Sudan's External Debt Burden and the Prospect for Debt Relief in a Socio-Economic and Political Perspective

Mutasim Yousif Elbadri, Ph.D
Senior Economist
Division Chief, External Debt Unit
Central Bank of Sudan
Toronto Centre Associate, (TCA) Canada
Central Bankers Associate, (CBA) Switzerland

Executive Summary

External debt is defined as the borrowing by state (s) from the international and regional financial institutions as well as countries and commercial banks to bridge the gap between their domestic savings, expenditure and foreign exchange needed to carry out development investment to break the vicious circle of poverty.

Like many poor and developing countries that characterized by huge saving-investment and foreign exchange gap, Sudan has resorted to external financial borrowing to achieve its justified development goals since it was deeply trapped in a vicious circle of poverty.

Sudan's external debt burden accumulation could be attributed mainly to using these debt to support balance of payments, compound growth of arrears coupled with an increased government expenditure in the face of limited domestic savings and foreign exchange resources.,

As a result Sudan's external debt has ballooned totaling US $ 37.805 billion as of December 31st 2010, out of this amount, total arrears is US $ 32.6 billion which is 86.4% of total debt as of December 31st 2010. With such debt structure Sudan's' debt has been termed as a highly unsustainable which indicate the increasing risk of future borrowing.

There are various channels through which debt can create rigidities in the economy, major among them is what is caused by the exchange rate fluctuation as well as inflation on value of debt which affects the debt payments. Furthermore, rigidities can also take place through a rise in the current interest rate which will raise the cost of any increase in a country's debt. However, whether this would also increase the burden of existing debt depend on the whether the debt is at a fixed or floating rate and if the debt is at fixed rate, the maturity of the debt.

However, the likely policy response in this case could be in the form of a combination of increasing export and reducing import or increasing borrowing, just like the deterioration in terms of trade. Fiscally the policy response could be in the form of expenditure reducing and expenditure switching policies coupled with prudent debt management, fiscal rule which both should be supported by political consensus.

Judging by the technical requirements the prospect of the debt relief seems very promising. But unfortunately there are wide range of moving political targets keeps cropping up as another set of conditionality that Sudan has meet which made Sudan as good as chasing its own tail in a sunny day.

Therefore, Sudan must be prepared by keeping at the back of its mind that this might not work out since it is linked mainly to U.S. position from Sudan and the signals it keep sending to the international community and Sudan's creditors. Apart from this preparedness Sudan has to embark upon a committed and a comprehensive socio-economic and political reforms in order to bring about over all stability, prosperity but at the same time not to compromise the sovereignty nor to risk the security of the country whatsoever.

Sudan's External Debt burden and the prospect for Debt Relief in a Socio-Economic and Political Perspective

1.Introduction:-

External debt is defined as the borrowing by state (s) from the international and regional financial institutions as well as countries to bridge the gap between their domestic savings, expenditure and foreign exchange needed to carry out development investment to break the vicious circle of poverty.

Economists were divided when money first came into existence as a medium of exchange and a measure of value at the heel of the collapse of the barter system. Their debate was centered around the fact that "how can money be used as a measure of value when its own value is not fixed".[1]

A similar debate took place over the viability of the external debt and financial assistance in breaking the vicious circle of poverty to bridge the gulf between the rich developed and developing countries, among economist, experts, and socio-political thinkers[2]. One camp went on to say that such resources are indispensable for breaking such vicious circle of poverty since there is an acute domestic savings and foreign exchange shortage. However, they have attributed the failure of external debt to deliver to the mismanagement of these resources as well as the failure of the projects themselves.

While the other camp argued that such resources it does more harm than good and even stated that it rather hamper development by discouraging domestic savings when they relate it to GDP, i.e. "the more such resource when related to GDP, the more decrease in domestic saving related to GDP"[3].

The socio-political thinkers were on board with those who were against these external resources when they argued that such resources will be at the cost of political sovereignty of the states and therefore, getting so dependent on them will for sure influence their political decision and could be used to twist their arm. However, they have also argued that such resources could very well be used to destabilize the socio- stability fiber of the country by suspending them after making the country getting so dependent on them, therefore, their suspension will risk and tarnish the socio- stability fiber once people start protesting, rebelling and confronting which will ultimately lead to systemic chaos and political turmoil.

---

[1] Mishkin 2000 Money and Banking
[2] M.Badri 2005 Almasrafi
[3] M.Khair 1994, National Bookshop

However, the fact remains that the concerns over the flow of these resources is understood, since they were getting linked with the position of the receiving countries from the international conflict as well as their conditionalities which started tilting from their technical aspect in terms of the viability of the project to a wide range of conditionalities that affect the socio-economic and political structure of the countries.

