

# A Political Path for Salvaging the Sudanese Economy



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## The need for a political solution

Sudan's economic recovery was abruptly interrupted by the October 25 military coup. The coup came just two years after the formation of a civilian-led government following a popular revolution, which paved the way for a political transition and the stabilization of the Sudanese economy. During the 2019-2021 transitional period, economic activity began to bounce back following the introduction of a set of economic reform measures. One year after the coup, mismanagement of the economy has reversed this progress and exacerbated the cost-of-living crisis, price hikes, and recession.

The near-term outlook is extremely uncertain, as Sudan's economic prospects are tied to its political situation – which is currently in disarray, and reaching a political agreement is complex. The economic situation is complicated by the fragile security situation, suspension of international assistance, and a cost-of-living crisis. Within this challenging environment, a political settlement needs to be prioritized to create room for immediate response to current financial and economic woes.

In the current political, insecurity and economic instability, it is becoming increasingly difficult for Sudanese to work normally to earn income, which has a direct impact on their lives. Military rule has had substantial costs in terms of disruption of economic activity, the suspension of the Sudanese Family Support Program (SFSP) as a safety net, the loss of economic assets after the freezing of the dismantling committee, the loss of foreign assistance resources, blockage of outstanding disbursements from the WBG, the International Monetary Fund (IMF), and other international organizations, and the significant deterioration in the quality of institutions and governance.

It is worth noting that financial support by the IMF, WBG and donors had aimed to create breathing room for Sudan to implement adjustment policies to restore its macroeconomic stability and growth. While the implementation of these policies is tailored to Sudan's circumstances, adoption of appropriate policies helps to draw support that can mitigate crises and boost market confidence during periods of heightened risk. The October 25 military coup came at a time when Sudan was just starting to get back on track and make some economic progress following tough reform measures implemented by the 2019-2021 Transitional Government. Although Sudan's economy has been in crisis for a long time, and it deteriorated further following the October 25 coup. The Sudanese realize how fast their country is now collapsing. However, only very limited and ineffective efforts have been made to improve the situation. A political settlement to form a more credible civil-led government is needed now to avoid more fragility.

If a political process puts a new Transitional Government in place, the civilian government is in full control of policymaking, and state institutions are able to function independently, Sudan can pursue wide-ranging economic recovery measures. Within this framework, Sudan should resume the economic reform programs begun prior to the coup, and restore full engagement with the IMF, the World Bank, development partners and donors. It should seek to restore the provision of financing assurances for HIPC debt relief as soon as possible.

# Economic reform during the 2019-2021 transitional period

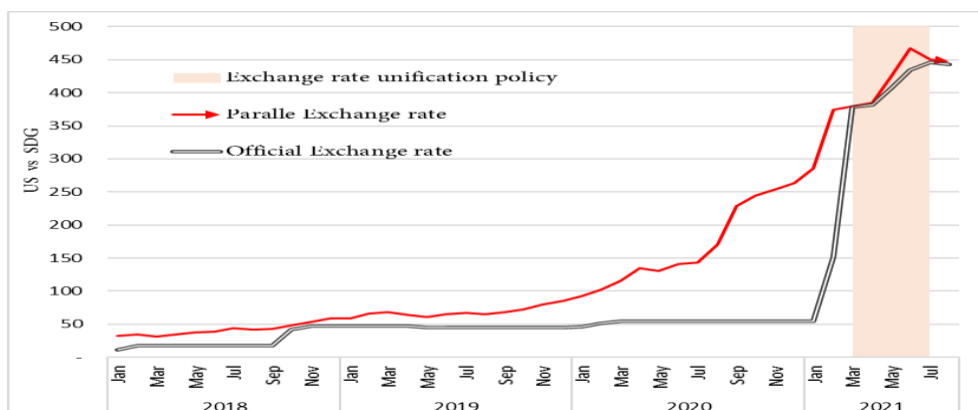
The revolution which ended al-Bashir's 30-year military rule brought hope that a stable civilian government would emerge in Sudan. The April 2019 regime change created a window of opportunity for fundamental reforms and for invigorating a stagnating economy, burdened by large internal and external imbalances and unsustainable external debt, deprived of foreign funding and investment.

After the reshuffle of the civil-led government in September 2020, Sudan embarked on a journey of re-opening itself to the world and began restoring normal diplomatic and economic relations with international financial institutions (IFIs).

In June 2020, Sudan began a process of economic reforms under an IMF Staff-Monitored Program (SMP). SMPs are informal agreements between the IMF and a member country, and Sudan's SMP was designed to address structural distortions in its economy, allowing it to eventually benefit from the HIPC initiative for debt relief. IFIs who pledged to support Sudan's debt relief effort as part of its democratic transition. These active diplomatic efforts culminated in the delisting of Sudan from the US List of State Sponsors of Terrorism (SSTL) in December 2020, which allowed Sudan to receive US financial aid and restore normal relations with the World Bank and the IMF.

The 2019-2021 Transitional Government pursued a home-grown program of reforms aimed at stabilizing the economy, improving competitiveness, and strengthening governance, in line with the SMP. These reforms began to achieve progress. In October 2020, the gradual removal of all diesel and gasoline subsidies, were which account for 79 percent of total subsidies, began to reduce Sudan's fiscal deficit as the burden of subsidies on the economy was reduced. The fiscal deficit narrowed in 2021 to roughly 1 percent of GDP as result of reduced deficit monetization.

