

**IMMEDIATE
ATTENTION**

EBS/06/150

CONFIDENTIAL

November 27, 2006

To: Members of the Executive Board

From: The Secretary

Subject: **Sudan—Review of Overdue Financial Obligations to the Fund and
Complaint with Respect to the Suspension of Voting Rights**

Attached for consideration by the Executive Directors is a paper on the review of Sudan's overdue financial obligations to the Fund and the complaint with respect to the suspension of voting rights.

It is not intended to publish this paper on the Fund's external website.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by **noon on Friday, December 1, 2006**. In the absence of such a request, the draft decision that appears on page 5 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Questions may be referred to Mr. Lin (ext. 37299) and Ms. Bal Gunduz (ext. 35465) in FIN.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

**Sudan—Review of Overdue Financial Obligations to the Fund
and Complaint with Respect to the Suspension of Voting Rights**

Prepared by the Finance, Legal, and Middle East and Central Asia Departments

(In consultation with the Policy Development and Review Department)

Approved by Michael G. Kuhn, Sean Hagan, and Mohsin S. Khan

November 22, 2006

I. INTRODUCTION

1. **The Executive Board last reviewed Sudan's overdue financial obligations to the Fund and the Managing Director's complaint with respect to the suspension of Sudan's voting and related rights in the Fund on June 2, 2006.**¹ The Board welcomed Sudan's broadly satisfactory performance under the 2005 staff-monitored program (SMP) and its commitments on policies and payments to the Fund under the 2006 SMP. However, it regretted Sudan's higher-than-programmed level of nonconcessional borrowing in 2005 and expressed its serious concerns over planned further borrowing in 2006. The Board urged the authorities to minimize nonconcessional borrowing in view of Sudan's already unsustainable external debt burden and to avoid complications in an eventual debt relief operation. The Board further urged the authorities to use any windfall oil revenue to finance intended infrastructure projects and to seek concessional terms for loans. On payments, the Board noted that Sudan had continued to make regular monthly payments to the Fund in line with its commitment, welcomed the committed increase by US\$15 million in payments to the Fund to US\$45 million in 2006, and urged the authorities to consider a further increase in payments to the Fund should Sudan's payment capacity continue to improve.

2. **This paper updates the developments in Sudan's arrears to the Fund since the last review and assesses its record of cooperation with the Fund on policies and payments.** In view of Sudan's continued cooperation with the Fund under the 2006 SMP, staff proposes that no further remedial measure be taken at this time with respect to the

¹ *Sudan—Review of Overdue Financial Obligations to the Fund and Complaint with Respect to the Suspension of Voting Rights* (EBS/06/68, 5/19/06) and Executive Board Decision No. 13732-(06/51), adopted June 2, 2006, which appears in the Attachment.

Managing Director's complaint on the suspension of Sudan's voting and related rights in the Fund, and that the next review of Sudan's overdue financial obligations to the Fund take place within six months. A decision to this effect is proposed for adoption by the Executive Board in Section IV.

II. DEVELOPMENTS IN SUDAN'S ARREARS TO THE FUND AND OTHER CREDITORS

3. **As of end-September 2006, Sudan's overdue financial obligations to the Fund amounted to SDR 1,049 million** (Table 1). This represents a reduction of about SDR 2 million since the last review as Sudan's payments to the Fund exceeded its new obligations falling due. Looking ahead, as the Fund's credit to Sudan is all overdue, Sudan's forthcoming obligations will consist entirely of charges on overdue purchases, interest on Trust Fund loans, and net SDR charges and assessments. Based on the current SDR interest rate, these obligations will amount to SDR 4½ million in October–December 2006 and SDR 17 million annually from 2007 onward.

4. **Sudan's arrears continue to impose a financial burden on the Fund and its members.** This includes SDR 682 million in deferred income from charges for the overdue obligations to the General Resources Account (GRA), of which about 81 percent has been covered through burden sharing.² Burden-shared deferred charges will be refunded to contributing members when Sudan's overdue charges are cleared. Overdue Trust Fund obligations of about SDR 80 million, when paid, will benefit the Reserve Account of the PRGF-ESF Trust.

Table 1. Sudan—Overdue Financial Obligations to the Fund
(In millions of SDRs; as of September 30, 2006)

Type of obligation	Total amount overdue	Date of the longest outstanding overdue obligation
Principal	346.8	
Repurchases	287.6	6/11/1987
Trust Fund repayments	59.2	7/26/1985
Interest and Charges 1/	702.2	
Periodic charges (GRA)	593.5	7/18/1985
Special charges (GRA)	88.3	5/28/1986
Assessments	0.1	4/30/1991
Trust Fund interest	6.7	6/28/1985
Net SDR charges	--	
Special charges (TF)	13.7	5/28/1986
TOTAL	1,049.1	

1/ Reported on cash basis.