This led to the emergence of some voices that demanding to dump these resources along with their conditionalities and rely upon the readily available resources at home. However, the reality belies this taking into consideration the savings-investment and foreign exchange gap.

Based on this Sudan turned to external financial borrowing to achieve its justified development goals since it was deeply trapped in a vicious circle of poverty with acute shortage of domestic resource for this purpose. However, endeavor to break this vicious circle of poverty led Sudan to an entrapment of massive vicious circle of external debt burden over a period of times. However, against many odds Sudan continued its development efforts with reasonable good success which was an outcome of a painful reforms which started in 1997 that ultimately led to a well recognized overall economic stability incarnated in the reduction of inflation from three digits to one digit (currently two digits) , stability of exchange rate, high growth rate and an increase in NIR etc.

This external debt burden kept on getting ballooned over years reaching U.S $ 37.805 Billion by December 2010 engined by the compound growth of arrears that a mounted US $ 32.6 billion i.e. 86.4% of the total debt, which negatively impacted the sustainability level. However, most of this debt burden was contracted in the seventies and eighties when penalty and interest rate were very high.

2. The Need for External Borrowings

Normally when countries aspire for certain level of growth, they definitely need specific amount of funds to finance the investment process and bridge the gap between the domestic saving and investment therefore, resorting to external borrowing becomes inevitable particularly when these fund cannot be made domestically available.

Sometimes even if domestic income is high enough which, implies that domestic saving may be at sufficient level, yet developing countries due to their peculiar structural problems may not be in a position to maintain the desired growth rate level. This is so because they may not have enough foreign exchange (as a result of good export sector performance and attraction of FDI) to buy capital goods for investment which force them to look elsewhere i.e. to borrow to bridge this gap.

As it is known that macro economics is organized around the accounting concept of production, income and expenditure. These concepts and their accounting relationship is called budget constrained which provide useful insight.

Based on this understanding let us briefly explain the saving-investment gap (that tends to force countries to borrow) using current a count (CA), income (GNP) and spending (E).

$$\text{Current account} = \text{Total receipt- total payments} \qquad (1)$$

Total receipts are equal to income received by residents, which is GNP plus net transfers NTR. Where total payments are expenditure on goods and services denoted by (E) Plus transfers, thus;

$$CA = GNP + NTR - E \qquad (2)$$

We may also look at the current accounts in terms of saving, investment and government budget. For this purpose we recognize that total income plus net transfers received by residents is either saved (S), paid in tax (T) or consumed (C) that is;

$$GNP + NTR = C + T + S \qquad (3)$$

Also total expenditure is the total government spending (G), household consumption spending (C) and investment spending by firm (I), that is ;

$$E = G + C + I \qquad (4)$$

Now substituting these on the right hand side of the equation yields;

$$CA = (S - I) + (T - G) \qquad (5)$$

These identities state that current account deficit means that spending exceeds income. Therefore, the deficit must be financed by running down external asset or by adding to external debt. However, there are three ways of financing deficit;

1. Running down foreign exchange reserves
2. Borrowing from domestic bank, foreign governments or international financial institutions
3. Capital inflows in the form of direct or portfolio investment.

In a nutshell, countries that are trapped in saving investment gap tends to resort to external borrowing to bridge this gap. We have to be very careful in assuming a causality relationship (automatic one-to-one link) between government financial deficit and external deficit. However, the increased financial deficit may be reflected in an increase in the current account balance, and the example of that is the twin deficit (if private sector saving-investment gap is zero, then the current account deficit and overall government deficit will be equal) that prevailed in U.S in the eighties.

3. **Sudan External Debt Position and Sustainability**

The total external debt of Sudan as of 31st December 2010 amounted to US$ 37,805 million, showing an increase of about US$ 2,118 million compared to 31st Dec. 2009 position as depicted in table (1) below. The 6% increase is attributed mainly to the accumulation of contractual and penalty interest arrears as well as drawings during 2010. The Net flows during the year 2010 amounted to US $ 249 million compared to US $ 808 million in 2009, representing a decrease of about 69 %. The decrease in net flows is mainly due to, the large decrease in disbursements and slight decrease in principal repayments.

