



Financing the Revival of Sudan's Troubled Transition

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What's new? Sudan's hybrid civilian-military transitional government is being buffeted by economic headwinds that undermine public confidence in the civilian-led cabinet and risk provoking renewed popular anger. A donor conference scheduled for 25 June has raised hopes that Sudan's international friends will step up to help.

Why does it matter? Without urgent donor assistance to provide economic relief to a suffering population, public support for the cabinet's reform agenda could collapse. If popular frustrations at living conditions grow, the ensuing protests could destabilise a civilian-military government that barely hangs together, with possibly disastrous consequences for Sudan and the region.

What should be done? Donors should finance a cash transfer program to offset price rises following the cabinet's decision to lift fuel subsidies, which have burdened Sudan's economy and been used for corrupt purposes. The cabinet should introduce new controls to safeguard these funds and begin outreach to build popular support for such changes.

I. Overview

Mounting economic turbulence is rocking Sudan's delicate political transition. Citizens yearning for an upturn in living conditions, following the popular revolt and military coup that toppled Omar al-Bashir in April 2019, may find their frustrations reignited. The installation of a civilian-military power-sharing government in August raised hopes of a dividend, but today's civilian cabinet led by Prime Minister Abdalla Hamdok is struggling with a near bankrupt treasury. Meanwhile, his military partners in government retain the balance of real power, clinging to sources of money for which there is no accounting to Sudan's people. Unless Hamdok finds funds to boost social spending, he could see a resumption of destabilising protests. A 25 June donor conference is an opportunity to mobilise financial support, allowing Hamdok to ease hardships facing Sudan's most vulnerable and preserve the peace surrounding the cohabitation between the civilian cabinet and the generals. Sudan's friends should open their purses to keep this transition on track as the country heads toward elections in 2022.

Sudan's peaceful, diverse and sustained protest movement stirred public imaginations across Africa and beyond with its months-long campaign that precipitated

the military's ouster of the long-ruling strongman Bashir. That said, the transitional government that was formed with Hamdok, an economist, leading a civilian cabinet that shares power with military generals, has yet to provide relief to a population whose frustrations over a tanking economy spurred the protests that began in 2018 and continue sporadically. The state budget is deep in the red, amid crippling shortages of basic commodities, extended power outages and soaring inflation. Many sectors of the economy remain captured by elements of the previous regime and some within the current security forces. Much hoped-for donor assistance has not arrived. Despite progress toward rescission, Sudan's U.S. State Sponsor of Terrorism designation remains in place. COVID-19 has heaped further restrictions on economic activity.

Hamdok and Finance Minister Ibrahim al-Badawi face a difficult balancing act. They have sought to cut down on wasteful government spending that is bleeding the treasury dry. In so doing, however, they have been careful not to squeeze military expenditures too abruptly, lest they provoke a backlash. Instead, they have begun to reduce the country's immense subsidy bill covering imported fuel, which lately has drained hundreds of millions of dollars from the treasury every month. A cut in fuel subsidies carries the added benefit of undercutting Bashir-era elites who had positioned themselves as designated importers and thus could take advantage of preferential foreign currency exchange rates available for fuel purchases while overstating the amount they imported, thereby profiting handsomely. Addressing fuel subsidies is thus a crucial step allowing Hamdok to save the treasury from bankruptcy and repair the broken economy.

In taking these steps, however, the prime minister will need donors to step up, notably to help cushion the impact of lifting fuel subsidies, a policy that is already inflicting higher prices on a hungry street that could protest again if frustrations boil over. In turn, his donor partners will look for signs that he has the political support to keep reforms on track. While subsidy cuts were initially resisted by the Forces for Freedom and Change (FFC), the civilian protest movement that swept the prime minister into office, some in the movement are beginning to reassess. Even so, Hamdok will need to do more to shore up support from those in the FFC and public who worry that the subsidy removal will deliver more economic woe.

A donor conference co-hosted by the EU, Germany, the UN and Sudan, and to be held virtually from Berlin on 25 June, affords the country's partners a significant opportunity to support Hamdok as he keeps the economy afloat and co-pilots the country toward the 2022 elections envisaged by the 2019 agreement between the FFC and the generals. As Crisis Group has previously advocated, Sudan's Western, Gulf, multilateral and regional partners should contribute funds to a multi-donor trust fund, or another appropriate mechanism, that can support a cash transfer program aimed at assisting the country's most vulnerable people. Sudan's donors should not abandon the country at this critical moment. Any further slide in the country's economic fortunes will hurt the Hamdok administration's standing with the public, possibly triggering street protests that could imperil stability. As donors ready themselves to boost their support, Hamdok and Badawi should redouble the cabinet's efforts to convince the Sudanese people, starting with their political base, that their reforms are helping put the country on the right path.

II. Economic Woes and the Threat to the Transition

Many of Sudan's woes stem from decades of corruption and mismanagement under the government of Omar al-Bashir. Under his rule, Sudan's economy was characterised by the capture of state resources by the ruling elites and corporate allies amid widespread government profligacy. Government-run companies or those owned by regime and military officials, their families and business allies dominated Sudan's economy, entrenching monopolies and distorting the market. Despite accruing billions of dollars in oil revenues, Bashir's government failed to invest in Sudan's mostly agrarian and pastoralist economy, instead pouring money into the bloated security sector and bureaucracy and in the process racking up an international debt burden that is today valued at roughly \$60 billion. With the secession of South Sudan in 2011, Khartoum lost a vital source of oil revenue, paving the way for an inflationary spiral and economic crunch that led to the 2018 mass urban protests that snowballed a year later into a revolution.¹

