0404

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 87/155

10:00 a.m., November 16, 1987

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
A. Abdallah	E. T. El Kogali
	Jiang H.
	M. K. Bush
	J. Prader
	M. Hepp, Temporary
M. Finaish	
	B. Goos
J. E. Ismael	
	J. E. Zeas, Temporary
	C. Enoch
M. Massé	
Mawakani Samba	
Y. A. Nimatallah	
	C. Noriega, Temporary
	M. Fogelholm
H. Ploix	
G. A. Posthumus	
	I. Sliper, Temporary
G. Salehkhou	
A. K. Sengupta	L. E. N. Fernando
	T. Morita, Temporary
	N. Kyriazidis

L. Van Houtven, Secretary and Counsellor
K. S. Friedman, Assistant

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Also Present

IBRD: R. H. Nooter, Africa Regional Office. African Department: G. E. Gondwe, Deputy Director. Exchange and Trade Relations Department: J. T. Boorman, Deputy Director; A. Chopra, S. Kanesa-Thasan, J. M. T. Paljarvi. Fiscal Affairs Department: A. H. Mansur. IMF Institute: M. Holi, U. Mahgoub, Participants. Legal Department: A. O. Liuksila, J. K. Oh. Middle Eastern Department: A. S. Shaalan, Director; P. Chabrier, Deputy Director; J. R. Dodsworth, M. A. El Erian, S. H. Hitti, M. Yaqub. Treasurer's Department: T. Leddy, Deputy Treasurer; D. Berthet, J. E. Blalock, J. C. Corr. Advisors to Executive Directors: M. B. Chatah, S. M. Hassan, K.-H. Kleine, P. D. Péroz. Assistants to Executive Directors: J. R. N. Almeida, W. N. Engert, S. K. Fayyad, S. Guribye, M. A. Hammoudi, C. L. Haynes, S. King, V. K. Malhotra, D. V. Nhien, S. Rebecchini, A. Rieffel, D. Saha, B. Tamami, C. C. A. van den Berg.

1. SUDAN - OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING DECLARATION OF INELIGIBILITY

The Executive Directors considered a staff paper on the fourth review of Sudan's overdue financial obligations to the Fund following the declaration of Sudan's ineligibility to use the general resources of the Fund with effect on February 3, 1986 (EBS/87/231, 11/10/87). They also had before them a staff paper on a Program of Action recently implemented by the Sudanese authorities (EBS/87/232, 11/11/87).

Mr. Abdallah, speaking for Mr. El Kogali, made the following statement:

> My Sudanese authorities are grateful to the Fund management for its continued support of Sudan's effort and to the staff working on Sudan for their invaluable assistance in designing the Government's Program of Action and the constructive and professional manner in which they conducted the discussions.
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> The serious economic problems facing Sudan are well known to Directors and need no further elaboration. In realization of the gravity of the situation, addressing of the economic problem was accorded a top priority in the agenda of the democratically elected Government that assumed office in May last year. The Government, immediately following its election, adopted its first-year "Economic Salvation Program" in 1986/87 followed by a more comprehensive package of corrective policies embodied in the 1987/88 Program of Action, which was formulated in full consultation with the Fund staff. As described by the staff, the Program of Action comprises a comprehensive set of measures that are mutually reinforcing and consistent and attempts to address, in a medium-term framework, the deep-rooted structural problems of the economy.
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> The program contains measures to stimulate production, both in agriculture and industry, and improve resource utilization. A set of budgetary and monetary policies aimed at containing demand complements the supply-side measures. Parastatal reforms and flexible pricing policies are also part of the package. Certain policy areas that deserve particular mention and which demonstrate the authorities' courage and commitment to reform and adjustment are the exchange rate adjustment, the raising of prices of sugar and oil, and the institutional reform of the banking system, which required the introduction of a new "compensatory rate" mechanism to eliminate uncertainties and create a more conducive environment for mobilizing savings. Directors will recall that, in Sudan, these are socially and politically sensitive areas where previous governments refrained from taking measures. Despite the risks involved, the Sudanese authorities decided to take the bold measures described in the staff paper. The program also paved the

way for a more active participation of the private sector by liberalizing the import finance and trade system and allowing "own-finance" imports.

At the time of our last review of Sudan's overdue obligations, on August 7, 1987, Directors, while viewing the authorities' Program of Action favorably, expressed some skepticism, based on the unfavorable track record, about the present Government's resolve to promptly and fully implement the Program of Action, and about its ability to sustain those actions under the prevailing difficult circumstances and in the event of an unfavorable social and political reaction in the country. As Directors will have noted from the report of the staff team, the Government has demonstrated its determination by implementing all the measures and by standing firm in the face of opposition and riots, which have cost a number of lives. Moreover, the Government responded promptly when a closer scrutiny, with the help of the staff, showed a revenue shortfall of about LSd 100 million, by deciding to introduce additional revenue measures to close the estimated gap. Furthermore, to ensure full implementation of the program, the authorities, with assistance from the staff, have set up a monitoring mechanism comprising quarterly benchmarks, which will enable the authorities to identify any slippages at an early stage and to take corrective measures on a timely basis.

The authorities recognize that restructuring the Sudanese economy, which would bring about the desired objective of sustained growth and balance of payments viability, requires sustaining and intensifying the adjustment efforts in the period ahead, and they consider the Program of Action only as a first step on a long road. Accordingly, they are working in close collaboration with the World Bank to finalize the Four-Year Development Plan, which is expected to be completed early next year. The Plan will provide a medium-term framework for wide-ranging structural and demand-management policies capable of addressing the deep-rooted imbalances and putting the economy on a path of sustained growth of output in a context of financial stability. Such policies will aim at further broadening and strengthening of current measures on the supply side, restructuring of the budget, maintaining export incentives, and reforming the parastatal sector. In addition, flexible exchange rate and pricing policies and measures to encourage a more active role of the private sector will be maintained and further enhanced. The problem of excess liquidity in the banking sector and mobilization of domestic savings will be addressed. In the context of this Plan, the authorities intend to discuss with the staff early in 1988 the policies to be pursued in 1988/89.

The authorities, while determined to sustain and reinforce their adjustment efforts in the subsequent period, would like to stress the extreme importance of financial support by the international community for domestic adjustment efforts to achieve the desired objectives, and for the program not to be undermined at an early stage. In the past, the lack of commitment on the part of the previous regime was cited by Sudan's donors and creditors in their decisions to withhold their financial support. The strong commitment demonstrated by the present Government to make fundamental adjustments in the economy and its bold efforts to implement difficult measures should be supported by timely and adequate flows. We hope that our effort and the program objectives would not be allowed to be seriously undermined by less than wholehearted support of the international community.

The authorities are deeply concerned about the level of Sudan's arrears to the Fund and their adverse implications for the Fund, Sudan itself, and the membership at large. The authorities reiterate their commitment to meet their obligations as soon as the situation allows, and they regret that they have not been able to hold down the level of arrears. They would like to stress that the lack of foreign exchange and inability to secure the needed resources are the main causes of the unfortunate arrears situation. The payments the authorities have managed to make despite the exceptionally difficult situation are a clear manifestation of the authorities' commitment and willingness to meet their obligations. While they accept legal responsibility for payments to the Fund, it has generally been recognized that in practice Sudan cannot do so on its own, without international support. It is hoped that adoption and implementation of a comprehensive adjustment program by Sudan will generate enough financial support by its donors and creditors to clear the arrears.

Finally, on a personal note, let me say that this program, besides the Government's commitment, also has the support of a broad sector of the people, which is further strengthening the authorities' determination to go ahead with bold adjustment measures well beyond those that are included in the program. In their latest communication, last week, the authorities informed me that they have started implementation of the reform of one of the largest parastatals, Sudan Airways, which has resulted in reducing the number of its employees from more than 3,000 to 1,300. I hope that Sudan will not be left alone. Without external financial support, domestic adjustment efforts of the authorities can hardly succeed. To keep pressing for more adjustment without providing the necessary financing could only undermine the authorities' effort, result in adjustment fatigue, and endanger the political and social sustainability of the program, as there is always a limit to the tolerance of the people.