Table No. 1

External Debt Position of Sudan As of 31st December 2010

(US$ Million)

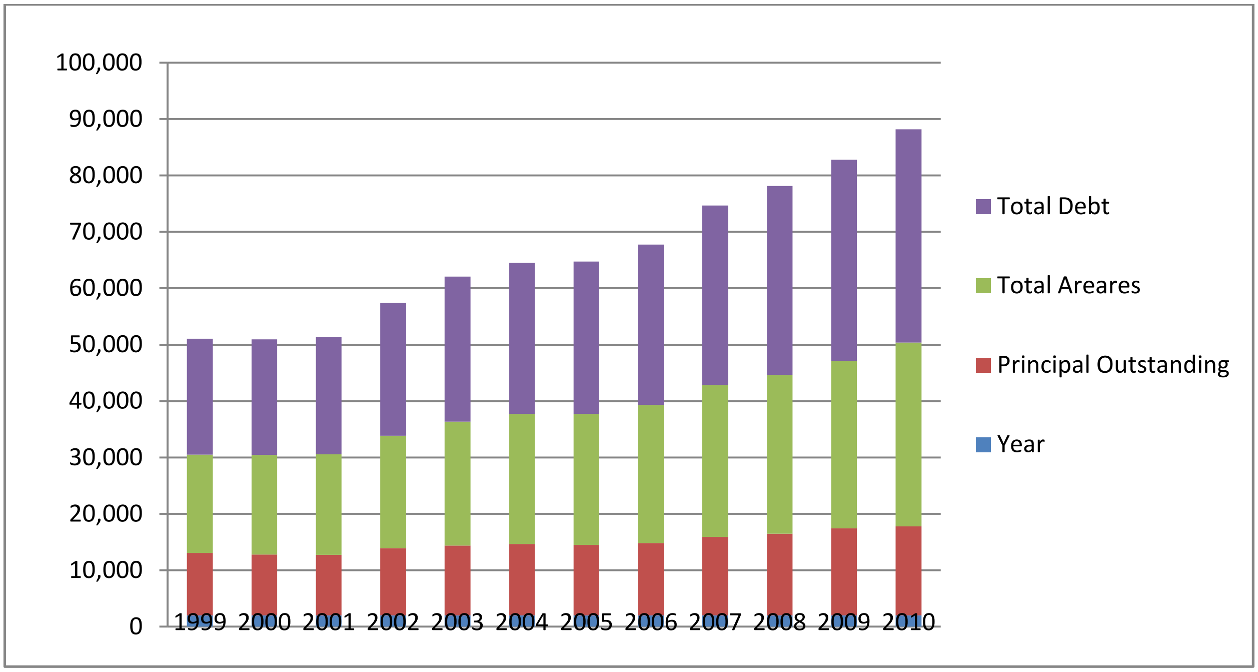
Creditors	**Total Debt 31ST Dec. 09**	**2010 Share in%**	Disbursed & Outstanding Debt	Interest Arrears	Penalty Interest	Total Debt
Multilateral Creditors	5,297	14%	3,779	425	1,109	5,313
Bilateral		69%				
Non-Paris Club	13,297	33%	5,519	1,537	6,636	13,692
Paris Club	11,233	36%	2,692	1,711	7,858	12,261
Commercial Banks	4,503	12%	2,240	189	2,552	4,981
Foreign Suppliers	1,357	5%	1,558	-	-	1,558
Grant Total	**35,687**	**100%**	**15,788**	**3,862**	**18,155**	**37,805**

Source: EDU –CBOS

Table no.1 reveals regrettably, that the picture is not invariable rosy, with about thirty eight billion US dollar in foreign debt, mostly in the past due arrears which is almost 86% of its total. Non Paris Club have the larger share(36%) followed by Paris club (33%), Multilaterals (14%), Commercial Banks (12%) and finally foreign suppliers (5%). This debt structure made Sudan to be termed as severely debt- distressed.

Figure No.1

Sudan Principal, Total Arrears and Total Debt Structure During 2003-2009



Generated from table 1and EDU Annual report various years.

This figure no. 1 shows that principal outstanding amount growth rate is smaller compared to arrears compound growth rate. However, it is worth mentioning that principal amount seems almost unchanged which is not the case. The explanation of this is the increase in the growth rate of arrears resulting from the nonpayment compared with new disbursement and payments.

It becomes increasingly clear from the table and figure 1 that Sudan Debt structure is complicated by the compound growth of arrears which made Sudan debt highly unsustainable and distressed. Consequently, due to debt arrears, Sudan has been deprived from any concessional finance from the international organizations. This finance is considered to be vital to prop up its development and poverty reduction efforts.

Table No. 2

External Debt Sustainability Ratios as of 31st December 2010

Year	^{PV}TD/ Govt. Reve.	^{PV}TD/XGS	^{PV}TD/GDP
2010	438	292	55
LDCs thresholds	**%200**	**150%**	**30%**

Source:- IMF Debt Sustainability Analysis 2009.

