Sudanese External Debt: Sustainability Analysis and Prospects for Solutions

Mohammed Gebrail Hag

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Sudanese External Debt: Sustainability Analysis and Prospects for Solutions

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Abstract

This study aims to analyse Sudan's debt sustainability and suggests practical solutions for its external debt crisis. To this end, the study applies descriptive statistics methods to secondary data. The empirical results of a debt sustainability analysis point out that Sudan remains in debt distress as all its external debt burden ratios remain well above their respective indicative thresholds. Consequently, this study introduces three scenarios for solving the Sudanese debt crisis. The first is full or partial debt relief through the Heavily Indebted Poor Countries (HIPC) Initiative. The second scenario is repaying all external debt through the establishment of a so-called "oil revenue fund" to serve Sudanese external debt in collaboration with South Sudan. The study also suggests debt division between Sudan and South Sudan as a last resort. The study shows that Sudan faces an external debt burden ranging from US$7.96 billion (financial capacity weighted) to US$31.6 billion (geographical method weighted). By comparison, South Sudan's debt burden ranges between US$8.2 billion (geographical method weighted) and US$31.84 billion (financial capacity weighted). Additionally, the study suggests that each country bears an additional US$4.2 billion as their share of the interest accumulation of the debt stock upon the separation of South Sudan, which amounted to US$39.8 billion. Several policy implications emerge from the study that could help policy makers in the two countries, and key creditors, be more strategic in addressing the issue in a way that accommodates common interests.

1. Introduction

Similar to other developing countries, Sudan has a considerable shortage of domestic savings, although the country is considered one of the wealthiest in terms of natural resources. Consequently, the government started borrowing from international institutions in the 1950s. Sudan's external debt dates back to 1958 when the World Bank provided loan assistance to the country totalling US$1.52 billion. Since then, the external debt level rapidly increased until it reached US$51.2 billion as of 31 December 2019. The increase in the stock of Sudanese external debt is mainly attributable to the accumulation of interest, which in most cases, was compounded. The interest alone represents about 61% of the total debt. In 2011, Sudan split into two countries: the Republic of the Sudan, with Khartoum as its capital, and the Republic of South Sudan, administered from Juba. Since separation, the problem of external debt has been aggravated due to defaults in repayment. The Republic of the Sudan lost about 80% of proven oil reserves and 50% of government revenues due to the separation. One-third of the geographical territory and 23.10% of the population eventually became part of the Republic of South Sudan.

Sudan's external debt has grown from US$38.9 billion in 2011 to more than US$51 billion in 2019. For many years, even before the secession of South Sudan in 2011, Sudan had debt sustainability problems. A protracted debate continues about how the two countries can tackle these debts that have been an onerous burden on Sudan from the 1970s and have impaired the country's development. The stock of external debt and the accumulated interest have increased astronomically.[1] Oddly enough, Sudan has not significantly benefited from those debts due to the failure of numerous projects financed by the debts. Some of the projects never materialized, and others experienced obstacles during implementation.

This study sheds light on the current situation of the Sudanese external debt crisis, focusing on the period after the secession of South Sudan in 2011. It offers recommendations that address the indebtedness dilemma, as the two countries failed to benefit from the Heavily Indebted Poor Countries (HIPC) Initiative. Moreover, the study carries out a post-separation debt sustainability analysis for Sudan. The importance of the study is because solving the country's immense debt problems would contribute to public policy by improving growth incentives, reducing fiscal pressures, and increasing the availability of external resources through improved country creditworthiness.

The empirical investigation and suggestions made in this study are considered crucial for several reasons. First, the study aims to bridge the gap in the empirical literature as there are very few studies on the Sudanese debt problem following the secession of South Sudan in 2011. Second, conducting a debt sustainability analysis for Sudan will provide policy makers in the two Sudans, and key creditors, with robust evidence to address the debt problems by considering their common interests. Such a contribution would significantly aid policy formulation. Third, the study explores the feasibility of the efforts by the authorities of the two Sudans to take advantage of international debt relief initiatives. This might help policy makers shift their focus from external to internal sources through stimulating productive sectors.

The rest of the paper is organized as follows: Section 2 provides the historical background on Sudan's external debt, recent developments, the HIPC Initiative, and efforts to address Non-Paris Club debt. Section 3 presents data sources and the methodology, while Section 4 presents the debt sustainability analysis of Sudan. Section 5 reviews current discussions on Sudanese external debt. Section 6 explores scenarios for solutions and Section 7 concludes the study.

2. Sudanese external debt: Historical background and recent developments

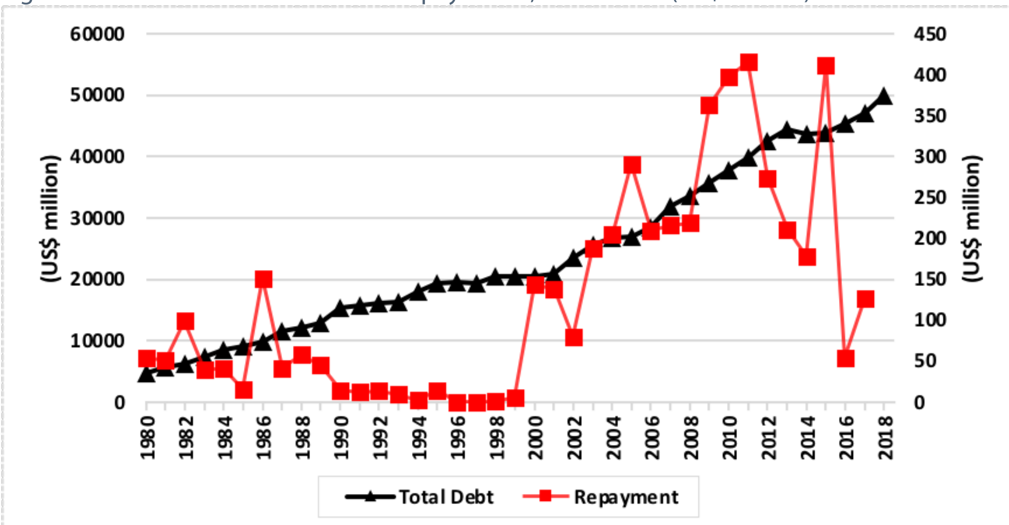
From the early 1970s, the value of primary commodities in the international market declined steadily, while at the same time, oil prices soared to record heights. Sudan's foreign debt was growing, as was its repayments and servicing dues. The economic crisis came to a head in 1978 when the International Monetary Fund (IMF) intervened and negotiated the first of several adjustment programmes. From then until 1984, the IMF concluded five agreements with Sudan. The IMF Structural Adjustment Programmes (SAPs) were directed towards curbing the government's budget deficit by reducing subsidies for basic needs and encouraging the export sector by expanding mechanized farming. The SAPs were also targeted at reducing land made available to traditional farmers and pastoralists, and halting the Sudanese currency's devaluation. Not only had the crisis within the subsistence economy deepened between 1978 and 1984, producing growing rates of poverty, but the economy had also been redirected towards external markets, becoming increasingly vulnerable in the process. "The result was the well-publicized famine of 1984–85" [Duffield (1990) as cited in Suliman (1997)].

In 1990, the IMF took the unusual step of declaring Sudan non-cooperative due to its failure to meet scheduled repayments. Sudan again reneged in 1992/93. The IMF retaliated by threatening expulsion, which was only avoided by agreeing to meet the arrears payments, liberalizing exchange rates and reducing subsidies. The government largely complied with the terms of the agreement and was duly rewarded. In 1990, Sudan's total external debt was US$15.3 billion, which increased to US$19.4 billion in 1995, representing a 26.5% increase. Sudan's external obligations rose to US$21.2 billion in 2000, US$31.5 billion in 2005, and a record high of US$39.8 billion by the end of 2011. Based on the latest available statistics from the Central Bank of Sudan, Sudan's total external debt amounted to US$51.2 billion in 2019. Surprisingly, the structure of external debt has not changed since 2000. As a result of the accumulated debt principal and interest, Sudan has become one of the most highly indebted countries in Africa, ranking 65th globally.[2]

Mohamed (2017) argues that lack of government revenues and massive debt arrears negatively influence government finances. In the case of Sudan, financing development projects requires government borrowing to fund the public budget deficit and balance of payments distortions. As most agricultural projects and industrial development were allocated very few financial resources in national annual budgets, the impetus to borrow externally became justified.

Following the historical context, and as illustrated in Figure 1, there is an assumption that the bulk of Sudanese indebtedness has a long history of not being paid. Figure 1[3] shows the stock of Sudanese external debt for the period 1980–2018, combined with the repayment amount for each year. It is clear that Sudanese debt has grown steadily over the years from less than US$4.7 billion in 1980 to more than US$50 billion in 2019. By contrast, repayments were very slow during most of this period. However, it improved slightly over the period 1999–2011 until it reached its peak in 2011 with a prepayment amount of US$415.6 million. After that it declined to below US$126 million in 2017. The drop may have been the result of the 2011 separation of Sudan, as the country stopped servicing its debt. South Sudan has refused to take part in the obligation upon separation, arguing that the South received no benefits from the loans incurred by Khartoum during the war. [4]

Figure 1: Stock of external debt and repayments, 1980–2018 (US$ million)



Sources: Δ Central Bank of Sudan (2013, 2014, 2019) ■ The World Bank (2019)

Significant causes of Sudanese external debt accumulation

There are four significant sources of capital available to a country: First, countries can raise capital through surplus budgeting; second, the profits earned from public enterprises; third, through government borrowing; and, fourth, economic assistance or loans from other countries and/or institutions. In most developing countries, the first three sources of raising capital are not adequate to accelerate the rate of development to the desired level. Less developed countries, including Sudan, have to depend upon the last source, foreign economic assistance, to break out of the vicious cycle of low purchasing power and saving capacity.