Continuing, Mr. Abdallah said that the present discussion was not meant to review the problem of Sudan's overdue obligations to the Fund. Rather, the discussion was to assess the implementation of the authorities' new program and the progress that donors and creditors had made in providing financial support for Sudan's adjustment efforts, which, the authorities hoped, would lead to the elimination of the arrears to the Fund.

Mr. Mawakani said that Sudan's payment bringing the country current in the SDR Department was welcome. He also welcomed the authorities' renewed efforts at implementing the Program of Action on schedule. All those actions were indicative of the authorities' willingness to address the problem of Sudan's overdue financial obligations. However, since those obligations were the equivalent of 106 percent of estimated 1987/88 total exports and 3,851 percent of gross official foreign reserves at the end of September 1987, the authorities' own efforts alone could not be expected to eliminate the arrears. That conclusion underscored the need for not only the resolute implementation of the adjustment program by the authorities, but also the provision of increased financial assistance by donors and creditors. The authorities were doing their part, and he hoped that donors and creditors would respond sympathetically to their request for increased external financial assistance to enable the country to finance the growth-oriented adjustment program and to eliminate its arrears to the Fund. He supported the proposed decision and hoped that the authorities would be able to mobilize the necessary financial assistance within the coming six months.

Mr. Nimatallah considered that the authorities had met the three criteria indicating that a country was willing to cooperate with the Fund to clear its arrears: the Finance Minister of Sudan had written to the Managing Director about the Government's hope to clear its arrears; the authorities had made a payment, albeit a small one; and, most important, the authorities had satisfactorily implemented an action program. As the staff paper and Mr. El Kogali's statement showed, the authorities were clearly moving in the right direction and were to be commended for the progress that they had made.

The authorities should take two additional steps in the coming period, Mr. Nimatallah continued. First, they should sustain and even intensify their adjustment efforts, as the staff had recommended. Second, and equally important, all countries that could help Sudan--not only its donors and creditors, but also middle-income developing countries, such as Brazil, India, Mexico, and Argentina--should provide some assistance. The time had come for developing countries that were in a position to do so to help smaller developing countries in very difficult circumstances. In the coming months, prior to the next Article IV consultation with Sudan, the staff should begin talking to the authorities about a possible structural adjustment arrangement and perhaps a stand-by or extended arrangement as well. He hoped that Sudan might be able to take advantage of an arrangement under the enhanced structural adjustment facility, together with the resources that could be catalyzed from individual member countries to clear its arrears to the Fund and maintain its adjustment efforts.

As he understood, Mr. Nimatallah said, some countries, such as the United States, had set aside financial resources for Sudan but did not feel that the time was right to transfer those resources to Sudan. In response to that problem, the Fund could open a kind of escrow account for Sudan, as the Fund had done for some other member countries, and invite all member countries to contribute to the account until Sudan was able to implement a Fund-supported program. The Sudanese authorities themselves could be invited to add to the account any amount that they could afford to put aside for that purpose. Opening such an account would show the Sudanese authorities that the international community was actively supporting the authorities, and that continued support would depend on the authorities' ability to sustain their adjustment efforts. Apparently the delay by certain countries, particularly those in Europe, in making financial assistance available at the present stage--when Sudan had a shadow program but not a formal Fund-supported program--was not encouraging the authorities to intensify their adjustment efforts.

The third paragraph of the proposed decision stated that "the Fund hopes that Sudan's donors and creditors will respond sympathetically," Mr. Nimatallah noted. That statement should not be limited to donors and creditors. The text could state that "the Fund hopes that all countries that can help Sudan will respond sympathetically."

Mr. Fernando made the following statement:

> During previous reviews of the overdue financial obligations of Sudan and other countries, this chair has stressed that the Executive Board should use a case-by-case approach to deal with those obligations, and that the only practical approach is sustained and intense efforts to persuade the member countries concerned that the Fund stands ready to cooperate to find solutions that will make it possible for the countries to achieve growth while reducing their arrears. I appreciate the efforts that the staff has made in reaching a breakthrough in the difficult case of Sudan.
>
> Capital flows to low-income countries from official sources, private creditors, and multilateral development institutions have increasingly been biased toward countries that have been implementing comprehensive economic adjustment programs. The Sudanese authorities have not only initiated a comprehensive reform, but also have shown their determination to proceed to implement many far-reaching elements of the reform. The outline of their reform package, which was formulated in consultation with the staffs of the Fund and the World Bank, was discussed by the Executive Board during its previous review of Sudan's overdue obligations.

It is worth recalling that, in many previous instances, when countries were deemed to have protracted arrears, considerable emphasis was placed on ways to increase the pressure on those countries to respond with a program to reduce their arrears, and it was suggested that the Fund should communicate with other institutions and official creditors. At present, it is clear that Sudan has responded strongly and positively; therefore, for the sake of consistency, the Executive Board should resolve that maximum efforts should be made to catalyze external financial support for Sudan. That effort must be made to look to be strong and credible enough, even though the commitment of Fund credit is not contemplated at this stage. It is clear that Sudan's program has no hope of success unless there is action with respect to the country's existing debt and unless there are new capital inflows to support Sudan's rehabilitation and growth.

Although the path of growth and adjustment is long, the potential for success is promising, because many policy targets have been achieved in the past. However, the poor maintenance of capital assets has greatly reduced their efficiency and hastened their obsolescence. In addition, given the low capacity utilization of production factors, the marginal returns to investment designed to support rehabilitation and increase capacity utilization are likely to be high. That conclusion underscores the need for adequate foreign financial support in general and for quick-disbursing financial support in particular. The balance of payments support that is envisaged for July-October 1987 shows some slackening of that support by bilateral creditors. Given the authorities' steadfastness in their resolve to maintain adjustment, the international financial community should help to maintain the momentum of that effort through sustained and pragmatic support. In this context, the additional aid that has been committed by bilateral official sources is welcome. The authorities are to be commended for not merely implementing the policy measures on schedule, but also for having demonstrated their commitment by introducing a closer monitoring effort and corrective measures when slippages have been noted--for example, in the fiscal revenue target.

In Sudan's very difficult circumstances, the mix of structural and demand-management policies will initially cause hardships. For example, the combination of exchange rate changes, realistic pricing, and deregulation will introduce considerable volatility into prices. Although prices could eventually stabilize, the initial phase of price changes is likely to be a harsh experience. To counter this situation and to secure broad public support for the reforms, supply lines should be flowing freely. Relief from shortages of essential goods will provide a strong incentive for public support of the Government's adjustment policies. This conclusion highlights the fragility of the program and the important role of strong support by the international community in sustaining the adjustment effort.

The authorities have acted boldly in the exchange rate area. The current exchange rate may be considered appropriate, as it ensures that these will be incentives for production and traditional commodity exports, and it is consistent with exchange rates of trading partners. However, the authorities should be encouraged to work toward achieving longer-term objectives of diversifying exports and maintaining external competitiveness. For the foreseeable future, the exchange rate may have to play a greater role than hitherto in maintaining export competitiveness, since stabilization of domestic costs could be harder to achieve. The authorities' intention to maintain a flexible exchange rate policy is welcome.

The authorities have taken significant first steps as part of a long-term policy designed to mobilize domestic savings. Private sector investment cannot be expected to pick up instantly, since confidence building is a painstaking process. The authorities should be encouraged to pay special attention to all policies affecting private sector activity and to demonstrate a sustained, serious intention to rehabilitate and strengthen the private sector. Confidence can be boosted not only by policies that affect the environment for private sector operations, but also by fiscal policies that can ultimately generate public sector savings. Although many elements of the program appear too ambitious and all the possible contingency mechanisms cannot be formulated for practical reasons, the authorities should be encouraged to persevere in their efforts, and the Fund must stand ready to give its fullest support.

The proposed decision is acceptable.

Mr. Massé said that he too welcomed the formulation and implementation of the authorities' Program of Action, which was an important and encouraging step on the long road of economic rehabilitation. Despite the courageous measures that had already been introduced, he agreed with the staff that the authorities' adjustment efforts must be sustained and intensified in the coming period. The staff paper outlined several areas where there was a pressing need for additional action, and the authorities should be encouraged to follow the staff's advice. However, it was equally clear that, if Sudan's adjustment efforts were to be successful, there must be sufficient and timely international assistance. He agreed with Mr. Nimatallah that, while donors and creditors should, of course, be forthcoming, all countries that were in a position to provide assistance should do so; Mr. Nimatallah's proposed amendment to that effect was acceptable.

