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SUDAN

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

COMMODITY IMPORT PROGRAM FY 1982

650-0049

USAID/Sudan

February 23, 1982

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AID 1120-1 (5-64) PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. Grant No. 650-K-603 2. COUNTRY Democratic Republic of Sudan 3. CATEGORY Commodity Financing - Standard Procedure 650-0049 4. DATE
5. TO: Administrator, A.I.D.		6. OYB CHANGE NO. Not Applicable
7. FROM F. S. Ruddy, Assistant Administrator		8. OYB INCREASE None TO BE TAKEN FROM: Not Applicable
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 100,000,000		10. APPROPRIATION - ALLOTMENT ESF

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
☐ LOAN ☒ GRANT	☐ INFORMAL ☒ FORMAL ☐ NONE	Feb. 1982-Feb. 1983	October 1, 1981

15. COMMODITIES FINANCED

Commodities declared eligible under the A.I.D. Commodity Eligibility Listing (1978 as revised) will be eligible for A.I.D. financing.

Note: Latest revision - TM 15:49 (January 1, 1980).

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.: $100,000,000
Limited F.W.: $100,000,000 (Code 941)	Industrialized Countries:
Free World:	Local:
Cash:	Other:

18. SUMMARY DESCRIPTION

This grant represents U.S. assistance to the Sudan being made available to the Government of the Democratic Republic of the Sudan (GOS) to help overcome a serious balance of payments problem.

The proposed grant will provide foreign exchange for essential public and private sector imports and related technical services to be agreed upon by the GOS and A.I.D. It is expected that the GOS will elect to use about $30 million for the public sector and $70 million for the private sector.

A grant to the Government of the Democratic Republic of the Sudan is hereby authorized in the amount of $100,000,000 for financing the items described above, subject to the following terms and conditions:

1. Procurement will be restricted to A.I.D. Geographic Code 941 sources.

2. Up to $1,000,000 of the Grant may be used to finance technical assistance activities directly related to commodity purchases, which assistance may occur

19. CLEARANCES	DATE
XXXXXX AFR/DR, NCohen	
XXXXXXX AFR/EA, HJohnson	3/26/82
XXXXXXX AFR/DP, ICoker	
XXXXXX GC/AFR, EDragon	
XXXXXX DAA/AFR, WHNorth	
XXXXXXX M/FM, WMcKeel	3/1/82
AA/PPC, JBolton	4/2/82
A-GC, KKammerer RCK	4/12/82

20. ACTION

☑ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE: M. Peter McPherson — DATE: 26 APR 1982

TITLE: Administrator

both prior and subsequent to the procurement of such commodities. The technical assistance may include, but not be limited to: defining scopes of work for each procurement; preparation of drawings defining required commodities; reviewing designs of suppliers to insure compliance with the requirements of the procurement contract; installation or erection of A.I.D.-financed equipment or the training of personnel in the maintenance, operation, and use of the equipment in excess of $50,000 or 25 percent of a particular total purchase contract; services facilitating the entry of goods into Sudan as well as the proper distribution of the commodities once inside the country; and assistance to the Government of Sudan in monitoring and arrival accounting. Regulation 1 will not be applicable to the procurement of technical assistance services.

3. Commodities procured under the Grant may not be used in the production of palm oil or citrus products;

4. Not more than $1,000,000 from the proceeds of this Grant shall be used for the purchase of commodities or commodity-related services for use in the construction, expansion, equipping, or alteration of any physical facility or related physical facilities without prior A.I.D./W approval, in addition to approvals required by A.I.D. Regulation 1, except as A.I.D. /W may otherwise agree in writing. "Related Physical facilities" shall mean those facilities which, taking into account such factors as functional interdependence, geographic proximity, and ownership, constitute a single enterprise in the judgment of A.I.D.

5. In the Program Agreement between the Government of Sudan and A.I.D., the former will covenant to:

A. Execute to the best of its ability the economic stabilization program associated with its stand-by agreement with the IMF under which the Government will reduce government expenditure and borrowing, establish more realistic exchange rates, and align prices and interest rates to realistic market rates.

B. Review the management of public enterprises in the agriculture and agro-industrial sector in order to determine ways to improve efficiency in operations and investment policy decisions.

C. Where indicated by such reviews and where considered necessary to achieve development objectives, make progress towards phasing out inefficient public enterprises with first priority in the agriculture sector which is vital to economic growth.

D. Issue regulations in implementation of new investment code and undertake other measures in order to encourage foreign and domestic private investment in developing the economy, particularly in agriculture.

E. Increase emphasis on management and technical training programs and establish economic incentives to encourage retention of technically qualified personnel in agriculture and related industries.

F. Undertake a review of Government policy reforms necessary to encourage increased private savings and investment, particularly from Sudanese working abroad.

G. Review foreign exchange and import licensing systems to assure that they function efficiently and fairly in addressing needs of the private sector, consistent with public policy in stabilizing priorities for use of limited resources.

6. Such other terms and conditions as USAID may deem advisable.

SUDAN

COMMODITY IMPORT PROGRAM FY 1982

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SUDAN

Commodity Import Program FY 1982

I. Summary and Recommendations

The analysis below is presented in support of a request by the Government of the Sudan for an Economic Support Fund (ESF) grant in FY 1982 of $100 million. The Grant would be used to help ease the Sudan's current foreign exchange crisis by financing essential commodity imports from the U.S.

There is no question but that the Sudan needs such assistance. For the second successive year, it is faced with a trade deficit of over $1.1 billion and a current account deficit of some $800 million. Even after allowing for a continued high level of capital inflows from past loans and the successful renegotiation of current debt payments, the IMF had forecast a financing gap of $566 million for 1982. While it now appears that most of the gap will be covered through IMF drawings and increased donor assistance pledged at a recent consortium meeting in Paris, the size of the gap points up the precariousness of the Sudan's present economic situation and the urgency of its need for financial support. Gross foreign exchange reserves at present are equivalent to less than one week's imports. Some $1.2 billion of the Sudan's current $3.1 billion foreign debt is in arrears, and the country's access to commercial sources of import credits is sharply limited. A recent IBRD report on the economy has projected the continuation of serious balance of payments difficulties for the Sudan through 1990.

The U.S. has been providing balance of payments support to the Sudan through PL 480 Title I/III and ESF-financed commodity import programs (CIP) since resumption of the A.I.D. program in FY 1978. The justification for continued U.S. support, including the $100 million ESF grant proposed herein for FY 1982, is the belief that the Sudan can attain a sustainable balance of payments position within the next several years provided that it continues to pursue vigorously its current economic stabilization and reform efforts. For 1982, this includes adherence to the provisions of the IMF Standby Arrangement and the formulation of a rational medium-term public investment program. It also will require that the Sudan strengthen and broaden its capacity to manage productive enterprises efficiently and in a manner that will result in greater financial returns and marketable surpluses.

During the past year, the Government of the Sudan (GOS) has shown a growing disposition to undertake necessary economic reforms. In recent months, it has initiated a number of measures aimed at rectifying some of the economy's more glaring deficiencies despite considerable political risk. Included were the recent exchange rate devaluation, and increases in the prices of petroleum products and sugar. These efforts on their own merit consideration for further assistance; nevertheless in order to encourage GOS follow-through on its overall stabilization and recovery program, the USAID Mission proposes to incorporate in the ESF Grant Agreement appropriate linkages between the allocation and disbursement of ESF funds and GOS progress towards improved management performance along the lines cited above.

It is very much in the U.S' interest to continue to provide balance of payments support to the Sudan. Because of its location astride the Nile Valley and along the Red Sea, developments in the Sudan are of prime importance to the security of Egypt and the Arab States. Also, the GOS has been supportive of the Middle East peace process in recent years and has played a constructive role in a number of African problem areas.

The commodities to be financed under the FY 1982 ESF Grant will be largely similar to those financed under previous ESF grants in FY 1980 and 1981. Approximately $70 million will be allocated for private sector imports; some $20 million of the remainder will be earmarked for commodities and equipment for the power sector. Power service to the Sudan's industrial plants and irrigated agricultural schemes has become increasingly erratic and unreliable in recent years, and is seriously affecting the production of cotton and other major export commodities.

The U.S. Mission recommends authorization of the proposed grant.

II. General Considerations

A. The Sudan's Current Foreign Exchange Crisis and Need for Balance of Payments Support

The Sudan is presently experiencing a severe foreign exchange crisis, having registered sizeable current account deficits in its balance of payments since the mid-1970's. A deficit of $853 million is projected for 1982. These perennial deficits have wiped out the country's foreign exchange reserves and have led to a heavy foreign debt burden, much of which is in arrears and has had to be rescheduled. Outstanding external debt was estimated at $3.1 billion at the end of 1980, of which about $1.2 billion was in arrears. Despite rescheduling, the debt service ratio for 1980 (actual principal and interest payments as a per cent of exports) was estimated at 30 per cent. Gross foreign exchange reserves currently average less than one week of imports.

The shortage of foreign exchange has seriously affected the economy. Imports have been cut back severely, including agricultural inputs, industrial machinery and equipment, raw materials, fuel and spare parts. This has contributed to the deterioration of power, transport and communications facilities, the curtailment of industrial production, and stagnation in the agricultural sector. The decline of agriculture has been especially serious, since this sector accounts for nearly all of the Sudan's exports.

In its most recent published report on the economy, the IBRD projects a continuation of the Sudan's balance of payments difficulties through 1990. The report cites as principal contributing factors the presently severe trade imbalance, comparatively slow growth of exports, and continued heavy debt service payments. The report indicates that the government will have to continue its strenuous economic recovery program for about a decade to approach a more manageable balance of payments position. An essential component of the recovery program will continue to be the provision of substantial amounts of quick-disbursing balance of payments assistance by the Sudan's principal donors.

A recent update of the IBRD analysis includes an "optimistic case" balance of payments projection which shows a closing of the current account gap by 1990. To achieve this objective would require that commitments of donor assistance to the Sudan be more than doubled, from the present level of $850-900 million to $1.8-1.9 billion annually from 1985 through to the end of the decade. While the IBRD analysis does not differentiate between balance of payments support and other forms of assistance, it clearly implies that a substantial proportion of donor assistance through 1990 will need to be commodity import grants.

B. The Causes of the Crisis and the Government's Response

The initial causes of the current crisis date back to the early 1970's, when the government undertook an overly-ambitious public sector development program and borrowed heavily from abroad to finance the program. This, coupled with unprecedented increases in petroleum import prices starting in 1973, drove the economy into a tailspin from which it has still not recovered. Lagging exports, a steadily widening trade gap, and growing budgetary deficits have compounded the country's economic difficulties. Cotton exports, which accounted for 60 per cent of total exports and averaged $300 million annually during the 1970's, fell to $158 million and 32 per cent of total exports in 1981. Non-cotton exports have taken up the slack to some degree, however, there has been virtually no increase in total exports since the mid-1970's. Conversely, led by petroleum and sugar, imports rose from $1.0 billion in 1976 to $1.7 billion in 1981, an increase of 70 per cent.

1. The GOS/IMF 3-Year Stabilization Program

In response to the worsening economic situation, the government with IMF assistance, embarked upon a 3-year economic stabilization program beginning in July 1979. The program was aimed primarily at reducing the recurring balance of payments deficits and restoring an element of growth to the economy. The principal targets were to raise the growth rate of real GDP from a negative rate in 1978/79[a/] to 4 per cent per annum, to lower the rate of inflation from the 26.7 per cent registered in 1978/79 to 10 per cent by 1981/82, to hold the current account deficit to U.S. $400 million by 1981/82 (vs. $458 million in 1978/79) and to eliminate external arrears. Key measures included fiscal and monetary restraints, periodic exchange rate adjustments, the elimination of import price subsidies, reduced taxes on exports, and the restructuring of agricultural incentives to encourage the increased production of export crops, primarily cotton.

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a/ Denotes the Sudanese fiscal year which runds from July to June.

On the bais of its assessment of GOS performance during the first year of the 3-year program, the IMF forecast gradual improvement in the Sudan's balance of payments, beginning around 1983. Mixed results during the second year however, specifically the poor performance of cotton, led the IMF to alter its assessment and to shift the basis of its support for further GOS stabilization efforts to a more flexible, annual stand-by arrangement.