Even with Bashir gone, life for ordinary Sudanese has grown only tougher over the past year, with citizens facing rampant inflation, long queues for basic commodities and major power outages. The ongoing U.S. listing of Sudan in the category of State Sponsors of Terrorism (SST) acts as one of several brakes on foreign direct investment into Sudan. Without its lift, Sudan is precluded from debt relief normally available through the Highly Indebted Poor Country (HIPC) initiative led by the International Monetary Fund (IMF) and World Bank. It is also blocked from almost all sources of new borrowing from these and other international financial institutions.² When it comes to tackling COVID-19, the persistence of debt arrears and Sudan's existing debt burden mean that Khartoum cannot even get access to an IMF, World Bank and African Development Bank package offered to Africa's poorest countries to combat the pandemic.³

¹ See Crisis Group Africa Report N°281, *Safeguarding Sudan's Revolution*, 21 October 2019. See also "Sudan's Self-Inflicted Economic Meltdown", Enough Project, November 2018. GDP fell by half, from \$66.4 billion in 2011 to \$33.6 billion in 2019. "COVID-19 Socio-Economic Impact Assessment for Sudan", UN Sudan, April 2020.

² Sudan's debt arrears to international financial institutions are \$3 billion, whereas its total debt arrears, including to the Paris Club of bilateral and private donors, are in excess of \$16 billion. World Bank International Debt Statistics, 2020. Sudan's debt burden is almost 200 per cent of GDP. Sudan can make progress toward meeting the conditions for debt relief under the HIPC initiative, in the absence of SST rescission. It could obtain a grant to fund an IMF Staff Managed Program, an important precondition for debt relief under HIPC. But it cannot reach the completion point, ie, receive debt relief, while still designated as an SST. At present, it appears that new borrowing from international financial institutions in the absence of SST rescission will likely be restricted to two small trust funds. Crisis Group interview, U.S. official, 12 May 2020.

³ International creditors have mobilised up to \$57 billion for Africa in 2020 alone – including more than \$18 billion from each of the IMF and the World Bank – to provide front-line health services, support the poor and vulnerable, and keep economies afloat. See "World Bank Group and IMF mobilise partners in the fight against COVID-19 in Africa", press release, World Bank, 17 April 2020. On 4 April, Finance Minister Badawi wrote a letter to IMF Managing Director Kristalina Georgieva that was viewed by Crisis Group. It sought IMF support for Sudan's response to COVID-19. UN Secretary-General António Guterres followed up with a similar letter to Georgieva "advocating for flexibility in granting Sudan access to IMF financial arrangements to respond to the COVID-19 pandemic". Georgieva cited this text in responding to Guterres on 23 April (in a letter also seen by Crisis Group),

COVID-19 is meanwhile crippling the economy and worsening the plight of many Sudanese.⁴ Lockdown measures, including a ban on mass gatherings and closure of the international airport, markets, schools and universities, have badly hurt the millions of Sudanese who work in the informal sector and rely on daily subsistence wages.⁵ On 7 May, Finance Minister Ibrahim al-Badawi stated that government revenue was down 37 per cent from previous projections, tax revenue was 21 per cent less than projected and donor support was 36 per cent lower compared to amounts anticipated in the December 2019 budget.⁶ According to the IMF, Sudan's economy will shrink by 7 per cent in 2020.⁷

In addition, government-backed subsidies on fuel, wheat and electricity, which by some estimates have absorbed more than 40 per cent of the national budget in recent years, have brought the national treasury to the breaking point.⁸ Unable to borrow money from international financial markets to cover budget deficits, the government had previously chosen to print money, which in turn precipitated rampant inflation.⁹ Subsidies, a relic of the Bashir era, kept some commodity prices down for consumers, but also perversely led to periodic shortages of key items, as many actors in the supply chain smuggled subsidised goods out of the country for sale at higher market prices in neighbouring countries. The end result was to undermine the policy's stated aim of delivering cheap and available goods to Sudan's masses.¹⁰

when she stated that: "Sudan is not able to access financing from most International Financial Institutions, including the IMF, World Bank and AfDB, because of large arrears to these institutions and an unsustainably large external debt burden". Some \$300 million are needed to cover the gap in Sudan's medical sector and to attend to the immediate needs of Sudanese affected by the coronavirus from May through July. Crisis Group telephone interview, senior Sudanese government official, 28 May 2020.

⁴ Sudan reported 6,081 confirmed cases of COVID-19 with 359 deaths as of 9 June. See "Hunger is worse than corona: Sudanese demand end to lockdown", Al Jazeera, 9 June 2020. Testing capacity is limited, however, and anecdotal testimony from Khartoum and northern Darfur suggests that the public health impact has been far greater. Crisis Group interviews, UN officials, May and June 2020. See also "Surge in deaths in north Darfur raises fears of disastrous Covid-19 outbreak", *The Guardian*, 29 May 2020. Sudan has porous borders and significant population contact with its neighbours, including tribes that reside on both sides of borders and frequently cross. One third of the population now lives in cities, with well over half the country's urban areas classified as slums with inadequate water and sanitation, heightening risks of rapid viral spread. See "COVID-19 Socio-Economic Impact Assessment for Sudan", op. cit.

⁵ Sixty-five per cent of Sudan's labour force works in the informal sector. "COVID-19 socio-economic impact assessment for Sudan", op. cit.

⁶ "Moving Forward: Reforms, Budget and Support to Families", Sudan Ministry of Finance and Economic Planning. The Sudanese finance minister presented this paper at the 7 May 2020 Friends of Sudan meeting in Paris.

⁷ See "COVID-19 Socio-Economic Impact Assessment for Sudan", op. cit.

