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FOREWORD

Sudan has, for years, faced multiple economic crises, including a huge budget deficit, extensive international sanctions under al-Bashir and widespread shortages of essential goods and soaring prices of bread and other essential staples. An economic situation that has led to the overthrow of al-Bashir and has continued since, and even worsened because of the COVID-19 pandemic.

Sudan strives to make progress as it is trying to reach global markets and attract investment, but vigilance is required as the country has been witnessing a fragile democratic transition. Earlier this year, Sudan succeeded in paving the way for enormous relief on more than $50bn in foreign debt by implementing rapid economic reforms, unlocking access to international financing.

Against this backdrop, the Regional Program Political Dialogue South Mediterranean of the Konrad Adenauer Stiftung (KAS PolDiMed) aims to map-out Sudan's economic policies in this edition of Spotlight on Sudan. The report highlights the major internal and external factors that have been shaping the economic landscape of Sudan.

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Executive Summary

Since coming to power in 2019, Sudan's transitional government has sought not merely to reform political institutions, but has also attempted major reforms in domestic economic management and Sudan's relationship with external creditors. Although the economic challenges faced by Sudan are substantial, these reforms risk exceeding the mandate of a 'transitional' government charged with overseeing the country's passage from long-term military rule (1989-2019) towards parliamentary elections scheduled for 2022.

Sudan's difficult economic inheritance is frequently attributed to technical and moral failings on the part of the regime ousted by the 2019 revolution. As a result, many of Sudan's current and would-be creditors are presenting economic reform as an inescapable part of the country's transition, and the question of how to achieve these reforms has been depoliticised. Although the charges of historic "mismanagement" and "corruption" are commonplace in Sudanese popular discourse and professional commentary on the country, this report argues that they carry little explanatory value.

This report begins by examining the long-term and structural economic challenges faced by Sudan. Several of these (exposure to commodity markets and sovereign indebtedness) are not specific to Sudan, while others (the impacts of long-term sanctions) are the result of external impositions. What is particular to Sudan has been the largely successful attempt to build a particular vision of an Islamic economy and society against difficult external conditions.

Subsequently, this report reviews the current economic policies of the transitional government with regards to Sudan's external debt; exchange rate reform; fiscal reforms; and the impacts of the Covid-19 recession on Sudan. The analysis suggests that these reforms are failing in their stated objectives.

The report concludes with recommendations for political actors within Sudan, and the country's external partners. The Sudanese government should respond to the external demand shock of the Covid-19 pandemic by seeking to protect internal demand during the political transition. Military and security expenditure should be reduced, but the government should seek to guarantee the livelihoods of the many Sudanese who work in these sectors. The government should prioritise relationships with creditors who currently issue external financing to Sudan, and eschew the mirage of 'debt forgiveness' for debts that have already been defaulted upon, in some instances since the early 1980s. Ratification of certain major economic reforms should be delayed until an elected government is in office.

Sudan's 'partner countries' should lift most of the conditionalities attached to financial aid, investment, and debt cancellation, given the exceptional circumstances of the Covid-19 pandemic and Sudan's 'narrow window' for political reform. Aid budgets should be directed towards recipients within Sudan, rather than repaying other creditors, and the timeline for economic reform programmes in Sudan should be delinked from the timeline for the country's political transition.

Introduction

In 2019, a popular uprising toppled Sudan's long-serving military president Umar al-Bashir (in office from 1989 until 2019). The Transitional Government that now rules Sudan is charged with overseeing the country's political transition and the organisation of democratic elections in 2022. Not content with reforming political institutions, the Transitional Government has taken it upon itself to implement sweeping economic reforms. Controversially, some of these continue the policies of President Bashir's final years in office, which first prompted urban protests against fuel and bread prices, and which later grew into a popular revolution in 2019.

Popular and professional commentary about economic reform in Sudan is impoverished by the assumption that Sudan's economic challenges have arisen solely from technical incompetence and moral failures on the part of the ousted President Bashir and his successive governments. Although charges of 'mismanagement' and 'corruption' have significant popular and professional currency – and, no doubt, a large factual basis – this report argues that they carry little explanatory value, and provide a poor guide to current policy.

This report begins by analysing the causes of Sudan's difficult economic inheritance, and forefronts systemic and recurring challenges rather than the personal failings of a particular regime. The second section reviews current economic reforms under the Transitional Government. The conclusion offers recommendations for the road ahead.