**Figure (1): Post-Unification Exchange Rate & Parallel Exchange Rate**

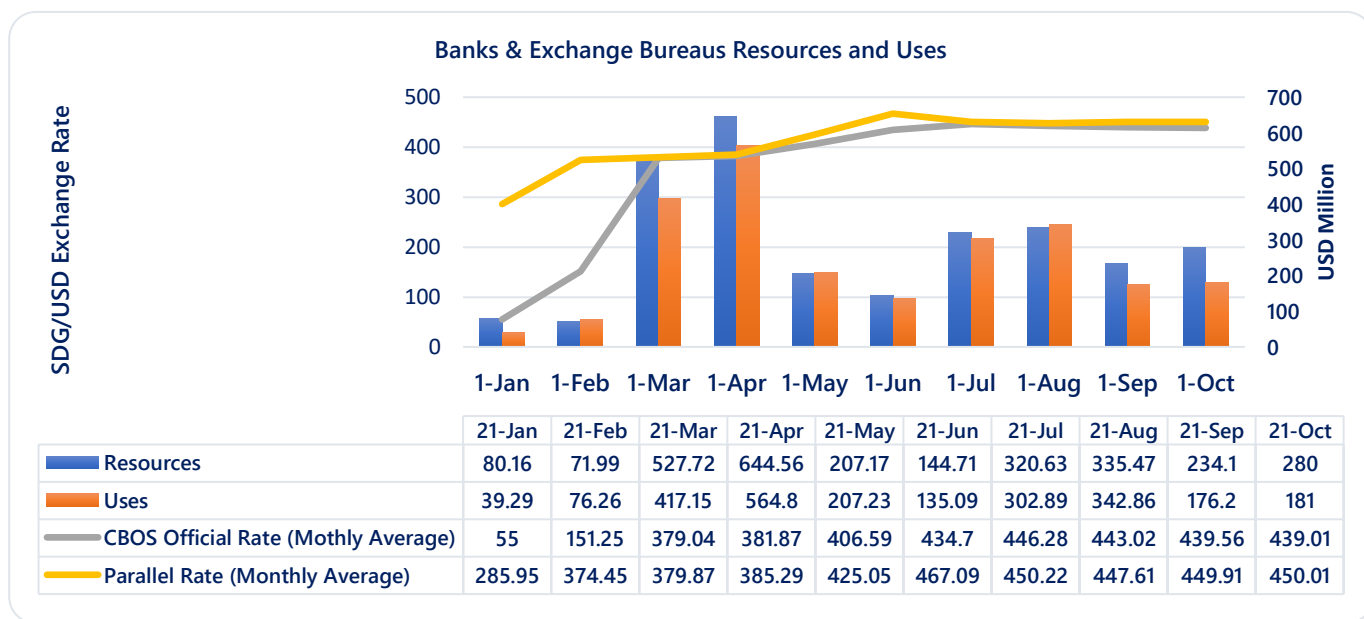


**The steps taken by the former Transitional Government towards a market-determined exchange rate between February 21, 2021 and October 24, 2021 went smoothly.** In February 2021, the exchange rate was unified and began operating efficiently. The Central

Bank of Sudan (CBOS) was to meet foreign currency demands through frequent foreign exchange auctions beginning in May 2021.

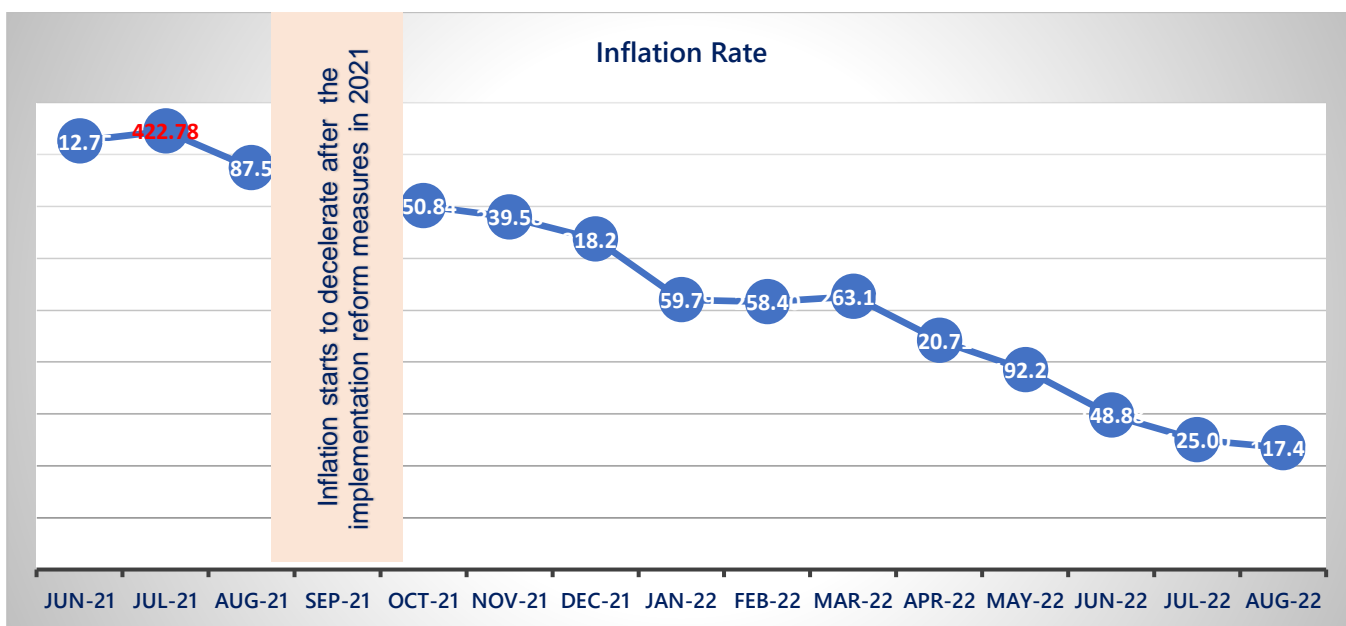
The post-unification exchange rate has been relatively stable. The unification of the official exchange rate in February 2021 had a significant impact on the parallel market exchange rate especially after the issuance of the CBOS circulars no. 12/2021 on the mechanism of interference in the FX market through auctions; and no. 14/2021 on the payment of post-paid import operations through funds assigned from the auctions. These efforts played a key role in the elimination of multiple currency practices and exchange restrictions. These are important for preventing individuals with privilege from using these differences for personal gain. Currency distortions were reduced, and from July to October 2022, the exchange rate premium remained low and there was a 1.0 percent on average between the official and parallel market rate, evidence of the effectiveness of government policies.