⁸ According to the Sudanese government budget, subsidies made up approximately 40 per cent of all government expenditure in 2020. IMF estimates, which also take into account subsidies recorded via the Central Bank's accounts, suggest that the proportion is in fact 60 per cent. "Sudan 2019 Article IV Consultation", IMF, March 2020. Crisis Group calculations suggest that the Sudanese government budget deficit for 2020 will amount to anywhere between \$0.5 to \$5.5 billion. See Appendix A.

⁹ Inflation rose as high as 60 per cent in November 2019. "Sudan 2019 Article IV Consultation", op. cit.

¹⁰ See "Revolutionary squads guard Sudan's bakeries to battle corruption", Reuters, 19 February 2020. Crisis Group interviews, international financial institution officials, Washington, 9 and 10

Ultimately, this system has benefitted politically connected business interests. Through their political contacts, they have secured licences to import commodities, profiting handsomely from preferential foreign exchange rates pegged in their favour while overstating the amount of fuel imported to benefit from the twenty-fold gap between the fuel import exchange rate and the black-market rate.¹¹ So long as this system prevails, donors likely will be reluctant to come to Sudan's aid. As one Western diplomat told Crisis Group, "Nobody wants to pour money into a context where the economy is so rigged in favour of those who manage these imports and subsequently benefit vastly from the inefficient system".¹²

These subsidies used to be affordable, given the vast income derived from oil, but with the loss of oil fields to South Sudan at the time of secession, they have become an existential threat to the economy. Hamdok accordingly undertook efforts to remove them, although doing so has proven divisive.¹³ The debate has pitted the finance ministry against the FFC, who were behind the protests that led to Bashir's ouster and who oppose price rises that will hit Sudan's consumers.¹⁴ With the onset of COVID-19 and a concurrent global recession that further eroded government revenues, however, many in the FFC now realise that the cost of subsidies to the treasury has become unsustainable and threatens an economic crisis that could cause even greater hardship than price rises themselves.¹⁵ In the past two months, authorities have lifted fuel subsidies – which account for over 80 per cent of all subsidy spending – with pump prices in Khartoum now nearing world prices.¹⁶ Other subsidies remain in place.¹⁷

March 2020; telephone interviews, Sudan economist and Sudanese government officials, 19 and 23 March 2020, 11 and 28 May 2020.

¹¹ The Central Bank of Sudan gives private wheat importers access to foreign currency at a preferential exchange rate, which in 2017 was about one third of the parallel (or black-) market rate. See "Sudan's Grain Divide: A Revolution of Bread and Sorghum", Rift Valley Institute, February 2020. Also see "Sudan Country Economic Memorandum", World Bank, September 2015. The bank states that "Sudan also pays too high a price for wheat imports. ... The cost of wheat imports could be significantly reduced if Sudan were to import wheat from other cheaper sources". At present, those importing fuel can obtain foreign currency at a rate less than 5 per cent of the market price: the fuel import exchange rate is 6.7 Sudanese pounds to the U.S. dollar, while the black-market rate is 135 pounds/dollar. Prior to the COVID-19 pandemic, the price of fuel in Sudan was less than one tenth of the world market price. Crisis Group interview, Sudan government official, 28 May 2020. Crisis Group interview, U.S. official, September 2019.

¹² Crisis Group interview, Western diplomat, Nairobi, January 2020. See "Sudan 2019 Article IV Consultation", *op. cit.*

¹³ When South Sudan seceded in 2011, Sudan lost oil revenue that accounted for more than half of government revenue and 95 per cent of the country's exports. "The World Bank in Sudan", World Bank, 2 April 2019.

¹⁴ Indeed, pressure from the FFC forced Finance Minister Badawi to slow down subsidy cuts late in 2019. See "Sudan to postpone lifting of subsidies: minister", Reuters, 28 December 2019.

¹⁵ Crisis Group telephone interview, senior Sudanese diplomat, 28 May 2020.

¹⁶ According to the IMF, spending on fuel subsidies is 86 per cent of all subsidy spending. "Sudan 2019 Article IV Consultation", *op. cit.* Low global oil prices made this moment optimal to lift fuel subsidies, because the price will not need to rise as dramatically to meet the international benchmark. If subsidy reform is sustained, it will free up a large portion of the government budget, helping combat inflation by easing pressure on the Central Bank to print money to finance the government deficit in the medium term. While important, lifting subsidies is no panacea. The government will likely still face a substantial budget deficit of anywhere between \$0.5 and \$5.5 billion, even if it

The decision could nonetheless trigger unrest. The fuel subsidy lift has resulted in increased transport costs, which in turn has led to higher prices for basic goods in the market. Popular frustration may follow, potentially straining the already fragile alliance between the FFC and the cabinet. Unless the government can offset the higher costs to consumers, Hamdok's popularity could erode, both on the street and among some of his FFC supporters. With many Sudanese losing patience with deteriorating economic conditions since the transitional government took office, limited and sporadic protests have already taken place in Khartoum and other cities in the last three months.¹⁸

Should those protests grow, they could threaten Hamdok.¹⁹ Several actors are waiting in the wings to take advantage of instability, including elements of the military, whose various components are locked in a power struggle among themselves. Simmering rivalry between the Sudanese Armed Forces led by Lieutenant General Abdel Fattah al-Burhan – chairman of the Sovereign Council and nominal head of the transition – and the Rapid Support Forces (RSF) units loyal to their leader Mohammed Hamdan Dagolo (known as Hemedti), Sudan's most powerful figure, could boil over into the open if enough officers conclude that Hamdok has become expendable.²⁰ Islamists tied to Bashir's former National Congress Party likewise appear to be re-emerging into the political sphere.²¹ Meanwhile, Hamdok's fragile position was already exposed on 9 March, when assassins tried to kill him as his convoy wound through the streets of Khartoum, underscoring just how rocky the transition has become.

