a third consecutive year of contraction, and headline inflation remains high though with some signs of stabilization.

Fiscal consolidation in 2020 was in line with the SMP but implementation was mixed, and monetary aggregates continue to grow rapidly. International reserves remain flat and could only cover two-week of imports.

23. Medium-term risks are broadly balanced, but the very fragile situation means that near-term risks are significant and tilted to the downside. Growth is expected to pick up gradually despite the still unsettled economic and political environment, increasing over the medium term as the business climate improves before leveling off around the potential growth rate of 4½ percent. However, given the fragile economic and political situation, failure to implement needed policy measures or a reversion to distortionary policies (subsidies, multiple currency practices, lack of transparency/governance) would hinder growth and macroeconomic stabilization, with sustained fiscal deficits and insufficient financing that would further fuel the inflation/depreciation spiral.

UPDATE ON DONOR COORDINATION ACTIVITIES¹⁸

24. The Fund’s engagement with Sudan is significant, particularly since the start of the 2020 SMP. The current SMP for Sudan commenced in mid-2020 after a gap of several years. Sudan previously had a series of 14 SMPs over two decades, the last one ending in 2015. Sudan has received numerous technical assistance (TA) missions on macroeconomic, fiscal, legal and financial sector issues. Staff regularly met with the donor community in Khartoum during and after missions and participated in international fora to discuss Sudan’s progress toward social and economic stability and debt relief.

25. Other creditors and donors (including IFIs) have remained closely involved, although disbursements to the budget have fallen short of expectations. The World Bank approved in October 2020 a pre-arrears clearance grant (PACG) of about US\$200 million which was deposited in the Sudan Transition and Recovery Support Struct Fund (STARS) and disbursed to the Sudan Family Support Program (SFSP) in February 2021. At the Sudan Partnership Conference sponsored by the Friends of Sudan¹⁹ on June 25, 2020, donor pledges totaled US\$1.8 billion, mostly off-budget humanitarian support with only about US\$500 million pledged to support the SFSP. Other donors provided about US\$200 million to support the authorities’ COVID-19 response, of which budget grant support totaled only US\$146 million. Significant aid has been deployed through the UN, other humanitarian agencies, and bilateral donors, both in cash and in-kind, after the historic floods that hit Sudan and South Sudan in the fall of 2020. The Paris Club has tabled discussions on Sudan’s HIPC debt relief process starting in the fall of 2020 and several creditors announced their full

¹⁸ For a more detailed discussion of donors’ outreach and technical assistance efforts, see *Sudan—2019 Article IV Consultation*, (EBS/20/38, 02/07/2020) and *Sudan—Review of Overdue Financial Obligations to the Fund and Complaint with Respect to the Suspension of Voting Rights* (EBS/20/7, 2/21/20), Attachments III and IV.

¹⁹ The Friends of Sudan is a group of representatives from multilateral organizations (the African Union, the United Nations and the European Union), and individual countries (Germany, France, Sweden, Norway, the US, the UK) who have come together to work with the Gulf States to support Sudan’s economic and political stability. They intensified their meetings since 2019. On January 28, 2021, a Partnership Conference took place virtually from Berlin to discuss the progress in implementing the Juba peace agreement and the economic and social reforms under the SMP.

support to providing debt relief as soon as Sudan meets all the requirements for HIPC Decision Point. The Friends of Sudan will host another partnership conference to support FDI and business advancement from Paris in May 2021.

STAFF APPRAISAL

26. The recent exchange rate unification and significant progress in other key reforms under the SMP have helped stabilize the economy and improved the economic outlook, though downside risks remain.²⁰ The recent implementation of exchange rate reforms will reduce distortions and help to unlock much-needed financing from multilateral and bilateral creditors that would support the successful implementation of the SMP. The phasing out of fuel subsidies, customs rate reform, and increase in electricity tariffs are also expected to contribute to reducing fiscal imbalances. On December 14, 2020, the US administration removed Sudan from its State Sponsors of Terrorism List (SSTL), removing a key obstacle to the path towards HIPC debt relief. Despite these positive developments, significant challenges remain. The transitional government's institutional capacity is weak, and the humanitarian situation remains dire with large numbers of internally displaced people and refugees, and more than 50 percent of the population faces food insecurity.

27. Staff encourages the authorities to maintain their engagement with international stakeholders and obtain assurances of support for HIPC debt relief. Staff notes the continued selective payments to other creditors, not all of which are providing Sudan net positive flows for development projects. To ensure smooth progress towards HIPC debt relief and resolution of overdue financial obligations to the Fund, selective payments to lenders should be avoided as they could complicate the clearance of existing arrears. Sudan should continue to actively engage with its creditors and obtain needed assurances of their support for HIPC debt relief, as the successful implementation of the SMP could pave the way toward HIPC Decision Point. Any discussion of potential debt restructuring or relief would need to be anchored in the authorities' commitment to negotiate a long-term strategy with Sudan's creditors and reach a broad-based agreement with all parties.