**Figure (2): Banks & Exchange Bureaus FX Resources and Uses**



In August 2021, inflation declined by 35 points for the first time in more than a year and this decrease continued in the following months in response to fiscal consolidation efforts. Sudan's chronic trade deficit also decreased by 17 percent to \$1.6bn in the first half of 2021, driven by an increase in exports. Remittances increased from \$136m in the first half of 2020 to \$717m in the first half of 2022. Accordingly, the current account deficit decreased from \$5.8 billion in 2020 to \$2.8 million in 2021, a roughly 50 percent decrease, following the exchange rate unification and the resultant improvement in net exports and shifting of resources towards official markets and the improvement of external transfers.

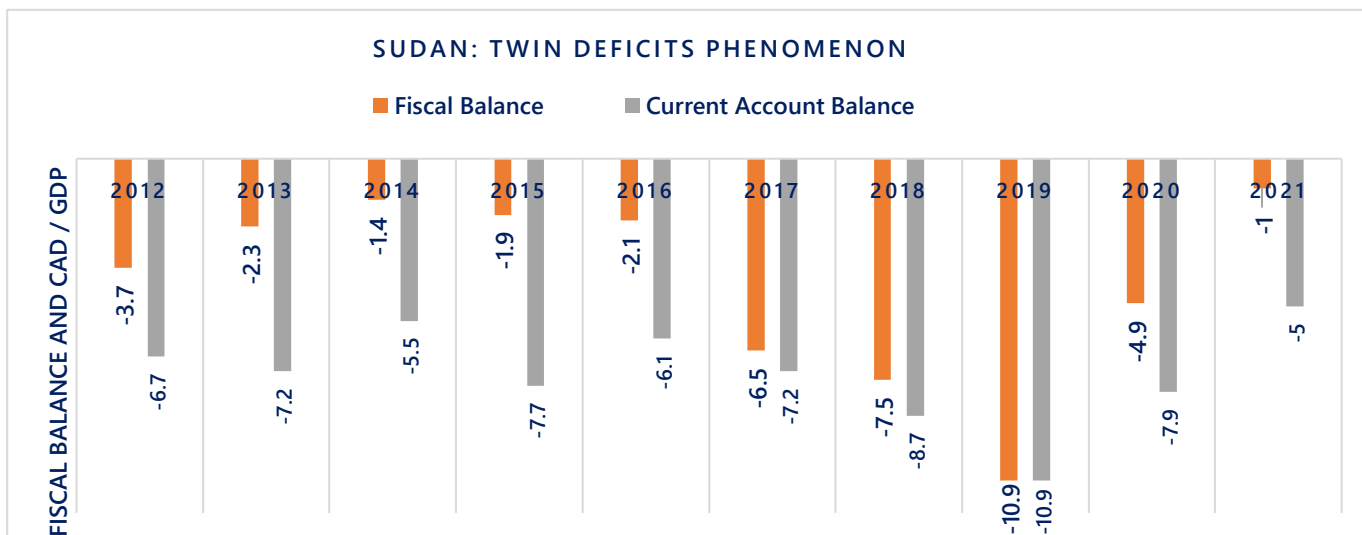
**Figure (3): Inflation peaked at 422 percent in July 2021 (y-o-y) and subsequently declined since August 2021**



Source: Central Bureau of Statistics, CBOS Annual Reports

**External sector performance was robust, with the current account deficit narrowed to 50 percent.** The current account improved significantly, mainly due to a 114.6 percent increase in the income balance, and the proceeds of private sector transfers by 168 percent, in addition to a tightening of the trade deficit by 17 percent. These improvements supported exchange rate flexibility, and more foreign exchange transactions shifted to the formal sector.

**Figure (4) The current account deficit and the government budget deficit during the period (2012 – 2021)**



Source: IMF Article IV Consultation Reports, CBOS Annual Reports, and MOFEP Annual Budget Reports

Figure 4 reveals that the 2021 economic performance was better than that of the prior three years (2018-2020). Accordingly, fiscal balance has improved and stood at 1.0 percent of GDP in 2021, because of the fiscal consolidation efforts and a clear reform of the SMP road map

and the Extended Credit Facility (ECF) and full commitment with stipulated limits for temporary advances from CBOS in 2021. While the current account deficit (cash basis) maintained on a sustainable limit at 5.0 percent of GDP in 2021.

The transitional government introduced the Sudanese Family Support Program (SFSP), supported by the donor community and the World Bank, to alleviate the short-term effects of subsidy removal and exchange rate reform. Its cost was an estimated 2.5 percent of GDP in 2021. The government also raised civil service wages in May 2020 to account for severe erosion of purchasing power due to inflation.

**The 2019-2021 transitional government made substantial progress towards achieving debt relief.** Sudan's external public and publicly guaranteed debt was estimated at US\$62.4 billion in nominal terms at the end of September 2021. Most of this debt (about 86 percent) was in arrears, severely limiting access to further financing from multilateral and bilateral creditors. Yet financing is urgently needed for Sudan's development and poverty-reduction agendas. In this context, pursuit of debt relief could play a critical role in opening up access to new development financing.

After the implementation of painful economic adjustment packages for restoring macroeconomic stability and promoting inclusive growth, Sudan developed a strong track record of macroeconomic performance under the SMP. This led the Executive Boards of the WBG and the IMF to determine could begin receiving debt relief under the enhanced HIPC Initiative on June 29, 2021, given the transitional government's sustained commitment to reform in an extremely challenging political, economic and security environment. This was a landmark achievement. Building on this progress, the transitional government requested the cancellation of the SMP following the clearance of IMF arrears in June 2021 through a bridge loan from France and started to implement a 39-month 2.5-million-dollar financial arrangement under an IMF ECF.