III. The Politics of Donor Intentions

Mobilising assistance for Sudan is complicated by the divergent interests of international stakeholders, including those who make up the influential Friends of Sudan support group.²² Among the group's members, there is broad agreement on the importance of the transitional government to future peace and stability in Sudan and

devotes no additional spending to mitigating the economic effects of COVID-19 or subsidy reform. Crisis Group calculations. See Appendix A for details.

¹⁷ Subsidies remain on diesel, cooking oil, cooking gas, wheat flour, electricity and medicine.

¹⁸ The former government's backers have protested regularly in Khartoum and other cities in April, May and June. They have demanded that the government step down. "Sudan protesters turn against PM Hamdok on the Covid-19 file", Al Bawaba, 13 April 2020.

¹⁹ "Sudan PM Abdalla Hamdok survives assassination attempt", BBC, 9 March 2020.

²⁰ Crisis Group interviews, U.S. officials, Washington, January 2020; Khartoum-based diplomat, February 2020.

²¹ Crisis Group interviews, Sudanese government officials, Khartoum, February 2020. Crisis Group interviews, Sudanese rebel group commanders, Juba, February 2020. Crisis Group telephone interview, U.S. government official, 13 April 2020.

²² The Friends of Sudan was established in 2018 as an informal group before gaining official status after the 2019 uprising. It comprises a group of countries and organisations committed to joint action to support the transitional government: France, Canada, Egypt, Ethiopia, Germany, Italy, Japan, Kuwait, the Netherlands, Norway, Qatar, Saudi Arabia, Spain, Sweden, the African Development Bank, the AU, the EU, the League of Arab States, the UAE, the UK, the U.S., the UN, the IMF and the World Bank.

the region.²³ But members diverge over which actors in the transitional government – from among the civilian cabinet or the military – they consider reliable partners, as well as over their respective visions for the country's future.

For example, Egypt, the United Arab Emirates (UAE) and Saudi Arabia have demonstrated a preference for supporting Sudan's military since Bashir's exit. This preference reflects their greater familiarity with and confidence in the military, which they hope will continue to act as a bulwark against political Islam in the Horn of Africa, even within the current configuration of the transitional government.²⁴ The African Union, EU and U.S., by contrast, from early on have voiced support for the civilian protest movement and were quick to condemn the security forces' June 2019 massacre of civilians in Khartoum, while pushing for a civilian-led cabinet in the transitional government formed later that year.²⁵

Rivalry between the UAE and Egypt, on one hand, and Qatar, on the other, also may be having ripple effects. In particular, the recent battlefield successes of Libya's UN-recognised government in Tripoli, which is backed by Qatar – and, far more directly, Turkey – may well sharpen desire in Abu Dhabi and Cairo to deepen relationships with security actors in Khartoum, as their Libyan allies are in retreat.²⁶ There also appear to be divisions between the UAE and Egypt: the former reportedly is backing Hemedti and the RSF, whereas Cairo favours Burhan of the regular army.²⁷

²³ Crisis Group interviews, European diplomats, 10 December 2019. Crisis Group telephone interview, U.S. State Department official, 13 April 2020.

²⁴ The UAE has expressed concern over the prospect of Islamists exploiting upheaval during the transitional period to return to power in Khartoum. Crisis Group telephone interview, UAE foreign ministry official, 17 June 2020. Crisis Group interviews, U.S. government officials, Washington, January 2020. Crisis Group interviews, Sudan Revolutionary Front armed groups, Juba, February 2020. Crisis Group telephone interview, UN official, 24 February 2020. See also "Abandoned by the UAE, Sudan's Bashir was destined to fall", Reuters, 3 July 2019.

²⁵ See Crisis Group Statement, "Sudan: Stopping a Spiral into Civil War", 7 June 2019.

²⁶ See Crisis Group Europe and Central Asia Report N°281, *Turkey Wades into Libya's Troubled Waters*, 30 April 2020. Crisis Group telephone interviews, UN and regional diplomats, May 2020. "Tripoli forces say they have ended siege of Libyan capital", *The New York Times*, 4 June 2020. "UAE officials 'visit Sudan' to rally support for Libya's Haftar", Al Jazeera, 1 May 2020. A December 2019 report of the UN Panel of Experts on Libya established pursuant to UN Security Council Resolution 1973 (2011) estimated that up to 1,000 RSF troops had been deployed to Libya in July 2019. It also reported that a contract signed in Khartoum on 7 May 2019 between Hemedti, on behalf of the Transitional Council of Sudan, and the Canadian company Dickens and Madson stated that the company would "strive to obtain funding for your [Hemedti's] Council from the Eastern Libyan Military Council in exchange for your [Hemedti's] military help to the LNA (Libyan National Army)". The LNA is led by Field Marshal Khalifa Haftar, who has been battling the UN-recognised government forces around Tripoli and elsewhere. The Panel said it had yet to establish if the RSF deployment was the result of funds sent by Haftar-affiliated forces to the Transitional Council of Sudan or directly to Hemedti, as a result of Dickens and Madson's activities.