A. Sudan's Difficult Economic Inheritance

This section examines some of the long-term and structural challenges within Sudan's economy. It seeks to distinguish which challenges are specific to Sudan, which are common among low-income countries, and which are the result of external imposition.

i. Exposure to Commodity Markets

The fortunes of Sudan's economy – and its external balance in particular – are closely tied to primary commodity prices within international markets. In particular, Sudan's economy has been organised around the production and export of raw cotton since the period of British rule in the first half of the twentieth century. Cotton continued to provide over half of Sudan's export receipts for several decades following the country's independence in 1956[1].

Exposure to primary commodity exports is a common challenge among low-income countries. In an open economy, the gains acquired from periods of booming export prices are often illusory, as demand for imports rarely falls when export prices fall, and foreign exchange flows once again out of the country. This has a destabilising effect on local incomes, prices, and the exchange rate, with the potential to undermine local public and private investment projects[2].

Governments in Sudan have responded to this volatility in different ways in different periods. In the 1960s, governments intensified exchange controls to protect the country colonial-era exchange rate; in the 1970s and early 1980s, governments repeatedly devalued and then floated the exchange rate; and, in the late 1980s and 1990s governments sought full adjustment to the competitive pressures of external markets. None of these policies were anti-market or anti-liberal; rather, they reflected the global consensus in each period

[1] Simon Mollan, Imperialism and Economic Development in sub-Saharan Africa: an economic and business history of Sudan, (Palgrave MacMillan: London, 2020), 201-239.

[2] United Nations Conference on Trade and Development, 'Don't Blame the Physical Markets: financialization is the root cause of oil and commodity price volatility', Policy Brief, 25 (September 2012). Available online: https://unctad.org/en/PublicationsLibrary/presspb2012d1_en.pdf.

regarding how to embed liberal markets within particular regulatory instruments[3]. Sanctions imposed against Sudan after 1997 (see below) partially decoupled the domestic economy from the fluctuations of international commodity and capital markets.

External technical advice for Sudanese governments has oscillated between two prescriptions in response to these challenges. In some years, advice has advocated diversifying Sudan's economy away from cotton. This has tied-up scarce foreign exchange in ambitious develop schemes that gamble of future productivity increases, while leaving the country exposed to a more immediate downturn in export receipts[4]. When such downturns occur, advice often shifts towards advocating retrenchment and improvements in the cotton sector to bolster foreign exchange revenues. However, the underlying problem of Sudan's exposure to foreign exchange crises in an open economy remains the same[5].

In more recent decades, falling yields and export prices (despite successive waves of improvement projects) have led to cotton's relative decline within Sudanese exports. Sudan's export receipts are increasingly dependent upon exports of foodstuffs and livestock within the region (notably towards Egypt and the Gulf), following trading relationships with deep historical roots. Producers of these goods are facing pressures of declining yields and climate change, and yet this new export dependence has led to the Sudanese government imposing a gruelling productivism on rural, ageing and female populations in the country's peripheries[6].

ii. Sovereign Debt Overhang

The sovereign debt overhang is another feature of Sudan's economy that is shared with other low- and middle-income countries. In the 1960s and 1970s, private Western banks began lending large amounts of money to low- and middle-income countries. Emerging economies were viewed as a safe bet, as newly independent countries were undergoing rapid economic growth in this period, and sovereign loans could be backed by domestic taxation[7].

In the 1970s, a series of economic shocks disrupted the conditions in which countries generated revenues and serviced their debts. From 1973, oil price rises substantially increased cost for industry and development projects in many countries, while the price for other primary goods remained volatile. In the late 1970s, Western government drastically increased interest rates in a bid to lower inflation, and this raised the debt-servicing costs for governments in the Middle East, Africa and Latin America that had undertaken variable-interest loans[8]. The absence of international legal mechanisms with which to confront sovereign insolvencies meant that indebted countries had no means of recourse with which

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[3] Harry Cross, 'Banking, Business, and Sovereignty in Sudan (1956-2019)', in Kai Koddenbroch et al., Monetary Sovereignty in Africa in the 21st Century (Pluto Press: London, 2021), 64-68.

[4] Thus, the Ten-Year Development Plan of Economic and Social Development launched in 1961 was followed by a crisis in internal and external balances in 1963. The Arab Breadbasket project launched in 1976 preceded major IMF interventions in Sudan from 1978 onwards.

[5] This dance is followed in part by the historical work of Alden Young, Transforming Sudan: Decolonization, Economic Development, and State Formation (Cambridge University Press: Cambridge, 2017).