He welcomed the authorities' recent payment to the Fund and their commitment to eliminate the arrears as soon as feasible, Mr. Massé remarked. Those developments were encouraging aspects of what was a very difficult situation.

Ms. Bush made the following statement:

I am encouraged by the progress that Sudan has made since the previous discussion in implementing its Program of Action for 1987/88. I attach importance to the small payment that the authorities have made since the previous discussion and to the fact that Sudan is current in the SDR Department. Still, Sudan has more arrears to the Fund than any other member country. In addition, those arrears impose substantial costs on other member countries, something that the Sudanese authorities themselves clearly recognize. The importance of Sudan's making further payments to the Fund should be stressed as the authorities move closer to implementing a comprehensive solution to the problem of their arrears to their creditors, particularly the Fund.

The thrust of the 1987/88 Program of Action appears to be soundly based on a set of mutually supportive economic reforms. Despite the comprehensive nature of the new program, the benefits of the pricing policy could quickly evaporate unless that policy is supported by certain other critical measures. It is crucial for the authorities to maintain realistic prices on a continuing basis. In particular, the prices for agricultural commodities that are exported must be set with a view to encouraging production and reducing and eliminating smuggling.

The high priority that the authorities are giving to the reform of the parastatal sector, with the cooperation of the World Bank, is encouraging. I have noted the recent action that was taken by Sudan Airways to rationalize its work force. At the same time, the staff has noted that reforms in the parastatal sector will take many years to complete. I wonder whether this conclusion does not imply that the pace of reform is somewhat slow. While it may not be practical to complete the reform process in the context of the four-year development plan that is being prepared, I hope that the major reforms will be completed within that period. It is particularly important to formulate as soon as possible specific timetables for the implementation of concrete reforms. I am pleased that the authorities are holding an action plan workshop in consultation with the World Bank this month, and further information on the scope and purpose of this workshop would be helpful.

The authorities' program appears to give a high priority to the growth of the private sector, something that is clearly important. Sustainable growth in the medium term cannot be achieved unless the private sector plays a much more important role in the economy than it has in recent years.

The deregulation of prices and profits is particularly important. The staff noted the authorities' intention to approach regulatory reform in stages. The authorities should carefully consider the benefits of early action in this area and take advantage of the relevant experience of other countries.

On fiscal policy, the initial steps on the budget are in the right direction. The commitment of the authorities is evident in the supplementary measures taken to offset the apparent shortfall in the original revenue measures.

I agree with the staff that a general wage increase would be risky. However, I was struck by the absence in the staff paper of any reference to the possibility of reducing the size of the civil service. The staff could usefully comment on the appropriateness of the present size of the civil service. A durable reform of the tax system appears to be necessary. Many modifications of the system are planned, including a broadening of the tax base and the introduction of a current payments system for income taxes; apparently revenue enhancement was needed and was to be achieved through those measures. Given the size of the fiscal problem, I wonder whether the Fiscal Affairs Department will play a strong and well-integrated role in revising the tax system in order to reach the important objectives of stimulating and collecting additional revenues and of stimulating the private sector.

The rate of expansion of net domestic assets is expected to drop sharply during the current year. I wonder whether there is a specific target for the rate of inflation.

I am certainly encouraged by the authorities' decision to introduce a compensatory rate system for banks which would be consistent with Islamic banking principles. I hope that the authorities' approach will succeed in encouraging savings and in promoting sound investment, and that if adjustments in the system are needed, the authorities will make them.

The previous report on Sudan's Program of Action included a list of potential structural adjustment actions, including some parastatal reforms. I wonder whether there is any scope for including parastatal reforms in the list of benchmarks; they might well play a significant role in the successful outcome of the program.

The balance of payments and debt outlook are daunting. One of the objectives of Sudan's adjustment program must be to restore satisfactory relations with the country's external creditors and donors. Creditors will be more likely to cooperate with Sudan when the country is taking steps to restore its capacity to service its debt, and the new Program of Action is clearly evidence that Sudan is willing to do so. In addition, aid flows will more likely occur when it is clear that the authorities are using the resources effectively. As reform measures are implemented and the goals of the Program of Action are approached, the authorities can look increasingly to donors and creditors for financial arrangements that will ensure that the momentum of reform will not be lost.

A crucial step in the comprehensive solution that is being sought by Sudan and its creditors is the December 2, 1987 meeting in Paris of the Heads of Delegations of the Consultative Group for Sudan. My authorities are carefully preparing for this meeting, and they will be encouraged by reports of further progress by the authorities in implementing the Program of Action. It is important to note that the Program of Action is based on the assumption that arrears to all creditors, including the Fund, will be eliminated by the end of June of 1988. In recent months, the staff has understandably focused on external financing requirements in the early stages of the Program of Action, but it is important to develop as soon as possible a hypothetical framework or scenario for the solution to the arrears problem, particularly as new maturities will fall due in 1988/89. Indeed, this framework or scenario should be communicated to donors, creditors, and any other potential sources of assistance prior to the December 2, 1987 meeting. To achieve the objectives of that meeting and of the April 1988 Consultative Group meeting, donors and creditors will need sufficient time to plan their commitments within their own financing constraints and budget processes. I agree with Mr. Nimatallah that a widespread effort by creditors, donors, and any other possible parties that are able to contribute to the elimination of Sudan's arrears is needed, particularly in view of the size, the magnitude, and the importance of Sudan's arrears problem. Mr. Nimatallah's proposed amendment of the draft decision is acceptable.

It is important for the next review of Sudan's arrears to take place somewhat sooner than the six months that is suggested in the proposed decision. A period of four months seems more appropriate. A shorter period is particularly important in view of the effort that the authorities are making under their Program of Action. The next Article IV consultation is tentatively planned to be held in about four months, and a further review of Sudan's arrears at about that time would help the various donors, creditors, and other interested countries as they make their plans to help the authorities to solve the arrears problem. If the next Executive Board discussion of Sudan's arrears occurs only after mid-March 1988, it will be particularly difficult to agree on a comprehensive solution to the arrears problem prior to the beginning of Sudan's next fiscal year.

Mr. Enoch said that he welcomed the authorities' Program of Action, and particularly the emphasis on medium-term structural reform and the provision of incentives to improve resource allocation. In addition, the authorities were to be commended for their courageous decision to introduce the compensatory rate system and for the additional adjustment measures--especially the sugar tax--that were taken in consultation with the staff in response to the estimated revenue shortfall.

He agreed with the staff that continued efforts were needed, especially to reform the banking system--to regain control of liquidity in the economy--and the parastatals, Mr. Enoch continued. In that connection, Mr. El Kogali's statement that the authorities had begun to reform Sudan Airways was particularly welcome. He welcomed and attached importance to the recent small payment by the authorities that had brought Sudan current in the SDR Account. The authorities should continue to make payments as they were able to do so.

The authorities clearly still had a long way to go to complete their reform program, Mr. Enoch remarked. The staff papers showed that exports in 1987/88 were expected to be less than half of imports, and that most of the exports were expected to be recorded in the final quarter of the year. Earlier projections had suggested that the flow of exports over the year would be fairly even, and he wondered whether the new projections implied that the staff or the authorities had some doubts about the likely outcome of exports for the whole year. Similarly, the import profile had changed somewhat, presumably because of the financing constraint; accordingly, most of the projected imports were expected to be recorded toward the end of 1987/88. One of the assumptions under the new adjustment program was that there would be a significant increase in imports in 1987/88, compared with 1986/87, in the absence of the planned reforms. He wondered whether the amended import projection had any implications for the export sector, as imports were meant to aid the adjustment effort.

He agreed with the staff paper's emphasis on the importance of further support from donors and aid agencies, Mr. Enoch commented. His authorities were preparing carefully for the December 2, 1987 meeting. They planned to meet with the next Fund-World Bank mission to Sudan on November 18, 1987; they hoped to receive more details about developments in Sudan and to hold further discussions to enable them to be in a position to clarify their plans for assisting Sudan.