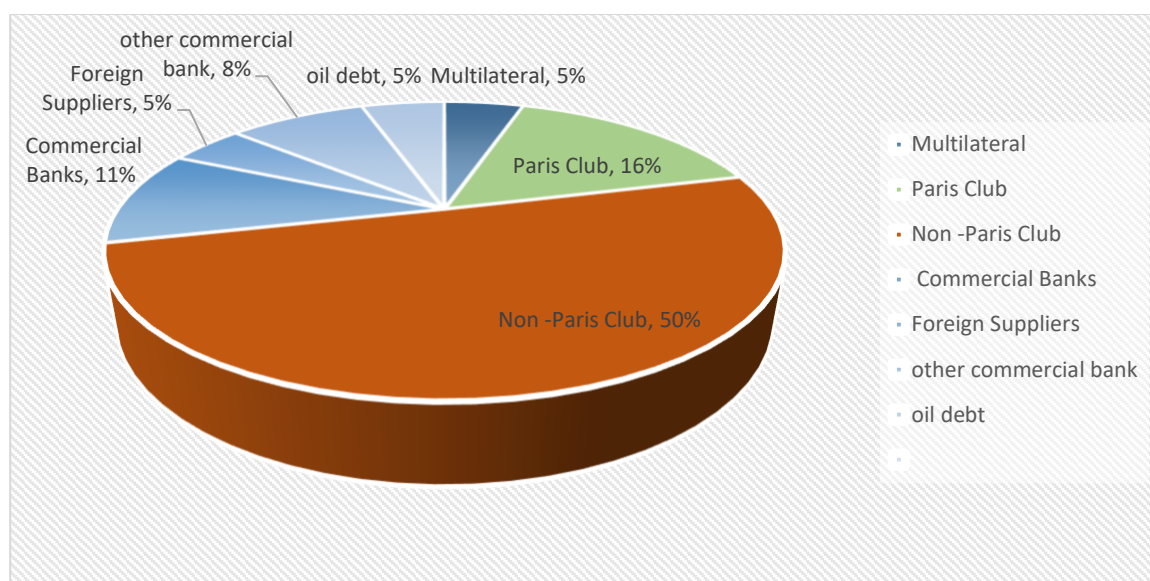
The ECF program builds on the progress made under the SMP, advancing reforms needed to strengthen governance and reduce distortionary policies while laying the groundwork for economic stability and sustained, inclusive, poverty-reducing, private-sector-led growth.

The ECF program contains many structural benchmarks (SBs) which were to be met by end of December 2021, including the elimination all exemptions on value added tax (VAT) except for food and on personal income tax (PIT) for persons over age 50, the cabinet's endorsement of the state-owned enterprise (SOE) ownership strategy, and the enactment of a revised Banking Regulation Act.

The ECF program also contains quantitative performance criteria (QPC) and indicative targets, such as a ceiling on banking system net credit to the central government, introduction/imposition of exchange rate restrictions and MCPs, and floors on CBOS Net International Reserves (NIR), tax revenue, and primary balances. The ECF is an important element of Sudan's path toward achieving HIPC debt relief.

The external debt position reached \$62.4 billion, a decrease of \$14 billion from its June 2021 position. The decrease was due to 60 percent relief of Paris Club debt on July 15, 2021. The share of arrears due to Paris Club lenders was 16 percent, compared to 50 percent to non-Paris Club. However, before the implementation of the reform programs, Sudan's arrears were roughly equally divided between Paris Club (38%) and non-Paris Club lenders (37.5%).

**Figure (5): Share of Creditors in External Debt as of 2021**



**Unlocking Sudan's private sector potential is key to robust and inclusive growth.** The International Finance Corporation (IFC) and the World Bank, together with donors, supported Sudan's efforts in the 2019-2021 transition to improve the investment climate, foster public-private dialogue, and support the development of small and medium sized enterprises (SMEs), focusing on access to finance, business entry and taxation, innovation, and entrepreneurship.

An IFC private sector diagnostic mission was completed in mid-2020 to provide the analytical underpinning for prioritizing economy-wide and sector-specific interventions. The IFC Vice President visited Sudan in October 2021 (two weeks before the coup), meeting with the former prime minister, officials from CBOS, and the Ministry of Finance & Economic Planning (MoFEP), and leaders in the commercial banking sector. The visit was intended to lay the groundwork for expanded collaboration and technical support from the IFC, but this was stalled by the coup.

## **The catastrophic impact of the October 25 coup**

Sudan faces economic risks as the October 25 coup interrupted the democratization process and returned Sudan to a state like the isolation of al-Bashir's autocratic rule. The coup has had a catastrophic impact on economic institutions, SOEs, sector governance, transparency, fiscal sustainability, loss of financial support for reform, booming of illicit economy, food security crisis, and deterioration of the living standards. The debt relief process, ECF reforms and assistance from the international community have also stopped. These financial losses will only increase if military rule continues and a political solution is not reached.