[6] I am grateful to a personal communication from Edward Thomas for his insights. His work on these questions is due to be published in a co-authored report later in 2021.

[7] This account is well-established in academic literature, and it is made accessible by jubileedebt.org.uk from an activist approach.

[8] Adam Hanieh, Issues of Contemporary Capitalism in the Middle East (Haymarket Books: Chicago, 2013), 29-31.

to restructure debts and rein in compound interest without the acquiescence of their creditors[9].

This resulted in the 'Third World Debt' crisis in the early 1980s, from which Sudan was not spared. Between 1978 and 1985, the government of Jaafar Nimeiri applied successive waves economic reforms, fiscal tightening, and exchange rate devaluations as a condition of being bailed out by the IMF. Although devaluation was supposed to make Sudan's exports cheaper in international markets, the quantities of goods that Sudan exported and imported proved highly inelastic. As a result, devaluation had the opposite effect of raising the bill for imported goods, while slashing receipts from cotton and other exports. In 1985, the hardship arising from Nimeiri's reforms contributed to a popular uprising that led to his downfall[10].

Today, Sudan is in sovereign debt arrears, much of which dates from this period. Significantly, it was the government of Jaafar Nimeiri and not Umar al-Bashir that contracted much of this debt, but subsequently defaulted. After taking power in 1989, al-Bashir initially sought to pay down Sudan's foreign debt obligations. However, the imposition of sanctions removed all hopes of achieving this, and many of Sudan's debts to Western governments and banks remain unpaid. Much of this debt now consists of compounded interest and fees, rather than the financial principals initially contracted[11].

iii. Sanctions

In 1997, the United States orchestrated a system of international sanctions against Sudan. Umar al-Bashir had been president of Sudan for eight years, and his Islamist government was accused of support violent religious groups in the region. Most financial payment technologies are registered in the US, so US sanctions prevented companies around the world from doing business in Sudan, since they would have to make use of these technologies. In 2014, the EU intensified its own sanctions against Sudan due to armed conflict within the country[12].

Politically-motivated sanctions have a dubious efficacy and a dubious legality in international economics and law. Sanctions impose material hardship on the populations of a sanctioned country, but often do little to dilute the hold of political regimes within those countries. Indeed, sanctions can provide an exogenous protectionist boost to key sectors of the economy whose support can be co-opted by governments with little prospect of external challenge or the need to build broad-based economic institutions or political constituencies[13]. Ironically, Bashir's regime was to fall 18 months after sanctions were nominally lifted in 2017.

The crippling impact of sanctions did cause Sudan under Umar al-Bashir to retreat from some of its independent foreign policy positions after his first decade in office. In 1999, al-Bashir broke with the most ideological wing of his Islamist coalition and, since that time, his government sought to reverse the effects of sanctions by seeking readmission to Western systems of trade and finance. Scholars have pointed out the apparent contradiction between the domestic political project of Bashir's ruling party to build an Islamic alternative

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[9] José Antonio Ocampo, Resetting the International Monetary (Non)System (Oxford University Press: Oxford, 2017), 139-180.

[10] John Prendergast, '"Blood money for Sudan: World Bank and IMF to the 'rescue', Africa Today 36, 3/4 (1989), 46-47.

[11] Tess Woolfenden, 'Sudan Moves One Step Closer to Clearing $60 Billion Debt' (20 May 2021). Available online: https://jubileedebt.org.uk/blog/sudan-moves-one-step-closer-to-clearing-60-billion-debt.

[12] Harry Cross, 'Sudan's Struggle for Democracy', Tribune Magazine (26 April 2019) https://tribunemag.co.uk/2019/04/sudans-struggle-for-democracy.

[13] Harry Cross, 'Sudan at the IMF: Behind Appearances of Financial Orthodoxy', African Arguments: Debating Ideas (13 July 2021). Available online: Sudan at the IMF: Behind Appearances of Financial Orthodoxy | African Arguments.

to Western globalisation, and its external economic policies that made it a faithful student of technical advice from Western and multilateral institutions such as the IMF and the World Bank[14]. In the event, the long-term US response to the World Trade Centre Attacks in 2001 made reconciliatory policies towards Islamic governments in the region a political non-possibility.