2. The 1982 Stand-By Program

The failure of the Sudan's economy to respond more positively and immediately to the reform measures initiated under the 3-year stabilization program was due in part to unfavorable external developments, such as higher world prices for petroleum and sugar imports, and political tensions in neighboring countries, giving rise to additional security measures and inflows of refugees, which necessitated increased government expenditures. But there were also prolonged delays in the implementation of the reforms. At the core of the 3-year program was an anticipated large expansion of cotton production. This was to result in a substantial increase in export volume which would have improved the balance of payments, strengthened the budget, and helped in restraining credit expansion. However, delay in removing distortions in the cost structure of cotton production relative to other crops, along with labor shortages and management deficiencies, contributed to reduced acreage and declining yields. As a result, cotton production and exports in 1981 fell to their lowest levels in 25 years and were barely one-half of the levels reached four years ago. In the case of sugar, the 3-year program had assumed a virtual cessation of sugar imports with the projected coming on stream of three new sugar mills in 1979/80. Problems with the completion of the mills prevented the expected increases in domestic output and necessitated a continued high volume of sugar imports. This was compounded by delays in the adjustment of the exchange rate and by domestic price policies which sought to insulate the prices of basic consumer commodities such as sugar from international price changes. Increases in import prices were not always passed on to the consumer, and this resulted in either an outright subsidy or a deficit in the account of the importing public agency which was financed by credit extension from the central bank.

In recent months, the Sudan has taken a number of measures to overcome these deficiencies. In the irrigated agricultural sector, the joint account and profit-sharing system which distorted agricultural incentive against cotton cultivation has been replaced by an individual account system and by the imposition of land and water charges on all crops in irrigated schemes. The GOS has undertaken to collect such charges in the course of the current season. Progress on the rehabilitation of the capital stock in the largest schemes has been speeded up with technical and financial assistance from the World Bank. Management of the agricultural schemes has been strengthened through decentralization and financial autonomy at the level of each scheme. In the manufacturing sector, steps have been taken to improve capacity utilization in the sugar refining mills. These have included management reorganization, reliance on foreign expertise, and special allocations to build up inventories of fuel and spare parts in order to reduce disruptions. The budget has been significantly strengthened by new revenue measures and by price adjustments; for the first time in years, current revenues are expected to exceed current expenditures. In particular, petroleum prices have been increased sharply to bring them into line with external prices. The authorities have moved to increase the prices of the two most basic consumption commodities, sugar and wheat; the price of sugar was increased sharply in January 1982 and action on the price of wheat is planned for the near future. Budgetary control has been strengthened in order to prevent the recurrence of expenditure overruns outside the jurisdiction of the Ministry of Finance. In the area of credit policy, interest rates on deposits and borrowing have been increased and penalty rates imposed on commercial banks that do not observe ceilings on credit extension. In the external sector, the unification of the official and parallel exchange markets has resulted in a depreciation of 80 per cent for nearly half of imports and of 12.5 per cent for other imports and all exports.

The Stand-By Program for 1982 will attempt to build on the reform momentum generated in recent months. The main policy changes will focus on the further restructuring of financial incentives in agriculture along with proper maintenance of physical capital and timely provision of management services, and will attempt to bring about substantial reductions in both the overall and bank-financed deficits (as ratios to GDP) of the government budget; more effective control over the expansion of domestic credit in order to bring down the underlying rate of inflation from 35-40 per cent at present to about 25 per cent, and maintenance of an exchange system that will encourage remittances and exports. While it is expected that the deficit in the current account of the balance of payments will continue to be large, the stand-by program aims to contain the size of the deficit through demand restraint and the expansion of non-cotton exports.

To gain greater control over the allocation of scarce capital resources, the GOS with IBRD assistance will promulgate during 1982 a current version of its rolling 3-year public investment program. The program, which is updated annually, is designed to ensure that proposed projects are consistent with overall GOS development priorities and kept within the limits of available resources. The priorities of the 3-year program are: (1) completion of ongoing projects; (2) implementation of structural reforms to improve capacity utilization in agriculture and industry; (3) reduction of bottlenecks in transport and power generation; (4) development of traditional, agriculture and other productive activities with relatively small reliance on imported inputs; (5) development of petroleum extraction; and (6) improving social services and water availability in rural areas.

C. Other Donor Assistance

Data compiled by the IMF and the Bank of Sudan indicate that total official receipts of the GOS in 1980/81 from foreign sources (capital inflows), excluding IMF drawings, amounted to $636 million. Of this amount, approximately $364 million represented balance of payments assistance, including cash loans and grants and donor-financed commodity imports. Saudi Arabia was the main contributor, accounting for approximately 40 per cent of the total, followed by the U.S., 20 per cent; Abu Dhabi, 15 per cent; the Islamic Bank, 10 per cent; France, the E.E.C., and others, 15 per cent. Most of the funds contributed by the Arab donors were provided through loans and were used to finance oil imports.

Despite an expected slight narrowing in the trade gap from $1,127 million in 1981 to $1,114 million in 1982, the Sudan's current account deficit is projected to increase from $742 million in 1981 to $853 million in 1982 mainly as a result of higher requirements for interest payments on rescheduled debt. As net capital inflows are expected to decline to $287 million, also reflecting higher debt servicing obligations, the overall financing requirement is projected at $566 million. Inasmuch as the maximum net support from the IMF will total about $193 million, the Sudan will need to cover the remaining $373 million gap through increased balance of payments support from donor countries.

At a meeting convened in Paris in late January 1982, the Sudan received pledges of additional balance of payments support amounting to an estimated $250 million. If fulfilled, this would still leave an unfinanced gap of $123 million. The GOS is now recanvassing the donor group to identify potential sources for these residual requirements. Of the $100 million ESF grant being requested for FY 1982 under this PAAD, $30 million has been counted within the $287 million net capital inflows figure cited above, and $70 million is considered to be an additional input to be included within the $250 million amount pledged by the donors at the Paris meeting.

D. U.S. Contributions to Date

The U.S. has been providing balance of payments support to the Sudan since resumption of the A.I.D. program in FY 1978. Concessional sales of PL 480 Title I wheat have averaged $10 million annually since FY 1978, and were augmented in FY 1980 with the signing of a 5-year, $100 million Title III program. Combined Title I/III wheat imports for FY 1982 are programmed at $25.0 million.

U.S. balance of payments assistance has also been provided since FY 1980 through annual ESF-financed commodity import programs (CIP). ESF grants for CIP imports amounted to $40.0 million in FY 1980 and $50.0 million in FY 1981. A grant of $100.0 million is hereby being proposed for FY 1982.

III. Rationale for Continued U.S. Assistance

The justification for continued U.S. balance of payments support for the Sudan, including the proposed $100 million ESF grant for FY 1982, is predicated on the belief that the country can attain a sustainable balance of payments position within the next several years provided that it continues to pursue vigorously its current economic stabilization and recovery efforts. For 1982, this includes adherence to the provisions of the IMF Standby Arrangement, specifically the reduction of government expenditures and borrowing, the establishment of a more realistic exchange rate, and the alignment of administered prices and interest rates at realistic, market levels. It also includes the formulation and implementation of a rational medium-term public investment program that will lay a basis for longer-term growth, such as the 3-year program being developed by the GOS in conjunction with the IBRD.

The experience of the past four years has made it abundantly clear, however, that in the case of the Sudan earnest commitments to reform and rational planning are not enough. There also needs to be a strengthening and broadening of the country's capacity to manage its productive enterprises efficiently and in a manner that will result in greater financial returns and marketable surpluses. Thus, if the Sudan is to achieve a viable balance of payments position over the next several years, the GOS will need to take a number of specific stpes to improve overall management performance. To this end, the GOS will covenant in the Program Agreement to:

A. Execute to the best of its ability the economic stabilization program associated with its stand-by agreement with the IMD under which the Government will reduce Government expenditures and borrowing, establish more realistic exchange rates, and align prices and interest rates to realistic market rates.

B. Review the managament of public enterprises in the agriculture and agro-industrial sector in order to determine ways to improve efficiency in operations and investment policy decisions.

C. Where indicated by such reviews and where considered necessary to achieve development objectives, make progress towards phasing out inefficient public enterprises with first priority in the agriculture sector which is vital to economic growth.

D. Issue regulations in implementation of new investment code and undertake other measures in order to encourage foreign and domestic private investment in developing the economy, particularly in agriculture.

E. Increase emphasis on management and technical training programs and establish economic incentives to encourage retention of technically qualified personnel in agriculture and related industries.

F. Undertake a review of Government policy reforms necessary to encourage increased private savings and investment, particularly from Sudanese working abroad.

G. Review foreign exchange and import licensing system to assure that they function efficiently and fairly in addressing needs of the private sector, consistent with public policy in stabilizing priorities for use of limited resources.

In order to encourage GOS follow-through with regard to the foregoing, the USAID Mission proposes to incorporate in the ESF Grant Agreement appropriate linkages between the allocation and disbursement of ESF funds and GOS progress towards improved management performance.

While the primary justification for continued U.S. balance of payments assistance to the Sudan is the likelihood that such assistance will contribute significantly to the eventual resolution of the Sudan's balance of payments problem, there are several other equally important purposes to be served.

1. U.S. Interests and Overall Assistance Strategy

The Sudan has major significance for U.S. interests in Africa and the Middle East. Because of its location astride the Nile Valley and along the Red Sea, developments in the Sudan are of prime importance to the security of Egypt and the Arab States. Under President Nimieri, the GOS has been supportive of the Middle East peace process and has played a constructive role in a number of African problem areas. Sudan's support for Egypt has reduced the reliability and perhaps the level of assistance from other Arab States. A clear threat from Libya, has obliged the Sudan to strengthen its defense forces. This has imposed additional import requirements on the country, adding to the balance of payments problem. The proposed U.S. assistance will help to offset the costs of these additional requirements and encourage the GOS to continue its constructive moderating role in Middle-Eastern and African affairs.

In view of the Sudan's importance to U.S. interests in Africa and the Middle East, and its critical need for foreign exchange, the A.I.D. country strategy gives highest priority to balance of payments and budget support programs, such as the CIP, that finance essential imports and help to cover the local costs of development programs.

2. <u>Providing an incentive for improved economic management and reform</u>

As noted earlier, delays in the implementation of the economic reforms espoused under the 3-year stabilization program was an important contributing factor to the joint GOS/IMF decision to terminate the program after the second year. By incorporating in the ESF Grant Agreement appropriate linkages between the allocation and disbursement of ESF funds and GOS progress towards improved policy-related management performance, the ESF grant will serve as a spur to the GOS to carry out more expeditiously much needed policy and structural reforms.

3. <u>Contributing to private sector participation in development</u>

The current shortage of foreign exchange in the Sudan is acutely felt by private sector firms who either obtain needed foreign exchange from unofficial sources at high cost or cut back on their operations. In either case, there is a net cost to the economy. It is estimated that privately-owned industrial firms in the Sudan are presently operating at 25-30 per cent of capacity, primarily because of the lack of raw materials and spare parts. The proposed CIP would help to alleviate the shortage of private sector resources in that, as noted earlier, some 70 per cent of the funds to be provided under the CIP program would be allocated to private sector firms.

The priority given to private sector uses reflects A.I.D.'s appreciation of the sector's potential importance to the economy. To a large extent the government's efforts to reduce its balance of payments deficits through expanded exports have been frustrated by the inefficient use of scarce foreign exchange and excessive public control of productive enterprise. The allocation of a substantial proportion of CIP funds to private firms overcomes these obstacles and will enable these firms to contribute significantly to the Sudan's development through increased production and export.

4. GOS budget support

Approximately 70 per cent of the FY 1982 $100 million grant will be allocated to private sector importers, and will therefore generate available counterpart funds. The funds will be deposited into a special account at the Bank of Sudan, and their use jointly determined by A.I.D. and the GOS. Priority in the allocation of CIP counterpart funds will be given to A.I.D. and other donor-assisted development projects in the traditional rainfed farming areas of Sudan, for agricultural research, production and marketing projects, railway rehabilitation, road construction and river transport development. An appropriate amount, as agreed by A.I.D. and the GOS, will also be channelled through the US/GOS Trust Fund established in FY 1981, to cover some of the program and administrative costs of the U.S. Mission in the Sudan. The balance of the counterpart funds generated under the FY 1982 CIP will be used for general budget support.

The GOS' need for budget support is clearly evident from a review of the government's FY 1981 budget. Against total expenditures of LS 1.3 billion, the budget shows a deficit of LS 545 million, or over 40 per cent. More recent data indicate that the actual ratio may be closer to 50 per cent. By comparison development expenditures in FY 1981 were estimated at LS 371 million. Foreign borrowings to finance budgetary expenditures were around LS 400 million. In effect, total GOS expenditures for development are now being financed by foreign borrowing.

