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ISSUE BRIEF

Sudan

Prospects for Economic Re-engagement

MARCH 2018 JEFFREY HERBST

Sudan Task Force

Following sustained progress on a "five-track" engagement plan, on October 12, 2017, US President Donald Trump permanently lifted significant and long-standing economic sanctions on Sudan. The Atlantic Council's Sudan Task Force applauds US efforts to promote positive domestic changes in Sudan, while recognizing the obstacles to full normalization that exist. The reforms necessary to drive real change—improvements in governance, rule of law, human rights, and political participation—are well known and must remain a centerpiece of US-Sudan engagement; they should not take a back seat to narrow counterterrorism concerns. But administration officials would be prudent to also consider Sudan's strategic relevance in a wider regional and global context. Failing to seize the opportunity at hand could risk pushing Sudan into the arms of global competitors.

To advance the dialogue on the US-Sudanese relationship in a way that could benefit both Americans and Sudanese, task-force members traveled to Sudan in January 2018—the third delegation in two years—to research three critical topics: governance and political reform; economic reform and impediments to investment; and prospects for greater US cultural engagement. While in Khartoum and in the Darfur region, the group sought out a diverse range of perspectives, speaking to government, civil society, business, youth, and artistic communities. That trip formed the basis of three issue briefs: "Sudan: Politics, Engagement, and Reform," "Sudan: Prospects for Economic Re-engagement," and "Sudan: Soft Power, Cultural Engagement, and National Security." Each brief proposes concrete measures that the US and Sudanese governments should undertake to continue advancing the bilateral relationship and to maintain momentum on addressing longstanding issues of mutual concern.

The United States has been sanctioning Sudan for almost thirty years. As required by law, the United States first curtailed assistance after the Sudanese military, led by then-Colonel Omar Hassan al-Bashir, overthrew the elected government of Sadiq al-Mahdi in 1989. Sanctions intensified with the designation of Sudan as a State Sponsor of Terrorism (SST) in 1993. Subsequent sanctions were imposed by the president and by Congress, due to concerns about terrorism, the war in what is now South Sudan, the conflict in Darfur, and default on loans.

The October 2017 decision by the Donald Trump administration to eliminate many—but by no means all—of the sanctions opens up the possibility of a new era of US cooperation with Sudan, which will allow

The Atlantic Council's **Africa Center** promotes dynamic geopolitical partnerships with African states and redirects US and European policy priorities towards strengthening security and promoting economic growth and prosperity on the continent.

About the Sudan Task Force

The Sudan Task Force—co-chaired by Atlantic Council Vice President and Africa Center Director Dr. **J. Peter Pham** and Atlantic Council Board Director Ambassador (ret.) **Mary Carlin Yates**, former special assistant to the president and senior director for African affairs at the National Security Council, as well as chargé d'affaires of the US embassy in Sudan—proposes a rethink of the US-Sudan relationship to better serve US interests and to improve the lives of those in Sudan, both goals that task-force members believe to be mutually reinforcing. The task force also includes: Ambassador (ret.) **Timothy Carney**, the last senate-confirmed US ambassador to Sudan; Ambassador (ret.) **Johnnie Carson**, former US assistant secretary of state for African affairs and ambassador to Kenya, Zimbabwe, and Uganda; Dr. **Jeffrey Herbst**, expert on African political economy and former CEO of the Newseum; **Cameron Hudson**, former chief of staff to the US special envoy for Sudan and South Sudan; Ambassador (ret.) **Princeton Lyman**, former US special envoy for Sudan and South Sudan and assistant secretary of state for international organizations; and **Zach Vertin**, visiting lecturer at Princeton University and former director of policy for the US special envoy for Sudan and South Sudan. **Kelsey Lilley**, associate director of the Atlantic Council's Africa Center, is the task-force coordinator.

This issue brief is one of a three-part series that continues the work of the task force's July 2017 report, *Sudan: A Strategy for Re-engagement*—authored by Ambassador Yates with Lilley—which detailed the costs to both the United States and Sudan of the status quo of strained relations. That report found that the decades-long US policy of isolation toward Sudan had not yielded significant changes in the country's governance, to the detriment of US policy objectives as well as the Sudanese people.