The importance to the Fund of solutions to Sudan's problems could not be overstated, Mr. Enoch stated. Sudan still had more arrears to the Fund than any other member country, and eliminating Sudan's arrears would clearly have beneficial implications for the rest of sub-Saharan Africa and other regions. Finally, the proposed decision, as amended by Mr. Nimatallah, was acceptable.

Mrs. Hepp stated that she welcomed the economic program that the authorities were implementing. The Program of Action was clearly a decisive step in the right direction, as it addressed the deep-seated problems facing the economy. The economic package contained a consistent and comprehensive set of policies, including some important structural reforms, which were aimed at stimulating production and improving demand management. She particularly welcomed the reforms in the parastatal area, the reform and adjustment of the exchange rate system, and the restructuring of the banking system through the introduction of the compensatory rate system. Those reforms covered socially and politically sensitive areas and reflected the authorities' determination and commitment to solve the problems facing the economy. The specification of quarterly targets for key financial variables would help to ensure the timely monitoring of performance and should facilitate the adoption of corrective measures.

She agreed with the staff that the various measures in the Program of Action were mutually consistent, and that the authorities should further strengthen and continue their adjustment efforts in order to establish the basis for sustained growth and external viability in the medium term, Mrs. Hepp said. The preparation by the Government of a Four-Year Development Plan--which was to be completed early in 1988, in close collaboration with the World Bank, was welcome. However, the success of Sudan's adjustment efforts would depend upon substantial and timely support by the international community, including additional financial assistance and debt relief. The Fund and the World Bank were collaborating with the Sudanese authorities to mobilize the necessary external financial assistance, and Sudan's donors and creditors should be urged to support the country's efforts. Finally, the proposed decision should be approved.

Mr. Finaish made the following statement:

> During the previous review of Sudan's overdue financial obligations, we considered that the authorities' economic program, as formulated in their medium-term Program of Action, represented a courageous and serious effort to address the country's economic and financial difficulties. We are therefore encouraged to learn from Mr. El Kogali and the staff that, in conformity with the program, the authorities have taken a number of key policy actions in the areas of pricing, demand management, the exchange system, and parastatal reform. In addition, we have been assured by Mr. El Kogali's reaffirmation of the authorities' commitment to persevere in and intensify their adjustment efforts. That commitment is exemplified by the reform measures that the authorities have recently initiated in one of the country's largest parastatals and which have gone well beyond what had been envisaged under the program. There can be little doubt that, given the scope and magnitude of the required adjustments, such a strong commitment will be essential if the economy is to attain sustainable economic growth in the context of financial stability and reduced dependence on aid.
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> However, it has been recognized that, while absolutely necessary, prudent demand management and better utilization of existing production capacity will not by themselves be sufficient to

arrest, let alone reverse, the steady deterioration that for many years has characterized the Sudanese economy, as reflected in, inter alia, the decline in per capita real income, investment and imports, and the substantial accumulation of external debt, including mounting arrears to the Fund. Accomplishing that task will undoubtedly require in addition, as was pointed out during the previous discussion on Sudan, an exceptional and determined effort by the international community to assist Sudan in financing its import requirements and in normalizing its external debt relations. It is worth noting that, as was pointed out in the previous staff papers on Sudan, a number of regional institutions were very innovative and succeeded in enabling Sudan to settle its overdue obligations to them and to resume benefiting from their assistance to Sudan. However, more clearly needs to be done, and the Fund should continue to play a leading role in the collaborative effort that is needed to overcome Sudan's current economic and financial difficulties, which continue to be aggravated by, among other things, the situation in the South.

Sudan's present democratically elected Government has clearly demonstrated not only its eagerness to normalize relations with the Fund, as evidenced by payments to the Fund despite Sudan's exceptionally difficult situation, but also its readiness to undertake, in close cooperation with the Fund, the needed policy measures, which clearly have serious sociopolitical sensitivities. It is crucially important for the public acceptance of Fund-espoused reforms, not only in Sudan but also in other developing countries as well, that the Sudanese authorities' adjustment effort produce the desired outcome and ultimately lead to a solution to the problem of Sudan's overdue obligations to the Fund. As I indicated during the previous discussion on Sudan, resolution of this problem will demonstrate that even the most difficult case of overdue obligations to the Fund can be handled when the member country in arrears is willing to cooperate in finding a solution and when others are willing to cooperate to that end. Some of my authorities plan to attend the forthcoming Consultative Group meetings on Sudan. Mr. Nimatallah's constructive suggestions should be considered, and I support the proposed decision as amended by him.

Mr. Goos made the following statement:

The serious concerns of this chair about overdue financial obligations to the Fund are well known. It is against this background that I warmly welcome Sudan's Program of Action and the authorities' close collaboration with the Fund and the World Bank. In view of the very serious problems facing the economy, it is fully appropriate that resolute adjustment efforts are given top priority by the authorities, as Mr. El Kogali emphasized in his opening statement. It is equally important that efforts to deal with socially and politically sensitive issues are no longer considered to be out of bounds. However, it is most unfortunate that settlement of arrears to the Fund is expected only by the middle of 1988. I hope that the highest priority will be given to dealing with this problem in the context of the authorities' Program of Action. In this connection, Sudan's recent payment to the SDR Account is welcome.

The staff paper reveals an encouraging degree of determination by the authorities to follow through on their stabilization effort under the Program of Action. Their prompt response to the possible deviations from the fiscal targets is particularly impressive. At the same time, however, the need for corrective action in response to those deviations raises serious concerns, because the corrective actions were necessitated by inadequate and only partial implementation of measures that had been expected prior to the October 1987 staff mission to Sudan. The crucial importance of avoiding slippages in the implementation of the Program of Action is obvious.

Another cause for concern is the incomplete pass-through of the effects of the recent devaluation to domestic prices of products that weigh heavily in overall imports. The resulting increase in subsidy payments exacerbated the existing imbalances, something that Sudan can hardly afford in the present circumstances. I recognize the sensitivity of price increases for the products in question, but the authorities should aim at substantially reducing the existing price subsidies; the reduction could of course be accompanied by a reorientation of the payments to provide direct support for the most needy part of the population.

I wonder whether the figures in the table on page 17 indicate that there has been a pronounced deterioration in the current savings balance of the budget. I have repeatedly stressed the need to place particular emphasis on increasing savings, which is crucial to the restoration of overall stability. Recent fiscal developments clearly underscore the correctness of the staff's assessment that a sustained reduction in the fiscal deficit and in domestic bank borrowing will require fundamental policy actions designed to change the structure of the budget. The long list of necessary reform measures presented by the staff in this context should be addressed expeditiously. In addition, I agree with Ms. Bush's comments on the other areas of adjustment that need to be given emphasis by the authorities.

The authorities' monetary policy actions, including the introduction of the compensatory rate system, have been encouraging, but it is important to reduce inflationary expectations in order to have the real positive interest rates that will provide an incentive for saving. The recent exchange rate measures are also encouraging. However, although the devaluation was substantial, I doubt whether it is sufficient, as sizable spreads between the official and black-market rates apparently remain.

There is no doubt that normalization of relations with creditors and the restoration of a viable overall position will require substantial and unprecedented assistance by the international financial community. However, it is equally clear that such assistance will be forthcoming only in response to a convincing demonstration of the authorities' sustained willingness to adjustment. While the authorities appear to be on the way toward meeting this requirement, they should accelerate and intensify their adjustment efforts wherever possible. The authorities themselves have recognized that their Program of Action is only the initial phase of a strenuous but clearly indispensable process of adjustment.

I symphathize with Mr. Nimatallah, who has suggested establishing an escrow account in the Fund to mobilize financial resources and to give the authorities the assurance that such resources will be forthcoming. However, I wonder whether we should not rely on traditional channels of assistance, particularly until the completion of the December 2, 1987 meeting on Sudan. Noncreditor and nondonor countries might well be able to use that meeting to indicate their willingness to support Sudan's adjustment effort directly. Of course, they could provide the same indication through direct bilateral communications with Sudan. In any event, Mr. Nimatallah's proposal warrants further examination.