²⁷ While Egypt will not provide funding to Sudan, it seeks to maintain influence in its southern neighbour for many reasons, notably the issue of Ethiopia's Grand Ethiopian Renaissance Dam (GERD), which Egypt worries will reduce water flows downstream, significant trade links between the two countries, as well as concerns over a northward surge of displaced Sudanese in case of instability. Following a 15 March meeting in Cairo, Egyptian officials reportedly concluded that Hemedti could not be relied upon to deliver a positive outcome for Egypt regarding the GERD. Hence, Cairo renewed its apparent preference for Burhan. Crisis Group telephone interview, Sudanese diplomat, Khartoum, April 2020; and confidential Western intelligence report dated March

Qatar, for its part, has remained largely sidelined in Sudan since Bashir's ouster, but likely would be more inclined to support Islamist allies in order to loosen the military's hold on power.²⁸

If overseas political support to Sudan is fragmented, so, too, is the international financial architecture on which the country needs to draw for assistance. The U.S. SST designation, placed on Sudan in 1993 during Bashir's rule, remains in place as a major obstacle to normalisation of international financial relations with Sudan. Washington has made its lifting partly subject to ongoing U.S. legal proceedings related to Sudan's role in al-Qaeda attacks in Dar es Salaam and Nairobi in 1998.²⁹ Until the designation is removed, private businesses seeking to invest in Sudan will remain reluctant to do so and international banks will not reconnect to the country's financial system either.³⁰ The SST designation and Sudan's \$3 billion in arrears and existing debt burden also preclude the World Bank and IMF from lending, although the EU has been actively exploring ways to circumvent this restriction.³¹ Saudi Arabia and the UAE, by contrast, have provided \$750 million to Sudan since the fall of Bashir, although most of this money was channelled into the hands of the RSF and other military actors before Hamdok took office.³²

2020, viewed by Crisis Group. Crisis Group interview, top RSF source, February 2020. See also Crisis Group Statement, "Sudan: Stopping a Spiral into Civil War", op. cit.

²⁸ "We have no dispute with Qatar, insists senior Sudan official", *Middle East Monitor*, 26 May 2020. "Why there is no room for Qatar in post-uprising Sudan", *The National*, 5 May 2020. See fn 119 in Crisis Group Report, *Safeguarding Sudan's Revolution*, op. cit.

²⁹ Resolution of legal cases in the U.S. brought by victims of the 1998 al-Qaeda bombings of the U.S. embassies in Nairobi and Dar es Salaam, and the 2000 al-Qaeda bombing of the U.S. destroyer *USS Cole* in Aden, Yemen, remains central to lifting Sudan's SST designation. Victims claim that Sudan is partly liable for these attacks given its prior hosting of Osama bin Laden. With SST rescission in mind, in early April, Sudan finalised a \$72 million settlement with victims in the *Cole* case. Crisis Group telephone interview, U.S. government official, 12 May 2020. See also "USS Cole bombing: Sudan agrees to compensate families", BBC, 13 February 2020. U.S. policymakers have over the last year dangled the prospect of SST rescission as an incentive for Sudan's generals to cooperate with the civilian-led cabinet and to persuade the transitional government to undertake broader security-sector and financial reforms. But Sudanese policymakers have become sceptical as they came to understand that any rescission would be dependent on the settlement of legal cases. Crisis Group interview, U.S. State Department official, Washington, January 2020.

³⁰ SST designation also prevents Sudan's diversification of lending and commercial partners away from non-transparent sources to transparent ones in the West. Because of reputational and legal compliance reasons, SST designation tightly limits U.S. dollar-denominated transactions by Western banks. In this vacuum, banks from the Gulf and China have been happy to provide opaque loans to Sudan in non-dollar denominations. Crisis Group telephone interview, former U.S. government official, 2 March 2020.

³¹ The EU approached senior World Bank officials in early May to seek a waiver enabling Sudan to circumvent Bank restrictions on support to the country posed by its considerable arrears to international financial institutions and the SST designation. Crisis Group telephone interview, U.S. government official, 12 May 2020. Crisis Group telephone interview, AU official, 26 May 2020. "German president to pledge €80 million boost for Sudan's energy and infrastructure", Radio Dabanga, 9 February 2020.

³² The Gulf powers sent \$500 million to the Transitional Military Council before the transitional government's appointment in August 2019. This body of generals was formed to run the country after President Bashir's removal and was disbanded when the transitional government took over.

Hamdok's power may be limited when compared to Sudan's generals, but his decision to cut subsidies shows that he is serious about reforming the country's rigged economy and rescuing it from imminent fiscal collapse, even if it means going up against constituencies close to the military. In addition to tackling the removal of fuel subsidies, his government is targeting assets stolen by Bashir and his cronies for recovery.³³ Still, any expectation that Hamdok can sustain a reformist agenda without international financial support is unrealistic.³⁴ If Gulf and Western donors wish to shore up Sudan's stability, they will need to come together and provide assistance so that the government can address the needs of an increasingly impatient public.

IV. Financing the Revival of Sudan's Transition

Western donors have remained cautious in their approach since Bashir fell, while Gulf powers have slowed their financial support to Sudan since Hamdok assumed office. Inaction is likely to weaken Hamdok and his cabinet and embolden military and other actors who may wish to capitalise on the transitional government's woes and potential collapse.

The 25 June Sudan Partnership Conference is thus a significant opportunity for the Friends of Sudan and other partners to shore up the country's fragile transition by funding a social safety net, especially as citizens begin to face higher costs resulting from subsidy removal. In bolstering the civilian cabinet's position with the general public, donors would also be laying the foundations for longer-term economic recovery and poverty reduction, which regular donor conferences could assess going forward.³⁵

The immediate priority for donors should be to take steps to cushion the impact of the subsidy reforms. The cabinet has initiated a Family Support Program that provides cash transfers to households in and around Khartoum, in tandem with the lifting of fuel subsidies.³⁶ In April, the finance ministry increased civil servants' salaries

³³ Sudan's Anti-Corruption and Regime Dismantling Committee claims that it has taken back up to \$4 billion in assets stolen by Bashir and his associates, although some observers close to the issue assess the figure to be much lower. Crisis Group notes on lecture given by Sudanese political economy expert, June 2020. See "Sudan recovers \$4 billion of assets from ex-president Bashir", Bloomberg, 24 May 2020.

