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AGENDA

EBS/85/290

CONFIDENTIAL

December 27, 1985

To: Members of the Executive Board

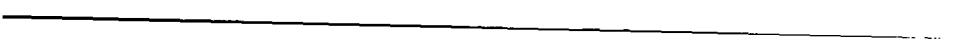
From: The Acting Secretary

Subject: Sudan - Further Review of Decision to Limit Use of the Fund's
General Resources, and Consideration of Report and Complaint
Under Rule S-1

There is attached for consideration by the Executive Directors a paper on the review of the decision to limit Sudan's use of the Fund's general resources and consideration of the report and complaint under Rule S-1. Draft decisions appear on pages 5-7.

Mr. Blalock (ext. 8341) is available to answer technical or factual questions relating to this paper prior to the Board discussion on Friday, January 3, 1986.

Att: (1)



INTERNATIONAL MONETARY FUND

Sudan - Further Review of Decision to Limit Use of the Fund's General Resources, and Consideration of Report and Complaint under Rule S-1

Prepared by the Treasurer's, Middle Eastern, and Legal Departments

(In consultation with Exchange and Trade Relations Department)

Approved by Thomas Leddy, A.S. Shaalan, and G.P. Nicoletopoulos

December 26, 1985

1. On October 25, 1985 (EBM/85/156), the Executive Board reviewed Decision No. 7903-(85/20), adopted February 8, 1985, and decided to review that decision again not later than January 3, 1986. In accordance with the February decision, Sudan shall not make use of the general resources of the Fund until such time as Sudan is current in its obligations under the Articles of Agreement relating to repurchases and the payment of charges in the General Department. ^{1/} In the decision of October 25, 1985, the Fund regretted the continued non-observance by Sudan of its financial obligations to the Fund, urged the authorities to make full and prompt settlement of the overdue obligations to the Fund, and called on Sudan to adopt urgently a strong and comprehensive program that would bring about necessary economic adjustment. The Fund also noted the concerted effort being made by Sudan, its donors and creditors, and the Fund to develop comprehensive adjustment measures and associated financing arrangements that could facilitate clearance of the arrears to the Fund and serve as the basis for a program to be supported by the Fund (see Attachment I).

The meeting on January 3, 1986 will constitute the Executive Board's fourth review of its February decision limiting Sudan's use of the Fund's general resources. It will also be the occasion for substantive consideration of the report and complaint under Rule S-1 that was issued on December 11, 1985 with regard to an overdue obligation in the SDR Department, and noted by the Executive Board on December 18, 1985 (see EBS/85/275 and Attachment II).

2. Since the Board meeting on October 25, 1985, Sudan has made no payments to the Fund. Further obligations totaling SDR 34.8 million have become overdue. As of December 20, 1985, Sudan's arrears to the Fund totaled SDR 208.4 million (Attachment III), compared to SDR 173.6 million on October 25, 1985 and SDR 106.9 million on February 8, 1985,

^{1/} Decision No. 7903-(85/20) provided further that, if Sudan were otherwise eligible to make use of the general resources of the Fund, the Fund would take into account the existence of any overdue obligation to the Trust Fund in considering any request by Sudan for the use of the general resources.

when the decision on limitation was adopted. ^{1/} Sudan's payments to the Fund thus far in 1985 have amounted to SDR 45.2 million.

3. Descriptions of Sudan's recent economic policies are contained in Buff Statement 85/178, which formed the basis of the staff's report to the Executive Board at EBM/85/152 (9/27/85), and in EBS/85/253 (11/13/85), which summarized the understandings reached at that time with the Sudanese authorities in major policy areas as a result of discussions in Seoul and a subsequent staff visit to Khartoum.

Since the review on October 25, 1985, the management and staff have conducted intensive discussions with the Sudanese authorities in the context of the concerted effort noted in paragraph 3 of the review decision. Discussions have also been held with Sudan's major donors and creditors, including an informal meeting on December 3, 1985 with Executive Directors representing these countries. The Managing Director's communication to the Minister of Finance dated November 1, 1985 following the review discussion was circulated to Executive Directors in EBS/85/233, Supplement 2 (11/1/85). Other recent communications between management and the authorities are contained in Attachment V.

In a telex of December 4, 1985 to the Prime Minister, the Managing Director expressed disappointment at the outcome of the meetings of Sudan's Council of Ministers on December 1 and 2, which had not adopted the package of economic policies that had provided the basis for understandings reached between Fund staff and the Minister of Finance. The Managing Director also conveyed the grave concern of Executive Directors representing Sudan's major donors and creditors and indicated that it would be most helpful if the Government of Sudan were to reconsider the decision of the Council of Ministers.