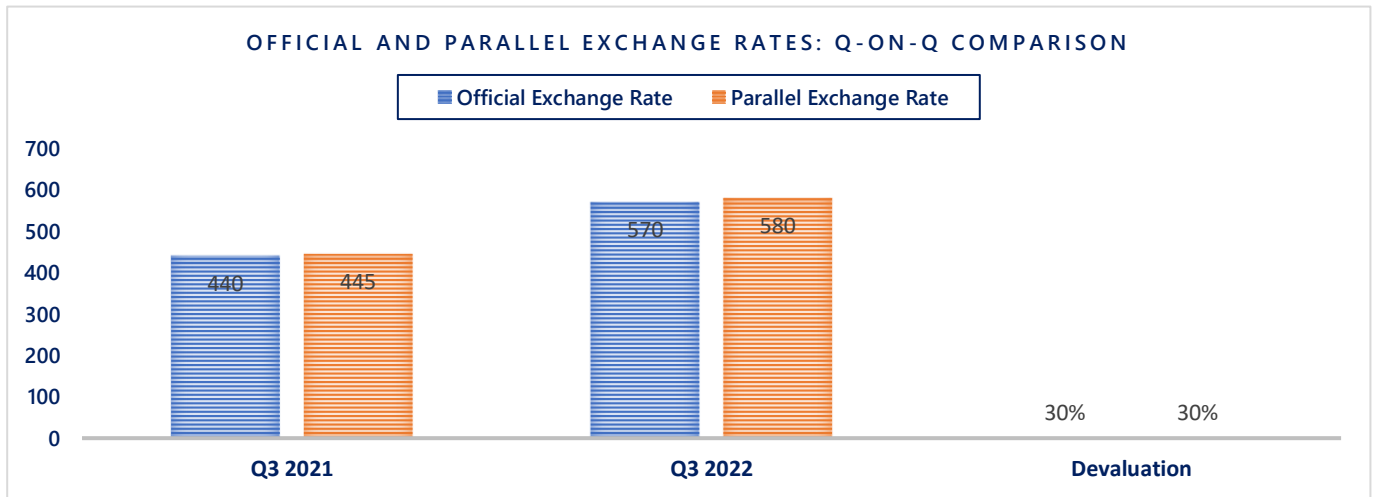
Furthermore, the coup has allowed mismanagement of the country's natural resources, especially gold, to continue. Smuggling has flourished and that deprives the state of significant funds in taxes and royalties, diminishing its ability to finance socioeconomic priorities.



**Recession and reduced household purchasing power are major concerns in the aftermath of the coup**, and will likely drive Sudan’s economic growth rate into negative territory.

**Macroeconomic imbalances have returned.** Since the coup, Sudan’s economy has performed below expectations. The SDG lost about 30 percent of its value against the US dollar since March 2022, and the downward trend stopped mainly due to weak demand for foreign currency due to a decline in business activity and reduced household purchasing power.

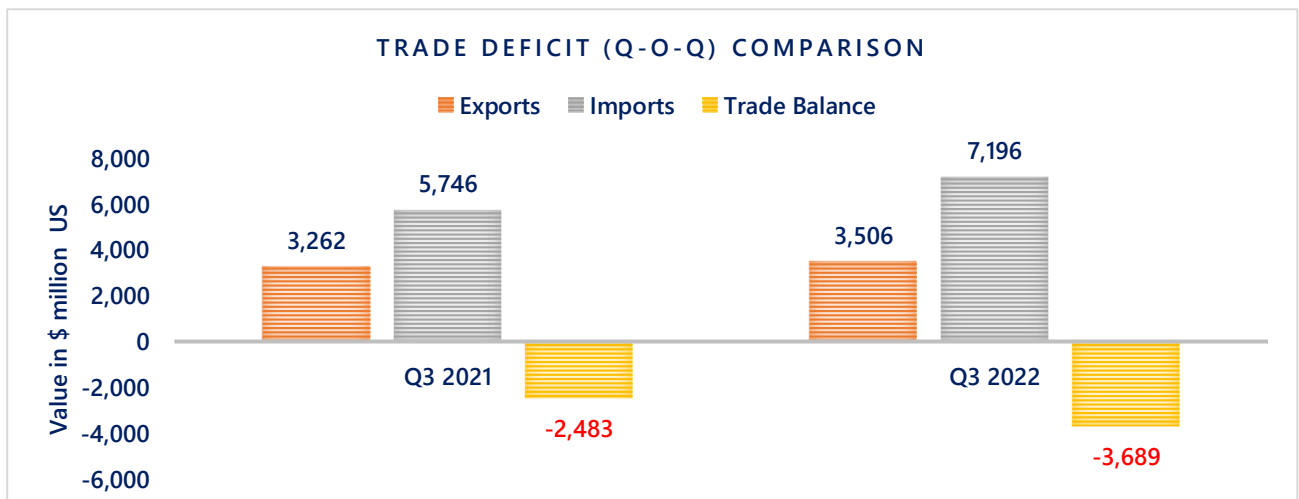
**Figure (5): Post-Coup Exchange Rate & Parallel Exchange Rate**



Sources: Exchange rate Division, Policies, Research & Statistics Department, CBOS

**Widening trade deficit.** Trade Balance (TB) deficit stood at \$3.5 billion in Q3 2022 compared to \$2.4 billion in the corresponding period in 2021, a 46 percent increase, mainly due to a nearly fivefold increase in petroleum imports. A trade deficit can lead to future devaluation in the official exchange rate to restore the external balance.

**Figure (6): Post- Coup Trade Deficit Remained High**



Sources: Foreign Trade Statistical Digest, Policies, Research & Statistics Department, CBOS



**Loss of foreign funding and economic mismanagement has pushed the Sudanese economy to the brink.** Many donors immediately stopped consideration of new funding and halted disbursement of already allocated funds following the coup. As a result, Sudan lost some \$4.6 bn in foreign aid. This includes nearly \$2.6 bn from the World Bank meant for projects in agriculture, irrigation, energy and health as well as about \$579 million allocated by foreign donors to the SFSP. The US also suspended \$700m in aid, approved after Sudan was removed from the State Sponsors of Terrorism List. These financial losses have affected the economy and, as a result, the coup government is raising prices and taxes on everything from corporate businesses, to service fees, custom duties, healthcare, and fuel. This has had significant economic impact on vulnerable people and business activity.

**Table 1: Financial Support for Reform.** Following the October 25 coup all aid, except for humanitarian aid, was suspended (which is the situation that prevailed in the pre-revolution era).