Accumulation of debt and interest arrears often leads to the rapid build-up of debt stock and a sharp decline in net resource transfers[5] to Sudan. The leading cause of reverse transfers seems to have been the increase in total debt service payments. Moreover, the total debt service for Sudan grew larger because debt obligations due to multilateral institutions are not subject to debt relief operations and require payment on schedule. Additionally, the terms of trade for Sudan deteriorated further. The country continued to suffer from a persistent trade imbalance and balance of payments deficit, resulting in widening external gaps that lead to mounting internal deficits.

The rising debt burden indicators reflect a combination of external and internal factors. Among the most important are the growing volume of debt, rising interest rates and the accumulation of the arrears, and the sluggish economic performance of the economy in the 1980s and a good part of the 1990s. The result of these factors has been widespread poverty and more serious structural weaknesses in the Sudanese economy. According to the 2014 Annual Report of the Central Bank of Sudan's External Debt Unit (EDU), several factors may have caused debt accumulation problems in Sudan:

a. Growing government spending compared to available resources
b. Loan on non-concessional terms
c. Failure of Sudan to fulfil its financial obligations
d. Poor operational capacity of projects financed by foreign loans
e. Weak economic ability to achieve economic surpluses to contribute to the repayment of these loans
f. Weak economic feasibility studies and establishing funding for studies that are not sound
g. Poor coordination between the various bodies of the state concerning external borrowing
h. Non-compliance with the ideal principles of evaluating borrowing conditions following the standard criteria offered
i. Poor economic management of resources
j. Absence of a clear-cut policy for external borrowing.

Additionally, the high stock of Sudanese external debt can be explained better by considering some factors such as American sanctions and internal conflicts, which have had a significant effect not only on debt accumulation, but also on the Sudanese economy as a whole.

Role of American sanctions

In 1997, the Government of the United States imposed a set of economic constraints on Sudan under Executive Order 13067 for alleged international terrorism financing and human rights violations. The injunction was expanded on 27 April 2006, during the rule of President George W. Bush, under Executive Order 13400, as a result of the conflict in the Darfur region. On 13 October of the same year, Executive Order 13412 imposed other sanctions by the U.S. administration, which created more economic barriers for the Sudanese Government, excluding in some areas such as South Kordofan, Nuba Mountains, Blue Nile State, Abyei and Darfur. On 7 October 2017, the United States permanently lifted a raft of sanctions on Sudan (Morello, 2017). Nevertheless, other sanctions remained against individuals with arrest warrants related to atrocities committed during the Darfur civil war.

American sanctions have had a significant negative impact on Sudan's economy and its external debt in particular. In brief, U.S. economic sanctions have had both direct and indirect effects on Sudanese external debt. The immediate impact was preventing Sudan from receiving any assistance through international financial institutions. This negatively affected the country's relations with the international donor community, especially the IMF, the World Bank and western countries. Along with other factors, the sanctions sustained economic and political pressures and frustrated the Sudanese Government's efforts to negotiate its mounting external debt problem with the international donor community. This prevented it from participating in the HIPC Initiative on debt relief. However, the successful completion and signing of a Comprehensive Peace Agreement (CPA) between the Sudanese Government and the Sudan Liberation Movement (SLM) on 9 January 2005 minimized the country's international political and economic pressures.

Conversely, the indirect effect of U.S. sanctions was that technologies and standards developed worldwide during the time of the sanctions left industries in Sudan behind their international competitors. Goods and technologies, even if brought to Sudan through a wide range of circles of indirect intermediaries, increased their total cost and created an additional economic burden. In April 2019, after months of anti-government protests against its three-decade corrupt rule, the military removed the National Congress Government. One of the driving factors behind the protests was the rapid decline in the economic situation. Another factor was the U.S. economic sanctions imposed on Sudan since 1997, owing mainly to the alleged government's links with international terrorist organizations. With the new government, Sudan was removed from the list of state-sponsored terrorism countries and, accordingly, the Sudanese external debt crisis is expected to be positively affected.

Role of internal conflicts

Sudan has a very long history of wars and conflicts as the country has experienced more than three wars since its independence in 1956. The First Sudanese Civil War was a conflict that raged between the central Sudanese government and Sudan People's Liberation Army (SPLA) from 1955 to 1972. Although the Second Sudanese Civil War (1998–2005) originated in southern Sudan, it was a continuation of the first civil war. It later spread to the Nuba Mountains and the Blue Nile. It lasted for 22 years and is considered one of the longest civil wars on record. The fourth Sudanese armed conflict was in Darfur, which began in 2003 when the Sudan Liberation Movement (SLM) and the Justice and Equality Movement (JEM) rebel groups began fighting the Government of Sudan, whom they accused of oppressing Darfur's non-Arab population. This resulted in the death of hundreds of thousands of civilians.[6]

Most economists use the background of the civil war in Sudan to analyse the Sudanese economic decline of the past three decades. As seen in Figure 2, Sudan had paid for its wars through debt that has persistently increased since the first civil war when the stock of Sudanese external debt was only US$1.52 billion, rising to US$51.2 billion in 2019. This clearly shows the critical role of internal conflicts in explaining the deterioration in economic indicators in Sudan, which are negatively affected by the wars either during or after the conflicts.

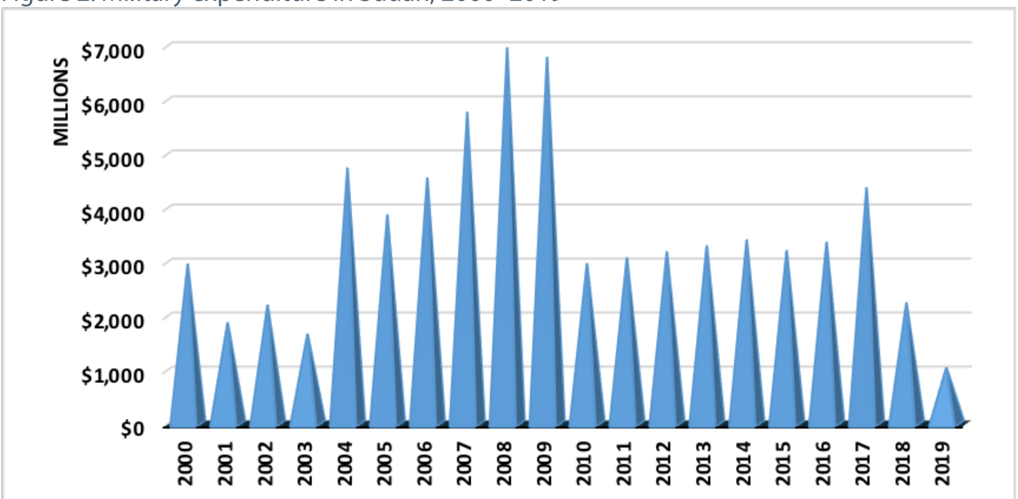
These conflicts were both costly and destructive and led to significantly increased defense expenditure. Moreover, the loss of productive capital, especially human and social capital, takes more time to recover. As Willett (1999) points out, conflicts provide lucrative markets for arms dealers of both legal and illicit nature. In order to purchase arms, developing countries cut back on public expenditure in health and education, and borrow foreign exchange from international creditors. The poor become poorer, and conflicts become widespread. The implication is that it ushers in a vicious cycle of debt, underdevelopment and further conflict, which is broken if the international community takes radical action.

Collier (1999) distinguishes five effects of conflict. First, military destruction reduces the capital stock. Second, the government diverts its expenditure from economic services to military spending. Third, the disruption raises the cost of transactions and lowers the cost of opportunistic behaviour so that social capital starts to break down. Fourth, as incomes are seen as temporarily low, economic firms will dissave. Fifth, because investment opportunities are unusually poor and risky, investors will shift their portfolios abroad. These five effects have implications for both the level and the composition of economic activity. According to Collier (1999), during civil wars, per capita GDP is estimated to decline at an annual rate of 2.2% relative to the counterfactual of no war. Moreover, civil wars in Sudan hampered the overall level of economic activity, but they are particularly damaging to the economy's most dynamic sectors. Therefore, the country keeps borrowing intensively to meet the obligations of the post-war reconstruction process, which can explain the high stock of Sudanese external debt.

One of the primary sources of the outstanding stock of Sudanese external debt is the high military expenditure ratios. For example, during 1989/90–1993/94, military expenditures led to a decline of 16% in investment/GDP and caused an increase of 26% in external debt. The level of debt was increased from US$12.9 billion in 1989 to US$16.3 billion in 1993. Due to the intensity of the war, the cost was estimated to have intensified from relatively low-level violence, an average of 956 non-civilian casualties in 1984, to more than 4,000 in 1989. The investment ratio declined by 196%, and GDP per capita growth slowed by six percentage points. Thus, the overall cost over the four years was so high that the civil war caused the country's external debt to become more than one-quarter of its potential level under normal conditions, and reduced per capita GDP by a cumulative rate of eight percentage points.