The content and recommendations are the result of task-force collaboration and represent a majority consensus among participants. Nothing implies that the lead authors or every participant agree unequivocally with every finding and/or recommendation. Individuals served in their personal capacity.*

* Participants in the January 2018 delegation traveling to Sudan included Pham, Yates, Carney, Carson, Herbst, Vertin, and Lilley. Their work was augmented by the expertise and insights of the wider US-based task force.

Washington to credibly push for economic reforms and engagement as a partner that has more than just sticks to offer. Changes in Sudanese government policies and practices, albeit difficult, have the potential to restart the economy and improve social services in one of Africa's largest countries, to the benefit of the Sudanese population and, potentially, of US business. It is particularly important that the United States act now, because other countries—including China, Russia, and Turkey—have continued to engage and invest in Khartoum, without the human rights or governance priorities that successive US administrations have endorsed.

> Khartoum, simply put, must stop sanctioning its own economy if the potential of the country . . . is to be realized.

At the same time, the Sudanese economy has reached a point where it desperately needs a more normal economic relationship with Washington. For many years, US sanctions did not have a significant economic effect on Sudan, although they did come to define the bilateral political relationship. However, with the secession of South Sudan in 2011, and the accompanying loss of 75 percent of Sudan's oil revenue, Khartoum became more directly susceptible to Washington's actions. In the short term, the Sudanese government seeks a resumption of trade, and to develop regular financial relations with US banks that are critical to the facilitation of commerce and the use of credit cards. The ultimate prize for Khartoum is desperately needed debt relief, an opportunity dependent on Sudan's removal from the SST list.

This paper will first describe the political economy of Sudan, which shapes Khartoum's priorities and affects how it will respond to demands for economic reform. It will then review the immediate steps that the United States and Sudan can take to improve economic relations, now that most sanctions have been eliminated. Finally, the paper will discuss what should be done to prepare for Sudan's removal from the SST list.

Throughout, this paper argues that, while a great many Sudanese believe that the lifting of US sanctions will be sufficient for the economy to improve, the elimination of these punitive measures is only one necessary step. Real economic progress will depend on fundamental changes—including sharply reducing subsidies, devaluing the currency, reigning in corruption, restraining government intervention in the economy, and directing resources away from the security sector and toward poverty reduction—that threaten policies and attitudes that have become deeply ingrained in the Sudanese government during its nearly thirty years of rule. Of course, these economic benchmarks are closely related to, and assume continued progress on, issues of politics and governance, which are part of current US-Sudan negotiations.[1] Khartoum, simply put, must stop sanctioning its own economy if the potential of the country—including the resumption of US trade, investment, and development assistance—is to be realized.

Sudan's Political Economy of Mismanagement

The government of President Bashir is authoritarian, often brutal, and highly corrupt. In Freedom House's 2018 *Freedom in the World* report, which evaluates political rights and civil liberties in 195 countries, Sudan was ranked among the dozen least-free states in the world.[2] Not surprisingly, its economic management reflects the nature of the state. Transparency International ranks Sudan as the 175th most-corrupt country in the world, out of 180, noting that bribery and fraud seem present in all sectors of the economy.[3] In the Heritage Foundation's 2018 *Index of Economic Freedom*, which measures a range of government interventions in the economy, Sudan is rated 161st out of 180 countries. That report noted the pervasiveness of poor governance and inefficient business regulations, and that little attention is paid to property rights.[4] Similarly, the World Bank's *Doing Business 2018* indicators rank Sudan 170th out of 190 countries in terms of the private sector's ability to operate, as measured by how easy it is to start a firm, obtain electricity, and secure credit, among other indicators.[5]

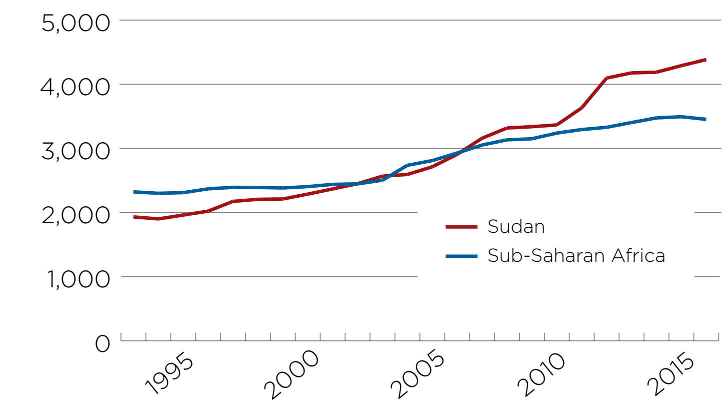
1 For a detailed look at issues of governance and politics, see "Sudan: Politics, Engagement, and Reform," http://www.atlanticcouncil.org/publications/issue-briefs/sudan-politics-engagement-and-reform.