US sanctions remained in place for two decades, long after the initial cause for their imposition had dissipated. With Sudan's external reserves on a drip feed of liquidity, this made the country a willing partner of any power that would extend short-term financing. To access external financing, Sudan turned increasingly towards non-Western creditors such as China, Arab Gulf states, and regional development banks to raise external funds[15].

In 2017, the US nominally lifted sanctions against Sudan. However, the country was still designated as a State Sponsor of Terrorism (SST) by the US State Department. This continued to hinder external investment in Sudan lest investors face legal prosecution in the US for financing terrorism, and the country remained under a regime of 'sanctions by default'. In 2017, the Sudanese government introduced a programme of fiscal tightening and subsidy removals under explicit IMF advice in renewed efforts to regain access to external financing. Protests in response to these measures led to the regime's downfall[16].

The Transitional Government continues its predecessor's policy of seeking to please would-be creditors and re-open Sudan for foreign investment. However, as each externally-imposed obstacle is overcome, a new one is been erected, with the effect of sanctions being followed by IMF conditionalities; SST designation; and now hurdles towards achieving HIPC (Heavily Indebted Poor Countries) 'decision points' and 'completion points', considered in a later section.

iv. An Islamic Economy

The major policy achievement of Umar al-Bashir's regime (1989-2019) was to rebuild much of Sudan's domestic economy and society around a particular vision of Islamic values. The political predecessors to Bashir's Islamic National Congress Party (NCP) had been closely tied to the Islamic banking sector that had existed in Sudan since the 1970s. The most important of these institutions had been founded with a combination of Sudanese and Gulf capital, and they sought to eschew usury by extending finance in forms other than loans-at-interest. Significantly, they gave preferential credit access to members of Sudan's Muslim Brotherhood party, which became the NCP after 1989[17].

The continuation of these bank financing policies with official state sanction under the NCP brought about an economic democratisation in Sudan, with more companies reportedly registered between 1989 and 1994 as in the entire period between 1925 and 1989. Simultaneously, Bashir undermined the local economic holdings of the large business families and export companies that had held economic power throughout multiple political regime changes in Sudan since independence. After 1997, sanctions further damaged the businesses of Sudan's traditional and anti-NCP business magnates, whose activities were oriented towards external trade. Instead, those whose business operations and supply lines were organised entirely within Sudan benefited from this externally-imposed protectionist boost. As Sudan turned eastwards in its search for external credit and investment, several

[14] Edward Thomas, 'Patterns of Growth and Inequality in Sudan, 1977-2017.', Working Paper. Institute for Middle East and Islamic Studies, Durham University (2017), p. 26. Available online: https://www.dur.ac.uk/resources/sgia/imeis/lucefund/Luce-Fellowship-Paper-2017_Sudan-Thomas.pdf.

[15] IMF, 'Sudan: Staff-monitored Program—Debt Sustainability Analysis' (23 October 2020).

[16] Cross, 'Sudan's Struggle'.

[17] Cross, 'Banking, Business, and Sovereignty', 63-64.

business brokers and members of the regime profited by positioning themselves as the local agents of Asian and Gulf investors[18].

The political economy of the NCP regime also included a large military-security sector that lived by public and quasi-public payrolls, as has been researched by other authors in this series. In every community in Sudan, membership of the army, police, or intelligence services is not solely a form of ideological commitment, but also a welcome source of income. Senior army officers also enrich themselves from leveraging access to state resources and external business connections, working through dedicated banks and parastatals[19].

For all the allegations of corruption that are levelled at the business dealings of elite army officers and NCP members, Bashir's regime also succeeded in an economic democratisation in Sudan that diluted the influence of the large family firms that had dominated the country since independence, and often long before. Many Sudanese recognise this and would not want what is understood to be the Islamic character of economic life in Sudan to be removed. This success in building an economy based on particular religious values should not be elided with the coercive methods used by Bashir to maintain office, nor the material hardship imposed by external sanctions[20]. If economic reforms at the current time eliminate both the viability of many small businesses in Sudan and the incomes of the many families with members engaged in military and security activities, then this will undermine support for reforms to political structures.

B. Reforming Politics, Reforming the Economy

After popular uprisings in 2018-2019, Umar al-Bashir was removed from office by his fellow army officers. Although Sudan's president of 30 years is gone, his military regime is not, as senior army officers have retained half of the senior ministerial posts in the Transitional Government following a negotiated settlement with opposition forces. Civilian appointments in the new government come from the Forces for Freedom and Change (FFC) alliance, which claims to represent the 2019 revolutionaries. These appointments have gone largely to Anglophone technocrats, such as Prime Minister Abdulla Hamdok and Finance Minister Ibrahim Badawi (who resigned in 2020), both former international economists.