Table (2) shows the sustainability analysis conducted in 2010 which reveals that the Sudan is placed in debt distress position. The three indicators are exceeding their policy dependent thresholds. In particular the PV of debt to GDP ratio which reached 55 percent in 2010 (indicative threshold 30 percent). The PV of debt-to-exports reached 292 percent in 2010 (indicative threshold 150 percent) . The PV of debt-to-revenue is estimated to be 438 percent in 2010 (indicative threshold 200 percent).

4. Impact of Debt Burden and the Likely Policy Response

There are various channels through which debt can create rigidities in the economy, major among them is what is caused by the exchange rate fluctuations as well as inflation on value of debt which affects the debt payments. Furthermore, external debt burden aggravate poverty situation through lower growth a thing that ultimately widen the gap between rich and poor and contribute to the wide spread of poverty . This can be explained by taking into consideration the fact that massive debt burden will deprive the country (Sudan is a case) from the concessional loans needed for breaking the vicious circle of poverty. Therefore, this will force such country to resort to non-concessional loans to finance its development investment to achieve its development goals which ultimately leads to higher growth explained by a rapid increase in Per Capita Income (PCI) which stand to explain and measure economic growth. This increase in income will lead to an increase in savings level and hence increasing the chances of having more funds for investment, and if that fires then the dependence on external funding sources for development may start decreasing by the growth rate of such savings which if sustained will lead to the a abandonment of external source of finance in the long run provided export does well coupled with huge FDI.

However, for this to work out such process must be supported by sustained increase in foreign exchange stock from external sector. This imply that development investment undertaken must strategically lead to shift in the structure of the entire economy and necessarily its macroeconomic policies as well as their transmission mechanism.

Furthermore, rigidities can also take place through a rise in the current interest rate which will raise the cost of any increase in country's debt. However, whether this would also increase the burden of existing debt depend on the whether the debt is at a fixed or floating rate and if the debt a fixed rate, the span of maturity of the debt.

The maturity of debt refers to the length of time to repay, If a country contracted loans of short maturity, then even if does not increase the total value of debt, it will have to roll over a substantial part of its debt every year, by taking new loans to pay the principal on old loans. If some countries contract loans at a fixed interest rate, the shorter the maturity, the more rapidly an increase in world interest rate will be reflected in a higher average interest rate paid on existing debt.

Countries who contract extensively (such as low income countries) from official lenders such as IMF/WB is usually done that at fixed interest rate with long maturity. Therefore, the average interest rate on their debt is lower to a great extent than the changes in the current market rate and thus insulating them to a large extent from direct interest rate volatility.

This shows clearly that an increase in the world interest rate constitute an adverse external shock, that lead to an increase in interest payment.

However, the likely policy response in this case could be in the form of a combination of increasing export and reducing import or increasing borrowing, just like the deterioration in terms of trade. Fiscally the policy response could be in the form of expenditure reducing and expenditure switching policies.

An expenditure-reducing policy reduces the overall level of spending by domestic residents. Some of this reduction in spending will stem from reduced spending on imports, which will in a direct way help a country adjust to an adverse external shock. Expenditure-reducing policies are also important as a way of curbing what would otherwise be unacceptable and perhaps self-defeating inflationary effects of expenditure-switching policies.

Government can seek to reduce the overall level of spending by residents in three ways, first; cutting government own spending, second; cut in private consumption by raising taxes or cutting subsidies, third; cutting private borrowing by limiting the credit creation by banking system (which will crowd out private sector and stifle their investment).

All these policies have very unpleasant socio-economic and political implications i.e in addition to reducing expenditure on import ; they reduce demand for domestic goods and thus lead to unemployment and excess capacity beside affecting the standard of living of the population and triggering of political reaction. This consequence can be mitigated by combining the expenditure reducing policies with switching policies.

However, The term expenditure switching refers to the spending of both indigenous and foreign residents. Attempts to cut imports without an overall cut in domestic spending require that indigenous residents shift their demand from foreign to domestic products. Attempts to increase export require that foreign residents do the same.

The main policy instruments with which government attempt to switch expenditure are devaluation, on one hand, and commercial policy- tariff, quota, export subsidies- on the other hand whichever, tool is used, however, certain common problems arise. The main problem of the expenditure switching policies is that they tend to be inflationary. This aspect is very apparent when such policies are pursued by an economy that is operating at or near full capacity.

Even when the economy is not near capacity, expenditure-switching policies typically have at least an initial inflationary effect on the prices of imported goods. If this increase in import prices leads to a demand for wage increase, and these wage increases are then reflected in domestic prices, the result will be an upward ratcheting of inflation rate. Now if at this stage either devaluation or commercial policy is used in an attempt to improve the trade balance and that the result in an acceleration of inflation. The inflation will lead to a growing real appreciation of domestic currency, which will undo the very expenditure switching effect that was the aim of the policy. Repeating this process by a country will ultimately lead to an ever accelerated inflation. Therefore, the best policy will be that consist of a combination of both policies.