I support the staff appraisal. Mr. Nimatallah's proposed amendment of the draft decision is acceptable.

Mr. Nimatallah said that he agreed with Mr. Goos that traditional channels of assistance were preferable to the solution that he himself had proposed. However, he had made his proposal because it was his understanding that certain countries had resources available for Sudan, and he was worried that if much more time went by, those resources might no longer be available under the fiscal arrangements of the countries concerned. Some countries insisted that the resources should be channeled to the Fund to settle Sudan's overdue payments, but in the absence, for the time being, of a Fund-supported program for Sudan, those countries cannot make their resources available to Sudan. Providing an escrow account in the Fund would ensure that the opportunity for some member countries to provide resources to Sudan would not be lost over time. The authorities must intensify their adjustment efforts before some countries would feel encouraged to help Sudan, but the authorities could not hope to intensify their efforts in the absence of concrete assistance or at least an indication of such assistance--for example, through the kind of escrow account that he had described.

Mrs. Ploix commented that the authorities' recent initiatives to come to grips with the very difficult situation in Sudan were welcome. The Fund's assistance in formulating and implementing a comprehensive adjustment program for Sudan was appropriate.

Sudan's payments since the previous Executive Board discussion of the country's arrears were a step in the right direction but fell short of what was needed, Mrs. Ploix remarked. Sudan was also in arrears to many creditor countries, and many of the arrears were substantial and included obligations that had been rescheduled by the Paris Club.

The authorities had taken a decisive first step in outlining their Program of Action in August 1987, but the program must be broadened and strengthened, Mrs. Ploix considered. Some far-reaching structural changes must be made in the real sector of the economy, with the help of the World Bank. In the fiscal field, the authorities had already displayed considerable determination to act, but, as the staff had emphasized, the overall fiscal system needed to be revamped. The issue of revenue enhancement and the needed additional steps in the monetary and external areas should be addressed under any formal arrangement with the Fund. Meanwhile, the quarterly benchmarks must be carefully monitored to facilitate the conclusion of agreements with all of Sudan's creditors. Further information on the benchmarks for financial variables would be helpful. Additional information on the further steps envisaged by the authorities and the staff would help the participants in the December 2, 1987 meeting to prepare for the discussions.

As to the closing of the financing gap, it was clear that a rescheduling agreement within the Paris Club could be envisaged only after the arrears to the Fund had been eliminated and agreement on a Fund-supported program had been reached, Mrs. Ploix considered. In addition, some countries had a particularly close relationship with Sudan and should continue to meet their responsibilities to the country and show their confidence in the authorities' program. The Fund, too, must be involved. Prior to that involvement, some time would be needed to stabilize the situation in Sudan. Once the arrears had been settled, there could be an increase in the Fund's outstanding assistance to Sudan.

Mr. Noriega said that the Program of Action represented a significant step in addressing the extremely difficult economic situation. Over the previous several years, internal and external factors had contributed to the sharp deterioration in current income that had limited the scope for introducing a comprehensive adjustment program. However, the current Administration felt that, in the present social and political circumstances, it was appropriate to undertake such a program, and they had moved quickly to design and implement it.

The program was still in the process of being fully defined, and many issues remained unresolved, Mr. Noriega continued. Therefore, it was premature to assess either the prospects for the program or the outlook for the economy. The proposed decision should enable the Executive Board to review the program during the next Article IV consultation.

Sudan's economic growth was constrained by the lack of sufficient foreign savings, Mr. Noriega noted. Foreign exchange earnings were not sufficient to pay for needed imports much less to service the enormous foreign debt or to clear arrears. Domestic savings could not be counted upon to support further adjustment, but a strong signal of the authorities' commitment to internal reform was needed to attract support from donors and creditors to enhance economic growth. The present program was a major step in that direction. Moreover, the monitoring scheme that had been recently established should help to yield positive results from the program in the short run. However, it was important to stress the need for the authorities to continue making some payments to the Fund to signal their willingness to maintain active links with the international financial community.

The Fund should be continuously involved in the design and monitoring of the current economic program, Mr. Noriega considered. Such involvement was in the best interest of the Fund and the authorities while the appropriate conditions for launching a comprehensive program were being met. The collaboration with the World Bank was important. Finally, he hoped that the efforts that the authorities were making would enable them to eliminate their arrears to the Fund.

Mr. Posthumus commented that the purpose of the discussion was to conduct a further review of Sudan's overdue financial obligations to the Fund, following the declaration of Sudan's ineligibility to use the Fund's general resources. The staff paper appeared to support the points that were made in paragraph 3 of the draft decision, which was acceptable. The intentions of his authorities with respect to possible support of the Program of Action would be stated during the December 2, 1987 meeting of the Heads of Delegation. He basically agreed with Mrs. Ploix's comments.

Mr. Prader remarked that the efforts that the authorities were making to address the country's economic problems were encouraging. The staff paper contained favorable conclusions, and the medium-term orientation of the economic policies was particularly welcome. The proposed decision, as amended by Mr. Nimatallah, was acceptable.

Ms. Bush commented that it would be appropriate to consider a wide range of possible actions as further progress was made in solving the problem of Sudan's arrears to the Fund. For the time being, the most important factor with respect to the financial resources that the United States could make available to Sudan to help to solve the arrears problem was the economic reform program that the authorities had formulated in conjunction with the staff. As she understood it, a request had been made by Sudan to the EC to provide the country with a supply of sugar on concessional terms as a contribution to the authorities' adjustment effort, and she wondered whether there was any information on the response to that request.

Mr. Salehkhou stated that he welcomed the formulation and implementation of the Program of Action and agreed with the staff that the program was an important and encouraging first step toward solving the country's difficult financial and economic problems. Like the staff, he attached importance to the policy adjustments--such as the exchange rate adjustment and the increase in the prices of staples, like sugar and oil--that had been made in socially and politically sensitive areas. The decisions that the authorities had taken in those areas were courageous and were an indication of the authorities' full commitment to the implementation of their program. Therefore, the program should be fully supported by additional external resources.

He accepted Mr. Nimatallah's proposed amendment of the draft decision, Mr. Salehkhou said. However, he hoped that assistance provided by nondonors would not be seen as a substitute for, rather than a complement to, resources provided by the donor community. The major responsibility for assisting Sudan should rest with the donor community, and contributions by others should be encouraged because of the sizable magnitude of Sudan's resource needs.

As to institutional changes affecting the process of financial intermediation, he welcomed the authorities' determination and commitment to the full implementation of Islamic banking principles, Mr. Salehkhou commented. Those principles appeared to be broadly supported in Sudan, as well as in most other Muslim countries. He hoped that the staff would devote more time and effort to studying the Islamic banking system; assurance to that effect had recently been given by management.

In the staff paper it was noted that informal meetings of Executive Directors representing donor countries and creditors had recently been held in the Fund, Mr. Salehkhou observed. He regretted that his chair, representing one major creditor to Sudan, had been excluded from those meetings for reasons unknown to him. He hoped that his chair would be invited to participate in any future meetings, and that full details of Paris Club and similar meetings concerning Sudan would be provided to his chair; the creditor member in his constituency was not a member of the Paris Club of creditors.

Mr. Nimatallah said that his proposed amendment of the draft decision was not meant to exclude Sudan's traditional donors and creditors from providing further assistance to the country. Given the substantial size of Sudan's arrears problem, it would be appropriate for middle-income developing countries--as well as Sudan's traditional donors and creditors--to help Sudan. It would be helpful to begin a tradition of involving middle-income developing countries in the provision of assistance to any small member country facing serious economic and financial problems.

Mr. Salehkhou stated that Mr. Nimatallah's position was fully consistent with his own views.

Mr. Sengupta considered that Mr. Nimatallah's proposal to establish an account for Sudan in the Fund warranted careful consideration. It would be helpful to have additional information on the present state of the negotiations on external assistance for Sudan. He agreed with Mr. Goos that the traditional approach to providing external assistance should be tried first. Introducing another scheme, like an account in the Fund, while the traditional mechanism was still being used, might run the risk of delaying the process of providing assistance, rather than accelerating it. In addition, Ms. Bush had usefully stressed the helpful role that could be played by the formulation of a plan for eliminating Sudan's arrears to the Fund. Such a plan would help to ensure that every effort was being made to see whether the traditional approach to providing external assistance could succeed.