Under the direction of the FFC, the Transitional Government has combined transitional reforms to political institutions with a sweeping programme of economic reforms. The result is that Sudan's transitional period from 2019 until 2022 (assuming that elections take place when scheduled) has become a time of paradoxes. The old oppressive regime is charged with economic incompetency, and yet the new government continues the same deflationary and liberalising measures that receive external endorsement now, as they did under Bashir. Meanwhile, self-styled 'donor countries' present themselves as partners during Sudan's transition, and yet their most significant donations have gone to fellow creditors, while encouraging Sudan to restructure so that it can once again service Western creditors; and, domestic economic reforms are celebrated by the IMF in the name of fighting inflation, all while inflation continues to rise. These paradoxes are explored in this second part of the report.

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[18] Ibid and Abbashar Jamal, 'Funding Fundamentalism: The Political Economy of an Islamist State', Middle East Report 172 (1992), 14-17.

[19] Jean-Baptiste Gallopin, 'Bad company: How dark money threatens Sudan's transition', European Council on Foreign Relations (9 June 2020). Available online: https://ecfr.eu/publication/bad_company_how_dark_money_threatens_sudans_transition/.

[20] Noah Salomon, For Love of the Prophet: an ethnography of Sudan's Islamist state (Princeton University Press: Princeton, 2017).

i. Debts

Sudan's sovereign debts are being used both as the stick and the carrot by 'partner countries' to exact support for particular economic reforms. The 'stick' is the accusation that Sudan is over indebted, and the claim that this, rather than two decades of sanctions, is the true reason that the country lacks access to global capital markets. The 'carrot' is the promise of debt relief and new credit lines from the West, in exchange for deflationary local reforms.

Notwithstanding, the depiction of Sudan's debts in most technical reports is highly misleading. The IMF routinely estimates that Sudan's sovereign debts are worth 200 percent of GDP, which suggests ruinous insolvency for a low-income country without access to central bank swap lines or refinancing provisions[21]. However, 86 percent of these debts are in arrears, in some instances since the early 1980s (see above), and their value includes fees and interest that have accumulated since historic Sudanese defaults. In contrast, only 14 percent of Sudan's debts (representing 28 percent of GDP) are being actively serviced[22]. Significantly, Sudan was successful in securing current financing from non-Paris Club sources before 2019 (notably from China and the Arab Gulf). Furthermore, Sudan's debt-to-GDP ratio was falling in this period[23]. Sudan's lack of access to Western capital markets has been the result of political decisions by the latter's host governments, and not pure market concerns regarding creditworthiness.

Nevertheless, the Transitional Government has pursued renewed financing from Western sources, hoping that Umar al-Bashir's downfall will lead to a reconciliation with Paris and London Club creditors. These creditors have made it clear that renewed financing to Sudan will only come in exchange for Sudan clearing its arrears. Since this clearly constitutes an insurmountable burden, Sudan has been invited to apply to the IMF's Heavily Indebted Poor Countries (HIPC) Initiative. HIPC was established in the 1990s to address the issue of chronic over-indebtedness among low-income countries, and promises debt relief and cancellation for participating countries through coordination with creditors. Critically, HIPC offers few prospects for reducing debt servicing burdens, and 'cancellation' is typically applied to compounding debts that have already been defaulted upon. The rationale for such an exercise is arguably to prevent the collective exit of indebted low-income countries from Western financial markets in search of other sources of credit. HIPC debt relief occurs in exchange for policy conditionalities in the form of liberalising and deflationary economic policies[24].

The IMF, a multilateral body within UN structures, stated that it was Sudan's SST designation by the US – a unilateral foreign policy decision by the latter country – that 'effectively hinders progress toward HIPC debt relief'[25]. In contrast, Sudan's removal from the SST List by the US in December 2021 was celebrated by the IMF as it 'eliminates one of the hurdles toward possible HIPC debt relief', even though it was conditional upon a $335 million payment by

[21] IMF, 'Sudan', (23 October 2020), 4.

[22] African Development Bank, 'Economic and Financial Reforms Support Program: Republic of Sudan' (April 2021), 8 which corresponds with more recent debt and GDP estimates.