2 Freedom House, *Freedom in the World 2018* (Washington, DC: Freedom House, 2018), https://freedomhouse.org/sites/default/files/FH_FITW_Report_2018_Final_SinglePage.pdf.

3 Transparency International, "Corruption Perception Index 2017," https://www.transparency.org/country/SDN.

4 Heritage Foundation, "Sudan," *2018 Index of Economic Freedom*, https://www.heritage.org/index/country/sudan.

Figure 1. GDP per capita (in constant 2011 dollars)



Calculated from: World Bank, "Databank: World Development Indicators," http://databank.worldbank.org/data/reports.aspx?-source=world-development-indicators.

While comparative rankings always have their own issues, and inevitably appear to be misleadingly precise, interviews conducted by the task force while in Khartoum in January 2018 affirm the statistical findings. "Government does not listen to the private sector" is a common lament from businessmen. There is "no consistency or coherence" to government policy, as officials seek to put out one fire or another as they enrich themselves. There are formal government bodies dedicated to interacting with the private sector, but they are deemed "useless" and "just going through the motions" by business leaders, because of the government's commitment to a command-and-control economy. The Sudanese leadership seems to make no effort to explain what it is actually doing or planning. Instead, economic policy is based on relationships; as one businessman wistfully said, "Everyone is corrupt."[6]

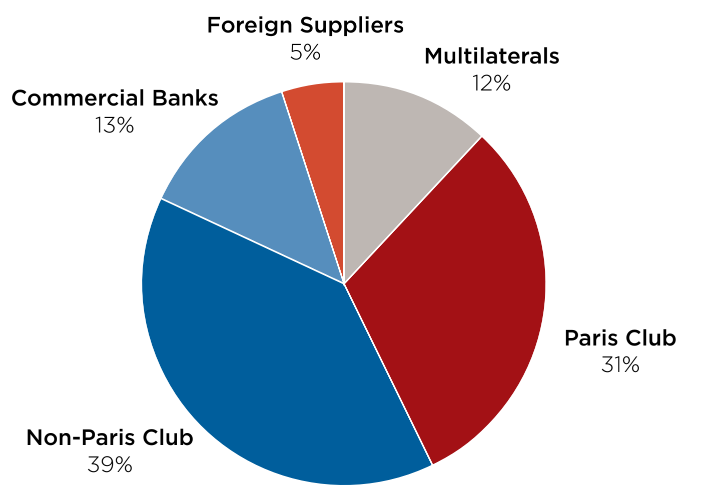
The Economic Laws of Gravity Were Temporarily Defied

As Figure 1 indicates, Sudan managed to perform relatively well for some time. The most important factor was the possession of oil revenue, which accounted

5 World Bank, "Sudan," *Doing Business*, 2018, http://www.doingbusiness.org/data/exploreeconomies/sudan.

6 All quotes from task-force interviews with business leaders in Khartoum, January 2018.

Figure 2. Composition of Sudanese Debt



Source: Central Bank of Sudan, "Sudan: Structure of External Debt and Debt Relief Efforts," January 2018, provided to task force in Khartoum.

for two-thirds of exports and half of fiscal revenue before the secession of South Sudan.[7] Especially during the commodities "supercycle" between 2000 and 2014, when prices were high, petroleum allowed the economy to grow—at least as measured by macroeconomic aggregates—and for the government to receive significant, and for many years increasing, revenue, despite sanctions and poor economic management.

Sudan also postponed the day of reckoning somewhat by not paying its debt. Sudan now has a crushing external debt of $45 billion, of which 87 percent is in arrears. There is no chance of Sudan paying off even a fraction of these liabilities, given the size of its post-secession economy. Government debt is the largest component of what is owed, followed by debt owed by the Central Bank of Sudan and public corporations.[8] Overall, public and publicly guaranteed debts represent 95 percent of the country's debt stock.[9]

Sudan's list of creditors is extensive (see figure 2). The industrialized countries that make up the Paris Club are owed about 31 percent of the debt.[10] An even more significant amount of money is owed to non-Paris Club creditors, including Saudi Arabia and Kuwait. While debt to the United States is not a large portion of the total debt owed, little progress can be made on resolving any of the long list of obligations until there is a full normalization of relations with Washington.

