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**Statement by Ms. Levonian and Mr. Weil on Sudan**
**(Preliminary)**
**Executive Board Meeting**
**September 23, 2020**

**Thanks to staff for their comprehensive and insightful report, and to Mr. Mahlinza and Mr. Ismail for their helpful buff statement.** We welcome the recent signing of a peace agreement with the Sudan Revolutionary Front. This is an important step on the road to lasting peace.

**Sudan suffered from large imbalances pre-COVID-19 and the situation has only been exacerbated.** The economic contraction is set to deepen significantly amid large fiscal and external imbalances, high and rising inflation, an overvalued currency, weak competitiveness, and pervasive governance issues. The humanitarian situation is also grim with large numbers of internally displaced people and refugees. With revenues 50 percent below initial budgeted projections, the authorities require the support of the international community to respond to COVID-19 decisively. Regrettably, cases continue to rise, and additional resources beyond the SMP baseline may be required.

**The authorities should be commended for the policy actions completed and commenced prior to the SMP, which will hopefully create momentum for further reform**. These include the approval of a revised 2020 budget consistent with program objectives, the consolidation of ownership of SOEs under the Ministry of Finance and Economic Planning, bank stress testing to prepare for exchange rate reform, and fuel subsidy reform. The authorities will need to build on this momentum in order to succeed under the SMP.

**We support staff's view that the SMP contains forward-looking policy commitments of UCT quality.** The SMP is very comprehensive and, if implemented, its policies should be expected to help address persistently large macro and structural vulnerabilities and help build a track record of strong policy performance toward eventual HIPC debt relief. The SMP focuses on the right pillars, namely phasing-out fuel subsidies, reforming the exchange rate system, strengthening central bank independence, and improving governance and fighting corruption.

**Fiscal consolidation will be critical to eliminate deficit monetization but must be implemented in a way that minimizes the impact on households and provides for adequate resources to respond to the COVID-19 crisis**. The sizable fiscal adjustments in 2020 and 2021 will be driven by the welcome elimination of wasteful fuel subsidies, customs exchange rate liberalization, and VAT base broadening, which can be expected to cause significant adjustment pain. In particular, fuel and exchange rate reforms will lead to sharp price increases for basic goods. The magnitude and pace of the consolidation make it imperative to support Sudanese households during the transition phase. Yet, staff note that only $500 million was pledged to support the Sudan Family Support Program (SFSP) at the Sudan Partnership Conference, and that inadequate donor funding for the SFSP would bring significant risks to the core objectives of the SMP. *What is the funding gap in the SFSP to properly cushion the impact of adjustment, and can staff comment on whether further donor financing is expected in the near term?*

**We welcome the proposed reforms to improve governance and combat corruption.** Such measures will be critical to build trust, sustain the public's support for the reform agenda, and ultimately achieve sustainable growth. The authorities should continue addressing AML/CFT deficiencies in order to reduce vulnerabilities to corruption, prevent financial leakage, and re-establish correspondent banking relationships.

**The reform agenda would be very ambitious in normal times, let alone during an unprecedented global health and economic crisis.** The SMP is launching against the challenging backdrop of the COVID-19 pandemic and waning public support for adjustment. Further, donors themselves are combatting the crisis, which complicates grant-raising efforts. Implementation risks are also exacerbated by Sudan's low capacity. While the SMP's conditionality is undoubtedly consistent with applicable policies for a UCT program, the program is being deployed in the context of broader Fund efforts to be more parsimonious with respect to conditionality as part of the Fund's pandemic lending strategy. Recognizing that large macro and structural imbalances require significant adjustment to resolve, we nonetheless wonder whether a slightly more incremental approach under the SMP would necessarily jeopardize UCT quality. *Staff comments are welcome.* Successful implementation of the SMP could demonstrate a strong track record of policy performance, but this is only one of many steps needed to reach the HIPC decision point. There may be scope to adjust reform timelines to mitigate program risks without jeopardizing the overall path to debt relief. Under the circumstances, the staff report would have benefited from a greater discussion of contingency plans and the inclusion of a risk assessment matrix.

**The results of the updated DSA are improved given the reforms already launched, but Sudan remains in debt distress and the debt burden continues to grow**. Sudan's debt data quality and coverage remain limited. We encourage the authorities, with the support of Fund technical assistance, to continue making improvements in this area to support an eventual pre-arrears clearance debt reconciliation exercise.

**We support the decision associated with the review of overdue financial obligations, including that no further remedial measures be taken at this time.** We also support the authorities' decision to suspend payments to the Fund in 2020 and to target payments of $2.5 million per year starting in 2021. Sudan's capacity to repay has been severely impacted by the present crisis, and flexibility regarding the payment of overdue obligations should free-up much needed resources. Recognizing that $2.5 million is at the low-end relative to past payments in arrears cases, payments should increase as capacity to repay improves. We also underscore staff's recommendation for the authorities to follow a prudent debt strategy that minimizes non-concessional borrowing and avoids selective debt servicing in order to avoid complicating debt relief efforts. We noted that the revised 2020 Budget will halt all external debt service payments, which helps mitigate concerns regarding the Fund's preferred creditor status. We expect an update regarding selective debt service payments at the time of the next review of overdue fund obligations.