5. <u>Development uses and relation to other components of the U.S. assistance program</u>

As in past years, the goods to be imported under the FY 1982 CIP will contribute directly to GOS development efforts. Perhaps the most direct link is in the power sector. Power service to the Sudan's industrial plants and irrigated agricultural schemes has become increasingly erratic and unreliable in recent years. The poor service is seriously affecting the production of cotton and other major export commodities. Continued deterioration of power service would not only further disrupt the economy, but would also have serious political repercussions. The $20 million earmarked under the CIP for commodities and equipment for the power sector will help significantly to ease this critical situation. A.I.D. is also contributing to the efficient use of such imports through its project level support of GOS efforts to improve energy policy and planning procedures.

A pervasive lack of spare parts is generally considered to be one of the key constraints in the Sudan to the increased production and marketing of goods in both industry and agriculture. Shortages of replacement machinery and equipment, industrial raw materials, agricultural inputs and transport vehicles are also major obstacles. As indicated in Section VII.A. below, a substantial share of the funds provided for the FY 1982 CIP will be used to help overcome such shortages. A.I.D. is also trying to help increase agricultural output in the Sudan through project-financed technical assistance activities. The agricultural inputs and equipment brought in under the CIP, combined with the use of CIP-generated counterpart for local cost support, will effectively complement and strengthen considerably A.I.D.'s technical assistance to the agricultural sector.

CIP imports of tallow, chemicals and tin plate will help to sustain labor-intensive local manufacturing industries. Tallow is used primarily in soap-making, as a low-cost substitute for exportable cotton seed oil, and is a particularly vital consumer item in the Sudan. Tin plate is used mainly in food processing industries.

IV. Economic Analysis

A. Balance of Payments and Trade

Since the mid-1970's, the Sudan's balance of payments has been characterized by steadily widening trade gaps and perennial current account deficits. Increased import costs, particularly for petroleum products and sugar, together with rapidly rising debt service payments have severely strained the Sudan's inadequate foreign exchange resources. Lagging export sales and the government's inability to attract private remittances through official channels forced the government to rely heavily on borrowings and donor grants to finance essential import commodities and related services. A summary of the Sudan's balance of payments from 1977/78-1982 is set forth below in Table 1.

As indicated in Table 1, the total value of the Sudan's exports has hardly changed in recent years, rising from $551 million in 1977/78 to a projected $592 million in 1982. The primary reason for the lagging export trade is the decline of cotton exports. In 1977/78, cotton exports were valued at $296 million and accounted for 54 per cent of total exports. By 1981, cotton exports had dropped to $158 million, representing only 32 per cent of total exports. The poor performance of cotton in recent years has been attributed primarily to the lack of adequate price incentives for production and export, and a burdensome system for allocating production costs on the larger irrigated schemes, whereby cotton bore a disproportionate share of land preparation charges and fees. These distortions have now been corrected and a modest increase in cotton exports is projected for 1982. In fact the overall trade gap is expected to narrow slightly in the years ahead, decreasing from $1,127 million in 1981 to $1,114 million in 1982. In addition to a projected 14 per cent increase in cotton exports, key factors include a 23 per cent increase in non-cotton exports coupled with a comparatively modest 15 per cent increase in the value of petroleum imports and a 20 per cent drop in sugar imports.

Table 2 below contains a projection of the Sudan's balance of payments through 1990, taken from the IBRD's memorandum report on the Sudan's economy, published in October 1979. As indicated in the table, the Sudan is expected to continue to experience a widening trade gap and sizeable current account deficits through 1990.

Further, despite projected increases in private remittances and official grants and loans, the country will continue to face recurring financing gaps and arrearages on past loans throughout the decade.

A more recent IBRD analysis, as yet unpublished, includes an "optimistic case" projection which shows a closing of the current account gap by 1990. However, this would require more rapid export expansion and slower import growth than is generally expected, and greatly increased private remittances. The "optimistic case" projection also incorporates substantial debt relief through 1985/86 and would require that commitments of donor assistance to the Sudan be more than doubled, from $850-900 million annually in the early 1980's to $1.8 to 1.9 billion annually from 1985/86 through to the end of the decade.

The Sudan's other major export crops include sorghum, sesame, gum arabic, groundnuts, vegetable oil and livestock. As noted below in Table 3, except for livestock products which have recorded steady increases, all of the non-cotton export crops have shown erratic growth patterns since the mid-1970's. Sorghum exports to Saudi Arabia have increased appreciably in recent years and have helped to offset the decline in cotton earnings.

Because of run-down irrigation facilities, the lack of foreign exchange for agricultural inputs, inadequate transport. storage and other infrastructural facilities, and price distortions, prospects for rapid increases in exports over the next several years are dim. The government is currently giving priority in the allocation of development resources to revitalization of the agricultural sector, which currently accounts for some 95 per cent of the Sudan's exports. It could be several years, however, before this emphasis pays off in significantly increased exports.

While exports have been stagnating, the Sudan's imports have been increasing steadily over the past six years. From a level of $1.0 billion in 1976/77, total imports are expected to increase to $1.7 billion in 1981/82. Tables 4 and 5 below show breakdowns of recent imports by type of commodity and country of origin.

The Sudan's principal imports are wheat, sugar, petroleum products, chemical, pharmaceuticals, machinery and transport equipment, manufactured goods and textiles. Of these, petroleum products have shown the most dramatic increase during the past six years, from $117.8 million or only 10 per cent of total imports in 1977/78 to a projected $420.0 million or 25 per cent in 1981/82.

Since the mid-1970's, the value of wheat and wheat flour imports has more than doubled, as has that of sugar imports. Manufactured goods have shown a sizeable increase; however, machinery and transport equipment imports have declined while chemicals, pharmaceuticals and textiles have remained relatively unchanged.

Petroleum imports are expected to continue to increase over the next several years although at a slower rate than in the past until the Sudan's own recently-discovered reserves are brought into production. Current estimates indicate that the Sudan will be able to meet some 60 per cent of its own requirements by the late 1980's. GOS officials also expect to be able to substitute domestically-produced sugar for imports within the next two or three years, as the newly-constructed Kenana sugar mill reaches full production. These reduced requirements are not expected to bring down the level of total imports, however, as there is considerable pent-up demand for other imported commodities such as construction materials, agricultural inputs, machinery, transport and power system equipment, and spare parts, that will need to be met before the overall level can be expected to taper off.

In view of the steady and rising demand for imports and the poor performance to date and modest prospects for increased exports, the Sudan can be expected to continue to record trade deficits over the next several years comparable to the $1.1 billion deficit projected for 1982.

Table 1

Sudan: Balance of Payments, 1977/78-1982
(In millions of U.S. dollars)

Year Ending June 30	1977/78	1978/79	1979/80	Proj. 1981/82	Proj. Jan-Dec 1981	Proj. Jan-Dec 1982
Exports	551	527	581	560	493	592
Cotton	296	321	333	160	158	180
Other	255	206	248	400	335	412
Imports	-1,188	-1,138	-1,340	-1,670	-1,620	-1,706
Petroleum	-118	-178	-254	-405	-362	-415
Sugar	-44	-28	-123	-65	-64	-51
Other	-1,026	-932	-963	-1,200	-1,194	-1,240
Trade Balance	-637	-611	-759	-1,110	-1,127	-1,114
Services	-73	-104	-63	-206	-40	-249
Receipts	159	181	229	355	342	379
Payments	-172	-207	-221	-300	-280	-329
Interest	-60	-78	-71	-261	-102	-299
Transfers	244	257	293	505	425	510
Private	221	240	209	355	325	380
Official	23	17	84	150	100	130
Current Account	-466	-458	-529	-811	-742	-853
Capital	65	348	442	375	382	287
Receipts	132	405	532	535	480	472
Payments	-67	-57	-90	-160	-98	-185
Allocation of SDRs	--	13	13	--	11	--
Errors and omissions	325	103	26	...	159	...
Monetary movements (increase -)	76	-6	48	...	190	...
Financing gap				436		566
			(In per cent)			
Memorandum items:						
Growth rates						
Exports	-7	-4	10	16	-1	20
Imports	20	-4	18	2	3	5
Current account deficit as per cent of GDP	6	5	10	11	11	11

Sources: Bank of Sudan, Ministry of Finance and Economic Planning, and IMF staff estimates.

Table 2: Balance of Payments Projections, 1982-1990

($ Million)

	1982	1983	1984	1985	1986	1987	1988	1989	1990
Exports (including NFS)	1369	1557	1768	2012	2270	2573	2889	3243	3641
Imports (including NFS)	-2199	-2448	-2727	-3037	-3365	-3730	-4138	-4584	-5080
Resource Balance	-830	-891	-959	-1025	-1095	-1157	-1249	-1341	-1439
Investment Income, net of	-267	-279	-287	-301	-316	-334	-350	-366	-388
which Interest Public MLT loans	(-151)	(-161)	(-179)	(-202)	(-226)	(-254)	(-281)	(-309)	(-338)
Interest Arrears	(-84)	(-84)	(-72)	(-61)	(-50)	(-37)	(-24)	(-10)	-
Private Transfers	459	498	539	585	635	698	748	811	880
Balance on Current Account	-638	-672	-707	-741	-776	-802	-851	-896	-947
Private Direct Investment	55	61	67	73	81	89	97	107	118
Short-term, net	36	40	44	48	53	58	64	71	78
Public Grants and MLT Loans									
Grants, disbursements	91	100	110	121	133	146	161	177	195
MLT Loans, disbursements	608	626	649	704	772	847	930	1023	1120
MLT Loans, Repayments	-305	-341	-423	-433	-423	-398	-406	-448	-509
Disbursements, net	394	385	336	392	482	595	685	752	806
Increase/Decrease Arrears	-	-136	-148	-159	-170	-182	-196	-209	-
Use of IMF Resources	34	-18	-34	-41	-50	-50	-43	-26	-9
Change in Reserves (- = increase)	-	-	-37	-41	-46	-48	-54	-60	-66
Errors and Omissions	-	-	-						
Gap Financing Needed	119	340	479	469	426	340	298	261	20

Source: IBRD Memorandum on the economy of the Sudan, October 1979

Table 3: Sudan: Composition of Exports, 1977/78-1981/82

(In millions of U.S. dollars) 1/

	1977/78	1978/79	1979/80	Prelim. 1980/81	Proj. 1981/82
Cotton	295.8	320.7	333.4	182.0	160.0
Groundnuts	80.1	25.5	13.2	65.6	50.0
Sesame	55.4	27.8	40.6	34.1	55.0
Gum arabic	35.3	40.0	43.9	32.9	45.0
Dura (sorghum)	8.6	8.7	68.7	71.6	105.0
Vegetable oil and cakes	17.5	46.5	26.3	33.0	55.0
Seeds	3.2	3.5	--	6.4	10.0
Livestock products	26.7	30.0	35.6	44.2	55.0
Other 2/	28.4	24.3	19.8	14.0	25.0
Total	551.0	527.0	581.5	483.8	560.0

Sources: Data provided by the Sudanese authorities.

1/ Conversion rates used are: for 1977/78, LSd 1.00 = US$2.87; for 1978/79, LSd 1.00 = US$2.50; for 1979/80, LSd 1.00 = US$2.50 for the period July-September 1979, and LSd 1.00 = US$2.00 for the period October 1979-June 1980; and for 1980/81, LSd 1.00 = US$2.00 or US$1.25 depending on the exchange market delegated for the commodity.

2/ Includes nonpetroleum re-exports.

Table 4: Sudan: Composition of Imports, 1977/78-1981/82

(In millions of U.S. dollars) 1/

	1977/78	1978/79	1979/80	Prelim. 1980/81	Proj. 1981/82
Foodstuffs	121.8	98.8	266.2	314.6	270.0
Beverages and tobacco	17.8	12.0	9.8	23.2	30.0
Crude material and petroleum products	124.1	183.9	259.0	404.0	420.0
Of which: petroleum products 2/	(117.8)	(177.6)	(254.0)	(393.0)	(405.0)
Chemicals and medicine	106.8	109.5	122.5	139.6	150.0
Manufactured goods	218.8	218.0	240.5	323.0	350.0
Machinery and equipment	369.3	284.7	234.2	231.0	250.0
Transport equipment	124.9	170.5	137.7	140.2	150.0
Textiles	104.5	60.5	70.0	55.8	50.0
Total	1,188.0	1,137.9	1,339.9	1,631.4	1,670.0

Sources: Bank of Sudan and staff estimates.