In 2012, the governments of Sudan and South Sudan agreed to the so-called "zero option," by which Sudan retained all debt after the secession of South Sudan, provided that it was given firm commitments of debt relief by the international community within two years. That agreement lapsed in 2016, but was extended to September 2018. Formally, if no agreement with the international community is developed, the debt should be apportioned with South Sudan, based on a formula to be agreed upon by both countries.[11] Of course, given the fighting that has occurred since its independence and its own profound economic problems, South Sudan is in no position to take on legacy debt.

Finally, the Khartoum leadership managed to survive, and to continue to enrich itself, by shifting the economic costs of its policies onto the general population. For instance, perhaps as much of 75 percent of the budget is devoted to national security and defense.[12] Bashir has defended this allocation, saying in 2015, "To those voices that speak in the street or in the media about the armed forces budget, I say that if 100 per cent of the state's budget was allocated to the army to secure the country then that would still not be enough."[13] Over the long term, the neglect of the social sector has had a profound impact on the population of Sudan. For instance, Sudan is ranked 165th (out of 188 countries) in the United Nations Development Programme's 2016

7 International Monetary Fund, "Staff Report for the 2017 Article IV Consultation—Debt Sustainability Analysis," provided to the task force in Khartoum, November 13, 2017, p. 1.

8 Central Bank of Sudan, "Fact Sheet on Sudan's External Debt," External Debt Unit, provided to the task force in Khartoum, January 2018, p. 1.

9 Central Bank of Sudan, "Sudan: Structure of External Debt and Debt Relief Efforts," provided to the task force in Khartoum, January 2018, p. 2.

10 The Paris Club is a twenty-two-member body of creditors that includes the United States, United Kingdom, France, Japan, and Russia.

11 International Monetary Fund, "Staff Report for the 2017 Article IV Consultation," p. 3.

12 John Hursh, "Since Removal of Sanctions, Sudan's Economy has Actually Got Worse," *African Arguments*, December 18, 2017, http://africanarguments.org/2017/12/18/since-the-removal-of-sanctions-sudans-economy-has-actually-got-worse/.

13 Quoted by Elfadil Elsharief Elhashmi, *The Politics of Mining and Trading of Gold in Sudan: Challenges of Corruption and Lack of Transparency* (Kampala, Uganda: Sudan Democracy First Group), November 15, 2017, p. 13, http://www.democracyfirstgroup.org/sudangold.

Sudan's capital Khartoum is strategically located along the Nile River. *Photo credit*: Christopher Michel.

Human Development Index, which measures a variety of social achievements in health, education, and standard of living.[14] This ranking is twenty-two places lower than Sudan's place in the Gross National Income table, one of the larger disparities between the wealth of a country and how well its population is doing. Similarly, road conditions are "patchy at best," especially outside the major arteries, and the general infrastructure serving the population is poor.[15]

The Economy Comes Back to Earth

However, the house of cards that is the Sudanese economy under Bashir and the National Congress Party is now crumbling. Perhaps most important has been the secession of South Sudan in 2011, which, as noted above, caused the loss of most of Sudan's oil revenue, and half of government earnings. Accordingly, foreign direct investment—overwhelmingly in the hydrocarbon sector, which had been several billion dollars per year before 2008—has now slowed to a trickle. The state has still not fully adjusted to the shock of secession, which, while profound, was also predictable, given that the Naivasha Agreement that set South Sudanese independence in motion was signed in 2005. Tellingly, the total tax revenue that Sudan is able to capture today is only 5.3 percent of gross domestic product (GDP), compared to an average of 16.8 percent for sub-Saharan Africa and 12.7 percent for the Middle East and Central Asia.[16] The state and those who live off of it are essentially being starved for funds.

At the same time, the sanctions that the United States imposed began to have more of a bite. Most notably, the Barack Obama administration's June 2014 fine of $8.9 billion against the French bank BNP Paribas for violating US sanctions against Sudan, Cuba, and Iran—along with a general increase of banking regulations

14 United Nations Development Programme, "Human Development Index," http://hdr.undp.org/en/composite/HDI.

15 Bank of Khartoum, "Financial Institutions," 2018.

16 International Monetary Fund, *Sudan: 2017 Article IV Consultation* (Washington, DC: IMF, 2017), p. 12, https://www.imf.org/en/Publications/CR/Issues/2017/12/11/Sudan-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-45456.