² Sudan's overdue GRA charges prior to May 1, 1986 and special charges to the GRA are not subject to burden sharing.

5. **Sudan has also been in arrears to other multilateral financial institutions, including the International Development Association (IDA) and the African Development Bank (AfDB) Group.** As of end-September 2006, its arrears to the IDA and the AfDB amounted to US\$398 million and US\$167 million, respectively. During the first nine months of 2006, Sudan's payments to the IDA and the AfDB amounted to US\$2 million and US\$1 million, respectively. Sudan's payments to all multilateral and bilateral creditors amounted to US\$201 million so far in 2006.

III. SUDAN'S COOPERATION WITH THE FUND

6. **As described in EBS/06/140, Sudan's policy performance under the 2006 SMP has been broadly satisfactory.**³ The authorities met all but one of the end-June quantitative targets. However, implementation of structure reforms has been delayed. On external borrowing, the authorities did not succeed in their effort to obtain concessional terms for existing or new loans from bilateral creditors, and contracted new nonconcessional loans of US\$670 million during the first ten months of the year, compared to the program ceiling of US\$700 million for the year as a whole.⁴ The authorities have indicated that they remain committed to minimize nonconcessional borrowing and that they do not intend to incur any additional such borrowing in the remainder of this year.

7. **Despite lower-than-expected oil sector growth, Sudan's economy continues to perform strongly.** Real GDP growth is expected to reach 11 percent in 2006. Inflationary pressures have emerged in recent months, however, as broad money expanded faster than programmed. The external current account is expected to worsen, reflecting higher imports and lower oil exports and foreign aid. The balance of payments has, nevertheless, been supported by a large increase in capital inflows, especially foreign direct investment, leading to a further accumulation of net international reserves.

8. **Sudan continues to make regular monthly payments to the Fund that exceed its obligations falling due.** During January–October 2006, Sudan paid US\$25.8 million, as compared to its commitment of US\$45 million in 2006. While this is broadly in line with the authorities' proposed payment schedule,⁵ it is important that the authorities accelerate payments in November–December to ensure that their commitment for the whole year is fulfilled.

³ *Sudan—Staff Report for the Midyear Review of the 2006 Staff-Monitored Program* (EBS/06/140, 11/6/06).

⁴ Of this amount, 58 percent was from India, 24 percent from China, 16 percent was from the Islamic Development Bank and the Saudi Fund, and 2 percent from Turkey. These loans are intended to finance electricity, water, transportation, and education projects. The (weighted) average grant element of these loans is estimated at 14 percent.

⁵ The 2006 SMP envisaged a back-loaded increase in payments to the Fund, with payments being limited to US\$15 million in the first half of the year and US\$30 million in the second half. The envisaged time profile of payments took into consideration that oil and non-oil revenues would be much lower in the first half of the year as compared to the projections for the second half, as new oil fields were expected to be at full production starting in the second half (see paragraph 27, Attachment I, EBS/06/59, 4/19/06). From January to June, Sudan's payments to the Fund amounted to US\$14 million, slightly below the target of US\$15 million.

IV. STAFF ASSESSMENT AND PROPOSED DECISION

9. **Sudan's overall performance under the 2006 SMP has been broadly satisfactory.** Sudan's economy continues to grow rapidly and its overall balance of payments remains strong, with international reserves at record highs. However, inflationary pressures have emerged, fueled by rapid broad money expansion. Moreover, delays in implementing structural measures have occurred. At the time of the mid-year review of the SMP, the authorities restated their commitment to maintaining macroeconomic stability and carrying out the structural reforms as envisaged under the SMP. On nonconcessional borrowing, Sudan has contracted additional new loans but indicated that such borrowing will be minimized in the future.

10. **Sudan has committed to increasing its payments to the Fund to US\$45 million in 2006.** While this increase is small relative to the level of Sudan's official reserves, it would help maintain its record of cooperation with the Fund on payments (Table 2). Sudan's monthly payments have so far been broadly in line with what was envisaged under the SMP. However, it is important that forthcoming payments in the remainder of the year are sufficient to fulfill Sudan's commitment for the full year. Looking ahead, Sudan is strongly encouraged to consider a further increase in payments to the Fund as its payment capacity continues to improve.