1/ See Table 3, footnote 1, for conversion rates.
2/ Net of petroleum re-exports.

Table 5 Sudan: Origin of Imports, 1975/76-1979/80

(In millions of U.S. dollars)

	1975/76	1976/77	1977/78	1978/79	1979/80
Western Europe	471.2	472.9	622.0	567.5	596.1
United Kingdom	201.0	162.8	173.2	173.5	168.9
Germany, Federal Republic of	81.0	85.9	149.9	114.0	128.8
France	31.6	54.0	97.6	84.8	110.7
Italy	70.4	63.2	60.9	54.3	34.7
Belgium	28.4	30.8	41.3	21.3	46.6
Others	58.8	76.2	99.1	119.6	106.4
China and Eastern Europe	97.9	65.2	94.8	105.8	103.2
China, People's Republic of	38.5	31.6	45.9	50.8	43.3
Czechoslovakia	5.7	4.9	10.3	13.0	15.8
Yugoslavia	12.9	8.0	10.1	16.5	13.7
Others	40.8	20.7	28.5	25.5	30.4
Western Hemisphere	133.5	110.8	110.6	7[illegible]3	149.6
United States	108.3	74.4	57.7	[illegible]3	130.3
Others	25.2	[illegible]6.4	52.9	11.0	19.3
Africa and Asia	205.9	213.4	217.3	181.6	204.5
Japan	89.0	97.1	99.4	77.8	53.9
India	60.3	62.9	36.8	41.8	34.7
Pakistan	15.2	15.5	26.7	3.8	23.5
Others	41.4	37.9	54.4	58.2	92.4
Arab countries	153.1	123.5	143.3	209.7	286.5
Total	1,061.6	985.8	1,188.0	1,137.9	1,339.9

Source: Bank of Sudan.

B. Services and Capital Accounts

In addition to its sizeable and growing trade deficits, the Sudan has also regularly been registering annual deficits in its services account. Though modest to date, these deficits could increase appreciably within the next several years because of higher interest payments, unless the government is able to continue negotiating substantial debt relief. As indicated in Table 1 above, even with the rescheduling of commercial debt, interest payments projected for 1982 would represent a three-fold increase over the level paid just four years ago.

There is some scope for mitigating the adverse economic impact of the higher interest payments through increased remittances from abroad, although the Sudan's performance so far in this area has not been very satisfactory. Despite the growing numbers of Sudanese known to be working abroad, of which current estimates range between 400,000-500,000, private remittances have shown almost no change over the past four years and are projected to reach only some $380 million in 1982, or $760 to $950 per worker. This is well below the average for other labor-exporting countries.

Primarily because of the high interest payments and low remittances, coupled with the large annual trade deficits, the Sudan continues to register sizeable deficits in its current account and must look to foreign donors for the financial resources to offset these deficits, which have nearly tripled in the past six years.

The Sudan's principal donors at present are Saudi Arabia, the U.S., the IBRD, the Arab Monetary Fund, West Germany, France, the EEC, Italy, the U.K. and Holland. Excluding IMF drawings, gross inflows from foreign donors in 1980/81 were estimated to be $636 million. See Table 6 below. Of these, approximately $364.0 million represent cash transfers or commodity loans, while the balance of $272 million represents loan and grant-financed project assistance activities.

C. Financing Gaps

Even with considerable help from the donors it should be noted per Tables 1 and 2 above that the Sudan continues to be faced annually with financing gaps. Halfway through FY 1981 (which ran from July 1980 to June 1981), a gap of $450 million was still being projected for the year. With one half of FY 1982 gone, the GOS was still projecting a gap of some $340 million for the year. Recent calculations by the IMF and the Bank of Sudan indicate a $566 million financing gap in CY 1982 of which expected IMF drawings would cover about $193 million. The GOS has obtained pledges of additional balance of payments support from a consortium of donors at a recent meeting in Paris to cover most of the remaining $373 million. This is hardly a desirable method of obtaining needed funds, however, and may not be a viable option in future years.

Table 6 Sudan: Foreign Financing of Central Government Budget, 1975/76-1980/81

(In millions of Sudanese pounds)

	1975/76	1976/77	1977/78	1978/79	Prov. Actual 1979/80	Budget 1980/81	Revised Budget 1980/81 1/	Prov.Actual July-Dec. 1980
Grants	...	...	3.7	7.2	42.0	60.0	79.0	57.2
Commodity	...	...	...	...	30.5	...	38.0 2/	...
Project	...	...	...	...	11.5	...	41.0 3/	...
Loans	...	...	46.0	162.0	266.0	399.8	321.0	118.6
Cash	...	...	...	...	128.5	189.9	144.0 2/	109.2
Commodity	...	...	...	...	29.0			
Project	...	...	...	...	108.5	209.9	177.0 3/	9.4
Total	84.5	53.5	49.7	169.2	308.0	459.8	400.0	175.8
Less: Repayments	-19.7	-19.7	-23.3	-22.8	-70.4	-37.2	-37.0	...
Equals: Foreign financing	64.8	33.8	26.4	146.4	237.6	422.6	363.0 4/	...

Sources: Ministry of Finance and National Economy, the Bank of Sudan, and IMF staff estimates.

1/ The 1980/81 estimates as agreed with GOS authorities.

2/ Commodity grants and loans valued at the official market exchange rate.

3/ Project grants and loans are valued at the parallel market exchange rate (at the official rate, project grants would be LSd 25.5 million and project loans LSd 106 million).

4/ Equivalent to $636 million at exchange rates cited footnotes 2/ and 3/ above.

D. Reserves Position and Net Foreign Assets

The Sudan drew down virtually all of its foreign exchange reserves during the mid 1970's to pay off mounting debts. By June 1978, gross reserves of the Bank of Sudan were equivalent to only one weeks' imports. Despite a slight improvement in 1979/80, the country's reserve position has remained practically unchanged since 1978. Table 7 below refers.

Table 7. Gross Reserves of Bank of Sudan
(In million of U.S. dollars)

	1977/78	1978/79	1979/80	1980/81 1/
Reserves level	21.9	27.4	40.5	24.5
Import equiv.	7 days	9 days	13 days	5 days

As indicated in Table 8 below, due mainly to a steady build-up of short-term liabilities to foreign banks and continuous drawings under various IMF credit facilities, the Sudan has been burdened with a negative position on net foreign assets over the past five years. There was further deterioration of its position in 1980.

Table 8. Sudan: Gross Reserves and Net Foreign Assets, 1977-80

(In millions of U.S. dollars)

End of Period	June 1977	Dec. 1977	June 1978	Dec. 1978	June 1979	Dec. 1979	June 1980	Dec. 1980
Monetary authorities	-588	-625	-603	-600	-602	-692	-751	-964
Convertible foreign exchange 1/	25	28	22	32	31	80	61	65
Net bilateral claims 2/	-36	-45	-41	-36	-37	-52	-58	-77
Net IMF position 3/	-134	-117	-92	-130	-145	-212	-235	-346
Bank of Sudan short-term liabilities to foreign banks	-341	-386	-391	-399	-384	-445	-456	-530
Liabilities from Kuwaiti loan	-104	-105	-102	-67	-67	-63	-63	-76
Commercial banks	38	27	58	61	99	121	191	291
Assets	55	58	81	168	120	194	265	435
Liabilities	-17	-30	23	-107	-21	-73	-74	-144
Net foreign assets	-551	-598	-545	-539	-503	-571	-560	-673

Source: Data provided by the Sudanese authorities.

1/ The Bank of Sudan is required to maintain at all times gold and external assets (including SDRs) of not less than the equivalent of LSd 7 million.

2/ Includes balances on accounts established under loan agreements with certain Eastern Bloc countries.

3/ As reported by Bank of Sudan.

E. External Debt and Annual Services Payments

The Sudan's total outstanding external debt amounted to \$3.1 billion at the end of 1980, having nearly doubled since 1976. As shown in Table 9, about \$1.8 million of the total is owed to bilateral creditors, primarily Saudi Arabia, Kuwait and the United Arab Emirates. Approximately \$0.6 billion is owed to multilateral institutions such as the IBRD/IDA, the Arab Fund for Economic and Social Development and the Arab African Bank. The remaining \$0.7 billion is owed to various private commercial banks and other financial institutions, and to suppliers.

The overall weighted average terms of the Sudan's external debt (which currently reflects an average maturity of 33 years, including a 7-year grace period; an average interest of 2 per cent' and an overall grant element of 63 per cent) are considered to be relatively concessional. (See Table 10.) Nevertheless, a significant portion of the outstanding debt is in the form of suppliers' credits and loans contracted at commercial terms. As a consequence, according to the IMF, debt service payments for 1980 should have amounted to around \$280 million. This would have represented a ratio to total exports for that year of around 41 per cent. Such a high payment ratio would have been unmanageable. Actually, as reflected in Table 9, the annual payments were virtually cut in half as a result of the debt relief (on official loans) obtained from Paris Club donors and through the accumulation of arrears on payments due to Arab and private creditors.

F. Payments in Arrears

As of the end of 1980, as shown in Table 11, the Sudan was in arrears on some \$1.2 billion of its scheduled principal and interest payments. Coupled with payments coming due on existing loans, the Sudan will have no recourse over the next several years but to continue to seek refinancing of its sizeable debt burden.

Table 9: Sudan: External Debt, 1976-80

(In millions of U.S. dollars)

	1976	1977	1978	Preliminary 1979	1980
External debt 1/	1,605	1,797	2,083	2,572	3,126
Suppliers' credits	278	302	285	235	259
Financial institutions	336	351	549	535	531
Multilateral institutions	237	296	383	439	550
Bilateral loans	754	848	866	1,363	1,786
Debt service payments 2/	100	62	76	148	144
Principal	70	32	40	54	81
Interest	30	30	36	94	63
Debt service ratio 3/	(17)	(11)	(15)	(26)	(30)

	1981	1982	1983
Memorandum items:			
Projected debt service	200	484	494
Principal	98	185	230
Interest	102	299	264

Sources: Data provided by Sudanese authorities, IBRD Debtor Reporting System, and staff estimates.

1/ Outstanding disbursed public and publicly guaranteed external debt with a maturity of over one year, repayable in foreign currency at the end of the year indicated.
2/ Differs from the data shown on balance of payments table due to difference in years (calendar vs. fiscal).
3/ Actual principal and interest payments as a per cent of exports in the respective fiscal years.

Table 10: Sudan: Amount and Average Terms of Debt Commitments, 1976-80 1/

	1976	1977	1978	1979	1980
Suppliers' credits					
Amount (US$ millions)	53.3	89.2	35.9	--	--
Interest (per cent)	7.1	5.1	7.8	--	--
Maturity (years)	11.1	13.1	15.0	--	--
Grace period (years)	3.5	3.5	3.9	--	--
Grant element (per cent)	13.2	25.2	11.8	--	--
Financial institutions					
Amount (US$ millions)	160.9	13.8	40.5	51.6	37.0
Interest (per cent)	8.3	8.8	8.7	5.9	8.0
Maturity (years)	10.2	8.8	11.2	14.8	6.0
Grace period (years)	4.5	2.9	6.0	3.4	2.5
Grant element (per cent)	7.1	4.3	5.3	22.3	5.9
International organizations					
Amount (US$ million)	83.9	86.2	140.6	266.2	281.9
Interest (per cent)	3.1	3.3	1.3	1.7	0.9
Maturity (years)	28.6	27.1	34.1	29.3	40.3
Grace period (years)	7.3	6.2	7.8	6.2	8.6
Grant element (per cent)	52.8	49.0	66.7	59.3	74.4
Government loans					
Amount (US$ millions)	310.0	379.6	504.0	645.9	79.5
Interest (per cent)	3.4	5.2	4.[illegible]	7.9	2.3
Maturity (years)	21.5	14.0	22.3	15.2	19.7
Grace period (years)	6.4	3.0	6.9	5.6	5.2
Grant element (per cent)	43.6	27.1	41.5	13.8	46.3
Total					
Amount (US$ millions)	608.1	568.8	721.0	963.7	398.4
Interest (per cent)	5.0	5.0	4.0	6.1	1.8
Maturity (years)	18.6	15.7	23.6	19.1	33.0
Grace period (years)	5.8	3.6	6.9	5.6	7.3
Grant element (per cent)	32.6	29.6	42.9	26.8	62.5

Source: IBRD--Debtor Reporting System (DRS).