> Should the economic environment improve, Sudan actually has more possibilities for growth than many African economies. . .

after the 2007 recession and previous sanctions—caused all US banks, and many worldwide, to end their correspondence relationship with Sudanese financial institutions. As a result, Sudan has not had a financial counterpart in the United States that can clear dollar transactions, and few banks anywhere in the world that will process transactions in any currency.[17] This has effectively meant that Sudan is financially estranged from the rest of the world. For instance, Sudan appears to be the largest country in the world where no international credit cards can be used. As a result, many large transactions are still done in cash, an arrangement that deters businesses and tourists from coming to the country.

Although the relevant sanctions were lifted in October 2017, no US bank has expressed a willingness to process Sudanese transactions. Banks appear unenthusiastic about re-engaging with Sudan as long as it appears on the SST list. In addition, there may be some tendency toward overcompliance, especially after the large fines that the Obama administration leveled. There is also the possibility of reputational risk in dealing with a country whose leader is under indictment for genocide by the International Criminal Court, given that Darfur—at least for some time—became a cause célèbre in the United States. Finally, given the size of the Sudanese economy and its prospects, there may be no compelling business reason for banks to overcome the inertia of the past and take a risk on compliance and reputational issues. While Sudanese officials believe that transactions could be restarted if senior US officials made a few telephone calls to the banks, the financial institutions seem to be making a series of business calculations that will not be altered immediately.

Other avenues of support also appear to have diminished. Remittances, largely from Sudanese working in the Gulf, were estimated as high as $3 billion in 2011. However, these flows appear to have dropped to around $400 million in 2015, due—at least in part—to the difference between the official and black-market currency rates.[18] The Gulf states also provided funds of perhaps $2 billion to Sudan in 2015 and 2016 combined, partially in order to woo Khartoum from Iran's orbit, and to encourage it to become involved in the war in Yemen.[19] However, assistance from the Gulf states appears to have diminished, and it is not clear if Sudan can count on funds of a similar magnitude in the future.

The accumulated weight of all these reversals has made the situation facing the leadership precarious. Accordingly, in the Fund for Peace's 2017 *Fragile State Index*, Sudan is listed as the fifth-most-fragile state in the world (out of 178). It is tied with Syria, and just better off than Yemen.[20]

Political Economy of Reform

Sudan's rulers need economic reform, as the underlying rot of the economy, long masked by oil revenues, is now threatening the continual enrichment of the leadership and the generous funding of the security establishment that keeps the elite in power. It must eliminate the subsidies that drain the government budget, and unify the exchange rates that are distorting the economy, and which also cost the government dearly. The leadership is also desperately in need of more revenue to feed its patron-client networks.

Reform is also necessary to restart economic activity. The private sector suffers from government intervention, in terms of the exchange rate and the state's failure to invest in the economy. Should the economic environment improve, Sudan actually has more possibilities for growth than many African economies, and some opportunities that could be of interest to US investors. Gold production is increasing, and Sudan could be the largest African producer soon. Unfortunately, given current government practices, there is every indication that gold revenues will feed the country's endemic corruption. If the economy became less distorted and the government less corrupt, Sudan could benefit greatly from the gold boom. The country also has significant potential in agriculture (e.g., it is the largest producer of gum arabic in the world, the fourth-largest exporter of peanuts, and the fifth-largest producer of sorghum) and livestock (fifth-largest sheep population, and seventh-largest cattle stock). There is also the possibility of additional oil and gas production from fields within Sudan, significant hydroelectric capacity, and underused water resources from the Nile.[21] The Sudanese rightfully claim that their country has more potential than Ethiopia, currently one of the star economic performers in Africa.

Thus, for both bad and good reasons, Sudan is taking some important steps to reform the economy. The 2018 budget eliminated the wheat subsidy, saving the government considerable money, but doubling the price of bread overnight. The currency was also massively devalued, from 6.7 Sudanese pounds (SDG) to the dollar to 18 in December 2017, and then the rate banks receive was raised to 28 SDG to the dollar in February 2018. The latter move was a further devaluation but also seemed to endorse the continuation of multiple exchange rates. The unofficial rate was in the mid- to high-thirties (as of February 2018), suggesting that government has gone some, but by no means all, of the way to eliminating exchange-rate distortions.