The Director of the Middle Eastern Department said that the Sudanese civil service appeared to be overstaffed. The Fund staff had discussed with the authorities the desirability of reducing the size of the civil service, but at present, there were political obstacles to any major cuts in the civil service. The authorities were attempting to change the salary structure--including increases in wages--as a part of an overall reform of the civil service, the achievement of which was clearly an important objective in the authorities' view.

Fiscal policy was one of the most important areas on which the staff had been focusing its attention, and there had already been several technical assistance missions to Sudan, the Director noted. Suggestions for broadening the tax base had been made by the past fiscal policy missions, and additional technical assistance would be provided, where necessary, particularly by the Fiscal Affairs Department.

The Managing Director had contacted the President of the EC to request the EC to provide sugar supplies to Sudan on concessional terms, the Director remarked. The initial request was for approximately 145,000 tons of sugar, and the EC had initially agreed to convert some of the STABEX funds already committed to sugar to finance 25,000 tons of sugar for Sudan. After further contacts with the EC, a recommendation was to be made to the EC Council of Ministers for an additional 25,000 tons.

The staff had not meant to imply in its paper that Sudan's arrears to the Fund would be eliminated by the middle of 1988, the Director said. The staff had said that the arrears would be eliminated as soon as possible without specifying any particular date. At the December 2, 1987 meeting of the Heads of Delegation of the Consultative Group, the staff would provide donors with all the necessary data and projections on the financial assistance that Sudan would need to normalize its relations with its creditors.

The question had been raised whether the present exchange rate level was appropriate, particularly as the black-market exchange rate was still much more depreciated than the official rate, the Director recalled. In that connection, it was important to remember that the recent adjustment of the exchange rate from LSd 2.50 = US$1 to LSd 4.50 = US$1 was designed to maintain the competitiveness of most of Sudan's crops by taking into account anticipated cost increases. The staff believed that the present exchange rate was competitive for most of the commodities, and the authorities had stated that their position on the exchange rate was flexible and that they were prepared to act if the rate were to be found to be uncompetitive. Any comparison between the black market and the official rates should, however, be made with great care. Sudan had recently introduced measures permitting importers to use their own foreign currency resources to finance imports, and the pent-up demand that was present had put pressure on the black market rate; accordingly, great care should be taken in interpreting the significance of the fluctuations and the appropriateness of the black market rate exchange rate.

Thus far, the staff had been working through traditional channels to encourage the provision of financial assistance to Sudan, the Director of the Middle Eastern Department continued. The staffs of the World Bank and the Fund had met with authorities in major capitals in preparation for the meeting of the Heads of Delegations in Paris on December 2, 1987. In addition, the staff had been in touch with the authorities of other member countries through their respective Executive Directors. The staff had no information yet on commitments that would be made beyond those listed in Table 2 in Appendix II. The staff hoped that additional commitments would be made during the December 2, 1987 Heads of Delegation meeting.

The staff representative from the Middle Eastern Department noted that the balance of payments financing gap shown in Table 2 on page 31 was based on staff assumptions concerning the volume of aid, debt, and arrears to the Fund. The financing gap, excluding foreign assistance and debt service, was estimated at about $5.3 billion in July and October 1987. Project aid utilization was estimated at $181 million in both July and October 1987, and petroleum import assistance, which was not covered by the data on cash and commodity aid in Table 2, was estimated at $170 million in July and only $22 million in October 1987. However, projected World Bank disbursements had risen from zero in July 1987 to $55 million in October 1987. Accordingly, the estimated residual financing gap--excluding foreign assistance--shown in Table 2 had risen somewhat. For the sake of completion in the presentation of the data in Table 2, the staff had assumed that the amount and terms of debt relief provided in 1987 would be the same as those provided in 1984 and 1985 and would therefore amount to $3.1 billion, leading to an estimated financing gap--after taking into account the estimated debt relief--of $1.6 billion. The dates chosen for the calculation of the amount of arrears to the Fund were for illustrative purposes, and the amount of arrears would be different, depending on the date of the settlement.

A question had been raised about the projections of quarterly cash flows in the previous and present staff papers on Sudan, the staff representative recalled. Given the uncertainties in Sudan, the quarterly estimates should be seen as tentative; exports depended significantly on crop estimates, which could fluctuate from one quarter to the next, and imports were a function of exports and the availability of aid. The authorities lacked a cushion of reserves with which to finance imports.

Accordingly, in its latest projections, the staff had not changed any of the program targets or objectives. The staff had taken into account actual exports for the first quarter of 1987, the data for which were available, and had then tried to estimate quarterly flows. Those estimates were significantly different from previous estimates. If the volume of aid and exports was less than projected, the volume of imports would change accordingly. However, the composition of imports was unlikely to change significantly, as the authorities were likely to continue to give top priority to meeting the import requirements of the critical production sectors. Any decline in imports below the expected level would probably be accounted for by a drop in consumer goods imports rather than imports of inputs for production.

Another question that had been raised was whether the budget figures for 1987/88, compared with those for 1986/87, implied that there had been a decline in public savings, the staff representative from the Middle Eastern Department recalled. The data in Table 1, on page 17, needed to be examined carefully, because the data for 1987/88 included two elements that were not included in the data for 1986/87. First, the data for 1987/88 were based on the assumption that there would be full payment of all arrears and external debt due; the data for 1986/87 were based on actual payments. Accordingly, the gap between revenue and expenditure in 1986/87 was significantly different from the gap for 1987/88 shown in Table 1. In addition, the budget for 1987/88 included comprehensive estimates of subsidies for the first time, thereby considerably increasing expenditure in 1987/88, compared with 1986/87. In considering the performance of savings, one should look at development expenditure in the public sector, which increased significantly in 1987/88 compared with 1986/87. In sum, the budgetary data for 1987/88 in Table 1 were not strictly comparable with the data for 1986/87, and the budgetary gap therefore seemed larger in 1987/88 that in 1986/87 than would be the case if the data were strictly comparable.

The staff representative from the Treasurer's Department said that the Fund certainly had the scope to create the kind of account that Mr. Nimatallah had proposed; indeed, the Fund had already established similar accounts. Such an account would of course be subject to certain legal criteria and conditions. The staff would consider the matter, the crucial issue being whether creation of an account as proposed by Mr. Nimatallah would be productive in the present circumstances. It would be useful if Executive Directors were able to indicate that such an account would be helpful to their authorities in their efforts to contribute to solving the problem of Sudan's arrears. In any event, to the extent that Sudan was able to make payments to the Fund, those payments should be made directly to the Fund as promptly as possible, rather than to any kind of escrow account.

The staff representative from the World Bank remarked that the agreement that had been reached with the authorities in August 1987 provided for an action plan to be worked out by the end of 1987 to reduce the financial drain of the parastatals on the Government. At present, a

World Bank team was in Sudan working on the plan with the authorities. The outcome of the negotiations was not yet known, but the expectation was that a program would be ready by the end of 1987, and that it would include benchmarks extending into the future. The World Bank staff team was also working with the authorities on a medium-term adjustment program. That program had not been provided for under the August 1987 agreement, but it was understood that the program would become part of a longer-term agreement, and the staff would be able to report more fully on it at the December 2, 1987 meeting in Paris. It probably would not be possible to complete the program by the end of 1987, but the staff hoped to complete it within the first several months of 1988.

Mr. Goos commented that it would be helpful to have comparable figures on the budget in future staff papers. The data in Table 1 were not comparable, thereby making it difficult to understand the course of fiscal developments. The figures for current savings in 1986/87 and 1987/88--calculated by subtracting current expenditures from total revenue--suggested that there had been a strong increase in savings, but the data were not strictly comparable because of the exclusion of certain data in one of the two years concerned. There should at least be indicative figures for both years so that comparisons could be made.