1/ Weighted average terms of contracted external debts, including undisbursed amounts, with a maturity of over one year and repayable in foreign currency.

Table 11: Sudan: Outstanding External Arrears as of June 30, 1981

(In millions of U.S. dollars)

Total	1,160
1. Official creditors	14 1/
Overdues to Paris Club in respect to 1979 rescheduling of arrears and debt service payments	14
2. Commercial banks	776 2/
a. Debts contracted January 1, 1980-June 30, 1981	204
Short-term deposits	(13)
Letters of credit	(116)
Avalised bills of exchange	(1)
Nostro accounts	(46)
Other facilities	(28)
b. Arrears as of December 31, 1979	398
Advances	(147)
Letters of credit	(37)
Nostro accounts	(35)
Syndicated loans	(78)
Other term loans	(92)
Short-term loans	(9)
c. Unpaid interest	174
3 Suppliers' credits	370

Sources: Data provided by the Sudanese authorities, Peat, Marwick, Mitchell, and Morgan Grenfell.

1/ Does not include arrears due to bilateral donors who did not participate in the Paris Club rescheduling. Among these are Arab and Eastern European countries. Part of Sudan's official debt to Kuwait (US$211 million), Saudi Arabia (US$29 million), and the United Arab Emirates (US$18 million) was rescheduled on a bilateral basis in mid-1979. However, repayments, which were to begin in 1980/81 in semi-annual installments, have become overdue. In addition, arrears have been incurred on the servicing of debt which was not rescheduled.

2/ Of this total, US$496 million was rescheduled on December 30, 1981.

V. Budget Support Requirements

A. Overall Deficit

Total GOS budgetary expenditures in 1980/81 were estimated at LSd 1.3 billion; total revenues at LSd 768 million. Including other fiscal operations (primarily extra budgetary expenditures), the overall budgetary deficit was an estimated LSd 630 million, or some 48 per cent of total expenditures. As reflected in Table 12, a somewhat lower ratio is being projected for 1981/82; however, this is predicated upon an approximate 42 per cent increase in revenues as against a modest 16 per cent increase in expenditures. The slower increase in expenditures takes into account the proposed elimination during the fiscal year of current government subsidies on wheat, sugar, petroleum, pharmaceuticals and milk.

B. Development Expenditures

Development expenditures in 1980/81 were estimated at LSd 356 million. An increase to LSd 514 million is projected for 1981/82. In 1980/81, more than one-half of the overall budgetary deficit, or LSd 346 million, was financed through net foreign borrowings. This amount is roughly equivalent to total GOS development expenditures for the year. A similar situation is projected for 1981/82. In effect, during the past five years the GOS has become totally dependent on foreign sources to finance its development programs.

VI. Market Analysis

A. U.S. Share of Total Imports

The U.S. has accounted for approximately 8 per cent of the Sudan's imports during the past five years. In 1979/80, the U.S. share was increased to 10 per cent of total imports and amounted to approximately $130 million. See Table 5 above.

The principal commodities currently being imported from the U.S. are as follows:

Table 12: Sudan: Summary of Central Government Finances, 1977/78-1981/82

	1977/78	1978/79	1979/80 Prov. Actual	1980/81 Modified Program	1980/81 Prov. Actual	1981/82 Revised Budget
			(In millions of Sudanese pounds)			
Revenue	447.0	504.2	560.0	768.0	690.2	981.0
Tax revenue	370.1	413.9	455.9	608.0	598.1	826.0
Nontax revenue	76.9	90.3	104.1	160.0	92.1	155.0
Expenditure	615.5	804.8	900.4	1,313.0	1,320.6 1/	1,526.2
Current	387.4	565.5	598.4	902.0	934.0	961.9
Development	185.9	164.6	221.3	371.0	355.7	514.3
Equity	42.2	74.7	80.7	40.0	30.9	50.0
Overall deficit (-)	-168.5	-300.6	-340.4	-545.0	-630.4	-545.2
Financing	156.5	300.1	353.9	493.0	645.2	696.7
Domestic bank	130.1	153.7	116.3	130.0	299.2 2/	135.0
External	26.4	146.4	237.6	363.0	346.0	561.7
Financial gap (-)/ surplus	-12.0	-0.5	13.5	-52.0 3/	14.8	151.5
			(As per cent of GDP)			
Revenue	15.5	14.6	13.8	16.0	14.4	16.1
Tax revenue	12.8	12.0	11.2	12.7	12.5	13.6
Nontax revenue	2.7	2.6	2.6	3.3	1.9	2.5
Expenditure	21.4	23.2	22.1	27.4	27.6	25.1
Current	13.4	16.3	14.7	18.8	19.5	15.8
Development	6.4	4.8	5.4	7.7	7.4	8.4
Equity	1.5	2.2	2.0	0.8	0.6	0.8
Overall deficit	5.8	8.7	8.4	11.4	13.2 4/	9.0
Domestic bank financing	4.5	4.4	2.9	2.7	6.2 5/	2.2
External financing	0.9	4.2	5.8	7.6	7.2	9.2

Source: Data provided by the Sudanese authorities.

1/ Includes expenditure commitments of LSd 105.8 million which were effected in the month following the end of the fiscal year.

2/ The monetary survey figure of LSd 193.4 million was adjusted to include domestic arrears at the end of June 1981.

3/ This gap was subsequently covered by an external cash loan.

4/ After adjusting to include domestic arrears. On a strictly cash basis, the ratio of the deficit to GDP becomes 10.9 per cent.

5/ After adjusting to include domestic arrears. Excluding arrears, the proportion was 4.0 per cent.

Agricultural commodities:	Wheat, wheat flour and tallow
Agricultural equipment and spare parts:	Medium and large tractors, plows, harrows, cultivators, cotton and peanut planters and harvesters, pumps and water drilling equipment
Industrial raw materials, machinery and spare parts:	Tin plate, equipment for spinning and weaving, oil seed crushing and processing, clay brick and cement block manufacturing
Transportation equipment and spare parts:	Primarily heavy trucks, aircraft parts, and material handling equipment

In addition, significant market opportunities exist for tele-communications equipment, electric power generation and distribution equipment, and sugar can harvesters and refining equipment. The key to capitalizing on these opportunities is concessional financing. Straight commercial sales are limited by the Sudan's lack of foreign exchange and increasing inability to obtain supplier credits or loans from commercial sources.

The import community in the Sudan consists of approximately 2,000 private importers who are registered with the GOS' Ministry of Cooperation, Commerce and Supply (CCS). Public sector and parastatal enterprises are also key importers, primarily of commodities and equipment related to the construction and maintenance of infrastructural and public service facilities, and the operation of the Sudan's large-scale agricultural scheme.

The official exchange rate in the Sudan is presently U.S.$ 1.00 = LS 0.90. The unofficial (market) rate is approximately U.S.$ 1.00 = LSd 1.20.

B. CIP Pipeline

Following is a summary of the status of the FY 1980 and FY 1981 CIP programs through the end of FY 1981. Also shown are projected disbursements in FY 1982 for the two earlier programs as well as the proposed FY 1982 program.

(In mission dollars)

Program	Amt.	Thru FY 81 Oblig.	Thru FY 81 Exp.	Est. FY 82 Oblig.	Est. FY 82 Exp.
FY 1980	40.0	40.0	33.0	-	7.0
FY 1981	50.0	50.0	-	-	50.0
Proposed FY 1982	100.0	-	-	100.0	100.0
TOTALS	**190.0**	**90.0**	**33.0**	**100.0**	**157.0**

VII. Proposed FY 1982 C.I.P.

A. Tentative Allocations

Following preliminary discussions with GOS representatives, USAID projects the allocation of funds under the FY 1982 C.I.P. along the lines indicated below. Also shown for purposes of comparison are the allocations made under the FY 1981 Program.

(In million dollars)

Sector/Import Category	FY 1981	Est. FY 1982
Private Sector		
Tallow	12	18
Spare parts	8	14
Tractors, trailers, agri. equip. and inputs, wheat/flour	7	10
Trucks, trailers, buses	-	6
Industrial inputs and equip.	6	10
Chemicals and tinplate	7	5
Drilling equipment, pumps, earthmoving and road equip.	*	7
Sub Total	40	70
Public Sector		
Agriculture	3	4
Communications	4	3
Energy and water	3	19
Transportation	-	3
Technical Assistance	-	1
Blue Nile Power Grid		(.2)
Public Works		(.1)
Rahad Corp. (Agriculture)		(.1)
Telecommunications		(.1)
Sugar Industry		(.1)
Other		(.4)
Sub Total	10	30
Total	50	100

*Included under tractors, trailers, etc.

While the portion directly for the private sector would decrease in FY 1982, most of the public sector increase would go to a short term program for maximizing electric power output and the reliability thereof from existing plant. The current inadequacy of electric power is a constraint to private sector activities in both industry and agriculture.

B. Implementation Procedures

1. GOS

The major GOS entities responsible for administering and implementing the C.I.P. grant will be the Ministry of Finance and National Planning (MOFNP), the Ministry of Cooperation, Commerce and Supply (MCCS), and the Bank of Sudan. The MOFNP will allocate the grant proceeds and will have overall responsibility for grant administration. The MCCS will establish GOS import controls and will issue trade regulations as required to support the program. It will also be responsible for issuing import licenses. The primary role of the Bank of Sudan will be to manage the special account for counterpart generations.

2. A.I.D.

The USAID/Sudan Supply Management Officer under the direction of the USAID/Sudan Director and in cooperation with support officers in AID/ Washington and REDSO/EA, will have direct responsibility for USAID coordination with MCCS in monitoring and expediting procurement of commodities and related services under the Commodity Import Program. The USAID/Sudan Program Officer under the direction of the Director, and in consultation with the Embassy Economic Counselor , will be responsible for negotiations with the GOS concerning the allocation of foreign exchange and local currency under the CIP.

C. Procurement and Financing Procedures

Procurement and financing procedures under this CIP will be those set forth in A.I.D. Regulation 1. A review of GOS and Sudan private sector purchasing practices indicates that procurement will include a mixture of formal competitive-bidding, negotiated solicitations and proprietary procurement. The financing of procurement will be through letters of commitment (L/COM). Direct letters of commitment will be issued for all purchases involving only a single supplier. As practicable, they will be issued by the USAID/Sudan controller.

D. Eligible Commodities

Commodities eligible under the A.I.D. Commodity Eligibility Listing (1978 as revised) will be eligible for A.I.D. financing and will be included in all Commodity Procurement Instructions. However, commodities financed will be determined largely by the allocations made by the Economic Group and transmitted to A.I.D. by the Ministry of Finance and National Planning. As noted above, the Ministry has already provided an indicative listing of allocations for the FY 82 program.

The Ministry of Cooperation, Commerce and Supply in coordination with the Ministry of Industry has existing guidelines that prohibit the use of GOS foreign exchange resources and foreign aid funds for importing luxury goods, non-essentials, household appliances and consumer goods normally considered ineligible under A.I.D. eligibility criteria. Review of these procedures and their application to past CIP programs has revealed that they are extremely effective in combination with the additional requirement that a separate import licence must be approved for each CIP Funded Import.

E. Procurement Restrictions/Limitations

This grant will be restricted to Code 941 source and origin for commodities and related incidential services. U.S. flag vessel service to Sudan is supplied by two U.S. vessel operators, one on an inducement basis and the other providing monthly Lash and Charter transportation. Because of the relatively small U.S. vessel participation in U.S. to Sudan ocean transportation, U.S. vessels may not always be available. Therefore, it will be necessary to issue a source waiver with a value of up to $500,000 to permit CIP funding of Code 899 vessel freight service when U.S. vessels are not available. The Sudanese flag line does not provide cargo service between the U.S. and Port Sudan.

Local agents are not required by Sudanese regulation. Thus, there is no conflict with the A.I.D. Regulation 1 requirement that U.S. suppliers may sell direct to importers. All provisions of A.I.D. Regulation 1 regarding commodity eligibility review, price eligibility, and both prior review and post audit will apply to all transactions.

F. Related Technical Services

USAID proposes to utilize up to $ 1 million of the FY 1982 ESF funds to finance technical assistance and training activities directly related to commodity purchases. Such services will be required both prior to and subsequent to commodity purchases and are viewed as essential to the effective utilization of contemplated procurement. Although not restricted to the energy sector, we envision that a significant proportion will be directed towards more effective utilization of the procurement of electric power generation, transmission distribution equipment and spare parts to substantially increase the reliability of the Blue Nile Grid which supplies 80 per cent of the power in the Sudan. Additional technical services may be required in some private sector purchases and public sector agriculture, communications and transport endeavors. Our experience with the FY 1980 and FY 1981 Commodity Import Programs has demonstrated that the absence of such provisions can inhibit the full utility of commodity procurement.

