

**EXECUTIVE  
BOARD  
MEETING**

EBS/21/58

**CONFIDENTIAL**

June 21, 2021

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Sudan—Termination of Ineligibility to Use the General Resources of the Fund**

Board Action: Executive Directors' **consideration** (Formal)

Tentative Board Dates: **Monday June 28, 2021**

Proposed Decision: Page 3

Publication: Not intended

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# SUDAN

## TERMINATION OF INELIGIBILITY TO USE THE GENERAL RESOURCES OF THE FUND

June 21, 2021

Approved By  
**Bernard Lauwers and  
Rhoda Weeks-Brown**

Prepared by the Legal and Finance Departments (in consultation with the Strategy, Policy, and Review and Middle East and Central Asia Departments). The staff team was led by Marta Spinella and comprised Elena Budras, Ivetta Hakobyan, Enosa Okosodo, (all FIN), Chanda DeLong, Nadia Rendak, and Anjum Rosha, (LEG). Production assistance was provided by Amy Miranda (FIN). Overall guidance was provided by Bernhard Steinki, Zuzana Murgasova, and Gilda Fernandez.

**1. It is expected that Sudan will settle its overdue financial obligations to the Fund in full, amounting to SDR 964.3 million, on June 29, 2021.**<sup>1</sup> The clearance of arrears to the Fund would pave the way for restoring Sudan's access to Fund resources.<sup>2</sup> Specifically, the clearance of arrears to the General Department eliminates the nonobservance of the financial obligations that was the basis for the declaration of ineligibility—and thus forms a basis for the lifting of this sanction.<sup>3</sup> Once Sudan clears its arrears to the Fund, the Managing Director will withdraw her complaint for the suspension of Sudan's voting rights in the Fund.<sup>4</sup>

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<sup>1</sup> Sudan will clear its overdue obligations to both the GRA and the Trust Fund. See FO/DIS/21/1 (January 6, 2021), FO/DIS/21/32 (March 2, 2021), FO/DIS/21/58 (April 19, 2021), and EBS/21/39 (April 27, 2021) for details on the financing package for Sudan's debt relief.

<sup>2</sup> In addition, upon clearance of arrears to the Fund and in accordance with Article XV, Section 1(b), read with paragraph 4 of Schedule M to the Articles of Agreement, Sudan would receive its special allocation of SDRs made under the Fourth Amendment and held in escrow since the effectiveness of the Fourth Amendment. This allocation amounts to SDR 16.1 million.

<sup>3</sup> Decision No. 8168-(86/1) (adopted February 3, 1986) imposed the declaration of ineligibility. While Sudan also has arrears on payments to the Trust Fund, these arrears are not breaches of obligations under the Articles. The arrears to the Trust Fund are included in the amount of the settlement by Sudan and will also be cleared on June 29, 2021.

<sup>4</sup> See EBS/00/169. The withdrawal of the MD's complaint is mandatory once the facts underlying the complaint no longer remain and thus, after Sudan pays all the amounts due to the Fund in full, the Managing Director must withdraw her complaint. The withdrawal of a complaint becomes effective upon notification to the Executive Board. The withdrawal of the complaint must be notified by the Fund to the member against which the complaint had been made.

**2. The proposed decision would lift Sudan’s ineligibility to use the Fund’s general resources (thus also unlocking Sudan’s access to PRGT resources) upon clearance of its arrears.**

In recommending that the Executive Board lifts this sanction, staff notes that, while Sudan continues to maintain exchange measures inconsistent with its obligations under Article VIII, Sections 2(a) and 3, Sudan has not been found to be in breach of any other of its obligations under the Fund’s Articles subject to sanctions under Article XXVI, Section 2, and staff does not consider that Sudan will, in the foreseeable future, breach such obligations.<sup>5,6</sup> Recent reforms of the exchange system implemented by the Sudanese authorities aim at improving the functioning of the foreign exchange market and facilitating access to foreign exchange, and ultimately eliminating earlier identified exchange restrictions and multiple currency practices (MCPs). Further, in their request for a new ECF arrangement, the authorities committed not to impose new, or intensify any existing exchange rate restrictions, and not to introduce new, or modify any existing MCPs going forward. These commitments will be monitored on a continued basis under the ECF arrangement. A full analysis of the exchange rate system is underway, and staff will report on conclusions in the context of the next Article IV consultation.

**3. Staff recommends that the declaration of Sudan’s ineligibility to use the Fund’s general resources be lifted.** The basis for the recommendation is that Sudan has remedied the breach of obligations that led to the declaration of ineligibility by settling its arrears to the GRA. The Board may adopt a decision terminating Sudan’s ineligibility to use the Fund’s general resources by a majority of the votes cast.

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<sup>5</sup> In determining whether to lift sanctions, the Executive Board has substantial discretion and may also consider whether a member is in breach of other obligations under the Articles, and whether there are concerns that it may in the foreseeable future breach such obligations. See Statement by the Acting General Counsel on the *Sequencing of Decisions Lifting Sanctions Contemplated in Article XXVI, Section, 2 and on the Limits to the Discretionary Power Given to the Executive Board* (BUFF/06/44, March 8, 2006). In the past, the Executive Board lifted sanctions under Article XXVI, Section 2 notwithstanding continued maintenance by a member of exchange restrictions in light of the member’s overall progress in addressing earlier identified concerns about breaches of Article VIII, Section 2(a) and 3 and forward looking commitments to address the remaining issues as part of a Fund-supported program. (see, e.g., EBS/10/23).

<sup>6</sup> Based on the information currently available to staff, Sudan maintains the following measures subject to Fund jurisdiction under Article VIII, Sections 2 (a) and 3: (i) An exchange restriction arising from the government’s limitations on the availability of foreign exchange and the allocation of foreign exchange to certain priority items; (ii) A multiple currency practice and exchange restriction arising from the establishment of an official exchange rate (the CBOS rate) for use in all government exchange transactions which in practice differs by more than 2 percent from the rate used by commercial banks; (iii) A multiple currency practice and exchange restriction arising from large spreads between the CBOS rate and the parallel market exchange rate due to the CBOS’ limitation on the availability of foreign exchange which channels current international transactions to the parallel market; and (iv) An exchange restriction and a multiple currency practice arising from the imposition by the government of a cash margin requirement for most imports. Further, foreign exchange auctions recently introduced by the Central Bank of Sudan may give rise to an MCP arising from the spread of more than 2 percent between exchange rate for transactions within the auction, and between auction and other exchange rates for spot exchange transactions. Sudan is in compliance with its obligations under Article VIII, Section 5 of the Fund’s Articles. As mentioned in prior staff reports, including the *Sudan—2021—Second Review under the Staff-Monitored Program and Request for Extension* and *Sudan—Request for a 39-month arrangement under the Extended Credit Facility*, data provision to the Fund still presents significant shortcomings due to Sudan’s lack of capacity to provide the required data.

## Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

### **Sudan—Termination of Ineligibility to Use the General Resources of the Fund**

1. The Fund decides that Sudan is no longer ineligible to use the general resources of the Fund as was provided for in Executive Board Decision No. 8168-(86/1), adopted on February 3, 1986.
2. This decision shall be effective upon the notification by the Director of the IMF's Finance Department to the Executive Board that Sudan has cleared its arrears to the IMF.