³⁴ Crisis Group interviews, U.S. State Department officials, Washington, January 2020. Crisis Group interview, European diplomat, Khartoum, 4 February 2020. Crisis Group interview, Sudan finance ministry official, 2 February 2020.

³⁵ The conference is intended to jumpstart a succession of Partnership Conferences in which Sudan's economic progress and reforms would be regularly assessed and more support could be extended. Crisis Group email exchange, EU diplomat, 4 June 2020. France has already committed to cancelling Sudan's approximately \$5 billion in bilateral debt as well as hosting conferences on debt relief and private-sector investment once SST is lifted. Crisis Group interview, French diplomat, New York, 15 January 2020.

³⁶ The government's cash shortfall has forced it to slash the pilot program's funding from \$225 million to \$45 million. Crisis Group telephone interview, European Development Agency official, 10 June 2020. The Family Support Program was initially called Quasi Universal Basic Income. The World Bank has been assisting Sudan in planning and executing this program. The Family Support Program plans to disburse approximately 500 Sudanese pounds (\$9) per month per person, nationwide. Family Support Program cash transfers have occurred in five locations in Khartoum state.

by an average of almost six-fold to help them cope with rising prices. But the extra cost of these increases has made it even harder for the state to simultaneously pay for the new Family Support Program unless it receives external assistance. Finance Minister Badawi has expressed hope that external partners will therefore step up and fund a World Bank-managed multi-donor trust fund to cover the \$1.9 billion cost of the cash transfer program over a period of two years.³⁷

Hamdok's cabinet should in the meantime do what it can to build more confidence among donors and its own supporters. If the prime minister wants funds for the cash transfer program to flow through civilian ministries, he should improve bookkeeping and auditing of these funds, and ask for donor support to help his administration improve monitoring of funds by those ministries.³⁸

His cabinet should also make a serious effort to inform the public about the downsides of fuel subsidies, by highlighting for example what it stands to gain from their removal: notably a medium-term decrease in inflation as the need for government to print money to finance the subsidies eases, and the weakening of corrupt business elites who have profited from the schemes at the people's expense. Past attempts at subsidy reform in 2013 enjoyed minimal public buy-in and were quickly reversed, at least in part due to the absence of an effective communication strategy.³⁹ The transitional government, meanwhile, has repeatedly postponed a Sudanese economic summit to gather broad-based views from across society and has yet to undertake a listening tour it has been considering to hear the concerns of the Sudanese country-wide.⁴⁰ The cabinet should restart preparations for these initiatives.

Bridging the gap in public finances with a trust fund is only a first step in the right direction, but it is an essential one if donors want to sustain the transition and help Sudan to undertake deeper structural and political reforms. Indeed, beyond immediate relief for the population, Sudan needs to tackle long-term under-investment in education, health care and infrastructure – notably irrigation – for its agricultural economy, which has been starved of public investment for decades.⁴¹ The government will also need to address many other detrimental aspects of the

The Program will expand to Gezira, Red Sea and Darfur states by the end of 2020, with the optimistic goal of covering 80 per cent of the Sudanese population by 2021. Crisis Group telephone interview, Sudanese government official, 28 May 2020.

³⁷ This fund will primarily provide money for the Family Support Program. Crisis Group telephone interview, Sudan finance ministry official, 1 April 2020. Crisis Group interviews, international financial institution officials, Washington, 9 and 10 March 2020. Crisis Group interview, Sudan finance ministry official, Khartoum, 2 February 2020. "Moving Forward: Reforms, Budget and Support to Families", *op. cit.*

³⁸ Any system should be designed in compliance with the Mutual Partnership Framework to which the transitional government and international partners agreed in early May to "establish principles for support to assist Sudan achieve its economic recovery, governance and development priorities in line with the goals of the Sudanese revolution of freedom, peace and justice [that] are supported by the 2030 Agenda for Sustainable Development". Sudan Mutual Partnership Framework, 6 May 2020. See also Crisis Group Open Letter to the Friends of Sudan, 9 December 2019.

³⁹ Laura James, "Recent Developments in Sudan's Fuel Subsidy Reform Process", International Institute for Sustainable Development, 2014.

⁴⁰ The UK's Department for International Development has provided funding for this listening tour but no meeting has yet occurred. Crisis Group telephone interview, former U.S. government official, 2 March 2020.

⁴¹ Crisis Group telephone interview, Sudanese government official, 28 May 2020.

economy, in particular its low-capacity tax system, the regime of multiple exchange rates that enables privileged importers to acquire foreign currency from the Central Bank at absurdly preferential rates, and gold exports that do not run through government coffers.⁴² A long-term peace settlement with armed groups would also allow donors to channel billions of dollars, now spent to support millions of internally displaced people, into regenerating the country's economic foundations.⁴³

V. Conclusion

Sudan's transition could easily veer off course without a reinvigoration of the country's economy. Its government should focus on meeting the expectations of a tired and frustrated population, demonstrate that it can deliver benefits to the people and ease the short-term pain caused by overdue economic reforms. But to succeed, the civilian cabinet will require international support to bolster its position within the hybrid transitional government. Donors should come together and back Khartoum's efforts. Failure to do so could jeopardise the transition, with tragic consequences for the people of Sudan and the region.

Nairobi/Brussels, 23 June 2020

⁴² Tax revenues account for just 6 per cent of GDP. The IMF considers a tax effort below 15 per cent a sign of a fragile economy. "COVID-19 Socio-Economic Impact Assessment for Sudan", op. cit. Crisis Group interviews, international financial institution officials, 9 and 10 March 2020. Crisis Group interview, Sudan expert, 9 March 2020.

⁴³ See Crisis Group Report, *Safeguarding Sudan's Revolution*, op. cit.; and Crisis Group Africa Briefing N°143, *Improving Prospects for a Peaceful Transition in Sudan*, 14 January 2019.