1/ Regulation 1 will not be applicable to the procurement of technical assistance services.

The following are more specific examples of the likely uses of technical services; this technical assistance (TA) is additional to that normally provided by suppliers:

A. Improvement of short-term reliability of Blue Nile Electric Power Grid: Ten person months TA for the installation and establishment of operations and maintenance procedures/capability of transmission, mobile line construction and telecommunication equipment; cost $200,000.

B. Equipment, Spare Parts for River Transport System: Three person months TA in such areas as proposer usage of River Port handling equipment; cost $45,000.

C. Construction, Maintenance Equipment: Seven person months TA for defining appropriate equipment/spare parts as well as training in proper use/maintenance, e.g. in regional/provincial public works equipment pools; cost $105,000.

D. Ministry of Health Engineering Administration Equipment: One person-month health engineer to advise on specification; cost $15,000.

E. Road Bridges Construction Maintenance Equipment and Materials: Four person-months TA in defining needs, specifications, and advising on its proper use and maintenance; cost $60,000.

F. Equipment/Spare Parts: Materials for Water Drilling and Construction Water Points: Five person-months TA for defining requirements/ specifications and advising on proper installation/operation; cost $75,000.

G. Assorted Equipment/Spare Parts for Rahad Corporation: Seven-person months TA in defining needs/specifications and advising on proper operation; cost $105,000.

H. Equipment/Spare Parts/Materials for Sudan Railway Corporation: Five-months TA in defining requirements/specifications and advising on proper installation/operation; cost $75,000

I. Telecommunications Equipment/Spare Parts: Eight person-months TA for defining requirements/specifications and advising on proper installation/ operation; cost $120,000.

J. Solar Refrigeration Units for Ministry Health Posts: Three person months TA to ascertain appropriate specifications and assist with installations/ use; cost $45,000.

K. Fire Fighting Equipment: One person-month TA to determine requirements/ specifications; cost $15,000.

L. Petroleum Saving Equipment for Sudan Airways: Two person-months to assist installation and proper use; cost $30,000.

M. Equipment/Spare Parts Materials for Sugar Industry: Ten person-months TA to assist with defining reqauirements/specifications and assist with proper use and maintenance; cost $150,000. Total cost of these technical services is estimated at $1,040,000.

G. Terminal Disbursment Date

The grant's Terminal Disbursment Date (TDD) will be 24 months from the date Conditions Precedent are met. Recognizing an urgent need to provide balance of payments support, efforts are made by the Sudanese authorities and USAID to channel A.I.D. funding into short leadtime, large value procurements. The bulk of the grant will be committed to individual purchases in the first 12 months. There will be some small value equipment and spares purchases for the public sector for which it may take longer than 12 months to identify the U.S. procurement specifications to match Sudanes performance desires. Additionally, there are some elements among the present allocations, such as water control equipment and spare parts that normally have long leadtimes after purchase for full completion of all shipments. These or similar items may require extension of the TDD to ensure final delivery and payment to suppliers for committed but undisbursed funds.

H. Port Clearance and Inland Transportation

Sudan has a critical problem in both port clearance and inland transportation of all but the highest priority imports. This problem will be alleviated but not fully resolved within the next few years. The present port situation is partially the result of a lack of cargo handling equipment and reliance on railroad freight cars both within the port and for inland transportation.

A.I.D. will apply the standard 90 days port clearance and the 12 months utilization period requirements. These, with constant follow-up and pressure on both buyers and transportation officials, should serve to expedite the movement of A.I.D. financed cargo. At present, there is an extremely large backlog of GOS public sector imports awaiting inland transportation in holding areas outside the port.

I. Arrival Accounting and End-use Monitoring

At present, the GOS has an arrival and cargo clearance unit established at Port Sudan for many, but not all public sector imports. This office serves as a "Customs Broker" and forwarding agent for the public sector. In addition, many public sector agencies have their own representative offices at Port Sudan that are charged with expediting their own organizational cargo through the port and on to inward transportation. The Ministry of Cooperation, Commerce and Supply also maintains a cargo accounting unit at both the port and Khartoum for monitoring imports within the Ministry's concerns.

There has not been a need under the previous CIP grants to augment the GOS monitoring capabilities. The public sector allottees under the FY 1980 and 1981 CIP's have been greatly interested in receiving and using their A.I.D. imports. As the volume of arriving cargo increases, there may be a need to establish a monitoring unit outside the GOS. In this respect, USAID has held discussions with two foreign freight forwarders active in the Sudan. One of these, an American corporation joint venture with a Sudanese freight forwarder has indicated that if the need arises, an agreement funded in local currency can be established that will suit the needs of A.I.D. in the areas of arrival accounting and port clearances.

For end-use monitoring, relating to the utilization of A.I.D.-financed imports within 12 months of clearing the port, USAID/Sudan will carry out inspections and evaluations with available staffing.

The bulk of the FY 1982 CIP will be directed toward the private sector. Private importers use either their own personnel or employ an established forwarder at Port Sudan to receive, clear and transport their imports. The private sector's clearance rate in non-AID funded imports is considerably better than the public sector. It is not anticipated that the private sector will have an inordinate delay in either removing or using CIP-funded imports. Again, if problems do develop, USAID/Sudan can employ the American forwarder mentioned above to monitor cargo arrivals and customs clearances.

J. Import Controls

1. Private Sector

The MCCS is responsible for establishing and implementing an annual (July 1 - June 30) import program in coordination with the Ministry of Finance, the Bank of Sudan, and various other governmental units. The annual program consists essentially of estimates of types and classes of imports, estimates of foreign exchange requirements, and a balancing between anticipated needs and anticipated purchasing power (foreign exchange availability).

Import licensing approval, a control against exceeding specific annual quotas and foreign exchange availabilities, is shared between the MCCS, the Bank of Sudan and Ministries having national jurisdiction over a specific economic sector. For the public sector, import approval depends mainly upon whether the import is included in an approved foreign exchange budget and foreign exchange is available. For the private sector there is a more elaborate system consisting of annual quotas, usually by commodity, but sometimes by trade protocol or country of origin, and occasionally by importer.

2. Import License Systems

There are three licensing systems currently operating.

a. The "Open General Licensing System" (OGL) permits unrestricted or restricted imports of any commodity or product. Limitations and classes of commodities or products change frequently and are dependent upon decisions of the governing "Economic Group" chaired by the Minister of Finance and National Planning.

b. A new version of the old "Consultation System" (CS) whereby import licences for a specific purchase are issued in accordance with guidelines provided and administered by the Ministry of Cooperation, Commerce and Supply.

c. "Special" Import Licences issued by the Ministry of Cooperation, Commerce and Supply for either a class of commodities or a specific purchase when funding of international payments is not a demand on GOS owned resources. It is this system that is used for all Commodity Import Program purchasing. It permits the Ministry to both monitor grant implementation beyond the purchase order stage and to control allocations.

K. GOS Allocation and Control of CIP Funds

As indicated above, specific dollar amounts are allocated by the GOS to individual governmental units and a single dollar amount for specific commodities designated for private sector use. Control of the A.I.D. foreign exchange accounts/allocations will be maintained by the Ministry of Cooperation, Commerce and Supply in coordination with the MOFNP which is responsible for approval of GOS import licenses.

Actual disbursement of any funds will be dependent upon the U.S. supplier providing a full set of payment documentation, including both the Form II (Commodity and Price Eligibility Approval), the A.I.D. Supplier's Certificate attesting to compliance with a number of A.I.D. regulatory concerns, and evidence that the cargo has actually been shipped. Concurrent follow-up by both USAID and the importer concerning arrivals will match received goods with paid shipments. This will assure that CIP-financed commodities are received and, ultimately through end-use checks, that the commodities are used as intended for the benefit of the Sudan's economy.

L. Tentative Implementation Schedule

January	1981	Agreement Signed
February	1982	Conditions Precedent Met
February	1982	First Letter of Commitment Issued
April	1982	First Shipment Made From U.S.
June	1982	First Shipment Arrives Sudan
December	1982	Grant Fully Committed (L/COMS)
October	1983	Final Shipment
November	1983	Final Disbursement

VIII. Other Considerations

A. Impact on U.S. Balance of Payments

Except for inland transport costs eligible for funding under A.I.D. Geographic Code 899 (see Annex VII), all commodity procurement will be limited to A.I.D. Geographic Code 941.

A long-term positive impact on the U.S. balance of payments is likely, as U.S. suppliers and exporters reestablish old trade relationships and create new ones. User satisfaction for U.S. equipment, existing and new, should also be enhanced due to the greater availability of U.S. spare parts made possible by this grant. Long-term benefits can be expected as a result of follow-on commercial orders.

This grant will enable U.S. exporters to expand significantly the range and magnitude of commodities exported to Sudan. It should also help to increase the market share of U.S. suppliers in the areas in which they are already active. Trends in Sudanese trade with the U.S. and other major suppliers are presented above in Table 5. At present the U.S. accounts for about 10 per cent of the Sudan's total imports.

B. Counterpart Generations

Under GOS budgetary/financial procedures, counterpart will be generated by both public and private sector importers, although only the private sector generations are actually made available for joint programming. The Bank of Sudan will establish a separate account for the counterpart generated and importers will deposit their counterpart when the foreign exchange is disbursed. Use of the counterpart will be determined in consultation between USAID and the GOS.

One probable use of the counterpart will be to meet the public sector costs for port clearance, duties and inland transportation costs for CIP goods. Costs for other public sector goods at Port Sudan whose movement could be facilitated may be considered also. While most public sector importers have sufficient funds in approved budgets for these costs, these budgets are often unfunded because of insufficient government revenues. However, they virtually never have sufficient funds available to finance road hauling, which runs two to three times as much as rail transport to remote areas and 70 per cent higher than rail costs on paralleling all weather roads. Another possible use will be to pay a private firm active in Port Sudan to conduct arrival accounting functions and expedite inland transportation. USAID does not have the necessary staff to perform this function itself.

C. Trust Account Deposits

The Government will make deposits of local currency to a Trust Account in the name of the U.S. Disbursing Officer upon request of A.I.D. and subject to approval by the Government. Disbursements from the Trust Account may be made by the Government of the United States to cover the program and administrative costs of the United States Assistance Program, and administrative costs of other elements of the U.S. Mission in the Sudan.

D. Internal Financial Effects

The counterpart expenditures should not have an added inflationary impact, as they will be used only for items already in the Development Budget of the GOS. To the extent budget provisions have not been allowed for commodities financed under the CIP program, reallocations will be undertaken so that all quantitative targets established under the GOS' current stabilization program are maintained.

E. Use of U.S. Government Excess Property

Given the nature of the items for which the GOS has allocated funds, it is unlikely that U.S. Government excess property would be appropriate for financing under this grant. However, USAID will review the possibilities for such financing.

F. Relation to Export-Import (Ex-Im) Bank Credits

The Ex-Im Bank currently has an exposure in the Sudan of about $20 million. This total includes $16 million in project loans and $4 million in guarantees and insurance. Past delinquencies of $2.7 million, which caused the suspension of further U.S. supplier credits to the Sudan were rescheduled early in 1980. Ex-Im activity toward increased exposure is to be determined subsequent to a review of the Sudanese ability to meet the rescheduled debt commitments.

There were two small Foreign Credit Insurance Association (FCIA) loans completed in 1980, based upon long standing past acceptances. However, there has been nothing new considered for 1981. The CIP grant for FY 1982 will complement, not conflict, with Ex-Im Bank activities.

G. Relation to the Overseas Private Investment Corporation (OPIC) Program

OPIC was established to promote U.S. private investment in developing countries by making loans to overseas ventures and providing insurance against war, currency inconvertability and expropriation. For Sudan, OPIC emphasizes transportation and agricultural projects.

Before 1979, OPIC had issued four insurance policies covering $12.5 million in investments in the Sudan. During the period 1979-1981, additional OPIC coverage of $20 million was issued for activities in transportation.

This CIP grant should complement OPIC's increased activity in the Sudan.

IX. Recommendations

It is recommended that a grant to the Government of the Democratic Republic of the Sudan of one hundred million dollars ($100,000,000) be authorized for financing the importation of selected commodities, commodity related services, and other services as described above.