In his reply of December 7, 1985, the Prime Minister reiterated the Sudanese Government's firm commitment to continue cooperation with the Fund and stated that the proposals to be agreed with the Fund were being given detailed consideration by the Economic Ministerial Committee, which was to formulate advice to be presented to the Council of Ministers for decision. In subsequent communications between the Sudanese authorities and the Fund's management, management re-emphasized the importance of implementing fully and without additional delay the substance of the economic package on which understandings were reached, in order to avoid aggravating the already serious situation of Sudan and disrupting further the task of mobilizing foreign support for the package. Management stressed that meaningful progress in the areas of policy implementation and mobilization of resources to assist in clearing the overdue financial obligations to the Fund could have a substantial bearing on the review meeting on January 3, 1986. It was also indicated that further delays in policy implementation could well render the proposed measures inadequate to deal with the problems.

^{1/} Trust Fund interest of SDR 0.17 million will become due on December 31, 1985.

On December 18, 1985 the Fund's resident representative in Khartoum reported that the Economic Ministerial Committee had proposed major amendments to the economic policy package. These amendments affect the understandings reached in the following areas: fiscal; monetary; exchange rate; external debt; agricultural prices; and price and profit controls. In the view of the staff, the proposed amendments seriously weaken the economic policy package and significantly reduce the prospects of reversing the deterioration of the economic situation in Sudan. These concerns were conveyed by the Acting Managing Director in a detailed telex sent to the Sudanese authorities on December 23, 1985. In this communication, the Acting Managing Director noted that the policy changes contemplated by the authorities fundamentally alter the nature of the program aimed at restoring conditions for sustained economic growth in Sudan. After explaining the potential adverse implications of these changes, the Acting Managing Director urged the authorities to reconsider their position and begin to implement a comprehensive set of adjustment measures along the lines of those on which understandings were reached with the earlier Fund mission. The authorities' response to this communication is currently awaited.

4. The Executive Board's decision of October 25 reiterated the provision contained in the decision adopted at the second review (on August 9, 1985) that, unless Sudan were current with the Fund by the time of the subsequent review, the Fund would consider the appropriateness of further steps, including the possibility of declaring Sudan ineligible to use the Fund's general resources pursuant to Article XXVI, Section 2. This course of action, which avoided the expression of an "expectation" that Sudan would be declared ineligible, was based on the concerted effort that was underway and that was referred to in paragraph 3 of the decision of October 25. Thus far, this effort has not led to positive results, and the question arises whether further steps should be taken by the Fund.

As noted above, the January 3 review will be the Board's fourth review of its decision to limit Sudan's use of the Fund's general resources. The only other cases that have reached the stage of a fourth review are those of Guyana and Nicaragua. While Guyana had made various payments to the Fund at each of the stages following issuance of the complaint, Guyana was not current in its obligations to the Fund at the time of the fourth review on May 15, 1985. In line with the Executive Board decision adopted at the third review three months earlier, which contained an expectation of a declaration of ineligibility in the absence of full settlement of the overdue obligations to the Fund by the time of the subsequent review, Guyana was declared ineligible on May 15, 1985. In Nicaragua's case, at the third review on January 30, 1985 the Board's decision also contained an expectation of a declaration of ineligibility. By the time of the fourth review three months later on April 29, 1985, Nicaragua became current in its obligation to the Fund and the complaint was withdrawn.

More recently, in the case of Liberia, a decision expressing an expectation of a declaration of ineligibility was adopted by the Executive Board on the occasion of the first review, on August 26, 1985, in view of the absence of any payments by Liberia following issuance of the complaints. At the second review, which took place on November 25, 1985, the Board took into account substantial payments made between the two reviews (which had effected a reduction in the amount of arrears outstanding between the two dates), and decided not to put its earlier expectation into effect immediately. Instead, the decision adopted at the second review of Liberia provided that Liberia would be ineligible to use the general resources and its right to use SDRs would be suspended on January 24, 1986 if Liberia were not current in its obligations to the Fund at that time. On the basis of Directors' comments at the second review, it was indicated to the Liberian authorities that, if developments warranted, this action could be reconsidered at the request of the Managing Director or an Executive Director. 1/