[23] 'The DSA undertaken by the World Bank and IMF in October 2020 showed that the Debt/GDP ratio was 172.9%, exceeding the 40% sustainability threshold for low income countries, and is expected to remain at 130.6% by 2040 if no urgent action is taken to address the crisis.' Ibid., 20.

[24] Harry Cross, 'Sudan at the IMF: Behind Appearances of Financial Orthodoxy', African Arguments: Debating Ideas (13 July 2021). Available online: Sudan at the IMF: Behind Appearances of Financial Orthodoxy | African Arguments.

[25] IMF, 'Sudan: Staff-Monitored Program' (10 September 2020), 1.

Sudan to a US Victims of Terrorism fund[26]. This significant financial commitment by a 'Heavily Indebted Poor Country' to the richest country on Earth was not criticised by the IMF, in marked contrast to the many technical critiques of Sudan's subsidy programmes.

An additional condition of Sudan's access to HIPC was that the country reduces its debts to multilateral creditors. To this end, most of the financial 'aid' to Sudan by partner countries in 2021 took the form of transfers to other creditors, as the US and European countries paid down Sudan's arrears to the IMF and the African Development Bank. After the IMF judged that Sudan had been successful in reducing in historic debts and enacting deflationary domestic reforms, the country reached a favourable HIPC 'Decision Point' in July 2021. The country must now demonstrate a continuing programme of liberalising and deflationary reforms to reach a HIPC 'Completion Point' and debt cancellation in 2024.

ii. Fiscal reforms

The most contentious economic reforms within Sudan have been attempts to reduce and rebalance the country's fiscal expenditures. For many years in Sudan, fiscal deficits have been a necessary precondition to persistent domestic inflation, and attempts to establish fiscal balance through austerity occurred under Umar al-Bashir. Indeed, scholars have noted the paradox that Bashir's regime followed an independent Islamic social and foreign policy, and yet was a faithful student of international financial orthodoxies in its management of government accounts[27]. In December 2017, an IMF report recommended social expenditure cuts in Sudan and specifically cited ending fuel and bread subsidies.

Bashir's government followed IMF advice and began to dismantle these subsidies. This resulted in shortages of these goods, and public demonstrations against the cost of living from 2017 that grew into a broad-based uprising against the regime in 2018-2019. Although IMF reports continue to point to historic corruption and mismanagement as the source of Sudan's economic travails, this does not acknowledge that the previous regime was studiously implementing the organisation's recommendations[28].

The transitional regime has taken it upon itself to reform Sudan's economy as well as its political institutions before a government with a democratic mandate is formed. Crucially, the current regime has continued its predecessor's policies of subsidy removal (along with privatisations and exchange rate liberalisation), meaning that the IMF and other would-be creditors are assured that the change of government in Sudan will not result in a change of policy. This has led to the paradox that the very policies that triggered Sudan's 2019 revolution have been continued and intensified by the regime it gave rise to[29].

A significant legacy of sanctions in Sudan is the fact that business is heavily dependent upon domestic demand. As part of its IMF Staff-Monitored Programme, the Transitional Government is currently attempting a 7.1 percent negative fiscal adjustment in 24 months on IMF advice[30]. This policy, formulated during a global recession due to Covid-19 (see below) risks ruin for many Sudanese at the precise moment that most observers acknowledge is crucial for consolidating the political gains and promises of the revolution.

European countries are supporting these fiscal adjustments through direct subsidies to the Sudan Family Support Programme, which gives grants to families in politically sensitive urban regions. However, these subsidies are due to end in 2022 when elections take place, meaning that this small financial cushion that Sudan enjoys will be removed at the very

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[26] Reuters, 'U.S. removal of Sudan from 'sponsors of terrorism' list is step toward debt relief: IMF' (24 October 2020). Available online: [U.S. removal of Sudan from 'sponsors of terrorism' list is step toward debt relief: IMF | Reuters.]

[27] Thomas, 'Patterns of Growth and Inequality'.

[28] IMF, 'Sudan: Selected Issues' (March 2020).

[29] Cross, 'Sudan at the IMF.'

[30] IMF, 'Sudan' (10 September 2020), 1-2.

moment democratisation takes place, which will automatically undermine any eventual elected government by inducing precarity in the local population[31].