5. Sudan's Need for Debt Relief

Above discussion reveal that debt is a great burden and can create a complicated socio-economic and political rigidities. Therefore, like any other countries Sudan is badly in need for debt relief since its eligible and qualified for HIPC, which will ultimately reduce its debt burden and facilitate the access to concessional resources which could be used to break the vicious circle of poverty. This imply that Sudan would normalize its relationship with all the International and regional financial institutions, agencies and governments. However, the prospect of Sudan for debt relief is very gloomy as we shall discuss later.

6. Debt Relief At Glance

A buildup of foreign debt owed by many low-income countries throughout the 1970s and 1980s left many nations with unsustainable debt burdens. Although the Paris Club and other bilateral creditors rescheduled and reduced many debts, a new initiative was called for to address the concern that debts were stifling poverty reduction efforts.

In 1996, the International Development Association (IDA), the Bank's fund for the poorest, and the IMF launched the HIPC Initiative. The Initiative calls for the voluntary provision of debt relief by all creditors, and aims to provide a fresh start to countries with a foreign debt that places too great of a burden on export earnings or fiscal revenues. This initiative was the first coordinated effort by the international financial community to reduce the foreign debt of the world's poorest countries.

HIPC initiative is based on the theory that economic growth in heavily indebted poor countries was being stifled by heavy debt burdens, making it virtually impossible for these countries to escape poverty.

In 2006, following the 2005 Gleneagles Summit of the G8 group of nations, the Bank joined the IMF and the African Development Bank in implementing the MDRI, forgiving 100 percent of eligible outstanding debt owed to these three institutions by all HIPC Initiative countries that had reached the completion point.

Under the HIPC Initiative, the first stage of qualification for debt relief is the *decision point*, at which the country must have a current track record of satisfactory performance under IMF and IDA-supported programs, a Poverty Reduction Strategy (PRS) in place, and debt burden indicators that are above the HIPC Initiative thresholds using the most recent data for the year immediately prior to the decision point. At the decision point many creditors, such as the World Bank, the IMF, multilateral development banks, and Paris Club bilateral creditors, begin to provide debt relief, although many of these institutions maintain the right to revoke this if policy performance falters. The provision of debt relief depends on policies being in place to ensure that the money saved is redirected toward poverty alleviation efforts. The fraction of debt that creditors' are asked to forgive *(the common reduction factor)* is calculated to bring the country's debt to 150 percent of exports (or in certain cases 250 percent of fiscal revenues), so that the country can start implementing PRSP.

Debt relief from participating creditors becomes irrevocable at the *completion point.* At the decision point, the country agrees on a list of completion point *triggers*, measurable objectives upon achievement of which the country will "graduate" from the HIPC Initiative. These include a continued track record of satisfactory performance in an IMF program and the implementation for at least one year of the PRS. Some triggers may relate to progress in social areas such as health and education, while others may relate to improving governance or fighting corruption to ensure that debt relief assistance will be well-used

7. How Debt Relief Works

Under the HIPC Initiative a country is judged to have an unsustainable external debt burden, and hence be eligible for debt relief, on the basis of its ratio of PV of debt to exports of goods and services (XGS) or its ratio of PV of debt to budget revenue (DBR). In the case of HIPC I the ratio thresholds were 200% for PV of debt to exports and 280% for PV of debt to budget revenue. Under HIPC II, these thresholds have been reduced to 150% for PV of debt to exports and 250% for PV of debt to budget revenue.

The debt relief a country receives under the HIPC Initiative is to be sufficient to reduce its PV of debt to exports of goods and services ratio (or its PV of debt to budget revenue ratio) to the threshold level. In the case of HIPC I, sustainability was assessed at the Completion Point. However, for HIPC II, it is the Decision Point ratios that are relevant for determining debt relief. So, for example, under HIPC II the debt relief a country receives is to be sufficient to reduce a country's PV of debt to exports ratio at the Decision Point to 150%.

8. Debt Relief Calculation

The following formula for calculating debt relief at the decision point are based on the methodology established by the IMF and the World Bank.

$$D_{PV} = \frac{(RA - RE)}{R_A} \quad \text{..} (1)$$

$_{PV}$ = PV reduction (in percentage terms) required to achieve the sustainability threshold of 150% in the case of $\frac{PV}{XGS}$ or 250% for $\frac{PV}{DBR}$.

R_A = Actual $\frac{PV}{XGS}$ or $\frac{PV}{DBR}$ ratio at the Decision Point, after the implementation of traditional relief mechanisms (Testing HIPC).

