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GRAY/05/3741

November 29, 2005

**Statement by Mr. Farelius and Mr. Hollensen on Sudan  
(Preliminary)  
Executive Board Meeting 05/100  
November 30, 2005**

We thank staff for the comprehensive papers especially the update of the paper on the Fundamental Issues in Resolving External Debt Problems and achieving Debt Sustainability. We also thank Mr. Ngumbullu and Mr. Mafarikwa for their helpful and comprehensive Buff.

Sudan continues to be in a difficult political situation and its performance under the Staff Monitored Program is mixed. We are particularly worried by the increase in non-concessional borrowing. Bearing in mind the huge arrears that Sudan has accumulated, new non-concessional borrowing at a large scale is very unfortunate. It is the responsibility of the Sudanese authorities to correct the situation, but bilateral creditors should also refrain from lending to a country with huge arrears and a HIPC-candidate

On fiscal policy, we welcome the weight that authorities attach to the fiscal decentralization plan. It is important that this plan is implemented in order to achieve and sustain peace. We are, however, concerned about the delayed transfers to the Government of South Sudan and the serious consequences this has for priority sectors like health and education. We welcome the establishment of the National Petroleum Commission.

The increased receipts from oil exports have increased Sudan's capacity to reduce its arrears. We find that the authorities should demonstrate their cooperation with the IMF by increasing their repayments to the extent that their foreign reserve position and the internal revenue position allow them.

As staff we are concerned by the policies to subsidize domestic fuels and we support the medium-term strategy to establish a system of automatic adjustment of fuel prices in response to changes in market conditions. While we understand the need for gradualism, we will also point out that fuel subsidies are a poorly targeted instrument to better the situation of the poor.

The introduction of a new country-wide currency is an important element of the Comprehensive Peace Agreement. There has been some progress in this work, but as noted by staff the introduction of the new currency has been delayed. Staff and the Sudanese

authorities must work closely together on this issue, inter alia in elaborating a realistic and cost-effective budget for the printing and introduction of the new currency.

We are grateful to staff for the Update on Fundamental Issues in Resolving External Debt Problems and Achieving Debt Sustainability. This background paper will be very useful when the internal condition in Sudan has improved to such an extent that it allows dealing with the debt issue. We are also looking forward to the paper which will deal with the issues that arise in relation to how the protracted arrears can qualify for MDRI.

As we understand the paper, the Fund would need to have commitments on additional bilateral contributions for the whole HIPC-process, before one could proceed to an RAP. This approach could cause a substantial delay in the process. If the Sudanese authorities continue with an overall positive performance under the SMP-program and the conditions for moving forward are in place, we are in favor of a short RAP.

The arrears clearance process for Sudan is huge, complicated and expensive. Previous experience has shown that it is easier to come up with pledges than with cash for debt relief. We interpret the Gleneagles Communiqué as that the G-8 have committed themselves to come up with substantial funding for the three arrears cases. Given that other donors contribute their share, countries in our constituency will consider contributing. However, this might not be enough in the case of Sudan. We might thus have to consider alternative sources to finance the arrears clearance process.