<b>Transitional period: Sources of Funding &amp; Purpose</b>	<b>Net Commitment</b>	<b>Total Disbursed</b>	<b>Remaining balances suspended</b>	<b>% of Suspended Funds</b>
<b>WB support to projects in irrigation, agriculture, small producers, energy, women and water</b>	<b>2,595</b>	<b>0</b>	<b>2,595</b>	<b>100%</b>
<b>Family Support Program (FSP)</b>				
<b>WB: IDA- FSP</b>	<b>410</b>	<b>101</b>	<b>309</b>	<b>75%</b>
<b>Donors: EU, and other Europeans donors</b>	<b>350</b>	<b>80</b>	<b>270</b>	<b>77%</b>
<b>Sub Total</b>	<b>760</b>	<b>181</b>	<b>579</b>	<b>76%</b>
<b>US Government</b>				
<b>US: Flexible assistance and not earmarked</b>	<b>700</b>	<b>0</b>	<b>700</b>	<b>100%</b>
<b>US: Wheat in Kind grant to Sudan</b>	<b>588</b>	<b>87</b>	<b>501</b>	<b>85%</b>
<b>Sub Total</b>	<b>1,288</b>	<b>87</b>	<b>1,201</b>	<b>93%</b>
<b>Grand Total</b>	<b>4,643</b>	<b>268</b>	<b>4,375</b>	<b>94%</b>
<b>Note: in addition to other valuable support from EU, UK, Germany, etc.</b>				

**Debt relief process has stopped.** The international community stopped the HIPC process in response to the October 25 coup. The ECF, intended to anchor the authorities' policies and reforms between the HIPC Decision Point and Completion Point, was also suspended.

It is worth noting that Sudanese authorities had signed an agreement with the Paris Club of major creditor countries on July 15, 2021, to start the bilateral outreach on forgiveness of US\$14.1 billion in Paris Club debt. The next step in this process was for the Sudanese

government to establish bilateral agreements with each member by April 30, 2022, but in June 2022, the Paris Club announced that it was suspending the process because of the coup.

At the moment, the ECF has been suspended, but the risk of cancellation is significant. The IMF may wait up to end of this year before canceling the ECF. If the ECF is canceled, the authorities will have to re-engage the IMF in the SMP before negotiating a new ECF. That is a very complicated process, and it is unclear if it would be successful. It is worth noting that Sudan missed the first ECF review in February 2022. As a result, the CBOS missed out on Special Drawing Rights (SDRs) totaling SDG 61.7 million (US\$ 86.4 million) in March 2022 as direct support to its budget balance of payments. Sudan has lost a conservative estimate of US\$6 billion in concessional loans needed for infrastructure, basic services such as health, education, and food security. A total of US\$1 billion to support Sudan's budget and balance of payments was to have run from March 30, 2022 to August 30, 2024, but has stopped following the coup.

**Table 2: Financial Support to implement ECF**

Availability date	Amount of disbursement (SDRS) million	Equivalent in million US dollars	Approval of an arrangement
<b>Bridge loan to repay the Sudan arrears to the IMF</b>	991.551	1,338.17	The bridge loan was repaid by France, before the ECF signature
<b>March 30, 2022</b>	61.792	86.5	First review and end-December 2021 performance criteria
<b>September 30, 2022</b>	61.792	86.5	Second review and end-June 2022 performance criteria
<b>March 30, 2023</b>	123.583	173.0162	Third review and end-December 2022 performance criteria
<b>September 30, 2023</b>	123.583	173.0162	Fourth review and end-June 2023 performance criteria
<b>March 30, 2024</b>	185.375	259.525	Fifth review and end-December 2023 performance criteria
<b>August 30, 2024</b>	185.375	259.525	Sixth review and end-June 2024 performance criteria
<b>Total</b>	<b>1,733.051</b>	<b>2,426.271</b>	

**The impact on the private sector.** Efforts to promote the private sector in Sudan have also been rolled back. The ceiling for borrowing by SOEs imposed as part of the ECF program was lifted after the coup, leaving SOEs able to borrow without limit and maintain their dominance of the economy, crowding out private sector organizations from accessing financing. The influence of SOEs following the coup has a significant impact on economic policy formulation and implementation.

The SOE sector in Sudan is large and operates largely without MoFEP or other government oversight. Reducing their role in the economy would help mitigate fiscal risk, create a more enabling environment for private sector-led growth, enhance efficiency of public resource management and promote competition.

## Restoring macroeconomic stability in Sudan

t the same time, Sudan has encouraged the expansion of treatment plants that process millions of tons of mineral waste left behind by ASGM miners through the use of cyanide. In effect, mercury is known to extract only about 30% of the gold content in the ore, leaving behind 70% of gold particles in mineral waste. Much of this remaining gold can be extracted with cyanide, but many tailings processors ignore industry protocols for handling cyanide in their operations, in the absence of government oversight and enforcement mechanisms.

The speed and visibility of the country's economic deterioration since the coup make it clear that a political settlement is needed now to avoid more fragility. A transition to democratic civilian government is a real possibility, following the signature of a new Framework Agreement. Despite obstacles from the military, the protest movement and people's resistance are creating strong pressure for a transition. However, the people of Sudan need international support to ensure a transition that will not only serve the people of Sudan's democratic aspirations, advance stability in the region and increase the prospects for restoring macroeconomic stability in the country. In order to deliver on this promise, however, Sudan needs both transitional government support to a reform agenda and international support.

## The role of the international community

The international community recognizes that economic stabilization will require major political and economic reform. Since the coup, the military side has proven itself weak, divided and poor at ruling the country. If a new, civilian government is put in place, the international community should support it to adopt a forward-looking strategy, focusing on inclusive solutions to the current precarious situation and build strong governance and justice systems. Such a program of support should recognize:

**International cooperation is a prerequisite for the new transitional government to ensure financial support for reform** through project financing, debt relief outreach, enhancing correspondence relationships, and reintegrating with the international financial and business communities. The new transitional government needs to be prepared to benefit from the crisis response window to increase food security and to leverage the International Development Association's encouragement of private sector investment.