The relatively positive scenario for Sudan is that the elite's own survival-based motivation to reform is sufficiently aligned with what the private sector needs: a government that can become a more constructive force for economic dynamism than has been the case in the past. However, real reform will severely curtail long-term corrupt relationships, privileges, and access enjoyed by the government's supporters. For instance, the multi-tier exchange that the government has developed in response to the currency's overvaluation is a prescription for patronage, since the state can determine who has access to dollars. Ending it will, by necessity, hurt those with access to the state. Cutting the subsidies, which have bought a certain amount of popular support—even though they are a very inefficient way of helping the poor—will also challenge the regime. In January 2018, several thousand people protested against the new budget. While these protests were easily contained, and the journalists who reported on them arrested, government no doubt took notice of how price changes can incite unrest. Finally, reducing support for the security services is obviously a very difficult challenge for any state elite during a time of economic tumult.

Especially daunting is that the private sector and the general population actually require much more from the government than the admittedly difficult price changes and devaluations that have already occurred. Most importantly, sharp reductions in corruption and regulation are needed. Business also needs a government with a consistent and credible pro-market stance, and with the ability to explain what it plans to do over a long period of time. For social welfare to improve—or at least hold stable during a time of severe economic disruption—government spending must be reallocated toward health and education, and away from security.

Thus reform, especially in the short term, may reduce support for the government, because even moderate changes are a bitter pill for those who were allied with the leadership. However, policy changes will not provide the leadership with many new allies immediately, because new constituencies will require much more to be done before they can offer real support.

The delicate dance of reform is being conducted in a political environment where there has been almost no debate about economic (or any other) issues for almost thirty years. The authoritarian nature of the state has caused politics to be essentially frozen. Members of civil society report that politics is not about ideas—certainly not about thoughts that would influence economic policy—but, rather, revolves around a more base struggle for power among competing elites. Elections have largely been a sham. As a result, Sudan has a political climate where government (as well as other elites) can only guess at the consequences of its decisions, making any kind of reform calculation particularly difficult, and probably pushing the government toward a relatively conservative position when evaluating economic changes.

Because the reform process is being driven by a set of extremely difficult tactical calculations made by a longstanding regime desperate for survival, rather than a change in the beliefs of government leaders or the advent of new government leadership, it will inevitably be ad hoc and disappointing. Or, as one

17 While the US sanctions and fines should only have affected US banks, it appears that banks worldwide are waiting for an American institution to begin to clear Sudanese transactions, so as not to risk running afoul of US authorities.

18 "Sharp Drop in Sudanese Remittances, Economist," *Dabanga*, February 26, 2015, https://www.dabangasudan.org/en/all-news/article/sharp-drop-in-sudanese-remittances-economist.

19 Giorgio Cafiero, "Sudan Gets $2.2B for Joining Saudi Arabia, Qatar in Yemen War," *Al-Monitor*, November 23, 2016, https://www.al-monitor.com/pulse/originals/2015/11/sudan-saudi-arabia-war-yemen-houthi-economy.html.

20 Fund for Peace, "Fragile States Index," 2018, www.Fundforpeace.org/fsi/country-data.

21 Statistics from Bank of Khartoum and task-force interviews with Sudanese government officials, January 2018.

ISSUE BRIEF Sudan: Prospects for Economic Re-engagement

Sudanese said, "We will reform in our own ham-handed and inefficient way."

Promoting Economic Engagement: Immediate Steps

The political economy of reform in Sudan must serve as the context in which demands are made on the government and, critically, for how proposed reforms are designed and evaluated. There are certainly steps that can be taken now, given that many US sanctions have been dropped, and a delisting of Sudan from the SST list is anticipated.

The Sudanese government must reduce distortions in the economy. The International Monetary Fund (IMF) has established a clear set of necessary reforms for economic stabilization and, eventually, debt relief. No concessions should be made, given the government's likely desire to want to do as little as possible.

Many government and business leaders in Khartoum feel that many, if not all, of their problems will disappear when sanctions are finally lifted. They are confused as to why there was not an immediate improvement after the United States eliminated most sanctions in October 2017. In fact, many businesspeople argue that Sudan currently faces the worst economic climate in a generation. While lifting sanctions will undoubtedly make trade easier, the Sudanese government, companies, and civil society must understand that, no matter what the United States does, the economy will not improve much unless Khartoum fundamentally reforms its economy with measures that go far beyond subsidies and devaluation. The medicine necessary to begin ridding Sudan of its many economic pathologies will cause considerable pain, and it is highly likely that things will continue to get worse before they improve.