Appendix A: Predicted Effects of Subsidy Removal and COVID-19

Crisis Group calculated the predicted effects of subsidy removal and COVID-19 as follows. Of necessity, these calculations are rough estimates based on several assumptions, as it is difficult to obtain reliable information about the government's budget or its exact plans for subsidy removal, and both local and international economic conditions continue to change in response to the coronavirus outbreak.⁴⁴

The starting point is the 2020 Sudan government budget, as recorded in the IMF Article IV consultation.⁴⁵ The monthly amount spent on subsidies in the December 2019 budget, which did not account for subsidy removal, was \$300 million per month, two thirds of which were reserved for fuel subsidies.⁴⁶ The best indication of the Sudanese government's plan for lifting subsidies is that it will lift fuel subsidies, gradually for diesel and immediately for gasoline, starting in June 2020, while leaving subsidies on other basic commodities mostly untouched.⁴⁷

COVID-19 will also affect Sudan's government finances, particularly its tax revenue and its income from oil, which is likely to decrease with the fall in international oil prices.

Taking into account fuel subsidy removal and the anticipated impact of COVID-19, our calculations indicate that the Sudanese government budget deficit will amount to anywhere between \$0.5 to \$5.5 billion. This range is exclusive of any spending not in the December 2019 budget on the Family Support Program or related to combating the virus.

⁴⁴ Crisis Group made these calculations based on the following assumptions: i) Gasoline subsidies are completely removed in June 2020, and diesel subsidies are decreased by a fixed amount per month starting in June so that the subsidy amount is zero by December. Assuming the diesel subsidy amount is decreased by a fixed percentage each month so as to eliminate the subsidy by December 2020 does not meaningfully affect the calculation. All other subsidies are kept constant at December 2019 budgeted amounts. ii) Only reductions in the subsidy amount on the Sudan government budget represent a saving. Subsidies running via the Central Bank budget are financed by monetisation, which will decrease commensurate with subsidy removal. iii) The Sudan government budgeted a monthly spend of \$0.3 billion for subsidies, of which \$0.2 billion on fuel subsidies. Breakdown between diesel and gasoline is based on the consumption share of diesel and gasoline in the IMF Article IV consultation. iv) The IMF Article IV consultation expresses government revenue and expenditure as a percentage of GDP. Conversion to U.S. dollars was done by calculating implied GDP from two budget posts that are expressed in U.S. dollars in the consultation. v) Price elasticities of diesel and gasoline of -0.44 and -0.77 respectively. See Xavier Labandeira, José M. Labeaga and Xiral López-Otero, "A Meta-Analysis on the Price Elasticity of Energy Demand", *Energy Policy*, vol. 102 (2017), pp. 549-568. Cross-elasticity and elasticity with respect to income are assumed to be zero. vi) World price of gasoline and diesel in April 2020 taken from Global Petrol Prices. This source is also used in the IMF Article IV consultation. Prices for December 2019 to March 2020 and May 2020 to December 2020 were extrapolated using the U.S. price trend of diesel and gasoline as recorded and predicted by the U.S. Energy Information Administration. vi) Government tax income decreases by one third. Government oil income decreases commensurate with decrease in Brent oil price as predicted by the U.S. Energy Information Administration.

⁴⁵ "Sudan 2019 Article IV Consultation", op. cit.

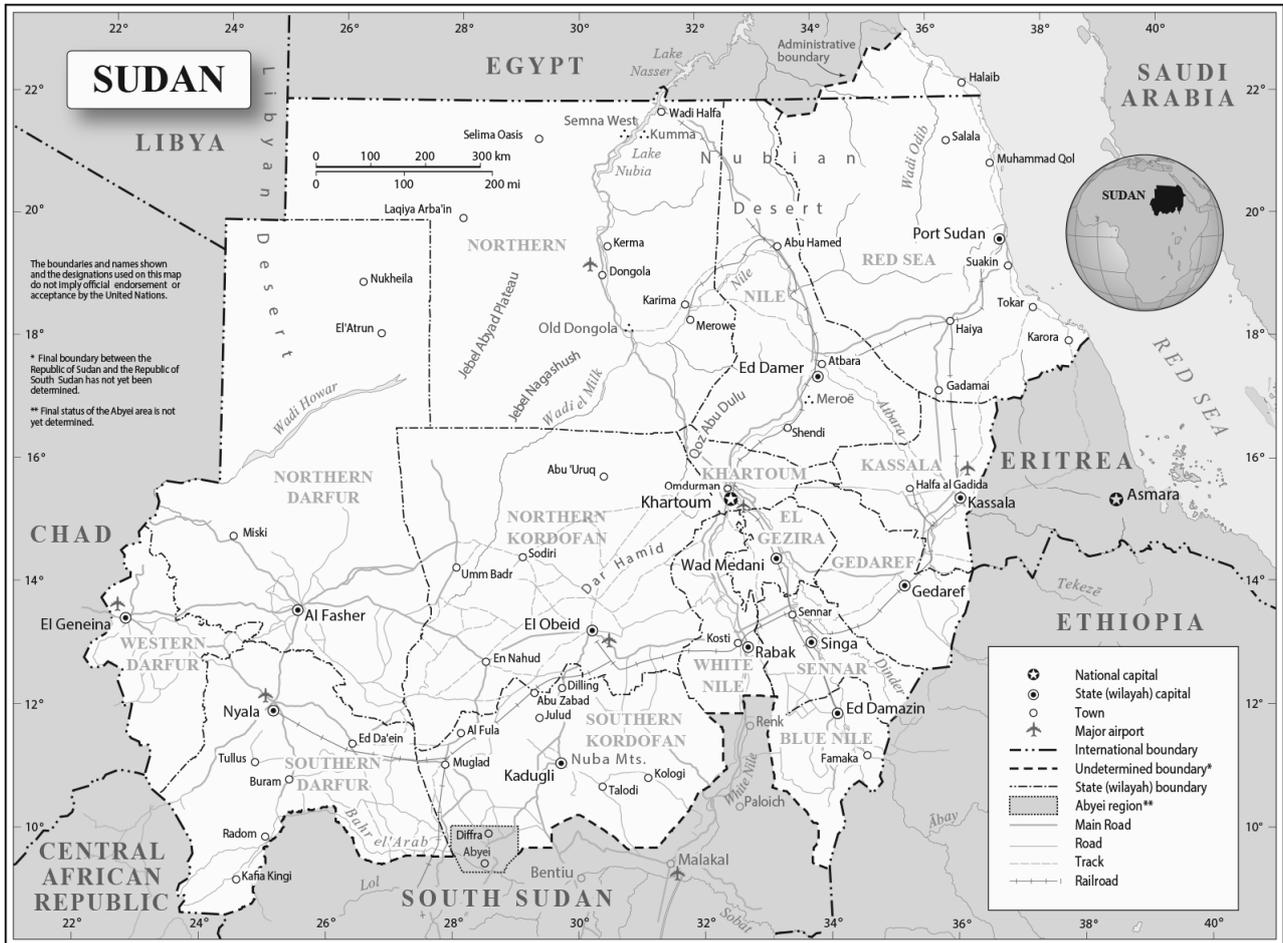
⁴⁶ Crisis Group telephone interview, senior Sudanese diplomat, 23 May 2020. Crisis Group telephone interview, U.S. State Department official, 15 April 2020. Crisis Group interview, Sudan government official, 28 May 2020.