**ECF Resumption and Engagement with the WBG and IMF.** The WBG, IMF, the EU and US actors and other influential partners to make necessary efforts to save Sudan's debt relief process. They should consider the future of Sudan and the importance of reaching a political settlement and recognize that the ECF is an ambitious and appropriate response to Sudan's macroeconomic challenges, including the relief.

**Debt relief would help transform Sudan from a fragile to a developing state, and ease access to concessional loans needed for infrastructure and basic services.** As the holders of this debt, international actors have a significant role to play in ensuring debt relief. Sudan has made significant efforts to resolve this problem and follow debt relief mechanisms and models, including engagement with creditors, and adoption of a poverty reduction strategy. International actors should support resumption of these efforts and eventual debt relief.

**Tackling difficulties through building donor-recipient coordination.** The new transitional government needs to improve the effectiveness and quality of aid and development assistance to achieve greater development impact in Sudan. The creation of governance mechanisms that result in greater dialogue and coordination between donors and recipients can help to ensure that aid is better coordinated, aligned with Sudanese priorities, measured for its results. Such mechanisms can also address continued inefficiencies. We can learn from the experience of other countries in this respect; Tanzania has a well-developed framework for mutual accountability, which relies on the work of an independent monitoring group that conducts biennial reviews of both donor and government progress against their various commitments- making both parties accountable. Donors should also require that financial institutions involved in transactions related to aid delivery indicate their beneficial ownership and comply with the reporting, tax and other requirements of Sudan.

## **The role of a new transitional government**

Sudan currently faces considerable shocks and vulnerabilities with direct consequences on both the general public and the business sector. These vulnerabilities include political instability, internal conflicts, increased criminality, frequent closure of bridges and roads, distortionary policies from the MoFEP, limited concessional financing, and the suspension of SFSP. The recent food price hike has contributed to an ever-increasing cost of living, while per capita gross domestic product (GDP) is decreasing.

The main challenges facing a new transitional government will be domestic, including policies to revive the economic activity, enable more private sector participation, tackle the cost-of-living crisis, create jobs for the youth, and increase women's participation in the labor force. However, the framework agreement can offer a path to a more conducive environment for implementing these policies and to rebuild and insure good governance in institutions, especially MoFEP and the CBOS.

## **The expected impact of the Framework Agreement on the private sector**

**Political stability is closely related to the business environment.** The deal is expected to increase political stability, which often offers favorable business environments for the private sector, since good governance facilitates reforms and investments.

**The framework agreement lays the groundwork for fostering economic resilience.** The macroeconomic environment in Sudan that has been characterized by instability since the coup, and this instability including high inflation, foreign exchange shortage, scarcities, and lack of banks financing, is hampering the development of the private sector.

It is worth noting that economic reforms will not lead to a significant positive outcome unless there is a well-functioning private sector. No reform design is perfect, but there will need to be a focus on resolving ongoing challenges by building a social incentive structure that encourages entrepreneurship and engagement in the private sector and recognizes private sector career achievements.

It is anticipated that the creation of a new transitional government would allow the IMF and WBG to resume engagement with, and assistance to, the country. The World Bank could avail special portfolios to the private sector, which covers a range of areas, including education, health, agriculture, natural resource management, climate change, peace-building, and public financial management. In addition, the International Finance Corporation (IFC), the private sector arm of the WBG, could open an office in Khartoum, which would facilitate it to offer credit to banks and the private sector, creating an enabling environment for private sector-led growth.

**The African Development Bank (AfDB)** has been able to assist private sector through its Transition Support Facility (TSF) which was established to help fragile countries consolidate peace, build resilient institutions, stabilize their economies and lay the foundations for inclusive growth. AfDB's current portfolio US\$274 million and it could be a significant development partner for Sudan's private sector.

## Conclusion and policy recommendations

The December 2018 revolution created space to pursue major economic reforms. However, that space was abruptly taken away by the October 25 coup. Today the economic situation is grim and is likely to worsen if military rule continues. The recent framework agreement creates new hope that a civilian transitional government can be put in place and that reforms can be resumed. Ultimately, however, Sudan's prosperity will require the implementation of policies that set the stage for a sustainable recovery and high-quality growth.

The new transitional government should design a comprehensive macroeconomic reform program that will address the main sources of imbalances and boost inclusive growth, including strengthening domestic revenue mobilization and ensuring greater exchange rate stability. This should be accompanied by an expansion of social safety nets to mitigate the impact of adjustment on vulnerable segments and measures to fight corruption and complement the proposed HIPC floating Completion Point (CP) triggers.

The following recommendations are expected to help guide policy makers to improve the delivery of the right economic policies, assuming that the deep-seated political issues have been resolved and the next transitional government is in place to pursue the following reforms:

- **Redefine the role of government in the economy.** The new TG should focus on rational macroeconomic management, including reductions in real exchange rate distortions and instability, pursue sound economic management to permit and facilitate private sector participation in economic development.

Civilian control of the economy is a prerequisite for addressing the ongoing cost of living crisis and decline of business activity, reducing corruption (especially in the gold sector), resuming of economic reform programs, strengthening fiscal transparency, and the recovering ill-gotten assets.

The role of civilian rule is crucial to institution-building and economic policymaking and strengthening the capacity, stability and transparency of key economic institutions is essential for effective economic management and public financial management reforms.