Table 2. Sudan—Payments Indicators, 1997–2006
(In millions of SDRs; unless otherwise indicated)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 Proj.
Overdue obligations to the Fund 1/	1,163.6	1,145.3	1,132.0	1,113.9	1,091.3	1,084.8	1,074.3	1,062.2	1,054.2	1,040.5
Obligations falling due	27.6	26.8	21.1	25.4	21.1	12.3	9.7	9.9	12.8	16.4
Payments made to the Fund	44.0	44.4	29.4	43.3	43.1	18.2	19.6	21.8	20.5	30.6
Payments made to the Fund (US\$ mn)	60.6	60.2	40.2	57.1	54.9	23.5	27.5	32.4	30.2	45.0
Gross usable reserves (US\$ mn)	22.0	27.0	53.3	137.8	49.7	248.7	526.9	1,338.1	1,868.2	2,837.4
Total debt service	60.8	67.3	60.9	95.5	105.2	112.7	221.0	271.2	297.0	297.5
Payments made to the Fund as percent of:										
Overdue obligations to the Fund	3.8	3.9	2.6	3.9	3.9	1.7	1.8	2.1	1.9	2.9
Obligations falling due	159.2	165.5	139.3	170.8	204.1	147.3	202.4	220.1	160.3	186.5
Current account receipts	4.4	5.4	3.1	2.6	2.6	0.9	0.8	0.7	0.5	0.5
Current account receipts 2/	4.4	5.4	3.7	4.2	4.2	1.2	1.0	0.8	0.5	0.6
Gross usable reserves	275.3	222.8	75.4	41.4	110.3	9.5	5.2	2.4	1.6	1.6
Fiscal revenue 3/	9.3	8.1	5.3	4.9	4.1	1.4	1.0	0.8	0.7	0.9
Total debt service	99.6	89.4	66.1	59.8	52.2	20.9	12.4	11.9	10.2	15.1

1/ The change in stocks of overdue obligations may differ from obligations falling due net of payments owing to burden sharing refunds, SCA-2 refunds and end-year balance in Sudan's SDR account.

2/ Current account receipts, excluding oil earnings not accruing to the government.

3/ Domestic fiscal revenue, net of transfers to the states.

11. **In light of the above, staff proposes that no further remedial action be taken at this time with respect to the Managing Director's complaint on the suspension of Sudan's voting and related rights in the Fund.** Staff further proposes that the next review of Sudan's overdue financial obligations to the Fund and the Managing Director's complaint take place within six months. Accordingly, the following draft decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board.

Draft Decision

1. In accordance with Decision No. 13732-(06/51), adopted on June 2, 2006, the Fund has reviewed further Sudan's overdue financial obligations to the Fund and the Managing Director's complaint with respect to the suspension of Sudan's voting and related rights in the Fund.
2. The Fund welcomes Sudan's broadly satisfactory performance under the 2006 staff-monitored program (SMP) but notes delays in implementing several structural measures. The Fund expresses its serious concerns over further borrowing on nonconcessional terms in 2006. The Fund urges the authorities to minimize nonconcessional borrowing in view of their already unsustainable external debt burden and in order to avoid complications in an eventual debt relief operation. The Fund further urges the authorities to make efforts to seek concessional terms for new loans and use any windfall oil revenue to finance infrastructure projects.
3. The Fund notes that Sudan has continued to make regular monthly payments to the Fund. It urges the authorities to make efforts to ensure that their commitment of US\$45 million for 2006 is fulfilled in a timely manner. The Fund also urges the authorities to consider a further increase in payments to the Fund, in light of Sudan's further strengthening of its payment capacity.
4. The Fund will again review Sudan's overdue financial obligations to the Fund and the Managing Director's complaint with respect to the suspension of Sudan's voting and related rights in the Fund within six months of the date of this decision.

ATTACHMENT:

INTERNATIONAL MONETARY FUND

Sudan—Review of Overdue Financial Obligations to the Fund and Complaint with Respect to the Suspension of Voting Rights**Decision No. 13732-(06/51)
Adopted June 2, 2006**

1. In accordance with Decision No. 13599-(05/101), adopted on December 2, 2005, the Fund has reviewed further Sudan's overdue financial obligations to the Fund and the Managing Director's complaint with respect to the suspension of Sudan's voting and related rights in the Fund.
2. The Fund welcomes Sudan's broadly satisfactory performance under the 2005 staff-monitored program (SMP) and its commitments on policies and payments to the Fund under the 2006 SMP. However, the Fund regrets Sudan's higher-than-programmed level of nonconcessional borrowing in 2005 and expresses its serious concerns over planned further borrowing on nonconcessional terms in 2006. The Fund urges the authorities to minimize the level of such borrowing in view of Sudan's already unsustainable external debt burden and in order to avoid complications in an eventual debt relief operation. The Fund further urges the authorities to use any windfall oil revenue to finance intended infrastructure projects or to seek concessional terms for any loans.
3. The Fund notes that Sudan has continued to make regular monthly payments to the Fund in line with its commitment and welcomes the committed increase in payments to the Fund to US\$45 million in 2006. The Fund urges the authorities to consider a further increase in payments to the Fund, should Sudan's payment capacity continue to improve.
4. The Fund will again review Sudan's overdue financial obligations to the Fund and the Managing Director's complaint with respect to the suspension of Sudan's voting and related rights in the Fund within six months of the date of this decision (EBS/06/68, 5/19/06).