More recently, Sudan has been classified as the second most conflict-prone African country, after Somalia.[7] Therefore, excessive military spending has replaced productive outlays in other areas such as investment in high-tech industries, education or infrastructure. Figure 2[8] shows military expenditure in Sudan during the years 2000 to 2019. As can be seen from the figure, military spending in Sudan grew from less than US$3 billion in 2000 to more than US$6.8 billion in 2009. Thereafter, it fell sharply to nearly half of what it was in 2000. This is mainly attributable to the consequences of the secession of South Sudan and subsequent events of the December revolution, which overthrew the National Congress Regime.

Figure 2: Military expenditure in Sudan, 2000–2019

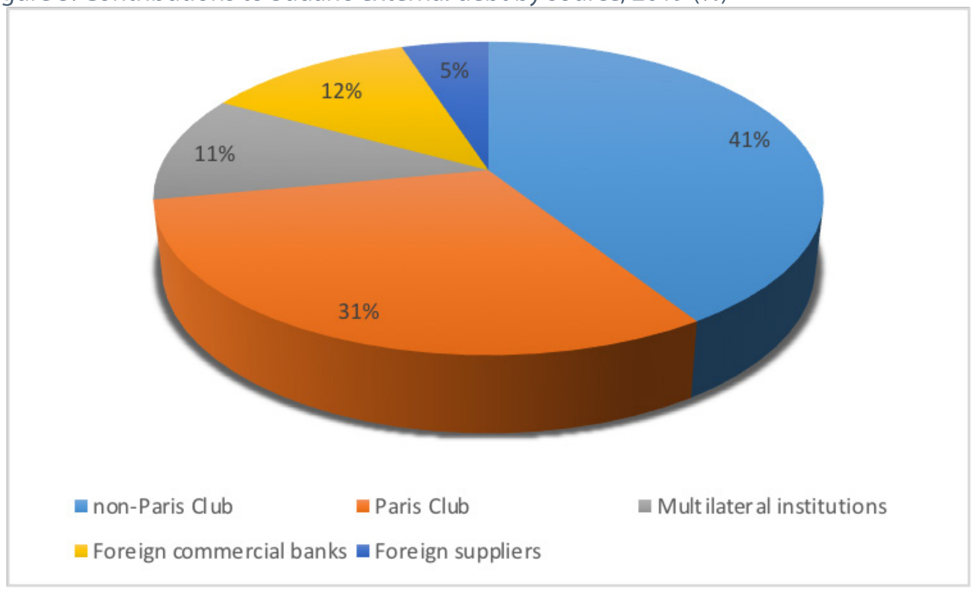


Source: Stockholm International Peace Research Institute (SIPRI), 2023

Main Sudanese creditors[9]

The structure of external debt has not changed over the past decade. The bulk is public and publicly guaranteed (PPG) debt (US$51.2 billion in 2019, of which 86% is in arrears), mainly owed to bilateral creditors and roughly equally divided between Paris Club and Non-Paris Club creditors. Only a small fraction is owed to foreign suppliers (US$2.7 billion). In the 2019 Annual Report of the External Debt Unit (Central Bank of Sudan, 2019), the country's five main creditors are classified as: "Multilateral Creditors, Paris Club Bilateral Creditors, Non-Paris Club Bilateral Creditors, The Major Foreign Commercial Banks Creditors & The Major Foreign Suppliers Local Commercial Banks". As shown in Figure 3, the major creditors of Sudan's external debt include Non-Paris Club member countries (41%), Paris Club countries (31%), foreign commercial banks (12%), multilaterals (11%) and foreign suppliers (5%).

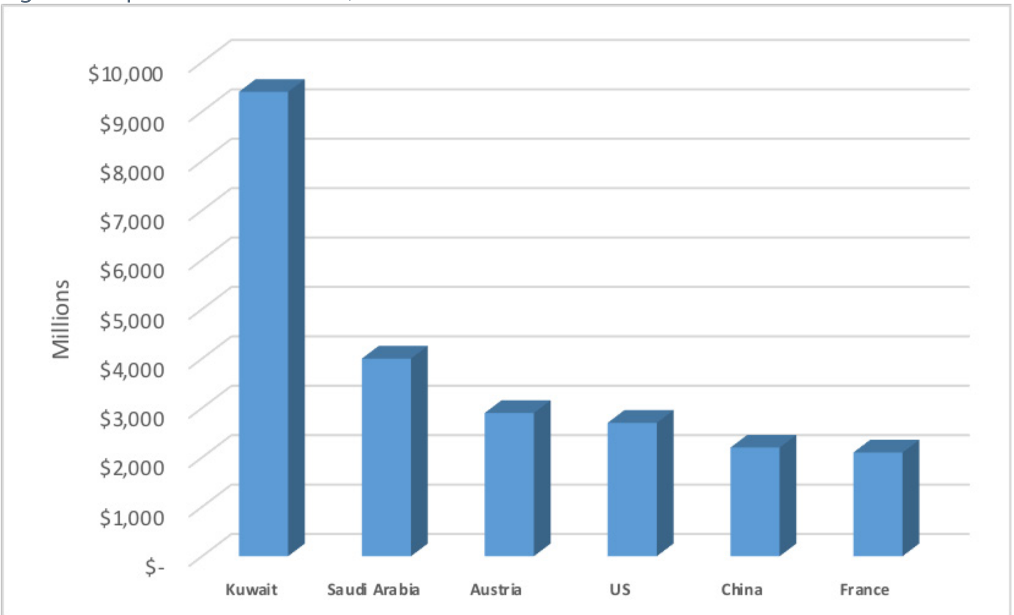
Figure 3: Contributions to Sudan's external debt by source, 2019 (%)



Source: External Debt Unit, Central Bank of Sudan (2019).

On a bilateral basis, Sudan's two largest creditors are Kuwait and Saudi Arabia, as they held over 29% of Sudan's external debt of US$45.8 billion in 2016. Sudan owes the Kuwaiti Government roughly US$9.4 billion and the Saudi Government about US$4 billion. As Figure 4 shows, despite a flurry of recent loans, China is only number five on the list with US$2.2 billions of loans, followed by Austria with US$2.9 billion, the United States of America with US$2.7 billion and France with US$2.1 billion. Over the years, Kuwait and Saudi Arabia provided Sudan with nearly 60 individual loans. Many of these loans financed large-scale infrastructure projects, such as roads, ports and dams. However, Kuwait and Saudi Arabia also extended well over US$1 billion in available cash loans. When the Sudanese Government fell behind on its payments, these loans exploded due to interest accrual and steep penalties.

Figure 4: Top creditors of Sudan, 2016



Source: Central Bank of Sudan (2019).

Between 2010 and 2014, the Sudanese Government was due to pay the Kuwaiti and Saudi Governments about US$780 million. While large in absolute terms, this represents only about one-eighth of Sudan's total debt service obligations. This is because most of the respective loans are old and in arrears.[10] Sudan has roughly US$2.2 billion[11] in debt payments that became due to China over the same period. In contrast to Kuwait and Saudi Arabia, all of China's existing loans have been provided in the past 15 years. Sudan has largely kept current on its Chinese loans to ensure that the funding tap remains open. Kuwait and Saudi Arabia are the most important creditors in terms of overall exposure, but less so in short-term liquidity constraints on the Sudanese government.

Sudan's new loans 2011–2018

According to data collected from the External Debt Unit at the Central Bank of Sudan for the period 2011–2018, Sudanese external debt increased from US$39.8 billion in 2011 to US$50 billion in 2018; this indicates that US$10.2 billion was added to the stock of Sudanese external indebtedness, which corresponds to the growth in Sudan's external debt by 26%. As usual, the majority of these new accumulations were comprised of interest (70%). Sudan has been largely cut off from external financing due to its arrears with creditors and U.S. sanctions. It has only been able to contract new debt of below 1% of GDP per year from 2012, with a limited number of multilateral and Non-Paris Club bilateral creditors. As illustrated in Table 1, total new debt (principal) amounted to US$2.93 billion, representing only 29% of the total new external debts totalling US$10.2 billion.

The newly contracted debt was mainly used to finance agriculture, services and energy projects. The main sources of these debts are Non-Paris Club countries, except for a limited loan amount of US$5 million from Belgium in 2014. The largest share of this new accumulation of Sudan's debt is from the Arab Fund for Economic and Social Development (AFESD), which accounts for US$1.321 billion, or 45%, during this period. Other sources are the Islamic Development Bank, with a share of US$353 million representing 12%, and the Kuwait Fund, whose US$319 million represents 11% of the accumulated new debt. Contrary to expectations, the data reveal that Chinese loans do not make up a large share of the loans to Sudan. Its loans were less than 1% of the total new debt.