5. The situation with respect to Sudan does not approximate very closely the cases mentioned above or other cases (none of which have reached thus far a second review stage) of members in arrears to the Fund. 2/ While Sudan made payments to the Fund totaling SDR 45.2 million between the issuance of the complaint and notice and the second review on August 9, no payments have been made since the second review. The arrears to the Fund have grown rapidly, and very large obligations to the Fund will fall due in the future. As noted above, the effort to develop comprehensive adjustment measures and associated financing that could help in settlement of the arrears has not so far led to positive results; indeed, there are indications that policies being followed and contemplated by the authorities could lead to substantial further deterioration of Sudan's economic and financial position. The complaint and notice with respect to Sudan, which were issued on December 12, 1984, will have been outstanding for almost 13 months by the time of the review on January 3, 1986, and the Board's decision with respect to limitation will have been in effect for nearly 11 months by the time of the review.

In light of these developments, it would appear appropriate in the circumstances, and in keeping with action taken in earlier cases, for Sudan to be declared ineligible to use the Fund's general resources. Such a declaration could be made with effect on January 3, 1986 or, alternatively, if it were desired to give the authorities some further

1/ In conveying this possibility to the authorities, the Managing Director emphasized that he would be in a position to recommend such reconsideration only if Liberia made major payments and indicated in the clearest terms, including the implementation of strong adjustment measures, that prompt and full settlement was in clear prospect.

2/ In the case of Viet Nam, at the first review on December 3, 1984 Viet Nam was declared ineligible to use the Fund's general resources and its right to use SDRs was suspended with effect from January 15, 1985.

opportunity to respond in an effort to remedy the situation, with effect after a further period. (As in the case of Liberia, a declaration to take effect after a further period could be reconsidered if warranted on the basis of major positive developments.) In the event the Executive Board wishes to provide some further period before a declaration of ineligibility becomes effective, the staff would consider that in view of the protracted nature of the problem and the increasing urgency of decisive action by Sudan, any further delay should be brief. Accordingly, the staff would suggest that a period not longer than one month (i.e., to February 3, 1986) be provided under this alternative.

6. With respect to the complaint under Rule S-1, it is proposed that a decision be adopted similar to those initially adopted in other cases of complaints under Rule S-1, i.e., providing for the suspension of the members' right to use SDRs it acquired after the suspension until such time as the member has become current in its obligations in the SDR Department.

Accordingly, the following draft decisions are submitted for adoption by the Executive Board, subject to consideration of options with respect to the second draft decision:

I. Sudan - Complaint under Rule S-1

1. The Managing Director has reported under Rule S-1 of the Fund's Rules and Regulations to the Executive Board the facts on the basis of which it appeared to him that Sudan was not fulfilling its obligations under the Articles of Agreement in the SDR Department and submitted a complaint on December 11, 1985 (EBS/85/275). The complaint under Rule S-1 was that as of December 11, 1985 Sudan was not fulfilling its obligation to pay charges in the SDR Department in the total amount of SDR 974,132. These facts, and the complaint of the Managing Director, were communicated to the authorities of Sudan on December 18, 1985.
2. Having considered the report of the Managing Director and the complaint under Rule S-1 and the views of Sudan, the Fund finds that Sudan has failed to fulfill its obligation under the Articles of Agreement as stated in paragraph 1.

3. The Fund regrets the nonobservance by Sudan of its obligations and urges Sudan to resume their observance forthwith. The Fund decides, pursuant to Article XXIII, Section 2(b) of the Articles of Agreement, to suspend the right of Sudan to use SDRs it acquires after the suspension until such time as Sudan has become current in its obligation to which that provision applies.

II. Sudan - Overdue Financial Obligations to the Fund -
Further Review of Decision to Limit Use of Fund's
General Resources

1. The Fund has reviewed further Decision No. 7903-(85/20), adopted February 8, 1985, in light of the circumstances described in EBS/85/290, December 27, 1985, pertaining to Sudan's overdue financial obligations to the Fund.

2. The Fund regrets the continuing nonobservance by Sudan of its financial obligations to the Fund and notes that further substantial obligations will fall due in the near future. The Fund urges the Sudanese authorities to make full and prompt settlement of the overdue financial obligations to the Fund.

3. The Fund reiterates the need for Sudan to adopt urgently a strong and comprehensive economic and financial program that would bring about necessary adjustment and viability in the balance of payments.

[4. The Fund decides that Sudan is ineligible to use the general resources of the Fund pursuant to Article XXVI, Section 2(a).]