Sudanese should know that American companies will undoubtedly take a wait-and-see attitude toward Sudan. While there was a Corporate Council of Africa trade mission to Sudan in December 2017, foreign investors seem, at best, to have moved from uninterested to intrigued. At the moment, there is no compelling need for companies to invest in Sudan, and its business climate and government practices provide numerous reasons to avoid the country. There is the potential for further hydrocarbon investment, but even the remaining and yet-to-be-confirmed Sudanese reserves combined are probably not large enough to quickly attract investors who will chose to ignore all of Sudan's problems.

Not least among the rewards for improved governance is a better listing on the rankings that have developed to compare countries worldwide—and which, as noted above, consistently give Sudan a low score. Improvement is not a guarantee of increased trade and investment, but these indicators are important signals that companies monitor to see if the business climate is changing.

Sudan should begin planning for debt relief through the highly indebted poor countries (HIPC) process, so that it can get to what is commonly known as the HIPC decision point, the position where it can be considered for full debt relief. According to the IMF, getting to the decision point will require that Sudan:

> "1) Be eligible to borrow from the World Bank's International Development Agency, which provides interest-free loans and grants to the world's poorest countries, and from the IMF's Poverty Reduction and Growth Trust, which provides loans to low-income countries at subsidized rates;
>
> 2) Face an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms;
>
> 3) Have established a track record of reform and sound policies through IMF- and World Bank–supported programs; and
>
> 4) Have developed a Poverty Reduction Strategy Paper (PRSP) through a broad-based participatory process in the country."[22]

Of these four points, the first will probably be resolved simultaneously with debt relief, once Sudan clears its arrears. Everyone certainly agrees that Sudan has an unsustainable debt burden.

The Sudanese believe that they have established a good working relationship with the IMF and the World Bank through recent reforms.[23] However, there is probably a considerable amount of work left to do, including increasing efforts to garner broad support for debt

22 International Monetary Fund, "Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative," November 3, 2017, https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/11/Debt-Relief-Under-the-Heavily-Indebted-Poor-Countries-Initiative.

23 Central Bank of Sudan, "Sudan: Structure of External Debt," pp. 3-4.

relief, working with the IMF to establish "a track record of sound macro policies," and limiting new borrowing on nonconcessional terms.[24] The IMF does not seem to have illusions about policy implementation in Khartoum. For instance, regarding past surveillance, it notes that "progress since [2016] has been mixed," crediting the government for partial currency devaluation and a reduction in energy subsidies in late 2016, but noting that the fiscal deficit continued to increase.[25]

Finally, the interim poverty-reduction strategy paper, developed in 2012, is clearly out of date.[26] Given the trauma that further cuts in subsidies and devaluation will cause, Khartoum must be strongly encouraged to develop a new and firm poverty-reduction strategy to be funded, at least in part, by reallocations away from defense and security. How the government would actually formulate a permanent plan through broad-gauged participation is exceptionally unclear, as it has devoted considerable energy over the years to limiting public discussion.

The Sudanese government must begin a process of strategic planning for a future with far more limited hydrocarbon revenue. Current reforms are ad hoc—or at least government has not explained them—and the recently announced devaluation and subsidy reductions do not address efforts needed in significant sectors, such as tourism. Communication on the desired path of the economy is absolutely critical, because the early days will be difficult. The political challenge caused by the quick emergence of a large number who have lost out, but the surfacing of those who have benefitted from reforms only in the medium term, can be alleviated if the government tries to explain what it is doing, and how the population as a whole will benefit over the long term. Obviously, such efforts dovetail with the immediate need to create a safety net for the vulnerable.

The US government should be publicly supportive of the economic reform measures proposed by the IMF, and demand that all the necessary price changes be made as quickly as possible. In turn, the United States, other donors, and the international financial institutions should begin work on how they can support a Sudanese safety net. The flip side of demanding reforms is being conscious of their inevitable costs and trying, as much as possible, to alleviate the burden on the very poor. This is not only appropriate policy, but good politics; it will signal to the Sudanese that US policy is not just about sticks.

The Sudanese government must begin a process of strategic planning for a future with far more limited hydrocarbon revenue.