Table 1: Sudan's new loans by source, 2011–2018 (US$ million)

Creditors	2011	2012	2013		2015	2016	2017	2018	Total	Share %
Islamic Development Bank	235		19	99	0	0	0	0	353	12
Arab Fund for E.&S. Dev.	468	248	236	0	0	199	170		1321	45
Arab Monetary Fund		0	45	0	133	0	0	75	253	9
Abu Dhabi Fund	0	0	0	0	90	0	0	0	90	3
Saudi Fund for Dev.	0	0	0	0	170	0	0	0	170	6
Saudi Fund	130	0	0	0	0	120	0	0	250	9
Belgian Govt	0	0	0	5	0	0	0	0	5	0
China	24	0	16	0	0	0	0	0	40	1
India	0	0	125	0	0	0	0	0	125	4
Kuwait Fund	0	89	177	47	6	0	0	0	319	11

Source: Central Bank of Sudan (2019) and author's calculations.

As shown in Table 1, Paris Club countries have entirely refrained from providing more loans to Sudan. About 95% of new debt is sourced from Arab funds and other Arab countries such as Kuwait, Saudi Arabia and the UAE. This is despite Sudan's history of non-payment. The following are some of the reasons that may explain this:

- Common interests shared between Sudan and the Arab funds and other Arab countries. Sudan's supportive positions after the great change in Sudan's foreign relations. Sudan cut ties with Iran, which is considered their greatest enemy.
- The investments of Arab countries in Sudan mean they do not want to worsen the economic situation in the country as this could lead to the collapse of

their projects. It is known that Kuwait is the largest foreign investor in Sudan at present with a total capital investment of US$13 billion.

- Sudan's participation in the ongoing military campaign led by the Kingdom of Saudi Arabia to support "the legitimacy" in Yemen since April 2015, where Sudan has the largest military force on the ground of more than 30,000 soldiers.

Sudan and HIPC Initiative

Sudan's external debt amounted to US$51.2 billion in 2019, representing about 24% of the HIPCs' total external debt. However, the ratio of debt to GDP was 146%, debt to exports was 1368%, and debt to revenues stood at 1422%. All these ratios were well above the HIPC thresholds of 30%, 100% and 200%, respectively. Sudan has taken three important steps to meet the HIPC requirements: (i) it has reconciled over 90% of its external debt stock since 31 December 2010, in collaboration with creditors; (ii) parliament approved an ambitious Interim Poverty Reduction Strategy Paper (IPRSP) in June 2012, and the government officially launched the strategy with the IMF, the World Bank and the African Development Bank in November 2012; and (iii) Sudan completed 13 Staff-Monitored Programmes (SMPs) with the IMF since 1997 and has shown a good track record of macroeconomic performance. The remaining technical condition is the payment of arrears to multilateral institutions.

After implementing the Comprehensive Peace Agreement, Sudan and South Sudan agreed to constitute a joint outreach committee to support the international community to deliver comprehensive debt relief in Sudan. The main difficulty, technically and economically, handicapping Sudan from benefiting from HIPC assistance, is that it had been accumulating substantial amounts of multilateral debt (mainly from the IMF and the World Bank), reaching US$3 billion in 2019. These debts are not subject to cancellation and must be paid. Therefore, the clearance of multilateral debt is a prerequisite to engagement with the HIPC Initiative.

To sum up, Sudan has met most of the technical requirements of the HIPC initiative to qualify for the exemption of external debt. Nevertheless, there is still a long way for the country to go in order to benefit from the initiative because the debt relief process also involves political considerations. In addition to meeting the technical conditions, another crucial factor is normalizing relations with the international community, especially the United States, to remove Sudan from the list of State Sponsors of Terrorism. This step may provide opportunities for the influx of investments and foreign funds to Sudan. Additionally, Sudan should speed up reaching an agreement with international financial institutions (the IMF and the World Bank) for paying their arrears of US$3 billion, and make regular committed payments.

To achieve 100% forgiveness for its external debt, Sudan has to ensure that coordination between Non-Paris Club creditors is possible, as it's well known that the HIPC Initiative is designed to address the debt owed to Paris Club members. The coordination of Non-Paris Club creditors to write off Sudan's debt depends on many factors, of which common interests is the most important. Any positive action towards the Sudanese external debt crisis also depends on the country's foreign policy. Normalizing relations with the international community and multilateral creditors is important for cancelling the country's external debt. Both Paris Club and Non-Paris Club creditors are directly or indirectly influenced by the position of the international community regarding external debt.

Efforts to address Non-Paris Club debt

According to the Central Bank of Sudan, debt obligations to the Non-Paris Club[12] totalled US$19.8 billion in 2018, representing 39.7% of Sudan's external debt, of which US$12.9 billion was in arrears. Non-Paris Club creditors have played an increasingly important role over the past two decades, especially after the separation from South Sudan in 2011, as almost all Sudan's new loans have been received from them. Of these creditors, Arab countries have the lion's share of Non-Paris Club debts. Kuwait and Saudi Arabia are considered Sudan's two largest creditors as they hold over 29% of Sudan's external debt. Moreover, China is among the largest creditors of Sudan, with more than US$2 billion owed to them.

At first glance, it may seem that Sudan will have an easy job persuading those countries to forgive their debts. However, in reality, these countries are not isolated from the rest of the world; their loans are also subject to the standards of the global financial system of lending and borrowing. For example, Arab countries, particularly Kuwait and Saudi Arabia, have become more integrated in the global economic system and have become major players in forming the global economy. Nevertheless, the Sudanese Government has previously come to an understanding with Kuwait about addressing the problem of its US$9 billion debt. The negotiations between the two countries progressed well, but then the Kuwaiti stance changed significantly due to foreign pressure.

Although Arab countries are linked with Sudan by the bonds of religion and ethnicity, the issue of foreign debt is considered sovereign by both creditor and debtor countries. Therefore, any exemption (partial or complete) must pass sovereign measures that include approval by the parliaments of those countries, as well as other measures that take a long time to be completed, resulting in most of these procedures being rejected. Although the systems of governance in some of the major creditors of Sudan (Kuwait and Saudi Arabia) are not set up to pay much attention to the approval of the representatives, the issue of exempting Sudan's debt may have led to the people's revolution against their rulers. Therefore, they would not risk becoming involved in such matters.

In addition, according to its creditors Sudan is not poor, as it has always been seen as a resource-rich country and is considered a desirable destination for investment in the future. Although Sudan did not repay its debts, Arab creditors granted the country more loans, making it their largest debtor. The Gulf states (Kuwait and Saudi Arabia) are placing their bets on Sudan's natural resources. They consider them guaranteed reserves for future generations, as most Gulf economies depend on oil, a non-renewable resource.

Furthermore, since the secession of South Sudan in 2011, all international development support to Sudan was stopped. Sudan does not have any access to foreign support except through the Arab countries. Therefore, instead of addressing its debts with its major creditors, Sudan has become dependent on assistance and loans from Arab countries to correct the public budget deficit and balance of payments distortions. Financing basic needs such as food, fuel and medicine has also become a challenge. All Sudan's efforts to address its Non-Paris Club debt do not exceed the limits of rescheduling, and requesting more debt has not yielded the expected results. In return, Sudan has always granted Non-Paris Club creditors, especially Arab creditors, investment privileges, thereby ensuring its diplomatic stance in facing security threats.

When the December revolution, which toppled the 30-year rule of the Inghaz regime, broke out, there were expectations that the transitional government would bring about a radical change in state policy by relying on domestic resources instead of foreign loans, and increase production and productivity. Sudan should have lifted subsidies from essential commodities (fuel, medicine and bread) to achieve these objectives. Interestingly, this policy was not accepted by the Sudanese people. Therefore, the government changed its course and decided to continue the subsidy until the National Economic Conference held in September 2020[13]. By doing this, the new government followed the same course as the Inghaz regime under Omar al-Bashir (ousted in 2019), which sought to secure more loans regardless of their terms and the country's ability to repay them (Sharaf and Shahen, 2023).

3. Data sources and methodology

The information and data used in this study are collected from different official sources, namely the Central Bank of Sudan, the Central Bureau of Statistics, the World Bank and the IMF. The data on military expenditure were collected from the Stockholm International Peace Research Institute (SIPRI). Some data were not available, such as military expenditure financed by external debt and some development projects in Sudan and South Sudan using external loans. The research uses a descriptive statistical method, as it discusses trends in and patterns of Sudan's external debt by type and source (creditors) for the period 2005–2019. The study includes a debt sustainability analysis for Sudan using the IMF's Debt Sustainability Framework (DSF).

4. Debt sustainability analysis in Sudan

The Debt Sustainability Framework (DSF) was launched by the World Bank/IMF as a tool to assess future lending decisions. It makes debt sustainability thresholds dependent on a country's policy and institutional capacity and development, as measured by the Country Policy Indicators Assessment (CPIA) and, in particular, by evaluating the sensitivity of debt sustainability to several risks faced by low-income countries. This framework assumes that any measure used to assess a country's ability to use additional sustainable resources effectively will improve the debt sustainability analytical framework (Omotor, 2019 and 2021).

Debt indicators have been developed to help countries identify their risks and thus help manage them. When these indicators are used to analyse debt sustainability, they help assess a country's indebtedness and its potential to become a heavily indebted country. The indicators are used dynamically to give a full picture of debt trends. Moreover, they are used along with other economic variables such as expected growth, interest rates and exchange limits. Despite the usefulness of these indicators, there are conceptual problems in determining threshold levels or even acceptable and desirable areas of these indicators.