[4. Unless by February 3, 1986 Sudan is current in its financial obligations to the Fund in the General Department, with effect on that date Sudan will be ineligible to use the general resources of the Fund pursuant to Article XXVI, Section 2(a).]

Att: (5)

INTERNATIONAL MONETARY FUND

Sudan - Overdue Financial Obligations - Further Review of
Decision To Limit Use of Fund's General Resources

Executive Board Decision - October 25, 1985

1. The Fund has reviewed further Decision No. 7903-(85/20), adopted February 8, 1985, in the light of the circumstances described in EBS/85/233, October 21, 1985 pertaining to Sudan's overdue financial obligations to the Fund.

2. The Fund regrets the continuing nonobservance by Sudan of its financial obligations to the Fund and notes that further substantial obligations will fall due in the near future. The Fund urges the Sudanese authorities to make full and prompt settlement of the overdue financial obligations to the Fund.

3. The Fund reiterates the need for Sudan to adopt urgently a strong and comprehensive financial program that would bring about necessary adjustment and viability in the balance of payments. The Fund notes the concerted effort that is currently being made by Sudan, its donors and creditors, and the Fund to develop comprehensive adjustment measures and associated financing arrangements that could facilitate clearance of the arrears to the Fund and serve as a basis for a program to be supported by the Fund.

4. The Fund shall review further Decision No. 7903-(85/20) not later than January 3, 1986, taking into account further developments. Unless at that time of that review Sudan is current in its financial obligations to the Fund, the Fund will consider the appropriateness of further steps, including the possibility of declaring Sudan ineligible to use the general resources of the Fund pursuant to Article XXVI, Section 2(a).

Sudan - Overdue Financial Obligations -
Noting of Complaint under Rule S-1

Executive Board Decision - December 18, 1985

1. The complaint of the Managing Director dated December 11, 1985 regarding Sudan's overdue obligation in the SDR Department, in EBS/85/275 (12/11/85), is noted. It shall be placed on the agenda of the Executive Board for January 3, 1986. If at that time Sudan is not current in its obligation to pay charges in the SDR Department, the Fund will consider suspending the right of Sudan to use SDRs it acquires after the suspension pursuant to Article XXIII, Section 2(b).

2. Consideration of the complaint in accordance with Rule S-1 particularly affects Sudan. The member shall be informed by rapid means of communication of this matter and of its right to present its views through an appropriately authorized representative.

Sudan - Overdue Financial Obligations to the Fund

(December 20, 1985) 1/

Type of Obligation	Date of Purchase		Days Late	SDR Amount
	or Loan	Due Date		
<u>General Department</u>				
CF repurchase	4/13/81	7/12/84	526	3,950,000
CT repurchase	4/13/81	7/12/84	526	2,480,672
Quarterly charges		8/08/84	499	5,434,697
CF repurchase	11/18/80	8/16/84	491	2,725,000
CT repurchase	9/27/79	9/25/84	451	2,143,867
EF repurchase	10/03/79	10/02/84	444	937,500
EF repurchase	4/03/80	10/02/84	444	2,187,500
EF repurchase	4/03/80	10/02/84	444	1,458,333
EF repurchase	10/03/79	10/02/84	444	625,000
CF repurchase	4/13/81	10/11/84	435	3,950,000
CT repurchase	4/13/81	10/11/84	435	2,480,672
CF repurchase	11/13/79	11/08/84	407	4,500,000
Quarterly charges		11/08/84	407	5,471,536
EF repurchase	11/17/80	11/15/84	400	4,750,000
CF repurchase	11/18/80	11/15/84	400	2,725,000
EF repurchase	5/27/80	11/26/84	389	625,000
EF repurchase	5/29/79	11/28/84	387	625,000
EF repurchase	5/29/79	11/28/84	387	937,500
EF repurchase	6/12/81	12/11/84	374	6,537,500
CF repurchase	4/13/81	1/11/85	343	3,950,000
CT repurchase	4/13/81	1/11/85	343	2,480,672
Quarterly charges		2/06/85	317	5,476,587
CF repurchase	11/18/80	2/14/85	309	2,725,000
EF repurchase	4/03/80	4/02/85	262	1,458,333
EF repurchase	10/03/79	4/02/85	262	937,500
EF repurchase	4/03/80	4/02/85	262	2,187,500
EF repurchase	10/03/79	4/02/85	262	625,000
CF repurchase	4/13/81	4/11/85	253	3,950,000
CT repurchase	4/13/81	4/11/85	253	2,480,672
Quarterly charges		5/06/85	228	5,302,904
EF repurchase	11/17/80	5/16/85	218	3,166,667
CF repurchase	11/17/80	5/16/85	218	2,725,000
EF repurchase	11/18/80	5/16/85	218	4,750,000
CT repurchase	2/25/82	5/23/85	211	3,301,347
EF repurchase	5/27/80	5/23/85	211	625,000
EF repurchase	5/27/80	5/23/85	211	416,667
EF repurchase	5/29/79	5/28/85	206	937,500

1/ Trust Fund interest of SDR 0.17 million will become due on December 31, 1985.