Limited US resources will inevitably affect the ability to support such a large-scale project. As a result, Sudanese nongovernmental organizations (NGOs) and the Sudan business community may offer the best prospects for building a national safety net. The need is already real, with one NGO telling the task force that more than 250,000 schoolchildren do not have enough money to afford breakfast. That NGO is planning to produce packaged meals on a large scale, subject to funding. The business community could receive funding from the multilateral institutions to help create a safety net, whereas the government, due to debt, may not. Funding either NGOs or business-created assistance entities would require due diligence and, especially, accountability through regular audits.

The US government should make it clear that there is now no legal obstacle to clearing Sudanese transactions. With the lifting of sanctions in October, American banks are free to clear Sudanese transactions. The banks, and their law firms, seem to understand that Sudanese transactions are no longer off limits, but an occasional reiteration by US officials would be helpful. The Sudanese should recognize that the clearance issue, far from being a leftover of past US actions, is a reflection of how dimly banks view their prospects, and of how much needs to be done domestically before reintegrating into the world economy.

The United States should also, as noted in "Sudan: Politics, Engagement, and Reform," work through the Departments of State and Commerce and the Overseas Private Investment Corporation to organize—in conjunction with the Corporate Council on Africa and the US Chamber of Commerce—several

24 International Monetary Fund, "Sudan Staff Report for the 2017 Article IV Consultation," November 13, 2017, p. 10, http://www.imf.org/-/media/Files/Publications/CR/2017/cr17364.ashx.

25 International Monetary Fund, *Sudan: 2017 Article IV Consultation*, p. 2.

26 International Monetary Fund, *Sudan: Interim Poverty Reduction Strategy Paper* (Washington, DC: International Monetary Fund, 2013), https://www.imf.org/external/pubs/ft/scr/2013/cr13318.pdf.

information and investment seminars on trade and investment opportunities in Sudan. These seminars should be organized in conjunction with the Sudanese business community and the Sudanese Ministry of Commerce. These gatherings will not generate investment directly, as companies are more than capable of determining where they should allocate their capital. Their real value, given the history of sanctions spanning decades, is in the signaling by the US government to investors that they should feel comfortable going into Sudan if they have a viable business opportunity.

Finally, the US government should begin to explore how economic assistance might be restarted. Currently, the United States is limited by law in the kinds of assistance it can provide to Sudan. At the very least, planning should begin for a time when Sudan will be off the SST list.

Promoting Economic Engagement: Future Steps

The next set of efforts will require that Sudan come off the SST list. This will not be determined by economic issues, but there will be numerous implications for the economy.

Once Sudan is off the list, **efforts should be made by the Sudanese government to complete the debt-relief process.** According to the IMF, this will require:

1. Establishing a further track record of good performance under programs supported by loans from the IMF and the World Bank
2. Satisfactorily implementing key reforms agreed to at the decision point
3. Adopting and implementing its PRSP for at least one year[27]

These points are clear, and the United States should continue to pressure Khartoum to implement its promised economic reforms and poverty-reduction strategy, in return for the long-awaited debt relief. It is highly likely that government efforts will not be linear, given the leadership's mixed motivations.

The United States should reinstitute normal economic relations, including development assistance, and encourage the multilateral institutions to re-engage.

Limits of Reform and Limits of US Influence

This paper has repeatedly noted that the lifting of sanctions, and the eventual provision of debt relief, will probably disappoint Sudanese looking for an immediate and dramatic economic revival. While US sanctions have been economically consequential in recent years, growth is ultimately held back by the practices and attitudes of the Sudanese government. Especially as reforms are likely to be tactical, grudging, and somewhat confusing, the immediate economic benefits of Khartoum coming in from the cold are likely to be more limited than many in Sudan expect.

Khartoum must shoulder responsibility for the reform efforts. But, as this paper and the other task-force reports have noted, there is much that the United States can do to encourage reform, and to pave the way so that tough reform decisions are more likely to be rewarded by economic acceleration. Fostering normal economic relations after decades of estrangement will be difficult for both governments. However, since attempts at isolating Sudan have not proven satisfactory, both countries should seize this opportunity to finally garner the gains from trade and investment that have been the spark for development in so many other countries. The benefit in the long term—to both governments and their citizens—of one of the largest African countries in a critical geopolitical position, developing and engaged with the international economy, is too great to ignore.

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27 International Monetary Fund, "Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative," p. 1.

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