Debt Sustainability Framework(DFS) thresholds vary with the Country Policy and Institutional Assessment (CPIA) score because a country with strong (weak) policies and institutions can carry more (less) debt within appropriate zones. The debt sustainability analysis consists of external PPG debt stock or service ratios relative to repayment capacity measures such as GDP, exports and fiscal revenue. As shown in Table 2 and Figure 5, it is apparent that the present value (PV) of external debt to GDP was about 146% of GDP in 2019. The sharp increase in debt ratios after 2011 was mainly due to the separation of South Sudan, as Sudan had lost 80% of its foreign exchange resources alongside the accumulation of penalty interest rates and exchange rate fluctuations.

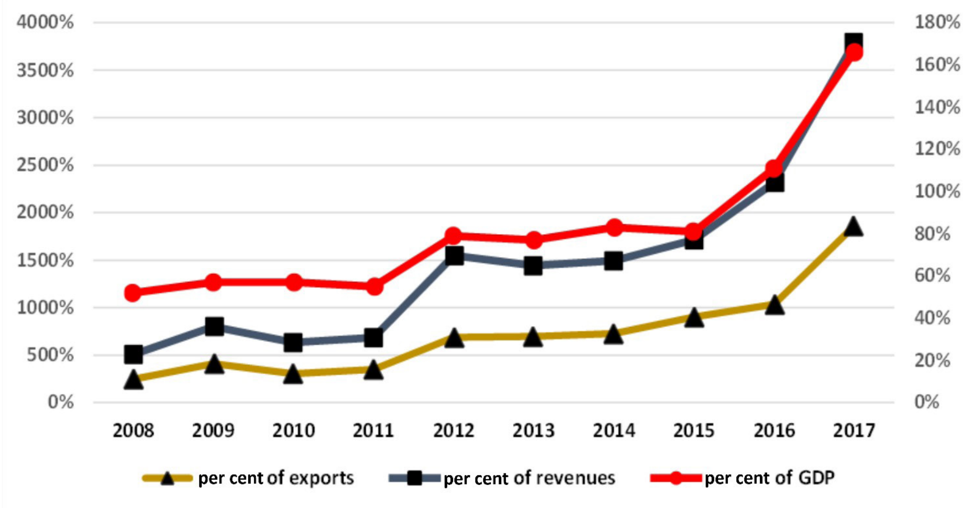
Table 2: Sudan's external debt sustainability indicators

Indicator name	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total external debt (US$ billion)	33.5	35.7	37.8	39.8	42.7	44.4	43.7	43.9	45.4	47.1	49.9	51.2
Per cent of GDP*	52	57	57	55	79	77	83	81	111	166	104	146
Per cent of exports	248	411	305	350	688	696	727	901	1035	1860	1432	1368
Per cent of revenue	260	389	328	334	860	747	767	813	1282	1930	973	1422

Source: Author's calculations based on data from the Central Bank of Sudan (2019) and the World Bank (2020)

* Base year 1982

Figure 5: Sudan's external debt sustainability indicators



Source: Author's calculations based on data from Central Bank of Sudan (2019), the World Bank (2020), Mbaye et al (2018).

Likewise, the PV of debt to exports is about 1,368%, and the PV of debt to budget revenue ratio is about 1,422%, which are all above the respective thresholds of weak economic performance of 50%, 200% and 300%, respectively, as shown in Table 3. This is evidence that Sudan's debt is unsustainable. Sudan's debt burden indictors in Table 4 also reveal that Sudan is in debt distress. A country's external debt becomes sustainable if the sustainability ratios, particularly the ratio of debt to GDP, do not grow over the years. As is evident from Figure 5, all sustainability ratios for Sudan grew year by year, which is evidence that Sudanese external debt is not sustainable.[14] After the separation from South Sudan in 2011, the situation became even worse as the country had been left with sizeable external debt.

Table 3: Indicative external debt burden indicators

	PV of debt in %		
	Export	GDP	Revenue
Strong performer	100	30	200
Medium performer	150	40	250
Weak performer	200	50	300

Source: International Monetary Fund (2013).

Table 4: Sudan's external debt burden indicators

Indicator name	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt service (% of exports)	3	6	4	5	7	5	4	11	6
Debt service (% of revenues)	119	184	135	128	194	13	95	92	-
Debt paid (% of GDP)	1.7	1.6	1	1.1	1.6	1.7	1.6	1.4	-

Source: Author's calculations based on data from the Central Bank of Sudan (2019), the World Bank (2020), and Mbaye et al (2018).

Sustainability of Sudanese external debt: Future perspective

External debt may be the best option to finance the deficit in domestic savings for the debt to not create any economic problems in the future. To keep debt sustainable, foreign loans should result in higher economic growth through the promotion of exports. A proper assessment of the future trend of external debt should consider various aspects, including the performance of macroeconomic variables, the management of foreign trade and debt burden indicators. Towards this end, projections have been made to explore the future position of Sudanese debt sustainability.

As projected for the period 2024–2029 in Table 5, Sudan's foreign indebtedness indicates that the three solvency indicators will exceed their standard threshold ratios by 2024. The present value of debt to GDP, of 35.9%, for example, exceeds the 30% least developed country threshold. The current value of debt to exports is expected to reach 487%, which is above the 100% tolerance level; and the current value of debt to revenues is estimated at 269.4%, against a threshold of 200%. However, these ratios are expected to improve five years later, by 2029. The ratios are likely to be closer to the threshold quotients, as the present value of debt to GDP would decrease to 25%, the current value of debt to exports could be 255%, and the current value of debt to revenues is projected to be 202.6%.

Table 5: CBOS forecasts for Sudan's external debt sustainability indicators

Years	ED/GDP	ED/XGS	ED/Revenues
2024	35.9	487	269.4
2029	25	255	202.6
Least developed country threshold	30%	100%	200%

Source: Central Bank of Sudan (2019).

5. Discussion of Sudan’s external debt

The international community highlights that the conclusion of a lasting peace agreement between Sudan and South Sudan should open the door for the necessary support of the donor community for the reconstruction and development of Sudan to promote growth, alleviate poverty and restore debt sustainability. In this context, the creditors were encouraged by renewed indications of interest in establishing a support group of creditors and donors to prepare to mobilize Sudan’s financing, clear its arrears and reduce its heavy debt burden following a peace agreement. Subsequently, the two Sudans realized that nothing happened regarding their external debt, and that they should look for other alternatives. What follows is a summary of the discussion on external debt after the separation of South Sudan in 2011.

Technical working group on debt

Concerning a roundtable on Sudan, the IMF and WB staff (at the request of some donors/creditors) agreed to co-lead a technical working group, including Sudan’s major official creditors. The group’s objective was to provide factual information on Sudan’s debt structure, classifications and reconciliation position to the international community and international financial institutions to initiate the debt relief process. In collaboration with the IMF, the EDU at the Central Bank of Sudan started a debt reconciliation exercise with creditors and accordingly received creditors’ statements from multilateral, Paris Club, and Non-Paris Club bilateral creditors.

In line with these technical efforts, the Sudanese Government issued a decree in March 2011 constituting a high-level debt committee to handle the external debt burden issue and prospective solution prerequisites. In collaboration with the Government of South Sudan, it is worth mentioning that Sudan has formulated a Sudan External Debt Relief and Arrears Clearance Strategy (SEDRACS) to serve as the framework to accomplish external debt relief. The document suggests processes for re-engagement with international creditors and other relevant parties. Unfortunately, until now, those efforts have not borne fruit.

The zero option

Pre-secession negotiations between Sudan and South Sudan led to an agreement on the "Zero option" principle as part of the Agreement on Certain Economic Matters (ACEM), which was signed on 27 September 2012 in Addis Ababa and became effective on 17 October 2012.[15] Following this agreement, a committee was established composed of representatives of the two governments and the African Union High-Level Implementation Panel (AUHIP) on Sudan and South Sudan. This so called "Joint Approach" includes requests for assistance from the international community in four areas: transitional financial assistance for Sudan, development assistance for South Sudan, comprehensive debt relief, and the lifting of economic sanctions imposed on Sudan (United Nations Peacemaker, 2012)

The "zero option agreement" stipulates that Sudan would retain all external liabilities after the secession of South Sudan, provided that the international community provides firm commitments on debt relief delivery within two years. In the absence of such a commitment, Sudan's external debt would be shared with South Sudan based on a formula to be determined. This deadline has been extended many times: in 2014, 2016 and 2018. Until now, there has been no movement on debt relief. The time has come to share the debt between the two countries, given the continuous failure to take advantage of international debt relief initiatives.

6. Suggested solutions

Sudan has made numerous requests to have its foreign debts written off since the government achieved peace in the country and after eventually signing the peace deal in 2005, but its debts have not been forgiven and they have remained a source of preoccupation and an obstacle to development, especially as the majority of those debts are accumulated interests which had grown each year (as illustrated in Appendix B). Three scenarios for addressing Sudan's external debt are provided: improving relations, establishing an oil revenue fund to serve its external debt, and sharing the debt between the two states.

First scenario: Improving relations

Despite fulfilling most of the technical requirements to qualify for the exemption of external debt, Sudan is still a long way from benefitting from HIPC initiatives, as the refusal to write off its debts is also based on political considerations. Therefore, the two Sudans should unify their efforts in demanding that the international community write off all unbearable debts for both parties. In light of the fact that most Sudanese external debt (39.7%) is owed to Non-Paris Club members, the two countries have to come to an agreement with them, especially Arab countries and funds.