Type of Obligation	Date of Purchase		Days Late	SDR Amount
	or Loan	Due Date		
EF repurchase	5/29/79	5/28/85	206	625,000
EF repurchase	6/12/81	6/11/85	192	6,537,500
CT repurchase	4/13/81	7/11/85	162	2,480,672
CF repurchase	4/13/81	7/11/85	162	3,950,000
Semiannual charges		7/12/85	161	8,391,079
Semiannual charges		7/18/85	155	7,295,695
Quarterly charges		8/06/85	136	5,399,776
CF repurchase	11/18/80	8/15/85	127	2,725,000
CT repurchase	2/25/82	8/22/85	113	3,301,347
CT repurchase	2/25/82	8/22/85	113	5,448,653
EF repurchase	4/03/80	10/02/85	79	1,458,333
EF repurchase	10/03/79	10/02/85	79	625,000
EF repurchase	10/03/79	10/02/85	79	937,500
EF repurchase	4/03/80	10/02/85	79	2,187,500
CT repurchase	4/13/81	10/10/85	71	2,480,672
CF repurchase	4/13/81	10/10/85	71	3,950,000
Quarterly charges		11/06/85	44	5,399,776
CF repurchase	11/18/80	11/14/85	36	2,725,000
EF repurchase	11/17/80	11/14/85	36	3,166,667
EF repurchase	11/17/80	11/14/85	36	4,750,000
CT repurchase	2/25/82	11/21/85	29	3,301,347
EF repurchase	5/27/80	11/26/85	24	416,667
EF repurchase	5/27/80	11/26/85	24	625,000
EF repurchase	5/29/79	11/27/85	23	625,000
EF repurchase	5/29/79	11/27/85	23	937,500
EF repurchase	6/12/81	12/11/85	9	6,537,500
EF repurchase	6/12/81	12/11/85	9	3,975,000
Sub-total				<u>192,294,310</u>
<u>SDR Department</u>				
Net SDR charges		11/01/85	49	974,132
<u>Trust Fund</u>				
Repayment	7/27/78	7/26/84	512	2,984,215
Interest		12/31/84	354	169,362
Repayment	7/27/78	1/25/85	329	2,984,215
Repayment	7/31/79	1/30/85	324	1,706,400
Repayment	10/31/79	4/30/85	234	475,200
Interest		6/28/85	175	167,060
Repayment	7/27/78	7/26/85	147	2,984,215
Repayment	7/31/79	7/30/85	143	1,706,400
Repayment	1/31/80	7/30/85	143	612,000
Repayment	4/30/80	10/29/85	52	885,600
Repayment	10/30/79	10/30/85	51	475,200
Sub-total				<u>15,149,867</u>
Total				<u>208,418,309</u>

Sudan - Overdue and Forthcoming Obligations
as of December 20, 1985

(In millions of SDRs)

Type of Obligation	Outstand- ing as of December 20, 1985	Forthcoming 1/							Total 3/
		1985 2/	1986	1987	1988	1989	1990	1991	
Repurchases	144.12	0.00	123.07	129.03	89.05	65.31	45.06	9.66	605.30
Quarterly charges 4/	32.49	0.00	15.15	9.80	5.28	2.90	1.27	0.20	67.09
Semiannual charges 4/	15.69	0.00	23.68	19.14	12.81	7.19	3.37	0.69	82.57
Net SDR charges	0.97	0.00	4.00	4.00	4.00	4.00	4.00	4.00	24.95
Trust Fund									
Repayments	14.81	0.00	14.02	14.02	14.02	8.05	2.19	0.27	67.30
Interest	0.34	0.17	0.22	0.15	0.08	0.03	0.00	0.00	0.99
Total 3/	208.42	0.17	180.14	176.13	125.24	87.48	55.89	14.81	848.28

1/ On the basis of present use of Fund credit, Trust Fund loans outstanding and Sudan's present position in the SDR Department. Charges are projected on the basis of current rates of charge.