28. The authorities should adopt a prudent borrowing strategy that minimizes non-concessional borrowing. As debt remains unsustainable, Sudan would benefit from relying mostly on grants and highly concessional financing, while creating the conditions for debt relief. In preparation for debt relief under the HIPC Initiative and given the large debt data discrepancies, a comprehensive debt reconciliation exercise has been launched jointly by the WB and the IMF in August 2020. As of January 31, 2021, the end-2019 debt stock reconciliation is well-advanced. The reconciliation exercise for the 2020 debt stock is underway.

29. Staff urges the authorities to continue making regular and timely payments to the Fund and increase them as Sudan's payment capacity improves. Staff welcomes the regular

²⁰ Due to its arrears, Sudan has no access to emergency financing from IFIs, the G20 debt relief initiative, and debt relief from the CCRT. The Board endorsed Sudan's SMP to be of UCT quality in September 2020.

monthly payments of US\$210,000 made in January 2021 and February 2021 respectively. Staff welcomes the authorities' reaffirmed commitment to cooperate with the Fund on policies and payments, advance the reform agenda under the SMP, make annual payments of at least US\$2.5 million in 2021 and increase them as Sudan's capacity to repay improves.

30. In light of Sudan's ongoing efforts to cooperate with the Fund, staff proposes that no further remedial action be taken at this time regarding the Managing Director's complaint with respect to the suspension of Sudan's voting and related rights in the Fund. In making this recommendation, staff has considered the resumption of payments in January and February 2021 despite the economic setbacks due to the pandemic and natural disasters, and the authorities' progress in adopting reforms supported by the SMP, albeit with delays due to natural disasters, political fragility, and limited capacity. Staff urges the authorities to avoid making selective payments. Finally, staff welcomes Sudan's strengthened relationship with the international community.²¹ Staff recommends that the next review of Sudan's overdue financial obligations to the Fund and the Managing Director's complaint take place within twelve months from the date of adoption of the proposed decision.

²¹ See *Procedural and Financial Implications of a Member's Overdue Financial Obligations to the Fund*, FO/DIS/15/107, July 8, 2015.

Proposed Decision

The following decision, which may be adopted by a majority of votes cast, is proposed for adoption by the Executive Board:

1. In accordance with Decision No. 16876-(20/94), adopted on September 23, 2020, the Fund has further reviewed Sudan's overdue financial obligations to the Fund and the Managing Director's complaint with respect to the suspension of Sudan's voting and related rights in the Fund.

2. The Fund notes that Sudan is still facing an economic emergency on the back of the COVID-19 pandemic crisis and natural disasters which have further exacerbated the deep-seated economic crisis started after the secession of South Sudan in 2011. The Fund commends the authorities on the successful completion of the first review under the staff-monitored program which is based on an ambitious reform package to address fiscal and external imbalances in the context of hyperinflation and sharp exchange rate depreciation. The Fund encourages the authorities to continue to implement their reform agenda to strengthen macroeconomic management, restructure institutions, and improve governance, transparency and economic statistics.

3. The Fund urges the authorities to continue to strengthen cooperation with the Fund. The Fund welcomes the resumption of regular and timely payments by Sudan in 2021 and notes the authorities' intention to make annual payments to the Fund of at least US\$2.5 million. The Fund urges the authorities to continue to fulfill their commitment to make annual payments towards their arrears to the Fund of US\$2.5 million. The Fund strongly encourages Sudan to make payments to the Fund that are at least sufficient to cover obligations falling due, to make payments regularly and in a timely manner, and to increase them as Sudan's payment capacity improves. The Fund urges the authorities to avoid selective debt service payments.

4. The Fund will again review Sudan's overdue financial obligations to the Fund and the Managing Director's complaint with respect to the suspension of Sudan's voting and related rights in the Fund no later than 12 months from the date of this decision.

Attachment I. Sudan—Review of Overdue Financial Obligations to the Fund and Complaint with Respect to the Suspension of Voting Rights

1. In accordance with Decision No. 16661-(20/19) adopted on February 21, 2020, the Fund has further reviewed Sudan's overdue financial obligations to the Fund and the Managing Director's complaint with respect to the suspension of Sudan's voting and related rights in the Fund.

2. Sudan is facing an economic emergency and the outbreak of the pandemic has further exacerbated the deep-seated economic crisis that started with the secession of South Sudan in 2011. The recent oil subsidy reforms are welcome but fiscal and external imbalances continued to widen in the context of hyperinflation and the sharp exchange rate depreciation. The new staff-monitored program includes an ambitious reform package to strengthen macroeconomic management, restructure institutions, and improve governance and economic statistics. The Fund encourages the authorities to implement the reform agenda to build fiscal sustainability, expand mobilization of domestic revenues and advance PFM reforms, unify and liberalize the exchange rate, address external imbalances and financial stability risks, and strengthen governance and reduce the scope for corruption over the medium term.