The Acting Chairman said that considerable thought had been given to a possible scenario for the elimination of Sudan's arrears to the Fund. Such a scenario was not easy to identify. As of November 9, 1987, the cumulative payments due to the Fund had amounted to SDR 517.3 million. If the arrears were not to be cleared until the end of December 1987, as was assumed in Table 2, the total amount that would be owed to the Fund at the end of 1987 would be SDR 563.4 million. In the period January-June 1988, payments due to the Fund from Sudan would total SDR 74.1 million. For the period July-December 1988, payments due to the Fund would amount to SDR 51.1 million, and the amount owed to the Fund in January-June 1989 would be SDR 46.5 million. It was clear that the amounts of overdue payments and payments falling due in the coming period were substantial.

In suggesting a possible scenario for clearing Sudan's arrears, he would not take into account the conceivable use by Sudan of the enhanced structural adjustment facility, as agreement on the enhancement had not yet been reached, and the Executive Board had not yet had an opportunity to discuss arrangements and access under the enhanced facility, the Acting Chairman continued. Hence, his comments in no way prejudged what might be available to Sudan under an enhanced structural adjustment facility. However, under the existing structural adjustment facility, Sudan would be eligible to receive SDR 34 million during the first year of a structural adjustment arrangement. If it were possible to negotiate a stand-by arrangement with Sudan, and given the access that was normally made available in circumstances like those of Sudan, an additional SDR 60 million could be available to the country. The timing of a structural adjustment arrangement under the present structural adjustment facility and of a stand-by arrangement would depend importantly on when the arrears to the Fund were cleared.

At present, the Acting Chairman went on, management and staff assumed that the next Article IV consultation with Sudan could be held in January 1988, and that the staff report on the discussions could be brought to the Executive Board's agenda in April 1988. A staff mission could then visit Sudan in, say, May 1988 to negotiate a structural adjustment arrangement and possibly a stand-by arrangement that would cover the fiscal year that would begin in July 1988. Given those broad parameters, mid-June 1988 seemed to be the latest date at which Sudan's arrears should be cleared. The volume of payments that he had mentioned for January-June 1988 were based on the assumption that the arrears to the Fund would be cleared by December 1987. If the arrears were not cleared until June 1988, there would be an additional SDR 11 million in payments that would be due to the Fund at that time.

It was important for Executive Directors and their authorities to reflect on the orders of magnitude that he had described, and management looked forward to receiving their suggestions for ways in which the arrears might be cleared, the Acting Chairman said. Much would depend on whether support could be obtained from countries to clear the arrears. Over the coming weeks, management and staff would of course welcome reactions by Executive Directors and their authorities to possible scenarios for clearing the arrears to the Fund.

Mr. El Kogali considered that Mr. Nimatallah's proposal to establish an account in the Fund for Sudan was helpful. The proposed amendment of the draft decision was appropriate, as Sudan could use the help of all members that were in a position to provide it. The country urgently needed external assistance if the authorities were to have a chance to make the new program work and to show the international community their determination and ability to make the needed adjustments. If in the remainder of Sudan's fiscal year the country did not receive sufficient cash and commodity support, the authorities, despite their best intentions, might be unable to implement their program. Exceptional assistance was required if Sudan was to be able to eliminate its arrears to the Fund. Achieving that objective was in the best interests of Sudan and the Fund.

The Executive Directors then turned to the proposed decision.

Mr. Sengupta remarked that Sudan's external arrears were so large that it was clearly impossible for the authorities to eliminate them without considerable assistance. At the same time, the authorities must clearly make the effort to undertake needed adjustments. The staff paper clearly showed that the authorities were sincere in their determination to undertake a substantial adjustment effort. Accordingly, it seemed appropriate to substitute the word "inability" for the word "failure" in the first and second paragraphs of the draft decision. As to Mr. Nimatallah's proposed amendment, it was clearly designed to encourage member countries to complement the assistance that was to be provided by donors and creditors. He preferred to leave the second sentence of paragraph 3 as it was and to add the following sentence: "The Fund hopes that all other countries that can help Sudan would also come forward with their assistance." Alternatively, the second sentence could be changed to read: "The Fund hopes that Sudan's donors and creditors and all other countries that can help Sudan will respond sympathetically to the authorities' request for expanded external financial assistance."

Mr. Nimatallah said that Mr. Sengupta's alternative version of his own proposed amendment was acceptable.

Ms. Bush remarked that she too accepted Mr. Sengupta's alternative version of Mr. Nimatallah's proposed amendment; however, the suggestion to substitute the word "inability" for "failure" seemed to have legal implications. The practice had been to use the word "failure" in all cases. The use of the word "inability" instead might well have connotations that were undesirable.

Mr. Zeas said that he wondered whether, given the special circumstances of Sudan, it would be possible to permit the country to defer its payments to the Fund.

The staff representative from the Legal Department noted that the use of the word "failure" was meant to make the text of the draft decision correspond to the relevant provisions of the Articles, which referred specifically to the member's failure to fulfill its obligations to the Fund In effect, the use of the word "failure" in the draft decision meant that the Executive Board was making a finding that Sudan had continued to fail to meet its obligations to the Fund. Accordingly, substituting the word "inability" for "failure" in the draft decision would be a change in substance; moreover, it would take the Executive Board into unchartered waters as the question would then arise whether there would be a finding that Sudan had not failed to fulfill obligations because a finding of inability could justify its failure; that was something that the staff was certainly not proposing.

The question of the possible postponement of repurchase obligations had been dealt with in SM/87/226 (8/25/87), the staff representative from the Legal Department remarked. Three postponements within the maximum period had been granted in 1982--by a majority of votes cast in the Board--on the basis of the criteria that were fully explained in the respective staff papers.

Mr. Goos considered that the word "failure" should not be replaced by the word "inability." Doing so would raise the problems of legal interpretation that the staff had mentioned and might well send the wrong signal. In any event, using the word "inability" would not be consistent with the text of paragraph 2, as it would be inappropriate to acknowledge Sudan's inability to pay the Fund but then urge the country to fulfill its financial obligations to the Fund.

Mr. Finaish said that he doubted whether it would be inconsistent with the Articles for the Executive Board to conclude that a member country was willing to pay but was obviously unable to do so.

Mr. Sengupta commented that it would not have been appropriate to use the word "inability" rather than "failure" at an earlier stage in the handling of the case of Sudan. However, at present, the authorities were clearly making special efforts to make the needed adjustments; accordingly, as Mr. Finaish had noted and the staff paper clearly showed, Sudan was clearly willing to pay the Fund but was unable to do so. If the word "inability" were substituted for "failure," paragraph 2 could be changed to read: "The Fund deeply regrets the continuing inability of Sudan to fulfill its financial obligations to the Fund and again urges Sudan to make all efforts toward full and prompt settlement of those obligations." If the Executive Board felt that the Sudanese authorities were making a substantial effort to introduce the needed policy adjustments, he doubted whether the changes in the text of the draft decision that he had mentioned would cause any legal difficulties.

Mr. Salehkhou considered that the draft decision, which mentioned Sudan's "failure" to pay the Fund, was inconsistent with the message of the text of the staff paper, which emphasized the authorities' inability to pay. There was no reason to stick to the use of the word "failure" when it would not be consistent with the facts of the case. Sudan and its creditors shared the responsibility for making the effort to eliminate Sudan's arrears. The text that Mr. Sengupta had proposed would make the draft decision consistent with the information provided in the staff paper.

Ms. Bush said that the use of the word "failure" in the present text, as in previous decisions, was appropriate because it was based on a finding of the facts of the case: unfortunately, Sudan had failed to meet its obligations to the Fund. Using the word "inability" instead of "failure" would no longer make the proposed decision a factual finding, as the word "inability" implied that a judgment had been made about Sudan's ability to pay the Fund. The Executive Board had not formally reached any conclusions concerning Sudan's ability to pay the Fund. In any event, the use of the word "inability" would be inconsistent with the recent payment, albeit a small one, by Sudan to the Fund.