Military and security spending had stagnated in Sudan after 2019 and even dropped slightly. In 2021, however, the Transitional Government once again increased defence spending by significant quantities, while cutting social expenditure[32]. In contrast to creditors' zeal targeting commodity subsidies, this additional fiscal expenditure received little comment or sanction from Sudan's international partners. Of course, continued defence expenditure after 2019 reflects a particular balance of power on the ground in Sudan. Military officers retain control over half of government ministries, and they have a loyal – or dependent – following of soldiers, security officers, and paramilitaries who have long depended on public payrolls for their livelihoods. A political settlement with this powerful remnant of Bashir's regime will be necessary to avoid the catastrophic effects of mass demobilisations that have occurred elsewhere in the region (notably in Iraq) or a continuing hold of the military over political power.

If the Sudanese government wishes to close its fiscal deficit without recourse austerity, then it has the option of raising progressive taxes. It has significant scope to do so, since the AfDB notes that 'Sudan's tax revenues [as a proportion of GDP] are among the lowest across low- and lower-middle income countries.'[33] At the time of writing, however, this remains the road not taken.

iii. Exchange Rate Policies

Prescribed economy reforms by the IMF and Paris Club creditors have included 'exchange rate harmonisation', namely, aligning Sudan's official exchange rates with the illegal black market rate used by expatriates within Sudan. Al-Bashir's policy of multiple exchange rates served two purposes. First, it provided targeted state support through preferential access to foreign exchange to sectors judged strategic for the employment, infrastructure, or defence services that they provided. This has caused the policy to be denounced as an exercise in corrupt cronyism. Secondly, multiple exchange rates are a form of capital control that render the export of hard currency at official rates prohibitive. It is worth noting that capital controls are explicitly endorsed by IMF Articles as legitimate tools for macroeconomic stabilisation.

The economic case for exchange rate devaluation (which is the true policy referred to as 'harmonisation') is that it renders exports cheaper and more competitive in foreign markets, while make costlier imports less attractive to domestic consumers. However, a previous section has highlighted how these supposed benefits are upturned if imports and exports prove inelastic relative to price. As such, a minor technical revaluation in 1967 had little impact on Sudan's external balance, while major devaluations between 1978 and 1985 slashed Sudan's foreign exchange receipts. The latter experience could be being reproduced in Sudan at the current time[34].

Much is made of the 'corrupt' nature of plural exchange rate policies, and in particular how they rewarded select importers with favourable local currency spreads between their

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[31] European Commission, 'Launch of the Sudan Family Support Program' (21 February 2021). Available online: Launch of the Sudan Family Support Program | EU Emergency Trust Fund for Africa (europa.eu).

[32] Dabanga Sudan, 'FFC: 'Sudan 2021 Budget Will Lead to Economic Collapse' (11 January 2021). Available online: FFC: 'Sudan 2021 budget will lead to economic collapse' | Radio Dabanga (dabangasudan.org).

[33] AfDB, 'Sudan Economic Report. After Two Decades of "Solitude".' (2018), 41-42.

[34] 'Despite repeated nominal devaluations in 2018 and a depreciating parallel exchange rate, the current account deficit has continued to worsen amid accelerating inflation and weak responses by exports and imports.' Ibid., 37. Paradoxically, the report argues two sentences later that 'To reduce external imbalances and enhance resilience, the authorities need to [...] remove multiple exchange rate practices and allow for greater exchange rate flexibility.'

wholesale-import and their local resale prices. However, technical literature makes remarkably little commentary on the fact that harmonisation/liberalisation has the exact mirror effect, namely of enriching the local currency earnings of large exporters. Exchange rate liberalisation is therefore presented as a neutral, technical adjustment to market realities, whereas in fact it also enriches specific domestic constituencies. James Galbraith and others have identified exchange rate devaluation as a key determinant of inequality within (primary export-oriented) low- and middle-income countries[35].

iv. Impacts of Covid-19

The median age in Sudan is less than 20[36], which resulted in a low rate of serious illnesses and deaths from early waves of Covid-19, as the effects of the virus vary proportionately with age. This could change with future variants. Resource limitations in Sudan's public health system mean that patients do not systematically receive stay-in hospital for a range of ailments, with the result that cases of Covid-19 did not have 'downstream' effects in the national healthcare system, which again distinguishes Sudan from post-welfare societies in Europe and North America with ageing populations.