R_E = Sustainability ratio on which a country is eligible for debt relief (eg 150% for $\frac{PV}{XGS}$ or 250% for $\frac{PV}{DBR}$).

The above calculation yields the percentage reduction required to achieve sustainability. In addition, this can be translated into actual amounts of money, in US dollars millions, by the following formulas:

$$D_T = D_{PV} * PV_T \quad \text{......... ....} (2)$$

D_T = Actual amount of debt relief (US$ millions) required to achieve sustainability.

PV_T = PV of public and publicly guaranteed external debt (multilateral, bilateral and commercial) at the Decision Point (US$ millions).

9. Sudan Prospect for Debt Relief under HIPC

Based on the above discussion Sudan' s prospect for debt relief can be evaluated and explained in the following table no. 3

Table No. 3
Sudan Technical Position

Technical requirement	Sudan's Position	Result	Impact	Comment
Good track record	Sudan maintained 14 years of good track record with the IMF Under the SMP	Positive structural reforms and good economic performance.	Commending and acknowledging by the IMF Board. Economic stability	Non-financially supported. No member country has such record ever
Reconciliation of Debt Data	Sudan maintained a round 85% of it	Assurance of being serious about debt issue and accounting calculations	Winning the confidence of the Creditors and WTG	IMF did its own reconciliation reaching 80%
I-PRSP • Participatory • Consultative • Ownership	Sudan completed the draft after editing it twice and now it is under consultation, submission to council of Ministers, and final endorsement	Proving that poverty strategy framework in place for implementation	When debt relief is provided resources released will be used to fight poverty sector wise	Sudan's has made it clear that it has pledged to fight poverty irrespective of getting qualified for HIPC or otherwise
Others • Contacting Creditors to discuss arrears clearance	Guessing how to go about it	Nod will not be given to IMF until a breakthrough is maintained	IMF will not initiate relief process nor set a date	This is not a pure technical requirement since it is politically linked.

In a nutshell it becomes increasingly clear from table no.3 that judging by the technical requirements needed to qualify for debt relief under HIPC, Sudan has almost done its bit on the technical requirements that allow Sudan to qualify for decision point which fetch Sudan a debt relief. However, Sudan is yet to fully be done with I-PRSP requirement as well as the remaining reconciliation which when finalized will see Sudan complying totally with all the technical requirements.

Pertaining to initiating a dialogue with creditors, Sudan has already gone far with this specially with non-Paris club and other bilateral creditors. Concerning Paris club approaching them will not be possible without U.S.A. intervention and blessings which will be incarnated in Passing a law by the congress to lift sanction and to delist Sudan from Countries sponsoring terrorism. Therefore, this is stand to prove that the qualification is purely political and not technical requirement.

Furthermore, Sudan debt relief process and progress towards decision point is linked and subjected to some political conditions and the extent of the cooperation in this regard. Following table no.4 Summarizes those conditions and provide an insight into the cooperation of Sudan in this regard.

Table No. 4
Sudan's Political Position

Political Target	Sudan's Position	Result	Impact	Comment
CPA	Sudan has complied with all its arrangements	Ending the war and stopping the killings and destruction	Southern Sudan exercised their referendum and voted for secession	Sudan Government acknowledged and accepted their decision
Abuja Peace Agreement (Darfur)	Sudan has complied with all its arrangements	Some rebel factions ended the their armed struggle but	Peace prevailed in majorly in Darfur and signing rebel faction joined the Government. Development projects in progress	Eventually some rebel faction terminated the peace agreement On their part, and others are working with the Government to implement the remaining arrangements
East Peace Agreement.	Sudan has complied with all its arrangements	Rebels put down their guns and decided to end the armed struggle.	Prevalence of peace rebel joined the government. Development projects in progress	Rebels and Government pledged to honor the agreement which led to its sustainability
Others • Doha Rounds	Sudan and rebels have signed peace accord	Sending positive signals to rebels, international community and Darfur people.	Highly acknowledged internationally, regionally and more importantly in Darfur.	Some rebels have not signed for their own reasons. Peace partners must pressurize them to do so.
New Developments • Abie	Sudan accepted withdrawal of its armed forces from its part of the country and allowed for Ethiopian troops under AU agreement.	Sustaining peace and security	Proving for international community that Sudan care for peace and always opting for peaceful solutions	SPLM ambushed Sudan and U.N armed forces and took the lives of many of them a thing that forced Sudan armed forces to retaliate which was ironically condemned by the UN.
• Kurdfan	Confrontation is on	Spread of insecurity	Destruction of the social fiber and stability	Rebels insisting to fight for unjustified and invalid cause.
• Blue Nile	Liberated	Spread of Security	Great Relief and life is back to normal	New reality

Table no.4 reveals that judging by the political requirements (which is not an integral part of HIPC requirements) Sudan once again has done its bit in complying with this requirement. Therefore, we may stress that Sudan prospect for debt relief is very rosy and within reach if measured in terms of these technical and political requirements.