A. Terms and Conditions

-- Procurement will be restricted to A.I.D. Geographic Code 941;

-- commodities procured under this grant may not be used in the production of palm oil or citrus products; and

-- such other terms and conditions as A.I.D. may deem advisable.

B. Authorities

Approval is given USAID/Sudan to sign and issue implementation letters and Commodity Procurement Instructions under this grant.

STATUTORY CHECKLIST

SUDAN--FY 1982 C.I.P. GRANT

I. Nonproject Assistance Checklist

A. General Criteria for Nonproject Assistance

1. App. Unnumbered; FAA Sec 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;	Proposed C.I.P. Grant for the Sudan was specifically earmarked in the FY 1982 Appropriations Act.
(b) Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%)?	See above
2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?	No further legislation is required.
3. FAA Sec. 209,619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?	This program is not susceptible of execution as part of a regional or multilateral program. It is not expected to encourage regional development programs. Sudan is not a newly independent country.

4. FAA Sec. 601(s); (and Sec. 201(f) for development loans).
Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow or international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agricult ure, and commerce; and (f) strengthen free labor unions.

Program will increase the flow of international trade by providing the necessary foreign exchange for the importation of goods. A portion of the program assistance is earmarked for the Sudanese private sector and will tend to foster private initiative and competition.

5. FAA Sec. 601(b).
Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Sudanese private sector agents of U.S. firms in the Sudan will import U.S. source commodities under the program.

6. FAA Sec. 612(b); Sec 636(h).
Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

Program will generate local currency counterpart, a portion of which will be channelled through a Trust Fund to help meet the costs of contractual and other services.

7. FAA Sec. 612(d).
Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

At present the Sudan is not a country in which the U.S. owns excess foreign currency.

B. <u>Funding Criteria for Nonproject Assistance for Economic Support Fund</u>

1. <u>FAA Sec. 531(a).</u> Will this assistance support or promote economic or political stability? To the extent possible, does it reflect the policy directions of section 102?	1. It will promote economic stability by providing vital foreign exchange required for Sudan's economic stability 1.a. Yes, to the extent possible.
2. <u>FAA Sec. 533</u> Will assistance under this chapter be used for military, or paramilitary activities?	2. No.

II. <u>Country Eligibility Checklist</u>

A. <u>General Criteria for Country Eligibility</u>

1. <u>FAA Sec. 116.</u> Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights?	No. The Department of State has made no such determination.
2. <u>FAA Sec. 481.</u> Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	No.
3. <u>FAA Sec. 620(b).</u> If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?	Yes.

4. FAA Sec. 620(c).
If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government? — No.

5. FAA Sec. 620(e)(1).
If assistance is to a government, has it (including government agencies or subdivision) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? — No.

6. FAA Sec. 620(a), 620(f); FY 79 App. Act Sec. 108, 114 and 606.
Is recipient country a Communist country? Will assistance be provided to the Socialist Republic of Vietnam, Cambodia, Loas, Cuba, Uganda, Mozambique, or Angola, — No.

7. FAA Sec. 620(i).
Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such supversion or aggression? — No.

8. FAA Sec. 620(j).
Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property? — No.

9. FAA Sec. 620(l)
If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying

assistance to such government for this reason?	No.
10. <u>FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5.</u> If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters.	Sudan has taken no such action.
a. has any deduction required by the Fishermen's Protective Act been made?	
b. has complete denial of assistance been considered by A.I.D. Administrator?	
11. <u>FAA Sec. 620; FY 79 App. Act Sec.603.</u> (a) Is the government of the recipient country in default for more than six months on interest or principal of any AID loan to the country? (b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds?	No.
12. <u>FAA Sec. 620(s).</u> If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget which is for military expenditures, the amount of foreign exchange spent on military equipment and the amount spent for the purchase of sophisticated weapons systems?	Yes, as reported in annual report on implementation of Sec. 620(s).
13. <u>FAA Sec. 620(t).</u> Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	The GOS severed diplomatic relations with the U.S. in 1967, but they were resumed in 1972. The 1958 bilateral Assistance Agreement was reconfirmed in 1973 and remains in effect.
14. <u>FAA Sec. 620(u).</u> What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget?	Current.

15. FAA Sec. 620A, FY 79 App. Act, Sec. 607.
Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism? **No.**

16. FAA Sec. 666.
Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA? **No.**

17. FAA Sec. 669, 670.
Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology without specified arrangements or safeguards? Has it detonated a nuclear device after August 3, 1977, although not a "nuclear-weapon State" under the nonproliferation treaty? **No.**

B. Funding Criteria for Economic Support Fund Country Eligibility.

1. FAA Sec. 502B.
Has the country engaged in a consistent pattern of gross violations of internationally recognized human rights? **No.**

2. FAA Sec. 609.
If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? **Yes.**

3. FY 79 App. Act Sec. 113.
Will assistance be provided for the purpose of aiding directly the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? **No.**

III. Standard Item Checklist

A. Procurement

1. FAA Sec. 602.
Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?

Yes, using A.I.D. Regulation 1 procedures.

2. FAA Sec. 604(a).
Will all commodity procurement financed be from the U.S. except as otherwise determined by the President or under delegation from him?

Yes.

3. FAA Sec. 604(d).
If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the U.S. on commodities financed?

Yes.

4. FAA Sec. 604(e).
If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement, when the domestic price of such commodity is less than parity?

A.I.D. Regulation 1 will be incorporated into the Grant Agreement to enforce the statutory price restrictions.

5. FAA Sec. 608(a).
Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?

Yes.

6. FAA Sec. 603.
(a) Compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carries, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

Yes.

7. FAA Sec. 621.
If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes.

8. International Air Transport. Fair Competitive Practices Act, 1974.
If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

Yes.

9. FY 79 App. Act Sec. 106.
Does the contract for procurement contain a provision authorizing the termination of such contract for the convenience of the United States?

Yes.

B. Construction

No construction will be financed by this Grant.

C. Other Restrictions

1. FAA Sec. 620(h).
Do arrangements preclude promoting or assisting the foreign aid projects or activities or Communist-bloc countries, contrary to the best interests of the U.S.?

Yes.

2. FAA Sec. 636(i).
Is financing not permitted to be used, without waiver, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the U.S. or guaranty of such transaction?

Yes.

3. Will arrangements preclude use of financing:

a. FAA Sec. 104(f)
To pay for performance of abortions or to motivate or coerce persons to practice abortions, to pay for performance of involuntary sterilization, or to coerce or provide financial incentive to any person to undergo sterilizations? **Yes.**

b. FAA Sec. 620(g).
To compensate owners for expropriated nationalized property? **Yes.**

c. FAA Sec. 660
To finance police training or other law enforcement assistance, except for narcotics programs? **Yes**

d. FAA Sec. 662.
For CIA activities? **Yes**

e. FY 79 App. Act Sec. 104.
To pay pensions, etc. for military personnel? **Yes**

f. FY 79 App. Act Sec. 106.
To pay U.N. assessments? **Yes**

g. FY 79 App. Act Sec. 107.
To carry out provisions of FAA sections 209(d) and 251(h)? (Transfer or FAA funds to multilateral organizations for lending.) **Yes**

h. FY 79 App. Act Sec. 112.
To finance the export of nuclear equipment, fuel, or technology or to train foreign nations in nuclear fields? **Yes.**

i. FY 79 App. Act Sec. 601.
To be used for publicity or propaganda purposes within U.S. not authorized by Congress? **Yes.**

INITIAL ENVIRONMENT EXAMINATION
OR CATEGORICAL EXCLUSION

Project Country: Sudan

Project Title: Sudan Commodity Import Grant

Funding: FY(s) 82 $100,000,000

Period of Project: The terminal date for requesting disbursement authorization is 12 months from the date of the Grant agreement. The terminal disbursement date is 24 months from the date conditions precedent are met.

IEE Prepared by: Lynn C. Sheldon

Environmental Action Recommended: Categorical Exclusion under AID Regulation 16, paragraph 216.2(c)(2)(ix)

Concurrence: Arthur W. Mudge, Director, USAID/Sudan

Date: ______

Bureau Environmental Officer's Decision:

APPROVED ______

DISAPPROVED ______

DATED 3-4-82

Clearance: GC/AFR: ______

Examination of Nature, Scope and Magnitude of Environmental Impacts

I. Description of the Project

The project proposes to provide a commodity import grant of $100 million to the Government of Sudan from Economic Support Funds on standard A.I.D. terms. The primary purpose of the grant is to provide balance of payments assistance by financing high-priority imports of equipment, manufacturing materials, and spare parts. This will provide foreign exchange to help the GOS overcome a serious balance of payment problem.

Eligible commodities are those on the A.I.D. Positive List, all of which have been screened for any adverse effects they may have on the environment. In particular no pesticides or herbicides will be imported under this grant.

II. Recommended Environment Action

In accordance with A.I.D. Reg. 16, paragraph 216.2(c)(2)(ix) it has been determined that this activity is categorically excluded from the requirements of an environmental examination.

SUDAN

COMMODITY IMPORT PROGRAM FY 1982

BIBLIOGRAPHY

Country Development Strategy Statement - FY 1983,
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Bank of Sudan, 21st Annual Report - 1980
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Foreign Trade Statistical Digest,
January-March and April-June 1981

International Monetary Fund, Sudan - Mid -Term Review of the Second
Year's Program, March 25, 1981

Sudan - Staff Report for the 1980 Article IV Consultation,
March 25, 1981

Sudan - Use of Fund Resources - Compensatory Financing Facility,
March 25, 1981

Sudan - Recent Economic Development,
April 1, 1981

Sudan Ministry of Agriculture - Current Agricultural Statistics,
June 1979

World Bank, Memorandum on the Economy of Sudan,
October 24, 1979

April 14, 1982

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: ES

FROM: A-AA/PPC, Frederick W. Schieck FWS

SUBJECT: Cash Transfer to the Sudan

Attached are two folders. The first contains an authorization for your signature for a FY 1982 $100 million grant to the Sudan for a CIP program. The second is a memorandum requesting that you delegate to AA/AFR authority to amend the CIP authorization to permit a cash transfer of up to $25 million at some future date. This delegation would be exercised if the financial situation in Sudan deteriorates to the point where the Government might default on loans owed to private banks.

I recommend that you sign the $100 million authorization thereby permitting the Africa Bureau to proceed with obligation of all or a portion of these funds.

I have not cleared the delegation of authority memorandum because it makes quite clear that there are a number of valid reasons for not making a cash tranfer. You should be aware, however, that there is intense State interest on insuring that AID will make a cash transfer if such becomes "essential."

I recommend that the delegation memorandum be returned to the Africa Bureau without action with the understanding that if circumstances change, the Africa Bureau should submit a memorandum to you which justifies a cash grant. The current memorandum does not make the case. See also, Kelly Kammerer's comments on the delegation memorandum.

Attachments

Approve: ______________________

Disapprove: ______________________

Date: ______________________

A-AA/PPC:FWSchieck:x21594

25 MAR 1982

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: ES

THRU: AA/PPC, John R. Bolton

FROM: AA/AFR, F. S. Ruddy

SUBJECT: Sudan - Commodity Import Program - Grant (650-0049)

Problem: Your approval is requested for a grant to the Government of the Republic of Sudan (GRS) in the amount of $100 million from Economic Support Funds for the FY 1982 Commodity Import Program (650-0049). It is planned that the entire amount will be obligated in the current fiscal year.

Background: The proposed grant will, in conjunction with the efforts of other donors, help mitigate Sudan's current balance of payments problems and will generate counterpart funds to be used for development activities reinforcing the productive capacity of Sudan. The FY 1982 Commodity Import Program (CIP) is a continuation of previous grants in FY 1980 and FY 1981 and will provide Sudan with continued access to a portion of the imports which the country requires to improve its economic performance. This grant assistance activity by AID constitutes only a portion of the balance of payments requirements of the GRS. Their current annual deficit exceeds $400 million, and this AID contribution is being coordinated with similar programs being undertaken by World Bank, IMF and other donors. A major requirement for balance of payments support remains unmet and, even with a successful stabilization program, large amounts of this type of assistance will be required for several years to come.