⁴⁷ Ibid.

The wide range in predicted budget deficit is mostly due to uncertainty on the revenue side of the budget. According to the Sudan government budget, it will receive a \$2 billion donation from security-sector actors and a further \$2 billion in grants from anonymous donors.⁴⁸ IMF estimates of the Sudan government budget include neither revenue source and provide a substantially lower figure for oil revenues. The \$0.5 billion government budget deficit figure is based on Sudan government revenue estimates, while the \$5.5 billion deficit figure is based on IMF revenue estimates.

⁴⁸ According to a report from the European Council on Foreign Relations, security forces had decreased the amount to be donated to \$1 billion by May 2020. Jean-Baptiste Gallopin, "Bad Company: How Dark Money Threatens Sudan's Transition", European Council on Foreign Relations, June 2020.

Appendix B: Map of Sudan



Appendix C: About the International Crisis Group

The International Crisis Group (Crisis Group) is an independent, non-profit, non-governmental organisation, with some 120 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries or regions at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international, regional and national decision-takers. Crisis Group also publishes *CrisisWatch*, a monthly early-warning bulletin, providing a succinct regular update on the state of play in up to 80 situations of conflict or potential conflict around the world.

Crisis Group's reports are distributed widely by email and made available simultaneously on its website, www.crisisgroup.org. Crisis Group works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The Crisis Group Board of Trustees – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring the reports and recommendations to the attention of senior policymakers around the world. Crisis Group is co-chaired by President & CEO of the Fiore Group and Founder of the Radcliffe Foundation, Frank Giustra, as well as by former UN Deputy Secretary-General and Administrator of the United Nations Development Programme (UNDP), Lord (Mark) Malloch-Brown.

Crisis Group's President & CEO, Robert Malley, took up the post on 1 January 2018. Malley was formerly Crisis Group's Middle East and North Africa Program Director and most recently was a Special Assistant to former U.S. President Barack Obama as well as Senior Adviser to the President for the Counter-ISIL Campaign, and White House Coordinator for the Middle East, North Africa and the Gulf region. Previously, he served as President Bill Clinton's Special Assistant for Israeli-Palestinian Affairs.

Crisis Group's international headquarters is in Brussels, and the organisation has offices in seven other locations: Bogotá, Dakar, Istanbul, Nairobi, London, New York, and Washington, DC. It has presences in the following locations: Abuja, Addis Ababa, Bahrain, Baku, Bangkok, Beirut, Caracas, Gaza City, Guatemala City, Jerusalem, Johannesburg, Juba, Kabul, Kiev, Manila, Mexico City, Moscow, Seoul, Tbilisi, Toronto, Tripoli, Tunis, and Yangon.

Crisis Group receives financial support from a wide range of governments, foundations, and private sources. Currently Crisis Group holds relationships with the following governmental departments and agencies: Australian Department of Foreign Affairs and Trade, Austrian Development Agency, Danish Ministry of Foreign Affairs, Dutch Ministry of Foreign Affairs, European Union Emergency Trust Fund for Africa, European Union Instrument contributing to Stability and Peace, Finnish Ministry of Foreign Affairs, French Development Agency, French Ministry of Europe and Foreign Affairs, Global Affairs Canada, Iceland Ministry for Foreign Affairs, Irish Department of Foreign Affairs and Trade, the Principality of Liechtenstein Ministry of Foreign Affairs, Luxembourg Ministry of Foreign and European Affairs, Norwegian Ministry of Foreign Affairs, Qatar Ministry of Foreign Affairs, Swedish Ministry of Foreign Affairs, Swiss Federal Department of Foreign Affairs, UK Department for International Development, and the World Bank.

Crisis Group also holds relationships with the following foundations: Carnegie Corporation of New York, Global Challenges Foundation, Henry Luce Foundation, John D. and Catherine T. MacArthur Foundation, Open Society Foundations, Ploughshares Fund, Robert Bosch Stiftung, and Rockefeller Brothers Fund.

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