10. The Way Forward

It is very evident from the above discussion that Sudan's debt is a serious problem that needs to be addressed jointly by Sudanese authority and the international community mainly U.S.A. Sudan debt is so complicated since it is linked to many technical and political conditions and targets. Therefore, based on our above discussion we may envisage the way forward as follows:-

1. Technically

- Sudan has to work hard to set a time bound road map on its part to speed up and complete fully all the technical requirements namely debt data reconciliation and I-PRSP.
- Sudan should find a way to initiate a dialogue with Paris club on arrears clearance and the cutoff date (*which is set for 1984 a things that has to be pushed forward if needed which depends on how mush are the arrears dues pre and post this date, just like what Ghana did*). This dialogue could be facilitated by TWG or close ally. However, U.S.A. nod is crucial for this to be work out and be productive.
- This could be followed by demanding the TWG to urge the IMF to set specified date for starting debt relief process (*based on Sudan performance on its own time bound road ma*p)
- Sudan should have a well trained cadre for debt relief process which is very crucial in providing Sudan Government with expertise advises. This is was felt particularly during the last WTG meeting in which they stated that they need the nod of the creditors to initiated debt relief process which is not quite the case as per the HIPC technical requirements mandate.
- Sudan has to design pre and post debt relief debt management strategy based on responsible lending practice supported by political consensus which signifies that Sudan borrowing is very responsible and much aware of the consequence of debt build up which will ultimately affect the campaign against poverty reduction.
- Exposure to similar experiences in order to compare the conditions which saw them through the HIPC.

2. Politically

- Peace and stability should be maintained as an indispensable pillar. This requires domestic political consensus, deeper engagement and participation.

- Sudan must make use of the current favourable political condition in which international community has acknowledged the peaceful referendum and secession and keep on pressing for fulfilling the pledges they made in this regard as well as those made during earlier peace agreements Such as CPA, Abuja etc.(*to include it in the documentary campaign*).
- Sudan need to document (using *different means of media, publications and bulletins*) to highlight its political cooperation in terms of all the achievement particularly the ones related to the referendum of Southern Sudan which led to a peaceful secession. Furthermore, the moving political target has to be dealt with closely with U.S.A otherwise there will be no shore for this ship.
- There is an urgent need to document as well as explaining how badly debt accumulation is impacting Sudan socially, economically and politically, beside making it clear how U.S. Sanctions have aggravated and added up to the debt problem (*beside their hidden socio-economic and political security threat dimension*).
- Sudan needs to design a modern and appealing mass media strategy to counter the campaign that tarnishing its image internationally. This will fetch the support of large section of the international community mainly business firm and industries which will start putting pressure on their respective Governments to allow them to invest in Sudan.

- This requires a an appealing socio-economic and political documentary campaign that reflect how safe and economically viable and politically stable Sudan is in order to prove that the international media is blowing things out of proportion and the country is an investment potential hub.

3.**Economically**

- As a long run plan the saving-investment and foreign exchange gap has to be narrowed by addressing strategically through productive investment this gap as well as the export sector performance which will enhance the flow of foreign exchange. This will enable the government to break the vicious circle of poverty without resorting to external debt or at lowest possible to ensure sustainability level. Furthermore, there is an urgent need to design an efficient strategy to attract foreign investment via conducive investment reforms which should centered around laws, regulations, land reforms, incentives, sectors and infrastructure. Additionally a parallel strategy has to be designed to better make use of both domestic and foreign investment in maintaining balanced regional growth with extra incentives which will result ultimately in an overall socio-economic and political development and stability.

- This cannot be done in isolation of a comprehensive economic strategy that will aim to restructure the economy by focusing on agriculture (*to feed the population i.e domestic production as well as export production which requires setting up huge agro processing industries to avoid difficulties related to raw materials export*) and, industry, minerals etc. This requires removal of all the structural distortion and problems in this regard if ever this has to work out.
- The hard won economic stability has to be preserved which requires dedicated efforts to strike a delicate balance between growth and stability with an eye on overall level of development.
- As far as the short run the government must restrain inflation, control the prices of the essential goods and other necessities to protect the poor from being hit hard by it (*which implies increasing the spread of poverty*), cutting down with great committed degree of honesty all unproductive expenditures, applying stringently the fiscal rule to mitigate the impact of secession, focusing more on increasing youth employment (*here government may focus more on technical and poly-tech education as along run strategy*), introducing new financial schemes that allows the poor to have an access to financial system (*this requires financial reforms as a part of the comprehensive economic reforms*).