Discussion: One of the principal objectives of this CIP is to increase support to the private sector. Approximately 70% of project expenditures will be for the private sector, while the public sector will receive approximately 30%, mostly for the power sector servicing Sudan's industrial plants and irrigated agricultural schemes. Procurement under the program will be restricted to commodities of 941 source and origin. The commodities will be largely similar to those financed under the two previous grants, with the specific list to be agreed upon by the GRS and AID. Major items by sector and the financial plan of the program are as follows:

A. Private Sector

	(In Million Dollars)	
	FY 81	FY 82 (Est.)
1. Tallow	12	18
2. Spare parts	8	14
3. Tractors, trailers, agriculture equipment/inputs, wheat/flour	7	10
4. Trucks, trailers, buses	-	6
5. Industrial inputs and equipment	6	10
6. Chemicals and tinplate	7	5
7. Drilling equipment, pumps, earthmoving and road equipment	-	7
Sub-total	40	70

B. Public Sector

1. Agriculture	3	4
2. Communication	4	3
3. Energy and Water	3	19
4. Transportation	-	3
5. Technical Assistance	-	1
Sub-total	10	30
GRAND TOTAL	50	100

Sudanese local currency generated as counterpart by public and private imports will accrue to the GRS for use in agreed priority development areas, including expansion of food production in traditional rainfed farming areas of Sudan; agricultural research; production and marketing; railway rehabilitation; road construction; and river transport development. Small amounts of local currency will also be used to cover some of the program/administrative costs of USAID/Sudan and general budget costs of the GRS.

The Grant will contain the standard conditions precedent and covenants for a CIP. In addition, the GRS will covenant to make special efforts to remove impediments to economic growth in the private sector. The proposed grant of $100 million is to be obligated entirely in fiscal year 1982. The commodity eligibility date is October 1, 1982 so as to enable the GRS to disburse the grant as fast as possible. AID Regulation 1 (22 CFR, Part 201) will apply to the procurement of commodities but not to the procurement of technical services.

Section 203 of the International Security and Development Cooperation Act of 1981 requires that at least 15 percent of ESF funds made available each fiscal year for CIP's be used to finance the procurement of agricultural commodities or agricultural-related products which are of U.S. origin. Since AID has not established a system for computing compliance with this section on a worldwide basis, the grant agreement will include a covenant which will enable AID to require the GOS to utilize at least 15 percent of the grant proceeds for procurement of U.S. manufactured agricultural commodities or agricultural-related products. If AID establishes a system for computing compliance with Section 203 on a worldwide basis, and it is determined that the 15 percent requirement can be met without utilizing the proceeds of the grant, AID may not require the GOS to use grant funds for this purpose.

The Executive Committee for Project Review considered this program and recommended approval on February 23, 1982. The Congressional Notification was transmitted to Congress on March 12, 1982, and the waiting period expires on March 26, 1982.

No special problems in the negotiations of the Program Agreement, or in reaching agreement on the implementation plan, are foreseen. Government officials, including the Minister of National Planning, have been active in development of the grant, and the GRS will be able to sign the Program Agreement within a short period of time after the program grant is approved.

Commodities provided to the private sector will be financed by normal commercial banking procedures. Counterpart funds generated by these sales will be deposited into a special account and used for development purposes, as illustrated above. Disbursement of the grant will be within a 24-month period from the grant agreement date and will be through standard AID Letter of Commitment/Letter of Credit procedures. The Project Committee is satisfied that implementation arrangements outlined in the PAAD are fully adequate, and no special problems are anticipated in disbursing the grant.

The PAAD contains an Initial Environmental Examination which determines that this activity qualifies for a categorical exclusion from environmental procedures. This finding is concurred in by the Africa Bureau Environmental Officer.

USAID's Supply Management Officer has direct responsiblity for program administration under the direction of the USAID Director and in cooperation with support officers in AID/W and REDSO/EA. The Supply Management Officer is responsible for preparing implementation documents, establishing and maintaining necessary records, and advertising and assisting eligible CIP importers, both public and private, as required. The Africa Bureau Project Officer responsible for the project is Alexander D. Newton, AFR/DR/EAP. The USAID/Khartoum Officer responsible for the project is Ted LaFrance.

The major GOS entities responsible for implementing and administering the grant are the Ministry of National Planning (MNP), the Ministry of Cooperation, Commerce and Supply (MCCS), and the Bank of Sudan. The MNP will allocate the grant proceeds and has overall responsiblity for grant administration. The MCCS establishes GRS import controls and issues trade regulations required to support the program. It is also responsible for issuing import licenses. The primary role of the Bank of Sudan will be to approve import licenses, allocate foreign exchange, and manage the special account for counterpart generation. Counterpart funds generated by this activity will be jointly programed by USAID/Sudan and the GRS.

No waivers are deemed necessary to implement this CIP grant. Since Sudan is recognized as a least developed country, commodities of Code 941 source and origin are eliigible without waivers. All CIP financed vehicles will be of U.S. manufacture.

Recommendation: That you sign the attached PAAD, thereby authorizing the proposed CIP grant to Sudan in the amount of $100 million.

Attachment:

PAAD

Clearances:
AFR/DR/EAP,SCole ____ Date ____
AFR/EA, DMendelson ____ Date ____
AFR/EA, HJohnson ____ Date ____
AFR/DP, TCornell ____ Date ____
AFR/DP, ICoker ____ Date [illegible]
COM/ALI, WGill (draft) Date 3/2/82
GC/AFR, TBork ____ Date ____
GC/AFR, EDragon ____ Date ____
AAA/AFR/DR, JWKoehring ____ Date ____
AFR/DR, NCohen ____ Date ____
DAA/AFR, WHNorth ____ Date ____
AA/PPC/PDPR, JErikson ____ Date 3/29/82
GC, KKammerer, Actg. KCK Date [illegible]

Drafted:AFR/DR/EAP, ANewton:dph:3/4/82

PROJECT DESIGN SCHEDULE

PAAD Submission Date	January 4, 1982
PAAD ECPR Approval Date	February 23, 1982

ACTION MEMORANDUM TO THE ADMINISTRATOR 25 MAR 1982

THRU: ES

THRU: AA/PPC, John R. Bolton

FROM: AA/AFR, F. S. Ruddy

SUBJECT: Sudan - Commodity Import Program (650-0049); Cash Grant Authorization

Problem: Your approval is requested to authorize the Assistant Administrator for Africa to approve an amendment of the PAAD for a Fiscal Year 1982 Commodity Import Program (650-0049) (grant) for the Government of Sudan (GOS). The proposed amendment would reduce the CIP by an amount up to $25,000,000 and provide for a cash transfer to the GOS of an equal amount in the event that this action would be in the best interest of the United States Government (USG) and the GOS.

Discussion: The Government of Sudan (GOS) owes a consortium of banks (London Club Banks) approximately $550 million of which $106 million represents interest on loans due March 26, 1982. To further complicate the situation, the initial IMF tranche of $77.0 million, to Sudan, has already been utilized. Of this amount $45.0 million went back to the IMF and the remaining $32.0 million went to the Union des Banques Arabes et Francaises which had provided critical short term credit to the GOS. The London Club Banks (the Consortium) were under the impression that they would be paid from the first IMF tranche and are quite resentful that this did not take place. To satisfy these banks the GOS must secure approximately $50-$60 million. We have been informed that the banks are willing to accept a lesser amount, during the interim, of approximately $30-$40 million. There is, however, a remote possibility that the GOS will not be able to secure this amount to satisfy the short term requirements.

While the funds are technically due on March 26, 1982 the lesser amount must be made available to the banks prior to any discussion leading up to an extension of the deadline or an amendment to the December 30 rescheduling agreement.

AF feels that it is absolutely necessary to be prepared to convert a portion of the Sudan CIP to a cash grant if it becomes essential. They believe that the pending imminent failure of the Sudanese to raise a sufficient amount to reach agreement with the private banks by March 26, 1982, would result in a suspension of the IMF program thus precipitating a major new crisis. AF feels that this money could be used to meet a portion of the arrearages as well as a leverage to persuade other donors to help by "liquifying" portions of their own aid. Even if this cash grant is not approved in time, AF feels it could in extremis use it as collateral for bridge loaning from a commercial bank. This is recommended only if the cash grant option is viable.

On the other had we (AFR) believe that the GOS has the means to satisfy its immediate obligations to the London Club Banks. The Government of the United Arab Emirates (Abu Dhabi) has made a grant of $50.0 million to the GOS. These funds could be used to meet these obligations thus eliminating the need to consider amending the CIP. Also, the Saudis have reduced their $100 million grant by $30 million to pay off debts due them; this could have been deferred.

To amend the CIP at this time or to even appear willing to amend it, will allow the Sudanese to continue to ignore the critical nature of these economic problems.

Furthermore, it would allow the GOS to fund nonessential projects, like the Khartoum Airport and limit the impact of our assistance on basic development requirements in the private and public sectors. This we believe is not in the best interest of the Sudanese or ourselves. A cash grant would not contribute to the economic recovery of the Sudan or serve as a useful leverage on the immediate cash flow problem.

Congressional Notification will be required for the cash grant to amend the Notification already sent.

Recommendation: That you authorize the Assistant Administrator for Africa to approve an amendment to the PAAD for the FY 1982 CIP grant to the GOS, reducing the program by up to $25,000,000 and in turn to authorize a cash transfer (grant) to the GOS of an equal amount, if in his judgment this action would be in the best interests of the GOS and the USG. See Annex A for a description of action which will be taken by the Bureau to ensure that a decision to amend the authorization may be implemented properly.

Approved: ______________

Disapproved: [signature]

Date: [illegible] APR 1982

I would like to see the memo myself.
P. M.

Clearances:
AFR/EA, DMendelson ______ Date ______
AFR/EA, HJohnson [initials] Date 3/24/82
AFR/DP, TCornell [initials] Date 3/25/82
AFR/DP, ICoker [initials] Date 3/25/82
COM/ALI, WGill [initials] Date 3/26/82
GC/AFR, EDragon ______ Date ______
AAA/AFR/DR, JWKoehring [initials] Date 3/23/82
AFR/DR, NCohen [initials] Date 3/25/82
DAA/AFR, WHNorth [initials] Date [illegible]
AA/PPC/PDPR, JEriksson [initials] Date [illegible]
GC, KKammerer, Actg. KK* Date 4/12/82
AF/E, DBooth ______ Date ______

* clr - but the recommendation doesn't track the logic of the discussion. If we believe a cash grant is a bad idea, why ask the Administrator to delegate authority to AA/AFR if he thinks such a grant would be in the USG interest? Shouldn't recommendation be that AA/AFR oppose a cash grant unless AF can convincingly demonstrate to A/AID that it is in the USG interest?

Having separate memos for the cash grant and CIP is confusing. If they can't be combined into one memo, make sure the Administrator reads the CIP memo first.
Kelly Kammerer 4/12/82

Drafted: AFR/DR/EAP, SCole:dph:3/24/82

ANNEX A

The initial obligation will be limited to $75 million so as to eliminate potential legal problems which could result from the deobligation of $25 million, and the mechanical problems of amending a grant agreement. The determination of whether to amend the PAAD will be made not later than August 1, 1982. The Assistant Administrator for Africa will be soliciting the counsel of AF during this period. If a decision is made to use part of the funds intended for the CIP for a cash transfer to the GOS, a Notification thereof will be sent to Congress amending the Notification already sent. The PAAD will then be amended, and the projected allocation of funds therein will be adjusted. If a decision is made not to use part of the funds intended for the CIP for a cash transfer to the GOS, then the Mission will be advised to obligate the remaining $25 million.

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AAA/AFR/DR, John W. Koehring

Problem: Your signature is requested for the attached Action Memoranda for the Administrator (1) recommending authorization of the Sudan Commodity Import Program Grant (650-0049) and (2) requesting authorization for the Assistant Administrator to amend the PAAD by reducing the program up to $25,000,000 and in turn authorize a cash transfer (grant) to the GOS of an equal amount if this becomes necessary.

Discussion: The total program cost of $100,000,000 exceeds the authority of the Assistant Administrator, requiring authorization by the Administrator. The need to reduce the program by $25,000,000 and then converting this amount into a cash transfer (grant) is an action that may be required once the PAAD has been authorized.

Recommendation: That you sign the Action Memorandum for the Administrator recommending authorization of the proposed activity and authority to amend the PAAD if this action is required.

Attachments:

1. Action Memorandum for the Administrator (PAAD Approved)
2. PAAD
3. Action Memorandum for the Administrator (PAAD Amendment)

Clearances:
AFR/DR, NCohen
AFR/EA, HJohnson
GC/AFR, EDragon
AFR/DP, ICoker
DAA/AFR, WHNorth

Drafted:AFR/DR/EAP, SCole:dph:3/24/82