2/ Due after December 20, 1985.

3/ Totals may not add due to rounding.

4/ Forthcoming charges estimated on the assumption that overdue obligations are paid promptly; actual charges may be higher.

HIS EXCELLENCY
DR. ALGIZOULI DAFALLA
PRIME MINISTER OF THE DEMOCRATIC REPUBLIC OF SUDAN
KHARTOUM, SUDAN

BASED ON THE UNDERSTANDING REACHED BETWEEN YOUR MINISTER OF FINANCE AND THE FUND STAFF ON A PACKAGE OF ECONOMIC POLICIES THAT WAS TO BE IMPLEMENTED BY YOUR GOVERNMENT, I HAD BRIEFED SUDAN'S MAJOR DONORS AND CREDITORS ON INTERNATIONAL ECONOMIC ASSISTANCE REQUIREMENTS TO FINANCE SUDAN'S BALANCE OF PAYMENTS IN SUPPORT OF THE ECONOMIC PROGRAM THAT HAD BEEN ENVISAGED. I WAS ALSO KEPT INFORMED BY MY STAFF OF THE DEVELOPMENTS ON IMPLEMENTATION OF POLICIES BY THE SUDANESE AUTHORITIES. I WAS HOPEFUL OF A POSITIVE OUTCOME OF THE MEETINGS OF YOUR COUNCIL OF MINISTERS WHICH TOOK PLACE ON DECEMBER 1 AND 2. ACCORDINGLY, I HAD ARRANGED FOR AN INFORMAL MEETING ON DECEMBER 3 OF THE EXECUTIVE DIRECTORS REPRESENTING SUDAN'S MAJOR DONORS AND CREDITORS WITH A VIEW TO URGING THEM AGAIN TO MOBILIZE THE NECESSARY FOREIGN ASSISTANCE, INCLUDING THAT REQUIRED TO HELP REGULARIZE SUDAN'S FINANCIAL RELATIONS WITH THE FUND. I WAS, THEREFORE, DISMAYED TO LEARN JUST BEFORE THE MEETING THAT YOUR COUNCIL OF MINISTERS HAD NOT ADOPTED THE PACKAGE OF POLICIES AND THAT THE STATUS OF UNDERSTANDING REACHED BETWEEN YOUR MINISTER OF FINANCE AND THE STAFF IS NOW UNCERTAIN. I HAD NO ALTERNATIVE BUT TO REPORT TO THE DIRECTORS THE DISAPPOINTING OUTCOME OF THE MEETING OF YOUR COUNCIL OF MINISTERS.

I SINCERELY BELIEVE THAT THE PACKAGE OF POLICIES PROPOSED BY YOUR MINISTER OF FINANCE IS IN THE BEST INTEREST OF SUDAN AND THAT ITS IMPLEMENTATION IS ESSENTIAL TO DEAL WITH THE SERIOUS ECONOMIC AND FINANCIAL PROBLEMS YOUR COUNTRY IS FACING. ANY FURTHER DELAY OR SLIPPAGE IN THE IMPLEMENTATION OF THESE POLICIES WILL ONLY AGGRAVATE THE ALREADY SERIOUS SITUATION AND DISRUPT THE TASK OF MOBILIZING FOREIGN ASSISTANCE TO SUDAN.

THE EXECUTIVE DIRECTORS REPRESENTING SUDAN'S MAJOR DONOR AND CREDITOR COUNTRIES HAVE REQUESTED THAT I CONVEY TO YOU THEIR GRAVE CONCERN OVER THIS TURN OF EVENTS. THEY STRESSED THAT A CONTINUED DETERIORATION OF SUDAN'S FINANCIAL POSITION IN THE FUND, MANIFESTED IN A FURTHER PROLONGATION AND BUILDUP OF ARREARS TO THE FUND, WOULD HAVE SERIOUS AND DIRECT ADVERSE FINANCIAL IMPLICATIONS FOR ALL MEMBER COUNTRIES, INCLUDING CREDITOR COUNTRIES, AND OTHER DEVELOPING NATIONS STRUGGLING TO OVERCOME DIFFICULTIES COMPARABLE TO THOSE FACED BY SUDAN. THEY ALSO SHARE MY VIEW THAT THE PACKAGE OF POLICIES PRESENTED TO THE COUNCIL BY YOUR MINISTER OF FINANCE IS NECESSARY TO MAKE A CREDIBLE BEGINNING IN ADDRESSING SUDAN'S DIFFICULT ECONOMIC PROBLEMS. FOR THESE REASONS IT WOULD BE MOST HELPFUL IF YOUR GOVERNMENT WERE TO RECONSIDER THE DECISION TAKEN BY THE COUNCIL OF MINISTERS. I WOULD BE GLAD TO INSTRUCT MY STAFF TO ASSIST YOU OR YOUR FINANCE

MINISTER IN WHATEVER WAY POSSIBLE, INCLUDING A VISIT TO SUDAN.