3. The Fund urges the authorities to continue to strengthen cooperation with the Fund. The Fund notes the authorities' intentions to reduce annual payments to the Fund from US\$10 million in 2019 to US\$2.5 million, broadly equivalent to Sudan's obligations falling due, in light of Sudan's reduced payment capacity caused by the COVID-19 pandemic and the depletion of its foreign currency reserves. The Fund urges Sudan to fulfill its commitment to make annual payments towards their arrears to the Fund of at least US\$2.5 million starting in 2021. The Fund strongly encourages Sudan

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to make payments to the Fund that are at least sufficient to cover obligations falling due, to make payments regularly and in a timely manner, and to increase them as Sudan's payment capacity improves. In line with the authorities' commitments under the SMP, the Fund urges the authorities to avoid selective debt service payments.

4. The Fund will again review Sudan's overdue financial obligations to the Fund and the Managing Director's complaint with respect to the suspension of Sudan's voting and related rights in the Fund no later than 12 months of the date of this decision.

Decision No. 16876-(20/94), adopted

September 23, 2020

Attachment II. Sudan—Overdue Financial Obligations to the General Department and the SDR Department—Timetable of Remedial Measures¹

Time after Emergence of Arrears	Action
Immediately	Staff sends a cable urging the member to make the payment promptly; this communication is followed up through the office of the concerned Executive Director. The member is not permitted any use of the Fund's resources nor is any request for the use of Fund resources placed before the Executive Board until the arrears are cleared.
2 weeks	Management sends a communication to the Governor for the member stressing the seriousness of the failure to meet obligations and urging full and prompt settlement.
1 month	The Managing Director notifies the Executive Board that an obligation is overdue.
6 weeks	The Managing Director notifies the member that unless the overdue obligations are settled promptly a complaint will be issued to the Executive Board. The Managing Director would also consult with and recommend to the Executive Board that a communication concerning the member's situation should be sent to selected Fund Governors or to all Fund Governors in the event that the member has not improved its cooperation with the Fund.
2 months	A complaint regarding the member's overdue obligations is issued by the Managing Director to the Executive Board.
3 months	A brief factual statement noting the existence and amount of arrears is posted on the Fund's external website and will be updated as necessary. It also indicates that the member's access to the Fund, including PRGT and HIPC resources, has been and will remain suspended for as long as arrears remain outstanding. The complaint is given substantive consideration by the Executive Board. The Board has usually decided to limit the member's use of the general resources and, if overdue SDR obligations are involved, suspend its right to use SDRs. A press release is issued following the Board's decision to limit the member's use of the general resources or, if the member has overdue obligations in the SDR Department, to suspend its right to use SDRs. A similar press release will be issued following a decision to lift such limitation or suspension.

¹ Based on the procedures for dealing with members with overdue financial obligations to the Fund adopted by the Executive Board on August 17, 1989, as amended by Decision No. 12546-(01/84), adopted on August 22, 2001.

Time after Emergence of Arrears	Action
6–12 months	The Executive Board will review its decision on limitation within three months, with the possibility of a second review if warranted. Depending on the Executive Board's assessment of the specific circumstances and of the efforts being made by the member to fulfill its obligations to the Fund, a declaration of ineligibility will be considered to take effect not more than twelve months after the emergence of arrears. The sending of communications to all Fund Governors and the heads of selected international financial institutions regarding the member's continued failure to fulfill its financial obligations to the Fund is to be considered at the same time as the declaration of ineligibility.
Up to 18 months	A decision on suspension of voting and representation rights will be considered within three months after the declaration of noncooperation.
Up to 24 months	The procedure on compulsory withdrawal will be initiated within six months after the decision on suspension.

Attachment III. Remedial Measures Applied to Sudan

	In Continuous Arrears Since	Complaint Issued (Noted)	Declaration of Ineligibility	Declaration of Noncooperation	Suspension of Voting Rights	Complaint for Compulsory Withdrawal
Sudan	7/12/84	12/12/84 (1/9/85) 1/22/97 (1/24/97) ²	2/3/86	9/14/90; lifted on 8/27/99	8/9/93; lifted on 8/1/00	4/8/1994 ¹

Source: Finance Department.

¹ In light of the lifting of the suspension of Sudan's voting rights on 8/1/2000, the complaint for the compulsory withdrawal of Sudan has been reformulated as a complaint for the suspension of Sudan's voting rights.

² Complaint withdrawn on February 12, 1997, following clearance of arrears in the SDR Department.