4.Ethical Reforms

The government must develop an ethical code of conduct supported by firm legal measures as a teeth for it based on transparency, good governance, equality, honesty, accountability and justice to be followed at every level of the government. Furthermore, corruption must be forbidden and instantly dealt with in a decisive manner to foster an atmosphere of confidence and accountability. This will create a consensus domestically and externally that the government is adhering to sound code of conduct.

11.Conclusion

The bigger the savings-investment and foreign exchange gap, the more the debt contraction to bridge this gap and embark upon development investment. This is typical case for Sudan which ultimately led it to debt entrapment in which debt arrears kept on growing compoundly surpassing the principle amount by three folds. This requires developing stringent debt management strategy based on responsible lending coupled with fiscal rule and anchored a round strong political consensus.

Judging by the technical requirements Sudan's prospect for debt relief seems very promising provided that, Sudan fully complete the remaining part of it particularly the poverty strategy paper (I-PRSP) and the reconciliation position. There is an urgent need to speed the domestic consultation process of the paper and then approve it by the council of ministers and the parliament as a national document. This paper should not be taken lightly and used as a bridge across to qualify for decision point under HIPC, because its implementation (which is a daunting task) will be monitored and any incomplete or half hearted implementation will see it back firing on Sudan progress towards debt relief.

Sudan debt issue is purely political issue which requires a breakthrough in U.S position in this regard. This makes it imperative for Sudan to actively and deeply engage in a serious road map oriented dialogue with U.S. For this to work out both U.S and Sudan government must break the existing wall of mistrust and build strong ground of mutually committed confidence and trust to better serve the interest of both countries. However, not to forget that Sudan has fulfilled all the moving targets of the political conditions despite all the false promises of reward, which could be used as starting ground.

Sudan must be prepared in case efforts (**which is likely**) for debt relief as per HIPC did not capitalize, keeping in mind that there might be further pressure on Sudan and creditors as well to deprive Sudan from contracting even non-concessional loans. This makes it imperative for Sudan to formulate a comprehensive economic reforms that will result in relying upon domestic resources as well as generating huge foreign currencies from a highly diversified export sector to meet up the ever growing development expenditure.

Sudan government needs to sincerely come up with a comprehensive political reforms and a code of conduct as an indispensable pillar for over all stability and unity of the country through deeper political participation and engagement, beside firmly maintaining peace and not compromising the national security of the country just like any other sovereign country.

Development of large scale and effective various socio-economic and political research centers to carry out scientific and empirical research that would ultimately come up with a respective policy recommendations to be adopted and strictly followed by the government. This would require paying great attention to the importance of research in general just the way developed countries do. However, this reveals the link between research and the educational system which must be subjected to greater reforms.

Bibliography

Ahmed Shaghil 1987."*Government Spending, The Balance of Trade and the Terms of Trade in British History*" Journal of Monetary Economics 20, 195-220.

Ailber,Robert Z. (ed.) 1974. "*National Monetary Policies and the International Financial System*", Chicago: University of Chicago Press.

Baumol, William J. 2005. " *Speculation, Profitability, and Stability*" Review of Economics and Statistics 39, 263-71.

Black, Stanley W. 1973 " *Interantional Monetary Markets and Flexible Exchange Rates*" Princeton Studies in International Finance 32, Princeton University.

Dornbusch, Rudiger and Stanley Fischer 1980 " *The Flexible Exchange Rates and the Current Accoun*t" American Economic Review 70,960-71.

Drazen, Allen and Paul R. Masson 1994. "*The Credibility of Policies versus Credibility of Policy Makers*" Quarterly Journal of Economics 109,735-54.

Kenen, Peter B. (ed.) 1995. "Understanding the Interdependence: *The Macro economics* of *the Open Economy*". Princeton, Princeton University Press.

Kindleberger, Charles P. 1984. "*Balance of Payments Deficit and the International Market for Liquidity*" Essay in International Finance 46, Princeton University.

Mohahed Khair E. 1994 "*International Loans and Aid, its Impact on Development*" National Library, Khartoum, Sudan.

Mutasim Badri 2005 " *Education and Savings Led Development*" Almasrafy Magaizne, 6, 7-15Central Bank of Sudan.

M.Mishkin 2000 " *Money and Banking" Press Syndicate of the University of Cambridge*", New York, USA.

Stone Courtenay C. (ed.) 1989. " *Financial Risk: Theory, Evidence and Implications"*, Boston: Kulwer Academic Publishers.

Turner Philip and Jozef Van't dack 1993" Measuring International Price and Cost Competitiveness" BIS Economic Papers 39.