The greatest impact of Covid-19 on Sudan to date has been the global recession induced by the pandemic and resulting lockdowns. This has imposed a negative external demand shock upon Sudan, further straining foreign exchange receipts. One outcome of the global pandemic has been rising prices for multiple primary goods due to impacts on their labour supply lines, and Sudan could stand to benefit from these rising prices[37]. Isolated attempts by Sudan to enforce higher prices for exported primary goods could render Sudanese exports uncompetitive, with the exception of gum Arabic, for which Sudan is the global monopoly producer. However, the government could coordinate stable and permanently increased price points with fellow exporters, in a manner akin to the OAPEC-led price increases for petroleum in the 1970s. This would help to induce improved balance of payment positions and macroeconomic stability in low- and middle-income countries by mitigating the effects of volatile primary commodity markets, analysed above.

Future Covid-19 variants could prove more infectious and have increased effects on younger populations. Sudan's access to vaccines is currently limited by the decision of vaccine-producing companies and governments not to break intellectual property or to share manufacturing formula with pharmaceutical plants in Africa, India and China which could increase global supply. Russian, Chinese and Cuban vaccine producers are willing to export to low- and medium-income countries, but governments in Europe, North America and the Arabian Gulf are refusing to recognise the immunised status of individuals who have received these vaccines, which will further limit future access to travel and international business for populations in low- and middle-income countries[38].

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[35] Ongoing research alluded to in James Galbraith, 'Sparse, Inconsistent and Unreliable: Tax Records and the World Inequality Report 2018,' Development and Change (March 2019), 346.

[36] Worldometer, 'Sudan Population' (2021). https://www.worldometers.info/world-population/sudan-population/.

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[38] People's Vaccine Campaign. https://peoplesvaccine.org/ (Accessed 20 September 2021)

Conclusion and Policy Recommendation

The proximate causes of Sudan's 2019 revolution were economic, namely, fuel and bread shortages that resulted from subsidy removals. And yet, there has been little recognition of this by the Transitional Government that replaced President Umar al-Bashir, which has continued its predecessor's policies of fiscal austerity, exchange rate devaluation, and privatisations, often with greater intensity. These policies are encouraged and endorsed by the IMF and Sudan's Western (Paris Club) partner countries as a necessary part of Sudan's political transition, even though enacting these reforms at the current time removes competencies from any eventual government with a democratic mandate.

The Sudanese government should suspend its deflationary economic reforms until the election of a government with a democratic mandate to determine the distribution of any fiscal rebalancing, and the end of external demand pressures resulting from the Covid-19 pandemic. Attempts to control government deficits should prioritise direct progressive taxation, in recognition of the fact that Sudan has low direct tax intakes compared with other countries. The government should prioritise macroeconomic stability until elections take place. Capital controls should be seen as a legitimate tool to this end as they are explicitly recognised as such by the IMF Articles of Association. Sudan could coordinate with other primary commodities exporters to ensure lasting higher prices, thereby consolidating the short-term effects of disruptions in global supply chains due to Covid-19.

Sudan should disengage from HIPC which has a demonstrable track record in other countries of mandating harsh fiscal adjustments in exchange for cancelling debts that have already been defaulted upon, only to allow new rounds of indebtedness at commercial rates. Sudan should prioritise relationships with countries willing to engage unilaterally in debt relief, direct aid, and FDI, and should prioritise its relationship with existing creditors to ensure continued access to foreign exchange.

The Transitional Government and any eventual democratic government should seek a political settlement with the military-security establishment to ensure a successful handover to civilian power. This could include legal amnesties for officers who support the transition process. The many Sudanese who rely on army, security, and intelligence payrolls should not be thrown into precarity, and imaginative solutions should be pursued such as a national service corps engaged in public projects.

International partners of Sudan should enact unilateral debt cancellation, aid relationships, and support for foreign direct investment, rather than making these conditional. Despite rhetorical support for democratic transition, the current impact of economic conditionalities is to remove major decisions from the purview of an elected government and enhancing the decision-making authority of a transitional government of technocrats and army officers. Aid to Sudan should be disassociated from its 2022 deadline, which aligns with scheduled elections, as this constitutes an in-built guarantee that democratic rule will coincide with economic hardship. If the progressive promises of the 2019 revolution are foreclosed upon, then this will create a political void that can be easily exploited by actors making recourse to non-democratic means. Capital-exporting countries should prioritise macroeconomic stability for Sudan, thereby countering the effects of fluctuating currency and commodity markets. These problems are not specific to Sudan, and both markets could be subject to multilateral regulation, with central banks in low- and middle-income countries being given access to swap lines and refinancing capacities akin to those enjoyed by high-income countries. In the absence of an international consensus around such policies, these could be developed on a regional level with Sudan's existing creditors and regional development banks.

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