I WOULD ADD THAT THE EXECUTIVE BOARD OF THE FUND IS TO MEET ON JANUARY 3, 1986 TO CONSIDER ACTION IN RELATION TO SUDAN'S ARREARS TO THE FUND. LACK OF PROGRESS ON IMPLEMENTATION OF POLICIES AND ON SETTLEMENT OF ARREARS TO THE FUND WOULD IN MY JUDGMENT HAVE MOST SERIOUS IMPLICATIONS ON THE OUTCOME OF THAT MEETING.

I LOOK FORWARD TO YOUR FAVORABLE RESPONSE TO MY TELEX.

BEST REGARDS,

J. DE LAROSIERE
MANAGING DIRECTOR
INTERNATIONAL MONETARY FUND

Sent: December 4, 1985

H.E. MR. DE LAROSIERE
MANAGING DIRECTOR
INTERNATIONAL MONETARY FUND
WASHINGTON, D.C.

AFTER RETURNING TO KHARTOUM FOLLOWING A TOUR IN KORDOFAN PROVINCE I FOUND YOUR TELEX MESSAGE OF DECEMBER 4, 1985. AS DISCUSSED IN MY MEETING WITH YOU AND YOUR COLLEAGUES IN WASHINGTON DURING MY VISIT TO YOUR OFFICES AND SUBSEQUENT COMMUNICATIONS BETWEEN MEMBERS AND STAFF OF MY GOVERNMENT I WOULD LIKE TO CONFIRM ONCE MORE OUR FIRM COMMITMENT TO CONTINUE CO-OPERATION WITH THE FUND. AS FOR THE PROPOSALS TO BE AGREED UPON WITH THE FUND, THE COUNCIL OF MINISTERS HAS GIVEN THEM THE SERIOUS CONSIDERATION THEY DESERVE AND REFERRED THEM TO THE MINISTERIAL COMMITTEE WHICH IS ENTRUSTED WITH THE ECONOMIC AFFAIRS FOR DETAILED CONSIDERATION AND FORMULATION OF ADVICE TO BE PRESENTED TO THE COUNCIL OF MINISTERS FOR DECISION. IN THAT CONTEXT YOUR SUGGESTION OF ARRANGING FOR A TEAM FROM THE FUND MAY PROVE HELPFUL IN REACHING A MUTUALLY ACCEPTABLE FORMULA. WHILE REITERATING MY DESIRE AND WILLINGNESS TO CO-OPERATE WITH YOU AND THE FUND, ACCEPT MR. MANAGING DIRECTOR MY BEST REGARDS.

DR. ALGIZOULI DAFALLA
PRIME MINISTER
KHARTOUM, SUDAN

Dated: December 7, 1985

December 10, 1985

Dear Mr. Prime Minister:

I am grateful for your prompt response to my message dated December 4, 1985. I agree with you that it is in the interest of Sudan as well as that of the Fund to keep open the channels of communication so as to resolve differences on the package of policies that Sudan needs to implement in addressing its difficult economic problems. I would like to reiterate that my staff is available to you and your colleagues for any assistance that you may need in arriving at your decisions. It is, however, my considered opinion that a staff visit would be more useful after you have reviewed the package of policies and taken a view on various policy matters on which understandings had been reached between your Minister of Finance and Fund staff. The Fund's resident representative in Khartoum is at your disposal should you need assistance or clarification. If in your judgment a staff visit would facilitate the process of decision making, I would also be prepared to send staff from Washington.

I would like to add that the Executive Board of the Fund is scheduled to meet on January 3, 1986 to consider action with regard to Sudan's overdue obligations to the Fund, including the possibility of declaring Sudan ineligible to use Fund resources. The outcome of that meeting could have far reaching consequences for Sudan and its relations with the Fund. It is important that meaningful progress is made by Sudan prior to that meeting both in implementing a package of policies and in mobilizing resources to assist in clearing the arrears to the Fund.