Moreover, Sudan and South Sudan should improve their relations with the big powers, headed by the United States. This includes improving relations with creditors and speeding up reaching an agreement with the IMF, the World Bank, Paris Club member states and other states that are in the IMF's sphere of influence. This may at least help address the debts, even if they are not written off. The main obstacle to forgiving the debts is that Sudan is not capable of repaying US$3 billion of IMF and World Bank debts because debt obligations due to multilateral institutions are not subject to debt relief and have to be met on schedule.

Second scenario: Establishing an oil revenue fund to serve Sudan's external debt

In the decade before the secession of South Sudan in 2011, oil and oil revenues had been pivotal, amounting to over half of government revenues and 95% of exports. Soon after the secession, oil was at the heart of the struggle between Sudan and South Sudan, along with issues such as external debt, because South Sudan is the most oil-dependent country in the world, with oil exports accounting directly or indirectly for almost the totality of exports, and around 80% of GDP. After the secession of South Sudan, Sudan was confronted with large macroeconomic and fiscal challenges.[16]

Although both countries are now independent, they have remained interdependent in terms of the oil industry. Being a landlocked country, the only way that South Sudan can export its crude oil is via a pipeline through Sudan to Port Sudan on the Red Sea.

Sudan's relations with the South have been very tense and difficult. On occasion, both governments had been called upon to settle deadlocked issues such as external debt, oil and boundary disputes. However, relations between the two countries deteriorated despite the comprehensive Cooperation Agreement signed in September 2012 (United Nations Peacemaker, 2012a), with each regime accusing the other of supporting the opposition. This led to an unsettled situation between the two countries which affected their economies negatively. Bloody battles raged between the government and its opponents, with more than 50,000 people killed and more than 1.6 million displaced from the start of the civil war in December 2013. This caused the international community to threaten to impose harsh sanctions on the nascent state over human rights violations.

The insecurity in the South disrupted the oil industry. A lot of the oil wells are no longer productive, and a complete collapse of the economy occurred in South Sudan to such an extent that, in March 2018, President Silva Kiir admitted that there was insufficient cash to pay state employees. However, the most important manifestation of the economic collapse in South Sudan is the scarcity of food, where famine has hit large parts of the nascent state, leading to large numbers of southerners migrating to Sudan. There are no exact numbers regarding these population flows. According to the United Nations, the number of southern IDP (internally displaced people) in the north is 771,000 people, while the government estimates there are 1.3 million IDPs.

Sudan's economy has not been shielded from the serious effects caused by the crisis in the South and a complete stop in oil production in some fields and a partial stoppage in others. The Sudanese economy has witnessed a dramatic deterioration since 2012 as the inflation rate rapidly increased to more than 57% in December 2019 and the value of the Sudanese Pound against foreign currencies collapsed with the value of the US Dollar against the Sudanese Pound reaching more than 50 Pounds in December 2019. This explains the scarcity of hard currencies since the separation in 2011.

In collaboration with the Intergovernmental Authority on Development (IGAD), Sudan convinced President Salva Kiir to sign a peace agreement with rebel leader and former Vice President Riek Machar on 17 June 2018 in Khartoum. This agreement was positive for the economy of both countries. The most important advantage was that the two countries agreed to entrust Sudan with securing and re-operating oil fields that had stopped production in the previous period. Perhaps this friendly atmosphere between Sudan and South Sudan could be conducive to discussing how to deal with the external debt problem of the two countries.

As South Sudan produces approximately 320,000 barrels of oil per day, the new state is ranked as the third-largest oil producer in sub-Saharan Africa after Nigeria and Angola. This study proposes that Sudan and South Sudan create an oil revenue fund to service external debts, which could be financed, for example, from 10% of monthly oil revenues. What reinforces this suggestion is that a large part of the external debt was caused by oil prospecting in the South. In addition, the oil production process requires the cooperation of the two countries, as the fields are located in the South, but the export and processing, and securing the fields, should be the responsibility of Sudan.

If taken on board, this suggestion to solve Sudan's external debt crisis should coincide with a request to creditors for special treatment of Sudan's debts in light of its circumstances. Creditors would have to submit a debt repayment proposal that includes rescheduling and stopping further interest accumulation. The creditors' proposal should also include determining the total size of the external debt in coordination with the governments of the two countries, and a resolution on the time limit for the two countries to become debt free.

Third scenario: Sharing the debt between the two states

If the two countries do not support the second scenario, negotiations should open to discuss how the external debt can be split because neither Sudan nor South Sudan can independently repay the total debts. South Sudan is too concerned with building its new state and meeting the living demands of its people to be worried about those debts. For this reason, the foreign debt should be shared between the two Sudans. The external debt issue requires urgent, amicable negotiations between Sudan and South Sudan because the external debt has increased due to non-repayment since the separation in 2011. The time has come for the two states to discuss splitting the debt in light of the potential failure of their commitments and the empathy the two states have garnered in seeking to write off their external debt.

International law does not have any set rules concerning the apportionment of debt and assets during state secessions, and international case law does not provide firm guidance on the peaceful apportionment of debt and assets with state secessions. However, debt splitting is not a complex issue to be dealt with as certain global approaches have been applied elsewhere (Blum, 1997). Thus, a focus on how public debt and assets should be apportioned during state secession to achieve a quick, fair and equitable result for both the seceding state and the parent state is not new in the literature (Bookman, 1994; Williams, 1994; Noor, 2005). Four parameters can be proposed for dividing the foreign debts: population size of the two states, geographic area, projects financed by the debts (final beneficiary method) and financial capacity. These parameters are similar to the four approaches articulated in Blum (1997): Historical tax shares, historical benefits, gross domestic product and per capita.

External debt is considered a matter of sovereignty. Therefore, in many countries that have separated, there had been an urgent settlement of their foreign debts. Examples of such precedents are Yugoslavia and Czechoslovakia, where each new state shouldered foreign debts according to their capabilities. In the case of Pakistan and Bangladesh, Pakistan carried the obligations by itself, as did Russia after the Soviet split. However, Ukraine later demanded that it pay its foreign debts all by itself.

Suggested methods for debt splitting between Sudan and South Sudan

Sudan's total external debt was US$39.8 billion at the separation from South Sudan in 2011,[17] of which US$33.9 billion was arrears. Sudan lost 23.1% of its population, 20.5% of its territory and 80% of its foreign exchange resources. Thus, allocating the external debt between them is key. Table 6 provides the relevant indices for applying each of the proposed approaches for sharing the external debt between the two countries.

Table 6: External debt allocation between the two Sudans

1. Population size method		
Allocation	North	South
Size	34.2 million	10.3 million
Percentage	76.90%	23.10%
Debt share	US$30.6 billion	US$9.2 billion
2. Geographical area method		
Allocation	North	South
Area	2,506,000^2 km	644,399^2 km
Percentage	79.50%	20.50%
Debt share	US$31.6 billion	US$8.2 billion
3. Final beneficiary method		
Allocation	North	South
Financed projects	-	-
Percentage	-	-
Debt share	-	-
4. Financial capacity method		
Allocation	North	South
Percentage	20%	80%
Debt share	US$7.96 billion	US$31.84 billion
Debt interest for the period 2011 and beyond (US$8.4 billion)		
Allocation	North	South
Percentage	50%	50%
Debt share	US$4.2 billion	US$4.2 billion

Source: Author's calculations based on data from the Central Bank of Sudan (2019), The World Bank (2020), and International Monetary Fund (2018).

As can be seen from Table 6, Sudan now faces an external debt burden ranging from US$7.96 billion (financial capacity weighted) to US$31.6 billion (geographical area weighted). Conversely, South Sudan's debt burden ranges from a low of US$8.2 billion (geographical area weighted) to US$31.84 billion (financial capacity weighted). Since the secession of South Sudan in 2011, the interest of the debt stock (structural and penalty) has persistently accumulated and added to the outstanding Sudanese debt. Following a calculation with the help of EDU staff at the Central Bank of Sudan, it was found that accumulated interest reached US$8.4 billion by 31 December 2019. This study suggests dividing this amount between the two countries equally so that each would have an additional US$4.2 billion added to the amount suggested by the proposed methods. However, due to the lack of data on some projects financed by foreign loans, such as loans for military expenditures, the study reaches no conclusion on dividing the debt based on the the final beneficiary method.

The study points out that Sudan's external debt is unsustainable under all of these debt splitting options, except for the financial capacity method. For reasons that mirror opposites, South Sudan has a sustainable debt burden in all scenarios, except for the financial capacity method. The implication is that South Sudan should assume the majority of the debt. However, debt splitting between Sudan and South Sudan faces some challenges that can be categorized into two groups:

Political challenges: The two countries are not fully convinced of the debt splitting option and instead are betting on debt cancelling. Sudan believes that it has made many sacrifices to fulfil the criteria for the HIPC Initiative. The most significant incentive was Sudan signing a peace agreement with South Sudan, which led to the secession of the South in 2011 and resulted in the collapse of the Sudanese economy. According to views expressed by Sudan, the agreement should be perceived as a friendship token not only for ending its international isolation, but also that it should be extended to the international community for the forgiveness of its external debts. South Sudan's desire to split the debt is even weaker. On more than one occasion it has insinuated that it is not responsible for these debts. In South Sudan's opinion, the country did not benefit from any of the obligations, despite the agreements reached between the two parties in this regard.