- **Engage in a far-reaching set of reforms and build resilience over time to a range of shocks.** The TG should build a roadmap for economic and institutional reforms over the next years, including, adoption of a fiscal adjustment plan centered on domestic revenue mobilization, and public expenditure review, strengthening social protection, enhancing the role of the private sector, financial sector oversight, enactment of laws and regulations for management of the gold sector. Moreover, civilian control of the economy is a prerequisite for a democratic Sudan, participation of civil society in anti-corruption campaigns, and job creation for youth. The TG should also enhance oversight of SOEs, address banking sector vulnerabilities, and create an anti-corruption commission with clear and strong mandate. In the same vein, the TG should strengthen governance of the CBOS, as the supervisory to build a resilient Sudanese banking sector and prevent it from being used for corruption and abuse.
- **Engage with the IMF and the WBG.** It is expected that the IMF and WBG would resume financial support for economic reform within three months of the establishment of a new transitional government. The new government should continue to cooperate with the IMF on economic policies and institutional reform. **Prioritize resumption of economic reform programs under the ECF, to pave the way for the provision of financing assurances for HIPC debt relief.**
- **Work with the International Finance Corporation to scale up its advisory services** to support the establishment of the new investment and private sector development authority, assess investment projects, and make financing available to eligible private sector enterprises.
- **Help the Sudanese people bounce back.** The new transitional government should prioritize protecting vulnerable groups through targeted support. Social safety nets (such as the SFSP, health insurance, Zakat, etc.) help the most vulnerable people bounce back from poverty, making them more resilient. Social safety nets should be made more readily scalable and better targeted, leveraging digital technologies to help Sudanese people rebound from the cost-of-living crisis.
- **Resume Sudan’s institutional and economic governance reforms.** Improving economic governance would support higher investment. Weak governance coupled with a high perception of corruption creates uncertainty about the returns on investment due to factors including unpredictable policies and uneven enforcement of regulations. Sustained broad consultation with private stakeholders and the public is crucial to secure broad social support for the reform agenda.

#### a. Restoring Macroeconomic Stability

- **Minimize the reliance of fiscal policy on monetary policy and establish greater budgetary discipline.** Fiscal consolidation is much needed, including efforts to strengthen tax administration, treasury single account (TSA) management, and to provide more resources to social and productive sectors. In addition, efforts should be made to encourage the private sector-led growth, allow greater flexibility in the exchange rate, and promote exports. On the import side, there is an urgent need to contain imports and enhance import substitutions.



- **Review public expenditure and impose tougher austerity measures.** Fiscal reforms are critical to address deficit monetization, reduce inflation, and support social and development programs. The fiscal deficit should be reduced to sustainable limits of 3 percent of GDP to avoid monetization and the need to print money to secure government owned institutions. Experience has shown that reducing military spending by 20 percent would contribute to tightening the exchange rate premium from 80 percent to 30 percent, which would in turn reduce inflation by about 8 percent. Tough measures are urgently needed to cut the expenditure of the Sovereign Council and Cabinet.
- **Gradually remove exchange restrictions and multiple currency practices (MCPs).** Greater exchange rate flexibility and structural reforms, supported by tighter fiscal and budgetary discipline, are needed to improve competitiveness and foster private sector investment. Sudan needs to avoid the exchange restrictions and MCPs to meet the conditions of IMF Article VIII on exchange rates.
- Create, in the long term, a market-clearing exchange rate is key to reducing external imbalances and boosting competitiveness, investment, growth, and fiscal revenues, which should be a long-term objective of the new transitional government.

#### **b. Enhancing economic governance and reducing the opportunities for corruption in Sudan**

In the wake of the October 25 coup: fragility, lack of transparency, and poor data quality increase vulnerability to corruption and require urgent attention. Sudan has limited capacity and faces multiple constraints to pursuing necessary reforms to strengthen public financial management and fiscal transparency, including through enhancing SOE oversight, promoting transparency in the petroleum and mining sectors (especially illicit gold), reforming tax exemptions, enhancing CBOS governance and operations, strengthening financial sector oversight, and strengthening the anti-corruption framework and rule of law. Some initial steps, however, that can be taken to advance this are:

- **Establish an independent Anti-Corruption Commission.**
- **Reform the CBOS and banking sector,** including enhancing limits on CBOS financing of the budget and monetization of fiscal deficits to contain inflation, relieving the CBOS of responsibility for subsidies and other quasi-fiscal activities (QFAs) and strengthening its operational independence will improve its credibility and its capacity to deliver on its price stability mandate.

#### **c. SOE reform**

- **Reduce the role of the military business and their companies in the economy** to mitigate fiscal risk and create a more enabling environment for private sector-led growth.
- **Create a strategy for the SOE sector to improve oversight and management,** and determine which entities should remain public, be liquidated or be privatized.
- Promote transparency and accountability in the state-owned sector by **publishing their financial information on a regular basis.**



#### d. Improving the business climate

Unlocking Sudan's private sector potential will require significant steps to improve governance, reduce the role of the state in the economy, and mobilize private investment. In particular the transitional government should:

- **Prioritize structural measures needed to improve the business environment** to stimulate private sector-led growth outside the oil sector. Key areas of focus include automation of tax collection to lower transaction costs and building basic infrastructure and institutions to integrate Sudan's disparate markets and reduce distortions.
- **Ensure efficient and reliable transport route networks throughout the country** to widen the market within Sudan and increase exports. In addition, prudent financial sector development with a view to providing adequate credit and financial services to appropriate productive sectors would reduce risks and vulnerability.

#### e. Improving social protection measures

- **Formulate a comprehensive social protection policy** which should be integrated across all relevant government strategies;
- **Review and improve the institutional and regulatory framework for the social protection system.** The Ministry of Labor and Social Welfare and other government institutions and agencies responsible for social protection and poverty reduction, should work closely with development partners in this.
- **Build a strong and comprehensive database of all social protection data in Sudan** and create a credible, results-based monitoring system to support social protection programs. There is an urgent need to develop a unified beneficiary registry.

#### f. Human capital

- Invest in human capital by improving the coverage and quality of education and health services. This is one of the single most valuable long-term policy agendas for Sudan's future.