Mr. Nimatallah considered that the issue of the use of "failure" or "inability" was one of form rather than substance. The Executive Board should maintain uniform treatment of member countries; thus far, the Board had always used the word "failure" in decisions on overdue financial obligations. The use of the word "failure" meant merely that the member country had not done what it was supposed to do. If the Executive Board intended to differentiate between countries--something that he had suggested on previous occasions--that were able but unwilling to pay the Fund and countries that were unable to pay but were unwilling to do so, the word "delay" could be used instead of "continued failure." The use in the proposed text of the word "continued" was more troubling to him than the word "failure." Accordingly, the proposed decision could mention Sudan's delay in fulfilling its financial obligations and the words "continued failure" could be used in decisions on the arrears of member countries that were able to pay but were unwilling to do so.

Mr. Fogelholm said that he agreed that the Executive Board had not tried to judge Sudan's ability to pay the Fund. Accordingly, the usual text, including the word "failure," should be used again, particularly as the consequences of changing the text were not fully clear.

Mr. Enoch remarked that the use of the word "failure" was part of what was merely a statement of fact, namely, that Sudan was still overdue in its financial obligations to the Fund. Accordingly, the proposed text of paragraphs 1 and 2 was appropriate. The value judgments that had been made during the discussion were encompassed in paragraph 3, which said that the Executive Board welcomed the Sudanese authorities' implementation of the Program of Action. The proposed text of paragraphs 1 and 2 was also consistent with the text of paragraph 4, which was another factual statement that contained no value judgments.

The staff representative from the Legal Department commented that Sudan's "failure" to meet its obligations to the Fund had been triggered simply by the country's nonpayment. Noting any justification for the nonpayment or the country's inability to pay would be beyond the bounds of the relevant provisions of the Articles. Under those provisions, the draft decision must find that there was a continuing failure to meet obligations to the Fund.

Mr. Finaiṣh remarked that, while Sudan's failure to pay the Fund was of course a fact, the Executive Board could nevertheless reach a judgment that the failure had occurred because the authorities were unable--not unwilling--to pay the Fund.

Mr. Massé considered that it was best not to state precisely why a member country had failed to meet its obligations to the Fund. The Fund would then face the difficult political problem of having to state in each case whether a member country's failure to pay the Fund was due to its unwillingness to pay or to its inability to do so.

The Executive Board then took the following decision:

1. The Fund has reviewed further the matter of Sudan's continuing failure to fulfill its financial obligations to the Fund in light of the facts and developments described in EBS/87/231 (11/10/87).

2. The Fund deeply regrets the continuing failure of Sudan to fulfill its financial obligations to the Fund and again urges Sudan to make full and prompt settlement of those obligations.

3. The Fund welcomes the Sudanese authorities' implementation of their "Program of Action" and urges the authorities to continue and intensify their economic adjustment efforts. The Fund hopes that Sudan's donors and creditors, and all other countries that can help Sudan, will respond sympathetically to the authorities' request for expanded external financial assistance.

4. The Fund will review the matter of Sudan's overdue financial obligations to the Fund again within six months of the date of this decision or at the time of the 1988 Article IV consultation, whichever is earlier.

Decision No. 8728-(87/155), adopted
November 16, 1987

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/87/154 (11/6/87) and EBM/87/155 (11/16/87).

2. OPERATION OF FUND ACCOUNTS - AUTHORIZED SIGNATORIES

1. On and after November 11, 1987, the following officials of the International Monetary Fund are authorized signatories to operate (i) the Fund's No. 1, securities and gold accounts held in the General Resources Account of the General Department; (ii) the cash and investment accounts held in the Special Disbursement Account of the General Department; (iii) the cash and investment accounts held in the Borrowed Resources Suspense Account in the General Department; (iv) the cash and investment accounts held in the Trust Fund Account; and (v) the cash and investment accounts held in the Supplementary Financing Facility Subsidy Account, as indicated:

(a) The Managing Director together with the Deputy Managing Director, or either of them together with any one of the signatories listed under (b) or (c) below;

(b) Any two of the following signatories, or any one of them together with any one of the signatories listed under (a) or (c):

(1) The Treasurer
(2) The Deputy Treasurers
(3) The Senior Advisor, Treasurer's Department
(4) The Advisors, Treasurer's Department
(5) The Assistant Treasurer for the Operations Division for General Resources
(6) The Chief of the Accounts and Financial Reports Division
(7) The Chief of the Administrative Expenditures Division
(8) The Chief of the Financial Relations Division
(9) The Chief of the Operations Division for SDRs and Administered Accounts
(10) The Chief of the Special Operations and SDA Division

(c) Any one of the signatories listed under (a) or (b) together with any one of the following:

(1) The Assistant Chief of the Accounts and Financial Reports Division
(2) The Assistant Chief of the Financial Relations Division
(3) The Assistant Chief of the Operations Division for General Resources
(4) The Assistant Chief of the Operations Division for SDRs and Administered Accounts
(5) The Assistant Chief of the Special Operations and SDA Division
(6) The Senior Accountant--Accounts and Financial Reports Division
(7) The Senior Operations Officers--Operations Division for General Resources.

2. On and after November 11, 1987, the following officials of the International Monetary Fund are authorized signatories to operate the Fund's No. 2 Accounts:

(a) Any one of the signatories mentioned in paragraph 1 above, or
(b) The Senior Accountant of the Administrative Expenditures Division.

3. On and after November 11, 1987, any one of the signatories mentioned in paragraph 1 above shall be and hereby is authorized to operate the Fund's Emergency Accounts.

4. In carrying out the purposes of this decision, the foregoing officials, in conformity with this decision, are hereby authorized and empowered in the name and on behalf of the Fund for its own account, or on behalf of the Trust Fund in accordance with Section III, Paragraph 1 of the Instrument annexed to Executive Board Decision No. 5069-(76/72), adopted May 5, 1976, or on behalf of the Supplementary Financing Facility Subsidy Account in accordance with Section 11 of the Instrument contained in Executive Board Decision No. 6683-(80/185) G/TR, adopted December 17, 1980, as amended, to open and operate cash, securities, and investment accounts with such banks and other institutions as have been or shall have been designated as depositories of the Fund in accordance with Article XIII, Section 2, of the Articles of Agreement of the Fund, and with international financial institutions with which investments may be placed; to arrange for the deposit in such accounts of gold or currencies which shall be paid or payable to the Fund and any or all securities held by or to be delivered to the Fund; to execute and deliver any and all such drafts, endorsements, delivery orders, certificates, and other documents; to take any or all such other

action as they shall deem necessary or proper in order to effect deposits in such accounts and withdrawals therefrom; and to issue such orders, demands, and instructions and to take all such other action as they shall deem necessary or proper in order to arrange for the safekeeping of such gold, currencies, and securities, the maintenance of such accounts, the withdrawal of any such gold, currencies, and securities therefrom, and the delivery of any such gold, currencies, or securities by any such depository or other institution.

5. This decision supersedes Executive Board Decision No. 8357-(86/133), adopted August 7, 1986. (EBAP/87/241, 11/3/87)

Decision No. 8729-(87/155), adopted
November 10, 1987

3. BURMA - TECHNICAL ASSISTANCE

In response to a request from the Union of Burma Bank for technical assistance in the area of data processing, the Executive Board approves the proposal set forth in EBD/87/284 (11/4/87).

Adopted November 9, 1987

4. DOMINICA - TECHNICAL ASSISTANCE

In response to a request from the Dominica authorities for technical assistance in the tax area, the Executive Board approves the proposal set forth in EBD/87/287 (11/5/87).

Adopted November 10, 1987

5. EXECUTIVE BOARD COMMITTEES

The Executive Board approves the reconstitution of the membership of the Executive Board standing committees as proposed by the Managing Director in EBD/87/290 (11/9/87).

Adopted November 12, 1987

6. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the appointment of an Assistant to Executive Director as set forth in EBAP/87/243 (11/6/87) and Correction 1 (11/9/87).

Adopted November 11, 1987

7. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 87/64 through 87/69 are approved. (EBD/87/288, 11/6/87)

8. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/87/242 (11/5/87), EBAP/87/245 (11/10/87), and EBAP/87/246 (11/12/87), and by an Advisor to Executive Director as set forth in EBAP/87/246 (11/12/87) is approved.

APPROVED: July 11, 1988

LEO VAN HOUTVEN
Secretary