Technical challenges: As noted before, there are four possible ways to divide Sudan's external debts. South Sudan may agree to split the obligations according to the population size or geographical area methods because these methods would let it shoulder a lower debt burden. However, according to a Sudanese official source, that would be unfair to Sudan because these loans had been extended to the whole, unified Sudan when southerners were spread throughout the states of Sudan (north, central and south). Thus, the southerners enjoyed projects financed by foreign loans, whether in the health, education or infrastructure sectors. Therefore, these debts should be apportioned equally between the two countries.

From the above illustration, equally apportioning foreign debts based on the final beneficiary approach may seem fairer, even to creditors. The problem is still the lack of detailed data for some of the projects financed by loans. Worse still is the claim that monies were personally appropriated unlawfully and not used for national projects. This study proposes that the two countries should enter into good faith negotiations to overcome these challenges, bearing in mind that they are naturally one nation and have a common destiny. An agreement to equally share the debt would be in the best interests of all parties, as there would be no loser and both Sudans will be winners. The agreement on the debt division should rather be viewed as the beginning of complete economic integration between the two countries.

7. Conclusion

The study introduced some scenarios within which Sudanese external debt can be tackled. This included proposing various ways of splitting the debt between the two countries and the debt burden faced by each Sudan. Moreover, the study conducted a debt sustainability analysis of Sudan, focusing on the period after the secession of South Sudan. With these concerns in mind, the following observations were highlighted:

- Based on the latest available statistics in 2019, the external debt present value (PV) stands at 146% of GDP, approximately three times the 50% threshold for weak policy performers. Similarly, the PV of debt to exports is 1368%, and the PV of debt to budget revenue ratio is about 1422%. However, the average external debt to GDP ratio, external debt to exports ratio, and external debt to revenues ratio for the period after the separation of South Sudan is 106%, 1088% and 1100%, respectively. This indicates that Sudan's external debt burden ratios are large and unsustainable by all indicators as they were well above the indicative thresholds determined by the HIPC Initiative. Therefore, Sudan continues to be in debt distress.
- Throughout the period following the secession of South Sudan in 2011 until 2018, the new (principal) accumulation of Sudanese indebtedness amounted to US$2.93 billion. The bulk of the amount (95%) is owed to Non-Paris Club creditors, in particular Arab countries such as Kuwait and Saudi Arabia. By contrast, apart from internal conflicts, U.S. economic sanctions imposed on Sudan since 1997 have had a significant adverse effect on the debt crisis and the Sudanese economy. Consequently, Sudan has been deprived of any assistance from international financial institutions, and efforts for the country to be considered by the HIPC-led initiative have also been frustrated.
- The study proposed four approaches for splitting debt between Sudan and South Sudan: population size, geographical scope, final beneficiary and financial capacity methods. Based on these methods, the study finds that Sudan faces an external debt burden ranging from US$7.96 billion (financial capacity approach) to US$31.6 billion (geographical approach weighting). South Sudan's debt burden ranges from a low of US$8.2 billion (geographical approach) to US$31.84 billion (financial capacity method). The study suggests that each country bears an additional US$4.2 billion debt burden, which presents the accumulation of the interest of the debt stock since the separation of South Sudan, this has amounted to US$39.8 billion.

In light of the above findings, the study recommends the following:

- As shown in the debt sustainability analysis, Sudan is potentially eligible for HIPC Initiative assistance. Since Sudan signed the Comprehensive Peace Agreement with South Sudan in 2005, it has received numerous promises to write off its foreign debts, but to no avail. Nevertheless, Sudan came a long way in reaching this point given the political instability and conflicts in Darfur, Southern Kordofan and the Blue Nile. As the result of a popular revolution in December 2018, the allegedly corrupt National Congress Government, which the U.S. Government accused of supporting international terrorism, was removed. The U.S. Government has removed Sudan from the list of state-sponsored terrorism countries. This step can positively affect conversations to address the Sudanese external debt crisis.
- Non-Paris Club countries have become the most significant creditors of Sudan, with a share of 41% of the total debt in 2019. The larger share of this amount is from Arab countries and funds. Therefore, the study recommends reaching an agreement with them, as this can help at least lessen the Sudanese external debt crisis.
- South Sudan produces approximately 320,000 barrels of oil per day, ranking the country as the third-largest oil producer in sub-Saharan Africa after Nigeria and Angola, this study proposes creating a so-called "oil revenue fund" to service external debts from oil revenues. This reinforces the suggestion that a large part of the external debt was due to oil prospecting in the South. In addition, the oil production process requires the cooperation of the two countries, as the fields are located in the South, but the export and processing, and securing the fields, become the responsibility of Sudan.
- The agreement between Sudan and South Sudan on the division of their foreign debt, even if it seems theoretical in the interest of a particular party, there is no loser in real terms. Should there be a deadlock, the two countries should enter into negotiations in good faith to conclude the apportionment of Sudan's external debt, as presented in Table 6. Both countries would be winners, and the agreement on the division of obligations between the two countries should be the beginning of complete economic integration.

Recently, Sudan has been removed from the list of state-sponsored terrorism countries. The removal is accompanied by a second agreement that restores Sudan's sovereign immunity, preventing further lawsuits against it in U.S. courts. Due to the decrease in oil prices and the lowering of the global dependency on oil, and the challenges facing the debt splitting between Sudan and South Sudan, the appropriate option for the two Sudans is to receive full or partial debt relief through the HIPC Initiative. This study presented details of possible options to tackle the Sudanese external debt problem.

Notes

1 See Appendix B.

2 The World Factbook 2017, Central Intelligence Agency.

3 See Appendix A for the data.

4 Later, in 2012, the two Sudans agreed to divide their external debt if not written off.

5 Net resource transfer is measured by adding new borrowing to scheduling minus total debt service.

6 Darfur's war led to the indictment of Sudan's president, Omar al-Bashir, for genocide, war crimes and crimes against humanity by the International Criminal Court.

7 See Vision of Humanity Global Peace Index Ranking. https://www.visionofhumanity.org/maps/#/, last accessed 11.03.2024.

8 Also see the data in Appendix C.

9 A complete list of creditors is available in Appendix D.

10 For example, the scheduled debt service date passed without payment.

11 Sourced from the Central Bank of Sudan (2019).

12 Major non-Paris creditors for Sudan include Kuwait, Saudi Arabia, China, India, United Arab Emirates and Turkey.

13 Due to the pandemic, the National Economic Conference was repeatedly postponed and finally held in September 2020 (Dabanga – Radio TV Online, 2020).

14 See also the Bretton Woods' Vision in Appendix E.

15 See the full text of Article 3 of the ACEM that deals explicitly with the Treatment of External Assets and Liabilities in Appendix F.

16 Almost 75% of the total oil production originates from areas in South Sudan.

17 It is well known internationally that the division of external debt should be based on the size of the debt in the year in which the secession occurred.

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Appendix A

Total debt and repayment in Sudan, 1980–2011 (US$ million)

Year	Total debt*	Repayment**	Year	Total debt	Repayment
1980	4670	53.445	2000	20521	143.005
1981	5763	51.374	2001	20798	138.131
1982	6272	98.864	2002	23608	80.056
1983	7454	40.009	2003	25710	188.308
1984	8594	40.502	2004	26784	204.373
1985	9034	16.086	2005	27006	291.063
1986	9834	151.236	2006	28457	209.213
1987	11636	41.609	2007	31873	216.259
1988	12136	58.037	2008	33542	218.85
1989	12855	45.395	2009	35687	362.366
1990	15305	14.638	2010	37805	397.453
1991	15834	12.159	2011	39800	415.626
1992	16085	14.085	2012	42470	273.639
1993	16321	9.335	2013	44379	211.275
1994	18002	2.619	2014	43660	178.578
1995	19355	14.541	2015	43884	411.86
1996	19451	0	2016	45800	54.5
1997	19357	0.158	2017	47100	126.3
1998	20483	1.262	2018	49900	
1999	20546	5.705			

Sources: * Central Bank of Sudan (2014) ** The World Bank (2020).

Appendix B

Composition of stock of Sudan's external indebtedness, 1980–2015 (US$ million)

Year Debt Composition	1980	1985	1990	1995	2000	2005	2010	2015
Total debt	4670	9035	15305	19355	20521	27006	37805	43884
Principal share	46%	44%	45%	42%	39%	41%	44%	43%
Principal	2148.2	3975.4	6887.25	8129.1	8003.19		16634.2	18870.12
Contractual interest share	14%	17%	16%	18%	17%	14%	14%	11%
Contractual interests	653.8	1535.95	2448.8	3483.9	3488.57	3780.84	5292.7	4827.24
Delay interests share	40%	39%	39%	43%	44%	45%	42%	46%
Delay interests	1868	3523.65	5968.95	8322.65	9029.24	12152.7	15878.1	20186.64

Source: Central Bank of Sudan (2019).