You can be assured of our full cooperation.

Sincerely,

J. de Larosiere
Managing Director

His Excellency
Dr. Algizouli Dafalla
Prime Minister of the
Democratic Republic of the Sudan
c/o His Excellency
Saleh Ahmed
Ambassador Extraordinary
and Plenipotentiary of the
Democratic Republic of the Sudan
Washington, D.C.

Dated: December 10, 1985

ATTN: MR. J. DE LAROSIERE
MANAGING DIRECTOR
INTERNATIONAL MONETARY FUND

THANKS FOR YOUR MESSAGE OF 9.12.85. I FULLY AGREE WITH YOU THAT IT IS IN THE INTEREST OF BOTH THE FUND AND SUDAN TO KEEP CHANNELS OF COMMUNICATIONS OPEN IN ORDER TO RESOLVE DIFFERENCES. WE HAVE ALREADY MET WITH THE FUND'S RESIDENT REPRESENTATIVE IN KHARTOUM WHO CONFIRMED THAT OPTIONS EXIST FOR SUGGESTING ALTERNATIVE MEANS OF ACHIEVING THE STATED OBJECTIVES. CONSIDERING THAT NO DIFFERENCES EXIST REGARDING BASIC ISSUES AND OBJECTIVES, WE ARE CONVINCED THAT OTHER DIFFERENCES WOULD BE RESOLVED. SHOULD YOUR RESIDENT REPRESENTATIVE BE AUTHORISED TO DISCUSS AND AGREE ON ANY NECESSARY CHANGES THERE WILL BE NO NEED FOR SOMEONE TO COME OVER FROM WASHINGTON. IF, HOWEVER, YOU THINK OTHERWISE WE WOULD WELCOME THE ARRIVAL OF ONE OF YOUR STAFF WITHIN THE COMING THREE TO FOUR DAYS.

WITH BEST REGARDS,

SAMUEL ARU
ACTING PRIME MINISTER
KHARTOUM, SUDAN

Received in Cable Room: December 16, 1985

HIS EXCELLENCY
SAMUEL ARU
THE ACTING PRIME MINISTER OF
THE DEMOCRATIC REPUBLIC OF SUDAN
KHARTOUM, SUDAN

THANK YOU FOR YOUR TELEX OF DECEMBER 16, 1985 ADDRESSED TO THE MANAGING DIRECTOR WHO IS CURRENTLY AWAY FROM WASHINGTON. WE UNDERSTAND THAT THE COUNCIL OF MINISTERS WILL BE DISCUSSING THE STATEMENT ON ECONOMIC POLICIES IN ITS MEETING OF TUESDAY, DECEMBER 17, 1985. THE FUND'S RESIDENT REPRESENTATIVE IS AUTHORIZED TO DISCUSS YOUR VIEWS ON THIS STATEMENT AND WILL BE REPORTING TO US THE OUTCOME OF THE COUNCIL'S DELIBERATIONS. IF IN YOUR VIEW, REVISIONS NEED TO BE CONSIDERED TO THE PREVIOUSLY AGREED STATEMENT, IT MAY BECOME NECESSARY FOR A STAFF MISSION TO VISIT KHARTOUM. IT IS IMPORTANT THAT THE SUBSTANCE OF THE ECONOMIC POLICY PACKAGE, AS AGREED WITH THE RECENT FUND MISSION, BE IMPLEMENTED FULLY WITHOUT ADDITIONAL DELAY IN ORDER TO AVOID AGGRAVATING THE ALREADY SERIOUS SITUATION OF SUDAN AND DISRUPTING FURTHER THE TASK OF MOBILIZING THE REQUIRED FOREIGN ASSISTANCE FOR THE PROGRAM. MOREOVER, FURTHER DELAYS COULD WELL RENDER THE PROPOSED MEASURES INADEQUATE TO DEAL WITH THE PROBLEMS. RAPID AND MEANINGFUL PROGRESS IN POLICY IMPLEMENTATION AND MOBILIZATION OF RESOURCES TO ASSIST IN CLEARING SUDAN'S OVERDUE FINANCIAL OBLIGATIONS TO THE FUND COULD HAVE A SUBSTANTIAL BEARING ON THE JANUARY 3, 1986 EXECUTIVE BOARD MEETING ON SUDAN'S ARREARS TO THE FUND.

BEST REGARDS,

RICHARD D. ERB
ACTING MANAGING DIRECTOR
INTERNATIONAL MONETARY FUND

Sent: December 16, 1985