Appendix C

Military expenditure in Sudan, 1988 –2019

Year	Mili. exp.	Year	Mili. exp.
1988	1604	2004	4749
1989	------	2005	3881
1990	1858	2006	4565
1991	1490	2007	5782
1992	1290	2008	6974
1993	1471	2009	6801
1994	1088	2010*	2979
1995	759	2011*	3089
1996	564	2012*	3199
1997	445	2013*	3309
1998	1288	2014*	3418
1999	2308	2015	3222
2000	2973	2016	3376
2001	1885	2017	4383
2002	2211	2018	2254
2003	1672	2019	1048

* =Researcher estimates based on data from Stockholm International Peace Research Institute (SIPRI).

Source: SIPRI (2023).

Appendix D

Sudan's Creditors

1. Multilateral creditors include:
   African Development Bank
   African Development Fund
   Arab Fund for Economic and Social Development
   Arab Monetary Fund
   European Investment Bank
   International Development Association
   International Fund for Agricultural Development
   International Monetary Fund
   Islamic Development Bank
   OPEC Fund for International Development
2. Paris Club bilateral creditors include:
   Austria: Oesterreichische Kontrollbank AG, Bank of Austria
   Belgium: Office Nationale Du Ducroire
   Canada: Export Development Corporation
   Denmark: Danish Export Credit Council
   France: Banque de France - COFACE, Natixis
   Germany: EULER HERMES
   Italy: Sace, artigiancassa
   Ireland: Department of Industry
   Japan: Ministry of Finance, Export, Insurance Division Overseas Economic Cooperation Fund – Japan International Cooperation Agency(JICA)
   Netherlands: Nederlandsche Kredietverzekeringsmaatschappij
   Norway: Norwegian Guarantee Institute for Export Credits
   Russia: Bank of International Foreign Affairs, Moscow
   Spain: Instituto de Credito Oficial
   Switzerland: Federal Office of Foreign Economic Affairs
   United Kingdom: Export Credits Guarantee Department
   United States: Agency for International Development, Department of Agriculture; Department of Defense; Exim-bank

3. Non-Paris Club bilateral creditors include:

Abu Dhabi Fund for Arab Economic Development.	Egypt: Central Bank of Egypt
Algeria: Ministry of Finance.	Iran: Ministry of Finance; EXIM Bank
China: Bank of China; Exim Bank, Beijing	Qatar: Ministry of Finance
Czech: Ceskoslovesnka Obchodni Banka-Praha	India: Ministry of Finance; EXIM Bank
Croatia: Geotehnika LTD, ZAGREB	Egypt: Central Bank of Egypt

Abu Dhabi Fund for Arab Economic Development	Hungary: Hungarian State Treasury
Kuwait Fund for Arab Economic Development	Serbia: Jubmes Bankaa .d. Beograd
Libya: Ministry of Finance	Kuwait Fund for Arab Economic Development
Pakistan: State Bank of Pakistan, Karachi	Kuwait: Ministry of Finance
Turkey: The Central Bank of the Republic of Turkey; Exim Bank	Romania: Electroexportimport–Masinenexport, Rompetrol
Iraq: Ministry of Finance	Poland: Bank Handlowy w Warszawa
Saudi Fund for Development	Saudi Arabian Monetary Agency

4. Major foreign commercial bank creditors include:

Arab African International Bank, Cairo	B NAT Paris London
The Argo Fund limited, London	Lazard & Co. Limited, London
Standard Bank, London	Arab International Bank, Cairo
Citibank NA, Bahrain	National Bank of Kuwait, Kuwait
UBAF, Paris	Bank of Nova Scotia
UBS Warburg, Stamford (formerly SBC)	Societe Generale, Paris (inc.Bahrain bch.)
Citibank NA, Nassau	Swiss Bank Corp
Abu Dhabi Investment Company, Abu Dhabi	ING Bank (Luxembourg) SA
Alahli Bank of Kuwait	Ing Bank NV, London
Bank Melli Iran, London	MGTC, New York
Bank of New York, New York	Natexis Banque Paris (formerly BFCE)
Chase Manhattan Bank, London	National Bank of Kuwait, Paris
Credit Agricole (Banque) Indosuez, Paris	Union Arab American Bank, New York

Appendix E

Sustainability of Sudanese External Debt: Bretton Woods' Vision

In the context of the 2017 Article IV consultation with Sudan, Bretton Woods institutions (IMF/WB) prepared a debt sustainability analysis (DSA) for the country. The macroeconomic assumptions underlying this DSA have been updated based on developments in 2016 and 2017 (more details in Appendix G). The baseline scenario assumes a deteriorating fiscal deficit and monetizing of the deficit, an overvalued official exchange rate and permanent removal of sanctions. As in previous DSAs, this DSA update does not include arrears clearance, possible external debt relief or debt apportionment between Sudan and South Sudan in its baseline or alternative scenarios.

The data on macroeconomic variables in Sudan are unavailable for the period after 2017.[1] Therefore, this report confirms the above outlined results in Section 7 as Sudan's external debt remains unsustainable under the baseline scenario because all

PPG external debt ratios continue to breach their indicative thresholds. The ratio of external debt to GDP was about 166% of GDP in 2017, more than five times than the threshold for weak policy performers of 30%. Also, the PV of debt to exports is about 1,860% and the PV of debt to revenue ratio is about 1,930%, more than 18 times and nine times the 100% and 200% thresholds for weak policy performers, respectively.

This weakness is fundamentally due to a deterioration in the economy as a whole, which resulted in keeping the debt at unsustainable levels. In addition, Sudan's debt outlook is vulnerable to a range of shocks. For example, the PV of debt to GDP is most vulnerable to a one-time depreciation shock, whereas the PV of debt to exports and debt service to exports ratios are most vulnerable to an export shock. The debt to revenue and debt service to revenue ratios are most vulnerable to a GDP deflator shock. A standard one-time 30% depreciation shock in 2018 would increase the PV of debt to 188% of GDP in that year, and remain elevated over the projection horizon.

Appendix F

Article 3 Treatment of external assets and liabilities

1.1 Agreed Zero-option Approach:

- 1.1.1 The two states hereby agree that the Republic of the Sudan (RoS), as the continuing state, shall retain all external debt liabilities and external assets of the RoS.
- 1.1.2 The two states shall take all necessary steps, including through a joint creditor outreach strategy, to secure from international creditors a firm commitment to provide comprehensive relief of the external debt of the RoS.

1.2 Trigger for Potential Apportionment of External Debt and Assets:

- 1.2.1 If the firm commitment from international creditors regarding the relief for the external debt of the RoS is not secured, the Agreed Zero Option shall cease to apply.
- 1.2.2 Upon the agreed Zero Option ceasing to apply, the two states shall enter into good faith negotiations to conclude apportionment of the external debt of the RoS and its external assets.

Appendix G

Macroeconomic Assumptions, 2017–2037

Natural resources. Oil production was projected at 90,000 barrels per day in 2017, slightly lower than in 2016. Ageing oil fields and a low international oil price outlook, along with moderate expansion of further exploration, keep oil production flat at 90,000 barrels per day in the medium term. Meanwhile, non-oil GDP is projected to grow by about 3.4%, on average, by 2022 and remain stable afterwards. Price projections are guided by the IMF's latest World Economic Outlook (WEO). The price of Sudan's crude oil is projected to average US$47 per barrel in the medium term.

Real sector. The real GDP growth rate is expected to decline slightly to 3.2% in 2017, driven by weaker domestic demand. Real growth is expected to increase to 4% and 3.7% in 2018 and 2019, respectively, boosted by the impact of sanctions removal, and then gradually decline to 3% by 2022, and remain unchanged on average for 2022–2037. Medium-term real GDP growth mainly reflects our baseline scenario assumptions: Sanctions had been revoked, but there is no further progress toward debt relief, nor do the authorities undertake far-reaching economic reforms. With a still overvalued exchange rate, weak business environment, and loose fiscal policies financed by money creation, macro imbalances are likely to intensify, compromising growth prospects. As measured by the GDP deflator, inflation is projected to increase slightly from about 25.7% in 2017 to about 26% in 2022. Inflation is expected to increase in the medium to long term to average 31.2% in 2023–2037.

Fiscal sector. The fiscal deficit is projected to deteriorate over the medium term to 3.7% by 2022, reflecting a combination of revenue losses arising from the substantial use of the overvalued official exchange rate for government transactions and dwindling oil revenues, and an unchanged pattern in current spending. In the long run, post-2022, the fiscal deficit is expected to stabilize at 3.5% by 2032 and thereafter improve slightly to 3.4% by 2037. Under those assumptions, the domestic debt-to-GDP ratio is projected to rise over the long term.

External sector. The current account deficit is expected to worsen over the medium term, to a high of about 8.5% of GDP by the end of 2022, reflecting the deteriorating effect of the fiscal deficit as well as stable growth in real GDP. In the long run, it is projected to remain elevated at 6.3% of GDP, on average. The deficit will be financed by foreign direct investment and the continued accumulation of external debt. Sizable financing gaps are assumed to be covered by external debt throughout the projected period.

External debt. Reflecting continued limited access to international finance and a deteriorating debt service capacity, disbursements of new loans are expected to be limited, at about 0.6% of GDP during 2017–2037. In line with the recent portfolio of new contracted debt, the share of new concessional loans is assumed to be around one third. It is assumed that Sudan will continue not to service obligations arising from the stock of arrears. In addition, the projected financing gaps are added to the external debt stock.

Notes

1 Since the country witnessed protests that led to the fall of the National Congress Government.

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